Karpagam Academy of Higher Education

(Deemed University Established Under Section 3 of UGC Act, 1956)

Coimbatore - 641 021.

Department of Commerce

SEMSTER III

	CORE PAPER	**L T P C**
16CCU301	**CORPORATE ACCOUNTING**	**5 - - 5**

UNIT I

Accounting for share capital and debentures: Issue, forfeiture and reissue of forfeited shares - concept & process of book building - issue of rights and bonus shares- buyback of shares - redemption of preference shares Issue and Redemption of Debentures

UNIT II

Final Accounts: Preparation Of Profit And Loss Account And Balance Sheet Of Corporate Entities-Excluding Calculation Of Managerial Remuneration- Disposal Of Company Profits. Valuation Of Goodwill And Valuation Of Shares: Concepts And Calculation

UNIT III

Amalgamation of Companies: Concepts and accounting treatment as per accounting standard:14 (ICAI) (excluding inter- company holdings). Internal Reconstruction – concepts and accounting treatment excluding scheme of reconstruction

UNIT IV

Accounts of Holding Companies/ Parent companies: Preparation of consolidated balance sheet with one subsidiary company – Relevant Provisions of Accounting Standard: 21(ICAI)

UNIT V

Accounts of Banking Companies: Difference between Balance Sheet of Banking and Non –Banking Companies – Prudential Norms – Asset structure of a Commercial Bank – Non –Performing Assets (NPA).

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DEPARTMENT OF COMMERCE

II B.COM(CA) CORE – I

CORPORATE ACCOUNTING

Subject Code : 16CCU301 **Academic Year: 2017- 2018**

Class : II B.Com (CA) **Semester: III**

LECTURE PLAN -UNIT-1

S.No	Lecture Duration (Hrs)	Topics to be Covered	Support Material
Accounting for share capital and debentures:			
1	1	Company: Meaning & Characteristics Difference between a Partnership and a Company.	T1 1.1- 1.3
2	1	Shares: Meaning & Features Kinds of shares	
3	1	Problems to be worked in issue of shares at par	T1 1.13 -1.15
4	1	Problems to be worked in issue of shares at discount & Premium	T1 1.48-1.52
5	1	Problems to be worked in issue of shares at Pro - rata	T1 1.55 – 1.58
6	2	Problems to be worked in Forfeiture and Re- issue of shares	T1 72.1 – 1.78
7	1	Concept and process of book building	T2 2.34
8	1	Problems to be worked in Issue of rights and bonus shares	T1 1.36 – 1.42
9	1	Buyback of shares, accounting treatment of buyback shares and problems.	T1 1.44 – 1.47
10	2	Redemption of Preference shares Issue concept & meaning. Problems to be worked in Par &premium	T1 3.1 – T13.60 – 3.73
11	2	Redemption of debentures, concept & meaning. Problems to be worked in Redemption by conversion & open market buying of own debentures	T1 4.80 – 4.86
12	1	Recapitulation and discussion of important questions	
Total No of Hours planned for Unit- I			**15 Hours**

UNIT-II

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
FINAL ACCOUNTS			
1	1	**Final accounts of joint stock companies:** Adjustments	T1 7.10 – 7.12
2	2	Accounting treatments of P & L Account and Balance Sheet of the Corporate Entities	T1 7.92 – 7.98
3	2	Problems to be worked in P & L Account and Balance Sheet of the Corporate Entities	T1 7.92 – 7.98
4	1	Disposal of Company profits: Meaning and Concept	T2 4.65
5	1	**Valuation of goodwill:** Meaning and Types	T1 8.1 – 8.2
6	2	Problems to be worked in Average Profit & Weighted Average Profit Method	T2 558- 562
7	1	Problems to be worked in Super Profit Method	T1 10.119 – 10.122
8	1	Problems to be worked in Capitalization Method	T1 10.119 – 10.123
9	2	Valuation of shares: Problems to be worked in Net Asset Method	T1 10.1 – 10.4
10	1	Problems to be worked in Yield Method & Fair Value Method	10.118 – 10.123
11	1	Recapitulation and discussion of important questions	
Total No of Hours planned for Unit- II			**15 Hours**

UNIT III

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
Amalgamation of Companies:			
1	2	Concepts and Accounting treatment as per Accounting Standard:14(ICAI)	T1 10.19 – 10.22
2	2	Amalgamation: Accounting entries in the books of company being wound up	T1 10.119 – 10.123
3	1	Accounting entries in the books of Purchasing company	T1 10.136 – 10.138
4	2	Problems to be worked in books of purchasing company	T1 10.142 – 10.144
5	2	Internal Reconstruction or Capital Reduction	T1 9.1 – 9.7
6	1	Procedure for reducing Share Capital	T1 9.1 -9.7
7	1	Accounting entries on internal reconstruction	T1 9.53 – 9.77
8	2	Problems to be worked in internal Reconstruction	T1 9.77 – 9.79
9	1	Recapitulation and discussion of important questions	
10	1	Recapitulation and discussion of important questions	
Total No of Hours planned for Unit- III			**15 Hours**

UNIT IV

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
Accounts of Holding Companies/ Parent companies:			
1	1	Meaning and concept of consolidated balance sheet	T1 14.1
2	2	Accounting treatments for Preparation of consolidated balance sheet with one subsidiary company	T1 14.1- 14.2
3	2	Format for Preparation of Consolidated Balance Sheet	T1 14.3
4	2	Problems to be worked in consolidated balance sheet with one subsidiary company	T1 14.1- 14.2
5	2	Problems to be worked in consolidated balance sheet with one subsidiary company	T1 14.4- 14.6
6	2	Relevant Provisions of Accounting Standard: 21(ICAI) Meaning, objective and disclosure	T1 18.49
7	2	Consolidation of financial statements problems to be worked	T1 18.54 – 18.56
8	1	Recapitulation and discussion of important questions	
9	1	Recapitulation and discussion of important questions	
Total No of Hours planned for Unit- IV			**15 Hours**

UNIT V

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
Accounts of Banking Companies:			
1	1	Meaning, Definition and features of banking	T1 12.1
2	1	Difference between banking and non banking company	T1 12.2
3	2	Difference between balance sheet of banking and non – banking companies	T1 12.2
4	2	Problems to be worked in balance sheet of banking company	T1 12.6 -12.8
5	1	Prudential Norms: Meaning And Concept	T1 12.26
6	2	Asset structure of a commercial bank, types of commercial banks	T1 12.26
7	1	Non – Performing Assets(NPA)	T1 12.26 -12.8
8	1	Types of Non - Performing assets	T1 12.28
9	1	Recapitulation and discussion of important questions	
10	1	Discussion of Previous Year ESE Question Paper	
11	1	Discussion of Previous Year ESE Question Paper	
12	1	Discussion of Previous Year ESE Question Paper	
Total No of Hours planned for Unit- V			**15 Hours**

Textbooks
T1 - Reddy and Murthy, Corporate Accounting, Margham Publication
T2 – S.P. Jain and Narang, Advanced Accountancy, Sultan Chand and Sons

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UNIT 1

ACCOUNTING FOR SHARE CAPITAL AND DEBENTURES

Issue ,forfeiture and reissue of forfeited shares - concept & process of book building - issue of rights and bonus shares- buyback of shares - redemption of preference shares Issue and Redemption of Debentures.

Two major limitations of sole-proprietorship concerns and partnership firms are : (i) inadequacy of funds, and (ii) unlimited liability. To overcome these limitations, one of the most convenient forms of organization that grew with expansion of business requiring huge funds is the joint stock company form of organization. In India, joint stock companies are governed by the provisions of the Companies Act, 1956.

Meaning of the Company

A joint stock company is a voluntary association of persons formed for the purpose of some business for profit with common capital, divisible into transferable shares and possessing a corporate legal entity and a common seal. It is created by a process of law and can be put to an end only by a process of law. It is a legal person and is something different from its members. It is, therefore, capable of acting in its own name. But as it has no physical existence, it must act through its agents and all the contracts entered into by its agents must be under the seal of the company. The members as such do not carry on the business of the company. A group of persons who individually called the directors and collectively form the Board of Directors are appointed. The company acts through the Board of Directors or subordinates appointed by the Board for the purpose.

Share capital of a company is divided into parts and each part is called a share. Every person who takes up a share or shares of a company becomes its member and continues to be a member so long as he holds even a single share. He is called a shareholder and is a part-owner of the company. But a person can be both a shareholder and the creditor of the same company and at the same time.

KINDS OF COMPANIES

From the point of view of *formation*, the companies are of three kinds:

(i) Chartered Companies: Those companies which are incorporated under a special charter by the king or sovereign such as East India Company. Such companies are rarely formed now-a-days as trading companies.

(ii) Statutory Companies: These companies are formed by a special Act of the Legislatures or Parliament, e.g., the Reserve Bank of India, Damodar Valley Corporation, etc.

(iii) Registered Companies: Such companies which are incorporated under the Companies Act, 1956 or were registered under the previous Companies Act.

From the point of view of *liability* there are three kinds of companies:

(I)Limited Companies: In case of such companies, the liability of each member is limited to the extent of a face value of shares held by him. Suppose Vishal takes a share of Rs. 100, he remains liable to the extent of that amount. As soon as that amount is paid, he is no more liable.

(ii) Guarantee Companies: The liability of the member of such a company is limited to the amount he has undertaken to contribute to the assets of the company in the event of its wound up. This guaranteed amount is limited by fixed sum which is specified in the memorandum. Chambers of commerce, trade associations and sports clubs is usually guarantee concerns. The object of such companies is not to make profit and distribute dividend.

(iii) Unlimited Companies: They are nothing but large partnerships registered under the Companies Act and the members just like partners have unlimited liability and both their share of contribution as well as their private property are at stake when the company is to be wound up. Such companies are rare these days.

From the point of view of *public investment* company may be of two kinds:

(I)Private Companies: A private company means a company which by its articles (a) restrict the right to transfer its shares, if any (b) Limits the number of members to fifty, excluding past or present employees of the company who are the members of the company and (c) Prohibits any invitation to the public to subscribe for any shares in or debentures of the company

(ii) Public Companies: Public companies are those companies which are not private companies. All the three restrictions are not imposed on such companies.

Books of Accounts: Section 209 of the companies Act, 1956 requires that every company is required to keep at its registered office books of account. These books are to be maintained in such a way so as to disclose (i) the sums of money received and expended by the company and the matter in respect of which the receipt and expenditure has taken place. (ii) All sales and purchases of goods of the company. (iii) All assets and liabilities of the company. In case a company is engaged in production, processing, manufacturing or mining activities, it has also to maintain cost accounting records relating to utilization of material or labor or other items of cost as may be required by the Central Government.

Statutory Books: Statutory books are those which a limited company is under statutory obligation to maintain at its registered office for maintaining a record of its activities in order to safeguard the interest of the shareholders and creditors. The following is the list of such books:

(i) Register of investments not held in company's name.

(ii) Register of fixed deposits.

(iii) Register of mortgage charges.

(iv) Register of members.

(v) Index of members where the number is more than 50 unless the register of member itself affords an index.

(vi) Register of debenture holders.

(vii) Index of debenture holders where their number is more than 50 unless the register of debenture holders itself affords an index.

(vii) Foreign register of member's and debenture holders and their duplicates.

(viii) Minutes books containing minutes of proceeding of general meeting and Board Meetings.

(ix) Register of contracts with companies and firms in whom directors are interested directly or indirectly.

(x) Register of directors, managing directors, manager and secretary.

(xi) Register of directors' shareholdings.

(xii) Register of loans, guarantees etc. to or investments in shares and debentures of the companies in the same group under the same management.

(xiii) Register of renewed and duplicate certificates.

(xiv) Copy of every instrument creating any charge requiring registration.

SHARES

The total capital of the company can be divided into units of small denomination .One of the units into which the capital of the company is divided is called shares. Holders of these shares are called shareholders or members of the company. There are two types of shares which a company may issue, i.e., (1) Preference Shares and (2) Equity Shares.

1. **Preference Shares:** Shares which enjoy the preferential right as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. These shares will get fixed rate of dividend. Preference shares may be:

   (a) Cumulative Preference Shares

   (b) Non-cumulative Preference Shares

   (c) Redeemable Preference Shares

   (d) Irredeemable Preference Shares

   (e) Convertible Preference Shares

   (f) Non-convertible Preference Shares

   (g) Participating Preference Shares

   (h) Non-participating Preference Shares

2. **Equity Shares:** Equity shares will get dividend and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year. This rate of dividend is determined by directors and in case of large profits, it may even be more than the rate attached to preference shares. Such shareholders may go without any dividend if no profit is made.

Share capital is shown in the balance sheet under the following categories

Authorized capital:

This is the maximum capital that the company is authorized to raise and this amount is stated in the memorandum of Association . This is also described as ‘Registered capital or Nominal capital.

Issued capital:

This represents the capital which is offered to public for subscription .The difference between authorized capital and issued capital represents the unissued capital .

Subscribed capital:

Subscribed capital refers to that part of the issued capital which has been subscribed by the public and also allotted to the directors of the company.

Called up capital:

It refers to that part of the subscribed capital which has been called up by the company for the payment. For example , if 100000 shares of Rs100 each have been subscribed by the public of which Rs50 per share has been called up, .

Paid-up capital:

It refers to that part of the called up capital which has been actually paid up by the shareholders. Some of the shareholders might have defaulted in paying the allotment or call money. Such amount defaulted is known as calls in arrears.

Forfeited shares:

When shares are forfeited for non-payment of calls, the amount already paid is credited to forfeited shares account. The amount standing to the credit of this account is to be added to paid-up capital in the balance sheet.

TERMS OF ISSUE

The terms on which shares are to be issued by the company are given in the prospectus. Shares can be issued either at par or at a premium or at a discount.

- **Shares are said to be issued at par**

When a shareholder is required to pay the face value of the shares to the company. For example, when shares of Rs. 10 are issued at Rs. 10, these are said to be issued at face value.

- **Shares are said to be issued at premium**

when a shareholder is required to pay more than the face value to the company. For example, is shares of Rs. 10 are issued at Rs. 12, then shares are said to be issued at a premium.

- **Shares are said to be issued at discount**

when the shareholder is required to pay less amount than the face value of the share to the company. When the shares of Rs. 10 are issued at Rs. 8, the shares are said to be issued at a discount.

The issue price of shares can be received in

- **Issue of shares for immediate , full consideration or one installment**
- **It can be spread over different installments.**

Issue of shares for immediate , full consideration or one installment(cash consideration)

Journals

At par **Dr.** **Cr.**

1.	**When issue at par** Bank Account Dr. To Share capital Account (Being issue of shares on cash @ Rs. ......per share)		Rs. xxx	Rs. xxx

Journals **Dr.** **Cr.**

At premium

1.	**When issue is at premium:** Bank Account Dr. To Share capital Account To share premium Account (Being issue of shares at premium)		Rs. Xxx	Rs. Xxx xxx

Journals **Dr.** **Cr.**

At discount

1.	**When issue is at discount:** Bank Account Dr. Discount on issue of shares Account To Share capital Account (Being the application money on ...shares @ Rs. ......per share)		Rs. Xxx	Rs. xxx

The amount when received in different installments may be paid

On Application:

A Prospectus is issued by the company inviting the public to subscribe for its shares. Advertisements are given in leading newspapers and magazines with extracts from the prospectus. Application forms are made available freely. Member of the public have to fill the application forms and submit them to the company along with the specified application money. Application form for shares contains the name of bankers for the issue. **The amount** which is received on **application** is called the **application money**

On Allotment :

On the expiry of the last date for receiving application, a detailed list of the applicants is prepared showing the number of applicants in different categories, based on number of shares applied by them.

The directors can proceed with the allotment , if the following are fulfilled;

The minimum subscription as stated in the prospectus is received.

The prospectus or a statement in lieu of the prospectus is filed with the registrar of companies in due time.

Application money of at least 5% of the nominal value of the shares is received (25% for the public issue) Allotment letters are dispatched to those to whom shares are allotted . The allot tees become the shareholders of the company. **The amount** which becomes **due on allotment** is called **allotment money.**

Under subscription ands over subscription:

Under subscription:

If total number of shares for which application are received is less than the number of shares issued, it is a situation of under subscription. If the actual application received are more than the minimum subscription , allotment can be made for all the applicants. entries for application allotment and calls can be made for those allot tees only.

Over subscription:

When a company receives application for a larger number of shares than those offered to the public, it is a situation of over subscription .the following are the usual ways of dealing with a situation of over subscription.

Full allotment:

The board of directors may make full allotment to the required number of applicants and reject the other application. The criteria for allotment and rejection may be evolved in consultation with stock exchange where the shares are to be listed.

Selective partial allotment:

Shares may be partially allotted to different categories of application in different ratios. For example , those who have applied for 200 shares or less may get 50% of the shares they applied for and those who have applied for more than 200 shares may get 25% of the shares they applied for.

Pro-rata allotment:

Shares may be allotted proportionate to the application received to all the applicants. It may be possible to reject some application on the basis of some criterion and for the balance applications , proportionate allotment may be made. For example , if 50,000 shares are offered to the public, for which 2,00,000 applications are received ,one share for every four shares applied for may be allotted to all the application , alternatively , application . pro-rata allotment may be made, in the ratio of one share for every two share applied.

In different calls:

Rest of **the amount** may be called in **different calls** according to the requirements and needs of the company. **If it is called in more than one installment**,

The **first installment** is called as **first call,**

The **second installment** as the **second call** and

The last installment as the **final call.**

Journal Entries for Issue of Shares:

	Journals		Dr.	Cr.
1.	**On receipt of application money:** Bank Account Dr. To Share Application Account (Being the application money on ...shares @ Rs.		Rs. Xxx	Rs. xxx

	......per share)			
2.	**On allotment of Shares:** (a)Application money on allotted shares is transferred to share capital account: Share Application Account Dr. To Share Capital Account (Being the application money transferred to Share Capital Account)		xxx	xxx
	(b) Those applicants who could not be allotted any share, their money will be returned: Share Application Account Dr. To Bank Account (Being the application money of shares returned)		xxx	xxx
3.	On the allotment of shares, all allotment money becomes due to the company: Share Allotment Account Dr. To Share Capital Account (Being the share allotment money on .... shares @ Rs. ...... per share as per resolution dated ....)		Xxx	xxx
4.	**On receipt of allotment money:** Bank Account Dr. To Share Allotment Account (Being the receipt of share allotment money)		xxx	xxx
5.	**On making the first call due from the shareholders:** Share first Call Account Dr. To Share Capital Account (Being the first call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)		xxx	xxx
6.	**On receipt of the first call money:** Bank Account Dr. To Share First Call Account (Being the receipt of share first call money)		xxx	xxx

Note: Similar entries will be passed for second call, third and final call, if any.

Illustration:1

If a company issued 1,50,000 equity shares of Rs. 10 each in January, Rs. 10 may be called as under:

Jan. 5 Rs.2 with application known as application money.

Feb. 9 Rs.3 on allotting the shares known as allotment money.

May 16 Rs. 1.50 in the first installment known as first call.

July. 27 Rs. 1.50 in second installment known as second call.

Sept. 11 Rs. 2.00 in last installment known as final call.

Journal Entries for Issue of Shares:

	Journals		Dr.	Cr.
Date Jan 5.	On receipt of application money: Bank Account Dr. To Share Application Account (Being the application money on ...shares @ Rs. ......per share)		Rs. 3,00,000	Rs. 3,00,000
Jan 5.	On allotment of Shares: (a)Application money on allotted shares is transferred to share capital account: Share Application Account Dr. To Share Capital Account (Being the application money transferred to Share Capital Account)		3,00,000	3,00,000
Feb 9.	On the allotment of shares, all allotment money becomes due to the company: Share Allotment Account Dr. To Share Capital Account (Being the share allotment money on .... shares @ Rs. ...... per share as per resolution dated ....)		4,50,000	4,50,000
Feb 9	On receipt of allotment money: Bank Account Dr. To Share Allotment Account (Being the receipt of share allotment money)		4,50,000	4,50,000
May16.	On making the first call due from the shareholders: Share first Call Account Dr. To Share Capital Account (Being the first call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)		2,25,000	2,25,000

May 16.	On receipt of the first call money: Bank Account Dr. To Share First Call Account (Being the receipt of share first call money)		2,25,000	2,25,000
July.27	On making the second call due from the shareholders: Share second Call Account Dr. To Share Capital Account (Being the second call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)		2,25,000	2,25,000
July.27	On receipt of the second call money: Bank Account Dr. To Share second Call Account (Being the receipt of share second call money)		2,25,000	2,25,000
Sept.11	On making the final call due from the shareholders: Share final Call Account Dr. To Share Capital Account (Being the final call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)		3,00,000	3,00,000
Sept.11	On receipt of the final call money: Bank Account Dr. To Share final Call Account (Being the receipt of share final call money)		3,00,000	3,00,000

Illustration 2. Vishal Ltd., issued a prospectus inviting applications for 1,00,000 Equity Shares of Rs. 10 each, payable as to Rs. 2 with application, Rs. 3 on allotment and the balance on first and final call. Applications were received for 80,000 shares only. All the applications were accepted in full. The call was also made in the due course of time. All moneys were duly received. Journalize all the above mentioned transactions including cash transactions.

Solution: **Journal** Dr. Cr.

1.	Bank Account Dr. To Equity Share Application A/C (Being the receipt of application money on 80,000 equity shares @ Rs. 2 per share)		Rs. 1,60,000	Rs. 1,60,000

2.	Equity Share Application Account Dr. Equity Share Allotment Account Dr. To Equity Share Capital Account (Being capitalization of application money @ Rs. 2 per share and allotment money due @ Rs. 3 per share on 80,000 equity shares allotted)		1,60,000 2,40,000	 4,00,000
3.	Bank Account Dr. To Equity Share Allotment Account (Being the receipt of allotment money on 80,000 equity shares @ Rs. 3 per share)		2,40,000	 2,40,000
4.	Equity Share First and Final Call Account Dr. To Equity Share Capital Account (Being the first and final call due on 80,000 equity shares @ Rs. 5 per share)		4,00,000	 4,00,000
5.	Bank Account Dr. To Equity Share First and final Call Account (Being the receipt of first and final call on 80,000 equity shares @ Rs. 5 per share)		4,00,000	 4,00,000

Issue of Shares for Purchase of Assets:

If the shares have been allotted to any person or firm from whom the company has purchased any assets, the following entry will be passed:

Asset Account	Dr.	xxx	
To Share Capital Account			xxx

(Being ..... shares allotted ..... in consideration of purchase of assets for the company)

Issue of Shares at a Premium:

A company may issue shares at a premium, i.e., at a value greater than its face value. The power to issue shares at a premium need not be given in the Articles of Association. Premium so received shall be credited to a separate account called Securities Premium Account. However, according to guidelines issued by the SEBI, a new company set up the entrepreneurs without a track record can issue capital to public only at par. A new company has been defined by SEBI as one which has completed 12 months of commercial operations and its audited operative results are not available. But where a new company is being set up by the existing companies with a five year track record of consistent profitability, it will be free to price its issue provided:

(i) The participation of the promoting companies is not less than 50% of the equity of the new company.

(ii) The issue price is made applicable to all new investors uniformly; and

(iii) The prospectus or offer document contains justification for issue price.

Section 78 of the Companies Act, 1956 gives the purpose for which securities premium account may be applied by the company. These are:

(i) For the issue of fully paid bonus shares to the members of the company;

(ii) for writing off preliminary expenses of the company;

(iii) For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company; and

(iv) For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

Journal Entries:

	Journal		**Dr.**	**Cr.**
(a)	If the premium is paid with application money: (i)Bank Account Dr. To Share Application Account (Being share application money along with premium received)		Rs. xxx	Rs. xxx
	(ii) Share Application Account Dr. To Share Capital Account To Securities Premium Account (Being share application transferred to share capital and securities premium account)		xxx	 xxx xxx
(b)	If the securities premium is received along with the allotment: (i)Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being the allotment money and securities premium money due on .... shares)		 xxx	 xxx xxx
	(ii) Bank Account Dr. To Share Allotment Account (Being the receipt of allotment money along with securities premium account)		xxx	 xxx

Issue of Shares at a Discount:

A company can issue shares at a discount, i.e., value less than the face value subject to the following conditions:

(i) The issue of shares at a discount is authorized by a resolution by the company in the general meeting and sanctioned by the Central Government.

(ii) The resolution must specify the maximum rate of discount which should not exceed10% of the nominal value of shares or such higher percentage as the Central Government may permit.

(iii)One year must have been elapsed since the date at which the company was allowed to commence business.

(iv)Issue must take place within two months after the date of the sanction by the court or within such extended time as the court may allow.

(v) Every prospectus relating to the issue of shares and every balance sheet after the issue of shares shall contain particulars of the discount allowed and so much of the discount as has not been written off.

Journal Entry: **Dr** **Cr**

1.	**The following journal entry is passed on the issue of the shares at a discount at the time of allotment:** Share Allotment Account Dr. Discount on the Issue of Shares Account Dr. To Share Capital Account		Rs. xxx xxx	Rs. xxx

Calls in Arrears and Calls in Advance:

If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears. On shares calls in arrears, if the company directors want and there is a provision in the Articles of Association, the company can charge interest @ 5% for the period for which such amount remained in arrear from the shareholder.

Similarly, if any calls has been made but while paying that call, some shareholders has paid the amount of the rest of calls also, then such amount will be called as calls in advance and will be credited to a separate account known as calls in advance account by passing the following entry.

1.	Bank Account Dr. To Calls in Advance Account		xxx	 xxx

Calls in Advance Account is shown on the liabilities side of the Balance Sheet separately from the paid up capital. Generally interest is paid on such calls according to the provisions of the Articles of Association but such rate should not exceed 6% per annum. Calls in advance are not entitled for any dividend declared by the company.

Illustration 3. On 1st March, 2008, ABC Ltd., makes an issue of 20,000 equity shares of Rs. 10 each payable as below:

On application Rs. 2; On allotment Rs. 3 and the first and final call Rs. 6 (three months after allotment).

Applications were received for 26,000 shares and Directors made allotment in full to the applicants demanding ten or more shares and returned money to the applicants for 6,000 shares. One shareholder who was allotted 40 shares paid first and final call with allotment money and another shareholder who was allotted 60 shares did not pay allotment money on his shares, but which he paid with the first and final call. Directors have decided to charge and allow interest, as the case may be, on calls in arrears and calls in advance respectively according to the provisions of Table A. Give the necessary journal entries in the books of the company.

Solution

JOURNAL ENTRIES **Dr** **Cr**

2008			Rs.	Rs.
Mar. 1	Bank Account Dr. To Share Application Account (Being application money received on 26,000 shares @ Rs. 2 per share)		52,000	 52,000
Mar. 1	Share Application Account Dr. To Share Capital Account To Bank Account Being application money of 20,000 shares transferred to share capital account and application money of 6,000 shares refunded)		52,000	 40,000 12,000
,,	Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being allotment money and securities premium due on 20,000 shares @ Rs. 3 per share)		60,000	 40,000 20,000
,,	Bank Account Dr. To Share Allotment Account To Calls in Advance Account (Being the receipt of allotment money @ Rs 3 on 19,940 shares and advance call money on 40 shares @ Rs. 6 each)		60,060	 59,820 240
June. 1	Share First and Final Call Account Dr. To Share Capital Account (Being the amount due in respect of first and final call on 20,000 shares @ Rs. 6 per share)		1,20,000	 1,20,000
June. 1	Bank Account Dr. To Share First and Final Call Account To Share Allotment Account		1,19,940	 1,19,760 180

	(Being the amount received on account of first and final call on 19,960 shares @ Rs. 6 and calls in arrears on allotment)			
June. 1	Calls in Advance Account Dr. To share First & Final Call Account (Being adjustment of calls in advance against the first and final call)		240	240
June. 1	Interest on Calls in Advance Account Dr. To Bank Account (Being interest paid on calls in advance i.e., on Rs. 240 for 3 months @ 6% p.a)		3.60	3.60
June. 1	Bank Account Dr. To Interest on Calls in Arrears Account (Being receipt of interest on calls in arrears, i.e., Rs. 180 for 3 months @ 5% p.a)		2.25	2.25

Forfeiture of Shares:

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment thereof and fails to pay it even after his allotment is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited. Shares once forfeited becomes the property of the company and may be sold on such terms as directors think fit. Upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

Journal Entries

The following entry is passed at the time of forfeiture of shares.

Share Capital Account Dr.	(with the called amount on such shares as capital)
Securities Premium Account Dr.	(if not received)
To Share Capital Account	(with amount which becomes due but not paid)
To Discount on Issue of Shares Account	(if shares are issued at discount)
To Shares Forfeited Account	(with the amount already received on such shares)

Surrender of Shares: After the allotment of shares, sometimes a shareholder is not able to pay the further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called surrender of shares. Surrender of shares has no separate accounting treatment but it will be like that of forfeiture of shares. The same entries (as are passed in case of forfeiture of shares) will be passed in case of surrender of shares.

Reissue of Forfeited Shares:

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares plus original discount on reissued shares, if any. The purchaser of forfeited reissued shares is liable for payment of all future calls duly made by the company.

The following journal entry on such reissue is passed:

Bank Account Dr.	(amount received on such reissue)
Discount on Issue of Shares Account Dr.	(with original rate of discount if the shares originally were issued at discount)
Shares Forfeited Account Dr.	(loss on reissue of shares)
To Share Capital Account	(with face value of shares)
To Securities Premium Account	(if shares are reissued at premium)

After reissue of all forfeited shares if there is no balance in shares forfeited account, then there will be no capital profit. But where there is profit on the reissue of forfeited shares (i.e., shares forfeited account is showing credit balance after reissue of all forfeited shares) then such profit should be treated as capital profit and will be transferred to capital reserve by passing the following entry:

1.	Shares Forfeited Account Dr. To Capital Reserve Account		xxx	 xxx

Illustration 4: A shareholder was holding 500 equity shares of Rs. 10 each of a company issued at 10% discount. He paid Rs. 2 on application, Rs. 3 on allotment but could not pay the first call of Rs. 3 per share and his shares were forfeited by the directors. The shares were reissued subsequently at a price of Rs. 7 per share. Give the necessary journal entries.

Solution

JOURNAL ENTRIES **Dr** **Cr**

			Dr	Cr
			Rs.	Rs.

1.	Equity Share Capital Account Dr. To Equity Share First Call Account To Discount on Issue of Shares Account To Shares Forfeited Account (Being forfeiture of 500 equity shares of Rs. 10 each Rs. 9 per share called issued at a discount of 10% for non-payment of first call of Rs. 3 per share; Rs. 5 per share paid forfeited)		4,500	 1,500 500 2,500
2.	Bank Account Dr. Discount on Issue of Shares Account Dr. Shares Forfeited Dr. To Equity Share Capital Account (Being reissue of 500 forfeited shares @ Rs. 7 per share credited as Rs. 9 per share paid-up)		3,500 500 500	 4,500
3.	Shares Forfeited Account Dr. To Capital Reserve (Being profit on reissue of forfeited shares transferred to capital reserve account)		2,000	 2,000

Illustration 5: A holds 200 equity shares of Rs. 10 each on which he paid Re. 1 per share as application money. B holds 300 equity shares of Rs. 10 each on which he has paid Re. 1 and Rs. 3 per share as application and allotment money respectively.

C holds 500 equity shares of Rs. 10 each on which he has paid Re. 1 on application, Rs. 3 on allotment and Rs. 2 on first call.

They all fail to pay their arrears and the second call of Rs. 2 per share and the directors, thereafter , forfeited the shares. All these shares were reissued subsequently @ Rs. 11 per share as fully paid. Give the necessary journal entries.

Solution

JOURNAL ENTRIES

			Rs.	Rs.
1.	Equity Share Capital Account Dr. To Equity Share Allotment Account To Equity Share First Call Account		8,000	 600 1,000

	To Equity Share Second Call Account To Shares Forfeited Account (Being forfeiture of shares of A,B & C)			2,000 4,400
2.	Bank Account Dr. To Equity Share Capital Account To Securities Premium Account (Being reissue of 1,000 forfeited shares of Rs. 10 each at Rs. 11 per share credited as fully paid-up)		11,000	 10.000 1,000
3.	Shares Forfeited Account Dr. To Capital Reserve Account (Being balance of shares forfeited account taking as capital profit transferred to Capital Reserve Account)		4,400	 4,400

Forfeiture of Shares when there is Over-subscription and Pro-rata Allotment

It has already been stated that in case of companies of repute, there is possibility of over-subscription. Some applications are rejected altogether and others are allotted on pro-rata basis. When allotted shares on pro-rata basis are forfeited, the problem arises about the amount to be forfeited. In such cases, the following procedure may be adopted:

(a) Calculate the total number of shares applied for on the basis of allotted shares.

(b) Calculate the total amount received on application by multiplying the number of shares with application money. This is the amount which is to be forfeited on default.

(c) Deduct the amount due on application on allotted shares and calculate balance, i.e., money received in advance and to be adjusted on allotment.

(d) Calculate the amount due on allotment on such shares and deduct the amount already received as advance on application. This gives the amount in arrears on allotment and is credited to Share Allotment Account at the time of forfeiture of shares.

Illustration 6: X Ltd., issued for public subscription 20,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as under:

Rs. 2 per share on application; Rs. 5 per share (including premium) on allotment; Rs. 2 per share on first call; Rs. 3 per share on final call.

Applications for 30,000 shares were received. Allotment was made pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money overpaid on application was utilized towards sums due on allotment.

Shri Balaji to whom 800 shares were allotted failed to pay the allotment money, first and second call money abs Shri Murugan of whom 1,000 shares were allotted failed to pay the last two calls.

All these forfeited shares were reissued to Shri Vinod as fully paid-up at Rs. 8 per share.

Give the necessary journal entries to record the above transactions.

Solution **In the books of X Limited**

JOURNAL

			Rs.	Rs.
1.	Bank Account Dr. To Equity Share Application Account (Being the application money received on 30,000 equity shares @ Rs. 2 per share)		60,000	60,000
2.	Equity Share Application Account Dr. To Share Capital Account To Equity Share Allotment Account To Bank Account (Being application money transferred to share capital account, share allotment account and the balance refunded to the applicants)		60,000	40,000 8,000 12,000
3.	Equity Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being the allotment money due on 20,000 equity shares @ Rs. 5 per share including premium)		1,00,000	60,000 40,000
4.	Bank Account (1) Dr. To Equity Share Allotment account (Being the share allotment money received)		88,320	88,320
5.	Equity Share First Call Account Dr. To Share Capital Account (Being the share first call money due on 20,000 equity shares @ Rs. 2 per share)		40,000	40,000
6.	Bank Account Dr. To Equity Share First Call Account (Being the receipt of share first call money)		36,400	36,400
7.	Equity Share Final Call Account Dr. To Share Capital Account (Being the share final call money due on 20,000 equity shares @ Rs. 3 per share)		60,000	60,000
8.	Bank Account Dr. To Equity Share Final Call Account		54,600	54,600

	(Being the receipt of share final call money)			
9.	Equity Share Capital Account Dr. Share Premium Account Dr. To Equity Share Allotment Account To Equity Share First Call Account To Equity Share Final Call Account To Share Forfeited Account (Being the forfeiture of 1,800 shares for the non-payment of allotment on 800 shares and first and final call money on 1,800 equity shares)		18,000 1,600	 3,680 3,600 5,400 6,920
10.	Bank Account Dr. Share Forfeited Account Dr. To Equity Share Capital Account (Being the reissue of the forfeited shares as fully paid up @ Rs. 8 per share)		14,400 3,600	 18,000
11.	Share Forfeited Account Dr. To Capital Reserve Account (Being the profit on reissue of forfeited shares transferred to Capital Reserve Account)		3,320	 3,320

Working Note: **Rs.**

(1) Calculation of amount received on allotment

Amount due on allotment		1,00,000
Less: Already received		8,000
		92,000
Less: Amount not received on 800 shares		
Shares Allotted to Shri Balaji 800		
If allotted 5shares applied 6		
If allotted 800 shares applied 960		
Surplus money on application (160 X 2) =	320	
Amount of allotment due = 800 X 5 =	4,000	
Less: Already received	320	3,680
		88,320

Illustration 7: On 1st March, 2009 Bama Co Ltd., issued 25,000 10% preference shares of Rs. 25 each payable as to Rs. 4 with application, Rs. 6 on allotment and the balance in two equal calls of Rs. 7.50 per share. Subscription list (which was opened on 6th March, 2009) totaled 51,0000 shares. The Board of Directors rejected one application for 1,000 shares and allotted shares on the remaining applications on pro-rata basis on 1st April, 2009.First calls was made

three after allotment where as the second call was made four months after the first call. All moneys were duly received. In each case, a 14 days' notice was served.

Pass journal entries, prepare Cash Book and show Ledger accounts.

Solution:

Dr. Cash Book (Bank Columns only) Cr.

2009		Rs.	2009		Rs.
Mar.6	To 10% Preference Shares Applications & Allotment Account (application money on 51,000 10% preference shares @ RS. 4 per share)	2,04,000		By 10% Preference Share Application Account (refund of application money on 1,000 preference shares @ Rs. 4 per share)	4,000
April 1-14	To 10% Preference Shares allotment Account	50,000		By Balance c/d	6,25,000
July 1-14	To 10% Preference Shares First call account	1,87,500			
Nov 1-14	To 10% Preference Shares Second and Final call	1,87,500			
		6,29,000			6,29.000

Journal Dr. Cr.

2009			Rs.	Rs.
Apr. 1	10% Preference Share Application & Allotment A/c Dr. To 10% Preference Capital Account (Being application money @ Rs. 4 per share and allotment money @ Rs. 6 per share credited to 10% Preference Capital Account On allotment of 25,000 shares as per Directors resolution)		2,50,000	2,50,000
July.1	10% Preference Shares First Call Account Dr. To 10% Preference Share Capital Account (Being first call money due on 25,000 10% preference shares @ Rs. 7.50 per share, as per Directors resolution)		1,87,500	1.87,500
Nov. 1	10% Preference Share Second and Final Call A/c Dr. To 10% Preference share Capital Account (Being second and final call money due on 25,000 10% preference shares @ Rs. 7.50 per share as per Board of Directors resolution)		1,87,500	1,87,500

Working Notes:

Share Applied for	Shares Allotted	Application money received	Application money	Appropriation towards Allotment money	Refund
1,000 50,000	-- 25,000	Rs. 4,000 2,00,000	Rs. -- 1,00,000	Rs. -- 1,00,000	Rs. 4,000 --
51,000	25,000	2,04,000	1,00,000	1,00,000	4,000

	Rs.
Total allotment money on 25,000 10% Preference shares @ Rs. 6 per share	1,50,000
Less: Amount of application money appropriate towards allotment money	1,00,000

Balance received after allotment	50,000

Ledger

Dr. 10% Preference Share Application & Allotment Account Cr.

2009		Rs.	2009		Rs.
Apr. 1	To 10% Preference Share Capital account	2,50,000	Mar.6	By Bank Account	2,04,000
	To Bank Account	4,000	April 1-14	By Bank Account	50,000
		2,54,000			2,54,000

10% Preference Share first Call Account

2009		Rs.	2009		Rs.
July 1	To 10% Preference Share capital Account	1,87,500	July 1-14	By Bank Account	1,87,500

10% Preference Share Second and Final Call Account

2009		Rs.	2009		Rs.
Nov.1	To 10% Preference Share Capital Account	1,87,500	Nov. 1-14	By Bank Account	1,87,500

10% Preference Share Capital Account

		Rs.	2009		Rs.
	To Balance c/d	6,25,000	Apr.1	By 10% Preference Share Application & Allotment Account	2,50,000
			July 1	By 10% Preference Share First Call Account	1,87,500
			Nov. 1	By 10% Preference Share Second & Final Call Account	1,87,500
		6,25,000			6,25,000
				By Balance b/d	6,25,000

BOOK BUILDING PROCESS

Concept :

Book Building is basically a capital issuance process used in Initial Public Offer (IPO) which aids price and demand discovery. It is a process used for marketing a public offer of equity shares of a company. It is a mechanism where, during the period for which the book for the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The process aims at tapping both wholesale and retail investors. The offer/issue price is then determined after the bid closing date based on certain evaluation criteria.

The Process:

- The Issuer who is planning an IPO nominates a lead merchant banker as a 'book runner'.
- The Issuer specifies the number of securities to be issued and the price band for orders.
- The Issuer also appoints syndicate members with whom orders can be placed by the investors.

- Investors place their order with a syndicate member who inputs the orders into the 'electronic book'. This process is called 'bidding' and is similar to open auction.
- A Book should remain open for a minimum of 5 days.
- Bids cannot be entered less than the floor price.
- Bids can be revised by the bidder before the issue closes.
- On the close of the book building period the 'book runner evaluates the bids on the basis of the evaluation criteria which may include -
    - ✓ Price Aggression
    - ✓ Investor quality
    - ✓ Earliness of bids, etc.
- The book runner the company concludes the final price at which it is willing to issue the stock and allocation of securities.
- Generally, the numbers of shares are fixed; the issue size gets frozen based on the price per share discovered through the book building process.
- Allocation of securities is made to the successful bidders.
- Book Building is a good concept and represents a capital market which is in the process of maturing.
- Book-building is all about letting the company know the price at which you are willing to buy the stock and getting an allotment at a price that a majority of the investors are willing to pay. The price discovery is made depending on the demand for the stock.

Issue of rights:

Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:-

- the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
- unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;
- after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not dis-advantageous to the shareholders and the company.

Valuation of Rights:

Usually a company offers rights issue at a price which is lower than the market price of the shares so that existing (i.e., old) shareholders may get the monetary benefit of being associated with the company for a long time. Existing shareholders who have been offered right shares and do not want to purchase these offered shares may renounce their right shares in favour of some other persons within the specified period as mentioned earlier. In such a case, the existing shareholders can make a profit by selling his right to such other person. This right can be valued in terms of money as below:

(a) Calculate the market value of shares which an existing shareholder is required to have in order to get fresh shares.

(b) Add to the above price paid for the fresh shares.

(c) Find out the average price of existing shares and fresh shares.

(d) The average price of the share should be deducted from the market price and the difference thus ascertained is value of right.

Illustration 8: A Company is planning to raise funds by making rights issue of equity shares to finance its expansion. The existing equity share capital of the company is ` 50,00,000. The market value of its share is ` 42. The company offers to its shareholders the right to buy 2 shares at ` 11 each for every 5 shares held. You are required to calculate:

(i) Theoretical market price after rights issue;

(ii) The value of rights; and (iii) Percentage increase in share capital.

Solution:

	`
Market value of 5 shares already held by a shareholder @ ` 42	210
Add: Price to be paid by him for acquiring 2 more shares @ ` 11 per share	22
Total price of 7 shares after rights issue	232

(j) Therefore, theoretical market price of one share, (i.e., 232/7) = 33.14

(ii) Value of Rights = Market Price - Theoretical Market Price= ` 42 - ` 33.14. = ` 8.86

(iii) Percentage Increase in Share Capital

Present Capital	50,00,000
Rights Issue ` 50,00,000 × 2/5	20,00,000
% Increase In Share Capital (20,00,000/50,00,000) × 100	40%

Or,

5 2 ×100 = 40%

Capitalisation:

Capitalisation of profits is the process of converting profits or reserves into paid up capital.

Bonus Shares: A bonus share is a free share issued without any consideration to an existing shareholder in the ratio of number of shares held by that shareholder. Issue of Bonus share — decreases the Reserve & Surplus; Increases the issued capital but does not bring any change in cash flow and net worth.

Way to capitalize profits or reserves:

(a) by paying up amounts unpaid on existing partly paid shares so as to make them fully paid up shares, or (b) by issuing fully paid bonus shares to the existing members.

Sources for fully paid-up bonus shares [Sec 63] As per Sec 63(1), a company may issue fully paid-up bonus shares to its members out of-

- Its Free Reserves
- Its Secutiries Premium Account; or
- Its Capital Redemption Reserve Account Restrictions
- No issue of bonus shares shall be made by capitalizing reserves created by the Revaluation of Assets i.e. Revaluation Reserves. Meaning of Free Reserves: As per Sec 2(43) of the Companies Act, 2013, "Free Reserves" mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.

Exclusions from Free Reserves:

- Any amount representing unrealised gains, notional gains or revaluation of assets, where shown as a reserve or otherwise, or

BONUS ISSUE

Capitalisation:

Capitalisation of profits is the process of converting profits or reserves into paid up capital.

Bonus Shares: A bonus share is a free share issued without any consideration to an existing shareholder in the ratio of number of shares held by that shareholder. Issue of Bonus share

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- Its Free Reserves
- Its Securities Premium Account; or
- Its Capital Redemption Reserve Account

Restrictions

No issue of bonus shares shall be made by capitalizing reserves created by the Revaluation of Assets i.e. Revaluation Reserves. Meaning of Free Reserves: As per Sec 2(43) of the Companies Act, 2013, "Free Reserves" mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.

Exclusions from Free Reserves:

Any amount representing unrealized gains, notional gains or revaluation of assets, where shown as a reserve or otherwise, or

Any change in carrying amount of an asset or of a liability recognized in equity, including surplus in Profit and Loss Account on measurement of the Asset or the Liability at Fair Value.

Conditions for issue of fully paid-up bonus shares [SEC 63(2)]

(i) A company can issue bonus shares if its Articles expressly authorize to do so.

(ii) A resolution is required to be passed by the Board of Directors recommending its decision to issue bonus shares.

(iii) A resolution is required to be passed by the members in the general meeting to approve the Board's resolution recommending the issue of bonus shares.

Members' resolution —

- Must have an intention to capitalize the profits or reserves, and
- Must mention the amount of profits or reserves to be capitalized.

(iv) The company has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it.

(iv)The Company has not defaulted in respect of payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus.

(v) (vi) The partly-paid shares, if any, outstanding on the date of allotment are made fully paid-up.

(vi)(vii) A Company must comply with Prescribed Conditions. (viii) The bonus shares shall not be issued in lieu of dividend.

SEBI guidelines on issue of bonus issues:

A listed company proposing to issue bonus shares shall comply with the following requirements:

1. - The articles of association of the company must contain a provision for capitalisation of reserves, etc; - If there is no such provision in the articles the company must pass a resolution at its general meeting making provision in the articles of association for capitalization;

2. The company has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption;

3. The company has not defaulted in payment of statutory dues of the employees such as contribution to provident fund, gratuity etc.

4. The partly-paid shares, if any, outstanding on the date of allotment are required to be made fully paid-up.

5. No company shall, pending conversion of FCDs/PCDs, issue any by way of bonus unless similar benefit is extended to the holders of such FCDs/though reservation of shares in proportion to such convertible part of FCDs or PCDs. (b) The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

6. The bonus issue shall be made out of free reserves built out of the genuine profits or securities premium collected in cash.

7. Reserves created by revaluation of fixed assets shall not be capitalised.

8. The declaration of bonus issue, in lieu of dividend, shall not be made.

9. A company which announces its bonus issue after the approval of the Board of directors must implement the proposal within a period of 15 days from the date of such approval (if Shareholders' approval is not required) or 2 months (if Shareholders' approval is required).

10. Once the decision to make a bonus issue is announced, the same cannot be withdrawn.

Accounting Entries: The various accounting entries relating to bonus issue are given below: Particulars L.F. Dr. (`) Cr. (`)

On issue of fully paid Bonus Shares

Accounting Entries:

The various accounting entries relating to bonus issue are given below

Particulars	L.f	Debit	Credit
On issue of fully paid Bonus Shares			
❖ On Declaration of such bonus			
Capital Redemption Reserve A/c Dr.		XXX	
Securities Premium A/c Dr.		XXX	
Capital Reserve A/c Dr. (realized in cash only)		XXX	
General Reserve A/c Dr.		XXX	
Profit and Loss A/c Dr.		XXX	
To Bonus to Shareholders A/c			XXX
❖ On issue of fully paid Bonus Shares			
Bonus to Shareholders A/c Dr.		XXX	
To Share Capital A/c			XXX

Buy Back of Shares

Theory:

i. The term buy back means buying back by company of its equity shares from equity shareholders for immediate cancellation.

ii. According to Section 77 of The Companies Act, 1956, no company having share capital shall have power to buy its own shares except-

a. Redemption of Preference Shares Under Section 80 or

b. Capital Reduction under Section 100-104.

iii. However Section 77A introduced in Companies Act, empowers the company to buyback (Cancel) its equity shares either out of-

a. Fresh Issue of Preference Shares. Or

b. Free Reserves. Or

c. Partly out of Fresh Issue and partly out of free reserves.

iv. A company cannot buy back its equity shares unless it is fully paid.

v. Free reserves utilized for purpose of buy back of equity shares are immediately transferred to an account called as "CRR A/c" (Section 77AA).

vi. Free reserves include not only revenue profits but also **Securities Premium**.

vii. Premium on buy back is a capital loss and can be set out of **Free Reserves**.

REDEMPTION OF PREFERENCE SHARES:

Under section 100 of the Companies Act, a company is not allowed to return to its shareholders the share money without the permission of the Court. But permission of the court is not necessary, if the refund is to be made to the preference shareholders.

When the capital is raised by issuing redeemable preference shares, it is to be paid back by the company to such shareholders after the expiry of stipulated period whether the company is to be wound up or not. The amount of such shares will be paid back within ten years of their issue either out of the profits or proceeds of the issue of fresh shares. The following important provisions regarding redemption of preference shares are given under section 80 of the Companies Act.

(1) Such shares cannot be redeemed unless they are fully paid up. In other words partly paid up shares cannot be redeemed. This provision is made in order to protect the interest of the creditors.

(2) Such shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares made with the object of redemption. These shares cannot be redeemed out of the proceeds of fresh issue of debentures or out of the sale proceeds of any property of the company as it will lead to erosion of available security to the creditors. Capital profits such as shares forfeited account, development rebate account, capital redemption reserve account, securities premium account, profit prior to incorporation and capital reserve are not available for dividend. If shares are to be redeemed at premium, then such premium must be provided either out of the accumulated profits of the company or out of the company's securities premium account. The word 'proceeds' implies the amount received excluding the amount of securities premium if the shares are issued at

premium but the net amount if the shares are issued either at a par or at a discount. This clause is inserted in order to protect the interest of the creditors.

(3) When shares are redeemed out of profits available for distribution for dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called ‘ Capital Redemption Reserve Account’. This provision is made in order to immobilize profits from being used for any other purpose such as distribution of dividend, redemption of debentures, etc.

(4) Capital Redemption Reserve Account can be used for issuing fully paid bonus shares to the shareholders. This account cannot be reduced except in accordance with the sanction of the court relating to reduction of share capital.

(5) Redemption of preference shares should not be regarded as a reduction of the authorized capital of the company and as such the reduced shares should remain part of the authorized capital and must be shown in the Balance Sheet.

Procedure for Solving Problems: The following procedure for solving problems is suggested:

1.First of all see whether the redeemable preference shares are fully paid up or partly paid up. If partly paid up, make the following journal entries for making partly paid up as fully paid up.

(a)	Preference Shares Final Call Account Dr. To Preference Share Capital Account		xxx	 xxx
(b)	Bank Account Dr. To Preference Shares Final Call Account		xxx	 xxx

2. Pass entry for the total amount due to preference shareholders including the face value of preference shares and the premium to be paid on redemption of preference shares . The entry is:

	Redeemable Preference Share Capital Account Dr. Premium on Redemption Account Dr. To Preference Shareholders Account or Preference Shares Redemption Account		xxx xxx	 xxx

3.Make entry for issue of equity shares either with premium or without premium in order to provide amount for the purpose of redemption of preference shares by fresh issue.

	Bank Account Dr. Discount on Issue of Shares Account Dr. To Equity Share Capital Account To Securities Premium Account		xxx xxx	 xxx xxx

4.Provide premium to be paid on redemption of preference shares out of securities premium account (from fresh issue or existing balance) or profit and loss account or general reserve etc. by passing the following entry:

	Securities Premium Account or Profit and Loss Account or General Reserve Account Dr. To Premium on Redemption Account		 xxx	 xxx

5.Appropriate amount from profit and loss account or general reserve or any other reserve (available for dividend) to meet the deficiency of the amount required for redemption of preference shares (or if redemption is to be made out of profits only) by passing the following entry:

	Profit and Loss Account or General Reserve etc. Dr. To Capital Redemption Reserve Account		xxx	 xxx

6.If liquid assets are not available for making payment to preference shareholders on redemption then current assets may be sold by the company or bank overdraft may be arranged.

	Bank Account Dr. Profit and Loss Account (loss on sale of assets) Dr. To Current Assets A/C or Bank Loan A/C To Profit and Loss A/C (profit on sale of assets)		xxx xxx	 xxx xxx

7.Payment will be made to the preference shareholders by passing the following entry:

	Preference Shareholders Account (Or) Preference Share Redemption Account Dr. To Bank Account		 xxx	 xxx

8.If redemption of preference shares is made by conversion of some other shares, then the following entry will be passed:

	Preference Share Capital Account Dr. To New Share Capital Account		xxx	 xxx

9.Sometimes capital redemption reserve account is utilized for issuing fully paid bonus shares. In such a case the following entries will be passed:

(1)	**When decision is taken to issue bonus shares:** Capital Redemption Reserve Account (Or) Any other Reserve (Specifically mentioned in the question) To Bonus to Equity Shareholders Account		xxx	 xxx
(2)	**When issue of bonus shares is made:** Bonus to Equity Shareholders Account Dr. Equity Share Capital Account		 xxx	 xxx

10. When right issue is made to the shareholders after redemption of preference shares and issue of bonus shares, then the number of such right shares is calculated after taking into consideration the recent issue of bonus shares. Entries for issue of rights shares will be made on the same lines as are made for issue of equity shares in the ordinary course.

Illustration 1: A company has 40,000 10% redeemable preference shares of Rs. 100 each, fully paid. The company decides to redeem the shares on December 31, 2009 at a premium of 5 per cent. The company makes the following issues : -

(a) 10,000 equity shares of Rs. 100 each at a premium of 10 per cent.

(b) 10,000 12% debentures of Rs. 100 each.

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. The company has sufficient profits. Give journal entries.

Solution:

Journal entries **Dr.** **Cr.**

2009 Dec. 31	 Bank Account Dr. To Equity Share Capital account To Share Premium Account (Being the allotment of 10,000 shares of Rs.100 each at a premium of Rs. 10 each.)		Rs. 11,00,000	Rs. 10,00,000 1,00,000
Dec. 31	Bank Account Dr. To 12% Debentures Account (Being allotment of 10,000 12% debentures of Rs. 100 each)		10,00,000	 10,00,000
Dec. 31	Profit and Loss Account Dr.		1,00,000	

	Share Premium Account Dr. To Premium on Redemption of Preference Shares Account (Being the provision of premium of 5% payable on redemption of 40,000 redeemable preference shares of Rs. 100 each)		1,00,000	2,00,000
Dec. 31	Profit and Loss Account Dr. To Capital Redemption Reserve Account (Being the amount transferred to Capital Redemption Reserve Account – the amount uncovered by the face value of the shares issued)		30,00,000	30,00,000
Dec. 31	10% Redeemable Preference Share Capital Account Dr. Premium on Redemption of Preference shares Account Dr. To Bank Account		40,00,000 2,00,000	42,00,000

Illustration 2: The following is the summarized Balance Sheet of Reliance Limited:

Liabilities		Rs.	Assets	Rs.
Paid up Share Capital			Bank	90,000
Equity Shares:			Other Assets	8,10,000
50,000 shares of Rs. 10 each		5,00,000		
10% Redeemable Pref. Shares				
1,000 shares of Rs. 100				
Each fully called	1,00,000			
Less: Calls in arrear	1,000	99,000		
(On 50 shares @ Rs. 20 each)				
Reserves and Surplus:				
General Reserve		1,00,000		
Dev. Rebate Reserve		50,000		
Other Liabilities		1,51,000		
		9,00,000		9,00,000

The Redeemable Preference Shares were redeemed on the following basis:

(1) Further 4,500 equity shares were issued at a premium of 10 per cent;

(2) Expenses for fresh issue on shares – Rs. 5,000;

(3) Of the 50 preference shares, holders for 40 shares paid the call before the date of redemption. The balance 10 shares were forfeited for nonpayment of calls before redemption. The forfeited shares were reissued as fully paid on receipt of Rs. 500 before redemption;

(4) Preference shares were redeemed at a premium of 10 per cent, and securities premium amount was utilized on full for the purpose.

Show journal entries including those relating to cash and the summarized Balance Sheet after redemption showing rough workings.

Solution: Journal Entries

			Dr.	Cr.
			Rs.	Rs.
	Bank Account Dr. To Equity Share Capital Account To Securities Premium Account (Being the issue of 4,500 equity shares at a premium of 10%)		49,500	 45,000 4,500
	Shares Issue Expenses Account Dr. To Bank Account (Being the expenses on the issue of shares)		5,000	 5,000
	Bank Account Dr. To Preference Shares Call in Arrears A/C (Being the receipt of calls in arrears on 40 preference shares @ Rs. 20 each)		800	 800
	Redeemable Preference Share Capital A/c Dr. To Preference Shares Calls in Arrear A/c To Shares Forfeited Account (Being the forfeiture of 10 preference shares for nonpayment of final call of Rs. 20 each)		1,000	 200 800
	Bank Account Dr. Shares Forfeited Account Dr. To Redeemable Preference Share Capital To Capital Reserve Account (Being the reissue of redeemable preference shares on payment of Rs. 500 and the profit transferred to Capital Reserve Account)		500 800	 1,000 300
	Securities Premium Account Dr. General Reserve Account Dr. To Premium on Redemption Account (Being premium on redemption provided out of past accumulated profits & securities premium out of fresh issue)		4,500 5,500	 10,000
	General Reserve Account Dr. To Capital Redemption Reserve A/C (Being the transfer of Rs. 55,000, the amount of shares redeemed out of profit, to Capital Redemption Reserve Account)		55,000	 55,000
	Redeemable Preference Share Capital A/C Dr. Premium on Redemption Account Dr. To Preference Shareholders Account (Being the amount due to redeemable preference shareholders on redemption)		1,00,000 10,000	 1,10,000

	Preference Shareholders Account Dr. To Bank Account (Being amount paid on redemption of 1,000 Redeemable Preference Shares)		1,10,000	1,10,000

BALANCE SHEET OF RELIANCE LIMITED. (after redemption)

Liabilities	Rs	Assets	Rs.
Share Capital:		Fixed Assets:	
54,500 equity shares of Rs.		Other assets	8,10,000
10 each fully paid.	5,45,000	Current Assets	
Reserves and Surplus:		Cash at Bank (see note)	25,800
Capital Reserve	300	Misc. Expenses & Losses	
Capital Redemption Reserve	55,000	Share issue expenses	5,000
General Reserve	39,000		
Dev. Rebate Reserve	50,000		
Current Liabilities:			
Other Liabilities	1,51,000		
	8,40,800		8,40,800

Note: Calculation of Cash at Bank :

CASH AT BANK ACCOUNT

	Rs		Rs
To Balance b/d	90,000	By Share Issue Expenses	5,000
To Share Capital	45,000	By Preference Shareholders	1,10,000
To Securities Premium	4,500		
To Pref. Shares Calls in Arrears	800	By Balance c/d	25,800
To Red Pref. Share Capital	500		
	1,40,800		1,40,800

REDEMPTION OF DEBENTURES

Meaning of Debentures

A company for its extension and development may require raising funds without increasing its share capital. The company may invite the public by open declaration to lend money for a fixed period at a declared rate to be paid on such money. Debentures is an instrument in writing given by a company acknowledging the liability for the total amount received as a result of issue of debentures and agreeing thereby to pay the money raised after the expiry of the stipulated period at a certain rate of interest per annum The Company Act defines debentures as 'debenture includes debenture stock, bonds or any other securities of a company, whether constituting a charge on the assets of the company or not.'

Difference between Debenture and Debenture Stock

The following are the difference between a debenture and a debenture stock:

(1) Debenture need not be fully paid whereas debenture stock must be fully paid.
(2) Debenture can be transferred wholly whereas debenture stock can be transferred in fractions also.
(3) Debentures are identified by their distinct numbers whereas no such distinct numbers are in case of debenture stock.

Stages of Debentures:

(I) Issue of Debentures
(II) Redemption of Debentures.

Debentures may be redeemed in one of the following three ways:-

(1) **In one lot:** All the debentures may be redeemed in one lot at the end of a specified period of time or even before the expiry of the specified period of time by serving a notice to debenture holders.
(2) **In installments by draw of lots:** The debentures may be redeemed in installments. For example one-tenth of the total debentures may be redeemed every year for ten years by draw of lots. Lot will have to be drawn every year to determine which particular debentures have to be redeemed in that particular year.
(3) **By purchase of debentures in the open market:** A company may reserve the right to buy its debentures in the open market. If the company cancels the debentures so purchased, it will amount to redemption of these debentures.

When debentures are issued with certain conditions at which redemption can be made, there are five cases which are given as follows:

Case	Conditions of Issue	Conditions of Redemption
1.	Issued at par	Repayable at par
2.	Issued at Premium	Repayable at par
3.	Issued at discount	Repayable at par
4.	Issued at par	Repayable at premium
5.	Issued at discount	Repayable at premium

The journal entries to be passed at the time of issue and redemption of debentures in the five cases are given below:

I.	When debentures are issued at par and repayable at per:		Rs.	Rs.
	(a) On issue of debentures:			
	Bank Account Dr.		xxx	
	To Debentures Account			xxx
	(b) On redemption of debentures:			
	Debentures Account Dr.		xxx	
	To Bank Account			xxx
II.	When debentures are issued at premium and repayable at par:			

	(a) On issue of debentures: Bank Account Dr. To Debentures Account To Premium on Issue of Debentures A/C		 xxx	 xxx xxx
	(b) On redemption of debentures: Debentures Account Dr. To Bank Account		 xxx	 xxx
III.	When debentures are issued at discount and repayable at par: (a) On issue of debentures: Bank Account Dr. Discount on Issue of Debentures A/C Dr. To Debentures Account		 xxx xxx	 xxx
	(b) On redemption of debentures: Debentures Account Dr. To Bank Account		 xxx	 xxx
IV.	When debentures are issued at par and repayable at premium: (a) On issue of debentures: Bank Account Dr. Loss on the issue of Debentures Account Dr. To Debentures Account To Premium on Redemption of Debentures		 xxx xxx	 xxx xxx
	(b) On redemption of debentures: Debentures Account Dr. Premium on the redemption of debentures Dr To Bank Account		 xxx xxx	 xxx
V.	When debentures are issued at a discount but repayable at a premium: (a) On issue of debentures: Bank Account Dr. Loss on the Issue of Debentures Account Dr. To Debentures Account To Premium on Issue of Debentures A/C		 xxx xxx	 xxx xxx
	(b) On redemption of debentures: Debentures Account Dr. Premium on Redemption of Debentures A/c Dr. To Bank account		 xxx xxx	 xxx

Sources of Finance for Redemption of Debentures:

(1) Redemption out of Profits:

When debentures are redeemed out of profits, profits of the company are utilized for the purpose of redemption withholding the same for dividend. In such a case the following journal entries will be passed.

1.	Entry for amount paid on redemption: Debentures Account Dr. To Bank Account		Rs. xxx	Rs. xxx
2.	Entry for transfer of profit: Profit and Loss Appropriation Account Dr. To Debenture Redemption Reserve Account		 xxx	 xxx
3.	When balance of D.R.R A/c is not required for redemption and is transferred to General Reserve Account: Debenture Redemption Reserve Account Dr. To General Reserve Account		 xxx	 xxx

(2). **Redemption out of capital**:

If debentures are redeemed out of capital, no amount of divisible profit is kept aside for redeeming debentures. Profits are not utilized for redemption of debentures and may go to the shareholders by way of dividends. Redemption out of capital reduces the liquidity resources available to the company. Therefore, a company may adopt this method only when it has sufficient surplus funds.

According to the guidelines issued by SEBI, a company has to create Debenture Redemption Reserve equivalent to 50% of the amount of debentures issued before redemption of debentures commences. Thus, according to this provision redemption of debentures wholly out of capital is now not possible. However, creation of Debenture Redemption Reserve is not required in the following cases:

1. Debentures with a maturity of 18 months or less.
2. Fully convertible debentures. In case of partly convertible debentures, Debenture Redemption Reserve is to be created for the non-convertible part in the same way as applicable for fully non-convertible debentures.

	When debentures are redeemed out of capital the following entry is made:		Rs.	Rs.

	Debentures Account Dr. To Bank Account		xxx	 xxx
	Sometimes instead of passing one entry given above, the following two entries are passed: (a) Debentures Account Dr. To Debenture holders (c) Debenture holders Account Dr. To Bank Account		 xxx xxx	 xxx xxx

(3).Redemption by conversion:

Sometimes the debenture holders of a company are given the option to convert their debentures into the shares or new debentures within a stipulated period. Such option is exercised by the debenture holders only when they are very sure about the progress of the company. The new shares or debentures can be issued either at par or at a premium or at a discount. The following entry will be made:

			Rs.	Rs.
	Old Debentures Account Dr. Discount on the Issue of Shares/Debentures A/C Dr. To New Share Capital / Debentures Account To Premium on Issue of shares/Debentures Account		xxx xxx	 xxx xxx

Illustration 4: On July 1, 2006 X Ltd. gave notice of its intention to redeem its outstanding Rs. 4,00,000 4 ½ % Debenture Stock on January 1, 2007 at 102 per cent and offered the holders the following options:

(1) To apply the redemption money to subscribe for:
   (a) 6^ Cumulative Preference Shares of Rs. 20 each at Rs. 22.50 per share accepted by the holders of Rs.1,71,000 stock, or
   (b) 6% Debenture stock of Rs. 96 accepted by the holders of Rs. 1,44,000 stock, or
(2) To have their holdings redeemed for cash if neither of the options under (1) was accepted.

You are required to show the journal entries necessary to record the redemption and allotments under (1) and (2) and to state the amount of cash required to satisfy the option.

Solution:

JOURNAL **Dr.** **Cr.**

			Rs.	Rs.
	4 ½ % Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Debenture holders Account (Being redemption of debentures of Rs. 4,00,000 at 102 per cent)		4,00,000 8,000	 4,08,000
(1)(a)	Debenture holders Account Dr. To 6% Cumulative Preference Share Capital A/c		1,74,420	 1,55,040

	To Securities Premium Account (Being debenture holders of Rs. 1,71,000 (Redemption value Rs. 1,74,420) accepted Cum. Pref. Shares of Rs. 20 each at 22.50 per share)			19,380
(b)	Debenture holders Account Dr. Discount on Issue of Debentures Account Dr. To 6% Debentures Account (being debenture holders of Rs. 1,44,000 (redemption value Rs. 1,46,880) issued new 6% Debentures at Rs. 96)		1,46,880 6,120	1,53,000
	Debenture holders Account Dr. To Bank Account (Being Debenture holders of Rs. 85,000 (redemption value Rs. 86,700) paid in cash)		86,700	86,700
(2)	Total amount required for Redemption is Rs. 4,08,000, i.e., (4,00,000 X 102/100)			

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Coimbatore - 641 021.

II B.COM (CA)

Third Semester - 2017-18

CORPORATE ACCOUNTING - 15CCU301

UNIT I POSSIBLE QUESTIONS (6 MARKS)

1. Ranjani Ltd. issued 20,000 shares of Rs.10 each at a premium of Rs.2 per share. The shares were payable as follows:

   Rs. 2 on Application

   Rs. 5 on allotment (including premium)

   Rs.5 on first and final call

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 500 shares which were forfeited. 200 of these were reissued as fully paid at Rs.8 per share. Give the necessary journal entries and balance sheet of the company.

2. Mani Limited made an issue of 60,000 shares which were underwritten as follows:

   X=30,000 shares Y= 18,000 shares Z= 12,000 shares

In addition there was firm underwriting as follows:

   X=3,000 shares Y= 1,500 shares Z= 4,500 shares

The total subscription including Firm underwriting was for 45,600 shares. The following marked form was included in the subscriptions.

X=9,000 shares Y= 13,500 shares Z= 5,100 shares. Show the allocative of liabilities of each underwriter. If the benefit of firm underwriting application is given to individual underwriters by treating them like 'Marked forms'.

3. X Co. Ltd. Issued 40000 shares of Rs. 10 each at premium of Rs.2 per share. The amount was payable as under:

   On application Rs.3 per Share

   On allotment Rs.4 per Share (including premium)

   On application Rs.3 per Share

On application Rs.2 per Share

The company received applications for 50,000 shares and the allotment was made as under:

i. Applicants for 2,000 shares – Nil

ii. Applicants for 8,000 shares – Full

iii. Applicants for 40,000 shares- 32,000 shares

All the moneys were duly received except the first call on 2,000 shares and final call on 3,000 shares. Give necessary Journal entries

4. The company issued for subscription 50,000 Shares at a premium of Rs. 10 each. The entire issue was underwritten as follows:

X – 30,000 Shares (Firm underwriting – 4,000 Shares)

Y – 15,000 Shares (Firm underwriting - 5,000 Shares)

Z - 5,000 Shares (Firm underwriting – 1,000 Shares)

Out of the total issue 40,000 Shares including firm underwriting were subscribed. The following were the marked forms:

X – 10,000 Shares; Y – 7,000 Shares; Z – 3,000 Shares.

Calculate the liability of each underwriter assuming shares underwritten are treated as unmarked applications.

5. A Ltd invited application for 10000 shares of Rs.100 each at a discount of 6% payable as Follows. On application Rs.30, On allotment Rs.24, On first & final call Rs. 40. Application was received for 9500 shares and all these were accepted. All moneys due were received except the final call on 250 shares which were forfeited. All forfeited shares were reissued at Rs.80 per share as fully paid. Pass the journal entries in the books of the company.

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Third Semester - 2017-18

CORPORATE ACCOUNTING - 15CCU301

UNIT II POSSIBLE QUESTIONS (6 MARKS)

1. A company has 10,000 9% redeemable preference shares of Rs.100 each fully paid. The company decides to redeem the shares on 31 Dec 2004 at a premium of 10%. The company makes the following issues:

i. 6000 equity shares of Rs.100 each at a premium of 10%

ii. 4000, 8% Debentures of Rs. 100 each

The issue was fully subscribed and allotments were made. The redemption was duly carried out. The company has sufficient profits. You are required to give the necessary entries.

2. Karthi Ltd. was incorporated on 31st July 1977 to purchase the business of Latha & Co as on 1st April 1977. The books of accounts disclosed the following on 31st March 1978.

1. Sales for the year Rs.32.10, 400 (1st April to 31st July 77 Rs.8,02,600: 1st July 1977 to 31st March 1978 Rs.24,07,800)

2. Gross profit for the year Rs.4,12,800,managing directors salary Rs.12,000, preliminary expenses written off Rs.18,000. Company secretary's salary Rs.58,000.

3. Bad debts written off Rs. 14,890 (prior to 31st July Rs.4,020, after 31st July Rs.10780)

4. Depreciation on machinery Rs.25,200, general expenses Rs.51,000, advertising Rs.7400, interest on debentures Rs.20,000

You are required to prepare a statement apportioning properly the net profit of the company as between a) Profits available for distribution b) Profits prior to incorporation.

3. On 30th June 1998 the balance sheet of Sandha Ltd stood as follows

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	10,00,000	Sundry Assets	14,00,000
Redeemable Pref. Share Capital	4,00,000	Bank	5,00,000
P&L A/c	3,00,000		
Sundry Creditors	2,00,000		
	19,00,000		**19,00,000**

On the above date, the preference shares had to be redeemed. For this purpose, 2,000 equity shares of Rs.100 each were issued at Rs.110. The company also issued 8% debentures totaling Rs.3,00,000. The shares and debentures were immediately subscribed and paid for. The preference shares were duly redeemed. Give journal entries and balance sheet after redemption.

4. Muhesh Ltd., was registered on 1-7-97 to acquire the running business of Akal &Co., with effect from 1-1-97. The following was the profits and Loss account of the company on 31-12-97.

Particulars	Rs.	Particulars	Rs.
To Office expenses	54,000	By Gross profit B/d	2,25,000
To Formation expenses(written off)	10,000		
To Stationery & Postage	5,000		
To Selling Expenses	60,000		
To Directors 'Fees	20,000		
To Net Profits	76,000		
	2,25,000		**2,25,000**

You are required to prepare a statement showing profits earned by the company in the pre and post incorporation period. The total sales for the year took place in the ratio or 1:2 before and after and after incorporation respectively.

5. The balance sheet of Makesh Ltd as on 31.12 .1997 was as follows:

Liabilities	**Amount (Rs.)**	**Assets**	**Amount(Rs.)**
Share capital : 25,000 equity shares of Rs10 each , fully paid	2,50,000	Sundry assets	4,60,000
2,000 redeemable preference shares of Rs1000 each fully paid	2,00,000	Bank balance	3,00,000
Profit and loss A/c	2,60,000		
Creditors	50,000		
	7,60,000		**7,60,000**

On the above date, the preference shares were redeemed at a premium of 20%.You are required to pass journal entries and give the amended balance sheet.

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UNIT III

AMALGAMATION OF COMPANIES:

Concepts and accounting treatment as per accounting standard:14(ICAI) (excluding inter-company holdings). Internal Reconstruction – concepts and accounting treatment excluding scheme of reconstruction

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Amalgamation:

The term amalgamation is used when two or more companies carrying on similar business go into liquidation and a new company is formed to take over their business.

Amalgamation means formation of a new company to take over atleast two existing companies which go into liquidation. Hence in amalgamation, there is birth of a new company with the closure of atleast two companies which wind up their business. The business of the companies going into liquidation are transferred to a new company formed for this purpose, in return for a purchase consideration. Therefore in amalgamation, there are minimum of two companies going into liquidation simultaneously and a new company formed at the same time to take over the business of the liquidated companies.

Amalgamation = Two or more liquidations and one formation

Absorption = One liquidation and no formation

External Reconstruction = One liquidation and one formation

Suppose there are two existing companies viz. X Co. Ltd. and Y Co. Ltd.

- **Amalgamation** : A new company XY Co. Ltd. is formed which takes over the business of X Co. Ltd. and Y Co. Ltd. Both the companies X Co. Ltd. and Y Co. Ltd. go into liquidation.
- **Absorption :** An already exiting company X Co. Ltd. takes over business of Y Co. Ltd., which goes into liquidation.

- **External Reconstruction** : A new company Z Co. Ltd. is formed to take over X Co. Ltd. (or Y Co. Ltd.) which goes into liquidation.

Accounting Standard (AS-14) and Amalgamation

The Council of the Institute of Chartered Accountants of India has issued Accounting Standard - 14, ‘Accounting for Amalgamation’ which states the procedure for accounting for amalgamations. This standard is mandatory in nature and effective from accounting periods commencing on or after 1-4 -1995.

The following terms are used in this statement with the meanings specified :

a) Amalgamation means, an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other status which may be applicable to companies.

b) Transferor company means, the company which is amalgamated into another company.

c) Transferee company means, the company into which a Transfer Company is amalgamated.

d) Reserve means, the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.

Types of Amalgamation

As per this standard there are two types of amalgamation viz.

1. Amalgamation in the nature of merger.

2. Amalgamation in the nature of purchase.

Figure shows the Types of Amalgamations as follows:

Amalgamation in the nature of merger - An amalgamation is in the nature of merger if following conditions are satisfied :

- All assets and liabilities of Transferor Company are taken over by the Transferee Company.
- The shareholders holding at least 90% or more of the equity shares of the Transferee Company become the equity shareholder of the Transferee Company (shares already held by the transferee Company and its subsidiaries are not counted for the purpose of 90% or more limit.
- Consideration for the amalgamation is paid in equity shares by the Transferee Company to the equity shareholder of the Transferor Company (except fractional shares can be paid in cash.)
- Business of the Transferor Company is intended to be carried on by the Transferee Company.
- No adjustment is made in the book values of the assets and liabilities of the Transferor Company by way of revaluation or otherwise, except the adjustments to ensure uniformity of accounting policies. For example , if Transferor Company follows the straight lines method of depreciation for the fixed assets whereas the Transferee Company follows the diminishing balance method of depreciation, the Transferee Company can adjust the book value of fixed assets of the Transfer Company only for the difference of depreciation between straight line method and diminishing balance method. Such adjustment in the book value of fixed assets will not be treated as revaluation.

Amalgamation in the nature of purchase - An amalgamation will be considered in the nature of purchase if any of the conditions regarding amalgamation in the nature of merger is not satisfied.

These are amalgamations which are in effect a mode by which one company acquires another company and as a consequence, the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or the business of the company which is acquired is not intended to be continued.

Purchase Consideration

Purchase consideration is the amount which is paid by the purchasing (transferee) company for the purchase of the business of the vendor (transferor) company. The purchasing company agrees to pay certain sum of payments to the vendor company called purchase consideration. While determining the amount of purchase consideration special care should be given to the valuation of assets and liabilities of the vendor (transferor) company. The calculation of purchase consideration is very important and may be calculated in the following ways:

(1) **Lump Sum Method.** When the transferee company agrees to pay a fixed sum to the transferor company, it is called a lump sum payment of purchase consideration. For example, if A Ltd., purchases the business of B Ltd., and agrees to pay Rs. 50,00,000 in all, it is an example of lump sum payment.

(2) **Net Worth (or Net Assets) Method.** According to this method, the purchase consideration is calculated by calculating the net worth of the assets taken over by the transferee company. The net worth is arrived at by adding the agreed value of assets taken over by the transferee company minus agreed value of liabilities to be assumed by the transferee company. While calculating purchase consideration under this method the following points merit attention:

  (a) The term 'Assets' will always include cash in hand and cash at bank unless otherwise specified but shall not include fictitious assets as preliminary expenses, discount on the issue of shares or debentures, underwriting commission, debit balance of Profit & Loss Account, etc.

  (b) If the particular asset is not taken over by the transferee company, it should not be included in the purchase consideration.

  (c) The term 'Liabilities' will mean all liabilities to third parties (i.e., excluding company and shareholders).

(d) The term ‘trade liabilities’ will include trade creditors and bills payable. It will exclude other liabilities to third party as bank overdraft, debentures, outstanding expenses, tax liability etc.

(e) If a fund or portion of a fund denotes liability to third parties, the sum must be included in the liability as staff provident fund, workmen’s’ savings bank account, workmen’s’ profit sharing fund, workmen’s’ compensation fund (up to the amount of claim, if any).

(f) The ‘term liability’ will not include past accumulated profits or reserves such as general reserve, dividend equalization fund, reserve fund, sinking fund, capital reserve, securities premium account, capital redemption reserve account, profit and loss account etc., as these are payable to shareholders and not to third parties.

(g) The term ‘business’ will always mean both the assets and the liabilities.

(h) If any liability is not taken over by the transferee company, the same should not be included in the purchase consideration.

(i) Goodwill (being an intangible asset) value agreed to be paid by the transferee company is added in the purchase consideration.

(j) The consideration for the amalgamation should include any non-cash element at fair value. In case of issue of securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.

(k) Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payment should be included in the consideration if payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment should be recognized as soon as the amount is determinable [see Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date].

(l) Treatment of Reserves Specified in a Scheme of Amalgamation. Where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transferor company after amalgamation, the same should be followed.

Net worth or net assets method of purchase consideration may be made clear by the following example :

BALANCE SHEET OF KARPAGAM CO. LTD.

As at 31st March, 2005

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital		Goodwill	2,80,000
60,000 Equity Shares of Rs.10	6,00,000	Land and Buildings	1,60,000
5% Debentures	1,00,000	Plant and Machinery	2,80,000
Sundry Creditors	60,000	Stock	1,60,000
General Reserve	40,000	Debtors	80,000
Profit and Loss account	2,00,000	Cash	20,000
		Preliminary Expenses	20,000
	10,00,000		10,00,000

Suppose (i) Company **Providence Ltd.,** takes over the business of Company Karpagam Ltd.,; (ii) The value agreed for various assets is : Land and Buildings Rs. 2,50,000, Plant and Machinery Rs. 2,40,000, Goodwill Rs, 2,20,000, Stock Rs. 1,30,000 and Debtors Rs. 80,000; Providence Company does not take over cash but agrees to assume the liability of Sundry Creditors at Rs. 50,000.

The calculation of purchase consideration will be as follows :

Value of assets taken over by Providence Company Ltd., :

Rs.

Land and Buildings	2,50,000
Plant and Machinery	2,40,000
Goodwill	2,20,000
Stock	1,30,000
Debtors	80,000

	9, 20,000
Less : Sundry Creditors taken over by Providence Co. Ltd.	50,000

Purchase Consideration	**8,70,000**
	------------

(3) **Net Payment Method.** Under this method purchase consideration is calculated by adding the various payments in the form of shares, securities, cash etc. made by the transferee company. No amount of liabilities is deducted even if these are assumed by the purchasing company. Thus purchase consideration is the total of all the payments whether in shares, securities or cash.

Suppose, in the example given above Providence Ltd., agrees to give for every 10 shares in Karpagam Ltd., 15 shares of Rs. 10 each, Rs. 8 paid up; Providence Ltd., also agrees to pay Rs. 1,50,000 cash to discharge the creditors.

The Purchase Consideration will be calculated as under :

Shareholders of Karpagam Ltd. will get :

$60{,}000 \times \frac{15}{10}$ = 90,000 shares of Rs. 10 each, Rs. 8 paid up	7,20,000
Cash paid to discharge creditors	1,50,000

Purchase Consideration	8,70,000

----

(4) **Shares Exchange Method.** Under this method purchase consideration is required to be calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing the net assets available for equity shareholders by the number of equity shares. This value determines the ratio of exchange of the shares between the transferee and transferor companies. In some cases the agreed values of the shares of both the companies are given. In that case the purchase consideration is calculated with reference to the value of shares of two companies involved.

Suppose X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity. Their capital is Rs. 60,00,000 and Rs. 20,00,000 (value of each share , Rs. 100). The two companies decided to amalgamate in XY Ltd. If each share of X Ltd. and Y Ltd. is valued at Rs. 150 and Rs. 250 respectively for the purpose of amalgamation, then purchase consideration will be as under :

	X Ltd.	Y Ltd.
	Rs.	Rs.
60,000 shares of Rs. 150 each	90,00,000	---
20,000 shares of Rs. 250 each	---	50,00,000

Note : While issuing shares to individual shareholders of the selling company, these may be in fractions. A company cannot issue shares in fractions but it can issue fractional certificates or coupons or pay cash for the fractions.

AMALGAMATION , ABSORPTION AND EXTERNAL RECONSTRUCTION ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEROR COMPANY:

The books of the transferor company being wound up will be closed in the same way as the books of a partnership firm being dissolved. The following entries are made:

(1) For transferring assets taken over by the transferee company

Realization Account

To Various Assets (individually at book value)

Note. Assets which are not taken over by the purchasing company as cash, bank balance will not be transferred to Realization Accounts. Fictitious assets like preliminary expenses, discount or commission or expenses on issue of shares or debentures, debit balance of profit and loss account are not to be transferred to realization account. Assets on which some provision has been made are to be transferred to realization account at their gross figures and provisions has been made should be transferred along with liabilities.

(2) For transferring liabilities taken over by the transferee company

Various Liabilities (Individually) Dr. (at book value)

To Realization Account

Note. Only those liabilities are to be transferred which have been assumed by the transferee company. Accumulated profits like credit balance of profit and loss account, general reserve, dividend equalization reserve, sinking fund, capital reserve are not transferred to realization account. If there is any fund which partially represents liability and partially undistributed profit, then that portion which represents liability should be transferred to realization account. Trade liabilities include sundry creditors and bills payable but not outstanding bills.

(3) For purchase consideration

Transferee Company's Account Dr.

To Realization Account

(4) For receiving purchase consideration from the transferee company

Bank Account Dr.

Shares in Transferee Company A/c Dr.

To Transferee Company a/c

(5) For assets sold by the transferor company not taken over by the transferee company

Bank Account Dr.

Realization A/c (if loss on sale of assets) Dr.

To Assets Account

To Realization A/c (if profit on sale of assets)

(6) For liquidation expenses

(a) If the expenses are to be met by the transferor company

Realization Account Dr.

To Bank Account

(b) If the expenses are to be met by the transferee company, there are two alternatives:

First Alternative – no entry.

Second Alternative – the following two entries will be passed:

(i) Transferee Co.'s A/c Dr.

To Bank Account

(ii) Bank Account Dr.

To Transferee Co.'s A/c

(c) If liquidation expenses are included in the purchase consideration and not paid separately by the purchasing company

Realization Account Dr.

To Bank Account

(7) For liabilities not taken over by the transferee company when paid by the transferor company

Various Liabilities A/c Dr.

Realization A/c (if excess payment is made) Dr.

To Bank Account

Or Shares in Transferee co. A/c

To Realization A/c (if less payment is made)

(8) For Closing Realization Account

(a) If Profit

Realization A/c Dr.

To Equity shareholders A/c

(b) If Loss

Equity Shareholders A/c Dr.

To Realization A/c

(9) For transferring Preference Share Capital

Preference Share Capital A/c Dr.

To Preference Shareholders A/c

Note. If arrears of dividend are to be paid to preference shareholders, then such excess amount should be debited to realization account and credit to Preference Shareholders Account. If the preference shareholders have agreed to get less than the amount of capital, then reverse entry is to be passed.

(10) For transferring equity share capital and accumulated profit:

Equity Share Capital A/c Dr.

General Reserve A/c Dr.

Debenture Redemption Reserve A/c Dr.

Dividend Equalization Reserve A/c Dr.

Share Premium A/c Dr.

Profit and Loss A/c Dr.

Accident Compensation Fund Dr

Share Forfeited A/c Dr.

Profit Prior to Incorporation A/c Dr.

Any Other Reserve or Fund A/c Dr.

To Equity Shareholders A/c

(11) For transferring accumulated loss and expenses not written off

Equity Shareholders A/c Dr.

To Profit and Loss A/c

To Discount or Expenses on issue of shares or debentures

To Preliminary Expenses

To Underwriting Commission

(12) For paying shareholders

Preference Shareholders A/c Dr.

Equity Shareholders A/c Dr.

To Bank or Shares in transferee company

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEREE COMPANY

(1) On amalgamation of business

Business Purchase Account Dr. (with the amount of

To Liquidators of Transferor Co purchase consideration)

(2) For recording assets and liabilities taken over

Sundry Assets (Individually) Account Dr. (with book value)

To Sundry Liabilities A/C (Individually) (with book value)

To Reserve Account (with book value)

To Business Purchase Account (with book value)

The difference between debits and credits is adjusted in the reserves of the transferee company.

Note. As per AS – 14, the balance of the Profit and Loss A/C of the transferor company is transferred to General Reserve. If any.

Instead of passing two entries one combined entry can be passed :

Sundry Assets Account Dr.

To Sundry Liabilities

To Profit and Loss Account

To Reserve Account

To Liquidators of the Transferor Co. A/C

The difference between the above mentioned debits and credits is adjusted against the reserve in the books of transferee company.

(3) For making payment to the liquidator of the transferor company.

Liquidator of the Transferor Co. A/C Dr.

To Bank / Share Capital / Securities Premium (if any)

(4) If liquidation expenses are paid by the transferee company

Profit and Loss Account Dr.

To Bank Account

(5) For the formation expenses of the transferee company

Preliminary Expenses Account Dr.

To Bank Account

Amalgamation –Net assets method

Illustration 1 : M Ltd and N ltd agreed to amalgamate on the basis of the following balance sheets as on 31.3.97

Liabilities	**M Ltd**	**N Ltd**	**Assets**	**M Ltd**	**N Ltd**
Share capital @Rs25 each	75,000	50,000	Good will	30,000	-
P & L A/c	7,500	2,500	Fixed Assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Depreciation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500
	86.000	**58,500**		**86,000**	**58,500**

The assets and liabilities are to be taken over by a new company formed called O ltd, at book values. P Ltd 's capital is Rs2,00,000 divided into 10,000equity shares of Rs10 each and 10,000 9% preference shares of Rs10 each .

P Ltd issued the equity shares equally to the vendor companies and preferences shares were issued for any balance of purchase price.

Pass journal entries in the books of P Ltd and prepare its balance sheet.

Solution:

Statement showing purchase consideration (net Assets)

Particulars	M Ltd(amount)		N Ltd(amount)	
Sundry assets taken over		86,000		58,500
Less: Liabilities Creditors Deprecation fund	 3,500 -	 3,500 	 3,500 2,500	 6,000
Purchase consideration		82,500		52,500
Less: Equity shares issued Equally (1,00,000/2)		50,000		50,000
Value of preference shares issued		**32,500**		**2,500**

Books of P Ltd (purchasing company)

Journal entries

Particulars	Debit (amt)	Credit (amt)
Business purchase A/c Dr To Liquidator of M ltd To Liquidator of N Ltd (being purchase price payable to the vendor companies)	1,35,000	 82,500 52,500
Fixed Assets A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr Good will A/c Dr To creditors A/c	70,300 27,000 13,200 4,000 30,000	 7,000 2,500

To depreciation fund A/c To business purchase A/c (being assets and liability taken over from M Ltd and N Ltd and good will thereon)		1,35,000
Liquidator of M Ltd Dr To equity share capital A/c To 9% preference share capital A/c (being payment of purchase price)	82,500	 50,000 32,500
Liquidator of N Ltd A/c Dr To Equity share capital A/c To 9% preference share capital A/c	52,500	 50,000 2,500

Balance sheet of P Ltd as on 31st March 1997

Liabilities	Amount	Assets		Amount
Share capital:		Fixed assets:		
10,000 equity shares of Rs 10 each	1,00,000	Good will		30,000
10,000 9% preference shares of Rs 10 each	1,00,000	Other fixed assets	70,300	
		Less: Dep fund	2,500	67,800
Issued and paid up : 10,000 equity shares of Rs10 each fully paid	1,00,000	Current assets:		
3,500 9% preferences shares of Rs10 each fully paid	35,000	Stock		27,000
(all the above shares were issued for consideration other than cash)		Debtors		13,200
		Bank		4,000

Current liabilities: Creditors	7,000		
	1,42,000		**1,42,000**

RECONSTRUCTION

It means reconstruction of a company's financial structure. It may take place either with or without the liquidation of the company.

MEANING:

In case of Internal Reconstruction the company's existing financial structure is reorganised without dissolving the existing company and without forming a new company. Taking a wider meaning of the term 'Internal Reconstruction' it includes :

i) Alteration of Share Capital under Section 94 to 97.

ii) Reduction of Share Capital under Section 100 to 105.

iii) Variation of Shareholders' Right under Section 106.

iv) Scheme of Compromise/Arrangement under section 391 to 393 and 394 A.

Internal Reconstruction:

The capital of a company is formed to take over the business of an existing company which will be liquidated. The capital of a company is reorganized to enable it to make a fresh beginning, after eliminating accumulated losses.

- Generally , internal reconstruction is preferred by companies over external reconstruction due to the following reason:
- Liquidation of the existing company and formation of new company involve a large number of legal formalities and are also expensive.
- Accumulated losses of the liquidating company cannot be set off against the profits of the newly formed company though the shareholders may be the same, thus an important tax advantage is lost.
- The time span needed for external reconstruction is generally far more than that of internal reconstruction.

Accounting entries for reduction of capital:

1 **.** Reducing or completely extinguishing liability of the shareholders for uncalled capital

Example:1 A company whose capital consists of 5,000 shares of RS100 each , Rs75 called and paid , decides to reduce the shares into 5,000 shares of Rs 75 each fully paid.

Journal Entry

Particulars	**Debit(amt)**	**Credit (amt)**
Share capital A/c Dr To share capital A/c	3,75,000	 3,75,000

(being conversion of 5,000 shares of Rs100 each , Rs75 paid up into 5,000 shares of Rs75 each, fully paid up)		

2. **Refunding surplus capital which is found to be in excess of needs of the company**

Example 2: A company whose paid up capital includes 10,000 equity shares of Rs100 each fully paid decides to return Rs20 per share to the members, thus reducing each shares to Rs80 each ,fully paid .

Journal entry

Particulars	**Debit (amt)**	**Credit (amt)**
Equity share capital (Rs100) A/c Dr To equity share capital (Rs80) A/c To sundry shareholders A/c (being conversion of 10,000 shares of Rs100 each into shares of Rs80 each and the balance to be returned transferred to the members)	10,00,000	 8,00,000 2,00,000
Sundry shareholder A/c Dr To bank A/c (being return of capital to shareholders ad per the scheme)	2,00,000	2,00,000

3.Cancelling or writing off lost capital , not represented by assets

(a) .When face value of the shares is changed or the rate of preference dividend is changed , thus changing the category of the share.

Example 3: 5,000 equity shares of Rs10 each are reduced to fully paid shares of Rs6 each.

Journal entry

Particulars	**Debit (amt)**	**Credit (amt)**
Equity share capital (Rs10) A/c Dr To equity share capital (Rs6)A/c To capital reduction A/c (being conversion of 5,000 shares of Rs10 each into shares of Rs6 each fully paid, balance transferred to capital reduction A/c)	50,000	 30,000 20,000

When there is no change in the face value of the share or rate of preference dividend, thus resulting in no change in the category of the share.

Example 4: A company decides to reduce Rs3 per share on its 80,000 equity shares of rS10 each , fully paid.

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
Equity share capital A/c Dr To capital reduction A/c	2,40,000	 2,40,000

4 .when debenture holders or creditors make some sacrifice as a part of capital reduction scheme

Example 5:As per the capital reduction scheme adopted by a company,5,000 7%debentures of Rs100 each and the trade creditors have agreed to reduce their claims by Rs50,000

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
7% debenture A/c Dr Creditors A/c Dr To capital reduction A/c (being reduction of Rs20 per debenture on 5,000 debentures and reduction of creditors as per capital reduction scheme)	1,00,000 50,000	 1,50,000

5.When there is appreciation in the value of any of the assets

Example 6: On the date of capital reduction , accompany finds that its buildings have appreciated by Rs40,000 and the value of stock has gone up by Rs30,000

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
Buildings A/c Dr Stock A/c Dr To capital reduction A/c (being appreciation in the value of assets credited to capital reduction)	40,000 30,000	 70,000

7 .When capital reduction account is used to write off loses, reduce assets, etc as per the approved scheme

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
Capital reduction A/c Dr To profit and loss A/c (Dr balance) To preliminary expenses A/c To discount on issue of shares or debenture To good will A/c To Assets A/c (amount to be reduced) To capital reserve A/c(balance of any) (being losses written off and assets reduced as per capital reduction scheme)	XXX	 XXX XXX XXX XXX XXX XXX

Karpagam Academy of Higher Education

(Deemed University Established Under Section 3 of UGC Act, 1956)

Coimbatore - 641 021.

II B.COM (CA)

Third Semester - 2017-18

CORPORATE ACCOUNTING - 15CCU301

UNIT III POSSIBLE QUESTIONS (6 MARKS)

1. The following trial balance of Nithin Ltd as at 30th Dec 2008 is given to you

Debit	Rs.	Credit	Rs.
Stock (1.1.98)	80,000	8000 equity shares of Rs. 100 each, Rs.75 paid	6,00,000
Bank	17,600	6% debentures	2,00,000
Patents	60,000	Sundry Creditors	1,00,000
Calls in arrears	20,000	General Reserve	80,000
Returns inwards	30,000	Sales	10,00,000
Purchases	7,72,000	Returns outward	20,000
Wages	1,08,000	P&L A/c(Cr)	12,000
Insurance Prepaid	400		
Bills receivable	30,000		
Sundry debtors	80,000		
Discount on issue of debentures	10,000		
Plant and Machinery	4,00,000		
Land and Building	3,00,000		
Insurance	4,000		
General expenses	40,000		
Establishment expenses	60,000		
Total	**20,12,000**		**20,12,000**

Additional information:

1. Value of stock on 31st Dec 1998 was Rs.74,000
2. Outstanding wages totaled Rs.10,000
3. A provision 5% is to be credited on sundry debtors for doubtful debts
4. Depreciate patents @ 10 % and Plant& Machinery @ 7.5% and on Land & building @

4%. You are required to prepare Trading and Profit & Loss Account for the year ended 31.12.2008 and Balance sheet as on that date.

2. Prepare Company format final Account with imaginary figures.

3. A ltd was registered with an authorised capital of Rs6,00,000 in equity shares of Rs10 each. The following is its trial balance on 31st March 1998.

Trial balance of 'A'Ltd

Particulars	Debit Balance Rs.	Credit Balance Rs.
Goodwill	25,000	-
Cash	750	-
Bank	39,900	
Purchases	1,85,000	-
Preliminary expenses	5,000	-
Share Capital	-	4,00,000
12% Debentures	-	3,00,000
Profit and loss account (cr)	-	26,250
Calls in arrears	7,500	-
Premises	3,00,000	-
Plant and machinery	3,30,000	-
Interim dividend	39,250	-
Sales	-	4,15,000
Stock (1.4.2010)	75,000	-
Furniture	7,200	-
Sundry Debtors	87,000	-
Wages	84,865	-
General expenses	6,835	-
Salaries	14,500	
Director's Fees	5,725	
Bad Debts	2,110	
Freight and carriage	13,115	-
Debentures interest paid	18,000	-
Sundry creditors	-	77,000
General reserve	-	25,000
Provision for bad debts	-	3,500
	12,46,750	**12,46,750**

Prepare profit and loss account, profit and loss appropriation A/c and balance sheet in proper form after making the following adjustments

1. Deprecation plant & machinery by 15%
2. Write off Rs500 from preliminary expenses
3. Provide for 6 months interest on debentures
4. Leave bad and doubtful debts provision at 5% on sundry debtors
5. Provide for income tax 50%
6. Stock on 31.3.1998 Rs.95,000.

4. The accounts of the Ram Ltd showed an amount of Rs3,00,000 to the credit of profit & loss account on 31.3.1998 out of which the directors decided to place Rs60,000 to general reserve and Rs42,000 to debenture redemption fund.at the annual general meeting held on 15.6.1998 it was decided to place Rs20,000 to a development reserve and to pay a bonus of 2.5% of the profit of the directors as additional remuneration. The payment of the half-yearly dividends on Rs5,00,000 6%cumulative preference shares on sept 30,1997 and March 31.1998 was confirmed and a dividend @10 %was declared on the equity share capital of the face value of Rs6,00,000.The balance of profit & loss account is to be carried forward to next year. Prepare profit & loss appropriation A/c showing the above arrangements.

5. Siva ltd was registered with an authorised capital of Rs8,00,000 in equity shares of Rs10 each. The following is its trial balance on 31st March 1998.

Trial balance of 'siva 'Ltd

Particulars	**Debit balance (Rs)**	**Credit balance (Rs)**
Goodwill	10,000	
Cash	10,650	
Bank	30,000	
Purchase	1,85,000	
Preliminary expenses	5,000	
Share capital		4,00,000
12 % debentures		3,00,000
P&l a/C		26,250
Calls-in-arreas	7500	
Premises	3,30,000	
Plant & machinery	3,15,000	
Interim dividend	39,250	
Sales		4,15,000
Stock(1.4.97)	75,000	
Furniture & fixture	7200	
Sundry debtors	87,000	
Wages	84,865	
General expenses	12560	
Freight and carriage	13,115	
Salaries	14,500	
Bad debts	2,110	

Debenture interest paid	18,000	
Sundry creditors		77000
General reserve		25,000
Provision for bad debts		3,500
	12,46,750	**12,46,750**

Prepare profit and loss account, profit and loss appropriation A/c and balance sheet in proper form after making the following adjustments

1. Deprecation plant & machinery by 20%,furniture 10 %.
2. Write off Rs2500 from preliminary expenses
3. Provide for 6 months interest on debentures
4. Leave bad and doubtful debts provision at 5% on sundry debtors
5. Provide for income tax 50%
6. Stock on 31.3.1998 Rs1,95,000.

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UNIT 1V

Accounts of Holding Companies/ Parent companies:

Preparation of consolidated balance sheet with one subsidiary company – Relevant Provisions of Accounting Standard: 21(ICAI)

INTRODUCTION

One of the popular firms of business combination is by means of holding company or Parent Company. A holding company is one which directly or indirectly acquires either all or more than half the number of Equity shares in one or more companies so as to secure a controlling interest in such companies, which are then known as subsidiary companies. Holding companies are able to nominate the majority of the directors of subsidiary company and therefore control such companies. Holding company meet directly from such subsidiary company or it may acquired majority OR shares in existing company. Such company also considered as subsidiary company in which holding company acquired majority shares.

MEANING UNDER COMPANIES ACT 1956

Section 4 of the companies Act, 1956 defines a subsidiary company. A company is a subsidiary of another if and only if –

a) That other company controls the composition of its Board of Directors; or

b) That other –

i) Where the first mentioned company is an existing company in respect of which the holders of Preference shares issued before the commencement of this Act have the same voting rights in all respect as the holders of Equity shares exercises or controls more than half of the total voting power of such company.

ii) Where the first mentioned company is any other company, holds more than half in nominal value of its Equity share capitals. OR

iii) The company is a subsidiary of any company which is that other company's subsidiary.

ADVANTAGES OF HOLDING COMPANIES

Following are the advantages of Holding Company:

1) Subsidiary company maintained their separate identity.

2) The public may not be aware the existence of combination among the various company.

3) Holding company need not to be invest entire amount in the share capital in subsidiary company still enjoy controlling power in such company.

4) It would be possible to carry forward losses for income tax purposes.

5) Each subsidiary company prepares its own accounts and therefore financial position and profitability of each undertaking is known.

6) Holding company may additional acquired or disposed of and the shares in subsidiary company in market whenever if desired.

DISADVANTAGES OF HOLDING COMPANIES

1) There is a possibility of fraudulent manipulation of accounts.

2) Inter company transaction may not be at a fair prices.

3) Minority share holders interest may not be properly protected.

4) The accounts of various companies may be made upon different dates to, manipulate profit or financial position of Group companies.

5) The shareholders in the holding company may not be aware of true financial position of subsidiary company.

6) Creditors and outsiders shareholder in the subsidiary company may not be aware of true financial position of subsidiary company.

7) The Subsidiary Companies may be force to appoint person of the choice of holding company such as Auditors, Directors other officers etc. at in dually high remuneration.

8) The Subsidiary Company may be force for purchases or sale of goods, certain assets etc. as per direction of holding company.

PRESENTATION OF ACCOUNTS BY HOLDING COMPANIES

As laid down in section (212) of the companies Act, 1956. A holding company requires to attach its balance sheet. The following documents and present the same to its shareholders.

a) A copy of the Balance Sheet of the subsidiary.

b) A copy of the Profit and Loss Account of the subsidiary.

c) A copy of the Report of the Board of Directors of the subsidiary.

d) A copy of the Auditors Report of subsidiary.

e) A statement indicating the extent of holding company's interest in the subsidiary at the end of the accounting year of the subsidiary.

f) Where the financial year of the subsidiary company does not coincident with the financial year of the holding company. A statement showing the following.

i) Whether there are any changes in holding companies interest in subsidiary company since the close of financial year of the subsidiary company.

ii) Details of material changes which have occurred between the end of the financial year or the subsidiary company an end of the financial year of the holding company.

1.6 AS. 21 – Consolidation of Financial statement

AS. 21 come into effect in respect of accounting periods commencing on or after 1st April i.e. for year ending 31st March 2002. The A.S. 21 is applicable to all the enterprises that prepare consolidated financial statement. It is mandatory for Listed companies and Banking companies.

As per AS 21, The Consolidated financial statements would include:

i) Profit & Loss A/c

ii) Balance sheet

iii) Cash flow statement

iv) Notes of Accounts except typical notes.

v) Segment reporting

AS 21 also desire various import terms, as well as treatment and same while preparing consolidated financial statement. Consolidated financial statements should be prepared for both domestic as well as foreign subsidiaries.

CONSOLIDATION OF BALANCE SHEET

A holding company is required to present to its shareholders consolidated balance sheet of holding company and its subsidiaries. Consolidated balance sheet is nothing but addicting of up or combining the balance sheet of holding and its subsidiary together. However assets and liabilities are straight forward, i.e. added line to line and combination of share capital, reserves, and accumulated losses are not directly added in consolidated balance sheet.

Preparation of consolidated balance sheet. The following points need special attention while preparing consolidated balance sheet.

1) Share of holding company and share of minority (outside shareholders).

2) Date of Balance sheet of holding company and that of various subsidiary companies must be same. If they are not so necessary adjustment must be made before consolidation.

3) Date of Acquisition of control in subsidiary companies.

4) Inter company owing.

5) Revaluation of fixed assets as on date of acquisition, depreciation, adjustment on revaluation amount etc. which are discussed here in after.

- **COST OF CONTROL / GOODWILL / CAPITAL RESERVE :**

The holding company acquires more than 50% of the shares of the subsidiary company. such shares may be acquired at a market price. Which may be at a premium or at discount. This amount is reflected in the balance sheet of holding company of the assets side as investment in the shares of subsidiary company. This is the price paid for shares in net assets of subsidiary company as on date of its acquisition. Net assets of the subsidiary company consist of share capital, accumulated profits and reserve after adjustment, accumulated losses as on the date of acquisition.

If the amount paid by the holding company for the shares of subsidiary company is more than its proportionate share in the net asset of the subsidiary company as on the date of acquisition, the difference is considered as goodwill.

If there is excess of proportionate share in net assets of subsidiary company intrinsic of shares acquired and cost of shares acquired by holding company there will be capital reserve in favour of holding company.

It goodwill already exists in the balance sheet of holding company or both the goodwill thus calculated, will be added up to the existing goodwill. Capital Reserve will be deducted from Goodwill. In short, net amount resulting from goodwill and capital Reserve will be shown in the consolidated Balance sheet.

• MINORITY INTEREST :

The claim of outside shareholders in the subsidiary company has to be assessed and shown as liability in the consolidated balance sheet. Minority interest in the net assets of the company is nothing but the proportionate share of aggregation of share capital, reserve surpluses funds etc. proportionate share of all assets should be deducted from the minority interest.

Thus, minority interest is the share of outsider in the following.

1) Share in share capital in subsidiary.

2) Share in reserves (Both pre and post acquisition of subsidiary).

3) Share in accumulated losses should be deducted.

4) Proportionate share of profit or loss on revaluation of assets.

5) Preference share capital of subsidiary company held by outsiders and dividend due on such share capital, if there are profits. Minority interest means outsiders interest. It is treated as liability and shown in consolidated Balance sheet as current liability. This amount is basically intrinsic value of shares held by minority.

• **CAPITAL PROFITS AND REVENUE PROFITS :**

The holding company may acquire the shares in the subsidiary company either on the balance sheet date or any date earlier than balance sheet date. All the profit earned by the subsidiary company till the date of acquisition of shares by holding company have to be taken as capital profits for the holding company.

Such reserves loose their individual identity and considered as capital profits. In case, the holding company acquired shares on a date other than balance sheet date of subsidiary, the profits of subsidiary company will have to be apportioned between capital profits and Revenue profits from the point of view of the holding company. Thus any profit earned by subsidiary company before the date of acquisition is the capital profit, while any profit earned by subsidiary company after the date of acquisition is Revenue profits.

While preparing the consolidated balance sheet share in capital profits should be adjusted with the cost of control and Revenue profits / Reserves should be merged with the balances in the Reserve and surpluses of the holding company.

• ELIMINATION OF INVESTMENTS IN SHARES OF SUBSIDIARY COMPANY :

Investment in shares in subsidiary company represents the cost paid by the holding company to acquire the shares of the subsidiary company. The investment in shares of the subsidiary company entitles the holding company to share the net assets of the subsidiary company. While preparing consolidated balance sheet all the assets and liabilities of subsidiary company have to be merged with those of the holding company and therefore it is logical to eliminate investments of the holding company in the shares of the subsidiary company. Share in net assets of the outside shareholders should treat as the minority interest it is shown in the balance sheet on the liability side of holding company.

• MUTUAL OWING / INTER COMPANY TRANSACTIONS :

The holding company and the subsidiary company may have number of inter company transactions in any one or more of the following matters.

1. Loan advanced by the holding company to the subsidiary company or vice versa.

2. Bill of Exchange drawn by holding company on subsidiary company or vice versa.

3. Sale or purchase of goods on credit by holding company form subsidiary company or vice versa.

4. Debentures issued by one company may be held by the other.

As a result of these inter company transactions, certain accounts appear in the balance sheet of the holding company as well as the subsidiary company. In the consolidated balance sheet all these common accounts should be eliminated.

For e.g.

1. S Ltd. has taken loan of Rs. 20,000 from H Ltd. then S ltd. balance sheet shows a liability of Rs. 20,000 while H Ltd. balance sheet shows on assets of Rs. 20,000.
2. H Ltd. draws a bill of Rs. 50,000 on S Ltd., then H Ltd. books it
will show bills receivable Rs. 50,000 while S Ltd. books will

show bills payable Rs. 50,000.

3. S Ltd. issued debentures of Rs. 1,00,000 which are held by H Ltd. then S Ltd. balance sheet will show a liability of Rs. 50,000 while H Ltd. books will show an assets of Rs. 50,000.
All the above inter company transactions have to be eliminated while preparing the consolidated balance sheet. These can be done by deducting inter company transactions from the respective items on both sides of balance sheet.

• UNREALIZED PROFIT:

The problem of unrealized profit arises in those cases where the companies of the same group have sold goods to each other at the profits and goods still remain unsold at the end of the year company to whom the goods are sold. While preparing the consolidated balance sheet, unrealized profit has to be eliminated from the consolidated balance sheet in the following manner.

1. Unrealized profits should be deducted from the current revenue profits of the holding company.

2. The same should be deducted from the stock of the company consolidated balance sheet. Minority shareholders will not be affected in any way due to unrealized profits.

• CONTINGENT LIABILITIES:

As 29 defines a contingent liabilities as:

A possible obligation that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from the past events but not recognized / provided.

Such contingent liability may be of two types.

a) External contingent liability.

b) Internal contingent liability.

Internal contingent liability relates in respect of transactions between holding and subsidiary company and it will not be shown as foot note in the consolidated balance sheet, as they appear as actual liability in the consolidated balance sheet.

• REVALUATION OF ASSETS AND LIABILITIES :

The holding company may decide to revalue the assets and liabilities of the subsidiary company on the date of acquisition of share in the subsidiary company. Any profit or loss on such revaluation is a capital profit or loss.

Profit on revaluation of assets of the subsidiary company whether before or after date of acquisition of shares by the holding company, the same must be shared by the holding company, and the minority share holders in proportion to their respective holding. The minority share holders share should be added to the minority interest. But the holding company share should be treated as capital profits and considered in cost of control.

Further readjustment for depreciation on increase in the value of assets should be made in the profit and loss account in the subsidiary company. And same should be deducted from the Revenue profits of the subsidiary company.

• **PREFERENCE SHARES IN SUBSIDIARY COMPANY :**

In case the subsidiary company has also Preference share capital, its treatment on consolidation will be as follows:

a) Nominal value of non participating Preference share capital of the subsidiary company is held by the holding company should be adjusted in cost of control against the cost of Preference shares.

b) Preference shares held by outsiders. Paid up value of such Preference shares should be included in Minority interest.

• BONUS SHARES:

The issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as by the minority share holders without any additional cost. However ratio of holding will not change. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue profits.

i) Issue of bonus shares out of pre acquisition profits (capital profits): In case the subsidiary company issues bonus shares out of capital profits the cost of control remains unaffected in the consolidated balance sheet on account of issue of bonus shares. As share capital increases by the amount of bonus and capital profits decreases by the same amount. Hence, there is not effect on cost of control when bonus shares are issued from pre acquisition profits.

ii) Issue of bonus share of post acquisition profits (Revenue profits): In this case, a part of revenue profits will get capitalized resulting decrease in cost of control or increase in capital reserve. Issue of bonus shares whether out of capital profits or revenue profits will not affect on minority interest. Minority interest will remain unaffected.

• **TREATMENT OF DIVIDEND :**

i) **Dividend paid :** When subsidiary company pays dividend, the holding

company will naturally receive its due share. On receipt the holding company will debit bank account. However account to be credited depends upon whether dividend received out of pre-acquisition

profit or out of post acquisition profit. Dividend received by the holding company out of Pre-acquisition profit should be credited to investment account. Only the dividend out of post acquisition profit should be treated as Revenue income and credited to profit and loss account.

ii**) Proposed dividend :**

In case the subsidiary company has proposed dividend on its shares which is not accounted by the holding company for such dividend due on their investment in subsidiary company profits. Profit may be then analysed between capital Revenue in the usual manner.

iii) **Dividend payable :**

In case subsidiary company has declared dividend and the holding company taken credits for such dividend in its account, following treatments should be given.

1. No adjustment in respect of such dividend should be done in the subsidiary company book.

2. In the holding company books dividend out of pre-acquisition profit should be credited investment account. Dividend out of post acquisition profit should be credited to profit and loss account.

3. In the consolidated Balance-sheet the amount of dividend payable by the subsidiary company will be cancelled against the amount of dividend receivable by the holding company. Dividend payable to minorities may be either included in the minority interest or be shown separately as liability in the consolidated balance sheet.

iv) Intension to propose dividend: In case subsidiary company as intension to propose dividend, such proposed dividend given in adjustment may be completely ignored while preparing the consolidated balance sheet. Alternatively proposed dividend on share capital held by minority may be deducted from minorities interest and shown separately liability in the consolidated balance sheet.

• **PRELIMINARY EXPENSES :**

The preliminary expenses of subsidiary company may be taken as capital loss or the amount may be added with the amount of preliminary expenses of the holding company.

• **PROVISION FOR TAXATION :**

Any provision for taxation provided by the subsidiary company should be taken to the consolidated balance sheet and be shown on the liability side.

• **PURCHASE OF SHARES IN INSTALLMENT** :

A holding company may purchase shares of the subsidiary company in installments. In such circumstances division of profit between pre and post acquisition will depend upon the lots in which shares are purchased. However, if small purchases are made over the period of time then date of purchase of shares which results in acquiring in controlling interest may be taken as cut of line for division of profits between capital and Revenue.

• **SALE OF SHARES :**

When a holding company disposed off a part of its holding in the subsidiary company and the relationship of holding and subsidiary company continues as it holds majority of shares of subsidiary. Sale of shares by holding company may be treated as follows.

a) Profit or loss on sale of shares should be ascertained and it should be adjusted while ascertaining goodwill or capital reserve. In brief, such loss or gain on sale of share should be considered in cost of control.

b) The minority interest and cost of control should be ascertained on the basis of number of shares held by the holding company and the minority on the date of consolidated balance sheet.

How to prepare Consolidated Balance Sheet of Holding Company

Steps for preparing consolidated balance Sheet of the holding company and its subsidiary company.

1st Step

Add all the assets of subsidiary company with the assets of holding company. But Investment of holding company in Subsidiary company will not shown in consolidated balance sheet because, investment in subsidiary company will automatically adjust with the amount of share capital of subsidiary company in holding company.

2nd step

Add all the liabilities of subsidiary company with the liabilities of holding company. But Share capital of subsidiary company in holding company will not shown in the consolidated balance sheet in the books of holding company. Because, this share capital automatically adjust with the amount of the investment of holding company in to subsidiary company.

3rd Step

Calculate of Minority Interest

First of all we should know what minority interest is. Minority interest is the shareholder but there is not holding company's shareholder. So, when holding company shows consolidated balance sheet, it is the duty of accountant to show minority interest in the liability side of consolidated balance sheet.

We can calculate minority interest with following formula

Total share capital of Subsidiary company = XXXXX

Less Investment of Holding company in to subsidiary company = - XXXX

Add proportionate share of the subsidiary company's profit and

Reserves or increase in the value of assets + XXXX

Less proportionate share of the subsidiary company's loss and decrease

In the value of total assets of company - XXXXX

Value of Minority Interest XXXXX

4th Step

Calculate cost of capital / Goodwill or Capital Reserve

If holding company purchase shares of subsidiary company at premium, then the value of premium will be deemed as goodwill or cost of capital and shows as goodwill on the assets side of consolidated balance sheet.

But if holding company purchases the shares of subsidiary company at discount, then this value of discount will be capital reserve and show in the liability side of consolidated balance sheet.

5th Step

Treatment of Pre – Acquisition of reserve and profit

Pre – acquisition profit and reserve of subsidiary company will be shown as capital reserve in consolidated balance sheet but the value of minority interest's profit or reserves deducts from it and add in minority interest value.

Total profit before acquisition of subsidiary company = XXXX

Less share of minority interest - XXXX

Value of profit X minority interest's value of shares in subsidiary company / total share capital of subsidiary company.

Pre – acquisition profit and reserve shown as capital reserve XXX

6th Step

Calculate post acquisition profits

After the date of purchasing the shares of subsidiary company , profit of subsidiary company will also deem of holding company and it include in the profit of holding company and we also separate the part of profit of minority interest and add in minority interest's value and shown in liability side .

7th Step

Elimination of common transactions

All common transaction between holding company and subsidiary company will not show in the consolidated balance. There following common transaction

1. goods sold and goods purchase on credit and the value of debtor or creditor either subsidiary company or holding company will not shown in consolidated balance sheet

2. Value of bill payable or bill receivable of holding company on subsidiary company will also not shown but if some bills value is discounted from third party then either of both company's payable value shown as liability in the consolidated balance sheet .

8th Step

Treatment of Unrealized profit

If subsidiary company sells the goods to holding company or holding company sells the goods to subsidiary company at profit and if such goods will not sold in third party , then the profit will not realized , so such unrealized profit will not credited to profit and loss account . At this time a stock reserve account is opened and all amounts of unrealized profit transfers to this account and this accounts total amount is deducted from closing stock of consolidated balance sheet.

Suppose

Closing stock of H 50000

Closing stock of S 50000

____

100000

Less stock reserve

2000

98000

If subsidiary company has also other outsider's shares then holding company makes reserve up to his shares proportion.

9th Step

Treatment of dividend

If holding company gets the dividends from subsidiary company, then this will divide into two parts. If subsidiary company declare dividend out of capital profits, then this will add in capital reserves in consolidated balance sheet. But, if subsidiary company has declared the profit out of revenue gains, then this dividend will add in general profit and loss account and will shown in the liability side of consolidated balance sheet.

For example,

1. H Ltd. acquires 70% of the equity shares of S Ltd. on 1st January, 2012. On that date, paid up capital of S Ltd. was 10,000 equity shares of 10 each; accumulated reserve balance was 1,00,000. H Ltd. paid 1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on 1.1.2012 and a revaluation loss of

`20,000 was ascertained. The book value of shares of S Ltd. is calculated as shown below:

`

70% of the Equity Share Capital 1,00,000

70,000

70% of Accumulated Reserve 1,00,000 70,000

70% of Revaluation Loss 20,000 (14,000)

1,26,000

So, H Ltd. paid a positive differential of 34,000 i.e (1,60,000 -1,26,000). This differential is also called goodwill and is shown in the balance sheet under the head intangibles.

2. A Ltd. acquired 70% interest in B Ltd. On 1.1.2012. On that date, B Ltd. had paid-up capital of 1,00,000 consisting of 10,000 equity shares of 10 each and accumulated balance in

reserve and surplus of 1,00,000. On that date, assets and liabilities of B Ltd. were also revalued and revaluation profit of 20,000 were calculated. A Ltd. paid 1,30,000 to purchase the said interest.

In this case, the book value of Shares of B Ltd. is calculated as shown below:

`

70% of the Equity Share Capital 1,00,000	70,000
70% of Reserves and Surplus 1,00,000	70,000
70% of Revaluation Profit 20,000	14,000
	1,54,000

So, H Ltd. enjoyed negative differential of `24,000 i.e. (1,54,000 – 1,30,000).

Illustration 3

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2012 at a cost of 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2012:

Consolidated Financial Statements of Group Companies

	in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2012. Exe Ltd. purchased the shares of Zed Ltd. @ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

Solution

Revalued net assets of Zed Ltd. as on 31st March, 2012

`

	in lakhs	in lakhs
Fixed Assets [120 X 120 %]	144.0	
Investments [55 X 90 %]		49.5
Current Assets		70.0
Loans and Advances		15.0

Total Assets after revaluation		278.5
Less:		
15% Debentures	90.0	
Current Liabilities	50.0	(140.0)
Equity / Net Worth		138.5
Exe Ltd.'s share of net assets (70%)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd.		
(70 lakhs – 7 lakhs*)		63.00
Capital reserve		33.95

* Total Cost of 70 % Equity of Zed Ltd	70 lakhs
Purchase Price of each share	20
Number of shares purchased [70/20]	3.5 lakhs
Dividend @ 20 % i.e. 2 per share	7 lakhs

Since dividend received is for pre acquisition period, it has been reduced from the cost of investment in the subsidiary company

Illustration 4

From the following summarized balance sheets of H Ltd. And its subsidiary S Ltd. drawn up at 31st March, 2012, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of S Ltd. stood at 25,000 and 15,000 respectively. In the year 2007, the minority's share of losses actually comes to1,50,000. But since minority interest as on 31.12.2006 was less than the share of loss, the excess of loss of 21,000 is to be added to A Ltd.'s share of losses. Similarly for the year 2008, the entire loss of B Ltd Is to be adjusted against A Ltd.'s profits for the purpose of consolidation. Therefore, upto 2008, the minority's share of B Ltd's losses of 57,000 are to be borne by A Ltd. Thereafter, the entire profits of B Ltd. will be allocated to A Ltd. unless the minority's share of losses previously absorbed (`57,000) has been recovered. Such recovery is fully made in 2011 and therefore minority interest of `33,000 is shown after adjusting fully the share of losses of minority previously absorbed by A Ltd date of acquisition of its 80% shares by H Ltd. on 1st April, 2011.

(ii) Machinery (Book-value `1,00,000) and Furniture (Book value `20,000) of S Ltd. were revalued at `1,50,000 and `15,000 respectively on 1.4.2011 for the purpose of fixing the price of its shares.

[Rates of depreciation: Machinery 10%, Furniture 15%.]

Summarized Balance Sheet of H Ltd. as on 31st March, 2012

	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Equity and Liabilities			Non-current assets		
Shareholders' funds Share Capital Shares of Rs.100 each	6,00,000	1,00,000	Fixed assets Machinery Furniture Other non-current assets	3,00,000 1,50,000 4,40,000	90,000 17,000 1,50,000
Reserves Profit and Loss Account Trade Payables	2,00,000 1,00,000 1,50,000	75,000 25,000 57,000	Non-current Investments Shares in S Ltd.: 800 share ` 200 each	1,60,000	-
	10,50,000	2,57,000		10,50,000	2,57,000

Solution

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No	Rs
I. Equity and Liabilities	1	
(1). Shareholder's Funds		6,00,000
(a) Share Capital		
(b) Reserves and Surplus		3,44,600

(2) Minority Interest (3) Current Liabilities (a) Trade Payables	 2	48,150 2,07,000
Total		11,99,750
II. Assets (1) Non-current assets (a) Fixed assets (i) Tangible assets (ii) Intangible assets (b) Other non- current assets	 3 4 5	 5,97,750 12,000 5,90,000
Total		11,99,750

Notes to Accounts

				Rs
1.	Reserves and Surplus Reserves (W.N.3)		 2,00,000	

	Add: 4/5th share of S Ltd.'s post-acquisition reserves		40,000	2,40,000
	Profit and Loss Account		1,00,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits		4,600	1,04,600
				3,44,600
2.	Trade Payables			
	H Ltd.		1,50,000	
	S Ltd.		57,000	2,07,000
3	. Tangible Assets			
	Machinery		3,00,000	
	H. Ltd.			
	S Ltd.	1,00,000		
	Add: Appreciation	50,000		
		1,50,000		
	Less: Depreciation			

		(15, 000)	1,35,000	
	Furniture		1,50,000	
	H. Ltd			
	S Ltd.			
	Less: Decrease in value	20,000		
		(5,000)		
		15000		
	Less Depreciation	(2,250)	12,750	
				5,97,750
4.	Intangible assets			12,000
	Goodwill [WN 6]			
5.	Other non-current assets			
	H Ltd.		4,40,000	
	S Ltd.		1,50,000	
				5,90,000

Working Notes

1.	**Pre-acquisition profits and reserves of S Ltd.**	
	Reserves	25,000
	Profit and Loss Account	15,000
		40,000

	H Ltd.s = 4/5 × 40,000	32,000
	Minority Interest= 1/5 × 40,000	8,000
2.		
	Profit on revaluation of assets of S Ltd.	
	Profit on Machinery Rs.(1,50,000 – 1,00,000)	
	Less: Loss on Furniture Rs.(20,000 – 15,000)	50,000
	Net Profit on revaluation	
	H Ltd.'s share 4/5 × 45,000	5000
	Minority Interest 1/5 × 45,000	
		45,000
	.	36,000
	Post-acquisition reserves of S Ltd.	9,000
	Post acquisition reserves = (75,000 – 25,000)	
3	H Ltd.'s share 4/5 × 50,000	
	Minority interest 1/5 × 50,000	
		50,000
		40,000
		10000
4.	**Post -acquisition profits of S Ltd.**	10,000
	Post-acquisition profits (25,000 – 15,000)	750
	Add: Excess depreciation charged	

	furniture @ 15% on 5,000 i.e. (20,000 – 15,000)	10,750
	Less : Under depreciation on machinery @ 10% on 50,000 i.e. (1,50,000 – 1,00,000) Adjusted post-acquisition profits	(5,000) 5,750
	H Ltd.'s share 4/5 × 5,750 Minority Interest 1/5 × 5,750	4,600 1,150
5.	**Minority Interest** Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. 200 × 100 Add: 1/5th share of pre-acquisition profits and reserves 1/5th share of profit on revaluation 1/5th share of post-acquisition reserves 1/5th share of post-acquisition profit	20,000 8,000 9,000 10,000 1,150
		48,150

6.	**Cost of Control or Goodwill** Paid-up value of 800 shares held by H Ltd. i.e. 800 × 100 Add: 4/5th share of pre-acquisition profits and reserves 4/5th share of profit on the revaluation Intrinsic value of shares on the date of acquisition Price paid up by H Ltd. for 800 shares Less: Intrinsic value of the shares Cost of control or Goodwill	80,000 32,000 36,000 1,48,000 1,60,000 (1,48,000) **12000**

ACCOUNTING STANDARD (AS)21

Accounting Standard (AS) 21, 'Consolidated Financial Statements', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001. An enterprise that presents consolidated financial statements should prepare and present these statements in accordance with this Standard.2 The following is the text of the Accounting Standard.

The objective of this Statement is to lay down principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about apparent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources

Scope

1. This Statement should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.

2. This Statement should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

Consolidation Procedures

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses8. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:

- the cost to the parent of its investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated;
- any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognized as an asset in the consolidated financial statements;
- when the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements;
- minority interests in the net income of consolidated subsidiaries for the reporting period should be identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
- minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the net assets consist of:

(a) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and

(b) the minorities' share of movements in equity since the date the parent-subsidiary relationship came in existence.

Where the carrying amount of the investment in the subsidiary is different from its cost, the carrying amount is considered for the purpose of above computations.

- Intragroup balances and intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.9
- Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting
- In a parent's separate financial statements, investments in subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments

Disclosure:

In addition to disclosures required by paragraph 11 and 20, following disclosures should be made:

(a) in consolidated financial statements a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

(b) in consolidated financial statements, where applicable:

(i) The nature of the relationship between the parent and a subsidiary, if the parent does not own, directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary;

(ii) The effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and

(iii) The names of the subsidiary(ies) of which reporting date(s) is/are different from that of the parent and the difference in reporting dates.

Karpagam Academy of Higher Education

(Deemed University Established Under Section 3 of UGC Act, 1956)

Coimbatore - 641 021.

II B.COM (CA)

Third Semester - 2017-18

CORPORATE ACCOUNTING - 15CCU301

UNIT IV POSSIBLE QUESTIONS (6 MARKS)

1. "X" Limited acquired the undertaking of "Y" Limited on 31-03-2006 which went in to liquidation. The Balance Sheet of Y Ltd. as on that date was:

Liabilities	Rs.	Assets	Rs.
Authorized and Issued Capital:			
Equity shares of Rs.100 each	5,23,000	Buildings	1,75,000
Profit and Loss A/c	92,000	Plant and Machinery	2,25,000
Sundry Creditors	1,00,000	Office Equipments	80,000
Outstanding Bills	70,000	Furniture	27,000
		Stock	83,000
		Sundry Debtors	1,50,000
		Loans and Advances	15,000
		Cash and Bank Balance	30,000
	7,85,000		7,85,000

X Ltd. took over all the assets except Cash and Bank balance and agreed to pay trade liabilities. The purchase consideration was the exchange of 7 Equity shares of Rs. 100 each paid up value of Rs. 90 per share in X Ltd. for every 6 shares of Rs. 100 each in Y Ltd. and fraction shares were to be paid in cash. The cost of liquidation was Rs. 5,000 which X ltd. had agreed to bear. The market value of the shares of X Ltd. Rs. 90 paid up was Rs. 120 per share.

Prepare the necessary accounts in the books of Y Ltd.

2. Explain various methods of calculating purchase consideration

3. The net profit of a business, after providing for taxation, for the past five year are

Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1, 05,000, Rs. 1, 18,000. The capital employed in the business is Rs. 8, 00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next 5 years. Calculate the value of goodwill on the basis of

(i) 5 years purchase of super-profit method

(ii) Annuity method, taking the present value of annuity of Re.1 for five year at 10% as 3.78 and

(iii) Capitalisation of super-profit method.

4. The following is the Balance Sheet of MM ltd as on 31st Dec 1998

Liabilities	Rs.	Assets	Rs.
4000,10% pref. Shares of Rs.100 each	4,00,000	Sundry assets at book value	12,00,000
60000 equity shares of Rs.10 each	6,00,000		
Bills Payable	50,000		
Creditors	1,50,000		
	12,00,000		**12,00,000**

The market value of 60% of the assets is estimated to be 15% more than the book value and that of the remaining 40% at 10% less than the book value. There is an unrecorded liability of Rs.10, 000

Find the value of each equity share (it is to be assumed that preference shares have no prior claim as to payment of dividend or to repayment of capital

5. M Ltd and N ltd agreed to amalgamate on the basis of the following balance sheets on 31.3.97

Liabilities	M (Rs)	N(Rs)	Assets	M(Rs)	N(Rs)
Share capital Rs25 each	75,000	50,000	Goodwill	30,000	-
P& L A/c	7,500	2,500	Fixed assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Deprecation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500
	86,000	**58,500**		**86,000**	**58,500**

The asset and liabilities are to be taken over by a new company formed called P Ltd at book values' Ltd 's capital is Rs2,00,000 divided into 10,000equity shares of Rs10 each and 10,000 9%

preference shares of Rs10 each. P Ltd issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price. Pass journal entries in the books of P ltd and prepare its balance sheet.

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II B.COM (CA)

Third Semester - 2017-18

CORPORATE ACCOUNTING - 15CCU301

UNIT V POSSIBLE QUESTIONS (6 MARKS)

1. Prepare Statement of Affairs and deficiency account with imaginary figures
2. The balance sheet of Saral Co Ltd disclosed the following position as on 31st Dec 1998

Liabilities	Amount	Assets	Amount
Share capital : 6,000 equity shares of Rs100 each	6,00,000	Goodwill	1,65,000
Profit & loss A/c	75,000	Investments	5,25,000
General reserve	2,25,000	Stock	6,60,000
6% debentures	4,50,000	Sundry debtors	3,90,000
Sundry creditors	1,50,000	Cash at bank	60,000
Workmen's savings bank A/c	3,00,000		
	18,00,000		**18,00,000**

(i).The profits for the past five years were:

94-Rs30,000; 95- Rs70,000; 96-Rs50,000; 97-Rs55,000; And 98- Rs95,000

(ii).The market value of investment was Rs3,30,000

(iii)Goodwill is to be valued at three years purchase of the average annual profits for the last five years.

Find the intrinsic value of each share.

3. Senthur Ltd. went in to liquidation with the following liabilities:

(i) Secured Creditors Rs. 30,000 (securities realized Rs. 35,000)

(ii) Preferential Creditors Rs. 700

(iii) Unsecured Creditors Rs. 40,500

Liquidator's expenses in connection with liquidation amounted to Rs. 352. The liquidator is entitled to a remuneration of 4% on every amount realized and 2% on the amount distributed to unsecured creditors except preferential creditors. The various assets (excluding securities in the hands of fully secured creditors) realized Rs. 36,000.

Prepare Liquidator's Account.

4. On 31 Dec 1998. The balance sheet of a limited company disclosed the following position

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	8,00,000	Fixed Assets	10,00,000
P&L A/c	40,000	Current assets	4,00,000
Reserves	1,80,000	Goodwill	80,000
5% debentures	2,00,000		
Current Liabilities	2,60,000		
	14,80,000		14,80,000

On Dec 31 1998 the fixed assets were independently valued at Rs.7, 00,000 and the goodwill at Rs.1,00,000. The net profits for the three years were 1996- Rs.1,03,200, 1997- Rs.1,04,000 and 1998- Rs.1,03,300 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair return on investment may be taken at 10%. Compute the value of the company's share by A. the net assets method and B. the yield method.

5. Meena is appointed liquidator of Moon Ltd., in voluntary liquidation, on July 1, 2011. The following balances are extracted from the books on that date.

	Rs		Rs
Capital: 24000 shares of Rs. 5 each	1,20,000	Machinery	45,000
Reserve for bad debts	15,000	Lease hold properties	60,000
Debentures	75,000	Stock in trade	1,500
Bank Overdraft	27,000	Bad Debts	90,000
Liabilities for purchases	30,000	Investments	9,000
		Calls in arrears	7,500
		Cash in hand	1,500
		Profit and loss Account	52,500
	2,67,000		**2,67,000**

The following assets are valued as: Machinery Rs.90, 000 lease hold properties Rs.1, 09,000. Investments Rs.6, 000, Stock in trade Rs.3, 000.Bad debts are Rs.3, 000 and the doubtful debts are Rs.6,000 which are estimated to realize Rs.3,000. The bank overdraft is secured by deposit of title deeds of leasehold properties. Preferential creditors are Rs.1,500. Telephone rent outstanding is Rs.120.

Prepare a statement of affairs to be submitted to the meeting of the creditors.

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DEPARTMENT OF COMMERCE

II-B.COM (CA)

CORPORATE ACCOUNTING – 16CCU301

ANSWER KEY

I INTERNAL TEST

SECTION A

MULTIPLE CHOICE QUESTIONS

1. Personal account.
2. Personal account.
3. 5 percentage of the face value of shares.
4. Liability side of balance sheet.
5. Writing off capital losses.
6. 69-73
7. Share premium A/c.
8. Unpaid capital
9. Share premium A/c.
10. Rs. 8
11. First offered to the existing shareholders
12. Fully
13. Creditors of the company
14. Current liabilities
15. First offered to the existing Shareholders
16. Fully
17. Creditors of the company
18. Current liabilities
19. Horizontal and vertical
20. P and L A/c and Balance Sheet

SECTION B

21. **i.Share Issue at Par**

Bank A/c	**Dr**	5,00,000	
To Equity Share Capital A/C			5,00,000

ii. Share Issue at Premium

Bank A/c	**Dr**	5,50,000	
To Equity Share Capital A/C			5,00,000
To Securities Premium			50,000

iii. Share Issue at Discount

Bank A/c	**Dr**	4,50,000	
Discount on Issue of Shares A/c			
To Equity Share Capital A/C			5,00,000

22.Value of Rights

	Rs.
Market Value of 5 shares hold by a shareholder	1,250
Add: Issue Price of Right Shares	130
Total Price of Right Shares	1,380

Average Price of one Share = 1380/6=230.

Therefore

Value of Rights = Market Value of the Shares – Average Price of Shares= 250-230 = Rs.20.

23. **1.For Application**

Bank A/c	**Dr**	3,00,000	
To Share Application A/c			3,00,000
Share Application A/c		3,00,000	
To Share Capital			3,00,000

2. For Allotment

Share Allotment A/c	4,50,000	
To Share Capital		4,50,000
Bank A/c Dr	4,50,000	
To Share Allotment		4,50,000

3. For First Call

Share First Call A/c Dr	2,25,000	
To Share Capital		2,25,000
Bank A/c Dr	2,25,000	
To Share First Call A/c		2,25,000

4. For Second Call

Share Second Call A/c Dr	2,25,000	
To Share Capital		2,25,000
Bank A/c Dr	2,25,000	
To Share Second Call A/c		2,25,000

5. For Final Call

Share Final Call A/c Dr	3,00,000	
To Share Capital		3,00,000
Bank A/c Dr	3,00,000	
To Share Final Call A/c		3,00,000

PART C

24.a.i. Reissue of Forfeited Shares

Equity Share Capital A/C	Dr	45,000	
To Equity Share First Call A/c			1,500
To Discount on Issue of Shares A/c			500
To Share Forfeited A/c			2,500

ii. Bank A/c Dr Dr 3,500

To Discount on Issue of Shares A/c			500
To Share Forfeited A/c			500
To Equity Share Capital A/c			2,500
Share Forfeited A/c	Dr	2,000	
To Capital Reserve			2,000

24.b. 1. For Application

Bank A/c	Dr	40,000	
To Share Application			40,000
Share Application	Dr	40,000	
To Share Capital			40,000

2.For Allotment

Share Allotment A/c	Dr	1,00,000	
To Share Capital A/c			60,000
To Securities Premium A/c			40,000
Bank A/c	Dr	1,00,000	
To Share Allotment A/c			1,00,000

3. First Call

Share First Call A/c	Dr	60,000	
To Share Capital A/c			60,000
Bank A/c	Dr	58,800	
Calls in arrears A/c	Dr	1,200	
To Share First Call A/c			60,000

4. Final Call

Share Final Call A/c	Dr	40,000	
To Share Capital A/c			40,000
Bank A/c Dr		41,200	
To Share Final Call A/c			40,000
To Calls in arrear			1,200

25.b.When fresh issue at par = [2,00,000+20,000]-[10,000-1,05,000]
=2,20,000-1,15,000.
=1,05,000.

When fresh issue at 5% Premium = [2,00,000+20,000]-[10,000-1,05,000]*100/100+5
=1,05,000*100/105
= 1,00,000.

When fresh issue at 10% Discount = [2,00,000+20,000]-[10,000-1,05,000]*100/100-10
=1,05,000*100/90
= 1,16,667.

26.a.Final Accounts

Gross Profit – 1,96,500

Net Profit – 1,00,275.

Balance Sheet Total – 4,35,395.

26.b. Share Capital A/c Dr. 30,000

26.b. Share Capital A/c	Dr.	30,000	
To Share First & Final Call A/c			10,500
To Discount on Issue of Shares			3,000
To Forfeited Shares A/c			16,500

Internal – II Key Answers

Corporate Accounting -16CCU301

SECTION A

Multiple choice questions

1. Fixed asset
2. Liability side of balance sheet
3. Permanency
4. Paid up capital
5. By adding 1/2 of current year profit to closing capital employed
6. Average profits
7. Interim dividend
8. 11%
9. Shares
10. Goodwill
11. AS-14
12. Merger
13. Shareholders
14. Fixed asset
15. Prepaid expenses
16. Realisation A/c
17. 95
18. AOA
19. Special resolution
20. Capital reserve account

PART – B

21. As per Dr. Cannings 'Goodwill is the present value of the firm's anticipated excess earnings'.

According to A V Adamson, 'Just as cement binds together the bricks and other building material into walls, similarly goodwill binds together or unites the other assets and aspects of the business into cohesive whole'.

22.**Key Answers:** Average Profit : 6000
Goodwill: 18000

23. Amalgamation means formation of a new company to take over atleast two existing companies which go into liquidation. Hence in amalgamation, there is birth of a new company with the closure of atleast two companies which wind up their business. The business of the companies going into liquidation are transferred to a new company formed for this purpose, in return for a purchase consideration. Therefore in amalgamation, there are minimum of two companies going into liquidation simultaneously and a new company formed at the same time to take over the business of the liquidated companies.

PART - C

24. **Key Answers:** Weighted Average Profit: 23,647.

Goodwill: 93,868.

25. a) **Key Answers:** Normal Profits: 2,00,000.

Super Profits: 65,600.

Goodwill: 1,96,800.

b) **Key Answers:** 1,42,000

26. a) **Key Answers:** Average expected profit: 40,000

Super Profit: 30,000

Goodwill: 90,000

b) **Key Answers:** Purchase Consideration: 16,77,500

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(For the candidates admitted from 2017 onwards)
DEPARTMENT OF COMMERCE

Third Internal Answer Keys
Part A
Multiple Choice Questions

Answer Keys
1.Interest Expended
2. Contingent liabilities
3. Substandard Assets
4. Doubtful Assets
5. Capital reserve account
6. Bank
7. Reserve Bank of India Act
8. Cash Reserve Ratio
9. Statutory Liquidity Ratio
10. Insurance
11. Policy
12. Premium
13. All of these
14. Insured
15. Contingent liabilities
16. An income accrued but not received
17. Non- Performing Assets
18. Cash and balance with RBI
19. Substandard Assets
20. Doubtful Assets

PART B
Answer keys

21. Answer Key A holding company is a parent corporation, limited liability company or limited partnership that owns enough voting stock in another company to control its policies and management. A holding company exists for the sole purpose of controlling another company, which might also be a corporation, limited partnership or limited liability company, rather than for the purpose of producing its own goods or services. Holding companies also exist for the purpose of owning property such as real estate, patents, trademarks, stocks and other assets. If a business is 100% owned by a holding company, it is called a wholly owned subsidiary.

22. Answer Key: "**Prudential norms**" are definitionally the guidelines and general **norms** issued by the regulating bank (the central bank) of the country for the proper and accountable functioning of bank and bank-like establishments. In other words, the **norms** are the practices that all banks are expected to follow.

23. Answer key:A nonperforming asset (**NPA**) refers to a classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days.

Part C
Answer Keys

24. a) Answer key:
1) Holding Minority Ratio = 3:1
2) Capital profits = 1,55,000
3) Profit on revaluation of Machinery = 50,000
4) Revenue Profit= 32500
5) Minority Interest= 256,875
6) Cost of control or goodwill= 116250
Consolidated balance sheet= 18,41250
b) 1) Holding minority ratio=9:1
2) Revenue profits= 6000
3) Capital Profits=37000
4) Minority Interest=10,000
5) Cost of control Or Goodwill= 36,700
Consolidated balance sheetof C ltd and D ltd= 3,07,400

25. a) Answer Key Schedule 1: Capital 4,000
Schedule 2 : Reserve and surplus 8,700
Schedule 3: Deposits 84,800
Schedule 4: Borrowings 4750
Schedule 5: Other Liabilities 180
Schedule 6: Cash & balance with RBI 10,380
Schedule 7: balance with banks and money @ call and short notice 7,800
Schedule 8: Investments 25000
Schedule 9: Advances 54,800
Schedule 10: fixed assets 4114
Schedule 11: other assets 336
Schedule 12: contingent Liabilities nil

b) Answer Key NPA (Non-performing Assets)
Meaning of NPA: All those assets which don't generate regular income are known as NPA. A nonperforming asset (**NPA**) refers to a classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days.

Types of assets:
Standard assets:- Assets which are generating regular income to the bank

Sub-standard assets:- An asset which is overdue for a period of more than 90 days but less than 12months

Doubtful assets:- An asset which is overdue for a period of more than 12 months.

Loss assets:- Assets which are doubtful and considered as non-recoverable by bank, internal or external auditor or central bank inspectors

Sub-standard assets, Doubtful assets and Loss assets are NPA

Causes of NPA
Default - One of the main reason behind NPA is default by borrowers.

Economic conditions - The Economic condition of a region affected by natural calamities or any other reason may cause NPA.

No more proper risk management - Speculation is one of the major reason behind default. Sometimes banks provide loans to borrowers with bad credit history. There is a high probability of default in these cases.

Mis-management - Often ill-minded borrowers bribe bank officials to get loans with an intention of default.

Diversion of funds - Many times borrowers divert the borrowed funds to purposes other than mentioned in loan documents. It is very hard to recover from this kind of borrowers.

26. a) Answer Key
1. Governing Act: Banking companies are Governed by Banking Companies Act, 1949. Non banking companies are Governed by RBI Act,
2. License: Banking companies must obtain license from RBI for commencement. No license is required for NBCs.
3. Ceiling on deposits: No ceiling on deposits mobilization in banking company. Whereas for NBCs there is a ceiling on acceptance of deposits which is based on the net worth of the company.
4. Capital Structure: For a banking company, Capital structure is decided by RBI, which has a two-tier 1. core capital and 2. risk-weighted capital. But for NBCs, Capital structure is decided by RBI, which is purely based on business such as lending or Hire Purchase finance or Leasing, etc.

5. Balance Sheet: The Balance sheet proforma should be as per the format provided by RBI for a banking company. But for non banking company, the balance sheet is as per the Companies Act.
6. Negotiable instruments: There is use of negotiable instruments such as cheque, bill of exchange for various transactions in a bank. But Negotiable instruments cannot be used for withdrawal of money from Non Banks.
7. Credit Rating: Credit rating is not required for accepting deposits in a banking company. But NBCs has a mandatory requirement of Credit rating for accepting deposits from the public.
8. Types of Accounts: Different types of accounts can be opened by a bank for the benefit of customers in a banking company. A non-banking company can only accept deposits of different duration as prescribed by RBI.
9. Interest on deposit: The interest charged by a bank` on deposits is decided by the banks themselves. It is based on Prime Lending Rate (it is the interest rate charged by the banks while lending on Government securities which have no risks). But for a non banking company, the interest rate on deposits is decided by RBI.
10. Insurance coverage on deposit: All bank deposits are insured up to a certain limit compulsorily with Deposit Insurance Credit Guarantee Corporation. But there is no insurance cover for non banking company deposits.
11. Lending policy: The lending policy of commercial banks is influenced by the monetary policy of RBI. But for the other, Lending policy is more decided by the security offered by the borrower.
12. Joint Operation: All banking companies are necessarily joint stock companies. NBCs can be in the form of Nidhis, Benefit societies etc. However, partnership firms are prohibited now.
13. Forex Transaction: Commercial banks can undertake transactions in foreign exchange as Authorized Dealers. NBCs cannot undertake transactions in foreign exchange unless they are licensed by RBI.
14. Suspension of operations: Banking companies' operations can be suspended only by RBI. But for NBCs, RBI will only notify the cancellation of registration from accepting deposits in leading newspapers.
15. Merger of banks: A banking company can be merged with other commercial banks as per RBI orders. Merger of non-banking will be as per the Companies Act.
16. Periodical Inspection: There can be inspection of banks by RBI periodically. No such approval is required from RBI. But, non banks should comply with the provisions of the Companies Act.
17. Appointment of Chairman & Directors: Appointment of Chairman, and Managing directors in a banking company requires prior approval of RBI. But no such approval is required from RBI for a NBC. But, they should comply with the provisions of the Companies Act.
18. Audit: All commercial banks will come under Statutory audit, in addition to RBI audit. For a non banking company, audit is as per the Companies Act.
19. Public Sector: There are public sector commercial banks. But there are no public sector non-banking companies.,
20. Type of Advertisements: Commercial banks can choose any type of advertisement for inviting public deposits. For non banks, advertisements for inviting public deposits should be as per RBI regulations.

21. Customer grievance: For a banking company, consumers' Grievance Cell of respective banks will look after the grievance of customers. Company Law Board is the regulatory authority for non-banking companies in case of non refund of deposits.
22. Recovery of bad debts: Debt-recovery Tribunals are set up by banks for the recovery of bad debts. No such provisions are there for non banking companies.
23. Rate of Interest: Consumer credit is cheaper with banks as interest charged is on a declining rate of interest. But hire purchase finance of NBCs has a flat rate of interest and hence costlier.
24. Legal disputes: Banks are covered under the Bankers' Book Evidence Act by which the statement provided by banks will be taken as an ultimate evidence in any legal dispute. But only provisions of Companies Act are applicable for non banks.
25. Evidence between banker and customer: Savings account and current account are operated in a bank and entries of the savings account are recorded in the pass book and the pass book is regarded as the conclusive evidence between a banker and customer. But there are no such accounts in non-banking companies.
26. Public vs Private limited: All banks have to be necessarily public limited companies. There can be private limited non banking companies.

b) Answer Key Assets structure will reflect the deployment of sources of funds of commercial banks. The main source of funds of commercial banks is deposits. The other sources of funds are borrowings from other banks, capital, reserves and surplus. The deposits of commercial banks are from savings deposits, current account deposits and term deposits. These deposits constitute 80 per cent of the total sources of funds. Out of the total deposits, term deposits constitute 50 per cent. Borrowings are around 5 per cent of the total liabilities of the commercial banks. These sources are deployed by the commercial banks mainly on its financial assets i.e, loans and advances which constitute 48.6 per cent of the total assets of the banks. The investments is another important component of the assets of commercial banks which is around 40 per cent of the total assets of the banks during the year 2005. This is because of pre-emptions like SLR and CRR requirements in the banking sector. The investments in commercial banks have increased also because of surplus liquidity in Indian banks during this period due to reduction of SLR and CRR to 25 and 4.5 respectively during that period and less demand for loans and advances from credit-worthy customers. This scenario is changing in India due to increasing demand in credit from industrial, agriculture sector and also the growth of FMCG market. The assets structure of the banks is governed by certain principles, like liquidity, profitability, shiftability and risklessness. The other factors which influence the assets structure of Commercial Banks 39 commercial banks are nature of money market, economic growth of the country, policies and vision of the governments. In the countries like India, China, Russia, North Korea and Brazil there is a boom in the growth of the economy hence naturally there will be heavy demand for the credit. Now let us examine each of the important assets of the commercial bank.

1. Cash in hand and balances with RBI. From the point of the liquidity in the commercial banks cash in hand is a very important asset but it is idle and it will not fetch any earnings to the banks. Cash in commercial banks depends upon various factors like uncertainty in the economy due to wars, famine, internal disturbance, the growth of banking system, network of branches, networking of banks, automation in banks and so on.

2. Money at Call and Short Notice. It is second line of defense of the commercial banks in cases of emergencies. If the call money market is well developed the commercial banks can lend their surplus funds in the call market for a day or up to 14 days it is called call market or over night market without keeping their surplus money idle. It can also lend for short period, where the borrower has to return the money borrowed from the banks when short notice is given by the banks. This is becoming a good business in the money market and constitutes around 4 per cent of the total assets of the commercial banks. The banks instead of keeping the money idle lend their surplus funds for short periods in the call market.

3. Investments. Investments constitute one of the important assets of the bank next to loans and advances. A bank makes investments for the purpose of earning profits. First

4. Loans and Advances. The commercial banking industry in India has been playing a very important role in intermediating between the economic units, which have surpluses and deficits in their current budgets. By mobilizing financial surpluses in the economy and by channeling these resources into various sectors and segments of the economy, they are guiding the pattern of utilisation of a large proportion of the economy. The total advances of commercial banks include bills purchased and discounted, cash credits, overdrafts, loans, unsecured loans, and priority sector advances.

5. Fixed Assets and other assets. The component of fixed assets and other assets do not form an important aspect in the funds of commercial banks since deals are more in financial assets than real assets.

Reg. No.................................

[12CCU301]

KARPAGAM UNIVERSITY

(Under Section 3 of UGC Act 1956)

COIMBATORE – 641 021

(For the candidates admitted from 2012 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2013

Third Semester

COMMERCE (COMPUTER APPLICATION)

CORPORATE ACCOUNTING

me: 3 hours Maximum : 100 marks

PART – A (15 x 2 = 30 Marks)

Answer ALL the Questions

Define a company.

X ltd co. issued 50,000 share of Rs.10 each payable on application Rs.3, allotment Rs.5 (including premium) and call Rs.3. All shares were subscribed and issued. Give journal entry for allotment.

'B' limited issued 10,000 7% debenture of Rs.100 each at a discount of 5% payable in full on application. Applications were received for 8000 debentures. Give journal entry.

4. Find out in each case, what amount shall be transferred to capital redemption reserve account.

	Redeemable preference share capital	Fresh issue of share capital
(i)	Rs.2,00,000 at par	Rs.80,000 at par
(ii)	Rs.2,00,000 at 5% premium	Rs.80,000 at par

5. Z ltd purchased its own debentures of face value of Rs. 20,000 from the open market at Rs.92.Pass journal entries, if the debentures are purchased for immediate cancellation.

6. What is meant by acquisition of business?

7. Determine maximum remuneration available for full time director of manufacturing company. The profit &loss A/c show net profit Rs.40, 00,000 after taking following items.

a. Depreciation (including special depreciation Rs. 40,000) Rs.1,00,000
b. Provision for income tax Rs.2,00,000 (c)donation to political parties Rs.50,000 (d)Ex-gratia payment to a worker Rs.10, 000 (e) capital profits on sale of assets Rs.15, 000.

8. X ltd has balance in profit &loss account Rs.1,00,000 and made further profit of Rs.4,00,000 in current year .The following decision were taken
(a) Provision for taxation Rs. 70,000, (b) Dividend equalization a/c Rs.1, 00,000
(c) Dividend on equity shares Rs.1,50,000 (d) General reserve Rs.45,000
(e) capitalization of Rs.1,00,000 from general reserve for issue of bonus shares.
Give profit and loss appropriation A/c.

9. Dinesh ltd earned a profit after tax of Rs.10, 00,000 in 2001-02 and it wanted to pay a dividend of 18% on its capital of Rs.30, 00,000. What will be the balance left in profit and loss A/c?

10. The business of Mohan company ltd is taken over by sohan company ltd for Rs.40,000. The purchase consideration is to be paid by issue of shares of sohan company ltd. Liabilities of Mohan company ltd are for Rs.1,20,000 while its fixed assets and current assets have been valued at Rs.1,00,000 and Rs. 50,000 respectively. What entries will be made in the books of sohan company ltd to records this purchase?

11. What is reduction of share capital?

12. Raman ltd agrees to purchase business of Krishnan ltd. On the following term. For each 10,000 shares of Rs. 10 each in Krishnan ltd. 2 shares in Raman ltd of Rs. 10 each will be issued at an agreed value of Rs. 12 per share. In addition Rs.4 per share cash also will be paid. Calculate purchase consideration.

13. It was estimated that the firm will every year made a profit of 8% on its capital of Rs. 80,000. The actual average profit for last four years in Rs. 10,000. According to the partnership deed goodwill is valued at two year's purchase of super profit. Find amount of goodwill.

14. The average net profit adjustment Rs. 4, 52,590. The average profit before adjustment Rs.4,04,000. 10% represents a fair commercial return. The average tangible capital employed was Rs. 26, 82,000 but open valuations obtained, the capital employed was found to be Rs. 28, 80,000. Assuming 5 years purchase, find value of goodwill.

15. What is liquidator's final statement of account?

PART B (5 X 14= 70 Marks)

Answer ALL the Questions

16. a. Shiva limited invited application for 10,000 equity shares of Rs. 100 each at which Payments were as follows:
On Application Rs. 20 on Allotment Rs.30, on First call Rs.30, final call Rs. 20
All shares were subscribed and the allotment was made. One shareholder who has 200 shares paid full amount due on shares with allotment. Pass journal entries.

Or

...fit and loss a/c for the year ended 31.12.1992

...lars	Rs.	Particulars	Rs.
...	11,000	By sales	1,70,000
...ding Rs.500 for	5,000	By closing stock	15,000
...fees	3,000		
...director		By other incomes :	
Salary	2,000	Discount	2,000
commission	1,000	Profit on sale of fixed asset	1,000
...ment rebate	800		
...on for tax	3,000		
...ishment expenses	40,000		
...on sale of investments	200		
...rofit	1,22,000		
	1,88,000		1,88,000

...e book value of fixed assets sold was RS.2000 and their original cost was ...2,600.

... On 31st march 2003 the balance sheet of dalal and co was as follows:

Liabilities	Amount	Assets	Amount
Share capital:		Fixed assets:	
Authorized capital:		Goodwill	2,00,000
...0,000 shares of RS. 100		Building	1,00,000
each	20,00,000	Machinery	2,60,000
Issued and paid up capital:		Furniture	20,000
19,000 shares of Rs.100			
each fully paid up	19,00,000		
Current liabilities :		Current assets:	
creditors	1,00,000	Stock	3,70,000
Loan from Sharma	1,00,000	Debtors	1,80,000
		Profit and loss a/c	9,70,000
	21,00,000		21,00,000

The following scheme of reconstruction of company was agreed upon:

i) The issue 19,000 shares are reduced to an equal number of fully paid shares of Rs.40 each.

ii) The loan from Sharma is to be reduced and for its full settlement the remaining un issued 1,000 shares be issued to him as fully paid at Rs. 40 per share.

iii) Amount thus available by reduction of capital and settlement with Sharma, be utilized as follows:

-for writing down goodwill and profit and loss a/c fully

-any available balance for writing down machinery

Journalize the transaction and prepare balance sheet after reconstruction carried out.

Or

b. What is amalgamation? Explain its advantages and disadvantages?

20. a. From the following balance sheet of AB ltd as on 31st march 2003. Find out value of goodwill according to super profit method assuming three years

Liabilities	Amount	Assets	Amount
4,000, 8% preference shares of Rs. 10 each fully paid-up	40,000	Building at cost	75000
20,000 equity shares of Rs. 10 each Fully paid up	2,00,000	Furniture	2,000
Reserve fund	14,000	Investment (5%)	1,50,000
Profit and loss a/c: -Balance on 1st April 2002 20,000 -Profit for 2002-03 2,10,000	2,30,000	Stock in trade (market Value)	2,23,000
Depreciation fund: Buildings 8,000 Investments 20,000	28,000	Book debts 50,000 Less: provision 2,500	47,500
Creditors	48,000	Cash and bank balances	55,500
		Preliminary expenses	7,000
TOTAL	5,60,000		5,60,000

The following information are supplied to you: i) Present value of buildings is Rs. 2,00,000; ii) Normal rate of return is 10% iii) Profits for past 3 years have shown increase of Rs. 40,000 annually. Assume taxation @60%

Or

b. A company went into voluntary liquidation on 31.3.1998. When the following balance sheet was prepared:

Liabilities	Amount	Assets	Amount
Authorized capital :		Goodwill	6,960
4,000 shares of Rs.10 each	40,000	Freehold property	5,000
Issued capital:		Machinery	7,480
3,000 shares of Rs.10 each	30,000	Stock	11,710
Unsecured creditors	15,432	Debtors	9,244
Partly secured creditors	5,836	Cash	100
Preferential creditors	810	Profit and loss a/c	11,816
Bank overdraft(unsecured)	232		
	52,310		52,310

The liquidator realized the assets as follows:

Freehold property which was used in first instance to pay the partly secured creditors pro-rata Rs. 3,600: machinery Rs.5, 000: stock Rs.6, 200: Debtors Rs. 8,700: Cash Rs.100.

The expenses of liquidation amounted to RS 100 and liquidator's remuneration was agreed at 2.5% on the amount including cash and 2% on the amount paid to unsecured creditors. Prepare liquidators final statement of account.

Reg. No..............................

[12CCU301]

KARPAGAM UNIVERSITY

(Under Section 3 of UGC Act 1956)

COIMBATORE – 641 021

(For the candidates admitted from 2012 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2014

Third Semester

COMMERCE (COMPUTER APPLICATION)

CORPORATE ACCOUNTING

Time: 3 hours Maximum : 100 marks

PART – A (15 x 2 = 30 Marks)

Answer ALL the Questions

1. What do you mean by forfeiture of shares?
2. List out any two rights of preferential shareholders
3. What you understand by issue of shares at par, at premium and at discount?
4. Write short notes on sinking fund method
5. Define underwriting.
6. Monisha Company Ltd. would like to redeem its 10% 10,000 preference shares of Rs. 10 each through issuing the same number of equity share of Rs. 10 each. Pass the necessary journal entry towards redemption of preference shares.
7. Explain the meaning of profits prior to incorporation.
8. What do you understand 'External Reconstruction'?
9. What are the methods of winding up of companies?
10. What are the duties of the Liquidator?
11. Kay Ltd. Has an issue of capital of Rs.5,00,000 in 50,000 shares of Rs.10 each on which Rs.8 per share has been called up. The company now decides to reduce share capital to share of Rs.8 each fully paid by cancelling the unpaid amount of Rs.2 per share. Pass journal entry.
12. Write short notes on surrendered shares
13. List out the methods of valuation of goodwill.
14. What is purchase consideration? When is it calculated?
15. Find out goodwill at 5 years purchase of 4 years average profits. Profits for 2005 – Rs. 20,000; 2006 – Rs. 25,000; 2007 – Rs. 22,000; 2008 – Rs. 19,000.

PART B (5 X 14= 70 Marks)

Answer ALL the Questions

16. (a) X Co.ltd issued 4,000 shares of Rs.10 each at a premium of Rs. 2 per share. The amount was payable as under.
    - On application Rs. 3 per share
    - On allotment Rs. 4 per share (including premium)
    - On first call Rs. 3 per share
    - On Second call Rs. 2 per share

    The company received applications for 5,000 shares and the allotment was made as under:
    - i. Applications for 200 shares- Nil
    - ii. Applications for 800 shares – Full
    - iii. Applications for 4,000 shares- 3,200 shares allotted on the basis of pro-rata.

    All money were duly received except the first call on 200 shares and final call on 300 shares. Pass journal entries in the books of X Co.ltd.

    Or

    (b) Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debenture were issued as follows:
    - i. Issued at par, redeemable at par,
    - ii. Issued at a discount of 5%, repayable at par.
    - iii. Issued at a premium of 10%, repayable at par.
    - iv. Issued at par, redeemable at a premium of 10%
    - v. Issued at a discount of 5% repayable at a premium of 10%

17. (a) Taylor Ltd. Has an authorized capital of Rs 8,00,000 comprising 2,000 6% Redeemable preference shares of Rs 100 each and 6,000 Equity shares of Rs 100 each.

    The preference shares are Redeemable on 31st July 1998 at a premium of 10%
    The summarized balance sheet of the company as on 30.6.1997 was as under:

Liabilities	Amount (in Rs.)	Assets	Amount (in Rs.)
Share Capital:		Sundry Assets	3,50,000
Authorised		Investments	40,000
6,000 Equity shares of Rs.100 each	6,00,000	Bank	72,000
2,000 6% Preference Shares of Rs.100 each	2,00,000		
Paid up capital:			
2,500 Equity shares of Rs.100 each	2,50,000		
1,000 6% Redeemable Preference Shares of Rs.100 each	1,00,000		
Capital Reserve	10,000		
General reserve	30,000		
Profit & Loss A/C	32,000		
Creditors	40,000		
TOTAL	4,62,000	TOTAL	4,62,000

The necessary resolutions were duly passed and the following transactions were carried through.

To provide cash for repayment of redeemable preference shares, the investments were sold for Rs.50,000 and equity shares of Rs.100 each were issued to existing shareholders at Rs.120 per share payable in full. All moneys were duly received.

The redeemable preference shares were duly redeemed.

You are required to pass the necessary journal entries in the books of the company.

Or

(b). On 1.4.1997, Rama Ltd. Issued 2,500 8% debentures of Rs 100 each at 5% discount. Holders of the debentures have option to convert their holdings into equity shares of Rs100 each at a premium of Rs 25 per share at any time within 3 years.

On 31.3.98, holders of 500 debentures notified their intention to exercise the option. Show the necessary journal entries in the company's books relating to issue and conversion of the debentures. Also show how the items affected would appear in the company's Balance sheet.

18. (a) The ASS Company was registered with an authorized capital of Rs.5,00,000 divided into 5,000 equity shares of Rs.100 each on 31-12-1985 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger as on 31-12-1985.

Trail Balance of ASS Ltd.

Particulars	Debit Rs.	Particulars	Cred[illegible] Rs.
Opening stock	50,000	Sales	13,1[illegible]
Purchases	2,00,000	Discount received	14,5[illegible]
wages	70,000	P&L A/C	5,7[illegible]
Discount allowed	4,200	Creditors	2,1[illegible]
Insurance (upto 31-3-1986)	6,720	Reserves	9,0[illegible]
Salaries	18,500	Loan from Managing Director	3,15,8[illegible]
Rent	6,000	Share capital	3,00,0[illegible]
General expenses	8,950		
Printing	2,400		
Advertisement	3,800		
Bonus	10,500		
Debtors	38,700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
Total	6,60,270		6,60,2[illegible]

The following adjustments have to be made:

i. Closing stock was valued at Rs.1,91,500

ii. Depreciation on Plant @ 5%, and on furniture @ 10% should be provided

iii. A tax provision of Rs.8,000 is considered necessary.

iv. The directors declared an interim dividend on 15-8-1985 for 6 months ending June 30, 1985 @ 6%.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31-12-1985 and the Balance Sheet as on the same date.

Or

(b) From the following P&L A/C of soundarya Ltd. For the year ended 31.12.1992 and additional data given, calculate commission due to Managing Director at 5% of net profit. Salary of Managing Director is to be treated as part payment of the commission.

P&LA/C for the year ended 31-12-1992

	Rs.		Rs.
To Opening stock	11,000	By Sales	1,70,000
To Bonus (Including Rs.500 for 1991)	5,000	By Closing stock	15,000
		By other incomes:	
To Director's Fees	3,000	Discount	2,000
To Managing Director		Profit on sale of fixed assets	1,000
Salary	2,000		
Commission	1,000		
To Development debate reserve	800		
To Provision for tax	3,000		
To establishment expenses	40,000		
To Loss on sale of investment	200		
To Net profit C/D reserve	1,22,000		
TOTAL	1,88,000	TOTAL	1,88,000

The book value of the fixed assets sold was Rs.2,000 and their original cost was Rs.2,600

19. (a) The following scheme of reconstruction has been approved for Divya Ltd

a. The shareholders to receive in lieu of their present holding of 60,000 shares of Rs.10 each fully paid the following.

i. Fully paid new equity shares equal to 1/3rd of their holding

ii. 8% preference shares fully paid, to the extent of 1/5th of the above new equity shares

iii. Rs.60,000 8% secured debentures

b. The debenture holders' total claim of Rs.75,000 to be reduced to Rs.25,000. This will be satisfied by the issue of 2,5000 8% preference shares of Rs.10 each fully paid

c. An issue of 50,000 6% first debentures was made and allotted, payment for the same having been received in cash.

d. The goodwill which stood an Rs.3,00,000 was written down to Rs.50,000. Plant & Machinery which stood at Rs.1,00,000 was written down to Rs.75,000

e. The freehold premises which stood at Rs.1,75,000 was written down by Rs.75,000

Give Journal entries in the books of Divya Ltd. for the Above Reconstruction.

Or

(b) M Ltd. And N Ltd. Agreed to amalgamate on the basis of the following Balance Sheet as on 31-3-1997.

Liabilities	M Ltd. Rs.	N Ltd. Rs.	Assets	M Ltd. Rs.	N Ltd. Rs.
Share capital Rs.25 each	75,000	50,000	Goodwill	30,000	-
P&L A/C	7,500	2,500	Fixed assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Depreciation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500
TOTAL	86,000	58,500	TOTAL	86,000	58,500

The assets and liabilities are to be taken over by a new company formed called 'P Ltd', at book values. P Ltd's capital is Rs.2,00,000 divided into 10,000 aquity shares of Rs.10 each and 10,000 9%preference shares of Rs.10 each.

P Ltd. Issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price.

Pass journal entries in the books of P Ltd. And prepare its balance sheet.

20. (a) The Balance sheet of Saraswati Co Ltd. Disclosed the following position as on 31st December 1998.

Liabilities	Rs	Assets	Rs
Share Capital:		Goodwill	1,65,000
6,000 equity shares of Rs 100 each	6,00,000	Investments	5,25,000
Profit & Loss A/c	75,000	Stock	6,60,000
General Reserve	2,25,000	Sundry debtors	3,90,000
6% debentures	4,50,000	Cash at bank	60,000
Sundry creditors	1,50,000		
Workmen's savings bank A/c	3,00,000		
TOTAL	18,00,000	TOTAL	18,00,000

i. The profits for the past five years were:

1994-Rs. 30,000;

1995- Rs.70,000;

1996-Rs.50,000;

1997-Rs.55,000 and 1998-Rs. 95,000

ii. The market value of investments was 3,30,000.

iii. Goodwill is to be valued at three years purchase of the average annual profit for the last five years

Calculate value of goodwill and also find the intrinsic value of each share.

Or

(b) From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.

i. Cash with liquidator (after all assets are realized and secured creditors and debenture holders are paid) is Rs. 6,73,800

ii. Preferential creditors to be paid R.s 30,000

iii. Other unsecured creditors Rs. 2,15,000

iv. 4,000 6% preference shares of Rs.100 each , fully paid.

v. 2,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.

vi. 6,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.

vii. Liquidator's remuneration 2% on preferential and other unsecured creditors.

viii. Preference dividends were in arrears for 2 years.
