

# FINANCIAL ACCOUNTING

**(As per the Revised Syllabus of T.Y.B.Com., 2014-15,  
Semester V, University of Mumbai)**

Winner of "Best Commerce Author – 2013-14" by Maharashtra Commerce Association  
"State Level Mahatma Jyotiba Phule Excellent Teacher Award 2016"

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## PREFACE

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We are happy to present this book “*Financial Accounting*” to the students of T.Y.B.Com for Semester Vth. In this edition, an effort has been made to incorporate professional examination questions at relevant places in the book.

The syllabus contains a list of topics covered in each chapter which will avoid controversies regarding the exact scope of the syllabus. The text follows the term-wise chapter topics pattern prescribed in the syllabus. We have preferred to leave the text of the section and rules as it is and thereafter, added the comments with the intention of explaining the subject to the students in a simplified language. While making an attempt to explain in a simplified language, any mistake of interpretation might have crept in. This book is an unique presentation of subject matter in an orderly manner. This is a student-friendly book and tutor at home. We hope the teaching faculty and students community will find this book of great use.

We are extremely grateful to students of T.Y.B.Com and Mr. K.N. Pandey of Himalaya Publishing House Pvt. Ltd. for their devoted and untiring personal attention accorded by them to this publication. I gratefully acknowledge and express my sincere thanks to the following people without whose inspiration, support and constructive suggestions, this book would not have been possible.

- *Mr. Jitendra Singh Thakur (Trustee, Thakur College)*
- *Dr. Chaitaly Chakraborty (Principal, Thakur College)*
- *Mrs. Janki Nishikant Jha*

We welcome suggestions from students and teachers for further improvement of the book.

**Authors**

## SCHEME OF EXAMINATION

Credit Based Grading System Scheme of Examination

- **Internal Assessment – 25%** **25 Marks**
- **Semester End Examinations – 75%** **75 Marks**

### **QUESTION PAPER PATTERN**

**Duration:** 2½ Hrs.

Maximum Marks: 75

All Question are Compulsory Carrying 15 marks each.

Questions to be Set: 05

Particulars	Marks
Q.1 Objective Questions (a) Sub Questions to be asked 10 and to be answered any 08 (b) Sub Questions to be asked 10 and to be answered any 07 (*Multiple choice/True or False/Match the column, Fill in the blanks)	15 Marks
Q.2 Full Length Practical Question OR	15 Marks
Q.2 Full Length Practical Question	15 Marks
Q.3 Full Length Practical Question OR	15 Marks
Q.3 Full Length Practical Question	15 Marks
Q.4 Full Length Practical Question OR	15 Marks
Q.4 Full Length Practical Question	15 Marks
Q.5 (a) Theory Questions (b) Theory Questions OR	08 Marks 07 Marks
Q.5 Short Notes To be asked 05 To be answered 03	15 Marks

**Note:** Full length question of 15 marks may be divided into two sub questions of 08 and 07 marks.

**Revised Syllabus and Question Paper Pattern of Courses of  
B.Com. Programme at T.Y.B.Com. Semester V  
with Effect from the Academic Year 2014-2015**

**Financial Accounting and Auditing Paper V:  
Financial Accounting**

**Modules at a Glance**

<b>Sr. No.</b>	<b>Modules</b>	<b>No. of Lectures</b>
1.	Amalgamation of Companies (w.r.t. AS-14, Excluding inter Company holdings)	18
2.	Capital Reduction and Internal Reconstruction	10
3.	Investment Accounting w.r.t. AS 13	12
4.	Preparation of Final Accounts of Companies	15
5.	Introduction to IFRS	05
	<b>Total</b>	<b>60</b>

## SYLLABUS

AC 4-3-2014  
Item No. - 4.42

Sr. No.	Modules / Units
<b>1</b>	<b>Amalgamation of Companies (w.r.t. AS 14) (Excluding Intercompany Holdings)</b>
	(i) In the nature of merger and purchase with corresponding accounting treatments of pooling of interests and purchase methods respectively (ii) Computation and meaning of purchase consideration (iii) Problems based on purchase method of accounting only
<b>2</b>	<b>Capital Reduction and Internal Reconstruction</b>
	(i) Need for reconstruction and Company Law provisions (ii) Distinction between internal and external reconstructions (iii) Methods including alteration of share capital, variation of share holder rights, sub division, consolidation, surrender and reissue/cancellation, reduction of share capital, with relevant legal provisions and accounting treatments- for same
<b>3</b>	<b>Investment Accounting w.r.t. AS -13</b>
<b>3.1</b>	(a) For Shares (Variable income bearing securities)
	(b) For Debentures, bonds etc. (Fixed Income bearing securities)
<b>3.2</b>	Accounting for transactions of purchase and sales of investments with ex and cum interest prices and finding cost of investment sold and carrying cost as per weighted average method
<b>3.3</b>	Columnar format for investment account
<b>4</b>	<b>Preparation of Final Accounts of Companies</b>
	(i) Relevant provisions of Companies Act related Final Account (excluding cash flow statement) (ii) Preparation of profit and loss a/c and balance sheet as per revised schedule VI of – Companies act 1956 (iii) AS 1 in relation to final accounts of companies (disclosure of accounting Policies)
<b>5</b>	<b>Introduction to IFRS</b>
	(i) Purpose and objectives of Financial statements — Its framework — Its Assumptions, characteristics, elements, recognition and measurement (ii) Convergence and first time adoption of IFRS [IFRS – 1]

## **CONTENTS**

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1. Amalgamation of Companies	<b>1 – 89</b>
2. Capital Reduction and Internal Reconstruction	<b>90 – 168</b>
3. Investment Accounting	<b>169 – 197</b>
4. Preparation of Final Accounts of Companies	<b>198 – 268</b>
5. Introduction to IFRS	<b>269 – 282</b>
6. Question Paper	<b>283 – 288</b>

# AMALGAMATION OF COMPANIES

With effect from	01.04.1995	
Levels of Enterprises	Companies (AS) Rules, 2006 All types of Companies	Enterprises other than Companies I, II & III

## 1. DEFINITIONS AND SCOPE

1. **Scope:** AS - 14 is primarily directed at Companies –
  - (a) To account for amalgamations, and
  - (b) To account for any resultant Goodwill or Reserves.

**Note:** Even though it is primarily directed at Companies, AS - 14 requirements may also apply to Financial Statements of other enterprises.

AS - 14 specifically excludes acquisitions in the nature of purchase by one Company of Shares or assets of another Company, the consideration being paid by way of – (a) Cash, or (b) by issue of shares or other securities in the acquiring Company, or (c) partly in one form and partly in the other.

Particulars	Amalgamation	Acquisition
1. Meaning	It means an <b>amalgamation</b> pursuant to the provisions of the Companies Act, 1956, or any other applicable statute.	<b>Acquisitions</b> arise when there is a purchase by one Company of whole or part of the Shares or assets of another Company.
2. Parties	Transferor Company & Transferee Company.	Acquired Company & Acquiring Company.
3. Entity	Transferor Company ceases to exist after amalgamation.	Acquired Company is not dissolved. It continues to exist as a separate Company.
4. AS - 14	Applicable.	Not Applicable.
5. Governing Statute	Companies Act, 1956	SEBI Act, 1992

**Amalgamation vs. Absorption:** Amalgamation **Includes** – (a) two or more Companies joining to form a New Company, and or (b) absorption and blending of one by the other. Thus, Amalgamation includes Absorption also.

1. **Amalgamation:** It means an amalgamation pursuant to the provisions of the Companies Act, 1956, or any other statute, which may be applicable to Companies.
2. **Transferor Company:** It means the Company, which is amalgamated into another Company.
3. **Transferee Company:** It means the Company into which a Transferor Company is amalgamated.
4. **Reserve:** It means the portion of earnings, receipts or other surplus of an Enterprise, (whether capital or revenue) appropriated by the Management for a general or specific purpose, other than a provision for depreciation or diminution in the value of assets or for a known liability.

**2 • Financial Accounting**

5. **Consideration:** Consideration for the amalgamation means, the aggregate of the Shares and other securities issued and the payment made in the form of cash or other assets, by the Transferee Company, **to the Shareholders** of the Transferor Company.
6. **Fair Value:** Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing Buyer and a knowledgeable, willing Seller, in an arm's length transaction,
7. **Pooling of Interests Method:** It is a method of accounting for amalgamations, the object of which is to account *for* the amalgamation as if the separate businesses of the amalgamating Companies were intended to be continued by the Transferee Company. Accordingly, only minimal changes are made in aggregating the individual Financial Statements of the amalgamating Companies.

Type	Amalgamation in the nature of Merger	Amalgamation in the nature of Purchase
1. Meaning	There is a pooling of assets and liabilities of both Companies, as also the interests of the Shareholders and the businesses of the amalgamating Companies.	One Company acquires another Company, but the Shareholders of the Amalgamating Company do not continue to have a proportionate interest in the Equity or the business of the combined Company.
2. Continuation of business	The business of the Transferor Company is intended to be continued by the Transferee Company.	The business of the Company may not be intended to be continued by the Transferee Company.
3. Carrying amounts	All Assets, Liabilities, Capital and Reserves represent the sum of the relevant figures of the amalgamating Companies.	Assets and Liabilities may not be taken up in full by the Transferee Company in total. In effect, there is no pooling of assets and liabilities.
4. Participation in Management	There is a continuing participation by the Management of the Transferor Company in the Management of the Transferee Company after the amalgamation.	The Transferee Company takes the role of a dominant party after the amalgamation.
5. Method of Accounting	The Pooling of Interests Method is generally used for accounting.	The Purchase Method is normally used for accounting.

**Amalgamation in the nature of Merger** is an amalgamation, which satisfies all the following conditions

1. **Assets and Liabilities:** All the Assets and Liabilities of the Transferor Company become, after amalgamation, the assets and liabilities of the Transferee Company.
2. **Equity Shareholders:** Shareholders holding not less than 90% of the Face Value of the Equity Shares of the Transferor Company, (other than the Equity Shares already held therein, immediately before the amalgamation, by the Transferee Company or its Subsidiaries or their Nominees) become Equity Shareholders of the Transferee Company by virtue of the amalgamation.
3. **Consideration to Equity Shareholders = Equity Shares:** The consideration for the amalgamation receivable by those Equity Shareholders of the Transferor Company who agree to become Equity Shareholders of the Transferee Company, is discharged by the Transferee Company wholly by the issue of Equity Shares in the Transferee Company, except that cash may be paid in respect of any fractional Shares.

4. **Continuity of business:** The business of the Transferor Company is intended to be carried on, after the amalgamation, by the Transferee Company.
5. **Book Values of Assets and Liabilities:** No adjustment is intended to be made to the Book Values of the Assets and Liabilities of the Transferor Company, when they are incorporated in the Financial Statements of the Transferee Company, except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase is an amalgamation, which does not satisfy any one or more of the conditions specified above.

## 2. TYPES OF AMALGAMATION AND METHODS OF ACCOUNTING

Method Para Ref.	Pooling of Interests Method 10, 11, 31, 33, 34, 35	Purchase Method 12, 13, 32, 36, 37, 38, 39
1. Used in	Generally used in amalgamations in the nature of <b>Merger</b> .	Normally used in amalgamations in its nature of <b>Purchase</b> .
2. Recording of Assets and Liabilities	Assets, Liabilities and Reserves of the Transferor Company are recorded at their <b>existing Carrying Amounts</b> , subject to adjustments for uniformity in accounting policies.	Assets and Liabilities are recorded either at their – (a) existing Carrying Amounts, or (b) by allocating the consideration to individual assets on the basis of their <b>Fair Values</b> .
3. Profit & Loss Account of the Transferor Company	Balance of the Profit & Loss Account of the Transferor Company should be – * aggregated with the corresponding balance in P&L A/c of the Transferee Company, OR * transferred to the General Reserve, if any, of the Transferee Company.	Balance in the Profit & Loss Account appearing in the Financial Statements of the Transferor Company, whether debit or credit, loses its <b>Identity</b> .
4. Treatment of Non-Statutory Reserves	Capital or Revenue Reserves should be recorded at their <b>existing Carrying Amounts</b> and in the same form as at the date of amalgamation.	Capital or Revenue Reserves. ( <b>other than Statutory Reserves</b> ) should not be included in the Financial Statements of the Transferee Company. Statutory Reserves are <b>retained</b> at the existing Carrying Amount by the entry –
5. Treatment of Statutory Reserves	Statutory Reserves are retained at the existing Carrying Amount, in the books of the Transferee Company.	Amalgamation Adjustment Account Dr. To Statutory Reserve (by name) A/c When the Statutory Reserve is no longer required to be maintained, the above entry should be reversed.
6. Goodwill Capital Reserve	Difference between the amount recorded as Share Capital issued (plus any additional consideration in the form of cash or other assets), and the amount of Share Capital of the Transferor Company should be adjusted in <b>Reserves</b> , in the Financial Statements of the Transferee Company.  [Note: See <b>EAC Opinion</b> for treatment of Capital Reserve.]	Excess Consideration over the value of the net assets of the Transferor Company should be recognised in the Transferee Company's Financial Statements as <b>Goodwill</b> , which should be amortised to income on a systematic basis over its useful life. ( <b>normally five years.</b> ) If the consideration is lower than the value of the Net Assets acquired, the difference should be treated as <b>Capital Reserve</b> .

#### 4 • Financial Accounting

7. Adjustments to Assets and Liabilities	Adjustments become necessary only, when both Companies have conflicting accounting policies. The effect of changes in accounting policies must be disclosed, as per AS – 4.	Adjustments become necessary to – (a) ensure uniformity in accounting policies, or, (b) record assets not recorded in the books of the Transferor Company, e.g. Know-how or other Intangible Asset, or, (c) record liability not recorded in the books of the Transferor Company, e.g. provision for planned employee termination or plant relocation costs.
8. Management Intervention	There is no domination by the Management of either of the amalgamating Companies in recording Assets and Liabilities.	The Management of the Transferee Company may influence the determination of Fair Values for Assets and Liabilities.

1. **Components:** The consideration for the amalgamation (both in the nature of Merger or Purchase) may consist of – (a) Securities, (b) Cash, or (c) Other Assets.
2. **Valuation of Consideration:** Valuation becomes necessary only when there is a non cash element in the consideration. In determining the value of non cash consideration, an assessment is made of the Fair Value of its elements. A variety of techniques are applied in arriving at Fair Value, e.g. –

Nature of Consideration	Valued at
(a) In case of Securities	Fair Value is the value fixed by the statutory authorities, if any. Alternatively, other techniques may be applied.
(b) In case of other assets	Fair Value is Market Value of the assets given up. When it is not readily available, then respective Net Book Values are considered.

3. **Adjustments:** Consideration may be subject to adjustments in the light of one or more future events, e.g.
  - (a) When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration.
  - (b) In all other cases, the adjustment is recognised as soon as the amount is determinable.

Particulars	Amalgamation in the nature of Merger	Amalgamation in the nature of Purchase
1. Identity of Reserves	The identity of the Reserves is preserved, and they appear in the Financial Statements of the Transferee Company in the same form in which they appeared in the Financial Statements of the Transferor Company.	The identity of the Reserves is not preserved. However, Statutory Reserves to be maintained for a specified period, e.g. Development Allowance Reserve and Investment Allowance Reserve under Income Tax Act, are recorded at the existing Carrying Amounts.
2. Reserves for Dividend Distribution	Reserves, which were available for distribution as dividend before the amalgamation, would also be available for distribution as dividend after the amalgamation.	The identity of the Reserves is <b>not preserved</b> . The question of Dividend Distribution out of Capital Reserve does not arise.

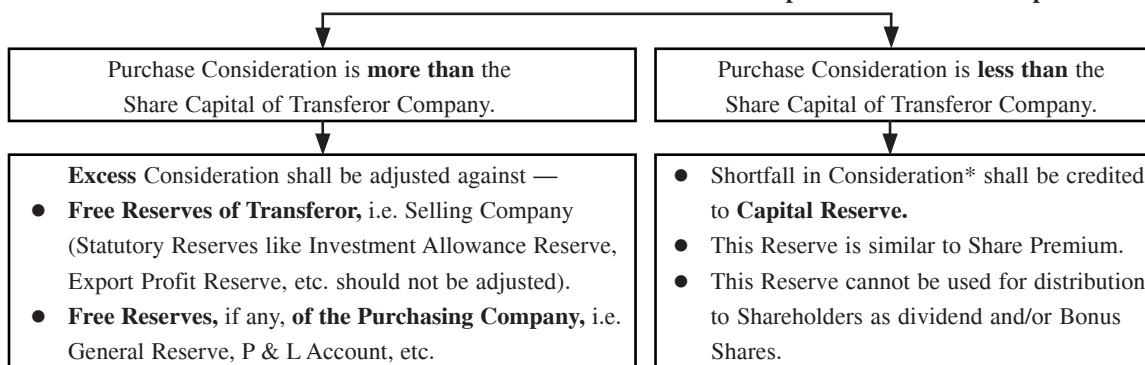
3. Treatment of Consideration	The difference between the consideration and the amount of Share Capital of the Transferor Company is adjusted in the <b>Reserves</b> in the Financial Statements of the Transferee Company. <p style="text-align: center;">[See Note below for EAC Opinion on Capital Reserve]</p>	The amount of consideration is deducted from the value of the Net Assets of the Transferor Company acquired by the Transferee Company. The treatment is as under  (a) <b>When Consideration &gt; Net Assets:</b> Difference is debited to. <b>Goodwill A/c.</b> (b) <b>When Consideration &lt; Net Assets:</b> Difference is credited to <b>Capital Reserve A/c.</b>
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**Note: Capital Reserve in case of Amalgamation in the nature of Merger EAC Opinion**

<ul style="list-style-type: none"> <li>● <b>Capital Reserve:</b> The difference between Issued Share Capital of the Transferee Company [i.e. Purchasing Company] and the Share Capital of the Transferor Company (is) [i.e. Selling Company (is)] should be treated as Capital Reserve, in the books of the Transferor Company.</li> <li>● <b>Restriction:</b> Reserve created on amalgamation is not available for the purpose of distribution to Shareholders as dividend and / or Bonus Shares.</li> <li>● <b>Applicability:</b> Capital Reserve arises only if the Purchase Consideration (i.e. Shares issued by the Purchasing Company) is <b>less</b> than the Share Capital (Equity + Preference) of the Transferor Companies.</li> </ul>	<b>EAC Opinion (April 2004 CA Journal Page 1042)</b>
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**In the case of Amalgamation in the nature of Merger**

**Treatment of difference between Purchase Consideration & Share Capital of Transferor Companies**



**Illustration:** Big Ltd. took over Small Ltd. on 1st April, by way of merger, on the date of amalgamation, the Reserves of Small Ltd. were – (a) General Reserve Rs. 100 Lakhs, (b) P & L A/c Rs. 50 Lakhs, (c) investment Allowance Reserve (under IT Act) Rs. 45 Lakhs. Small Ltd. had a Paid-up Capital of Rs. 150 Lakhs in Equity Shares and Rs. 200 Lakhs in Preference Shares. The treatment of Reserves in different situations will be –

## 6 • Financial Accounting

Situation	I	II	III
Purchase Consideration	480	600	300
Paid-Up Capital of Transferor Co.	150 + 200 = 350	150 + 200 = 350	150 + 200 = 350
Difference	Excess 130	Excess 250	Shortfall (50)
Adjustments in –	G/R of Small = 100 P&L of Small = <b>30</b> <b>(Bal. figure)</b>	G/R of Small = 100 P&L of Small = 50 G/R / P&L of Big = <b>100</b> <b>(Bal. figure)</b>	<b>Capital Reserve = 50</b> as per EAC Opinion
Balance Reserves of Small Ltd. to be recorded in the books of Big Ltd.	G/R of Small = Nil P&L of Small = 20 Invnt Allow Res = 45	G/R of Small = Nil P&L of Small = Nil Invnt Allow Res= 45	G/R of Small = 100 P&L of Small = 50 Invnt Allow Res = 45 Capital Reserve = 50

### 3. PRINCIPLES – ACCOUNTING FOR AMALGAMATION

1. **Statute prevails:** Where the scheme of amalgamation sanctioned under a Statute, e.g. Companies Act, 1956, prescribes the treatment to be given to the Reserves of the Transferor Company after amalgamation, the same should be followed.
2. **Disclosures:** Where the Statute prescribes the treatment of Reserves, in the interest of better understanding, the following disclosure should be made in the first Financial Statements following the amalgamation –
  - (a) Description of the accounting treatment given to the Reserves together with the reasons for following a treatment different from that prescribed in AS – 14.
  - (b) Deviations in the accounting treatment given to the Reserves as prescribed by the scheme of amalgamation sanctioned under the Statute, as compared to the requirements of AS – 14 that would have been followed, had no treatment been prescribed by the Statute.
  - (c) The financial effect if any, arising due to such deviation.

#### **Treatment of Goodwill**

1. **Recognition of Goodwill:** Any **excess** consideration over the value of the Net Assets of the Transferor Company should be recognised in the Transferee Company's Financial Statements as **Goodwill**. Goodwill arising on amalgamation represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortised to income on a systematic basis over its useful life.
2. **Amortisation: Goodwill** arising on amalgamation should be amortised to income on a systematic basis over its useful life. Due to the nature of goodwill, it is generally difficult to estimate its useful life with reasonable certainty, on a reasonable estimation, goodwill should be amortised over a period **not exceeding five years**, unless a longer period is justified.
3. **Factors considered in estimating the useful life of Goodwill**
  - (a) the foreseeable life of the business or industry,
  - (b) the effects of product obsolescence, changes in demand and other economic factors,
  - (c) the service life expectancies of key individuals or group of employees,
  - (d) expected actions by competitors or potential competitors, and
  - (e) legal, regulatory or contractual provisions affecting the useful life.

**Example: Tarun Ltd.** acquired the Net Assets of Varun Ltd. for a total consideration of Rs. 25 Lakhs. The Fair Value of Net Assets of Varun Ltd. is Rs. 20 Lakhs. Here, the difference of Rs. 5 Lakhs constitutes **Goodwill**, to be amortised by Tarun Ltd. over a five-year period, unless a longer period is justified.

**Treatment of Capital Reserve amalgamation in the nature of purchase?**

1. **Capital Reserve:** If the consideration paid for amalgamation is **less** than the Net Assets of the Transferor Company, the difference is called **Negative Goodwill**. This should be recognised in the Transferee Company's Financial Statements as **Capital Reserve**.
2. **Example: Dhruva Ltd.** acquired the Net Assets of Uttama Ltd. for a total consideration of Rs. 25 Lakhs. The Fair Value of Net Assets of Uttama Ltd. is Rs. 40 Lakhs. In the above case, the difference of Rs. 15 Lakhs constitutes **Negative Goodwill**. This should be recognised as **Capital Reserve** in the Financial Statements of Dhruva Ltd.

**Effect of Amalgamation after the Balance Sheet Date?**

Amalgamation is effected	Treatment
<ul style="list-style-type: none"> <li>● After the Balance Sheet Date, but</li> <li>● Before the issuance of Financial Statements by either parties.</li> </ul>	<ul style="list-style-type: none"> <li>● The amalgamation is <b>not incorporated</b> in the</li> <li>● Financial Statements, <b>but</b></li> <li>● Disclosure is made in accordance with AS – 4.</li> </ul>

In certain circumstances, the amalgamation may also provide additional information affecting the Financial Statements themselves, for instance, by allowing the going concern concept assumption to be maintained.

**Example:** As per a scheme sanctioned under the Companies Act, 1956, Kripa Ltd. is amalgamated with Sundari Ltd. with effect from 1st May 2011. Both Companies close their accounts 31st March every year. For the year ended 31st March 2011, the Companies have not yet finalised their accounts. The amalgamation is to be accounted only during the financial year ending 31st March 2012. However, disclosure is made in the accounts for the year ending 31st March 2011, as per AS – 4 requirements,

**Balances in the P & L Account treated in the books of the Transferee Company?**

**Amalgamation in the nature of Merger [Para 21] Amalgamation in the nature of Purchase [Para 22]**

Balance in P & L A/c appearing in the Financial Statements of the Transferor Company is – (a) aggregated with the corresponding balance appearing in Financial Statements of the Transferee Company, OR, (b) transferred to the General Reserve, if any.	Balance in P & L A/c appearing in the Financial Statements of the Transferor Company, whether debit or credit, <b>loses its identity</b> .
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#### 4. DISCLOSURE REQUIREMENTS

The First Financial Statements following the Amalgamation should disclose –

For all Amalgamations	Additional disclosures under the Pooling of Interests Method	Additional disclosures under the Purchase Method
Para 24, 43	Para 25, 44	Para 26, 45
<ul style="list-style-type: none"> <li>Names and general nature of business of the Amalgamating Companies,</li> <li>Effective date of amalgamation for accounting purposes,</li> <li>Method of accounting used to reflect the amalgamation, and</li> <li>Particulars of the scheme sanctioned under a Statute.</li> </ul>	<ul style="list-style-type: none"> <li>Description and number of Shares issued, together with the percentage of each Company's Equity Shares exchanged to effect the amalgamation, and</li> <li>Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration for the amalgamation and a description of the consideration paid or contingently payable, and</li> <li>Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any Goodwill arising on amalgamation.</li> </ul>

#### SUMMARY OF EAC OPINIONS IN AS – 14

<p><b>Nature of Capital Reserve:</b> The difference between issued Share Capital of the Transferee Company and the Share Capital of the Transferor Company should be treated as Capital Reserve for AS – 14 purposes. This Reserve is not available for distribution to Shareholders as dividend or as Bonus Shares.</p>	<p><b>April 2004 CA Journal Pg.1042</b></p>
<p><b>Amalgamation of 100% Subsidiary with its 100% Holding Company:</b> Amalgamation of a Subsidiary with its 100% Holding Company satisfies all the conditions for amalgamation in the nature of Merger. Also, a Subsidiary cannot be “acquired” by its Holding Company, since it is already acquired. Hence, it should be accounted under the Pooling of Interests Method only.</p>	<p><b>EAC Opinion</b></p>

#### Steps involved in Accounting for Amalgamations

Step	Procedure
1	<p>See whether the Amalgamation is in the nature of <b>Merger</b> or in the nature of <b>Purchase</b>. (See Q.2 above)</p> <ul style="list-style-type: none"> <li>Determine the <b>Purchase Consideration</b>, i.e. Cash, Securities or Other Assets paid by the Purchasing Company to the <b>Shareholders</b> of the Selling Company.</li> </ul>
2	<ul style="list-style-type: none"> <li>Payment made to Debenture holders of the Selling Company or reimbursement of Liquidation Expenses of the Selling Company, does <b>not</b> constitute Purchase Consideration.</li> <li>Purchase Consideration can be determined based on — <ul style="list-style-type: none"> <li>(a) <b>Net Payments basis</b>, i.e. total of shares and cash paid by the Purchasing Company to the Selling Company, or</li> <li>(b) <b>Net Assets basis</b>, i.e. Assets (including Goodwill, if any) Less Liabilities taken over, at the agreed values.</li> </ul> </li> </ul>

	Verify for special considerations in Shareholdings	
	<b>Situation</b>	<b>Treatment</b>
<b>3</b>	<b>Purchasing Company holding Shares in Selling Company</b>	Purchase Consideration should be calculated for Outsiders' Interests only.
	<b>Selling Company holding Shares in Purchasing Company</b>	Additional Shares will be issued by the Purchasing Company (Total Shares to be issued Less Shares already held by the Selling Company).
	<b>Cross Holdings</b> , i.e. Purchasing and Selling Companies holding Shares in each other	Purchase Consideration (based on <b>Net Assets</b> basis) should be determined using <b>simultaneous equations</b> . (In case of Net Payments based Purchase Consideration, simultaneous equations are not required.)
<b>4</b>	Pass the necessary Journal Entries in the books of the Selling Company, so as to close its books.	
<b>5</b>	Compute <b>Goodwill / Capital Reserve</b> for the Purchasing Company, in case of an amalgamation in the nature of Purchase.	
<b>6</b>	Pass the necessary Journal Entries in the books of the Purchasing Company, and prepare the revised Balance Sheet of the Purchasing Company after absorption / takeover.	

### JOURNAL ENTRIES IN THE BOOKS OF SELLING COMPANY

**Note: No distinction** is made between Amalgamation in the nature of **Merger. or Purchase**, in the books of the Selling Company. The Journal Entries are similar in both cases.

	Transaction	Journal Entry
<b>1.</b>	Transfer of Assets taken over by Purchasing Company	Realisation A/c <span style="float: right;">Dr.</span> To Sundry Assets (individually)(at B/S Value)
	<b>Note:</b> <ul style="list-style-type: none"> <li>● If Cash is not taken over by the Purchasing Company, it should not be transferred to Realisation A/c.</li> <li>● If Selling Company already holds Shares in Purchasing Company, such "Investments in Shares of Purchasing Company" A/c, should not be transferred to Realisation A/c.</li> </ul>	
<b>2</b>	Transfer of Liabilities taken over by Purchasing Company	Sundry Liabilities A/c (individually) (at B/S Value) <span style="float: right;">Dr.</span> To Realisation A/c
<b>3</b>	Direct Sale of specific Assets not taken over by Purchasing Company	Cash / Bank A/c (amount received) <span style="float: right;">Dr.</span> Realisation A/c (if sold at Loss) <span style="float: right;">Dr.</span> To Sundry Assets A/c (specified asset) (at B/s Value) To Realisation A/c (if sold at Profit)
<b>4</b>	Direct Settlement of specific Liabilities not taken over by Purchasing Company	Sundry Liabilities A/c (at B/s Value) <span style="float: right;">Dr.</span> Realisation A/c (if settled at Loss) <span style="float: right;">Dr.</span> To Cash / Bank A/c (amount settled) To Realisation A/c (if settled at Profit)
<b>5</b>	Expenses of Liquidation / Realisation met by Selling Company	Realisation A/c <span style="float: right;">Dr</span> To Cash / Bank A/c

**10 • Financial Accounting**

	<p><b>Note:</b></p> <ul style="list-style-type: none"> <li>● If Purchasing Company <b>meets the Realisation Expenses directly</b>, no entry is required in Selling Co.'s Books.</li> <li>● If the Purchasing Company <b>reimburses the Liquidation Expenses</b>, then "Purchasing Company" Account should be debited instead of "Realisation Account". A separate receipt entry should be passed for the reimbursement received. (<b>Alternatively</b>, the payment of Liquidation Expenses and receipt of reimbursement can be ignored in the books of the Selling Company)</li> <li>● If the Liquidation Expenses are <b>shared</b> by the Purchasing Company and Selling Company, the Journal Entry in <b>Item 5</b> should be made only for the <b>Selling Company's Share</b> of Expenses.</li> </ul>
<b>6</b>	<p>Transfer of Share Capital to Sundry Shareholders Account If Purchasing Co. holds Shares in Selling Co.</p> <p>Equity Share Capital A/c (Total Amt)      Dr.     To Sundry Shareholders A/c (Outsiders' Share)     To Realisation A/c (Purchasing Co.'s Share, if any)</p>
<b>7</b>	<p>Transfer of Reserves and Surplus (to Sundry Shareholders, i.e. Outsiders' Share only)</p> <p>Reserves &amp; Surplus A/c      Dr.     To Sundry Shareholders A/c (fully transferred)</p>
<b>8</b>	<p>Transfer of Accumulated Losses, if any</p> <p>Sundry Shareholders A/c      Dr.     To P&amp;L Account / Misc. Expenditure, etc.</p>
<b>9</b>	<p>Recording of Purchase Consideration due</p> <p>Purchasing Company A/c      Dr.     To Realisation A/c Cash / Bank A/c      Dr.</p>
<b>10</b>	<p>Receipt of Purchase Consideration</p> <p>Shares in Purchasing Co. A/c      Dr.     To Purchasing Company A/c</p>
<b>11</b>	<p>Transfer of Profit on Realisation (reverse entry is passed for Loss, if any)</p> <p>Realisation A/c      Dr.     To Sundry Shareholders A/c Sundry Shareholders A/c      Dr.</p>
<b>12</b>	<p>Final Settlement to Shareholders</p> <p>To Cash / Bank A/c To Shares in Purchasing Co. A/c</p>

**Note:**

- 1. Participating Preference Shams:** Generally all Reserves, Accumulated Losses and Profit Loss on Realisation is transferred to Equity Shareholders Account. Preference Shareholders are not entitled for the same. However, in respect of Participating Preference Shares, they are entitled to the Credit Balances in Reserves and Surplus on Realisation, if it is permitted by – (a) Articles of Association, and (b) terms of amalgamation / absorption. In any case, Accumulated Losses/Loss on Realisation will be borne entirely by Equity Shareholders.
- 2. Absorption without Liquidation of Selling Company:** Sometimes, the Purchasing Company may take over all the Assets and liabilities of the Selling Company, **without liquidating the latter**. In such case, the Selling Company will continue to exist as an Investment Company. In accounting for such Takeover —
  - (a) There is no payment / settlement to Shareholders, hence entry 6, 7, 8, 11 and 12 above will not be applicable.
  - (b) Profit on Realisation is transferred to Capital Reserve Account.
  - (c) Loss on Realisation if any, is adjusted against Reserves of the Selling Company.
  - (d) Assets of Selling Company will consist **only** of Shares / Securities of the Purchasing Company.

**Format of some Ledger Accounts in the books of Selling Company**

**1. Realisation Account**

Particulars	₹	Particulars	₹
To Sundry Assets A/c (Assets taken over) (individually) (transfer at Book Values)		By Sundry Liabilities (Liab. taken over) (individually) (transfer at Book Values)	
To Cash / Bank (liquidation Expenses met)		By Purchasing Co. A/c (Purchase Consideration Due)	
To Sundry Assets / Liabilities A/c (Assets disposed of at loss if any, Liabilities settled at higher amounts than Book Values, if any)		By Sundry Assets / Liabilities A/c (Assets disposed of at a gain if any, Liabilities settled at lower amounts than Book Values, if any)	
To Sundry Shareholders A/c (Profit on Realisation transferred)		By Equity Share Capital A/c , (Purchasing Co.'s Share in Equity Cap. of Selling Co, if any)	
		By Sundry Shareholders A/c (Loss on Realisation transferred, if any)	
<b>Total</b>		<b>Total</b>	

**2. Equity Shareholders' Account / Sundry Shareholders' Account**

Particulars	₹	Particulars	₹
To P&L A/c / Misc. Expenditure (Transfer of Accumulated Losses, Dr. Bal. etc.)		By Equity Share Capital (Outside Shareholders Portion of Equity Capital)	
To Realisation A/c (Loss on Realisation, if any)		By Reserves (All Reserves, fully transferred)	
To Cash / Bank (Final Settlement)		By Realisation A/c (Profit on Realisation)	
To Equity Shares in Purchasing Company (Final Settlement)			
<b>Total</b>		<b>Total</b>	

**3. Purchasing Company Account**

Particulars	₹	Particulars	₹
To Realisation A/c (Purchase Consideration due)		By Cash / Bank (Settlement of Purchase Consideration)	
		By Equity Shares in Purchasing Co. (Settlement of Purchase Consideration)	
<b>Total</b>		<b>Total</b>	

**4. Investment in Equity Shares of Purchasing Company Account  
(if Selling Company already holds Shares in Purchasing Company)**

Particulars	₹	Particulars	₹
To balance b/d (Shares already held)		By Sundry Shareholders A/c	
To Purchase Company A/c (Purchase Consideration received now)		(Final Settlement / Distribution to Outside Shareholders)	
<b>Total</b>		<b>Total</b>	

**Journal Entries in the Books of Purchasing Company**

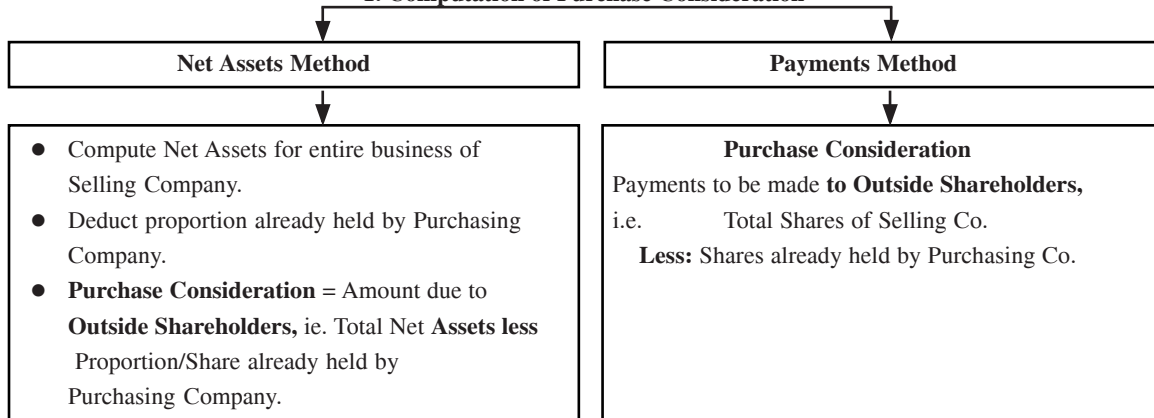
Transaction	Journal Entry
<p><b>1.</b> Purchase Consideration Due</p> <p>Assets and Liabilities taken over (<b>Note:</b> Where the Purchasing Company already holds some Shares in the Selling Company, the relevant Investment Account is also credited, for Cancellation purposes.)</p> <p><i>Either Goodwill or Capital Reserve will arise as the balancing figure in case of Purchase Method.</i></p>	<p>Business Purchase A/c Dr. To Liquidator of Selling Company A/c</p> <p><b>A. PURCHASE METHOD:</b> Sundry Assets A/c (at agreed values) Dr. Goodwill A/c (balancing figure, if any) Dr. To Sundry Liabilities A/c (at agreed values) To Business Purchase A/c (Purchase Consideration) To Capital Reserve A/c (balancing figure, if any) (If Purc Consi &gt; Net Assets, Goodwill will arise as bal. fig.) (If Purc Consi &lt; Net Assets, Capital Reserve will arise as b/f)</p> <p><b>B. MERGER METHOD:</b> <b>(i) When Purchase Consideration &gt; S. Cap of Selling Co.</b> Sundry Assets A/c (at B/s Values) Dr. Reserves A/c (balancing figure, if any) Dr. To Sundry Liabilities A/c (at B/s Values) To Statutory Reserves of Selling Company A/c (if any) To Business Purchase A/c (Purchase Consideration) To Reserves A/c (balancing figure, if any)</p> <p><b>(ii) When Purchase Consideration &lt; S. Cap of Selling Co.</b> Sundry Assets A/c (at B/s Values) Dr. To Sundry Liabilities A/c (at B/s Values) To Statutory Reserves of Selling Company A/c (if any) To Business Purchase A/c (Purchase Consideration) To Free Reserves of Selling Co. A/c To Capital Reserve A/c (as per EAC Opinion)</p>
<p><b>2</b> Excess consideration is adjusted against –</p> <p>(a) Free Reserves (incl. P &amp; L) of Selling Co. (b) Free Reserves of Purchasing Co. and (c) finally, against P &amp; L A/c of Purchasing Co.</p> <p><i>All Reserves (i.e. Statutory and Free) of Selling Company are fully recorded. Shortfall In consideration is credited to Capital Reserve A/c.</i></p>	

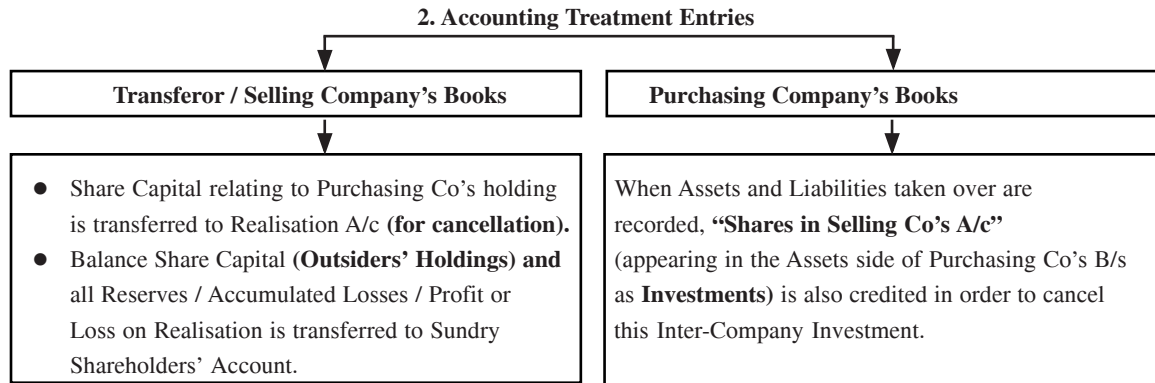
**Amalgamation of Companies • 13**

<b>3</b>	Discharge of Purchase Consideration	Liquidator of Selling Company A/c Dr. To Equity / Preference Share Capital A/c To Securities Premium A/c (if any) To Cash / Bank A/c (for fractions, etc.)				
<b>4</b>	Realisation / Liquidation Expenses met reimbursed by Purchasing Company	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"><b>A. PURCHASE METHOD</b></td> <td style="width: 65%;">Goodwill / Capital Reserve A/c Dr. To Cash / Bank A/c</td> </tr> <tr> <td><b>B. MERGER METHOD</b></td> <td>P &amp; L Account / Reserves A/c To Cash / Bank A/c</td> </tr> </table>	<b>A. PURCHASE METHOD</b>	Goodwill / Capital Reserve A/c Dr. To Cash / Bank A/c	<b>B. MERGER METHOD</b>	P & L Account / Reserves A/c To Cash / Bank A/c
<b>A. PURCHASE METHOD</b>	Goodwill / Capital Reserve A/c Dr. To Cash / Bank A/c					
<b>B. MERGER METHOD</b>	P & L Account / Reserves A/c To Cash / Bank A/c					
	<ul style="list-style-type: none"> <li>● If Selling Co. <b>meets the Realisation Expenses directly</b>; no entry is required in Purchasing Co's Books.</li> <li>● If the Realisation Expenses are <b>shared</b> by the Purchasing Company and Selling Company, the Entry in <b>Item 4</b> should be recorded <b>only</b> for the <b>Purchasing Company's Share</b> of expenses.</li> </ul>					
<b>5</b>	Recording of <b>Statutory Reserves</b> of Selling Company (for amalgamation in the nature of <b>PURCHASE</b> only)	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c <i>(Note: This entry is Not Applicable for Merger Method)</i>				
	<ul style="list-style-type: none"> <li>● Statutory Reserve is shown on the Liabilities Side under "<b>Reserves and Surplus</b>". Amalgamation Adjustment A/c is shown on the Assets Side of the Balance Sheet.</li> <li>● The above entry is reversed once the statutory time period expires / obligations are completed.</li> </ul>					
<b>6</b>	Elimination of <b>Inter Company Owings</b>	Sundry Creditors / Bills Payable A/c Dr. To Sundry Debtors / Bills Receivable A/c				
<b>7</b>	Elimination of <b>Unrealised Profits on Stocks</b> , if any ( <b>Note:</b> This is applicable when Purchasing Company has sold goods to Selling Company at a profit, and which remains in the Selling Company's Stock, on the date of takeover.)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"><b>A. PURCHASE METHOD</b></td> <td style="width: 65%;">Goodwill / Capital Reserve Dr. To Stock Reserve / Stock</td> </tr> <tr> <td><b>B. MERGER METHOD</b></td> <td>P &amp; L Account / Reserves A/c Dr. To Stock Reserve / Stock</td> </tr> </table>	<b>A. PURCHASE METHOD</b>	Goodwill / Capital Reserve Dr. To Stock Reserve / Stock	<b>B. MERGER METHOD</b>	P & L Account / Reserves A/c Dr. To Stock Reserve / Stock
<b>A. PURCHASE METHOD</b>	Goodwill / Capital Reserve Dr. To Stock Reserve / Stock					
<b>B. MERGER METHOD</b>	P & L Account / Reserves A/c Dr. To Stock Reserve / Stock					

**A/cing Treatment when Purchasing Co. already holds Shares in Selling Co.**

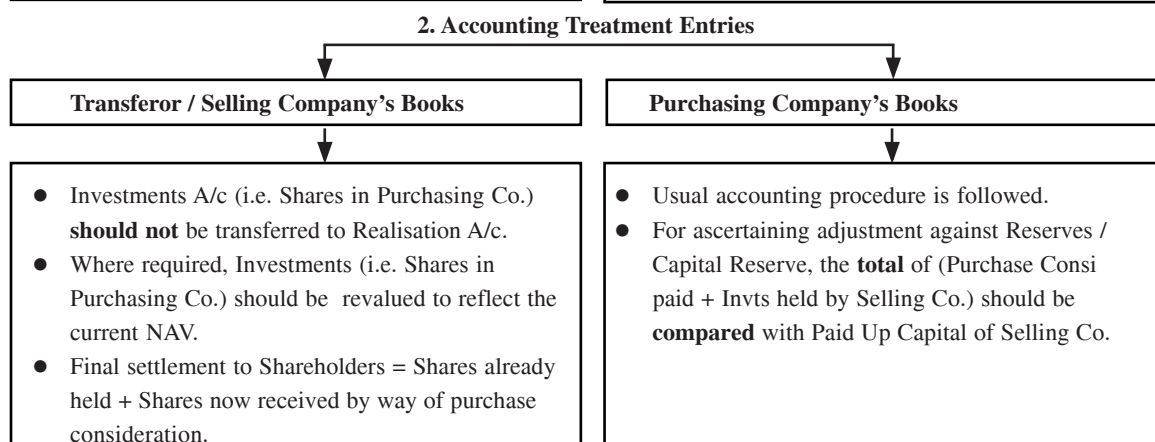
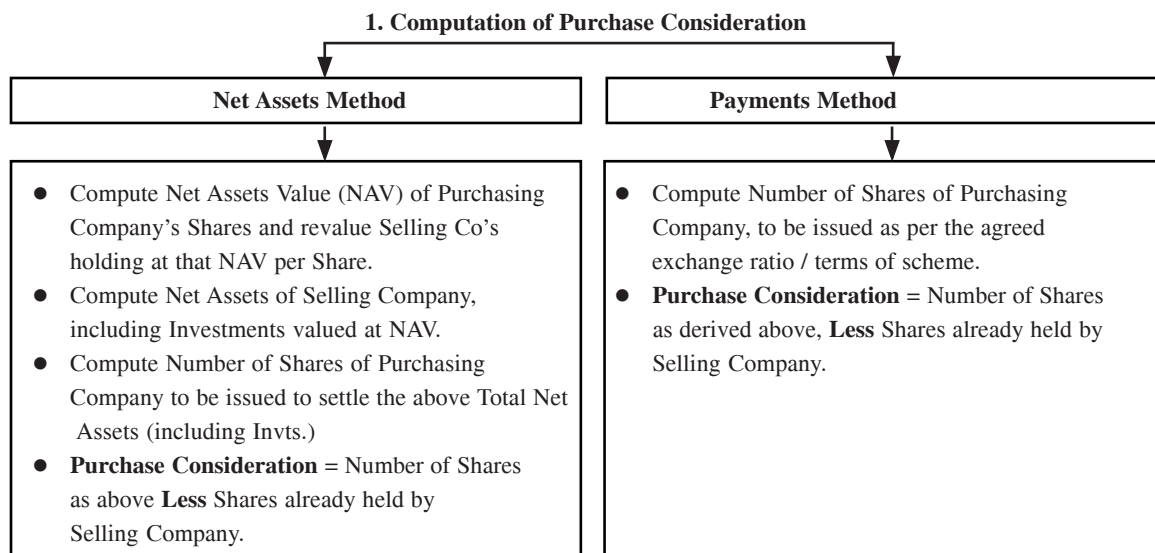
**1. Computation of Purchase Consideration**





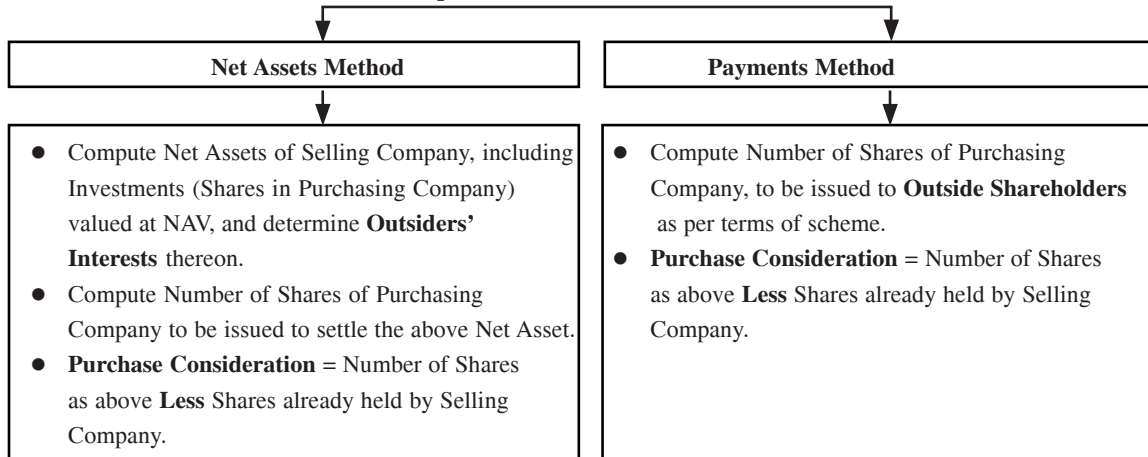
**Note:** In the Purchasing Company's books, where the scheme of amalgamation requires that the Investments (appearing in Purchasing Company's Books as Assets) be revalued to reflect the current NAV, it is recorded before journalising the assets and liabilities takeovers. Hence cancellation of Investments a/c will be at NAV.

**A/cing Treatment when Purchasing Co. already holds Shares in Purchasing Co.**

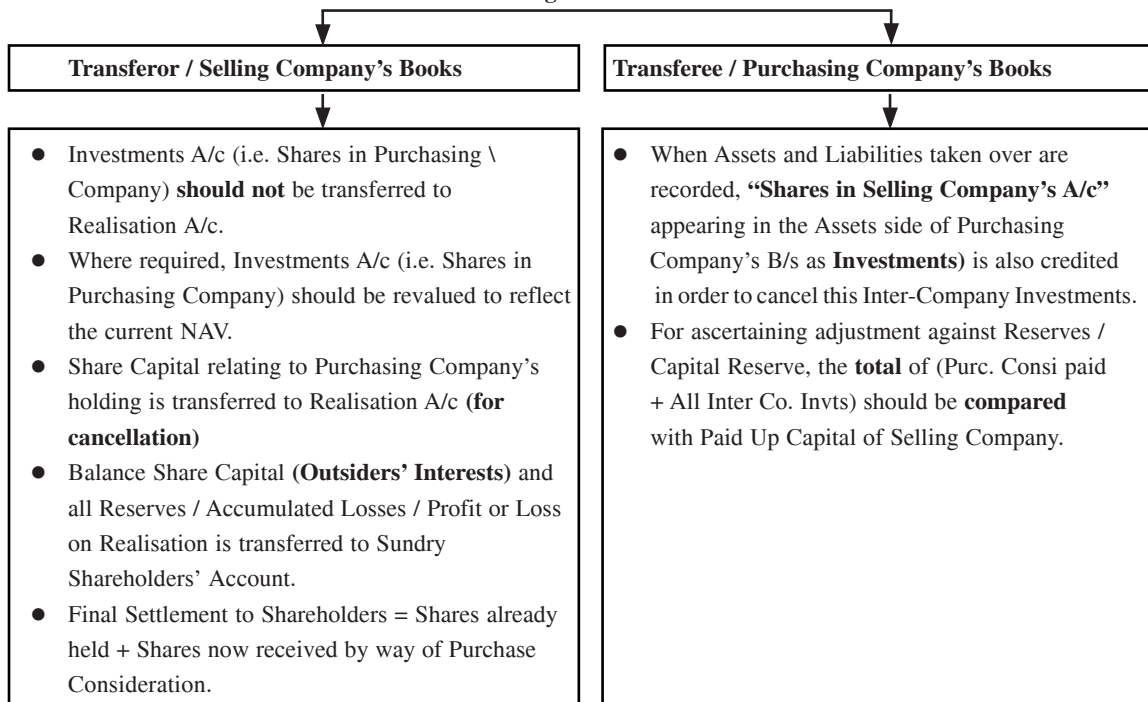


**A/cing Treatment in case of Cross Holdings,  
i.e. when Selling Co. already holds Shares in Purchasing Co. and vice-versa**

**1. Computation of Purchase Consideration**



**2. Accounting Treatment Entries**



**Note:** Simultaneous Linear Equations Method should be applied in appropriate situations, Refer Illustrations.

**PRACTICAL QUESTIONS – A/CING FOR AMALGAMATIONS****1. COMPUTATION OF PURCHASE CONSIDERATION****Illustration 1 : Computation of Purchase Consideration**

Given below are the Balance Sheets of Ashwathama Ltd. and Bheeshma Ltd. as on 31<sup>st</sup> December, in which date the Companies were amalgamated and a new Company Chandrachuda Ltd. was formed. (in ₹ 000s)

Liabilities	Ashwathama Ltd.	Bheeshma Ltd.	Assets	Ashwathama Ltd.	Bheeshma Ltd.
Equity Shares of Rs. 10 each	70,00	60,00	Sundry Fixed Assets	85,00	70,60
Reserves	20,00	40,00	Sundry Current Assets	20,00	30,00
Sundry Creditors & Other Current Liabilities	15,00	10,00	Miscellaneous Expenditure	—	10,00
<b>Total</b>	<b>105,00</b>	<b>110,00</b>	<b>Total</b>	<b>+105,00</b>	<b>110,00</b>

It was agreed that Sundry Fixed Assets of Ashwathama Ltd. would be valued at 7,100,00 thousand and that of Bheeshma Ltd. at Rs. 95,00 thousand. Chandrachuda Ltd. would issue the requisite number of Equity Shares of Rs. 10 each at 10% premium to discharge claim of the Equity Shareholders of Ashwathama Ltd. & Bheeshma Ltd. How many shares of Chandrachuda Ltd. should be issued to takeover the business of the two merging Companies?

**Solution:**

(in Rs. 000s)

Particulars	Ashwathama Ltd.	Bheeshma Ltd.
Sundry Fixed Assets	100,00	95,00
Sundry Current Assets	20,00	30,00
Total Assets	120,00	125,00
<b>Less:</b> Liabilities Taken over	15,00	10,00
Purchase Consideration	105,00	115,00
<b>Total Purchase Consideration</b>	<b>-105,00 + 115,00 = 220,00</b>	

Number of Equity Shares to be issued = Rs. 220,00 thousand + Rs. 11 (including premium) = 20,00 thousand. Hence, Chandrachuda Ltd. will be formed with a Paid Up Capital of Rs. 200,00 thousand and Securities Premium of Rs. 20,00 thousand.

**Illustration 2 : Computation of Purchase Consideration**

The Balance Sheet of Partha Ltd. as on 31<sup>st</sup> December is given below.

(in Rs. 000s)

Liabilities	Amount	Assets	Amount
Share Capital: Equity Shares of Rs. 10 each	50,50	Sundry Fixed Assets	50,00
8% Preference Shares	9,60	Stock	20,00
12% Debentures	15,00	Debtors	10,00
Sundry Creditors & Other Liabilities	10,00	Cash & Bank	5,00
<b>Total</b>	<b>85,00</b>	<b>Total</b>	<b>85,00</b>

Krishna Ltd. agrees to take over Partha Ltd., by issuing requisite number of Preference Shares of Rs. 10 each at 5% discount to the Preference Shareholders of Partha Ltd., and requisite number of Equity Shares of Rs. 10 each at par to

the Equity Shareholders of Partha Ltd. Purchase Consideration is settled as per Book Value of the assets, and the Debentures will be taken over by Krishna Ltd. on the agreement that these will be paid off at 10% premium after one year. Debenture holders of Partha Ltd. will accept 12% Debentures of Krishna Ltd. Calculate Purchase Consideration.

**Solution:** **Purchase Consideration by Net Assets Method** **(in Rs. 000s)**

Particulars	Amt.	Amt.
Book Value of Assets taken over (i.e. Total of Assets Side)		85,00
<b>Less:</b> Liabilities taken over: Debentures	15,00	
Additional Liability for Premium on Redemption at 10%	1,50	
Sundry Creditors & Other Liabilities	10,00	(26,50)
Net Purchase Consideration		58,50

This Purchase Consideration shall be discharged by 8% Preference Shares and Equity Shares of Krishna Ltd. (Issue of Debentures to the Debentureholders of Partha Ltd. shall not be included in Purchase Consideration).

Number of Shares to be issued is computed as under –

(1) Preference Shares to be issued = Rs. 950 thousands + Rs. 9.50 = 100 thousands  
(i.e. at a discount)

Balance of Purchase Consideration = Rs. 58.50 thousands – Rs. 950 thousands  
= Rs. 49,00 thousand

(2) Equity Shares to be issued = Rs. 49,00 thousands + Rs. 10 = 490 thousands

**Illustration 3 : Computation of Purchase Consideration – Mutual Holdings**

Arun Ltd. and Bhairav Ltd. decide to amalgamate themselves into Sandhya Limited. The following are their Balance Sheets as on 31st December.

Liabilities	Arun	Bhairav	Assets	Arun	Bhairav
Face Value and Paid Up Capital			Investments		
Share Capital (Rs. 10 each)	5,00,000	4,00,000	1000 Shares in B Ltd.	1,30,000	—
General Reserves	2,00,000	1,00,000	2000 Shares in A Ltd.	—	2,10,000
10% Debentures	2,00,000	1,50,000	Sundry Assets	7,70,000	4,40,000
Total	9,00,000	6,50,000	Total	9,00,000	6,50,000

Compute the amount of Purchase Consideration of each of these Companies under Purchase Method as per AS – 14.

**Solution:** Since there is Inter Company Shareholding, Simultaneous Equations Method is applied.

**Computation of Net Assets**

Particulars	Arun	Bhairav
Investment in Equity Shares of B Ltd. (1000 ÷ 4000) = 1/4th	1/4th × B	—
Investment in Equity Shares of A Ltd. (2000 ÷ 5000) = 2/5th	—	2/5th × A
Sundry Assets	7,70,000	4,40,000
<i>Less:</i> 10 % Debentures	(2,00,000)	(1,50,000)
<b>Net Assets</b> (Let Intrinsic Value of Arun Ltd. and Bhairav Ltd. be 'A' & 'B')	A	B

**18 • Financial Accounting**

The two equations are:  $A = 5,70,000 + \frac{1}{4} B$  ..... **Eqn 1**,                      and  $B = 2,90,000 + A$  ..... **Eqn 2**

By substituting value of A from **Equation 1** in **Equation 2**, we get,  $B = 2,90,000 + (5,70,000 + \frac{1}{4} B)$

So,  $B = 2,90,000 + 2,28,000 + \frac{1}{4} B$        $B - \frac{1}{4} B = 5,18,000$                       i.e.  $B = 5,18,000$        $B = 5,18,000 \times \frac{4}{3}$   
**So, B = Rs. 5,75,556 (approx.)**

Upon substituting value of B in **Equation 1**, we get  $A = 5,70,000 + (\frac{1}{4} \times 5,75,556) = \text{Rs. 7,13,889}$  (Approx)

**Illustration 4 : Computation of Purchase Consideration**

The following is the Balance Sheet of Swarna Ltd. as on 31st March:

Liabilities	Rs.	Assets	Rs.
14,000 Equity Shares of Rs. 100 each fully paid	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Discount on issue of Debentures	10,000
10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	Profit & Loss A/c	60,000
Bank Overdraft	50,000		
Bills Payable	40,000		
<b>Total</b>	<b>19,00,000</b>	<b>Total</b>	<b>19,00,000</b>

Rajata Ltd. agreed to take over the business of Swarna Ltd. Calculate Purchase Consideration under Net Assets Method. The Market Value of 75% of the Sundry Assets is estimated to be 12% more than the Book Value and that of the remaining 25% at 8% less than the Book Value. The Liabilities are taken over at Book Values. There is an unrecorded liability of Rs. 25,000.

**Solution: Computation of Purchase Consideration under Net Assets Method**

Particulars	Computation	Rs.
Sundry Assets taken over	$(18,00,000 \times 75\% \times 112\%) + (18,00,000 \times 25\% \times 92\%)$	19,26,000
<b>Less:</b> Liabilities taken over	10% Deb + Sundry Creditors + Bank OD + Bills Payable + New Liabilities $2,00,000 + 2,00,000 + 50,000 + 40,000 + 25,000$	(5,15,000)
	<b>Net Assets Taken Over = Purchase Consideration</b>	<b>14,11,000</b>

**Illustration 5 : Computation of Purchase Consideration**

The abstract of the Balance Sheet of the Arjun Ltd. as at 31st March are as follows –

Liabilities	Rs.
Equity Share Capital (Rs. 100 each)	15,00,000
12% Preference Share Capital (Rs. 100 each)	8,00,000
13% Debentures	3,00,000

On 31st March, Bagya Ltd. agreed to take over Arjun Ltd. on the following terms:

- For each Preference Share in Arjun Ltd, Rs. 10 in Cash and one 9% Preference Share of Rs. 100 in Bagya Ltd.

2. For each Equity Share in Arjun Ltd., Rs. 20 in Cash and one Equity Share in Bagya Ltd. of Rs. 100 each. It was decided that the Share in Bagya Ltd. will be issued at Market Price Rs. 140 per Share.
3. Liquidation Expenses of Arjun Ltd. are to be reimbursed by Bagya Ltd. to the extent of Rs. 10,000. Actual Expenses amounted to Rs. 12,500.

You are required to compute the amount of Purchase Consideration.

**Solution: Computation of Purchase Consideration**

Particulars	Rs.
<b>Preference Shares:</b> 9% Preference Shares of Rs. 100 each (8,000 Shares × Rs. 100)	8,00,000
<b>Equity Shares:</b> Equity Shares issued at Premium of Rs. 40 per Share. Rs. 15,00,000 + Rs. 100 = 15,000 Shares. 15,000 Shares issued at Rs. 140 per Share. Therefore, Total Value of Equity Shares (including Premium) (15,000 × Rs. 140)	21,00,000
<b>Cash:</b> For Preference Shares: 8,000 × Rs. 10	80,000
For Equity Shares: 15,000 × Rs. 20	3,00,000
<b>Total Purchase Consideration</b>	<b>32,80,000</b>

**Note,** Reimbursement of Liquidation Expenses will not form part of Purchase Consideration.

## 2. MERGER AND PURCHASE – BOTH METHODS OF ACCOUNTING

### Illustration 5 : Computation of Purchase Consideration

Arjuna Ltd. and Bhagavan Ltd. amalgamated on and from 1st January. A new Company Kurukshetra Ltd. was formed to take over the business of the existing Companies. Their Balance Sheets as on 31st December was

(in Rs. 000s)

Liabilities	Arjuna	Bhagavan	Assets	Arjuna	Bhagavan
Share Capital: Equity Shares of Rs. 10 each	60,00	70,00	Sundry Fixed Assets	85,00	75,00
General Reserve	15,00	20,00	Investments	10,50	5,50
Profit and Loss Account	10,00	5,00	Stock	12,50	27,50
Investment Allowance Reserve	5,00	1,00	Debtors	18,00	40,00
Export Profit Reserve	50	1,00	Cash & Bank	4,50	4,00
12% Debentures	30,00	40,00			
Sundry Creditors	10,00	15,00			
Total	130,50	152,00	Total	130,50	152,00

Investment Allowance Reserve and Export Profit Reserve are to be statutorily carried over for another 3 years.

Kurukshetra Ltd. issued requisite number of Shares to discharge the claims of the Equity Shareholders of the Transferor Companies. Compute the Purchase Consideration and show the discharge thereof. Also draft the Balance Sheet of Kurukshetra Ltd, assuming amalgamation in the nature of (1) Merger, (2) Purchase.

**Solution:** **1. Computation of Purchase Consideration** (in Rs. 000s)

Particulars	Arjuna	Bhagavan	Total
Sundry Fixed Assets	85,00	75,00	
Investments	10,50	5,50	
Stock	12,50	27,50	
Debtors	18,00	40,00	
Cash & Bank	4,50	4,00	
<b>Total Assets Taken Over</b>	<b>130,50</b>	<b>152,00</b>	<b>282,50</b>
<i>Less:</i> Sundry Liabilities			
12% Debentures	30,00	40,00	
Sundry Creditors	10,00	15,00	
<b>Net Assets Taken Over</b>	<b>90,50</b>	<b>97,00</b>	<b>18,750</b>
<i>Less:</i> Reserves & Surplus – General Reserve	15,00	20,00	
Profit and Loss Account	10,00	5,00	
Investment Allowance Reserve	5,00	1,00	
Export Profit Reserve	50	1,00	
<b>Net Purchase Consideration (under Merger Method)</b>	<b>60,00</b>	<b>70,00</b>	<b>130,00</b>

**2(a) Discharge of Purchase Consideration (under Pooling of Interest Merger Method):**

$$\begin{aligned} \text{Arjuna} &= 6,27,500 \text{ Equity Shares of Rs. } 10 \text{ each} = 62,75 \\ &= \frac{60,00 \times 90,50}{187,50} \\ \text{Bhagavan} &= 6,72,500 \text{ Equity Shares of Rs. } 10 \text{ each} = 67,25 \\ &= 130,00 \times \frac{90,50}{187,50} \end{aligned}$$

**2(b) Discharge of Purchase Consideration (under Purchase Method) (= Net Assets Taken over)**

$$\begin{aligned} \text{Arjuna} &= 9,05,000 \text{ Equity Shares of Rs. } 10 \text{ each} = 90,50 \\ \text{Bhagavan} &= 9,70,000 \text{ Equity Shares of Rs. } 10 \text{ each} = 97,00 \end{aligned}$$

**3. Computation of Capital Reserve Adjustment towards General Reserve (Under Merger Method)**

Particulars	Arjuna	Bhagavan
Purchase Consideration	62,75	67,25
<i>Less:</i> Paid up Capital	(60,00)	(70,
Difference	2,75	(2,75)
Treatment	Adjustment towards the General Reserve of the Selling Company	Transfer towards Capital Reserve

General Reserve after making the above adjustment is  $15,00 + 20,00 - 2,75 = 32,25$

**4. Balance Sheet of Kurukshetra Ltd. as on 1st January  
(Pooling of Interest Merger Method)**

(Rs. 000s)

	Particulars as at 1st January	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	1	130,00	
	(b) Reserves and Surplus	2	57,50	
(2)	<b>Non Current Liabilities:</b> Long Term Borrowings	3	70,00	
(3)	<b>Current Liabilities:</b>			
	Trade Payables                      Sundry Creditors (10,00 + 15,00)		25,00	
	<b>Total</b>		<b>282,50</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets:</b>			
	(a) Fixed Assets: Tangible Assets                      (85,00 + 75,00)		160,00	
	(b) Non Current Investments                      (10,50 + 5,50)		16,00	
(2)	<b>Current Assets:</b>			
	(a) Inventories                      Stock in Trade                      (12,50 + 27,50)		40,00	
	(b) Trade Receivables                      Sundry Debtors                      (18,00 + 40,00)		58,00	
	(c) Cash and Cash Equivalents                      Cash & Bank                      (4,50 + 4,00)		8,50	
	<b>Total</b>		<b>282,50</b>	

**Schedule 1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> ..... Equity Shares of .....each		
<b>Issued, Subscribed &amp; Paid up:</b> 13,00,000 Equity Shares of Rs. 10 each (6,27,500 Shares of Rs. 10 each and 6,72,500 Shares of Rs. 10 each issued for non cash consideration to Shareholders of Arjuna Ltd. and Bhagwan Ltd. respectively)	130,00	
<b>Total</b>	<b>130,00</b>	

**Schedule 2: Reserves and Surplus**

Particulars	This Year	Prev. Yr.
(a) Capital Reserve	2,75	
(b) Other Reserves		
— General Reserve                      (12,25 + 20,00)	32,25	
— Investment Allowance Reserve                      (5,00 + 1,00)	6,00	
— Export Profit Reserve                      (50 + 1,00)	1,50	
(c) Surplus		
— Profit & Loss A/c                      (10,00 + 5,00)	15,00	
<b>Total</b>	<b>57,50</b>	

**Schedule 3: Long Term Borrowings**

Particulars	This Year	Prev. Yr.
Secured Borrowings: 12% Debentures (30,00 + 40,00) (assumed New Debentures are secured and are issued against Old Series)	70,00	
<b>Total</b>	<b>70,00</b>	

**4. Balance Sheet of Kurukshetra Ltd. as on 1st January (Purchase Method) (Rs. 000s)**

	Particulars as at 1st January	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	1	187,50	
	(b) Reserves and Surplus	2	7,50	
(2)	<b>Non-Current Liabilities:</b> Long Term Borrowings	3	70,00	
(3)	<b>Current Liabilities:</b>			
	Trade Payables Sundry Creditors (10,00 + 15,00)		25,00	
	<b>Total</b>		<b>290,00</b>	
<b>11</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets</b>			
	(a) Fixed Assets: Tangible Assets (85,00 + 75,00)		160,00	
	(b) Non Current Investments (10,50 + 5,50)		16,00	
	(c) Other Non Current Assets Amalgamation Adjustment A/c (contra)		7,50	
(2)	<b>Current Assets:</b>			
	(a) Inventories Stock in Trade (12,50 + 27,50)		40,00	
	(b) Trade Receivables Sundry Debtors (18,00 + 40,00)		58,00	
	(c) Cash and Cash Equivalents Cash & Bank (4,50 + 4,00)		8,50	
	<b>Total</b>		<b>290,00</b>	

**Note:**

- Amalgamation Adjustment A/c (contra) represents the entry for Statutory Reserves to be carried forward, i.e. Investment Allowance Reserve and Export Profit.
- Shares are issued by Kurukshetra Ltd. on the basis of Net Assets of Arjuna Ltd. and Bhagavan Ltd. There is no adjustment to the asset values. Hence, there is no Goodwill in the above Purchase Method of Accounting.

**Schedule 1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> . . . . . Equity Shares of .....each		
<b>Issued, Subscribed &amp; Paid-up:</b> 18,75,000 Equity Shares of Rs. 10 each (9,05,000 Shares of Rs. 10 each and 9,70,000 Shares of Rs. 10 each issued for non cash consideration to Shareholders of Arjuna Ltd. and Bhagwan Ltd. respectively)	187,50	
<b>Total</b>	<b>187,50</b>	

**Schedule 2: Reserves and Surplus**

Particulars	This Year	Prev. Yr.
Other Reserves — Investment Allowance Reserve (5,00 + 1,00)	6,00	
— Export Profit Reserve (50 + 1,00)	1,50	
<b>Total</b>	<b>Nil</b>	

**Schedule 3: Long Term Borrowings**

Particulars	This Year	Prev. Yr.
Secured Borrowings: 12% Debentures (30,00 + 40,00) (assumed New Debentures are secured and are issued against Old Series)	70,00	
<b>Total</b>	<b>70,00</b>	

**Illustration 4 : Amalgamated in the nature of Merger vs. Purchase**

Long Ltd. and Short Ltd. was amalgamated on and from 1st April. A new Company Moderate Ltd. was formed to take over the business of the existing Companies. The Balance Sheets of Long Ltd. & Short Ltd. as on 31st March are as under —

(Rs. In Lakhs)

Liabilities	Long	Short	Assets	Long	Short
Share Capital:			Fixed Assets:		
Equity Shares of Rs. 100 each	850	725	Land & Building	460	275
14% Preference Shares of Rs. 100 each	320	175	Plant & Machinery	325	210
Reserves & Surplus:			Investments	75	50
Revaluation Reserve	125	80	Current Assets, Loans & Advances:		
General Reserve	240	160	Stock	325	269
Investment Allowance Reserve	50	30	Sundry Debtors	305	270
P & L Account	75	52	Bills Receivable	25	—
Secured Loans: 13% Debentures (Rs. 100 Each)*	50	28	Cash & Bank	385	251
Unsecured Loans:					
Public Deposit	25	—			
Current Liabilities and Provisions:					
Sundry Creditors	145	75			
Bills Payable	20	—			
<b>Total</b>	<b>19,00</b>	<b>13,25</b>	<b>Total</b>	<b>19,00</b>	<b>13,25</b>

**Other information:**

- (a) 13% Debentureholders of Long Ltd. & Short Ltd. are discharged by Moderate Ltd., by issuing such number of its 150% Debentures of Rs. 100 each so as to maintain the same amount of interest.

- (b) Preference Shareholders of the two Companies are issued equivalent number of 15% Preference Shares of Moderate Ltd. at a price of Rs. 125 per Share (Face Value = Rs. 100).
- (c) Moderate Ltd. will issue 4 Equity Shares for each Equity Share of Long Ltd., and 3 Equity Shares for each Equity Share of Short Ltd. The Shares are to be issued at 7 35 each having a Face Value of Rs. 10 per Share.
- (d) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance Sheet of Moderate Ltd. as on 1st April after the amalgamation has been carried out, on the basis of the following assumptions: (1) in the nature of Merger, and (2) in the nature of Purchase.

**Solution:**

**1. Computation of Purchase Consideration (in Rs. Lakhs)**

Particulars	Long Ltd.	Short Ltd.
<b>Preference Shareholders:</b> 3,20,000 Shares of Rs. 125 each 1,75,000 Shares of Rs. 125 each	400.00	218.75
<b>Equity Shareholders:</b> $4 \times 8,50,000 = 34,00,000$ Shares of Rs. 35 each $3 \times 7,25,000 = 21,75,000$ Shares of Rs. 35 each	11,90.00	761.25
<b>Total</b>	<b>15,90.00</b>	<b>9,80.00</b>

**2. Computation of Securities Premium (in Rs. Lakhs)**

Particulars	Share Capital	Securities Premium	Total
Preference Share Capital (3,20,000 + 1,75,000) = 4,95,000 Shares	Rs. 100 <sup>13%</sup> each 495.00 15%	at Rs. 25 each = 123.75	618.75
Equity Share Capital (34,00,000 + 21,75,000) = 55,75,000 Shares	Rs. 10 each 557.50	at Rs. 25 each = 1,393.75	1,951.25
<b>Total</b>		<b>1,517.50</b>	

**3. Issue of Debentures (in Rs. Lakhs)**

Particulars	Long Ltd.	Short Ltd.	Total
15% Fresh Issue for 13% Old Debentures	$(50 \times \frac{13\%}{15\%}) = 43.33$	$(28 \times \quad) = 24.27$	$(43.33 + 24.27) = 67.60$

**4. Balance Sheet of Moderate Ltd. as on 1st April (Pooling of Interest/Merger Method) (Rs. in Lakhs)**

	Particulars as at 1st April	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	1	1,052.50	
	(b) Reserves and Surplus	2	1,839.90	
(2)	<b>Non Current Liabilities:</b> Long Term Borrowings	3	92.60	
(3)	<b>Current Liabilities:</b> Trade Payables	4	240.00	
	<b>Total</b>		<b>3,225.00</b>	

**Amalgamation of Companies • 25**

<b>II</b>	<b>ASSETS</b>				
<b>(1)</b>	<b>Non-Current Assets</b>				
	(a) Fixed Assets: Tangible Assets			<b>5</b>	1,270.00
	(b) Non Current investments	(75 + 50)			125.00
<b>(2)</b>	<b>Current Assets:</b>				
	(a) Inventories	Stock in Trade (325+269)			594.00
	(b) Trade Receivables			<b>6</b>	600.00
	(c) Cash and Cash Equivalents	Cash & Bank (385 + 251)			636.00
	<b>Total</b>				<b>3,225.00</b>

**Schedule 1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> ..... Equity Shares of .....each & ..... Preference Shares of ..... each		
<b>Issued, Subscribed &amp; Paid-up:</b>	557.50	
(a) 55,75,000 Equity Shares of Rs. 10 each (34,00,000 Shares of Rs. 10 each and 21,75,000 Shares of Rs. 10 each issued for non cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)		
(b) 4,95,000 Preference Shares of Rs. 100 each (3,20,000 Shares of Rs. 100 each and 1,75,000 Shares of Rs. 100 each issued for non cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)	495.00	
<b>Total</b>	<b>1,052.50</b>	

**Schedule 2: Reserves and Surplus**

Particulars	This Year	Prev. Yr.
(a) Securities Premium Reserve (WN 2)	1,517.50	
(b) Other Reserve — Investment Allowance Reserve (50 + 30)	/86.00	
— Revaluation Reserve (125 + 80)	205.00	
(c) Surplus (Note)	47.40	
<b>Total</b>	<b>1,839.90</b>	

**Working Note: Adjustment in Reserves (in case of Merger)**

Particulars	Long Ltd.	Short Ltd.
Equity Share Capital	850.00	725.00
Preference Share Capital	320.00	175.00
Total Share Capital	1,170.00	900.00
<b>Less:</b> Purchase Consideration	(1,59 0.00)	(980.00)
Difference between Capital and Consideration	420.00	80.00
Total difference to be adjusted in Reserves (420+80)		500.00
<b>Less:</b> Adjustment in General Reserve (240 + 160)		(400.00)
Adjustment in Profit & Loss Account (75 + 52)		(127.00)

**26 • Financial Accounting**

Amount in P & L Account to be carried to Balance Sheet		27.00
<b>Add:</b> Difference arising on issue of Debentures (67,60 50 28) = Surplus Gain		10.40
<b>Net Amount of P &amp; L A/c</b>		<b>37.40</b>

**Schedule 3: Long Term Borrowings**

Particulars		This Year	Prev. Yr.
<b>A. Secured Borrowings:</b>	15% Debentures of Rs. 100 each	67.60	
<b>B. Unsecured Borrowings:</b>	Public Deposits	25.00	
<b>Total</b>		<b>2.60</b>	

**Schedule 4: Trade Payables**

Particulars		This Year	Prev. Yr.
(a) Sundry Creditors	(145+75)	220 00	
(b) Bills Payable		20.00	
<b>Total</b>		<b>240 00</b>	

**Schedule 5: Tangible Fixed Assets**

Particulars		This Year	Prev. Yr.
(a) Plant & Machinery	325 + 210)	535.00	
(b) Land & Building	(460 + 275)	735.00	
<b>Total</b>		<b>1,270.00</b>	

**Schedule 6: Trade Receivables**

Particulars		This Year	Prev. Yr.
(a) Sundry Debtors	(305 + 270)	575.00	
(b) Bills Receivable		25.00	
<b>Total</b>		<b>600.00</b>	

**5. Balance Sheet of Moderate Ltd. as on 1st April (purchase Method) (Rs. in Lakhs)**

	Particulars as at 1st April	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	<b>1</b>	1,052.50	
	(b) Reserves and Surplus	<b>2</b>	1,919.90	
(2)	<b>Non Current Liabilities:</b> Long Term Borrowings	<b>3</b>	92.60	
(3)	<b>Current Liabilities:</b> Trade Payables	<b>4</b>	240.00	
	<b>Total</b>		<b>3305.00</b>	

*Amalgamation of Companies • 27*

<b>II ASSETS</b>		
<b>(1) Non Current Assets</b>		
(a) Fixed Assets: Tangible Assets	<b>5</b>	1,270.00
(b) Non-Current Investments	(75 + 50)	125.00
(c) Other Non Current Assets Amalgamation Adjustment A/c (contra)		80.00
<b>(2) Current Assets:</b>		
(a) Inventories Stock in Trade (325 +269)		594.00
(b) Trade Receivables	<b>6</b>	600.00
(c) Cash and Cash Equivalents Cash & Bank (385 + 251)		636.00
<b>Total</b>		<b>3305.00</b>

**Note:** Amalgamation Adjustment A/c (contra) represents the entry for Statutory Reserves to be carried forward, i.e. Investment Allowance Reserve.

**Schedule 1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised . . . . .Equity Shares of . . . . .each &amp; . . . . .Preference Shares of . . . . .each</b>		
<b>Issued, Subscribed &amp; Paid up:</b>		
(a) 55,75,000 Equity Shares of Rs. 10 each (34,00,000 Shares of Rs. 10 each and 21,75,000 Shares of Rs. 10 each issued for non-cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)	557.50	
(b) 4,95,000 14% Preference Shares of Rs. 100 each (3,20,000 Shares of Rs. 100 each and 1,75,000 Shares of Rs. 100 each issued for non-cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)	495.00	
<b>Total</b>	<b>1,052.50</b>	

**Schedule 2: Reserves and Surplus**

Particulars	This Year	Prev. Yr.
(a) Capital Reserve (76.67 + 245.73) Refer Note below	322.40	
(b) Securities Premium Reserve (WN 2)	1,517.50	
(c) Other Reserve Investment Allowance Reserve (50+30)	80.00	
<b>Total</b>	<b>1,919.96</b>	

**Working Note: Purchase Consideration and Goodwill Capital Reserve**

Particulars		Long Ltd.	Short Ltd.
<b>Assets Taken over:</b>	Land & Building	460.00	275.00
	Plant & Machinery	325.00	210.00
	Investments	75.00	50.00
	Stock	325.00	269.00
	Sundry Debtors	305.00	270.00
	Bills Receivable	25.00	—
	Cash & Bank	385.00	251.00
	<b>Sub-Total (A)</b>	<b>1,900.00</b>	<b>1,325.00</b>
<b>Liabilities Taken Over:</b>	13% Debentures	43.33	24.27
	Public Deposits	25.00	
	Sundry Creditors	145.00	75.00
	Bills Payable	20.00	
<b>Sub-Total (B)</b>	<b>233.33</b>	<b>99 27</b>	
<b>Net Assets Taken over (A)–(B)</b>	<b>1,666.67</b>	<b>1,225.73</b>	
<b>Less:</b>	Purchase Consideration	(1,590.00)	(980.00)
	<b>Capital Reserve</b>	<b>76.67</b>	<b>245.73</b>

**Schedule 3: Long Term Borrowings**

Particulars		This Year	Prev. Yr.
<b>A. Secured Borrowings:</b>	15% Debentures of Rs. 100 each	67.60	
<b>B. Unsecured Borrowings:</b>	Public Deposits	25.00	
	<b>Total</b>	<b>92.60</b>	

**Schedule 4: Trade Payables**

Particulars		This Year	Prev. Yr.
(a)	Sundry Creditors (145 + 75)	220.00	
(b)	Bills Payable	20.00	
	<b>Total</b>	<b>240.00</b>	

**Schedule 5 : Tangible Fixed Assets**

Particulars		This Year	Prev. Yr.
(a)	Plant & Machinery (325+210)	535.00	
(b)	Land & Building (460 + 275)	735.00	
	<b>Total</b>	<b>1,270.00</b>	

**Schedule 6 : Trade Receivables**

Particulars	This Year	Prev. Yr.
(a) Sundry Debtors <span style="float: right;">(305 + 270)</span>	575.00	
(b) Bills Receivable	25.00	
<b>Total</b>	<b>600.00</b>	

**April – 2012**

**Illustration 5:** Solved Following are the Balance Sheet of Jay Ltd. and Vijay Ltd. as on 31-03-2011.

Liabilities	Jay Ltd. Rs.	Vijay Ltd. Rs.	Assets	Jay Ltd. Rs.	Vijay Ltd. Rs.
Equity Shares Rs. 10 each, fully, paid-up	5,50,000	3,00,000	Land and Building	2,50,000	3,50,000
General Reserve	40,000	60,000	Furniture and Fittings	1,20,000	80,000
Profit and Loss Account	55,000	75,000	Investments	25,000	—
Export Profit Reserve	90,000	60,000	Stock	65,000	40,000
Dividend Equalisation Reserve	75,000	85,000	Sundry Receivables	1,25,000	1,10,000
Sundry Payable	1,10,000	90,000	Cash and Bank Balance	3,35,000	90,000
	<b>9,20,000</b>	<b>6,70,000</b>		<b>9,20,000</b>	<b>6,70,000</b>

On the above date, Jay Ltd. takes over the business of Vijay Ltd. (including Cash and Bank Balance), on the following terms and conditions:

- (a) All the Assets and Liabilities are taken over at book value except the following assets which were revalued and taken over as follows:  
Land and Building Rs. 6,00,000, Furniture and Fittings Rs. 50,000.
- (b) Statutory reserves are to be maintained for next 3 years.
- (c) Sundry receivables of Jay Ltd. included Rs. 3,000, receivable from Vijay Ltd.
- (d) Purchase Consideration is settled by issuing 60,000 equity shares in Jay Ltd., of Rs. 10 each at Rs. 15 each to the equity shareholders of Vijay Ltd. Rs. 3,00,000 of Purchase Consideration is paid in cash.
- (e) Stock of Vijay Ltd. includes goods of the sales Price of Rs. 75,000 sold by Jay Ltd. to Vijay Ltd. at a profit of 25% on cost.

**You are required to:**

- (i) Calculate Purchase consideration.
- (ii) Prepare Balance Sheet of Jay Ltd. after amalgamation.

**Amalgamation of Companies**

	Rs.
<b>1. (a) Purchase consideration</b>	
(i) 60,000 equity shares in Jay Ltd. of Rs 10 each at Rs 15 Each (60,000 * 15)	9,00,000
(ii) Cash	3,00,000
	<b>12,00,000</b>

<b>(b) Assets taken over</b>	
Land and Building	6,00,000
Furniture and fittings	50,000
Stock	40,000
Sundry Receivables	1,10,000
Cash and Bank	90,000
	8,90,000
<b>Less: Liabilities taken over</b>	
Sundry Payables	90,000
Net Assets	<b>8,00,000</b>
(c) Goodwill = 12,00,000 - 8,00,000 = 4,00,000	
<b>(d) Unrealised Profit:</b>	
Sale price of stock	5,000
Profit 25% on cost i.e. 20% on sales	1,000
Cost	4,000
(e) Inter company Debt Rs. 3,000	

## Jay Ltd.

## Balance Sheet As on 31st March, 2012

(Rs. In '000)

Particulars	Note No.	Rs.	Rs.
<b>1. Equity and liabilities</b>			
<b>1. Shareholder's Funds</b>			
(a) Share Capital	1	1150.000	
(b) Reserve and Surplus	2	619.000	1769.000
<b>2. Current Liabilities</b>			
(a) Trade Payables	3	197.000	197.000
<b>Total</b>			<b>1966.000</b>
<b>II. Assets</b>			
<b>1. Non-current assets</b>			
(a) Fixed Assets			
(i) Tangible Assets	4	1020.000	
(ii) Intangible Assets	5	400.000	
(b) Non-Current Investments	6	25.000	1445.000
<b>2. Current Assets</b>			
(a) Inventories	7	104.000	
(b) Trade Receivables	8	232.000	
(c) Cash and Cash Equivalents	9	125.000	
(d) Other Current Assets	10	60.000	521.000
<b>Total</b>			<b>1966.000</b>

## Notes to Accounts

(Rs. In '000)

Particulars	Rs.	Rs.
<b>1. Share Capital</b>		
Equity Share Capital		
Issued, Subscribed & Fully Paid Share capital 1,15,000 shares of Rs. 10 each		<b>1150.000</b>
<b>2. Reserves and Surplus</b>		
Securities Premium Reserve		300.000
Dividend Equalisation Reserve		75.000
Export Profit Reserve		150.000
General Reserve		40.000
P & L A/c	55.000	
<i>Less</i> : Unrealised Profits	<b>1.000</b>	54.000
		<b>619.000</b>
<b>3. Trade Payable</b>		
Sundry payables		200.00
<i>Less</i> Inter Company Debt		3.000
		<b>197.000</b>
<b>4. Tangible Assets</b>		
Land & Buildings		850.000
Furniture & Fitting		170.000
<b>Total</b>		<b>1020.000</b>
<b>5. Intangible Assets</b>		
Goodwill		400.000
<b>6. Non- Currents Investment</b>		400.000
Trade Investments		25.000
		<b>25.000</b>
<b>7. Inventories</b>		
Finished Good	105.000	
<i>Less</i> Unrealised	1.000	104.000
		<b>104.000</b>
<b>8. Trade Receivables</b>		
		235.000
<i>Less</i> : Inter Co. Debt		3.000
		<b>232.000</b>
<b>9. Cash and Cash Equivalents</b>		
Balances with Banks and Cash		125.000
		<b>125.000</b>
<b>10. Other Current Assets</b>		
Amalgamation Adj. A/c		60.000
		<b>60.000</b>

October – 2011

**Illustration 6:** Parag Ltd. and Chirag Ltd. agreed to amalgamate and form a new company namely Anurag Ltd. which OR take over all the assets and liabilities of both the companies. Following are the Balance Sheets of Parag Ltd. and Chirag Ltd. as on 31st March, 2010. (16)

Liabilities	Parag Ltd. Rs.	Chirag Ltd. Rs.	Assets	Parag Ltd. Rs.	Chirag Ltd. Rs.
Equity Shares of Rs. 10 each, fully paid.	4,00,000	5,00,000	Plant & Machinery	8,00,000	8,00,000
6% Preference Shares of Rs. 100 each, fully paid	—	3,00,000	Stock	65,000	60,000
Profit & Loss A/c.	5,00,000	—	Debtors	95,000	50,000
Statutory Reserve	—	—	Profit & Loss A/c	—	1,40,000
9% Debentures of Rs. 100 each	—	2,00,000	Bank	65,000	40,000
Creditors	75,000	90,000			
<b>Total</b>	<b>10,25,000</b>	<b>10,90,000</b>	<b>Total</b>	<b>10,25,000</b>	<b>10,90,000</b>

**Terms of Amalgamation:****In case of Parag Ltd.:**

Assets and Liabilities are to be taken over at book values. For every 4 Equity Shares in Parag Ltd. 5 Equity Shares of Rs. 10 each in Anurag used shall be issue at 10% premium.

**In case of Chirag Ltd.:**

- (1) 6% Preference shareholders of Chirag Ltd. would be allotted 4, 7% Preference shares of Rs. 100 each in Anurag Ltd. for every 5, 6% Preference shares in Chirag Ltd.
- (2) 9% Debentureholders would be discharged at par by issue of an equal number of 10% Debenture of Rs. 100 each in Anurag Ltd. at par.
- (3) Plant & Machinery and stock shall be appreciated by 10%.
- (4) Balance of purchase consideration would be discharged by issue of Equity Shares of Rs. 10 each in Anurag Ltd. issued at 10% premium.
- (5) Sundry Debtors of Chirag Ltd. include Rs. 5,000 due from Parag Ltd.

**You are required to.**

- (i) Compute Purchase Consideration.
- (ii) Give necessary Journal Entries in the books of Anurag Ltd. and
- (iii) Balance sheet of Anurag Ltd. after Amalgamation.

**Parag and Chirag Ltd.****Statement of purchase Consideration**

Particulars	Parag Ltd. (Rs.)
40000/4*5 Equity Shares @ Rs 11 each	5,50,000

**Net Assets Taken Over (Goodwill/Capital Reserve)**

Particulars	Rs.	Rs.
Plant and Machinery	8,00,000	
Stock	65,000	
Debtors	95,000	
Bank	<b>65,000</b>	10,25,000
<i>Less</i> : Liabilities taken over		75,000
Sundry Creditors		<b>9,50,000</b>
Net Assets taken over		5,50,000
<i>Less</i> : Purchase Consideration		<b>4,00,000</b>
Capital Reserve		

**Chirag Ltd. Net Assets Taken Over**

Particulars	Rs.	Rs.
Plant and Machinery	8,80,000	
Stock	66,000	
Debtors	50,000	
Bank	<b>40,000</b>	10,36,000
<i>Less</i> : Liabilities taken over 9% Debentures of Rs. 100 each	2,00,000	
Sundry Creditors	<b>90,000</b>	2,90,000
Net Assets Taken Over (Purchase Consideration)		<b>7,46,000</b>

**Discharge of Purchase Consideration**

Particulars	Parag Ltd. Rs.
To Preference Shareholders 3,000/5*4*100	2,40,000
To Equity Shareholders 46,000*11	5,06,000
	<b>7,46,000</b>

**In the Books of Anurag Ltd.**

**Journal Entries**

Sr. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Business Purchase A/c To Liquidators of Parag Ltd. A/c To Liquidators of Chirag Ltd. A/c (Being business taken over on amalgamation)	Dr. 12,96,000	5,50,000 7,46,000
2.	Plant and Machinery A/c Stock A/c Debtors A/c Bank A/c To Sundry Creditors A/c To Business Purchase A/c To Capital Reserve A/c (Being assets and liabilities of Parag Ltd. taken over)	Dr. Dr. Dr. Dr. Dr.	8,00,000 65,000 95,000 65,000 75,000 5,50,000 4,00,000

**34 • Financial Accounting**

3.	Liquidator of Parag Ltd. A/c To Equity Share Capital A/c To Securities Premium A/c (Being purchase consideration of Parag Ltd. discharged)	Dr.   	5,50,000	5,00,000 50,000
4.				8,80,000 66,000 50,000 40,000
5.	Plant and Machinery A/c Stock A/c Debtors A/c Bank A/c To 9% Debentures of 100% each A/c To Sundry Creditors A/c To Business Purchase A/c (Being assets and liabilities of Chirag Ltd. taken over)	Dr. Dr. Dr. Dr.    	7,46,000	2,00,000 90,000 7,46,000  4,60,000 2,40,000
6.	Liquidators of Chirag Ltd. A/c To Equity Share Capital A/c To 7% Preference Share Capital A/c To Securities Premium A/c (Being purchase consideration of Chirag Ltd. discharged)	Dr.   	2,00,000	46,000  2,00,000
7.	9% Debentures of Chirag Ltd. A/c To 10% Debentures A/c (Being debentures of Chirag Ltd. discharged)	Dr.  	50,000	50,000
8.	Amalgamation Adjustment A/c To Statutory Reserve A/c (Being Statutory Reserve of Parag Ltd. retained) Creditors A/c To Debtors A/c (Being inter co dues adjusted)	Dr.   Dr.  	5,000	5,000

**Anurag Ltd.**  
**Balance Sheet As on 1st April, 2012**

(Rs. In '000)

Particulars	Note No.	Rs.	Rs.
<b>I. Equity and liabilities</b>			
<b>1. Shareholder's Funds</b>			
(a) Share Capital	1	1200.000	
(b) Reserves and Surplus	2	<b>546.000</b>	1746.000
<b>2. Non-current Liabilities</b>			
(a) Long-term borrowings	3	<b>200.000</b>	200.000
<b>3. Current Liabilities</b>			
(a) Trade Payable	4	<b>160.000</b>	<b>160.000</b>
<b>II. Assets</b>			<b>2106.000</b>
<b>1. Non-Current Assets</b>			
(a) Fixed Assets			
(i) Tangible assets	5	<b>1680.000</b>	1680.000
<b>2. Current Assets</b>			
(a) Inventories	6	131.000	
(b) Trade Receivables	7	140.000	
(c) Cash and Cash Equivalents	8	105.000	
(d) Others Current Assets	9	<b>50.000</b>	<b>426.000</b>
			<b>2106.000</b>

## Notes to Accounts

(Rs. In '000)

Particulars	Rs.
<b>1. Share Capital</b>	
<b>Equity Shares Capital</b>	
Issued, subscribed and fully paid Share Capital	960.000
9% preference Share Capital	240 000
	<b>1200 000</b>
<b>2. Reserves and Surplus</b>	
Capital Reserve	400.000
Securities Premium	96.000
Statutory Reserve	50 000
	<b>546.000</b>
<b>3. Long term Borrowings Secured</b>	
10% Debentures	200 000
	<b>200.000</b>
<b>4. Trade Payable</b>	160.000
	<b>160 000</b>
<b>5. Tangible Assets</b>	
Plant & Machinery	1680 000
	<b>1680 000</b>

<b>6. Inventories</b>		
Finished Goods		131.000
		<b>131 000</b>
<b>7. Trade Receivables</b>		
Secured/ Unsecured/ Doubtful		140 000
		<b>140 000</b>
<b>8. Cash and Cash Equivalents</b>		
Balances with Banks		105.000
		<b>105.000</b>
<b>9. Other Current Assets</b>		
Amalgamation Adj. A/c		50.000
		<b>50.000</b>

April – 2011

**Illustration 7:** Following are the Balance Sheets of Rahul Ltd. and Mehul Ltd. as on 31st March, 2010. (20)

Liabilities	Rahul Ltd. Rs.	Mehul Ltd. Rs.	Assets	Rahul Ltd. Rs.	Mehul Ltd. Rs.
Equity Shares at Rs. 10 each, fully paid	5,00,000	3,00,000	Goodwill	—	50,000
10 % Preference Shares of Rs. 100 each fully paid	—	2,00,000	Building	3,00,000	4,00,000
12% Preference shares of Rs. 100 each fully paid	3,00,000	—	Machinery	1,00,000	90,000
General Reserve	1,00,000	1,21,000	Furniture	20,000	10,000
Profit and Loss A/c	50,000	40,000	Investments	2,00,000	50,000
Statutory Reserve	20,000	10,000	Debtors	3,00,000	1,50,000
9% Debentures of Rs. 100 each	1,50,000	1,50,000	Stock	1,00,000	1,00,000
Sundry Creditors	1,00,000	59,000	Other Current Assets	2,30,000	50,000
Other Liabilities	60,000	40,000	Bank	30,000	20,000
<b>Total</b>	<b>12,80,000</b>	<b>9,20,000</b>	<b>Total</b>	<b>12,80,000</b>	<b>9,20,000</b>

On the above date Rahul Ltd. takes over the business of Mehul Ltd. on the following terms and conditions:

- All Fixed Assets (other than Goodwill) are to be taken over at 20% above book values and current assets (other than cash and bank balance) are valued at 15% below book values.
- Goodwill to be considered as worth Rs. 1,50,000
- Equity Shareholders of Mehul Ltd. are to be issued, 8 Equity Shares of Rs. 10 each in Rahul Ltd. at Rs. 12 each, for every 5 Equity Shares in Mehul Ltd. Balance of Purchase Consideration to be paid in cash.
- 10% Preference Shareholders of Mehul Ltd. are to be paid at 10% premium by issue of 12% Preference Shares of Rahul Ltd. at par.
- Investments of Mehul Ltd. represent investments in own debentures of face value Rs. 50,000 purchase at par, which are to be cancelled before the company is taken over by Rahul Ltd.
- Investments of Rahul Ltd. include investments in 9% Debentures of Mehul Ltd. of face value Rs. 1,00,000 purchased at Rs. 95,000.
- Sundry Debtors of Rahul Ltd. include Rs. 5,000 due from Mehul Ltd.

You are required to:

- (i) Compute Purchase Consideration.
- (ii) Pass necessary Journal Entries in the books of Rahul Ltd.
- (iii) Prepares Balance sheet of Rahul Ltd. after amalgamation.

**Mehul Ltd.**  
**Purchase Consideration (Net Asset) Method**  
**Net assets taken over**

(Rs. In '000)

Particulars	Rs.	Rs.
Assets taken over		
Goodwill	1,50,000	
Building	4,80,000	
Machinery	1,08,000	
Furniture	12,000	
Debtors	1,27,500	
Stock	85,000	
Other Current assets	42,500	
Bank	20,000	
		<b>10,25,000</b>
<i>Less: Liabilities taken over</i>		
9% debentures	1,00,000	
Sundry Creditor	59,000	
Other liabilities	40,000	
		1,99,000
Purchase consideration		<b>8,26,000</b>

**Settlement of Purchase Consideration**

Particulars	Rs.
1. To Preference Shareholders 2200 x 100	2,20,000
2. To Equity Shareholders 30,000/5 x 8 x 12	5,76,000
3. Cash	30,000
	<b>8,26,000</b>



**Rahul Ltd.**  
**Balance Sheet as on 1st April 2012**

(Rs. In '000)

Particulars	Note No.	Rs.	Rs.
<b>I. Equity and liabilities</b>			
1. Shareholder's Funds			
(a) Share Capital	1	1500.000	
(b) Reserves and Surplus	2	276.000	1776.000
2. Non-current Liabilities			
(a) Long-term borrowing			
3. Current Liabilities	3		150.000
(a) Trade payable			
(b) Other current liabilities	4	154.000	
<b>II. Assets</b>	5	100.000	254.000
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible assets			
(ii) Intangible	6	1020.000	
(b) Non-current Investment	7	145.000	
2. Current Assets	8	105.000	1270.000
(a) Inventions			
(b) Trade Receivable			
(c) Cash and Cash Equivalents	9	185.000	
(d) Other Current Assets	10	422.500	
	11	20.000	
	12	287.500	910.000

**See accompanying notes to the Financial Statements**

**Notes to Accounts**

(Rs. In '000)

Particulars	Rs.
1. Share Capital	
Equity Share Capital	
(Issued Subscribed & fully Paid-up)	980.000
98000 equity shares of Rs 10 each	
Preference Share Capital	520.000
5,200 12% preference shares of Rs 100 each	1500.000
2. Reserves and Surplus	
Securities Premium Reserves	96.000
Statutory Reserve	30.000
General Reserve	100.000
P & L A/c	50,000
	276.000

3. Long term Borrowings secured 9% Debentures of Rs 100 each	150.000
	150.000
4. Trade Payable Sundry Creditors	154.000
	154.000
5. Other Current Liabilities Other Liabilities	100.000
	100.000
6. Tangible Assets Building Machinery Furniture	780.000
	280.000
	32.000
	1020.000
7. Intangible Assets Goodwill	145.000
	145.000
8. Non-Current Investments	105.000
	105.000
9. Inventories Stock in Trade	185.000
	185.000
10. Trade Receivable Debtors	422.000
	422.000
11. Cash and Cash Equivalent Balances with Banks	20.000
	20.000
12. Other Current Assets Other Assets Amalgamation Adj. A/c	272.500
	10,000
	282.500

**October – 2010**

**Illustration 8:** Aqua Engineers Ltd. a newly formed company acquired business of Beeta Ltd. as on 31-3-2009. (20)

The Balance Sheet of Beeta Ltd. as on that date was as under:

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs, 10 each fully paid	1,50,000	Goodwill	20,000
General Reserve	25,000	Land & Building	80,000
Export Profit Reserve	8,000	Plant	80,000
Profit and Loss Account	18,000	Investments	30,000
12% Debentures	60,000	Stock	40,000
Sundry Creditors	37,000	Debtors	50,000
Provision for Tax	30,000	Bills Receivable	8,000
		Bank	20,000
	<b>3,28,000</b>		<b>3,28,000</b>

**Terms of acquisition:**

- (1) Aqua Engineers Ltd. issued 25,000 equity shares of Rs. 10 each at Rs. 12 per share.
- (2) Aqua Engineers Ltd. paid Rs. 4 in cash for each share of Beeta Ltd.
- (3) Aqua Engineers Ltd. discharged 12% debentures of Beeta Ltd. at 10% premium by issue of its 15% debentures at a discount of 12%.
- (4) Aqua Engineers Ltd. paid absorption expenses Rs. 3,000.
- (5) Aqua Engineers Ltd. revalued Land & Building at Rs. 1,00,000, Plant at 10% below book value, Stock at Rs. 35,000 and Debtors subject to 5% provision for doubtful debts.
- (6) Beeta Ltd. sold one-fifth of the shares received from Aqua Engineers Ltd. at Rs. 13.00 per share.
- (7) Aqua Engineers Ltd. issued 10,000 equity shares of Rs. 10 each at Rs. 12 each to the public. The issue was fully subscribed and paid for.
- (8) Export Profit Reserve is to be maintained for next three years.

You are required to:

- (i) Compute Purchase Consideration.
- (ii) Prepare Realisation Account, Aqua Engineers Ltd. Account, Equity Shareholders Account, Equity Shares in Aqua Engineers Account and Bank Account in the books of Beeta Ltd.
- (iii) Prepare Balance Sheet of Aqua Engineers Ltd. after acquisition under purchase method.

**Equity Shares in Aqua Engineers Ltd. A/c**

Particulars	Rs.	Particulars	Rs.
To Aqua Engineers A/c	3,00,000	By Bank A/c	65,000
To Realisation A/c	5,000	By Equity Shareholders A/c	2,40,000
	<b>3,05,000</b>		<b>3,05,000</b>

**Cash / Bank A/c**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	20,000	By Realisation	20,000
To Aqua Engineers A/c	60,000	By Equity Shareholder A/c	1,25,000
To Equity Shares in Aqua Ltd.	65,000		
	<b>1,45,000</b>		<b>1,45,000</b>

**Aqua Engineers Ltd.**  
**Balance Sheet as on 1st April 2012**

(Rs. in '000)

Particulars	Note No.	Rs.	Rs.
<b>1. Equity and liabilities</b>			
<b>1. Shareholder's Funds</b>			
(a) Share Capital	1	350.000	
(b) Reserves and Surplus	2	<b>78.000</b>	428 000
<b>2. Non current Liabilities</b>			
(a) Long term borrowings	3	<b>75.000</b>	75.000
<b>3. Current Liabilities</b>			
(a) Trade Payable	4	37.000	
(b) Short-term Provisions	5	<b>30.000</b>	67.000
<b>Total</b>			<b>570.000</b>
<b>II. Assets</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets			
(i) Tangible assets	6	172.000	
(ii) Intangible	7	183.500	
(b) Non Current Investment	8	<b>30.000</b>	<b>385.500</b>
<b>2. Current Assets</b>			
(a) Inventories	9	35.000	
(b) Trade Receivables	10	47.500	
(c) Cash and Cash Equivalents	11	77.000	
(d) Short term Loans and Advances	12	8.000	
(e) Others Current Assets	13	17.000	184.000
<b>Total</b>			<b>570.000</b>

## Notes to Accounts

(Rs. in '000)

Particulars	Rs.
<b>1. Share Capital</b>	
<b>Equity Share Capital</b>	
Issued, Subscribed and fully paid Share Capital 35,000 equity shares of Rs. 10 each	<b>350.000</b>
<b>2. Reserves and Surplus</b>	
Securities Premium	70.000
Export Profit Reserve	8.000
	<b>78.000</b>
<b>3. Long term Borrowings Secured</b>	
15% Debentures	75.000
	<b>75.000</b>
<b>4. Trade Payable</b>	
Sundry Creditors	37.000
	<b>37.000</b>

<b>5. Short-Term Provisions</b>		
Provision for Tax		30.000
		<b>30.000</b>
<b>6. Tangibles Assets</b>		
Land & Buildings		100.000
Plant		72.000
		<b>172.000</b>
<b>7. Intangibles Assets</b>		
Goodwill		183.500
		<b>183.500</b>
<b>8. Non-Currents Investments</b>		
Trade Investments		30.000
		<b>30.000</b>
<b>9. Inventories</b>		
Stock in Trade		35.000
		<b>35.000</b>
<b>10. Trade Receivable</b>		
Debtors	50.00	
Less RDD	(2.500)	
		<b>47.500</b>
		<b>47.500</b>
<b>11. Cash and Cash Equivalents</b>		
Balances with Banks		77.000
		<b>77.000</b>
<b>12. Short-Term Loans and Advances</b>		
Bills Receivable		8.000
		<b>8.000</b>
<b>13. Other Current Assets</b>		
Amalgamation Adj. A/c		8.000
Discount on issue of Debentures		9.000
		<b>17.000</b>

**Bank A/c**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
To Beeta Ltd.	20,000	By Goodwill A/c	3,000
To Equity Capital	1,00,000	Beeta Ltd.	60,000
To Security Premium	20,000	By Balance c/d	77,000
	<b>1,40,000</b>		<b>1,40,000</b>

2. Export Profit Reserve Rs. 8,000 is brought into the books by debiting Amalgamation adjustment A/c which is shown under, Miscellaneous Expenses.
3. Payment of absorption expenses is debited to Goodwill A/c as per AS-14

**Statement of purchase consideration  
Aqua Engineers Ltd.**

Particulars	Rs.
1. Equity Shares (25,000)*12	3,00,000
2. Cash 15,000*4	60,000
	<b>3,60,000</b>

**Statement of Net Assets taken over**

Particulars	Rs.	Rs.
<b>All Assets at Agreed Values</b>		
Land and Building	1,00,000	
Plant	72,000	
Investments	30,000	
Stock	35,000	
Debtors	50,000	
Bills Receivable	8,000	
Bank	<b>20,000</b>	<b>3,15,000</b>
<i>Less: All Liabilities at Revised Values</i>		
12% Debentures	66,000	
Sundry Creditors	37,000	
Provision for Tax	30,000	
Provision for Doubtful Debts	2,500	<b>1,35,500</b>
Net Assets taken over		1,79,500
<i>Less : Purchase Consideration</i>		3,60,000
Goodwill		<b>1,80,500</b>

**In the Books of BEETA Ltd.  
Realisation A/c**

Particulars	Rs.	Particulars	Rs.
To Goodwill	20,000	By 12% Debentures	60,000
To Land and Building	80,000	By Sundry Creditors	37,000
To Plant	80,000	By Provision for Tax	30,000
To Investment	30,000	By Aqua Engineers A/c	3,60,000
To Stock	40,000	By Equity Shares in Aqua Engineers A/c	5,000
To Debtors	50,000		
To Bills Receivable	8,000		
To Bank	20,000		
To Equity Shareholders A/c	1,64,000		
	<b>4,92,000</b>		<b>4,92,000</b>

**Equity Shareholders A/c**

Particulars	Rs.	Particulars	Rs.
To Equity Shares in Aqua Engineers A/c	2,40,000	By Equity Share Capital	1,50,000
To Cash/Bank	1,25,000	By General Reserve	25,000
		By Export Profit Reserve	8,000
		By Profit and Loss A/c	18,000
		By Realisation A/c	1,64,000
			<b>3,60,000</b>

**Aqua Engineers Ltd. A/c**

Particulars	Rs.	Particulars	Rs.
To Realization A/c	3,60,000	By Equity Shares Aqua Engineers A/c	3,00,000
		By Cash/ Bank	60,000
	<b>3,60,000</b>		<b>3,60,000</b>

**April – 2010**

**Illustration 9:** Josh Ltd. and Ashish Ltd. were amalgamated on and from 1st April, 2009. A new company namely Shilpa Ltd. was formed to take over the business of Josh Ltd. and Ashish Ltd. (16)

**Balance Sheets as on 31st March, 2009**

Liabilities	Josh Ltd. Rs.	Ashish Ltd. Rs.	Assets	Josh Ltd. Rs.	Ashish Ltd. Rs.
Equity Shares of Rs. 100 each fully paid	4,00,000	3,75,000	Land and Building	3,00,000	1,50,000
12% Preference Shares of Rs. 100 each fully paid	1,50,000	1,00,000	Plant and Machinery	1,50,000	1,80,000
General Reserve	85,000	75,000	Computers	75,000	20,000
Profit & Loss A/c.	25,000	15,000	Stock	2,00,000	1,00,000
Statutory Reserves	1,00,000	75,000	Debtors	1,25,000	2,00,000
10% Debenture of Rs. 100 each	30,000	15,000	Bib Receivables	90,000	20,000
Sundry Creditors	1,10,000	70,000	Bank	60,000	80,000
Bills Payable	1,00,000	25,000			
	<b>10,00,000</b>	<b>7,50,000</b>		<b>10,00,000</b>	<b>7,50,000</b>

**Additional Information:**

- (a) Shilpa Ltd. issued five equity shares, for each equity share of Josh Ltd. and four equity shares, for each equity share of Ashish Ltd. The shares are of Rs. 10 each, issued at Rs. 30 each.
- (b) Preference Shareholders of both the companies are issued equivalent number of 15% preference shares of new company at Rs. 150 per share (face value Rs. 100).
- (c) 10% Debentureholders of Josh Ltd. and Ashish Ltd. are discharged by Shilpa Ltd. issuing such number of its 15% Debenture of Rs. 100 each so as to maintain the same amount of interest.
- (d) Shilpa Ltd. revalued following assets taken over from Josh Ltd. and Ashish Ltd.:

**46 • Financial Accounting**

	<b>Josh Ltd. Rs.</b>	<b>Ashish Ltd. Rs.</b>
Land and Building	4,00,000	2,00,000
Plant and Machinery	1,20,000	1,50,000
Computers	70,000	ROW
Stock	1,50,000	80,000
Debtors	1,10,000	1,90,000

You are required to: (i) Compute Purchase Consideration. (ii) Pass Journal entries in the books of Shilpa Ltd., under purchase method.

**Net assets taken over**

	<b>Josh Ltd. Rs.</b>	<b>Ashish Ltd. Rs.</b>
Net Assets taken over (goodwill/capital Reserve)		
Land & Building	4,00,000	2,00,000
Plant & machinery	1,20,000	1,50,000
Computers	70,000	10,000
Stock	1,50,000	80,000
Debtors	1,10,000	1,90,000
Bills receivable	90,000	20,000
Bank	60,000	80,000
	<b>10,00,000</b>	<b>7,30,000</b>
<b>Less : Liabilities taken over</b>		
10% Debentures of Rs. 100 each	20,000	10,000
Sundry Creditors	1,10,000	70,000
Bills Payable	1,00,000	25,000
Net Assets taken over	<b>2,30,000</b>	<b>1,05,000</b>
<b>Less : Purchase Consideration</b>	<b>7,70,000</b>	<b>6,25,000</b>
Goodwill	8,25,000	6,00,000
Capital Reserve	55,000	25,000

**In the books of Shilpa Ltd.  
Journal entries**

Sr. No.	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Business purchase A/c <span style="float: right;">Dr</span> To Liquidator of Josh Ltd. A/c To Liquidator of Ashish Ltd. A/c (Being purchase of business)	14,25,000	8,25,000 6,00,000
2.	Land & building A/c <span style="float: right;">Dr</span> Plant & machinery A/c <span style="float: right;">Dr</span> Computers A/c <span style="float: right;">Dr</span> Stock <span style="float: right;">Dr</span> Debtors A/c <span style="float: right;">Dr</span> Bill receivable A/c <span style="float: right;">Dr</span> Bank <span style="float: right;">Dr</span> Goodwill A/c <span style="float: right;">Dr</span> To 10% Debentures A/c To Sundry Creditors A/c To bill Payable A/c To Business Purchase A/c	4,00,000 1,20,000 70,000 1,50,000 1,10,000 90,000 60,000 55,000	20,000 1,10,000 1,00,000 8,25,000
3.	Liquidator of Josh Ltd. A/c <span style="float: right;">Dr</span> To Equity Share Capital A/c To 15% Preference Share capital A/c To Securities Premium A/c (Being settled purchase consideration)	8,25,000	2,00,000 1,50,000 4,75,000
4.	Land & Building A/c <span style="float: right;">Dr</span> Plant & machinery A/c <span style="float: right;">Dr</span> Computers A/c <span style="float: right;">Dr</span> Stock <span style="float: right;">Dr</span> Debtors A/c <span style="float: right;">Dr</span> Bill receivable A/c <span style="float: right;">Dr</span> Bank <span style="float: right;">Dr</span> To Capital Reserve To 10% Debentures A/c To Sundry Creditors A/c To bill Payable A/c To Business Purchase A/c (Being brought into books assets & liabilities taken over)	2,00,000 1,50,000 10,000 80,000 1,90,000 20,000 80,000	25,000 10,000 70,000 .25,000 6,00,000
5.	Liquidator of Ashish Ltd. A/c To Equity Share Capital A/c To 15% Preference Share capital A/c To Securities Premium A/c (Being settled purchase consideration)	6,00,000	1,50,000 1,00,000 3,50,000

6.	10% Debentures of Josh A/c 10% Debentures of Ashish A/c To 15% Debentures A/c (Being 15% debentures issued to debentureholders A/c)	20,000 10,000	30,000
7.	Amalgamation Adjustment A/c To statutory Reserve A/c (Being statutory reserve brought forward)	1,75,000	1,75,000
8.	Capital Reserve A/c To Goodwill A/c (Being transferred goodwill to capital reserve A/c)	25,000	25,000

October – 2009

**Illustration 10:** Following are the Balance Sheets of Vivek Ltd. and Narendra Ltd. as on 31st March 2008. (16)

Liabilities	Vivek Ltd. Rs.	Narendra Ltd. Rs.	Assets	Vivek Ltd. Rs.	Narendra Ltd. Rs.
Equity Share Capital (Rs. 10 each fully paid)	6,50,000	3,50,000	Goodwill	2,00,000	73,000
Securities Premium	1,00,000	2150,000	Land & Building	3,60,000	2,00,000
Capital Reserve	60,000	—	Own Debentures (Face value Rs. 35,000)		30,000
Export Profit Reserve	—	32,000	Investment in 8% Debentures of Narendra Ltd. (Face Value Rs. 40,000)	34,000	—
Reserve Fund	—	2,32,000	Current Assets	7,67,000	8,45,000
9% Debentures	1,00,000	—	Preliminary Expenses	47,000	37,000
8% Debentures	—	75,000			
Bank Overdraft	62,000	—			
Sundry Creditors	4,36,000	2,46,000			
	<b>14,08,000</b>	<b>11,85,000</b>		<b>14,08,000</b>	<b>11,85,000</b>

On the above date Vivek Ltd. absorbed Narendra Ltd. Purchase consideration payable by Vivek Ltd. was agreed as follows:

- (1) A cash payment of Rs. 6 for every equity share of Narendra Ltd.
- (2) Issue of four equity shares of Rs. 10 each in Vivek Ltd. at Rs. 25 per share for every five shares in Narendra Ltd.

Sundry creditors of Vivek Ltd. include Rs. 26,000 payable to Narendra Ltd. Narendra Ltd. cancelled its own debentures held as investment before absorption by Vivek Ltd. Vivek Ltd. cancelled debentures of Narendra Ltd. held as investment after absorption.

You are required to prepare, following ledger accounts in the books of Narendra Ltd.: (a) Realisation A/c, (b) Equity Shareholders A/c, (c) Vivek Ltd. A/c, (d) Equity Shares in Vivek Ltd. A/c, (e) Bank A/c.

Also prepare Balance Sheet of Vivek Ltd. after absorption (under purchase method).

**In the ledger of Narendra Ltd.  
Realisation A/c**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	73,000	By Sundry Creditors A/c	2,46,000
To Land and Building A/c	2,00,000	By Debentures (75,000 35,000) A/c	40,000
To Current Assets A/c	8,45,000	By Vivek Ltd. A/c (Purchase Consideration)	9,10,000
To Equity Shareholders A/c (Profit Realisation)	78,000		
	<b>11,96,000</b>		<b>11,96,000</b>

**Equity Shareholders A/c**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Preliminary Expenses A/c	37,000	By Equity Share Capital A/c	3,50,000
To Bank A/c	2,10,000	By Securities Premium A/c	2,50,000
To Equity Shares in Vivek Ltd. (Shares Given)	7,00,000	By Export Profit Reserve A/c	32,000
		By Reserve Fund A/c	2,32,000
		By Capital Reserve A/c (35,000 30,000)	5,000
		By Realisation A/c (Profits)	78,000
	<b>9,47,000</b>		<b>9,47,000</b>

**Bank A/c**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Vivek Ltd,	2,10,000	By Equity Shareholder (Balance Paid)	2,10,000
	<b>2,10,000</b>		<b>2,10,000</b>

**Vivek Ltd. A/c**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Realisation A/c	9,10,000	By Equity Shareholders A/c	7,00,000
		By Bank A/c (Purchase consideration received)	2,10,000
	<b>9,10,000</b>		<b>9,10,000</b>

## Equity Shares In Vivek Ltd. A/c

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Vivek Ltd., A/c	7,00,000	By Equity Shareholders A/c (Shares Distributed)	7,00,000
	<b>7,00,000</b>		<b>7,00,000</b>

## Statement of Purchase Consideration

	Rs.
Cash Payment: (35,000 shares @ 6 each)	2,10,000
Issue of Equity Shares in Vivek Ltd:  x 35,000 = 28,000 shares of Rs 10 each at Rs 25 each	7,00,000
	<b>9,10,000</b>

## Balance Sheet as on 31st March 2012

(Rs. In '000)

Particulars	Note No.	Rs.	Rs.
<b>I. Equity and Liabilities</b>	4		
1. Shareholders' funds	5		
(a) Share Capital	1	9,30,000	
(b) Reserves and Surplus	2	6,18,000	15,48,000
2. Non-Current Liabilities			
(a) Long-Term Borrowings	3	1,00,000	1,00,000
3. Current Liabilities			
(a) Short-Term Borrowing	4	2,72,000	
(b) Trade Payables	5	6,56,000	9,28,000
<b>Total</b>			<b>25,76,000</b>
<b>II. Assets</b>			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Asset	6	5,60,000	
(ii) Intangible Asset	7	3,51,000	9,11,000
2. Current Assets			
(a) Cash and cash equivalents	8	15,86,000	
(b) Other Current Assets	9	79,000	16,65,000
			25,76,000

**Notes to Accounts**

**(Rs. in '000)**

<b>Particulars</b>	<b>Rs.</b>
1. Capital and Liabilities	
Equity Share Capital	
Issued subscribed and fully paid	
share capital 93,000 equity shares of Rs. 10 each	9,30,000
2. Reserves and Surplus	
Capital Reserves	66,000
Security Premium Reserves	5,20,000
Export Profit Reserves	32,000
	6,18,000
3. Long Term borrowing secured	
9% debentures	1,00,000
	1,00,000
4. Short term borrowing secured	
Bank overdraft	2,72,000
	2,72,000
5. Trade payable	
Creditors	6,56,000
	6,56,000
6. Tangible Assets	
Land and Building	5,60,000
	5,60,000
7. Intangible Assets	
Goodwill	3,51,000
	3,51,000
8. Cash and cash equivalents	
Balances with banks (Assumed)	15,86,000
	15,86,000
9. Other Current Assets	
Preliminary expenses	47,000
Amalgamation adj. A/c	32,000
	79,000

April – 2009

**Illustration 11:** Following are the Balance Sheets of Alpha Ltd. and Beeta Ltd. as on 31st March, 2008. (16)

Liabilities	Alpha Ltd. Rs.	Beeta Ltd. Rs.	Assets	Alpha Ltd. Rs.	Beeta Ltd. Rs.
<b>Share Capital:</b>			Goodwill	60,000	1,00,000
7% Preference shares of Rs. 100 each	4,50,000	6,00,000	Premises	6,50,000	7,00,000
Equity Shares of Rs. 100 each	8,00,000	12,00,000	Plant & Machinery	4,80,000	6,20,000
General Reserve.	70,000	80,000	Computer	1,20,000	2,00,000
Profit and Loss A/c	45,000	62,000	Stock	1,80,000	2,50,000
Statutory Reserve	27,000	48,000	Sundry Debtors	1,10,000	3,15,000
10% Debentures	1,50,000	84,000	Bib Receivable	30,000	20,000
Sundry Creditors	75,000	1,20,000	Bank	12,000	24,000
Bills Payable	25,000	35,000			
	<b>16,42,000</b>	<b>22,29,000</b>		<b>16,42,000</b>	<b>22,29,000</b>

Beeta Ltd. takes over Alpha Ltd. on 1st April 2008 on the following terms:

- (1) Beeta Ltd. discharged purchase consideration as under:
  - (a) Issued 10000 Equity Shares of Rs. 100 each at a premium of 5% for the equity shareholders of Alpha Ltd.
  - (b) Issued 8% Preference Shares of Rs. 100 each at par to discharge the preference shareholders of Alpha Ltd. at 10% premium.
- (2) The Debentures of Alpha Ltd. to be converted into equivalent number of debentures of Beeta Ltd.
- (3) Sundry Debtors of Beeta Ltd. include Rs. 25,000 being amount due from Alpha Ltd.
- (4) Bills payable of Alpha Ltd. includes Rs. 7,000 being the amount of bills accepted in favour of Beeta Ltd. but the Bills Receivable of Beeta Ltd. includes Rs. 5,000 only being the amount of bills due from Alpha Ltd.
- (5) The Stock of Beeta Ltd. includes Rs. 30,000 worth of goods purchased from Alpha Ltd. on which Alpha Ltd. made a profit of 25% on cost.

**You are required to:**

- (a) Calculate purchase consideration.
- (b) Pass Journal Entries in the books of Beeta Ltd. assuming that amalgamation is in the nature of purchase.
- (c) Prepare Balance Sheet of Beeta Ltd. after amalgamation.

Purchase consideration:

1. For equity shareholders: 10,000 equity shares in Beeta Ltd. of Rs. 100 each at a premium of 5%	10,50,000
1. For 7% preference shareholders: 4950, 8% preference shares in Beeta Ltd. of Rs. 100 each at par	4,95,000
	15,45,000

**Journal Entries in the books of Beeta Ltd.**

Particulars	Dr. Rs.	Cr. Rs.
Business purchase a/c To liquidators of Alpha a/c (Being purchase of business)	15,45,000	15,45,000
Goodwill a/c Premises a/c Plant & machinery a/c Computer a/c Stock a/c Sundry debtors a/c Bills receivable a/c Bank a/c To 10% debentures of Alpha Ltd., a/c To Sundry creditors a/c To bills payable a/c To Business purchase a/c (Being assets & liabilities taken over brought into books)	2,13,000 6,50,000 4,80,000 1,20,000 1,80,000 1,10,000 30,000 12,000	1,50,000 75,000 25,000 15,45,000
Liquidators of Alpha a/c To Equity share capital a/c To Securities premium a/c To 8% Preference share capital a/c (Being settled purchase consideration but issue of 10,000 equity shares of Rs. 100 each at 5% premium and 4950 preference shares of Rs 100 each)	15,45,000	10,00,000 50,000 4,95,000
10% debentures of Alpha Ltd., a/c To 10% debentures of Beeta Ltd. (Being issued debentures to the debenture holders of Alpha Ltd.)	1,50,000	1,50,000
Sundry creditors of Alpha Ltd., a/c To sundry debtors of Beeta Ltd., a/c (Being intercompany debt adjusted)	25,000	25,000
Bills payable of Alpha Ltd., a/c To bills receivable of Beeta Ltd., a/c (Being intercompany bills adjusted)	5,000	5,000
Goodwill a/c To stock a/c (Being unrealised, profit adjusted)	6,000	6,000
Amalgamation adjustment a/c To Statutory reserves a/c (Being statutory reserves brought into the books)	27,000	27,000

**Beeta Ltd.**  
**Balance Sheet as on 1st April 2012**

Particulars	Note No.	Rs.	Rs.
<b>I. Equity and Liabilities</b>			
1. Shareholder's funds			
Share capital	1		3295,000
Reserve and surplus	2	267,000	3,562,000
2. Non-current liabilities			
Long term borrowing	3	234,000	234,000
3. Current liabilities			
Trade payables	4	225,000	225,000
			<b>4,021,000</b>
<b>II. Assets:</b>			
I. Noncurrent liabilities:			
(a) Fixed assets			
(i) Tangible assets	5	2,770,000	
(ii) Intangible assets	6	319,000	3,089,000
2. Current assets			
(a) Inventories	7	424,000	
(b) Trade receivables	8	400,000	
(c) Cash in cash equipments	9	36,000	
(d) Short term loans in advances	10	45,000	
(e) Other current assets	11	27,000	9,32,000
<b>Total</b>			<b>4,021,000</b>

See accompanying notes to the financial statements

**Notes to Accounts**

Particulars	Rs.	Rs.
<b>Share capital</b>		
<b>Equity share capital</b>		
Issued, subscribed and fully paid share capital	2200,000	
22,000 equity shares of 100 each		
<b>Preference share capital</b>		
6000 7% Pref. shares of Rs. 100 each	600,000	
4950 7% Pref. shares of Rs. 100 each	495,000	
<b>Reserves and surplus</b>		
Securities premium	50,000	
Statutory reserve	75,000	
General reserve	80,000	
P & L A/c	62,000	
Long term borrowing secured		234,000
10% debentures		234,000

<b>Trade payable</b>	75,000	
Sundry creditors Alpha	25,000	
Less inter.co.debt	50,000	
Beeta	120,000	
	25,000	
Bills payable	5,000	
Less inter co. debt	20,000	
Beeta	35,000	55,000
<b>Tangible assets</b>		225,000
Premises		1350,000
Plant and machinery		1100,000
Computer		320,000
		2270,000
<b>Intangible assets</b>		
Goodwill		319,000
		319,000
<b>Inventories stocking trade</b>		
Beeta	250,000	
Less unrealised	6,000	
	244,000	
Alpha	180,000	424,000
<b>Trade receivable</b>		
Sundry debtors Beeta	315,000	
<i>Less:</i> Inter co. debt	25,000	
	290,000	
Alpha	110,000	400,000
<b>Cash and cash equivalents</b>		
Balance with banks		36,000
<b>Short term loans and advances</b>		
Bills receivable		45,000
<b>Other current assets</b>		
Amalgamation adj. A/c		27,000

### 3. AMALGAMATION IN THE NATURE OF MERGER

#### Illustration 5 : Pooling of Interest Method – Basics

Hari Ltd. having Share Capital of Rs. 50 Lakhs divided into Equity Shares of Rs. 10 each, was taken over by Govind Ltd. Hari Ltd. has General Reserve of Rs. 10,00,000 and Profit and Loss Account Cr. Rs. 5,00,000. Govind Ltd. issued 11 Equity Shares of Rs. 10 each for every 10 Shares of Hari Ltd. Show how the Journal Entries would be passed in the books of Govind Ltd. for the Shares issued under the Pooling of Interests Method of Amalgamation.

**Solution: 1. Computation of Reserves to be incorporated in the books of Govind Ltd.**

Particulars	Rs.
Paid Up Capital of Hari Ltd.	56,00,000
<b>Less:</b> Purchase Consideration (5,00,000 × ) × 10 = 5,50,000 Shares x Rs. 10 each	55,00,000
<b>Difference to be adjusted with I reduced from General Reserve of Hari Ltd.</b>	<b>5,00,000</b>
<b>Balance Reserves of Hari Ltd. to be incorporated</b>	
General Reserve (10,00,000 - 5,00,000)	5,00,000
Profit and Loss Account (Credit Balance, fully taken over)	5,00,000

**2. Journal Entries in the books of Govind Ltd. (Rs. in Lakhs)**

S.No.	Particulars	Dr.	Cr.
1	Business Purchase A/c To Liquidator of Hari Ltd. A/c (Being Purchase Consideration Due)	Dr. 55	55
2	Net Assets A/c To Business Purchase A/c To General Reserve A/c To Profit and Loss A/c (Being recording of Assets and Liabilities taken over from Hari Ltd. under amalgamation)	Dr. 65	55 5 5 10
3	Liquidator of Hari Ltd. A/c To Equity Share Capital A/c (Being discharge of consideration, by allotment of 5,50,000 Equity Shares of Rs. 10 each fully paid)	Dr. 55	55

**Illustration 6 : Amalgamation as Merger – Journal Entries, B/s Preparation, Mutual Owings Elimination**

The following were the Balance Sheets of Rudra Ltd. and Shiva Ltd. as at 31st March (Rs. in Lakhs)

Liabilities	Rudra	Shiva	Assets	Rudra	Shiva
Equity Share Capital (of Rs. 10 each)	15,000	6,000	Land and Buildings	6,000	5,000
Securities Premium	3,000	—	Plant and Machinery	14,000	—
Foreign Projects Reserve	—	310	Furniture, Fixtures and Fittings	2,304	1,700
General Reserve	9,500	3,200	Stock	7,862	4,041
Profit and Loss Account	2,870	825	Debtors	2,120	1,020
12% Debentures	—	1,000	Cash at Bank	1,114	609
Bills Payable	120	—	Bills Receivable	—	80
Sundry Creditors	1,080	463	Cost of Issue of Debentures	—	50
Sundry Provisions	1,830	702			
<b>Total</b>	<b>33,400</b>	<b>12,500</b>	<b>Total</b>	<b>33,400</b>	<b>12,500</b>

All the Bills Receivable held by Shiva Ltd. were Rudra Ltd.'s acceptances.

On the above date, Rudra Ltd. took over Shiva Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Rudra Ltd. would allot 3 fully paid Equity Shares of Rs. 10 each at par for every 2 Equity Shares held in Shiva Ltd. It was also agreed that 12% Debentures in Shiva Ltd. would be converted into 13% Debentures in Rudra Ltd. of the same amount and denomination. Also, expenses of amalgamation amounting to Rs. 1 Lakh were borne by Rudra Ltd.

**Required:** (1) **Pass Journal Entries in the books of Rudra Ltd. and,** (2) **Prepare Rudra Ltd.'s B/Sheet immediately after the Merger.**

**Solution:**      **1. Computation of Purchase Consideration**

1. Purchase Consideration is discharged as 3 Equity Shares of Rudra Ltd. for every 2 Equity Shares held in Shiva Ltd.
2. Shiva Ltd. has                      = 600 Lakh Shares. Since 3 Shares of Rudra Ltd. = 2 Shares of Shiva Ltd.,  
the Number of Shares of Rudra Ltd. to be issued =  $600 \times \frac{3}{2}$  = 900 Lakh Shares.
3. Amount of Purchase Consideration = 900 Lakh Shares  $\times$  Rs. 10 = Rs. 9,000 Lakhs.

**Note:** The Question clearly states that the amalgamation is in the nature of Merger. Hence, **Pooling of Interest Method** is followed in the accounting for this amalgamation.

**2. Computation of Goodwill on Merger (Rs. in Lakhs)**

	Rs. Lakhs	Rs. Lakhs
<b>Particulars</b>		
Land and Buildings	5,000	
Furniture, Fixtures & Fittings	1,700	
Stock	4,041	
Debtors	1,020	
Cash at Bank	609	
Bills Receivable	80	12,450
<b>Less: Liabilities:</b>		
Foreign Projects Reserve	310	
Profit and Loss A/c (Rs. 825 Rs. 50 Cost of issue of Debentures)	775	
12% Debentures	1,000	
Sundry Creditors	463	
Sundry Provisions	702	
General Reserve	(6,450)	
<b>Net Assets taken over</b>		<b>6,000</b>
<b>Less: Purchase Consideration (WN 1)</b>		<b>(9,000)</b>
<b>Capital Reserve / (Goodwill) (since Consideration &gt; Net Assets)</b>		<b>(3,000)</b>

Since Amalgamation is in the nature of Merger, this Goodwill Rs. 3,000 Lakhs will be adjusted in the Reserves of Rudra Ltd.

<b>3. Journal Entries in the books of Rudra Ltd.</b>		<b>(Rs. in Lakhs)</b>	
S.No.	Particulars	Dr.	Cr.
1.	Business Purchase A/c <span style="float: right;">Dr.</span> To Liquidator of Shiva Ltd. A/c (Being business of Shiva Ltd. taken over for consideration settled as per agreement)	9,000 —	9,000
2.	Plant and Machinery A/c <span style="float: right;">Dr.</span> Furniture, Fixtures & Fittings A/c <span style="float: right;">Dr.</span> Stock A/c <span style="float: right;">Dr.</span> Debtors A/c <span style="float: right;">Dr.</span> Cash at Bank A/c <span style="float: right;">Dr.</span> Bills Receivable A/c <span style="float: right;">Dr.</span> To Foreign Project Reserve A/c To General Reserve (3,200 – 3,000 adjustment in Reserves) (bal. figure) To Profit and Loss A/c (825 – 50 cost of issue of debt) To 12% Debentures A/c To Sundry Creditors A/c To Sundry Provisions A/c To Business Purchase A/c (Being Assets & Liabilities taken over from Shiva Ltd.) (See Note below)	5,000 1,700 4,041 1,020 609 80	310  <b>200</b> 775 1,000 463 702 9,000
3.	Liquidator of Shiva Ltd. A/c <span style="float: right;">Dr.</span> To Equity Share Capital A/c (Being Purchase Consideration discharged in the form of Equity Shares of Rudra Ltd.)		9,000 9,000
4.	General Reserve A/c <span style="float: right;">Dr.</span> To Bank A/c (Being Liquidation Expenses paid by Rudra Ltd.)	1	1
5.	12% Debentures A/c <span style="float: right;">Dr.</span> To 13% Debentures A/c (Being 12% Debentures discharged by issue of 13% Debentures)	1000	1000
6.	Bills Payable A/c <span style="float: right;">Dr.</span> To Bills Receivable A/c (Being cancellation of Mutual Owings on account of Bills Receivable / Payable)	80	80

**Note:** The Question is silent on the treatment of Fictitious Assets. So, it is assumed that they are not transferred to the Amalgamated Co. Hence, Cost of Issue of Debentures shown in Shiva Ltd.'s B/s is not transferred to Rudra Ltd.

**4. Balance Sheet of Rudra Ltd. as at 1st April (Pooling of Interest / Merger Method) (Rs. in Lakhs)**

	Particulars as at 1st April	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	1	24,000	
	(b) Reserves and Surplus	2	16,654	
(2)	<b>Non-Current Liabilities:</b> Long Term Borrowings (13% Debentures)		1,000	
(3)	<b>Current Liabilities:</b>			
	(a) Trade Payable	3	1,583	
	(b) Short Term Provisions (1,830 + 702)		2,532	
	<b>Total</b>		<b>45,769</b>	
<b>11</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets</b>			
	Fixed Assets: Tangible Assets	4	29,004	
(2)	<b>Current Assets:</b>			
	(a) Inventories Stock in Trade (7,862 + 4,041)		11,903	
	(b) Trade Receivables Debtors (2,120 + 1,020)		3,140	
	(c) Cash and Cash Equivalents Cash & Bank (1,114 + 609 - 1)		1,722	
	<b>Total</b>		<b>45,769</b>	

**Schedule 1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> ..... Equity Shares of ..... each		
<b>Issued, Subscribed &amp; Paid Up:</b> 2,400 Lakh Equity Shares of Rs. 10 each (including 900 Lakh Shares issued for non cash consideration in a scheme of amalgamation)	24,000	
<b>Total</b>	<b>24,000</b>	

**Schedule 2: Reserves and Surplus**

Particulars	This Year	Prev. Yr.
(a) Securities Premium Reserve	3,000	
(b) Other Reserve — Foreign Projects Reserve	310	
— General Reserve (9,500 + 200 - 1)	9,699	
(c) Surplus (2,870 + 775)	3,645	
<b>Total</b>	<b>16,654</b>	

**Schedule 3: Trade Payables**

Particulars	This Year	Prev. Yr.
(a) Sundry Creditors (1,080 + 463)	1,543	
(b) Bills Payable (120 - 80)	40	
<b>Total</b>	<b>1,583</b>	

**Schedule 4: Tangible Fixed Assets**

Particulars		This Year	Prev. Yr.
(a)	Land & Building (6,000 + 5,000)	11,000	
(b)	Plant & Machinery (14,000 + Nil)	14,000	
(c)	Furniture & Fittings (2,304 + 1,700)	4,004	
<b>Total</b>		<b>29,004</b>	

**Illustration 7 : Amalgamation as Merger – Journal Entries, B/s Preparation,**

The following are the Balance Sheets of Mahima Ltd. and Nithya Ltd., as at 31st March (Rs. in Lakhs)

Liabilities	Mahima	Nithya	Assets	Mahima	Nithya
Share Capital:			Plant and Machinery	4,215	468
Fully paid Equity Shares of Rs. 10 each	3,600	900	Furniture and Fixtures	2,400	163
10% Pref. Shares off 10 each, fully paid-up	1,200	Nil	Motor Vehicles	Nil	51
Capital Reserve	600	Nil	Stock	2,370	444
General Reserve	2,100	Nil	Sundry Debtors	1,044	237
Profit and Loss Account	780	Nil	Cash at Bank	1,542	240
8% Redeemable Debentures of Rs. 1,000 each	Nil	300	Preliminary Expenses	Nil	33
Trade Creditors	2,421	369	Discount on Issue of Debentures	Nil	6
Provisions	870	93			
<b>Total</b>	<b>11,571</b>	<b>1,662</b>	<b>Total</b>	<b>11,571</b>	<b>1,662</b>

A new Company Song Ltd. was got incorporated with an Authorised Capital of Rs. 15,000 Lakhs divided into Shares of Rs. 10 each. In an amalgamation in the nature of Merger, Mahima Ltd. & Nithya Ltd. were merged into Song Ltd. on the following terms —

- Purchase Consideration for Mahima Ltd.'s business is to discharged by issue of 120 Lakhs fully paid 11% Preference Shares and 720 Lakhs fully paid Equity Shares of Song Ltd. to the Preference and Equity Shareholders of Mahima Ltd. in full satisfaction of their claims.
- To discharge Purchase Consideration for Nithya Ltd.'s business, Sona Ltd. to allot 90 Lakhs fully paid up Equity Shares to Shareholders of Nithya Ltd. in full satisfaction of their claims.
- Expenses on the liquidation of Mahima Ltd. and Nithya Ltd. amounting to Rs. 6 Lakhs are to be borne by Song Ltd.
- 8% Redeemable Debentures of Nithya Ltd. to be converted into 8.5% Redeemable Debentures of Sona Ltd.
- Expenses on Incorporation of Sona Ltd. were Rs. 15 Lakhs.

You are required to —

- Pass necessary Journal Entries in the books of Sona Ltd. to record above transactions, and
- Prepare Balance Sheet of Song Ltd. after Merger.

**Solution:**

**1. Computation of Purchase Consideration (in Lakhs)**

Particulars	Mahima	Nithya	Total
Preference Shareholders	120 Lakhs Shares × Rs. 10 = 1,200	—	1,200
Equity Shareholders	720 Lakhs × Rs. 10 = 7,200	90 Lakhs × Rs. 10 = 900	8,100
<b>Total</b>	<b>8,400</b>	<b>900</b>	<b>9,300</b>

**2. Analysis of Reserves to be incorporated in the books of Sona Ltd. (Rs. in Lakhs)**

Particulars	Mahima	Nithya
(a) Purchase Consideration	8,400	900
(b) Paid Up Capital (Equity + Preference)	4,800	900
<b>(c) Difference</b>	<b>3,600</b>	<b>—</b>
(d) Difference adjusted against the Reserves		
— General Reserve of Mahima Ltd.	2,100	—
— Profit & Loss A/c of Mahima Ltd.	780	—
— <b>Profit &amp; Loss A/c of Sona Ltd. (Balance)</b>	<b>720</b>	<b>—</b>

**3. Journal Entries in the Books of Sona Ltd. (Rs. in Lakhs)**

**Nature of Amalgamation: Merger                      Method of Accounting: Pooling of Interest**

S.No.	Particulars	Dr.	Cr.
1.	Business Purchase A/c <span style="float: right;">Dr.</span> To Liquidator of Mahima Ltd. A/c <span style="float: right;">8,400</span> To Liquidator of Nithya Ltd. A/c <span style="float: right;">900</span> (Being purchase of business of Mahima Ltd. & Nithya Ltd., and consideration due thereon)	9,300	
2.	Plant and Machinery A/c <span style="float: right;">Dr.</span> 4,215 Furniture and Fixtures A/c <span style="float: right;">Dr.</span> 2,400 Stock A/c <span style="float: right;">Dr.</span> 2,370 Sundry Debtors A/c <span style="float: right;">Dr.</span> 1,044 Cash at Bank A/c <span style="float: right;">Dr.</span> 1,542 Profit & Loss A/c <b>(WN 2)</b> <span style="float: right;">Dr.</span> 720 To Business Purchase A/c <span style="float: right;">8,400</span> To Capital Reserve A/c <span style="float: right;">600</span> To Trade Creditors A/c <span style="float: right;">2,421</span> To Provisions A/c <span style="float: right;">870</span> (Being recording of Assets and Liabilities taken over from of Mahima Ltd.)		
3.	Plant and Machinery A/c <span style="float: right;">Dr.</span> 468 Furniture and Fixtures A/c <span style="float: right;">Dr.</span> 183 Motor Vehicles A/c <span style="float: right;">Dr.</span> 51 Stock A/c <span style="float: right;">Dr.</span> 444 Sundry Debtors A/c <span style="float: right;">Dr.</span> 237 Cash at Bank A/c <span style="float: right;">Dr.</span> 240		

**62 • Financial Accounting**

	Preliminary Expenses A/c	Dr.	33	
	Debentures Discount A/c	Dr.	6	
	To Business Purchase A/c			900
	To Debenture Holders A/c			300
	To Trade Creditors A/c			369
	To Provisions A/c			93
	(Being recording of Assets and Liabilities taken over from Nithya Ltd.)			
4.	Liquidator of Mahima Ltd. A/c	Dr.	8,400	
	Liquidator of Nithya Ltd. A/c	Dr.	900	
	To Equity Share Capital A/c			8,100
	To 11% Preference Share Capital A/c,			1,200
	(Being discharge of Purchase Consideration by allotment of Equity & Preference Shares)			
5.	Profit & Loss A/c	Dr.	6	
	To Bank A/c			6
	(Being payment of Liquidation Expenses of Mahima and Nithya Ltd)			
6.	Debenture Holders A/c	Dr.	300	
	To 8.5% Redeemable Debentures A/c			300
	(Being Allotment of 8.5% Debentures of Sona Ltd. to Debenture Holders of Nithya Ltd.)			
7.	Preliminary Expenses A/c	Dr.	15	
	To Bank A/c			15
	(Being expenses incurred for formation of New Company)			
8.	Profit & Loss A/c	Dr.	54	
	To Preliminary Expenses (33 + 15)			48
	To Debentures Discount			6
	(Being Preliminary Expenses and Debentures Discount written off)			

**4. Balance Sheet of Sona Ltd. as on 31st March (Pooling of Interest Merger Method) (Rs. in Lakhs)**

	Particulars as at 31st March	Note	This Year	Prev. Yr
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	<b>1</b>	9,300	
	(b) Reserves and Surplus	<b>2</b>	(180)	
(2)	<b>Non-Current Liabilities:</b>			
	Long Term Borrowings      8.5% Redeemable Debentures (Secured)		300	
(3)	<b>Current Liabilities:</b>			
	(a) Trade Payables      Creditors      (2,421 + 369)		2,790	
	(a) Short Term Provisions      (870+93)		963	
	<b>Total</b>		<b>13,173</b>	



**Illustration 8 : Amalgamation as Merger****Balance Sheets as on 31st March****(in Rs.)**

<b>Liabilities</b>	<b>Gee Ltd.</b>	<b>Pee Ltd.</b>	<b>Assets</b>	<b>Gee Ltd.</b>	<b>Pee Ltd.</b>
Equity Share Capital (Rs. 10 per Share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference Share Capital (Rs. 100 each)	11,00,000	8,50,000	Plant and Machinery	16,25,000	8,50,000
General Reserve	2,50,000	2,50,000	Furniture and Fixtures	2,87,500	1,75,000
Export Profit Reserve	1,50,000	1,00,000	Investments	3,50,000	2,50,000
Investment Allowance Reserves		50,000	Stock	6,25,000	4,75,000
Profit and Loss Account	3,75,000	1,25,000	Debtors	4,00,000	4,60,000
15% Debentures (Rs. 100 each)	2,50,000	1,75,000	Bills Receivable	50,000	55,000
Trade Creditors	1,50,000	75,000	Cash at Bank 3,62,500	2,60,000	
Bills Payable If	75,000	1,00,000			
Other Current Liabilities	1,00,000	75,000			
<b>Total</b>	<b>49,50,000</b>	<b>33,00,000</b>	<b>Total</b>	<b>49,50,000</b>	<b>33,00,000</b>

All the Bills Receivable of Pee Ltd. were having Gee Ltd.'s acceptances. Gee Ltd. takes over Pee Ltd. on the above date. The Purchase Consideration is discharged as follows –

- Issued 1,65,000 Equity Shares of Rs. 10 each at par to the Equity Shareholders of Pee Ltd.
- Issued 15% Preference Shares of Rs. 100 each to discharge the Preference Shareholders of Pee Ltd. at 10% Premium.
- The Debentures of Pee Ltd. will be converted into equivalent number of Debentures of Gee Ltd. A The Statutory Reserves of Pee Ltd. is to be maintained for two more years.
- Expenses of Amalgamation amounting to Rs. 10,000 will be borne by Gee Ltd.

Show the opening Journal Entries and the Opening Balance Sheet of Gee Ltd. as at 1st April after amalgamation, on the assumption that the amalgamation is in the nature of Merger.

**Solution:****1. Computation of Purchase Consideration and adjustment of difference**

<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>
Purchase Consideration:		
1,65,000 Equity Shares of Rs. 10 each	16,50,000	
8,50,000 × 110% = 9,35,000/100 = 9,350 Preference Shares	9,35,000	25,85,000
<b>Less:</b> Amount Due to Equity Shareholders		(15,00,000)
<b>Less:</b> Amount Due to Preference Shareholders		(8,50,000)
<b>Difference to be adjusted in the General Reserves of Gee Ltd.</b>		<b>2,35,000</b>

**Note:** The Balance of General Reserve to be incorporated in the books is Rs. 15,000 (Rs. 2,50,000 – Rs. 2,35,000).

**2. Journal Entries in the Books of Gee Ltd.**

S.No.	Particulars	Dr. (Rs.)	Cr.(Rs.)
1.	Business Purchase A/c <span style="float: right;">Dr.</span> To Liquidator of Pee Ltd. A/c (Being Business of Pee Ltd. taken over as per agreement)	25,85,000	25,85,000
2.	Buildings A/c <span style="float: right;">Dr.</span> Plant & Machinery A/c <span style="float: right;">Dr.</span> Furniture & Fixtures A/c <span style="float: right;">Dr.</span> Investments A/c <span style="float: right;">Dr.</span> Stock A/c <span style="float: right;">Dr.</span> Debtors A/c <span style="float: right;">Dr.</span> Bills Receivable A/c <span style="float: right;">Dr.</span> Cash at Bank A/c <span style="float: right;">Dr.</span> To General Reserve A/c <span style="float: right;">(WN 1)</span> To Export Profit Reserve A/c To Investment Allowance Reserve A/c To Profit & Loss A/c To Debentureholders of Pee Ltd. A/c To Trade Creditors A/c To Bills Payable A/c To Other Liabilities A/c To Business Purchase A/c (Being recording of Assets & Liabilities taken over from Pee Ltd.)	7,75,000 8,50,000 1,75,000 2,50,000 4,75,000 4,60,000 55,000 2,60,000	15,000 1,00,000 50,000 1,25,000 1,75,000 75,000 1,00,000 75,000 25,85,000
3.	Liquidator of Pee Ltd. A/c <span style="float: right;">Dr.</span> To Equity Share Capital A/c To Preference Share Capital A/c (Being Purchase Consideration discharged in the form of Shares of Gee Ltd.)	25,85,000	16,50,000 9,35,000
4.	General Reserve A/c <span style="float: right;">Dr.</span> To Bank A/c (Being Liquidation Expenses borne by Gee Ltd.)	10,000	10,000
5.	Debentureholders of Pee Ltd. A/c <span style="float: right;">Dr.</span> To 15% Debentures of Gee Ltd. A/c (Being 15% Debentures of Pee Ltd. converted to equivalent Debentures of Gee Ltd.)	1,75,000	1,75,000
6.	Bills Payable A/c <span style="float: right;">Dr.</span> To Bills Receivable A/c (Being cancellation of Mutual Owings on account of Bills Receivable)	55,000	55,000



**Schedule 3: Trade Payables**

Particulars	This Year	Prev. Yr.
(a) Trade Creditors (1,50,000 + 75,000)	2,25,000	
(b) Bills Payable (75,000 + 1,00,000 – 55,000)	1,20,000	
<b>Total</b>	<b>3,45,000</b>	

**Schedule 4: Tangible Fixed Assets**

Particulars	This Year	Prev. Yr.
(a) Land and Building (12,50,000 + 7,75,000)	20,25,000	
(b) Plant and Equipment (16,25,000 + 8,50,000)	24,75,000	
(c) Furniture and Fixtures (2,87,500 + 1,75,000)	4,62,500	
<b>Total</b>	<b>49,62,500</b>	

**Schedule 5: Trade Receivables**

Particulars	This Year	Prev. Yr.
(a) Debtors (4,00,000 + 4,60,000)	8,60,000	
(b) Bills Receivable (50,000 + 55,000 – 55,000)	50,000	
<b>Total</b>	<b>9,10,000</b>	

**Illustration 9 : Amalgamation as Merger – Two Companies taken over**

**Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31st March –**

Particulars	A Ltd.	B Ltd.
Share Capital: Equity Shares of Rs. 10 each (fully paid-up)	10,00,000	6,00,000
Securities Premium	2,00,000	—
General Reserve	3,00,000	2,50,000
Profit and Loss Account	1,80,000	1,60,000
10% Debentures	5,00,000	
Secured Loan	—	3,00,000
Sundry Creditors	2,60,000	1,70,000
<b>Total</b>	<b>24,40,000</b>	<b>14,80,000</b>
Land and Building	9,00,000	4,50,000
Plant and Machinery	5,00,000	3,80,000
Investment (5,000 Shares of B Ltd.)	80,000	—
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at Bank	30,000	40,000
<b>Total</b>	<b>24,40,000</b>	<b>14,80,000</b>

The Companies agree on a scheme of amalgamation on the following terms:

1. A new Company is to be formed by name AB' Ltd., to take over all the Assets and Liabilities of the Existing Companies.
2. For the purpose of amalgamation, the Shares of the Existing Companies are to be valued as under:  
A Ltd. = Rs. 18 per Share, and B Ltd. = Rs. 20 per Share.

3. Contingent Liability of A Ltd. of Rs. 60,000 is to be treated as actual existing liability.
4. Shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of Shares of AB Ltd., at a premium of Rs. 6 per Share.
5. The Face Value of the Shares of AB Ltd. are to be of Rs. 10 each.

You are required to:

1. Calculate the Purchase Consideration (i.e. Number of Shares to be issued to A Ltd. and B Ltd.).
2. Pass Journal Entries in the books of A Ltd. or the transfer of Assets and Liabilities.
3. Pass Journal Entries in the books of AB Ltd., for the acquisition of A Ltd. and B Ltd.
4. Prepare the Balance Sheet of AB Ltd.

**Solution:**      **1. Determination of Purchase Consideration**

Particulars	A Ltd.	B Ltd.	
		A Ltd.	Others
(a) No. of Equity Shares Outstanding	1,00,000	5,000	55,000
(b) Agreed Price per Share	Rs. 18.00	Rs. 20.00	Rs. 20.00
(c) Total Consideration	Rs. 18,00,000	Rs. 1,00,000	Rs. 11,00,000
(d) Allotment Price [Face Value 10 + Premium]	Rs. 16.00	Rs. 16.00	Rs. 16.00
(e) No. of Shares to be issued	1,12,500	6,250	68,750

**2. Journal Entries in the books of A Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	General Reserve A/c <span style="float: right;">Dr.</span> To Other Liability A/c (Being Contingent Liability recorded as an Actual Liability as per the terms of amalgamation.) (Note: Balance in General Reserve is 2,40,000 after the above adjustment.)	60,000	60,000
2.	Realisation A/c <span style="float: right;">Dr.</span> To Land and Building A/c To Plant and Machinery A/c To Investments A/c To Stock A/c To Debtors A/c To Cash at Bank A/c (Being all the Assets transferred to Realisation A/c)	24,40,000	9,00,000 5,00,000 80,000 5,20,000 4,10,000 30,000
3.	10% Debentures A/c <span style="float: right;">Dr.</span> Sundry Creditors A/c <span style="float: right;">Dr.</span> Other Liability A/c <span style="float: right;">Dr.</span> To Realisation A/c (Being all the Liabilities transferred to Realisation A/c)	5,00,000 2,60,000 60,000	8,20,000

**Amalgamation of Companies • 69**

4.	Equity Share Capital A/c Securities Premium A/c General Reserve A/c Profit and Loss A/c To Equity Shareholders A/c (Being Share Capital & Reserves transferred to Equity Shareholders)	Dr. Dr. Dr. Dr.	10,00,000 2,00,000 2,40,000 1,80,000	16,20,000
5.	AB Ltd. A/c To Realisation A/c (Being Purchase Consideration due from AB Ltd.)	Dr.	18,00,000	18,00,000
6.	Realisation A/c To Equity Shareholders A/c (Being Profit on Realisation transferred)	Dr.	1,80,000	1,80,000
7.	Equity Shares in AB Ltd. A/c To AB Ltd. A/c (Being receipt of 1,12,500 Shares of Rs. 10 each at a Premium of Rs. 6 per Share as consideration)	Dr.	18,00,000	18,00,000
8.	Equity Shareholders A/c To Equity Shares of AB Ltd. A/c (Being Shares received from AB Ltd. transferred to Shareholders)	Dr.	18,00,000	18,00,000

**3. Journal Entries in the books of AB Ltd. (for Takeover of A Ltd.)**

**Nature of Amalgamation: Merger Method of Accounting: Pooling of Interest**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Business Purchase A/c To Liquidator of A Ltd. A/c (Being Purchase Consideration Due in respect of takeover of A Ltd.)	Dr. Dr.	18,00,000 18,00,000
2.	Land and Building A/c Plant and Machinery A/c Stock A/c Debtors A/c Investments A/c Cash at Bank A/c Profit & Loss A/c (AB Ltd.) To 10% Debentures A/c To Sundry Creditors A/c To Other Liability A/c To Business Purchase A/c (Being various Assets and Liabilities recorded upon acquisition)	Dr. Dr. Dr. Dr. Dr. Dr. Dr.	9,00,000 510,000 520,000 4,10,000 80,000 30,000 1,80,000 5,00,000 2,60,000 60,000 18,00,000

	<b>Note:</b> (a) Equity Share Capital of A Ltd. — Rs. 10,00,000 (b) Consideration Paid — Rs. 18,00,000 (c) <b>Difference (b) – (a)</b> — <b>Rs. 8,00,000</b> <b>Adjusted against</b> (a) Share Premium of A Ltd. — Rs. 2,00,000 (b) General Reserve of A Ltd. — Rs. 2,40,000 (c) Profit and Loss A/c of A Ltd. — Rs. 1,80,000 (d) Profit and Loss A/c of AB Ltd. — Rs. 1,80,000 (e) <b>Total</b> — <b>Rs. 8,00,000</b>		
3.	Liquidator of A Ltd. A/c Dr. 18,00,000 To Equity Share Capital A/c 11,25,000 To Securities Premium A/c 6,75,000 (Being 1,12,500 Shares of Rs. 10 each at a premium of Rs. 6 per Share, allotted to the Shareholders of A Ltd. on account of amalgamation)		

#### 4. Journal Entries in the books of AB Ltd. (for takeover of B Ltd.)

##### Mature of Amalgamation: Merger Method of Accounting: Pooling of Interest

**Note:** By acquiring A Ltd., 5000 Shares in B Ltd. becomes the Investments of AB Ltd. Thus, Consideration is settled only for remaining Outside Shareholders, i.e. the Purchase Consideration is Rs. 11,00,000 only.

S. No.	Particulars	Dr. (Rs.)	Cr.(Rs.)
1.	Business Purchase A/c Dr. 11,00,000 To Liquidator of B Ltd. A/c 11,00,000 (Being consideration due to Outside Shareholders, on takeover)		
2.	Land and Building A/c Dr. 4,50,000 Plant and Machinery A/c Dr. 3,80,000 Stock A/c Dr. 3,50,000 Debtors A/c Dr. 2,60,000 Cash at Bank A/c Dr. 40,000 Profit and Loss A/c (AB Ltd.) Dr. 1,70,000 To Secured Loan A/c 3,00,000 To Sundry Creditors A/c 1,70,000 To Business Purchase A/c 11,00,000 To Investments A/c 80,000 (Being Various Assets and Liabilities recorded upon acquisition)		
	<b>Note:</b> (a) Equity Share Capital of B Ltd. — Rs. 6,00,000 (b) Consideration Paid + Invts A/c balance — Rs. 11,80,000 (c) <b>Difference (b) – (a)</b> — <b>Rs. 5,80,000</b>		

**Amalgamation of Companies • 71**

	<b>Adjusted against –</b>		
	(a) General Reserve of B Ltd.	— Rs. 2,50,000	
	(b) Profit and Loss A/c of B Ltd.	— Rs. 1,60,000	
	(c) Profit and Loss A/c of AB Ltd.	— Rs. 1,70,000	
	<b>(d) Total</b>	<b>— Rs. 5,80,000</b>	
3.	Liquidator of B Ltd. A/c <span style="float: right;">Dr.</span>	11,00,000	
	To Equity Share Capital A/c		6,87,500
	To Securities Premium A/c		4,12,500
	(Being 68,750 Shares of Rs. 10 each at a premium of Rs. 6 per Share, allotted to the Shareholders of B Ltd. on account of acquisition)		

**5. Balance Sheet of AB Limited as at 31st March**

	Particulars as at 31st March	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	1	18,12,500	
	(b) Reserves and Surplus	2	7,37,500	
(2)	<b>Non Current Liabilities:</b> Long Term Borrowings	3	8,00,000	
(3)	<b>Current Liabilities:</b>			
	(a) Trade Payables                      Creditors                      (2,60,000 + 1,70,000)		4,30,000	
	(6) Others		60,000	
	<b>Total</b>		<b>38,40,000</b>	
<b>II</b>	<b>ASSETS:</b>			
(1)	<b>Non-Current Assets</b>			
	Fixed Assets: Tangible Assets	4	22,30,000	
(2)	<b>Current Assets:</b>			
	(a) Inventories                              Stock in Trade (5,20,000 + 3,50,000)		8,70,000	
	(b) Trade Receivables                      Debtors                      (4,10,000 + 2,60,000)		6,70,000	
	(c) Cash and Cash Equivalents                      (30,000 + 40,000)		70,000	
	<b>Total</b>		<b>38,40,000</b>	

**Schedule 1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> ..... Equity Shares of Rs. 10 each		
<b>Issued, Subscribed &amp; Paid-up:</b> 1,81,250 Equity Shares of Rs. 10 each (All the above Shares are issued for non cash consideration under a scheme of amalgamation)	18,12,500	
<b>Total</b>	<b>18,12,500</b>	

**Schedule 2: Reserves and Surplus**

Particulars		This Year	Prev. Yr.
(a)	Securities Premium Reserve (6,75,000 + 4,12,500)	10,87,500	
(b)	Surplus	(3,50,000)	
<b>Total</b>		<b>7,37,500</b>	

**Schedule 3: Long Term Borrowings (Secured)**

Particulars		This Year	Prev. Yr.
(a)	10% Debentures	5,00,000	
(b)	Other Secured Loans	3,00,000	
<b>Total</b>		<b>8,00,000</b>	

**Schedule 4: Tangible Fixed Assets**

Particulars		This Year	Prev. Yr.
(a)	Land and Buildings (9,00,000 + 4,50,000)	13,50,000	
(b)	Plant and Equipment (5,00,000 + 3,80,000)	8,80,000	
<b>Total</b>		<b>22,30,000</b>	

**EXERCISES****(I) Multiple Choice Questions:**

- Amalgamation of companies is governed by  
(a) AS – 13 (b) AS – 14 (c) AS – 9 (d) AS – 11
- The scheme of amalgamation can involve \_\_\_\_\_ companies.  
(a) none (b) two (c) one (d) three
- The amalgamation requires approval of \_\_\_\_\_.  
(a) High Court (b) Registrar of Companies (c) Central Government (d) Directors
- Approval by \_\_\_\_\_ a of shareholders is necessary for treatment as in nature of merger.  
(a) 51% (b) 75% (c) 90% (d) 80%
- Approval by \_\_\_\_\_ % of shareholders is required for implementation of the scheme of amalgamation.  
(a) 51% (b) 75% (c) 80% (d) 90%
- In case of purchase method, transferee company should record assets at \_\_\_\_\_.  
(a) book value (b) cost (c) market value (d) agreed value
- In case of pooling of interest method, transferee company should record assets at \_\_\_\_\_.  
(a) cost (b) market value (c) agreed value (d) book value
- Amalgamation Adjustment Account is required in respect of \_\_\_\_\_.  
(a) general reserve (b) statutory reserve (c) security premium (d) capital reserve
- The excess of net asset value over consideration is \_\_\_\_\_.  
(a) capital reserve (b) security premium (c) profit or loss (d) goodwill
- AS – 14 covers amalgamation of \_\_\_\_\_.  
(a) companies (b) firms (c) firms and company (d) Directors and Partners

[Ans.: 1. (b), 2. (b) and (d), 3. (a), 4. (c), 5. (b), 6. (d), 7. (d), 8. (b), 9. (a), 10. (a)]

**(II) Fill in the Blanks:**

- Amalgamation is covered under \_\_\_\_\_.

2. Amalgamation are of \_\_\_\_\_ types.
  3. Amalgamation needs to be approved by \_\_\_\_\_ % of shareholders.
  4. AS – 14 covers only amalgamation of \_\_\_\_\_ .
  5. The payment made to debentureholders should \_\_\_\_\_ included in consideration.
  6. The approval by \_\_\_\_\_ of shareholders is necessary for amalgamation in the nature of \_\_\_\_\_.
  7. The two methods of accounting for amalgamation are relevant for \_\_\_\_\_ company.
  8. \_\_\_\_\_ method provides that assets and liabilities should be recored at book value by a new company.
  9. Purchase method requires accounting for assets and liabilities at \_\_\_\_\_ by transferee company.
  10. Amalgamation Adjustment Accounts is applicable per \_\_\_\_\_ method of accounting.
  11. Amalgamation includes \_\_\_\_\_ reconstruction.
  12. Amalgamation of \_\_\_\_\_ is not covered under AS – 14.
  13. Arrangement between \_\_\_\_\_ or more companies is necessary for amalgamation.
  14. Merger of absorption are schemes of \_\_\_\_\_ .
  15. Reserves of transferor company is required to be adjusted under \_\_\_\_\_ method of accounting.
  16. Unrecorded assets cannot be accounted per \_\_\_\_\_ method.
  17. Amalgamation which does not fulfil conditions of merger is called \_\_\_\_\_ .
  18. Capital Reduction is \_\_\_\_\_ a variety of amalgamation.
  19. The accounting for transferor company is in \_\_\_\_\_ manner irrespective of type of amalgamation.
  20. Goodwill or capital reserve can arise under \_\_\_\_\_ method of accounting.
  21. In merger, all assets and liabilities are taken over at \_\_\_\_\_ .
  22. In amalgamation, the purchasing company is called as \_\_\_\_\_ company.
  23. In amalgamation, the vendor company is called as \_\_\_\_\_ company.
  24. \_\_\_\_\_ Method is followed for accounting merger.
  25. Payment to \_\_\_\_\_ does not form part of purchase consideration.
  26. Payment of liquidation expenses does not form part of \_\_\_\_\_ .
  27. As per AS – 14, goodwill arising on amalgamation should be written off within \_\_\_\_\_ years.
  28. Dissolution expenses paid by purchasing company are debited to \_\_\_\_\_ Account in purchase.
  29. Dissolution expenses paid by purchasing company are debited to \_\_\_\_\_ in merger.
  30. In merger, shareholders holding \_\_\_\_\_ % of the face value of equity shares become equity shareholders of the transferee company.
  31. Preliminary expenses are transferred to \_\_\_\_\_ Shareholders' Account.
  32. In merger, vendor companies are \_\_\_\_\_ .
  33. The company amalgamated into another company is \_\_\_\_\_ company.
  34. Purchasing company is called as \_\_\_\_\_ company.
  35. On amalgamation preliminary expenses are debited to \_\_\_\_\_ .
  36. Premium on settlement of preference shares is debited to \_\_\_\_\_ A/c.
  37. Amalgamation Adjustment A/c appears in the Balance sheet under \_\_\_\_\_ .
  38. Profit on Realisation is transferred to \_\_\_\_\_ A/c.
- [Ans.: 1. AS – 14; 2. two; 3. 75%; 4. companies; 5. not; 6. 90%, merger; 7. transferee; 8. Pooling of Interest; 9. agreed / revised; 10. purchase; 11. external; 12. firms; 13. one; 14. amalgamation; 15. pooling of interest; 16. pooling of interest; 17. purchase method; 18. not; 19. same; 20. purchase; 21. book value; 22. Transferee; 23. transferor; 24. Pooling of Interest; 25. debentureholders; 26. purchase consideration; 27. 5; 28. Goodwill; 29. G.R. A/c, 30. 90; 31. Equity; 32. Liquidated co.; 33. transferor; 34. transferee; 35. equity shareholder's A/c; 36. Realisation; 37. Miscellaneous expenditure; 38. equity shareholders A/c]

**(III) Match the columns**

1.	Group 'A'	Group 'B'
(1)	Amalgamation	(a) Pooling of interest
(2)	Merger type	(b) Purchase type
(3)	Consideration	(c) AS – 14
(4)	Approval by 90% shareholders	(d) Merger type
(5)	Approval by 75% shareholders	(e) Payment for shareholders

[Ans.: 1. (c); 2. (a); 3. (e); 4. (d); 5. (b)]

2.	Group 'A'	Group 'B'
(1)	Purchase Method	(a) Book value
(2)	Amalgamation Adjustment Account	(b) Revised value
(3)	Capital reserve	(c) Excess of consideration
(4)	Merger Method	(d) Excess of net asset taken over
(5)	Goodwill	(e) Purchase Method

[Ans.: 1. (b); 2. (e); 3. (e); 4. (a); 5. (c)]

3.	Group 'A'	Group 'B'
(1)	Transferor company	(a) Covered as amalgamation
(2)	Transferee company	(b) Can be only one
(3)	Can be one or more	(c) Not covered as amalgamation
(4)	Absorption of company	(d) To be liquidated
(5)	Sale of specific asset	(e) Transferor company

[Ans.: 1. (d); 2. (b); 3. (e); 4. (a); 5. (c)]

4.	Group 'A'	Group 'B'
(1)	Deepika Ltd. takes over Ranbir Ltd.	(a) Governed by AS 14
(2)	Accounting for amalgamation	(b) are liquidated
(3)	One merger vendor cos	(c) Purchasing company
(4)	Transferee Company	(d) Preliminary expenses are debted to equity shareholders
(5)	On amalgamation	(e) amortised on systematic basis
(6)	Goodwill on amalgamation	(f) shown under miscellaneous expenses
(7)	Amalgamation Adjustment A/ct	(g) vendor co's books are closed
(8)	On amalgamation	(h) is an absorption
		(i) Capital Reserve
		(j) purchase consideration

[Ans.: 1. (h); 2. (a); 3. (b); 4. (c); 5. (d); 6. (e); 7. (h); 8. (g)]

**(IV) State whether the following statement are True or False:**

- Accounting for amalgamation is governed by AS-14.
- Amalgamation involves two or more companies.
- Amalgamation includes reconstruction.
- Scheme of amalgamation requires approval by 75% of shareholders of every company involved.

5. The payment made to debentureholders is a part of purchase consideration.
6. The two varieties of accounting methods are applicable for transferor companies.
7. Pooling of interest method requires the modification of balance in reserves.
8. If payment of consideration to shareholders is partly by cheque, the method of accounting applicable is purchase of business.
9. Amalgamation Adjustment Account is applicable under purchase method.
10. Capital reserve or goodwill can arise in pooling of interest method.
11. Dissenting holders claim to be paid as per the decision of directors.
12. Amalgamation and demerger indicates dissimilar schemes.
13. Internal reconstruction is one of the variety of amalgamation.
14. Accounting for absorption or take over is not covered under AS-14.
15. Payment to preference shareholders for unpaid dividend is to be included in consideration.
16. Partly paid shares cannot be issued as consideration.
17. The shares of transferor company should always be fully paid up.
18. The final accounts of amalgamated company should suffix the words "And increased".
19. In a scheme of amalgamation unusable assets may not be transferred to amalgamated company.
20. Amalgamation becomes merger only when assets and liabilities taken over become the assets and liabilities of transferee company.
21. Purchase consideration includes payment to creditors also.
22. Under purchase method, excess of net assets over purchase consideration is transferred to capital reserve.
23. One amalgamation, transferor company cannot be dissolved.
24. Fictitious assets appearing in the Balance Sheet of transferor company are transferred to Realisation Account.
25. In amalgamation, two or more companies are liquidated and one is formed.
26. Goodwill arising on amalgamation as per AS-14 is retained in the books till liquidation.
27. Under Pooling of Interest Method, the transferee company incorporates in its book as only the external liabilities and assets of the transferor company.
28. In Net Asset Method of purchase consideration, even fictitious assets are considered.
29. In external reconstruction, there is one liquidation and one formation.
30. In Pooling of Interest Method, all assets and liabilities are incorporated in the books of transferee company at book value.
31. AS-14 does not make any distinction between amalgamation and absorption.
32. Absorption takes place when an existing company takes over two or more companies.
33. Takeover of Santoshkumari Ltd. by Santoshkumar Ltd. a new company is external reconstruction.
34. On merger vendor companies are not liquidated.
35. Transferor company is a vendor company on amalgamation of companies.
36. On amalgamation preliminary expenses are debited to Realisation A/c.
37. In merger assets and liabilities of vendor company are transferred to purchasing company at book value.
38. Goodwill on amalgamation is the excess of purchase consideration over net assets taken over.
39. Under amalgamation profit on Realisation is transferred to preference shareholders A/c.
40. On amalgamation payment of liquidation expenses does not form part of purchase consideration.
41. In Merger all the assets and liabilities are not transferred to Transferee company.
42. On amalgamation debentures of transferor company are credited to Realisation A/c.

[Ans.: True: 1, 2, 3, 4, 7, 8, 9, 15, 22, 25, 29, 30, 31, 33, 37, 38, 40, 42.]

False: 5, 6, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28, 32, 34, 35, 36, 39, 41]

**(V) Short Questions:**

1. What is Amalgamation of Companies?
2. What are the types of Amalgamation as per AS 14?
3. What is Merger?
4. What is purchase of business?
5. Who is a Transferor or Company?
6. Who is a Transferee Company?
7. What is Amalgamation Adjustment A/c?
8. What is Purchase Consideration?
9. How is Purchase Consideration calculated as per Net Asset method?
10. How is Purchase Consideration calculated as per Net Payment method?
11. What do you mean by Accumulated Profits?
12. What do you mean by Accumulated Losses?
13. Mention any five items of Accumulated Profits.
14. Which funds are strictly liabilities?
15. Which funds are accumulated profits?
16. What is Intrinsic value of a share?
17. How are Realisation expenses treated in Amalgamation of Companies?
18. How is the claim of Equity Shareholders settled?

**April – 2000**

(1) M.D. Ltd. and M.L.D. Ltd. furnish you with their balance sheet as at 31st December 2014

**(Rs. In Lakhs)**

	M.D. Ltd.		M.L.D. Ltd.	
	Rs.	Rs.	Rs.	Rs.
<b>Sources of funds:</b>				
Share capital Authorised	25		50	
<b>Issued, paid-up:</b>				
Equity shares of Rs. 10 each fully paid in cash		05		03
<b>Reserves/Surplus</b>				
Capital- reserve	04		05	
Revenue reserves		19		05
		24		08
<i>Less:</i> Debit balance in P & L a/c		—		02
<b>Loan Funds:</b>		24		06
Secured by a charge on fixed assets		06		04
		30		10
<b>Funds Represented by:</b>				
Fixed assets (at cost.)	12		12	
<i>Less:</i> Depreciation	06		06	
		06		06
Net Current assets		24		04
Rs. in Lakhs		30		10

On the basis of the above the following decisions were taken and approved by the Hon. Mumbai High Court.

- (a) Directors of M.L.D. Ltd. are to bring fresh equity share capital of Rs. 10 lakhs at par.
- (b) The business of M.D. Ltd. is to be absorbed by M.L.D. Ltd. for Rs. 27 lakhs to be discharged in the form of equity shares of Rs. 10 each at par. Fixed assets taken over from M.D. Ltd. are to be valued at Rs. 8 lakhs.
- (c) M.L.D. Ltd. is to provide Rs. 3 lakhs for depreciation on its original fixed assets. Capital reserve appearing in the books of M.L.D. Ltd. is to be utilised for this purpose and to write off the adverse balance in revenue statement.
- (d) Bank monies brought in under (a) above are to be utilised to pay-off all secured lenders. You are asked to:  
Prepare balance sheet of M.L.D. Ltd. on the basis of the above information after absorption.

**April – 2001**

- (2) Come Here Ltd. and Be Together Ltd. decided to amalgamate into Come Together Ltd. (16)  
Show journal entries in respect of the following in the books of Come Together Ltd.  
Fixed Assets other than goodwill of Come Here Ltd, to be written up by Rs. 85,000  
Fixed Assets other than goodwill of Be Together Ltd. to be written down by Rs. 37,000.  
Goodwill of Be Together Ltd. to be considered at Rs. 56,000 and that of Come Here Ltd. at Rs. 21,000.  
Stocks of Come Here Ltd. include goods purchased from Be Together Ltd. who sold the goods at a Gross Profit of 15%. Cost of the goods for Come Here Ltd. was Rs. 10,350; these goods had not been paid for as on the date of amalgamation; further, Bills Payable of Come Here Ltd. included a bill drawn by Be Together Ltd. for Rs. 3,500 which had not fallen due for payment till the date of amalgamation.  
Come Here Ltd. is defending a suit for Trade Mark violation, dispute amount being Rs. 20,000. Share capital of Come Here Ltd. was Rs. 5,20,000 and that of Be Together Ltd. Rs. 3,64,000. Reserves and Surplus of the two companies, before the foregoing adjustments were Come Here Ltd. Rs. 64,000 and Be Together Ltd. Rs. 75,000. There were no fictitious assets in either Company's Balance Sheet.  
Come Together Ltd. will settle the purchase consideration by issue of its shares of Rs. 10 each at Rs. 16 per share, any fraction being paid by cash.

**April – 2002**

- (3) Following are the Balance Sheets of Big Ltd. and Small Ltd. as at 31st March 2014

Liabilities	Big Ltd. Rs	Small Ltd. Rs.	Assets	Big Ltd. Rs.	Small Ltd. Rs.
Equity Share Capital	10,00,000	3,00,000	Plant	8,00,000	
Reserves	3,00,000	70,000	Computer	1,00,000	
Bills Payable	50,000	10,000	Stocks	3,00,000	
Sundry Creditors	1,50,000	80,000	Debtors	1,80,000	
			Cash at Bank	1,00,000	75,000
			Bill Receivable	20,000	30,000
<b>Rs.</b>	<b>15,00,000</b>	<b>4,60,000</b>	<b>Rs.</b>	<b>15,00,000</b>	<b>4,60,000</b>

Big Ltd. takes over business of Small Ltd. for Rs. 3,00,000 in the form of Equity Shares of Rs. 10 each allotted at par. Included in Bills payable of Big Ltd. are bills amounting to Rs. 30,000 accepted in favour of Small Ltd. for goods purchased. Of the above mentioned bills of Rs. 30,000 bills of Rs. 5,000 only still remain on the date of absorption in the hands of Small Ltd. The rest having been endorsed in favour of Creditors or got discounted with the bank.

On the date of absorption the stock of Big Ltd. include goods purchased from Small Ltd. at the invoice price of Rs. 15,000. Small Ltd. charging profit at 25% on cost

Expenses of liquidation of Small Ltd. Rs. 7,000 were met by Big Ltd.

Prepare realisation account and Equity shareholders account in the books of Small Ltd. Also pass necessary Journal Entries in the books of Big Ltd. and prepare its Balance Sheet after absorption of Small

Ltd. assuming amalgamation is in the nature of purchase.

**April – 2003**

(4) The following were the Balance Sheets of Amar Ltd. & Akbar Ltd. as at 31st March, 2002

	Amar Ltd. Rs.	Akbar Ltd. Rs.
<b>Equity Sham COW (fully paid shares of Rs. 10 each)</b>	15,00,000	6,00,000
Securities Premium	3,00,000	—
Foreign Projects Reserve	—	31,000
General Reserve	9,50,000	34,000
Profit & Loss A/c	2,87,000	82X
12% Debentures	—	1,00,000
Bills Pay	12,000	—
Sundry Creditors	1130,000	45,000
Sundry Provisions	1,61,000	71,500
<b>Rs.</b>	<b>33,40,000</b>	<b>12,50,000</b>
<b>Assets</b>	<b>Amar Ltd. Rs.</b>	<b>Akbar Ltd. Rs.</b>
Land & Building	8,00,000	—
Plant & Machinery	12,00,00	5,00,000
Furniture, Fixtures & Fittings	2,50,000	1,60,000
Stock in Trade	7,70,000	4,10,000
Sundry Debtors	2,20,000	1,10,000
Cash at Bank	1,00,000	62,000
Bills Receivable	—	1 8,000
<b>Rs.</b>	<b>33,40,000</b>	<b>12,50,000</b>

All the bills receivable hold by Akbar Ltd. were Amar Ltd.'s acceptances. On 1st April, 2002, Amar Ltd. took over Akbar Ltd. in an amalgamation in the nature of merger.

It was agreed that in discharge of consideration for the business, Amar Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Akbar Ltd.

It was also agreed that 12% Debentures in Akbar Ltd. would be converted into 13% Debentures in Amar Ltd. of the same amount and denomination. Expenses of amalgamation amounting to Rs. 1,000 were borne by Amar Ltd.

**You are required to:**

(a) Pass Journal entries in the books of Amar Ltd. and (b) Prepare Balance Sheet of Amar Ltd. immediately after the merger.

**October – 2003**

(5) On 31st March 2002, B Ltd. was absorbed by A Ltd. the latter taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 80,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company.

The Balance sheets of the companies as at 31st March 2002 were as under (16)

**Amalgamation of Companies • 79**

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital:			Goodwill	40,000	12,000
Authorised	3,00,000	1,00,000	Plant and Machinery	82,400	20,000
Issued and Subscribed:			Furniture	16,000	61,000
Equity Shares of Rs. 10 each			Stock in Trade	53,100	12,000
fully paid-up	1,80,000	40,000	Sundry Down	44,240	9,200
General Reserve	36,000	10,000	Prepaid Insurance	-	140
Profit and Loss A/c	4,100	2,580	Income Tax Refund Claim	-	1,200
Sundry Creditors	14,114	7,890	Cash in Hand	174	70
Bills Payable	2,040	800	Cash in Bank	2,800	1,660
Provision for Taxation	2,480	1,000			
<b>Rs.</b>	<b>2,38,714</b>	<b>62,270</b>	<b>Rs.</b>	<b>2,38,714</b>	<b>62,270</b>

Amalgamation expenses amounting to Rs. 200 were paid by A Ltd. You are required to:

- (a) Show the necessary journal entries in the books of A Ltd. assuming amalgamation in the nature of merger.
- (b) Prepare the Balance Sheet of A Ltd. after the amalgamation.

**April – 2004**

- (6) Following are the Balance Sheets of Galaxy Ltd. and Gemini Ltd. as on 31st March, 2003.

Liabilities	Galaxy Ltd. Rs.	Gemini Ltd. Rs.	Assets	Galaxy Ltd. Rs.	Gemini Ltd. Rs.
Share Capital (Rs. 10 each)	50,000	1,00,000	Fixed Asset	60,000	1,25,000
Reserve Fund	20,000	30,000	Loan to Gemini Ltd.	5,000	—
Foreign Projects Reserve	5,000	—	Debtors	15,000	10,000
Creditors	15,000	20,000	Stock	10,000	15,000
Loan from Galaxy Ltd.	—	5,000	Cash at Bank	—	5,000
	<b>90,000</b>	<b>1,55,000</b>		<b>90,000</b>	<b>1,55,000</b>

Gemini Ltd. agreed to absorb Galaxy Ltd. on the following terms:

Gemini Ltd. shall give one share of Rs. 10 each at Rs. 35 per share for every 3 shares hold in Galaxy Ltd., the amount for the fraction of shares shall be paid in cash calculated as per the market price of the share of Gemini Ltd.

Stock of Galaxy Ltd. includes goods worth Rs. 7,500 purchased from Gemini Ltd. which has a profit margin of 20% on cost.

Debtors of Gemini Ltd. includes Rs. 2,500 being, amount due from Galaxy Ltd. but the Creditors of Galaxy Ltd. include Rs. 2,000 only being the amount due to Gemini Ltd. The difference between the Debtors and Creditors is due to cash in transit.

The shares of Gemini Ltd. are quoted in the market at Rs. 45 per share.

You are requested to pass the journal entries in the books of Gemini Ltd. and the Balance Sheet after the absorption, assuming that the Foreign Projects Reserve is still to be maintained for 3 years.

Assume that the amalgamation is in the nature of Purchase.

## October — 2004

(7) The following is the Balance Sheet of Vikrant Ltd. (16)

Liabilities	Rs.	Assets	Rs.
Issues and Paid-up Equity Share Capital	5,00,000	Intangible Assets	50,000
Statutory Reserve (to be maintained for 3 more years)	10,000	Fixed Assets	4,20,000
Debentures	1,00,000	Current Assets	1,10,000
Creditors	50,000	Profit and Loss A/c	80,000
	<b>6,60,000</b>		<b>6,60,000</b>

Viral Ltd. agreed to absorb Want Ltd. on the following terms:

- (1) Viral Ltd. agreed to take over all the assets and liabilities.
- (2) The assets of Want Ltd. are to be considered to be worth Rs. 5,00,000.
- (3) The purchase price is to be paid one-quarter in cash and the balance in shares which are issued at the market price.
- (4) Liquidation expenses amounted to Rs. 300 agreed to be paid by Vikrant Ltd.
- (5) Market value of share of Rs. 10 each of Virat Ltd. is Rs. 12 per share.
- (6) Debentures of Vikrant Ltd. were paid.
- (7) The amalgamation is in the nature of purchase.

You are required to show. (a) Purchase consideration. (b) Ledger accounts in the books of Vikrant Ltd. (c) Opening entries in the books of Virat Ltd.

## April – 2005

(8) The following are the Balance sheets as on 31-12-2004 of NISHA LTD. and USHA LTD. (16)

LIABILITIES	NISHA LTD. Rs.	USHA LTD. Rs.	ASSETS	NISHA LTD. Rs.	USHA LTD. Rs.
Equity Share Capital [Rs. 100 per share]	2,00,000	120,000	Land and Building	70,000	—
15% Debentures	40,000	—	Plant and Machinery	2,20,000	1,00,000
Reserve Fund	76,000	5,000	Stock	35,000	18,000
Employees Provident Fund	6,000	—	Debtors	25,000	16,000
Sundry Creditors	30,000	16,000	Bank	6,000	2,000
Profit and Loss A/c	4,000	—	Misc. Expenses not W/o Advertisement Expenses	—	5,000
	<b>3,56,000</b>	<b>1,41,000</b>		<b>3,56,000</b>	<b>1,41,000</b>

The two companies agree to amalgamate and form a new company M/s. UJALA Ltd. which takes over the assets and liabilities of both the companies.

The authorised capital of Ujala Ltd. is Rs. 20,00,000 consisting of 2,00,000 Equity shares of Rs. 10 each. The assets of Nisha Ltd. are taken over at 90% of the book-value with the exception of land and building which are accepted at book value.

Both the companies, are to receive 10% of the net valuation of their respective business as Goodwill.

The purchase consideration is to be satisfied by Ujala Ltd. in its fully paid shares at 10% premium. In return of Debentures of Nisha Ltd., Debentures of the same amount and denomination are to be issued by Ujala Ltd.

Close the books of Nisha Ltd. and Usha Ltd. and show the Opening Balance sheet of Ujala Ltd. under Purchase Method.

**October – 2005**

(9) The following are the Balance Sheets of 'A' Ltd. and 'B' Ltd. as on 31st March, 2004: (16)

Liabilities	A Rs.	B Rs.	Assets	A Rs.	B Rs.
Equity, Share Capital (Rs. 10 each)	4,50,000	3,00,000	Land & Building	2,60,000	1,45,000
13% Pref. Share Capital (Rs. 100 each)	2,70,000	1,70,000	Plant & Machinery	3,15,000	1,80,000
General Reserves	50,000	25,000	Furniture	59,500	35,000
Export Profit Reserves	30,000	20,000	Investments	1,23,000	97,000
Investment Allowance Reserves	—	10,000	Stock	85,000	88,000
Profit & Loss Amount	75,000	50,000	Debtors	77,500	67,000
14% Debentures (Rs. 100 each)	50,000	35,000	Cash & Bank	50,000	38,000
Current Liabilities	45,000	40,000			
	<b>9,70,000</b>	<b>6,50,000</b>		<b>9,70,000</b>	<b>6,50,000</b>

'A' Ltd. takes over 'B' Ltd. on 1st April 2004. 'A' Ltd. discharges the purchase consideration as below:

- (1) Issued 35,000 Equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.
- (2) Issued 15% Preference Shares of Rs. 100 each to discharge the Preference shareholders of 'B' Ltd. at 100/0 premium.

The Debentures of 'B' Ltd. will be converted into equivalent number of Debentures of 'A' Ltd.

The Statutory Reserves of 'B' Ltd. (Export Profit Reserve and Investment Allowance Reserve) are to be maintained for 2 more years.

You are required to show the Balance Sheet of 'A' Ltd. assuming that

- (a) The amalgamation is in the nature of Merger and
- (b) The amalgamation is in the nature of Purchase.

**April – 2006**

(10) Following are the Balance Sheets of ROHAN Ltd. and SOHAN Ltd. as on 31-3-2005: (20)

Liabilities	Rohan Ltd. Rs.	Sohan Ltd. Rs.	Assets	Rohan Ltd. Rs.	Sohan Ltd. Rs.
<b>Share Capital:</b>			<b>Fixed Assets:</b>		
9% Preference Shams of Rs. 100 each	6,00,000	9,00,000	Goodwill	1,50,000	1,50,000
Equity shares of Rs. 100 each	9,00,000	15,00,000	Land & Building	6,00,000	7,50,000
<b>Reserves &amp; Surplus:</b>			Plant & Machinery	4,50,000	6,00,000
General Reserves	75,000	90,000	Computer	3,00,000	4,50,000
Revaluation Reserves	45,000	60,000	Investments	1,50,000	1,50,000
Export Profit Reserves	30,000	45,000	<b>Current Assets</b>		
Profit & Loss Account	15,000	30,000	<b>Loans &amp; Advances:</b>		
<b>Secured Loans:</b>			Stock	3,00,000	4,50,000
12% Debentures of Rs. 100 each	3,00,000	4,50,000	Sundry Debtors	1,50,000	3,00,000
Unsecured Loans	1,50,000	75,000	Bills receivables	75,000	1,50,000
<b>Current Liabilities and Provisions:</b>			Bank	1,95,000	3,75,000
Sundry	2,25,000	1,80,000			
Bills payable	30,000	45,000			
	<b>23,70,000</b>	<b>33,75,000</b>		<b>23,70,000</b>	<b>33,75,000</b>

Mohan Ltd. was formed to take over the business of Rohan Ltd. and Sohan Ltd. with an authorised share capital of Rs. 30,00,000 consisting of 20,000, 13% Preference Shares of Rs. 100 each and 100,000 Equity Shares of Rs. 10 each.

**Terms of Amalgamation:**

- (1) 9% Preference shareholders of both the companies are issued equal number of 13% Preference shares of Mohan Ltd. at a price of Rs. 125 each.
- (2) Mohan Ltd. will issue four Equity shares for three Equity shares of Rohan Ltd. and four Equity shares for five Equity shares of Sohan Ltd. The shares are to be issued at Rs. 35 each.
- (3) 12% Debentureholders of both the companies are discharged by Mohan Ltd. by issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.
- (4) Mohan Ltd., agree to take over all assets and all liabilities at book values except the following:
  - (i) Tangible fixed assets at 10% more than book-values.
  - (ii) Investments and Sundry Debtors at 90% of their book values.
- (5) Export Profit **Reserves are to be maintained for three more years. You are required to:**
  - (i) Compute purchase consideration of Rohan Ltd. and Sohan Ltd.
  - (ii) Pass Journal entries and Prepare Balance Sheet after amalgamation in the books of Mohan Ltd, applying Purchase Method.

**October – 2006**

- (11) Shubha Ltd. absorbed Sushma Ltd. with effect from 1st April, 2005 when their Balance sheets as on 31-03-2005 were as under: (20)

Liabilities	Shubha Ltd. Rs.	Sushma Ltd. Rs.	Assets	Shubha Ltd. Rs.	Sushma Ltd. Rs.
<b>Share Capital</b>			<b>Fixed Assets:</b>		
11% Preference Shares of Rs. 100 each	2,00,000	2,00,000	Land & Building	2,20,000	1,40,000
Equity shares of Rs. 100 each	5,00,000	2,00,000	Plant & Machinery	4,20,000	2,60,000
<b>Reserves &amp; Surplus:</b>			<b>Current Assets, Loans &amp; Advances</b>	2,90,000	1,60,000
Revaluation Reserves	20,000	—	Stock	1,20,000	1,40,000
Export Profit Reserves	40,000	20,000	Sundry Debtors	1,30,000	90,000
General Reserve	2,00,000	60,000	Bills Receivable	20,000	10,000
<b>Secured Loans:</b>			Bank		
10% Debentures of Rs. 100	—	1,20,000			
is% Debentures of Rs. 100	80,000	—			
<b>Current Liabilities and Provisions:</b>					
Sundry Creditors	1,60,000	2,00,000			
	<b>12,00,000</b>	<b>8,00,000</b>		<b>12,00,000</b>	<b>8,00,000</b>

**Terms of Amalgamation:**

- (a) Shubha Ltd. will issue Eight equity shares for Five equity shares in Sushma Ltd.
- (b) 11% Preference shareholders of Sushma Ltd. will be issued equal number of Equity shares in Shubha Ltd.
- (c) 10% Debentureholders of Sushma Ltd. are discharged by Shubha Ltd. by issuing equal number of its 15% Debentures of Rs. 100 each.

- (d) All the Assets and Liabilities of Sushma Ltd. are taken over at book values except the following:  
 (i) Fixed Assets at 10% more than book values. (ii) Stock at Rs. 1,44,000. (iii) Debtors at Rs. 1,25,000. (iv) Bills Receivable at Rs. 81,000.

You are required to:

- (i) Compute purchase consideration. (ii) Prepare Ledger Accounts to close the books of Accounts of Sushma Ltd. (iii) Pass journal entries and prepare Balance-sheet after Amalgamation in the books of Shubha Ltd. applying Purchase Method.

**April – 2007**

- (12) BK Ltd. is formed to takeover 'Bunty Ltd. and Kuber Ltd'. Their Balance Sheets on the date of amalgamation are as below: (20)

**Balance Sheets as on 31st March, 2006**

Liabilities	Bunty Ltd. Rs.	Kuber Ltd. Rs.	Assets	Bunty Ltd. Rs.	Kuber Ltd. Rs.
Share Capital of Rs. 10 each			Goodwill	—	25,000
Equity shares	2,40,000	1,60,000	Buildings	1,50,000	1,40,000
11% Preference Shares	1,50,000	1,00,000	Machinery	80,000	60,000
General Reserve	45,000	40,000	Furniture	10,000	5,000
Profit & Loss A/c	30,000	21,000	Investments	1,40,000	BOX
9% Debentures	1,00,000	1,00,000	Debtors	1,65,000	60,000
Sundry Creditors	60,000	40,000	Stock	75,000	90,000
Other Liabilities	40,000	24,000	Cash & Bank	13,000	8,000
			Other Current Assets	20,000	10,000
			Preliminary Expenses	12,000	7,000
	<b>6,65,000</b>	<b>4,85,000</b>		<b>6,65,000</b>	<b>4,85,000</b>

BK Ltd. issued 10,000 equity shares of Rs. 10 each to the public at a premium of 10 Bunty Ltd. and Kuber Ltd. were taken over by BK Ltd. on the following terms.

**Re: Bunty Ltd.**

- (a) Equity Shareholders are to be issued 7 Equity Shares of Rs. 10 at par in BK Ltd. and are to be paid Rs. 5 in cash for surrender of each 6 shares.
- (b) Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.
- (c) All Assets and liabilities are valued at book value except Machinery which is valued at 10% below book value and Debtors are worth Rs. 1,60,000.
- (d) Liquidation expenses of Rs. 12,500 are to be borne by BK Ltd.
- (e) Discharge the debentures of Bunty Ltd. at a discount of 10% by the issue of 13% Debentures of Rs. 100 each in BK Ltd.

**Re: Kuber Ltd.**

- (a) Cash Rs. 3,000 is to be retained for liquidation expenses.
- (b) Debtors and investments are valued at 90% of cost.
- (c) Machinery and stock are valued at 10% above cost and other assets and liabilities are valued at book value except Fictitious Assets.
- (d) Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.
- (e) Balance of Purchase consideration is payable, in equity shares at par.
- (f) Discharge the debentures of Kuber Ltd. at par by to issue of 13% Debentures of Rs. 100 each in BK Ltd.

- (g) The Face value of Equity shares and preference shares in BK Ltd. is of Rs. 10 each.  
Show the necessary Ledger Accounts in the books of 'Bunty Ltd.' and Kuber Ltd. Also calculate purchase considerations.
- (13) 'S' Ltd. is to be taken over by 'IT Ltd. 'S' Ltd. has 9 Debentures of Rs. 100 each of the face value of Rs. 22,50,000 9% debenture holders of 'S' Ltd. are discharged by 'R' Ltd. issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest. Calculate the number of debentures to be issued by 'R' Ltd. (4)
- (14) 'P' Ltd. purchased premises worth Rs. 22,56,000. It issues its debentures at 4% discount in satisfaction of the purchase price. Calculate how many debentures will be issued in case debenture is of Rs.100 each. (2)

**October – 2007**

- (15) Following are the Balance Sheets of X Ltd. and Y Ltd. (20)

**Balance Sheets as on 31st March, 2006**

Liabilities	X Ltd. Rs.	Y Ltd. Rs.	Assets	X Ltd. Rs.	Y Ltd. Rs.
Equity Share Capital of Rs. 10 each	75,00,000	45,00,000	Building	25,00,000	15AWD
Export Profit Reserves	3,00,000	3,00,000	Machinery	32,50,000	17,00,000
Profit and Loss Account	7,00,000	6,00,000	Stock	25,50,000	18,00,000
General Reserve	2,00,000	4,50,000	Debtors	9,00,000	10,00,000
12% Debenture of Rs. 100 each	5,00,000	3,00,000	Bank	7,00,000	5,50,000
Sundry Creditors	7,00,000	5,50,000	Preliminary Expenses	—	1,00,000
	<b>99,00,000</b>	<b>67,00,000</b>		<b>99,00,000</b>	<b>67,00,000</b>

Z Ltd. was formed to acquire all assets and liabilities of X Ltd. and Y Ltd. on the following terms:

- (a) Z Ltd. to have an authorised share capital of Rs. 5 crores dividend into 5,00,000 equity shares of Rs. 100 each.
- (b) The business of both companies were taken over for a total price of Rs. 1.2 crores to be discharged by Z Ltd. by issue of equity shares of Rs. 100 each at a premium of 20%.
- (c) The shareholders of X Ltd. and Y Ltd. to get shares in Z Ltd. in the ratio of net assets values of their respective shares.
- (d) The Debentures of both the companies to be converted into equivalent number of 14% Debentures of Rs. 100 each in Z Ltd. at a discount of 10%,
- (e) All the tangible assets of both companies are taken over by Z Ltd. at book values except following:

Assets	X Ltd. Rs.	Y Ltd. Rs.
Building	28,00,000	18,20,000
Machinery	31,50,000	16,00,000

- (f) Sundry creditors of X Ltd. and Y Ltd. are taken over at Rs. 6,50,000 and Rs. 5,00,000 respectively.
- (g) Statutory Reserve are to be maintained for 3 years more.

You are required to: (I) Compute Purchase consideration of X Ltd. and Y Ltd. (II) Pass Journal Entries in the Books of Z Ltd. (III) Prepare Balance Sheet after amalgamation. Apply Purchase Method.

**April – 2008**

(16) 'A' Ltd. absorbed 'B' Ltd. w.e.f. 1st April, 2007 when their Balance sheets were as under (20)

**Balance Sheets as at 31st March, 2007**

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Equity Shares of Rs. 10 each fully paid	10,00,000	4,00,000	Land and Building	4,40,000	2,80,000
11% Preference shares of Rs. 100 each			Plant and Machinery	8,40,000	5,20,000
Fully paid	4,00,000	4,00,000	Stock	5,80,000	3,20,000
Revaluation Reserves	40,000	—	Sundry Debtors	2,40,000	2,80,000
General Reserve	3,00,000	1,00,000	Bills receivables	2,60,000	1,80,000
Exprot Profits Reserves	80,000	40,000	Bank	40,000	20,000
Other Statutory Reserves	1,00,000	20,000			
15% Debertures	1,00,000	—			
10% Debentures	—	2,40,000			
Sundry Creditors	3,20,000	4,00,000			
	<b>24,00,000</b>	<b>16,00,000</b>		<b>24,00,000</b>	<b>16,00,000</b>

**Terms of Absorption:**

- (a) 'A' Ltd. will issue Eight Equity shares for every Five Equity shares in 'B' Ltd. of Rs. 10 each at Rs. 11 per share.
- (b) 11% Preference shareholders of 'B' Ltd. will be issued equal number of preference shares in A Ltd. of Rs. 100 each at Rs. 105 per share.
- (c) 'A' Ltd. agreed to take over the debentures of 'B' Ltd. at book value. Subsequently after absorption, 10% debentureholders of 'B' Ltd. are discharged by 'A' Ltd. issuing such number of its 15% debentures of Rs. 100 each so as to maintain the same amount of interest.
- (d) All the assets and liabilities of 'B' Ltd. were taken over at book values except the following which were revalued as follows:

	Rs.
Lard and Building	3,00,000
Plant and Machinery	5,00,000
Stock	3,00,000
Sundry Debtors	2,60,000
Bills receivables	1,60,000
Creditors	3,80,000

- (e) Cost of absorption amounting to Rs. 10,000 was paid by 'A' Ltd.
  - (f) Creditors of 'B' Ltd. include Rs. 10,000 payable to X Ltd.
  - (g) It was decided by the directors of 'A' Ltd. to set off Goodwill and Capital Reserves mutually.
- you are required to:
- (i) Compute Purchase Consideration of 'B' Ltd.
  - (ii) Pass Journal entries in the books of 'A' Ltd.
  - (iii) Prepare Balance sheet after absorption of 'A' Ltd.
- Apply Purchase Method.

## October – 2008

(17) Balance Sheet of North Sick Ltd. as on 31.03.2007 is as below.

Liabilities	Rs.	Assets	Rs.
5,000 8% Preference Shares of Rs. 10 each fully paid-up	50,000	Office Premises	
25,000 Equity Shares of Rs. 10 each fully paid-up	2,50,000	At Goregaon	1,00,000
10% Debentures	50,000	At Borivli	60,000
Creditors	40,000	Furniture	40,000
		Current Asset	1,90,000
	<b>3,90,000</b>		<b>3,90,000</b>

A new Company namely West Healthy Ltd. was formed with Authorised Capital of 50,000 equity shares of Rs. 10 each. The directors of the Company:

- (a) Issued 10,000 equity shares at premium of 10% to the public for cash. The issue was fully subscribed and paid for.
- (b) Paid underwriting commission of Rs. 5,000 to the underwriters ICICI Bank Ltd.
- (c) Paid Rs. 10,000 to M/s. ANIC & Co. Chartered Accountants, as professional fees for Co. formation.
- (d) Decided to take over the business of North Sick Ltd. on the following terms:
  - (i) To issue 6 equity shares of Rs. 10 each at 10% premium for every 5 equity shares in North Sick Ltd.
  - (ii) To Issue 5,000 equity shares of Rs. 10 each at 10% premium to the preference shareholders of North Sick Ltd.
  - (iii) To revalue Goregaon office at Rs. 1,50,000 and Borivli office at Rs. 90,000.
  - (iv) To take over 10% debentures of North Sick Ltd. at face value. Then, debentureholders of North Sick Ltd. shall be Issued 12% debentures of the face value Rs. 55,000 in West Healthy Ltd.

**You are required to:**

- (a) Write necessary journal entries in the books of West Healthy Ltd. to record the above transactions.
- (b) Prepare Balance Sheet of West Healthy Ltd. as on 1-4-2007, after take-over.

## October – 2012

(18) Following is the Balance Sheet of Prakash Ltd. as on 31st March, 2011.

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each fully paid-up	4,00,000	Land and Building	3,85,000
Capital Reserve	25,000	Furniture and fittings	80,000
Profit & Loss Account	75,000	Stock	40,000
Export Profit Reserve	60,000	Sundry receivables	75,000
Revaluation reserve	1,50,000	Cash and Bank Balance	2,20,000
Sundry Payables	90,000		
<b>Total</b>	<b>8,00,000</b>	<b>Total</b>	<b>8,00,000</b>

On the above date, Akash Ltd. is formed to takeover the business of Prakash Ltd., (including Cash and Bank Balance), on the following terms and conditions:

- (a) Stock is taken over at 75% of its book value.

- (b) Furniture and fittings are taken over at Rs. 70,000.
- (c) Sundry receivables are taken over, subject to reserves for bad debts of Rs. 5,000.
- (d) Land and Building is taken over by Akash Ltd. at Rs. 10,00,000.
- (e) Statutory reserve is required to be maintained for 1 more year.
- (f) Goodwill is valued and taken over at 250% of the book value of furniture and fittings.
- (g) 90% Purchase consideration is settled by issuing equity shares in Akash Ltd., of Rs. 10 each at Rs. 15 each, to the equity shareholders of Prakash Ltd. 10% of the Purchase consideration is settled in cash.
- (h) Akash Ltd. issued, 12%, 40,000 preference shares of Rs. 10 each at Rs. 9 each fully paid up. All these preference shares were fully subscribed for by public and issued accordingly by the company.

**You are required to:**

- (i) Calculate Purchase Consideration
- (ii) Prepare Balance Sheet of Akash Ltd. after amalgamation.

**April – 2013**

**(19)** Following are the Balance Sheets of Honest Limited and Faithful Limited as on 31st March, 2012: (15)

Liabilities	Honest Ltd. Rs.	Faithful Ltd. Rs.	Assets	Honest Ltd. Rs.	Faithful Ltd. Rs.
Equity Share Capital (Shares of Rs. 100 each fully paid-up)	12,00,000	18,00,000	Goodwill	90,000	1,50,000
7% Preference Share Capitol (Shares of Rs. 100 each fully paid-up)	6,75,000	9,00,000	Premises	9,75,000	10,50,000
General Reserve	1,05,000	1,20,000	Plant and Machinery	9,00,000	12,30,000
Profit and Loss Account	67,500	93,000	Stock	2,70,000	3,75,000
Statutory Reserve	40,500	72,000	Sundry debtors	2,10,000	5,02,500
100A Debentures	225,000	1,26,000	Bank	18,000	36,000
Sundry creditors	1150,000	2,32,500			
<b>Total</b>	<b>24,63,000</b>	<b>33,43,500</b>	<b>Total</b>	<b>63,000</b>	<b>33,43,500</b>

On the above date, Faithful Limited takes over Honest Limited on the following terms and conditions:

- (a) All the Assets and Liabilities are taken over at book value except the following which were revalued as follows:
- (b) Premises Rs. 8,50,000 and Plant and Machinery Rs. 17,00,000.
- (c) Equity Shareholders of Honest Limited to be issued 10,000 equity shares of Rs. 100 each at 10% premium.
- (d) 7% Preference shareholders of Honest Limited to be discharged at 10% premium by issuing 8% Preference Shares of Rs. 100 each (at par) in Faithful Limited.
- (e) Debentures of Honest Limited to be converted into equivalent number of debentures of Faithful Limited.
- (f) Sundry debtors of Faithful Limited include Rs. 25,000 due from Honest Limited.
- (g) Cost of liquidation amounting to Rs. 4,000 were borne by Faithful Limited.

**You are required to:**

- (i) Calculate purchase consideration.
- (ii) Show workings for Goodwill/Capital Reserve.
- (iii) Prepare Balance Sheet of Faithful Limited after Amalgamation.

**October – 2013**

(20) Following is the Balance Sheet of River Limited as on 31st March, 2013: (15)

Liabilities	Amount Rs.	Assets	Amount Rs.
6% Preference Shares (20,000 of Rs. 10 each)	2,00,000	Patent Rights	1,00,000
Equity Shares (30,000 Shares of Rs. 10 each)	3,00,000	Plant & Machinery	2,25,000
Profit & Loss Account	52,000	Investments	3,90,000
General Reserve	75,000	Stock	1,15,000
11% Debentures	1,45,000	Sundry Debtors	1,10,000
Statutory Reserves	1,25,000	Cash at Bank	57,000
Sundry Creditors	85,000	Preliminary Expenses	10,000
Bills Payable	25,000		
<b>Total</b>	<b>10,07,000</b>	<b>Total</b>	<b>10,07,000</b>

On the above date Ocean Limited is formed to absorb River Limited on the following terms and conditions:

- (a) Absorption expenses of Rs. 5,000 are paid by Ocean Limited.
- (b) Ocean Limited to take over all the Assets and Liabilities of River Ltd. at Book value except Plant & Machinery of Rs. 2,10,000.
- (c) 6% Preference shareholders of River Limited are to be settled at 5% premium by issue of 7% Preference Shares of Rs. 10 each in Ocean Limited.
- (d) Equity Shareholders of River Limited to be issued equal number of Equity Shares in Ocean Limited of Rs. 10 each at 5% premium.

**You are required to:**

- (i) Compute Purchase Consideration payable by Ocean Limited to River Limited.
- (ii) Pass necessary Journal Entries in the books of River Limited.

**April – 2014**

(21) Tom Ltd. agreed to acquire business of Jerry Ltd. as on 31-03-2013. The summarised Balance Sheet of Jerry Ltd. as on 31-03-2013 was as follows: (15)

Liabilities	Rs.
12,000, equity shares of Rs. 10 each fully paid	1,20,000
General Reserve	34,000
Profit and Loss Account	22,000
6% Debentures	20,000
Creditors	4,000
	<b>2,00,000</b>

Assets	Rs.
Goodwill	20,000
Building	60,000
Machinery	68,000
Closing Stock	33,600
Debtors	7,200
ICICI Bank Account	11,200
	<b>2,00,000</b>

The consideration payable was as follows:

- (a) Cash payment equal to Rs. 2.50 per share in Jerry Ltd.
- (b) Issue of 18,000 Equity sharers of Rs. 10 each of Tom Ltd., having and agreed value of Rs. 15 per share.
- (c) Issue of such an amount of fully paid 9% Debentures of Tom Ltd. at Rs. 96, each as is sufficient to discharge 6% Debentures of Jerry Ltd. at 20% premium.
- (d) While calculating the consideration the assets were revalued as follows: Building and Machinery at Rs. 1,20,000 each, stock at Rs. 28,400 and Debtors subject to 5% provision for Discount
- (e) Liquidation expenses agreed to be paid by Jerry Ltd. was Rs. 1,000.

Prepare.

- (i) Statement of Purchase consideration.
- (ii) Necessary ledger accounts to close the books of Jerry Ltd.
- (iii) Opening Journal entries in the books of Tom Ltd.



# CAPITAL REDUCTION & INTERNAL RECONSTRUCTION

1. **Compromise and Arrangement:** A Scheme of Compromise and Arrangement is an **agreement** between a Company and its Members and Creditors (both Long-Term Creditors and Short Term Creditors), when the Company faces financial problems. Such an arrangement is called **Capital Reduction A/c**, and involves sacrifices by Shareholders, or Creditors and Debentureholders or by all.
2. **Types:** Capital Reduction A/c can be of two types –
  - (a) **External Capital Reduction A/c** – where a new Company is formed by transferring the undertaking of an existing Company, e.g. Amalgamation of two Companies, Absorption of one Company into another, Demerger. of a Company into two or more new Companies, etc.
  - (b) **Internal Capital Reduction A/c** – where the affairs of a Company are re-aligned, without liquidating the Company and forming a new Company.

### Difference between Internal and External Capital Reduction A/c

Basics	Internal Capital Reduction A/c	External Capital Reduction A/c
Existing Company New Company	Existing Company is not liquidated. No new Company is formed, but only the rights of Shareholders and Creditors are changed.	Existing Company is liquidated & wound up. A New Company is formed to take over the Liquidated Company.
Reduction of Capital	There is a certain reduction of Capital (of Members), and sometimes Outside Liabilities like Debentureholders and Creditors, may have to reduce their claims also.	There is no reduction of capital. In fact there is a Fresh Issue of Share Capital of the New company.
Regulated by	Sec. 100 of the Companies Act, 1956.	Sec. 494 of the Companies Act, 1956.

1. **Meaning:**
  - (a) **Internal Capital Reduction A/c** is a scheme in which the affairs of a Limited Company are re-organised for – (a) proper reflection of Capital, or (b) compounding / compromising / settling with Creditors, or (c) Company's betterment / turnaround, etc.
  - (b) **Capital Reduction A/c:** The Share Capital of a Company which has been suffering losses continuously for a long time, is not truly represented by its assets. In such case, the scheme of Capital Reduction involves writing-off that portion of Capital which is already lost.
2. **Methods:** In Internal Capital Reduction A/c, the following methods are generally employed or used simultaneously –
  - (a) Alteration of Share Capital as per Sec.94, 95, 97 of the Companies Act.
  - (b) Variation of Shareholders' Rights as per Sec.106 of the Companies Act.
  - (c) Reduction of Share Capital as per Sec.100 to 105 of the Companies Act.
  - (d) Compromise/ Arrangement as per Sec.391 to 393 and Sec.394A of the Companies Act.
  - (e) Surrender of Shares.

- 3. Aspects:** Internal Capital Reduction A/c involves the following aspects –
- (a) Revaluation of Assets to a realistic value, e.g. Market Value of Current Assets, Trade Investments, etc.
  - (b) Writing off of Fictitious Assets and Losses ‘ e.g. Goodwill, Patents, Miscellaneous Expenditure to the extent not written off or adjusted, Debit Balance in Profit and Loss Account, etc.
  - (c) Re-assessment of Liabilities by seeking waiver / reduction / remission of liability from Creditors and Lenders (including Debentureholders, if any), recording previously unrecorded liability, etc.
  - (d) Re-statement of Capital by reducing the Paid-Up Value of Shares, (both Equity and Preference) and / or varying the rights attached to different classes of shares.
- 4. Capital Reduction A/c:** The above aspects are accounted / recognised as under –
- Capital Reduction / Reconstruct on Re-organisation A/c**

Debited with -	Credited with -
<ul style="list-style-type: none"> <li>● Downward Revaluation of Assets</li> <li>● Upward Re-assessment of Liabilities</li> <li>● Recording / paying of previously unrecorded Liabilities</li> <li>● Expenses of Capital Reduction A/c</li> <li>● Writing off of Fictitious Assets, Intangible Items, and Accumulated Losses</li> <li>● <b>Net Surplus</b>, if any, transferred to <b>Capital Reserve</b></li> </ul>	<ul style="list-style-type: none"> <li>● Upward Revaluation of Assets</li> <li>● Downward Re-assessment of Liabilities</li> <li>● Sacrifices / Rebates by Lenders / Creditors, towards Claims due to them</li> <li>● Sacrifices by Shareholders, by way of Reduction of Capital</li> </ul>

**Note:**

If Scheme Involves arrangements with -	Name of Account to be used
Shareholders only	Capital Reduction / Capital Reduction A/c / Reorganisation
Shareholders and Creditors / Lenders / Debentureholders	Capital Reduction A/c / Reorganisation

Hence, the general A/c Head “**Capital Reduction A/c** may be used.

**4. List the Journal Entries for various transaction in the course of Internal Capital Reduction A/c**

Transaction	Journal Entry												
1. Reduction of Share Capital by <b>reducing Paid-up Value</b> of Shares, without reducing Face Value (say 7 100 Face Value retained, but Rs. 100 already paid-up is reduced to Rs. 15 paid-up)	<table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Equity Share Capital (Rs. 100 each)</td> <td style="width: 10%; text-align: center;">Dr.</td> <td style="width: 20%; text-align: right;">85</td> </tr> <tr> <td style="padding-left: 20px;">To Capital Reduction A/c</td> <td></td> <td style="text-align: right;">85</td> </tr> </table>	Equity Share Capital (Rs. 100 each)	Dr.	85	To Capital Reduction A/c		85						
Equity Share Capital (Rs. 100 each)	Dr.	85											
To Capital Reduction A/c		85											
2. Reduction of Share Capital by <b>reducing both Face Value and Paid-Up Value</b> , (say Rs. 100 reduced to Rs. 15)	<table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Equity Share Capital (Rs. 100 each)</td> <td style="width: 10%; text-align: center;">Dr.</td> <td style="width: 20%; text-align: right;">100</td> </tr> <tr> <td style="padding-left: 20px;">To Equity Share Capital (Rs. 15 each)</td> <td></td> <td style="text-align: right;">15</td> </tr> <tr> <td style="padding-left: 20px;">To Capital Reduction A/c (balance written off)</td> <td></td> <td style="text-align: right;">85</td> </tr> </table>	Equity Share Capital (Rs. 100 each)	Dr.	100	To Equity Share Capital (Rs. 15 each)		15	To Capital Reduction A/c (balance written off)		85			
Equity Share Capital (Rs. 100 each)	Dr.	100											
To Equity Share Capital (Rs. 15 each)		15											
To Capital Reduction A/c (balance written off)		85											
3. Shareholders giving up their claim to Reserves and Accumulated Profits	<table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Reserves A/c (individually)</td> <td style="width: 10%; text-align: center;">Dr.</td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 20px;">To Capital Reduction A/c</td> <td></td> <td></td> </tr> </table>	Reserves A/c (individually)	Dr.		To Capital Reduction A/c								
Reserves A/c (individually)	Dr.												
To Capital Reduction A/c													
4. Shares surrendered and cancelled subsequently	<table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Equity Share Capital</td> <td style="width: 10%; text-align: center;">Dr.</td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 20px;">To Shares Surrendered A/c</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Shares Surrendered A/c</td> <td style="text-align: center;">Dr.</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">To Capital Reduction A/c (to the extent cancelled)</td> <td></td> <td></td> </tr> </table>	Equity Share Capital	Dr.		To Shares Surrendered A/c			Shares Surrendered A/c	Dr.		To Capital Reduction A/c (to the extent cancelled)		
Equity Share Capital	Dr.												
To Shares Surrendered A/c													
Shares Surrendered A/c	Dr.												
To Capital Reduction A/c (to the extent cancelled)													
5. Downward Revaluation of Assets	<table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Capital Reduction A/c</td> <td style="width: 10%; text-align: center;">Dr.</td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 20px;">To Sundry Assets A/c (individually)</td> <td></td> <td></td> </tr> </table>	Capital Reduction A/c	Dr.		To Sundry Assets A/c (individually)								
Capital Reduction A/c	Dr.												
To Sundry Assets A/c (individually)													

6. Upward Revaluation of Assets, i.e. Increase / Appreciation in Asset Values	Sundry Assets A/c (individually) Dr. To Capital Reduction A/c
7. Sacrifices made by Debentureholders, Creditors, etc. by agreeing for a lower amount of dues payable to them	External Liabilities A/c (individually) Dr. To Capital Reduction A/c' A/c (to the extent sacrifice made) To Bank A/c (to the extent payment made immediately)
8. Expenses of Capital Reduction A/c and previously unrecorded liability paid	Capital Reduction A/c Dr. To Bank A/c
9. Provisions settled at higher amount than appearing in the Balance Sheet	Provision (for Taxation, etc.) (as per B/s) Dr. Capital Reduction A/c (difference / additional amt) Dr. To Bank A/c (Total amount paid now)
10. Writing off of Fictitious Assets, Intangible Items, and Losses	Capital Reduction A/c Dr. To Fictitious Asset A/cs (e.g. Goodwill, Patents, etc.) To P&L A/c (Dr. Balance if any) To Misc. Expenditure A/c (Disc. on Issue of Shares, etc.)
11. Transferring the balance left in Capital Reduction A/c to Capital Reserve	Capital Reduction A/c Dr. To Capital Reserve A/c
12. Variation in Shareholders' Rights without affecting Capital Reduction A/c (Refer Note below)	<b>Change</b> in Rate of Dividend for Preference Shares: (Old) % Cum. Pref. Share Capital A/c Dr. To (New) % Cum. Pref. Share Capital A/c <b>Conversion</b> from Cumulative to Non-Cumulative Pref. Shares: % Cum. Pref. Share Capital A/c Dr. To ... % Non-Cum. Pref. Share Capital A/c
13. Conversion of Fully Paid Shares into Stock, or vice-versa (Refer Note below)	Conversion of shares into Stock: Equity Share Capital (Rs. each) Dr. To Equity Stock A/c <b>Re-conversion of Stock into Stock:</b> Equity Stock A/c Dr. To Equity Share Capital (Rs. each)
14. Sub-Division and Consolidation of Shares (Refer Note below) (say Rs. 100 Share divided into 10 Shares of Rs. 10 each)	Equity Share Capital (Rs. 100 each) Dr. To Equity Share Capital (Rs. 10 each)

**Other Points:**

- A Certified Copy of Court / NCLT's Order approving the Scheme and Minutes must be filed with the ROC.
- While preparing the Balance Sheet of a Capital Reduction A/c Company, the words "and Reduced" should be added only if the Court / NCLT directs so.
- The amount written off against Fixed Assets under the scheme of Capital Reduction A/c should be shown for a period of five years in accordance with Schedule VI Disclosure Requirements.

**Notes :** The following **alterations** can be done without affecting Capital Reduction A/c –

<b>Variation in Shareholders' Rights</b>	<ul style="list-style-type: none"> <li>● When a Company has issued different classes of Shares with different rights or privileges attached to such Shares, e.g. Rights as to Dividend, Voting Rights, etc. any of such rights may be changed in any manner.</li> <li>● Some examples for change in rights are - (a) change in rate of dividend on Preference Shares, or (b) conversion of Cumulative Preference Shares into Non-Cumulative Preference Shares without changing the amount of Share Capital.</li> </ul>
<b>Conversion of Fully Paid Shares into Stock, or vice-versa</b>	<ul style="list-style-type: none"> <li>● Stock is the aggregate of fully paid-up Shares of a Member, merged into one fund of equal value.</li> <li>● A Company can convert its Fully Paid Shares into Stock [Sec.94(c)], by a resolution passed in General Meeting.</li> <li>● Stock can be divided into fractions of any amount. Any part of the Fund can be transferred. However, Companies may restrict the transfer of stock to multiples of, say, Rs. 100.</li> <li>● Upon the Company converting its Shares into Stock, the book-keeping entries merely record the transfer from Share Capital A/c. A separate Stock Register is now maintained, in which details of Members' holdings are entered and the Annual Return is modified accordingly.</li> </ul>
<b>Sub-Division and Consolidation of Shares</b>	<ul style="list-style-type: none"> <li>● If authorised by its Articles, a Company may, in a General Meeting, by passing an Ordinary Resolution, decide to sub-divide or consolidate the share into those of a smaller or higher denomination than that fixed by the Memorandum of Association, so long as the proportion between the paid-up and unpaid amount, if any, on the Shares continues to be the same as it was in the case of the Original Shares.</li> </ul>

### PRACTICAL QUESTIONS – INTERNAL CAPITAL REDUCTION A/C

**Points for Consideration:**

<ul style="list-style-type: none"> <li>● The A/c Head "Capital Reduction A/c" is used in most of the Illustrations, since the Scheme involves sacrifices by Shareholders / Lenders / Creditors, etc.</li> <li>● Unless otherwise specified, it is assumed that reduction in Share Capital, involves both Nominal and Paid-up Value.</li> <li>● It is assumed that the Court / NCLT directs that the words "and Reduced" be added to the B/Sheet.</li> </ul>
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**Illustration 1: Internal Capital Reduction A/c – Journal Entries**

The Paid-Up Capital of Arjuna Ltd. amounted to Rs. 2,50,000 consisting of 25,000 Equity Shares of Rs. 10 each. Due to losses incurred by the Company continuously, the Directors of the Company prepared a scheme for Capital Reduction A/c which was duly approved. The terms of Capital Reduction A/c were as under –

- (i) In lieu of their present holdings, the Shareholders are to receive:
  - (a) Fully paid Equity Shares equal to 2/5th of their holding.
  - (b) 5% Preference Shares fully paid-up to the extent of 20% of the above new Equity shares.
  - (c) 3,000, 6% Second Debentures of Rs. 10 each.
- (ii) An Issue of 1,00,000, 5% First Debentures of Rs. 10 each was made and fully subscribed in cash.
- (iii) The assets were reduced as follows –
  - (a) Goodwill from Rs. 1,50,000 to Rs. 75,000.
  - (b) Machinery from Rs. 50,000 to Rs. 37,500.
  - (c) Leasehold Premises from Rs. 75,000 to Rs. 62,500.

Show the Journal Entries to give effect to the above scheme of Capital Reduction A/c.

**Solution: Journal Entries in the books of Arjuna Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Old) A/c Dr, To Equity Share Capital (New) A/c (2/5th of Rs. 2,50,000) To 5% Preference Share Capital A/c (20% of Rs. 1,00,000) To 6% Second Debentures A/c To Capital Reduction A/c (Being conversion of 25,000 Equity Shares, and balance transferred to Capital Reduction A/c as per approved Scheme of Capital Reduction A/c dated.....)	2,50,000	— 1,00,000 20,000 30,000 1,00,000
2.	Bank A/c Dr, To 5% First Debentures A/c (Being issue of Rs. 25,000, 5% First Debentures for cash as per approved Scheme of Capital Reduction A/c dated.....)	25,000	25,000
3.	Capital Reduction A/c Dr, To Goodwill A/c To Plant & Machinery A/c To Leasehold Premises A/c (Being Assets written down as per approved Scheme of Capital Reduction A/c dated	1,00,000	75,000 12,500 12,500

**Illustration 2: Internal Capital Reduction A/c – Journal Entries**

The following scheme of Capital Reduction A/c has been approved for Bheema Limited –

- (i) The Shareholders to receive in lieu of their present holding at 1,00,000 Shares of 10 each the following:
- New fully paid Rs. 10 Equity shares equal to 3/5th of their holding.
  - 10% Preference Shares fully paid to the extent of 1/5th of the above new Equity Shares.
  - Rs. 40,000, 8% Debentures.
  - An Issue of Rs. 1 Lakh 10% First Debentures was made and allotted, payment for the same being received in cash forthwith.
  - Goodwill which stood at Rs. 1,40,000 was completely written off.
  - Plant and Machinery which stood at Rs. 2,00,000 was written down to Rs. 1,60,000
  - Freehold Property which stood at Rs. 1,50,000 was written down by Rs. 50,000
- You are required to draw up necessary Journal entries in the books of Bheema Limited for the above Capital Reduction A/c.

**Solution: Journal Entries In the books of Bheema Limited**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Old) A/c <span style="float: right;">Dr.</span> To Equity Share Capital (New) A/c (Rs. 10,00,000 x 3/5) To 10% Preference Shares A/c (Rs. 6,00,000 x 1/5) To 8% Debentures A/c To Capital Reduction A/c (Being 1,00,000 existing Equity Shares of Rs. 10 each reduced to 60,000 fully paid Equity Shares of Rs. 10 each, 10% Preference Shares to the extent of 1/5 th of New Equity Shares and 8% Debentures for Rs. 40,000 vide approved scheme of Capital Reduction A/c dated.. and balance credited to Capital Reduction A/c)	10,00,000	6,00,00 1,20,000 40,000 2,40,000
2.	Cash A/c <span style="float: right;">Dr.</span> To 10% First Debentures A/c (Being issue of 10% First Debentures worth Rs. 1,00,000 against Cash vide approved scheme of Capital Reduction A/c dated.....)	1,00,000	1,00,000
3.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Goodwill A/c (Being Goodwill written off vide approved Scheme of Capital Reduction A/c dated)	1,40,000	1,40,000
4.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Plant and Machinery A/c (Being value of Plant and Machinery written down from Rs. 2,00,000 to Rs. 1,50,600 vide approved scheme of Capital Reduction A/c dated.....)	50,000	50,000
5.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Freehold Property A/c (Being value of Freehold Property written down by Rs. 50,000 vide approved scheme of Capital Reduction A/c dated.....)	50,000	50,000

**Illustration 3: Internal Capital Reduction A/c – Journal Entries**  
**Following is the Balance Sheet of Chandru Ltd. as at 31st March, 2014:**

Liabilities	Rs.	Assets	Rs.
15,000 10% Preference Shares of Rs. 100 each	15,00,000	Goodwill	3,50,000
35,000 Equity Shares of Rs. 100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium	1,00,000	Plant & Machinery	10,00,000
7% Debentures of Rs. 100 Each	5,00,000	Stock	6,00,000
Creditors	12,50,000	Debtors	15,00,000
Loan from Director	1,50,000	Cash at Bank	1,00,000
		Preliminary Expenses	4,00,000
		Profit & Loss A/c	15,50,000
<b>Total</b>	<b>70,00,000</b>	<b>Total</b>	<b>70,00,000</b>

No dividend on Preference Shares has been paid for the last 5 years.

The following scheme of reorganisation was duly approved by the Court:

1. Each Equity Share to be reduced to Rs. 25.
2. Each existing Preference Share to be reduced to Rs. 75, and then exchanged for 1 new 13% Preference Share of Rs. 50 each and 1 Equity Share of Rs. 25 each.
3. Preference Shareholders have foregone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in Fully Paid Equity Shares of Rs. 25 each.
4. Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of Rs. 50 each issued at par. One half (in value) of the Debentureholders accepted Preference Shares for their claims. The rest were paid cash.
5. Contingent Liability of Rs. 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the Loan given by the Director to the Company.
6. Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Stock and Debtors by Rs. 4,00,000, Rs. 1,00,000 and Rs. 1,50,000 respectively. Increase the value of Land and Buildings to Rs. 13,00,000.
7. 40,000 New Equity Shares of Rs. 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.
8. Expenses incurred by the Company for the Scheme, excluding Underwriting Commission amounted to Rs. 15,000.

Pass necessary Journal Entries to record the above transactions.

**Solution:** **Journal Entries in the books of Chandru Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 100) A/c To Equity Share Capital (Rs. 25) A/c To Capital Reduction A/c (Being Equity Shares of Rs. 100 each reduced to 25 each, and balance transferred to Capital Reduction A/c, as per approved Scheme of Capital Reduction A/c dated.....)	Dr. 35,00,000	8,75,000 26,25,000
2.	10% Preference Share Capital (Rs. 100) A/c To 10% Preference Share Capital (Rs. 75) A/c To Capital Reduction A/c (Being Preference Shares of Rs. 100 each reduced to Rs. 75 and balance transferred to Capital Reduction A/c as per approved Scheme of Capital Reduction A/c dated.....)	Dr. 15,00,000	11,25,000 3,75,000
3.	10% Preference Share Capital (Rs. 75) A/c To 13% Preference Share Capital (Rs. 50) A/c To Equity Share Capital (Rs. 25) A/c (Being one new 13% Preference Share of Rs. 50 each and one Equity Share of Rs. 25 each issued against 10% Preference Share of Rs. 75 each)	Dr. 11,25,000	7,50,000 3,75,000
4.	Capital Reduction A/c To Preference Dividend Payable (10%) A/c (Being arrear of Dividend on Preference Shares payable for one year)	Dr. 1,50,000	1,50,000
5.	Preference Dividend Payable (10%) A/c To Equity Share Capital (Rs. 25) A/c (Being Equity Shares of Rs. 25 each issued for arrears of Pref. Share Dividend)	Dr. 1,50,000	1,50,000

**Capital Reduction & Internal Reconstruction • 97**

6.	7% Debentures A/c To Debentureholders A/c (Being balance of 7% Debentures transferred to Debentureholders A/c)	Dr.	5,00,000	5,00,000
7.	Debentureholders A/c To 13% Preference Share Capital (Rs. 50) A/c To Bank A/c To Capital Reduction A/c (Being 50% of Debentureholders opting to take 13% Preference Shares at par, and remaining Debentureholders taking 90% cash payment for their Claims.)	Dr.	5,00,000	2,50,000 2,25,000 25,000
8.	Loan from Director A/c To Provision for Contingent Liability A/c (Being Contingent Liability of Rs. 1,50,000 pble, adjusted against Loan from- Director)	Dr.	1,50,000	1,50,000
9.	Bank A/c To Equity Share Application & Allotment A/c (Being application money received on the 40,000 Equity Shares at Rs. 25 each)	Dr.	10,00,000	10,00,000
10.	Equity Share Application & Allotment A/c To Equity Share Capital (Rs. 25) A/c (Being Application Money transferred to Equity Capital A/c, on allotment)	Dr.	10,00,000	10,00,000
11.	Underwriting Commission A/c To Bank A/c (Being Underwriting Commission paid)	Dr.	40,000	40,000
12.	Land and Buildings A/c To Capital Reduction A/c (Being value of Land and Buildings appreciated)	Dr.	3,00,000	3,00,000
13.	Capital Reduction A/c To Bank A/c (Being payment of expenses on Capital Reduction A/c)	Dr.	15,000	15,000
14.	Capital Reduction A/c To Goodwill A/c To Plant and Machinery A/c To Stock A/c To Debtors A/c To Preliminary Expenses A/c 1 To Profit & Loss A/c To Expenses on Capital Reduction A/c To Underwriting Commission A/c (Being various losses / intangible items written off using Capital Reduction A/c, as per approved Scheme of Capital Reduction A/c dated	Dr.	30,05,000	.330,000 4,00,000 1,00,000 1,50,000 4,00,000 15,50,000 15,000 40,000
15.	Capital Reduction A/c To Capital Reserve A/c ( <b>See Capital Reduction A/c below</b> ) (Being balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	1,55,000	1,55,000

## Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Preference Dividend Payable (10%) A/c	1,50,000	By Equity Share Capital (Rs. 100) A/c	26,25,00.0
To Bank (Expenses on Capital Reduction A/c)	15,000	By 10% Preference Share Capital (Rs. 100) A/c	3,75,000
To Goodwill- A/c	3,50,000	By Debentureholders A/c	25,000
To Plant and Machinery A/c	4,00,000	By Land and Buildings A/c	3,00,000
To Stock A/c	1,00,000		
To Debtors A/c	1,50,000		
To Preliminary Expenses A/c	4,00,000		
To Profit & Loss A/c	15,50,000		
To Expenses on Capital Reduction A/c	15,000		
To Underwriting Commission A/c	40,000		
To Capital Reserve A/c (balancing figure)	55,000		
<b>Total</b>	<b>33,25,000</b>	<b>Total</b>	<b>33,25,000</b>

**Note:** Capital Reduction A/c is prepared for clarification of Journal Entries, and computing the amount transferred to Capital Reserve.

**Illustration 4: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

The following is the Balance Sheet of Dayalan Ltd. as at 31st March –

Liabilities	Rs.	Assets	Rs.
Share Capital: 2,00,000 Equity Shares of Rs. 10 each fully paid-up	20,00,000	Plant and Machinery Assets	9,00,000
6,000 8% Preference Shares of Rs. 100 each	6,00,000	Furniture and Fixtures	2,50,000
9% Debentures	12,00,000	Patents and Copyrights	70,000
Bank Overdraft	1,50,000	Investments (at Cost) (Market Value Rs. 55,000)	68,000
Sundry Creditors	5,92,000	Stock	14,00,000
		Sundry Debtors	14,39,000
		Cash and Bank Balances	10,000
		Profit and Loss A/c	4,05,000
<b>Total</b>	<b>45,42,000</b>	<b>Total</b>	<b>45,42,000</b>

The following scheme of Capital Reduction A/c was finalised:

1. Preference Shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.
2. Debentureholders having charge on Plant & Machinery, would accept Plant & Machinery in full settlement of their dues.
3. Stock equal to Rs. 5,00,000 In Book Value will be taken over by Sundry Creditors in full settlement of their dues.
4. Investment Value to be reduced to Market Price.
5. The Company would issue 11% Debentures for Rs. 3,00,000 and augment its Working Capital requirement, after settlement of Bank Overdraft.

Pass necessary Journal Entries, prepare Capital Reduction A/c and Balance Sheet of the Company after internal Capital Reduction A/c.

**Solution:**

**1. Journal Entries in the books of Dayalan Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Preference Share Capital A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (30% of 6,00,000) To 11% Debentures A/c (Being Debentures issued to Preference Shareholders, and part amount given up by Preference Shareholders, as per approved Scheme of Capital Reduction A/c dated.....)	6,00,000	1,80,000 4,20,000
2.	9% Debentures A/c <span style="float: right;">Dr.</span> To Plant and Machinery A/c To Capital Reduction A/c (Being Debentureholders accepting Plant and Machinery in full satisfaction of their claim, approved Scheme of Capital Reduction A/c dated.....)	12,00,000	9,00,000 3,00,000
3.	Sundry Creditors A/c <span style="float: right;">Dr.</span> To Stock To Capital Reduction A/c (Being part of Stock taken over for the claims of Sundry Creditors, in full settlement of claim, approved Scheme of Capital Reduction A/c dated.....)	5,92,000	5,00,000 92,000
4.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Investments a/c (Being Investments written down to Market Value)	13,000	13,000
5.	Bank a/c <span style="float: right;">Dr.</span> To 11% Debentures a/c (Being 11% Debentures issued to public, for Rs. 3,00,000 at pay [assumed])	3,00,000	3,00,000
6.	Bank Overdraft A/c <span style="float: right;">Dr.</span> To Bank A/c (Being Bank Overdraft settled under approved Scheme of Capital Reduction A/c dated.....)	1,50,000	1,50,000
7.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Profit and Loss a/c To Patents a/c To Capital Reserve a/c (WN 2) (Being balance in Capital Reduction A/c used to write off Intangible Assets and balance transferred to Capital Reserve A/c)	5,59,000	4,05,000 70,000 84,000

**2. Capital Reduction A/c**

Particulars	Rs.	Particulars	Rs.
To Investments A/c	13,000	By Preference Share Capital A/c	1,80,000
To Profit and Loss A/c	4,05,000	By 9% Debentures A/c	3,00,000
To Patents & Copyrights	70,000	By Creditors	92,000
To Capital Reserve a/c ( <b>balancing figure</b> )	<b>84,000</b>		
<b>Total</b>	<b>5,72,000</b>	<b>Total</b>	<b>5,72,000</b>

## 3. Cash and Bank A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	10,000	By Bank Overdraft A/c	1,50,000
To 11% Debentures A/c	3,00,000	By balance c/d	1,60,000
<b>Total</b>	<b>3,10,000</b>	<b>Total</b>	<b>3,10,000</b>

## 4. Balance Sheet of Dayalan Ltd. (and Reduced) as on 31st March

	Particulars as at 31st March	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	B-1	20,00,000	
	(b) Reserves and Surplus – Capital Reserve (WN 2)		34,000	
(2)	<b>Non--Current Liabilities:</b>			
	Long Term Borrowings	B-2	7,20,000	
	<b>Total</b>		<b>28,04,000</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets</b>			
	(a) Fixed Assets: Tangible Assets – Furniture & Fixtures		2,50,000	
	(b) Non-Current Investments – Cost Rs. 68,000, but taken at Market Value		55,000	
(2)	<b>Current Assets:</b>			
	(a) Inventories – Stock-in-Trade		9,00,000	
	(b) Trade Receivables – Sundry Debtors		14,39,000	
	(c) Cash and Cash Equivalents (WN 3)		1,60,000	
	<b>Total</b>		<b>28,04,000</b>	

## Schedule B-1: Share Capital

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> .....Equity Shares of Rs... each		
<b>Issued, Subscribed &amp; Paid-up:</b> 2,00,000 Equity Shares of Rs. 10 each	20,00,000	
<b>Total</b>	<b>20,00,000</b>	

## Schedule B-2: Long Term Borrowings

Particulars	This Year	Prev. Yr.
11% Debentures of Rs. 100 each (assumed as secured) (Of the above 4200 Debentures issued by converting Preference Shares into Debentures)	<b>7,20,000</b>	
<b>Total</b>	<b>7,20,000</b>	

**Illustration 5: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

The Balance Sheet of Enkan Ltd. as on 31st March is given below –

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each fully paid (80,000 Shares)	8,00,000	Freehold Property	5,00,000
6% Cumulative Pref. Shares of 100 each fully paid	5,00,000	Plant and Machinery	180,000
6% Debentures (Secured by Freehold Property)	3,75,000	Trade Investment (at Cost)	1,70,000
Arrears of Interest on Debentures	22,500	Sundry Debtors	4,50,000
Sundry Creditors	17,500	Stock in Trade	2,00,000
Directors' Loan	3,00,000	Deferred Advertisement Expenditure	1,50,000
		Profit and Loss A/c	3,65,000
<b>Total</b>	<b>20,15,000</b>	<b>Total</b>	<b>20,15,000</b>

The Court approved a scheme of Reorganisation to take effect on 1st April, and the terms are given below–

- (a) Preference Shares are to be written down to Rs. 75 each and Equity Shares to Rs. 2 each.
- (b) Preference Dividend in arrear for 4 years to be waived by 75% & for the balance Equity Shares of Rs. 2 each to be allotted.
- (c) Arrear of Debenture Interest to be paid in Cash.
- (d) Debentureholders agreed to take one Freehold Property (Book Value Rs. 3,00,000), at a valuation of Rs. 3,00,000, in part payment of their holding. Balance Debentures to remain as Liability of the Company.
- (e) Deferred Advertisement Expenditure to be written off.
- (f) Stock Value to be written off fully in the Books.
- (g) 50% of the Sundry Debtors to be written off as Bad Debt.
- (h) Remaining Freehold Property (after take over by Debentureholders) to be valued at Rs. 3,50,000. investments sold out for Rs. 2,00,000. 80% of the Director's Loan to be waived and for the balance Equity Shares of Rs. 2 each to be issued.
- (i) Company's contractual commitments amounting to Rs. 5,00,000 to be cancelled by paying penalty at 3% of Contract Value.
- (j) Cost of Capital Reduction A/c Scheme is Rs. 20,000.

Show the Journal entries (with narration) to be passed for giving effect to the above transactions and draw the Balance Sheet of the Company after effecting the Scheme.

**Solution:** It is assumed the Nominal Value and Paid-up Value of Equity Shares and Preference Shares are reduced to Rs. 2 and Rs. 75 respectively, with appropriate adjustment in the number of shares, to keep Authorised Capital intact.

## 1. Journal Entries in the books of Enkan Ltd.

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10) A/c To Equity Share Capital (Rs. 2) A/c To Capital Reduction A/c (Being reduction in value of Equity Shares of Rs. 10 each to Rs. 2 each as per approved scheme of Capital Reduction A/c dated ... )	Dr. 8,00,000	1,60,000 6,40,000
2.	6% Preference Share Capital (Rs. 100) A/c To Preference Share Capital (Rs. 75) A/c To Capital Reduction A/c (Being reduction in value of Preference Shares of Rs. 100 each to Rs. 75 each as per approved scheme of Capital Reduction A/c dated ... )	Dr. 5,00,000	3,75,000 1,25,000
3.	Capital Reduction A/c To Equity Share Capital (Rs. 2) A/c (Being waiver of Arrears of Preference Dividend, amounting to Rs. 90,000 (5,00,000 x 6% x 4 Years x 75% waived) and for the balance Rs. 30,000 (5,00,000 x 6% x 4 Years x 25%) 15,000 Equity Shares of Rs. 2 allotted, as per approved scheme of Capital Reduction A/c dated .... )	Dr. 30,000	30,000
4.	Arrears of Debentures Interest A/c To Cash / Bank A/c (Being payment of Debenture Interest Arrears in cash, as per approved scheme of Capital Reduction A/c dated ... )	Dr. 22,500	22,500
5.	6% Debentures A/c To Freehold Property A/c (Being transfer of title deed on Freehold Property to Debentureholders of the Company, in part settlement, as per approved scheme of Capital Reduction A/c dated ... )	Dr. 3,00,000	3,00,000
6.	Freehold Property A/c [3,50,000 – (5,00,000 – 3,00,000)] To Capital Reduction A/c (Being Revaluation of Freehold Property, as per scheme of Capital Reduction A/c dated ... )	Dr. 1,50,000	1,50,000
7.	Bank A/c To Investments A/c To Capital Reduction A/c (Being Sale of Investments as per approved Capital Reduction A/c scheme of dated ... )	Dr. 2,00,000	1,70,000 30,000
8.	Directors' Loan A/c To Equity Share Capital A/c (Rs. 2 each) To Capital Reduction A/c (3,00,000 x 80%) (Being Directors' Loan claim settled at 20% by issuing 30,000 Equity Shares of Rs. 2 each and the balance 80% being waived as per approved scheme of Capital Reduction A/c dated....)	Dr. 3,00,000	60,000 2,40,000
9.	Capital Reduction A/c To Bank A/c (Being payment of Capital Commitment Penalty of Rs. 15,000 (3% of Rs. 5,00,000) as per approved scheme of Capital Reduction A/c dated ... )	Dr. 15,000	15,000

**Capital Reduction & Internal Reconstruction • 103**

10.	Capital Reduction A/c To Bank A/c (Being payment of Capital Reduction A/c Expenses Rs. 20,000)	Dr.	20,000	20,000
11.	Capital Reduction A/c To Stock in Trade A/c To Deferred Advertisement Expenditure A/c To Debtors A/c (4,50,000 x 50%) To Profit and Loss A/c (Being writing off of losses and reduction in the value of assets as per approved scheme of Capital Reduction A/c dated	Dr.	9,40,000	2,00,000 1,50,000 2,25,000 3,65,000
12.	Capital Reduction A/c To Capital Reserve A/c (Being balance in Capital Reduction A/c transferred to Capital Reserve - WN - 1)	Dr.	1,80,000	1,80,000

**2. Capital Reduction A/c**

Particulars	Rs.	Particulars	Rs.
To Bank A/c (Expenses of Capital Reduction A/c)	20,000	By Equity Share Capital A/c	6,40,000
To Bank A/c (Penalty paid)	15,000	By 9% Preference Share Capital A/c	1,25,000
To Equity Share Capital A/c (for Pref Divnd)	30,000	By Freehold Property A/c	1,50,000
To Stock in Trade A/c	2,00,000	By Bank A/c (Profit on Sale of Investments)	30,000
To Deferred Advt Expenditure A/c	1,50,000	By Directors' Loan Outstanding	2,40,000
To Debtors A/c	2,25,000		
To Profit and Loss A/c	3,65,000		
To Capital Reserve a/c (balancing figure)	1,80,000		
<b>Total</b>	<b>11,85,000</b>	<b>Total</b>	<b>11,85,000</b>

**3. Bank Account**

Particulars	Rs.	Particulars	Rs.
To Investment A/c	1,70,000	By Debenture Interest	22,500
To Capital Reduction A/c - Profit on Sale	30,000	By Capital Reduction A/c (Expenses)	20,000
		By Capital Reduction A/c (Penalty)	15,000
		By balance c/d (balancing figure)	1,42,500
<b>Total</b>	<b>2,00,000</b>	<b>Total</b>	<b>2,00,000</b>

## 4. Balance Sheet of Enkan Ltd. (and reduced) as at 1st April

	Particulars as at 31st March	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	B-1	6,25,000	
	(b) Reserves and Surplus – Capital Reserve (WN 2)		1,80,000	
(2)	<b>Non-Current Liabilities:</b>			
	Long Term Borrowings – 6% Debentures (Secured against Freehold Property)		75,000	
(3)	<b>Current Liabilities:</b>			
	Trade Payables – Sundry Creditors		17,500	
	<b>Total</b>		<b>8,97,500</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets</b>			
	Fixed Assets: Tangible Assets	B-2	5,30,000	
(2)	<b>Current Assets:</b>			
	(a) Trade Receivables – Sundry Debtors (Balance 50%)		2,25,000	
	(b) Cash and Cash Equivalents (WN 3)		1,42,500	
	<b>Total</b>		<b>8,97,500</b>	

## Schedule B-1: Share Capital

Particulars	This Year	Prev. Yr.
<b>Authorised:.....</b> Equity Shares of Rs. 2 each &..... 6% Preference Shares of Rs. 75 each		
<b>Issued, Subscribed &amp; Paid-up:</b> 1,25,000 Equity Shares of Rs. 2 each	2,50,000	
5,000 6% Preference Shares of Rs. 75 each	3,75,000	
<b>Total</b>	<b>6,25,000</b>	

## Schedule B-2: Tangible Assets

Particulars	This Year	Prev. Yr.
(a) Freehold Property (Cost Rs. 2,00,000 revalued under Scheme of Capital Reduction A/c)	3,50,000	
(b) Plant & Machinery	1,80,000	
<b>Total</b>	<b>5,30,000</b>	

## Illustration 6: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

The Balance Sheet of Malini Ltd. as on 31st March is given below:

Liabilities	Rs.	Assets	Rs.
1,00,000 Equity Shares of Rs. 10 each fully paid-up	10,00,000	Freehold Property	5,50,000
4,000, 8% Preference Shares of Rs. 100 each fully paid	4,00,000	Plant and Machinery	2,00,000
6% Debentures (secured by Freehold Property) 4,00,000		Trade Investments (at cost)	2,00,000
Add: Arrear Interest <u>24,000</u>	4,24,000	Sundry Debtors	4,50,000
Sundry Creditors	1,01,000	Stock-in-Trade	3,00,000
Director's Loan	3,00,000	Deferred Advertisement Expenses	50,000
		Profit and Loss Account	4,75,000
<b>Total</b>	<b>22,25,000</b>	<b>Total</b>	<b>22,25,000</b>

**Capital Reduction & Internal Reconstruction • 105**

The Board of Directors of the Company decided upon the following Scheme of Capital Reduction A/c with the consent of respective Stakeholders:

1. Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.
2. Pref. Dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.
3. Debentureholders agreed to take one Freehold Property at its Book Value of Rs. 3,00,000 in part payment of their holding. Balance Debentures to remain as liability of the Company.
4. Arrear Debenture Interest to be paid in cash.
5. Remaining Freehold Property to be valued at Rs. 4,00,000.
6. Investment sold out for Rs. 2,50,000.
7. 75% of Directors Loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allotted.
8. 40% of Sundry Debtors, 80% of Stock and 100% of Deferred Advertisement Expenses to be written off.
9. Company's Contractual Commitments amounting to Rs. 6,00,000 have been settled by paying 5% Penalty of Contract Value.

Show the Journal Entries for giving effect to the Internal Capital Reduction A/c and draw the Balance Sheet of the Company after affecting the scheme.

**Solution:**

**1. Journal Entries in the books of Malini Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	8% Preference Share Capital (Rs. 100) A/c To 8% Preference Share Capital (Rs. 80) A/c To Capital Reduction A/c (Being 8% Preference Shares written down to Rs. 80 each vide approved Scheme of Capital Reduction A/c dated.....)	Dr. 4,00,000	3,20,000 80,000
2.	Equity Share Capital (Rs. 10) A/c To Equity Share Capital (Rs. 2) A/c To Capital Reduction A/c (Being Equity Shares written down to Rs. 2 each vide approved Scheme of Capital Reduction A/c dated	Dr. 10,00,000	2,00,000 8,00,000
3.	Capital Reduction A/c To Equity Share Capital (Rs. 2) A/c (Being arrears of Preference Dividend Rs. 96,000 waived to 2/3rd extent, balance settled by issue of 16,000 Equity Shares of Rs. 2 each)	Dr. 32,000	32,000
4.	6% Debentures A/c To Freehold Property (Being Freehold Property taken over by 6% Debentureholders in part payment)	Dr. 3,00,000	3,00,000
5.	Arrears of Debenture Interest A/c To Bank A/c (Being Arrears of Debenture Interest paid immediately by Cash / Bank)	Dr. 24,010	24,000
6.	Freehold Property A/c To Capital Reduction A/c (Being remaining Freehold Property revalued) [5,50,000 – 3,00,000] = 2,50,000, Increase in Value = Rs. 4,00,000 – 2,50,000 = Rs. 1,50,000	Dr. 1,50,000	1,50,000
7.	Bank A/c To Trade Investments A/c To Capital Reduction A/c (Being Trade Investments sold at a profit of Rs. 50,000)	Dr. 2,50,000	2,00,000 50,000

8.	Directors' Loan A/c To Capital Reduction A/c To Equity Share Capital (Rs. 2) A/c (Being Directors Loan waived to an extent of 75% and for the balance Equity Shares of Rs. 2 each issued, Number of Shares = 37,500)	Dr.	3,00,000	2,25,000 75,000
9.	Capital Reduction A/c To Sundry Debtors A/c To Stock A/c To Deferred Advertisement Expenditure A/c To Profit and Loss A/c (Being Sundry Debtors, Stock, Deferred Advertisement Expenses and Debit Balance of Profit and Loss A/c written off under Capital Reduction A/c Scheme)	Dr.	9,45,000	1,80,000 2,40,000 50,000 4,75,000
10.	Capital Reduction A/c To Bank A/c (Being 5% Penalty towards Contractual Commitments paid)	Dr.	30,000	30,00-0
11.	Capital Reduction A/c To Capital Reserve A/c (WN 2) (Being balance in Capital Reduction A/c credited to Capital Reserve)	Dr.	2,98,000	2,98,000

### 2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Bank (Penalty Paid)	30,000	By 8% Preference Shares (reduction)	80,000
To Sundry Debtors (written off)	1,80,000	By Equity Share Capital A/c (reduction)	8,00,000
To Equity Share Capital (Arrears of Dvnd)	32,000	By Freehold Property A/c (revaluation)	1,50,000
To Stock (written off)	2,40,000	By Trade Investments (Profit on Sale)	50,000
To Deferred Advertisement Exps (written off)	50,000	By Director's Loan (Waiver)	2,25,000
To Profit & Loss A/c (written off)	4,75,000		
To Capital Reserve ( <b>balancing figure</b> )	<b>2,98,000</b>		
<b>Total</b>	<b>13,05,000</b>	<b>Total</b>	<b>13,05,000</b>

### 3. Bank A/c

Particulars	Rs.	Particulars	Rs.
To Trade Investments (Sale Proceeds)	2,50,000	By Arrears of Debenture Interest	24,000
		By Capital Reduction A/c - Penalty paid	30,000
		By balance c/d ' <b>balancing figure</b> '	<b>1,96,000</b>
<b>Total</b>	<b>2,50,000</b>	<b>Total</b>	<b>2,50,000</b>

**4. Balance Sheet of Malini Ltd. (and reduced) as on 31st March (after Capital Reduction A/c)**

	Particulars as at 31st March	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	B-1	6,27,000	
	(b) Reserves and Surplus – Capital Reserve		2,98,000	
(2)	<b>Non-Current Liabilities:</b>			
	Long Term Borrowings 6% Debentures (Secured against Freehold Property)		1,00,000	
(3)	<b>Current Liabilities:</b> – Trade Payables (Sundry Creditors)		1,01,000	
	<b>Total</b>		<b>11,26,000</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>Non-Current Assets</b> Fixed Assets: Tangible Assets	B-2	6,00,000	
(2)	<b>Current Assets:</b>			
	(a) Current Investments			
	(b) Inventories – Stock-in-Trade (3,00,000 – 80%)		60,000	
	(c) Trade Receivables – Sundry Debtors (4,50,000 – 40%)		2,70,000	
	(d) Cash and Cash Equivalents (WN 3)		1,96,000	
	<b>Total</b>		<b>11,26,000</b>	

**Schedule B-1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b>		
..... Equity Shares of Rs. 2 each		
..... Preference Shares of Rs. 80 each		
<b>Issued, Subscribed &amp; Paid-up:</b>		
1,53,500 Equity Shares of Rs. 2 each	3,07,000	
4,000 8% Preference Shares of Rs. 80 each	3,20,000	
<b>Total</b>	<b>6,27,000</b>	

Number of Equity Shares = Given 1,00,000 + Pref Dividend Arrears 16,000 + 4 Directors 37,500 = 1,53,500 Shares.

**Schedule B2: Tangible Assets**

Particulars	This Year	Prev. Yr.
(a) Freehold Property (Net Book Value 2,50,000 + under Capital Reduction A/c 1,50,000)	4,00,000	
(b) Plant & Machinery	2,00,000	
<b>Total</b>	<b>6,00,000</b>	

**Illustration 7: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

The following is the Balance Sheet of Garuda Limited as on 31st March.

Liabilities	Rs.	Assets	Rs.
12,000, 10% Preference Shares of Rs. 100 each	12,00,000	Goodwill	90,000
24,000 Equity Shares of Rs. 100 each	24,00,000	Land & Building	12,00,000
10% Debentures	6,00,000	Plant & Machinery	18,00,000
Bank Overdraft	6,00,000	Stock	2,60,000
Sundry Creditors	3,00,000	Debtors	2,80,000
		Cash	30,000
		P&L A/c	14,00,000
		Preliminary Expenses	40,000
<b>Total</b>	<b>51,00,000</b>	<b>Total</b>	<b>51,00,000</b>

On the above date, the Company adopted the following scheme of Capital Reduction A/c:

- Equity Shares to be reduced to Rs. 40 each fully paid, and Preference Shares to be reduced to fully paid Shares of Rs. 76 each.
- Debentureholders took over Stock and Debtors in full satisfaction of their claims.
- Land and Building to be appreciated by 30% and Plant and Machinery to be depreciated by 30%.
- Fictitious and Intangible Assets are to be eliminated. Expenses of Capital Reduction A/c amounted to Rs. 5,000.

Give Journal Entries incorporating the above scheme of Capital Reduction A/c, and prepare the reconstructed Balance Sheet.

**Solution:****1. Journal Entries in the books of Garuda Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c (Rs. 100) Dr. To Equity Share Capital A/c (Rs. 40) To Capital Reduction A/c (Being Equity Shares reduced to Rs. 40 each as per scheme of Capital Reduction A/c dated.....)	24,00,000	9,60,000 14,40,000
2.	Preference Share Capital A/c (Rs. 100) Dr. To Preference Share Capital A/c (Rs. 75) To Capital Reduction A/c (Being Preference Shares reduced to Rs. 75 each as per scheme of Capital Reduction A/c dated.....)	12,00,000	9,00,000 3,00,000
3.	10% Debentures A/c Dr. To Stock A/c To Debtors A/c To Capital Reduction A/c (Being Debentureholders' Claim satisfied as per Scheme of Capital Reduction A/c)	6,00,000	2,60,000 2,80,000 60,000
4.	Capital Reduction A/c (18,00,000 x 30%) Dr. To Plant and Machinery A/c (Being downward Revaluation of Plant & Machinery as per Scheme of Capital Reduction A/c)	5,40,000	5,40,000

**Capital Reduction & Internal Reconstruction • 109**

5.	Capital Reduction A/c To Goodwill A/c To Preliminary Expenses A/c To P&L A/c (Being Intangible & Fictitious Assets written off as per Scheme of Capital Reduction A/c)	Dr.	15,30,000	90,000 40,000 14,00,000
6.	Land & Buildings A/c (Rs. 12,00,000 x 30%) To Capital Reduction A/c (Being Upward Revaluation of Land & Buildings as per Scheme of Capital Reduction A/c)	Dr.	3,60,000	3,60,000
7.	Capital Reduction A/c To Bank A/c (Being Expenses on Capital Reduction A/c paid)	Dr.	5,000	5,000
8.	Capital Reduction A/c To Capital Reserve A/c (WN 2) (Being balance in Capital Reduction A/c transferred to Capital Reserve A/c)	Dr.	85,000	85,000

**2. Capital Reduction Account**

Particulars	Rs.	Particulars	Rs.
To Plant and Machinery A/c	5,40,000	By Equity Share Capital A/c (Rs. 100)	14,40,000
To Goodwill A/c	90,000	By Preference Share Capital A/c (Rs. 100)	3,00,000
To Preliminary Expenses A/c	40,000	By 10% Debentures A/c	60,000
To P&L A/c	14,00,000	By Land & Buildings A/c	3,60,100
To Bank A/c (Expenses on Capital Reduction A/c)	5,000		
To Capital Reserve A/c (balancing figure)	85,000		
<b>Total</b>	<b>21,60,000</b>	<b>Total</b>	<b>21,60,000</b>

**3. Balance Sheet of Garuda Ltd. (and reduced) as at 31st March**

	Particulars as at 31st March	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	(a) Share Capital	B-1	18,60,000	
	(b) Reserves and Surplus – Capital Reserve (WN 2)		85,000	
(3)	<b>Current Liabilities:</b>			
	(a) Short Term Borrowings – Bank O/D		6,00,000	
	(b) Trade Payables – Sundry Creditors		3,00,000	
	<b>Total</b>		<b>28,45,000</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>NonCurrent Assets</b>			
	Fixed Assets: Tangible Assets	B-2	28,20,000	
(2)	<b>Current Assets:</b>			
	Cash and Cash Equivalents (30,000 – 5,000)		25,000	
	<b>Total</b>		<b>28,45,000</b>	

**Schedule B1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> ..... Equity Shares of Rs. 40 each &.... Preference Shares of Rs. 75 each		
<b>Issued, Subscribed &amp; Paid-up:</b> 24,000 Equity Shares of Rs. 40 each	9,60,000	
12,000 10% Preference Shares of Rs. 75 each	9,00,000	
<b>Total</b>	<b>18,60,000</b>	

**Schedule B2: Tangible Assets**

Particulars	This Year	Prev. Yr.
(a) Land & Building (Cost 12,00,000 + Increase on Capital Reduction A/c 3,60,000)	15,60,000	
(b) Plant & Machinery (Cost 18,00,000 – Decrease on Capital Reduction A/c 5,40,000)	12,60,000	
<b>Total</b>	<b>28,20,000</b>	

**Illustration 8: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

The summarised Assets and Liabilities position of Garuthman Ltd. as on 1st April was as follows:

Liabilities	Rs.	Assets	Rs.
Authorised Capital:		Goodwill	20,000
80,000 Equity Shares of Rs. 10 each	8,00,000	Land and Buildings	1,60,000
2,000 9% Preference Shares of Rs. 100 each	2,00,000	Plant and Machinery	1,20,000
Issued and Paid-up Capital:		Investments	24,000
40,000 Equity Shares of Rs. 10 each (Rs. 7.50 paid-up)	3,00,000	Stock	54,000
2,000 9% Preference Shares of Rs. 100 each fully paid	2,00,000	Debtors	1,18,000
Unsecured Loans	80,000	Cash in Hand	6,000
Trade Creditors	48,000	Profit and Loss Account	1,42,800
Bank Overdraft	16,800		
<b>Total</b>	<b>6,44,800</b>	<b>Total</b>	<b>6,44,800</b>

**Notes:** Dividend on Preference Shares has not been declared for 2 years.

No Provision has been made for Sales Tax Liability of Rs. 9,000.

The following Scheme of Capital Reduction A/c has been approved

1. Uncalled Capital is to be called up in full, and Equity Shares are to be reduced to Rs. 5 per Share.
2. Sales Tax Liability of I 9,000 is to be paid Immediately.
3. Land & Buildings are to be shown in the Balance Sheet at full Market Value of Rs. 2,20,000, and Goodwill is to be written off.
- 4.. Trade Creditors have consented for 25% of remission of liability, on a condition that 25% of the net liability after remission 14 paid forthwith and the balance is paid within one year.
5. Investments are to be taken over by Bank in full settlement of the Overdraft balance.
6. Preference Shareholders have agreed to give up their right for the two years dividend, and accept 12 fully paid Equity Shares of Rs. 5 each for each fully paid Preference Share.

Required:

- (i) Pass necessary Journal Entries recording the above transactions, and
- (ii) Draw up a fresh Balance Sheet after giving effect to the scheme of Capital Reduction A/c.

**Capital Reduction & Internal Reconstruction • 111**

**Solution:**

**1. Journal Entries in the books of Garuthman Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c To Equity Share Capital A/c (Being the amount of Final Call Money received on 40,000 Equity Shares at Rs. 2.50 per Share, credited to Share Capital A/c)	Dr. 1,00,000	1,00,000
2.	Equity Share Capital (Rs. 10) A/c To Equity Share Capital (Rs. 5) A/c To Capital Reduction A/c (Being 40,000 Equity Shares of Rs. 10 each fully paid reduced to 40,000 Equity Shares of Rs. 5 each fully paid vide approved scheme of Capital Reduction A/c dated balance credited to Capital Reduction A/c)	Dr. 4,00,000	2,00,000 2,00,000
3.	Land & Building A/c To Capital Reduction A/c (Being the appreciation in the value of Land & Buildings vide approved scheme of Capital Reduction A/c credited to Capital Reduction A/c) (2,20,000 – 1,60,000 = 60,000)	Dr. 60,000	60,000
4.	Capital Reduction A/c To Goodwill A/c To Profit & Loss A/c To Sales Tax Payable A/c (Being Goodwill & Dr. balance of P&L written off, Sales Tax Payable provided against Capital Reduction A/c vide approved scheme of Capital Reduction A/c dated.....)	Dr. 1,71,800	20,000 1,42,800 9,000
5.	Trade Creditors To Capital Reduction A/c (48,000 x 25%) To Bank A/c [25% of (48,000 – 12,000)] (Being the remission of Creditors' Liability credited to Capital Reduction A/c and amount immediately paid to Creditors Rs. 9,000 vide approved scheme of Capital Reduction A/c dated....)	Dr. 21,000	12,000 9,000
6.	Bank Overdraft A/c Capital Reduction A/c To Investments A/c (Being investments having Book Value of Rs. 24,000 given in discharge of Bank Overdraft of Rs. 16,800, the difference debited to Capital Reduction A/c)	Dr. 16,800 7,200	24,000
7.	9% Preference Share Capital A/c To Equity Share Capital (Rs. 5) A/c To Capital Reduction A/c (Being the allotment to 9% Pref. Shareholders of 2,000 x 12 Equity Shares of Rs. 5 each = Rs. 1,20,000, balance transferred to Capital Reduction A/c) <b>Note:</b> Preference Dividend for the past two years is not recorded in the Books. Hence, no entry is required for its waiver.	Dr. 2,00,000	1,20,000 80,000
8.	Sales Tax Payable To Bank A/c (Being amount paid against Sales Tax Payable in final settlement)	Dr. 9,000	9,000
9.	Capital Reduction A/c To Capital Reserve A/c (WN 2) (Being the balance in Capital Reduction A/c transferred to Capital Reserve)	Dr. 1,73,000	1,73,000

## 2. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Goodwill (written off)	20,000	By Equity Share Capital A/c (Reduction)	2,00,000
To Profit & Loss A/c (written off)	1,42,800	By Land & Building (Appreciation in Value)	6,01,000
To Sales Tax Payable A/c (recorded)	9,000	By Trade Creditors (Remission of Liability)	12,000
To Investments (Loss on takeover by Bank)	1,72,000	By Preference Share Capital (Sacrifice)	80,000
To Capital Reserve (balancing figure)	1,73,000		
<b>Total</b>	<b>3,52,000</b>	<b>Total</b>	<b>3,52,000</b>

## 3. Cash / Bank Account

Receipts	Rs.	Payments	Rs.
To balance b/d	6,000	By Trade Creditors (25% settled)	9,000
To Equity Share Capital Call money	1,00,000	By Sales Tax Payable (amount paid)	9,000
		By balance c/d (Balancing Figure)	88,000
<b>Total</b>	<b>1,06,000</b>	<b>Total</b>	<b>1,06,000</b>

## 4. Balance Sheet of Garuthman Ltd. (and Reduced) as on 1st April (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	(a) Share Capital	B-1	3,20,000
	(b) Reserves and Surplus – Capital Reserve (WN 2)		1,73,000
(2)	<b>NonCurrent Liabilities:</b>		
	Long Term Borrowings – Unsecured Loans		80,000
(3)	<b>Current Liabilities:</b>		
	Trade Payables Creditors (Given 48,000 – Remission 12,000 – Paid 9,000)		27,000
	<b>Total</b>		<b>6,00,000</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>NonCurrent Assets</b>		
	Fixed Assets: Tangible Assets	B-2	3,40,000
(2)	<b>Current Assets</b>		
	(a) Inventories – Stock-in-Trade		54,000
	(b) Trade Receivables – Sundry Debtors		1,18,000
	(c) Cash and Cash Equivalents (WN 3)		88,000
	<b>Total</b>		<b>6,00,000</b>

## Schedule B-1: Share Capital

Particulars	This Year
<b>Authorised:</b>	
1,60,000 Equity Shares of Rs. 5 each	8,00,000
2,000 9% Preference Shares of Re. 1.00 each	2,00,000
<b>Issued, Subscribed &amp; Paid-up:</b>	
64,000 Equity Shares of Rs. 5 each	3,20,000
<b>Total</b>	<b>3,20,000</b>

**Note:** It is assumed that the amount of Authorised Capital remains intact at Rs. 10,00,000, (with the same breakup of Equity and Preference Capital) with a reorganisation of the number of Equity Shares.

**Schedule B-2: Tangible Assets**

Particulars	This Year
(a) Land & Buildings (Cost 1,60,000 + Increase on Capital Reduction A/c 60,000)	2,20,000
(b) Plant & Machinery	1,20,000
<b>Total</b>	<b>3,40,000</b>

**Illustration 9: Internal Capital Reduction A/c – Debentures given to Creditors Cash for Fractions - Journal Entries and Balance Sheet**

The Directors of Harihara Ltd. decided to recommend to the Shareholders, certain measures to put the affairs of the Company back on the rails. On 30th June, the Balance Sheet of the Company was as under:

Liabilities	Rs.	Assets	Rs.
Share Capital: Authorised: 1,00,000 Equity Shares of Re. 1 each	1,00,000	Fixed Assets:	
Issued and Paid-up: 85,000 Equity Shares of Re. 1 each fully paid	85,000	Goodwill at Cost	22,600
Reserves and Surplus: Securities Premium	15,000	Freehold Property (Cost 50,000 Deprn. 8,500)	41,500
Current Liabilities: Trade Creditors	64,500	Plant & Machinery (Cost 1,19,000 Deprn 59,000)	60,000
Bank Overdraft	56,500	Investments:	
Loan from Bank	1,81,000	Shares at Cost in Associated Co's	30,000
		Other Quoted Investments at Cost	16,000
		Current Assets:	
		Stock	23,000
		Debtors	19,600
		Profit and Loss Account	68,300
<b>Total</b>	<b>2,81,600</b>	<b>Total</b>	<b>2,81,000</b>

The Scheme of Capital Reduction A/c as approved by the competent authorities, was as under

1. The Issued Ordinary Shares were reduced to 5 paise each paid-up, the Unpaid Value of the Share was subsequently called by the Company and paid by all the Shareholders.
2. The balance of Unissued Capital was allotted to the Bank in part discharge of the loan, the balance due was paid in cash.
3. The Authorised Capital of the Company is to be increased by another 50,000 Shares and these are to be issued to the existing Shareholders as Rights Issue. The amount due from the Shareholders was realised.
4. Trade Creditors to give up 25% of their claims, and the balance due to them to be converted into 12% Secured Debentures of Rs. 100 each.
5. Interest of Rs. 6,500 on Overdraft to be waived by the Bank and the Balance Overdraft to be paid off.
6. All amounts available Including Securities Premium to be utilised to write off Losses, Goodwill and the Value of Shares in Associated Companies.

Show Journal Entries to record the above and draw the Balance Sheet of the Company after the scheme is fully implemented.

Solution.

## 1. Journal Entries in the books of Harihara Ltd.

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c To Capital Reduction A/c (Being the reduction of 85,000 Shares from Re. 1 each paid-up to 5 Paise each paid-up vide approved scheme of Capital Reduction A/c dated .... ) (85,000 x Rs. 0.95)	Dr. 80,750	80,750
2.	Bank A/c To Equity Share Capital A/c (Being payment made by Shareholders on 85,000 Shares at Rs. 0.95 each)	Dr. 80,750	80,750
3.	Bank Loan A/c To Equity Share Capital A/c (1,00,000 - 85,000) To Bank (balancing figure) (Being the allotment of 15,000 Equity Shares towards part settlement of loan and the balance discharged by payment)	Dr. 60,000	15,000 45,000
4.	Trade Creditors A/c To Capital Reduction A/c (64,500 x 25%) To 12% Debentures A/c (64,500 x 75%) rounded off to nearest Rs. 100 To Bank (fraction balance) (Being the settlement with Creditors 25% of the claim being given up, and the balance discharged by issue of Debentures and payment in cash for fractions)	Dr. 64,500 48,300	16,125 75
5.	Bank A/c To Equity Share Capital A/c (Being cash received from Shareholders on allotment of 50,000 Shares of Re. 1 each, by way of Rights issue vide approved scheme of Capital Reduction A/c)	Dr. 50,000	50,000
6.	Bank Overdraft To Bank A/c To Capital Reduction A/c (Being Bank Overdraft settled after Interest Waiver of Rs. 6,500)	Dr. 56,500	50,000 6,500
7.	Securities Premium A/c To Capital Reduction A/c (Being amount of Securities Premium utilised to write off value of Sundry Assets, by transferring to Capital Reduction A/c Account)	Dr. 15,000	15,000
8.	Capital Reduction A/c To Profit & Loss A/c To Goodwill A/c To Investments in Associated Companies (bal. fig) (See WN 2) (Being amounts written off as per Capital Reduction A/c Scheme, Balance in Capital Reduction A/c used to write off Investments in Associated Companies)	Dr. 1,18,375	68,300 22,600 27,475

**2. Capital Reduction A/c Account**

Particulars	Rs.	Particulars	Rs.
To Profit and Loss Account (written off)	68,300	By Equity Share Capital (95p. per Share)	80,750
To Goodwill (written off)	22,600	By Securities Premium (transfer)	15,000
To Invt. in Associated Companies (written off) (balancing figure)	27,475	By Sundry Creditors (remission)	16,125
		By Interest on Bank Overdraft (waiver)	6,500
<b>Total</b>	<b>1,18,375</b>	<b>Total</b>	<b>1,18,375</b>

**3. Cash Bank Account**

Receipts	Rs.	Payments	Rs.
To balance b/d	Nil	By Bank Loan (repaid)	45,000
To Equity Share Capital (tall Money)	80,750	By Bank Overdraft (settled)	50,000
To Equity Share Capital (Rights Issue)	50,000	By Creditors (fraction paid in cash)	75
		By balance c/d (balancing figure)	35,675
<b>Total</b>	<b>1,30,750</b>	<b>Total</b>	<b>1,30,750</b>

**4. Balance Sheet of Harihara Ltd. (and reduced) on 1st July (after Capital Reduction A/c)**

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	Share Capital	B-1	1,50,000
(2)	<b>NonCurrent Liabilities:</b>		
	Long Term Borrowings (12% Secured Debentures)		48,300
	<b>Total</b>		<b>1,98,300</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>NonCurrent Assets</b>		
	(a) Fixed Assets: Tangible Assets	B-2	1,01,500
	(b) NonCurrent Investments	B-3	18,525
(2)	<b>Current Assets:</b>		
	(a) Inventories – Stock in Trade		23,000
	(b) Trade Receivables – Sundry Debtors		19,600
	(c) Cash and Cash Equivalents (WN 3)		35,675
	<b>Total</b>		<b>1,98,300</b>

**Schedule B-1: Share Capital**

Particulars	Rs.
<b>Authorised:</b> 1,50,000 Equity Shares of Re. 1 each	1,50,000
<b>Issued, Subscribed &amp; Paid-up:</b> 1,50,000 Equity Shares of Re. 1 each	1,50,000
<b>Total</b>	<b>3,00,000</b>

**Schedule B-2: Tangible Assets**

Particulars	Rs.
(a) Freehold Property (Cost 50,000 less Depreciation 8,500)	41,500
(b) Plant & Machinery (Cost 1,19,000 less Depreciation 59,000)	60,000
<b>Total</b>	<b>1,01,500</b>

**Schedule B-3: NonCurrent Investments**

Particulars	Rs.
(a) In Associated Companies (Cost 30,000 – Write Down under Capital Reduction A/c 27,475)	2,525
(b) Other Quoted Investments	16,000
<b>Total</b>	<b>18,525</b>

**Illustration 10: Internal Capital Reduction A/c – Sub-Division and Surrender of Shares – Journal Entries and Balance Sheet**

The Balance Sheet of In Limited as at 31st March was as follows:

Liabilities	Rs.	Assets	Rs.
Authorised and Subscribed Capital: 10,000 Equity Shares of Rs. 100 each	10,00,000	Fixed Assets: Machineries	3,50,000
Unsecured Loan:		Current Assets:	
15% Debentures	3,00,000	Stock	2,53,000
Accrued interest	45,000	Debtors	2,30,000
Current Liabilities: Creditors	52,000	Bank	20,000
Provision for IncomeTax	36,000	Profit and Loss Account	5,80,000
<b>Total</b>	<b>14,33,000</b>	<b>Total</b>	<b>14,33,000</b>

It was decided to reconstruct the Company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly it was decided that –

- Each Share shall be subdivided into 10 Fully Paid Shares of Rs. 10 each.
- After subdivision, each Shareholder shall surrender to the Company, 50% of his holdings for the purpose of reissue to Debenture holders and Creditors as necessary.
- Out of Shares surrendered, 10,000 Shares of Rs. 10 each shall be converted into 10% Preference Shares of Rs. 10 each fully paid-up.
- The claims of the Debentureholders shall be reduced by 50%. In consideration of the reduction, the Debentureholders shall receive Preference Shares of Rs. 1,00,000 which are converted out of shares surrendered.
- Creditors' claims shall be reduced by 25%, and balance claim is to be settled by the issue of Equity Shares of Rs. 10 each out of shares surrendered.
- Balance of Profit and Loss Account to be written off.
- The shares surrendered and not reissued shall be cancelled.

You are required to show the Journal Entries giving effect to the above and the resultant Balance Sheet.

**Solution:**

**1. Journal Entries in the books of Hindu Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c (Rs. 100) <span style="float: right;">Dr.</span> To Share Surrendered A/c To Equity Share Capital (Rs. 10) A/c (Being subdivision of 10,000 Equity Shares of Rs. 100 each into 1,00,000 Equity Shares of Rs. 10 each and surrender of 50,000 of such subdivided shares as per approved scheme of Capital Reduction A/c dated.....)	10,00,000	5,00,000 5,00,000
2.	15% Debentures A/c <span style="float: right;">Dr.</span> Accrued Interest A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (Being transfer of 50% of claims of Debenture holders to Capital Reduction A/c, in consideration of which 10% Preference Shares are being issued out of Share Surrender Account as per approved scheme of Capital Reduction A/c dated.....)	1,50,000 22,500	11,72,500
3.	Creditors A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (Being transfer of claims of Creditors to Capital Reduction A/c in full, 25% of which is waived, and Equity Shares issued in consideration of the balance)	52,000	52,000
4.	Share Surrendered A/c <span style="float: right;">Dr.</span> To 10% Preference Share Capital A/c (issued to Debentureholders) To Equity Share Capital (Rs. 10) A/c (issued to Creditors) To Capital Reduction A/c (balancing figure) cancellation (WN 2) (Being issue of Preference and Equity Shares to discharge the claims of Debenture holders and Creditors respectively as per scheme; balance in Share Surrendered a/c being transferred to Capital Reduction A/c on cancellation)	5,00,000	1,00,000 39,000 3,61,000
5.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Profit and Loss A/c To Capital Reserve A/c (WN 3) (Being Dr. Balance of P&L Account written off against Capital Reduction A/c and balance in Capital Reduction A/c transferred to Capital Reserve)	5,85,500	5,80,000 5,500

**2. Shares Surrendered Account**

Particulars	Rs.	Particulars	Rs.
To 10% Preference Share Capital A/c	1,00,000	By Equity Share Capital (Rs. 100)	5,00,000
To Equity Share Capital A/c	39,000		
To Capital Reduction A/c (balancing figure)	3,61,000		
<b>Total</b>	<b>5,00,000</b>	<b>Total</b>	<b>5,00,000</b>

## 3. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Profit and Loss A/c	5,80,000	By 15% Debentures A/c	1,50,000
To capital Reserve A/c (balancing figure)	5,300	By Accrued Interest on Debentures A/c	22,500
		By Creditors A/c	52,000
		By Shares Surrendered A/c (transfer)	3,61,000
<b>Total</b>	<b>5,85,500</b>	<b>Total</b>	<b>5,85,000</b>

## 4. Balance Sheet of Indu Ltd. as at 31st March (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	(a) Share Capital	B1	6,39,000
	(b) Reserves and Surplus – Capital Reserve		5,500
(2)	<b>Non-Current Liabilities:</b>		
	Long Term Borrowings – 15% Unsecured Debentures		1,50,000
(3)	<b>Current Liabilities:</b>		
	(a) Other Current liabilities – Accrued Interest (1/2 x 45,000)		22,500
	(b) Short Term Provisions – Provision for Income Tax		36,000
	<b>Total</b>		<b>8,53,000</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b>		
	Fixed Assets: Tangible Assets – Machinery		3,50,000
(2)	<b>Current Assets:</b>		
	(a) Inventories – Stock in Trade		2,53,000
	(b) Trade Receivables – Sundry Debtors		2,30,000
	(c) Cash and Cash Equivalents		20,000
	<b>Total</b>		<b>8,53,000</b>

## Schedule B-1: Share Capital

	Particulars	Rs.
<b>Authorised:</b>	90,000 Equity Shares of Rs. 10 each	9,00,000
	10,000 10% Preference Shares of Rs. 10 each	1,00,000
<b>Issued, Subscribed &amp; Paid-up:</b>	53,900 Equity Shares of Rs. 10 each	5,39,060
	10,000 10% Preference Shares of Rs. 10 each	1,00,000
<b>Total</b>		<b>6,39,000</b>

**Note:** It is assumed that the amount of Authorised Capital remains intact at given Rs. 10,00,000, and the amount of Preference Capital (which was not earlier defined in Authorised Capital) is taken at Rs. 1,00,000, the balance being taken as Equity Capital, divided into Shares of Rs. 10 each, with reorganisation in the number of Shares.

**Illustration 11: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

Kauravas Ltd. which had experienced trading difficulties decided to reorganise its finances. On 31st March, a Final Trial Balance extracted from the books of the Company showed the following position: (in Rs.)

Particulars	Dr.	Cr.
Share Capital, Authorised and Issued:		
1,500 6% Cumulative Preference Shares of Rs. 100 each		1,50,000
2,000 Equity Shares of Rs. 100 each		2,00,000
Capital Reserve		36,000
Profit and Loss Account	1,10,375	
Preliminary Expenses	1,250	
Goodwill at Cost	50,000	
Trade Creditors		42,500
Debtors	30,200	
Bank Overdraft		51,000
Leasehold Property at Cost	80,000	
Lease hold Property Provision for Depreciation		30,000
Plant and Machinery at Cost	2,10,000	
Plant and Machinery Provision for Depreciation		57,500
Stock in Trade	79,175	
<b>Total</b>	<b>5,67,000</b>	<b>6,67,000</b>

Approval from appropriate authorities was obtained for the following scheme for Reduction of Capital

1. Preference Shares to be reduced to Rs. 75 per Share and Equity Shares 'to be reduced to Rs. 12.50 Per Share.
2. One Rs. 12.50 Equity Share to be issued for each Rs. 100 of Gross Preference Dividend Arrears, the Preference Dividend had not been paid for three years.
3. The balance in Capital Reserve Account to be utilised.
4. Plant and Machinery to be written down to Rs. 75,000.
5. Profit and Loss Account balance and all Intangible Assets to be written off.

At the same time as the resolution to reduce Capital was passed, another resolution was approved restoring the Total Authorised Capital to Rs. 3,50,000 consisting of 1,500 6% Cumulative Preference Shares of Rs. 75 each and the balance in Equity Shares of Rs. 12.50 each. As soon as the above resolution had been passed, 5,000 Equity Shares were issued at par for cash payable in full upon application. The same were fully subscribed and paid.

**You are required**

1. To show the Journal Entries necessary to record the above transaction in the Company's books, and
2. To prepare the Balance Sheet of the Company, after completion of the scheme.

**Solution:****1. Journal Entries in the books of Kauravas Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	6% Cum. Preference Share Capital (Rs. 100 each) A/c Dr. To 6% Cumulative Pref. Share Capital (Rs. 75 each) A/c To Capital Reduction A/c (Being 1,500 6% Cum. Preference Shares converted into equal number of 6% Cum. Preference Shares of Rs. 75 each, balance of the amount transferred to Capital Reduction A/c Account vide approved Scheme of Capital Reduction A/c dated	1,50,000	1,12,500 37,500
2.	Equity Share Capital (Rs. 100 each) A/c Dr. To Equity Share Capital (Rs. 12.50 each) A/c To Capital Reduction A/c (Being 2,000 Equity Shares of Rs. 100 each reduced to Equity Shares of Rs. 12.50 each, balance transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated ...)	2,00,000	25,000 1,75,000
3.	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being allotment of 270 Equity Shares of Rs. 12.50 each to Pref. Share holders as under Preference Dividend due for 3 years = Rs. 1,50,000 x 6 x 3 years = Rs. 27,000 No. of Equity Shares to be issued for every Rs. 100 Dividend due = $\frac{27,000}{100} = 270$ Equity Shares. Nominal Value of ESC issued = 270 Shares x Rs. 12.50 = Rs. 3,375)	3,375	3,375
4,	Capital Reserve A/c Dr. To Capital Reduction A/c (Being balance of Capital Reserve transferred to Capital Reduction A/c vide Scheme of Capital Reduction A/c dated.....)	36,000	36,000
5.	Capital Reduction A/c Dr. To Plant & Machinery A/c (Being Net Amount of Plant & Machinery reduced to Rs. 75,000 vide approved Scheme of Capital Reduction A/c dated.....) (2,10,000 – 57,500 – 75,000 = 77,500)	77,500	77,500
6.	Capital Reduction A/c Dr. To Profit & Loss A/c To Preliminary Expenses To Goodwill (Being Dr. balance of P&L Account, Preliminary Expenses and Goodwill written off against Capital Reduction A/c Account vide approved Scheme of Capital Reduction A/c dated.....)	1,67,625	1,10,375 7,250 50,000
7,	Bank A/c Dr. To Share Application & Allotment A/c (Being money received on 5,000 Equity Shares at Rs. 12.50 per share)	62,500	62,500
8.	Share Application and Allotment A/c Dr. To Equity Share Capital A/c (Being allotment of 5,000 Equity Shares of Rs. 12.50 each vide Board Resln. dated.....)	62,500	62,500

**2. Capital Reduction A/c Account**

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital (Arrears of Dividend)	3,375	By 6% Cum. Pref. Share Capital (Rs. 100)	37,500
To Plant and Machinery (Reduction)	77,500	By Equity Share Capital (Rs. 100)	1,75,000
To Profit & Loss A/c (written off)	1,10,375	By Capital Reserve (transfer)	36,000
To Preliminary Expenses (written off)	7,250		
To Goodwill (written off)	50,000		
<b>Total</b>	<b>2,48,500</b>	<b>Total</b>	<b>2,48,500</b>

**3. Cash / Bank Account**

Receipts	Rs.	Payments	Rs.
To Equity Share Capital fresh issue	62,500	By balance b/d given	51,000
		By balance c/d (balancing figure)	11,500
<b>Total</b>	<b>62,500</b>	<b>Total</b>	<b>62,500</b>

**4. Balance Sheet of Kauravas Ltd. (and Reduced) as on 31st March (after Capital Reduction A/c)**

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	Share Capital	B-1	2,03,375
(2)	<b>Current Liabilities:</b>		
	Trade Payables – Sundry Creditors		42,500
	<b>Total</b>		<b>2,45,875</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>NonCurrent Assets</b>		
	Fixed Assets: (i) Tangible Assets	B-2	1,25,000
(2)	<b>Current Assets:</b>		
	(a) Inventories – Stock in Trade		79,175
	(b) Trade Receivables – Sundry Debtors		30,200
	(c) Cash and Cash Equivalents		11,500
	<b>Total</b>		<b>2,45,875</b>

**Schedule B-1: Share Capital**

Particulars	Rs.
<b>Authorised:</b> 19,000 Equity Shares of Rs. 12.50 each	2,37,500
1,500 6% Cum. Preference Shares of Rs. 75 each	1,12,500
<b>Issued, Subscribed &amp; Paid-up:</b> 7,270 Equity Shares of Rs. 12.50 each (Of the above, 270 Shares of Rs. 12.50 each issued for Arrears of Preference Dividend)	90,875
1,500 6% Cum. Preference Shares of Rs. 75 each	1,12,500
<b>Total</b>	<b>2,03,375</b>

**Schedule B-2: Tangible Assets**

Particulars	Rs.
(a) Plant & Machinery (Cost 2,10,000 – Accum. Deprn. 57,500 less Decr in Revaluation 77,500)	75,000
(b) Leasehold Property (Cost 80,000 – Accum. Deprn. 30,000)	50,000
<b>Total</b>	<b>1,25,000</b>

**Illustration 12: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

Following is the Balance Sheet of Lakshmi Ltd. as on 31st March:

Liabilities	Rs.	Assets	Rs.
8,000 – 7½% Preference Shares at Rs. 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
1,80,000 Equity Shares at Rs. 10 each fully paid	18,00,000	Furniture and Fittings	1,60,000
11% Debentures	10,00,000	Patents and Copyrights	60,000
Bank Overdraft	1,65,000	Goodwill	35,000
Loan from Director	15,000	Investments (at Cost)	65,000
Trade Creditors	6,20,000	Sundry Debtors	12,00,000
		Stock	13,00,000
		Cash in Hand	12,000
		Profit & Loss A/c	7,18,000
<b>Total</b>	<b>44,00,000</b>	<b>Total</b>	<b>44,00,000</b>

Due to heavy losses and overvaluation of Assets, the following scheme of Capital Reduction A/c was finalised:

- (i) Preference Shareholders will surrender their 20% Shares, and they have been allotted 9% (New) Preference Shares for remaining amount.
- (ii) Debentureholders having charge on Plant and Machinery would accept Plant and Machinery in full settlement.
- (iii) Trade Creditors accepted to take over the Stock up to the value of Rs. 6,20,000.
- (iv) Equity Shareholders are to accept reduction of Rs. 74 per share.
- (v) Investment is to be valued at Market Price, i.e. Rs. 60,000.
- (vi) Sundry Debtors and Remaining Stock is to be valued at 90% of their Book Value.
- (vii) Directors have to forego their loan in full.
- (viii) Patents and Copyrights and Goodwill have no more value.

Pass necessary Journal Entries assuming that all the legal formalities have been completed. Prepare Capital Reduction A/c Account and Balance Sheet of the Company after reduction.

**Solution:**

**1. Journal Entries in the books of Lakshmi Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	7.5% Preference Share. Capital (Rs. 100) A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c To 9% Preference Share Capital (Rs. 100) A/c (Being 20% holding of Preference Shareholders surrendered, and 9% Preference Shares issued for the balance)	8,00,000	1,60,000 6,40,000
2.	11% Debentures A/c <span style="float: right;">Dr.</span> To Plant and Machinery A/c To Capital Reduction A/c (Being Debentureholders accepting Plant and Machinery in full satisfaction of their claim)	10,00,000	8,50,000 1,50,000
3.	Sundry Creditors A/c <span style="float: right;">Dr.</span> To Stock (Being Sundry Creditors agreeing to take over Stock of the value of Rs. 6,20,000)	6,20,000	6,20,000
4.	Equity Share Capital (Rs. 10) A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c To Equity Share Capital (Rs. 6) A/c (Being Equity Shareholders ageing for reduction of Rs. 4 per Share, and new Share of Rs. 6 each fully paid-up issued to them)	18,00,000	7,20,000 10,80,000
5.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Investments A/c (Being Investments written down to Market Value of Rs. 60,000)	5,000	5,000
6.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Sundry Debtor, A/c To Stock A/c (Being Sundry Debtors and Stock valued at 90% of their Book Value)	1,88,000	1,20,000 68,000
7.	Loan from Directors A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (Being Loan from Directors waived by them)	15,000	15,000
8.	Capital Reduction A/c <span style="float: right;">Dr.</span> To Profit and loss A/c To Goodwill A/c To Patents A/c To Capital Reserve A/c (WN 2) (Being balance in Capital Reduction A/c used to write off Intangible Assets and balance transferred to Capital Reserve A/c)	8,52,000	7,18,000 35,000 60,000 39,000

## 2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Investment A/c	5,000	By 7.5% Preference Share Capital A/c	1,60,000
To Sundry Debtors A/c	1,20,000	By 11% Debentures A/c	1,50,000
To Stock A/c	68,000	By Equity Share Capital A/c	7,20,000
To Goodwill A/c	35,000	By Loan from Directors A/c	15,000
To Patents A/c	60,000		
To Profit and Loss A/c	7,18,000		
To Capital Reserve A/c (balancing figure)	39,000		
<b>Total</b>	<b>10,45,000</b>	<b>Total</b>	<b>10,45,000</b>

## 3. Balance Sheet of Lakshmi Ltd. (and Reduced) as on 31st March (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	(a) Share Capital	B-1	17,20,000
	(b) Reserves and Surplus – Capital Reserve		39,000
(2)	<b>Current Liabilities:</b>		
	Short Term Borrowings – Bank Overdraft		1,65,000
	<b>Total</b>		<b>19,24,000</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b>		
	(a) Fixed Assets: Tangible Assets – Furniture & Fittings		1,60,000
	(b) NonCurrent investments – Cost Rs. 65,000, taken at Market Value		60,000
(2)	<b>Current Assets:</b>		
	(a) Inventories – Stock in Trade		6,12,000
	(b) Trade Receivables – Sundry Debtors		10,80,000
	(c) Cash and Cash Equivalents – Cash on Hand		12,000
	<b>Total</b>		<b>19,24,000</b>

## Schedule B-1: Share Capital

Particulars	Rs.
Authorised:	
..... Equity Shares of Rs.... each	
..... Preference Shares of Rs....each	
<b>Issued, Subscribed &amp; Paid-up:</b>	
1,80,000 Equity Shares of Rs. 6 each	10,80,000
6,400 9% Preference Shares of Rs. 100 each	6,40,000
<b>Total</b>	<b>17,20,000</b>

**Illustration 13: Internal Capital Reduction A/c – Settlement of Liabilities – Cash brought in by Shareholders – Journal Entries and Balance Sheet**

The Balance Sheet of Manoj Limited as at 31st March is given below –

Liabilities	Rs.	Assets	Rs.
2,00,000 Equity Shares of Rs. 10 each, Rs. 5 paid	10,00,000	Fixed Assets	11,40,000
6,000 8% Preference Shares of Rs. 100 each	6,00,000	Patents and Copyrights	80,000
9% Debentures	6,00,000	Investments at Cost (Mkt. Value Rs. 55,000)	65,000
Add: Interest accrued on Debentures	1,08,000	Stock	4,00,000
Bank Overdraft	1,50,000	Debtors	4,39,000
Add: Interest accrued on Bank Overdraft	15,000	Bank	10,000
Current Liabilities: Creditors	69,000	Profit & Loss Account	4,08,000
<b>Total</b>	<b>25,42,000</b>	<b>Total</b>	<b>25,42,000</b>

**Note:** Preference Dividend is in arrear for one year.

The following scheme is agreed upon

1. Preference Shareholders to give up 30% of their claims, including Dividends, and desire to be paid off.
2. Debentureholders give up their claims to interest in consideration of their interest being enhanced to 12%.
3. Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once.
4. Creditors would like to grant a discount of 5% if they are paid immediately.
5. Balance of Profit & Loss Account, Patents and Copyrights, and Debtors of 7 30,000 to be written off.
6. Fixed Assets to be written down by Rs. 34,000 and Investments are to reflect their Market Value.
7. To the extent not specifically stated, Equity Shareholders suffer on reduction of their rights.
8. Cost of Capital Reduction A/c is Rs. 3,350.

Draft Journal Entries in the books of the Company assuming that the scheme has been put through fully with the Equity Shareholders bringing in necessary cash to pay off the parties, and to leave a Working Capital of Rs. 30,000 and prepare the Balance Sheet after Capital Reduction A/c.

**Solution: 1. Cash/ Bank A/c (To compute Cash to be brought in by Equity Shareholders)**

Particulars	Rs.	Particulars	Rs.
To balance b/d	10,000	By Preference Shareholders (70% x 6,48,000)	4,53,600
To Equity Share Capital (Balancing Figure)	7,00,000	By Bank Overdraft (1,50,000 + 7,500)	1,57,500
		By Creditors (95% x 69,000)	65,550
		By Capital Reduction A/c (Expenses)	3,350
		By balance c/d (Required)	30,000
<b>Total</b>	<b>7,10,000</b>	<b>Total</b>	<b>7,10,000</b>

## 2. Journal Entries in the books of Manoj Ltd.

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	8% Preference Share Capital A/c To Preference Shareholders A/c To Capital Reduction A/c (Being 30% of Claim given up by Preference Shareholders as per approved Capital Reduction A/c scheme dated	Dr.   	6,00,000  4,20,000 1,30,000
2.	Capital Reduction A/c To Preference Shareholders A/c (Being 70% of Arrear Preference Dividend payable to Preference Shareholders now provided for, balance 30% waived as per scheme) (Rs. 6,00,000 x 8% x 70%)	Dr.  	33,600  33,600
3.	8% Debentures A/c Interest Accrued on Debentures A/c To 12% Debentures A/c To Capital Reduction A/c (Being 9% Debentures converted into 12% Debentures, in consideration of waiver of interest, which is transferred to Capital Reduction A/c)	Dr. Dr.  	6,00,000 1,08,000  6,00,000 1,08,000
4.	Bank Overdraft A/c Interest Accrued on bank Overdraft A/c To Bank a/c To Capital Reduction A/c (Being Bank Overdraft paid off including 50% of accrued interest as per Capital Reduction A/c Scheme, interest waived credited to Capital Reduction A/c)	Dr. Dr.  	1,50,000 15,000  1,57,500 7,500
5.	Creditors A/c To Bank A/c To Capital Reduction A/c (Being Creditors' claim discharged to the extent of 95% as per Scheme, the balance of 5% waived transferred to Capital Reduction A/c)	Dr.  	69,000  65,550 3,450
6.	Capital Reduction A/c To Bank A/c (Being expenses of Capital Reduction A/c paid)	Dr.  	3,350  3,350
7.	Bank A/c To Equity Share Capital A/c (Being amount received on 2,00,000 Equity Shares at Rs. 3.50 per Share as per Capital Reduction A/c Scheme) (WN 1)	Dr.  	7,00,000  7,00,000
8.	Preference Shareholders A/c To Bank A/c (Being the amount due to Preference Shareholders discharged)	Dr.  	4,53,600  4,53,600

**Capital Reduction & Internal Reconstruction • 127**

9.	Capital Reduction A/c To Profit and Loss A/c To Patents & Copyright A/c To Debtors A/c To Investment A/c To Fixed Assets A/c (Being Debit Balance of P & L A/c, Patents & Copyrights, Value of Debtors, Investments and Fixed Assets written off as per Capital Reduction A/c Scheme)	Dr.	5,62,000	4,08,000 80,000 30,000 10,000 34,000
10.	Equity Share Capital A/c To Capital Reduction A/c (Being balance amount reqd. in Capital Reduction A/c, provided by reducing Equity Capital, Rs. 3,00,000 over 2,00,000 Shares i.e. Rs. 1.50 per Share written off) (WN 3)	Dr.	3,00,000	3,00,000

**3. Capital Reduction A/c**

Particulars	Rs.	Particulars	Rs.
To Preference Shareholders (Arrears Divd.)	33,600	By 8% Preference Share Capital (30% waived)	1,80,000
To Bank (Capital Reduction A/c Expenses)	3,350	By Accrued Interest on Debentures (wived)	1,08,000
To Profit and Loss A/c (written off)	4,08,000	By Int. on Bank Overdraft (waived)	7,500
To Patents & Copyrights (written off)	80,000	By Creditors (5% discount received)	3,450
To Debtors (written off)	30,000	By Equity Share Capital (balancing figure)	3,00,000
To Investment (reduced to Market Value)	10,000		
To Fixed Assets (written off)	34,000		
<b>Total</b>	<b>5,98,950</b>	<b>Total</b>	<b>5,98,950</b>

**4. Balance Sheet of Manoj Ltd. (and Reduced) as at 31st March (after Capital Reduction A/c)**

	Particulars as at 31st March	Note	This Year	Prev. Yr.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>			
(1)	<b>Shareholders' Funds:</b>			
	Share Capital	B-1	14,00,000	
(2)	<b>NonCurrent Liabilities:</b>			
	Long Term Borrowings – 12% Debentures (Secured)		6,00,000	
	<b>Total</b>		<b>20,00,000</b>	
<b>II</b>	<b>ASSETS</b>			
(1)	<b>NonCurrent Assets</b>			
	(a) Fixed Assets: Tangible Assets (11,40,000 – Decr. on Reconstrn. 34,000)		11,06,000	
	(b) NonCurrent Investments (Cost 65,000, taken at Market Value)		55,000	
(2)	<b>Current Assets:</b>			
	(a) Inventories – Stock-In-Trade		4,00,000	
	(b) Trade Receivables – Sundry Debtors		4,09,000	
	(c) Cash and Cash Equivalents		30,000	
	<b>Total</b>		<b>20,00,000</b>	

**Schedule B-1: Share Capital**

Particulars	This Year	Prev. Yr.
<b>Authorised:</b> ..... Equity Shares of Rs. 10 each and... Preference Shares of ..... Each		
<b>Issued, Subscribed &amp; Paid-up:</b> 2,00,000 Equity Shares of Rs. 10 each, Rs. 7 paid-up	14,00,000	
<b>Total</b>	<b>14,00,000</b>	

**Illustration 14: Internal Capital Reduction A/c – Capital Reduction A/c, Settlement of Claims partly by Shares**

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

Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Equity Shares of Rs. 10 each	500	Goodwill	15
Capital Reserve	6	Land & Building	184
12% Debentures	400	Plant & Machinery	286
Debentures Interest Outstanding	48	Furniture & Fixtures	41
Trade Creditors	165	Stock	142
Directors Remuneration Outstanding	10	Debtors	80
Other Outstanding Expenses	11	Cash at Bank	27
Provisions	33	Discount on Issue of Debentures	8
		Profit & Loss Account	390
<b>Total</b>	<b>1,173</b>	<b>Total</b>	<b>1,173</b>

The following scheme for Internal Capital Reduction A/c was framed, approved & implemented.

- All the Equity Shares be converted into same number of Equity Shares of Rs. 2.50 each.
- Directors agree to forego their Outstanding Remuneration.
- Debentureholders agree to forego Outstanding Interest in return of their 12% Debentures being converted into 13% Debentures.
- Existing Shareholders agree to subscribe for cash, fully paid Equity Shares of Rs. 2.50 each for Rs. 125 Lakhs.
- Trade Creditors are given option of either to accept fully paid Equity Shares of Rs. 2.60 each tot the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs. 65 Lakhs accept **equity** Shares whereas those for Rs. 100 Lakhs accept Rs. 80 Lakhs in cash in full settlement.
- The Assets are revalued as (in Rs. Lakhs): Land & Building – 230, Stock – 120, Plant & Machinery – 220, Debtors – 76.

Pass Journal Entries for all the above, and draft the Company's Balance Sheet immediately after the Capital Reduction A/c.

**Solution: 1. Journal Entries in the books of the Company (Rs. in Lakhs)**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10 each) A/c Dr. To Equity Share Capital (Rs. 2.50 each) A/c To Capital Reduction A/c (Being the conversion of 50 Lakh Equity Shares into the same number of fully paid Equity Shares of Rs. 2.50 each as per approved scheme of Capital Reduction A/c dated.....)	500	125 375
2.	Directors Remuneration Payable A/c Dr. To Capital Reduction A/c (Being Remuneration payable waived by Directors, as per scheme of Capital Reduction A/c)	10	10

**Capital Reduction & Internal Reconstruction • 129**

3.	12% Debentures A/c Debenture Interest Outstanding A/c To 13% Debentures (New) A/c To Capital Reduction A/c (Being conversion of 12% Debentures into 13% Debentures, the Holders foregoing Outstanding Interest, as per approved Scheme of Capital Reduction A/c dated.....)	Dr. Dr.	400 48		400 48
4.	Bank A/c To Equity Share Application and Allotment A/c (Being application money received for 50 Lakh Equity Shares of Rs. 2.50)	Dr.	125		125
5.	Equity Share Application and Allotment A/c To Equity Share Capital (Rs. 2.50 each) (Being allotment of 50 Lakh Equity Shares of Rs. 2.50 each)	Dr.	125		125
6.	Trade Creditors A/c To Equity Share Capital (Rs. 2.50 each) A/c To Bank A/c To Capital Reduction A/c (Being settlement of Creditors for Rs. 65 Lakhs by issue of 26 Lakh Equity Shares of Rs. 2.50 each, & Creditors for Rs. 100 Lakhs accepting Cash equal to 80% of claim in full settlement)	Dr.	165		65 80 20
7.	Capital Reserve A/c To Capital Reduction A/c (Being Capital Reserve being used for purpose of Capital Reduction A/c Scheme)	Dr.	6		6
8.	Land & Building A/c To Capital Reduction A/c (Being appreciation recorded in the value of Land & Building as per scheme of Capital Reduction A/c) (230 – 184 = 46)	Dr.	46		46
9.	Capital Reduction A/c To Goodwill To Plant & Machinery To Stock To Debtors To Discount on Issue of Debentures To Profit & Loss A/c (Being writing off of losses & reduction in the values of assets)	Dr.	505		15 66 22 4 8 390

**Note:** Goodwill has been written off under the Capital Reduction A/c Scheme, in the above solution.

**2. Capital Reduction A/c Account**

Particulars	Rs. Lakhs	Particulars	Rs. Lakhs
To Goodwill A/c (written off)	15	By Equity Share Capital A/c	375
To Plant & Machinery A/c	66	By Directors Remuneration Outstanding A/c	10
To Stock A/c	22	By Debenture Interest Outstanding A/c	48
To Debtors A/c	4	By Trade Creditors A/c,	20
To Discount on Issue of Debentures A/c	8	By Capital Reserve A/c	6
To Profit & Loss A/c	390	By Land & Building A/c	46
<b>Total</b>	<b>505</b>	<b>Total</b>	<b>505</b>

**3. Balance Sheet of Arjuna Ltd. (and Reduced) as at 31st March (after Capital Reduction A/c) (Rs. Lakhs)**

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	Share Capital	B-1	315
(2)	<b>Non-Current Liabilities:</b>		
	Long Term Borrowings – 13% Debentures (Secured)		400
(3)	<b>Current Liabilities:</b>		
	(a) Trade Payables – Outstanding Expenses		11
	(b) Short Term Provisions		33
	<b>Total</b>		<b>759</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b>		
	(a) Fixed Assets:(i) Tangible Assets	B-2	491
(2)	<b>Current Assets:</b>		
	(a) Inventories – Stock-In-Trade (142 – 22)		120
	(b) Trade Receivables – Sundry Debtors (80 – 4)		76
	(c) Cash and Cash Equivalents (27 + 125 – 80)		72
	<b>Total</b>		<b>759</b>

**Schedule B-1: Share Capital**

Particulars	Rs.
<b>Authorised:</b> .....Equity Shares of.....each	
<b>Issued, Subscribed &amp; Paid-up:</b> 126 Equity Shares of Rs. 2.50 each (26 Lakh Shares have been issued for consideration other than cash to Creditors)	315
<b>Total</b>	<b>315</b>

**Schedule B-2: Tangible Assets**

Particulars	Rs.
(a) Land & Building (Book Value 184 + Increase under Capital Reduction A/c Scheme 46)	230
(b) Plant & Machinery (Book Value 286 - Decrease under Capital Reduction A/c Scheme 66)	220
(c) Furniture & Fixtures	
<b>Total</b>	<b>491</b>

**Illustration 15: Internal Capital Reduction A/c – Capital Reduction A/c Asset Revaluation – Journal Entries and Balance Sheet**

The following is the Balance Sheet of Drona Ltd. as on 31st March:

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 100 each	1,00,00,000	Fixed Assets	1,25,00,000
12% Cumulative Preference Shares of Rs. 100 each	50,00,000	Investments (Market Value Rs. 9,50,000)	10,00,000
10% Debentures of Rs. 100 each	40,00,000	Current Assets	1,00,00,000
Sundry Creditors	50,00,000	P & L A/c	4,00,000
Provision for Taxation	1,00,000	Preliminary Expenses	2,00,000
<b>Total</b>	<b>2,41,00,000</b>	<b>Total</b>	<b>2,41,00,000</b>

The following scheme of reorganisation is sanctioned:

1. All the existing Equity Shares are reduced to Rs. 40 each.
2. All Preference Shares are reduced to Rs. 60 each.
3. Rate of Interest on Debentures is increased to 12%. The Debentureholders surrender their Existing Debentures of Rs. 100 each and exchange the same for Fresh debentures of Rs. 70 each for every debenture held by them.
4. One of the Creditors of the Company to whom the Company owes Rs. 20,00,000, decides to forego 40% of his claim. He is allotted 30,000 Equity Shares of Rs. 40 each in full satisfaction of his claim.
5. The taxation liability of the Company is settled at Rs. 1,50,000.
6. Fixed Assets are to be written down by 30%.
7. Current Assets are to be revalued at Rs. 45,00,000.
8. Investments to be brought to their Market Value.
9. It is decided to write off the Fictitious Assets.

Pass Journal Entries and show the Balance Sheet of the Company after giving effect to the above.

**Solution:**

**1. Journal Entries in the books of Drona Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (at Rs. 100 each) A/c <span style="float: right;">Dr.</span> To Equity Share Capital (at Rs. 40 each) A/c To Capital Reduction A/c (Being 1,00,000 Equity Shares of Rs. 100 each reduced to Equity Shares of Rs. 40 each and balance amount transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated.....)	1,00,00,000	40,00,000 60,00,000
2.	12% Cum. Pref. Share Capital (at Rs. 100 each) A/c <span style="float: right;">Dr.</span> To 12% Cum. Pref. Share Capital (at 7 60 each) A/c To Capital Reduction A/c (Being 50,000 12% Cum. Pref. Shares of Rs. 100 each reduced to equal number of 12% Cum. Pref. Shares of Rs. 60 each and balance amount transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated ...)	50,00,000	30,00,000 20,00,000
3.	10% Debentures (at Rs. 100 each) A/c <span style="float: right;">Dr.</span> To 12% Debentures (at Rs. 70 each) A/c To Capital Reduction A/c (Being 10% Debentures of Rs. 100 each converted into equal number of 12% Debentures of Rs. 70 each and balance amount transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated ...)	40,00,000	28,00,000 12,00,000
4.	Sundry Creditors A/c <span style="float: right;">Dr.</span> To Equity Share Capital (at Rs. 40 each) A/c To Capital Reduction A/c (Being settlement with one of the Creditors 40% of the claim being given up and the balance discharged by the issue of 30,000 Equity shares at Rs. 40 each)	20,00,000	12,00,000 8,00,000
5.	Provision for Taxation A/c <span style="float: right;">Dr.</span> Capital Reduction A/c <span style="float: right;">Dr.</span> To Current Assets (Being Liability for Taxation settled)	1,00,000 50,000	1,50,000

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
6.	Capital Reduction A/c Dr. To Fixed Assets A/c (30% of 125 Lakhs) To Current Assets A/c (Given 100 (-) Tax 1.50 (-) Required 45) To Investments A/c (Cost 10 - Mkt Value 9,50) (Being value of Fixed Assets and Current Assets, and Investments written down as per Capital Reduction A/c Scheme)	91,50,000	3750000 53,50,000 50,000
7.	Capital Reduction A/c Dr. To Preliminary Expenses A/c To Profit and Loss A/c To Capital Reserve A/c (WN 2) (balancing figure) (Being Preliminary Expenses and Debit Balance of P & L A/c written off, and balance in Capital Reduction A/c transferred to Capital Reserve)	8,00,000	2,00,000 4,00,000 2,00,000

### 2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Current Assets A/c (Tax paid)	50,000	By Equity Share Capital A/c	60,00,000
To Fixed Assets A/c (written down)	37,50,000	By 12% Cum. Pref. Share Capital A/c	20,00,000
To Current Assets A/c (written down)	53,50,000	By 10% Debentures A/c	12,00,000
To Investments (written down)	50,000	By Sundry Creditors A/c	8,00,000
To Preliminary Expenses (written off)	2,00,000		
To Profit & Loss A/c (written off)	4,00,000		
To Capital Reserve A/c (balancing figure)	2,00,000		
<b>Total</b>	<b>1,00,00,000</b>	<b>Total</b>	<b>1,00,00,000</b>

### 3. Balance Sheet of Drona Ltd. as at 31st March (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b>		
	(a) Share Capital	B-1	82,00,000
	(b) Reserves and Surplus – Capital Reserve		2,00,000
(2)	<b>Non-Current Liabilities:</b>		
	Long Term Borrowings – 12% Debentures		28,00,000
(3)	<b>Current Liabilities:</b>		
	Trade Payables – Sundry Creditors		30,00,000
	<b>Total</b>		<b>1,42,00,000</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b>		
	(a) Fixed Assets: Tangible Assets (125 Lakhs less 30% Decr. under Scheme)		87,50,000
	(b) Non-Current investments (Cost 10 Lakhs, taken at Market Value)		9,50,000
(2)	<b>Current Assets:</b>		
	Other Current Assets		45,00,000
	<b>Total</b>		<b>1,42,00,000</b>

**Note:** Based on the order of information provided, it is assumed that the value of Current Assets after settlement of tax liability is Rs. 45,00,000.

**Schedule B-1: Share Capital**

Particulars	Rs.
<b>Authorised:</b> ..... Equity Shares of.... each ..... Preference Shares of..... each	
<b>Issued, Subscribed &amp; Paid-up:</b> 1,30,000 Equity Shares of Rs. 40 each (30,000.Equity Shares issued for non-cash consideration to Creditors)	52,00,000
50,000 12% Cum. Preference Shares of Rs. 60 each	30,00,000
<b>Total</b>	<b>82,00,000</b>

**Illustration 16: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

Bheeshma Limited decided to Capital Reduction A/c its business as it had accumulated huge losses. The following is the Balance Sheet of the Company as on 31st March before Capital Reduction A/c:

Liabilities	Rs.	Assets	Rs.
3,00,000 Equity Shares of Rs. 10 each fully paid-up	30,00,000	Goodwill	5,20,000
1,60,000, 6% Preference Shares of Rs. 10 each fully paid-up	16,00,000	Patents	1,50,000
6% Debentures (Secured against Land & Building)	15,00,000	Land & Building	17,00,000
Bank Overdraft	5,80,000	Plant & Machinery	2,00,000
Sundry Creditors	12,00,000	Investments (at Cost)	2,20,000
Provision for Income Tax	2,00,000	Sundry Debtors	17,40,000
		Stock	17,00,000
		Profit & Loss A/c	18,60,000
<b>Total</b>	<b>80,80,000</b>	<b>Total</b>	<b>80,80,000</b>

Following scheme of Capital Reduction A/c approved by all interested parties and Court:

1. All Equity Shares are reduced to Rs. 3 each and Preference Shares to Rs. 7 each.
2. Debentureholders agree to take over a part of Land and Building, Book value of which is Rs. 7,00,000, towards their 50% claim. Rate of Interest of balance 50% Debentures increased to 9%.
3. Goodwill and Patents will be written off.
4. 10% of Sundry Debtors to be provided for Bad Debts.
5. Stock to be written off by Rs. 2,60,000.
6. 50% of balance Land & Building sold for Rs. 6,00,000 and remaining Land & Building valued at Rs. 6,00,000.
7. Investment to be sold for Rs. 2,00,000.
8. There are pending contracts amounting to Rs. 10,00,000. These contracts are to be cancelled on payment of Penalty at 5% of pending contract amount.
9. The Income Tax Liability of the Company is settled at Rs. 3,06,000. Provision for Income Tax will be raised accordingly.
10. 1/3rd of Sundry Creditors decided to forego their claim.
11. After making all the above adjustments, balance amount available through the Scheme, will be utilised to write off the value of Plant & Machinery to that extent.

You are required to pass the Journal Entries and draw up the Balance Sheet of the Company after Capital Reduction A/c.

**Solution:****1. Journal Entries in the books of Bheeshma Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10 each) A/c Dr. To Equity Share Capital (Rs. 3 each) A/c To Capital Reduction A/c (Being 3,00,000 Equity Shares of Rs. 10 each reduced to Rs. 3 each, balance transferred to Capital Reduction A/c vide approved Capital Reduction A/c scheme)	30,00,000	9,00,000 21,00,000
2.	6% Preference Share Capital (Rs. 10 each) A/c Dr. To 6% Preference Share Capital (Rs. 7 each) A/c To Capital Reduction A/c (Being 1,60,000 6% Preference Shares of Rs. 10 each reduced to Rs. 7 each, balance transferred to Capital Reduction A/c vide Capital Reduction A/c scheme)	16,00,000	11,20,000 4,80,000
3.	6% Debentures A/c Dr. To Debentureholders A/c (Being claims of 6% Debentureholders transferred to Debentureholders A/c)	15,00,000 15,00,000	
4.	Debentureholders A/c Dr. To Land and Building To Capital Reduction A/c To 9% Debentures A/c (Being 50% of 6% Debentures settled and balance converted to 9% Debentures)	15,00,000 7,00,000 50,000 7,50,000	
5.	Capital Reduction A/c Dr. To Goodwill A/c To Patent A/c To Provision for Doubtful Debts To Stock A/c To Profit and Loss A/c (Being assets, Profit and Loss A/c written off vide scheme of Capital Reduction A/c.)	29,54,000	5,20,000 1,50,000 1,74,000 2,60,000 18,50,000
6.	Bank A/c Dr. To Land and Building [(17,00,000 - 7,00,000) x 50%] To Capital Reduction A/c (Being 50% of the balance Land and Building sold at a profit of Rs. 1,00,000)	6,00,000	5,00,000 1,00,300
7.	Land and Building A/c Dr. To Capital Reduction A/c (Being Land & Building appreciated to Rs. 6,00,000 vide scheme of Capital Reduction A/c.)	1,00,000 1,00,000	
8.	Bank A/c Dr. Capital Reduction A/c Dr. To Investments A/c (Being investments sold at a loss of Rs. 20,000 vide scheme of Capital Reduction A/c.)	2,00,000 20,000	2,20,000

**Capital Reduction & Internal Reconstruction • 135**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
9.	Capital Reduction A/c To Bank A/c (Being penalty paid on pending contracts at 5% vide Capital Reduction A/c scheme.)	Dr. 50,000	50,000
10.	Capital Reduction A/c To Provision for Income Tax (Being Provision for Income Tax increased and debited Capital Reduction A/c)	Dr. 1,06,000	1,06,000
11.	Provision for Income Tax A/c To Bank A/c (Being Income Tax Liability settled vide scheme of Capital Reduction A/c Scheme) Note: It is assumed that Income Tax Liability is settled immediately.	Dr. 3,06,000	3,06,000
12.	Sundry Creditors A/c To Capital Reduction A/c (Being Creditors' claim forgone to the extent of 1/3rd vide Capital Reduction A/c scheme.)	Dr. 4,00,000	4,00,000
13.	Capital Reduction A/c To Plant and Machinery A/c (WN 2) (Being Plant & Machinery written off to the extent of balance in Capital Reduction A/c.)	Dr. 1,00,000	1,00,000

**2. Capital Reduction A/c**

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	5,20,000	By Equity Share Capital A/c	21,00,000
To Patents A/c	1,50,000	By 6% Preference Share capital A/c	4,80,000
To Sundry Debtors A/c	1,74,000	By 6% Debentures A/c	50,000
To Stock A/c	2,60,000	By Land and Building A/c	2,00,000
To Investments A/c	20,000	By Sundry Creditors A/c (waiver)	4,00,000
To Bank A/c (Penalty paid)	50,000		
To Provision for Income Tax (Additional)	1,06,000		
To Profit and Loss A/c (written off)	18,50,000		
To Plant and Machinery ( <b>balancing figure</b> )	1,00,000		
<b>Total</b>	<b>32,30,000</b>	<b>Total</b>	<b>32,30,000</b>

**3. Bank A/c**

Particulars	Rs.	Particulars	Rs.
To Land and Building	6,00,000	By balance b/d	5,80,000
To Investments	2,00,000	By Capital Reduction A/c (Penalty)	50,000
To balance c/d ( <b>balancing figure</b> )	1,16,000	By Provision for Income Tax Liability	3,06,000
<b>Total</b>	<b>9,36,000</b>	<b>Total</b>	<b>9,36,000</b>

**4. Balance Sheet of Bheeshma Ltd. (and reduced) as on 31st March (after Capital Reduction A/c)**

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b> – Share Capital	B-1	20,20,000
(2)	<b>Non-Current Liabilities:</b> – Long Term Borrowings 9% Debentures (Secured)		7,50,000
(3)	<b>Current Liabilities:</b>		
	(a) Short Term Borrowings – Bank Overdraft		1,36,000
	I (b) Trade Payables – Sundry Creditors		8,00,000
	<b>Total</b>		<b>37,06,000</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b> – Fixed Assets: Tangible Assets	B-2	7,00,000
(2)	<b>Current Assets:</b>		
	(a) Inventories – Stock-In-Trade (17,00,000 - write off 2,60,000)		14,40,000
	(b) Trade Receivables – Debtors 17,40,000 – Prov. for Bad Debts 1,74,000		15,66,000
	<b>Total</b>		<b>37,06,000</b>

**Schedule B-1: Share Capital**

Particulars	Rs.
<b>Authorised:</b> .....Equity Shares of... each &..... Preference Shares of...each	
<b>Issued, Subscribed &amp; Paid-up:</b> 3,00,000 Equity Shares of Rs. 3 each 1,60,000 Preference Shares of Rs. 7 each	9,00,000 11,20,000
<b>Total</b>	<b>20,20,000</b>

**Schedule B-2: Tangible Assets**

Particulars	Rs.
(a) Land & Building (Cost 5,00,000 + Incr. under Capital Reduction A/c Scheme 1,00,000)	6,00,000
(b) Plant & Machinery (Cost 2,00,000 – Decr. under Capital Reduction A/c Scheme 1,00,000)	1,00,000
<b>Total</b>	<b>7,00,000</b>

**Illustration 17: Internal Capital Reduction A/c – Journal Entries and Balance Sheet**

Sthaanu Limited had decided to reconstruct the Balance Sheet since it had accumulated huge losses. The following is the Balance Sheet of the Company on 31st March before Capital Reduction A/c:

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets:	
Authorised: 1,50,000 Equity Shares of Rs. 50 each	75,00,000	Goodwill	20,00,000
Subscribed and Paid-up Capital:		Building	10,00,000
50,000 Equity Shares of Rs. 50 each	25,00,000	Plant	10,00,000
1,00,000 Equity Shares of Rs. 50 each		Computers	26,00,000
Rs. 40 paid-up	40,00,000	Investments	Nil
12% First Debentures	5,00,000	Current Assets	Nil
12% Second Debentures	10,00,000	Profit and Loss A/c (Loss)	20,00,000
Current Liabilities: Sundry Creditors	5,00,000		
<b>Total</b>	<b>85,00,000</b>	<b>Total</b>	<b>85,00,000</b>

**Capital Reduction & Internal Reconstruction • 137**

The following is the interest of 2 individuals, Sri. Nandi and Sri. Dundi in the Company –

Particulars	Nandi	Dundi
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
<b>Total of above</b>	<b>12,00,000</b>	<b>6,00,000</b>
Fully paid-up Rs. 50 Shares	3,00,000	2,00,000
Partly paid-up Shares (Rs. 40 paid-up)	5,00,000	5,00,000

The following scheme of Capital Reduction A/c is approved by all parties interested and also by the Court:

- (a) Uncalled Capital is to be called up in full and such Shares and the other fully paid-up shares be converted into Equity Shares of Rs. 20 each.
- (b) Nandi is to cancel Rs. 7,00,000 of his total debt (other than Share Amount) and to pay Rs. 2 Lakhs to the Company and to receive new 14% First Debentures for the balance amount.
- (c) Dundi is to cancel Rs. 3,00,000 of his total debt (other than Equity Shares) and to accept new 14% First Debentures for the balance.
- (d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c and the balance to write off the value of Computers.

You are required to draw the Journal Entries to record the same and show the Balance Sheet of the reconstructed Company.

**Solution:**

**Note:** Since only Shareholders are involved, the word “Capital Reduction” A/c is used in this Illustration.

Alternatively, the term “Capital Reduction A/c” A/c may also be used.

**1. Journal Entries in the books of Sthaanu Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c <span style="float: right;">Dr.</span> To Equity Share Capital A/c (Being the balance of Rs. 10 per Share on 1,00,000 Equity Shares called up and received as per approved Capital Reduction A/c scheme)	10,00,000	10,00,000
2.	Equity Share Capital (Rs. 50) A/c <span style="float: right;">Dr.</span> To Equity Share Capital (Rs. 20) A/c To Capital Reduction A/c (Being the reduction of Equity Shares of Rs. 50 each to Shares of Rs. 20 each, as per approved Capital Reduction A/c scheme)	75,00,000	30,00,000 45,00,000
3.	12% First Debentures A/c <span style="float: right;">Dr.</span> 12% Second Debentures A/c <span style="float: right;">Dr.</span> Sundry Creditors A/c <span style="float: right;">Dr.</span> To Nandi A/c (Being the total amount due to Nandi, transferred to his account)	3,00,000 7,00,000 2,00,000	12,00,000
4.	Bank A/c <span style="float: right;">Dr.</span> To Nandi A/c (Being amount received from Nandi under Capital Reduction A/c Scheme)	2,00,000	2,00,000

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
5.	12% First Debentures A/c 12% Second Debentures A/c Sundry Creditors A/c To Dundi A/c (Being the total amount due to Dundi, transferred to his account)	Dr. 2,00,000 Dr. 3,00,000 Dr. 1,00,000	6,00,000
6.	Nandi A/c To 14% First Debentures A/c To Capital Reduction A/c (Being cancellation of Rs. 7,00,000 out of total debt due to Nandi, and issue of 14% First Debentures for the balance amount as per approved Capital Reduction A/c scheme)	Dr. 14,00,000	7,00,000 7,00,000
7.	Dundi A/c To 14% First Debentures A/c To Capital Reduction A/c (Being cancellation of Rs. 3,00,000 out of total debt due to Dundi, and issue of 14% First Debentures for balance amount as per approved Capital Reduction A/c scheme)	Dr. 6,00,000	3,00,000 3,00,000
8.	Capital Reduction A/c To Goodwill A/c To Profit and Loss A/c To Computers A/c (balancing figure) (Being Goodwill, Profit and Loss Account written off out of Capital Reduction A/c add the balance for writing off Computers) (See WN 2)	Dr. 55,00,000	20,00,000 20,00,000 15,00,000

### 2. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c (written off)	20,00,000	By Equity Share Capital A/c (Reduction of Capital)	45,00,000
To P & L A/c (written off)	20,00,000	By Nandi A/c (Cancellation of Debt)	7,00,000
To Computers (balancing figure)	15,00,000	By Dundi A/c (Cancellation of Debt)	3,00,000
<b>Total</b>	<b>55,00,000</b>	<b>Total</b>	<b>55,00,000</b>

### 3. Balance Sheet of Sthaanu Limited (and Reduced) as at 31st March (after construction)

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b> – Share Capital	B-1	30,00,000
(2)	<b>Non-Current Liabilities:</b> – Long Term Borrowings: 14% Debentures		10,00,000
(3)	<b>Current Liabilities:</b> Trade Payables – Sundry Creditors (5,00,000 - 2,00,000 - 1,00,000)		2,00,000
	<b>Total</b>		<b>42,00,000</b>

**Capital Reduction & Internal Reconstruction • 139**

	Particulars as at 31st March	Note	Rs.
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b> – Fixed Assets: Tangible Assets	B-2	30,00,000
(2)	<b>Current Assets:</b> Cash and Cash Equivalents – (10,00,000 + 2,00,000)		12,00,000
	<b>Total</b>		<b>42,00,000</b>

**Schedule B-1: Share Capital**

Particulars	Rs.
<b>Authorised:</b> ..... Equity Shares of ..... each	
<b>Issued, Subscribed &amp; Paid-up:</b> 1,50,000 Equity Shares of Rs. 20 each	<b>30,00,000</b>

**Schedule B-2: Tangible Assets**

Particulars	Rs.
(a) Building	10,00,000
(b) Plant	10,00,000
(c) Computers (Cost 25,00,000 - Decr. under Capital Reduction A/c Scheme 15,00,000)	10,00,000
<b>Total</b>	<b>30,00,000</b>

**Illustration 18: Internal Capital Reduction A/c - Journal Entries and Balance Sheet**

The Balance Sheet of Nakula Limited as on 31 st March was as follows:

Liabilities	Rs.	Assets	Rs.
5,00,000 Equity Shares of Rs. 10 each fully paid	50,00,000	Goodwill	10,00,000
9% 2,00,000 Pref. Shares of Rs. 100 each fully paid	20,00,000	Patents	5,00,000
10% First Debentures	6,00,000	Land and Buildings	30,00,000
10% Second Debentures	10,00,000	Furniture and Fixtures	2,00,000
Debentures Interest Outstanding	1,60,000	Plant and Machinery	10,00,000
Trade Creditors	5,00,000	Computers	3,00,000
Directors' Loan	1,00,000	Trade Investments	5,00,000
Bank O/D	1,00,000	Debtors	5,00,000
Outstanding Liabilities	40,000	Stocks	10,00,000
Provision for Tax	1,00,000	Discount on issue of Debentures	1,00,000
		Profit and Loss Account (Loss)	15,00,000
<b>Total</b>	<b>96,00,000</b>	<b>Total</b>	<b>96,00,000</b>

**Note:** Preference Dividend is in arrears for last three years.

Lakshmipathi holds 10% First Debentures for Rs. 4,00,000 and 10% Second Debentures for Rs. 6,00,000. He is also a Creditor for Rs. 1,00,000. Narayana holds 10% First Debentures for Rs. 2,00,000 and 10% Second Debentures for Rs. 4,00,000 and is also a Creditor for Rs. 50,000.

The following Scheme of Capital Reduction A/c has been, agreed upon and duly approved.

1. All the Equity Shares be converted into Fully Paid Equity Shares of Rs. 5 each
2. Preference Shares be reduced to Rs. 50 each. Preference Shareholders agree to forego their arrears of dividends in consideration of which 9% Preference Shares are to be converted into 10% Preference Shares.
3. Lakshmipathi is to cancel Rs. 6,00,000 of his total debt including Interest on Debentures and to pay Rs. 1 Lakh to the Company and to receive new 12% Debentures for balance amount.
4. Narayana is to cancel Rs. 3,00,000 of his total debt including Interest on Debentures and to accept new 12% Debentures for the balance amount.
5. Trade Creditors (other than Lakshmipathi and Narayana) agreed to forego 50% of their claim.
6. Directors Loans settled as to 60% thereof by allotment of Equity Shares and balance being waived.
7. There were Capital Commitments totalling Rs. 3,00,000. These contracts are to be cancelled on payment of 5% of the Contact Price as a penalty.
8. Directors refund Rs. 1,10,000 of the fees previously received by them.
9. Capital Reduction A/c Expenses paid Rs. 10,000.
10. Taxation Liability of the Company is settled at Rs. 80,000 and the same is paid immediately.
11. The assets are revalued as under:

Land and Building	28,00,000	Computers	1,80,000
Plant and Machinery	4,00,000	Furniture and Fixtures	1,00,000
Stock	7,00,000	Trade Investments	4,00,000
Debtors	3,00,000		

Pass Journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of Debentures. Prepare Bank Account and working of allocation of Interest on Debentures between Lakshmipathi and Narayana. Also prepare the Balance Sheet of the Company post Capital Reduction A/c.

**Solution:**                    **1. Analysis of Lakshmipathi and Narayana's interests in the Company**

Particulars	Lakshmi-pathi(1)	Narayana (2)	Total of L & N (3)	Total as per B/s (4)	Bal. share of (4-3)
10% First Debentures	4,00,000	2,00,000	6,00,000	6,00,000	Nil
10% Second Debentures	6,00,000	4,00,000	10,00,000	10,00,000	Nil
A. Total of Debentures	10,00,000	6,00,000	16,00,000	16,00,000	Nil
B. Interest at 10% on the above	1,00,000	60,000	1,60,000	1,60,000	Nil
C. Trade Creditors	1,00,000	50,000	1,50,000	5,00,000	3,50,000
Total Due (A + B + C)	12,00,000	7,10,000	19,10,000		3,50,000
<b>Less:</b> Remission of Liability - given	6,00,000	3,00,000	9,00,000		(50%) =1,75,000
<b>Add:</b> Amount paid to Company now	1,00,000	Nil	1,00,000		Nil
<b>Total Revised Due</b>	<b>7,00,000</b>	<b>4,10,000</b>	<b>11,10,000</b>		<b>1,75,000</b>

**2. Journal Entries in the Books of Nakula Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c (Rs. 10 each) <span style="float: right;">Dr.</span> To Equity Share Capital A/c (Rs. 5 each) To Capital Reduction A/c (Being conversion of 5,00,000 Equity Shares of Rs. 10 each fully paid into same number of Fully Paid Equity Shares of Rs. 5 each as per Capital Reduction A/c Scheme)	50,00,000	25,00,000 25,00,000
2.	9% Preference Share Capital A/c (Rs. 100 each) <span style="float: right;">Dr.</span> To 10% Preference Share Capital A/c (Rs. 50 each) To Capital Reduction A/c (Being conversion of 9% Preference Shares of Rs. 100 each into same number of 10% Preference Shares of Rs. 50 each in consideration of waiver of Preference Dividends claims, as per approved scheme of Capital Reduction A/c.)	20,00,000	10,00,000 10,00,000
3.	10% First Debentures A/c <span style="float: right;">Dr.</span> 10% Second Debentures A/c <span style="float: right;">Dr.</span> Trade Creditors A/c <span style="float: right;">Dr.</span> Interest on Debentures Outstanding A/c <span style="float: right;">Dr.</span> Bank A/c (amount received from Lakshmipathi) <span style="float: right;">Dr.</span> To 12% New Debentures A/c To Capital Reduction A/c (Being Rs. 6,00,000 due to Lakshmipathi cancelled and 12% New Debentures allotted for balance amount as per scheme of Capital Reduction A/c - refer WN 1)	4,00,000 6,00,000 1,00,000 1,00,000 1,00,000	7,00,000 6,00,000
4.	10% First Debentures A/c <span style="float: right;">Dr.</span> 10% Second Debentures A/c <span style="float: right;">Dr.</span> Trade Creditors A/c <span style="float: right;">Dr.</span> Interest on Debentures Outstanding A/c <span style="float: right;">Dr.</span> To 12% New Debentures A/c To Capital Reduction A/c (Being Rs. 3,00,000 due to Narayana cancelled and 12% New Debentures allotted for balance amount as per scheme of Capital Reduction A/c - refer WN 1).	2,00,000 4,00,000 50,000 60,000	4,10,000 3,00,000
5.	Trade Creditors A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (Being waiver of 50% of claim by remaining Trade Creditors) (See WN 1)	1,75,000	1,75,000
6.	Director's Loan A/c <span style="float: right;">Dr.</span> To Equity Share Capital A/c (Rs. 5 each) To Capital Reduction A/c (Being Directors' Loan claim settled at 60%, by issuing 12,000 Equity Shares of Rs. 5 each as per scheme of Capital Reduction A/c, the balance being waived)	1,00,000	60,000 40,000
7.	Bank A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (Being Refund of Fees by Directors, credited to Capital Reduction A/c)	1,10,000	1,10,000

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
8.	Capital Reduction A/c Dr. To Bank A/c (Being the payment of Capital Reduction A/c Expenses 10,000 and Capital Commitment Penalty at 5% of Rs. 3,00,000 = 15,000)	25,000	25,000
9.	Provision for Tax A/c Dr. To Bank A/c To Capital Reduction A/c (Being payment of tax for 80% of liability in full settlement)	1,00,000 20,000	80,000
10.	Capital Reduction A/c Dr. To Goodwill A/c To Patents A/c To Profit and Loss A/c To Discount on issue of Debentures A/c To Land and Building A/c (30,00,000 - 28,00,000) To Plant and Machinery A/c (10,00,000 - 4,00,000) To Furniture and Fixtures A/c (2,00,000 - 1,00,000) To Computers A/c (3,00,000 - 1,80,000) To Trade Investments A/c (5,00,000 - 4,00,000) To Stock A/c (10,00,000 - 7,00,000) To Debtors A/c (5,00,000 - 3,00,000) (Being writing off of Intangible Items, Losses and reduction in value of assets as per approved scheme of Capital Reduction A/c)	47,20,000	10,00,000 5,00,000 15,00,000 1,00,000 2,00,000 6,00,000 1,00,000 1,20,000 1,00,000 3,00,000 1,00,000

### 3. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Bank (Expenses & Penalty)	25,000	By Equity Share Capital A/c (Rs. 10)	25,00,000
To Goodwill A/c	10,00,000	By 9% Preference Share Capital	10,00,000
To Patents A/c	5,00,000	By Sundries (Lakshmipathi settlement)	6,00,000
To Profit and Loss A/c	15,00,000	By Sundries (Narayana settlement)	3,00,000
To Discount on Issue of Debentures A/c	1,00,000	By Trade Creditors (50% waiver)	1,75,000
To Land and Building A/c	2,00,000	By Directors' Loan O/s (40% waiver)	40,000
To Plant and Machinery A/c	6,00,000	By Bank (Directors Fees Refund)	1,10,000
To Furniture and Fixtures A/c	1,00,000	By Provision for Taxation (Reduction)	20,000
To Computers A/c	1,20,000		
To Trade Investments A/c	1,00,000		
To Stock A/c	3,00,000		
To Debtors A/c	2,00,000		
<b>Total</b>	<b>47,45,000</b>	<b>Total</b>	<b>47,45,000</b>

### 4. Bank Account

Receipts	Rs.	Payments	Rs.
To Lakshmipathi A/c (amount received)	1,00,000	By Balance b/d Overdraft balance	1,00,000
To Capital Reduction A/c (Paid by Directors)	1,10,000	By Capital Reduction A/c (Expenses & Penalty)	25,000
		By Provision for Tax A/c (tax paid)	80,000
		By Balance c/d – balancing figure	5,000
<b>Total</b>	<b>2,10,000</b>	<b>Total</b>	<b>2,10,000</b>

**5. Balance Sheet of Nakula Ltd. (and Reduced) as at 31st March (after Capital Reduction A/c)**

	Particulars as at 31st March	Note	Rs.
<b>I</b>	<b>EQUITY AND LIABILITIES:</b>		
(1)	<b>Shareholders' Funds:</b> Share Capital	B-1	35,60,000
(2)	<b>Non-Current Liabilities:</b>		
	Long Term Borrowings 12% Debentures (Secured)		11,10,000
(3)	<b>Current Liabilities:</b> Trade Payables	B-2	2,15,000
	<b>Total</b>		<b>48,85,000</b>
<b>II</b>	<b>ASSETS</b>		
(1)	<b>Non-Current Assets</b>		
	(a) Fixed Assets: a Tangible Assets	B-3	34,80,000
	(b) Non-Current Investments		4,00,000
(2)	<b>Current Assets:</b>		
	(a) Inventories Stock-in-Trade		7,00,000
	(b) Trade Receivables Sundry Debtors		3,00,000
	(c) Cash and Cash Equivalents (WN 4)		5,000
	<b>Total</b>		<b>48,85,000</b>

**Schedule B-1: Share Capital**

Particulars	Rs.
Authorised: ..... Equity Shares of..... each &..... Preference Shares of..... each	
<b>Issued, Subscribed &amp; Paid-up:</b> 5,12,000 Equity Shares of Rs. 5 each	25,60,000
(12,000 Equity Shares issued to Directors against Loans due to them)	
20,000 10% Preference Shares of 7 50 each	10,00,000
<b>Total</b>	<b>35,60,000</b>

**Schedule B-2. Trade Payables**

Particulars	Rs.
(a) Trade Creditors (Balance 50%)	1,75,000
(b) Outstanding Liabilities	40,000
<b>Total</b>	<b>1,15,000</b>

**Schedule B-3: Tangible Assets**

Particulars	Rs.
(a) Land & Building (Cost 30,00,000 – Decr. under Capital Reduction A/c Scheme 2,00,000)	28,00,000
(b) Plant & Machinery (Cost 10,00,000 – Decr. under Capital Reduction A/c Scheme 6,00,000)	4,00,000
(c) Furniture & Fixtures (Cost 2,00,000 – Decr. under Capital Reduction A/c Scheme 1,00,000)	1,00,000
(d) Computers (Cost 3,00,000 – Decr. under Capital Reduction A/c Scheme 1,20,000)	1,80,000
<b>Total</b>	<b>34,80,000</b>

### EXERCISES

**(I) Multiple Choice Questions:**

1. Capital reduction is implemented per Section \_\_\_\_\_ of Companies Act.  
(a) 77 (b) 75 (c) 80 (d) 100
2. The scheme of capital reduction is to be approved by \_\_\_\_\_.  
(a) High Court (b) SEBI (c) Central Government (d) Shareholders
3. The scheme of internal Capital Reduction A/c involves \_\_\_\_\_ company.  
(a) one (b) two (c) three (d) many
4. Fictitious assets are to be transferred to \_\_\_\_\_.  
(a) internal Capital Reduction A/c (b) security premium (c) share capital (d) capital reserve
5. Balance in Capital Reduction should be transferred to \_\_\_\_\_.  
(a) security premium (b) capital reserve (c) share capital (d) Profit & Loss Account
6. The cancellation of contingent liability is \_\_\_\_\_ for company.  
(a) profit (b) loss (c) no profit – no loss (d) nil
7. “And Reduced” words are to be shown as in Balance Sheet as per \_\_\_\_\_ requirement.  
(a) company law (b) AS (c) income tax (d) stock exchange
8. XYZ Ltd. had on 31st December, 2008; 80,000 equity shares at ₹ 10 each. It was decided to reduce shares to ₹ 8 each. The reduction is \_\_\_\_\_.  
(a) ₹ 1,60,000 (b) ₹ 80,000 (c) ₹ 2,00,000 (d) ₹ 1,50,000
9. Creditors of the company are ₹ 50,00,000 one creditor for ₹ 20,00,000 decided to forego 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction. The amount transferred to capital reduction is \_\_\_\_\_.  
(a) ₹ 8,00,000 (b) ₹ 10,00,000 (c) ₹ 4,00,000 (d) ₹ 5,00,000
10. The preference shareholders agree to forego arrears of preference dividend of ₹ 72,000. The amount transferred to Capital Reduction Account is \_\_\_\_\_.  
(a) Nil (b) ₹ 72,000 (c) ₹ 36,000 (d) ₹ 70,000

[Ans.: 1. (d), 2. (a), 3. (a), 4. (a), 5. (b), 6. (c), 7. (a), 8. (a), 9. (a), 10. (a)]

**(II) Fill in the Blanks:**

1. The reduction and capital is permitted under \_\_\_\_\_ of Companies Act.
2. The Capital reduction means reduction in \_\_\_\_\_ value of shares.
3. The Sub-division of shares does not result in \_\_\_\_\_ of capital.
4. The Shareholders can surrender shares for \_\_\_\_\_ or \_\_\_\_\_.
5. The internal Capital Reduction A/c results in proper valuation of \_\_\_\_\_ and \_\_\_\_\_ of companies.
6. The scheme of internal Capital Reduction A/c requires approval of \_\_\_\_\_.
7. \_\_\_\_\_ resolution is to be passed by shareholders for approval of scheme of Capital Reduction A/c.
8. The fictitious debit balances are to be transferred to \_\_\_\_\_ Account.
9. The difference in revaluation of assets is to be transferred to \_\_\_\_\_ Account.
10. A scheme of \_\_\_\_\_ or \_\_\_\_\_ mean the scheme having same effect.
11. The full balance of capital is to be debited, if \_\_\_\_\_ value is reduced.
12. Shareholders not approving scheme is called \_\_\_\_\_ shareholders.
13. The Balance Sheet prepared after implementation of the scheme is to be suffixed by words \_\_\_\_\_.

14. The expenses for forming and implementing scheme should be debited to \_\_\_\_\_.
15. The scheme internal Capital Reduction A/c can be utilised to provide \_\_\_\_\_ for the company.
16. Capital Reduction Account is \_\_\_\_\_ by payment of Capital Reduction A/c expenses.
17. The objective of Capital Reduction A/c is to write off \_\_\_\_\_.
18. Court Confirmation Order has to be registered with the \_\_\_\_\_ of companies.
19. In \_\_\_\_\_ no new company is formed.
20. Appreciation in the value of land and building is recorded on \_\_\_\_\_ side of Capital Reduction Account.
21. Any credit balance on Capital Reduction Account after writing off losses is transferred to \_\_\_\_\_ account.
22. In re-organisation, shares surrendered are transferred to \_\_\_\_\_ A/c.
23. Payment for contingent liability is debited to \_\_\_\_\_ A/c.
24. Fictitious assets are written off to \_\_\_\_\_ A/c.
25. The objective of capital reduction scheme is to w/off \_\_\_\_\_.
26. In capital Reduction all the adjustments are made in \_\_\_\_\_ A/c.
27. Capital Reduction A/c expenses are debited to \_\_\_\_\_ A/c.
28. Appreciation in land and building is credited to \_\_\_\_\_ A/c.
29. Internal Capital Reduction A/c is governed by section \_\_\_\_\_ of Companies Act.
30. Capital Reduction requires \_\_\_\_\_.
31. Amicable settlement of difference by mutual consent by parties is \_\_\_\_\_.
32. Creditors foregoing their claims in whole or in part is \_\_\_\_\_.

[Ans.: 1. 100, 2. paid-up value, 3. reduction, 4. re-issue-cancellation, 5. assets and liabilities, 6. court, 7. Special, 8. Capital Reduction, 9. Capital Reduction, 10. capital reduction or internal Capital Reduction A/c, 11. face, 12. dissenting, 13. and reduced, 14. capital reduction, 15. funds, (16) debited, (17) accumulated losses, (18) Registrar, (19) internal Capital Reduction A/c, (20) credit, (21) Capital Reserve, (22) share surrendered, (23) capital Reduction, (24) capital Reduction, (25) Losses, (26) Capital Reductins A/c, (27) Capital Reduction A/c, (28) Capital Reduction A/c, (29) 494, (30) court order, (31) compromise, (32) Arrangement]

**(III) Match the columns**

1.	Group 'A'	Group 'B'
	(1) Capital reduction	(a) Transfer to capital reduction
	(2) Fictitious balance	(b) Section 100
	(3) Capital reduction scheme	(c) No reduction of capital
	(4) Consolidation of share	(d) Internal Capital Reduction A/c
	(5) Subdivision of shares	(e) No change in capital

[Ans.: 1. (b); 2. (a); 3. (d); 4. (e); 5. (c)]

2.	Group 'A'	Group 'B'
	(1) Surrender of shares	(a) Credit – capital reduction
	(2) Cancellation of surrendered shares	(b) Unchanged capital
	(3) Surplus on revaluation of asset	(c) Transfer to capital reserve
	(4) Loss on revaluation of asset	(d) Transfer to capital reduction
	(5) Credit balance in capital reduction	(e) Debit capital reduction

[Ans.: 1. (b); 2. (a); 3. (c); 4. (e); 5. (d)]

3.	Group 'A'	Group 'B'
	(1) Internal Capital Reduction A/c	(a) Compromise
	(2) Creditors accepting part payment	(b) Compromise
	(3) Debentureholders accepting part payment	(c) Utilised to write off preliminary expenses
	(4) Internal Capital Reduction A/c	(d) No company liquidated
	(5) Capital Reduction balance	(e) Special resolution by shareholders
	(6) Internal Capital Reduction A/c requires	(f) Requires court-order
	(7) Capital Reduction	(g) Arrangement
	(8) Rearrangement of rights without any dispute	(h) Surrender
		(i) Merger
		(j) Section 494

[Ans.: 1. (j); 2. (a); 3. (b); 4. (d); 5. (c); 6. (e); 7. (f); 8. (g)]

**(IV) State whether the following statement are True or False:**

1. Capital reduction and Internal Capital Reduction A/c is synonym.
2. Capital reduction is one variety of capital restructuring.
3. Consolidation of shares result in profit for a company.
4. Sub-division of shares result in gain for a company.
5. Fictitious balances are to be transferred to Capital Reduction Account.
6. Accounting for unrecorded assets and appreciation of assets results in credit to Capital Reduction Account.
7. Provision for unrecorded liability indicates loss to a company.
8. Accounting for internal and external Capital Reduction A/c is in identical manner.
9. The reduction in paid-up value should not be coupled with reduction in face value of shares.
10. If shareholders surrender shares to the company, it is capital profit to the company.
11. Re-classification of surrendered shares should not be accounted.
12. Cancellation of contingent liability is treated as profit to the company.
13. Transfer of assets to creditors at book value is benefit to the company.
14. The expenses for scheme should be debited to preliminary expenses.
15. Statutory reserve can be utilised to set-off loss under the scheme.
16. The final accounts prepared after Capital Reduction A/c should be suffixed by words "and reduced."
17. The requirements of Schedule VI is to be complied while preparing account after Internal Capital Reduction A/c.
18. Authorised share capital is to be reduced to the extent of capital reduction.
19. Internal Capital Reduction A/c scheme cannot be prepared to cover capital Capital Reduction A/c.
20. The debit balance in capital reduction should be transferred to Goodwill Account.
21. Credit balance on Capital Reduction Account is utilised to write off accumulated losses.
22. After Internal Capital Reduction A/c, Balance Sheet of a company cannot reflect true and fair view.
23. Profit on sale of asset is credited to Capital Reduction Account.
24. A company cannot subdivide shares.
25. Only sick companies undertake capital reduction.
26. No journal entry is required for cancellation of unissued share capital.
27. Central Government permission is required for Internal Capital Reduction A/c.
28. Amount sacrificed by shareholders in a scheme of Capital Reduction A/c is transferred to Capital Reserve Account.

29. Securities Premium Account can be transferred to Capital Reduction Account.
30. The object of Capital Reduction A/c is to reorganise capital of the company.
31. Internal Capital Reduction A/c is governed by section 809 of the Company Law.
32. Creditors accepting part payment of their claims is a compromise.
33. Capital Reduction A/c balance is utilised for issue of bonus shares.
34. Internal Capital Reduction A/c requires ordinary Resolution of the Board of Directors.
35. Capital Reduction requires court order.
36. Creditors foregoing the claim is an arrangement.
37. Amicable settlement of differences by mutual consent by parties is a merger.
38. A company going for Internal Capital Reduction A/c must add the words, and reduced after its name.

[Ans.: True: 1, 2, 6, 7, 11, 16, 17, 20, 21, 23, 25, 26, 29, 30, 32, 35, 36

False: 3, 4, 5, 8, 9, 10, 12, 13, 14, 15, 18, 19, 22, 24, 27, 28, 31, 33, 34, 37, 38]

**(V) Short Questions:**

1. What is Internal Capital Reduction A/c?
2. Why is Internal Capital Reduction A/c needed?
3. What is consolidation of Share Capital?
4. What is sub-division of Share Capital?
5. What is surrender of shares?
6. To which A/c balance on Capital Reduction A/c is transferred?
7. Why, the words and Reduced added to the name of the company after Capital Reduction A/c?
8. What is alteration of share capital?

**April – 2000**

(1) The summarised balance sheet of Viprada Ltd.. as at 31st March 2014 was as follows: (16)

Liabilities	Rs.	Assets	Rs.
Redeemable preference share capital of Rs. 100 each, fully paid	10,00,000	Fixed assets	50,00,000
		Cash on hand	5,00,000
Equity shares of Rs. 100 each, fully paid	50,00,000	Cash at ICICI Bank	20,00,000
Reserves	25,00,000	Other current assets	50,00,000
Creditors	20,00,000	Preliminary expenses	5,00,000
Loans	25,00,000		
<b>Rs.</b>	<b>1,30,00,000</b>	<b>Rs.</b>	<b>1,30,00,000</b>

The company proposed to make a fresh issue of capital to the public in June, 2000. However before doing so the directors, desire to carry out the following scheme of Capital Reduction A/c:

- (i) The fictions assets shall be written off.
- (ii) The fixed assets to be appreciated by 20%.
- (iii) The goodwill of the company valued at Rs. 25,00,000 shall be brought into the books.
- (iv) A provision of 5% shall be made against the other current assets for likely short-fall in its realisation by earmarking the requisite amount from the existing reserves.
- (v) The preference shares shall be redeemed at 10% premium.
- (vi) The company to issue bonus shares in the ratio of one share for every two existing equity shares out of capital reserve.
- (vii) The equity capital thereafter to be sub-divided into shares of Rs. 10 each.

You are required to prepare: Capital Reduction Account. [TYBCom, April 2000, modified]

October – 2000

(2) M/s. Bhansali Ltd. whose Balance Sheet as at 31st December, 1999 is as given below. (16)

	Rs.	Rs.
<b>Sources of Funds:</b>		
1,00,000 Equity shares of Rs. 20 each Rs. 10 paid-up		10,00,000
8% Preference Share Capital:		
8,000 shares of Rs. 100 each, Rs. 75 paid-up		6,00,000
Secured Loans 9% Debentures		6,00,000
Outstanding interest	1,08,000	7,08,000
Loan from ICICI Ltd..	1,50,000	
Outstanding interest	15,000	1,65,000
<b>Total Rs.</b>		24,73,000
<b>Application of Funds:</b>		
Fixed Assets	11,20,000	
Goodwill	80,000	12,00,000
Investments at cost (Market value Rs. 55,000)		65,000
<b>Current assets and loan and advances:</b>		
Current assets:		
Stock	6,80,000	
Debtors	1,20,000	
Bills Receivable	49,000	
	8,49,000	
<b>Less Current Liabilities:</b>		
Sundry Creditors	69,000	7,80,000
Profit and Loss Account		4,28,000
<b>Rs.</b>		<b>24,73,000</b>

Preference dividend is in arrears for one year.

Following Scheme of Capital Reduction A/c is approved and agreed upon.

- (i) Preference shareholders to give up their claims, inclusive of dividends to the extent of 30% and balance to be paid off.
- (ii) Debentureholders agree to give up their claims to receive interest in consideration of their rate of interest being enhanced to 10% henceforth.
- (iii) ICICI Ltd.. agree to give up 50% of their interest outstanding in consideration of their claim paid off at once.
- (iv) Sundry creditors would like to grant a discount of 5% if they were to be paid off immediately.
- (v) Balance of profit and loss account, Goodwill and 25% of the total sundry debtors to be written off.
- (vi) Fixed assets to be written down by Rs. 14,000.
- (vii) Investment to be reflected at their market value.
- (viii) Cost of Capital Reduction A/c is Rs. 3,350.
- (ix) To the extent required, Equity shareholders suffers on reduction of their rights.
- (x) The Equity shareholders bring in necessary cash against their partly paid shares to leave working capital at Rs. 20,000. Pass necessary Journal entries in the books of the company assuming that scheme has been put through fully and prepare the Balance Sheet after Capital Reduction A/c.

**April – 2001**

- (3) Bottomout Ltd.. was in serious financial crisis and the Directors considered it advisable to go in for a compromise scheme with its creditors. (16)

**Balance Sheet of Bottomout Ltd. as on 30-4-2000**

Liabilities	Rs.	Assets	Rs.
Preference Share Capital (Rs. 100 paid-up)	5,00,000	Land	80,000
Equity Share Capital (Rs. 10 paid-up)	7,00,000	Building	2,60,000
12% Debentures	2,00,000	Plant & Machinery	3,75,000
Creditors	2,80,000	Trade Mark	75,000
Bank Loan	2,15,000	Goodwill	1,50,000
		Stocks	1,60,000
		Debtors	2,73,000
		Profit & Loss	5,12,000
		Discount on Issue of Debentures	10,000
<b>Rs.</b>	<b>18,95,000</b>	<b>Rs.</b>	<b>18,95,000</b>

Scheme as proposed by the directors is as below:

- (i) Bank agreed to waive interest amount outstanding of Rs. 15,000 included in the balance subject to immediate payment of 50% of their dues.
- (ii) Land was revalued upwards by 550%; other Tangible Fixed Assets are to be written down by 20% uniformly; all intangible and fictitious assets to be written off.
- (iii) Debenture holders agreed to reduce their claim by 20% provided they are paid 20% immediately and balance, being redeemed in 4 equal annual instalments.
- (iv) Preference shareholders to reduce their shares to Rs. 60 paid-up.
- (v) Equity shareholders to reduce their shares to Rs. 2 per share fully paid-up and subscribe to such number of shares to meet the cash requirement of the scheme and also leave a cash balance of Rs. 25,000.

Show Capital Reduction a/c and the Balance Sheet after carrying out the suggested scheme of Capital Reduction A/c.

**October – 2001**

- (4) The summarised assets and liabilities portion of Sunrise Ltd.. as on 1-4-2001 was as under: (16)

Liabilities	Rs.	Assets	Rs.
Authorised Capital:		Goodwill	40,000
1,60,000 Equity Shares of Rs. 10 each	16,00,000	Land and Building	3,20,000
4,000 9% Preference Shares of Rs. 100 each	4,00,000	Plant and Machinery	2,40,000
	20,00,000	Investments	48,000
Issued and Paid-up:		Stock	1,08,000
80,000 Equity Shares of Rs. 10 each, 7.50 paid-up	6,00,000	Debtors	2,36,000
4,000 9% Preference Shares of Rs. 100 each fully paid	4,00,000	Cash in Hand	12,000
Unsecured Loan	1,60,000	Profit and Loss A/c	2,85,600
Sundry Creditors	96,000		
Bank Overdraft	33,600		
<b>Rs.</b>	<b>12,89,600</b>	<b>Rs.</b>	<b>12,89,600</b>

**Note:**

- (i) Dividend on Preference Shares has not been declared for 2 years.  
(ii) No provision has been made for sales tax liability of Rs. 19,200.  
The following scheme of Capital Reduction A/c has been approved by the court  
(i) Uncalled capital is to be called-up in full and Equity shares are to be reduced to Rs. 5 per share.  
(ii) Sales tax liability of Rs. 18,000 is to be paid immediately.  
(iii) Land and Building are to be shown in Balance sheet at full market value of Rs. 4,40,000. Goodwill is to be written off.  
(iv) Trade creditors have agreed to forego 25% of their dues on the condition that 25% of net liability after remission is paid forthwith and the balance is paid within one year.  
(v) Investments are to be taken over by bank in full settlement of overdraft balance.  
(vi) Preference shareholders have agreed to sacrifice their right for 2 years' dividend and accept 24 fully paid Equity shares of Rs. 5 each for each fully paid Preference shares.  
Give necessary Journal entries and draft the Balance sheet after such Capital Reduction A/c.

**April – 2002**

- (5) A company's position on 31st December, 2001 was as follows: (16)
- |   |               |
|---|---------------|
| (i) 20,000 Equity Shares of Rs. 1000 each   | Rs. 20,00,000 |
| (ii) 10,000 – 6% Debentures of Rs. 100 each | Rs. 10,00,000 |
| (iii) Interest payable on above debentures  | Rs. 1,20,000  |
| (iv) There are no Liabilities and Reserves. |               |
- An independent valuation of the assets on the above date was considered to be worth Rs. 9,60,000 only. Hence the following steps were taken with the approval of all concerned.
- (a) The Face Value of the share was to reduce to Rs. 40 each, Rs. 20 per share paid-up.  
(b) The total claim of Debentureholders was reduced to Rs. 5,00,000.  
(c) The Debentureholders agreed to accept shares of Rs. 2,50,000 (Rs. 20 per share paid-up) in part satisfaction of their claims as referred to above and for the balance, they were allotted 8% Debentures.  
(d) Assets were brought down to their revised/current value.  
(e) All shareholders (including under (c) above) agreed to pay Rs. 20 per share to make the share fully paid.  
You are required to: (i) Pass the journal entries in books of the company to record the above transactions. (ii) Prepare the Balance Sheet of the company after the above Capital Reduction A/c.

**October – 2002**

- (6) The paid-up capital of Easy Go Traders Ltd. amounted to Rs. 10,00,000 consisting of 4,000 - 5% Cumulative Preference Shares of Rs. 100 each and 60,000 Equity Shares of Rs. 10 each. The preference dividend was in arrears for Rs. 60,000, (Contingent Liability). (16)
- The company incurred heavy losses continuously. Therefore, the Directors recommended to the shareholders the following scheme of Capital Reduction A/c to provide a sum sufficient for the following purpose:
- (a) To write down the book values of Patents by Rs. 1,40,000, Plant and Machinery by Rs. 34,000 and Tools and Equipments by Rs. 4,000.  
(b) To write-off the debit balance of Profit and Loss account of Rs. 2,96,000.  
(c) Any balance made available by the Reduction of Capital is to be utilised to write off 'Experiment and Research Expenses'.
- The scheme duly approved and authorised provided the following:
- (i) For every TEN - 5% Preference Shares, SIX - 4% Cumulative Preference Shares of Rs. 100 each and FORTY Equity Shares of Rs. 2 each are to be issued.  
(ii) For every Rs. 20 of accumulated preference dividend, TWO equity shares of Rs. 2 each are to be issued.

**Capital Reduction & Internal Reconstruction • 151**

- (iii) For every TEN old Equity Shares, TWO new Equity Shares of Rs. 2 each are to be issued.  
You are required to: (a) Pass the journal entries in books of Company to record the above transactions and (b) Prepare Capital Reduction A/c.

**April – 2003**

- (7) The Balance Sheet of Careless Ltd. as at 31-10-01 appeared as follows: (16)

Liabilities	Rs.	Assets	Rs.
<b>Share Capital</b>		<b>Fixed Assets:</b>	
30,000 Equity Shares of Rs. 10 each fully paid	3,00,000	Fixed Assets at cost	4,00,000
1,000 11% Preference Shares of Rs. 100 each fully paid	1,00,000	<b>Less:</b> Depredation Prov.	<u>3,00,000</u>
<b>Secured Loan:</b>		<b>Current Assets:</b>	
11% Debentures	1,00,000	Stock & Stores	1,20,000
Interest accrued & due on debentures	22,000	Receivables	2,90,000
Bank Overdraft	1,26,000	Other current assets	40,000
Unsecured Loans	<u>1,00,000</u>	<b>Miscellaneous Expenditure:</b>	
Interest accrued & due	30,000	Profit & Loss Account	3,28,000
<b>Current Liabilities &amp; Provisions:</b>			
Current Liabilities	1,00,000		
<b>Rs.</b>	<b>8,78,000</b>	<b>Rs.</b>	<b>8,78,000</b>

A scheme of Capital Reduction A/c has been agreed amongst the shareholders and the creditors with the following salient features.

- (a) Interest due on unsecured loans is waived.
- (b) 50% of the interest due on debentures is waived.
- (c) The 11% Preference Shareholders' rights are reduced to 50% and the remaining were converted into 15% Debentures of Rs. 100 each.
- (d) Current Liabilities would be reduced by Rs. 10,000 on account of the provision no longer required.
- (e) The equity shareholders agree to convert the existing equity shares into new ten-rupee shares of total value Rs. 1,00,000.
- (f) The debit balance in the Profit & Loss account is to be written off totally, Rs. 52,000 should be provided for doubtful debts and the value of fixed assets should be increased by Rs. 80,000.

Prepare the Capital Reduction Account and Redraft the Balance Sheet of the company based on the above scheme of Capital Reduction A/c.

**October – 2003**

- (8) The following is the summarised Balance Sheet of Safemoving Ltd. as on 31st March 2002: (16)

Liabilities	Rs.	Assets	Rs.
Authorised and Issued Capital		Goodwill	2,40,000
60,000 – 6% Preference Shares of Rs. 10 each	6,00,000	Land and Buildings	5,34,000
12,00,000 Equity Shares of Re. 1 each	12,00,000	Plant	5,10,000
6% Debentures	2,40,000	Investment in Subsidiary Ltd. (at cost)	1,50,000
<b>Add:</b> Interest	<u>12,000</u>	Stock	4,50,000
Bank Overdraft	3,30,000	Debtors	5,40,000
Directors Loan	1,50,000	Profit and Loss Account	5,28,000
Creditors	5,40,000	Advertisement Expenses	1,20,000
<b>Rs.</b>	<b>30,72,000</b>	<b>Rs.</b>	<b>30,72,000</b>

**Notes:**

- (i) There is a contingent liability for damages Rs. 60,000.
- (ii) Preference shares are cumulative and dividends are in arrears for three years.  
A capital reduction scheme setting the following terms was duly approved:
- (a) The preference shares to be reduced to Rs. 8 per share and the Equity share to 25 paise each and to be consolidated as shares of Rs. 10 each and Re. 1 each fully paid respectively. The preference shareholders, waive two-third of the dividend in arrears and receive equity shares for the balance. The authorised capital to be restored to 60,000 preference shares of Rs. 10 each and 12,00,000 equity shares of Re. 1 each.
- (b) The shares in Subsidiary Ltd.. are sold to an outsider for Rs. 3,00,000.
- (c) All intangible and fictitious assets are to be eliminated and bad debts of Rs. 42,000 and obsolete stock of Rs. 60,000 is to be written-off.
- (d) The debentureholders to take over one of the company's properties (Book value Rs. 1,08,000) at a price of Rs. 1,20,000 in part satisfaction of the debentures and to provide further cash Rs. 90,000 on a floating charge. The arrears of interest are paid.
- (e) Directors refund Rs. 20,000 of the few previously received by them.
- (f) The contingent liability materialised in the -sum stated but the company recovered Rs. 30,000 of these damages in action against one of its directors which was debited to his loan account of Rs. 48,000 and the balance of loan was paid in cash on his resignation.
- (g) The remaining directors agreed to take equity shares in satisfaction of their loans.  
Pass journal entries and Revised Balance Sheet in the books of the company.

**April – 2004**

- (9) The Directors of Hopeful Ltd.. decided to recommend to the shareholders certain steps to put the affairs of the company back on the rails. On 30th June the Balance Sheet of the company was as under: (16)

Liabilities	Rs.	Assets	Rs.
<b>Share Capital:</b>		<b>Fixed Assets:</b>	
Authorised: 1,00,000 Equity Shares of Re. 1 each	1,00,000	Goodwill at Cost	22,600
Issued and Paid-up: 85,000 Equity Shares of Re. 1 each fully paid-up	85,000	Building at Cost	50,000
<b>Reserves and Surplus:</b>		Less: Depreciation	8,500
Securities Premium	15,000	Computer at cost	1,19,000
Loan from Bank	60,000	Less: Depreciation	59,000
<b>Current Liabilities:</b>		Investments in Shares	46,000
Creditors	64,000	<b>Current Assets:</b>	
Bank Overdraft (inducing interest)	57,000	Stock	23,000
		Debtors	19,600
		Profit and Loss Account	68,300
<b>Rs.</b>	<b>2,81,000</b>	<b>Rs.</b>	<b>2,81,000</b>

The scheme of Capital Reduction A/c as approved by the competent authorities was as under:

- The issued equity shares were reduced to 6 paise each paid-up; the unpaid value of the share was subsequently called up by the company and paid by all the shareholders.
- The balance of unissued capital was allotted to the bank in part discharge of the loan; the balance due was paid in cash.

- (3) The Authorised Capital of the company is to be increased by another 50,000 shares and these are to be issued to the existing shareholders as rights issue at Re. 1 each. The amount due from the shareholders was realised.
- (4) Creditors are to give up 25% of their claims and the balance due to them to be converted into 12% secured debentures of Rs. 100 each.
- (5) Interest of Rs. 7,000 on Bank Overdraft to be waived by the Bank and the balance overdraft to be paid off.
- (6) All amounts available including the securities premium to be utilised to write off losses and goodwill fully and the investment in shares to the maximum possible extent.

Show the Journal entries to record the above, and also draw the Balance Sheet of the company after the scheme is fully implemented. All workings should form part of your answer.

**October – 2004**

- (10) The Ledger Balances of Feel Bad Ltd.. include: (16)

Building Rs. 6,10,000; Furniture Rs. 2,00,000; Computer Rs. 3,00,000; Debtors Rs. 3,00,000; Preliminary Expenses Rs. 20,000; Cash at Bank Rs. 80,000; Bills Receivable Rs. 2,50,000; Stock Rs. 40,000; 8% Preference Share Capital - 2,000 shares of Rs. 100 each; Equity Share Capital - 80,000 shares of Rs. 10 each, 'A' 10% Debentures Rs. 4,00,000, 'B' 12% Debentures Rs. 5,00,000; Outstanding Interest for one year on Debentures Rs. 1,00,000; Creditors Rs. 4,00,000; Bills Payable Rs. 50,000; Outstanding Audit Fees Rs. 50,000; Profit & Loss A/c ?

- (1) The company has incurred heavy losses. The following scheme of Capital Reduction A/c is agreed upon.
- (2) 8% Preference shares are to be reduced by Rs. 20 per share, Equity shares be reduced by Rs. 5 per share.
- (3) To settle the claim of holders of 'A' 10% Debentures by issue of new 11% Debentures of Rs. 2,00,000, 'A' Debentureholders agree to forgo their interest.
- (4) To settle the claim of holders of 'B' 12% Debentures by issue of new 13% Debentures of Rs. 5,00,000, Outstanding debenture interest on 'B' 12% Debentureholders be paid.
- (5) To write off fictitious assets and debit balance of Profit and Loss A/c.
- (6) Directors refund Rs. 60,000 fees previously received by them.
- (7) Computer was to be written down by Rs. 20,000.

You are required to show: (a) Journal entries to record the above transactions in books of Feel Bad Ltd.. (b) Balance Sheet before Capital Reduction A/c. (c) Balance Sheet after Capital Reduction A/c.

Assume that all the formalities are duly complied.

**April – 2005**

- (11) Following is the Balance-sheet of M/s SIDDHANT LTD. as on 31-03-2004. (16)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each	10,00,000	Fixed Assets	21,00,000
12% Cumulative Preference Shares of Rs. 100 each	7,00,000	Stock	20,00,000
10% Debentures	3,00,000	Sundry Debtors	15,00,000
Sundry Creditors	36,00,000	Bank	1,10,000
Provision for Tax	5,00,000	Preliminary Expenses	40,000
		Profit and Loss Account	3,50,000
<b>Rs.</b>	<b>61,00,000</b>	<b>Rs.</b>	<b>61,00,000</b>

**Note:** Preference dividend for 3 years was in arrears.

Following scheme of Capital Reduction A/c was approved:

- (1) Write off Fixed Assets by 20%, Sundry Debtors by 15%, and reduce the value of stock to 55% of its bookvalue,
- (2) Preference shareholders to forego arrears of preference dividend.
- (3) Directors to give temporary loan of Rs. 5,00,000 to Company.
- (4) The Company settled tax liability to the extent of Rs. 5,40,000 and to meet the expenses of Capital Reduction A/c amounted to Rs. 10,000.
- (5) Sundry Creditors to give a remission of 20% of their claims and a company to allot 11% Preference shares of Rs. 100 each fully paid-up in settlement of the balance amount.
- (6) 10% debentures to be converted into 13% Debentures of Rs. 1,60,000 in full settlement of their claim.
- (7) Equity shares to be reduced to Rs. 2 each fully paid-up and 12% Cumulative Preference shares to be reduced to 1,00,000 Cumulative Preference shares of Rs. 2 each fully paid-up.
- (8) Write off debit balance in Profit and Loss Account and Preliminary expenses.

Draft journal entries and prepare Capital Reduction Account and Balance sheet after Capital Reduction A/c.

#### October – 2005

- (12) The summarised Balance Sheet of M/s. KETAN Ltd. as on 31st Dec., 2004 is as under: (16)

Liabilities	Rs.	Assets	Rs.
10% Preference shares of Rs. 10 each	5,00,000	Goodwill	2,00,000
Equity Shares of Rs. 10 each	10,00,000	Land & Building	10,00,000
10% Conv. Debentures of Rs. 100 each	4,00,000	Furniture	1,25,000
Bank Overdraft	3,20,000	Investments	4,00,000
Sundry Creditors	3,00,000	Stock	2,80,000
Bills Payable	50,000	Debtors	2,20,000
Provision for tax	1,00,000	Bills receivables	25,000
		Profit & Loss Account	4,20,000
<b>Rs.</b>	<b>26,70,000</b>	<b>Rs.</b>	<b>26,70,000</b>

The scheme of Capital Reduction A/c as approved by the court was as under

- (1) Each existing Equity share will be written down from Rs. 10 to Rs. 4.
- (2) Each existing 10% Preference share is to be written down from Rs. 10 to Rs. 8 of which Rs. 4 will be represented by 12% Preference Share and Rs. 4 by Equity share.
- (3) Each convertible debenture is to be exchanged for Rs. 50 of non-convertible 100/0 debentures, Rs. 35 of 12% Preference shares and Rs. 15 of Equity Shares.
- (4) The IDBI has agreed to apply for Rs. 5,00,000 of Equity Shares paying cash in full on application.
- (5) The reduction of capital and reserves are to be applied in eliminating fictitious assets and balance to be used in writing down the Land and Building and Investment in the ratio of 3:1.

Give journal entries regarding reduction, prepare Capital Reduction Account and resulting summarised Balance Sheet as on 1-1-2005.

**April – 2006**

(13) Following is the Balance Sheet of PARADISE Ltd. as on 31-3-2005:

(16)

Liabilities	Rs.	Assets	Rs.
<b>Share Capital:</b>		<b>Fixed Assets:</b>	
10% Preference Shares of Rs. 10 each	2,40,000	Promises	3,20,000
Equity Shares of Rs. 10 each	4,00,000	Plant and Equipments	5,20,000
		Investment	1,20,000
<b>Secured Loans:</b>		<b>Current Assets, Loans &amp; Advances:</b>	
15% Debentures of Rs. 100 each	4,80,000	Stock	1,44,000
<b>Current Liabilities and Provisions:</b>		Debtors	96,000
Sundry Creditors	2,00,000	Deposits and Advances	40,000
Bank Overdraft	1,20,000	<b>Miscellaneous Expenses:</b>	
Other Liabilities	1,60,000	Publicity campaign exp.	1,60,000
		Profit & Loss Account	2,00,000
<b>Rs.</b>	<b>16,00,000</b>	<b>Rs.</b>	<b>16,00,000</b>

It is observed that the new product launched by the company has not succeeded even after three years of marketing. The management is of the opinion that the assets and liabilities are not valued correctly and also finds it difficult to raise finance. To overcome the situation a scheme of Capital Reduction A/c is prepared by the Directors and approved by all authorities.

The salient features of the scheme are:

- (1) Plant and Equipments having book value of Rs. 80,000 is obsolete. This is sold as scrap for Rs. 16,000.
- (2) The auditors have pointed out that depreciation on plant is not provided to the extent of Rs. 40,000.
- (3) Stock includes items valued at Rs. 48,000 which is sold at a loss of 50%.
- (4) The present realisable value of investments is Rs. 56,000.
- (5) Dividend on Preference shares is in arrears for three years. This amount is not payable.
- (6) All losses and fictitious assets are to be written off.
- (7) The expenses paid for forming and implementing scheme is Rs. 8,000.
- (8) The paid-up value of Equity share is to be reduced to Rs. 2 per share and Preference shares to Rs. 5 per share. However, the face value remains unchanged.
- (9) The creditors due are settled as:
  - (i) 20% immediate payment in cash. (ii) 40% amount is cancelled. (iii) 40% paid by issue of 16% Debentures.
- (10) Other current liabilities include Rs. 40,000 payable to Directors towards remuneration. This liability is to be cancelled.
- (11) A call of Rs. 3 per share on Equity Share is made and received.
- (12) Bank overdraft is paid off to the extent possible.

You are required to show. (1) Journal Entries for above scheme of Capital Reduction A/c and (11) Balance Sheet after Capital Reduction A/c.

October – 2006

(14) Following is the Balance Sheet of PARAMOUNT LTD. as on 31-3-2005: (16)

Liabilities	Rs.	Assets	Rs.
<b>Share Capital:</b> 6,000 - 8% Preference Shares of Rs. 100 each	6,00,000	<b>Fixed Assets:</b> Goodwill	60,000
50,000 Equity Shares of Rs. 10 each	5,00,000	Patents and Trademarks	40,000
<b>Reserves and Surplus:</b> Capital Reserves	50,000	Building	3,00,000
<b>Secured Loans:</b> 5% Debentures of Rs. 100 each	3,00,000	Plant and Machinery	3,00,000
Debenture Interest Due	50,000	Furniture	1,00,000
<b>Current Liabilities and Provisions:</b> Sundry Creditors	1,80,000	<b>Current Assets, Loans &amp; Advances:</b> Stock	1,50,000
		Sundry Debtors	75,000
		Bank	1,00,000
		Cash 25,000	
		<b>Miscellaneous Expenses:</b> Discount on Debentures	30,000
		Profit & Loss Account	5,00,000
<b>Rs.</b>	<b>16,80,000</b>	<b>Rs.</b>	<b>16,80,000</b>

**Note:** Preference dividend is in arrears for three years.

The following scheme of Capital Reduction A/c was prepared and duly approved by the court.

- (1) The Preference Shares shall be converted into equal Number of 9% Preference Shares of Rs. 50 each.
- (2) The equity shares shall be reduced to Rs. 3 each. However the face value will remain the same.
- (3) 5% Debentures shall be converted into equal number of 6% Debenture, of Rs. 75 each. The debentureholders also agreed to waive 50% of the accrued interest.
- (4) Arrears of preference dividend is to be reduced to one year's dividend which is paid in cash.
- (5) The sundry creditors agreed to waive 30% of their claims and to accept Equity shares for Rs. 30,000 in part settlement of their renewed claims.
- (6) The assets are to be revalued as under:

Building	Rs. 3,50,000
Plant and Machinery	Rs. 2,50,000
Furniture	Rs. 80,000
Stock	Rs. 1,00,000
Sundry Debtors	Rs. 70,000

- (7) Intangible assets and fictitious assets are to be written off.  
Pass journal entries, prepare Capital Reduction Account and Balance Sheet after Capital Reduction A/c in the books for Paramount Ltd.

**April – 2007**

(15) The following is the Balance Sheet of Sandeep Limited on 31st March, 2006. (16)

Liabilities	Rs.	Assets	Rs.
Issued and Subscribed Capital		Goodwill	25,000
10% Preference Share of Rs. 100 each	4,00,000	Patents	15,000
Equity Share of Rs. 10 each	10,00,000	Furniture	35,000
12 % Debentures	7,50,000	Plant and Machinery	6,00,000
Bank Overdraft	50,000	Land and Building	6,50,000
Sundry Creditors	1,40,000	Stocke-in-Trade	80,000
Bills Payable	35,000	Sundry Debtors	90,000
		Bills Receivable	15,000
		Profit and Loss A/c	8,20,000
		Preliminary Expenses	45,000
<b>Rs.</b>	<b>23,75,000</b>	<b>Rs.</b>	<b>23,75,000</b>

The preference dividend is in arrear for four years. The following scheme of capital reduction was sanctioned by the court and agreed by shareholders:

- (a) The preference shares are to be reduced to Rs. 50 each and equity shares to Rs. 2 each, both being fully paid.
- (b) Of the preference dividend in arrears three-fourth to be waived and remaining to be paid in cash.
- (c) The Debentureholders to take over plant and machinery at Rs. 6,50,000 in part satisfaction of their claim. The remaining claim should be converted into 14% debentures.
- (d) Creditors agreed to reduce their claim by Rs. 20,000. Bills payable to be paid immediately.
- (e) Goodwill, Patents, Profit and Loss A/c and Preliminary Expenses are to be written off entirely.
- (f) The following assets are to be revalued as under: Furniture Rs. 25,000, Stock-in-Trade Rs. 68,000, Land and Building Rs. 5,80,000, Sundry Debtors Rs. 80,000.
- (g) A secured Loan of Rs. 1,50,000 at 12% per annum is to be obtained by mortgaging Land and Building for repayment of bank overdraft, bills payable and Capital Reduction A/c expenses Rs. 15,000.

Pass journal entries to record above scheme and draft the balance sheet of Sandeep Limited after Capital Reduction A/c.

**October – 2007**

(16) Following is the Balance Sheet of Delta Ltd. as on 31st March, 2006. (16)

**Trial Balance as on 31-03-2006**

Liabilities	Rs.	Assets	Rs.
15,000 11.5% Preference Shares of Rs. 10 each fully paid-up	1,50,000	Goodwill	80,000
13,000 10% Preference Shares of Rs. 10 each, Rs. 5 per share paid-up	65,000	Patents	54,000
20,000 Equity Shares of Rs. 10 each full paid-up	2,00,000	Land and Buildings	1,75,000
12% Debenture of Rs. 100 each	1,50,000	Plant and Machinery	3,25,000
11% Debentures of Rs. 100 each.	3,00,000	Furniture	15,000
Interest due on debentures	19,500	Investments	75,000
Sundry Creditors	4,50,000	Sundry Debtors	3,15,000
		Bills Receivables	1,00,000
		Bank	20,000
		Profit and Loss A/c	1,75,500
<b>Rs.</b>	<b>13,34,500</b>	<b>Rs.</b>	<b>13,34,500</b>

The following scheme of Capital Reduction A/c was submitted and approved by the court:

- 11.5% Preference Shares of Rs. 10 each fully paid were reduced to 14% Preference Shares of Rs. 10 each, Rs. 6 per share paid-up.
- 10% Preference Shares of Rs. 10 each, Rs. 5 per share paid-up, were reduced to 13% Preference Shares of Rs. 10 each, Rs. 3 per share paid-up.
- Equity Shares of Rs. 10 each fully paid were reduced to the denomination of Rs. 5 each fully paid.
- 11% Debentureholders agreed to accept 50,000 equity shares of Rs. 5 each in full settlement of their claims.
- Debentureholders agreed to forego the interest due on debentures.
- Sundry Creditors agreed to forego 10% of their claims.
- The Company recovered as damages a sum of Rs. 50,000 which was not recorded in the books.
- Cost of Reconstructon was paid Rs. 2,250.
- Assets are to be revalued as under

	Rs.
Land and Buildings	2,50,000
Plant and Machinery	2,75,000
Furniture	10,000
Investments	90,000
Sundry Debtors	3,00,000

- All intangible assets and accumulated losses are to be written off.  
You are required to: (i) Pass Journal Entries in the Books of Delta Ltd. (ii) Prepare Capital Reduction A/c and Balance Sheet after Capital Reduction A/c.

**April – 2008**

- (17) Following is the Balance Sheet of M/s Careless Ltd. as on 31st March, 2007. (16)

**Balance Sheet as on 31-03-2007**

Liabilities	Rs.	Assets	Rs.
40,000 8% Cumulative preference Shares of Rs. 10 each	4,00,000	Goodwill	1,10,000
30,000 Equity shares of Rs. 10 each	3,00,000	Freehold Property	1,20,000
Securities Premium	10,000	Leasehold Property	2,44,000
9% Debentures	1,20,000	Plant and Machinery	3,20,000
Accrued debenture interest	5,400	Furniture	80,000
Sundry Creditors	1,70,000	Stock	60,000
Bank Overdraft	1,92,000	Debtors	1,20,000
		Preliminary Expenses	5,000
		Profit and Loss Account	1,38,400
<b>Rs.</b>	<b>11,97,400</b>	<b>Rs.</b>	<b>11,97,400</b>

**Note:** (a) Preference dividend was in arrears for four years. (b) There was a contingent liability of Rs. 20,000 for workmen compensation.

Following scheme of Capital Reduction A/c was approved and implemented:

- The Preference shares were reduced to Rs. 7.50 per share fully paid and Equity shares to Rs. 2 per share fully paid.
- After reduction, both classes of shares were consolidated into Rs. 10 shares.
- One new Equity shares of Rs. 10 each was issued for every Rs. 40 of gross preference dividend in arrears.
- The balance of securities premium was utilised.

- (e) Plant and Machinery was written down to Rs. 2,80,000.
- (f) Furniture was sold for Rs. 64,000.
- (g) Goodwill, preliminary expenses, debt balance in Profit and Loss account; debts of Rs. 17,200 and obsolete stock of Rs. 20,000 were to be written off.
- (h) Contingent liability for which no provision has been made was settled at Rs. 14,000 however the amount of Rs. 12,600 was recovered from Insurance Company.
- (I) Debentureholders agreed to forego principal amount by Rs. 30,000 and accrued debenture interest in full.

Pass journal entries, prepare capital reduction account and balance sheet after Capital Reduction A/c.

**October – 2008**

- (18) Following is the Balance Sheet of Unmesh Ltd. as on 31-3-2007: (16)

**Balance Sheet as on 31st March 2007**

Liabilities	Rs.	Assets	Rs.
6,000 10% Cumulative preference Shares of Rs. 100 each fully paid-up	6,00,000	Goodwill	2,00,000
15,000 Equity Shares of Rs. 100 each, fully paid-up	15,00,000	Land and Building	19,50,000
Loans	2,22,000	Plant and Machinery	70,000
Creditors	7,50,000	Stock	4,00,000
		Trade Debtors	2,88,000
		Bank Balance	1,26,000
		Profit and Loss A/c	38,000
<b>Rs.</b>	<b>30,72,000</b>	<b>Rs.</b>	<b>30,72,000</b>

**Note:** Preference Dividend was in arrears Rs. 1,20,000. The Board of Directors of the Co. decided upon the following scheme of Capital Reduction A/c, which was approved by all concerned.

- (a) Paid-up value of equity shares shall be reduced to Rs. 50 per share, face value being Rs. 100.
- (b) Preference shares are to be converted into 13% debentures of Rs. 100 each with regard to their 80% of dues (including arrears of preference dividend) and for the balance (including dividend arrears) equity shares of Rs. 100 each (Rs. 50 paid-up) shall be issued.
- (c) All equity shareholders agreed to pay the balance amount making shares fully paid-up.
- (d) The Plant and Machinery was revalued at Rs. 90,000.
- (e) The value of stock was reduced by Rs. 1,00,000.
- (f) Land and Building shall be written down to Rs. 15,50,000.
- (g) Creditors agreed to forego their claims by 10%.
- (h) Loan was fully settled for Rs. 2,00,000.
- (i) Goodwill, Debit balance of Profit and Loss account shall be written off.
- (j) Cost of Capital Reduction A/c Rs. 5,000 was paid.

You are required to:

- (i) Pass journal entries in the books of the company.
- (ii) Prepare Capital Reduction account.
- (iii) Prepare Balance Sheet after Capital Reduction A/c.

## April – 2009

(19) Following is the Balance Sheet of Satyaraj Ltd. as on 31st March 2008.

Liabilities	Rs.	Assets	Rs.
<b>Share Capital:</b>		Goodwill	3,40,000
1,60,000 Equity Shares of Rs. 5 each fully paid	8,00,000	Land & Building	2,60,000
4,000 6% cumulative Preference shares of Rs. 100 each fully paid	4,00,000	Equipments	2,50,000
8% Debentures (Rs. 100 each)	4,00,000	Sundry Debtors	2,40,970
Bank Overdraft	1,50,000	Stock	3,30,340
Sundry Creditors (including Rs. 20,000, interest due on Bank overdraft)	3,40,360	Investment	45,450
		Cash at Bank	20,240
		Profit and Loss Account	6,03,360
<b>Rs.</b>	<b>20,90,360</b>	<b>Rs.</b>	<b>20,90,360</b>

Preference dividend is in arrears for five years. Following scheme of Capital Reduction A/c was approved by the court.

- Equity Shares be reduced to Rs. 1.25 each and then to be consolidated into shares of Rs. 10 each.
- 6% Preference shares be reduced to Rs. 40 each and then to be subdivided into shares of Rs. 10 each.
- Interest accrued but not due on 8% Debentures for half year ended 31st March 2008 has not been provided in the above Balance Sheet. The debentureholders have agreed to receive 40% of this interest in cash immediately and provision for the balance be made in the books of account.
- Rs. 24,000 be paid to Preference Shareholders in lieu of arrears of preference dividend.
- The debentureholders have also agreed to accept equal number of 9% debentures of Rs. 60 each in exchange of 8% debentures of Rs. 100 each.
- Bank has agreed to take over 50% of stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs. 1,20,000.
- Investments be sold for Rs. 40,000.
- Tangible Fixed Assets be appreciated by 20%, Goodwill be written off in full and provision be made for doubtful debts of Rs. 20,000.

Give journal entries for the above scheme of Capital Reduction A/c. Prepare Capital Reduction Account in the books of Satyaraj Limited and Balance Sheet of the Company after Capital Reduction A/c.

## October – 2009

(20) Following is the Balance Sheet of Fortunate Ltd. as on 31st March 2008.

Liabilities	Rs.	Assets	Rs.
<b>Share Capital:</b>		Goodwill	1,65,000
7000, 8% Cumulative Preference Shares of Rs. 100 each	7,00,000	Land & Building	6,00,000
80,000 Equity shares of Rs. 10 each	8,00,000	Stock	2,20,000
9% Debentures of Rs. 100 each		Debtors:	
(Secured on Land & Building	3,90,000	Good	3,70,000
Accrued Interest on Debentures	15,750	Doubtful	60,000
Directors Loan	70,000	Bank	2,80,000
Sundry Creditors	3,10,000	Preliminary Expenses	10,000
		Profit & Loss A/c	5,40,750
<b>Rs.</b>	<b>22,45,750</b>	<b>Rs.</b>	<b>22,45,750</b>

Contingent Liabilities:

- (1) Arrears of cumulative preference dividend for two years.
- (2) Claims for damages pending in the court of law Rs. 1,00,000.

The Board of directors, wish to show the realistic picture of the state of affairs of the company's position and the following scheme of Capital Reduction A/c was duly approved.

- (a) Preference Shares of Rs. 100 each were to be reduced to an equal number of fully paid preference shares of Rs. 60 each and Equity shares of Rs. 10 each were to be reduced to an equal number of fully paid equity shares of Rs. 2.50 each.
- (b) Intangible and fictitious assets, accumulated losses to be written off.
- (c) 8% Preference shareholders agreed to waive one year's dividend and to accept equity shares of Rs. 2.50 each fully paid for the balance of arrears of dividend.
- (d) Stock to be revalued at Rs. 2,00,000 and doubtful debtors to be written off.
- (e) 9% Debentureholders agreed to take over part of the security of the book value of Rs. 2,00,000 for Rs. 2,50,000 in part satisfaction of their claim and agreed to waive interest payable to them.
- (f) Sundry creditors agreed to forego Rs. 10,000 subject to the condition that the company must pay them half of the remaining amount immediately.
- (g) The contingent liability for the claim for damages materialised to the extent of 50%, which the company paid immediately.
- (h) The directors agreed to convert their loan into equity shares of Rs. 2.50 each fully paid.

You are required to:

- (i) Pass Journal Entries and prepare Capital Reduction A/c in the books of Fortunate Ltd.
- (ii) Prepare Balance Sheet of the company after Capital Reduction A/c,

**April – 2010**

**(21)** Following balances appeared in the books of Nervous Ltd. as on 31st March, 2009: (20)

Debit Balances	Rs.	Credit Balances	Rs.
Goodwill	2,50,000	10,000 7% Cumulative Preference shares of Rs. 100 each fully paid	10,00,000
Land and Building	12,00,000	2,00,000 Equity Shares of Rs. 10 each fully paid	20,00,000
Plant and Machinery	11,00,000	8% Debenture of Rs. 100 each	
Investments	1,20,000	(secured on Land & Building)	10,00,000
Current Assets	17,20,000	Debenture interest due	40,000
Profit and Loss Account	8,50,000	Loan from Directors	2,00,000
		Current Liabilities	10,00,000
<b>Rs.</b>	<b>52,40,000</b>	<b>Rs.</b>	<b>52,40,000</b>

**Note.:**

- (1) Claim for damages against the company pending in the court of law amounted to Rs. 1,00,000.
- (2) Arrears of preference dividend Rs. 70,000.

The Board of Directors agreed to present the realistic picture of the state of affairs of the company's position and the following scheme of Capital Reduction A/c was sanctioned, approved and implemented.

- (a) Preference Shares were reduced to equal number of fully paid Preference Shares of Rs. 80 each.
- (b) Equity Shares were reduced to equal number of fully paid Equity Shares of Rs. 2.50 each
- (c) Preference Shareholders waived half of the arrears of dividend and 14,000 equity shares of Rs. 2.50 each fully paid were issued to them in lieu of the balance.
- (d) 8% Debentureholders took over part of the security having book value of Rs. 3,60,000 at Rs. 5,00,000 in part satisfaction of their loan and 1,20,000 Equity Shares of Rs. 2.50 each fully paid were issued to them for the balance loan.

- (e) Debentureholders waived their interest due on Debentures.
- (f) The claims for damages pending in the court of law were settled by issue of 12,000 Equity shares of Rs. 2.50 each fully paid.
- (g) Directors converted their loan into equity shares of Rs. 2.50 each fully paid.
- (h) All intangible and fictitious assets were written off.
- (i) The assets were revalued as under: Plant and Machinery Rs. 7,00,000, Investment Rs. 1,00,000.

**You are required to prepare:**

- (i) Necessary Journal Entries to record the above scheme of Capital Reduction A/c in the books of Nervous Ltd.
- (ii) Capital Reduction Account in the books of Nervous Ltd., and
- (iii) Balance Sheet of Nervous Ltd. after Capital Reduction A/c.

**October – 2010**

- (22) Following balances appeared in the books of Anmol Ltd. as on 31-03-2009. (16)

10,000 Equity shares of Rs. 100 each, Rs. 80 per share paid-up  
 5,000 100% Preference shares of Rs. 100 each fully paid-up  
 4,000 – 13% Debentures of Rs. 100 each  
 4,000 – 12% Debentures of Rs. 100 each

Outstanding interest on above Debentures for one year Rs. 52,000 and Rs. 48,000 respectively.

Sundry creditors – Rs. 4,00,000,	Bank Overdraft – Rs. 1,00,000,
Goodwill – Rs. 2,00,000,	Land – Rs. 3,00,000,
Building – Rs. 7,00,000,	Plant and Machinery – Rs. 4,00,000,
Computer –Rs. 2,00,000,	Stock – Rs. 3,00,000,
Debtors – Rs. 1,00,000.	

The company has suffered heavy losses in the past.

Hence the following scheme of Capital Reduction A/c was agreed by the shareholders and sanctioned by the court and implemented by the company.

- (a) The existing equity shareholders paid Rs. 20 per share in cash to make their shares fully paid-up and then agreed to reduce them to Rs. 20 each fully paid.
- (b) 10% Preference shares were reduced by Rs. 40 each, however face value remained unchanged.
- (c) The claim of 13% Debentureholders along with outstanding interest was settled by issue of 4,000 – 14% Debentures of Rs. 100 each.
- (d) The claim of 12% Debentureholders along with outstanding interest was settled by issue of 4,200 – 12.5% Debentures of Rs. 100 each.
- (e) The assets were revalued as under:
 

Land – Rs. 5,00,000,	Building – Rs. 4,00,000,
Plant and Machinery – Rs. 2,50,000	Computer – Rs. 1,20,000,
Stock – Rs. 2,50,000.	
- (f) Fictitious and intangible assets were written off.

You are required to:

- (i) Prepare Balance Sheet of Anmol Ltd. before Capital Reduction A/c.
- (ii) Pass necessary journal entries to record the above scheme of Capital Reduction A/c in the books of Anmol Ltd.
- (iii) Prepare Balance Sheet of Anmol Ltd. after Capital Reduction A/c.

**April – 2011**

(22) The Balance Sheet of Dirty Ltd. as at 31st March, 2010 appeared as follows:

Liabilities	Rs.	Assets	Rs.
60,000 Equity Shares of Rs. 10 each, fully paid	6,00,000	Goodwill	1,67,000
2,000 9% Preference Shares of Rs. 100 each fully paid	2,00,000	Land and Building	3,00,000
11% Debentures	4,00,000	Plant and Machinery	2,15,000
Interest accrued on above debentures	44,000	Investments	75,000
Unsecured loans	2,60,000	Stock	2,10,000
Interest accrued on above unsecured loans	30,000	Sundry Debtors	3,10,000
Current Liabilities	1,66,000	Bank	45,000
		Preliminary Expenses	25,000
		Profit and Loss A/c	3,53,000
<b>Total</b>	<b>17,00,000</b>	<b>Total</b>	<b>17,00,000</b>

A scheme of Capital Reduction A/c has been agreed amongst the shareholders and the creditors, and approved by the court with the following salient features.

- (a) Equity Shares are to be reduced to Rs. 3 each fully paid.
- (b) 9% Preference shareholders have agreed to accept 12% Debentures of Face Value of Rs. 1,20,000, issued at par, in full satisfaction of their claims.
- (c) Interest due on unsecured loans is paid at 40% discount.
- (d) Interest accrued on 11% Debentures is paid at 50% discount.
- (e) 40% of current liabilities are to be reduced to 75% and balance 60% to be reduced to 80%.
- (f) 20% of stock is obsolete which is sold at 40% of books value.
- (g) Goodwill, Preliminary Expenses and Debit Balance in the Profit and Loss account is to be written off, Rs. 33,000 should be provided for doubtful debts and the value of Fixed Assets should be appreciated by 10%.
- (h) Cost of Capital Reduction A/c paid Rs. 16,820.

Prepare the Capital Reduction Account and Redraft the Balance Sheet of the company assuming that above scheme of Capital Reduction A/c has been implemented by the company.

**October – 2011**

(24) You are furnished with following information in respect of Navneet Ltd. which had undergone Internal Capital Reduction A/c. (16)

**(A) Balance Sheet of Navneet Ltd. as on 31 st March 2010  
(before Internal Capital Reduction A/c)**

Liabilities	Rs.	Assets	Rs.
50,000 Equity Shares of Rs. 10 each, fully paid	5,00,000	Fixed Assets	5,60,000
3,000 – 8% Preference Share of Rs. 100 each, fully paid	3,00,000	Patents	40,000
9% Debentures	3,00,000	Investments (Market value Rs. 27,500)	32,500
Accrued Interest on Debenture	54,000	Sundry Debtors	60,000
Bank Overdraft	70,000	Other Current Assets	1,64,500
Interest on above Overdraft	7,000	Profit & Loss A/c	4,14,000
Sundry Creditors	40,000		
<b>Total</b>	<b>12,71,000</b>	<b>Total</b>	<b>12,71,000</b>

Dr.		(B) CAPITAL REDUCTION ACCOUNT		Cr.	
Journal Entry No.	Particulars	Rs.	Journal Entry No.	Particulars	Rs.
6	To Bank A/c (Capital Reduction A/c expenses)	18,500	1	By Equity Share Capital (50,000 x 7)	3,50,000
7	To Profit & Loss A/c	4,14,000	2	By 8% Preference Share Capital (3,000 x 30)	90,000
7	To Patents	40,000	3	By Debenture Interest	54,000
8	To Investments	5,000	4	By Interest on Bank overdraft	3,500
9	To Sundry Debtors	15,000	5	By Sundry Creditors	5,000
9	To Fixed Assets	10,000			
	<b>Rs.</b>	<b>5,02,500</b>		<b>Rs.</b>	<b>5,02,500</b>

Dr.		(B) BANK ACCOUNT		Cr.	
Journal Entry No.	Particulars	Rs.	Journal Entry No.	Particulars	Rs.
8	To Investment A/c	27,500		By Balance b/d	70,000
11	To Equity Share Call A/c (50,000 x 7)	3,50,000	2	By 8% Preference Share Capital A/c (3000 x 70)	2,10,000
			4	By Interest on Bank Overdraft	3,500
			5	By Creditors	35,000
				By Capital Reduction A/c (Capital Reduction A/c Exp.)	18,500
				By Balance c/d	40,500
	<b>Rs.</b>	<b>3,77,500</b>		<b>Rs.</b>	<b>3,77,500</b>

**You are required to:**

- (1) Pass necessary Journal Entries from which above accounts are prepared, and
- (2) Prepare Revised Balance Sheet of the company after Capital Reduction A/c.

**April – 2012**

**(25)** Following is the Balance Sheet of Virat Ltd. as on 31-03-2011. (15)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each, fully paid-up	10,00,000	Goodwill	4,00,000
15% Preference Shares Rs. 10 each fully paid-up	5,00,000	Land	3,00,000
15% Debentures	4,00,000	Plant and Machinery	1,80,000
Interest accrued on above debentures	60,000	Furniture and Fittings	2,00,000
Unsecured Loans	1,00,000	Stock	90,000
Bank overdraft	40,000	Sundry receivables	53,000
Sundry payables	75,000	Profit and Loss Account	9,77,000
Payable to Directors	25,000		
<b>Rs.</b>	<b>22,00,000</b>	<b>Rs.</b>	<b>22,00,000</b>

A Scheme of Capital Reduction A/c has been agreed amongst all the stakeholders of Virat Ltd. and approved by court, which is as follows:

- (1) Intangible and fictitious assets are to be fully written off.
- (2) Land is revalued at 500% more than the book value.
- (3) There was an unrecorded asset of Rs. 10,000 which was sold for Rs. 60,000.
- (4) Equity Shares are to be reduced by Rs. 4 each fully paid-up.
- (5) 5% Preference Shares are reduced to Rs. 4 each fully paid-up.
- (6) Debentureholders waived 50% of the outstanding interest on debentures.
- (7) 30% of the Sundry payables are reduced to the extent of 30% of book value.
- (8) Directors waived 90% of the amount payable to them by the company.
- (9) Stock and Sundry receivables are reduced by 20% and 10% of their book values, respectively.
- (10) Plant and Machinery is reduced to 70% of its book value.
- (11) Furniture and Fittings to be reduced by 70%
- (12) 40% of the unsecured loans are reduced by 60%.

You are required to prepare only capital reduction account assuming that the above scheme of Capital Reduction A/c has been implemented by the company.

**October – 2012**

(26) Following is the Balance Sheet of Ajay Ltd. as on 31st March, 2011. (15)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each fully paid-up	8,00,000	Goodwill	4,50,000
9% Preference Shares of Rs. 10 each fully paid-up	4,00,000	Land	3,00,000
10% Debentures	5,00,000	Plant and Machinery	4,00,000
Interest accrued on above debentures	50,000	Furniture and Fittings	2,10,000
Unsecured loans	75,000	Stock	60,000
Bank overdraft	15,000	Debtors	80,000
Sundry Creditors	60,000	Profit & Loss Account	4,00,000
<b>Rs.</b>	<b>19,00,000</b>	<b>Rs.</b>	<b>19,00,000</b>

A scheme of Capital Reduction A/c has been agreed amongst all the stakeholders of Ajay Ltd. and approved by the court, which is as follows:

- (i) Intangible and fictitious assets are to be fully written off.
- (ii) Equity shares are to be reduced to Rs. 4 each fully paid-up.
- (iii) Debentureholders waived 50% of the outstanding interest on debenture.
- (iv) 80% of the unsecured loans are reduced by 40%.
- (v) Directors gave Rs. 30,000 to the company on non-refundable basis.
- (vi) Plant and Machinery is reduced to Rs. 1,20,000.
- (vii) Stock and Debtors are reduced by Rs. 15,000 and 20% of the book value, respectively.
- (viii) Furniture and fittings to be reduced by Rs. 63,000.
- (ix) Land is appreciated by 300%.
- (x) There was an unrecorded asset which was sold for Rs. 20,000.
- (xi) Preference shares are reduced to Rs. 6 each.
- (xii) 50% of the sundry creditors are reduced to the extent of 50% of their book value.

**You are required to:**

Prepare only capital reduction account assuming that the above scheme of Capital Reduction A/c has been implemented by the company.

## April – 2013

(27) Following is the Balance Sheet of M/s. SONAM Limited as on 31st March, 2012: (15)

## Balance-Sheet as on 31/03/2012

Liabilities	Rs.	Assets	Rs.
10% Preference shares of Rs. 10 each	5,00,000	Goodwill	2,00,000
Equity shares of 10 each	10,00,000	Land and Building	10,00,000
10% Debentures	2,00,000	Investments	5,00,000
Sundry Creditors	2,00,000	Stock	4,00,000
Other Liabilities	7,00,000	Publicity campaign expenses	4,00,000
		Preliminary expenses	1,00,000
<b>Total</b>	<b>26,00,000</b>	<b>Total</b>	<b>26,00,000</b>

The scheme of Capital Reduction A/c approved by the authority was as under:

- Each Equity Share will be written down from, Rs. 10 to Rs. 6 fully paid-up.
- Each 10% Preference share is to be written down from Rs. 10 to 8 fully paid-up. These Preference shares are to be converted into 12% Preference shares of Rs. 2 each and remaining into Equity shares of Rs. 6 each fully paid-up.
- 10% Debentureholders agreed to waive 20% of their rights.
- Assets were revalued as: Land and Building Rs. 12,00,000  
Stock to be reduced by 20%.
- Creditors dues are settled as follows:
  - 30% immediate payment
  - 50% paid by issue of 10% Debentures
  - 20% amount cancelled.
- All Intangible and Fictitious Assets are to be written off.
- 10,000 Equity Shares of Rs. 6 each were issued to public for cash.

**You are required to prepare:**

- Capital Reduction Account
- Balance Sheet of Sonam Limited after Capital Reduction A/c.

## October – 2013

(28) Balance Sheet of Bimar Ltd. as on 31/03/2013 is as follows:

Liabilities	Rs.	Assets	Rs.
Equity Share Capital of Rs. 100 each fully paid-up	9,00,000	Goodwill	1,30,000
12% Preference Share Capital of Rs. 100 each fully paid-up	6,00,000	Land & Building	7,55,000
16% Bank Loan	2,00,000	Plant & Machinery	2,35,000
Outstanding Interest on Bank Loan	10,000	Furniture & Fittings	3,10,000
Sundry Creditors	62,000	Stock	98,000
Income Tax Payable	45,000	Sundry Debtors	71,000
		Bank Balance	8,000
		Preliminary Expenses	45,000
		Profit & Loss A/c	1,65,000
<b>Total</b>	<b>18,17,000</b>	<b>Total</b>	<b>18,17,000</b>

Internal Capital Reduction A/c Scheme of Bimar Ltd. as approved by Court is implemented as follows:

- (a) Fictitious and Intangible Assets are written off.
- (b) Equity shareholders reduced their claim by Rs. 30 per share.
- (c) Preference shareholders reduced their claim to Rs. 80 per share.
- (d) Bank waived 40% of the outstanding interest on bank loan.
- (e) Land and Building is appreciated by 20%.
- (f) Sundry creditors reduced their claim to 85%.
- (g) Plant and Machinery is depreciated by 25%.
- (h) Furniture and Fittings are revalued at Rs. 2,89,000.
- (i) Stock is depreciated by 180/6.
- (j) R.D.D. is provided 3% on Sundry Debtors.
- (k) Directors advanced Rs. 35,000 to the company on non-refundable basis.
- (l) Capital Reduction A/c expenses amounted to Rs. 14,000.

Prepare Capital Reduction Account in the books of Bimar Ltd.

**April – 2014**

- (29) Following is the summarised Balance Sheet of Aayushi Ltd. as on 31st March, 2013: (15)

Liabilities	Rs.	Rs.
10% Preference shares of Rs. 100 each	8,00,000	
Equity share of Rs. 10 each	20,00,000	
12% Debentures	15,00,000	
Bank overdraft	1,00,000	
Bills payable	70,000	
Creditors	2,80,000	
<b>Total</b>		<b>47,50,000</b>
<b>Assets</b>		
Patents	30,000	
Goodwill	50,000	
Furniture	70,000	
Land and Building 13,00,000		
Plant and Machinery 12,00,000		
Closing Stock 1,60,000		
Bills receivable 30,000		
Debtors	1,80,000	
Profit and Loss Account (Debit balance)	16,40,000	
Preliminary Expenses	90,000	
<b>Total</b>		<b>47,50,000</b>

**Note:** Preference dividend is in arrears for four years.

The following scheme of Capital Reduction was sanctioned by the court and agreed by the shareholders:

- (a) The preference shares are to be reduced to Rs. 50 each and equity shares to Rs. 2 each both being fully paid.
- (b) Of the preference dividend in arrears, three-fourth to be waived and remaining to be paid immediately.
- (c) The debenture holders to take over plant and machinery at Rs. 13,00,000 in part satisfaction of their claim. The remaining claim should be converted into 15% debentures.
- (d) Bills payable to be settled immediately. Creditors forego their claim of Rs. 40,000.
- (e) The Assets are to be revalued as under:

Furniture	Rs. 50,000
Stock	Rs. 1,36,000
Land and Building	Rs. 11,60,000
Debtors	Rs. 1,60,000
- (f) A secured loan of Rs. 3,00,000 at 12% interest p.a. to be obtained by mortgaging Land and Building for repayment of Bank overdraft and payment of bills payable and Capital Reduction A/c expenses of Rs. 30,000.
- (g) Write off goodwill, patents, P and L A/c. (Dr. Balance) and preliminary expenses entirely.  
Pass necessary Journal entries in the books of Aayushi Ltd. and also prepare Capital Reduction Account.]



# INVESTMENT ACCOUNTING

As with effect from	01.04.1995	
Levels of Enterprises	Companies (AS) Rules, 2006 All types of Companies	Enterprises other than Companies I, II & III

Note : With effect from Financial Years commencing on or after 01.04.2011, AS-30, 31 and 32 comes into effect mandatorily for certain entities. Consequently, the provision of AS-13 are not applicable to such entities to the extent relating to Investments in Financial Instruments. Provisions relating to Investment in Immovable Properties (covered by AS-13) are applicale to all entities.

## 1. DEFINITIONS AND SCOPE

AS – 13 deals with accounting for investments in Financial Statements of enterprises, and related disclosure requirements.

It excludes and does not deal with –

1. Bases for recognition of interest, dividends and rentals earned on Investments (covered by AS – 9),
2. Operating or Finance Leases (covered by AS – 19),
3. Investments of Retirement Benefit Plans and Life Insurance Enterprises, and
4. Mutual Funds and Venture Capital Funds and/or the related Asset Management Companies, Banks and Public Financial Institutions formed under a Central or State Government Act or so declared under the Companies Act, 1956. (covered by ICAI's Guidance Note)

### Shares, Debentures and other securities held as Stock-in-Trade covered by AS – 13

1. Shares, Debentures and other securities held as Stock-in-Trade, (i.e. for sale in the ordinary course of business) are not 'Investments' as defined in AS –13.
2. But the accounting treatment and disclosure in the Financial Statments are similar to those applicable for Current Investments.
3. Hence, the provisions fo AS – 13, to the extent that they relate to Current Investments, are also applicable to Shares, Debentures and other securities held as Stock-in-Trade, with suitable modifications.

### Define Investment and Investment Property

1. **Investments:** Investments are assets held by an enterprise –
  - (a) for earning income by way of dividends, interest, and rentals,
  - (b) for capital appreciation, or
  - (c) for other benefits to the investing enterprise.

Note: Assets held as Stock-in-Trade are not 'Investments'.

2. **Investment Property:** It is an investment in Land or Buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.
3. **Significance of Investments:** Enterprises hold investments for diverse reasons. For some businesses, investment activity is a significant element of operations, and assessment of the enterprise's performance may largely, or solely, depend on the reported results of this activity.

**Differentiate between Fair Value and Market Value**

Fair Value	Market Value
1. It is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms' length transaction. 2. Under appropriate circumstances, Market Value or Net Realisable Value provides an evidence of Fair Value.	1. It is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal. 2. It is one of the bases by which the Fair Value of an investment is determined.

**2. FORMS AND CLASSIFICATION OF INVESTMENTS**

Based on	Classification
1. Physical Form	<ul style="list-style-type: none"> <li>● <b>Intangible:</b> i.e. have no physical existence and are represented merely by certificates or similar documents, e.g. Shares or similar financial rights.</li> <li>● <b>Tangible:</b> i.e. exist in a physical form, e.g. Land, Building, etc.</li> </ul>
2. Nature	<ul style="list-style-type: none"> <li>● <b>Monetary Receivable:</b> i.e. that of a debt, other than a short-term or long-term loan or a trade debt, representing a monetary amount owing to the holder &amp; usually bearing interest.</li> <li>● <b>Shareholding:</b> a stake in Results &amp; Net Assets of an enterprise, such as an Equity Share.</li> </ul>
3. Marketability	<ul style="list-style-type: none"> <li>● <b>Active Market:</b> Where an active market exists for an investment, Market Value can be established, which generally provided the best evidence of Fair Value.</li> <li>● <b>No Active Market:</b> For investment, in respect of which an active market does not exist, other means are used to determine Fair Value.</li> </ul>
4. Holding Period	<ul style="list-style-type: none"> <li>● <b>Current Investment:</b> Investment that is by its nature readily realisable and intended to be held for not more than one year from the date of its acquisition.</li> <li>● <b>Long-Term Investment:</b> Investment other than a Current Invt, and includes Investment Properties.</li> </ul>

**Investments classified for disclosure purposes?**

1. **Basic Classification:** Financial Statements generally show Fixed Assets, Investments and Current Assets. Investments are generally classified into –
  - (a) **Current Investments** which are in the nature of Current Assets, though the common practice is to include them under the general category of Investments, and
  - (b) **Long Term Investments**, which are investments other than Current Investments, though some of such investments may be readily marketable.
 However, Shares, Debentures and other Securities held for sale in the ordinary course of business are disclosed as 'Stock-In-Trade' under the head 'Current Assets'.
2. **Further Classification:**
  - (a) An enterprise should **disclose** Current Investments & Long Term Investments **distinctly** in its Financial Statements.
  - (b) Further classification of Current Investments and Long Term Investments should be as specified in the **statute** governing the enterprise.
  - (c) In the absence of a statutory requirement, such further classification should disclose, wherever applicable, investments in – (i) Government or Trust Securities, (ii) Shares, Debentures or Bonds, (iii) Investment Properties, and (iv) Others – specifying their nature.

### 3. DETERMINATION OF COST

1. **Acquired Investments:** Cost of an acquired/purchased Investment = Purchase Price + Acquisition Charges, e.g. Brokerage, Fees, Stamp Duties, etc.  
**Example:** A firm purchased 5,000 Shares of Raghav Ltd. at ₹ 300 per Share. Brokerage and Incidental Charges were 2% of the amount. The Cost of Investment will be (5,000 Shares x ₹ 300) + 2% towards Acquisition Charges = 15,00,000 + 30,000 = ₹ 15,30,000.
2. **Consideration paid by issuing Shares, etc:** Acquisition Cost is the Fair Value of the securities issued (which, in appropriate cases, may be indicated by the Issue Price as determined by statutory authorities). The Fair Value may not necessarily be equal to the nominal or par value of securities issued.  
**Example:** Rama Ltd. acquired certain investments by issuing its 500 Shares, deemed fully paid-up. As on the date of acquiring the said investment, the Company's Shares were quoted in the Stock Exchange at ₹ 438 per Share, whilst the Face Value was ₹ 100 per Share. The cost of investment = Fair Value of the securities issued = ₹ 438 x 500 = ₹ 2,19,000. The Face Value per Share is not relevant.
3. **Acquisition by part/full exchange of another asset:** The acquisition cost of the investment is determined by reference to – (a) the Fair Value of the asset given up, or (b) the Fair Value of the investment acquired, whichever is more clearly evident.  
**Example:** Rajeev Ltd. acquired certain investments by handing over a part of its machinery to the Seller and paying ₹ 37,000 in cash. The WDV of the Machine was ₹ 36,000 while the Realisable Value of the machine on that date was ₹ 20,000. The Cost of Investment = Fair Value of asset given up + Balance Acquisition price paid = ₹ 20,000 + ₹ 37,000 = ₹ 57,000. On the other hand, if the Investments acquired consisted of 1,000 Shares of another Company quoted at ₹ 58.65 each, the Fair Value of the investment acquired may be taken at 1,000 Shares x ₹ 58.65 = ₹ 58,650.
4. **Pre-Acquisition Interest / Dividends:** Interest, Dividends and Rentals receivable in connection with an investment are generally regarded as Income. But, in some cases, such inflows represent a recovery of cost and do not form part of income, i.e. Pre-Acquisition Interest / Dividend, which relates to the income earned for the period prior to the acquisition of the investments.
  - (a) **Cum-Interest Price:** If an interest bearing investment on which unpaid interest has accrued, is acquired by paying the interest cost also, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods. The pre-acquisition portion of interest is deducted from cost.
  - (b) **Pre-Acquisition Dividends:** Dividends on Equity Shares declared from pre-acquisition profits are also reduced from cost. If allocation between pre-acquisition and post-acquisition profits can be made only on an arbitrary basis, the Cost of Investment is normally reduced by Dividends Receivable only if they clearly represent a recovery of a part of cost.
5. **Rights Shares:**
  - (a) **If Subscribed:** When Rights Shares offered are subscribed for, the cost of the Right Shares is added to the carrying amount of the original holding.
  - (b) **If Sold:** If Rights are not subscribed for but sold in the market, the sale proceeds are taken to the **Profit and Loss Statement.**

**Exception:** However, where the investments are acquired on cum-right basis, and the Market Value of Investments immediately after their becoming ex-right is lower than the cost of acquisition, it is appropriate to apply the sale proceeds of rights to reduce the Carrying Amount of such investments to the Market Value.
6. **Swarup Ltd. acquired 2,000 Debentures in Viswarup Ltd. by issue of 10,000 Equity Shares having a face of ₹ 100 each, whose Market Value is ₹ 150 per Share. The Debentures of Viswarup Ltd. were listed at ₹ 800 but the Face Value is ₹ 500 only. What should be the cost of the Investments? Ignore pre-acquisition interest.**
  - Cost of 2,000 Debentures = Fair Value of the Equity Shares issued, i.e. ₹ 150 x 10,000 Shares = ₹ 15,00,000.

- Face Value of the Equity Shares issued and the Market Price / Face Value of the Debentures acquired are not relevant.

7. Hari purchased 1,000 6% Government Bonds of ₹ 100 each on 31st January 2009 at ₹ 95 each. Interest is payable on 30th June and 31st December. The Price Quoted is Cum-Interest. Journalise the Transaction.

Particulars	Dr. (₹)	Cr. (₹)
Investment in 6% Government Bonds A/c	Dr. 94,500	
Interest on 6% Government Bonds A/c [₹ 1,00,000 (Face Value) x 6% (Interest rate) x 1/12]	Dr. 500	
To Bank A/c		95,000
Being purchase of 1,000 6% Government Bonds at ₹ 95 each Cum-Interest)		

**Note:** When interest is received on 30th June (for 6 months period), the Interest A/c will be credited showing a net credit (for 5 months holding period).

8. On 1st April, Madan Ltd. purchased 12% Debentures in Mohan Ltd. for ₹ 7,50,000. The Face Value of these Debentures were ₹ 6,00,000. Interest on Debentures falls due for payment on 30th June and 31st December. Compute the cost of acquisition of Debentures.

When unpaid interest has accrued before the acquisition of an interest-bearing investment and is included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods, and the pre-acquisition portion is deducted from cost. In the given case –

Cost of Acquisition = Consideration paid (given)	₹ 7,50,000
<b>Less:</b> Pre-Acquisition Interest i.e. from 1st January to 31st March, i.e. date of last payment of interest till date of acquisition, for 3 months. (₹ 6,00,000 x 12% x 3/12)	₹ 18,000
Cost of Acquisition as per AS – 13	₹ 7,32,000

9. On 30th June, Kumar Ltd. acquired 500 Equity Shares of Sukumar Ltd. at ₹ 75 per share cum-dividend basis from Aditya. At the end of the accounting period, Sukumar Ltd. declared a dividend of ₹ 10 per Equity Share. Discuss the treatment of the above under AS – 13.

- 1. Pre-acquisition Dividends:** Dividends on Equity Shares declared from pre-acquisition profits are reduced from cost. If allocation between pre-acquisition and post acquisition profits can be made only on an arbitrary basis, the cost of investment is normally reduced by dividends receivable, only if they clearly represent a recovery of a part of cost.
- 2. Conclusion:** In this case, the price of ₹ 75 per Share is inclusive of Dividend, and hence Dividend should be reduced from the cost. Hence, the cost of 500 Equity Shares = 500 x (₹ 75 – ₹ 10) = ₹ 32,500.

10. Matter Not Display

Cost of Original Holding = 2,000 Shares x ₹ 75	₹ 1,50,000
<b>Add:</b> Cost of Rights Shares Subscribed = 2,000 Shares x ₹ 60	₹ 1,20,000
Total Cost of Investments at year-end (4,000 Shares)	₹ 2,70,000

11. Matter Not Display

- 1. Cost of Original Holding** = 2,000 Shares x ₹ 75 = ₹ 1,50,000.
- 2. Sale of Rights:** If Rights are not subscribed for but sold in the market, the Sale Proceeds are taken to the P&L Account. Hence, the amount of ₹ 36,000 should be credited to the P&L Account.
- 3. Fall in Market Value:** However, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost of acquisition, it is appropriate to apply the sale proceeds of rights to reduce the carrying amount of such Investments to the Market Value.

Market Value of Investments after the Rights Issue = 2,000 Shares x ₹ 70 = ₹ 1,40,000.

Since this is less than the Cost of ₹ 1,50,000, the difference of ₹ 10,000 should be provided for out of the Sale Proceeds of Rights, i.e. from ₹ 36,000. The balance of ₹ 26,000 (Sale Proceeds ₹ 36,000 – Diminution in Market Value provided for ₹ 10,000) should be credited to the P&L Account.

**12. Matter Not Display**

1. **Cost of Investments:** As per AS – 13, Cost of Investments includes Acquisition Charges, viz Brokerage, Fees, Duties, etc. Interest on Borrowings is not specifically stated as an includible item, in the cost of Investments.
2. **Interest on Borrowings:** For acquiring Shares of Subsidiary Company, apart from any fees, duties, etc. there are no costs incurred for investing in Shares. Hence, any Borrowing Cost incurred cannot be treated as part of Cost of Investments.
3. **AS – 16:** AS – 16 on ‘Borrowing Costs’ does not consider investment in shares as Qualifying Assets that can enable the Company to add the amount of borrowing cost to Investment.
4. **Conclusion:** The Company’s proposal to capitalise interest as part of cost of investments, is in violation of AS – 13 and AS – 16 and is therefore improper. The interest of ₹ 3 Crores should be rightfully charged as an expense to the P&L A/c. The fact of non-completion of project by Abhinava Ltd. is not relevant.
5. **Report:** Hence, the Auditor should qualify his report by stating that the Borrowing Costs have been wrongly added to the cost of Investments rather than charging them to the Profit and Loss Account. The effect of the wrong treatment on the current Profits and Assets should be quantified and reported.

**13. How are Current Investments carried in accounts? [Para 14 – 16, 31]**

1. **Carrying Amount:** The most prudent way of carrying Current Investments is either – (a) at Cost, or (b) at Fair Value, whichever is lower.
2. **Market Value:** For investments that enjoy an active market, the Market Value generally provides the best evidence of Fair Value. For investments that do not have an active market, other means are used to estimate the Fair Value.
3. **Basis:** The Cost or Fair Value should be determined either on an individual investment basis or category of investment basis, e.g. Equity Shares, Preference Shares, Convertible Debentures, etc. Valuation of Current Investments on overall (i.e. global) basis is not appropriate.
4. **Reduction in Value:** Any reduction to Fair Value of Current Investments and any reversals of such reductions should be included in the Profit and Loss Statement of the enterprise.

**14. Hari Ltd. has acquired 200 Equity Shares of Yamuna Ltd. at ₹ 105 per Share on 1st January, and paid ₹ 200 towards Brokerage, Stamp Duty and STT. On 31st March, Shares of Yamuna Ltd. were traded at ₹ 110 per Share. At what value should the investment be shown in the Balance Sheet of Hari Ltd. as at 31st March?**

All Current Investments should be disclosed in the Balance Sheet at lower of Cost or Market Value.	
Particulars	₹
Purchase Price of 200 Equity Shares of Yamuna Ltd. (200 x 105)	21,000
<b>Add:</b> Brokerage, Stamp Duty, STT	200
<b>Total Cost of 200 Equity Shares</b>	<b>21,200</b>
Market Value of Equity Shares as on (31st March) – (200 x 110)	22,000
<b>Value of Investment</b> (to be shown in Balance Sheet as at 31st March) (Lower of Cost or MV)	<b>21,200</b>

#### 4. DISCLOSURE REQUIREMENTS

The following information should be disclosed in the Financial Statements –

1. **Accounting** Policies for determination of carrying amount of investments,
2. **Classification** of Investment into Current and Long Term and further classification, if any,
3. Amounts included in **Profit and Loss Statement** for –
  - (a) Interest, Dividends (showing separately Dividends from Subsidiary Companies), and Rentals on investments (showing separately such income from Long Term and Current Investments). Gross Income should be stated, and the amount of income tax deducted at source should be included under Advance Taxes Paid,
  - (b) Profits & Losses on disposal of Current Investments & changes in the Carrying Amount of such Investments,
  - (c) Profits & Losses on disposal of Long-Term Investments and changes in the Carrying Amount of such Investments,
4. Significant **restrictions** on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal,
5. Aggregate amount of **Quoted & Unquoted Investments**, giving the aggregate Market Value of Quoted Investments,
6. Other **disclosures** as specifically required by the relevant statute governing the enterprise.

#### **Disclosure requirements of Investments under the Companies Act, 1956.**

As per Revised Schedule VI, the disclosure requirements in respect of Investments are as under –

##### Item K: Non-Current Investments

Classification Requirements	Other Points
Non-Current Investments shall be classified as – Trade Investments and Other Investments, and further classified as Investments in – <ol style="list-style-type: none"> <li>(a) Property,</li> <li>(b) Equity Instruments,</li> <li>(c) Preference Shares,</li> <li>(d) Government / Trust Securities,</li> <li>(e) Debentures or Bonds,</li> <li>(f) Mutual Funds,</li> <li>(g) Partnership Firms, and</li> <li>(h) Other Non-Current Investments (specify nature)</li> </ol>	<ol style="list-style-type: none"> <li>1. Investments carried at other than at Cost should be separately stated specifying the basis for valuation thereof.</li> <li>2. The following shall also be disclosed –               <ol style="list-style-type: none"> <li>(a) Aggregate amount of Quoted Investments &amp; Market Value thereof,</li> <li>(b) Aggregate amount of Unquoted Investments,</li> <li>(c) Aggregate Provision for Diminution in value of Investments.</li> </ol> </li> </ol>

##### Item N: Current Investments

Classification Requirements	Other Points
Current Investments shall be classified as – <ol style="list-style-type: none"> <li>(a) Investments in Equity Instruments,</li> <li>(b) Investments in Preference Shares,</li> <li>(c) Investments in Government or Trust Securities,</li> <li>(d) Investments in Debentures or Bonds,</li> <li>(e) Investments in Mutual Funds,</li> <li>(f) Investments in Partnership Firms,</li> <li>(g) Other Investments (specify nature)</li> </ol>	The following shall also be disclosed: <ol style="list-style-type: none"> <li>(a) Basis of Valuation of individual Investments,</li> <li>(b) Aggregate Amount of Quoted Investments and Market Value thereof,</li> <li>(c) Aggregate Amount of Unquoted Investments,</li> <li>(d) Aggregate Provision made for Diminution in Value of Investments.</li> </ol>

### PRACTICAL QUESTIONS – INVESTMENT ACCOUNTS

In the Illustrations, FV = Face Value, NV = Nominal Value. These two words are used inter-changeably.

#### 1. Investment in Interest Bearing Securities / Debt Bonds

- Calculate Interest for the period from previous interest payment date up to the date sale/purchase transaction.
- In Ex-Interest Transactions, do not deduct the interest from the Sale/Purchase Value. Show the Interest Amount in the Interest Column in the Ledger.
- In Cum-Interest transactions, deduct the interest calculated as above, and accordingly show the Interest Amount and Principal Amount in the respective Columns.
- If the Question is silent, we may assume FIFO Method for calculating the Profit or Loss on Sale of Investments.

#### Illustration 1: Ex-Interest and Cum-Interest transactions

Anugraha furnishes the following details relating to his holding in 16% Debentures of Sita Ltd.

- (a) Opening Balance (1st Jan) Face Value ₹ 60,000 – Cost ₹ 59,000.
- (b) 1st March: Purchased 100 Debentures ex-interest at ₹ 98.
- (c) 1st July: Sold 200 Debentures ex-interest out of the original holding at ₹ 100.
- (d) 1st October: Purchased 50 Debentures at ₹ 98 cum-interest.
- (e) 1st November: Sold 200 Debentures ex-interest at ₹ 99 out of the original holdings.
- (f) Interest Dates are 30th September and 31st March.

Anugraha closes his books every 31st December. Brokerage at 1% is to be paid for each transaction. Show the Investment Account as it would appear in his books. Market Value of Debentures on 31st December is ₹ 99.

#### Solution 1 : Computation of Int at 16% p.a. on various dates (Assumed that Face Value per Debenture = ₹ 100)

Date	Particulars	FV (₹)	Period (months)	Interest Amt. at 16% p.a. (₹)
1st Jan	Interest Accrued on Opening Balance (600 x ₹ 100)	60,000	3	2,400
1st March	Interest on Ex-Interest Purchase (100 x ₹ 100)	10,000	5	667
31st March	Interest Received on Holding (60,000 x ₹ 10,000)	70,000	6	5,600
1st July	Interest on Ex-Interest Sale (200 x ₹ 100)	20,000	3	800
30th Sep	Interest Received on Holding (70,000 – 20,000)	50,000	6	4,000
1st Oct	Interest on Cum-Interest Purchase (50 x ₹ 100) (No Interest, since the Interest Date is only 30th Sep)	5,000	—	Nil
1st Nov	Interest on Ex-Interest Sale (200 x ₹ 100)	20,000	1	267
31st Dec	Interest Accrued on Closing Balance (See Note)	35,000	3	1,400

**Note:** FV of holding on 31st Dec = 70,000 (up to 31st Mar) – 20,000 + 5,000 – 20,000 = ₹ 35,000

#### 2. Computation of Cost of Purchase

Particulars	1st March	1st Oct.
Amount paid	9,800	4,900
<b>Less:</b> Interest (for Cum-Interest purchase only)	—	(Purc. Date = Int. Date) Nil
<b>Add:</b> Brokerage at 1% of amount paid	98	49
<b>Net Cost of Purchase</b>	<b>9,898</b>	<b>4,949</b>

## 3. Computation of Profit / (Loss) on Sale of Investments (in ₹)

Particulars	1st July	1st Nov.
Sale Proceeds	20,000	19,800
Less: Brokerage at 1%	(200)	(198)
<b>Net Sale Proceeds</b>	19,800	19,602
Less: Cost of FIFO basis	$59,000 \times \frac{20}{60} = (19,667)$	$59,000 \times \frac{20}{60} = (19,667)$
<b>Profit / (Loss) on Sale</b>	<b>133</b>	<b>(65)</b>

## 4. 16% Debentures of Sita Ltd. Account

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
1st Jan	To balance b/d	60,000	2,400	59,000	31st March	By Bank	—	5,600	—
1st March	To Bank	10,000	667	9,898	1st July	By Bank	20,000	800	19,800
1st Oct	To Bank	5,000	—	4,949	30th Sep	By Bank	—	4,000	—
31st Dec	To P&L - Net Gain	—	—	69	1st Nov	By Bank	20,000	267	19,602
31st Dec	To P&L-Int tfr	(b/fig)	9,000	—	31st Dec	By Bal. c/d	35,000	1,400	34,514
	<b>Total</b>	<b>75,000</b>	<b>12,067</b>	<b>73,916</b>		<b>Total</b>	<b>75,000</b>	<b>12,067</b>	<b>73,916</b>

## Note:

- Market Value of Investments at year-end =  $350 \times ₹ 99 = ₹ 34,650$ . So, B/Sheet Value = Lower of Cost or Market Value = Cost ₹ 34,514.
- Net Gain on Sale of Investments (from WN 3) = ₹ 133 – ₹ 65 = ₹ 68, transferred to P&L A/c at the end of the year. Alternatively, the Gain of ₹ 133 and Loss of ₹ 65 can be separately transferred to P&L, on the dates of sale itself.

## Illustration 2: Ex- and Cum-Interest transactions – FIFO Method

Rishikesh furnishes the following details relating to his holding in 8% Debentures (₹ 100) of P Ltd., held as Current Assets:

- 1.4.2014 Opening Balance – Face Value ₹ 1,20,000 – Cost ₹ 1,18,000.
- 1.7.2014 Purchased 100 Debentures ex-interest at ₹ 98.
- 1.10.2014 Sold 200 Debentures ex-interest at ₹ 100.
- 1.1.2015 Purchased 50 Debentures at ₹ 98 cum-interest.
- 1.2.2015 Sold 200 Debentures ex-interest at ₹ 99.

Due Dates of Interest are 30th September and 31st March.

Rishikesh closes his books on 31.3.2015. Brokerage at 1% is to be paid for each transaction. Show Investment Account as it would appear in his books. Assume FIFO Method. Market Value of 8% Debentures of P Limited on 31.3.2015 is ₹ 99.

## Solution :

## 1. Computation of Interest at 8% p.a. on various dates

Date	Particulars	FV (₹)	Period (months)	Interest Amt. at 8% p.a. (₹)
01.07.2014	Interest on Ex-Interest Purchase (100 x ₹ 100)	10,000	3	200
30.09.2014	Interest Received on Holding (1,20,000 + 10,000)	1,30,000	6	5,200
01.10.2014	Interest on Ex-Interest Sale (200 x ₹ 100) (No Interest, since the Interest Date is only 30.09.2014)	20,000	—	Nil
01.01.2015	Interest on Cum-Interest Purchase (50 x ₹ 100)	5,000	3	100
01.02.2015	Interest on Ex-Interest Sale (200 x ₹ 100)	20,000	4	533
31.03.2015	Interest Received on Closing Balance (Note)	95,000	6	3,800

Note: FV of holding on 31st March =  $1,30,000$  (up to 30st Sep) –  $20,000$  +  $5,000$  –  $20,000 = ₹ 95,000$

**2. Computation of Cost of Purchase**

Particulars	01.07.2014	01.01.2015
Amount paid	9,800	4,900
<b>Less:</b> Interest (for Cum-Interest purchase only)	—	5,000 x 8% x 3/12 = (100)
<b>Add:</b> Brokerage at 1% of amount paid	98	48
<b>Net Cost of Purchase</b>	<b>9,898</b>	<b>4,848</b>

**3. Computation of Profit / (Loss) on sale of Investments**

Particulars	01.10.2014	01.02.2015
Sale Proceeds	20,000	19,800
<b>Less:</b> Brokerage at 1%	(200)	(198)
<b>Net Sale Proceeds</b>	19,800	19,602
<b>Less:</b> Cost on FIFO basis	1,18,000 x = (19,667)	1,18,000 x = (19,667)
<b>Profit / (Loss) on Sale</b>	<b>133</b>	<b>(65)</b>

**4. Investment in 8% Debentures of P Ltd. A/c**

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.04.14	To bal. b/d	1,20,000	—	1,18,000	30.09.14	By Bank	—	5,200	—
01.07.14	To Bank	10,000	200	9,898	01.10.14	By Bank	20,000	—	19,800
01.10.14	To P&L - Pft tfr	—	—	133	01.02.15	By Bank	20,000	533	19,602
01.01.15	To Bank	5,000	100	4,848	01.02.15	By P&L-Loss	—	—	65
31.03.15	To P&L-Int tfr (b/fig)	9,233	—	—	20.03.15	By Bal. c/d	95,000	3,800	93,412
	<b>Total</b>	<b>1,35,000</b>	<b>9,533</b>	<b>1,32,879</b>		<b>Total</b>	<b>1,35,000</b>	<b>9,533</b>	<b>1,32,879</b>

**Note:**

- Market Value of Investments at year-end = 950 x ₹ 99 = ₹ 94,050. So, B/Sheet Value = Lower of Cost or Market Value = Cost ₹ 93,412.
- Net Gain on Sale of Investments (from WN 3) = ₹ 133 – ₹ 65 = ₹ 69, can be transferred to P&L A/c at the end of the year. In the above a/c, Gain of ₹ 133 and Loss of ₹ 65 can be separately transferred to P&L, on the dates of sale itself.

**Illustration 3: Ex-Interest and Cum-Interest transactions**

The following information is presented by Krishna, relating to his holding in 9% Central Government Bonds, during a year –

Opening Balance (Face Value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face Value of each unit is ₹ 100).

- 1st March Purchased 200 units ex-interest at ₹ 98.
- 1st July Sold 500 units, ex-interest out of the original holding at ₹ 100.
- 1st October Purchased 150 units at ₹ 98 cum-interest.
- 1st November Sold 300 units, ex-interest at ₹ 99 out of original holdings.

Interest dates are 30th September and 31st March. Krishna closes his books every 31st December. Show the Investment Account as it would appear in his books.

**Solution:****1. Computation of Interest at 9% p.a. on various dates**

Date	Particulars	FV (₹)	Period (months)	Interest Amt. at 9% p.a. (₹)
1st Jan	Interest Accrued on Opening Balance (1,200 x ₹ 100)	1,20,000	3	2,700
1st March	Interest on Ex-Interest Purchase (200 x ₹ 100)	20,000	5	750
31st March	Interest on Holding (1,20,000 + 20,000)	1,40,000	6	6,300
1st July	Interest on Ex-Interest Sale (500 x ₹ 100)	50,000	3	1,125
30th Sep	Interest on Holding (1,40,000 – 50,000)	90,000	6	4,050
1st Oct	Interest on Cum-Interest Purchase (150 x ₹ 100) (No Interest, since the Interest Date is only 30th Sep)	15,000	—	Nil
1st Nov	Interest on Ex-Interest Sale (300 x ₹ 100)	30,000	1	225
31st Dec	Interest Accrued on Closing Balance (Note)	75,000	3	1,688

Note: FV of holding on 31st March = 90,000 (up to 30th Sept.) + 15,000 – 30,000 = ₹ 75,000

**2. Computation of Cost of Purchase**

Particulars	1st March	1st Oct.
Amount paid	19,600	14,700
Less: Interest (for Cum-Interest purchase only)	—	(Purc. Date = Int. Date) Nil
<b>Net Cost of Purchase</b>	<b>19,600</b>	<b>14,700</b>

**3. Computation of Profit / (Loss) on Sale of Investments (in ₹)**

Particulars	50	1st July	1st Nov.
Sale Proceeds	120	50,000	29,700
Less: Cost on FIFO basis	1,18,000 x	= (49,167)	1,18,000 x = (29,500)
<b>Profit / (Loss) on Sale</b>		<b>833</b>	<b>200</b>

**4. Investment in 9% Central Government Bonds Account**

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
1st Jan	To bal. b/d	1,20,000	2,700	1,18,000	31st March	By Bank	—	6,300	—
1st March	To Bank	20,000	750	19,600	31st July	By Bank	50,000	1,125	50,000
1st July	To P&L - Gain	—	—	833	30th Sept	By Bank	—	4,050	—
1st Oct	To Bank	15,000	—	14,700	1st Nov	By Bank	30,000	225	29,700
1st Nov	To P&L - Gain	—	—	200	31st Dec	By bal. c/d	75,000	1,688	73,633
31st Dec	To P&L-Int tfr (b/fig)	(b/fig)	9,938	—					
	<b>Total</b>	<b>1,55,000</b>	<b>13,388</b>	<b>1,53,333</b>		<b>Total</b>	<b>1,55,000</b>	<b>13,388</b>	<b>1,53,333</b>

**Illustration 4: Ex-Interest and Cum-Interest Transactions**

Bhagavan Limited held on 1st April 2014 ₹ 2,00,000 of 9% Government Loan at ₹ 1,90,000 (Face Value of Loan ₹ 100 each). Three month's interest had accrued on the above date.

- On 31st May 2014, the Company purchased the same Loan having a Face Value of ₹ 80,000 at ₹ 95 (net) cum-interest.
- On 1st June 2014, ₹ 60,000 Face Value Loan was sold at ₹ 94 (net) ex-interest.
- Interest on the Loan was paid each year on 30th June and 31st December and was credited by the Bank on the same date.

- (d) On 30th November 2014, ₹ 40,000 Face Value of the loan was sold at ₹ 97 (net) cum-interest.  
 (e) On 1st December 2014, the Company purchased the same loan ₹ 10,000 at ex-interest.  
 (f) On 1st March 2015, the Company sold ₹ 10,000 Face Value of the Loan at ₹ 95 ex-interest.  
 (g) The Market Price of the Loan on 31st March 2015 was ₹ 96.

**Required:** Draw up the 9% Government Loan Account in the books of Bhagavan Limited.

**Note:** FIFO Method shall be followed and the balance of the Loan held by the Company shall be valued at Total Average Cost or Market Price, whichever is lower. Calculation shall be made to the nearest Rupee or multiple thereof.

**Solution :** **1. Computation of Interest at 9% p.a. on various dates**

Date	Particulars	FV (₹)	Period (months)	Interest Amt. at 9% p.a. (₹)
01.04.2014	Interest Accrued on Opening Balance (2,000 x ₹ 100)	2,00,000	3	4,500
31.05.2014	Interest on Cum-Interest Purchase (800 + 100)	80,000	5	3,000
01.06.2014	Interest on Ex-Interest Sale (600 x ₹ 100)	60,000	5	2,250
30.06.2014	Interest Received on Holding (2,00,000 + 80,000 – 60,000)	2,20,000	6	9,900
30.11.2014	Interest on Cum-Interest Sale (400 x ₹ 100)	40,000	5	1,500
01.12.2014	Interest on Ex-Interest Purchase (100 x ₹ 100)	10,000	5	375
31.12.2014	Interest Received on Holding (2,20,000 – 40,000 + 10,000)	1,90,000	6	8,550
01.03.2015	Interest on Ex-Interest Sale (100 x ₹ 100)	10,000	2	150
31.03.2015	Interest Accrued on Closing Balance (Note)	1,80,000	3	4,050

**2. Computation of Cost of Purchase**

Particulars	31.05.2011	01.12.2011
Amount paid	76,000	10,000
<b>Less:</b> Interest (for Cum-Interest purchase only)	WN 1 = (3,000)	—
<b>Net Cost of Purchase</b>	<b>73,000</b>	<b>10,000</b>

**3. Computation of Profit / (Loss) on Sale of Investments**

Particulars	01.06.2011	30.11.2011	01.03.2012
Sale Proceeds	56,400	38,800	9,500
<b>Less:</b> Interest (for Cum-Interest Sale only)	—	WN 1 = (1,500)	—
<b>Less:</b> Cost of FIFO basis	1,90,000 x = (57,000)	1,90,000 x = (38,000)	1,90,000 x = (9,500)
<b>Profit / (Loss) on Sale</b>	<b>(600)</b>	<b>(700)</b>	<b>Nil</b>

## 4. 9% Government Loan A/c

Date	Particulars	NV	Int.	Cost	Date	Particulars	NV	Int.	Cost
01.04.14	To bal. b/d	2,00,000	4,500	1,90,000	01.06.14	By Bank	60,000	2,250	56,400
31.05.14	To Bank	80,000	3,000	73,000	01.06.14	By P&L	—	—	600
01.12.14	To Bank	10,000	375	10,000	30.06.14	By Bank	—	9,900	—
31.03.15	To P&L-Int (b/fig)		18,525	—	30.11.14	By Bank	40,000	1,500	37,300
					30.11.14	By P&L	—	—	700
					31.12.14	By Bank	—	8,550	—
					01.03.15	By Bank	10,000	150	9,500
					31.03.15	By bal. c/d	1,80,000	4,050	1,68,500
	<b>Total</b>	<b>2,90,000</b>	<b>26,400</b>	<b>2,73,000</b>		<b>Total</b>	<b>2,90,000</b>	<b>26,400</b>	<b>2,73,000</b>

Note: Avg Cost p.u. =  $\frac{2,73,000}{2,90,000} = ₹ 93.61$ . Since, Cost (₹ 93.61) < Market Price (₹ 96), Investments are shown at Cost.

**Illustration 5: Ex- and Cum-Interest transactions – FIFO Method**

Guha Investment Company holds 1,000 15% Debentures of ₹ 100 each in Siva Industries Ltd. as on 1st April 2014, at a cost of ₹ 1,05,000. Interest is payable on 30th June and 31st December each year.

On 1st May 2014, 500 Debentures are purchased cum-interest at ₹ 53,500.

On 1st November 2014, 600 Debentures are sold ex-interest at ₹ 57,300.

On 30th November 2014, 400 Debentures are purchased ex-interest at ₹ 38,400.

On 31st December 2014, 400 Debentures are sold cum-interest for ₹ 55,000.

Prepare the Investment Account showing value of holdings on 31st March 2015 at cost using FIFO Method.

**Solution:**

**1. Computation of Interest at 15% p.a. on various dates**

Date	Particulars	1800 units	FV (₹)	Period (months)	Interest Amt. at 15% p.a. (₹)
01.04.2014	Interest Accrued on Opening Balance	(1,000 x ₹ 100)	1,00,000	3	3,750
01.05.2014	Interest on Cum-Interest Purchase	(500 x ₹ 100)	50,000	4	2,500
30.06.2014	Interest Received on Holding	(1,00,000 + 50,000)	1,50,000	6	11,250
01.11.2014	Interest on Ex-Interest Sale	(600 x ₹ 100)	60,000	4	3,000
30.11.2014	Interest on Ex-Interest Purchase	(400 x ₹ 100)	40,000	5	2,500
31.12.2014	Interest on Cum-Interest Sale	(400 x ₹ 100)	40,000	6	3,000
31.12.2014	Interest Received on Holding	(Note)	90,000	6	6,750
31.03.2015	Interest Accrued on Closing Balance		90,000	3	3,375

Note: It is assumed that interest received only on balance Debentures after sale of ₹ 40,000 Face Value. So, FV of holding on 31st Dec = 1,50,000 (up to 30th June) = 60,000 + 40,000 – 40,000 = ₹ 90,000.

**2. Computation of Cost of Purchase**

Particulars	01.05.2011	30.11.2011
Amount paid	53,500	38,400
<b>Less:</b> Interest (for Cum-Interest purchase only)	WN 1 = (2,500)	—
<b>Net Cost of Purchase</b>	<b>51,000</b>	<b>38,400</b>

**3. Computation of Profit / (Loss) on Sale of Investments**

Particulars	01.11.2011	31.12.2011
Sale Proceeds	57,300	55,000
<b>Less:</b> Interest (for Cum-Interest Sale only)	—	WN 1 = (3,000)
<b>Less:</b> Cost of FIFO basis	1,05,000 x = (63,000)	1,05,000 x = (42,000)
<b>Profit / (Loss) on Sale</b>	<b>(5,700)</b>	<b>10,000</b>

**4. 15% Debentures of Siva Industries Ltd. A/c**

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.04.14	To bal. b/d	1,00,000	3,750	1,05,000	30.06.14	By Bank A/c	—	11,250	—
01.05.14	To Bank A/c	50,000	2,500	51,000	01.11.14	By Bank A/c	60,000	3,000	57,300
30.11.14	To Bank A/c	40,000	2,500	38,400	01.11.14	By P&L A/c	—	—	5,700
31.12.14	To P&L A/c	—	—	10,000	31.12.14	By Bank A/c	—	6,750	—
31.03.15	To P&L -Int tfr (bal.fig)	—	18,625	—	31.12.14	By Bank A/c	40,000	3,000	52,000
					31.03.15	By bal. c/d	90,000	3,375	89,400
	<b>Total</b>	<b>1,90,000</b>	<b>27,375</b>	<b>2,07,400</b>		<b>Total</b>	<b>1,90,000</b>	<b>27,375</b>	<b>2,07,400</b>

**Illustration 6: Ex-Interest and Cum-Interest Transactions**

Hindukush purchased on 1st March 2014, 5% Debentures in Kabini Ltd. of a Face Value of ₹ 2,40,000 at ₹ 90 cum-interest. Hindukush operates the calendar year for accounting purposes while Kabini Ltd. has the financial year for its accounting and pays Interest on 31st March and 30th September every year. Stamp and Expenses on Purchase were ₹ 200. Brokerage was 2% on cost. Further transactions during the year were –

1st September ₹ 1,00,000 Debentures were sold at ₹ 92 ex-Interest, less Brokerage at 2%.  
30th September ₹ 80,000 Debentures were purchased at ₹ 92 ex-Interest, Brokerage at 2%, Expenses ₹ 100.

1st December ₹ 60,000 Debentures were sold at ₹ 94 cum-Interest, less Brokerage at 2%.

Market Value of the Debentures at the end of the calendar year was ₹ 91. Prepare the Investment Account, using Average Cost Method of Valuation for recognising Profit / (Loss) on Sale of Investments.

**Solution: 1. Computation of Interest at 5% p.a. on various dates (Assumed FV per Deb = ₹ 100)**

Date	Particulars	FV (₹)	Period (months)	Interest Amt. at 5% p.a. (₹)
1st March	Interest on Cum-Interest Purchase (2,400 x ₹ 100)	2,40,000	5	5,000
31st March	Interest Received on Holding	2,40,000	6	6,000
1st Sept	Interest on Ex-Interest Sale (1,000 x ₹ 100)	1,00,000	3	2,083
30th Sept	Interest on Ex-Interest Purchase (800 x ₹ 100)	80,000	6	2,000
30th Sept	Interest Received on Holding (2,40,000 – 1,00,000 + 80,000)	2,20,000	6	5,500
1st Dec	Interest on Cum-Interest Sale (600 x ₹ 100)	60,000	2	500
31st Dec	Interest Accrued on Closing Balance (Note)	1,60,000	3	2,000

## 2. Computation of Cost of Purchase

Particulars	1st March	30th Sept
Basic Rate	2,40,000 x 90% = 2,16,000	80,000 x 91% = 72,800
<b>Add:</b> Brokerage at 2%	4,320	1,456
<b>Add:</b> Stamp Expenses	200	100
<b>Sub Total</b>	2,20,520	74,356
<b>Less:</b> Interest (for Cum-Interest purchase only)	WN 1 = (5,000)	—
<b>Net Cost of Purchase</b>	<b>2,15,520</b>	<b>74,356</b>

## 3. Computation of Profit / (Loss) on Sale of Investments

Particulars	1st Sept.	1st Dec.	Total
Sale Proceeds	92,000	56,400	1,48,000
<b>Less:</b> Brokerage at 2%	(1,840)	(1,128)	(2,968)
<b>Sub-Total</b>	90,160	55,272	1,45,432
<b>Less:</b> Interest (for Cum-Interest Sale only)	—	WN 1 = (500)	(500)
<b>Net Sale Proceeds</b>	90,160	54,772	1,44,932
<b>Less:</b> Cost under Average Cost Method (Note)			(1,44,938)
<b>Profit / (Loss) on Sale</b>			<b>(6)</b>

Average Cost of Invt sold = Total Cost x  $\frac{\text{Total Cost of Invt Sold}}{\text{Total Cost of Invt Purchased}}$  = (2,15,520 + 74,356) x  $\frac{1,44,932}{2,15,520 + 74,356}$

## 4. Investment in 5% Debentures of Kabini Ltd. A/c

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
1st Mar	To Bank	2,40,000	5,000	2,15,520	31st Mar	By Bank	—	6,000	—
30th Sep	To Bank	80,000	2,000	74,356	1st Sept	By Bank	1,00,000	2,083	90,160
31st Dec	To P&L (b/f)	—	9,083	—	30th Sep	By Bank	—	5,500	—
	-Int tfr				1st Dec	By Bank	60,000	500	54,772
					31st Dec	By P&L A/c	—	—	6
					31st Dec	By bal. c/d	1,60,000	2,000	1,44,938
	<b>Total</b>	<b>3,20,000</b>	<b>16,083</b>	<b>2,89,876</b>		<b>Total</b>	<b>3,20,000</b>	<b>16,083</b>	<b>2,89,876</b>

## Illustration 7:

Chandru purchased 500 Equity Shares of ₹ 100 each in Vamana Ltd. for ₹ 62,500 inclusive of Brokerage and Stamp Duty. Some years later, the Company resolved to capitalise its profits and to issue to the holders of Equity Shares, one Equity Share for every Share held by them. Prior to capitalisation, the Shares of Vamana Ltd. was quoted at ₹ 175 per Share. After the capitalisation, the Shares were quoted at ₹ 92.50 per Share. Chandru sold the Bonus Shares and received ₹ 90 per Share. Prepare the Investment A/c in Chandru's books on Average Cost basis.

## Solution:

## Investment (in Equity Shares of Vamana Ltd.) Account

Particulars	FV	Cost	Particulars	FV	Cost
To Bank – Purchase of Shares / OB	50,000	62,500	By Bank – Sale of Shares	50,000	(500 x 90) 45,000
To Bonus Shares (1:1 ratio)	50,000	—	By balance c/d (WN 3)	50,000	31,250
To P&L A/c (Profit Note 2)	13,750				
<b>Total</b>	<b>1,00,000</b>	<b>76,250</b>	<b>Total</b>	<b>1,00,000</b>	<b>76,250</b>

1. Bonus Shares do not have any Cost. However, Nominal Value of Bonus Shares is shown in the FV Column.
2. Profit on Sale of Shares = (Sale Proceeds ₹ 45,000 – (Cost ₹ 62,500 x)] = ₹ 13,750 or ₹ 62.50 per Share.
3. Total Cost of 1,000 Shares (including Bonus) is ₹ 62,500. So, Cost of Closing Balance 500 Shares (pro-rata) is ₹ 31,250. Cost being lower than Market Value of ₹ 95.50 x 500 Shares = ₹ 46,250, the Shares are carried forward at Cost.

**Illustration 8:**

On 01.04.2014, Dhakshinamurthi purchased 1,000 Equity Shares of 100 each in Lakshmi Ltd. at ₹ 120 each from a Broker, who charged 2% Brokerage. He incurred 50 paise per ₹ 100 as cost of Share Transfer Stamps. On 31.01.2015, Bonus was declared in the ratio of 1:2. Before and after the record date of Bonus Shares, the Shares were quoted at ₹ 175 per Share and ₹ 90 per Share respectively. On 31.03.2015, Dhakshinamurthi sold Bonus Shares to a Broker, who charged 2% Brokerage.

Show the Investment Account in the books of Dhakshinamurthi who held the shares as Current Assets. Closing Value of Investments shall be made at Cost or Market value whichever is less.

**Solution:**

**Points for Consideration**

- Stamp Duty is calculated on the Price excluding the Brokerage, i.e. on the Purchase Price.
- Total Cost of Investment = Purchase Price + Brokerage + Stamp Duty.
- Brokerage on Sale Transaction is to be reduced to arrive at the net Sale Proceeds.

**1. Basic Computation**

Particulars	Computation	₹
(a) Cost of Shares purchased on 01.04.2014	$(1,000 \times 120) + (2\% \text{ of } 1,20,000) + 50 \text{ paise per } ₹ 100$ 1,50,000 + 0.5% of 1,20,000	1,23,000
(b) Sale Proceeds of Shares sold on 31.03.2015	$(500 \times 90) - 2\% \text{ of } 45,000$	44,100
(c) Profit on Sale of Bonus Shares on 31.03.2015	Sale Proceeds = 44,100 <b>Less:</b> Average Cost $1,23,000 \times \frac{50,000}{1,50,000} = (41,000)$	3,100
(d) Valuation of Equity Shares of 31.03.2015	<b>Cost:</b> $1,23,000 \times \frac{500}{1,000} = 82,000$ <b>Market Value:</b> 1,000 Shares of ₹ 90 = 90,000	Least of the two 82,000

**2. Investment (Equity Shares of Lakshmi Limited) Account**

Date	Particulars	NV	Cost	Date	Particulars	NV	Cost
01.04.2014	To Bank	1,00,000	1,23,000	31.03.2015	By Bank	50,000	44,100
31.03.2015	To Bonus Shares	50,000	—	31.03.2015	By balance c/d	1,00,000	82,000
31.03.2015	To P&L A/c	—	3,100				
	<b>Total</b>	<b>1,50,000</b>	<b>1,26,100</b>		<b>Total</b>	<b>1,50,000</b>	<b>1,26,100</b>

**Illustration 9:**

On 1st April 2014, Rajat has 50,000 Equity Shares of Pari Ltd. at a Book Value of ₹ 15 Per Share (Face Value ₹ 10 each). He provides you the further information –

1. On 20th June 2014 he purchased another 10,000 Shares of Pari Ltd. at ₹ 16 Per Share.
2. On 1st August 2014, Pari Ltd. issued one Equity Bonus Share for every Six Shares held by the Shareholders.
3. On 31st October 2014 the Directors of Pari Ltd. announced a Rights issue which entitle the holders to subscribe Three Shares for every Seven Shares at 15 per Share, Shareholders can transfer their Rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a Consideration of ₹ 2 per Share and subscribe the rest of 5th November 2014.

Prepare Investment A/c in the books of Rajat for the year ending 31st March 2015.

**Solution:****Investment (Equity Shares in Pari Ltd.) Account**

Date	Particulars	Share Nos.	₹	Date	Particulars	Share Nos.	₹
01.04.14	To balance b/d at ₹ 15	50,000	7,50,000				
20.06.14	By Bank	10,000	1,60,000				
01.08.14	To Bonus (WN 1)	10,000	—				
05.11.14	To Bank (Rights) (WN 4)	10,000	3,00,000	31.12.14	By balance c/d	90,000	2,64,444
	<b>Total</b>	<b>90,000</b>	<b>12,10,000</b>		<b>Total</b>	<b>90,000</b>	<b>12,10,000</b>

**Working Notes**

Particulars	Computation	Result
1. No. of Bonus Shares	$(50,000 + 10,000) \div 6$	10,000 Shares
2. No. of Rights Shares eligible	$(50,000 + 10,000 + 10,000) \times$	30,000 Shares
3. No. of Rights Shares Renounced	$30,000 \div 3 = 10,000$ Shares at ₹ 2 will be taken to P&L	₹ 20,000
4. No. of Rights Shares subscribed	$30,000 - 10,000 = 20,000$ Shares at ₹ 15	₹ 3,00,000

**Illustration 10:**

On 1st April 2014, Easwar had 25,000 Equity Shares of Milky Ocean Ltd., at a Book Value of ₹ 15 per Share (Face Value ₹ 10). On 20th June 2014, he purchased another 5,000 Shares of the Company at ₹ 16 per Share. The Directors of Milky Ocean Ltd. announced a Bonus and Rights Issue. No Dividend was payable on their issue. The terms of the issue are as follows :

Bonus Basis 1 : 6 (Date : 16th August 2014)

Rights Basis 3 : 7 (Date : 31st August 2014) Price ₹ 15 per Share. Due date for payment 30th September 2014.

Shareholders can transfer their rights in full or in part. Accordingly, Easwar sold 1/3rd of his entitlement to Madhav for a consideration of ₹ 2 per Share.

Dividends: Dividends for the year ended 31st March 2014 at the rate of 20% were declared by Milky Ocean Ltd. and received by Easwar on 31st October 2014. Dividends for Shares acquired by him on 20th June 2014 are to be adjusted against cost of purchase.

On 15th November 2014, Easwar sold 25,000 Equity Shares at a Premium of ₹ 5 per Share.

Prepare – (1) Investment Account, and (2) Profit & Loss Account in the books of Easwar. Assume that the books are closed on 31st December 2014, and Shares are valued at Average Cost.

**Solution:**

**Points for Consideration**

- Sale Proceeds of Rights is to be credited to P&L A/c and not Investment A/c, since the Ex-Rights Price is not lower than the Cost of Acquisition.
- Reduce the Dividend on Shares acquired on 20th June 2011 from the cost of acquisition, to arrive at the Net Cost of Shares at on 31st December 2011, since it is Pre-Acquisition Dividend.

**Working Notes**

Particulars	Computation	Result
1. No. of Bonus Shares	$(25,000 + 5,000) \div 6$	5,000 Shares
2. No. of Rights Shares eligible	$(25,000 + 5,000 + 5,000) \times$	15,000 Shares
3. No. of Rights Shares Renounced	$15,000 \div 3 = 5,000$ Shares at ₹ 2 will be taken to P&L	₹ 10,000
4. No. of Rights Shares subscribed	$15,000 - 5,000 = 10,000$ Shares at ₹ 15	₹ 1,50,000
5. Total Dividend Received	On OB + Fresh Purc. = $30,000$ Shares $\times$ ₹ 10 $\times$ 20%	₹ 60,000
(a) Dividend on OB Shares taken to P&L	$25,000 \times ₹ 10 \times 20\%$	₹ 50,000
(b) Dividend on Shares purc. on 20.6.2014	$5,000 \times ₹ 10 \times 20\%$ is adjusted in Investment A/c	₹ 10,000
6. Cost of Shares sold on 15.11.2014	$(3,75,000 + 80,000 + 1,50,000 - 10,000) \times$	₹ 3,30,556
7. Profit on Sale of Shares on 15.11.2014	Sale Proceeds ( $25,000 \times 15$ ) less Cost ₹ 3,30,556	₹ 44,444
8. Cost of Shares as on 31.12.2014	$(3,75,000 + \overset{25,000}{\cancel{80,000}} + 1,50,000 - 10,000) \times$ <span style="margin-left: 100px;">45,000</span>	₹ 2,64,444

**1. Investment (Equity Shares in Milky Ocean Ltd.) Account**

Date	Particulars	Share Nos.	₹	Date	Particulars	Share Nos.	₹
01.04.14	To balance b/d at ₹ 15	25,000	3,75,000	31.10.14	By Bank (Dvd) (WN 5b)	—	10,000
20.06.14	By Bank	5,000	80,000	15.11.14	By Bank (Sale of Shares)	25,000	3,75,000
16.08.14	To Bonus (WN 1)	5,000	—	31.12.14	By balance c/d (WN 8)	20,000	2,64,444
30.09.14	To Bank (Rights) (WN 4)	10,000	1,50,000				
15.11.14	To P&L — Pft tfr (WN7)	—	44,444				
	<b>Total</b>	<b>45,000</b>	<b>6,49,444</b>		<b>Total</b>	<b>45,000</b>	<b>6,49,444</b>

**2. Profit & Loss A/c (Abstract)**

Particulars	₹	Particulars	₹
To balance c/d	1,04,444	By Profit on Sale of Shares (WN 8)	44,444
		By Renunciation of Right Shares (WN 3)	10,000
		By Dividend (WN 4)	50,000
<b>Total</b>	<b>1,04,444</b>	<b>Total</b>	<b>1,04,444</b>

**Illustration 11:**

On 1st April 2014, Hari Ltd. has 15,000 Equity Shares of Vaikuntam Ltd., at a Book Value of ₹ 15 per Share (Face Value ₹ 10 per Share). On 1st June 2014, Hari Ltd. acquired 5,000 Equity Shares of Vaikuntam Ltd., for ₹1,00,000 on cum-rights basis. Vaikuntam Ltd. announced a Bonus and Rights issue.

- Bonus was declared, at the rate of one Equity Share for every five Shares held, on 1st July 2014.
- Rights Shares are to be issued to the existing Shareholders on 1st September 2014. The Company will issue one Right Share for every 6 Shares at 20% Premium. No dividend was payable on these Shares.
- Dividend for year ended 31-3-2014 was declared by Vaikuntam Ltd. at 20%, and received by Hari Ltd. on 31st October 2014.
- Hari Ltd. – (i) Took up half the Rights issue, and (ii) Sold the remaining rights for ₹ 8 per Share.
- Hari Ltd. sold half of its share holdings on 1st January 2015 at ₹ 16.50 per Share, Brokerage being 1%. Prepare Investment a/c of Hari Ltd. for the year ended 31st March 2015, assuming the Shares are valued at Average Cost.

**Solution:****Points for Consideration**

- Sale Proceeds of Rights is to be credited to P&L A/c and not Investment A/c, since the Ex-Rights Price is not lower than the Cost of Acquisition.
- Reduce the Dividend on Shares acquired on 1st June 2014 from the cost of acquisition, to arrive at the Net Cost of Shares at on 31st March 2015, since it is Pre-Acquisition Dividend.

**Working Notes**

Particulars	Computation	Result
1. No. of Bonus Shares	$(15,000 + \frac{1,00,000}{15}) \div 5$	4,000 Shares
2. No. of Rights Shares eligible	$\frac{86,000}{(15,000 + 5,000 + 4,000)} \times$	4,000 Shares
3. No. of Rights Shares Renounced	$4,000 \div \frac{1}{2} = 2,000$ Shares at ₹ 8 will be taken to P&L	₹ 16,000
4. No. of Rights Shares subscribed	$4,000 - 2,000 = 2,000$ Shares at ₹ 10 + 20% Premium	₹ 24,000
5. Total Dividend Received	On OB + Fresh Purc. = 20,000 Shares $\times$ ₹ 10 $\times$ 20%	₹ 40,000
(a) Dividend on OB Shares taken to P&L	$15,000 \times ₹ 10 \times 20\%$	₹ 30,000
(b) Dividend on Shares purc. on 1.6.2014	$5,000 \times ₹ 10 \times 20\%$ is adjusted in Investment A/c	₹ 10,000
6. Cost of Shares sold on 01.01.2015	$(2,25,000 + 1,00,000 + 24,000 - 10,000) \times$	₹ 1,69,500
7. Net Sale Proceeds for sale on 01.01.2015	$(13,000 \text{ Shares} \times ₹ 16.50)$ less Brokerage 1%	₹ 2,12,355
8. Profit on Sale of Shares on 01.01.2015	Net Sale Proceeds ₹ 2,12,355 less Cost ₹ 1,69,500	₹ 42,855

**Investment (Equity Shares in Vaikuntam Ltd.) Account**

Date	Particulars	Share Nos.	₹	Date	Particulars	Share Nos.	₹
01.04.14	To balance b/d at ₹ 15	15,000	2,25,000	31.10.14	By Bank (Dvd) (WN 5b)	—	10,000
01.06.14	By Bank	5,000	1,00,000	01.01.15	By Bank (Sale of Shares) (WN 7)	13,000	2,12,355
01.07.14	To Bonus (WN 1)	4,000	—	31.03.15	By balance c/d (Note)	13,000	1,69,500
01.09.14	To Bank (Rights) (WN 4)	2,000	24,000				
15.11.14	To P&L — Pft tfr (WN 8)	—	42,855				
	<b>Total</b>	<b>26,000</b>	<b>3,91,855</b>		<b>Total</b>	<b>26,000</b>	<b>3,91,855</b>

**Note:** 50% of the Shareholding are sold, for which cost is ₹ 1,69,500 as per WN 6. Hence, Cost of Balance 50% Shareholdings at period-end is also ₹ 1,69,500.

**Illustration 12:**

On 1st January 2014, Hrishikesa had 20,000 Equity Shares in Parkadal Ltd. Face Value of the Shares was ₹ 10 each but their Book Value was ₹ 16 per Share. On 1st June 2014, Hrishikesa purchased 5,000 more Equity Shares in the Company at a premium of ₹ 4 per Share.

On 30th June 2014, the Directors of Parkadal Ltd. announced a Bonus and a Rights Issue. Bonus was declared at the rate of one Equity Share for every five Shares held and these Shares were received on 2nd August 2014. The terms of the Rights issue were:

- Rights Shares to be issued to the existing Shareholders on 10th August 2014.
- Right Issue would entitle the holders to subscribe to additional Equity Shares in the Company at the rate of one Share for every three held at ₹ 15 per Share, the whole sum being payable by 30th September 2014.
- Existing Shareholders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.

Hrishikesa exercised his option under the Rights issue for 50% of his entitlements and the balance of rights were sold to Rasavihari for a consideration of ₹ 1.50 per Share.

Dividend for the year ended 31st March 2014 at the rate of 15% were declared by the Company and received by Hrishikesa on 20th October 2014. Also, on 1st November 2014 Hrishikesa sold 20,000 Equity Shares at a premium of ₹ 3 per Share.

Show the Investment Account as it would appear in the books of Hrishikesa for the year 2014 and the value of Shares held as on 31st December 2014.

**Solution:**

**Points for Consideration**

- Sale Proceeds of Rights is to be credited to P&L A/c and not Investment A/c, since the Ex-Rights Price is not lower than the Cost of Acquisition.
- Reduce the Dividend on Shares acquired on 1st June 2014 from the cost of acquisition, to arrive at the Net Cost of Shares at on 31st December 2014, since it is Pre-Acquisition Dividend.

## Working Notes

Particulars	Computation	Result
1. No. of Bonus Shares	$(20,000 + 5,000) \div 5$	5,000 Shares
2. No. of Rights Shares eligible	$(20,000 + 5,000 + 5,000) \times$	10,000 Shares
3. No. of Rights Shares Renounced	$10,000 \times \frac{1}{2} = 5,000$ Shares at ₹ 1.5 will be taken to P&L	₹ 7,500
4. No. of Rights Shares subscribed	$10,000 - 5,000 = 5,000$ Shares at ₹ 15	₹ 75,000
5. Total Dividend Received	On OB + Fresh Purc. = 25,000 Shares $\times$ ₹ 10 $\times$ 15%	₹ 37,500
(a) Dividend on OB Shares taken to P&L	$20,000 \times ₹ 10 \times 15\%$	₹ 30,000
(b) Dividend on Shares purc. on 01.06.14	$5,000 \times ₹ 10 \times 15\%$ is adjusted in Investment A/c	₹ 7,500
6. Cost of Shares sold on 01.11.14	$(3,20,000 + 70,000 + 75,000 - 7,500) \times$	₹ 2,61,429
7. Loss on Sale of Shares on 01.11.14	Sale Proceeds $(20,000 \times ₹ 13)$ less Cost ₹ 2,61,429	₹ 1,429
8. Cost of Shares as on 31.12.14	$(3,20,000 + 70,000 + 75,000 - 7,500) \times$	₹ 1,96,071

## Investment (Equity Shares in Parkadal Ltd.) Account

Date	Particulars	Share Nos.	₹	Date	Particulars	Share Nos.	₹
01.04.14	To balance b/d at ₹ 16	20,000	3,20,000	20.10.14	By Bank (Dvd) (WN 5b)	—	7,500
01.06.14	To Bank at ₹ 14	5,000	70,000	01.11.14	By Bank (Sale of Shares)	20,000	2,60,000
02.08.14	To Bonus (WN 1)	5,000	—	01.11.14	By P&L (Loss) (WN 7)	—	1,429
30.09.14	To Bank (Rights) (WN 4)	5,000	75,000	31.12.14	By balance c/d (WN 8)	15,000	1,96,071
	<b>Total</b>	<b>35,000</b>	<b>4,65,000</b>		<b>Total</b>	<b>35,000</b>	<b>4,65,000</b>

## EXERCISES

## (I) Multiple Choice Questions:

- Investments intended to be held for less than 12 months is called \_\_\_\_\_ investment.  
(a) annual (b) current (c) long-term (d) trade
- Fixed return bearing investment are \_\_\_\_\_.  
(a) equity shares (b) debentures (c) jewellery (d) machinery
- The requirements regarding investment are specified in as \_\_\_\_\_.  
(a) 3 (b) 11 (c) 13 (d) 14
- Rights shares are offered in ratio of \_\_\_\_\_.  
(a) number of shares held (b) cost of shares (c) face value of shares (d) paid-up value of share
- The cost of investment sold is to be calculated as per \_\_\_\_\_ Method.  
(a) FIFO (b) LIFO (c) Weighted Average (d) Simple Average

6. The interest up to the date of transaction is paid in addition to the price in case of \_\_\_\_\_ quotation.  
(a) cum-interest      (b) ex-interest      (c) fixed price      (d) all types of
7. The interest on bonds is to be calculated on \_\_\_\_\_.  
(a) cost      (b) face value      (c) number of bands      (d) market value
8. The carrying amount of current investment is to be shown at \_\_\_\_\_.  
(a) face value      (b) cost      (c) marked value      (d) lower of cost or market value
9. Each side of Investments Account have \_\_\_\_\_ columns of amount.  
(a) 2      (b) 3      (c) 4      (d) 1
10. The carrying amount of long-term investment is to be shown at \_\_\_\_\_.  
(a) cost      (b) face value      (c) market value      (d) paid-up value

[Ans.: 1. (b), 2. (b), 3. (c), 4. (a), 5. (c), 6. (b), 7. (b), 8. (d), 9. (b), 10. (a)]

**(II) Fill in the Blanks:**

1. The investment intended to be held for less than \_\_\_\_\_ months is called \_\_\_\_\_ investment as per AS – 13.
2. The carrying amount of current investment is to be shown at \_\_\_\_\_ or \_\_\_\_\_ whichever is lower.
3. The interest due up to date of purchase is to be segregated from total price of investment, if price is \_\_\_\_\_.
4. The interest on investment is to be calculated on \_\_\_\_\_ of investment.
5. AS – 13 provides for accounting for investment in \_\_\_\_\_ or \_\_\_\_\_.
6. Cost of investment includes purchase price and \_\_\_\_\_.
7. The brokerage and stamp duty paid at the time of purchase is \_\_\_\_\_.
8. The brokerage is calculated on \_\_\_\_\_ price of investment.
9. The cost of investment sold is to be ascertained as per AS – 13 \_\_\_\_\_ method.
10. The premium received on sale of Rights is credited to \_\_\_\_\_.
11. In case of \_\_\_\_\_ interest due up to date of transaction is payable extra.
12. The receipt of bonus shares is to be shown in \_\_\_\_\_ column of investment.
13. The Investment Account is prepared in \_\_\_\_\_ column.
14. The difference between cost of debentures and amount received on redemption is transferred to \_\_\_\_\_ account.
15. Investment Account is debited for \_\_\_\_\_ on sale of investment.
16. The dividend received for pre-acquisition period is credited to \_\_\_\_\_ Account.
17. The balance in interest column in Investment Account is transferred to \_\_\_\_\_.
18. Ex-interest price includes \_\_\_\_\_ only.
19. The value of shares allotted on conversion of debentures is credited in \_\_\_\_\_ Account.
20. The right shares are shown in investment only when right is \_\_\_\_\_.
21. Cost investment includes purchase price and \_\_\_\_\_.
22. Interest is always calculated on \_\_\_\_\_ of securities.
23. Interest is paid to the holder on due date irrespective of his \_\_\_\_\_ period of holding.
24. Dividend on shares accrues on the date of \_\_\_\_\_.
25. Dividend is paid to the holder of shares on the date of \_\_\_\_\_ irrespective of actual period of holding.
26. Equity share is a \_\_\_\_\_ income bearing security.
27. Interest is always calculated on \_\_\_\_\_ of the security.

28. As per AS 13 on sale of investment profit or loss is calculated by deducting \_\_\_\_\_ of investment from sales.
29. Profit on sale of investment is transferred to \_\_\_\_\_ A/c.
30. Current investments are valued at cost or M.V. whichever is \_\_\_\_\_ .
31. Sale proceeds of rights shares is credited to \_\_\_\_\_ A/c.
32. In the case of cum interest price cost of acquisition is cum interest price has \_\_\_\_\_ .
33. On sale of equity shares the equity shares A/s is credited by \_\_\_\_\_ .
34. \_\_\_\_\_ shares received increase Nominal Value of shares held.

[Ans.: 1. 12, current, 2. cost or market value, 3. cum-interest, 4. face value, 5. shares or debentures, 6. expenses, 7. added to cost, 8. transaction, 9. weighted average, 10. Profit & Loss Account, 11. ex-interest, 12. no. of shares, 13. three, 14. Profit & Loss Account, 15. profit, 16. Investment, 17. Profit & Loss Account, 18. cost/value, 19. Debentures, 20. exercised/accepted, 21. brokerage, 22. face value, 23. actual, 24. declaration, 25 book closure, 26. Fluctuating, 27. Face Value, 28. W.A. cost, 29. Profit and Loss A/c, 30. less, 31. Profit and Loss A/c, 32. Interest for expired period, 33. Net sale proceeds, 34. Bonus]

**(III) Match the columns**

1.	Group 'A'	Group 'B'
(1)	Debentures	(a) AS – 13
(2)	Investment Account	(b) Securities with fixed income
(3)	Shares	(c) Fixed income
(4)	Cost of Investment	(d) No fixed income
(5)	Sold bonds	(e) Weighted Average Method

[Ans.: 1. (b); 2. (a); 3. (d); 4. (e); 5. (c)]

2.	Group 'A'	Group 'B'
(1)	Investment for over 12 months	(a) Current investment
(2)	Investment to be traded	(b) Face value
(3)	Cum interest price	(c) No cost
(4)	Interest calculation	(d) Long term
(5)	Bonus shares	(e) Includes interest

[Ans.: 1. (d); 2. (a); 3. (e); 4. (b); 5. (c)]

3.	Group 'A'	Group 'B'
(1)	Pre-acquisition income	(a) Profit & Loss Account
(2)	Receipt on sale of rights	(b) Credit interest column
(3)	Interest after purchase	(c) Three columns
(4)	Investment Account	(d) Credit to Investment Account
(5)	Different types of investment	(e) Separate account for each

[Ans.: 1. (d); 2. (a); 3. (b); 4. (c); 5. (e)]

4.	Group 'A'	Group 'B'
	(1) Rights Shares	(a) is transferred to Profit and Loss A/c
	(2) Interest is calculated	(b) are valued at cost of MV whichever is less
	(3) Profit on sale investment	(c) credited to Profit and Loss a/c
	(4) Current Investments	(d) on face value of securities
	(5) Sale of rights shares	(e) is debited to Profit and Loss A/c
	(6) Loss on sale of Investment	(f) increase Face value of investment
	(7) Bonus shares issued	(g) issued to existing shareholders
	(8) AS 13	(h) deals with accounting for Investment
		(i) AS 14
		(j) Cost of investment

[Ans.: 1. (g); 2. (d); 3. (a); 4. (b); 5. (c); 6. (e); 7. (f); 8. (h)]

**(IV) State whether the following statement are True or False:**

1. The investments as per AS-13, is under only financial investment.
2. The account for investments should have separate columns for cost and for number.
3. The income for pre-acquisition period should be credited to Investment Account.
4. All Investment transactions are presumed cum-interest unless otherwise stated.
5. It is compulsory to sell current investments within 12 months after the date of purchase.
6. Long-term investments can never be sold within 12 months.
7. Current investment are to be carried at lower of cost or market value.
8. The difference between cost and market value in all cases is transferred to Profit & Loss Account.
9. Investment Fluctuation Reserve Account is maintained to transfer difference between cost and market value of investment.
10. Cost of investment includes expenses incidental to purchase (like brokerage, stamp duty, taxes).
11. Separate account for each item of investment is necessary.
12. The receipt of bonus share certificates is not to be considered in account.
13. The money received on renunciation of rights shares is to be credited to Investment Account.
14. The brokerage is payable on face value of investments.
15. The brokerage & expenses for investments are always added to transaction value.
16. Assets, which are held as stock in trade, are investments.
17. Pre-acquisition dividend is entered in cost column of Investment Account.
18. Sale of rights entitlements is entered in the Investment Account.
19. Interest is always calculated on face value of the securities.
20. Ex-interest price includes interest accrued.
21. Cum-interest price excludes interest accrued.
22. Dividend on shares accrues on the date of closure of books.
23. In the case of bonus issue, only nominal value is entered in nominal value column of the Investment Account.
24. When rights shares are sold (without subscribing), no entry is made in the Investment Account.
25. When rights shares are sold without subscribing, sale proceeds are credited to Profit & Loss Account.
26. Long-term investments are always valued at cost at the end of the year.
27. Whether the quotation is ex-interest or cum-interest, accrued interest is always calculated and entered in the income column of the Investment Account.

28. Nominal value column of Investment Account represents Memorandum column.
29. Investments held for less than 12 months are current investments.
30. Investments held for more than 12 months are long-term investments.
31. Equity share is a fixed income bearing security.
32. Interest on Debentures is paid to the original holder.
33. Profit on sale of investment is transferred to Profit and Loss A/c.
34. Dividend on shares accrues on due date.
35. Current investments are valued at cost.
36. Sale of rights shares is credited to Investment A/c.
37. Loss on sale of investment is simple average cost less net sale.
38. Loss on sale of investment is debited to profit and loss A/c.
39. Issue of bonus shares is entered in N.V. column of Investment A/c.

[Ans.: True: (1, 3, 4, 7, 9, 10, 11, 12, 15, 17, 19, 23, 25, 26, 27, 28, 29, 30, 33, 38, 39)

False: (2, 5, 6, 8, 13, 14, 16, 18, 20, 21, 22, 24, 31, 32, 34, 35, 36, 37)]

**(V) Short Questions:**

1. Which AS govern personal Investment A/c?
2. Which three factors should be considered while doing investment?
3. What is liquidity?
4. What is long-term investment?
5. What is current investment?
6. What do you mean by variable earning securities?
7. What do you mean by fixed earning securities?
8. What is cost of Investment?
9. What is fair value?
10. What is the basis of calculation of brokerage?
11. What is carrying amount of investment?
12. How the long-term investments are carried in the books?
13. How the current investments are carried in the books?
14. What is average cost?
15. How the proceeds on Right Entitlement dealt with?
16. What is cum-interest price?
17. What is Ex-interest price?
18. How bonus shares received are dealt with?
19. What is Pre-acquisition dividend? How is it dealt with?

**October – 2003**

- (1) Mr. Mehta furnishes the following information regarding his holding in 12% IDBI bonds, (16)
- |          |  |
|----------|--|
| 01-04-01 | Opening Balance-Nominal value of 12% bonds Rs. 2,00,000, cost Rs. 1,90,000.<br>Three months' interest had accumulated as interest was receivable half yearly on 30th June and 31st December. |
| 31-08-01 | He purchased a further Rs. 80,000 of the bonds at Rs. 96 cum interest.   |
| 31-10-01 | Sold 700 12% bonds of Rs. 100 each at Rs. 94 ex-interest.  |
| 28-02-02 | Sold 300 12% bonds of Rs. 100 each at Rs. 96 cum interest.   |
- The face value of each bond was Rs. 100.  
Prepare 12% IDBI bonds account for the year ended 31-3-02. Use weighted average.

**October – 2004**

- (2) Mr. Arvind entered into following transactions of purchase and sale of Equity Shares of Aspi Ltd. The shares have paid-up value of As. 10 per share. (16)

Date	No. of Shares	Terms
01-01-02	600	Buy @ Rs. 20 per share
15-03-02	900	Buy @ Rs. 25 per share
20-05-02	1,000	Buy @ Rs. 23 per share
25-07-02	2,500	Bonus shares received
20-12-02	1,500	Sale @ Rs. 22 per share
01-02-03	1,000	Sale @ Rs. 24 per share

**Additional information:**

- (1) On 15th September 2002, dividend @ As. 3 per share was received for the year ended 31st March 2002.
  - (2) On 12th November 2002, the company made a rights issue of equity shares in the ratio of one share for five shares held on payment of Rs. 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of premium of Rs. 3 per share.
  - (3) Shares are to be valued on weighted average cost basis.
- You are required to prepare Investment Account for the years ended 31-3-2002 and 31-3-2003.

**April – 2005**

- (3) On 1st January 2004, 1000 - 12% Debentures of As. 100 each of Shiva Ltd. were held as investment by Mr. Dharmesh at a cost of As. 91,000. Interest is payable on 31st December. (16)
- On 1st April 2004, As. 20,000 of such debentures were purchased by Dharmesh @ As. 98 cum-interest.
- On 1st September 2004, As. 30,000 of such debentures were sold at As. 96 ex-interest.
- On 1st December 2004, As. 50,000 of such debentures were sold at As. 99 cum-interest.
- Interest is received on due date.
- Prepare investment account for 12% debentures of Shiva Ltd. in the books of Mr. Dharmesh valuing closing stock as on 31st December 2004 applying AS-13. The debentures were quoted at As. 93 on 31st December 2004.

**April – 2006**

- (4) Bangalore Investments hold 1200-6% Debentures of As. 100 each in MINERVA Ltd. as on 1st April 2004 at a cost of Rs. 1,40,000, Interest is payable on 30th June and 31st December each year. Other details are as under: (16)

Date	Particulars	Rs.
01-06-2004	400 Debentures are purchased cum-interest at	Rs. 40,800
01-11-2004	400 Debentures are purchased ex-interest at	Rs. 38,400
30-11-2004	600 Debentures are sold cum-interest for	Rs. 64,500
31-12-2004	800 Debentures are sold ex-interest for	Rs. 77,300

Prepare Investment Account valuing closing balance on 31-3-2005 at cost or market price whichever is lower. The debentures are quoted at par on 31-3-2005.

**April – 2007**

- (5) Miss Bhagawati entered into the following transactions of purchase and sales of 12% Debentures of As. 100 each of Mansi Ltd. Interest is payable on 30th June and 31st December every year. Transactions are as under: (16)

Date	No. of Debentures	Terms
01-04-2005	600	Opening Balance at a cost of Rs. 76,000
01-06-2005	300	Sold at Rs. 105 each cum - interest
01-09-2005	700	Purchased at Rs. 98 each Ex - Interest
01-12-2005	400	Purchased at Rs. 108 each Cum - Interest
01-02-2006	900	Sold at Rs. 97 each Ex - Interest

Prepare Investment Account of 12% Debentures in the books of Bhagawati for the year ended 31st March, 2006. The market value on 31st March, 2006 was As. 67,500 of the said investment. Apply AS – 13.

**October – 2007**

- (6) Mr. Mandar holds as on 1st, April 2005 Rs. 75,000 (Cost price Rs. 78,000) 6% Government Securities as investment on which interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year ended 31st March 2006. (16)

**Purchases:**

- (i) On 1-5-2005 Face Value Rs. 30,000 @ 98 Cum-interest.  
(ii) On 1-11-2005 Face Value Rs. 45,000 @ 101 Ex-Interest.

**Sales:**

- (i) On 1-8-2005 Face Value Rs. 36,000 @ 97 Cum-interest.  
(ii) On 1-2-2006 Face Value Rs. 24,000 @ 102 Ex-Interest.  
Market price of investment at 1% discount on 31st March, 2006.

Write up Investment Account closing it on 31st March, 2006 in the books of Mr. Mandar Investments are to be valued at cost or at Market Value whichever is less. (Apply AS 13)

**April – 2008**

- (7) On 1st April, 2006 Mr. Mayur had 30,000 Equity shares in Jai Ltd. at a book-value of Rs, 4,50,000 (Face value Rs. 10 per share). On 22nd June 2006, he purchased another 5000 shares of the company for Rs. 80,000. The Directors of Jai Ltd. announced a bonus issue of equity shares in the ratio of one share for seven shares held on 16th August 2006.

On 31st August, 2006 the Company made a right issue in the ratio of three shares for Eight shares held on payment of Rs. 15 per share. Due date for the payment was 30th September, 2006. Mr. Mayur subscribed to 2/3rd of the right shares and sold remaining of his entitlement to Vinayak for a consideration of Rs. 2 per share.

On 31st October, 2006 received dividends from Jai Ltd. @ 20% for the year ended 31st March, 2006. Dividend for shares acquired by him on 22nd June, 2006 are to be adjusted against the cost of purchase. On 15th November, 2006 Mayur sold 30,000 Equity shares at a premium of Rs. 5 per share. You are required to prepare Investments account in the books of Mr. Mayur. Assume that the books of accounts are closed on 31st March, 2007 and shares valued at weighted average cost.

- (8) During the year ended 31st March, 2006, A company had acquired shares of Telecom Ltd. as follows: (16)

Date of Acquisition	No. of Shares	Purchase Cost Per Share Rs.
04-05-2005	500	55.00
25.08.2005	500	60.00
15-12-2005	1000	70.00
18-02-2006	750	75.00

On 15-03-2006 Company sold 1000 shares at Rs. 80 per share. Calculate profit or loss on sale of shares.

**October – 2008**

- (9) On 1-4-2006 Mr. Abhishek had 10,000 equity shares (of Rs. 10 each) in Rai Entertainment Ltd. at the cost of Rs. 1,60,000. (16)

On 1-7-2006 he acquired 4,000 more shares in the same Company for Rs. 80,000.

On 31-7-2006 he further acquired 6,000 more shares at Rs. 22 per Share.

On 10-8-2006 Rai Entertainment Ltd. announced bonus shares to the then equity shareholders in the ratio of the bonus share for every 4 shares held as on 5-8-2006. Abhishek received the bonus shares on 22-8-2006.

The directors of Rai Entertainment Ltd. issued right shares to the equity shareholders on the following terms:

- (a) Right shares to be issued to the existing shareholders as on 31-8-2006.
- (b) Right offered was at the rate of Rs. 15 per share in the ratio 1 share for every 5 shares held. Full amount was payable on or before 15-10-2006.
- (c) Shareholders would be entitled to renounce their entitlement either wholly or in part to the outsiders.
- (d) Abhishek exercised his right of option under the issue for 3,000 shares and sold the balance to Mr. Rai @ Rs. 4 per share. On 20-10-2006 Rai Entertainment Ltd. declared the dividend @ Rs. 4 per share for the year ending 31-3-2006. Abhishek received the dividend on 31-10-2006. On 10-1-2007 Abhishek sold 7,000 shares @ Rs. 40 per share. Prepare investments a/c. in the books of Abhishek for the year ended 31-3-2007.

**April – 2009**

- (10) On 1-4-2007 Mr. Ajay had 30,000 equity shares in Vipro Ltd. Face value of the share was Rs. 10 each but his purchase price was Rs. 14 per share, On 1-7-2007, Ajay purchased 6,000 additional equity shares of the same company for a price of Rs. 16 per share. On 31-7-2007 the directors of the company announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every six shares held. Bonus shares were received on 5-8-2007.

Right issue was as per the following terms: (16)

- (a) Right shares to be issued to the existing holders on 17-08-2007.
- (b) Rights offered were at the rate of one share for every three shares held at Rs. 15 per share. Full amount was payable by 30/09/2007.
- (c) Existing shareholders may to the extent of their entitlement, either wholly or in part, transfer their rights the outsiders.
- (d) Ajay exercised his option and subscribed for 60% of his entitlement and the balance of rights, he sold to Vikrant for a consideration of Rs. 1.50 per share.
- (e) Dividend for the year ended 31-03-2007 at the rate of 14% was declared by the company and received Ajay on 22-10-2007.
- (f) On 01-11-2007 he sold 25,000 shares at Rs. 15 per share.

Prepare investment account of equity shares in Vipro Ltd. for the year ended 31/03/2008 in the books of Mr. Ajay. Apply AS – 13. The market price of an equity share was Rs. 14 as on 31/03/2008.

## October – 2009

- (11) Mr. Sunil submits the following details regarding his holdings in 8% Government Bonds of Rs. 100 each

		(Rs.)
01-04-2007	<b>Opening Balance:</b> Nominal value of Bonds Cost of the said Bonds	50,000 48,500
01-05-2007	<b>Purchases:</b> Face value Rs. 75,000 for Rs. 76,300 cum interest	
01-11-2007	Face value Rs. 1,12,500 at Rs. 99 ex-interest	
	<b>Sales:</b>	
01-06-2007	Face value Rs. 75,000 at Rs. 102 cum-interest	
01-12-2007	Face value Rs. 90,000 at Rs. 98 Ex-interest	

Interest is payable half yearly on 30th June and 31st December every year.

The market price of investment as on 31st March 2008 was Rs. 70,000.

Prepare 8% Government Bonds Account in the books of Mr. Sunil for the year ended 31st March 2008.

**Note:** Use Weighted Average Method.

- (12) Attempt any four from the following: (16)
- (a) Dilip Ltd. purchased its 9% own debentures (Face value Rs. 100 each) as below for investment:
- On 1st July 2007, 180 own debentures at Rs. 99 ex-interest.
  - On 1st March 2008, 380 own debentures at Rs. 101 cum-interest.
- Interest is payable on 30th September and 31st March every year.  
Pass Journal Entries to record the above two purchase transactions.

## April – 2010

- (13) On 1st April, 2009, 200 6% debentures of Rs. 100 each of Excellent Ltd. were held as investment by Mr. Tushar at a cost of Rs. 18,200. (16)
- Excellent Ltd. pays interest on 1st May and 1st November every year.  
The following other transactions were entered by him during the year ended 31st March, 2010 in regard to these Debentures.

Date	No. of Debentures	Transaction	Rate
1st April, 2009	100	Sale	Rs. 98 cum-interest
1st October, 2009	100	Purchase	Rs. 104 ex-interest
1st December, 2009	200	Purchase	Rs. 97 cum-interest
1st February, 2010	100	Sale	Rs. 97 ex-interest

You are required to prepare investment in 6% Debentures in Excellent Ltd. account for the year ended 31st March, 2010 as it would appear in the books of Mr. Tushar. (Apply AS 13)

## October – 2010

- (14) During the year ended 31st March, 2010 Mr. Virag bought and sold the following 12% Debentures of Rs. 100 each of Limozine Ltd. Interest being payable by Limozine Ltd. on 1st April and 1st October each year. (16)

Date	Particulars
1st June, 2009	Bought 300 Debentures at Rs. 92 ex-interest
1st September, 2009	Bought 100 Debentures at Rs. 94 cum-interest
1st December, 2009	Sold 200 Debentures at Rs. 95 ex-interest
1st February, 2010	Bought 150 Debentures at Rs. 98 cum-interest.

Books are closed on 31st March every year. Market price on 31st March, 2010 was Rs. 90 Debenture. You are required to prepare investment in 12% Debentures in Limozine Ltd. Account for the year ending 31st March, 2010 in the books of Mr. Virag. (Apply AS 13).

**April – 2011**

- (15) On 1st April, 2009, Mr. Dhana Balu held 500, 6% Central Government Bonds of Rs. 100 each at a cost of Rs. 48,000. Interest is payable on 30th June and 31st December every year. He entered into following transactions in respect of 6% Central Government Bonds during the year ending on 31st March 2010. (16)

**Purchases:**

- (a) On 1st May 2009, Face Value of Rs. 10,000 at Rs. 102 Cum-interest.  
(b) On 1st September 2009, Face Value of Rs. 30,000 at Rs. 105 Ex-interest.

**Sales:**

- (i) On 1st August 2009, Face Value of Rs. 15,000 at Rs. 104 Cum-interest.  
(ii) On 1st February 2010, Face Value of Rs. 15,000 at Rs. 102 Ex-interest.

Show 6% Central Government Bonds Account in the books of Mr. Dhana Balu for the year ended 31st March, 2010. (Investments are to be valued at weighted average cost.)

**October – 2011**

- (16) On 1st April, 2009 Mr. Vinay had 40,000 Equity Shares of Rs. 10 each of Spectrum Ltd. purchased at a cost of Rs. 15 per share. (16)

On 1st May 2009, he purchased 10,000 Equity shares of Satyam Ltd. (Face Value Rs. 10 each) at Rs. 25 per share. On the same day he also purchased 20,000 Equity Shares of Spectrum Ltd. at Rs. 12 each.

On 1st July 2009 he sold 2,000 Equity Shares of Satyam Ltd. @ Rs. 22 per share. Board of Directors of Spectrum Ltd. announced rights issue of equity shares, in ratio of each, full amount was payable by 31st August 2009. Shareholders were allowed to renounce their right either in part or full to the outsider. Mr. Vinay renounced 40% of his rights at Rs. 5 per share and subscribed for the balance. On 1st December 2009 Mr. Vinay sold 5,000 equity shares of Spectrum Ltd. and 2,000 equity shares of Satyam Ltd. @ Rs. 30 and @ Rs. 27 per share respectively.

**You are required to prepare:**

- (i) Investment in equity shares of Spectrum Ltd. A/c and  
(ii) Investment in equity shares of Satyam Ltd. A/c

In the books of Mr. Vinay for the year ended 31st March, 2010. April - 2012

- (17) On 1-4-2010 Aditya had 50,000 equity shares in T Ltd. The face value of the shares were Rs. 10 each but their book value was Rs. 24 per share. (8)

On 1-6-2010 Aditya purchased 10000 equity shares in T Ltd. at a premium of Rs. 6 per share.

On 1-7-2010, the directors of T Ltd. issued bonus shares at the rate of one share for every three shares held.

On 1-01-2011 Aditya purchase 5000 right shares in T Ltd. of Rs. 10 each at T 15 per share.

On 31-01-2011 he sold 20000 equity shares in T Ltd. of T 10 each at T 30 per share.

Show investment Account as it would appear in Aditya's books for the year ended 31-03-2011,

**April – 2014**

- (18) Mr. Jayant holds 2,400, 6% Debentures of Rs. 100 each in Gemini Ltd., as on 01-04-2012 at a cost of Rs. 2,80,000. Interest is payable on 30th June and 31st December every year. Other details are as follows: (15)

(i) On 01-06-2012, 800, 6% Debentures are purchased cum-interest at Rs. 81,600.

(ii) On 01-11-2012, 800, 6% Debentures are purchased ex-interest at Rs. 76,800.

(iii) On 30-11-2012, 1206, 6% Debentures are sold cum-interest for Rs. 1,29,000.

(iv) On 31-12-2012, 1600, 6% Debentures are sold ex-interest for Rs. 1,54,600.

Prepare 6% Debentures account in the books of Mr. Jayant valuing closing balance on 31-03-2013 at cost or market price whichever is lower. The Debentures are quoted at par on 31-03-2013. (interest on 31-12-2012 to be recorded after giving effect to the sale transaction).



# PREPARATION OF FINAL ACCOUNTS OF COMPANIES

## 1.1 INTRODUCTION

The joint stock companies are legally required to prepare a set of financial statements to periodically assess the profits earned and to know the financial position of the company as on a specified date. Thus, in the case of other business enterprises, a limited company prepares the Income Statement and the Balance Sheet. However, in the case of companies registered under the Companies Act, the Act specifies the books of accounts to be maintained and also prescribes the format and content of the financial statements. In addition, the accounts must be statutorily audited by an external person called the auditor and it is the duty of the auditor to submit a report in the prescribed format to the shareholders.

Since the owners or shareholders elect a Board of Directors to manage the company and rely on the ability and skills of these directors to conduct the business in the most profitable manner, the Companies Act tries to protect the shareholders' interest by prescribing a set of covenants according to which the financial statements are to be prepared and presented to the shareholders. The objective of the Companies Act in laying down various provisions with respect to accounts and audit is to ensure that adequate information is provided to the shareholders in order for them to judge the performance of the directors during an accounting period. The legal requirements laid down by the Companies Act, therefore, assume a great importance in the preparation of the financial statements of a joint stock company.

## 1.2 MEANING AND OBJECTIVES OF FINANCIAL STATEMENT

Financial statements are compilation of financial data, collected and classified in a systematic manner according to the accounting principles, to assess the financial position of an enterprise as regards to its profitability, operational efficiency, long- and short-term solvency and growth potential.

Financial statements are basic and formal means through which management of an enterprise make public communication of financial information along with select quantitative details. They are structured financial representation of the financial position, performance and cash flows of an enterprise. Many users rely on the general purpose financial statements as the major source of financial information and therefore, financial statements should be prepared and presented in accordance with their requirement. Of course, some of the users may have the power to obtain information in addition to that contained in the financial statements. That does not undermine the dependence of the general users on the information contents of the financial statements.

Financial statements provide information about the financial position, performance and cash flows of an enterprise that is useful to wide range of users in making economic decisions. It means to show the results of the stewardship of management, or the accountability of management for the resources entrusted to it.

### Component of Financial Statement

Financial statements comprise a number of statements prepared at the end of each financial year to assess the various financial activities and strength of an enterprise.

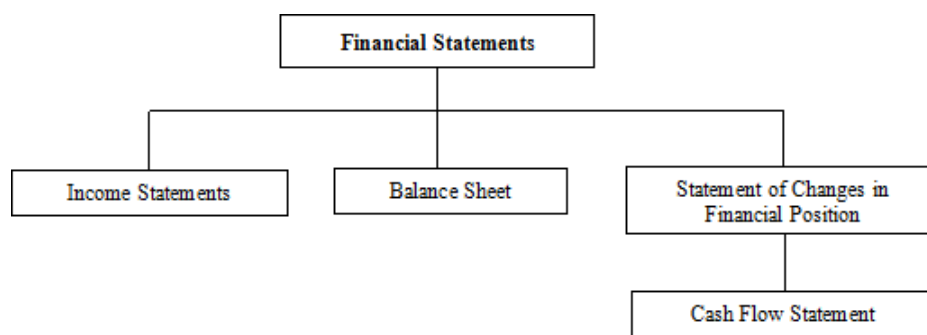


Fig. 1

Financial Statement Components	Source/Type of Companies
Profit and Loss Account Schedule and Notes Forming Part thereto	Under Section 210(1) of the Companies Act in accordance with the provision of the Companies Act and the Indian GAAP, to be prepared by all the companies. As per Section 211(3B), all applicable accounting standards should be followed. Otherwise reasons of departure from accounting standards and financial effect should be disclosed. Compliance with accounting standards without any deviation is mandatory for the listed companies as per clause 50 of the Listing Agreement vide SEBI Circular SMRP/Policy/Cir-44/01, Aug 31, 2001.
Cash Flow Statement	As per clause 32 of the Listing Agreement vide SEBI Circular SMD-II Policy/Cir-80/2000 Feb. 4, 2000. Cash Flow Statement should be prepared in accordance with the requirements of AS-3 issued by the ICAI. To be prepared by listed companies.
Consolidated Financial Statements	Applicable to listed companies as per the SEBI Circular SMRP Policy/ Cir-44/01, Aug. 31, 2001. Companies listed in a recognised stock exchange shall be mandatorily required to publish Consolidated Financial Statements, in the annual report in addition to the individual financial statements shall be mandatory. To be prepared in accordance with AS-21 and AS-23. Section 217 (2AA) requires that Board's Report shall include a Director's Responsibility Statement in which it is to be indicated that in the preparation of annual accounting, the applicable standards are followed.

### Framework

The conceptual framework for Financial Reporting issued by the IASB has stated the following uses of the general purpose financial statements by the cross-section of users:

- To decide when to buy, hold or sell any equity investment,
- To assess the accountability of management,
- To assess the ability of the entity to pay and provide other benefits to its employees,
- To assess the security for amounts lent to the entity,
- To determine taxation policies,
- To determine distributable, profits and dividends,
- To prepare and use national income statistics.

Important shortcoming of financial statements is that they are prepared to meet the common information needs of a wide range of users. They may fall short of specific information needs of the users.

To meet the above-stated uses, financial statements provide information about an entity's assets, liabilities; equity, and income and expenses, including gains and other changes in equity and cash flows. That information, along with other information in the notes, assists users of financial statements in predicting amount, timing and degree of certainty of the entity's future cash flows.

**Applicability:** In terms of powers conferred u/s 641(1) of the Companies Act, 1956, the Central Government replaced Existing Schedule VI.

**Date of Enforcement of Schedule VI (Revised):** 01/04/2011

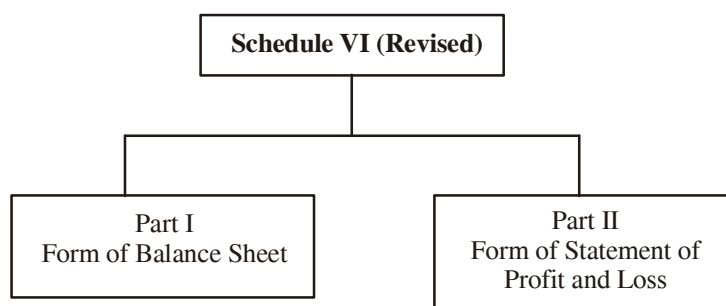


Fig. 2

**Part I – Form of Balance Sheet**

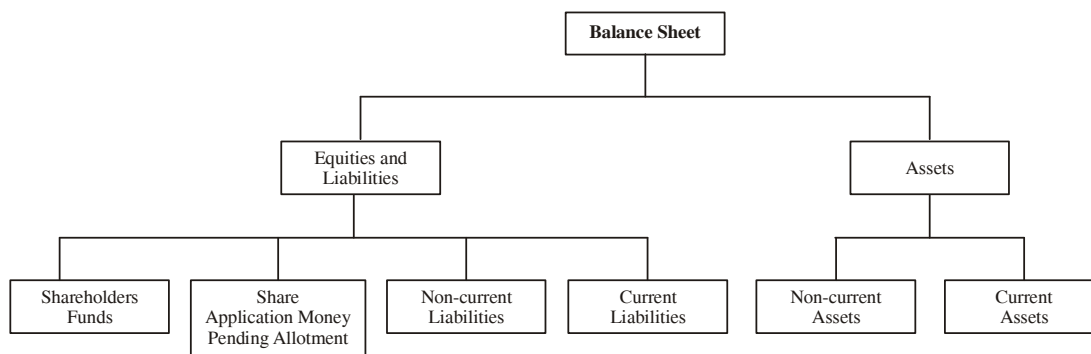


Fig. 3

**Break-up of Equities and Liabilities**

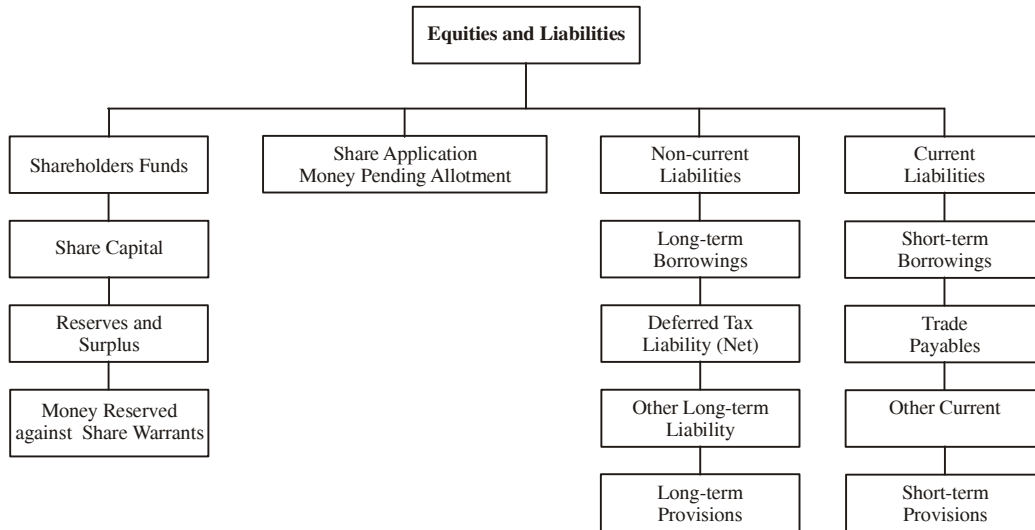


Fig. 4

**Break-up of Assets**

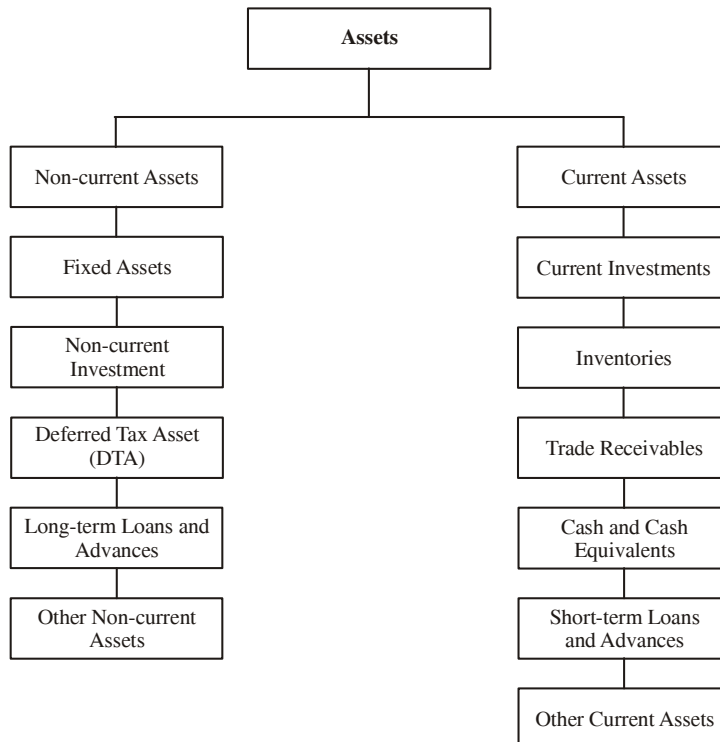


Fig. 5

**1.3 PART I: FORM OF BALANCE SHEET**

Name of the Company:.....

Balance Sheet as at:.....

Particulars	Note	Figure as at the End of the Current Reporting Period ₹	Figure as at the End of the Previous Reporting Period ₹
<b>I. Equity and Liabilities:</b> 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) DTL (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			
<b>Total</b>			
<b>II. Assets:</b> 1. Non-current Assets: (a) Fixed Assets: (i) Tangible Assets (ii) Intangible Assets (iii) Capital WIP (iv) Intangible Assets under Development (b) Non-current Investment (c) DTA (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) Other Current Assets			
<b>Total</b>			

For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

**Notes to Balance Sheet:** A company shall disclose the following in the Notes to Accounts –Details provided.

**Disclosure Requirement:** Schedules Forming Part of Financial Statements/Annual Report.

(A) For “Equity and Liabilities” Items.

(1) Shareholders’ Funds.

(a) Share Capital

Schedule VI Disclosure Requirement	Points to be Considered
General	<ul style="list-style-type: none"> <li>● Schedule VI(R) deals only with presentation and disclosure requirements.</li> <li>● Accounting classification into Debt and Equity components is governed by the applicable Accounting Standard.</li> <li>● Preference Shares will have to be classified as “Share Capital” and also includes such Preference Shares of which redemption is overdue.</li> </ul>
For each class of Share Capital (different classes of Preference Shares to be treated separately).	
(a) General	It is the maximum number and face/par value of each class of shares that a corporate entity may issue in accordance with its instrument of incorporation.
(b) Number of shares issued, subscribed and fully paid, and subscribed but not fully paid	<ul style="list-style-type: none"> <li>● Subscribed Share Capital “is” that portion of the issued share capital which has actually been subscribed by the public and subsequently allotted to the shareholders by the entity. This also includes any bonus shares issued to the shareholders.</li> <li>● “Paid-up Share Capital” is that part of the subscribed share capital for which consideration is cash or otherwise has been received. This also includes bonus shares allotted and shares issued to otherwise than for cash against purchase consideration by the corporate entity.</li> <li>● If shares are not fully called, then disclose the called up value per share.</li> </ul>
(c) Face/par value per share	<ul style="list-style-type: none"> <li>● Face/Par Value, as per Capital Clause in Memorandum of Association, should be disclosed.</li> </ul>
(d) Reconciliation of number of shares	<ul style="list-style-type: none"> <li>● For the Amount of Share Capital.</li> <li>● For comparative previous period.</li> <li>● Separate statements for both Equity and Preference Shares which should again be sub-classified and represented for each class of shares.</li> </ul>
(e) Rights, preferences and restrictions attaching to shares including restrictions on the distributions of dividends and the repayment of capital	<ul style="list-style-type: none"> <li>● For Equity Share Capital, such rights/ preferences/restrictions may be with voting rights, or with differential voting rights as to dividend, voting or otherwise as per Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001.</li> <li>● For Preference Shares, the rights include dividend and/or capital related rights. Further, Preference Shares can be cumulative, non-cumulative, redeemable, convertible, non-convertible, etc.</li> </ul>

(f) Shares held in the company held by its holding company or its ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate	<ul style="list-style-type: none"> <li>● All such Rights, Preferences and Restrictions attached to each class of shares, terms of redemption, etc. should be disclosed separately.</li> <li>● Disclose number of shares held by the entire chain of Subsidiaries and Associates starting from the Holding Company and ending right up to the Ultimate Holding Company.</li> <li>● All such disclosures should be made separately representing for each class of Shares (for both Equity and Preference Shares).</li> </ul>
(g) List of shareholding holding more than 5% shares as on the Balance Sheet date	<ul style="list-style-type: none"> <li>● Date for computing the 5% limit should be taken as the Balance Sheet date. So, if during the year, any shareholder hold more than 5% Equity Shares but does not hold as much at the Balance Sheet date, disclosure is not required.</li> <li>● Companies should disclose the shareholding for each class of Shares, both within Equity and Preference Shares. So, such % should be computed separately for each class of Shares.</li> <li>● This information should also be given for comparative previous period.</li> </ul>
(i) For the period of 5 years immediately preceding the date as at which the Balance Sheet is prepared <ul style="list-style-type: none"> <li>● Aggregate number and class of shares allotted as fully paid-up and pursuant to contract(s) without payment being received in cash</li> <li>● Aggregate number and class of shares allotted as fully paid-up by way of bonus shares</li> <li>● Aggregate number and class of shares bought back</li> </ul>	<p>Disclose only if such event has occurred during a period of 5 years immediately preceding the Current Year Balance Sheet date.</p> <ul style="list-style-type: none"> <li>● The aggregate number of shares allotted or bought back.</li> <li>● If the company is in operation for a period of less than 5 years, then disclosure should cover all such earlier financial years.</li> </ul> <p>Not to disclose the following allotments:</p> <ul style="list-style-type: none"> <li>● The following allotments are considered as Shares allotted for payment being received in cash, and hence should not be disclosed under this Clause – (a) If the subscription amount is adjusted against a bona fide debt payable in money at once by the Company, (b) Conversion of Loan into Shares in the event of default in repayment.</li> </ul>
(j) Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date	<ul style="list-style-type: none"> <li>● In case of Compulsorily Convertible Securities, where conversion is done in fixed tranches, all the dates of conversion have to be considered.</li> <li>● In case of Convertible Debentures/Bonds, etc. for the purpose of simplification, reference may also be made to the terms disclosed under the note on Long-term Borrowings where these are required to be classified in the Balance Sheet, rather than disclosing the same against under this Clause.</li> </ul>
(k) Calls unpaid (showing aggregate value of calls unpaid by Directors and Officers)	<ul style="list-style-type: none"> <li>● Unpaid amount towards Shares subscribed by the Subscribers of Memorandum of Association should be considered as 'Subscribed and Paid-up Capital' in the Balance Sheet and the debts due from the subscribers should be appropriately disclosed as an asset in the Balance Sheet.</li> </ul>
(l) Forfeited Shares (Amount originally paid-up)	–

**Example:** Reporting Authorised, Issued, Subscribed, Called up and Paid-up Capital including Forfeited Shares:

**Authorised Capital:** Equity Share 1,00,000 shares @ ₹ 100 each = ₹ 1,00,00,000. Preference Share Capital 15% Redeemable Preference Shares, 50,000 Shares ₹ 50,000 Shares @ ₹ 100 each = ₹ 50,00,000. 18% Convertible Preference Shares, 30,000 Shares @ ₹ 100 each = ₹ 30,00,000.

**Issued Capital:** Equity Share 30,000 Shares @ ₹ 100 each, fully paid-up = ₹ 30,00,000; 19,800 Equity Shares of ₹ 100 each, ₹ 80 called up and paid-up = ₹ 15,84,000. Amount received on 200 shares forfeited from non-payment of allotment and first call of ₹ 30 and ₹ 40 each, final call was not made on those shares, Amount payable on application ₹ 10 per share. Preference Share Capital: 15% Redeemable Preference Shares, 10,000 Shares @ ₹ 100 each = ₹ 10,00,000. 18% Convertible Preference Shares, 20,000 shares @ ₹ 100 each = ₹ 20,00,000.

How will this shown in the Working/Schedules, assuming first year of operation?

**Solution:**

**Share Capital:**

**(A) Authorised Capital:**

**(B) Issued Capital:**

Particulars	Current Year	Particulars	Current Year
(i) Equity Share 1,00,000 Shares @ ₹ 100 each	1,00,00,000	(i) Equity Share 50,000 Shares @ ₹ 100 each	50,00,000
(ii) 15% 50,000 Redeemable Preference Shares @ ₹ 100 each	50,00,000	(ii) 15% 10,000 Redeemable Preference Shares @ ₹ 100 each	10,00,000
(iii) 18% 30,000 Convertible Preference Shares @ ₹ 100 each	30,00,000	(iii) 18% 20,000 Convertible Preference Shares @ ₹ 100 each	20,00,000
<b>Total</b>	<b>1,80,00,000</b>	<b>Total</b>	<b>80,00,000</b>

**(C) Subscribed, Called up and Paid-up Capital:**

Particulars	Current Year
(i) 30,000 Equity Shares @ ₹ 100 each, fully paid-up	30,00,000
(ii) 19,800 Equity Shares @ ₹ 100 each, ₹ 80 called up and paid-up	15,84,000
(iii) 15% 10,000 Redeemable Preference Shares @ ₹ 100 each	10,00,000
(iv) 15% 20,000 Convertible Preference Shares @ ₹ 100 each	20,00,000
	75,84,000
<i>Add:</i> Forfeited Shares (amount originally paid-up)	2,000
<b>Total for Balance Sheet</b>	<b>75,86,000</b>

**(D) Reconciliation of Number and Amount of Shares:****1. For Equity Shares:**

Particulars	Current Year		Previous Year	
	No. of Shares	Amount (₹)	No. of Shares	Amount(₹)
Opening Balance as on 01-04-2011	Nil	Nil	Nil	Nil
<i>Add:</i> Fresh issue (including Bonus Shares, Right Shares, Split of Shares, Shares issued otherwise than for cash as a purchase consideration)	49,800	45,84,000	Nil	Nil
Sub Total	49,800	45,84,000	Nil	Nil
<i>Less:</i> Buyback of Shares	Nil	Nil	Nil	Nil
Closing Balance as on 31-03-2012	49,800	45,84,000	Nil	Nil

**2. For Preference Shares:****(a) For 15% Redeemable Preference Shares of ₹ 100 each**

Particulars	Current Year		Previous Year	
	No. of Shares	Amount (₹)	No. of Shares	Amount(₹)
Opening Balance as on 01-04-2011	Nil	Nil	Nil	Nil
<i>Add:</i> Fresh issue (including shares, issued otherwise than for cash as a purchase consideration)	10,000	10,00,000	Nil	Nil
Sub Total	10,000	10,00,000	Nil	Nil
<i>Less:</i> Redemption of Shares	Nil	Nil	Nil	Nil
Closing Balance as on 31-03-2012	10,000	10,00,000	Nil	Nil

**(b) For 18% Convertible Preference Shares of ₹ 100 each**

Particulars	Current Year		Previous Year	
	No. of Shares	Amount (₹)	No. of Shares	Amount(₹)
Opening Balance as on 01-04-2011	Nil	Nil	Nil	Nil
<i>Add:</i> Fresh issue	20,000	20,00,000	Nil	Nil
Sub Total	20,000	20,00,000	Nil	Nil
<i>Less:</i> Redemption/Buyback of Shares	Nil	Nil	Nil	Nil
Closing Balance as on 31-03-2012	20,000	20,00,000	Nil	Nil

**1. (b) Reserves and Surplus:**

Schedule VI Disclosure Requirement	Points
Reserves and Surplus shall be classified as: (a) Capital Reserves	<ul style="list-style-type: none"> <li>● Capital Reserve is a Corporate Enterprise which is not available for distribution as Dividends.</li> <li>● Profit on Reissue of Forfeited Shares is basically profit of a Capital Nature and, hence, it should be credited to Capital Reserve.</li> </ul>
(b) Capital Redemption Reserve	Capital Redemption Reserve (CRR) is required to be created u/s 80 and 77A (for redemption of PSC and buyback of ESC), subject to conditions specified in the respective Sections.
(c) Securities Premium Reserve	Schedule VI(R) uses the term “Securities Premium Reserve” but the Act uses the term “Securities Premium Account”. Hence, the term used in the Act should be used.
(d) Debenture Redemption Reserve	Debenture Redemption Reserve (DRR) is required to be created u/s 117C, and maintained until such Debentures are redeemed. On redemption of the Debentures, the amounts no longer necessary to be retained in this Account should be transferred to the General Reserve.
(e) Revaluation Reserve	Revaluation Reserve is a Reserve created on the revaluation of Assets or Net Assets of an enterprise represented by the surplus of the estimated Replacement Cost or estimated Market Values over the book Values thereof.
(f) Share Options Outstanding Account	As per ICAI Guidance Note on ESOP, Share Options Outstanding should be shown as separate line item. Under Schedule VI(R), this line item should be shown separately under Reserves and Surplus.
(g) Other Reserves (specify the nature and purpose of each reserve and the amount in respect thereof)	This includes any other Statutory Reserves, e.g., Tonnage Tax Reserve to be created under the Income Tax Act, 1961.
(h) Surplus, i.e., balance in Statement of P & L disclosing allocations and appropriations such as Dividend, Bonus Shares and Transfer to/from Reserves etc. (Additions and Deductions since last Balance Sheet to be shown under each of specified heads)	<ul style="list-style-type: none"> <li>● Appropriations to the profit for the year (including carried forward balance) is to be presented under the main head ‘Reserves and Surplus’. Under Schedule VI(R), the Statement of P &amp; L will no longer reflect any appropriations like Dividends transferred to Reserves, Bonus Shares, etc.</li> </ul>

**Notes:**

1. **Fund:** A Reserve specifically represented by Earmarked Investments shall be termed as a ‘Fund’.
2. **Profit and Loss Account (Dr.):** Debit balance Statement of P & L shall be shown as a Negative Figure under the head ‘Surplus’. Similar, the balance of ‘Reserves and Surplus’, after adjusting Negative balance of Surplus, if any, shall be shown under the head ‘Reserves and Surplus’ even if the resulting figure is in the negative.

**1. (c) Money Received against Share Warrants:**

Schedule VI Disclosure Requirement	Points
To be shown as a separate line item on the face of Balance Sheet	<ul style="list-style-type: none"> <li>In case of Listed Companies, Share Warrants are issued to Promoters and others in terms of the Guidelines for Preferential Issues, viz., SEBI (Issue of Capital and Disclosure Requirements), Guidelines, 2009. Effectively, Share Warrants are amounts which would ultimately form part of the Shareholders' Funds. Since Shares are yet to be allotted against the same, these are not reflected as part of Share Capital, but as a separate line item.</li> </ul>

**2. Share Application Money Pending Allotment:**

Schedule VI Disclosure Requirement	Points
To be shown as a separate line item on the face of Balance Sheet	<ul style="list-style-type: none"> <li>Share Applicator Money not exceeding the Issued Capital and to the extent not refundable, is to be disclosed as a separate line item after "Shareholders' Funds" and before "Non-current Liabilities".</li> <li>If the Company's Issued Capital is more than the Authorised Capital, and approval of increase in Authorised Capital is pending, the amount of Share Application Money received over and above the Authorised Capital should be shown under the head "Other Current Liabilities".</li> <li>The amount shown as "Share Application Money Pending Allotment" will not include Share Application Money to the extent refundable. For example: The amount in excess of Issued Capital, or where Minimum Subscription requirement is not met. Such amount will have to be shown under 'Other Current Liabilities'.</li> <li>Calls Paid in Advance are to be shown under "Other Current Liabilities". The amount of interest which may accrue on such advance should also be reflected as a Liability.</li> </ul>

**3. Non-current Liabilities:****(a) Long-term Borrowings:**

Schedule VI Disclosure Requirement	Points
Long-term Borrowings shall be classified as:	
(a) Bonds/Debentures	
(b) Term Loans: (i) from Banks, and (ii) from Other Parties	Loans with repayment period beyond 36 months are usually known as "Term Loans". So, Cash Credit, Overdraft and Call Money Accounts/ Deposits are not covered by the expression "Term Loans".
(c) Deferred Payment Liabilities	Deferred Payment Liabilities would include any Liability for which payment is to be made on deferred credit terms, e.g., Deferred Sales Tax Liability, Deferred Payment for Acquisition of Fixed Assets, etc.

**Preparation of Final Accounts of Companies • 209**

(d) Deposits	Deposits classified under Borrowings would include deposits accepted from Public and Inter-corporate deposits which are in the nature of Borrowings.
(e) Loans and Advance from Related Parties	Loans and advances from related parties are required to be disclosed. Advance under this head should include those advances which are in the nature of loans.
(f) Long-term Maturities of Finance Lease Obligations (g) Other Loans and Advances (specify nature)	
<b>Notes:</b>	
<p><b>1. Securitywise Classification:</b> Borrowings shall further be sub-classified as Secured and Unsecured. Nature of Security shall be specified separately in each case.</p>	<ul style="list-style-type: none"> <li>● Nature of Security shall be specified separately in each case. A blanket disclosure of different securities covering all Loans classified under the same head such as “All Term Loans from Banks” will not suffice.</li> <li>● However, where one security is given for multiple Loans, the same may be clubbed together for disclosure purposes with adequate details of cross referencing.</li> <li>● Disclosure about the nature of security should also cover the type of asset given as security, e.g., Inventories, Plant and Machinery, Land and Building etc.</li> <li>● When Promoters, other shareholders or any third party have given any personal security for any borrowing, e.g., Shares or Other Assets held by them, disclosure should be made thereof, though such security does not result in the classification of such borrowing as secured.</li> </ul>
<p><b>2. Guarantees:</b> Where Loans have been guaranteed by Directors or Others, the aggregate amount of such Loans under each head shall be disclosed.</p>	<p>The word “Other” used in the phrase “Directors or Others” would mean any Person or Entity other than a Director, e.g., Related parties, or any person associated with the Company in some manner.</p>
<p><b>3. Maturity Datewise:</b> Bonds/ Debentures (along with Rate of Interest and particulars of Redemption or Conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest Redemption or Conversion Date, as the case may be.</p>	<ul style="list-style-type: none"> <li>● Current Maturities of all long-term borrowings will be disclosed under “Other Current Liabilities” and not under Long-term Borrowings and Short-term Borrowings.</li> <li>● So, it is possible that the same Bonds/Debentures/ Term Loans may be bifurcated under both “Long-term Borrowings” as well as under. “Other Current Liabilities”.</li> </ul>
<p><b>4. Instalment Redemption:</b> Where Bonds/ Debentures are redeemable by Instalments, the Date of Maturity for this purpose must be reckoned as the Date on which the first instalment becomes due.</p>	

<p><b>5. Reissue Power:</b> Particulars of any redeemed Bonds/ Debentures which the Company has power to reissue shall be disclosed.</p>	
<p><b>6. Terms of Repayment:</b> Repayment of Term Loans and Other Loans shall be stated.</p>	<p>Other Loans should be interpreted to mean all categories listed under the heading 'Long-term Borrowing' as per Schedule VI(R). Disclosure of terms of repayment should be made preferably for Each loan unless the repayment terms of individual loans within a category are similar, in which case, they may be aggregated.</p>
<p><b>7. Default:</b> Period and amount of continuing default as on the Balance Sheet date in repayment of Loans and Interest shall be specified separately in each case.</p>	<p>The term "Continuing Default" is used w.r.t. Long-term Borrowings, whereas the term "Default" is used w.r.t. Short-term Borrowings. Under CARO, the Auditor shall report on the default made and the period of default.</p> <ul style="list-style-type: none"> <li>● As per Schedule VI(R), the period and amount of continuing default as on the Balance Sheet date in repayment of Term Loans and Interest shall be specified separately in each case.</li> <li>● Disclosures relating to default should be made for all items listed under the category of Borrowings such as Bonds/Debentures, Deposits, Deferred Payment Liabilities, Finance Lease Obligations, etc. and not only to item classified as "Loans" such as Term Loans, Loan and Advances etc.</li> <li>● Defaults other than in respect of repayment of Loan and Interest, e.g., non-compliance with Debt Covenants, etc. need not be disclosed.</li> <li>● Any default that had occurred during the year and was subsequently made good before the end of the year need not be disclosed.</li> </ul>

**3. (b) Deferred Tax Liabilities:**

<p><b>Schedule VI Disclosure Requirement</b></p>	<p><b>Points</b></p>
<p>To be shown as a separate line item on the face of Balance Sheet.</p>	<p>—</p>

**3. (c) Other Long-term Liabilities:**

<p><b>Schedule VI Disclosure Requirement</b></p>	<p><b>Points</b></p>
<p>It shall be classified as: (a) Trade Payables</p>	<p>Sundry Creditors for Goods or Services, and Acceptances should be disclosed as part of Trade Payables. Disclosure Requirements under MSMED Act will also be required to be made in the annual Financial Statements.</p>
<p>(b) Other</p>	<p>Amounts due under contractual obligations, e.g., payables in respect of statutory obligations like contribution to Reimbursable Expenses, Interest Accrued on Trade Payables, etc. should be classified as "Others" and each such item should be disclosed naturewise.</p>

**3. (d) Long-term Provisions:**

Schedule VI Disclosure Requirement	Points
It shall be classified as:(a) Provisions for Employee Benefits	This should be classified into short-term and long-term portions, and the latter amount should be included here.
(b) Other (specify nature)	This would include items like Provisions for Warranties, etc.

**4. Current Liabilities:**

**4. (a) Short-term Borrowings:**

Schedule VI Disclosure Requirement	Points
<p>Short-term Borrowings shall be classified as:</p> <ul style="list-style-type: none"> <li>● Loans Repayable on demand:                             <ul style="list-style-type: none"> <li>(i) from Banks, and</li> <li>(ii) Other Parties</li> </ul> </li> <li>● Loans and Advances from Related Parties</li> <li>● Deposits</li> <li>● Other loans and advances (specify nature).</li> </ul> <p>Securitywise classification: Borrowings shall further be sub-classified as Secured and Unsecured. Nature of security shall be specified separately in each case.</p>	<ul style="list-style-type: none"> <li>● Short-term Borrowings will include all Loans within a period of 12 months from the reporting date will not include Current Maturity of Long-term Borrowings (which should be treated only as “Other Current Liabilities”).</li> <li>● In case of Short-term Borrowings, all defaults (not continuing defaults as in the case of Long-term Borrowings) existing as at the date of the Balance Sheet should be disclosed (itemwise).</li> <li>● A 3-Year Loan taken for a business with a 4-year Operating Cycle will be categorised only as Short-term Borrowings, and not as Long-term Borrowings.</li> </ul>

**4. (b) Trade Payables:**

Schedule VI Disclosure Requirement	Points
To be shown as a separate line item on the face of Balance Sheet:	<ul style="list-style-type: none"> <li>● Refer to meaning of ‘Trade Payable’ given earlier.</li> <li>● <b>Liability for Capital Goods Purchases:</b> Amount due towards purchase disclosed under “Other Current Liabilities” with a suitable description.</li> <li>● <b>Liability under Contractual Obligations:</b> Liability towards Employees, Leases or other Contractual Liabilities should not be included under Trade Payables. Only “Commercial Dues” can be included under Trade Payables.</li> </ul>

**4. (c) Other Current Liabilities:**

Schedule VI Disclosure Requirement	Points
It shall be classified as: (a) Current Maturities of Long-term Debt (b) Current Maturities of Finance Lease Obligations (c) Interest Accrued and due on Borrowings (d) Income Received in advance (e) Unpaid Dividends (f) Application Money received for allotment of Securities and due for Refund and Interest Accrued thereon (Refer note below) (g) Unpaid Matured Deposits and Interest Accrued thereon (h) Unpaid Matured Debentures and Interest Accrued thereon (i) Other Payables (specify nature).	<ul style="list-style-type: none"> <li>● The portion of Long-term Debts/Lease Obligations, which is due for payments within 12 months of the reporting date is required to be classified under “Other Current Liabilities”, while the balance amount should be classified under Long-term Borrowings.</li> <li>● Trade Deposits and Security Deposits which are not in the nature of Borrowings should be classified separately under Other Non-current/ Current Liabilities.</li> <li>● Other Payables under this head may be in the nature of statutory dues such as Withholding Taxes, Services Tax, VAT, Excise Duty, etc. Current Year Classification as Current Liability and Previous Year Non-current Liability: Current/Non-current Classification of Assets/ Liabilities is determined a particular date, i.e., Balance Sheet date. So, if there is any change in the position at the end of the current year resulting in a different classification of Assets/Liabilities in the current year, it will not impact the classification made in the previous year.</li> </ul>

**Notes:**

1. Share Application Money includes advances towards allotment of Share Capital.
2. Terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed.
3. It shall also be disclosed whether the company has sufficient Authorised Capital to cover the Share Capital amount resulting from allotment of shares out of such Share Application Money.
4. Further, the period for which the Share Application Money has been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such Share Application Money being pending shall be disclosed.
5. Share Application Money not exceeding the Issued Capital and to the extent not refundable shall be shown under the head ‘Equity’ and Share Application Money to the extent refundable, i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under ‘Other Current Liabilities’.

**4. (d) Short-term Provisions:**

Schedule VI Disclosure Requirement	Points
It shall be classified as: (a) Provision for Employee Benefits (b) Others (specify nature)	This should be classified into short-term and long-term portion, and the former amount should be included here.  This includes Provision for Dividend, Provision for Taxation, Provision for Warranties, etc.

**4. (e) Disclosure Requirements for “Assets” Items:**

**1. Non-current assets:**

**1. (a) (i) Tangible Assets** (Also Refer AS-6, 10)

**1. (a) (ii) Intangible Assets:**

Schedule VI Disclosure Requirement	Points
<ol style="list-style-type: none"> <li><b>1. Classification shall be given as:</b> (a) Land, (b) Building, (c) Plant and Equipment, (d) Furniture and Fixtures, (e) Vehicles, (f) Office Equipment, (g) Other (specify nature).</li> <li><b>2.</b> Assets under <b>Lease</b> shall be separately specified under each class of asset.</li> <li><b>3. Revaluation:</b> Where sums have been written off on a reduction of capital or revaluation of assets of where sums have been added on revaluation of assets, every Balance Sheet subsequent to date of such write-off, of addition shall show the reduced or increased figures as applicable and shall be way of a Note also show the amount of the reduction or increase as applicable together with the date thereof for the first 5 years subsequent to the date of such reduction or increase.</li> <li><b>4. Reconciliation:</b> A Reconciliation of the Gross and Net carrying amounts of each class of assets at the beginning and end of the reporting period showing Additions, Disposals, Acquisition through Business Combinations and other Adjustments and the related Depreciation and Impairment Losses/Reversals shall be disclosed separately.</li> </ol>	<p>AS-19 excludes Land Leases from its scope. <b>Leasehold Land</b> should be presented as a separate asset class under <b>Tangible Assets</b>. Also, Freehold Land should be presented as a separate asset class.</p> <ul style="list-style-type: none"> <li>● The term “under” should mean: (a) Assets given on Operating Lease in the case of Lessor, and (b) Assets held under Finance Lease in the case of Lessee.</li> <li>● Leasehold improvements should continue to be shown as a separate asset class.</li> <li>● AS-10 requires disclosure of details such as Gross Book Value of Revalued Assets, Method adopted to compute revalued amounts, Nature of induces used, Year of appraisal, Involvement of External Valuer, etc. as long as the concerned assets are held by the enterprise [but only 5 years period is specified in Schedule VI(R)].</li> <li>● AS-10 requirements will prevail. [<b>Note:</b> AS-26 does not permit revaluation of Intangible Assets.]</li> </ul> <p><b>(a)</b> Since reconciliation of Gross and Net carrying amounts of fixed assets is required, the Depreciation/Accounts of fixed assets is required, the Depreciation/Amortisation for each class of asset should be disclosed in terms of –</p> <ul style="list-style-type: none"> <li>● Opening Accumulated Depreciation</li> <li>● Depreciation/Amortisation for the Year</li> <li>● Deduction/Other Adjustments</li> <li>● Closing Accumulated Depreciation/Amortisation</li> </ul> <p><b>(b)</b> Similar disclosures should also be made for Impairment, if any, as applicable.</p>

	<p>(c) <b>Business Combinations:</b></p> <ul style="list-style-type: none"> <li>● Business Combinations should be taken as an amalgamation or acquisition or any other mode of restructuring of a set of assets and/ or a group of assets and liabilities constituting a business.</li> <li>● Acquisition through 'Business Combinations' should be disclosed separately for each class of assets.</li> </ul> <p>(d) <b>Other Adjustments:</b> This includes:</p> <ul style="list-style-type: none"> <li>● Capitalisation of FOREX differences where such option has been exercised by the company as per AS-11.</li> <li>● Adjustments on account of Exchange Fluctuations for Fixed Assets in case of non-integral operations (AS-11).</li> <li>● Borrowing Costs capitalised as per AS-16.</li> </ul>
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Schedule VI Disclosure Requirement	Points
Classification shall be given as: (a) Goodwill, (b) Brands/ Trademarks, (c) Computer Software, (d) Mastheads and Publishing Titles, (e) Mining Rights, (f) Copyrights, and Patents and other Intellectual Property Right, Services and Operating Rights, (g) Recipes, Formulas, Modes, Designs and Prototypes, (n) Licenses and Franchise, (i) Other (specify nature).	<ul style="list-style-type: none"> <li>● Classification of Intangible Assets has been introduced under Schedule VI(R).</li> <li>● Intangible Assets under development should also be disclosed separately, if AS-26 criteria are met.</li> </ul>

**Note:** Points 3 and 4 of Tangible assets is also applicable for Intangible assets.

**1. (a) (iii) Capital Work-in-progress:**

Schedule VI Disclosure Requirement	Points
To be shown as a separate line item on the face of Balance Sheet	Capital Advances should be included under Long-term Loans and Advances and hence, cannot be included under Capital WIP.

**1. (a) (iv) Intangible Assets under Development:**

Schedule VI Disclosure Requirement	Points
To be shown as a separate line item on the face of Balance Sheet	Intangible Assets under development should be disclosed under this head provided they can be recognised based on the criteria laid down in AS-26.

**1. (b) Non-current Investments:**

Schedule VI Disclosure Requirement	Points
Non-current investment shall be classified as trade investments and other investments, and further classified as investments in: <ol style="list-style-type: none"> <li>(a) Property</li> <li>(b) Equity instruments</li> <li>(c) Preference shares</li> <li>(d) Government/trust securities</li> <li>(e) Debentures or bonds</li> <li>(f) Mutual funds</li> <li>(g) Partnership firms</li> <li>(h) Non-current investments (specify nature)</li> </ol>	<ul style="list-style-type: none"> <li>● If a Debenture is to be redeemed partly within 12 months and balance after 12 months, the amount to be redeemed within 12 months should be disclosed as Current, and balance as Non-current.</li> <li>● <b>“Trade Investment”</b> is normally understood as an investment made by a company in shares or debentures of another company, to promote the trade or business of the first company.</li> </ul>
1. Investments carried other than at cost should be separately stated specifying the basis for valuation thereof	<b>Basis of Valuation:</b> Disclosure for basis of valuation of Non-current Investments may be either of – (a) Cost or (b) Cost less Provision for other than temporary diminution or (c) Lower of cost and fair value.
2. The following shall also be disclosed: <ol style="list-style-type: none"> <li>(a) Aggregate amount of Quoted investments and market value thereof</li> <li>(b) Aggregate amount of unquoted investments</li> <li>(c) Aggregate provision for diminution in value of investments</li> </ol>	It is recommended to disclose the amount of provision netted-off for each long-term investment. However, the aggregate amount of provision made in respect of all non-current investment should also be separately disclosed to comply with the specific disclosure requirement in Schedule VI(R).

**1. (c) Deferred Tax Assets:**

Schedule VI Disclosure Requirement	Points
To be shown as a separate line item on the face of Balance Sheet	

**1. (d) Long-term Loans and Advances:**

Schedule VI Disclosure Requirement	Points
<b>1. General classification:</b> Long-term loans and advances shall be classified as: <ol style="list-style-type: none"> <li>(a) Capital advances</li> <li>(b) Security deposits</li> <li>(c) Loans and advances to related parties (giving details thereof)</li> <li>(d) Other loans and advances (specify nature)</li> </ol>	<b>Capital Advances:</b> <ul style="list-style-type: none"> <li>● It should be specifically included under long-term loans and advances and hence, cannot be included under capital work-in-progress.</li> <li>● Capital advances are advance given for procurement of fixed assets which are non-current assets. They are not realised back in cash, not over a period, get converted into fixed assets. Hence, they are always long-term advance, irrespective of when the fixed assets are expected to be received.</li> </ul> <b>Other loans and advances</b> should include all other items in the nature of advances recoverable in cash or kind, e.g., Prepaid Expenses, Advances Tax, CENVAT Credit Receivable, VAT Credit Receivable, etc. which are not expected to be realised within the next 12 months or operating cycle whichever is longer, from the Balance Sheet date.

<p><b>2. Securitywise Classification:</b> The above shall be separately sub-classified as –</p> <p>(a) Secured, considered good</p> <p>(b) Unsecured considered good</p> <p>(c) Doubtful</p>	
<p><b>3. Bad/Doubtful:</b> Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.</p>	
<p><b>4. Directors, etc.:</b> Loans and advances due by Directors or Other Officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner of a director of a member should be separately stated.</p>	<p>The term “<b>Details</b>” of loans and advances of related parties would mean disclosure requirements contained in AS-18.</p>

### 1. (e) Other Non-current Assets:

Schedule VI Disclosure Requirement	Points
<p>1. Other non-current assets shall be classified as:</p> <p>(a) Long-term trade receivables (including trade receivables on deferred credit terms)</p> <p>(b) Others (specify nature)</p>	<ul style="list-style-type: none"> <li>● A receivable shall be classified as ‘trade receivable’ if it is in respect of the amount due on amount of goods sold or services rendered in the normal course of business.</li> <li>● Dues in respect of insurance claims, sale of fixed assets, contractually reimbursable expenses, interest accrued on trade receivables, etc. should be classified as “Other” and each such item should be disclosed naturewise.</li> </ul>

### 2. Current Assets:

#### 2. (a) Current Investments:

Schedule VI Disclosure Requirement	Points
<p>Current investment shall be classified as:</p> <p>(a) Investments in equity instruments</p> <p>(b) Investment in preference shares</p> <p>(c) Investments in Government or Trust Securities</p> <p>(d) Investments in debentures or bonds</p> <p>(e) Investments in mutual funds</p> <p>(f) Investments in partnership firms</p> <p>(g) Other investments (specify nature)</p>	<p>Principles given for non-current investments will apply here, to the extent relevant. However, trade vs. non-trade classification, is not required for current investments.</p>

#### Notes:

1. Under each classification, details shall be given of names of bodies corporate [indicating separately whether such bodies are – (i) Subsidiaries, (ii) Associates, (iii) Joint ventures, or (iv) Controlled special purpose entities] in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.
2. The following shall also be disclosed:
  - (a) Basis of valuation of individual investments
  - (b) Aggregate amount of Quoted investments and market value thereof
  - (c) Aggregate amount of unquoted investments
  - (d) Aggregate provision made for diminution in value of investments.

**2. (b) Inventories: (Also refer AS-2)**

Schedule VI Disclosure Requirement	Points
Inventories shall be classified as: (a) Raw materials (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)	<ul style="list-style-type: none"> <li>● Goods in transit should be included under relevant heads with suitable disclosure.</li> <li>● The heading “finished goods should comprise of all finished goods other than those acquired for trading purposes. Those acquired for trading purposes are to be shown under “Stock in Trade”.</li> </ul>

**Note:** Goods-in-transit shall be disclosed under the relevant subhead of inventories. Mode of valuation shall be stated.

**2. (c) Trade Receivables:**

Schedule VI Disclosure Requirement	Points
<b>1.</b> Aggregate amount of trade receivables outstanding for a period exceeding 6 months from the date they are due for payment should be separately stated	<ul style="list-style-type: none"> <li>● Schedule VI(R) requires separate disclosure of “Trade receivables outstanding for a period exceeding 6 months from the date they become due for payment”, only for the current portion of trade receivables.</li> </ul>
<b>2. Securitywise Details:</b> Trade receivables shall be separately sub-classified as: (a) Secured, considered good (b) Unsecured, considered good (c) Doubtful	<ul style="list-style-type: none"> <li>● Where no due date is specifically agreed upon, normal credit period allowed by the company should be taken into consideration for computing the due date, which may vary depending upon the nature of goods or services sold, the type of customers, etc.</li> </ul>
<b>3. Bad/Doubtful:</b> Allowance for Bad and Doubtful Loans and Advances shall be disclosed under the relevant heads separately.	<ul style="list-style-type: none"> <li>● Amounts due under contractual obligations, e.g., dues in respect of insurance claims, sale of fixed assets, contractually reimbursable expenses, interest accrued on trade receivables, etc, cannot be included within trade receivables. Such receivables should be classified as “Other Current Assets” and each such item should be disclosed naturewise.</li> </ul>
<b>4. Directors, etc.:</b> Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director or a member should be separately stated.	<ul style="list-style-type: none"> <li>● <b>Lean Period Activities:</b> Receivables arising out of sale of materials/rendering of services during a company’s lean period, should be included under “Trade Receivables”, if such activity is in the normal course of business. If they are not part of “normal course of business”, they are to be classified under “Other Assets”.</li> </ul>

**2. (d) Cash and Cash Equivalents:**

Schedule VI Disclosure Requirement	Points
Cash and cash equivalents shall be classified as: (a) Balance with Banks (b) Cheques, Drafts on hand (c) Cash on hand (d) Others (specify nature).	<ul style="list-style-type: none"> <li>● “Other Bank Balances” would comprise items like Balances with Banks to the extent of held as Margin Money or Security against Borrowings etc. and Bank Deposits with more than 3 months maturity.</li> </ul>

**Notes:**

- Earmarked Balance with banks (e.g., for unpaid dividend) shall be separately stated.
- Bank deposits with more than 12 months maturity will also need to be separately disclosed under the above sub-head.
- Balance with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
- The non-current portion of each of the above balances should be classified under the head "Other Non-current Assets" with separate disclosure thereof.
- Repatriation restrictions, if any, in respect of cash and bank balance shall be separately stated.
- Bank deposits with more than 12 months maturity shall be disclosed separately.

**2. (e) Short-term Loans and Advances:**

Schedule VI Disclosure Requirement	Points
<p><b>1. General Classification:</b> Short-term loans and advances shall be classified as:</p> <p>(a) Loans and advances to related parties (giving details thereof).</p> <p>(b) Others (specify nature).</p> <p><b>2. Securitywise Classification:</b> The above shall also be sub-classified as:</p> <p>(a) Secured, considered good</p> <p>(b) Unsecured, considered good</p> <p>(c) Doubtful</p> <p><b>3. Bad/Doubtful:</b> Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.</p> <p><b>4. Directors, etc.:</b> Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.</p>	Principles given for long-term loans and advances will apply here, to the extent relevant.

**2. (f) Other Current Assets:**

Schedule VI Disclosure Requirement	Points
<ul style="list-style-type: none"> <li>● This is an all-inclusive heading, which incorporates current assets that do not fit into any other assets categories.</li> <li>● Nature of each item should be specified.</li> </ul>	<ul style="list-style-type: none"> <li>● This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories, e.g., Unbilled revenue, Unamortised premium on forward contracts, etc.</li> <li>● In case any amount classified under this category is doubtful, it is advisable that such doubtful, it is advisable that such doubtful amount as well as any provision made there against should be separately disclosed.</li> </ul>

**Special Point:** Unamortised portion of share issue expenses, etc.

1. Schedule VI(R) does not contain any specific disclosure requirement for the unamortised portion of expenses items such as share issue expenses, ancillary borrowing costs and discount or premium relating to borrowings.
2. As per AS-16, ancillary borrowings costs and discount or premium relating to borrowings could be amortised over the loan period. Further, share issue expenses, discount on shares, ancillary costs discount, premium on borrowing, etc. being special nature items are excluded from the scope of AS-26 Intangible Assets.

3. Certain companies have taken a view that it is an acceptable practice to amortise these expenses over the period of benefit, i.e., normally 3 to 5 years.
4. **Conclusion:** Schedule VI(R) does not deal with any accounting treatment of these items, and the same continues to be governed by the respective AS/best practices. So, a company can disclose the unamortised portion of such expenses as “Unamortised Expenses”, under the head “Other Current/Non-current Assets”, depending on whether the amount will be amortised in the next 12 months or thereafter.

### 1.4 PART II: FORM OF STATEMENT OF PROFIT AND LOSS

Name of the Company: Hero Ltd.

Profit and Loss Statement for the year ended 31st March, 2015 (₹ in '000)

Particulars	Note No.	As at 31st March, 2012
<b>I. Revenue from Operation:</b>		XXX
<b>II.</b> Other income		XXX
<b>III.</b> Total Revenue (I + II)		XXX
<b>IV. Expenses:</b>		
Cost of material consumed		XXX
Purchases of stock-in-trade		XXX
Changes in inventories of finished goods, work-in-progress and stock-in-trade		XXX
Employee benefits expenses		XXX
Finance costs		XXX
Depreciation and amortisation expenses		XXX
Other expenses		XXX
<b>Total Expenses</b>		<b>XXX</b>
<b>V.</b> Profit before Exceptional and Extraordinary Items and Tax (III – IV)		XXX
<b>VI.</b> Exceptional items		XXX
<b>VII.</b> Profit before Extraordinary Items and Tax (V – VI)		XXX
<b>VIII.</b> Extraordinary items		XXX
<b>IX.</b> Profit before tax (VII – VIII)		XXX
<b>X. Tax Expenses:</b>		
(a) Current Tax		XXX
(b) Deferred Tax		XXX
<b>XI.</b> Profit/(Loss) from discontinuing operations (IX – X)		XXX
<b>XII.</b> Profit/(Loss) from discontinuing operations		XXX
<b>XIII.</b> Tax Expenses of discontinuing operations		XXX
<b>XIV.</b> Profit/(Loss) from discontinuing operations (after tax) (XII + XIV)		XXX
<b>XV.</b> Profit/(Loss) for the period (XI + XIV)		XXX
<b>XVI. Earning per equity share:</b>		
(a) Basic		XXX
(b) Diluted		XXX

## General Instructions for Preparation of Statement of Profit and Loss

Item	Description		
<b>1. Section 25 Companies</b>	The provisions of this part shall apply to the Income and Expenditure Account referred to in Section 210(2) of the Act, in like manner as they apply to a statement of Profit and Loss.		
<b>2. Revenue from Operations</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top;"> <b>For company other than a finance company:</b> Revenue from operations shall disclose separately in the Notes, revenue from:           <ul style="list-style-type: none"> <li>(a) Sale of products</li> <li>(b) Sale of services</li> <li>(c) Other operating revenues</li> <li>(d) <b>Less:</b> Excise duty</li> </ul> </td> <td style="width: 50%; vertical-align: top;"> <b>For finance company:</b> Revenue from operations shall include revenue from:           <ul style="list-style-type: none"> <li>(a) Interest</li> <li>(b) Other financial services</li> </ul>           Revenue under each of the above heads shall be disclosed separately by way of Notes to Accounts to the extent applicable.         </td> </tr> </table>	<b>For company other than a finance company:</b> Revenue from operations shall disclose separately in the Notes, revenue from: <ul style="list-style-type: none"> <li>(a) Sale of products</li> <li>(b) Sale of services</li> <li>(c) Other operating revenues</li> <li>(d) <b>Less:</b> Excise duty</li> </ul>	<b>For finance company:</b> Revenue from operations shall include revenue from: <ul style="list-style-type: none"> <li>(a) Interest</li> <li>(b) Other financial services</li> </ul> Revenue under each of the above heads shall be disclosed separately by way of Notes to Accounts to the extent applicable.
<b>For company other than a finance company:</b> Revenue from operations shall disclose separately in the Notes, revenue from: <ul style="list-style-type: none"> <li>(a) Sale of products</li> <li>(b) Sale of services</li> <li>(c) Other operating revenues</li> <li>(d) <b>Less:</b> Excise duty</li> </ul>	<b>For finance company:</b> Revenue from operations shall include revenue from: <ul style="list-style-type: none"> <li>(a) Interest</li> <li>(b) Other financial services</li> </ul> Revenue under each of the above heads shall be disclosed separately by way of Notes to Accounts to the extent applicable.		
<b>3. Finance Costs</b>	Finance costs shall be classified as – <ul style="list-style-type: none"> <li>(a) Interest expenses</li> <li>(b) Other borrowing costs</li> <li>(c) Applicable net gain/loss on foreign currency transactions and translation</li> </ul>		
<b>4. Other Income</b>	Other income shall be classified as – <ul style="list-style-type: none"> <li>(a) Interest income (in case of a company other than a Finance Company)</li> <li>(b) Dividend income</li> <li>(c) Net gain/loss on sale of investments</li> <li>(d) Other non-operating income (net of expenses directly attributable to such income).</li> </ul>		
<b>5. Additional information</b>	A company shall disclose by way of <b>Notes, additional information regarding</b> Aggregate expenditure and income on the following items referred below.		

**(i) Employee Benefits, Expense, Income Items, etc.:**

- (a) Employee Benefits Expense [showing separately – (i) Salaries and wages, (ii) Contribution to PF and other funds, (iii) Expense on ESOP and Employee Stock Purchase Plan (ESPP), (iv) Staff Welfare Expenses]
- (b) Depreciation and Amortisation Expenses
- (c) Any item of income or expenditure which exceeds 1% of revenue from operations or ₹ 1,00,000 whichever is higher
- (d) Interest income
- (e) Interest expense
- (f) Dividend income
- (g) Net gain/loss on sale of investment
- (h) Adjustments to the carrying amount of investments
- (i) Net gain/loss on foreign currency transaction and translation (other than considered as Finance Cost)
- (j) Payment to the Auditor as: (a) Auditor, (b) For taxation matters, (c) For company law matters, (d) for management services, (e) for other services, (f) for reimbursement of expenses
- (k) Item of exceptional and exceptional and extraordinary nature
- (l) Prior period items

**(ii) Materials, Goods, Services, etc.**

- (a) In the case of *manufacturing companies*:
  - Raw materials under broad heads
  - Goods purchased under broad heads.

- (b) In the case of *trading companies*, purchases in respect of goods traded in by the company under broad heads.
  - (c) In the case of *companies rendering or supplying services*, Gross Income derived from services rendered or supplied, under broad heads.
  - (d) In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if Purchases, Sales and Consumption of Raw Material and the Gross Income from Services Rendered is shown under broad head.
  - (e) In the case of *other companies*, gross income derived under broad heads.
- (iii) In the case of all concerns having **Work-in-Progress**, Work-in-Progress under broad heads.
- (iv) **Reserves – Creation and Utilisation:**
- (a) The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the Balance-Sheet is made up.
  - (b) The aggregate, if material, of any amounts withdrawn from such Reserves.
  - (v) Provision – Creation and Utilisation:
    - (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.
    - (b) The aggregate, if material, of the amounts withdrawn from such provisions as no longer required.
- (vi) **Expenses, etc.:** Expenditure incurred on each of the following items, separately for each item:
- (a) Consumption of stores and spare parts
  - (b) Power and fuel
  - (c) Rent
  - (d) Repairs to buildings
  - (e) Repairs to machinery
  - (f) Insurance
  - (g) Rates and taxes, excluding, taxes on income
  - (h) Miscellaneous expenses.
- (vii) **Subsidiaries Information:**
- (a) Dividends from subsidiary companies
  - (b) Provisions for losses of subsidiary companies.
- (viii) **FOREX Information:** The P & L A/c shall also contain by way of a note the following information, namely:
- (a) Value of imports calculated on CIF basis by the company during the financial year in respect of – (I) Raw materials, (II) Components and spare parts and (III) Capital goods.
  - (b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest and other matters.
  - (c) Total value of all imported Raw Materials, Spare Parts and Components consumed during the financial year and the total value of all Indigenous Raw Materials, Spare Parts and Components similarly consumed and the percentage of each to the total consumption.
  - (d) Amount remitted during the year in Foreign Currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related.
  - (e) Earnings in foreign exchange classified under the following heads, namely:
    - Export of Goods calculated on FOB basis
    - Royalty, know-how, professional and consultation fees
    - Interest and dividend
    - Other income, indicating the nature thereof.

**Note:** Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements.

**Illustration 1:** The authorised capital of a company is ₹ 10,00,000 divided into 8% – 5,000 preference shares of ₹ 100 each and 50,000 equity shares of ₹ 10 each. 50% of each class shares were issued to public fully called up. ₹ 20 per share on 100 – 8% preference shares and ₹ 2 per share on 2,000 equity shares were not received. Show the schedule of Share Capital forming a part of Balance Sheet.

**Solution: Schedule 1: Share Capital**

Particulars	Amount	Amount
<b>Authorised Capital</b>		
5,000, 8% Preference shares of ₹ 100 each	5,00,000	
50,000 Equity shares of ₹ 10 each	5,00,000	10,00,000
<b>Issued, Subscribed, Called up and Paid-up capital</b>		
2,500, 8% Preference shares of ₹ 100 each	2,50,000	
Less: Calls in arrears [100 × 20]	2,000	2,48,000
25,000 Equity shares of ₹ 10 each	2,50,000	
Less: Calls in arrears [2000 × 2]	4,000	2,46,000
		4,94,000

**Illustration 2:** The Trial Balance of ALTO Ltd. shows the following figures relating to fixed assets as on 31st March, 2015.

Particulars	Amount
Machinery (at cost)	40,00,000
Building (at cost)	30,00,000
Furniture (at cost)	6,00,000
Goodwill (at cost)	20,00,000
Provisions for Depreciation:	
On Machinery	16,00,000
On Building	6,00,000
On Furniture	3,00,000

**Additional Information:**

1. Depreciation is provided during the year @ 10% p.a. on straight line method.
2. There was an addition to machinery on 1st October, 2013 for ₹ 10,00,000
3. One Machinery was sold on 1st April, 2013. The cost of sold machinery was ₹ 15,00,000 and depreciation provided was up to 1st April, 2013 was ₹ 8,00,000. The sale proceeds of such machinery was ₹ 9,00,000.

From the above, prepare the Schedule of Fixed Assets.

[T.Y.BBI Modified]

**Solution:**

Particulars	Gross Block				Depreciation				Net Block 31-03-15
	As on 1-4-14	Additions ₹	Deductions ₹	As on 31-04-15	As on 1-4-14	Additions ₹	Deductions ₹	As on 31-03-15	
Machinery	30	10	15	25	16	02	08	10	15
Building	30	—	—	30	06	03	—	09	21
Furniture	06	—	—	06	03	0.6	—	3.6	2.40
Goodwill	20	—	—	20	—	—	—	—	20
<b>Total</b>	<b>86</b>	<b>10</b>	<b>15</b>	<b>81</b>	<b>25</b>	<b>5.6</b>	<b>08</b>	<b>56</b>	<b>58.40</b>

**Illustration 3:** Following figures are taken from the trial balance of XYZ Ltd. as on 31st March, 2014.

Particulars	Cost	Provision for Depreciation as on 01.04.2013
Goodwill	2,30,000	—
Land & Building	4,00,000	30,000
Office Equipments	30,000	7,000
Motor Cars	70,000	25,200
Plant & Machinery	5,00,000	1,28,000

Provide depreciation on written down value of the asset at the following data:

Land & Building	5%
Plant & Machinery	20%
Motor Cars	20%
Office Equipment	10%

Prepare a schedule of Fixed Asset as on 31st March, 2014.

(T.Y.BBI, Modified, Sem. V; Nov. 2005, M.U.)

**Solution:** Schedules to Fixed Assets

Particulars	Gross Block				Depreciation			Net Block 31-03-14
	As on 01-04-13	Additions ₹	Deductions ₹	As on 31-04-14	As on 01-04-13	Additions ₹	As on 31-03-14	
Goodwill	2,30,000	—	—	2,30,000	—	—	—	2,30,000
Building	4,00,000	—	—	4,00,000	30,000	18,500	48,500	3,51,500
Machinery	5,00,000	—	—	5,00,000	1,28,000	74,400	2,02,400	2,97,600
Equipments	30,000	—	—	30,000	7,000	2,300	9,300	20,700
Motor Cars	70,000	—	—	70,000	25,200	8,960	34,160	35,840

**Illustration 4:** How will you treat following adjustments? Give Journal Entry and show where the items will appear in the Balance Sheet of a limited company.

- (A) 1. Sundry debtors includes dues for more than six months ₹ 60,000. Total debtors amounted to ₹ 4,60,000.  
 2. Issued capital ₹ 10,00,000 includes 10,000. Equity shares of ₹ 10 each issued to vendors in pursuance of an agreement entered into with them.
- (B) Charge depreciation at given rates, on the following assets and prepare a schedule of Fixed Assets:  
 1. Land and Building – 2% W.D.V. ₹ 94,000 (Original cost ₹ 1,00,000)  
 2. Plant and Machinery – 15% W.D.V. ₹ 3,50,000 (Original cost ₹ 5,00,000)  
 3. Motor Car – 20% W.D.V. ₹ 1,40,000 (Original cost ₹ 2,00,000)

Depreciation is to be calculated on straight line basis.

(T.Y.BBI, Modified, Sem. V; Nov. 2006, M.U.)

**Solution:**

- (A) 1. This is nothing but classification of debtors and is an information adjustment. It is to be shown under Current Assets on the Asset side as under:

Particulars	₹	₹
Sundry Debtors		
More than 6 months	60,000	
Other Debts	4,00,000	
		4,60,000

2. This is also an informative adjustment to be shown under Share Capital on the Liabilities side as under:

Particulars	₹
1,00,000 Equity Shares of ₹ 10 each (included in the above are 10,000 equity shares of ₹ 10 each issued for consideration other than cash to vendors in pursuance of an agreement entered into with them)	10,00,000

**(B) Journal Entry:**

Depreciation A/c To Land and Building A/c To Plant and Machinery A/c To Motor Car A/c (Being depreciation charged as various assets as per the given rates)	Dr.	1,17,000	2,000 75,000 40,000
Profit and Loss A/c To Depreciation A/c (Being depreciation transferred to Profit and Loss A/c)	Dr.	1,17,000	1,17,000

**3. Schedule of Fixed Assets:****Schedule of Fixed Assets (₹)**

Assets	Gross Block				Depreciation				Net Block	
	Opening ₹	Addi- tions ₹	Deduc- tions ₹	Closing ₹	Opening ₹	Addi- tions ₹	Deduc- tions ₹	Closing ₹	Opening ₹	Closing ₹
L & B1	1,00,000	—	—	1,00,000	6,000	2,000	—	8,000	94,000	92,000
P & M2	5,00,000	—	—	5,00,000	1,50,000	75,000	—	2,25,000	3,50,000	2,75,000
Motor Cars	2,00,000	—	—	2,00,000	60,000	40,000	—	1,00,000	1,40,000	1,00,000
<b>Total</b>	<b>8,00,000</b>	<b>—</b>	<b>—</b>	<b>8,00,000</b>	<b>2,16,000</b>	<b>1,17,000</b>	<b>—</b>	<b>3,33,000</b>	<b>5,84,000</b>	<b>4,67,000</b>

1: Land and Building. 2: Plant and Machinery

**Illustration 5:** Prepare a schedule of Fixed Assets from the following details as on 31st March, 2014.

Debit Balance	₹	Credit Balance	₹
Goodwill	25,000	Provision for Depreciation up to	
Plant and Machinery	1,20,000	31st March, 2014	
Additions to Plant	20,000	On Plant and Machinery	55,000
Motor Car (at cost)	24,800	On Furniture	4,500
Furniture (at cost)	16,500	On Motor Car	9,800
Depreciation:			
On Plant	8,500		
On Furniture	1,200		
On Motor Car	3,000		

(T.Y.BBI, Modified, Sem. V; April 2008, M.U.)

**Solution:**

Assets	Gross Block				Depreciation				Net Block	
	Opening ₹	Addi- tions ₹	Deduc- tions ₹	Closing ₹	Opening ₹	Addi- tions ₹	Deduc- tions ₹	Closing ₹	Opening ₹	Closing ₹
Goodwill	25,000	—	—	25,000	—	—	—	—	25,000	25,000
P & M1	1,20,000	20,000	—	1,40,000	46,500	8,500	—	55,000	73,500	85,000
Motor Cars	24,800	—	—	24,800	6,800	3,000	—	9,800	18,000	15,000
Furniture	16,500	—	—	1,65,000	3,300	1,200	—	4,500	13,200	12,000
<b>Total</b>	<b>8,00,000</b>	<b>20,000</b>	<b>—</b>	<b>2,06,300</b>	<b>56,500</b>	<b>12,700</b>	<b>—</b>	<b>3,33,000</b>	<b>1,29,700</b>	<b>1,37,000</b>

1: Plant and machinery

**Illustration 7:** Show how will you deal with the following adjustments at the time of preparation of final accounts of a limited company:

- (i) Income tax assessment for the year has been completed for a gross demand of ₹ 82,000. Trial Balance shows: Advance Payment of Tax ₹ 75,000. Provision for Income Tax ₹ 80,000.
- (ii) Share Capital of ₹ 3,00,000 is represented by 1,000, 9%. Cumulative preference shares of ₹ 100 each fully paid-up and balance by Equity shares of ₹ 10 each fully called up.
  - No effect has been given to Board Resolution forfeiting 400 Equity shares for non-payment of final call of ₹ 5 per share.
  - 5,000 of the Equity shares were issued for consideration other than cash as fully paid items from Trial Balance — Share Capital ₹ 3,00,000 Calls in Arrears ₹ 2,000.
  - Preference dividends are in arrears for three years (show schedule of share capital)

(T.Y.BBI, Modified, Sem. V; April. 2008, M.U.)

**Solution:** Following entries will be passed in the books of the company:

**(A) Journal Entry:**

Profit and Loss Adjustment A/c	Dr.	2,000	
To Provision for Income Tax A/c			2,000
[Being provision made for income tax as per assessment order]			
Provision for Income Tax A/c	Dr.	82,000	
To Advance Tax A/c			75,000
To Income Tax Payable A/c			7,000
[Being adjustment made for tax payable as per assessment order]			

₹ 2,000 will be deducted from profit and loss account balance and ₹ 7,000 will be shown as a liability under the head current liabilities and provisions.

**(B) The following entries will be passed in the books of the company:**

Equity Share Capital A/c	Dr.	4,000	
To Calls-in-arrears A/c			2,000
To Share Forfeiture A/c			2,000
[Being forfeiture of 400 Equity Shares for non-payment of final call money]			

## (C) Schedule of Share Capital:

## Share Capital

<b>1. Authorised Capital</b>		
1,000, 9% Cumulative Preference Shares of ₹ 100 each		1,00,000
20,000 Equity Shares of ₹ 10 each		2,00,000
		3,00,000
<b>2. Issued, Subscribed and Called up and Paid-up Capital</b>		
1,000, 9% Cumulative Preference Shares of ₹ 100 each fully paid-up		1,00,000
19,600 Equity Shares of ₹ 10 each fully called	1,96,000	
Add: Share forfeiture account	2,000	1,98,000
		2,98,000

**Notes:** (1) Of the above 19,600 Equity Shares, 5,000 Equity Shares were issued for consideration other than cash as fully paid.  
 (2) Arrears of Dividends on cumulative preference shares ₹ 27,000 is to be considered as “Contingent Liability” and should be shown as a footnote to the Balance Sheet.

**Illustration 7:** The following information has been extracted from the books of account of Hero Ltd. as at 31st March, 2014.

Particulars	Dr. (₹ '000)	Cr. (₹ '000)
Administration expenses	480	
Cash at bank and on hand	228	
Cash received on sale of fittings		10
Long-term loan		70
Investments	200	
Depreciation on fixture, fittings, tools and equipment (1st April, 2013)		260
Distribution costs	102	
Factory closure costs	60	
Fixture, fittings, tools and equipment (at cost)	680	
Profit and Loss Account (1st April, 2013)		80
Purchase of equipment	120	
Purchase of goods for resale	1,710	
Sales (Net of Excise Duty)		3,000
Share capital (1,00,000 shares of ₹ 10 each fully paid)		1,000
Stock (1st April, 2013)	140	
Trade creditors		80
Trade debtors	780	
	<b>4,500</b>	<b>4,500</b>

**Additional Information:**

- The stock at 31st March, 2014 (valued at the lower of cost or net realisable value) was estimated to be worth ₹ 2,00,000.
- Fixtures, fittings, tools and equipment all are related to administration. Depreciation is charged at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.
- During the year to 31st March, 2014, the company purchased equipment of ₹ 1,20,000. It also sold some fittings (which had originally cost ₹ 10,000 and for which depreciation of ₹ 30,000 had been set aside).
- The average income tax for the company is 50%. Factory closure cost is to be presumed as an allowable expenditure for income tax purpose.
- The company proposes to pay a dividend of 20% per equity share.

Prepare Hero Ltd.'s Profit and Loss Account for the year ended 31st March, 2014 and Balance Sheet as at that date in accordance with the Companies Act, 1956 in the Vertical Form along with the Notes on Accounts containing only the significant accounting policies. (T.Y.BAF, Modified, M.U.)

**Solution:**

**Hero Ltd.**

**Balance Sheet as at 31st March, 2014**

(₹ in '000)

Particulars	Note No.	As at 31st March, 2014
<b>A. Equity and Liabilities:</b>		
1. Equity:		
(a) Share capital	1	1,000
(b) Reserve and surplus	2	150
(c) Money received against share warrants		
2. Share application money pending allotment		
3. Non-current Liabilities:		
(a) Long-term borrowing	3	70
(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	4	80
(d) Short-term provisions	5	470
<b>Total (1 + 2 + 3 + 4)</b>		1,770
<b>B. Assets:</b>		
1. Non-current Assets:		
(a) Fixed Assets		
(i) Tangible assets	6	360
(ii) Intangible assets		
(iii) Capital work-in-progress		
(iv) Intangible assets under development		
(b) Non-current investments	7	200
(c) Deferred tax assets (Net)		
(d) Long-term loans and advances		
(e) Other non-current assets		
2. Current Assets:		
(a) Current investment		
(b) Inventories	8	200
(c) Trade receivables	9	780
(d) Cash and cash equivalents	10	228
(e) Short-term loans and advances		
(f) Other current assets		
<b>Total (1 + 2)</b>		1,770

**Hero Ltd.**  
**Profit and Loss Statement for the year ended 31st March, 2014**

(₹ in '000)

Particulars	Note No.		As at 31st March, 2014
A. <b>Revenue from Operation:</b>	11		3,000
<i>Less:</i> Excise duty			
B. Other Income			3,000
C. Total Revenue (A + B)			
D. <b>Expenses:</b>			
(a) Cost of material consumed			
(b) Purchase of products for sale		1,710	
(c) Charges in inventories of finished goods, work-in-progress and products for sale (140 – 200)		(60)	
(d) Employees cost/benefit expenses			
(e) Finance cost			
(f) Depreciation and amortisation expenses		148	
(g) Product development expenses/Engineering expenses			
(h) Other expenses	12	602	
(i) Expenditure transfer to capital and other account			
<b>Total Expenses</b>			<b>2,400</b>
E. Profit before exceptional and extraordinary items and tax (C – D)			600
F. Exceptional items			
G. Profit before tax from continuing operations (E – F)			600
H. Extraordinary items			60
I. Profit before tax from continuing operations (H – I)			540
J. <b>Tax Expenses:</b>			
(a) Current Tax			
(b) Deferred Tax			
K. Profit after tax for the year from continuing operations (G – H)			270
L. Profit (loss) from discontinuing operations			
Tax expenses from discontinuing operations			270
M. Profit (loss) from discontinuing operations (after tax) (J – K)			
N. Profit (loss) for the period (I + L)			270
Balance brought forward from previous year			80
Profit available for appropriation			350
<b>Appropriation:</b>			
Proposed dividend		200	
Transfer to General Reserve		30	230
Balance carried forward			120
O. <b>Earning per equity share:</b>			
(a) Basic			
(b) Diluted			

**Note 1: Share Capital**

Particulars	As at 31st March, 2014
Authorised, issued, Subscribed and Paid-up Share Capital: 1,00,000 Equity shares of ₹ 10 each	1,000
<b>Total</b>	<b>1,000</b>

**Reconciliation of Share Capital**

For Equity Share	As at 31st March, 2014	
	Nos.	Amount (₹)
Opening Balance as on 01/01/11 (Figure in '000)	100	1,000
Add: Fresh issue (including bonus shares, right shares, split shares, share issued other than cash)		
Less: Buyback of shares	100	1,000
<b>Total</b>	<b>100</b>	<b>1,000</b>

**Note 2: Reserves and Surplus**

Particulars	As at 31st March, 2014
General Reserve	30
Profit and Loss A/c	120
<b>Total</b>	<b>150</b>

**Note 3: Long-term Borrowings**

Particulars	As at 31st March, 2014
Long-term loan	70
<b>Total</b>	<b>70</b>

**Note 4: Trade Payables**

Particulars	As at 31st March, 2014
Sundry Creditors	80
<b>Total</b>	<b>80</b>

**Note 5: Short-term Provisions**

Particulars	As at 31st March, 2014
Proposed dividend (20% on ₹ 10,00,000)	200
Provision for Taxation	270
<b>Total</b>	<b>470</b>

**Note 6: Tangible Assets**

Particulars	As at 31st March, 2014
Fixtures, fitting, tools and equipment at cost – Opening	680
Add: Additions	120
Less: Sale/disposed	30
Less: Depreciation (262 + 148)	408
<b>Total</b>	<b>362</b>

**Note 7: Non-current Investments**

Particulars	As at 31st March, 2014
Investments	200
<b>Total</b>	<b>200</b>

**Note 8: Inventories**

Particulars	As at 31st March, 2014
Stock	200
<b>Total</b>	<b>200</b>

**Note 9: Trade Receivables**

Particulars	As at 31st March, 2014
Trade Debtors (more than six months considered good)	780
<b>Total</b>	<b>780</b>

**Note 10: Cash and cash operation**

Particulars	As at 31st March, 2014
Cash at Bank and on hand	228
<b>Total</b>	<b>228</b>

## Note 11: Revenue from operation

Particulars	As at 31st March, 2014
Sales (net of Excise Duty)	3,000
<b>Total</b>	<b>3,000</b>

## Note 12: Other Expenses

Particulars	As at 31st March, 2014
Administrative Expenses	480
Distribution Expenses	102
Loss on sale of Fixed Assets	20
<b>Total</b>	<b>602</b>

## Notes:

- The rate of interest on long-term loan is not given in the question. Reasonable assumption may be made regarding the rate of interest and accordingly it may be accounted for.
- As per Companies (Transfer of Profits to Reserve) Rules, the amount to be transferred to the reserve shall not be less than 7.5% of the current profits since proposed dividend exceeds 15% but does not exceed 20% of the paid-up capital. In this answer, it has been assumed that ₹ 30,000 have been transferred to General Reserve. The students may transfer any amount based on a suitable percentage of not less than 7.5%.
- In the absence of details regarding factory closure costs, these costs are treated as extraordinary items in the above solution assuming that the factory is permanently closed. However, the factory may close for a short span of time on account of strikes, lockouts etc. and such type of factory closure costs should be treated as loss from ordinary activities. In that case also, a separate disclosure regarding the factory closure costs will be required as per para 12 of AS-5 (Revised) 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

## Notes on Accounts for the Year ended 31st March, 2012:

## Significant Accounting Policies:

- Basis for preparation of financial statements:** The financial statements have been prepared under the historical cost convention, in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956 as adopted consistently by the company.
- Depreciation:** Depreciation on fixed assets is provided using the straight-line method, based on the period of five years. Depreciation on additions is provided for the full year but no depreciation is provided on assets sold in the year of their disposal.
- Investments:** Investments are valued at the lower of cost or realisable value.
- Inventories:** Inventories are valued at the lower of historical cost or the net realisable value.

## Working Notes:

(₹ in '000)

Particulars	(₹)	(₹)
<b>(1) Tangible Assets:</b>		
Furniture and Fixtures		
Gross Block		
As on 1/4/2012	680	
Add: Additions during the year	120	
	800	
Less: Deductions during the year	60	
As on 31/3/2013		740
Depreciation		
As on 1/4/2012	260	
For the year (20% on 740)	148	
	408	
Less: Deduction during the year	30	
As on 31/3/2013		378
Net block as on 31/3/2013		362

<b>(2) Provision for taxation</b>		
Profit as per profit and loss account		540
Add back: Loss on sale of asset (short-term capital loss)	20	
Depreciation	148	
		168
		708
Less: Depreciation under Income Tax Act		168
		540
Provision for tax @ 50%		270

It has been assumed that depreciation calculated under Income Tax Act amounts to ₹ 1,68,000.

### 1.5 MANAGERIAL REMUNERATION

Managers mean the directors of the company including notified managers, whole-time director, part-time director and managers. There are two types of companies: (a) Companies making adequate profits and (b) Companies not making adequate profit or loss in business.

Maximum remuneration payable (Section 198): Overall maximum remuneration to Directors and Manager = 11% of Net Profits. The Remuneration to Directors shall not be deducted from Gross Profit. The ceiling limits are as under:

Overall Maximum Remuneration to Directors and Manager = 11% of Net Profits

**Notes:** This can be increased only with –

(a) Company's resolution in a General Meeting, and (b) Approval of Central Govt.

Maximum Limit of Managerial Remuneration on the basis of Net Profit:

Situation - I If company having only one whole-time Director, M.D. or Managers	5% of Net Profit
Situation - II If company having more than one whole-time Directors or M.D. or Managers	10% of Net Profit
Situation - III If company having only part-time Director or M.D. or Managers	10% of Net Profit
Situation - IV Situation I + Situation II	10% of Net Profit
Situation - V Situation II+ Situation III	10% of Net Profit

Maximum Limit of Managerial Remuneration on the basis of Effective Capital in the shortage or absence of Net Profit.

Remuneration may be paid by way of salary, dearness allowance, perquisites or any other allowances not exceeding the ceiling limit of:

(a) ₹ 24,00,000 p.a. or ₹ 2,00,000 p.m.

(b) ₹ 48,00,000 p.a. or ₹ 4,00,000 p.m.

**Ceiling Limit of ₹ 4,00,000 p.a.**

Effective Capital	Maximum Remuneration per Month
Less than ₹ 1 crore	₹ 75,000
₹ 1 crore or but less than ₹ 5 crores	₹ 1,00,000
₹ 5 crores or more but less than ₹ 25 crores	₹ 1,25,000
₹ 25 crores or more but less than ₹ 50 crores	₹ 1,50,000
₹ 50 crores or more but less than ₹ 100 crores	₹ 1,75,000
₹ 100 crores or more	₹ 2,00,000

**Above shall be applicable if:**

- (a) Payment of remuneration is approved by a resolution passed by the Remuneration Committee;
- (b) The company has not made any default in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of 30 days in the preceding financial year before the date of appointment of such managerial person.

**Ceiling Limit of ₹ 48,00,000 p.a.**

Effective Capital	Maximum Remuneration per Month
Less than ₹ 1 crore	₹ 1,00,000
₹ 1 crore or but less than ₹ 5 crores	₹ 2,00,000
₹ 5 crores or more but less than ₹ 25 crores	₹ 2,50,000
₹ 25 crores or more but less than ₹ 50 crores	₹ 3,00,000
₹ 50 crores or more but less than ₹ 100 crores	₹ 3,50,000
₹ 100 crores or more	₹ 4,00,000

**Above shall be applicable if:**

- (a) Payment of remuneration is approved by a resolution passed by the Remuneration Committee;
- (b) The company has not made any default in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of 30 days in the preceding financial year before the date of appointment of such managerial person.
- (c) A special resolution has been passed at the general meeting of the company for payment of remuneration for a period not exceeding 3 years.
- (d) A statement along with a notice calling the General Meeting referred to in (c) is given to the shareholders containing the specified information.

**Statement Showing Calculation of Net Profit**

Net Profit as per Financial Books	XXX
Provision (AII)	XXX
Appropriation (AII)	XXX
Actual depreciation	XXX
Depreciation as per Companies Act	XXX
Voluntary compensation	(XXX)
Voluntary donation	XXX
Profit on sale of investment	(XXX)
Loss on sale of investment	XXX
Interest/Dividend/Rental income	(XXX)
Profit on sale of fixed assets (if profit is higher than the provisional depreciation)	(XXX)
Capital Expenditure (Research and development)	XXX
<b>Total</b>	<b>XXXX</b>
*Management salary	XXX
*Management Commission	XXX
Net Profit	XXXX

\* Director Fees should not be included as a part of managerial remuneration and it should be allowed under the calculation of net profit as per specified section.

Statement Showing Calculation of Effective Capital

Share Capital	XXX
Reserve and Surplus	XXX
Long-term Loan	XXX
Investment	(XXX)
Miscellaneous Expenditure	(XXX)
Effective Capital	XXX

**Illustration 8:** The following is the Statement of Profit and Loss Account of ABC Ltd. for the year ended 31st March, 2014.

Particulars	Amount ₹	Particulars	Amount ₹
Administration, selling and distribution expenses	8,22,542	Balance b/d	5,72,350
Donation to charitable funds	25,500	Balance form Trading A/c	40,25,365
Director fees	66,750	Subsidies received from Govt.	2,32,560
Interest on debentures	31,240	Interest on Investments	15,643
Compensation for breach of contracts	42,530	Transfer fees	722
Managerial remuneration	2,85,350	Profit on sale of machinery:	
Depreciation on fixed assets	5,22,543	Amount realised	55,000
Provision for taxation	11,42,500	Written down value	30,000
General reserve	5,00,000		25,000
Investment Revaluation Reserves	12,500		
Balance c/d	14,20,185		
	<b>48,71,640</b>		<b>48,71,640</b>

**Additional Information:**

- (a) Original cost of the machinery sold was ₹ 40,000.  
 (b) Depreciation on fixed assets as per Schedule XIV of the Companies Act, 1956 was ₹ 5,75,345.  
 You are required to comment on the managerial remuneration in the following situations:  
 (i) There is only one whole-time director;  
 (ii) There are two whole-time directors;  
 (iii) There are two whole-time directors, a part-time director, and a manager.

**Solution: Calculation of Profit u/s 349**

Particulars	Amount (₹)
Net Profit (balance b/d)	14,20,185
Add: Manager's remuneration	2,85,350
Add: Depreciation charged	5,22,543
Add: Provision for taxation	11,42,500
Add: General Reserve	5,00,000
Add: Investment Revaluation Reserve	12,500
Less: Opening Profit	5,72,350
Less: Profit on machinery – Capital Profit (₹ 55,000 – ₹ 40,000)	15,000
Less: Depreciation as per Schedule XIV	5,75,345
Book Profit	<b>27,20,383</b>

- (a) 5% of ₹ 27,20,383 = ₹ 1,36,019  
 (b) 10% of ₹ 27,20,383 = ₹ 2,72,038  
 (c) 11% of ₹ 27,20,383 = ₹ 2,99,242

**Illustration 9:** From the following particulars, calculate commission to the Managing Director:

Profit as per Profit and Loss A/c is ₹ 1,45,09,000 after deducting the depreciation of ₹ 1,24,24,000, Salary and remuneration to the managing director of ₹ 72,000 and director fees of ₹ 4,000. The depreciation as per u/s 350 of the Companies Act, 1956 is of ₹ 1,04,24,000.

**Solution:** **Contribution of Commission to the Managing Director**

Particulars	(₹ '000)	(₹ '000)
Profit as per Profit and Loss A/c		14,509
<i>Add:</i> Depreciation charge in the Profit and Loss A/c	12,424	
Salary and remuneration to the Managing Director	72	
Director fees	4	12,500
		27,009
<i>Less:</i> Depreciation u/s 350 of the Companies Act		(10,424)
Profit u/s 349 for the purpose of Managerial Remuneration		15,585
Maximum remuneration (5%)		629
<i>Less:</i> Salaries and remuneration paid (Director's fees is excluded here)		(72)
Maximum commission payable to Managing Director		757
Commission to be provided for at 1% of Net Profit (1% of ₹ 16,585)		166

**Illustration 10:** Ananda Pvt. Ltd. has furnished that the net profit tax and Managing Director's remuneration is ₹ 5,85,60,000, after adjusting the Depreciation as per books of ₹ 71,00,000 (Depreciation as per Schedule XIV is ₹ 80,00,000), Provision for doubtful debts is ₹ 80,000. The Managing Director's remuneration is at 5% of Net Profit as per law object to maximum of ₹ 2,40,000 p.a. Compute the Managing Director's remuneration.

**Solution:** **Calculation of Managing Director's Remuneration**

Particulars	(₹ '000)
Net profit before tax and managing director's remuneration	58,560
<i>Add:</i> Depreciation as per books	7,100
Provision for doubtful debts	80
	65,740
<i>Less:</i> Depreciation as per Schedule XIV to Companies Act, 1956	(8,000)
Net profit for the purpose of managerial remuneration	57,740
Maximum managerial remuneration at 5% of net profit	2,887
Restricted to actual payment under the agreement	240

**Illustration 11:** From the following particulars of Ajanta Ltd., you are required to calculate the managerial remuneration in the following situation:

- There is only one whole-time director;
- There are two whole-time directors;
- There are two whole-time directors, a part-time director and a manager.

Particulars	Amount (₹)
Net profit before provision for income tax and managerial remuneration, but after depreciation and provision for repairs	8,70,410
Depreciation provided in the books	3,10,000
Provision for repairs of office premises during the year	25,000
Depreciation allowable under Section XIV	2,60,000
Actual expenditure incurred on repairs during the year	15,000

**Solution:** Sections 198 and 309 of the Companies Act, 1956 prescribe the maximum percentage of profit that can be paid as managerial remuneration. For this purpose, profit is to be calculated in the manner as specified in Section 349.

**Calculation of Net Profit u/s 349 of the Companies Act, 1956**

Particulars	Amount	Amount
Net profit before provision for income tax and managerial remuneration, but after depreciation and for provision for repairs	3,10,000	8,70,410
Add back: Depreciation provided in the books	25,000	3,35,000
Provision for repairs of office premises		<b>12,05,410</b>
Less: Depreciation allowable under Schedule XIV	2,60,000	
Actual expenditure incurred on repairs	15,000	2,75,000
Profit u/s 349		<b>9,30,410</b>

Calculation of Managerial Remuneration:

- (a) There is only one whole-time director;  
Managerial Remuneration = 5% of ₹ 9,30,410 = ₹ 46,520.50
- (b) There are two whole-time directors;  
Managerial Remuneration = 10% of ₹ 9,30,410 = ₹ 93,041
- (c) There are two whole-time directors, a part-time director and a manager:  
Managerial Remuneration = 11% of ₹ 9,30,410 = ₹ 1,02,345.10

**Illustration 12:** The Indian Standard Manufacturing Co. Ltd. has an authorised capital of ₹ 3,00,000 divided into 3,000 equity shares of ₹ 100 each. 2,000 shares were issued to the public on 1st January, 2013; the shares were ₹ 80 paid. The Directors made a call for the remaining ₹ 20 per share on 1st October, 2013. The ledger shows the following balances at 31st December, 2013.

	Dr. (₹)	Cr. (₹)
Land and Building	90,000	
Plant and Machinery	1,65,600	
Loose tools	9,400	
Furniture and Fittings	3,600	
Preliminary Expenses	4,900	
Calls in Arrears (at ₹ 20 per share)	2,500	
Cash in Hand	500	
5% Government Bonds (face value of ₹ 10,000)	9,880	
Bills Receivable	13,600	
Motor Vehicles	3,000	
Goodwill	16,000	
Sundry Debtors	20,800	
Sundry Creditors		30,600
Reserve		15,000
Profit and Loss Account 1st Jan., 2013		8,800
Bank Overdraft		11,180
Purchase and Returns Outwards	2,40,000	5,000
Advertising	2,450	
Sales Return and Sales	7,000	3,07,800
Legal Charges	1,000	
Carriage inwards	2,700	

Wages	23,200	
Rent, Rates and Insurance	2,900	
Share Capital		2,00,000
6% Debentures of ₹ 100 each		1,00,000
Stock (1st January, 2013)	47,600	
Income Tax	2,800	
Trade Expenses	1,500	
Repairs to Plant and Machinery	860	
Interim Dividend paid for half year to 30th June	3,500	
Salaries		2,000
Printing and Stationery	1,090	
	<b>6,78,380</b>	<b>6,78,380</b>

Prepare Trading and Profit and Loss Account for the year ended 31.12.2013 and Balance Sheet in prescribed form under Companies Act, 1956, as on that date, after taking into account the following adjustments:

- Create a provision for Bad Debts of 5% on the Sundry Debtors.
- Charge 5% depreciation on Plant and Machinery, 7½% on furniture and fittings, 10% on Loose tools and 20% on Motor Vehicles.
- The stock in trade at 31st December, 2013 was valued at ₹ 54,000.
- On 16th August, 2013, the directors declared an interim dividend at 5% p.a., for six months ending 30th June, 2013.
- The directors have proposed a final dividend of 6% for 2013.
- Interest on Government Bonds and Debentures is due for the year 2013.

(T.Y.BAF, Modified, M.U., P.U.)

**Solution:** Profit and Loss A/c for the Year Ended 31/03/2013

Particulars	Note No.	Current Year (₹)
<b>[A] Continuing Operations:</b>		
1. Revenue from operations (gross)	5	3,00,800
Less: Excise Duty		–
Revenue from operations (net)		3,00,800
2. Other Income		500
3. <b>Total Revenue (1 + 2)</b>		<b>3,01,300</b>
4. Expenses		
(a) Cost of materials consumed	7	2,28,600
(b) Purchases of stock-in-trade		–
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade		–
(d) Employee benefits expense		2,000
(e) Finance Cost		–
(f) Depreciation and Amortisation expense	6	10,090
(g) Other Expenses	8	42,740
<b>Total Expenses</b>		<b>2,83,430</b>
5. Profit & Loss before extraordinary items and tax (3 – 4)		17,870
6. Exceptional items		–
7. Profit & Loss before extraordinary items & tax (5 – 6)		17,870
8. Extraordinary items		–

**Preparation of Final Accounts of Companies • 237**

9. Profit & Loss before tax (7 + 8)		17,870
10. Tax Expenses:		
(a) Current tax expenses for current year		–
(b) <i>Less</i> : MAT credit (where applicable)		–
(c) Current tax expense relating to prior years		–
(d) Net current tax expense		–
(e) Deferred tax		–
11. Profit & Loss from continuing operations (9 – 10)		17,870
12. Profit & Loss for the year		<b>17,870</b>
13. Earning per Equity Share:		
(i) Basic (Profit ÷ No. of shares)		8,935

**In the Books of Indian Standard Manufacturing Co.  
Balance Sheet as at 31st March, 2013**

Particulars	Note No.	Current Year (₹)
<b>[A] Equity and Liabilities</b>		
1. Shareholder's Fund		
(a) Share Capital	1	1,07,500
(b) Reserves and Surplus	2	25,820
(c) Money Received against Share Warrants		–
2. Share Application Money Pending Allotment		–
3. Non-current Liabilities		
(a) Long-term Borrowings	10	1,06,000
(b) Deferred Tax Liabilities (net)		
(c) Other Long-term Liabilities		
(d) Short-term Provisions		
4. <b>Current Liabilities</b>		
(a) Short-term Borrowings		11,180
(b) Trade Payables		30,600
(c) Other Current Liabilities		500
(d) Short-term Provisions		12,850
<b>Total</b>		<b>2,93,450</b>
<b>[B] Assets:</b>		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	26,150
(ii) Intangible Assets		16,000
(iii) Capital Work-in-progress		–
(iv) Intangible Assets under Development		–
(v) Fixed Assets Held for Sale		–
(b) Non-current Investments		9,880
(c) Deferred Tax Assets (net)		–
(d) Long-term Loans and Advances		–
(e) Other Non-current Assets		4,900
<b>[C] Current Assets:</b>		
(a) Current Investments		–
(b) Inventories		54,000
(c) Trade Receivable	4	19,760
(d) Cash and Cash Equipments		500
(e) Short-term Loans and Advances		16,400
Other Current Assets		500
<b>Total</b>		<b>3,83,450</b>

**Working Note:**

Particulars	Amount (₹)	Amount (₹)
1. Share Capital: 2,000 Equity shares of ₹ 100 each fully called up	2,00,000	1,07,500
Less: Call in arrears	2,500	
2. <b>Reserves and Surplus:</b> Reserves	15,000	25,820
Profit & Loss (App) A/c Balance	10,820	
3. <b>Tangible Assets:</b> Loose Tools	8,460	98,460
Land and Building	90,000	
Plant and Machinery	1,65,000	1,57,320
Less: 5% Depreciation	8,280	
Furniture and Fittings	3,600	3,330
Less: 7½% Depreciation	270	
Motor Vehicles	3,000	2,400
Less: 20% Depreciation	600	
<b>Total</b>		<b>2,61,510</b>
4. <b>Trade Receivables:</b> Sundry Debtors	20,800	19,760
Less: 5% R.B.P.	1,040	
5. <b>Revenue from Operations (gross)</b> Sales 3,07,800		3,00,800
Less: Sales Returns	7,000	
6. <b>Depreciation and Amortisation Expenses:</b> Plant and Machinery	8,280	10,090
Loose Tools	940	
Furniture	270	
Motor Car	600	
7. <b>Cost of Materials Consumed:</b> Opening Stock	47,600	2,28,600
Add: Purchases	2,40,000	
Less: Purchase Return	5,000	
Less: Closing Stock	54,000	
8. <b>Other Expenses:</b> Advertisement	2,450	41,610
Wages	23,200	
Legal Charges	1,000	
Carriage Inwards	2,700	
Rent, Rates and Interest	2,900	
Trade Expenses	1,500	
Repairs to P & M	860	
Printing and Stationery	1,000	
O/s Debentures Interest	6,000	
R.B.D. New	1,040	
9. <b>Short-term Loans and Advances:</b> Bills Receivable	13,600	
Income Tax	2,800	
10. <b>Long-term Borrowings:</b> 6% Debentures	1,00,000	1,06,000
Add: Interest	6,000	
11. <b>Short-term Provisions</b> Unclaimed Dividend	500	12,350
Proposed Dividend	11,850	

**Illustration 13:** Following Trial Balance has been extracted from the books of M/s Moonlight Ltd. as 31st December, 2013. You are required to prepare Profit and Loss Account for the year ended 31st December, 2013 and also the Balance Sheet of the company as on that date, as required by the provisions of Schedule VI of the Companies Act, 1956.

Particulars	Debit (₹)	Credit (₹)
Land and Building (at cost)	3,60,000	
Share Capital (80,000 Equity Shares of ₹ 10 each)		8,00,000
Plant and Machinery (W.D.V. on 31.12.2012)	6,62,400	
Sundry Creditors (unsecured)		1,22,400
Loose Tools (Balance as on 1.1.2012)	37,600	
Reserve Fund		60,000
Insurance Charges	19,600	
Profit and Loss Account Balance		35,200
Furniture and Fixtures (W.D.V. on 31.12.12)	14,400	
Gross Profit		1,39,600
Calls in Arrears (Due from Directors ₹ 1,600)	6,000	
6% Debentures (issue on 31.12.2012)		4,00,000
Cash in Hand	2,000	
Bank Overdraft		53,120
5% Government of India Bonds (Face Value ₹ 40,000)	39,520	
Outstanding Wages		2,400
Bills Receivable	54,400	
Goodwill	64,000	
Motor Car (W.D.V. on 31.12.12)	12,000	
Sundry Debtors (₹ 13,200 more than 6 months old)	83,200	
Interim Dividend Paid	18,000	
Repairs and Maintenance	3,440	
Advertisement Expenses	10,160	
Audit Fees (Tax Consultation Fees ₹ 1,000)	4,000	
Preliminary Expenses	19,600	
General Expenses	17,200	
Interest on Debenture (after deducting tax at source @ 30%)	8,400	
Closing Stock (valued at cost which is lower than market value)	1,76,800	
	<b>16,12,720</b>	<b>16,12,720</b>

**Adjustments:**

- (a) Depreciation for the year to be provided for as under:
  - On Plant and Machinery @ 5% on W.D.V.
  - On Furniture and Fixture @ 7.5% on W.D.V.
  - On Motor Car @ 20% on W.D.V.
- (b) Provide for doubtful debts @ 5% on sundry debtors.
- (c) 6% Debentures are secured by a floating charge on company's fixed and current assets.
- (d) Insurance Charges include ₹ 1,600 for the year 2014.
- (e) Loose Tools are valued at ₹ 31,960 as at 31-12-2013.
- (f) Directors propose to transfer ₹ 10,000 to Reserve Fund and total dividend of 3% on Equity shares, taking into consideration interim dividend paid during the year.
- (g) Interest on Government of India Bonds is accrued and due for the entire year ended 31st December, 2013.
- (h) Authorised capital of the company is ₹ 20,00,000 all in equity shares of ₹ 10 each.

- (i) There is a suit filed in the Court of law against the company for breach of contract, which is disputed by the company and for which no provision is made accounts (amount ₹ 1,00,000).  
 (j) Cost and accumulated provision for depreciation on fixed assets as on 31st December, 2012 are as follows:

Particulars	Cost (₹)	Depreciation Provision (₹)
Plant and Machinery	8,00,000	1,37,600
Furniture and Fixtures	20,000	5,600
Motor Car	24,000	12,000

(TY.B.Com./BAF, Modified, M.U.)

**Solution:**

**In the books of M/s Moonlight Ltd.  
Balance Sheet as at 31st December, 2013**

Particulars	Note No.	Current Year (₹)
<b>[A] Equity and Liabilities:</b>		
1. Shareholders' Fund		
(a) Share Capital	3	7,94,000
(b) Reserves and Surplus	4	89,780
(c) Money Received against Share Warrants		—
2. Share Application Money Pending Allotment		—
3. Non-current Liabilities:		
(a) Long-term Borrowings	5	4,12,000
(b) Deferred Tax Liability (net)		
(c) Other Long-term Liabilities		
(d) Long-term Provisions		
4. Current Liabilities:		
(a) Short-term Borrowings	7	53,120
(b) Trade Payable		1,22,400
(c) Other Current Liabilities	6	6,000
(d) Short-term Provisions		5,820
<b>Total</b>		<b>14,83,120</b>
<b>[B] Assets:</b>		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible Assets	1	11,08,160
(ii) Intangible Assets		64,000
(iii) Capital Work-in-progress		—
(iv) Intangible Assets under Development		—
(v) Fixed Assets Held for Sale		—
(b) Non-current Investments		39,520
(c) Deferred Tax Assets (Net)		
(d) Long-term Loans and Advances		
(e) Other Non-current Assets		
2. Current Assets		
(a) Current Investments		—
(b) Inventories		1,76,800
(c) Trade Receivables		—
(d) Cash and Cash Equivalents		2,000
(e) Short-term Loans and Advances	7	56,000
(f) Other Current Assets		1,00,640
<b>Total</b>		<b>5,47,120</b>
<b>Contingent Liability and Commitments</b>		1,00,000

Profit and Loss A/c for the Year Ended 31.02.2013

Particulars	Note No.	Current Year (₹)
<b>[A] Continuing Operations:</b>		
1. Revenue from Operation (gross)		1,39,600
<i>Less:</i> Excise Duty		—
Revenue from Operations (Net)		1,39,600
2. Other Income		<b>2,000</b>
3. Total Revenue (1 + 2)		1,41,600
4. Expenses:		
(a) Cost of Materials Consumed		—
(b) Purchases of Stock-in-trade		—
(c) Changes in Inventories, of finished goods, work-in-progress, stock-in-trade		—
(d) Employee Benefits Expenses		—
(e) Finance Cost	8	24,000
(f) Depreciation and Amortisation Expenses	9	42,240
(g) Other Expenses	10	55,960
<b>Total Expenses</b>		<b>1,22,200</b>
5. Profit and Loss before Exceptional and Extraordinary Items and Tax (3 – 4)		19,400
6. Exceptional Items		—
7. Profit & Loss before Extraordinary Items and Tax (5 – 6)		19,400
8. Extraordinary Items		—
9. Profit & Loss before Tax (7 + 8)		19,400
10. Tax Expenses:		
(a) Current Tax Expenses for Current Year		1,000
(b) <i>Less:</i> MAT Credit (where applicable)		—
(c) Current Tax Expenses Relating to Prior Years		—
(d) Net Current Expenses		—
(e) Deferred Tax		—
(11) Profit & Loss from Continuing Operations (9 – 10)		18,400
(12) Profit & Loss for the Year		<b>18,400</b>
(13) Earning per Equity Share		
(a) Basic (80,000/18,400)		4,348

**Working Note:**

Particulars	Amount (₹)	Amount (₹)
1. Tangible Assets:		
Loose Tools	31,960	
Land & Building	3,69,000	
Plant and Machinery	6,29,280	
Furniture and Fixtures	13,320	
Motor Car	9,600	10,44,160
Add: Intangible Assets		64,000
2. Other Current Assets:		<b>11,08,160</b>
Preliminary Expenses		19,600
O/s Interest on Government Bonds		2,000
O/s for 6 months	13,200	
Others	70,000	
	83,200	
Less: R.B.D	4,160	79,040
		1,00,640
3. Share Capital:		
80,00 Equity of ₹ 10 each fully called up	8,00,000	
Less: Call in arrears		
From Directors	1,600	
From Others	4,400	6,000
4. Reserves and Surplus:		7,94,000
Reserve Fund	60,000	
From Others	10,000	70,000
Profit and Loss Appropriation Balance		19,780
5. Long-term Borrowings:		89,780
6% Debentures	4,00,000	
Add: Interest Accrued and Debenture	12,000	4,12,000
6. Other Current Liabilities:		
O/s Wages	2,400	
TDS Payable on Debentures Interest	3,600	6,000
7. Short-term Loans and Advances:		
Prepaid Insurance	1,600	
Bills Receivable	54,400	56,000
8. Finance Cost:		
Interest on Debenture (Net)	8,400	
Add: TDS Payable	3,600	
Add: O/s	12,000	24,000
9. Depreciation:		
Plant & Machinery	33,120	
Furniture	1,080	
Motor Car	2,400	36,600
Amortisation: Loose Tools w/off		5,640
<b>Total</b>		<b>42,240</b>
10. Other Expenses		
Advertisement		10,160
R.B.D (New)		4,160
Insurance Charges	19,600	
Less: Prepaid	1,600	18,000
Repairs and Maintenance		3,440
Audit Fees		3,000
General Expense		17,200
<b>Total</b>		<b>55,960</b>

**Illustration 14:** The following information is obtained from the books of X Co. Ltd. as on 31st March, 2013.

Particulars	(₹)
Profit and Loss A/c Debit Balance as on 1st April, 2012	2,00,000
Preliminary Expenses	10,000
Plant and Machinery	1,00,000
Furniture and Fixtures	20,000
Motor Car	15,000
Sales	20,00,000
Miscellaneous Receipts	1,20,000
Opening Stock of Finished Goods	3,00,000
Consumption of Raw Material	9,00,000
Closing Stock of Raw Materials at cost	5,00,000
Bank Overdraft	1,00,000
Share Premium	3,60,000
Share Capital	6,00,000
Unsecured Loan	3,00,000
Sundry Debtors (including ₹ 1,00,000 over six months)	7,00,000
Salaries and Wages	2,00,000
Office Administration Expenses	4,00,000
Selling and Distribution Expenses	1,50,000
Sundry Creditors	4,15,000
Income Tax Advance	3,00,000
Miscellaneous Advance	40,000
Interim Dividends	60,000

The following further information is given:

- (a) Closing Stock of finished goods at cost is ₹ 6,00,000
- (b) The original cost of fixed assets are

	₹
Plant and Machinery	2,00,000
Furniture and Fixture	30,000
Motor Car	25,000

Depreciation is to be charged for the year on written down values @ 10% on Plant and Machinery and Furniture and Fixtures and @ 20% on Motor Car. There were no additions or disposals during the year.

- (c) The entire Authorised Share Capital which consists of equity share of ₹ 100 each has been issued and subscribed. The share capital is paid-up to the extent of 30% and there are no calls in arrear.
- (d) The unsecured loan was taken on 1st January, 2013 at 18% interest is payable half-yearly and necessary provisions are to be made in account.
- (e) Office Administration expenses include auditor's fee ₹ 5,000 (including fees for taxation services ₹ 1000) and Director's fee ₹ 3000.
- (f) Taxation Provision is to be created for ₹ 3,50,000.
- (g) Preliminary expenses are to be written off.
- (h) The Directors have proposed a Final Dividend of ₹ 6 on each equity share in addition to the interim dividend already declared.

Prepare Profit and Loss Account for the year ended 31st March, 2013 and a Balance Sheet as on that date as per requirements of Schedule VI of the Companies Act, 1956.

**(T.Y.BAF, Modified, M.U.)**

Solution:

**In the Books of X Co. Ltd.**  
**Balance Sheet as at 31/03/2013**

Particulars	Note No.	Current Year (₹)
<b>[A] Equity and Liabilities:</b>		
1. Shareholders' Fund		
(a) Share Capital		6,00,000
(b) Reserves and Surplus	1	3,61,500
(c) Money Received against Share Warrants		
2. Share Application Money Pending Allotment		
3. Non-current Liabilities:		
(a) Long-term Borrowings		3,00,000
(b) Deferred Tax Liability		
(c) Other Long-term Liabilities		
(d) Long-term Provisions		
4. Current Liabilities:		
(a) Short-term Borrowings		1,00,000
(b) Trade Payable		4,15,000
(c) Other Current Liabilities		13,500
(d) Short-term Provisions	2	4,70,000
<b>Total</b>		<b>22,60,000</b>
<b>[B] Assets:</b>		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible Assets	3	1,20,000
(ii) Intangible Assets		
(iii) Capital Work-in-progress		
(iv) Intangible Assets under Development		
(v) Fixed Assets Held for Sale		
(b) Non-current Investments		
(c) Deferred Tax Assets		
(d) Long-term Loans and Advances		
(e) Other Non-current Assets		
2. Current Assets		
(a) Current Investments		
(b) Inventories	4	11,00,000
(c) Trade Receivables		7,00,000
(d) Cash and Cash Equivalents		
(e) Short-term Loans and Advances		3,00,000
(f) Other Current Assets		40,000
<b>Total</b>		<b>26,60,000</b>

**Profit and Loss A/c for the Year Ended 31.03.2013**

Particulars	Note No.	Current Year (₹)
1. Revenue from Operations		20,00,000
<i>Less:</i> Excise Duty		—
Revenue from Operations		20,00,000
2. Other Income		1,20,000
3. Total Revenue (1 + 2)		21,20,000
4. Expenses:		
(a) Cost of Materials Consumed		6,00,000
(b) Purchases of Stock-in-trade		
(c) Changes in Inventories of Finished Goods, Work-in-progress, Stock-in-trade		
(d) Employee Benefits Expenses		2,00,000
(e) Finance Cost		13,500
(f) Depreciation and Amortisation Expenses		25,000
(g) Other Expenses		5,50,000
<b>Total Expenses</b>		<b>13,88,500</b>
5. Profit and Loss before Exceptional and Extraordinary Items and Tax (3 – 4)		7,31,500
6. Exceptional Items		
7. Profit & Loss before Extraordinary Items and Tax		
8. Extraordinary Items		
9. Profit & Loss before Tax		
10. Tax Expenses:		
(a) Current Tax Expenses for Current Year		3,50,000
(b) Current Tax Expenses Relating to Prior Years		
(c) Net Current Expenses		
(d) Deferred Tax		
11. Profit & Loss for the Year		3,81,500
12. Earning per Equity Share		19

**Working Note:**

Particulars	Amount (₹)	Amount (₹)
<b>1. Reserve and Surplus:</b>		
Share Premium	3,60,000	
Add: Profit & Loss Balance	1,500	3,61,500
<b>2. Provisions Short-term:</b>		
Proposed dividend	1,20,000	
Add: Provision for tax	3,50,000	4,70,000
<b>3. Fixed Assets:</b>		
Tangible		
Plant and Machinery	2,00,000	
Less: Depreciation – Last Year	1,00,000	
Current Year	10,000	(1,10,000)
		90,000
Furniture	30,000	
Less: Depreciation – Last Year	10,000	
Current Year	2,000	(12,000)
		18,000
Motor Car	25,000	
Less: Depreciation – Last Year	10,000	
Current Year	3,000	(13,000)
		12,000
<b>Total F.A</b>		<b>1,20,000</b>
<b>4. Current Assets:</b>		
Inventories:		
Closing Stock of Raw Materials	5,00,000	
Add: Closing Stock of Finished Goods	6,00,000	11,00,000
<b>5. Cost of Material Consumed:</b>		
Opening Stock	3,00,000	
Add: Consumption	9,00,000	
Less: Closing Stock	(6,00,000)	6,00,000
<b>6. Depreciation and Amortisation Expenses:</b>		
Depreciation on:		
Plant	10,000	
Furniture	2,000	
Motor Car	3,000	
Add: Preliminary Expenses w/off	10,000	25,000
<b>7. Other Expenses:</b>		
S & D Expenses	1,50,000	
Auditor's Remuneration	5,000	
Office Expenses	3,92,000	
Director's Fees	3,000	5,50,000

**Illustration 15:** The following is the Trial Balance of N Ltd. as on 31st December, 2013.

Particulars	Dr.	Cr.
Equity shares of ₹ 10 each fully paid		30,00,000
General Reserve		3,00,000
Provision for Taxation (Assessment Year 2013-14)		4,40,000
Profit and Loss Account		5,74,000
Advance Tax (Assessment Year 2013-14)	3,65,000	
15% Debentures (Gross Profit)		1,00,000
Trading Account (Gross Profit)		1,50,000
Interim Dividend	1,73,000	
Share Premium		25,000
Director's Fees	20,000	
Prepaid Expenses	30,000	
Debenture Interest	75,000	
Creditors		2,00,000
Outstanding Expenses		36,000
Bank Balance	2,26,000	
Tax Deducted at Source and Interest on Investments	16,000	
Investments at Cost (Market Value ₹ 4,74,000)	5,00,000	
Interest on Investments		50,000
Debtors (₹ 55,000 due for 2 years)	24,55,000	
Stock	16,60,000	
Vehicles (Cost ₹ 15,000)	1,00,000	
Furniture (Cost ₹ 2,00,000)	1,60,000	
Machinery (Cost ₹ 30,00,000)	21,20,000	
Land and Building (Cost ₹ 10,00,000)	8,00,000	
	<b>87,00,000</b>	<b>87,00,000</b>

**Adjustments:**

- (a) Depreciation for the year charged against trading account:
  - (i) Land and Building ₹ 50,000.
  - (ii) Plant and Machinery ₹ 3,00,000.
  - (iii) Furniture ₹ 16,000.
  - (iv) Vehicles ₹ 25,000.
2. Director's remuneration ₹ 15,000 and ₹ 1,00,000 staff salaries was charged to Trading Account.
3. Income Tax Assessment for Assessment Year 2013-14 has been completed resulting in a gross demand ₹ 3,40,000.
4. Tax Provision for Accounting Year 2013 should be kept at ₹ 3,00,000.
5. Directors recommend transfer of ₹ 2,00,000 to Debenture Redemption Fund, ₹ 3,50,000 to General Reserve and have recommended a final dividend of 10%.

Prepare the Profit and Loss Account for the year ending 31st December, 2013 and a Balance sheet as at that date along with a schedule of fixed assets.

**(T.Y.B.Com., Modified, M.U.)**

Solution:

N. Ltd.

## Profit and Loss A/c for the year ending 31.12.2013

Particulars	Note No.	Current Year (₹)
<b>[A] Continuing Operations:</b>		
1. Revenue from Operations	1	15,56,000
2. Other Income		50,000
3. Total Revenue (1 + 2)		16,06,000
4. Expenses:		
(a) Cost of Goods Sold	1	Nil
(b) Employee Benefit Expenses	2	1,00,000
(c) Financial Cost	3	1,50,000
(d) Depreciation and Amortisation Expenses	4	3,91,000
(e) Other Expenses	5	35,000
<b>Total Expenses</b>		<b>6,76,000</b>
5. Profit and Loss before Extraordinary and Exceptional Items and Tax		9,30,000
6. Exceptional Items		Nil
7. Profit and Loss before Extraordinary Items and Tax (5 – 6)		9,30,000
8. Extraordinary Items		Nil
9. Profit and Loss before Tax (7 – 8)		9,30,000
10. Tax Expenses		
(a) Current Tax Expenses for the Year		3,00,000
11. Profit and Loss from Continuing Operation		6,30,000
<b>[B] Discontinuing Operations:</b>		Nil
Total Operations (A + B)		6,30,000
12. EPS		2.1

**Notes Forming Part of Profit and Loss A/c**

	Dr.	Cr.
<p><b>Note 1:</b> Due to lack of information in the question, it has been assumed that Gross Profit has been arrived at by subtracting the value of cost of goods sold from sales. Due to lack of information about presenting answers in such a situation, we have taken Gross Profit as value of Net sales and Cost of goods sale as Nil.</p>		
<p><b>Note 2:</b> Employee Benefit Expenses Staff Salaries</p>		1,00,000
<p><b>Note 3:</b> Finance Cost Debenture Interest <i>Add: O/s</i></p>		75,000 75,000
<b>Total</b>		<b>1,50,000</b>
<p><b>Note 4:</b> Depreciation and Amortisation Expenses <b>Depreciation on</b> Vehicle Machinery Furniture Land and Building</p>	25,000 3,00,000 16,000 50,000	
<b>Total</b>		<b>3,91,000</b>
<p><b>Note 5:</b> Other Expenses Directors Fees <i>Add: Wrongly included in Trading</i></p>		20,000 15,000
<b>Total</b>		<b>35,000</b>

## Balance Sheet as on 31.3.2013

Particulars	Note No.	Current Year (₹)
<b>[A] Equity and Liabilities:</b>		
1. Shareholders' Funds		
(a) Share Capital	1	30,00,000
(b) Reserves and Surplus	2	13,81,000
2. Share Application Money Pending Allotment		Nil
3. Non-current Liabilities		
(a) Long-term Borrowings	3	10,75,000
4. Current Liabilities		
(a) Trade Payables		20,00,000
(b) Other Current Liabilities		36,000
(c) Short-term Provisions	4	6,00,000
<b>Total</b>		<b>80,92,000</b>
<b>[B] Assets:</b>		
1. Non-current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	31,80,000
(b) Non-current Investments		5,00,000
2. Current Assets		
(a) Inventories		16,60,000
(b) Trade Receivables		24,55,000
(c) Cash and Cash Equivalents		2,26,000
(d) Short-term Loans and Advances	6	71,000
<b>Total</b>		<b>80,92,000</b>

## Notes Forming Part of Balance Sheet

Particulars	(₹)	(₹)
<b>Note 1:</b> Share Capital 3,00,000 equity shares of ₹ 10 each		30,00,000
<b>Note 2:</b> Reserves and Surplus		
General Reserve	3,00,000	
<i>Add:</i> Transfer from Profit and Loss	3,50,000	6,50,000
Share Premium		2,50,000
Debenture Redemption Fund		2,00,000
<i>Less:</i> Profit and Loss Appropriation Balance		2,81,000
<b>Total</b>		<b>13,81,000</b>
<b>Note 3:</b> Long-term Borrowings		
15% Debentures		10,00,000
<i>Add:</i> O/s Interest		75,000
<b>Total</b>		<b>10,75,000</b>
<b>Note 4:</b> Short-term Provision		
Proposed Dividend		3,00,000
Provision for Tax		3,00,000
<b>Total</b>		<b>6,00,000</b>

<b>Note 5:</b> Tangible Assets		
Vehicle	1,50,000	
<i>Less:</i> Depreciation up to Last Year	(25,000)	
<i>Less:</i> Depreciation of Current Year	(25,000)	1,00,000
Furniture	2,00,000	
<i>Less:</i> Depreciation up to Last Year	(24,000)	
<i>Less:</i> Depreciation of Current Year	(16,000)	1,60,000
Machinery	30,00,000	
<i>Less:</i> Depreciation up to Last Year	(5,80,000)	
<i>Less:</i> Depreciation of Current Year	(3,00,000)	21,20,000
Land and Building	10,00,000	
<i>Less:</i> Depreciation up to Last Year	(1,50,000)	
<i>Less:</i> Depreciation of Current Year	(50,000)	8,00,000
<b>Total</b>		<b>31,80,000</b>
<b>Note 6:</b> Short-term Loan and Advances		
Advance Tax Refundable		25,000
Repaid Expenses		30,000
TDS on Interest on Investment		16,000
<b>Total</b>		<b>71,000</b>

**EXERCISES**

**Objective Type Questions**

**(I) Fill in the Blanks:**

1. According to Schedule VI, in case any addition is made to any assets during the financial year, depreciation should be calculated on a \_\_\_\_\_ basis from the date of such addition.
2. Livestock is required to be shown under \_\_\_\_\_ in the balance sheet of a company.
3. Interest accrued on investment is required to be shown under \_\_\_\_\_ in the balance sheet of a company.
4. Dividend \_\_\_\_\_ paid on amounts paid by shareholders as calls in advance.
5. Option on unissued shares is required to be shown under \_\_\_\_\_ in the balance sheet of a company.
6. A financial year a company may be for a period less or more than \_\_\_\_\_ year.
7. Uncalled amount of partly paid shares is required to be shown under \_\_\_\_\_ in the balance sheet of a company.
8. Arrears of fixed cumulative preference dividends are required to be shown under \_\_\_\_\_ in the balance sheet of a company.
9. Balance of Unpaid Dividend A/c remaining unclaimed for \_\_\_\_\_ is to be credited to Investor Protection and Education Fund.
10. Financial year of a company cannot exceed \_\_\_\_\_ months unless specially permitted by the registrar where it may extend up to \_\_\_\_\_ months.
11. Interest from Sinking Fund Investment is required under Schedule VI to be credited to the \_\_\_\_\_.
12. Every Profit and Loss Account must comply with the requirements of Part \_\_\_\_\_ of Schedule \_\_\_\_\_ of the Companies Act, 1956 as far as possible.
13. Short-term loans have been defined vide Schedule VI as those which are due for not \_\_\_\_\_ than 1 year as at the date of the Balance Sheet.
14. Every Balance Sheet must comply with the requirement of Part \_\_\_\_\_ of Schedule \_\_\_\_\_ of the Companies Act, 1956 as far as possible.
15. Interest accrued but not due on a secured loan is required to be shown under \_\_\_\_\_ in the balance sheet of company.

16. Loose tools are required to be shown under \_\_\_\_\_ in the balance sheet of a company.
17. Bills receivable are required to be shown under \_\_\_\_\_ in the balance sheet of a company.
18. An item of expenditure of the company is to be shown separately if it exceeds \_\_\_\_\_ % of the total revenue of the company or ₹ \_\_\_\_\_ whichever is higher.
19. Unutilised monies from share issues is required to be shown under \_\_\_\_\_ in the balance sheet of a company.

[Ans.: 1. Pro-rate, 2. Fixed asset, 3. Current assets, 4. Is not, 5. Share Capital, 6. A Calendar, 7. Contingent Liabilities, 8. Contingent Liabilities, 9. 7 Years, 10. 15, 18, 11. P & L A/c, 12. II, VI, 13. More, 14. I, VI, 15. Current Liabilities, 16. Current Assets, 17. Loans and Advances, 18. 1; 5000, 19. Investments.]

**(II) State Whether the Following Statements are True or False:**

1. Calls in advance are shown under current liabilities in the balance sheet.
2. The export of goods calculated on C.I.F. basis are to be disclosed by way of a note to the profit and loss account.
3. According to Schedule VI, repairs to furniture and fittings are to be disclosed separately in the profit and loss account.
4. The value of imports by the company during the financial year calculated of F.O.B. basis is to be disclosed separately.
5. Dividend from subsidiary companies should be shown separately if it exceeds 1% of the total revenue of the company or ₹ 5,000, whichever is higher.
6. Schedule X/V specifies the rates of depreciation for various categories of assets on sing shift basis.
7. Schedule X/V specifies the rate of depreciation for various categories of assets on the written down value basis.
8. The brokerage and discount on sales, including the trade discount, related to turnover is to be disclosed separately in the Profit and Loss Account.
9. Financial year of a company cannot exceed 12 months unless specially permitted by the Registrar where it may extend up to 15 months.
10. Any dividend remaining unpaid after 3 years from its due date to be transferred to capital reserve.
11. Every Profit and Loss Account of a company must comply with the requirements of Part I of Schedule VI of the Companies Act, 1956 as far as possible.
12. An item of expenditure of the company is to be shown separately if it exceeds 1% of the total revenue of the company or ₹ 5,000, whichever is lower.
13. According to Schedule VI, the names of scheduled banks are to be given separately, in regard to Bank Balance with them.
14. If the dividend is not claimed within 7 years from the date of its transfer to a special bank account, the amount is transferred to registrar of companies under its General Reserve Account.
15. If the dividend is not claimed within 7 years from the date of its transfer to special bank account, the amount is distributed to the remaining shareholders.
16. If the dividend is not claimed within 7 years from the date of its transfer to a special bank account, the amount is transferred to the Investor Education and Protection Fund.
17. According to Schedule VI, increase or decrease in the rupee liability during the year due to a change in the rate of exchange for meeting the cost of the assets should be added to or deducted from the original cost of the assets.
18. Capital Profit realised in cash can be used for paying dividend.
19. Dividend can be paid out of capital, but interest cannot be paid out of capital.
20. One of the few assets that is usually not depreciated is Goodwill.
21. Capital work-in-progress is shown under Inventory (Current Assets) in the balance sheet.
22. Future bad debts are usually estimated as percentage of debtors.
23. Amount paid on forfeited shares is added to paid-up capital in the balance sheet.

24. Calls unpaid are added back to authorised shares is added to paid-up capital in the Balance Sheet.
25. Sundry Creditors are to be classified as: (i) amounts due for more than 6 months; and (ii) others.
26. Sundry Debtors are to be classified as: (i) small-scale industries and (ii) others.
27. Provision for bad debts is shown under provisions in the balance sheet.
28. Unclaimed dividends are shown under provisions in the balance sheet.
29. Unexecuted contract on capital account are shown under share capital in the balance sheet.
30. Under secured loans, short-term loans and other loans are to be shown separately.
31. Current liabilities are deducted from Current Assets in the horizontal format of balance sheet.
32. The titles 'Sources of Funds' and 'Applications of Funds' appear in the horizontal format of balance sheet.
33. Horizontal Balance Sheet cannot have separate Schedules.
34. In Fixed Assets schedule, Opening net block + Opening gross block = Opening depreciation.
35. In Fixed Assets schedule, Closing WDV + Depreciation for the year = Opening gross block.
36. In Fixed Assets schedule, Closing net block + Closing gross block = Depreciation for the year.

[Ans.: True: 1, 11, 16, 17, 18, 22, 23, 34.

False: 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 19, 20, 21, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36.]

**(III) Match the Columns:**

(A) Group A	Group B
1. Tax Demand Letter Received	(a) Shown as Contingent Liability
2. Tax Paid Exceeds Accepted Tax Demand	(b) No Entry.
3. Provision for Tax more than Tax Demand Accepted	(c) Credit P & L Appropriation A/c
4. Tax Demand Accepted Exceeds Tax Paid	(d) Debit P & L Appropriation A/c
5. Dispute Tax Demand	(e) Shown as Current Assets
6. Tax Demand Accepted Exceeds Provision	(f) Shown as Current Liability

[Ans.: 1. (b), 2. (f), 3. (c), 4. (e), 5. (a), 6. (d)]

**(IV) Multiple Choice Questions:**

1. Which one of the following combination of accounting assumptions are fundamental according to Accounting standard?
  - (a) Entity, caporal and materiality
  - (b) Going concern, consistency and historic cost
  - (c) Conservatism, accounting period and pentene
  - (d) Going concern, consistency and accrual
2. Accounting Standard I is \_\_\_\_\_.
  - (a) Recommendatory
  - (b) No longer valid
  - (c) Mandatory
  - (d) Optional
3. Purpose of Accounting Standard I is to establish a standard as to \_\_\_\_\_.
  - (a) Disclosure of accounting policies
  - (b) A desirable accounting policies
  - (c) Preparation of final accounts
  - (d) The fundamental accounting assumptions
4. Accounting policies \_\_\_\_\_.
  - (a) Are same for all concerns
  - (b) Are prescribed by AS
  - (c) Are laid down by law
  - (d) Change from concern to concern
5. Following are the example of accounting policies.
  - (a) Entity
  - (b) Valuation of stock
  - (c) Going concern
  - (d) Consistency

6. Vide Accounting Standard I, fundamental accounting assumptions should \_\_\_\_\_.  
 (a) Always be disclosed (b) Be disclosed in auditor's part  
 (c) Be disclosed in Notes to Accounts (d) Be disclosed if not followed
7. Following is an example of accounting policy.  
 (a) Accrual (b) Consisting (c) Depreciation (d) Going concern
8. Following is an example of accounting policy.  
 (a) Conversion of foreign currency items (b) Conservatism (c) Entity (d) Going concern.
9. Following is the example of accounting policy.  
 (a) Realisation (b) Objective  
 (c) Accounting period (d) Recognition of profit on long-term contracts
10. Following is an example of an accounting policy.  
 (a) Going concern (b) Treatment of retirement benefit (c) Accrual (d) Disclosure
11. Following is an example of an accounting policy.  
 (a) Dual Aspect (b) Material (c) Valuation of Investment (d) Realisation
12. Following is an example of an accounting policy.  
 (a) Disclosure (b) Realisation (c) Valuation of fixed asset (d) Matching
13. Following is an example of an accounting policy.  
 (a) Cost (b) Conservatism (c) Consistency (d) Treatment of goodwill
14. The following factor should be considered while selecting and applying accounting policies.  
 (a) Substance over form (b) Solvency (c) Going concern (d) Growth and business
15. The following factor should be considered while selecting and applying accounting policies.  
 (a) Policies (b) Inflation (c) Liquidity (d) Employee morale (e) Materiality
16. A concern should select an accounting to \_\_\_\_\_.  
 (a) Show good profit  
 (b) Present a fair view of its state of affair and profit or loss  
 (c) Pay the profit amount of income tax  
 (d) Calculate the correct amount of cash in hand
17. The following factor should be considered while selecting and applying accounting policies.  
 (a) Consistency (b) Prudence  
 (c) Dual aspect (d) Cost
18. According to AS-I, disclosure should be made of \_\_\_\_\_.  
 (a) Fundamental accounting assumptions (b) All accounting standards  
 (c) All accounting polices (d) All accounting principles
19. According to AS-I, the effect of any change in accounting policy on the value of any item in the final account should \_\_\_\_\_.  
 (a) Be reported in directors report (b) Be discounted (c) Be ignored (d) Also be disclosed.
20. According to AS-I, disclosure should be made \_\_\_\_\_.  
 (a) In relevant places (b) At one place (c) In the balance sheet (d) In profit and loss account
21. According to AS-I, disclosure should form part of \_\_\_\_\_.  
 (a) Final accounts (b) The books of accounts  
 (c) The auditor's report (d) The director's report
22. According to AS-I, any change in accounting policy \_\_\_\_\_.  
 (a) Should never be made (b) Is not possible (c) Should be disclosed  
 (d) Requires permission of statute of Chartered Accountant of India

23. According to AS-I, a change likely to have an effect not in current but later years should be \_\_\_\_\_.  
(a) Disclosed in the Auditor's report (b) Ignored  
(c) Disclosed in such later year (d) Disclosed in the year in which the change is made
24. A concern has written off capital expenditures as revenue expenses by disclosing in the note to accounts that it is the accounting policy of the concern to do so according to AS \_\_\_\_\_.  
(a) Disclosure cannot remedy a wrong entry  
(b) Disclosure can remedy an improper entry  
(c) The accounting treatment is correct  
(d) Any accounting policy is valid if a special resolution of shareholders is passed
25. Which of the following should be deducted from the share capital to find out paid-up capital?  
(a) Calls-in-advance (b) Calls-in-arrears (c) Securities Premium (d) Bonus
26. According to AS-I, if the effect of any change in accounting policy on the valuable of any item in the final account cannot be ascertained, \_\_\_\_\_.  
(a) It should be ignored (b) Such fact should be disclosed  
(c) It should be adjusted in the net profit  
(d) It should be disclosed in a separate report to the management
27. Which of the following item cannot be shown as reserves?  
(a) Securities Premium (b) Capital Reserve  
(c) Capital Redemption Reserve (d) None of the above
28. Which of the following item is not taken in P & L Appropriation A/c?  
(a) Proposed dividend (b) Provision taxation  
(c) Transfer of dividend revaluation reserve (d) Transfer of general reserve
29. Dividend are usually paid on \_\_\_\_\_.  
(a) Authorised Capital (b) Reserve Capital (c) Issued Capital (d) Paid-up Capital
30. Which of the following is not shown under head 'Share Capital' in the balance sheet of a company?  
(a) Preference Share Capital (b) Preference Dividend  
(c) Forfeited Share (d) Call-in-arrears
31. Interim dividend of a company can be declared by \_\_\_\_\_.  
(a) Board of directors  
(b) Board of directors after approval of stock exchange  
(c) Only be shareholders  
(d) None of the above
32. As per Schedule VI to the Companies Act, 1956, unclaimed dividends are to be shown as \_\_\_\_\_.  
(a) Current Asset (b) Reserves and Surplus (c) Current Liability (d) None of above.
33. Which of the following cannot be shown under the heading 'Provisions' with respect to balance sheet under the Companies Act, 1956?  
(a) Provision of doubtful debt (b) Unclaimed dividend  
(c) Provision for taxation (d) Proposed dividend
34. Which of the following is not an example of contingent liability?  
(a) Liability under guarantee (b) Interim dividend  
(c) Liability in respect of bills discounted (d) All (a), (b), (c) and above
35. Which of the following is not a secured loan?  
(a) Term loan from bank (b) Debenture (c) Fixed deposits (d) None of the above
36. Which of the following is not an item under Current Asset, Loan and Advance under Part I of Schedule VI of the Companies Act, 1956?  
(a) Interest accrued on investment (b) Bills receivable  
(c) Closing stock (d) Preliminary expenditure

37. There was fire in the factory of a company and goods worth ₹ 29,000 were lost. However, the insurance company accepted the claim to the extent of ₹ 16,000. State which two statements of the four given below are true.
- (a) Debit Profit and Loss A/c by ₹ 4,000.  
 (b) Credit Insurance Company A/c by ₹ 16,000.  
 (c) Credit Trading A/c by ₹ 20,000.  
 (d) Debit Trading A/c by ₹ 20,000.
38. Advance tax that appears in the trial balance is shown \_\_\_\_\_.
- (a) As a current liability in the balance sheet  
 (b) Only in cash flow statement as an outflow of cash from operations  
 (c) Under the head loans and advances in the balance sheet  
 (d) As an expense in the Profit and Loss A/c
39. In terms of Part I, Schedule VI of the Companies Act, 1956, which of the following assets is shown under fixed assets?
- (a) Auditor's fees (b) Motor vehicles  
 (c) Loose tools (d) Fixed deposits with bank
40. Which of the following will appear in the Profit and Loss Appropriation A/c?
- (a) Auditor's fees (b) Proposed dividend (c) Director's fees (d) Provision for taxation
- [Ans.: 1. (d), 2. (c), 3. (a), 4. (d), 5. (b), 6. (d), 7. (c), 8. (a), 9. (d), 10. (b), 11. (c), 12. (c), 13. (d), 14. (a), 15. (c), 16. (b), 17. (b), 18. (c), 19. (d), 20. (b), 21. (a), 22. (c), 23. (d), 24. (a), 25. (b), 26. (b), 27. (d), 28. (b), 29. (c), 30. (c), 31. (b), 32. (c), 33. (b), 34. (b), 35. (c), 36. (d), 37. (a), 38. (c), 39. (c), 40. (b).

### PRACTICAL PROBLEMS

1. The following Trial Balance is prepared from the books of Reliance Ltd. as on 31/3/2015.

Particulars	₹	Particulars	₹
4% Investment (in Government Securities)	1,00,000	Unclaimed Dividend (last year)	5,000
Advance Income tax paid	34,100	Customers' Deposits	4,000
Purchases	2,37,000	Fixed Deposits	50,000
Wages	63,100	Depreciation Accumulated on	
Prepaid Expenses	3,500	On Land and Building	50,000
Bad Debts	1,200	On Plant and Machinery	98,000
Opening Stock	15,500	Provision for Income Tax (last year)	51,000
Directors' Fees	14,700	General Reserve	60,000
Auditor's Fees	3,500	Share Premium	10,200
Establishment Expenses	1,43,800	Profit and Loss A/c on 1/4/2014	58,100
Income tax paid (last year)	50,000	Interest (after 10% TDS)	3,600
Cash Balance	5,100	Sales	6,75,000
Bank Balance	72,700	Reserve for Doubtful Debts	3,700
Calls-in-arrears	3,000	Share Capital	4,00,000
Debenture Interest (after 20% TDS)	10,000	5% Debentures (issued on 1/10/14)	5,00,000
Unclaimed Dividend paid (last year)	3,600	Sundry Creditors	29,200
Sundry Debtors	37,000		
Land and Building	5,00,000		
Plant and Machinery	7,00,000		
	<b>19,97,800</b>		<b>19,97,800</b>

Following further particulars are available:

- (a) Administrative Expenses include ₹ 60,000 paid to Managing Director as advance against his remuneration. He is entitled to only ₹ 54,000 being remuneration calculated on net profit of the company.
- (b) Sinking fund is to be credited with ₹ 2,00,000.
- (c) Income tax assessment for 2014 has been completed on 20<sup>th</sup> December, 2014 on Gross demand of ₹ 1,40,000 but no effect has been given in books.
- (d) At the meeting held on 31/12/2014, the Board of Directors decided to allot one fully paid bonus share against two shares held by the members on 25/12/2014 but no effect has been given to the same (Directors decided to utilise share premium account fully for this purpose).
- (e) Provision for taxation is to be made for the year as follows: (a) 55% of net profits as Income tax and (b) 5% of Income tax as surcharge.
- (f) Directors have proposed a final dividend @ 10% on all shares (including bonus shares).
- (g) Of Sundry Debtors, ₹ 10,500,000 are due for more than six months. There are no doubtful debts.
- (h) Depreciation written off up to last year at rates mentioned against each is as follows: Building ₹ 50,000 (2-12%), Plant ₹ 4,50,000 (15%), Furniture ₹ 50,000 (10%). Provide depreciation for the current year on W.D.V. basis.
- (i) Market value of Sinking Fund Investment on 31/12/2014 was ₹ 42,000.
- (j) Auditors have been paid ₹ 5,000 for attending tax matters.
- (k) Company's Authorised Capital is ₹ 50,00,000 divided into 50,000 shares of ₹ 100 each.

You are required to prepare Profit and Loss Account for the year ended 31st March, 2011 and the balance sheet as on that date. **(T.Y.BAF, Modified, M.U.)**

2. Following balance have been extracted from the books of Sure Success Co. Ltd. as on 31st December, 2015.

Debit	₹	Credit	₹
Land (at cost)	8,75,500	Share Capital	19,00,000
Building (at cost)		Forfeited Shares Account	70,000
<b>Less:</b> Depreciation	15,00,000	General Reserve	8,00,000
Plant & Machinery (at cost)		Share Premium A/c	2,00,000
<b>Less:</b> Depreciation	8,00,000	Gross Profit	10,22,500
Furniture (at cost)		Provision for Taxes	1,50,000
<b>Less:</b> Depreciation	1,50,000	Balances brought forward of 2014:	
Selling Expenses	1,20,000	Bad Debts recovered	5,000
Director's Fees	24,000	Miscellaneous Receipts	40,000
Administrative Expenses	2,80,000	6% Debentures (secured by a floating charge on all assets)	20,00,000
Sinking Fund Investment	4,08,000	Profit and Loss A/c Balance brought forward	3,35,000
Bad Debts	15,000	Sinking fund for redemption of debentures	4,08,000
Sundry Debtors	17,35,000	Sundry Creditors	2,30,000
Paid to Auditors	15,000	Interest on sinking fund investments	25,000
Advance Tax Paid:		Liabilities for Expenses	40,000
for 2014	1,20,000	Fixed Deposits received from Public	5,00,000
for 2015	80,000		
Closing Stock	7,50,000		
Cash at Bank	6,80,000		
Debenture Interest	1,20,000		
	<b>77,25,500</b>		<b>77,25,000</b>

Following adjustments should be taken into account:

- (a) Closing stock on 31/12/2015 was ₹ 22,200.
- (b) Sales included ₹ 75,000 for consignment sales made for consignors, on which 4% commission was due to the company as on 31/12/2015.
- (c) Goods were sold on “Sales or Return” basis for ₹ 6,000 costing ₹ 4,000 and 50% of these goods were approved by customers. Remaining goods were retained by them as on 31/12/2015.
- (d) Return outward for ₹ 4,000 were wrongly included in sales.
- (e) Write off further bad debts of ₹ 1,000 and Reserve for doubtful debts should be kept at 10% on debtors.
- (f) Authorised capital of the company was ₹ 10,00,000 divided into 10,000 Equity shares of which 4,000 Equity shares of ₹ 100 were subscribed and fully called up.
- (g) Directors decided as under:
  - (i) to transfer ₹ 10,000 to General Reserve.
  - (ii) to transfer ₹ 25,000 to Debenture Redemption Fund.
  - (iii) to recommend dividend at 10%.
- (h) Depreciation to be provided on Land and Buildings at 5% p.a. and on Plant and Machinery at 7% p.a. on Fixed Instalment Method.
- (i) Last year’s income tax assessment was completed without any modification or charge (i.e., demand is equal to provision).
- (j) Provide for taxation for the current year ₹ 40,000.

Prepare Trading and Profit and Loss Account for the year ended 31/12/2015 and Balance Sheet as on that date. **(T.Y.BAF/B.Com., Modified, M.U.)**

3. Savita Limited is a company registered with an authorised capital of ₹ 25,00,000 divided into equity shares of ₹ 100 each. 50% of the shares are issued on which ₹ 80 per share is called up.

The following balance are extracted from its Ledger as on 31st December, 2015.

Particulars	Debit ₹	Credit ₹
Share Capital		10,00,000
Machinery (Cost ₹ 20,00,000)	14,60,000	
Furniture (Cost ₹ 1,75,000)	1,30,000	
Stocks	8,30,000	
Debtors/Creditors	10,18,750	6,58,400
Cash on Hand	2,500	
Current Account with Bank	1,25,000	
General Reserves		5,50,000
Interim Dividend paid	50,000	
Shares Premium		25,000
12% Secured Debentures		5,00,000
Debentures Redemption Reserve		1,00,000
Profit and Loss Account:		
Opening Balance		2,86,900
Current Year		4,56,500
Provision for Income Tax		2,45,000
Advance Income Tax	1,90,550	
Prepayments	15,000	
	<b>38,21,800</b>	<b>38,21,800</b>

**Additional Information:**

- (a) During the year, General Reserve was utilised to the extent of ₹ 5,00,000 as under:
- (i) Paying up final call of ₹ 20 per share on present capital, and
  - (ii) Issue of bonus shares in ratio of one fully paid share for five shares held. The accounting entries for the same is yet to be made.
- (b) One of the employees who was injured while working in the company has filed a suit for damages for ₹ 5,00,000. The company has not made any provision as it has been advised that suit is likely to be decided in favour of company.
- (c) As per instructions given to bank, ₹ 1,00,000 is transferred from Current Account to account of Vanita Ltd. as consideration for ₹ 10,000 equity shares at ₹ 10 per share (Market Value of Investment is ₹ 1,05,000).
- (d) One of the customers directly paid ₹ 30,000 to one of the suppliers since the intimation was received in time, elect is yet to be given.
- (e) The Director propose to transfer:
- (i) ₹ 1,00,000 to debenture redemption reserve.
  - (ii) Declare Final Dividend at 10% on revised share capital.

You are required to prepare:

- (a) Profit and Loss Appropriation Account.
- (b) Balance Sheet.

**(T.Y.BAF/B.Com., Modified, M.U.)**

**4.** The following balance appear in the books of Kolkata Chemicals Co. Ltd. as on March 31, 2015.

Debit	₹	Credit	₹
Depreciation	40,166	Share Capital	6,00,000
Opening Stock	2,70,000	General Reserve	34,500
Purchases	6,00,000	Sales	11,60,000
Wages	80,000	Creditors	90,000
Power	7,000	Provision for Taxation (Y/e 31/3/2014)	1,60,000
Machinery	1,70,000	Interest	16,600
Furniture	24,000	Profit and Loss Appropriation A/c	10,500
Motor Car	30,000	Loan from Bank	20,00,000
Debtors	2,40,000	Liabilities for Expenses	50,000
Advance Payment of Income Tax			
Y/e 31/03/2014	1,50,000		
Y/e 31/03/2015	2,20,000		
Patent Right	50,000		
Directors Fees	1,800		
Establishment	90,000		
Rent and Taxes	24,000		
Office Electric Charges	2,200		
Advertisement	13,200		
Postage and Telegram	3,000		
Motor Car Expenses	13,000		
Travelling and Conveyance	8,000		
MD's Minimum Remuneration	12,000		
Interest and Bank Charges	20,000		
Audit Fee	5,000		
Cash in Hand	4,234		
Cash in Bank	34,000		
Fixed Deposit	1,60,000		
Import Duty	50,000		
	<b>23,21,600</b>		<b>23,21,600</b>

The following information is available:

- (a) Share Capital of ₹ 6,00,000 consists of 2,000 8% Cumulative Preference Shares of ₹ 100 each fully paid-up and the balance of Equity Share of ₹ 10 each.
- (b) Company's stock of goods are hypothecated to Banks as security of Loan.
- (c) Import Duty includes security deposit of ₹ 10,000.
- (d) Closing stock amounted to ₹ 3,20,000.
- (e) Income tax assessment for the year ended 31/03/2014 has been completed for a gross demand of ₹ 1,56,000 and the net demand was not paid within 31/3/2015.
- (f) Liabilities for Expenses include interest accrued and due on Bank Loan ₹ 4,000.
- (g) Provision for Taxation to be made for ₹ 1,50,000 for the year ended 31/03/2015.
- (h) Preference Dividends are in arrears for last two years.
- (i) Directors have not recommended payment of Dividend on either class of shares.
- (j) Depreciation of Fixed Assets have been charged up to date as follows:
 

	₹
On Machinery	1,10,000
On Furniture	9,000
On Motor Car	19,600
- (k) Audit fees includes ₹ 1,000 for taxation work.
- (l) Of the Debtors, ₹ 75,000 is due for more than 6 months.
- (m) The Fixed Assets are appearing at cost less Depreciation.

You are required to prepare the Profit and Loss A/c for the year ended March 31, 2015 and draw up a Balance Sheet as on that date on the basis of the above information. **(T.Y.BAF/B.Com., Modified, M.U.)**

**5.** The following balances have been extracted from the books of Satyug Electronics Ltd. as on March 31, 2015.

Debit	₹	Credit	₹
Machinery	12,00,000	Share Capital	29,90,000
Buildings	8,00,000	P & L Appropriation A/c	29,000
Land	2,00,000	Development Rebate Research	2,25,000
Furniture	80,000	General Reserve	4,09,000
Salaries	2,50,000	Gross Profit	9,50,000
Goods in Transport (at cost)	20,000	Sundry Creditors	1,50,200
Postage and Telegram	1,500	Provision for Taxation	
Motor Vehicles	1,50,000	(2014-15) Assessment Year	1,18,000
Repairs and Maintenance	22,000	Provision for Doubtful Debts	15,000
Travelling and Conveyance	31,400		
Insurance	24,300		
Audit Fees	2,000		
Closing Stock (at cost):			
Raw Materials	4,00,000		
Work-in-progress	1,00,000		
Finished Goods	8,60,000		
Investment in National			
Savings Certificate	50,000		
Security Deposit	25,000		
Advance Payment of Income Tax:			
2013-14 Assessment Year	1,15,000		
2014-15 Assessment Year	2,60,000		
Cash on Hand	40,000		
Balance with Scheduled Bank			
on Current Account	55,000		
Sundry Debtors	2,00,000		
	<b>48,86,200</b>		<b>48,86,200</b>

The following particulars are variable:

- (a) Share capital is composed of 30,000 equity shares of ₹ 100 each which are fully paid except in case of 500 shares on which the final call of ₹ 20 per share remained unpaid.
- (b) Original cost of Assets up to last year and details of Depreciation are as under.

Assets	Original Cost	Depreciation to be provided on W.D.V. basis
Machinery	20,00,000	15%
Building	12,00,000	2%
Land	2,00,000	Nil
Furniture	1,00,000	10%
Motor Vehicles	2,00,000	20%

- (c) Sundry Debtors include ₹ 30,000 outstanding for a period of exceeding six months consisting of ₹ 15,000 considered as doubtful. Remaining debts are considered as good.
- (d) Income tax assessment for 2013-14 assessment year has been completed during the year resulting in a gross demand of ₹ 1,20,000 but no adjustment was made during the year.
- (e) Provision for taxation to be made for the current year is ₹ 3,00,000.
- (f) The Board of Directors have recommended payment of a dividend aggregating to ₹ 45,000.

You are required to prepare the final accounts of the company for the year ended March 31, 2015 and a Balance sheet as on that date. **(T.Y.BAF/B.Com., Modified, M.U.)**

6. The Authorised Capital of Success Ltd. is ₹ 6,00,000 consisting of 3,000 6% preference shares of ₹ 100 each and 30,000 equity shares of ₹ 10 each. The balance appearing in the books on March 31, 2015 were as shown below:

Particulars	Debit ₹	Credit ₹
Investments in Shares (at cost)	50,000	
Purchases	4,90,500	
Packing Charges	18,000	
Delivery Expenses	35,400	
Stocks: 01/04/2014	1,45,200	
Salaries and Wages	52,000	
Rent and Rates	17,500	
Freight and Carriage	8,200	
Final Dividend for 2014-15	12,000	
Preference Dividend: Half year 30-06-2014	6,000	
Discount on Issue of Debentures	2,000	
Preliminary Expenses	1,000	
Bills Receivable	41,500	
Interest on Bank Overdraft	7,800	
Debentures Interest: Half year 30-09-2014	3,750	
Sundry Debtors and Creditors	50,100	87,850
Freehold Property at cost	3,50,000	
Furniture (at cost) less Depreciation of ₹ 15,000	35,000	
6% Preference Share Capital		2,00,000
Equity Share Capital		2,00,000
5% Mortgage Debentures Secured on Freehold Properties		1,50,000
Taxation Advance for 2014-15	15,000	
Dividend and Interest (gross)		4,250
Profit and Loss Account		28,500
Sales (net)		6,70,350
Bank Overdraft by Hypothecation of Stock and Receivable		1,50,000
Technical Know-how (at cost)	1,50,000	
	<b>14,90,950</b>	<b>14,90,950</b>

You are required to prepare the Profit and Loss A/c for the year ended March 31, 2015 and the Balance Sheet as on that date, after taking into consideration the following:

- Closing stocks valued at ₹ 1,42,500.
- Purchases include ₹ 5,000 worth of goods and articles for distribution among valued customers.
- Salaries and Wages include ₹ 2,000 being wages incurred for installation of electrical fittings in the factory. Electrical fittings have been recorded under 'Furniture'.
- Bills Receivable include ₹ 1,500 being dishonoured bills, 50% of ₹ 1,500 has been considered to be irrecoverable.
- Bills of ₹ 2,000 maturing after March, 2015 were discounted.
- Charge Depreciation @ 20% on Furniture.
- Write off discount on Debentures ₹ 1,000.
- Dividend @ 5% proposed on Equity Share Capital.
- Provision for Taxation ₹ 8,000.
- Technical know-how is to be written off over a period of 15 years.
- Salaries and Wages include ₹ 10,000 being the director's remuneration.

Previous year's figures need not be mentioned. Compliance with the requirements of Schedule VI Part I and Part II of the Companies Act, 1956 is to be ensured while preparing the final accounts of Success Ltd. for the year ended 31/3/2015. **(Modified, B.Com., M.U.)**

7. The following balances have been extracted from the books of Paramount Distributors Ltd. as on March, 31, 2015.

Debit Balance	₹	Credit Balance	₹
Goodwill	25,000	Share Capital	3,00,000
Plant and Machinery (at cost)	1,20,000	General Reserve	17,250
Additions	20,000	Gross Profit	1,38,000
Furniture and Fixtures (at cost)	16,500	Miscellaneous Receipts	6,800
Motor Car (at cost)	24,800	P & L Appropriation A/c	5,250
Calls-in-arrears	2,000	Term Loan from Bank	1,00,000
Advance Payment of Income Tax:		Provision for Taxation:	
2014-15 Assessment Year	75,000	2014-15 Assessment Year	80,000
2015-16 Assessment Year	10,000	Liabilities for Expenses	
Establishment Expenses	45,000	including ₹ 2,000 on Term Loan)	
Rent and Taxes	12,000	Purchase Ledger Balances	25,000
Postage and Telegram	2,000	Provision for Depreciation up to	45,000
Motor Car Expenses	6,000	March 31, 2015:	
Travelling and Conveyance	4,500	On Plant and Machinery	55,000
Advertisement	7,200	On Furniture and Fixtures	4,500
Director's Fees	6,900	On Motor Car	9,800
Depreciation:			
On Plant	8,500		
On Furniture	1,200		
On Motor Car	3,000		
Interest and Bank Charges	10,000		
Auditor's Remuneration			
(including ₹ 800 for taxation work)	1,800		
Cash in Hand	10,200		
Cash at Bank	25,000		
Sales Ledger Balances	1,90,000		
Closing Stock	1,60,000		
	<b>7,86,600</b>		<b>7,86,600</b>

The following particulars are available:

- (a) Share Capital of ₹ 3,00,000 is represented by 1,000 9% cumulative preference shares of ₹ 100 each fully paid and the balance by Equity Shares of ₹ 10 each fully called up.
- (b) No effect has been given to the Board Resolution passed on September 1, 2014 forfeiting 400 Equity Shares for non-payment of final call of ₹ 5 per share.
- (c) 5,000 of the Equity shares were issued for consideration other than cash as fully paid.
- (d) Term loan from Bank is secured by hypothecation of Fixed Assets of the company.
- (e) Of the Debtors, ₹ 30,000 are due for more than 6 months.
- (f) Advertisement includes ₹ 1,200 paid for a hoarding of the company for the period of October, 1, 2014 to September 30, 2015.
- (g) Income tax assessment for 2014-15 assessment year has been completed on March, 5, 2015 for a gross demand of ₹ 82,000.
- (h) Provision for taxation to be made at ₹ 18,650 for 2015-16 assessment year.
- (i) Preference Dividends are in arrears for three years including the current year.
- (j) No proposal has been made by the Directors for dividend on either class of shares.

You are required to prepare the Profit and Loss Account for the year ended March 3, 2015 and the Balance sheet as on that date on the basis of the above information and taking into account the adjustment not made so far. **(T.Y.BAF/B.Com., Modified, M.U.)**

**8.** The following balances were extracted from the books of Ranjan Enterprise Ltd. as on March, 31, 2015.

Particulars	₹	Particulars	₹
Plant (cost less Depreciation)	15,000	Share Capital	1,00,000
Furniture (cost less Depreciation)	4,000	General Reserve	1,350
Motor Car (cost less Depreciation)	8,000	Profit and Loss Account	1,500
Sundry Debtors	60,000	Sundry Creditors	11,000
Closing Stock	35,000	Liabilities for Expenses	3,500
Selling Expenses	10,000	Gross Profit	54,150
Rent and Taxes	8,000	Bank Overdraft	25,000
Administrative Expenses	12,000	Shares Forfeited	-
Advance Payment of Income Tax	9,000		
Voluntary Compensation to Employee	2,000		
Cash in Hand	2,500		
Bank Balance	27,500		
Security Deposit	4,000		
	<b>1,97,000</b>		<b>1,97,000</b>

The following other particulars are available:

- (a) Share Capital is represented by: 5,000 Equity Shares of ₹ 10 each called up, 500 8% Cumulative Preference Shares of ₹ 100 each fully called up.
- (b) Amounts of General Reserve and Profit and Loss A/c are as at March 31, 2014.
- (c) ₹ 900 to be transferred to General Reserve for the year ended March 31, 2015.
- (d) Bank Overdraft is secured by hypothecation of Stock.
- (e) The Managing Director is entitled to a remuneration of ₹ 995.
- (f) Addition made to Plant during the year ended March 31, 2015 was ₹ 8,000.
- (g) Depreciation written off up to last year at rates mentioned against each are as under:

	Amount (₹)	Rate Present
Plant	2,000	15
Furniture	1,000	10
Motor Car	10,000	20

- (h) Provision for taxation to be made at ₹ 7,608.
- (i) The amount shown against shares forfeited account represents unadjusted profits on reissue of forfeited shares made during the year.
- (j) Proposed recommendation for payment of dividend on preference shares has been made.
- (k) Of Sundry Debtors, ₹ 10,000 is outstanding for more than six months.
- (l) Administrative expenses include ₹ 1,500 paid to the Auditor as audit fee and ₹ 500 as his expenses.

You are required to draw up the Profit and Loss A/c for the year ended March 31, 2015 and the Balance Sheet as on that date. **(T.Y.BAF/B.Com., Modified, M.U.)**

9. Following Trial Balance is prepared from the books of X Ltd. as on 31-03-2015:

Debit	₹	Credit	₹
Debenture Interest	12,500	Sales	6,75,000
Unclaimed Dividend paid (last year)	3,600	Interest	4,000
Sundry Debtors	37,000	Reserve for Doubtful Debts	3,700
Land and Building (cost)	5,00,000	Share Capital	4,00,000
Plant and Machinery (cost)	7,00,000	5% Debentures Issued on 1/1/2014	—
4% Investments (in Govt. Securities)	1,00,000	Sundry Creditors	5,00,000
Advance Income Tax Paid	32,000	Unclaimed Dividend (last year)	26,200
Purchases	2,37,000	Customer Deposits	5,000
Wages	63,100	Fixed Deposits	4,000
Prepaid Expenses	3,500	Depreciation Accumulated:	
Bad Debts	1,200	On Land and Buildings	50,000
Opening Stock	15,500	On Plant and Machinery	98,000
Directors' Fees	14,700	Provision for Income Tax (last year)	51,000
Auditor's Fees	3,500	General Reserve	60,000
Establishment Expenses	1,43,800	Share Premium	10,200
Income Tax Paid (last year)	50,000	P & L A/c on 01/04/2014	61,100
Cash Balance	5,100		
Bank Balance	72,700		
Calls-in-arrears	3,000		
	<b>19,98,200</b>		<b>19,98,200</b>

Following adjustment should be taken into account:

- (a) Closing Stock on 31/03/2015 was ₹ 22,200.
- (b) Sales included ₹ 75,000 for consignment sales made for consignors, on which 4% commission was due to the company as on 31/03/2015.
- (c) Goods were sold on 'Sale or Return' basis for ₹ 6,000 costing ₹ 4,000 and 50% these goods were approved by customers. Remaining goods were retained then as on 31/03/2015 (this transaction was included in Sales).
- (d) Return outward for ₹ 4,000 and were wrongly included in Sales.
- (e) Write off further Bad Debts of ₹ 1,000 and Reserve for Doubtful Debts should be kept at 10% on Debtors.
- (f) Authorised Capital of the company was ₹ 10,00,000 divided into 10,000 equity shares of ₹ 100 each, out of which 4,000 equity shares of ₹ 100 were subscribed and fully called up.

(g) Directors decided as under:

- (i) To transfer ₹ 10,000 to General Reserve.
- (ii) To transfer ₹ 25,000 to Debenture Redemption Fund.
- (iii) To recommend Dividend ₹ 40,000.
  - Depreciation to be provided on Land and Building at 5% p.a. and Plant and Machinery at 7% p.a. on Fixed Instalment method.
  - Last year's Income tax assessment was completed without an modification or change.

Prepare Trading and Profit and Loss Account for the year ended 31/03/2010 and the Balance Sheet as on that date. **(T.Y.B.Com., Modified, M.U.)**

**10.** The following Trial Balance was extracted from the books of Madhusudan Ltd. as at March 31, 2015.

Particulars	Dr. (₹)	Cr. (₹)
Share Capital		6,00,000
Goodwill (at cost)	2,30,000	
Land and Buildings (at cost)	4,00,000	
Plant and Machinery (at cost)	4,20,000	
Office Equipment (at cost)	30,000	
Motor Cars (at cost)	70,000	
Opening Stock	35,000	
Purchases	2,80,000	
Salaries and Wages	64,000	
Rent, Rates, etc.	15,000	
Travelling Expenses	9,000	
Repairs and Renewals	3,500	
Printing and Stationery	6,700	
Motor Car Expenses	14,900	
Sundry Debtors		80,000
Sundry Debtor (including due for more than 6 m ₹ 26,000)	1,76,000	
Provision for Taxation (2014-15 Assessment year)		60,000
Sales	6,20,000	
Sales Proceeds of Motor Car		14,000
Profit and Loss Account		54,000
Income Tax Paid (2014-15 Assessment year)	58,000	
Advance Payment of Income Tax (2015-16 Assessment year)	70,000	
Provision for Depreciation as on April 1, 2014:		
On Land and Buildings		30,000
On Plant and Machinery		1,28,000
On Office Equipments		6,800
On Motor Cars		25,200
Cash in Hand	5,400	
Balance with Scheduled Bank on Current Account	64,600	
Share Premium Account		20,000
General Reserve		62,000
10% Debentures		3,00,000
Interest on Debentures	15,000	
Prepaid Expenses	2,900	
	<b>20,00,000</b>	<b>20,00,000</b>

From the above Trial Balance and under-mentioned notes and adjustments, you are required to prepare Trading and Profit and Loss Account for the year ended March 31, 2015 and a Balance Sheet (in the prescribed form as far as possible) as on that date along with separate Schedule of Fixed Assets.

- (a) The Authorised Capital of the company is 10,000 Equity Shares of ₹ 100 each.
- (b) The company had purchased Plant and Machinery worth ₹ 1,00,000 on 01/04/2014 for which it has issued equity shares to the vendors at par.
- (c) The Motor Car was sold by the company on April 1, 2014. The same was purchased on 1/04/2012 at cost of ₹ 20,000 on which it has provided Depreciation at 20% p.a. on W.D.V. basis.
- (d) Stock on March 31, 2015 was valued at ₹ 44,000 at cost.
- (e) There is no further liability of income tax in respect of 2014-2015 assessment year.
- (f) Provide Depreciation on written down value basis on the following assets:
  - On Land and Buildings at 2% p.a.
  - On Plant and Machinery at 10% p. a.
  - On Office Equipment at 10% p.a.
  - On Motor Cars at 20% p.a.
- (i) Debentures have been issued by creating a floating charge on the assets of the company.
- (ii) Provide:
  - Remuneration to Auditors for Audit Fees ₹ 3,000.
  - Interest accrued and due on debentures for the half year ended 31/3/2015.
  - Provision for taxation ₹ 78,890 for 2015-16 Assessment year.

Directors proposed to transfer ₹ 38,000 to General Reserve and recommended a dividend at 10% on Share Capital.

11. The following Trial Balance has been drawn up from the books of Wholesale Traders Ltd. as on March 31, 2015.

Particulars	Dr. (₹)	Cr. (₹)
Authorised and Issued Capital (Equity Shares of ₹ 10 each)		4,20,000
Properties (at cost)	8,00,000	
Motor Van	25,000	
Provision for Depreciation (as on 31-03-2014):		
Leasehold Property		21,000
Other Properties		50,000
Motor Van		10,000
Administrative and Selling Expenses	1,76,500	
Opening Stock	1,20,000	
Purchases	13,87,500	
Sales	20,65,000	
Managing Director's Remuneration	50,000	
Rent Received		36,000
Investment (at cost)	67,500	
Investment Income (net after deducting income tax at source ₹ 959)		3,400
7% Debentures		1,50,000
Debentures Interest	10,500	
Bank Interest	5,820	
Bank Overdraft		7,300
Debtors and Creditors	3,10,000	1,51,000
Interim Dividend	16,800	
Profit and Loss A/c (as on 31-03-2014)		57,520
Calls-in-arrears	1,000	
General Reserves (as on 31-03-2014)		1,00,000
Share Suspense		3,000
Unclaimed Dividend		1,500
Cash in Hand	15,100	
Cash at Bank	90,000	
	<b>30,75,720</b>	<b>30,75,720</b>

The following further information is available:

- (a) Closing stock was ₹ 1,67,000.
  - (b) No effect has been given to the following Board resolutions:
    - (i) Passed on July 15, 2014 forfeiting 500 shares for non-payment of call of ₹ 1,000.
    - (ii) Passed on September 18, 2014 for reissuing the 500 forfeited shares as fully paid for a consideration of ₹ 3,000 and lying credited to Shares Suspense Account.
  - (c) The Directors have recommended the following appropriations:
    - (i) Final Dividend @ ₹ 5 per share including the Interim Dividend already declared on December 23, 2014.
    - (ii) Transfer of ₹ 10,000 to General Reserve.
  - (d) Depreciation to be provided as follows:
    - Motor Car – 20% on written down value.
    - Properties other than Leasehold – 3% on written down value
    - Leasehold Property purchased on 1/4/2014 at a cost of ₹ 1,40,000 for a period of 40 years.
  - (e) Managing Directors are entitled to a remuneration of 10% of the Net Profit subject to minimum of ₹ 50,000 (₹ 54,724).
  - (f) Provision for Taxation to be made at ₹ 2,70,883.
- Ignore previous year's figures.

You are required to prepare the Profit and Loss Account for the year ended March 31, 2015 and also draw up the Balance Sheet as on that date after making such assumption as may be necessary.

**12.** The following is the Trial Balance of M/s Arts Crafts as on March 31, 2015:

Debit	₹	Credit	₹
Freehold Land	2,00,000	Income from Investments	2,000
Buildings	70,000	Provision for Doubtful Debts (April 1, 2014)	2,000
Furniture	20,000	Creditors	30,000
Debtors	50,000	Provision for Depreciation (1/4/2014):	
Stock (March 31, 2015)	40,000	Buildings	5,000
Cash at Bank	5,000	Furniture	4,000
Cash in Hand	1,000	Suspense	2,500
Cost of Goods Sold	3,00,000	Equity Share Capital	3,67,500
Salaries and Wages	15,000	6% Cumulative Preference	
Miscellaneous Expenses	8,000	Share Capital	80,000
Investment in Shares	1,80,000	Share Premium	10,000
Interest	3,000	Bank Overdraft	50,000
Bad Debts	1,000	Sales	3,50,000
Repairs and Maintenance	1,500	P & L A/c (01/4/2014)	2,500
Advance Payment of Income Tax	6,000		
	<b>9,05,500</b>		<b>9,05,500</b>

The following particulars are available:

- (a) The land was revalued on January 2015 at ₹ 3,00,000 by an expert valuer but no effect has been given in the books although the Directors have decided to adjust the revalued amount.
- (b) Provision for Doubtful Debts is to be adjusted to 5% on the amount of Debtors.
- (c) Equity Share Capital is composed of ₹ 10 shares, 36,900 fully paid and 500 on which final call of ₹ 3 remains unpaid.

- (d) Suspense account represents money received from the allottee for reissue of 500 shares forfeited during the year for non-payment of the final call, but no entry for adjustment thereof has been passed.
- (e) Provision for Taxation is to be made at ₹ 8,730.
- (f) Market value of Investments was ₹ 1,85,000 on March 31, 2015.
- (g) Provide ₹ 600 for Director's remuneration.
- (h) Depreciation is to be charged on:
  - Building at 2%
  - Furniture at 10%
- (i) The Land and Buildings of the company are mortgaged in favour of the Bank as security for Overdraft sanctioned up to a limit of ₹ 2,50,000.
- (l) Dividend on Cumulative Preference Shares were in arrears for 5 years up to March 31, 2010. The Directors have proposed recommended payment of dividend for two years.

You are required to prepare the Profit and Loss Account for the year ended March 31, 2015 and a Balance Sheet as on that date after asking such assumptions as may be considered necessary. Ignore previous years figures.



# INTRODUCTION TO IFRS

IFRS issued by the International Accounting Standards Board (IASB) are now being recognised as the premier global reporting standards of accounting information world over. Today, more than hundred nations demand or permit the use of IFRS in their countries. Many countries have already announced their willingness to adopt IFRS in their countries. This is becoming the most popular and commonly accepted financial reporting model around the world, such as, European Union, Australia, New Zealand and Russia. The legal frameworks currently permit the use of IFRS in their countries. The importance of IFRS grew as they provide greater comparability of financial information for investors and also encourage them to invest across borders. Studies show that, IFRS adoption help in lowering the cost of capital for the companies and benefits more efficient allocation of capital.

## 1. INTRODUCTION

The importance of international accounting practice studies has grown over the past few years in order to meet economic agent demands and to facilitate international business practices. It is essential to understand that the importance of international accounting practice studies has grown over the past few years in order to meet economic agent demands and to facilitate international business practices. It is essential to understand that international accounting convergence is an important topic for capital market regulators, investors, markets, governments and all others who deal with financial information of public companies. This brings out the importance of accounting as being an essential fiscal tool for various economic agents. The merit of international accounting convergence lies in its ability to minimise negative effects resulting from diversity of accounting practices in different countries. In such a scenario, the introduction of International Financial Reporting Standards (IFRS) for listed companies in many countries around the world is viewed as one of the most significant regulatory changes in accounting history. IFRS issued by the International Accounting Standards Board (IASB) are now being recognised as the premier global reporting standards of accounting information world over. Today, more than hundred nations demand or permit the use of IFRS in their countries. Many countries have already announced their willingness to adopt IFRS in their countries. This is becoming the most popular and commonly accepted financial reporting model around the world, such as, European Union, Australia, New Zealand and Russia. The legal frameworks currently permit the use of IFRS in their countries. The importance of IFRS grew as they provide greater comparability of financial information for investors and also encourage them to invest across borders. Studies show that, IFRS adoption help in lowering the cost of capital for the companies and benefits more efficient allocation of capital.

With the economy growing and increasing integration among the global economies, Indian companies are also raising their capital globally due to diversification, cross-border mergers, investments or divestments. Under these circumstances, it is imperative for Indian corporate world to adopt IFRS for their financial reporting. The Core Group of Ministry of Corporate Affairs of India (MCA) has recommended convergence to IFRS in a phased manner from April 1, 2012. Till then, an Indian corporate having global aspirations should consider voluntary adoption of IFRS. The convergence with IFRS standards is set to change the landscape for financial reporting in India. Indian companies currently follow the local accounting standards known as Indian Generally Accepted Accounting Principles (IGAAP) issued by Institute of Chartered Accountants of India (ICAI) on behalf of MCA, Government of India.

The proponents of IFRS argue that accounting standards harmonisation via IFRS enhances the quality and comparability of corporate financial disclosures, and accounting disclosure qualities have been the major focus of investors and also regulators. The only positive and direct method of reducing agency cost and risk due to information asymmetry is through better accounting disclosure policies. The accounting quality pertains to better information disclosure quality. Various accounting standards and 'GAAPs' (Generally Accepted Accounting Practices) around the world lay down different set of norms for accounting disclosures hence the quality of accounting information also differ across nations. The basic feature of IFRS is that it is a principle-based standard rather than being a rule-based one.

Since IFRS is still in its infancy, researches across the globe are interested to study the importance and impact on the financials of the companies. It is argued that the use of IFRS enhances the comparability of financial statements, improves corporate transparency, increases quality of financial reporting and thus benefits investors. Daske et al. (2008) in their study on economic consequences due to mandatory IFRS reporting around the world, argue that, from an economic perspective, there are reasons to be sceptical about the above expectations because the economic consequences of mandating IFRS reporting are not obvious. Arguing on the same basis, this research aims to study the impact on economic activities of Indian companies by adopting IFRS. Even though there are several similarities between IGAAP and IFRS, still there exist differences that can have significant economic impacts. The research aims to understand these impacts due to IFRS adoption by Indian companies.

## 2. BRIEF HISTORY OF INTERNATIONAL FINANCIAL REPORTING

With the rampant rise of globalisation, it is really difficult to disagree with Thomas L. Friedman, author of the world-renowned book; *The World is Flat*, who said around the year 2000 that we have entered a new stage of globalisation, a whole new era that he referred to as Globalisation 3.0. According to him, the size of the world is shrinking from small to tiny. Some people believe that this magical phenomenon of globalisation has led to the emergence of a global village that we live in. If we believe in the old adage, "Accounting is the language of business," then business enterprises around the world should not be speaking in different languages to each other while exchanging and sharing financial results of their international business activities and also reporting the results of business and trade to their international stakeholders. One school of thought believes that since business enterprises around the world are so highly globalised now and need to refer to each other in a common language of business, there is real need for single, universal set of accounting standards that would unify the accounting world and, more importantly, solve the problem of diversity of accounting practices across borders.

Historically, countries around the world have had their own national accounting standards. However, with such a compulsion to be part of the globalisation movement, wherein business across national boundaries are realising that it is an astute business strategy to embrace the world as their workplace and marketplace, having different rules or standards of accounting for the purposes of reporting financial results would not help them at all; rather, it would serve as an impediment to the smooth flow of information. Businesses, therefore, have realised that they need to talk to each other in a common language.

IFRS are clearly emerging as a global financial reporting benchmark and most countries have already started using them as their benchmark standard for listed companies. With the recent issuance of IFRS for Small and Medium Enterprises, a stand-alone set of standards for private entities that do not have public accountability, the global reach of the IASB is further enhanced. However, if these international standards are not applied uniformly across the world, due to interpretational differences, then their effectiveness as a common medium of international financial reporting will be in question. If the different entities within the region apply them differently based on their interpretation of the standards, it would make global comparison of published financial statements of entities using IFRS difficult.

Debate still rages amongst accountants and auditors globally on many burning and contentious accounting issues that need a common stand based on proper interpretation of these standards. According to one school

of thought, IFRS are emerging as the much-awaited answer to the 'billion-dollar question' on the minds of accountants, financial professionals, financial institutions, and regulators, that is, Which set of accounting standards would solve the conundrum of diversity in accounting practices worldwide by qualifying as a single or a common set of standards for the world of accounting to follow and rely upon?

Undoubtedly, for years, USGAAP was leading this much-talked about international race to qualify as the most acceptable set of accounting standards worldwide. Due to several reasons, including the highly publicised corporate debacles such as Enron in the United States, the global preference of most countries has now been clearly in favour of IFRS as the most acceptable set of international accounting and financial reporting standards worldwide.

With the current acceptance of IFRS in more than hundred countries and with several more expected to adopt IFRS in the coming years, one can argue that IFRS could possibly qualify as an Esperanto of international accounting. However, there is a strong possibility of the USSEC's accepting IFRS ultimately. Judging from the amazing change in attitude of the USSEC, which has already allowed use of IFRS by foreign issuers for filings on USA stock exchanges, one may expect—that is, if the SEC's road map to convergence with IFRS goes through successfully without any glitches, that by 2014, the world of accounting may be rejoicing and celebrating under a strong common banner of a global set of accounting and financial reporting standards, namely the IFRS.

The history of IFRS can be traced back to 1973 when representatives of the professional accounting bodies from major developed economies—Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland and the US—reached an agreement to establish the International Accounting Standards Committee (IASC) with no statutory mandates given by political jurisdictions. In 1975, the IASC pronounced its first International Accounting Standard (IAS). Since then the IASC issued a total of 41 IAS until it was restructured into the International Accounting Standard Board (IASB) in 2001. The IASB has pronounced a total of eight International Financial Reporting Standards (IFRS) as on 2006.

A major task of the IASB is to cooperate with national accounting standard setting bodies to achieve harmonisation in accounting standards around the world. Nowadays, the IAS and IFRS are widely accepted and have become one of the most prevalent accounting standards around the world. In 2002, the IASB and the Financial Accounting Standards Board (FASB) embarked on a joint programme to make USGAAP and IFRS converge to the maximum possible extent (Schipper, 2005). Also, the IFRS has been widely adopted in the Asia-Pacific region. For example, Bangladesh requires companies listed on local stock exchanges to adopt IFRS. Some countries—Australia, Hong Kong and New Zealand—have changed their local standards into new standards that are virtually similar to IFRS. Other countries, for example, Singapore, India, Malaysia, Thailand, and others, have changed most parts of local standards that are equivalent to IFRS.

Economic activities such as investments, mergers and acquisitions, and diversifications are key activities of development, survival and sustainability. Companies are in competition at global level, hence the pertinent research is undertaken to study the impact of IFRS on such of the economic activities. Interestingly it is found that the financial risks have not improved and investments, mergers and acquisitions and diversification do not impact statistically on economic activities even though differences are seen in absolute numbers.

An important step towards accounting standards harmonisation through IFRS was made in March 2002, when the European Parliament broadly endorsed the proposal that all European Union companies listed on organised stock exchanges (about 9,000 companies in total) should, from 2005 onwards at the latest, prepare and publish their consolidated accounts in accordance with IFRS. Implementation of IFRS practices in the European Union turned out to be a historic event. It was the most significant revolution concerning accounting standards and accounting practices ever (Cordeiro et al. 2007). The countries in European Union that required domestic listed firms to follow IFRS from 2005 were Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden and the United Kingdom.

### 3. POPULARITY AND ACCEPTANCE OF IFRS WORLDWIDE

In the last few years, the popularity of IFRS has grown tremendously. The international accounting standard-setting process has been able to claim a number of successes in achieving greater recognition and use of IFRS. A major breakthrough came in 2002 when the European Union (EU) adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements.

The legislation came into effect in 2005 and applies to more than 8,000 companies in 30 countries, including countries such as France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS has replaced national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe, which is considered by many as a major milestone in the history of international accounting.

Outside Europe, many other countries also are moving towards IFRS. By 2005, IFRS had become mandatory in many countries in Africa, Asia, and Latin America. In addition, countries such as Australia, Honk Kong, New Zealand, Philippines, and Singapore had adopted national accounting standards that mirrored IFRS.

Today, IFRS are used in more than 100 countries. A significant number of Global Fortune 500 companies already use IFRS and this number is expected to increase in 2012 with further convergence or adoption to IFRS by major global players, most notably, Brazil, Canada, and India, and substantial convergence of local GAAPs in China and Japan to IFRS. The popularity and acceptance of IFRS is not only restricted to business entities, but has also caught the awareness of academicians and researchers who, on regular basis, have been trying to understand the benefits of IFRS convergence or adoption by the various users. The growth in research in IFRS has witnessed a spurt post 2005 only after EU mandated IFRS usage through legislation. Though majority of research and relevant studies have concentrated in developed economies, largely EU countries, limited studies are found in developing countries due to delayed IFRS convergence or adoption. The literature on IFRS is recently developed and would keep expanding as and when IFRS acceptance grows across the globe.

### 4. USES OF IFRS

IFRS are increasingly being recognised as Global Reporting Standards. Currently more than 100 countries require or permit the use of IFRS. These include members of European Union (EU), Australia, New Zealand, Mauritius, Russia, Nepal, Canada among others. USA has also taken up convergence project with IASB with a view to permit filing of IFRS Compliance Financial Statements in the USA Stock Exchanges without requiring the presentation of reconciliation statement.

### 5. VARIOUS CURRENTLY APPLICABLE IFRS

IASB has so far issued 9 IFRS. Out of these only 8 IFRS are in force the lists of IFRS that are currently in force.

- IFRS 1: First time adoption of International Financial Reporting Standards
- IFRS 2: Share Based Payment
- IFRS 3: Business Combinations
- IFRS 4: Insurance Contracts
- IFRS 5: Non-current Assets Held for Sale and Discounted Operations
- IFRS 6: Exploration for and Evaluation of Mineral Resources
- IFRS 7: Financial Instruments: Disclosure
- IFRS 8: Operating Segments

## 6. COMPARATIVE POSITION OF IFRS AND IGAAP

Sl. No	IFRS No.	Corresponding IGAAP
1.	First Time Adoption of IFRS	Voluntary in India
2.	Share based Payment	ICAI-Under preparation
3.	Business Combination	AS-14
4.	Insurance Contracts	ICAI-Under preparation
5.	Non-Current Assets Held for Sale and Discontinued Operations	AS-24
6.	Explanation for and Evaluation of Mineral Resources	Covered by guidance
7.	Financial Instruments: Disclosure	AS-32 (Not mandatory now)
8.	Operative Segments	AS-17

## 7. DESCRIPTION OF INTERNATIONAL ACCOUNTING STANDARDS

IASB has so far issued 41 IAS. Out of these 12 Accounting Standards have been superseded and large numbers of these have been revised.

### The list of IAS that are currently in force

- IAS 1: Presentation of Financial Statements
- IAS 2: Inventories
- IAS 7: Statement of Cash Flows
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10: Events After the Reporting Period
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- IAS 16: Property, Plant and Equipment
- IAS 17: Leases
- IAS 18: Revenue
- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAS 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- IAS 26: Accounting and Reporting by Retirement Benefit Plans
- IAS 27: Consolidated and Separate Financial Statements
- IAS 28: Investments in Associates
- IAS 29: Financial Reporting in Hyperinflationary Economies
- IAS 31: Interests in Joint Ventures
- IAS 32: Financial Instruments: Presentation
- IAS 33: Earnings per Share
- IAS 34: Interim Financial Reporting

- IAS 36: Impairment of Assets
  - IAS 37: Provisions, Contingent Liabilities and Contingent Assets
  - IAS 38: Intangible Assets
  - IAS 39: Financial Instruments: Recognition and Measurement
  - IAS 40: Investment Property
  - IAS 41: Agriculture
- IAS 3, 4, 5, 6, 9, 13, 14, 15, 22, 25, 30, and 35 have been superseded

### 8. COMPARATIVE POSITION OF IAS AND IGAAP

The comparative position of IAS and IGAAP is presented below

IAS No.	International Accounting Standards	Corresponding IGAAP
1.	Presentation of Financial Statements	AS 1
2.	Inventories	AS 2 (Revised)
7.	Statement of Cash Flows	AS 3 (Revised)
8.	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5 (Revised)
10.	Events after the Reporting Period	AS 4 (Revised)
11.	Construction Contracts	AS 7 (Revised)
12.	Income Taxes	AS 22
16.	Property, Plant and Equipment	AS 10 and AS 6 (Revised)
17.	Leases	AS 19
18.	Revenue	AS 9
19.	Employee Benefits	AS 15
20.	Accounting for Government Grants and Disclosure of Government Assistance	AS 12
21.	The Effects of Changes in Foreign Exchange Rates	AS 11 (Revised)
23.	Borrowing Costs	AS 16
24.	Related Party Disclosures	AS 18
26.	Accounting and Reporting by Retirement Benefit Plans	ICAI-Preparation
27.	Consolidated and Separate Financial Statements	AS 21
28.	Investments in Associates	AS 23
29.	Financial Reporting in Hyperinflationary Economies	India-Not applicable
31.	Interests in Joint Ventures	AS 27
32.	Financial Instruments: Presentation	AS 31-Not applicable
33.	Earnings Per Share	AS 20
34.	Interim Financial Reporting	AS 25
35.	Impairment of Assets	AS 28
36.	Provisions, Contingent Liabilities and Contingent Assets	AS 29
37.	Intangible Assets	AS 26
38.	Financial Instrument: Recognition and Measurement	AS 30-Not applicable
39.	Investment Property	AS 13 (Partly)
40.	Agriculture	ICAI-Preparation

## **9. IFRIC INTERPRETATIONS ISSUED UP TO DECEMBER 31, 2011**

- IFRIC 1** – Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2** – Member’s Shares in Cooperative Entities and Similar Instruments
- IFRIC 3** – Emission Rights (Withdrawn)
- IFRIC 4** – Determining Whether an Arrangement Contains a Lease
- IFRIC 5** – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6** – Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
- IFRIC 7** – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8** – Scope of IFRS 2 (withdrawn)
- IFRIC 9** – Reassessment of Embedded Derivatives
- IFRIC 10** – Interim Financial Reporting and Impairment
- IFRIC 11** – IFRS 2—Group and Treasury Share Transactions (withdrawn)
- IFRIC 12** – Service Concession Arrangements
- IFRIC 13** – Customer Loyalty Programmes
- IFRIC 14** – IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 15** – Agreements for the Construction of Real Estate
- IFRIC 16** – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17** – Distribution of Non-cash Assets to Owners
- IFRIC 18** – Transfer of Assets from Customers

## **10. INDIAN ACCOUNTING STANDARDS WITH RELEVANT IAS/IFRS**

The following table sets out the current Indian Accounting Standards with the Corresponding number of the relevant IAS/IFRS:

**Table 10.1: Indian Accounting Standards with relevant IAS/IFRS**

International Accounting Standards		Corresponding IGAAP	
AS No.	Name of Standard	IAS/IFRS No.	Name of Standard
1.	Disclosure of Accounting Policies	1.	Presentation of Financial Statements
2.	Valuation of Inventories	2	Inventories
3.	Cash Flow Statements	7	Statement of Cash Flows
4.	Contingencies and Events Occurring after the Balance Sheet Date	10	Event after the Reporting Period
5.	Net Profit or Loss for the Period, Prior Period Items and Changes in Policies	8	Accounting Policies, Changes in Accounting Estimates and Error
6.	Depreciation Accounting		No equivalent Standard Included in IAS 16
7.	Construction Contracts	11	Construction Contracts
9.	Revenue Recognition	18	Revenue

10.	Accounting for Fixed Assets	16	Property, Plant and Equipment
11.	The Effects of Changes in Foreign Exchange Rate	21	The Effects of Changes in Foreign Exchange Rates
12.	Accounting for Government	20	Accounting for Government Grants and Disclosure of Government Assistance
13.	Accounting for Investment (will be superseded once AS 30 come)		Mainly Dealt with in IAS 39
14.	Accounting for Amalgamations	IFRS 3	Business Combinations
15.	Employee Benefits	19	Employee Benefits
16.	Borrowing Costs	23.	Borrowing Costs
17.	Segment Reporting	IFRS 8	Operating Segments
18.	Related Party Disclosure	24.	Related Party Disclosures
19.	Leases	17	Leases
20.	Earnings Per Share	33	Earnings Per Share
21.	Consolidated Financial Statements	27	Consolidated and Separate
22.	Accounting for Taxes on Income	12	Income Taxes
23	Accounting for Investments in Associates in Consolidated Financial Statements		
24	Discounting Operations	28	Investment in Associates
		IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
25.	Interim Financial Reporting	34	Interim Financial Reporting
26.	Intangible Assets	36	Intangible Assets
27.	Financial Reporting of Interest in Joint Ventures		
		31	Interest in Joint Ventures
28.	Impairment of Assets	36	Impairment of Assets
29.	Provisions, Contingent Liabilities, Contingent Assets	37	Provisions, Contingent Liabilities, Contingent Assets
30.	Financial Instrument: Recognition	39	Financial Instrument: Recognition
31.	Financial Instrument: Presentation	32	Financial Instrument: presentation
32.	Financial Instrument Disclosure	IFRS 7	Financial Instrument Disclosure

There are currently no corresponding Standards available under IGAAP for the following International Accounting Standards/IFRSs

IAS 26 – Accounting and Reporting by Retirement Benefit Plans

- IAS 29 – Financial Reporting in Hyperinflationary Economies
- IAS 40 – Investment Property
- IAS 41 – Agriculture
- IFRS 1 – First time Adoption of International Financial Reporting Standards
- IFRS 2 – Share-Based Payment
- IFRS 4 – Insurance Contracts
- IFRS 6 – Exploration for and Evaluation of Mineral Resources

## 11. OVERVIEW OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN SUMMARISED FORM

The related literatures of principle-based IFRS are summarised below in tabular form to understand the documented IFRS in an easier manner. The overview contains objective, scope, key requirements and key provisions of IFRS and disclosure policies as required in the respective standards. These details are tabulated for quick referencing purposes to the users of these standards. These IFRS are 8 in number.

### **IFRS 1: First Time Adoption of International Financial Reporting Standards**

IFRS 1 requires that in preparing an opening IFRS statement of financial position, a first-time adopter should consistently apply the same accounting policies throughout the periods presented in its first IFRS financial statements, and these accounting policies should be based on the latest version of the IFRS effective at the reporting date. When the new IFRS is issued on the reporting date but it is not yet effective, entities are encouraged to apply it before the effective date, then the first-time adopter is permitted, but not required to apply it.

### **IFRS 2: Share-based Payment**

IFRS 2 deals with the issue of the measuring and disclosing share-based compensation and requires that such amounts be recorded as expense over the employees' service years. It covers issues such as share appreciation rights, employee share purchase plans, employee ownership plans or share option plans, among others. It adopts the fair-value method in accounting for shares or options granted to its employees. Under this approach, companies measure the value of the share options on the date of grant, instead of the date of the exercise. It requires that the option value be expensed over the service period the employees are expected to work.

### **IFRS 3: Business Combinations**

The objective of IFRS 3 is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Mergers and acquisitions are common examples of business combinations.

### **IFRS 4: Insurance Contracts**

The major issues covered under IFRS 4 are treatment of embedded derivative that meets the definition of an insurance contract, unbundling deposit components, liability adequacy test, temporary exemptions from IAS 8, change in accounting policies, and discretionary participation features.

### **IFRS 5: Noncurrent Assets Held for Sale and Discontinued Operations**

IFRS 5 requires that companies reclassify noncurrent assets in the statement of financial position to be either held for sale or disposal group assets when management decides to sell these assets within one year. Disposal groups may be classified as discontinued operations when they meet specified criteria. IFRS 5 requires that all of these assets be recorded at the lower of (i) carrying value or (ii) its estimated selling price less costs to sell, that is, net realisable value. Once these assets are reclassified as held for sale or a disposal group, they are no longer subject to depreciation.

### **IFRS 6: Exploration for and Evaluation of Mineral Resources**

The objective of IFRS 6 is to specify the financial reporting for the exploration for and evaluation of mineral resources. It deals with only limited aspects of accounting for extractive activities.

### **IFRS 7: Financial Instruments: Disclosures**

IFRS 7 is a disclosure standard. It requires an entity to provide disclosure in their financial statements that enable users to evaluate (a) significance of financial instruments for the entity's financial position and performance, (b) nature and extent of risks arising from financial instruments, and (c) how the entity manages these risks.

**IFRS 8: Operating Segments**

According to core principle of IFRS 8, an entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.

**EXERCISES****Objective Type Questions****(I) Multiple Choice Questions:**

1. IFRS are issued by  
 (a) IASB (b) ICAI (c) FASB (d) IASC
2. The ICAI has decided to adopt IFRS wef.  
 (a) 1-4-2012 (b) 1-4-2011 (c) 1-4-2013 (d) 1-1-2011
3. US GAAP are issued by  
 (a) ICAI (b) IASB (c) FASB (d) IASC
4. The countries which have adopted IFRS are  
 (a) Africa (b) West Asia (c) Asia Pacific (d) All of the above
5. IFRS are the  
 (a) Sets of financial reporting standards (b) Rules of accounting  
 (c) Sets of auditing standards (d) None of the above
6. The objective of IFRS is to  
 (a) Ensure preparation of financial statements  
 (b) Ensure that the financial statements contains high quality information  
 (c) Ensure Uniformity in financial statements at national level  
 (d) None of the above
7. IFRS will facilitate  
 (a) Better access and reduction in cost of capital raised from global market  
 (b) Easy borrowing from Indian capital market  
 (c) Improvement in comparability of financial information  
 (d) a + c
8. IFRS arc applicable to all the entries having network in excess offers  
 (a) Rs. 500 crores (b) Rs. 1000 crores (c) Rs. 100 crores (d) Rs. 10,000 crores
9. IASC was formed on  
 (a) 1-1-2008 (b) 1-7-2007 (c) 1-7-2005 (d) 1-4-2010
10. Till date the IFRS are  
 (a) 18 (b) 9 (c) 25 (d) 5
11. The IAS issued so far are  
 (a) 46 (b) 45 (c) 41 (d) 51
12. As on today the IAS in force are  
 (a) 25 (b) 21 (c) 12 (d) 29
13. The number of IAS withdrawn amounted to  
 (a) 11 (b) 15 (c) 12 (d) 18
14. Interpretations on application of IFAS are issued by  
 (a) SIC (b) IFRIC (c) IASB (d) ICAI
15. Till date the number of IFRI interpretations issued is  
 (a) 12 (b) 18 (c) 16 (d) 21

16. The frame for convergence to IFRS commences on  
(a) 1-5-2010                      (b) 1-4-2010                      (c) 1-10-2010                      (d) 1-7-2010
17. The first reporting period as per IFRS is  
(a) 2009-10                      (b) 2011-12                      (c) 2008-09                      (d) 2012-13
18. The first reporting date as IFRS is  
(a) 31-3-2011                      (b) 31-3-2010                      (c) 31-3-2012                      (d) 31-3-2013
19. The core group issued press release as on  
(a) 1-1-2010                      (b) 25-1-2011                      (c) 22-1-2010                      (d) 28-5-2010
20. The core group has decided to converge to IFRS IN  
(a) 2 phases                      (b) 3 phases                      (c) 4 phases                      (d) 5 phases
21. The First phase begins on  
(a) May 2010                      (b) April 2011                      (c) July 2011                      (d) Oct. 2010
22. The second phase begins on  
(a) May 2011                      (b) March 2011                      (c) April 2013                      (d) July 2011
23. SME are those organisations whose turnover does not exceed.  
(a) 101 crores                      (b) 100 crores                      (c) 200 crores                      (d) 250 crores
24. Snakall enterprises are those enterprises whose investment in plant and machinery does not exceed  
(a) 2 crores                      (b) 2.5 crores                      (c) 3 crores                      (d) 5 crores
25. Medium enterprises are those enterprises whose investment in plant and machinery is  
(a) More than Rs. 5 crores but less than Rs. 10 crores  
(b) More than Rs. 5.5 crores but less than Rs. 15 crores  
(c) More than Rs. 7.5 crores but less than Rs. 20 crores  
(d) More than Rs. 10 crores but less than Rs. 25 crores
26. Financial statement as per IFRS are presented at  
(a) Historical cost                      (b) Market value                      (c) Fair value                      (d) Replacement value
27. As per Indian GAAP financial statements are represented at  
(a) Market value                      (b) Historical cost                      (c) Fair Value                      (d) Replacement value
28. Fair Value represents  
(a) Transaction Value                      (b) Average value                      (c) Market value                      (d) None
29. Financial statement as per IFRS include  
(a) Balance sheet                      (b) Profit & loss A/c                      (c) Application A/c                      (d) All of the above
30. Financial statement as per IFRS include  
(a) Cash flow statement                      (b) Summery of significant accounting policies  
(c) Balance sheet & profit & loss A/c                      (d) All of the above
31. Presentation of financial statement should be compliance with  
(a) IAS                      (b) IFRS  
(c) IFRS, IAS & IFRIC interpretations                      (d) None of the above
32. Current assets are expected to realise within  
(a) 12 months                      (b) 20 months                      (c) 24 months                      (d) 36 months
33. Non current assets include  
(a) Tangible assets                      (b) Intangible assets                      (c) Financial assets                      (d) All of the above
34. Intangible assets include  
(a) Software                      (b) Website                      (c) Patent                      (d) All of the above
35. Property includes  
(a) Free holder land                      (b) Building  
(c) Plant and equipments                      (d) a & b

36. Biological assets include  
 (a) Building (b) Machinery (c) Living animals (d) None of the above
37. Current liabilities are those liabilities which are to be settled within a period of  
 (a) 18 months (b) 12 months (c) 21 months (d) 24 months
38. Equity comprises  
 (a) Equity instruments (b) Share premium  
 (c) Retained earnings (d) All of the above
39. Income are  
 (a) Increases in the economic benefit (b) Decreases in the economic benefit  
 (c) Increases in net profit (d) None of the above
40. Expenses are  
 (a) Increases in economic benefits (b) Decreases in economic benefit  
 (c) Decreases in cost (d) None of the above
41. Fair value may be  
 (a) Market price (b) Transaction price  
 (c) P.V. of future cash flow (d) All of the above
42. The approaches to fair valuation include:  
 (a) 'In use' valuation premise (b) In exchange valuation premises  
 (c) a & b (d) None of the above
43. The methods of valuation includes  
 (a) Market approach (b) Cost approach  
 (c) Income approach (d) All of the above
44. While applying the P.V. techniques the factors to be considered include:  
 (a) Risk (b) Uncertainty  
 (c) Risk & uncertainty (d) None of the above
45. The process of conversion to IFRS include  
 (a) Initial phase (b) Planning (c) Execution (d) All of the above
46. Total number of IAS are  
 (a) 41 (b) 40 (c) 32 (d) 20
47. Total number of IFRS are  
 (a) 42 (b) 9 (c) 32 (d) 20
48. IFRS I was issued in  
 (a). June 2003 (b) January 2003 (c) June 2011 (d) January 2005
49. In general terms, convergence means  
 (a) Achievements of compliance with IFRS (b) Achievements of harmony in relation to IFRS  
 (c) Achievements of identity with IFRS (d) Naming local accounting standards as IFRS
50. Convergence of Indian accounting standards with IFRS implies that  
 (a) Indian accounting standards will be known as IFRS  
 (b) IFRS will adopt Indian accounting standards  
 (c) Indian accounting standards I will be known as IFRS I  
 (d) Indian accounting standards will achieve harmony in relation to IFRS.

**(II) State Whether the Following Statements are True or False:**

1. IFRS are the Financial Reporting standards issued by IASB.
2. The objective of IFRS is to ensure that financial statements report high quality information.
3. IFRS enhances uniformity in the accounting principles.

4. Due to IFRS, cost of raising funds in foreign market will be higher.
5. Investor will rely on financial statements prepaid as per IFRS.
6. IFRS will override company law.
7. ICAI has decided to have convergence of AS with IFRS in July 2011.
8. A core group is constituted by MCA.
9. The First phase of implementation of IFRS was for those companies having net worth over Rs. 1,000 crores
10. Under IFRS assets are classified as financial asset, current assets and non-current assets.
11. Living animals are classified as biological assets.
12. Contractual obligation are financial liabilities.
13. Current liabilities are primarily held for trading.
14. Equity comprise equity instrument, share premium and retain earning.
15. Fair value is the present realised value of asset and liabilities.
16. There are three technique i.e. Market Approach, Cost Approach and Income Approach for the purpose of valuation.
17. The process of convergence to IFRS include three phases i.e. initial phases planning and execution,

**(III) Fill in the Blanks:**

1. IFRS stands for \_\_\_\_\_.
2. IFRS enhances \_\_\_\_\_ in accounting principles.
3. Financial statements based on IFRS become \_\_\_\_\_.
4. Companies act \_\_\_\_\_ IFRS.
5. A core group is constituted by \_\_\_\_\_.
6. Companies having net worth in excess of Rs. \_\_\_\_\_ crore are covered at the first phase.
7. Under IFRS assets are classified as \_\_\_\_\_ and \_\_\_\_\_.
8. Living animal are classified as \_\_\_\_\_ assets.
9. Contractual obligations are \_\_\_\_\_ liabilities.
10. Current asset are primarily held for \_\_\_\_\_.
11. Fair value is the \_\_\_\_\_ value of asset.
12. The process of convergence to IFRS include \_\_\_\_\_ and \_\_\_\_\_ Phase.

**(IV) Match the Columns:**

Column A	Column B
(a) IFRS	(1) Company having net worth in excess of Rs. 1,000 crore
(b) IFRS enhance	(2) Biological assets
(c) Decision to convergence	(3) July 2011
(d) Core group	(4) Constituted by MCA
(e) First phase of implementation	(5) International financial reporting standard
(f) Living animal	(6) Uniformity in account
(g) Fare value	(7) Resent realisable value of asset
(h) Three phase convergence	(8) Initial planning and execution.
	(9) Market approach

**(V) Short Questions:**

1. What is IFRS?
2. Who decide IFRS?

3. What is the date of implementation of IFRS?
4. Who issue USGAAP?
5. Which countries have adopted IFRS?
6. What is objective of IFRS?
7. What is the benefit of IFRS?
8. Mention one challenge posed by IFRS?
9. To which enterprise IFRS are applicable?
10. Which enterprise are called as small enterprises?
11. Which enterprise are called as medium enterprises?
12. How many IFRS are issued so far?
13. How many IAS are issued so far?
14. How many IAS are in force now?
15. What is the IFRIC?
16. What is the job of IFRIC?
17. How many AS are issued so far?
18. What is the date of commencement of time frame for convergence to IFRS?
19. What is the first reporting period as per IFRS?
20. What is a core group?
21. What is the job of core group?
22. How many phase the convergence to IFRS will take place?
23. When will the first phase of convergence take place?
24. What are medium enterprises?
25. As what value financial statements as per IFRS are presented?
26. What is the difference between presentation of financial statement as per IAS and IFRS?
27. What is the fair value?
28. What statements are included as per IFRS in financial statement?
29. What is the current asset as per IFRS?
30. What is the current liability as per IFRS?
31. What is the non current asset?
32. Give three examples of intangible assets?



# QUESTION PAPER

## T.Y. B.Com. (75/25) (CBSGS)

- N.B.** (i) All questions are compulsory.  
(ii) Figures to the right indicate full marks.  
(iii) Use of simple calculator is allowed.  
(iv) Working notes should form part of your answer.

**1. (A) State whether the following statements are True or False after rewriting the sentence (Any eight):** **8**

- (1) On amalgamation, vendor companies are not liquidated.
- (2) In Internal Reconstruction, consolidation of shares results in profit for a company.
- (3) Debenture is a fixed income bearing security.
- (4) Interest on debentures is calculated on the face value of debentures.
- (5) Arrears of preference dividend is shown under 'other Current Liabilities' in the Balance Sheet of a company.
- (6) No journal entry is required for cancellation of unissued share capital at the time of Internal Reconstruction.
- (7) 'Live Stock' is shown under 'Tangible fixed Asset' in the Balance Sheet of company.
- (8) IFRS – I deals with first-time adoption of International Financial Standards.
- (9) Balance in Capital Reduction Account is transferred to Capital Reserve Account.
- (10) On amalgamation, payment made to debentureholders is considered as a part of purchase consideration.

**(B) Fill in the blanks and rewrite the sentence (Any seven):** **7**

- (1) IFRS stands for .....  
(International Financial Reporting Standards/International Financial Restructuring Standards)
- (2) 'Interest accrued and due on debentures' will appear under the head..... In the Balance Sheet of a company.  
(Long term borrowing/other current Liabilities)
- (3) On amalgamation, Preliminary Expenses in the Balance Sheet of vendor company are transferred to ..... Account.  
(Realisation/Equity Shareholders')
- (4) Amalgamation of companies is governed by .....  
(AS 13 / AS 14)
- (5) The scheme of Internal Reconstruction involves .....  
(one company / two companies)
- (6) Computer software is shown under the head ..... in the Balance Sheet of a company.  
(Tangible Assets/Intangible Assets)
- (7) When Short Term Investments are sold, profit on such sale is transferred to.....  
(Profit and Loss Account / Capital Reserve Account)

- (8) In Internal Reconstruction, the balance in Capital Reduction Account is utilised for .....  
(Issue of Bonus Shares/writing off fictitious assets)
- (9) Profit on sale of short term investments is calculated using the formula selling price less.....  
(Cost/weighted Average Cost)
- (10) 'Convergence' with IFRS means .....  
(to rename local Accounting Standard/to achieve harmony in relation to IFRS)

2. M/s. Unwell Ltd. has incurred heavy losses since past few years. The company adopted a scheme of reconstruction on the basis of following summarised Balance Sheet. 15

**Summarised Balance Sheet of Unwell Ltd. as on 31<sup>st</sup> March, 2014.**

Liabilities	Rs.
Equity share capital: 1,60,000 Shares of Rs. 10 each fully paid	16,00,000
Preference Share Capital: 4,000, 10% Shares of Rs. 100 each fully paid	4,00,000
10% Debentures	20,00,000
Interest accrued and due on debentures	2,00,000
Creditors	8,00,000
Bills payable	1,00,000
Outstanding Audit Fees	1,00,000
<b>Total</b>	<b>52,00,000</b>
Assets	Rs.
Land and Building	12,20,000
Furniture	4,00,000
Computer	6,00,000
Debtors	6,00,000
Stock	80,000
Bills Receivable	5,00,000
Cash at Bank	3,60,000
Share issue expenses	40,000
Profit and Loss Account (Dr. balance)	14,00,000
<b>Total</b>	<b>52,00,000</b>

The following scheme or reconstruction was approved by the court:

- (1) 10% Preference Shares to be reduced by Rs. 20 per share.
- (2) Equity shares to be reduced by Rs. 5 per share.
- (3) Debentureholders agreed to settle their claim fully by issue of New 11% Debentures of Rs. 14,00,000. They also agree to forgo 50% of their interest. The payment of remaining 50% of interest to be made immediately.
- (4) Computer was to be written down by Rs. 40,000.
- (5) Land and Building and Furniture to be appreciated by 10%.
- (6) Stock to be appreciated by Rs. 60,000.
- (7) Fictitious Assets and debit balance of Profit and Loss Account to be written off.

(8) Cost of Reconstruction was Rs. 50,000.

(9) 75% of the creditors agreed to forgo their claims by 10%.

(10) Reduce debtors by Rs. 70,000.

You are required to pass journal entries to record the above transactions in the books of M/s Unwell Ltd.

**OR**

**3. Following is the Balance Sheet of M/s. High Hopes Ltd. as on 31<sup>st</sup> March, 2014.**

**15**

<b>Liabilities</b>	<b>Rs.</b>
12% Cummulative preference shares of Rs. 10 each	12,00,000
Equity Shares of Rs. 10 each	20,00,000
11% Debentures	10,00,000
Sundry Creditors	30,00,000
Provision for tax	8,00,000
<b>Total</b>	<b>80,00,000</b>
<b>Assets</b>	<b>Rs.</b>
Land and Building	18,00,000
Plant and Machinery	3,00,000
Stock 15,00,000	
Sundry Debtors	20,00,000
Bank Balance	2,00,000
Share issue expenses	4,00,000
Profit and Loss Account (Dr. balance)	18,00,000
<b>Total</b>	<b>80,00,000</b>

**Note:** Preference Dividend was in arrears for 3 years.

Following scheme or Reconstruction was approved :

(1) Equity shares to be reduced to Rs. 2 each fully paid.

(2) 12% cumulative Preference Shares to be reduced to Rs. 2 each fully paid.

(3) Directors to give short term loan of Rs. 10,00,000 to the company.

(4) Depreciate Land and Building and Plant and Machinery by 10%

(5) Reduce debtors by 15%.

(6) Reduce stock to 60% of its value.

(7) The tax liability was settled for Rs. 8,50,000 and the reconstruction expenses amounted to Rs. 20,000.

(8) Sundry creditors waived 20% of their claims.

(9) 11% Debentures to be converted into 13% Debentures of Rs. 6,00,000 in full settlement of their claim.

(10) Write off fictitious assets and debit balance in profit and loss account.

**You are required to prepare:**

(1) Capital Reduction Account.

(2) Notes to Accounts forming part of the Balance Sheet, after reconstruction, as required under Revised Schedule VI in respect of :

- (i) Share Capital
- (ii) Reserve and Surplus
- (iii) Cash and Cash equivalent

(Do not prepare the Balance Sheet)

**3. The following transactions of Mr. Narayan took place during the year ended 31.03.2014. 15**

- 1<sup>st</sup> April 2013 Purchased Rs. 12,00,000, 8% Bonds at Rs. 80.50 cum-interest. Interest is payable on 1<sup>st</sup> November and 1<sup>st</sup> May every year. Face Value of each Bond is Rs. 100/-.
- 12<sup>th</sup> April 2013 Purchased 1,00,000 Equity Shares of Rs. 10 each in X Ltd. for Rs. 40,00,000.
- 1<sup>st</sup> May 2013 Received half-year's interest on 8% Bonds.
- 15<sup>th</sup> May 2013 X Ltd. Narayan sold 1,25,000 Bonus shares for Rs. 20 each.
- 1<sup>st</sup> Oct. 2013 Sold Rs. 3,00,000, 8% Bonds at Rs. 81 ex-interest.
- 1<sup>st</sup> Nov. 2013 Received half-year's bond interest.

Prepare 8% Bond account and Equity shares in 'X' Ltd. second in the books of Mr. Narayan for the year ended 31.03.2014.

OR

**3. (a) 'X' Ltd. and 'Y' Ltd. agreed to amalgamate and form a new company 'Z' Ltd. Summarised Balance Sheets of 'X' Ltd. & 'Y' Ltd. on the date of amalgamation are as follows : 8**

**Summarised Balance Sheets as on 31/03/2014**

Liabilities	'X' Ltd. (Rs.)	'Y' Ltd. (Rs.)	Assets	'X' Ltd. (Rs.)	'Y' Ltd. (Rs.)
Equity shares of Rs. 100 each	2,00,000	2,40,000	Plant and Machinery	60,000	80,000
General Reserve	30,000	37,000	Stock	40,000	40,000
Creditors	28,000	34,000	Debtors	60,000	60,000
Profit and Loss A/c	16,000	20,000	Building	1,00,000	1,20,000
Cash and Bank Balance	14,000	31,000			
	<b>2,74,000</b>	<b>3,31,000</b>		<b>2,74,000</b>	<b>3,31,000</b>

'Z' Ltd. takes over the assets and liabilities of both the companies at book value except building which is taken over from 'X' Ltd. at Rs. 2,00,000/- and from 'Y' Ltd. at Rs. 1,80,000/-.

'Z' Ltd. paid purchase consideration by allotting fully paid shares of Rs. 100/- each at par.

Prepare statement of Purchase Consideration. Give Opening Journal entries in the books of 'Z' Ltd. (Narration not required).

**(b) The following transactions of Miss Naina took place during the year ended 31/03/2014. 7**

**Date Transactions**

12/04/2013 Purchased 1,00,000 Equity Shares of Rs. 10/- each in 'ABC' Ltd. for Rs. 50,00,000.

15/05/2013 'ABC' Ltd. made a Bonus issue of 3 Equity Shares for every 2 shares held.

30/06/2013 Naina sold 1,25,000 Bonus shares for Rs. 20/- each.

Prepare 'Equity Shares in ABC Ltd.' Account in the Books of Miss Naina for the year ended 31/03/2014.

**4. The following is the summarised Balance Sheet of Vishal Ltd. as on 31<sup>st</sup> March, 2014. 15**

Liabilities	Rs.	Assets	Rs.
Issued and Paid-up Capital:		Intangible Assets	1,00,000
Equity Share Capital (Rs. 10/- each)	10,00,000	Fixed Assets	8,40,000
Statutory Reserve (to be maintained for 3 more years)	20,000	Current Assets	2,20,000
10% Debentures	2,00,000	Profit and Loss A/c (Dr.)	1,60,000
Creditors	1,00,000		
	<b>13,20,000</b>		<b>13,20,000</b>

Vaman Ltd. agreed to take over Vishal Ltd. on the following terms :

- (1) Vaman Ltd. agreed to take over all the assets and Liabilities (Intangible assets are not taken over.)
- (2) The fixed and current assets of Vishal Ltd. are to be considered to be worth Rs. 8,00,000 & Rs. 2,00,000 respectively.
- (3) The Purchase consideration is to be paid one-quarter in cash and the balance in equity shares which are issued at the market price.
- (4) Liquidation expenses amounted to Rs. 600 agreed to be paid by Vishal Ltd.
- (5) Market value per share of Vaman Ltd. is Rs. 12.
- (6) Debentures of Vishal Ltd. were taken over and paid by Vaman Ltd.
- (7) The amalgamation is in nature of purchase.

**You are required to prepare:**

- (a) Statement of Purchase Consideration.
- (b) Necessary Ledger accounts in the books of Vishal Ltd.

**4. The following is the Trial Balance of Radhika Ltd. as on 31<sup>st</sup> March, 2014. 15**

Debit Balances	Rs.	Credit Balances	Rs.
Stock (31.03.2014)	10,00,000	Share Capital (Equity Shares of Rs. 100 each)	40,00,000
Fixed Assets (Net Block)	24,70,000	General Reserve	1,40,000
Sundry Debtors (Unsecured and Good)	8,00,000	Loan from Bank of Baroda	6,00,000
Staff Advance	1,94,800	Provision for Taxation	22,000
Cash on Hand	1,20,000	Net Profit for the year	5,40,000
Bank Balance	9,88,000	Profit and Loss A/c (01.04.2013)	2,00,000
Share Issue Expenses (amortisable after 12 months)	53,200	Short Term Loans	1,00,000
Bills Receivable – Trade	1,16,000	Sundry Creditors	2,80,000
Investments (at cost)	1,50,000	Unclaimed Dividend	10,000
	<b>58,92,000</b>		<b>58,92,000</b>

**Additional Information :**

1. Transfer to General Reserve Rs. 1,00,000.
2. Directors recommended 6% dividend.
3. Out of debtors, debts due for more than six months were Rs. 1,04,000.
4. Sundry Creditors included creditors for goods Rs. 2,10,000 while the remaining are for expenses.
5. Loan from Bank of Baroda is secured against stock.
6. Market value of investment is Rs. 1,78,000 while its face value is Rs. 1,60,000.
7. Ignore previous year figures and corporate dividend tax.

Prepare Balance Sheet as on 31<sup>st</sup> March, 2014 as per Revised Schedule VI requirements, after considering the above information.

5. (a) Explain the need for convergence with IFRS in India. **8**  
(b) Explain the difference between Internal and External Reconstruction of the companies. **7**

**OR**

**Write short notes on any three of the following:** **15**

- (a) Methods of Calculating Purchase Consideration at the time of Amalgamation of Companies.
- (b) Internal Reconstruction of Companies.
- (c) Bonus Shares and Right Shares.
- (d) Ex-interest and Cum-interest transactions in investment Accounting.
- (e) Contingent liability.

