KARPAGAM ACADEMY OF HIGHER EDUCATION

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

Coimbatore – 641 021.

LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME: A.GEETHALAKSHMI &MS. R.NAVEENA
SUBJECT NAME: CORPORATE ACCOUNTING SUB.CODE:16PAU301
SEMESTER: III CLASS: II B.COM(PA)

S.No	Lecture Duration (Hr)	Topic to be Covered	Support Materials
1.	1	ACCOUNTING FOR SHARE CAPITAL AND DEBENTURE ISSUE	
2.	1	Company: Meaning& characteristics	R: 1.1-1.3
3.	1	Difference between Partnership and company	W1
4.	1	Shares Meaning, features kinds of share	R: 1.1-1.3
5.	1	Problems to be worked in issue of share of discount	R1:1.13-1.15
6.	1	Problems to be worked in issue of share at par	R: 1.1-1.3
7.	1	Problems to be worked in issue of share out prorata	R:1.104-1.105
8.	1	Problems to be worked in issue of share of discount	R:1.104
9.	1	Problems to be worked in issue of share at par	R:1.104
10.	1	Problems to be worked in issue of share of discount	R:1.104
11.	1	Problems to be worked in issue of share at par	R1:1.69-1.70
12.	1	Problems to be worked in forfeiture of share	R1:1.69-1.70
13.	1	Concept and process of book building issue of rights	
14.	1	Problems to be worked in issue bonus share&buy back of share	R1:1.70-1.72
15.	1	Problems to be worked in forfeiture of share	R1:1.70-1.72
16	1	Tutorial I: Accounting Share capital	R1:4.77-4.80
17	1	Tutorial II: Issue and Redemption of preference shares	R1:4.77-4.80

18	1	**Recapitulation and Discussion of Important Questions**	
		Total No.of.Hours Planned for UNIT-I	18

UNIT-II

S.No	Lecture Duration (Hr)	Topic to be Covered	Support Materials
1	1	Final accounts	R2:2.22-2.25
2	1	An overview of final accounts	R2:2.22-2.25
3	1	Form of statement of profit and loss	R2:2.22-2.25
4	1	Concept of Profit & Loss Accounts: Revenue	R2:2.22-2.25
5	1	From operation, other income, natural expenses	R1:7.7-7.11
6	1	Statement of balance sheet, Meaning and form of balance sheet	R1:7.7-7.11
7	1	Content of balance sheet	R1:7.7-7.11
8	1	Problems to be worked out in final accounts	R1:7.82-7.126
9	1	Problems to be worked out in final accounts	R1:7.82-7.126
10	1	Managerial remuneration – Introduction	R1:7.24-7.26
11	1	Requisition to be included categories of remuneration	R1:7.27-7.28
12	1	Administration ceilings regard managerial remuneration	R1:7.27-7.28
13	1	Computation of net profit for managerial remuneration	R1:7.27-7.28
14	1	Disposal of company profits	R1:7.29-7.30
15	1	Computation of net profit for managerial remuneration	R1:7.29-7.30
16	1	Tutorial I: Accounting treatment pf certainties	R1:7.31-7.32
17	1	Tutorial II: Placing entering items in final computation of Profit and loss	R1:7.33-7.70
18	1	**Recapitulation and Discussion of Important Questions**	
		Total No.of.Hours Planned for UNIT-II	18

UNIT-III

S.No	Lecture Duration (Hr)	Topic to be Covered	Support Materials
1	1	Valuation of Goodwill and valuation of share	R1:8.87-8.89
2	1	Valuation of Goodwill problems to be worked out	R1:8.87-8.89
3	1	Valuation of Goodwill problems to be worked out	R1:8.87-8.89
4	1	Valuation of Goodwill problems to be worked out	R1:8.87-8.89
5	1	Weighted average profit method	R1:8.87-8.89
6	1	Problems to be worked in super profit method	R1:8.89-8.95
7	1	Problems to be worked in super profit method	R1:8.89-8.95
8	1	Problems to be worked in super profit method	R1:8.89-8.95
9	1	Problems to be worked in super profit method	R1:8.89-8.95
10	1	Problems to be worked in capitalization method	R1:8.97-8.98
11	1	Problems to be worked in capitalization method	R1:8.97-8.98
12	1	**Valuation of shares An overview**	R1:8.97-8.98
13	1	Problems to be worked in valuation of shares	R1:8.105-8.112
14	1	Problems to be worked in yield method	R1:8.105-8.112
15	1	Problems to be worked in fair value method	R1:8.105-8.112
16	1	Tutorial I: Valuation of goodwill	R1:8.105-8.112
17	1	Tutorial I: Valuation of shares	R1:8.105-8.112
18	1	**Recapitulation and Discussion of Important Questions**	
		Total No.of.Hours Planned for UNIT-III	18

UNIT-IV

S.No	Lecture Duration (Hr)	Topic to be Covered	Support Materials
1	1	Accounts of Holding companies/subsidiary companies	R1:14.1-14.106
2	1	Accounts of holding companies	R1:14.1-14.106
3	1	An overview of holding companies	R1:14.1-14.106
4	1	Preparation of consolidated balance sheet	R1:14.1-14.106
5	1	Preparation of consolidated balance sheet	R1:14.2
6	1	Steps involved in preparation of balance sheet	R1:14.2
7	1	Steps involved in preparation of balance sheet	R1:14.12-14.16
8	1	Steps involved in preparation of balance sheet	R1:14.12-14.16
9	1	Steps involved in preparation of balance sheet	R1:14.12-14.16
10	1	Steps involved in preparation of balance sheet	R1:14.12-14.16
11	1	Relevant provisions of accounting standards ;21(ICAI)	R1:18.50-18.52
12	1	Relevant provisions of accounting standards ;21(ICAI)	R1:18.50-18.52
13	1	Relevant provisions of accounting standards ;21(ICAI)	R1:18.50-18.52
14	1	Tutorial I: Preparation for Consolidated Balance sheet	R1:18.50-18.52
15	1	Tutorial II: Accounting standards 21(ICAI)	R1:18.50-18.52
16	1	**Recapitulation and Discussion of Important Questions**	
		Total No.of.Hours Planned for UNIT-IV	16

UNIT-V

S.No	Lecture Duration (Hr)	Topic to be Covered	Support Materials
1	1	Liquidation of companies	R1:11.8-11.10
2	1	Procedure of preparation of statement of affairs	R3:4.16
3	1	Liquidators final statement of account	R3:4.16
4	1	Problems to be worked out Liquidators final statement of account	R1:11.25-11.27
5	1	Problems to be worked out Liquidators final statement of account	W2
6	1	Modes of winding up	R1:11.72-11.83
7	1	Orders of payment	
8	1	Important calculation of liquidators remuneration	R1:11.29-11.30
9	1	Accounting standards 16: meaning	W3
10	1	Definition and features of borrowing cost	W3
11	1	Accounting standards 19: leases	W3
12	1	Accounting standards 20:Main features of earnings per share	W3
13	1	Accounting standards 26: features of intangible assets	W3
14	1	Intangible assets & its provisions	W2
15	1	Tutorial I: preparation of statement of affairs	R3:4.16
16	1	Tutorial II: Accounting standars	W3
17	1	Discussion previous year ESE questions	
18	1	Discussion previous year ESE questions	
19	1	Discussion previous year ESE questions	
20	1	Recapitulation and discussion important questions	
Total No.Of. Hours planned for unit-V			20

REFERENCES

R1:T.S.Reddy &Mirthy (2015),"Corporate Accounting MarghamPublications.

R2: Shukla M.C.mGrewal T.S(2014) Advanced Accounts,S.Chand &co,New delhi

R3:Maheswari S.N.(2014)"Corporate Accounting(5th edition) New Delhi.

WEBSITES

W1: Http:// en.wikibooks.org/

W2: Http://WWW.Investopedia.com/articles/b-List contributories

W3: WWW.mca.gov.in.ministry>pdf>AS 20,AS 26, AS-29.

Semester III

16PAU301	**CORE- CORPORATE ACCOUNTING**	**L**	**T**	**P**	**C**
		6	**2**	**-**	**6**

COURSE OBJECTIVE

Corporate Accounting represents the basics of company accounts and underwriting of shares. It includes the liquidation of companies, managerial remuneration under sec. 350 and computation of underwriter's net liability. This paper gives the concepts of Accounting Standards and its various provisions relating to company.

LEARNING OUTCOME

- To enhance students knowledge in the Accounting Principles and Practice
- To make the students gain knowledge in the Corporate Accounts
- To create awareness among the students about the Liquidation of Company and Accounting Standards

UNIT I

Accounting for Share Capital and Debentures Issue **-** Forfeiture and Reissue of Forfeited Shares **-** Concept and 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 **-** Statement of Profit and Loss and Balance sheet of Corporate Entities (Excluding Calculation of Managerial Remuneration) **-** Disposal of Company Profits

UNIT III

Valuation of Goodwill and Valuation of Shares **-** Concepts and calculation.

UNIT IV

Accounts of Holding Companies / Subsidiary Companies **-** Preparation of consolidated balance sheet with one subsidiary company. Relevant provisions of Accounting Standard: 21 (ICAI).

UNIT V

Liquidation of Companies **-** Modes of winding UP or Liquidation **-** Winding up Under Supervision of the Court **-** Order of Payment **-** Form of Statement of Affairs **-** Procedure **-** Liquidators Final Statement of Accounts **-** Liquidators Remuneration.

Accounting Standards (Theory Only) - AS 16: Borrowing Costs - AS 19: Leases - AS 20 : Earnings Per Share - AS 26 : Intangible Assets.

Note: Distribution of marks for theory and problems shall be 20% and 80 % respectively.

SUGGESTED READINGS:

TEXT BOOKS

1. Jain, S.P., & Narang, K.L. (2016). *Corporate Accounting* (12^{th} ed.). Ludhiana: Kalyani Publishers.

REFERENCES

1. Monga, J.R. *Fudamentals of Corporate Accounting*. New Delhi : Mayur Paper Backs.
2. Shukla, M.C., Grewal,T.S., & Gupta, S.C. (2014). *Advanced Accounts* Vol.-II. New Delhi: S. Chand and Company Ltd.
3. Maheshwari, S.N., & and Maheshwari, S.K. (2016). *Corporate Accounting* (5^{th} ed.). New Delhi: Vikas Publishing House.
4. Goyal, V.K., & RuchiGoyal. (2013). *Corporate Accounting* (3^{rd} ed.). PHI Learning.
5. Bhushan Kumar Goyal. (2014). *Fundamentals of Corporate Accounting* (2^{nd} ed.). New Delhi: International Book House.
6. Tulsian., P.C., & Bharat Tulsian. (2016). *Corporate Accounting* (11^{th} ed.). New Delhi: S.Chand and Sons.
7. Amitabha Mukherjee., Mohammed Hanif. (2014). *Corporate Accounting* (1^{st} ed.). New Delhi: McGraw Hill Education.

UNIT-I
SYLLABUS

Accounting for Share Capital and Debentures Issue - Forfeiture and Reissue of Forfeited Shares - Concept and 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. ......per share)		Rs. Xxx	Rs. xxx

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.	BankAccount Dr		Rs.	Rs.
	To Equity Share Application A/C (Being the receipt of application money on 80,000 equity shares @ Rs. 2 per share)		1,60,000	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		 xxx	 xxx xxx
	To Securities Premium Account (Being the allotment money and securities premium money due on .... shares)			
	(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 (Being the amount received on account of first and final call on 19,960 shares @ Rs. 6 and calls in arrears on allotment)		1,19,940	1,19,760 180
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) (if not received)
Securities Premium Account Dr.	(with amount which becomes due but not paid) (if shares are issued at discount)

To Share Capital Account
To Discount on Issue of Shares Account
To Shares Forfeited Account

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. Discount on Issue of Shares Account Dr.	(amount received on such reissue) (with original rate of discount if the shares originally were issued at discount) (loss on reissue of shares) (with face value of shares)

Shares Forfeited Account Dr. To Share Capital Account 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**

			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 To Equity Share Second Call Account To Shares Forfeited Account (Being forfeiture of shares of A,B & C)		8,000	 600 1,000 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

1.	Bank Account Dr. To Equity Share Application Account		Rs. 60,000	Rs. 60,000

	(Being the application money received on 30,000 equity shares @ Rs. 2 per share)			
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 (Being the receipt of share final call money)		54,600	 54,600

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		18,000 1,600	3,680 3,600 5,400 6,920

	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)			
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
		Rs.	Rs.	Rs.	Rs.
1,000	--	4,000	--	--	4,000
50,000	25,000	2,00,000	1,00,000	1,00,000	--
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 April	By Bank Account	2,04,000

	To Bank Account	4,000	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

DEBENTURES

A debenture may be defined as an acknowledgement (mostly under seal of the company) of a debt or loan raised by a company. Just as share capital of a company is divided in a large number of parts, each part being called a share, a loan raised by a company may be divided in a large number of parts, each part being called a debenture. Debentures are serially numbered.

Debenture is a creditor ship security; company has to pay interest to debenture holders at the agreed rate. It is used to prefix 'Debentures' with the annual rate of interest. Thus, if interest at 10% per annum has to be paid on certain debentures, these debentures will be called 10% Debentures.

Distinction between Debentures and Shares: The following are the points of distinction between debentures and shares:

1. **Creditor ship Security V. Ownership Security:** Whereas a debenture is creditor ship security, a share is an ownership security. It means that a debenture holder is a creditor of the company, while the shareholder is a part-owner of the company. It is the fundamental distinction between a debenture and a share.

2. **Certainty of return:** A debenture holder is certain of return on his investment. The company has to pay interest on debentures at the fixed rate agreed upon at the time of issue even if it suffers heavy losses. A shareholder cannot get dividend if the company does not earn profits. As a matter of fact, even when a company earns a profit, its Directors may decide to plough back the profits and not declare

a dividend. Thus, there is no certainty of return on investment in shares.

3. **Order of repayment on winding up:** In case of winding up of a company, the amount of debentures will be repaid before any amount is paid to shareholders to return share capital.
4. **Restrictions on issue at a discount:** There are no restrictions on issue of debentures at a discount, but there are legal conditions which have to be fulfilled to issue shares at a discount.
5. **Mortgage:** There can be mortgage debentures. It means that assets of the company can be mortgaged in favor of debenture holders by way of security. But there can be no mortgage shares.
6. **Convertibility:** Debentures which can be converted into shares at the option of debenture holders can be issued. But shares convertible into debentures cannot be issued.

Issue of Debentures. Debentures are issued in the same manner in which shares are issued. The company issues a prospectus inviting applications along with a sum of money called application money. After Scrutiny, the Board of Directors makes allotment of debentures. If the entire sum of money has not been asked for along with applications another sum of money called, allotment money may be asked for. Subsequently there may be a few calls even. But mostly, the entire amount is received on application or on application and allotment.

According to SEBI (Securities and Exchange Board of India) guidelines, issue of fully convertible debentures having a conversion period of more than 36 months is not permissible unless conversion is optional with “put” and “call” option.

Entries for issue of debentures are similar to those passed for issue of shares, only the names of the accounts are changed. There are Debenture Application Account, Debenture Allotment Account, Debenture First Call Account, Debenture Second Call Account and Debenture Third and Final Call Account etc. Instead of crediting Share Capital Account, Debentures Account is credited

Journal Entries **Dr.** **Cr.**

1.	When applications are received, the entry is: Bank Account Dr. To Debenture Application Account	Rs. xxx	Rs. xxx
2.	On allotment, the application money on debentures allotted is transferred to Debentures Account: Debenture Application Account Dr. To Debentures Account	xxx	xxx
3.	The amount on application which are rejected will be refunded: Debentures Application Account Dr. To Bank Account	xxx	xxx
4.	Surplus application money on partially accepted applications will be transferred to Debenture Allotment Account: Debenture Application Account Dr. To Debenture Allotment Account	xxx	xxx
5.	The amount due on allotment: Debenture Allotment Account Dr. To Debentures Account	xxx	xxx
6.	On receipt of the allotment money: Bank Account Dr. To Debenture Allotment Account	xxx	xxx
7.	The amount due on first call: Debenture First Call Account Dr. To Debentures Account	xxx	xxx
8.	On receipt of the first call money: Bank Account Dr. To Debenture First Call Account	xxx	xxx
9.	The amount due on second and final call: Debenture Second and Final Call Account Dr. To Debentures Account	xxx	xxx

10.	On receipt of the second and final call money: Bank Account Dr. To Debenture Second and Final Call Account	xxx	xxx

Illustration 8. J. S Ltd. issued 10.000 12% Debentures of Rs. 100 each, payable as to Rs. 20 on application and the balance on allotment. Applications were received for 15,000 debentures out of which applications for 9,000 were allotted fully, applications for 400 were allotted 100 debentures and the remaining rejected. All sums due were received. Journalize. Also show the Balance Sheet.

Solution:

J S Ltd.'s Journal **Dr.** **Cr.**

			Rs.	Rs.
1.	Bank Account Dr. To 12% Debenture Application Account (Being the amount received as application money on 15,000 debentures @ Rs. 20 each)		3,00,000	3,00,000
2.	12% Debenture Application Account Dr. 12% Debenture allotment Account Dr. To 12% Debentures Account (Being application money @ Rs. 20 per debenture and allotment money @ Rs. 80 per debenture credited to 12% Debentures Account in respect of 10,000 debentures allotted as per Directors resolution)		2,00,000 8,00,000	10,00,000
3.	12% Debentures Application Account Dr. To 12% Debentures Allotment Account To Bank Account (Being transfer of requisite amount from debentures applications account to debentures allotment account and refund made to unsuccessful applicants)		1,00,000	60,000 40,000

4.	Bank Account Dr. To 12% Debentures Allotment Account (Being the amount received against Debenture Allotment Account)		7,40,000	7,40,000

Balance Sheet of J S Ltd.

Liabilities	Rs.	**Assets**	Rs.
12% Debentures	10,00,000	Bank	10,00,000

Premium on Issue of Debentures and Discount on Issue of Debentures:

Premium on issue of Debentures account and Discount in issue of Debentures Account take place of Share Premium Account and Discount on issue of Shares Account respectively. Like shares, debentures may be issued at par, at a premium or at a discount. But the law does not lay down any maximum limit for discount on issue of debentures. The sanction of the Company Law Board is also not needed.

Illustration 9 : Give journal entries in the books of a purchasing company:

(a) A company purchased assets of Rs. 3,50,000 and took over the liabilities of Rs. 30,000. It agreed to pay the purchase price, Rs. 3,30,000, by issuing debentures of Rs. 100 each at a premium of 10%.

(b) A company Purchased assets of Rs. 3,60,000 and took over liabilities of Rs. 35,000. It agreed to pay the purchase price, Rs. 3,34,950, by issuing debentures of Rs. 100 each at a premium of 10% and Rs. 65 by cash. The debentures of the same company are quoted in the market at Rs. 130.

(c) A company purchased assets of Rs. 3,80,000 and took over the liabilities of Rs. 30,000 at an agreed value of Rs. 3,33,000. The company issued debentures at 10% discount in full satisfaction of the purchase price.

Solution:

JOURNAL **Dr.**
Cr.

			Rs.	Rs.
(a)	Sundry Assets Account Dr. Goodwill Account (Balance Figure) Dr. To Liabilities Account To Vendors Account (Being the purchase of assets and liabilities by purchasing company)		3,50,000 10,000	 30,000 3,30,000
	Vendor Account Dr. To Debentures Account To Premium on Issue of Debentures A/c (Being issue of debentures at a premium of 10%)		3,30,000	 3,00,000 30,000
(b)	Sundry Assets Account Dr. Goodwill Account Dr.		3,60,000 10,015	 3,35,015 35,000

	To Sundry Liabilities Account To Vendors Account (Being the purchase of assets and liabilities by the purchasing company)			
	Vendors Account Dr. To Debentures Account To Premium on Issue of Debentures A/c To Cash Account		3,35,015	3,04,500 30,450 65
(c)	Sundry Assets Account Dr. To Sundry Liabilities Account To Vendors Account To Capital Reserve account (Being the takeover of assets and liabilities)		3,80,000	30,000 3,33,000 17,000
	Vendors Account Dr. Discount on Issue of Debentures Account Dr. To Debentures Account (Being the payment of purchase consideration be issuing debentures at a discount of 10%)		3,33,000 37,000	3,70,000

If the whole amount of debentures is to be called by the company either on application or in different calls, then the entries will be passed in the books of the company on the same lines as was done in case of issue of shares.

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** **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. 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 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 Equity Shares: 50,000 shares of Rs. 10 each 10% Redeemable Pref. Shares 1,000 shares of Rs. 100 Each fully called 1,00,000 Less: Calls in arrear 1,000 (On 50 shares @ Rs. 20 each)	5,00,000 99,000 1,00,000 50,000	Bank Other Assets	90,000 8,10,000

Reserves and Surplus: General Reserve Dev. Rebate Reserve 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.**

	Bank Account Dr.		Rs. 49,500	Rs. 45,000
	To Equity Share Capital Account To Securities Premium Account (Being the issue of 4,500 equity shares at a premium of 10%)			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.		1,00,000 10,000	 1,10,000

	To Preference Shareholders Account (Being the amount due to redeemable preference shareholders on redemption)			
	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: 54,500 equity shares of Rs. 10 each fully paid.	5,45,000	Fixed Assets: Other assets	8,10,000
Reserves and Surplus:		Current Assets 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

Illustration 3: Tata Limited has the following balances as on 31 – 03 – 2006:

Liabilities	Rs.	Assets	Rs.

Share Capital : Issued, Subscribed and fully paid up 10,000 Equity Shares of Rs. 100 each 5,000 Preference Shares of Rs. 100 each	10,00,000 5,00,000	Fixed Assets Current Assets	22,00,000 8,00,000
Capital Reserve	1,00,000		
Securities Premium A/C	1,00,000		
General Reserve	2,00,000		
Profit and Loss A/c	1,00,000		
Current Liabilities	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent it is required under the Companies Act for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue is to be met by taking a bank loan. Show journal entries.

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: (a) On issue of debentures: Bank Account Dr. To Debentures Account		Rs. xxx	Rs. xxx
	(b) On redemption of debentures: Debentures Account Dr. To Bank Account		xxx	 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 utilised 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: Debentures Account Dr. To Bank Account		Rs. xxx	Rs. 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:

	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		Rs. xxx xxx	Rs. 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.**

	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)		Rs. 4,00,000 8,000	Rs. 4,08,000

(1)(a)	Debenture holders Account Dr. To 6% Cumulative Preference Share Capital A/c 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)		1,74,420	1,55,040 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		1,46,880 6,120	1,53,000
	(redemption value Rs. 1,46,880) issued new 6% Debentures at Rs. 96)			
	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)			

Illustration 5: A joint stock company redeemed its Rs. 50,00,000, 5% Debentures at a premium of 2%.

The offer for redemption was as follows:

A. Holders could have cash, or
B. They could utilise their redemption money in:
    (1) Subscribing to 4% Cumulative Preference shares, issued at a premium of 5%, or
    (2) Taking up 3% Debentures, issued a discount of 10%.

Persons holding Rs. 20,00,000 of the debentures agreed to take immediate cash payment. Some other debenture holders holding between them Rs. 19,42,000 agreed to subscribe to the preference shares. The balance of 5% debentures were replaced by the new series of 3% debentures.

Submit journal entries for the above transaction. State the nature (capital or revenue) of losses and gains, arising out of this transaction

ACQUISITION OF BUSINESS

A company may start an entirely new business or it may start with buying an existing business, either that of a partnership or of a limited company. Frequently, later in its life, a company buys businesses. The purchase price or purchase consideration may be discharged in the form of shares, debentures or cash. The price paid for the business will naturally depend on the valuation of its assets including goodwill. The accounting problems arising from acquisition will be discussed under the two headings, i.e., (1) When new set of books are opened and (2) when the same set of books are continued.

(1) When New Set of Books are Opened:

When a company purchases an existing business of a sole trader or a partnership and new books are opened, there are two points which require attention:

(a) **Calculation of Purchase Consideration.** Purchase consideration is the amount which is paid by the company for the purchase of business. Generally purchase consideration is given in the question or it is calculated by adding the various forms of payments, i.e., shares, debentures and cash.

(b) **Calculation of Goodwill or Reserve.** When a company purchases a business, the purchase price must be compared with the net assets acquired. If the value of net assets is less than the purchase price agreed to be paid the excess amount should be debited to Goodwill Account. Value of net assets will be assets taken over at the revised values minus liabilities taken at agreed value. When the value of net assets is more than the purchase price, the company stands to gain and such gain is credited to Capital Reserve.

Accounting Treatment in the Books of the Purchasing Company:

The purchasing company will pass the following journal entries in its books:

1.	For purchase of business Business Purchase Account Dr. To Vendor Account		Rs. xxx	Rs. xxx
2.	For assets and liabilities taken over on purchase of business Various Assets A/C (at revised value) Dr. To Various Liabilities A/c (at agreed value) To Business Purchase Account Notes(a)If the credits exceed the debits, the difference should be debited to Goodwill Account. (b)If the debits exceed the credits, the difference should be credited to Capital Reserve.		xxx	 xxx xxx
3.	For discharge of purchase consideration Vendor Account Dr. To Cash A/C (if cash is paid) To Share Capital A/C (if shares are issued) To Debentures A/C (if debentures are given)		xxx	 xxx xxx xxx

Illustration 6 : A company was formed with an Authorised Capital of Rs. 50,00,000 divided in to 2,50,000 Equity Shares of Rs. 10 each and 2,50,000 12% preference shares of Rs. 10 each to acquire the running business of M/s KNM &Co. whose balance sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Bills Payable	35,000	Cash at Bank	30,000
Sundry Creditors	64,000	Cash at Office	15,000
Capital	13,21,000	Sundry Debtors	75,000
		Stock in trade	3,10,000
		Plant and Machinery	5,00,000
		Freehold Premises	4,50,000
		Insurance policy	40,000
	14,20,000		14,20,000

The purchase price was agreed upon at Rs. 17, 50,000 to be paid, Rs. 5, 00,000 in fully paid Equity Shares, Rs. 5,00,000 in fully paid Preference shares, Rs. 3,00,000 in Redeemable Debentures and the balance in cash. The company does not take over the insurance policy, values the stock and plant and machinery at 10 per cent less than the book value and the freehold premises at 20 per cent more than the book value. The liabilities will be discharged by the company.

The balance of both kinds of shares was issued to and paid up by the public with the exception of 6,000 equity shares held by Mr. Subban on which he did not pay the last call of Rs. 3 per share, and which were subsequently forfeited and reissued at a discount of 20 per cent.

Give journal entries to record the above and prepare the Balance Sheet of the company.

Solution: **Journals** **Dr.** **Cr.**

			Rs.	Rs.
	Business Purchase Account Dr. To M/S KNM & Co. Account (Being the purchase of business of M/S KNM & Co. for Rs. 17,50,000 as per agreement)		17,50,000	17,50,000
	Cash at Bank Account Dr. Cash at Office Account Dr. Sundry Debtors Account Dr. Stock in Trade Account Dr. Plant and Machinery Account Dr. Freehold Premises Account Dr. Goodwill Account To Bills Payable Account To Sundry Creditors Account To Business Purchase Account (Being various assets and liabilities taken over , Goodwill calculated by deducting the value of other assets from the total of current liabilities and Business Purchase Account)		30,000 15,000 75,000 2,79,000 4,50,000 5,40,000 4,60,000	35,000 64,000 17,50,000
	Equity Shares Applications, Allotment, Calls A/c Dr. To Equity Share Capital Account (Being the credit of Rs. 7 per share to Equity Share Capital on 2,00,000 shares left for issue to the public)		14,00,000	14,00,000

	Bank Account Dr.		14,00,000	14,00,000
	To Equity Share Application. Allotment, Calls A/c (Being the receipt of Rs. 7 per share on all the 2,00,000 shares)			
	Bank Account Dr. To Preference Share Capital Account (Being issue and allotment of 2,00,000 preference shares to the public, the whole of the amount received in cash)		20,00,000	20,00,000
	Equity Share Final Call Account Dr. To Equity Share Capital Account (Being amount due on 2,00,000 shares @ Rs. 3 per share as final call.)		6,00,000	6,00,000
	Bank Account Dr. To Equity Share final Call Account (Being the amount received as final call on the equity shares except 6,000 shares)		5,82,000	5,82,000
	M/S KNM & Co. Account Dr. To Equity Share Capital Account To Preference Share Capital Account To Redeemable Debentures Account To Bank Account (Being the discharge of the purchase consideration as per agreement)		17,50,000	5,00,000 5,00,000 3,00,000 4,50,000
	Equity Share Capital Account Dr. To Equity Shares Final Call Account To Shares Forfeited Account (Being forfeiture of 6,000 equity shares of Rs. 10 each for non-payment of the final call of Rs. 3)		60,000	18,000 42,000
	Bank Account Dr. Shares Forfeited Account Dr. To Equity Share Capital Account (Being reissue of 6,000 forfeited equity shares at a discount of 20%)		48,000 12,000	60,000

	Shares Forfeited Account Dr. To Capital Reserve Account (Being the balance in the shares forfeited		30,000	30,000
	account transferred to Capital Reserve Account as required by law)			

Balance Sheet of .... Co. Ltd.
(as on ....)

Liabilities	Rs.	Assets	Rs.
Share Capital:		**Fixed Assets:**	
Authorised:	50,00,000	Goodwill	4,60,000
Issued and Subscribed:		Freehold Premises	5,40,000
2, 50,000 Equity Shares of Rs. 10 each fully paid in cash.	25,00,000	Plant and Machinery	4,50,000
2, 50,000 Preference Shares of Rs. 10 each fully paid.	25,00,000	**Current Assets, Loans and Advances:**	
Reserves and Surplus:		**(A) Current Assets**	
Capital Reserve	30,000	Stock in Trade	2,79,000
Secured Loans:		Sundry Debtors	75,000
Debentures	3,00,000	Cash at Bank	36,25,000
Current Liabilities & Provisions:		Cash at Office	
(A) Current Liabilities	64,000	**(B) Loans and Advances**	
Sundry Creditors	35,000		
Bills Payable	Nil		
(B) Provisions			
	54,29,000		54,29,000

Debtors and Creditors taken over on behalf of the debtors:

Often, a company does not take over the debtors and creditors belonging to the vendor but merely agrees to collect the debts and pay the creditors on behalf of the vendor. This means that any profit or loss made in the process will belong to the vendor. The entries to be made in such a case will be as follows:

1.	At the time of acquisition of the business: Vendors' Debtors Account (at book value) Dr. To Vendors' Creditors A/C (at book value) To Vendors' Suspense Account (difference)		Rs. xxx	Rs. xxx xxx

2.	When debtors are realized: Bank Account Dr. To Vendors' Debtors Account		xxx	xxx
3.	When creditors are paid: Vendors' Creditors Account Dr. To Bank Account		xxx	xxx
4.	Any loss suffered on realization of debts: Vendors' Suspense Account Dr. To Vendors' Debtors Account		xxx	xxx
5.	Any gain on payment to creditors: Vendors' Creditors Account Dr. To Vendors' Suspense Account		xxx	xxx
6.	If the company is entitled to any commission for the work done: Vendors' Suspense Account Dr. To Commission Account		xxx	xxx
7.	On payment to the vendor of the amount due in respect of debtors and creditors: Vendors' Suspense Account Dr. To Bank Account or To Debentures Account or To Share Capital Account (as the case may be).		xxx	xxx

Illustration 7:

On 1st March, 2009 a company bought certain assets from D. Suresh. The company also undertook to collect his debts amounting to Rs. 13,00,000 and to pay his creditors for Rs. 3,00,000 for a commission of 3 per cent on amount collected and one per cent on amount paid. The debtors realized Rs. 12,00,000 only out of which Rs. 2,85,000 was paid to creditors in full settlement. D. Suresh received Rs. 5,00,000 in 12% debentures at Rs. 95 and the balance in cash. Journalize.

Solution: **Journal** **Dr.** **Cr.**

			Rs.	Rs.
2009 Mar. 1	Vendor's Debtors Account Dr. To Vendor's Creditors Account To Vendor's Suspense Account (Being the vendor's debtors and creditors taken over for collection and payment on behalf of the vendor, as per agreement)		13,00,000	3,00,000 10,00,000
	Bank Account Dr. Vendor's Suspense Account Dr.		12,00,000 1,00,000	13,00,000

	To Vendor's Debtors Account (being the sum realized from debtors, the loss of Rs. 1,00,000 debited to vendor's suspense A/c)			
	Vendor's Creditors Account Dr. To Bank Account To Vendor's Suspense Account (Being the payment in full settlement of Rs. 2,85,000 to creditors, the profit of Rs. 15,000 credited to vendor's suspense account)		3,00,000	2,85,000 15,000
	Vendor's Suspense Account Dr. To Commission Account (Being the commission earned for collection of debts and payment of creditors. 3% on Rs. 12,00,000 Rs. 36,000 1% on Rs. 2,85,000 Rs. 2,850 -------- 38,850		38,850	38,850
	Vendor's Suspense Account Dr. Discount on Issue of Debentures Account Dr. To 12% Debentures Account To Bank Account (Being the settlement of the vendor's account in respect of debtors and creditors by the issue of Rs. 5,00,000 debentures at a discount of 5% and the balance in cash)		8,76,150 25,000	5,00,000 4,01,150

(2) When same set of books are continued:

If the purchasing company decides to continue with the same set of books, then the following steps may be taken:

(a) **Revalue assets and liabilities.** As the same set of books are to be continued there is no need of realization account. Instead a revaluation account will be prepared on the same lines as is discussed in case of admission of a partner to bring into account the increase or decrease in the values of assets and liabilities. The balance of revaluation account is transferred to capital account of a sole trader or in the profit sharing ratio in case of partnership.

(b) **Close assets / liabilities not taken over by the purchasing company.** The assets and liabilities not taken over by the purchasing company are transferred to the capital accounts in the profit sharing ratio. However, when it is found that the asset is worth of its book value or the value of asset is not going to fluctuate as in

case of cash or bank balance, then such assets can be distributed among the partners in the ratio of final claim.

(c) **Distribute reserves and losses.** If there are any undistributed profits or losses, these should be closed by transfer to capital accounts in the profit sharing ratio.

(d) **Close the capital account.** After making the above adjustments, the capital accounts are closed by debiting the capital accounts and crediting the shares or debentures or cash.

(e) **Prepare revised balance sheet.** After doing all this, a revised balance sheet can be prepared.

Illustration 8 : The following is the Balance Sheet of M/S. Arun and Balaji as on 31 March, 2009:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	20,000	Land and Buildings	1,00,000
Mrs. Arun's Loan	90,000	Plant and Machinery	80,000
Capital :-		Stock in Trade	30,000
Arun	1,20,000	Sundry Debtors	50,000
Balaji	80,000	Investments	40,000
		Cash at Bank	10,000
	3,10,000		3,10,000

Profits were shared as 2/3 to Arun and 1/3 to Balaji. On 1st April, 2009 Arun Balaji Ltd. purchased the business of M/S Arun and Balaji for a payment of Rs. 3, 00,000 to be made in the form of shares of Rs. 100 each credited as Rs. 80 paid. The company does not take over the investments and Mrs. Arun's Loan. The company also decides to revalue land and buildings at Rs. 1, 35,000, Plant and machinery at Rs. 70,000 and to create a provision for doubtful debts on debtors @ 5%. There was a claim by a worker for Rs. 3,000 for injuries in an accident. The company decided to admit the claim. Out of the investments, Rs. 6,000 worth is worthless. Mrs. Arun agrees to receive the remaining investments and 700 shares of Arun Balaji Ltd. in settlement of the loan.

The company decides to retain the books of account of the firm. Journalize.

Solution: **Journal** **Dr.** **Cr.**

2009			Rs.	Rs.
April 1	Land and Building Account Dr. To Revaluation Account (Being the increase in the value of land and buildings, for sale of business to Arun Balaji Ltd.)		35,000	35,000

,,	Revaluation Account Dr. To Plant and Machinery Account To Provision for Doubtful Debts To Liability for Accident Account (Being the decrease in the value of the plant and		15,500	 10,000 2,500 3,000

	machinery, creation of provision for doubtful debts and creation of liability for compensation, to be brought into account for sale of business to Arun Balaji Ltd.)			
,,	Revaluation Account Dr. To Arun's Capital Account To Balaji's Capital Account (Being the transfer of profit on revaluation)		19,500	 13,000 6,500
,,	Goodwill Account Dr. To Arun's Capital Account To Balaji's Capital Account (Being the creation of goodwill, calculated as under Net assets: Land and Building 1,35,000 Plant and Machinery 70,000 Stock in Trade 30,000 Sundry Debtors (net) 47,500 Cash at Bank 10,000 ------------ 2,92,500 Less: Sundry Creditors 20,000 Liability for accident 23,000 43,000 ------------- 2,49,500 Amount to be paid 3,00,000 Goodwill (3,00,000-2,49,500) 50,500		50,500	 33,667 16,333
,,	Arun's Capital Account Dr. Balaji's Capital Account Dr. To Investments Account (Being transfer of investments worth Rs. 6,000 to Arun and Balaji in the profit sharing ratio because they are worthless)		4,000 2,000	 6,000

,,	Mrs. Arun's Loan Account Dr. To Investments Account To Share Capital Account (Being the settlement of Mrs. Arun's loan by the remaining investments and by allotment to her of 700 shares of Rs. 100 each credited as Rs. 80 paid up)		90,000	34,000 56,000
,,	Arun's Capital Account Dr.		1,49,280 94,640	
	Balaji's Capital Account Dr. To Share Capital Account (Being the allotment of 1,866 shares of Rs. 100 each Rs. 80 paid to Arun and of 1,183 similar shares to Balaji)			2,43,920
,,	Arun's Capital Account Dr. Balaji's Capital Account Dr. To Bank Account (Being the remaining balance paid to them in cash)		53 27	80

PROFIT PRIOR TO INCORPORATION

Nature of Profit or Loss

Sometimes a company purchases a running business from a date prior to the incorporation, i.e., company incorporated on 1st April, 2008 may purchase a business from 1st January, 2008, the date on which the accounting year of the vendor starts. Generally the business is purchased from the vendor on the last date of the balance sheet so that assets and liabilities are taken over on the basis of the figures given in the Balance Sheet. If the company has earned any profit from the date of purchase to the date of incorporation such profit is called as profit prior to incorporation. Such profit cannot be said to have been earned by the company as it is not available for distribution as dividend to the shareholders. Such profit is treated as capital profit and is transferred to Capital Reserve Account. If there is any loss prior to incorporation such loss is in the nature of capital loss and is debited to Goodwill Account. It should be noted carefully that it is the date of incorporation and not the date of commencement of business which is taken into consideration for calculating profit or loss prior to incorporation.

Ascertainment of Profit or Loss Prior to Incorporation

Profit or loss prior to incorporation can be ascertained only when fresh stocktaking and balancing of accounts is done on this date but it will involve a great deal of inconvenience. In order to avoid this inconvenience, and to calculate profit or loss prior to incorporation, the following steps may be taken:

(1) Prepare a trading account for the whole period i.e., from the date of purchase of business to the last date of accounts closing in order to calculate the gross profit. Date of incorporation will not affect the calculation of gross profit.

(2) Calculate time ratio and sales ratio. Time ratio is calculated by taking in to consideration the time falling from the last date of balance sheet to the date ofincorporation and the period between the dates of incorporation to the last date of presenting final accounts. For example, if the business is purchased on 1st January, 2010 and the certificate of incorporation is granted on 1st April, 2010 and the final accounts are being prepared on 31st December, 2010, then the time ratio is 3 months: 9 months or 1 : 2. Sales ratio is calculated taking in to consideration the sales of pre-incorporation period to that of sales of post- incorporation period. For example, if sales of pre incorporation period is Rs. 2, 00,000 and that of post-incorporation period Rs. 6,00,000, then the sales ratio is 2 : 6 or 1 : 3.

(3) Prepare the profit and loss account for the pre-incorporation and post-incorporation periods separately. This is done on the following basis:
   - Gross profit should be apportioned between the two periods on the basis of their respective sales ratio.
   - Such expenses which are directly related to sales such as commission on sales, discount allowed, bad debts, advertising, etc. should be apportioned on the basis of sales of the two periods.
   - Fixed expenses such as salaries, rent, audit fees, insurance, depreciation, etc. should be allocated on the basis of time ratio as these expenses are incurred on the basis of time.
   - Expenses which are incurred after the incorporation of the company such as directors' fees, preliminary expenses, interest on debentures etc. should be charged wholly to the period after incorporation. Similarly an expense as salary of partners is debited to the pre-incorporation period.

Illustration 10: The business carried on by Suriaya under the name "Soory Group" was taken over as a running business with effect from 1st July, 2007 by "Suriya Group limited which was incorporated on 1st October, 2007. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 30th June, 2008 were available:

		Rs.	Rs.
Sales :	Company period	4,00,000	
	Prior period	1,00,000	
		------------	5,00,000
	Selling Expenses	20,000	
	Preliminary Expenses written off	12,000	

Salaries	36,000	
Directors' Fees	12,000	
Interest on Capital (up to 30-09-07)	7,000	
Variable Expenses	15,000	
Depreciation	28,000	
Rent	48,000	
Purchases	2,50,000	
Carriage inwards	10,190	
	-----------	4,38,190

Net Profit		61,810

The purchase price (including carriage inwards) for the company period had increased by 10 per cent as compared to pre-incorporation period. No stocks were carried at the beginning or at the end.

You are required to draw up a statement showing the amount of pre and post-incorporation profits stating the basis of allocation of expenses.

Solution:

Working Note:

Cost ratio is calculated as under:

If per unit cost of purchase had not changed, purchase and carriage inwards would have been divided in the ratio of sales 10,000 : 40,000 or 1 : 4. Since post-incorporation cost has gone up by 10%, the ratio of division of purchases and carriage inwards would be:

$$1 : 4 \times \frac{110}{100} \text{ or } 1 : 4.4 \text{ or } 10 : 44$$

PROFIT AND LOSS ACCOUNT
For the year ended 30th June, 2008

	Basis of Allocation	Pre-incorporation	Post incorporation		Basis of Allocation	Pre-incorporation	Post-incorporation
		Rs.	Rs.			Rs.	Rs.
To Purchases	10 : 44	46,300	2,03,700	Sales	Actual	1,00,000	4,00,000
To Carriage Inwards	10 : 44	1,890	8,300				
To Salaries	3 : 9	9,000	27,000				
To Director Fees	Actual	---	12,000				
To Interest on Capital	Actual	7,000	---				

To Variable Expenses	1 : 4	3,000	12,000				
To Depreciation	3 : 9	7,000	21,000				
To Rent	3 : 9	12,000	36,000				
To Selling Expenses	1 : 4	4,000	16,000				
To Preliminary Expenses	Actual	---	12,000				
To Capital Profit		9,810	---				
To Net Profit			52,000				
		1,00,000	4,00,000			1,00,000	4,00,000

Calculation of Sales Ratio:

The calculation of sales ratio may be simple in those cases where the turnover is spread during the whole financial period. But where the turnover fluctuates from month to month according to the nature of products (as woolen garments where the sales are made in the month of October, November, December, and January as compared to other months), the calculation of sales ratio becomes difficult. Moreover, the sales for the month of October may be different from the months of December and January. Under such circumstances the sales ratio is determined taking in to consideration the relationship of monthly sales with that of total sales. The following illustration will make this point more clear.

Illustration 11: Mumbai Company, incorporated on 1st April, 2006, took over running business from 1st January, 2006. The company prepares its first final accounts on 31st December, 2006. From the following information, you are required to calculate the sales ratio of pre-incorporation and post-incorporation periods.

(a) Sales for January, 2006 to December, 2006 ; Rs. 9,60,000, (b) The sales for the month of January twice of the average sales; for the month of February equal to average sales, sales for four months May to August – ¼ of the average of each month; and sales for October and November three times the average sales.

Solution:

Average Sales per month = Rs. 9,60,000/12 = Rs. 80,000

Sales for the month of		Rs.
January	(2 x Rs. 80,000)	1,60,000
February	(1 X Rs. 80,000)	80,000
May	(1/4 X Rs. 80,000)	20,000
June	(1/4 X Rs. 80,000)	20,000
July	(1/4 X Rs. 80,000)	20,000
August	(1/4 X Rs. 80,000)	20,000

October	(3 X Rs. 80,000)	2,40,000
November	(3 X Rs. 80,000)	2,40,000

Total Sales for 8 months		8,00,000

Sales for the remaining 4 months = Rs. 9,60,000 – Rs. 8,00,000

= Rs. 1,60,000

Average sales for the remaining months = Rs. 1,60,000 / 4 = Rs. 40,000

Sales for Pre-incorporation period:

January	Rs. 1,60,000
February	Rs. 80,000
March	Rs. 40,000

	Rs. 2,80,000

Sales for the Post-incorporation period = Rs. 9,60,000 – Rs. 2,80,000 = Rs. 6,80,000

Sales Ratio of Pre-incorporation to Post-incorporation Period = 28 : 68 or 7 : 17.

Possible Questions

	QUESTION	Option 1	Option 2	Option3	Option4	Answer
1	Share allotment is a _______________	Personal a/c	Real a/c	Impersonal a/c	Nominal a/c	**Personal a/c**
2	Share application A/c is a ____________	Personal a/c	Real a/c	Nominal a/c	Impersonal a/c	**Personal a/c**
3	The minimum share application money is_____________	5% of the face value of share	10% of the issue price of share	Rs.1 per share	15% of the face value of share	**5% of the fac value of shar**
4	Premium received on issue of share a/c is shown on__________	Asset side of balance sheet	Liabilities side of b/s	Credit side of P&L a/c	Debit side of P&l a/c	**Liabilities side of b/s**
5	Premium on issue of share can be used for______________	Distribution of dividend	Writing off capital	Transferring to general	Paying fees to directors	**Writing off capital**
6	The rate of discount on share cannot exceed____________	3%	6%	5%	10%	**10%**
7	Discount on issue of share a/c is shown on______________	Asset side of B/S	Liabilities side of b/s	Debit side of p/L	Credit side of p/L a/c	**Asset side of B/S**
8	Interest on calls paid in advance has to be paid @______________	4%	6%	7%	9%	**6%**
9	Discount on issue of share is a___________	Revenue loss	Capital loss	Deferred revenue expenditure	General reserve	**Capital loss**
10	Interest @__________is charged on call-in-arrear according the companies act.	5%	9%	3%	12%	**5%**
11	When shares are forfeited the share capital a/c is debited by_____________	Paid up capital	Called up amount	Calls in-arrear	Nominal value of such share	**Called up amount**
12	Discount on reissue of forfeited shares should not exceed__________	5% subscribed capital	10% reissued capital	10% subscribed capital	The amount received so far on forfeited share	**The amount received so far on forfeited share**
13	The profit on re-issue of forfeited shares is transferred to ___________	General reserve	Capital redemption reserve a/c	Capital reserve	Profit&loss a/c	**Capital reserve**
14	If the share of Rs.10 and which Rs.8 has been called and Rs.5 has been received is forfeited share capital a/c in the case will be debited with ____________	Rs.2	Rs.5	Rs.8	Rs.10	**Rs.8**
15	Rights shares are those share	Issued by a	Fixed	Issued to	Issued to	**Fixed offered**

	which are____________	newly formed company	offered to the existing share holders	the directors of the company	holders of convestible debentures	**to the existing share holders**
16	The difference between subscried capital and called-up capital__________	Uncalled capital	Calls-in-arrears	Paid-upcapital	Calls-in-advance	**Uncalled capital**
17	Owners of company are called___________	Debentures	Dividend	Share holder	Lands	**Share holder**
18	Calls in advance do not form part of___________capital	Paid up capital	Called up amount	Calls in arrear	Nominal value of such shares	**Paid up capital**
19	Call money on share should not exceed___________of the Face value of shares.	25%	50%	10%	1%	**25%**
20	___________have got preference as regards dividend on refund of capital or both.	Preference share holder	Equity share holder	Bond holders	Debenture holder	**Preference share holder**
21	The objects of the company are given in the__________of associations	Memorandum	Voluntary	article	Involuntary	**Memorandu**
22	A new company cannot issue share as______________	Par	Premium	Discount	Par or discount	**Discount**
23	The allotment of share be completed within________days of the issue of the prospectus	90	100	120	24	**120**
24	The difference between subscribed capital and called up Capital________	Paid up capital	Calls in arrear	Calls in advance	Uncalled capital	**Uncalled capital**
25	Rights share means the shares which are__________	Issued to prometers for their service	Issued to holders of convertible debentures	Issued to directors of the company	Offered to the existing share holders	**Offered to th existing share holders**
26	Unless otherwise stated a preferences share is always deemed to be__________	Un cumulative	non-participing	paticipating	Non convertible	**non-participing**
27	A company is a__________association of a person	Voluntary	Primary	Involuntary	Limited	**Voluntary**
28	The capital divisible into parts known as_________	Share	Share capital	Subscribed share capital	Issued capital	**Share**
29	The company gets with the _________liability	Share	Share capital	Subscribed share capital	Issued capital	**Share capital**
30	A company has a	Separate	Common	Perpetual	Legal	**Perpetual**

	___________succession					
31	The partnership business is regulated by the Indian partnership act___________	1956	1959	1932	1949	**1932**
32	A company of private is registered with minimum___________Members	One	Two	Ten	Fifty	**Two**
33	The profit of the company are disposed of it the form of _____________	Dividend	Bonus shares	Assets	Stock	**Dividend**
34	The profit of the partnership business are distributed among the partners into agreed with___________	Ratio	Equally	Percentages	Ratio and Equally	**Ratio and Equally**
35	Companies registered under the companies act are known as___________companies	Registered	Unregistered	Special	Ordinary	**Registered**
36	Limited companies can be limited by__________	Share	Debentures	Dividend	Non	**Share**
37	A company is required to add words___________as part of its name	Limited company	Unlimited company	Private	Public limited	**Private**
38	According to sec.617 a company of which not less than _______of the paid up share capital	50	51	49	52	**50**
39	Preferences share as that part of the ______________	Capital	Share capital	Deferred share	Preferences share	**Share capital**
40	Deferred share are also known as______________shares	Founder's shares	Management	Partners	Shareholders	**Founder's shares**
41	Authorized capital is also known as_________capital	Registered	Unregistered	Nominal	Registered and Nominal	**Registered and Nominal**
42	Subscribed capital refer to the part of___________capital	Issue	Called up	Paid up	Authorized	**Issue**
43	Called up capital refer to the part of the_________capital	Issue	Subscribed	Authorized	Forfeited	**Subscribed**
44	Paid-up capital it refer to the part of the________capital	Paid up	Call up	Subscribed	Issue	**Call up**
45	The shares are forfeited for __________of calls	Payment	Non payment	Paid	Unpaid	**Non payment**
46	The application is required to remit at least________of the Nominal value of shares	5%	10%	20%	25%	**5%**
47	The amount not paid is called__________	Calls in arrear	Paid up capital	Uncalled capital	Call in advance	**Calls in arrear**

48	The shares are allotted the amount due on allotment is transferred to ____________account	Capital	Share capital	Share allotment	share application	**Share allotment**
49	The company has required to pay interest on such call-in advance___________	5%	6%	4%	10%	**5%**
50	The share is issued at a price which is above its face value is called____	Premium	Discount	Par	Premium or discount	**Premium**
51	The process of cancellation of default share is called__________	Forfeiture	Issue	Reissue	calls in advance	**Forfeiture**
52	The reissue of shares______than face value	More than face value	Less than face value	Equal	More or Less	**Less than fac value**
53	The person to undertake up the whole of portion of the share is called________	Under writing	Under writer	Firm under writing	Pure Under writing	**Under writer**
54	The__________person to undertake the shares which is not issued to public	Under writing	Under writer	Shareholder	Special	**Under writer**
55	The percentage of underwriter commission payable to equity is Share __________	2.5	2%	1%	1.50%	**2.5**
56	Fully paid of share capital is called ___________	Share	Stock	Share dividend	Debenture	**Stock**
57	Forfeiture share amount transferred to________reserve a/c	Capital reserve	General reserve	Share capital	Redemption	**Capital reserve**
58	Raja ltd. Issued shares of Rs.100 each at Rs.95. The Underwriting commission will be paid on	Rs.100	Rs.95	Rs.195	Rs.50	**Rs.95**
59	Bank A/c is_________when the net amount due from the underwriters on the shares taken up by therm is received	Debited	credited	Assets	liabilities	**Debited**
60	An underwriter amy reduce his burden of buying shares through entering an agreement with another person known as ____________	broker	sub underwirter	jobber	underwriter	**sub underwirter**

Possible Questions

PART-B

1. Define a company.
2. What are the different kinds of companies?
3. What do you understand by 'calls-in-arrears' and 'calls-in-advances'?
4. When can a company issue shares at discount?
5. What is forfeiture of shares? When can shares be forfeited?
6. What do you understand by issue of shares at par, at premium and at discount?
7. What is surrender of shares?
8. What is a debenture?
9. Briefly describe the different kinds of debentures.
10. What do you mean by redeemable preference shares
11. What do you understand by capital redemption reserve? How is it created? What is its purpose?
12. Can partly paid up preference shares be redeemed? What is the procedure for it?

Essay types :

1. What is share. Discuss the various types of shares.
2. Give the main categories of share capital of a company.
3. Distinguish between 'debenture' and 'shares'
4. Distinguish between marked application and unmarked application.
5. Discuss the methods of dealing with 'unmarked application 'in relation to an underwriting contract .
6. What are kinds of Shares and Share Capital?
7. Explain the provisions of law with regard to redemption of redeemable preferences shares.
8. Explain the different methods of redemption debentures
10. Explain in detail various methods of calculating purchase consideration
11. Give the journal entries to be passed in the books of the purchasing company on acquisition of business when (a) new books are opened (b) the same set of books are continued.
12. What are the methods of ascertaining 'profits prior to incorporation?'
13. How do you apportion different expenses between pre and post incorporation periods? Explain with examples.

Problems :

1. Batliboi Co. Ltd. Issued 50,000 shares of Rs.10 each to the public on condition that full amount of shares will be paid in a lump sum. All these shares were taken up and paid by the public. Pass journal entries if shares are issued at par.
2. Kailash Ltd offered 40,000 shares of Rs.10 each payable in full on application as per a 'private placement agreement'. The company received applications for 40,000 shares. Applications were accepted in full. Show journal entries in the books of Kandan Ltd.
3. 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 :

   (a) Issued at par, redeemable at par

   (b) Issued at a premium of 10 %, repayable at par.

4. Gowtham Ltd. Forfeited 100 equity shares of Rs. 10 each issued at discount of 10 % held by Ranjith on 15.01.2006 for nonpayment at the first call of Rs. 2 per share and the final call of Rs. 3 per share. Out of these, 60 shares were reissued to Ajit at Rs. 8 per share(as fully paid).Pass necessary journal entries.

5. Mr. Senthil is a shareholder in kiran ltd. Holding 2,000 shares of Rs.10 each. He had paid all money except Rs. 3 and Rs.2 per share for first and second calls respectively. Directors forfeit his shares. Pass Journal entries for forfeiture.
6. Good Prospects Ltd. issued 40,000 shares of Rs.10 each at a premium of Rs.2 per share. The shares were payable as follows:

Rs. 2 on Application

Rs. 5 on allotment (including premium)

Rs.5 on first and final call

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Give the necessary journal entries, Prepare bank A/c and the balance sheet of the company. **(Ans -capital reserveRs1200; balance sheet total -Rs4,78,200)**

7. Fast Forward 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 were 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 allocation of liabilities of each underwriter. (1)If the benefit of firm underwriting application is given to individual underwriters by treating them like 'Marked forms'

(Ans -total liability of underwriters X-16,500; Y-1,800; Z-5,100 ; total -23,400)

8 .X Co. Ltd. Issued 4,000 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 5,000 shares and the allotment was made as under:

i. Applicants for 200 shares – Nil

ii. Applicants for 800 shares – Full

iii. Applicants for 4,000 shares- 3,200 shares

All the moneys were duly received except the first call on 200 shares and final call on 300 shares. Pass journal entries and prepare balance sheet of X. Co Lt **(Ans -balance sheet of X.Co ltd-46,800)**

10. B 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. 150 of the forfeited shares were reissued at Rs.80 per share as fully paid.

Pass the journal entries in the books of the company and also the balance Sheet.

11. Kalyan Kumar co ltd was formed with a capital of Rs. 10, 00,000 in Rs.10 shares the whole amount being issued to the public. The underwriting of these shares was as follows:

A-35000; B-30,000; C-20000; D-10,000; E-3000; F-2000.

All marked application forms were to go in relief of underwriters whose stamp they bear. The application forms marked by the underwriters were:

A-25,000; B-23,500; C-6,500; D-1, 000; E-2000; F-7,000.

Applications for 20,000 shares were received on forms not marked. Draw up a statement showing number of shares each underwriter had to take up. **(Ans -Net liability-B-3,333;C-1,167;D-10,500)**

13. The Hindustan Co. Ltd had a total subscribed capital of Rs. 10,00,000 in equity shares of Rs. 10 each of which Rs. 7.50 were called up. A final call of Rs. 2.50 was made and all amount paid except the two calls of Rs. 2.50 each in respect of 100 shares held by Ram. These shares were forfeited and reissued at Rs. 8 per share. Make the journal entries to record transactions of final call, forfeiture and reissue of forfeited shares.

UNIT-II

Final Accounts - Statement of Profit and Loss and Balance sheet of Corporate Entities (Excluding Calculation of Managerial Remuneration) - Disposal of Company Profits

A limited company must prepare every year the Profit and Loss Account and the Balance Sheet. Section 209 makes it compulsory for a company to keep certain books of account. Section 210 governs the preparation of the final accounts. The important portions of this section read as follows: -

(1) At every annual general meeting of the company held in pursuance of section 166, the Board of Directors of the company shall lay before the company –
   (a) The balance sheet as at the end of the period specified in sub-section (3); and
   (b) A profit and loss account for the period
(2) In case of a company not carrying on business for profit, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account, and all references to 'profit and loss account', 'profit' and 'loss' in this section and elsewhere in this Act, shall be construed, in relation to such a company, as references respectively to the 'income and expenditure account', 'the excess of income over expenditure' and 'the excess of expenditure over income'.
(3) The profit and loss account shall relate –
   (a) In the case of the first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and
   (b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not

precede the day of the meeting by more than six months, or in case where an extension of time has granted for holding the meeting under the second provision to sub-section (1) of section 166, by more than six months and the extension so granted.

(4) The period to which the account aforesaid relates is referred in this Act as a 'financial year', and it may be less or more than a calendar year, but it shall not exceed fifteen months:

Legal Position Regarding Final Accounts of Companies

Section 210 to 220 of the Companies Act, 1956 deal with the legal position relating to the final accounts of joint stock companies. A brief mention of these legal provisions is given below:

Section 210. It deals with the preparation and presentation of the final accounts of a joint stock company.

Section 211. It deals with form of contents of the Balance Sheet and Profit and Loss Account.

Section 212. It deals with the disclosure of certain particulars in the Balance Sheet of a holding company in respect of its subsidiaries.

Section 213. It makes provision for extension of the financial year of the holding company and subsidiary.

Section 214. It makes provisions regarding rights of holding company's representatives and members to inspect books of accounts kept by any of its subsidiaries.

Section 215. As per this section, the Balance Sheet and Profit and Loss Account of a company shall be authenticated, (i.e., signed) on behalf of the Board of Directors by its manager or secretary, if any, and by not less than two directors of the company, one of whom shall be a managing director, where there is one.

Section 216. As per this section, the Profit and Loss Account shall be treated as an annexure to the Balance Sheet and the auditors' report as an enclosure thereto.

Section 217. The report of the Board of Directors shall be attached to every Balance Sheet laid before the shareholders in general meeting.

Section 218. It provides for penalty for improper issue, circulation or publication of Balance Sheet or Profit and Loss Account.

Section 219. It deals with the right of the member to copies of Balance Sheet and

Profit and Loss Account, auditors' report and every other document required by law to be annexed or attached to the Balance Sheet, which is to be presented in the general meeting.

Section 220. According to this section, three copies of Balance Sheet and Profit and Loss Account be filed with the Registrar within 30 days after the annual general meeting.

Preparation and Presentation of the Final Accounts:

In respect of preparation and presentation of the final accounts the requirements of Section 210 of the Companies Act are quoted below:

(1) At every annual general meeting of a company in pursuance of section 166, the Board of Directors of the company shall lay before the company :

(a) A balance sheet as at the end of the period specified in sub-section (3); and (b) a profit and loss account for that period.

(2) In case of a company not carrying on business for profits, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account and all references to "profit and loss account", "profit" and "loss" in this and elsewhere in this Act shall be construed, in relating to such a company as references respectively to the "income and expenditure account", "the excess of income over expenditure" and "the excess of expenditure over income".

(3) The profit and loss account shall relate :

(a) In the case of the first annual general meeting of the company to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months: and

(b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months or in case where an extension of time has been granted for holding the meeting under the second provision to sub-section (1) of section 166, by more than six months and the extension so granted.

(4) The period to which the account aforesaid relates is referred to in this Act as a financial year and it may be less or more than a calendar year, but it shall not

exceed fifteen months.

Provided that it may extend to eighteen months where special permission has been granted in that behalf by the registrar.

(5) If any person, being a director of a company, failure to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that in case of any proceedings against a person in respect of an offence under this section, it shall be a defense to prove that a competent and reliable person was charged with the duty of seeing that the provision of this section were complied with and was in a position to discharge that duty.

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed willfully.

(6) If any person, not being a director of the company, having been charged by the Board of Directors with the duty of seeing that the provisions of this section be complied with, makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that no person be sentenced to imprisonment for any such offence unless it was committed willfully.

FINAL ACCOUNTS

So far, we have discussed that how the business transactions are recorded in Journal and

ledger and how to detect and rectify the errors and how to prepare Trial Balance. Is quite natural that the businessman is interested in knowing whether his business is running on Profit or Loss and also the true financial position of his business. The main aim of Bookkeeping is to inform the Proprietor, about the business progress and the financial position at the right time and in the right way. Preparation of Final accounts is highly possible only after the preparation of Trial Balance.

Final Accounts

Trading & Profit and Loss A/c Balance sheet

1. Trading and Profit and Loss A/c is prepared to find out Profit or Loss.

2. Balance Sheet is prepared to find out financial position a if concern.

Trading and P&L A/c and Balance sheet are prepared at the end of the year or at end of the part. So it is called Final Account.

Revenue account of trading concern is divided into two-part i.e.

1. Trading Account and

2. Profit and Loss Account.

1.5 TRADING ACCOUNT

Trading refers buying and selling of goods. Trading A/c shows the result of buying and

selling of goods. This account is prepared to find out the difference between the Selling prices and Cost price. If the selling price exceeds the cost price, it will bring Gross Profit. For example, if the cost price of Rs. 50,000 worth of goods are sold for Rs. 60,000 that will bring in Gross Profit of Rs. 10,000. If the cost price exceeds the selling price, the result will be Gross Loss. For example, if the cost price Rs. 60,000 worth of goods are sold for Rs. 50,000 that will result in Gross Loss of Rs.10, 000.

Thus the Gross Profit or Gross Loss is indicated in Trading Account.

Items appearing in the Debit side of Trading Account.

1. Opening Stock: Stock on hand at the commencement of the year or period is termed as the Opening Stock.

2. Purchases: It indicates total purchases both cash and credit made during the year.

3. Purchases Returns or Returns out words: Purchases Returns must be subtracted from the total purchases to get the net purchases. Net purchases will be shown in the trading account.

4. Direct Expenses on Purchases: Some of the Direct Expenses are.

i. Wages: It is also known as Productive wages or Manufacturing wages.

ii. Carriage or Carriage Inwards:

iii. Octroi Duty: Duty paid on goods for bringing them within municipal limits.

iv. Customs duty, dock dues, Clearing charges, Import duty etc.

v. Fuel, Power, Lighting charges related to production.

vi. Oil, Grease and Waste.

vii. Packing charges: Such expenses are incurred with a view to put the goods in the

Saleable Condition.

Items appearing on the credit side of Trading Account

1. Sales: Total Sales (Including both cash and credit) made during the year.

2. Sales Returns or Return Inwards: Sales Returns must be subtracted from the Total Sales to get Net sales. Net Sales will be shown.

3. Closing stock: Generally, Closing stock does not appear in the Trial Balance. It appears outside the Trial balance. It represents the value of goods at the end of the trading period.

PROFIT AND LOSS ACCOUNT

Trading account reveals Gross Profit or Gross Loss. Gross Profit is transferred to credit

side of Profit and Loss A/c. Gross Loss is transferred to debit side of the Profit Loss Account. Thus Profit and Loss A/c is commenced. This Profit & Loss A/c reveals Net Profit or Net loss at a given time of accounting year.

Items appearing on Debit side of the Profit & Loss A/c

The Expenses incurred in a business is divided in too parts. i.e. one is Direct expenses are

Recorded in trading A/c., and another one is Indirect expenses, which are recorded on the debit side of Profit & Loss A/c. Indirect Expenses are grouped under four heads:

1. Selling Expenses: All expenses relating to sales such as Carriage outwards,

Travelling

Expenses, Advertising etc.,

2. Office Expenses: Expenses incurred on running an office such as Office Salaries, Rent, Tax,

Postage, Stationery etc.,

3. Maintenance Expenses: Maintenance expenses of assets. It includes Repairs and Renewals,

Depreciation etc.

4. Financial Expenses: Interest Paid on loan, Discount allowed etc., are few examples for

Financial Expenses.

Item appearing on Credit side of Profit and Loss A/c.

Gross Profit is appeared on the credit side of P & L. A/c. Also other gains and incomes of

the business are shown on the credit side. Typical of such gains are items such as Interest

received, Rent received, Discounts earned, Commission earned.

Preparation Of And Presentation Of Final Accounts Of Joint Stock Companies As Per Company Law Requirements - Proforma

SCHEDULE VI, PART II

Form of Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock	xxx	By Sales	
To Purchases		xxx	xxx
Less: Purchas Returns	xxx	Less: Sales Returns	
To Freight and Carriage	xxx	xxx	
To Wages	xxx	By Closing Stock	
To Coal & Coke	xxx		
To Gross Profit c/d	xxx		
	xxx		
To Salaries	xxx		xxx
To Rent	xxx		xxx
To Discount	xxx		xxx
To Commission	xxx	By Gross Profit b/d	xxx
To Advertisement	xxx	By Interest Received	xxx
To General Expenses	xxx	By Rent Received	xxx
To Directors' Fees	xxx	By Discount	xxx
Too Bad Debts		By Commission	
To Loss on sale of assets		By Profit on sale of Assets	
To Depreciation			
To Preliminary Expenses			
To Provision for Income Tax			
To Net Profit c/d			
	xxx		xxx

PROFIT AND LOSS APPROPRIATION ACCOUNT:

The profit and loss appropriation account may be separately prepared to give details regarding the balance of profit and loss brought forward from last year , the net profit (loss) earned during year and appropriation made during the year.

Proforma Of Profit And Loss Appropriation Account

profit and loss appropriation account of ……….co. Ltd.

(as on 31 march, 20…………)

particulars	Rs.	particulars	Rs.
To Transfer to Reserves	Xxx	By Last year's Balance b/d	Xxx
To Income Tax for previous	Xxx	By Net Profit for the year b/d	Xxx
year not provided for	Xxx	By Amount withdrawn from	Xxx
To Interim Dividend	Xxx	General Reserve or any other	
To Proposed dividend	Xxx	reserve	Xxx
To Surplus (Balance figure)	xxx	By Provision such as Income	
carried to Balance Sheet		Tax provision no longer	xxx
		required	

PROBLEMS IN PROFIT AND LOSS APPROPRIATION ACCOUNT

Illustration:1

The accounts of the thackery Ltd 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 Rs42,000to debentures redemption fund. At the annual general meeting held on15.6.1998 , it was decided to place Rs20,000 to a development reserve and to pay a bonus of 2.5 % of the profit to 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 account showing the above arrangements

Solution:

Profit and loss appropriation account for the year ended 31.3.1998

Particulars	**Amount**	**Particulars**	**Amount**
To general reserve	60,000	By net profit as per P& L A/c	3,00,000
To debenture redemption fund	42,000		
To development reserve A/c	20,000		
To director's remuneration (2.5 % on Rs3,00,000)	7500		
To preference share dividend A/c (6% on Rs5,00,000)	30,000		
To equity share dividend A/c (10% on Rs 6,00,000)	60,000		
To balance of profit carried forward to B/S	80500		
	3,00,000		**3,00,000**

Illustration:2

Klusener Ltd had Rs21, 00,000 profit on31.3.1998 after making provisions for deprecation and taxation Rs1, 30,400 , profit was brought forward from last year . Following recommendation were made by the directors of the company to appropriate the profits:

To transfer Rs6, 30,000 to general reserve

To pay Rs85, 000 as ex-gratia bonus to employees of the company

To declare dividend @5% on equity shares

To transfer Rs45, 000 to staff gratuity reserve

To transfer Rs 50,000 to development rebate reserve

To transfer Rs90, 000 to deferred taxation reserve

The company‘s capital consisted of 1,00,000 equity shares of Rs10 each fully paid. For the year ending at 31.3.98, the directors transferred Rs40, 000 to dividend equalization reserve and Rs30,000 to debenture redemption fund account. Prepare profit & loss Appropriation account.

Solution:

Profit and loss appropriation account for the year ended 31.3.1998

Particulars	Amount	Particulars	Amount
To proposed bonus	85,000	by balance b/d	1,30,400
To proposed transfer to general reserve	6,30,000	By net profit for the year	21,00,000
To proposed dividend 10,00,000*5/100	50,000		
To staff gratuity reserve	45,000		
To development rebate reserve	50,000		
To deferred taxation reserve	90,000		
To dividend equalization reserve	40,000		
To debenture redemption fund A/c	30,000		
To balance carried forward to B/S	12,10,400		
	22,30,400		**22,30,400**

Managerial remuneration:

Remuneration paid to managerial personnel , viz , directors, managing director and manger, is subject to regulation. It does not include the remuneration payable to technical advisors or secretaries.

According to section 198 of the Companies Act, 1956 the total managerial remuneration payable by a public company or a private company which is subsidiary of a public company to its directors and its manager in respect of any financial year shall not exceed 11% of the net profits of that company for the financial year .

FORMAT SHOWING

Statement of profit for the purpose of managerial remuneration

Particulars	**Amount**	**Amount**
Net profit (given)		Xxxxx
Add:		
Special deprecation	Xxxx	
Provision for income tax	Xxxx	
Ex-gratia payment to a worker	Xxxx	
Capital expenditure	xxxx	
Development rebate reserve	Xxxx	
Loss on sale on investment	Xxxx	
Proposed dividend	Xxxx	
Provision for bad & doubtful debts	xxxx	xxxxx
Less:		
Capital profit on sale of assets, investments	Xxxx	xxxx
Net profit for managerial remuneration		xxxxx

The maximum remuneration payable to different categories of managerial personnel , as stated above can be summarized as follows:

Managerial personnel	**Maximum % of net profits**
Maximum remuneration to all the managerial personnel	11%
Manager	5%

Managing directors or whole time director	5%
Managing directors or whole time directors when there is more than one	10%
Part time directors when the company is not having managing director, whole time director or manager	3%
Part time directors when assisted by a	1%
managing directors, whole time directors or manager	

PROBLEMS IN MANAGERIAL REMUNERATION

Illustration:3

From the following particulars, determine the ,maximum remuneration available to a full time director of a manufacturing company. The profit and loss account of the company showed a net profit of Rs 40, 00,000. After taking into account the following items:

Particulars	**Amount**
Deprecation (including deprecation of Rs40,000)	1,00,000
Provision for income tax	2,00,000
Donation to political parties	50,000
Ex-gratia payment to a workers	10,000
Capital profit on sale of assets	15,000

Solution:

Statement of profit for the purpose of managerial remuneration

Particulars	Amount	Amount
Net profit(given)		40,00,000
Add:		
Special deprecation	40,000	
Provision for income tax	2,00,000	
Ex-gratia payment to a worker	10,000	2,50,000
Less:		
Capital profit on sale of assets	15000	15000
Net profit for managerial remuneration		42,35,000

Commission to full-time director at maximum 5%permitted by law

42,35,000*5/100= Rs 2,11,750

Illustration:4

From the following calculate the maximum commission permissible to part-time directors:

When company not having managing director, or manager, or whole-time director:

Profit and loss account

Particulars	Amount	Particulars	Amount
To bonus paid to a foreign technician	20,000	By gross profit	36,41,000
To repairs	5,000	By profit on sale of building	80,000
To interest on debentures	10,000		
To donation to the university	75,000		
To compensation to an injured man	5,000		
To provision for taxation	8,50,000		
To loss on sale of the vehicle	6,000		
Net profit	27,50,000		
	37,21,000		37,21,000

Solution:

Statement showing profits for managerial remuneration

Particulars	Amount
Net profit (given)	27,50,000
Add:	
Provision for taxation	8,50,000
Less:	
Capital profit	80,000
Net profit for managerial remuneration	35,20,000

Part time directors when the company

is not having managing director,

whole time director or manager = 35,20,000*3/100= Rs105600

Illustration 5:

From the following particulars Determine the maximum remuneration available to the manager of B ltd .Before charging any such remuneration , the profit and loss account showed a credit balance of 23,10,000 for the year ended 31st march 1987 after taking into account the following matters:

Particulars	Amount	Particulars	Amount
Capital expenditure	5,25,000	Subsidy from Govt	4,20,000
Special deprecation	70,000	Multiples shift allowances	1,05,000
Bonus to foreign technicians	3,15,000	Provision for taxation	28,00,000
Compensation paid to injured workman	70,000	Ex-gratia to an employee	35,000
Loss on sale of fixed assets	70,000	Profit on sale of investments	2,10,000

Company is providing deprecation as per Sec 350 of the company's act 1956

Solution:
Statement of profit for the purpose of managerial remuneration

Particulars	Amount	amount
Net profit (given)		23,10,000
Add:		
Capital expenditure		5,25,000
Special deprecation		70,000
Provision for taxation		28,00,000
Ex-gratia to an employee		35,000
		57,40,000
Less:		
Profit on sale of investment		2,10,000
Net profit for managerial remuneration		**55,30,000**

Managerial remuneration @5% on 55,30,000

= 55,30,000*5/100=55,300

BALANCE SHEET

Trading A/c and Profit & Loss A/c reveals G.P. or G.L and N.P or N.L respectively,

Besides the Proprietor wants

i. To know the total Assets invested in business

ii. To know the Position of owner's equity

iii. To know the liabilities of business.

DEFINITION

The Word 'Balance Sheet' is defined as "a Statement which sets out the Assets and

Liabilities of a business firm and which serves to ascertain the financial position of the same on

any particular date."On the left hand side of this statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Therefore the two sides of the Balance sheet must always be equal. Capital arrives Assets exceeds the liabilities.

OBJECTIVES OF BALANCE SHEET:

1. It shows accurate financial position of a firm.

2. It is a gist of various transactions at a given period.

3. It clearly indicates, whether the firm has sufficient assents to repay its liabilities.

4. The accuracy of final accounts is verified by this statement

5. It shows the profit or Loss arrived through Profit & Loss A/c.

SCHEDUL VI, PART I

(SECTION 211)

FORM OF BALANCE SHEET

A. HORIZONTAL FORM

Balance Sheet of ….. (here enter the name of the company)

As on …….. (here enter the date as at which the balance sheet is made out)

Figures for the previous year Rs. (1)	Liabilities (2)	Figures for the current year Rs. (3)	Figures for the previous year Rs. (4)	Assets (5)	Figures for the current year Rs. (6)
	Share Capital: **Authorized** … shares of Rs. ….each **Issued**: …. Shares of Rs. …. Each **Subscribed:** …. Shares of Rs. ….. each.			**Fixed Assets:** (a)Goodwill (b)Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machinery (g) Furniture and	

	Less: Calls Unpaid: (i) By Directors (ii) By others **Add:** Forfeited Shares **Reserves and Surplus:** 1.Capital Reserve 2.Capital Redemption Reserve 3.Share premium A/c 4. Other Reserves 5. Surplus 6. Proposed additions to Reserve 7. Sinking funds **Secured Loans:** 1.Debentures 2.Loans and advances from Banks 3.Loans and advances from subsidiaries 4. Other loans and advances **Unsecured Loans:** 1Fixed Deposits 2.Loans and advances from subsidiaries 3. Short term Loans and Advances 4. Other loans and advances **Current Liabilities**			Fittings (h) Development of Property (i) Patents, trademarks and designs (j) Livestock (k) Vehicles etc., **Investments:** 1. Investment in Government or trust securities 2. Investments in shares, debentures and bonds 3. Immovable properties 4. Investments in the capital of partnership firms **Current assets, Loans and Advances:** **(A)Current Assets** 1. Interest accrued on investments 2. Stores and Spare Parts 3. Loose tools 4. stock in Trade 5. Work in progress 6. Sundry Debtors 7. Cash in hand and at bank **(B) Loans and Advances:** 8. Advances and loans to subsidiaries 9. Advances and loans to partnership 10. Bills of Exchange 11. Balances with customs, port trust etc., **Miscellaneous**	

	and Provisions: **A. Current Liabilities** 1.Acceptances 2.Sundry Creditors 3.Subsidiary Companies 4. Advance payments 5. Unclaimed dividends 6. Other Liabilities 7. Interest accrued but not due on loans **B. Provisions** 1.Provision for Taxation 2.Proposed Dividend 3.For Contingencies 4.For proposed fund scheme 5.For insurance, pension and similar staff benefit schemes 6.For Provident Fund scheme 7. Other Provisions			**Expenditure:** 1.Preliminary Expenses 2.discount on issue of Shares 3. Underwriting Commission **4.** Development Expenditure **Profit and Loss Account**	

VERTICAL FORM OF BALANCE SHEET

Vertical form of Balance sheet inserted as Part B of Part I of Schedule VI to the Companies Act, 1956 by GSRNo.220 (E) dated 12 – 03 – 1979 is as follows:

B. VERTICAL FORM

Name of the Company ……………….

Balance Sheet as at ……………….

(1)	Schedule No. (2)	Figures as at the end of current financial year (3)	Figures as at the end of previous financial year (4)

I. OURCES OF FUNDS **(1) Shareholders' Funds:** (a) Capital (b) Reserves and Surplus **(2) Loan funds:** (a) Secured Loans (b) Unsecured Loans **II. APPLICATION OF FUNDS** **(1) Fixed assets:** (a) Gross block (b) Less Depreciation (c) Net block (d)Capital work-in-progress **(2) Investments** **(3) Current Assets, Loans and Advances:** (a) Inventories (b) Sundry Debtors (c) Cash and bank balance (d) Other current assets (e) Loans and advances Less: Current liabilities and Provisions (a) Liabilities (b) Provisions **Net Current Assets** (1) (a) Miscellaneous Expenditure to the extent Not written off or			

Adjusted (c) Profit and Loss Account **Total**			

Meaning for the following important terms

'provision ', reserves, capital reserves

Provision : Mean any amount written off or retained by way of providing for deprecation , renewals or diminution in value of assets, or retained by providing for any known liability of which the amount cannot be determined with substantial accuracy.

Reserves: It includes any amount written off or retained by way of providing for deprecation , renewals or diminution in value of assets or retained by way of providing for any known liability.

Capital reserve: It include any amount regarded as free for distribution through the profit and loss account, and the expression 'revenue reserve' mean any reserve other than capital reserve .

'Dividend' : The expression dividends has two meanings , applied to accompany , which is a going concern , it ordinarily means that portion of the profits of the company which is allocated to the holders of the shares in the company . In case of a winding up , it means a division of the realized assets among the creditors and contributories according to their respective rights. The some of the legal provisions relating to dividend are as follows:

Dividend is paid in proportion to the amounts paid up on each shares,

Dividend should be paid even on call-in arrears unless prohibited by the articles and

Dividend must be paid in cash unless it is capitalized by issuing bonus shares.

Dividend must be paid within 42 days of declaration.

Calls –in- advance should not be considered for dividend purpose.

Dividend is paid only to registered shareholders or on his order to his banker. In case where shares are converted into warrants, the bearer of the warrants is entitled to dividend

Interim dividend: It is a dividend paid between two annual general meetings. In the middle of the year before ascertainment of the profit for the year. Directors have full authority to pay interim dividend in anticipation of profit for the year. Directors will be personally liable to reimburse the interim dividend paid, if there are no profits at the end of the financial period. This dividend is usually paid in six months and can be declared and paid only if the deprecation for the full year has already been provided .if the interim dividend is paid without sufficient profits then it amounts to payments of dividends out of capital and directors are liable to make good the amount.

Illustration 6 : Prepare a Balance Sheet in Vertical form as at 31st March, 2010 from the following information of Goodwill Company Limited as required under Part I B of Schedule VI of the Companies Act, 1956 :

	Rs.
Term loan	10, 00,000
Sundry Creditors	11, 45,000
Advances	3, 72,000
Cash and Bank Balances	2, 75,000
Staff Advances	55,000
Provision for Taxation	1, 70,000
Securities Premium	4, 75,000
Loose tools	50,000
Investments	2, 25,200
Loss for the year	3, 00,000
Sundry Debtors	12, 25,000
Miscellaneous Expenses	58,000
Loans from debtors	2, 00,000
Provision for doubtful debts	20,200
Stores	4, 00,000
Fixed assets (WDV)	51, 50,000
Finished goods	7, 50,000
General Reserve	20, 50,000
Capital work – in – progress	2, 00,000

Additional Information:

(1) Share capital consists of :
  (a) 3,000 Equity Shares of Rs. 100 each fully paid up.
  (b) 10,000 – 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
(2) Term loans are secured
(3) Depreciation on assets Rs. 5,00,000

(4) Schedule need not be given. However, groupings should form part of the answer.

Solution :

Goodwill Company Limited
BALANCE SHEET
As on 31st March, 2010

		As on 31-3-10	As on 31-3-10
Sources of Funds			
1. Shareholders' Funds :			
(a) Share Capital		13,00,000	
(b) Reserves and Surplus		25,25,000	38,25,000
2. Loans Funds :			
(a) Secured Loans		10,00,000	
(b) Unsecured Loans		Nil	10,00,000
3. Suspense Account (Balancing figure)			27,00,000
			75,25,000
Application of Funds			
1. Fixed Assets:			
(a) Gross Block		56,50,000	
(b) Less : Depreciation		5,00,000	
(c) Net Block		51,50,000	
(d) Capital work-in-progress		2,00,000	53,50,000
2. Investments			2,25,200
3. Current Assets, Loans & Advances			
(a) Inventories		~~12,00,000~~	
(b) Sundry Debtors		12,04,800	
(c) Cash and Bank Balances		2,75,000	
(d) Loans and Advances		4,27,000	
		31,06,800	
Less : Current Liabilities & Provisions :			
(a) Current Liabilities	13,45,000	15,15,000	
(b) Provisions	1,70,000		15,91,800
4. Miscellaneous Expenditure :			
(a) Profit and Loss Account		3,00,000	
(b) Miscellaneous Expenses		58,000	3,58,000
			75,25,000

Working Notes: Rs.

1. Share Capital:

3,000 Equity Shares of Rs. 100 each 3, 00,000

10,000 – 10% Redeemable Preference Shares of Rs. 100 each 10, 00,000

13, 00,000

	--------------
2. Reserves and Surplus:	
Securities Premium	4, 75,000
General Reserve	20, 50,000

	25, 25,000
	--------------
3. Fixed assets:	
Fixed Assets at WDV	51, 50,000
Add: Depreciation	5, 00,000

	56, 50,000
	--------------
4. Inventories:	
Finished Goods	7, 50,000
Stores	4, 00,000
Loose Tools	50,000

	12, 00,000
	--------------
5. Sundry Debtors:	12, 25,000
Less: Provision for Doubtful Debts	20,200

	12, 04,800
	--------------
6. Loans and Advances:	
Advances	3, 72,000
Staff Advances	55,000

	4, 27,000
	--------------
7. Current Liabilities :	
Sundry Creditors	11, 45,000
Loans from Debtors	2, 00,000

	13, 45,000

Illustration 7 The Arun Manufacturing Company Limited was registered with a nominal capital of Rs. 60,00,000 in Equity Shares of Rs. 10 each. The following is the list of balances extracted from its books on 31st March 2009:

	Rs.
Calls-in-arrear	75,000
Premises	30,00,000

Plant and Machinery	33,00,000
Interim dividend paid on 1st November, 2008	3,92,500
Stock, 1st April, 2008	7,50,000
Fixtures	72,000
Sundry Debtors	8,70,000
Goodwill	2,50,000
Cash in hand	7,500
Cash at Bank	3,99,000
Purchases	18,50,000
Preliminary Expenses	50,000
Wages	8,48,650
General Expenses	68,350
Freight and Carriage	1,31,150
Salaries	1,45,000
Directors' Fees	57,250
Bad Debts	21,100
Debenture interest paid	1,80,000
Share Capital	40,00,000
12% Debentures	30,00,000
Profit and Loss Account (Credit Balance)	2,62,500
Bills Payable	3,70,000
Sundry Creditors	4,00,000
Sales	41,50,000
General Reserve	2,50,000
Bad debts Provision 1st April, 2008	35,000

Prepare Trading and Profit and Loss Account and Balance Sheet in proper form after making the following adjustments:

(a) Depreciate Plant and Machinery by 15%.
(b) Write off Rs. 5,000 from Preliminary Expenses.
(c) Provide for half year's debenture interest due.
(d) Leave Bad and Doubtful Debts Provision at 5% on Sundry Debtors.
(e) Provide for Income Tax @ 50%.
(f) Stock on 31st March, 2009 was Rs. 9,50,000.

Solution:

Trading and Profit and Loss Account of Arun Manufacturing Company Limited
As on 31st March, 2009

	Rs.		Rs.
To Opening Stock	7,50,000	By Sales	41,50,000
To Purchases	18,50,000	By Closing Stock	9,50,000
To Wages	8,48,650		
To Freight and Carriage	1,31,150		
To Gross Profit c/d	15,20,200		
	51,00,000		51,00,000
To Salaries	1,45,000	By Gross Profit b/d	15,20,200
To General Expenses	68,350		
To Directors' Fees	57,250		
To Bad debts			
21,100			
Add: New Provision			
43,500			
--------	29,600		

64,600			
Less: Old Provision	3,60,000		
35,000			

---	4,95,000		
To Debenture interest	5,000		
paid	1,80,000		
1,80,000	1,80,000		
Add: Outstanding	15,20,200		15,20,200
1,80,000	3,92,500		
--------		By Balance b/d	2,62,500
----	**50,000**	By Net Profit b/d	
To Depreciation on Plant and Machinery			1,80,000
To Preliminary Expenses			
To Provision for Income Tax			
To Net Profit c/d			
To Interim Dividend			
To Profit Transferred to Balance Sheet			
	4,42,500		**4,42,500**

Balance Sheet of Arun Manufacturing Company Limited

As on 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets:	
Authorized Capital :		Goodwill	2,50,000
6,00,000 Equity Shares of		Premises	30,00,000

Rs. 10	60,00,000	Plant & Machinery 33,00,000	
Per share		Less: Depreciation 4,95,000	28,05,000
Issued Capital :		--------------	
4,00,000 Equity Shares of	40,00,000	Fixtures	72,000
Rs.10 per share		**Investments:**	Nil
Subscribed & Paid up		**Current Assets, Loans and**	
Capital:		**Advances :**	
4,00,000 Equity Shares	39,25,000	**A. Current**	
Of Rs. 10 per share		**Assets:**	7,500
40,00,000		~~Cash in hand~~	
Less: Calls in arrears		Cash at Bank	
75,000		Sundry Debtors 8,70,000	
-------------		Less: Provision for	
Reserves and Surplus:		Doubtful Debts 43,500	
General Reserve		-----------	
Profit and Loss account		Stock	3,99,000
Secured Loans:	2,50,000	**B. Loans and Advances:**	
12% Debentures	50,000		
30,00,000		**Miscellaneous Expenditure:**	8,26,500
Add: Interest due		Preliminary Expenses 50,000	
1,80,000	31,80,000	Less: Written Off 5,000	9,50,000
-----------		---------	Nil
--	Nil		
Unsecured Loans:		**Profit and Loss Account:**	
Current Liabilities &			
Provisions:			45,000
A. Current Liabilities:	4,00,000		
Sundry Creditors	3,70,000		
Bills Payable			Nil
B. Provisions:	1,80,000		
Provision for Income			
Tax			
	83,55,000		**83,55,000**

Illustration 8: From the following particulars furnished by **M/S VISHAL LIMITED.,** prepare the Balance Sheet as at 31st March, 2008, as required by Part I Schedule VI of the Companies Act.

Particulars	**Dr. Rs.**	**Cr. Rs.**
Equity Share Capital (Rs. 10 each, fully paid up)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Buildings	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Stock :		
Finished Goods		
2,00,000	2,50,000	
Raw Materials		
50,000		68,000
-----	2,00,000	
--------	42,700	
Provision for Taxation		60,000
Sundry Debtors		1,00,000
Advances	30,000	
Proposed Dividend	2,47,000	
Profit and loss Account	13,000	
Cash Balance		1,21,000
Cash at Bank		2,00,000
Preliminary Expenses		
Loans (Unsecured)		
Sundry Creditors (for Goods and Expenses)		
	19,09,000	**19,09,000**

The following additional information is also provided : -

(a) Miscellaneous Expenses included Rs. 5,000 audit fees and Rs. 700 for out of pocket expenses paid to the auditors.
(b) 2,000 Equity Shares were issued for consideration other than cash.
(c) Debtors of Rs. 52,000 are due for more than six months.
(d) The cost of assets :

Buildings	Rs. 4, 00,000
Plant and Machinery	Rs. 7, 00,000
Furniture	Rs. 62,500

(e) The balance of Rs. 1, 50,000 in the Loan from State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

(f) Balance at Bank includes Rs. 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.

(g) Bills receivable for Rs. 2, 75,000 maturing on 30th June, 2008, have been discounted.

(h) The company had contract for the erection of machinery at Rs. 1, 50,000 which is still incomplete.

Solution:

BALANCE SHEET OF M/S VISHAL LIMITED
As on 31st March, 2008

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Fixed Assets :**	
Authorized :	?	Land at cost	2,00,000
Issued and Subscribed :		Buildings, at cost	
1,00,000 Equity Shares of Rs. 10	10,00,000	4,00,000	3,50,000
Each (of the above shares,		Less: Depreciation 50,000	
2,000 equity shares are allotted		------------	5,25,000
as fully paid up pursuant to a contract without payment being		Plant & Machinery	
received in cash)	1,000	7,00,000	50,000
Less; Calls-in-arrear	9,99,000	Less: Depreciation 1,75,000	Nil
Reserves and Surplus :	2,10,000	------------	
General Reserve	1,00,000		
Profit and Loss Account		Furniture at cost 62,500	
Secured Loans :			
Loan from State		Less: Depreciation	
Financial Corporation 1,42,500	1,50,000	12,500	2,50,000
Add: Interest accrued 7,500	1,21,000	----------	
------------		**Investments :**	
		Current Assets, Loans and Advances :	
Unsecured Loans :		**A. Current Assets:**	2,00,000
Current Liabilities and Provisions :	2,00,000	Stock:	
		Finished goods 2,00,000	30,000
A. Current Liabilities :	68,000		
Sundry Creditors for goods and	60,000	Raw materials 50,000	2,47,000
Expenses		----------	
B. Provisions :			
Provision for Tax		Sundry Debtors	42,700

Proposed Dividend **Contingent Liabilities not Provided for:** 1. Bills receivable for Rs. 2, 75,000 maturing on 30th June, 2008 have been discounted. 2. The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.		(a) Debtors outstanding For more than six Months 52,000 (b) Other Debtors 1,48,000 ----------- Cash Balance Cash at Bank : (a) Scheduled Banks 2,45,000 (b) Others 2,000 -----------	13,300

		B. Loans and Advances: Advances **Miscellaneous Expenditure :** Preliminary Expenses	
	19,08,000		**19,08,000**

Illustration 9: The following is the balance sheet of Sri Kannan Department Stores Ltd., as at 31st March, 2009:

	Rs.	Rs.
Stock, 1st April, 2008	7,50,000	
Purchases Returns		1,00,000
Purchases and Sales	24,50,000	34,00,000
Wages	3,00,000	
Discount		30,000
Carriage Inward	9,500	
Furniture and Fittings	1,70,000	
Salaries	75,000	
Rent	40,000	
Sundry Expenses	70,500	
Profit and Loss Appropriation Account, 31st March, 2008		1,50,000
Dividend paid for 2007 – 08		
Share Capital	90,000	
Debtors and Creditors		10,00,000
Plant and Machinery	2,75,000	1,75,000
Cash at Bank	2,90,000	
General Reserve	4,62,000	
Patents and Trade Mark	48,000	1,55,000
Bills Receivable and Bills Payable	50,000	70,000
	50,80,000	**50,80,000**

Prepare Trading Account, Profit and Loss Account, and Profit and Loss Appropriation Account for the year ended 31st March, 2009 and Balance Sheet at that date. Take into consideration the following adjustments:

(a) Stock on 31st March, 2009 was valued at Rs. 8,80,000.
(b) Make a provision for income tax @ 50%.
(c) Depreciate Plant and Machinery @ 15%, Furniture and Fittings @ 10% and Patents and Trademarks @ 5%.
(d) On 31st March, 2009, outstanding rent amounted to Rs. 8,000 while outstanding salaries totaled Rs. 9,000.
(e) The Board Directors propose a dividend @ 15% per annum for the year ended

31st March, 2009 after the minimum transfer to General Reserve as required by law.

(f) Make a provision for doubtful debts amounting to Rs. 5,100.
(g) Provide for managerial remuneration @ 10% of the net profits before tax.

Solution

Trading and Profit & Loss Account of Sri Kannan Department Stores Ltd.
As on 31st March, 2009

Dr.
Cr.

	Rs.		Rs.
To Stock, 1st April,2008	7,50,000	By Sales	34,00,000
To Purchases		By Stock, 31st March, 2009	8,80,000
24,50,000			
Less: Returns	23,50,000		
1,00,000	3,00,000		
---------	9,500		
----	**8,70,500**		
To Wages	42,80,000		42,80,000
To Carriage Inward			
To Gross Profit c/d		**By Gross Profit b/d**	**8,70,500**
	84,000	by Discount	30,000
To Salaries			
75,000	48,000		
Add: Outstanding			
9,000	70,500		
------	5,100		

To Rent	43,500		
40,000	17,000		
Add: Outstanding	2,400		
8,000			

----	63,000		
To Sundry Expenses	2,83,500		
To Provision for Doubtful	**2,83,500**		
Debts	9,00,500		9,00,500
To Depreciation On:			1,50,000
Plant & Machinery @ 15%		By Balance b/d	2,83,500
Furniture & Fittings @	90,000	By Net Profit for the year b/d	
10%	14,180		
Patents & Trade Mark @	1,50,000		

5% To Outstanding Managerial Remuneration @ 10% of net	**1,79,320**		

Profit before tax To Provision for Income Tax **To Net Profit c/d** To Dividend paid for 2007 – 08 To Transfer to General Reserve 5% of Net Profit To Proposed Dividend @ 15% **To Balance carried to Balance sheet**			
	4,33,500		**4,33,500**

Balance Sheet of Sri Kannan Department store Ltd.
As on 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital **Authorized** **Issued & Subscribed** **Reserves and Surplus** General Reserve Balance as on 1st April, 2008 1,55,000 Add: Additions Made during the Year 14,180 ---------- ---- Profit & Loss Account **Current Liabilities and Provisions:** **(A).Current Liabilities** Acceptances Creditors Outstanding Rent Outstanding Salaries	? 10,00,000 1,69,180 1,79,320 70,000 1,75,000 8,000 9,000 63,000 2,83,500	**Fixed Assets** Plant & Machinery 2,90,000 Less: Depreciation 43,500 ------- ---- Furniture & Fittings 1,70,000 Less: Depreciation 17,000 ------- ---- Patents & Trade Mark 48,000 Less: Depreciation 2,400 ------- ---- **Investments** **Current Assets, Loans and Advances**	 2,46,500 1,53,000 45,600 Nil 8,80,000 2,69,900 4,62,000 50,000 Nil

Outstanding Managerial Remuneration **(B).Provisions**	1,50,000	**(A)Current Assets** Stock Debtors	Nil

Provision for Taxation Proposed Dividend		2,75,000 Less: Provision For doubtful Debts 5,100 ------------- Cash at Bank **(B)Loans and Advances** Bills of Exchange **Miscellaneous Expenditure** **Profit and Loss Account**	
	21,07,000		**21,07,000**

POSSIBLE QUESTIONS

PART-A

UNIT II					
QUESTION	**Option 1**	**Option 2**	**Option3**	**Option4**	**Answer**
Redeemable preference shares can be redeemed out of	Amount realized on sales of investment	Dividable profits other use available for dividend	Proceeds of fresh issue of shares	divisible profits or New issue of shares	**divisible profits or New issue of shares**
When preference shares are redeemed out of profits otherwise available for divided, the sum equal to The nominal amount of shares must be transferred to	Capital redemption reserve	Reserve land profits	Insurance fund	Profits & loss a/c	**Capital redemption reserve**
Capital redemption reserve is called	Out of share forfeiture a/c	To meet legal requirements	Out of security premium a/c	Voluntary	**To meet legal requirements**
Transfer to capital redemption reserve can be made from	Capital reserve	Forfeited shares A/C	General reserve	Securities premium A/C	**General reserve**
Transfer to capital redemption reserve A/C is not allowed from	P&L A/C	Debenture redemption fund	Workmen's accident fund	profit prior to incorporation	**profit prior to incorporation**
Capital redemption reserve A/C an be used for	Written off past losses	Issuing fully paid bonus shares	Decreasing dividends	Depreciation reserve	**Issuing fully paid bonus shares**
The premium on redemption of preference shares can be provided out of	Securities premium	Insurance loan	Assets	Liabilities	**Securities premium**

X Ltd has issued 10,000 equity shares of Rs.10 each at a premium of Rs.2 for redemption of preference Shares	Rs.100000	Rs.120000	Rs80000	Rs.20000	**Rs.100000**

which of due following amounts would be taken out as "processed of fresh issue "					
Y ltd had made a public issue of 2000 6% preference shared of Rs.100 each of a discount 8% for providing funds for providing redemption of preference shares which as the following amount would be considered as proceeds of fresh issue"?	Rs.200000	Rs.184000	Rs.216000	Rs.250000	**Rs.184000**
Which section of the companies Act provided for the issue and redemption of preference shares?	Section 80	Section78	Section 77A	section 77B	**Section 80**
Debenture represent the	Manager's share in a business	Investment by share holders in a business	Long term borrowing of a business	shareholders	**Long term borrowing of a business**
Debenture holders are the	customers of the company	Creditors of the company	Owners of the company	Management	**Creditors of the company**
Debenture are shown under the following heading in a company's balance sheets	Secured loan	Unsecured loan	Share capital	reserves and surplus	**Secured loan**
According to the companies Act the premium on issue of debentures should be credited to	Share premium A/C	Debenture premium A/C	securities premium a/c	premium a/c	**securities premium a/c**

Discount on debentures is shown under the following heading in a companies' balance sheet	Fixed assets	Loan and advanced investments	Investment	Miscellaneous expenditure	**Miscellaneous expenditure**
Interest on debenture is	Half	Quarterly	Annually	Monthly	**Half**

normally payable	yearly				**yearly**
Fixed percentage of interests on debenture is calculated on	The issue price of debentures	The nominal value of debentures	The face value of debentures plus premium	issue or face value of debentures	**The nominal value of debentures**
Profits on cancellation of debentures is transferred to	Profits of loss A/C	Dividends equalization A/C	Capital reserve	revenue reserve	**Capital reserve**
Own debentures A/C is always to be debited with	The fair value	The cum-interest price	ex -interest price	nominal value	**ex - interest price**
The balance of sinking kind investments is transferred to	Profit and loss A/C	Debenture A/C	Creditors A/C	cash a/c	**Debenture A/C**
Purchase consideration is payable in	Cash	Shares	Debentures	all or any one of above	**all or any one of above**
Realization expenses met by the purchasing company should be debited to	Realization A/C	Goodwill	Vendor's A/C	cash a/c	**Goodwill**
One excess of purchase consideration over net asset is	Securities premium	Capital reserve	Goodwill	reserves	**Goodwill**
On sale of business ,if the partners with to receive dividends in future in profit sharing ratio,the equity Shared received from the company must be distributed in the ratio of	Profit sharing	Capitals	Final claim	Number of shares	**Profit sharing**

If there is a loan advanced by a partners to the firm which has been acquisitioned by a company and purchase consideration is received in the form of equity and preference shares then the amounts of Such loan is satisfied by	Allotting equity shares	Allotting preferenc e shares profits first	allocating bonds	allocating debenture s	**Allotting preferenc e shares profits first**
Profit prior to	Between	Between	Between	Between	**Between**

incorporation is the profit earned	the date of incorporation and the date of commencement of business	the date of purchase of business and the date of incorporation	the date of purchase of business and th date of commencement of business	the date of purchase of business and th date of sale	**the date of purchase of business and the date of incorporation**
Profit prior to incorporation belongs to	The company	The vendor	Purchaser	seller	**The company**
Profit prior to incorporation should be credited to	Goodwill A/C	Revenue reserve A/C	Capital reserve A/C	revenue or capital reserve	**Capital reserve A/C**
Less prior to incorporation should be debited to	Revenue reserve	Goodwill A/C	Capital reserve A/C	revenue or capital reserve	**Goodwill A/C**
Gross profit is to be apportioned between pre and post incorporation periods in	Time ratio	Adjusted time ratio	Sale ratio	adjusted sales ratio	**Sale ratio**
Bad debts recovered which was written off before purchase of business should be	Dividend in the time ratio	Dividend in the sale ratio	Posted in pre-incorporation period	Posted in post incorporated period	**Posted in pre-incorporation period**
Audit fees should be divide between pre and post incorporation periods in	Time ratio	Time ratio or posted in post incorporation period	Posted in post incorporation period	Divided in adjusted time ratio	**Time ratio or posted in post incorporation period**
The salary paid to manager for a period before acquisition of business should be	Divided in time ratio	Posted in pre incorporation period	Posted in post incorporation period	Divided in adjusted time ratio	**Posted in pre incorporation period**
Interest paid to vendor should be divided between pre and post incorporation period in	Adjusted time ratio	Time ratio	Sales ratio	adjusted sales ratio	**Adjusted time ratio**

AOA means	Article of association	Articles of annuity	Art of association	Art of annuity	**Article of associatio**

					n
Discount received from creditors and carriage inwards should be divided between pre and post Incorporation periods in	Sales ratio	Purchases ratio	Adjusted time ratio	Time ratio	**Purchases ratio**
For ascertaining pre incorporation profits establishment expenses are apportioned in the	Sale ratio	Time ratio	Gross ratio	adjusted sales ratio	**Time ratio**
Pre incorporation profits should be taken as_________profits	Capital	Revenue	Reserves	share	**Capital**
Post incorporation profit should be taken as_________profit	Revenue	Capital	Reserves and surplus	share	**Revenue**
Partner's salary is debited to the ___________ profit	Post incorporation	Pre incorporation	commencement period	registered	**Pre incorporation**
Preliminary expends written off are debited ________ profit	Post incorporation	Pre incorporation	commencement period	registered	**Post incorporation**
Rent is divided in ________ while calculating pre incorporation profit	Sales ratio	Gross ratio	Profit ratio	Time ratio	**Time ratio**
The profit acquired from the date of business purchase till the date of incorporation is called _________	Profit prior to incorporation	Pre incorporation	Post incorporation	date of incorporation	**Profit prior to incorporation**
The price payable by a company for business acquired is known as _______	Sales consideration	Profit consideration	Price consideration	Purchase consideration	**Purchase consideration**
The profit made on acquisition of business is credited to ________	Profit reserve	Capital reserve	revenue reserve	capital or revenue	**Capital reserve**

If the net tangible assets exceeds the purchase considerations the difference will be treated as _____	Capital reserve	Profit reserve	Income reserve	capital or revenue	**Capital reserve**

When discount is ~~allowed~~ to vendor's debtors the same should be debtors to	Vendor's debtors	Vendor's creditors	Vendor's suspense	vendor a/c	**Vendor's suspense**
Owners of a company are called	Cashier	Employee	Share holders	Creditors	**Share holders**
Share holders receive ______ as return for their investment	Profit	Capital	Dividend	Salary	**Dividend**
A new company cannot issue shares at _____	Discount	Advertise ment	Profit	premium	**Discount**
Preference shares can be redeemed only when they are ______ paid	halfly	Quarterly	Partly	Fully	**Fully**
Companies Act in 1988 prohibits issue of ________ preference shared	Irredeema ble	Redeema ble	Redeemed	Irredeema ble	**Irredeem able**
Profits prior to incorporation are not allowed to be transferred to ----------- -	CRR	Cash	CMR	Debtors	**CRR**
Reserve fund is ______ to transferred to capital redemption reserve A/C	Not allowed	Allowed	may be allowed	may not allowed	**Allowed**
Capital redemption reserve can be used for issuing fully paid ____________ shares	Bonus	Paid in advance	Salary	issue	**Bonus**
Divisible profits mean profits which would otherwise be available for _________	Dividends	Salaries	Wages	Bonus	**Dividend s**
"Proceeds" means the _____ amount when shares are issued at a discount	Un realized	Realized	may be realised	may not realised	**Dividend s**

Own debentures A/C will appear on the _____ side of the	Assets	Liabilities	Credit side	Debit side	**Assets**

balance sheet					
It is customary to profit the rate of ______ payable on debentures A/C	Interests	Loan	Profit	Fund	**Interests**
profit on sale of sinking fund investment is to be credited to __________account	sinking fund	cash	bank	investment	**sinking fund**

PART-B

1.Give an imaginary form of the profit &loss appropriation account of a limited company.

2 How will you deal with the following items while preparing a company's final accounts for the year ended 31.03.02 Land and building (Cost Rs.10, 00,000 depreciation provided Rs.1, 60,000) sold for Rs.15, 00,000

3.What is dividend

4. From the following find out Profit for Managerial remuneration

1. Net profit before provision for income tax and managerial remuneration but after depreciation - Rs. 8,70, 410

2. Depreciation provided in the books - Rs.3, 10,000

3. Depreciation provided in the books - Rs.2, 60,000

(Ans -net profit for Managerial remuneration- 9,20,410)

5.Under what heading in a company Balance sheet would you classify the following :

(a). preliminary expenses (b). unclaimed dividends

(c). calls-in-arrears (d). Bills payable (e). Loose tools

6. What do you understand by the term provision, reserves, reserve fund, capital reserves?

7. Write short notes on Managerial Remuneration.

8. Write short notes on profit & loss Appropriation Account.

9. What are the maximum remuneration payable to different categories of managerial personnel.

10. Re-arrange the following heads of asset side of balance sheet

(a) fixed assets (b). Miscellaneous expenditure (c). Loan and advances

(d). investments (e). Current assets

11. What is Interim Dividend.

PART-C

12. From the following particulars, determine the maximum remuneration available to a full time director of a manufacturing company. The profit and loss account of the company showed a net profit of Rs.20,00,000 after taking into account the following items:

	Rs.
(i) Depreciation (including special depreciation of Rs.20,000)	50,000
(ii) Provision for income tax	1, 00,000
(iii) Donation to political parties	25,000
(iv) Ex-gratia payment to a worker	5,000
(v) Capital profit on sale of assets	7,500

(Ans -Net profit for managerial remuneration-21, 17,500; remuneration for full time director-1,05,875)

13. 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. **(Ans -Surplus carried to B/S-35,000)**

14. 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.

Depreciation (including special depreciation Rs. 40,0000) Rs.1,00,000

Provision for income tax Rs.2,00,000

donation to political parties Rs.50,000

Ex-gratia payment to a worker Rs.10, 000

capital profits on sale of assets Rs.15, 000

(Ans -net profit for managerial remuneration-42,35,000; remuneration for full time director-2,11,750).

Essay types:

1. Prepare in a summarized form of balance sheet of a company as per companies Act, 1956, using imaginary figures.
2. Explain the treatment of ‘provision for tax’ under companies act
3. Explain the law relating to the calculation of managerial remuneration
4. The following trial balance of Nalli Ltd as at 30th Dec 1998 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 31.12.98 and Balance sheet as on that date.

(Ans –Gross profit-Rs94,000; Net loss- Rs62,000;

Surplus carried forward to B/S-Rs50,000;B/S-9,20,000)

5. Determine the maximum remuneration payable to the part time directors and Manager of Bharat Ltd (a manufacturing company) under section 309 and 387 of the companies Act 1956 form the following particulars. Before charging any such remuneration the Profit & Loss account showed a credit balance of Rs.23.05, 000 for the year ended 31st March 1998 after taking into account the following matters:

1. Profit on sale of investments	Rs.2, 05,000
2. Subsidy received from government	Rs.4, 10,000
3. Loss on sale of fixed assets	Rs. 65,000
4. Ex-gratia to an employee	Rs. 30,000
5. Compensation paid to injured worked man	Rs .75, 000
6. Provision for taxation	Rs. 2, 79,000
7. Bonus to foreign technicians	Rs. 3, 12,000
8. Multiple shift allowance	Rs.1, 00,000
9. Special depreciation	Rs. 75,000
10. Capital expenditure	Rs.5, 10,000

Company is providing depreciation as per section 350 of the companies Act 1956

(Ans -net profit for managerial remuneration-29,94,000;Total managerial remuneration-1,79,640)

6. A Ltd was registered with an authorized capital of Rs. 6,00,000 in equity shares of Rs.10 each. The following is its trial balance on 31.3.2011

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**

Analyze the Financial position of the company by prepare trading account, profit and loss account, profit and loss appropriation account and balance sheet after making the following adjustments.

(i) Depreciate plant and machinery by 15%

(ii) Write off Rs.500 from preliminary expenses

(iii) Provide for 6 months interest on debentures

(iv) Leave bad and doubtful debts provision at 5% on sundry debtors

(v) Stock on 31.3.2011 was Rs.95,000

(vi) Provide for income tax at 50%

(Ans –Gross profit-Rs1,52,020; Net loss-

Rs18,000;

Surplus carried forward to B/S-Rs5,000;B/S-8,35,500)

7. Sky Ltd has an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. The following is the Trial balance of the company for the year ended 31st December 2001.

Particulars	Dr	Cr
Equity Share Capital		5,00,000
Bills Receivable	40,000	
Plant & Machinery	1,50,000	
Premises	1,00,000	
Debtors	1,00,000	
Cash	3,500	
Bank	5,500	
Sundry Creditors		1,10,000
Opening Stock	2,70,000	
Purchases & Sales	7,00,000	9,43,000
Wages	80,000	
Fuel and Power	35,000	

Carriage inwards	16,000	

Discount received		7,000
Auditor’s fees	11,000	
Salary	44,000	
Traveling Expenses	14,000	
Purchase returns		8,000
Carriage outwards	4,000	
15% Bank Loan		1,00,000
Interest on Bank Loan	15,000	
Factory Rent	40,000	
Bad Debts	40,000	
	16,68,000	**16,68,000**

Adjustments:

- Value of stock on 31.12.2001 Rs. 2,20,000.
- Provide 5% Provision for Bad Debts on Debtors.
- Depreciate Plant & Machinery at 10%
- Unpaid wages Rs. 5,000 and Salary Rs. 6,000

Prepare Trading and Profit & Loss A/C and Balance Sheet for the year ended 31.12.2001 and the Balance Sheet as on that date.

(Ans-Gross profit-25,000; Net loss-122000; B/S-7,21,000)

UNIT-III

Valuation of Goodwill and Valuation of Shares - Concepts and calculation.

Need for valuation of shares:

- Shares of a limited company have to be valued for different purposes:
- When shares of unquoted private companies should be purchased or sold .
- When controlling number of shares are purchased by a company in another
- When amalgamation or absorption of companies takes place
- For settlement of dissenting shareholders in a reconstruction scheme.
- For assessment of wealth tax, capital gains tax Etc
- For sanctioning loan by financial institution s on the security of shares
- For conversion of preference shares into equity shares
- For advancing loans on the security of shares
- For compensating shareholders on the acquisitions of shares, by the government under a scheme of nationalization.

Factors affecting the value of shares:
The value of shares of a company is greatly affected by the economic, political and social factors, some of which are noted below:

The economic condition of the country
The nature of company 's business;
Other political and economic factors(possibility of nationalization, excise duty on goods produced , etc
The demand and supply of shares,
Proportion of liabilities and capital;
Rate of proposed dividend and past profits of the company,
Yield of other related shares of the stock exchange etc.

Methods o f valuation of shares

Net asset method
(Or)
Asset backing method
(Or)
Intrinsic value method
(Or)
Breakup value method
(Or)
Real value method
(Or)
Asset –basis method
(Or)
Net worth method

Yield method
(Or)
Market value method
(Or)
Earning capacity method
(Or)
Dividend yield method

Fair value method
(Or)
Average of asset backing and yield method

Valuation of shares

Net asset method(or) intrinsic value

Illustration 1: The following is the balance sheet of NSC Ltd as on 31st Dec 1998

Liabilities	Amount	Asset	Amount
4,000 `10% pref shares of Rs 100each	4,00,000	Sundry asset at book value	12,00,000
60,000 equity shares of Rs10 each	6,00,000		
Bill payable	50,000		
Creditors	1,50,000		
	12,00,000		**12,00,000**

The market value of 60% of the asset 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 Rs10,000. Find the value of each equity shares (it is to be assumed that preferences shares have no prior claim as to payment of dividend or to repayment of capital.

Solution:

Calculation of net asset

Particulars	**Amount**	**Amount**
Sundry assets: 12,00,000*60%*115% 12,00,000*405*90%		8,28,000 4,32,000 12,60,000
Less: Current Liabilities Bill payable Creditors Unrecorded liability Less: preference share capital Net asset available for equity shareholders	50,000 1,50,000 10,000	 2,10,000 10,50,000 4,00,000 **6,50,000**

Intrinsic value per share= Net assets for equity shareholders / No. Of Equity shares

= Rs6,50,000 / Rs60,000

= Rs10.83

Note: Preference shareholders not having preference does not make any difference here.

Illustration 2: The balance sheet of saraswati 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.

Solution:

(i) calculation of value of good will

Total profits for 5 years = Rs30,000+Rs70,000+Rs50,000+Rs55,000+Rs95,000
=Rs3,00,000

Average profits per year=Rs3,00,000/5=Rs60,000

Goodwill=Average profits * No of years purchase
=Rs60,000*3years
Rs1,80,000

Calculation of net assets:

Particulars	Amount	amount
Asset at market value:		
Goodwill		1,80,000
Investments		3,30,000
Stock		6,60,000
Sundry debtors		3,90,000
Cash at bank		60,000
		16,20,000
Less: Liabilities		
6% debentures	4,50,000	
Sundry creditors	1,50,000	
Workmen's savings bank A/c	3,00,000	9,00,000
Net assets		7,20,000

Calculation of intrinsic value of share = $\frac{\text{net assets}}{\text{No. of equity shares}}$

$= \frac{\text{Rs}7,20,000}{6,000 \text{ shares}}$

=Rs120

Illustration 3: On 31st March, 2007, the Balance Sheet of a Limited Company disclosed the following position :

Liabilities	Rs.	Assets	Rs.
Issued Capital in Rs. 10 Shares	4,00,000	Fixed Assets	5,00,000
Reserves	90,000	Goodwill	40,000
Profit & Loss Account	20,000	Current Assets	2,00,000
5% Debentures	1,00,000		
Current Liabilities	1,30,000		
	7,40,000		**7,40,000**

On 31st March, 2007 the fixed assets were independently valued at Rs. 3,50,000 and goodwill at Rs. 50,000. The net profits for the three years were :

2005 Rs. 51,600; 2006 Rs. 52,000; 2007 Rs. 51,650.

Of which 20% was placed to reserve this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 10%.

Compute, the value of the company's shares by (a) the assets method, and (b) the yield method.

Solution :

(a) **Value of Shares according to the Assets Method:**

		Rs.
Market value of Fixed Assets		3,50,000
Goodwill (as per valuation)		50,000
Current Assets		2,00,000
Total Value of Assets		6,00,000
Less : Liabilities : 5% Debentures	1,00,000	
Curent Labilités	1, 30,000	2, 30,000
Net Assets		3, 70,000

$$\text{Intrinsic Value per share} = \frac{\text{Net Assets}}{\text{Number of Equity Shares}}$$

$$= \frac{\text{Rs. } 3,70,000}{40,000} = \text{Rs. } 9.25.$$

(b) Value of Shares according to Yield Method :

1. **Calculation of Average Expected Future Profits :**

		Rs.
Profits :	2005	51,600
	2006	52,000
	2007	51,650

Total Profits for three years		1,55,250
Average Profits (1,55,250 / 3)	51,750	
Less : 20% transferred to reserves (51,750 X 20/100)	10,350	
Average Profits after Reserves		41,400

2. **Calculation of Expected Return :**

$$\text{Expected Return} = \frac{\text{Expected Profits}}{\text{Equity Capital}} \times 100$$

$$= \frac{41,400}{4,00,000} \times 100 = 10.35\%$$

3. **Calculation of Yield Value of Share :**

$$\frac{\text{Expected Rate}}{\text{Normal Rate}} \times \text{Paid up Value of share}$$

$$= \frac{10.35}{10} \times 10$$

$$= \text{Rs. } 10.35.$$

Illustration 4 : The following particulars are available in relation to Akshaya Ltd. :

(1) Capital : 450 6% preference shares of Rs. 100 each fully paid ; and 4,500 equity shares of Rs. 10 each fully paid.
(2) External liabilities : Rs. 7,500.
(3) Reserves and surplus : Rs. 3,500
(4) The average expected profit (after taxation) earned by the company : Rs. 8,500
(5) The normal profit earned on the market value of equity shares (fully paid) of the same time of companies is 95.
(6) 10% of the profits after tax each year is transferred to reserves.

Calculate the intrinsic value per equity share and the value per equity share according to dividend yield basis. Assume that out of total assets worth Rs. 350 are fictitious.

Solution :

Calculation of Intrinsic Value per Equity Shares	Rs.
Preference Share Capital	45,000
Equity Share Capital	45,000
Reserves and Surplus	3,500
External Liabilities	7,500

Gross Assets (Equal to total liabilities)		1,01,000
Less : Fictitious Assets	Rs. 350	
External Liabilities	Rs.7,500	7,850
Assets available for Shareholders		93,150
Less : Preference Share Capital		45,000
Assets available for Equity Shareholders		48,150
Number of Equity Shares		4,500

Therefore, Intrinsic Value per Equity Share = $\frac{\text{Rs. } 48,150}{4,500}$ = Rs. 10.70

Calculation of value per Equity Share on Dividend Yield Basis

		Rs.
Average Expected Profit (after tax)		8,500
Less : Transfer to Reserve 10%		850
		7,650
Less : Preference Share Dividend	@ 6% on Rs. 45,000	2,700
Expected Profit for Equity Shareholders		4,950

$$\text{Expected Rate of Dividend} = \frac{\text{Expected Profit}}{\text{Equity Share Capital}} \times 100$$

$$= \frac{\text{Rs. } 4,950}{\text{Rs. } 45,000} \times 100 = 11\%$$

$$\text{Value per Equity Share} = \frac{\text{Expected Rate of Dividend}}{\text{Normal Rate of Profit}} \times \text{Paid up Value of share}$$

$$= \frac{11\%}{9\%} \times \text{Rs. } 10 = \text{Rs. } 12.22$$

Valuation of Goodwill

Introduction:

Goodwill is the name, fame or reputation earned in business by the company or any form of the business over a period of time. Acquiring goodwill makes the business to attract more and more customers and with passage of time it ultimately results in increase of profits generally. Thus, goodwill fetches some extra salable value to a prosperous business over and above the intrinsic value of net assets. In fact, it is very easy to describe goodwill but very difficult to define. Despite the above limitation there are some very good definitions given below. In the words of 'Spicer and Regler" goodwill may be said to be that element arising from the reputation, connection or other advantages possessed by a business, which enables on the capital represented by the net tangible assets employed in the business.

According to J O Magee 'The capacity of a business to earn profit is basically what is meant by the term goodwill'.

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'.

According to the Institute of Chartered Accountants of India, goodwill is 'an intangible asset arising from business connections or trade name or reputation of an enterprise'.

Nature Of Goodwill

Goodwill consists of the advantages a business has in connection with its customers, employees and outside parties with whom it has to contact. That is why it was defined as the probability that the old customers will revert back. Goodwill has been said to be an attractive force which brings in customers. Thus, to determine the nature of goodwill in a particular case, it is necessary to consider the type of business and the type of customers which such a business is inherently likely to attract as well as the particular circumstances of each case. Goodwill of a business is an aggregation of the strength of management, product central policies and attitude toward competition.

Features of Goodwill:

(1) Goodwill may have positive value or negative value. It is positive when the value of business is more than the value of its net identifiable assets and negative when the value of the business is less than the value of its net identifiable assets.
(2) The value of goodwill has no relation to the amount invested and costs incurred in order to build it.
(3) The value of goodwill fluctuates from time to time due to changing circumstances which are internal and external to business.
(4) It is not possible to separately evaluate each of the intangible factors contributing to goodwill.
(5) Goodwill may be purchased or inherent in the business. When a business concern is purchased and the purchase consideration is in excess of the fair value of the identifiable net assets acquired, such excess is recorded as goodwill. However, goodwill is recorded only when an amalgamation is in the nature of purchase and is not a merger, pooling of interests method is followed and goodwill is not recorded.
(6) An objective valuation of goodwill is difficult. Being subjective it differs from estimate to estimate.

Sources of Goodwill: The following are the main sources which generally give rise to goodwill.

(i) The location of the business e.g., a retail shop located in a busy market centre.

(ii) The reputation of the articles sold arising from the high standard or quality of the goods themselves.

(iii)Possession of trademarks patents or copyrights.

(iv) Possession of advantageous contracts or complete or partial monopoly.

(v) The personality and reputation of the owner or management, arising through his/its skill and influence, as in the case of a professional man. For example, a Chartered Accountant.

(vi) Any special advantage like government legislative or other enjoyed by the firm, e.g., inclusion in the list of approved suppliers to Government, Municipal Corporation or C.P.W.D. etc.

(vii) Development of the business and shopping facilities with the changing conditions of the market e.g., provision for the visitor's rest room.

Methods For Valuing The goodwill

It is not very easy to value and account for goodwill unless there is a particular method accepted by all. However there are five methods for valuing goodwill depending upon the situation.

I. Arbitrary Statement

II. Average Profit Method

III. Super Profit Method

IV. Capitalization Method

Arbitrary Statement

The valuation of goodwill is arrived at by making a valuation by one of the parties i.e., vendor or purchaser to which the other agrees. The parties may together estimate the value to be placed on the goodwill or an independent party may be called in to give his option as to the value, it being left to the parties to decide whether they will accept or reject the valuation.

This method can be used only when information relating to earning capacity is available. If this information is not available because of non-availability of the profit immediately prior to sale or if the profits are abnormal or unreliable then such data cannot be used as a guide to further profits. Similarly information relating to earning capacity may not be available if the business being acquired may be converted into one of a different nature from that existing prior to date of purchase as in the case of a retail shop dealing in garments is purchased with a vied to converting it to a pharmacy. Consideration should also be given to the question of trading advantages (e.g. quotas) made available to the purchaser by the vendor and licences to import goods up to authorized values. There are really no inter obtainable from the accounting data as to the valuation of such benefits passed on to the purchaser and their worth remain a matter of assessment to be agreed upon by the parties.

Average Profit Method

In general all businesses aim for profit and are expected to grow in the future. The buyer of business is also interested to know the present earnings, whether the business will maintain the same profit in the future and if there is scope to increase profit in the future also. If it is not, then the buyer will not pay for goodwill as it would mean purchasing a loss making company. Goodwill is paid for obtaining a future advantage. However, the future is uncertain and is usually estimated on the basis of past. Therefore, in a business what profits are likely to accrue in the future depends upon its average performance in the past and hence the average profits. Therefore, while valuing the goodwill, the buyer always takes the assurance of future, maintainable profits in his mind. Ultimately it results in the earning capacity of the business. Earning capacity of the business depends upon the following factors:

(a) **Nature of Goods.** Profits depend upon nature of goods. If business deals in articles of daily use, profits are likely to be constant. More than constant profits, the more is the goodwill or vice versa.

(b) **Monopolized Business.** A monopolized business will have more goodwill as compared to a business in which many rivals can enter the business.

(c) Trade Name.

(d) **Risk Involved.** Greater the risks involved higher are the profits.

(e) Favorable Location and Site.

(f) Possession of Trademarks, Patents and Copyrights.

(g) Access to Suppliers.

(h) **Capital Required.** If two business units earn the same profits with different amounts of capital, the business unit with lesser amount of capital requirements will enjoy more goodwill.

The profit earned by the company may be subscribed to certain adjustments like abnormal loss, abnormal gain, recurring and non recurring income and expenses.

I. Simple Average Profit.

Illustration 1: The following particulars are available in respect of business carried on by Mr. Vishal

Profits earned : 2005 – Rs. 6,00,000
2006 – Rs. 4,80,000
2007 – Rs. 5,70,000

You are required to calculate the value of goodwill on the basis of 2 years purchase of average profit of last 3 years.

Solution :

$$\text{(i) Average Profits} = \frac{6,00,000 + 4,80,000 + 5,70,000}{3} = 5,50,000$$

(i) Goodwill is based on the number of years purchase on average profit =
Average Profit X Number of years of Purchase
= 5,50,000 X 2 = Rs. 11,00,000

Illustration 2 : From the following calculate the value of goodwill on the basis of 5 years purchase of the average profits of the preceding 7 years:

2003	Profit Rs. 80,000
2004	Profit Rs. 90,000
2005	Profit Rs. 1, 10,000
2006	Loss Rs. 50,000
2007	Profit Rs. 1,00,000
2008	Loss Rs. 60,000
2009	Profit Rs. 85,000

Solution :

Year	**Profit or Loss**
2003	(+) 80,000
2004	(+) 90,000
2005	(+) 1,10,000
2006	(-) 50,000
2007	(+) 1,00,000
2008	(-) 60,000
2009	(+) 85,000
Total Profit	(+) 3,55,000

$$\text{Average Profits} = \frac{\text{Total profits after reducing loss}}{\text{Total No. of years including loss}}$$

3,55,000

= -------------- = Rs. 50,714.2857
7

Rounded off to Rs. 50714
Goodwill is based on Number of years of purchase of Average Profit =
Average Profit X Number of years of purchase
50,714 X 5 = Rs. 2,53,570

Illustration 3 : Gurukalam and Co. decided to purchase a business for Rs. 24,00,000. Its profits for the last four years were 2005 – Rs. 6,00,000; 2006 – Rs. 7,50,000; 2007 – Rs. 7,20,000 and

2008 – Rs. 6,90,000. The owner of the business was personally managing it. A manager to replace him has to be paid Rs. 90,000 p.a.

Calculate the value of goodwill if it is valued on the basis of three year's purchase of the average net profit for the last four years.

Solution :

$$\text{Average Profits} = \frac{6,00,000 + 7,50,000 + 7,20,000 + 6,90,000}{4} = 6,90,000$$

Average Profit	Rs. 6,90,000
Less: Manager salary paid	Rs. 90,000
Average future maintainable profit	Rs. 6,00,000

Goodwill is based on number of years of average profit =

Average profit X Number of years of purchase

= 6,00,000 X 3 = Rs. 18,00,000

Illustration 4 : The following information is presented for five years ending 31st March, 2010.

Year ending 31st March	Profit After Tax	Taxation	Transfer to Reserve	Director's Remuneration
2006	6,00,000	2,16,000	1,20,000	48,000
2007	6,60,000	2,40,000	1,44,000	54,000
2008	5,76,000	1,80,000	96,000	54,000
2009	7,80,000	3,00,000	1,80,000	60,000
2010	8,64,000	4,20,000	1,80,000	72,000

Fixed assets revalued and same showed an appreciation of Rs. 60,00,000 (depreciation to be provided for @ 10 per cent). The company has 8 per cent preference share capital of Rs. 12,00,000. The current rate of taxation may be taken @ 50 per cent. Calculate the value of goodwill on the basis of four year's purchase of the last five years average profits.

Solution : Calculation of future average maintainable profits.

Year	Profit after Tax	Taxation	Director's Remuneration	Profits before Tax and Director's Remuneration
2006	6,00,000	2,16,000	48,000	8,64,000
2007	6,60,000	2,40,000	54,000	9,54,000
2008	5,76,000	1,80,000	54,000	8,10,000
2009	7,80,000	3,00,000	60,000	11,40,000
2010	8,64,000	4,20,000	72,000	13,56,000
Total Profit				51,24,000

Total Profit 51,24,000

Average Profit = ------------------- = ----------------- = 10,24,800
No. of Years 5

	Rs.	Rs.

Profit		10,24,800
Less: Common adjustment		
(a) Depreciation @ 10% on 60,00,000	6,00,000	
(b) Director's Remuneration	72,000	
	6,72,000	
Profit before Tax	3,52,800	
Less: Income Tax @ 50%	1,76,400	
Profit after Tax	1,76,400	
Less: Preference Dividend @ 8% on Rs. 12,00,000	96,000	
Future Average Maintainable Profit		80,400

Goodwill is based on number of years of average profit =
Average profit X Number of years of purchase
80,400 X 4 = Rs. 3,21,600

Note: Director's remuneration has been taken as Rs. 72,000 because hereafter it would not be less than this amount in the future.

II. Super profit method

Goodwill, no matter how determined, represents a valuation of future earnings. As per the first definition of goodwill, it presents the value of firm's anticipated 'excess' earnings. If there are no anticipated excess earnings over normal earnings, there can be no goodwill. Thus goodwill is paid by the buyer only if the business that is being purchased is earning profits in excess of normal rate of earnings. So the excess of average profit over normal profit is known as super profit.

Defined in another way, super profit is the excess of profit which can be expected in future years over and above what is necessary for paying a fair return on capital employed, considering the risk involved in that class of business and fair managerial remuneration.

It is such excess profit that is referred to as super profit and represents the difference between the average profit earned by the business and the normal profit based on the normal rate of return for representative firms in the industry. Hence, this method of valuing goodwill will require the following information :

(1) A normal rate of return for representative firm in the industry;
(2) The fair value of capital employed; and
(3) The estimated future earning of the firm, i.e., average of the profits earned in the past three or four years. Each has been discussed below :

(A) Normal Rate of Return. The normal earning is that rate of earning which investors in general expect on their investments in a particular type of industry. This rate of earning differs from industry to industry. The normal rate of earnings is required to be adjusted in the light of certain circumstances such as :

(1) **Higher bank rate.** Any increase in the bank rate increases the expectation of investors and they start hoping higher rate of return.

(2) **General boom.** When there is a boom in industry the investors start expecting More and normal rate of return is to be increased.
(3)**Risk attached to the investment.** The more the risk, more is the rate of return. Risk may also be due to high amount of borrowing made by the business or nature of business.
(4) **Period of investment**. The longer the period of investment, higher is the rate of return.

(B) Capital Employed. The capital invested in the business brings return as in terms of profit. If there is more capital employed one can expect more return since the profit of a firm can be justified in terms of capital employed only

		Rs.
Assets (other than goodwill and deferred expenditures like Preliminary expenses, discount, etc.) at market value		XXX
Less:	Liabilities due to outside parties (i.e., creditors, bills payable, debentures, taxation, outstanding bills, etc.) at revised values, if any	XXX

Capital Employed		XXX

Calculation of Super profit. Super profit is a simple difference between average profit and normal profit. Suppose Rs. 5,00,000 is the average profit and normal profit is Rs. 2,80,000. So Super profit = Average profit minus Normal profit = Rs. 2,20,000.

Illustration 5 : The following particulars are available in respect of the business carried on by a trader :

(1) Profits earned :
2007 Rs. 5,00,000; 2007 Rs. 6,00,000; 2008 Rs. 5,50,000
(2) Normal rate of profit 10%
(3) Capital Employed Rs. 30,00,000
(4) Present value of an annuity of one rupee for five years at 10% Rs. 3.78
(5) The profits included non-recurring profits on an average basis of Rs. 40,000 out of which it was deemed that even non-recurring profits had a tendency of appearing at the rate of Rs. 10,000 p.a.

You are required to calculate goodwill : (a) as per five years purchase of super profits, (b) as per capitalization of super profit method, and (c) as per annuity method.

Solution :

Calculation of Average profit :

		Rs.
Profits :	2007	5,00,000
	2008	6,00,000
	2009	5,50,000

		16,50,000

Average Profits (16,50,000 / 3)	5,50,000
Less: Non-recurring profit	40,000

	5,10,000
Add: Non-recurring profit having tendency of Recurring profit	10,000
Average Expected Profits	5,20,000

Calculation of Super Profit:

	Rs.
Average Expected Profits	5,20,000
Less: 10% Normal Profit on Rs. 30,00,000 Capital Employed	3,00,000
Super Profit	2,20,000

(a) Goodwill as per five years purchase of Super Profit (2,20,000 X 5) 11,00,000

(b) Goodwill as per capitalization of Super Profit method

$$2,20,000 \times \frac{100}{10} = \quad 22,00,000$$

(c) Goodwill as per Annuity Method (2,20,000 X 3.78) 8,31,600

III. Capitalization Method

The following are the main steps to be taken in computing goodwill by this method:

(a) Ascertain the average net profit which it is expected will be earned in future;
(b) Capitalize this net profit at the rate which is considered a suitable return on capital invested in a business of the type under consideration;
(c) Find the value of the net tangible assets used in the business, i.e., assets less outside liabilities; and
(d) Deduct the net tangible assets as per (c) from the capitalized profit obtained in (b) and the difference is goodwill.

Illustration 6:A firm earns Rs1,20,000 as its annual profits, the rate of normal profit being 10% .the assets of the firm amount to Rs14,40,000 and liabilities to Rs4,80,000. Find out the value of good will by capitalization method.

Solution:

(i). Total capitalized value of the firm = $\frac{\text{Actual profit}}{\text{Normal rate of return}}$

=Rs1,20,000

10%

=12,00,000

(ii). Net assets of the firm = total assets-liabilities
= Rs14,40,000-Rs4,80,000
= 960,000

(iii) goodwill = total capital issued value of business-net assets
= Rs12,00,000-Rs9,60,000
= Rs2,40,000

Illustration 7: the following is the balance sheet of Alpha trading Co ltd as on 31st Dec 1998

Liabilities	**amount**	**Assets**	**amount**
Paid up capital : 2,500 equity shares of Rs100 each	2,50,000	Goodwill at cost	25,000
Profit & loss a/c	56,650	Land & building at cost	1,10,000
Bank overdraft	58,350	Plant & machinery at cost less depreciation	1,00,000
Sundry creditors	90,500	Stock at cost	1,50,000
Provision for taxation	19,500	Book debts	90,000
	4,75,000		**4,75,000**

The company commenced operations in 94 with a paid up capital of Rs2,50,000. The profits earned providing taxation have been as follows: 94-Rs61,000; 95-Rs64,000; Rs96-Rs71,500;97-Rs78,000; and 98-Rs85000
You may assume that income tax at the rate of 50% has been payable on these profits.
The average dividend paid by the company for four years is 10% which is taken as reasonable return expected on the capital invested in the business. You are required to ascertain the value of the good will of the company.

Solution:

(i).Calculation of net tangible assets of the business

Particulars	**Amount**	**Amount**
Total assets (less goodwill) (Rs4,75,000-25,000)		4,50,000
Less: Liabilities Bank O/D Creditors Provision for tax	 58,350 90,500 19,500	 1,68,350

Net tangible assets		2,81,650
(ii)calculation of adjusted annual average profits **Profits for 5years** (Rs61,000+Rs64,000+Rs71,500+Rs78,000+Rs85,000)		3,59,500

Less: 50% income tax **Adjusted profits**		1,79,750 **1,79,750**

Adjusted annual average profits = $\frac{1,79,750}{5 \text{ years}}$

= Rs35,950

(iii) calculation of total capitalized value of the business:

Total capitalized value of the firm = $\frac{\text{adjusted profits}}{\text{Normal rate of return}}$

= $\frac{\text{Rs}35,950}{10\%}$

= 3,59,500

(iv) calculation of value of goodwill

Goodwill= total capitalized value of the business –net tangible assets

Rs3,59,500-Rs2,81,650= Rs 77,850

PART-A

QUESTION	Option 1	Option 2	Option3	Option4	Answer
In the balance sheet of a limited company assets are arranged in the order of	Liability	Permanency	Neither of the two	Either liability of performance	**Permanency**
Dividend are usually paid on	Authorized capital	Subscribed capital	Paid up capital	Called up capital	**Paid up capital**
Goodwill is shown in asset side of the company's balance sheet under the heading of	Fixed assets	Current asset	Miscellaneous expenditure	Investment	**Miscellaneous expenditure**
Advance payment of tax is in the nature of	Capital expense	Revenue expenses	Prepaid expenses	Outstanding expenses	**Prepaid expenses**
In the liability side of the company's balance sheet calls in arrears in shown	Under the leading reserves and surplus	Under the leading current liabilities	Under the leading secured loans	By subtracting the amount from the called up capital	**Under the leading current liabilities**
In the asset side of the company's balance sheet fictitious asset like discount on issue of debenture are shown under the heading	Fixed asset	Investments	Current assets	Miscellaneous expenses	**Miscellaneous expenses**
Preliminary expenses are an example of	Fixed asset	Current asset	Fictitious asset	Investment	**Fictitious asset**
In the liabilities side of companies balance sheet forfeited shares a/c balance is shown	Under the heading current liabilities	Under the heading unsecured loans	Under the heading reserves 2s surplus	By adding to the paid up capital	**By adding to the paid up capital**
Divisible profits do not include	Reserve fund	P/L a/c balance	Revaluation reserve	Insurance fund	**Revaluation reserve**
In the liabilities side of the company's balance sheet unclaimed dividend shown under the leading	Share capital	Current liabilities and provisions	Secured loans	Unsecured loans	**Current liabilities and provisions**

The amount set aside to meet the loss of bad debts is a	Reserve	Liability	Contingent liability	Provision	**Provision**
When the proposed dividend exceeds 20% of the paid up capital in the	10%	7.50%	5%	2.50%	**10%**

percentage of profits to be transferred to reserves					
Interim dividend is always shown	In P/L a/c	In P/L appropriation a/c	On the asset side of the balance sheet	On the liabilities side	**In P/L appropriation a/c**
Debentures are shown in the balance sheet under the heading	Unsecured loans	Current liabilities	Secured loans	Share capital	**Secured loans**
The maximum remuneration payable to a pant time director (with out managing director(s)or whole time director (s) or manager) should not exceed	1% of the annual profits	3%of the annual profits	5%of the annual profits	10%of the annual profits	**3%of the annual profits**
Final accounts of a company consist of two statements namely_____and____	P/L a/c and balance sheet	Trading P/L a/c	Balance sheet and P/L a/c	Trading, P/L a/c and Balance sheet	**Trading, P/L a/c and Balance sheet**
The balance sheet of a company can be presented in two altenative from i.e and	Horizontal and vertical	Vertical and horizontal	Slop down words	Concave and convex	**Horizontal and vertical**
Loose tools shown in the balance sheet under the lead	Current liabilities	Current asset	Fixed asset	Miscellaneous expenses	**Fixed asset**
When P/L a/c is divided into two parts I.e P/L a/c & P/L appropriation a/c the items which are shown in the P/L a/c are termed as items appear in	Below the line	Above the line	Up line	Lower side	**Above the line**
When P/L is split up into two pants I.e P/L a/c of P /L app a/c the item which are appearing on the P/L app a/c are termed as items appropriation	Below the line	Above the line	Up line	Lower side	**Below the line**

The account showing the dispose of the net profit is disclosed by the P/L a/c is called	P/L appropriation a/c	P/L a/c	Trading a/c	Balance sheet	**P/L appropriation a/c**
The surplus found in P/L app a/c is shown in the balance sheet under head	Surplus and reserve	Reserve and surplus	Reserve fund	Dividend receive	**Surplus and reserve**

A reserve which is represented by investments outside the business is known as	Reserve fund	Dividend	Interim dividend	Income tax	**Reserve fund**
According to sec 198 of the company's of act 1956 the maximum total Managerial remuneration should not exceed of the net profit	11%	7.50%	12.20%	5%	**11%**
If the proposed dividend exceeds 15%but not 20% of the paid u capital the percentage of profit to be P/L to reserve is	11%	7.50%	12.20%	5%	**7.50%**
If the proposed dividend lies between 11 ½% and 15% the percents of profits to be P/L to general reserve is	5%	6%	11%	25%	**5%**
Where the dividend proposed exceeds 10% but not 12 ½% of the paid up capital the amount to be to the reserves shall not be less than of the current profits	2 ½%	1 ½%	3 ½%	4 ½%	**2 ½%**
The part of the profits of a company which is dividend by the company amount its share holder by way return on share holding is known as	Dividend	Interim dividend	Income tax	Dividend	**Dividend**
The dividend which is declared at any time between two annual general body meetings is termed as	Dividend	Interim dividend	Share capital	Provision	**Interim dividend**
The difference between gross interest receivable and interest received is debited to	208	108	5	6	**208**

There is no need to b/f to reserves if the proposed dividend does not exceed	reserve deducted at source a/c 20.10 %	Tax deducted at source a/c 20.10 %	Tax deducted at source a/c 20.10 %	Reserve deducted at source a/c 10.10%	**reserve deducted at source a/c 20.10 %**

Maximum remuneration to all the managerial personnel	25%	11%	3%	1%	**11%**
Managing director or whole time director when there is one	11%	2%	3%	5%	**5%**
Managers is	1%	2%	3%	5%	**5%**
All the directors assisted by managing director whole time director on manager	5%	10%	3%	1%	**1%**
All the directors when the company is not having managing director of whole time director or manager	3%	5%	1%	10%	**3%**
Profit &loss appropriation a/c is also known as	Personal a/c	Real a/c	Nominal a/c	Representative personal a/c	**Nominal a/c**
Depreciation provide on the company's	Fixed asset	Current asset	Current liability	Investment	**Fixed asset**
The value of imports calculated on the basis of the company in respect of	Raw material	Components and spare parts	Capital goods	Raw material, Component & spare parts and capital goods	**Raw material, Component & spare parts and capital goods**
Dividend must be paid within days of declaration	Asset side	Liability side	Debit side	Credit side	**Asset side**
Dividend must be paid within_______days of declaration	42	52	32	15	**42**
_____ should not be considered for dividend purpose	Calls in arrear	Calls in advance	Prepaid expenses	Outstanding expenses	**Calls in advance**
Interim dividend paid between_____gereral meeting	One	Two	Five	Three	**Two**

___ are deducted from the called up capital to arrive at the paid up capital on which dividend to be paid	Calls in advance	Calls in arrears	Paid up	Called up	**Calls in arrears**
____reterns to the amount of dividend not collected by the shareholder form	Interim dividend	Dividend tax	Unclaimed dividend	Interest dividend	**Unclaimed dividend**

the company					
Securities premium is shown on the_____side of the balance sheet	Asset	Liabilities	Debit	Credit	**Liabilities**
Interim dividend is generally paid for_______months	One	Seven	Six	Eight	**Six**
Final dividend should be recorded in the debit side of the________	Profit and loss	Profit and loss appropriation a/c	Trading a/c	Balance sheet	**Profit and loss appropriation a/c**
________of the company does not forbid such distribution	Board of director	Articles of association	Share holder	Share capital	**Articles of association**
Political contribution is shown as a separate item in the_________account	Trading account	Profit and loss	Profit and loss appropriation a/c	Balance sheet	**Profit and loss**
Diminishing value method is also known as_________	Annuity method	Straight line method	Written down value method	Depletion method	**Written down value method**
All production expenses and income is a______a/c	Trading a/c	Profit and loss a/c	Profit and loss appropriation a/c	Suspense a/c	**Trading a/c**
Profit and loss appropriation a/c is a _______expenses	Future	Prepaid	Outstanding	Yet paid	**Future**
Discount and cost of issue of debenture is shown on the________side	Liabilities	Asset	Debit	Credit	**Asset**
The actual amount of tax is paid after finding out of________	Profit	Loss	Purchase	Sales	**Profit**
Journal entries of provision for taxation	Profit and loss a/c dr to provision for taxation a/c	Provision for taxation a/c dr to profit and loss a/c	Cash a/c dr to provision for taxation a/c	Bank a/c dr to cash a/c	**Profit and loss a/c dr to provision for taxation a/c**

Dividend out of profit is transferred to________	General reserve	Capital reserve	Reserve fund	Interest	**Capital reserve**
Payment cannot be used for________	Repayment of dividend	Payment of dividend	Debenture share	Debenture interest	**Payment of dividend**
Any dividend declared by	Final or	Share	Reserve	Final or	**Final or**

a company at its annual general meeting is known as_____	nominal dividend	dividend		personal dividend	**nominal dividend**
Accrued income is comes under	Profit or loss a/c dr	Trading a/c dr	Trading a/c cr	Profit or loss a/c cr	**Profit or loss a/c cr**

UNIT-IV

Accounts of Holding companies/Subsidiaries 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.

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 – company controls the composition of its Board of Directors; or that other –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 companyWhere the first mentioned company is any other company, holds more than half in nominal value of its Equity share capitals. ORThe 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:

- Subsidiary company maintained their separate identity.
- The public may not be aware the existence of combination among the various company.
- Holding company need not to be invest entire amount in the share capital in subsidiary company still enjoy controlling power in such company.

- It would be possible to carry forward losses for income tax purposes.
- Each subsidiary company prepares its own accounts and therefore financial position and profitability of each undertaking is known.
- Holding company may additional acquired or disposed of and the shares in subsidiary company in market whenever if desired.

DISADVANTAGES OF HOLDING COMPANIES There is a possibility of

fraudulent manipulation of accounts. Inter company transaction may not be at a fair prices. Minority share holders interest may not be properly protected.

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

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

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

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.

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 copy of the Balance Sheet of the subsidiary.

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

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

A copy of the Auditors Report of subsidiary.

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

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

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

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.

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 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:

- Profit & Loss A/c
- Balance sheet
- Cash flow statement
- Notes of Accounts except typical notes.
- 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.

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

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.

Date of Acquisition of control in subsidiary companies.

Inter company owing.

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.

Illustration : 1

Cost of Control / Goodwill

Balance sheet of S Ltd. as on 31st March 2010 (Liabilities only)

Rs.

Share capital 40,000 Equity shares of Rs. 10/- each	4,00,000
Reserves and surpluses	2,50,000
Secured loan	2,50,000
Other Liabilities	1,00,000
	10,00,000

On the above date H Ltd. acquired 30,000 Equity shares in S Ltd. on the above date for Rs. 7,50,000 fixed assets of S Ltd. were appreciated by Rs. 1,50,000 find out cost of control / Goodwill.

	Rs.	Rs.
Cost of investment in S Ltd.		7,50,000
Less : 1) Share in share capital $4,00,000 \times \frac{3}{4}$	3,00,000	
Share in Reserves and surpluses Capital profit $2,50,000 \times \frac{3}{4}$	1,87,500	
Share in capital profit (Appreciation in fixed assets) $1,50,000 \times \frac{3}{4}$	1,12,500	6,00,000
Goodwill		1,50,000

Suppose in above case, cost of investment amounted to Rs. 5,00,000 then instead of goodwill, there would be capital Reserve, Rs. 1,00,000.

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.

Share in share capital in subsidiary.

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

Share in accumulated losses should be deducted.

Proportionate share of profit or loss on revaluation of assets.

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.

Illustration : 2

The following is the Balance sheet of S Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.

Share capital Equity shares of Rs. 10 Each	2,70,000	Fixed Assets Investment	2,90,000 2,75,000
General Reserve Profit & Loss A/c	3,60,000	Current Assets	1,30,000
Current liabilities	85,000	Preliminary Expenses	20,000
	7,15,000		**7,15,000**

H Ltd. acquired 25,000 shares in S Ltd. on 31st March, 2010 at a cost of Rs. 2,75,000. fixed assets were revalued at Rs. 3,28,000. find minority interest

Solution : Minority Interest $= \frac{2,000}{27,000} = \frac{2}{27}$

Minority Interest	Rs.
Share in share capital $2,70,000 \times \frac{2}{27}$	20,000

2) Share in Reserves and Surpluses 20,000

$3,60,000 \times \frac{2}{27}$

3) Share in capital profits 28,000
Profit on appreciation on fixed Assets
(3,60,000 – 20,000 + 38,000)

$= 3,78,000 \times \frac{2}{27}$

Minority Interest 68,000

Illustration : 3

Balance sheets as on 31st March, ~~2010.~~

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital			Fixed Assets	3,00,000	1,00,000
Equity Shares of Rs. 10 each fully Paid	5,00,000	2,00,000	60% shares in S Ltd. at cost	1,62,400	--
General Reserve	1,00,000	50,000	Current Assets	2,77,600	2,39,000
Profit and loss Account	60,000	35,000	Preliminary Expenses	--	6,000

Creditors	80,000	60,000			
	7,40,000	3,45,000		7,40,000	3,45,000

H Ltd. acquired the share on 1 st April 2009 on which date General Reserve and profit and loss Account of S Ltd. showed balances of Rs. 40,000 and Rs. 8,000 respectively. No part of preliminary expenses was written off during the year ending 31st March, 2010. prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March 2010.

Solution :

Capital profits of the subsidiary (i.e. profits earned prior to acquisition of shares)

	Rs.
General Reserve	40,000
Profit and Loss Account	8,000
	48,000
Less : Preliminary Expenses	6,000
	42,000

Revenue profits of the subsidiary (i.e. profits earned after the acquisition of shares)

	Profit Rs.		Rs.
To General Reserve (Rs.50,000 – Rs. 40,000)	10,000	By balance b/fd	8,000
To Balance c/d	35,000	By Profit for the year	37,000
	45,000		45,000

Calculation of cost of control or Goodwill

Amount paid for 60% shares of S Ltd.

Less :

i) paid up value of 60% shares of S Ltd. 1,20,000
ii) 60% of capital profits i.e. profits

Prior to acquisition Rs. 42, 000 × $\frac{60}{}$	25,200	
		Rs.
		1,62,400
		(1,45,200)
		17,200

	Rs.
Calculation of minority Interest Paid up value of 40% shares of S Ltd.	80,000
Add: 40% capital profits = 42, 000 × $\frac{40}{100}$	16,800
Add: 40% Revenue Profits : 37, 000× $\frac{40}{100}$	11,800
	1,11,600

Alternatively, minority interest may be calculated as follows

	Rs.
Paid up value of 40% shares of S Ltd.	80,000
Add : 40% of General Reserve as on 31.3.2010 $Rs. 50,000 \times \frac{40}{100}$	20,000
	14,000
Add : 40% of profits and Loss Account as on 31.03.2010 Rs. $35,000 \times \frac{40}{100}$	1,14,000
Less : 40% of preliminary expenses Rs. $Rs. 6,000 \times \frac{40}{100}$	(2,400)
	1,11,600

Consolidated Balance sheet of H Ltd. and its subsidiary S Ltd.

as at 31.3.2010

Liabilities		Rs.	Assets		Rs.
Share capital			Goodwill		17,200
Shares of Rs. 10 each fully paid		5,00,000	Other Fixed Assets		
Minority interest		1,11,600	H Ltd.	3,00,000	
General Reserve		1,00,000	S Ltd.	1,00,000	4,00,000
Profit and loss A/c			Current Assets		
H Ltd.	60,000				
Revenue Profits of			H Ltd.	2,77,600	
S Ltd.	22,200		S Ltd.	2,39,000	5,16,600
$37,000 \times \frac{60}{100}$		82,200			
Creditors					
H Ltd.	80,000				5,16,600
S Ltd.	60,000	1,40,000			
		9,33,800			**9,33,800**

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.

- Loan advanced by the holding company to the subsidiary company or vice versa.
- Bill of Exchange drawn by holding company on subsidiary company or vice versa.
- Sale or purchase of goods on credit by holding company form subsidiary company or vice versa.
- 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.

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.

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. 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.

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

For e.g.

The sock in trade of S Ltd. includes Rs. 60,000 in respect of goods purchased from H Ltd. These goods have been sold by H Ltd. at a profit of 20% on invoice price.

Therefore, unrealized profit = $60,000 \times \frac{20}{100} = 12,000$

Unrealized profit Rs. 12,000 should be deducted from closing stock in the consolidated balance sheet and from Revenue profits i.e. from profit and loss account.

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.

External contingent liability.
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.

Illustration: 4 (Revaluation of Fixed Assets)

From the following balance sheet of H. Ltd. and its subsidiary S Ltd. drawn up at 31.12.2010. Prepare a consolidated Balance sheet as on that date having regard to the following.

Reserve and profit and loss account (cr.) of S. Ltd. stood at Rs. 50,000 and 30,000 respectively, on the date of acquisition of its 80% shares. Held by H Ltd. as on 1/01/2010 and

Machinery (Book value Rs. 2,00,000) and furniture (Book value Rs. 40,000) of S Ltd. were revalued at Rs.3,00,000 and Rs. 30,000 respectively for the purpose of fixing the price of its shares there was no purchase or sale of these assets since the date of acquisition.

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Balance sheets of H Ltd. S Ltd. as at 31st December, 2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital					
Shares of Rs. 100 each	10,00,000	2,00,000	Machinery	6,00,000	1,80,000
Reserves	4,00,000	1,50,000	Furniture	1,00,000	34,000
Profit & loss A/c	2,00,000	50,000	Other Assets (current)	8,80,000	2,86,000
Creditors	3,00,000	1,00,000	Shares in S Ltd. 1600 at Rs. 200 each	3,20,000	--
	19,00,000	**5,00,000**		**19,00,000**	**5,00,000**

Solution :

Workings

Preparation of holding Co. share H Ltd. shares in S Ltd. = $\frac{1600}{2000} = \frac{4}{5}$

Minority's share = $\frac{400}{2000} = \frac{1}{5}$

2) Capital Profit	Rs.
Reserve Balance as on date of Acquisition	50,000
Profit and loss	30,000
	80,000
Add : Undervaluation of machinery (3,00,000-2,00,000)	1,00,000
	1,80,000

Less : Overvaluation of Furniture (40,000-30,000)	(10,000)
	1,70,000

H. Ltd. Rs. 1, 70, 000 × 4	1,36,000

5

1 34,000

S Ltd. 1, 70, 000× 5

	Rs.
3) Current profit (Reserve 1,50,000 – 50,000)	1.00.000
Profit and loss A/c (50,000 – 30,000)	20.000
	1.20.000
Less : Depreciation on machinery undercharged @ *Rs.*20, 000	(10.000)
10% ×100 on 10% of Rs. 1,00,000 2, 00, 000	
	1.10.000
Add : Depreciation over charged on furniture @ 15% *Rs.*6, 000	1.500
×100 = 15% on Rs. 10,000 40, 000	
	1.11.500
4	
H Ltd. Rs. 1,11,500 × 5	89.200
1	
Minority share Rs. 1,11,500 × 5	22.300
	1.11.500

4) Minority Interest

Share capital (200 x Rs. 100)	40,000
Add : share in capital profit	34,000
Add : share in Revenue Profit	22,300
	96,300

5) Cost of control / Goodwill	Rs.	Rs.
Cost of shares		3,20,000
Less : Nominal value of shares held	1,60,000	
H's Co. share in capital profit	1,36,000	2,96,000
Goodwill		24,000

'H' Ltd and its subsidiary 'S' Ltd

Consolidated balance sheet

as at 31^{st} December 2010.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital			Fixed assets		
Authorized		?	Goodwill		24,000
Issued and paidup 10,000 Equity shares of Rs. 100 each full paid		10,00,000	Machinery		
Reserve and surplus			H Ltd.	6,00,000	
			S Ltd. 1,80,000		

Reserve H Ltd.	4,00,00 0		Add : undervaluation 1,00,00 0 2,80,00 0		
S Ltd. 4 10,00,0 00 × 5	80,000	4,80,000	Less : Depreciation 10,00 0	2,70,000	8,70,000
Profit & Loss A/c			Furniture H Ltd.	1,00,000	
			S Ltd. 34,000		
H Ltd. S Ltd.	2,00,00 0 9,200	2,09,200	Less over valuation 1[redacted] 0 24,00 0		
(89200-80000) Minority Interest		96,300	Add : Depreciation 1500	25,500	1,25,500
Current Liabilities and provision			Current Assets		
Creditors			Loans and Advances		
H Ltd.	3,00,00 0		H Ltd.	8,80,000	
S Ltd.	1,00,00 0	4,00,000	S Ltd.	2,86,000	11,66,000
		21,85,500			**21,85,500**

PREFERENCE SHARES IN SUBSIDIARY COMPANY :

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

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.

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.

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.

Issue of bonus share of post acquisition profits (Revenue profits): In this case, a part of revenue profits will get capitalised 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.

Illustration: 5 (Issue of bonus shares out of capital profit (pre-acquisition profit)

H Ltd. acquired 12,000 Equity shares of Rs. 10 each in S Ltd. on

December 31, 2010. The summarised Balance sheets of H Ltd. and S Ltd. as on that date were.

Balance sheet as on 31st December, 2010

Liabilitie s	H Lrd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.

Capital A/c Authorised			Fixed Assets	5,06,000	1,56,000
Issue and paidup	8,00,000	2,40,000	Investment in S Ltd. at cost 12000 shares of Rs. 10 each	2,00,000	--
12,000 shares of Rs. 5 each	6,00,000		Stock in hand	60,000	20,000
16,000 shares of Rs. 10 each		1,60,000	Bills Receivable (including Rs. 2000 from S Ltd.)	4,000	
Capital Reserve		68,000	Debtors And balance at bank	4,000	34,000
General Reserve	40,000	20,000			
Profit and loss A/c	1,00,000	20,000			
Bills payable (including Rs. 2000 to H Ltd.)		7,000			
Creditors	70,000	35,000			
	8,10,000	3,10,000		8,10,000	3,10,000

Note : (Re Balance sheet of H Ltd.) contingent liability for bills discounted Rs. 2400)

On 31.12.10 subsidiary Ltd. utilized part of its capital Reserve to make a bonus issue of every Four shares held, effect of bonus not given in above balance sheet.

You are required to prepare the consolidated balance sheet as on 31.12.10 and show there in how your figures are made up.

Solution :

Proportion of holding shares :

H Ltd. share in S Ltd. = $\frac{12000}{16000} = \frac{3}{4}$

Minority S Ltd. $= \frac{4000}{10000} = \frac{1}{4}$

Capital profit		Rs.
Capital Reserve Less :	68000	
Bonus Issue Revenue	40000	28,000
Reserves Profit and Loss Account		20,000
		20,000
H Ltd. Rs. 68, 000 × $\frac{3}{4}$		68,000
S Ltd. 68000 × $\frac{1}{4}$		51,000
		17,000
		68,000

There will be no revenue profit since the shares are acquired on 31.12.10 at the time of preparing final accounts.

4) Minority interest

	Rs.
Share capital (Rs. 2,00,000 × $\frac{1}{4}$)	50,000
Circluder Bonus capital profit	17,000
	67000

5) Capital Reserve

		Rs.
Cost of shares in S Ltd.		2,00,000
Less : i) Share in share capital $2,00,000 \times \frac{3}{4}$	1,50,000	
ii) Share in capital profit		

Including Bonus		51,000	2,01,000
	Capital	Reserve	1,000

H Ltd. and its subsidiary S Ltd.

Consolidated Balance sheet as at 31.12.2010

Liabilities	Rs.	. Rs.	Assets	Rs.	Rs.
Share capital			Fixed Assets		
Authorized		8,00,000	H Ltd.	5,06,000	
Issue and paid up 1,20,000 shares of Rs. 5 each fully paid		6,00,000	S Ltd.	2,56,000	7,62,000
Reserves and surplus			Investments		
General Reserve		40,000	Current Assets loans and Advances		
Capital Reserve		1,000	Stock		
Profit and Loss Account		1,00,000	H Ltd.	60,000	
Minority Interest		67,000	S Ltd.	20,000	80,000
Creditors			Debtors and Bank Balances		
H Ltd.	70,000		H Ltd.	40,000	
S Ltd.	35,000	1,05,000	S Ltd.	34,000	74,000
Bills payable S Ltd.	7,000		Bills Receivable H Ltd.	4,000	
Less : Bills held by H Ltd. per contra	(2,000)	5,000	Less : accepted by S ltd. per contra	(2,000)	2,000

		9,18,000		9,18,000

Issue of bonus share out of current / Revenue profit.

TREATMENT OF DIVIDEND :

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.

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.

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.

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

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.

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.

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.

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.

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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

The consolidated profit and loss account of the holding company and its subsidiaries are prepared to show the operating activities of the companies comprising the groups. While preparing the consolidated profit and loss account of the holding company and its subsidiary, the items appearing in the profit and loss account of the holding company and the subsidiary companies have to be aggregated.

But while doing so, the following adjustment have to be made.

Prepare profit and loss account in columnar form Amounts relating to inter company transactions are entered in the adjustment column against the respective items and are subtracted while entering amounts in the total columns.

All inter company operating transactions are eliminated such as purchase and sale of goods, interest on loans among the group companies.

All inter company profits are adjusted.

Dividends received from the subsidiary company by the holding company should be eliminated from both the sides of consolidated profit and loss account.

Interest accrued and outstanding on Debenture of the subsidiary company held by the holding company should be accounted by holding and subsidiary company both and then its should be eliminated.

Readjustment of Depreciation on Revaluation on fixed Assets at the time of acquisition of shares by the holding company should be adjusted in consolidated balance sheet and respective fixed assets and in the consolidated profit and loss account.

The minority interest in the profit of subsidiary company should be transferred minority interest account, in the proportion of total profit after adjustment of revaluation of fixed Assets, but before adjusting unrealized profit on stock.

The share of holding company in pre-acquisition profit should be transferred to cost of control, in case shares are acquired during the year.

Share of holding company in the past acquisition profits shall be considered as revenue profits.

The balance in holding company columns will represents the total profit or loss made or suffered by the group as a whole.

SOLVED PROBLEMS

Illustration : 6

The following are summarized Balance Sheets

as on March 31, 2010

	H Ltd. Rs.	S Ltd. $
Share capital (Fully paid shares of Rs. 100/ 100$ each)	40,00,000	1,00,000
Reserves & Surplus	15,00,000	50,000
Bank overdraft	4,00,000	20,000
Sundry Creditors	3,50,000	40,000
	62,50,000	2,10,000
Fixed Assets	33,30,000	1,50,000
Investments		
In S. Ltd.	22,80,000	
Other	1,20,000	15,000
Cash at Bank	40,000	5,000
Other Current Assets	4,80,000	40,000
	62,50,000	2,10,000

Other Information

H. Ltd. acquired 600 shares in S Ltd. on October 1, 2009.

The Reserves of S Ltd. on April 1, 2009 was $ 20,000.

Stock of S Ltd. includes goods costing Rs. 10,000 sold by H Ltd. at the invoice price of Rs. 12,500 which were included in the books of S. Ltd. at $300

S Ltd. paid in November 2009 an interim dividend at 10% p.a. for 6 months ended 30th September 2009.
S Ltd. Remitted the amount due to H Ltd. when rate of exchange was $ 1 = 43. Amount of dividend received was credited to profit & loss account by H Ltd.

The Exchange rate were as under on 1st April 2009 $ 1 = Rs. 41.00.

On 30th September 2009 $ 1 = Rs. 42.00

On 31st March 2010 $ 1 = Rs.
44.00 Average rate $ 1 = Rs.
42.50

Prepare consolidated Balance sheet.

Solution :

Consolidated Balance Sheet of H Ltd. & its subsidiary S Ltd. as on 31st March 2010

Liabilities			Rs.	Assets		Rs.
Share capital				Fixed Assets		
40000 Equity shares of Rs. 100 each			40,00,000	H Ltd.	33,30,000	
Reserves & Surplus				S Ltd.	63,00,000	96,30,000
H Ltd.	15,00,000			Investments		
Less: Stock Res.	2,500			H Ltd.	12,00,000	
	14,98,500			S Ltd.	6,30,000	7,50,000
Less : Pre-acquisition dividend	(1,29,000)	6,500		Current Assets		
Share of S Ltd. (Revenue)		4,22,580	17,91,080	Stock	12,500	
Capital Reserve (on consolidation)			11,88,000	(-) Stock Reserve	2,500	10,000
Current liabilities				Other current Assets		
Bank overdraft				H Ltd.	4,80,000	
H Ltd.		4,00,000		S Ltd.	17,46,800	22,26,800
S Ltd.		8,80,000	12,80,000	Bank Balance		
Sundry Creditors				H. Ltd.	40,000	
H. Ltd.		3,50,000		S. Ltd.	2,20,00	26,00,000
S		17,60,00				

Ltd.	0	21,10,000
Minority		25,07,720

interest			
	1,28,76,800		**1,28,76,800**

Working Note :

Conversion of S Ltd. Balance Sheet as on 31st March 2010

Particulars	Dr. $	Cr. $	Rate	Dr (Rs.)	Cr. (Rs.)
Share capital		1,00,000	42.00		42,00,000
Reserves & surplus as on 1st April 2003 ($ 20000 – S 5000)		15,000	42.00		6,30,000
Profit for half year upto 30th September 09		17,500	42.50		7,35,000
For next half year (after 1.10.09)		17,500	42.50		7,43,750
Bank overdraft		20,000	44.00		8,80,000
Sundry Creditors		40,000	44.00		17,60,000
Fixed Assets	1,50,000		42.00	63,00,000	
Investments	15,000		42.00	6,30,000	
Bank	5,000		42.00	2,20,000	
Stock (purchases from H Ltd.)	300		Actual	12,500	
Other current Assets	39,700		44.00	17,46,800	
Difference in Exchange				39,450	
	2,10,00	2,10,000		89,48,750	89,48,750

Working 2)

Analysis of Reserve & Surplus as on 31st March 2010

Reserve surplus balances. $ 50,000

Less : Balance as on 1st April 2009.

20, 000

Less : Interim Dividend paid − 5, 000 $ 15,000

Profit for the year **$ 35,000**

Profit upto date of acquisition upto 30th September is equal to 17,500 and Balance profit post-acquisition is equal to $ 17,500.

Working 3) Analysis of profit	Capital (Rs.)	Revenue (Rs.)
Balance as on 1st April 2009	6,30,000	

Profit upto date of Acquisition	7,35,000	
Profit after the Acquisition		7,43,750
Difference in exchange		(39,450)
	1,36,500	74,300

Less – Minority Interest (2/5 th)	(5,46,000)	2,81,720
Balance to H Ltd.	8,19,000	4,22,580

Cost of control / capital Reserve	Rs.
Cost of investment in S Ltd.	22,80,000
Less : Pre-acquisition dividend received	
$\$ 5000 \times \frac{3}{5} = \$ 3000 \times 43$	(1,29,000)
	21,51,000

Less : 1) Share in face value of share capital

$42,00,000 \times \frac{3}{5}$ 25,20,000

2) Share in capital Profit 8,19,000 33,39,000

Capital Reserve 11,88,000

Minority Interest $\frac{2}{5}$

Share in share capital	16,80,000
Share in capital profit	5,46,000
Share in Revenue profit	2,81,720
	28,07,720

Stock Reserve

	Rs.
Invoice price	12,500
Less : Cost	10,000
Unrealized profit	2,500

Illustration : 7

The following are summarized Balance Sheets of 'X' Ltd. and 'Y' Ltd. as on 31st December 2010

	X Ltd.	Y Ltd		X Ltd.	Y Ltd.
Paid up capital in Shares of Rs. 100 each	10,00,000	3,00,000	Freehold premises	4,50,000	1,20,000
			Plant & Machinery	3,50,000	1,60,000
General reserve	4,00,000	1,25,000	Furniture	80,000	30,000
Profit and Loss A/c	3,00,000	1,75,000	Debtors	3,00,000	1,70,000
Sundry Creditors	1,00,000	70,000	Stock	3,20,000	1,60,000
			investment in		

			Shares in Y Ltd.	2,60,000	-	

			at cost			

			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare a consolidated Balance Sheet as on 31st December 2010. Showing in detail necessary adjustments and taking into consideration the following information

'X' Ltd. acquired the shares of Y Ltd. on 1.1.2010 when the balance on their profit and Loss account and general reserve were Rs. 75000 and Rs. 80000 respectively.

Stock of Rs. 1,60,000 held by 'Y' Ltd. consists of Rs. 60,000 goods purchased from 'X' Ltd. Who has charges profit at 25% on cost.
Included in Debtors of X Ltd. Rs. 30000 due from Y Ltd.

Consolidated Balance Sheet of X Ltd. and Y. Ltd. as on 31.12.2010

Liabilities	Rs.	Assets	Rs.
Share capital in shares of Rs. 10 each	10,00,000	Fixed Assets	
Reserves & Surplus		Freehold premises (4,50,000 + 1,20,000)	5,70,000
Capital Reserve	43,333	Plant & Machinery (3,50,000 + 1,60,000)	5,10,000
General Reserve (4,00,000+30,000)	4,30,000	Furniture (80,000 + 30,000)	1,10,000
Profit & Loss A/c (2,92,000+66,667)	35,867	Investment	NIL
Secured Loans	NIL		
Current Liabilities	NIL	Current Assets Loans & Advances	
Provisions		Stock (320000 + 160000) 480000	
Creditors (1,00,000 + 70,000)	1,70,000	Less: Unrealised profit 12000	4,68,000
Minority Interest	2,00,000	Debtors (300000 + 170000)	4,70,000
		Cash (40000 + 30000)	70,000
	21,98,000		21,98,000

Notes :

Calculation of Capital Reserve

Investment cost		2,60,000
Less : i) Share in share capital	2,00,000	
Less : ii) Propionate Pre-acquisition profit 2	1,03,333	3,03,333

×1,55, 000

3		
Capital Reserve		43,333
2) Minority Interest		
Share in Share Capital		1,00,000
⅓ rd of General Reserve		41,667
⅓ rd of Profit & Loss A/c		58,333
		2,00,000
3) General Reserve		
Of X Ltd.		4,00,000
Of Y Ltd. (125000- Pre-acquisition 8000)	45,000	
Less : due to minority shareholders (⅓)	15,000	30,000
		4,30,000
4) Unrealised profit		
Unrealized profit = 20% of 60,000		12,000
5) Profit & Loss Account		
X Ltd. (300000-unrealised profit)		2,88,000
Y Ltd. (175000-Pre-acquisition 75000)	1,00,000	
Less : ⅓ rd of minority	33,333	66,667
		3,54,667

Illustration : 8

H Ltd. acquired 8,000 shares of Rs. 10 each in K Ltd. on 31st March 2011. The summarized Balance Sheets of the two companies as on that date were as follows :

Particulars		H Ltd. Rs.	K Ltd. Rs.
Liabilities :			
Share Capital :			
30,000 Shares of Rs. 10 each	… … … …	3,00,000	
10,000 Shares of Rs. 10 each	… … … …	-	1,00,000
Capital Reserve	… … … …	-	52,000
General Reserve	… … … …	25,000	5,000
Profit & Loss Account	… … … …	38,200	18,000
Loan from I Ltd.	… … … …	2,100	-
Bills payable (including Rs. 1,000 to H Ltd.)	… … … …	-	1,700
Creditors	… … … …	17,900	5,000
		3,83,200	1,81,700
Assets :			

Fixed Assets		1,50,000	1,44,700
Investments in K Ltd. at cost	……… …	1,70,000	-

Stock-in-hand	… … … …	40,000	20,000
Loan to H Ltd.	… … … …	-	2,000
Bills Receivable (including Rs. 700 from K Ltd.)	… … … …	1,200	-
Debtors	… … … …	20,000	10,000
Bank	… … … …	2,000	5,000
		3,83,200	1,81,700

You are given the following information :

K Ltd. made a bonus issue on 31st March 2011 of one share for every two shares held, reducing the capital reserve equivalently, but the transaction is not shown in the above Balance Sheets.

Interest receivable (Rs. 100) in respect of the loan due by H Ltd. to K Ltd. has not been credited in the account of K Ltd.
The directors decided that the fixed assets of K Ltd. were overvalued and should be written down by Rs. 5,000.

Prepare the Consolidated Balance Sheet as at 31st March 2011, showing your workings.

Solution : *(M.Com., May 1998, adapted)*

Consolidated Balance Sheet of K Ltd. and its Subsidiary K Ltd. as at 31st March, 2011

LIABILITIES	Rs.	Rs.	ASSETS	Rs.	Rs.
Share Capital			Fixed Assets Goodwill (on consolidation)		33,920
Equity Share Capital 30,000 Equity shares of Rs. 10 each, fully paid		3,00,000	Other Fixed Assets	1,50,000	
				1,39,700	2,89,700
Reserves & Surplus			Current Assets, Loans & Advances		
General Reserves	25,000		Stock	40,000	
				20,000	60,000
P & L A/c H Ltd.	38,200	63,200	Debtors	20,000	
Minority Interest		34,020		10,000	30,000
Current Liabilities & Provisions			Bills Receivable	1,200	
Creditors H Ltd.	17,900		Less : Mutual Dues	(200)	1,000
K Ltd.	5,000	22,900			
Bills Payable	1,700		Cash & Bank	2,000	
				5,000	7,000
Less : Mutual Dues	(200)	1,500			
Totall		4,21,620	Total		4,21,620

Holding Proportion

H Ltd. = $\frac{12,000}{15,000} = \frac{4}{5}$

Minority Interest = 3, 000 = 1

15, 000 5

2) Analysis of profits Capital Revenue

			Profit	Profit
P/L as on date of Acq	18,000			
Add: Interest due on ba	100		18,100	-
Reserve on date of Acq				
Capital			52,000	-
General			5,000	-
			75,100	-
Less: Bonus Issue		50,000		
Loss on Revaluation of Fixed Assets		5,000	(55,000)	-
			20,100	-
Holding Co. $^4/_5$			16,080	-
Minority Interest $^1/_3$			4,020	-

3) Cost of control

Cost of Investment		1,70,000
Less: Equity Share Capital (including Bonus)	1,20,000	
Capital Profit	16,080	(1,36,080)
Goodwill		**33,920**

4) **Minority Interest**

Share Capital	30,000
Share in Capital Profit	4,020
	34,020

Illustration : 9

Following are the balance sheets of H Ltd. and its subsidiary S Ltd., as on 31st December 2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital Shares of Rs. 10 Each	5,00,000	2,00,000	Goodwill	40,000	30,000
			Land & Buildings	2,00,000	1,30,000
General Reserve On January 1, 2003	1,00,000	60,000	Plant & Machinery	1,60,000	90,000
Profit & Loss Account	1,40,000	90,000	Stock	1,00,000	90,000
Bills payable	-	40,000	Debtors	20,000	75,000
Creditors	80,000	50,000	1,500 Shares in S Ltd. at cost	2,40,000	-
			Cash at Bank	60,000	25,000
	8,20,000	4,40,000		8,20,000	4,40,000

Profit and loss account of S Ltd. showed a balance of Rs. 50,000 on 1 January 2010. A divided of 15% was paid in October, 2010 for the year 2009. This dividend was credited to profit and loss account by H Ltd. H. Ltd. acquired the shares in S Ltd., on 1 July 2010. The bills payable to

S. Ltd., were all issued in favour of H Ltd., which company got the bills discounted. Included in the creditors of S Ltd. are Rs. 20,000 for goods supplied by H Ltd. included in the stock of S Ltd. are goods to the value of

Rs. 6,000 which were supplied by H Ltd. at a profit of 33 ⅓% on cost. In arriving at the value of the S Ltd. shares, the plant and machinery which then stood in the books at Rs. 1,00,000 was revalued at Rs. 1,50,000. The new value was not incorporated in the books. No changes in these assets have been made since that date.

Prepare a Consolidated Balance Sheet of H Ltd. and S Ltd. Show working in detail

(M.com., Oct. 97, adapted)

Solution :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st December 2010.

LIABILITIES	Rs.	Rs.	ASSETS	Rs.	Rs.
Share Capital			Fixed Assets (Net)		
Equity Share Capital 50,000 Equity shares of Rs. each, fully paid		5,00,000	Goodwill H Ltd. S Ltd.	40,000 30,000 70,000	
Reserves & surplus			Less : Capital Reserve	(60,000)	10,000
General Reserves	1,00,000		(on consolidation)		
Consolidated P & L A/c	1,40,375	2,40,375	Land/Bldg./Property H Ltd	2,00,000	
Minority Interest		1,00,625	S Ltd	1,30,000	3,30,000

Current liabilities &			Machinery 'H'	1,60,000	
			'S'	90,000	

Provisions			Add: Revaluation	55,000	
Creditors H Ltd. S Ltd.	80,000 50,000		(-) Add Dep	3,05,500 (2,500)	3,02,500
	1,30,000		Stock 'H' 'S'	1,00,000 90,000	
Less : Mutual Dues	(20,000)	1,10,000	(-) st Reserve	1,90,000 (1,500)	1,88,500
Bills Payable S Ltd.		40,000	Debtor 'H' 'S'	20,000 75,000	
			(-) Mutual Dues	(20,000)	75,000
			Cash & Bank		85,000
		9,91,000			**9,91,000**

Working Notes:

Proportion of Holding

Holding Co. $\frac{1500}{2000} = 3/4$

Minority $\frac{500}{2000} = 1/4$

Time ratio

Pre Acq. 1.1.2011 to 30.6.2010 = 6 months Post
Acq. 1.7.2010 to 31.12.2010 = 6 months

Time ratio = 1:1

Analysis of profits of S Ltd		Capital Profit	Revenue Profit
a) General reserve (op. bal)		60,000	-
b) P/L A/c (op. bal)	50,000		
Less: Pre Acq. Div	(30,000)	20,000	
c) P/L A/c closing. bal	90,000		
- Opening bal	20,000		
	70,000		
Profit earned during the year in T.R.		35,000	35,000
d) Increase in F.A. value due to revaluation		55,000	
e) Less: Depreciation on above			(2,500)
		1,70,000	32,500
H Ltd $\frac{3}{4}$		1,27,500	24,375
Minority $\frac{1}{4}$		42,500	8,125

4) Cost of Control

Cost of Investment		2,40,000
Less: a) Pre acquisition Div	22,500	
b) Proportionate Equity share capital	1,50,000	
c) Share in capital profit	1,27,500	(3,00,000)
∴ Capital Reserve		60,000

Adjested against Goodwill already
Appearing in the books of H Ltd

5) Minority Interest

a) Equity Share Capital	50,000
b) Share in capital profit	42,500
c) Share in Revenue profit	8,125
	1,10,625

6) Consolidated P/L A/c

P/L A/c bal in H Ltd	1,40,000

Add: Share in revenue profits of S Ltd	24,375
	1,64,375

Less: Div out of Pre-Acq profits Credited to P/L A/c	22,500

Stock reserve	1,500	(24,000)
		1,40,375

7) Revaluation plat & machinery

Book value on 1.1.2010	1,00,000
Less: Dep for 6 months	5,000
Book value on 1.7.2010	95,000
Revelued at	1,50,000
∴ Profit on Revalution	**55,000**

8) Additional Depreciation

On 1,00,000 for 6 month		5,000
On 1,50,000 for 6 month		7,500
	Total	12,500
Less: Already provided		10,000
Addl to be provided		**2,500**

Illustration : 10

The following are the summarized Balance Sheets of X Ltd. and Y Ltd. as at 31st December 2010.

Liabilities	X Ltd. Rs.	Y Ltd. Rs.	Assets	X Ltd. Rs.	Y Ltd. Rs.
Authorized, issued and paid up capital :			Fixed Assets	10,15,000	8,09,000
Equity shares of Rs. 10 each	8,00,000	4,00,000	Investments :		
12% Preference shares of Rs. 10 each		2,00,000			
General Reserve	3,60,000	2,00,000	In Y Ltd. 30,000 Equity shares	4,50,000	-
			15,000 Preference Shares	1,80,000	-
Profit & Loss Account Balance	2,40,000	1,40,000	250-10% Debentures (at face value)	25,000	-
10% Debenture of Rs. 100 Each	-	50,000	Current Assets	2,60,000	4,80,000
Proposed Dividends :					
- on Equity shares	1,20,000	60,000			
- on Preference shares	-	24,000			
Debenture interest accrued	-	5,000			
Trade creditors	4,10,000	2,10,000			
	19,30,00	12,89,00		19,30,00	12,89,00

	0	0		0	0

X Ltd. acquired its interest in Y Ltd. on 1st January, 2010 when the balance to the General Reserve Account of Y Ltd. was Rs. 1,80,000.

The Balance to the Profit & Loss Account of Y Ltd. as on 31st December, 2010 was arrived at as under :

	Rs.	Rs.
Balance on 1-1-2010		40,000
Current Profit (including dividends)		2,04,000
		2,44,000
Deduct : Transfer to General Reserve	20,000	
Proposed Dividends	84,000	(1,04,000)
Balance as on 31-12-2010		**1,40,000**

Balance to the Profit and Loss Account of Y Ltd. as on 1-1-2010 was after providing for dividends on Preference shares and 10% dividends on Equity shares for the year ended 31st December, 2009, these dividends were paid in cash by Y Ltd. in May 2010.
No entries have been made in the books of X Ltd. for debenture interest due or for proposed dividends of Y Ltd. for the year ended 31-12-2010.

Mutual indebtedness of Rs. 24,000 is reflected in the balances shown in the Balance Sheets.

Y Ltd. in October 2010 issued fully paid up bonus shares in the ratio of one share for every four shares held – by utilising its general reserve. This was not recorded in the books of both the companies.

Dividend paid by Y Ltd. for 2009 was credited to profit & Loss A/c of X Ltd. instead of crediting to investments in Subsidiary Company A/c.

X Ltd. acquired both the Equity shares and Preference shares of Y Ltd. on 1st January, 2010.

From the above information, you are required to prepare the Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as at 31st December, 2010. All workings are to form part of your answer.

Solution : ***(M.Com., Oct., 1998, adapted)***

Consolidated Balance Sheet of X Ltd. and its Subsidiary Y Ltd.
as at 31st December 2010.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital					
Equity share capital 80,000 Equity Shares of Rs. 10 each, fully paid		8,00,000			
Reserves & Surplus			Other Fixed Assets	10,15,000	
General Reserve	3,60,000			8,09,000	18,24,000
Consolidated P & L A/c	3,47,500				
Capital Reserve (on consolidation)	33,000	7,40,500			
Minority Interest		2,56,000	Investments		NIL
Secured Loans			Current Assets, Loans & Advances		
Debentures Y Ltd.	50,000		Other Current Assets / Adv.	2,60,000	
Less : Mutual Dues	(25,000)	25,000		4,80,000	
Interest O/S on Debentures Y Ltd.	5,000			7,40,000	
Less : Mutual Dues	(2,500)	2,500	Less : Mutual Dues	(24,000)	7,16,000
Current Liabilities & Provisions			Misc. Exp. Not W/O		NIL
Creditors					
X Ltd.	4,10,000				
Y Ltd.	2,10,000				
	00				
Less : Mutual Dues	(24,000)	5,96,000			
Proposed Dividends X					

Ltd.		1,20,000			

[redacted]

[redacted]

Total		25,40,000

Total		25,40,000

Working Notes :

1) Holding proportion

	X Ltd	Minority	Total
Before Bonus	30,000	1,00,000 =	40,000
Bonus	7,500	2,500 =	10,000
After Bonus	37,500	12,500 =	50,000
Ratio	3/4	1/4	

The acquisition is one the first day of the year, hence all profits during the year are Revenue / previous years profit post

3) Analysis of Profits

[redacted]

		Capital Profits	Revenue Profits
Reserve (opening)	1,80,000		
Profit & Loss A/c (Opening)	40,000		
Undistributed Profits (opening)	2,20,000		
Less : Bonus from capital profit	1,00,000		
Undistributed Profits (On Date of Acquisition)		1,20,000	
Profit for the year [2,04,000 – 84,000]			1,20,000
Basic CP/RP		1,20,000	1,20,000
Minority Interest		30,000	30,000
Holding Co.		90,000	90,000

4) Cost of Control

Cost of investment of X Ltd.			
Equity		4,50,000	
Preference		1,80,000	6,30,000
Less : Dividend declared out of capital profit			
Equity		18,000	
Preference		30,000	48,000
Carrying Amount of investment			5,82,000
Paid up value of shares			
Equity (Incl. Bonus) share capital	3,75,000		
Preference Share capital	1,50,000	5,25,000	

Share of capital profits	90,000	6,15,00
Share of carrying Amount of Equity of Y Ltd.		0
		(33,000)

5) Minority Interest

Share in Share Capital		1,25,000
Equity (Incl. Bonus)		50,000
Preference		30,000
Share of Capital Profits		30,000
Share of Revenue Profits		
Share of Proposed Dividends	15,000	
Equity (Incl. Bonus)	6,000	21,000
Preference		
Total Minority Interest		2,56,000

6) Consolidated P & L A/c

Profit & Loss of X Ltd.	2,40,000
Add : Share of Revenue Profit	90,000
Share of proposed dividend	45,000
Equity (Incl. Bonus)	18,000
Preference	2,500
Interest due on debentures in Y Ltd. held by X	3,95,500
Less : Dividend out of capital profit	(48,000)
Credited to Profit and Loss A/c instead of investment	
Balance carried to Balance sheet	**3,47,500**

Illustration : 12

The following are the Balance Sheets of H Limited as S Ltd. as on 31st December, 2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd.	S Ltd.
Share Capital Shares of Rs. 100 each	10,00,000	5,00,000	Fixed Assets	4,80,000	2,50,000
			Investments in S Ltd.	5,00,000	-
Reserve and Surplus :			Current Assets	7,20,000	7,50,000
General Reserve	1,00,000	1,50,000			
Profit and Loss Account	1,60,000	1,50,000			
Current Liabilities	4,40,000	2,00,000			

	17,00,000	10,00,000		17,00,000	10,00,000

The following further information is furnished :

H. Ltd. acquired 3,000 shares in S. Ltd. on 1st April 2010. The reserves and surplus position of S Ltd. as on 1st January, 2010 was as under :

a) General Reserve Rs. 2,50,000

b) Profit and Loss Account balance Rs. 1,20,000

On 1st July, 2010 S Ltd. issued 1 share for every 4 shares held, as bonus share at a face value of Rs. 100 per share. No entry has been made in the books of H Ltd. for the receipt of these bonus shares. On 30th June 2010 S Ltd. declared a dividend out of it pre-acquisition profits, of 25 percent on its then Capital; H Ltd. credited the dividend to its Profit and Loss Account.

H Ltd. owed S Ltd. Rs. 50,000 for purchase of stock from S Ltd. The entire stock is held by H Ltd. on 31st December 2010 S Ltd. made a profit of 25 percent on cost.

H. Ltd. transferred a machinery to S Ltd. for Rs. 1,00,000. The book value of the Machinery to H. Ltd. was Rs. 80,000.

Prepare a Consolidated Balance Sheet as on 31st December 2010.

(M.Com. Oct. 2000, adapted)

Solution :

Consolidated Balance Sheet of H. Ltd. and its Subsidiary S Ltd. as at 31st December 2010.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital			Fixed Assets (Net)		
Equity share capital 10,000		10,00,000	Other Fixed Assets	[redacted]	

Equity Shares of Rs. 10 each,			H Ltd.	4,80,000	
fully paid			S Ltd.	2,50,000	

				7,30,000	
Reserves & Surplus			Less : Unrealised Profit	(20,000)	7,10,000
General Reserve	1,00,000				
Consolidated P & L A/c	1,28,125				
Capital Reserve (on consolidation)	1,01,875	3,30,000			
Minority Interest		2,00,000	Current Assets, Loans & Advance		
Secured Loans		NIL	Other Current Assets / Adv.		
Unsecured Loans		NIL	H Ltd.	7,20,000	
Current Liabilities & Provisions			S Ltd.	7,50,000	
				14,70,000	
Other Current Liabilities			Less : Mutual Dues	50,000	
H Ltd.	4,40,000		Less : Unrealised Profit	10,000	14,10,000
S Ltd.	2,00,000				
	6,40,000				
Less : Mutual Dues	(50,000)	5,90,000			
		21,20,000			21,20,000

1.10 POSSIBLE QUESTIONS

PART B

Answer the following :

1) What is Goodwill?

2) What is cost of control?

3) What is Minority Interest?

4) Which is Holding Company as per companies Act 1956?

5) What is capital profit?

6) How you treat Revenue profit?

7) Why date of acquisition of shares by Holding Company is important?

8) Which Accounting standard is issued for preparation of consolidated financial statements?

9) How inter company debts are dealt with?

10) Does issue of Bonus share by Holding Company change value goodwill / capital reverse.

PART C

11) The following are the Balance Sheet of H. Ltd. and S. Ltd. as on March 31st 2011.

Liabilities	H. Ltd. Rs.	S. Ltd. $	Assets	H. Ltd. Rs.	S. Ltd. $
Equity share capital (Rs. 10 / $ 10)	1,00,00,000	2,00,000	Fixed Assets	11,00,000	3,60,000
Reserves & Surplus			Investment in S. Ltd.	2,10,00,000	
Securities Premium	60,00,000	--	Current Asset	8,50,000	2,40,000
General	19,00,000	1,20,000			

Reserve Profit Loss	15,00,000	1,00,000				

& A/c					
10% Debentures	17,00,000	--			
Sundry creditors	9,00,000	1,20,000			
Provision for Taxation	9,50,000	60,000			
	2,29,50,000	6,00,000		2,29,50,000	6,00,000

Additional Information :

H. Ltd. acquired 15000 shares in S. Ltd. on January 1st 2011.

The balance of General Reserves, a profit and loss A/c on April 1, 2010 was $ 120000 and $ 60,000 respectirely.

S Ltd. paid in January 11, an interim dividend @ 20% p.a. out of pre-acquisition profit for 6 months ended on 30th September 2010.

S Ltd. remitted amount due to H. Ltd. when rate of exchange was $ 1 = 42. Amount of dividend received by H. Ltd. was credited to profit & Loss A/c.

The exchange rates were as under : On
April, 2010 1 $ = Rs. 43
On January, 2011 $ 1 = Rs. 42 On
March 31, 2011 $ 1 = Rs. 45
Average Rate $ 1 = Rs. 44.

12) The balance sheet of H Ltd and S Ltd on 31 Dec. 2000 were as follows.

Liabilities	H Ltd Rs.	S Ltd Rs	Assets	H Ltd Rs	S Ltd Rs.
Share Capital:			Land and	3,10,000	1,60,000

10% Pref, Share of Rs.100 each	_	1,00,000	Buildings	2,70,000	1,35,000
Equity share of Rs.100 each	10,00,000 1,00,000	4,00,000 50,000	Machinery less Depreciation	4,50,000	_
			3000 Shares in S	2,20,000	1,50,000

General reserve	40,000	30,000	ltd	1,55,000	90,000
P&L A/c balance on	2,00,000	80,000	Stock at cost		
1.1.2000	1,50,000	70,000	Debtors	85,000	1,95,000
Profit for 2000			Cash and Bank		
Creditors	14,90,000	7,30,000	Balance	14,90,000	7,30,000

'H' Ltd acquired 3,000 equity shares in S Ltd. on 1st July 2000. As on the date of acquisition, 'H' Ltd found that the value of Land and Buildings and Machinery of S Ltd should be Rs.1,50,000 and Rs.1,92,500 respectively. Prepare the consolidated Balance Sheet of 'H' Ltd and its subsidiary S Ltd showing the assets at their proper value.

13) M Ltd. acquired 12000 shares in D Ltd for Rs. 1,70,000 on 1.April.2000. the following were their balance sheet on 31.12.2000

Liabilities	M Ltd Rs	D Ltd Rs	Assets	M Ltd Rs	D Ltd Rs
Share capital (Rs.10	10,00,000	3,00,000	Goodwill	3,00,000	70,000
each)	4,20,000	50,000	Buildings	4,00,000	1,00,000
General Reserve	2,60,000	85,000	Machinery	5,00,000	1,00,000
Profit and Loss A/c	2,40,000	42,000	Stock	2,00,000	40,000
Creditors	80,000	60,000	Book Debts	3,00,000	1,35,000
Bills Payable			Investment	1,70,000	_
			Bills Receivable	50,000	30,000
			Cash and Bank	80,000	62,000
	6,30,000	3,10,000		6,30,000	3,10,000

Additional Information:

1. On Jan 1,2000 the profit and Loss account of D Ltd. stood at Rs.40,000 out of which a dividend of 15% on the then capital of Rs.2,00,000 was paid in june 2000. At the same time a bonus issue of one fully paid shares for every 2 shares held was also made out of general reserve.
2. Bills payable of D Ltd. represent bills issued in Favour of M.Ltd which company still held Rs.40, 000 of the bills accepted by D Ltd.
3. The entire closing stock of D Ltd. represents goods supplied by M Ltd at cost plus 20%
4. M Ltd and D Ltd agreed that for services rendered M Ltd should charge Rs. 500 P.M from D Ltd entries for this were not made
   Prepare consolidated balance sheet of the 2 companies on 31 Dec 2000.

UNIT-V

Liquidation of Companies - Modes of winding UP or Liquidation - Winding up Under Supervision of the Court - Order of Payment - Form of Statement of Affairs - Procedure - Liquidators Final Statement of Accounts - Liquidators Remuneration. Accounting Standards (Theory Only) - AS 16: Borrowing Costs - AS 19: Leases - AS 20 : Earnings Per Share - AS 26 : Intangible Assets.

Meaning of Liquidation

A company comes into being through a legal process and also comes to an end by law. Liquidation is the legal procedure by which the company comes to an end. Thus, a company being a creation of law, cannot die a natural death. A company, when found necessary, can be liquidated. Insolvency proceedings are not applicable to a company as are applicable to an insolvent individual or partnership firms. For liquidation of a limited company liquidation proceedings are applied. But it may be mentioned that the insolvency of a company is not a necessary condition for its liquidation; a solvent company can also be liquidated as we see in the course of the discussion.

Modes of Winding up or Liquidation

Section 425 (1) of the Companies Act, provides that a company can be liquidated in any of the following three ways :

(1) Compulsory winding up by the court ;
(2) Voluntary winding up by the members or creditors ;
(3) Winding up under the supervision of the court.

Generally (unless the contrary appears), the provisions of the Act with respect to winding up apply to winding up of a company whether it be by the court or voluntary or subject to the supervision of the court [Section 425 (2)].

The special features of the first two types of liquidation in the form of a table given below:

Item	Compulsory winding up by the court	Voluntary winding up by the members	Voluntary winding up by the creditors
(1)	(2)	(3)	(4)
1.Grounds for winding up	(a)if the company has by special resolution, resolved to b wound up by the court (b)If default is made in delivering the statutory report to the Registrar or in holding the statutory meeting. (c)If the company does	(a)If the period fixed for the duration of the company has expired or an event on the occurrence of which the company is to be wound up has occurred and the company in general meeting has passed an ordinary resolution	(a) The company shall call a meeting of the creditors to be held on the same day or the day following the date on which the company will hold a general meeting of the members for voluntary winding up.

	not commence its business within a year from its incorporation or suspends its business	requiring the company to be wound up voluntarily. (b) If the company	(b) Creditors' voluntary winding up applies to insolvent companies.

	for a whole Year. (d) If the number of members is reduced in the case of a public company below seven and in the case of a private company below two. (e) If the company is unable to pay its debts. A company is deemed unable to pay its debts when it does not pay a debt not less than five hundred rupees within three weeks of demand. (f)If the court is of opinion that it is just and equitable that the company should be wound up.	passes a special resolution that the company be wound up voluntarily. (c) Members' voluntary winding up applies to solvent companies and a declaration of solvency is necessary. The declaration of solvency must be made within 5 weeks immediately preceding the date of resolution for winding up.	
2. Who may present petition	(1) The company (2)Any Creditor (3) Any contributory. A contributory means a person liable to contribute to the assets of the company in the event of winding up. (4) All or any of the aforesaid parties together. (5) The Registrar (6) A person authorized by the Central Government can ask for the winding up of a company.	A meeting of the members passes a special resolution that the company be wound up voluntarily.	A meeting of the creditors moves the resolution that the company be wound up voluntarily.
3.Commencement of winding up	(1) The time of presentation of petition for winding up by the	The time when members' resolution for voluntary winding up is	The time of passing creditors' resolution for voluntary winding

	court.	passed.	up.

	(2) If a resolution has been passed for voluntary winding up before any petition for winding up by the court is presented the time when such resolution has been passed.		
4. Appointment and remuneration of liquidators	(1) In the case of High Court the Office of Liquidator is attached to the High Court. (2) In District Courts the Official Receiver for insolvency purposes or such other person as the Central Government may direct.	A company in general meeting appoints liquidator and fixes his remuneration which cannot be increased.	Both the members and creditors may appoint a liquidator. In case they nominate different persons, creditors' nominee shall act. The Committee of Inspection fixes the remuneration. If there is no committee of inspection creditors fix the remuneration.
5. Committee of Inspection	The Court may, at the time of making the winding up order, or at any time thereafter, direct that there shall be appointed a Committee of Inspection to act with the liquidator to keep a general watch over the acts of the liquidator and to protect the interests of the creditors and the contributories. The committee is a joint committee of creditors and contributories consisting of not more than 12 persons.	There is no Committee of Inspection.	The creditors may appoint a Committee of Inspection constituting of not more than 5 persons. The members may also appoint a committee of 5 persons, if the creditors do so.
6. Settlement of list of contributories	The Court settles the list and has power to	The liquidator settles the list and has the power to	Same as in the case of members' voluntary

	make calls on	make calls on	winding up.

	contributories to the extent of their liability for payment of money considered necessary to satisfy liabilities of the company, and to meet winding up costs.	contributories.	
7. Meeting to be called by the Liquidator	The Court may direct the liquidator to call meeting of the creditors or the contributories to ascertain their wishes. The Court may also appoint a chairman of any such meeting.	Besides the meeting called as in the case of winding up by the Court, if winding up continues for more than one year, the liquidator must call a general meeting of the company at the end of the first year of the commencement of winding up and of each succeeding year. The liquidator must lay before the meeting an account of his acts and dealings and of the conduct of winding up.	Same as in the case of members' voluntary winding up.
8. Dissolution of company	When the affairs of a company have been completely wound up, the court shall pass orders for dissolution of the company and the company shall stand dissolve from the date of the order.	When the affairs of a company are fully wound up, the liquidator must prepare an account of the winding up, call a final meeting of the company, and lay the account before the meeting and within one week of this meeting, send a copy of the account and make a return to the Registrar and the Official Liquidator. If on scrutiny the Official Liquidator makes a report to the Court that	Same as in the case of members' voluntary winding up except that meetings of the company and creditors shall be called separately.

		winding up has not been	

		conducted prejudicially to the interest of its members or the public the company shall be deemed to be dissolved from the date if the report.	

Winding up Under Supervision of the Court

When a company is being wound up voluntarily, the court under Section 522 of the Companies Act, at any time after a company has passed a resolution for voluntary winding up, may make an order that voluntary winding up shall continue but subject to supervision of the Court. Such an order is passed by the Court on the application of any creditor or contributory or liquidator or the company itself when the liquidator under voluntary winding up is prejudiced or is negligent in collecting the assets of the company or the resolution for winding up was obtained by fraud. The liquidator will continue to exercise all powers but powers will be exercisable subject to any restrictions or conditions laid down by the court. This type of winding up is made to safeguard the interest of the creditors and contributories or members of the company.

Contributory

According to Section 428 of the Companies Act, 1956, a contributory is "every person liable to contribute to the assets of the company in the event of its being wound up, and includes a holder of fully paid-up shares, and also any person alleged to be contributory". A contributory can be either a present member or a past member. A present member is that member whose name is included in the register of members when the company is wound up. He is liable to contribute the amount remaining unpaid on the shares held by him if the amount is needed to make the payment to the legal claimants. In the case of a company limited by guarantee, he is liable for the amount undertaken to be contributed by him in the event of the company being wound up. The holders of fully paid up shares are also treated as contributories even though they are not to contribute to the assets of the company because it is necessary to complete a list of all the members of the company so that the court may be able to know, not only those who will contribute but also who will share the surplus assets, if any. The present members are included in "A" List of contributories. It may be remembered that contributory's liability is legal and not contractual as he cannot set off his debts against his liability for unpaid amount on shares held by him even if there is an express agreement to do so.

Liquidator

In case of compulsory winding up, the official liquidator attached to each High Court will become the liquidator after the winding up order is passed. A company must submit a Statement of Affairs to such liquidator within 21 days of the passing of the winding up order. This statement shows assets at realizable values and liabilities at values expected to rank and shows surplus or deficiency as per list "H". The Official Liquidator must convene a meeting of the creditors within 2 months of the winding up order to ascertain whether they like to appoint a

"Committee of Inspection". He should also convene a contributories' meeting within 14 days of the above meeting to ascertain their views in the "Committee of Inspection". The committee so

appointed should not have more than 12 members, made up of equal number representing creditors and contributories. In case of voluntary winding up, the voluntary liquidator is appointed by a resolution in general meeting of the company and/or of the creditors. The general duties of the liquidator are to take into his custody or under his control all the property of the company and its effects and actionable claims and pay the right claimants.

Order of Payment

The amount realized from the assets not specifically pledged and the amounts contributed by the contributories must be distributed by the liquidator in the following order :

(1) Expenses of winding up including the liquidator's remuneration.
(2) Creditors, (i.e., debentures etc.) secured by a floating charge on the assets of the company.
(3) Preferential creditors.
(4) Unsecured creditors.
(5) The surplus, if any, amongst the contributories, (i.e. preference shareholders and equity shareholders) according to their respective rights and interests.

(a) **Preference Shareholders.** Preference shareholders get the priority over the equity shareholders as regards the payment of their capital and the dividend payable up to the date of the winding up. The holders of cumulative preference shares are entitled to arrears of dividend if there is a surplus after the return of the amount of the equity share capital or if the Articles state that arrears of preference dividend are to be paid before anything is paid to equity shareholders. In the later case, the arrears of dividend must be paid even by contributions from equity shareholders if equity shares are partly paid.

(b) **Equity Shareholders.** Any surplus left after making the payment of the preference shareholders is distributed among equity shareholders if all shares are equally paid up. But if the shares are called in unequal proportions, the liquidator should see that the capital contribution by the shareholders should be the same. For example, a company has issued equity shares of Rs. 10 each, but if the shares of some shareholders have been called up Rs. 8 per share and those of other shareholders Rs. 5 per share. Further, if the amount realized from the sale of the assets is not sufficient to pay the liabilities and the cost of the winding up, the liquidator will make a call of Rs. 3 per share on those shareholders who have paid Rs. 5 per share to bring their capital contribution equal to other shareholders. A further call, if necessary, would be made equally on all equity shareholders. In case of surplus of assets, the shareholders who have paid Rs. 8 per share will get preference of payment of Rs. 3 per share and if still there is a surplus, all equity shareholders will be entitled to distribution.

Preferential Creditors

Preferential creditors are paid out of the proceeds of the assets not specifically pledged, surplus from the assets specifically pledged and amount contributed by the contributories after retaining the amount necessary for the payment of legal expenses, cost of winding up and liquidator's remuneration but before making any payment to other claimants. It must be remembered that preferential creditors are in the nature of unsecured creditors who have priority of claims over other unsecured creditors not because of any security held by them but because of Section 530 of the Companies Act. The following are the preferential creditors :

(a) All revenues, taxes, cesses and rates, whether payable to the Government or local authority, due and payable by the company within 12 months before the date of commencement of winding up.
(b) All wages or salaries (including commission earned) of any employee in respect of services rendered to the company and due for a period not exceeding four months within the said twelve months before the relevant date such may be specified by the Government in the Official Gazette in respect of each claimant. Such sum has been specified as Rs. 20,000 w. e. f from March, 1997.
    Salaries due to an officer like director, manager, secretary, assistant secretary, branch manager etc. are not preferential.
(c) All accrued holiday remuneration becoming payable on account of the termination of his employment before or on account of winding up.

Note. Persons who advance money for the purpose of making preference payments under (b) and (c) above will be treated as preferential creditors.

(d) Unless the company is being wound up voluntarily for the purpose of reconstruction or amalgamation, all contributions payable during the 12 months previous to the winding up, by the company as the employer of any person, under Employees' State Insurance Act, 1948 or any other law for the time being in force.
(e) All sums due as compensation under Workmen's Compensation Act, 1923 unless the winding up is for reconstruction or amalgamation.
(f) All sums due to an employee from a provident fund, pension fund, gratuity fund, or any other fund maintained for the welfare of the employees.
(g) The expenses of any investigation held under section 235 or 237 in so far as they are payable by the company.

FORM OF STATEMENT OF AFFAIRS

Statement as to the affairs of …….. Ltd., on the …… day of …..20….being the date of the winding up order appointing Provisional Liquidator or the date directed by the Official Liquidator as the case may be showing assets of estimated realizable values and liabilities expected to rank.

Gross Liabilities Rs.	Assets not specifically pledged (as per list 'A')	Estimated Realizable Value Rs.
	Balance at Bank Cash in Hand Marketable Securities Bills Receivable Trade Debtors Loans and Advances Unpaid Calls Stock-in-Trade Work-in Progress	

Freehold Property, Land and Building
Leasehold Property
Plant and Machinery
Furniture & Fittings, Utensils etc.
Investments other than marketable securities
Livestock
Other Property, viz.,

*Assets specially Pledged (as per List 'B')	(a) Estimated realizable Values Rs.	(b) Due to Secured Creditors Rs.	(c) Deficiency ranked as unsecured Rs.	(d) Surplus carried to last column Rs.
Freehold Property				

Estimated surplus from assets specifically pledged
Estimated total assets available for preferential Creditors, Debenture holders secured by a floating charge, and unsecured creditors (carried forward).

SUMMARY OF GROSS ASSETS	Rs.	
Gross realizable value of assets specially pledged	xxx	
Other Assets	xxx	
Gross Assets	Rs.	
Liabilities		Rs.
(to be deducted from surplus or added to deficiency As the case may be)		
Securities Creditors (as per List 'B') to the extent which claims are estimated to be covered by assets specially pledged item (a) or (b) whichever is less		
[(Insert in 'Gross Liabilities' column only)	----	
Preferential Creditors (as per list 'C')]	----	
Estimated balance of assets available for Debenture holders secured by a floating charge And unsecured creditors)**		
Debenture holders secured by a floating charge (as per List 'D')	----	
Estimated Surplus/Deficiency as regards Debenture holders		
Unsecured Creditors (as per List 'E')		
Estimated unsecured balance of claims of creditors		

	Partly secured on specific assets, brought from	

	Preceding page Trade Accounts ---- Bills Payable ---- Outstanding Expenses ---- Contingent Liabilities (state nature) ---- Estimated Surplus/Deficiency as regards Creditors (being difference between Gross Assets and Gross Liabilities ----- --------------- Rs. --------------- Issued and Called-up Capital : Rs. Preference Shares of …… each Called-up (as per List 'F') Equity Shares of ……. Each …… …… Called-up (as per List 'G') Estimated Surplus/Deficiency as regards Members (List 'H')	Rs.

*Notes. 1. All assets specially mortgaged, pledged, or otherwise given as security should be included under this head. In the case of goods given as security, those in possession of the company and those not in possession, should be separately set out.

2. The figures must be read subject to the following :

(a) There is no unpaid capital liable to be called up or the nominal amount of unpaid capital liable to be called up is Rs. …. Estimated to produce Rs. …. which is not charged in favor of Debenture holders.

(b) The estimates are subject to cost of the winding up and to any surplus of deficiency on trading pending realization of assets.

Lists to be Attached to the Statement of Affairs

List A gives a complete list of assets not specifically pledged in favor of secured creditors. Creditors having a floating charge on the assets are considered as having assets not specifically pledged with them; so such assets are included in this list.
List B gives list of assets which are specifically pledged in favor of fully secured and partly secured creditors.
List C gives the list of preferential creditors
List D gives the list of debenture holders and other creditors having a floating charge on the assets.
List E gives the names, addresses and occupation of unsecured creditors and the amount due.
List F gives the names and number and value of shares held by the various preference shareholders.
List G gives the names and holdings of equity shareholders.
List H gives how Deficiency or Surplus in the Statement of Affairs has been arrived at, i.e., it

explains the reasons responsible for the surplus or deficiency. According to the law, the period covered by Deficiency or Surplus must commence on a date not less than 3 years before the winding up order, or if the company has not been incorporated for the whole of that period, the date of incorporation of the company, unless the official Liquidator otherwise agrees.

Illustration 1 : Hind Ltd. is to be liquidated. Their summarized Balance Sheet as at 30th September, 2005, appears as under:

Liabilities	Rs.	Assets	Rs.
2,50,000 Equity Shares of Rs. 10 each	25,00,000	Land and Building	5,00,000
Secured Debentures (on Land and building)	10,00,000	Other fixed assets	20,00,000
Unsecured Loans	20,00,000	Current Assets	45,00,000
Trade Creditors	35,00,000	Profit and Loss Account	20,00,000
	90,00,000		90,00,000

Contingent liabilities are :

For bills discounted	1,00,000
For excise duty demands	1,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realized as follows :

Land and Buildings	11,00,000
Other Fixed Assets	18,00,000
Current Assets	35,00,000

Taking the above into account, prepare the statement of affairs.

Solution :

STATEMENT OF AFFAIRS OF HIND LTD. (IN LIQUIDATION)
As on 30th Sept., 2005

Assets					Estimated Realizable values Rs.
Assets not specifically Pledged (as per list A)					
Other Fixed Assets					18,00,000
Current Assets					35,00,000
					53,00,000
Assets Specifically Pledged (as per list B)					
	Estimated realizable value Rs.	Due to secured creditors Rs.	Deficiency ranked as unsecured Rs.	Surplus carried to last column Rs.	
Land & Buildings	11,00,000	10,00,000	--	1,00,000	1,00,000
ESTIMATED TOTAL ASSETS available for preferential creditors, debenture holders and unsecured creditors					54,00,000
Summary of Gross Assets				Rs.	
Gross realizable value of assets specifically					

pledged		11,00,000	
Other Assets		53,00,000	

Gross Assets		64,00,000	

Gross Liabilities Rs.	Liabilities		
10,00,000	Secured Creditors (as per List B) to the extent to to which claims are estimated to be covered by assets specifically pledged		1,50,000
1,50,000	Preferential Creditors (as per List C)		52,50,000
	Unsecured Creditors (as per List E)		20,00,000
20,00,000	Unsecured Loans		
35,00,000	Trade Creditors		35,00,000
1,00,000	Contingent Liability on Bills Discounted		1,00,000
			56,00,000
			3,50,000
67,50,000	Estimated deficiency as regards creditors (67,50,000 – 64,00,000)		
	2,50,000 Equity shares of Rs. 10 each (as per List G)		25,00,000
	Estimated deficiency as regards members (as per List H)		28,50,000

FORM NO. 156

(See Rule 329)

COMPANIES ACT, 1956

LIQUIDATOR'S STATEMENT OF ACCOUNT OF THE WINDING UP (MEMBERS' / CREDITORS' VOLUNTARY WINDING UP)

(pursuant to Section 497/509)

1. Name of the company : …………….. Ltd.
2. Nature of proceeding :
3. Date of commencement of the winding up :
4. Name and address of the Liquidator :

Statement showing how the winding-up has been conducted and the property of the company has been disposed of from …….20 ….. (commencement of winding-up) to……..20 ……. (close of winding-up).

Receipts	Esti-mated Rs.	Value realised Rs.	Payments	Rs.	Pay-ments Rs.

Assets :			Legal charges		
Cash at Bank			Liquidator's remuneration		
Cash in Hand			When applicable –		
Marketable Securities			% on Rs…. realised		
Bills Receivable			% on Rs….distributed		
Trade Debtors			Total		
Loans and Advances					
Stock in Trade			(By whom fixed…..)		
Work in Progress			Auctioneers' and		
Freehold Property			values' charges		
Leasehold Property			Cost of possession and		
Plant and Machinery			maintenance of		
Furniture, Fittings,			estate		
Utensils, etc.			Cost of notice in		
Patents, Trade Marks			Gazette and News-		
Investments other than			papers		
Marketable Securities			Incidental outlay		
Surplus from Securities			(establishment		
Unpaid Calls at			charges and other		
commencement of			expenses of		
winding up			liquidation)		
Amount receivable from			Total cost & charges		
calls on contributories					
made in the winding-up			(i) debenture holders:		
Receipts per Trading			Payment of Rs….per		
Account			Rs. ….debenture		
Other Property, viz.,			Payment of Rs….per		
			Rs. … debenture		
Total			Payment of Rs. …per		
Less: Payments to			Rs. ….. debenture		
redeem securities					
Cost of execution			(ii) Creditors :		
Payment per Trading			…….*Preferential		
Account			…….*Unsecured :		
			Dividend (s)……p. in		
			the rupee on Rs. …		
			(The estimate of the		
			amount expected		
			to rank for dividend		
			was Rs. ……)		
			(iii) Returns to		
			Contributories :		
			……P. per rupee ….		
			**share …….		
			….. P. per rupee….		

			**share……..		

			…….P. per rupee…. **share…….. Add : balance		

Illustration 2: On January, 2007, a compulsory order for winding up was made against A Company Limited, the following particulars being disclosed :

	Book value Rs.	Estimated to produce Rs.
Cash in Hand	1,000	1,000
Debtors	40,000	36,000
Land and Buildings	6,00,000	4,80,000
Furniture and fixtures	2,00,000	2,00,000
Unsecured Creditors	2,00,000	
Debentures :		
Secured on Land and Buildings	4,20,000	
Secured on floating charge	1,00,000	
Preferential Creditors	60,000	
Share Capital (32,000 shares of Rs. 100 each)	32,00,000	

Estimated liability for bills discounted was Rs. 60,000 estimated to rank at Rs. 60,000. Other contingent liabilities were Rs. 1,20,000 – estimated to rank at Rs. 1,20,000.

The company was formed on the 1 st day of January, 2000 ; and has made losses of Rs. 31,39,000.

Prepare statement of affairs and deficiency account.

Solution :

STATEMENT OF AFFAIRS OF A COMPANY LTD.
As on January, 2007

	Assets	Estimated Realizable Value Rs.
	Assets not specifically pledged (as per List A)	
	Cash in Hand	1,000
	Debtors	36,000
	Furniture and Fixtures	2,00,000
		2,37,000
	Assets specifically pledged (as per List B)	

	Estimated realizable value Rs.	Due to secured creditors Rs.	Deficiency ranked as unsecured Rs.	Surplus carried to last column Rs.
Land and Building	4,80,000	4,20,000	---	60,000

	Estimated surplus from assets specifically pledged	60,000
	Estimated total assets available for preferential creditors, debenture holders secured by a flotation charge and unsecured creditors	2,97,000
	Summary of Gross Assets Gross realizable value of assets Rs. Specifically pledged 4,80,000 Others 2,37,000 -------------- 7,17,000 --------------	
Gross Liabilities Rs.	**Liabilities**	
	(to be deducted from surplus or added to deficiency as the case may be)	
4,20,000	Secured Creditors (as per List B) to the extent to which claims are estimated to be covered by assets specially pledged)	
60,000	Preferential Creditors (as per List C)	60,000
	Estimated balance of assets available for debentures Secured by a floating charge and unsecured creditors	2,37,000
1,00,000	Debentures secured by a floating charge (as per List D)	1,00,000
		1,37,000
	Estimated surplus as regards debenture holders	
3,80,000	Unsecured creditors (as per List E) : Rs. 2,00,000 + Rs. 1,80,000 contingent liabilities	3,80,000
9,60,000	Estimated deficiency as regards creditors, being the difference being gross liabilities and gross assets	2,43,000
	Issued and called up capital (as per List F)	32,00,000
	Estimated deficiency as regards contributories (as per List H)	34,43,000

DEFICIENCY ACCOUNT (as per List H)

		Rs.
Items contributing to deficiency :		
Excess of capital and liabilities over assets		31,39,000
Estimated losses now written off which provision has been made for the purpose of preparing the statement :	Rs.	
Land and Building	1,20,000	

Debtors	4,000	
Contingent Liabilities (Rs. 60,000 + Rs. 1,20,000)	1,80,000	
	---------------	3,04,000
		34,43,000
Items reducing deficiency		Nil
Deficiency as shown by Statement of Affairs		34,43,000

Liquidator's Remuneration

The liquidator normally gets the remuneration in the form of commission which is usually based as a percentage on the value of assets realized and amount paid to unsecured creditors. In calculating the liquidator's remuneration, the following points may be noted.

(1) Commission on assets given as securities to secured creditors. The liquidator gets commission on the surplus from such assets left after making the payment of secured creditors because he makes an effort of realizing the surplus of such assets from secured creditors. However, if he sells the assets himself, he gets commission on the total proceeds of such assets.

(2) Cash and Bank Balance. If the liquidator is to get a commission on assets realised, he also gets a commission on cash and bank balance unless otherwise stated.

(3) Unsecured Creditors. If the liquidator is to get a commission on amount paid to unsecured creditors, unsecured creditors will also include preferential creditors for the purpose of calculation of remuneration unless otherwise stated. If the amount available is sufficient to make the full payment of unsecured creditors, the commission is calculated as follows:

Liquidator's remuneration

$$= \frac{\text{Amount due to unsecured creditors X \% of commission on creditors}}{100}$$

If the amount available is not sufficient to make the full payment of unsecured creditors, the commission is calculated as below:

$$= \frac{\text{Amount available for unsecured creditors X \% of commission}}{100 + \text{\% of commission}}$$

For example, if the amount due to unsecured creditors is Rs. 5,00,000 and the amount available for unsecured creditors before charging commission on amount paid to unsecured creditors is Rs. 2,06,000. Suppose 3% commission is to be paid on the amount paid to unsecured creditors, the commission in this case will be calculated as below:

$$\frac{2{,}06{,}000 \text{ x } 3}{100 + 3} = \frac{2{,}06{,}000 \text{ x } 3}{103} = \text{Rs. } 6{,}000.$$

Illustration 3 : Good Ltd. was placed in voluntary liquidation on 31st December, 2009, when its

Balance Sheet was as under :

Liabilities	Rs.	Assets	Rs.
Issued Share Capital : 5,00,000 Equity Shares of Rs. 10 each fully paid less calls in arrears amounting to Rs. 2,50,000	47,50,000	Freehold Factory	58,00,000
60,000 5% Cumulative Preference Shares of Rs. 100 each fully paid	60,00,000	Plant and Machinery	28,90,000
Share Premium Account	5,00,000	Motor Vehicles	5,75,000
5% Debentures Account	10,00,000	Stock	18,60,000
Interest on Debentures	25,000	Debtors	7,40,000
Bank Overdraft	5,80,000	Profit and Loss Account	21,40,000
Creditors	11,50,000		
	1,40,05,000		**1,40,05,000**

The Preference dividends are in arrears from 2006 onwards.

The company's articles provide that on liquidation ; out of the surplus assets remaining after payment of liquidation costs and outside liabilities, there shall be paid firstly all arrears of Preference dividend ; secondly the amount paid up on the Preference shares together with a premium thereon of Rs. 10 per share, and thirdly any balance then remaining shall be paid to the equity shareholders.

The Bank Overdraft was guaranteed by the directors who were called by the Bank to discharge their liability under the guarantee. The directors paid the amount to the Bank.

The liquidator realized the following assets :

	Rs.
Freehold Factory	70,00,000
Plant and Machinery	24,00,000
Motor Vehicles	5,90,000
Stock	15,00,000
Debtors	6,00,000
Calls in Arrears	2,50,000

Creditors were paid less discount of 5 per cent. The debenture and accrued interest were repaid on 31st March, 2010.

Liquidation costs were Rs. 38,200 and the liquidator's remuneration was 2 per cent on the amount realized.

Prepare the Liquidator's Final Statement of Account.

Solution :

Good ltd. (In liquidation)

LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT

To Assets Realised :	Rs.	By Liquidator's	Rs.

Freehold Factory	70,00,000	Remuneration :	
Plant and Machinery	24,00,000	@ 2% on Rs. 1,23,40,000	2,46,800
Motor Vehicles	5,90,000	By Liquidation costs	38,200
Stock	15,00,000	By Debenture holders :	
Debtors	6,00,000	5% Debentures 10,00,000	
Calls in Arrears	2,50,000	Interest as given	
		In Balance	
		Sheet 25,000	
		Interest for	
		3 months 12,500	
		----------- 37,500	10,37,500
		By Bank Overdraft	5,80,000
		By Creditors 11,50,000	
		Less: 5% Discount 57,500	10,92,500

		By Preference Shareholders	
		Preference Share	
		Capital 60,00,000	
		Add: 10%	
		Premium 6,00,000	
		Arrears of	
		Dividend for	
		4 years @ 5%	
		p.a. on	
		Rs. 60,00,000 12,00,000	78,00,000

		By Equity Shareholders	15,45,000
	1,23,40,000		**1,23,40,000**

Illustration 4 : The following is the Balance Sheet of Monisha Limited. As on 31st March, 2009 :

Liabilities	Rs.	Assets	Rs.
Paid up Capital :		Fixed Assets :	
10,000, 6% Preference Shares		Land and Building	20,00,000
of Rs. 100 each	10,00,000	Plant and Machinery Current	22,00,000
20,000 Equity Shares of Rs.		Assets :	
100 each fully paid	20,00,000	Stock	10,00,000
30,000 Equity Shares of Rs.		Debtors	10,00,000
100 each Rs. 50 0aid	15,00,000	Cash at Bank	3,00,000
Secured Loans :		Miscellaneous Expenditure :	
			10,000

6% Debentures (Floating charge on all assets Unsecured Loans : Mortgage on Land and	10,00,000	Profit and Loss Account	

Building	10,00,000		
Current Liabilities :			
Sundry Creditors	9,00,000		
Income-tax	1,00,000		
	75,00,000		**75,00,000**

The company went into liquidation on 1st April, 2009.

The preference dividends were in arrear for the three years. The arrears are payable on liquidation.

The assets were realized as follows :	Rs.
Land and Buildings	24,00,000
Plant and Machinery	18,00,000
Stock	7,00,000
Debtors	6,00,000

The expenses of liquidation amounted to Rs. 80,000

The liquidator is entitled to a commission at 2% on all assets realized except cash at Bank and 3% on amount distributed to unsecured creditors.

All payments were made on 30 th September, 2009.

Prepare Liquidator's Final Statement of Account.

Solution :

In the Books of Monisha Limited (In Liquidation)

LIQUIDATORS FINAL STATEMENT OF ACCOUNT

	Rs.		Rs.
To Cash at Bank	3,00,000	By Secured Creditors	10,00,000
To Assets Realised :		By Expenses of Liquidation	80,000
Land & Building	24,00,000	By Liquidators	
Plant and Machinery	18,00,000	Remuneration :	
Stock	7,00,000		

Debtors	6,00,000	2% on assets realized 55,00,000x2/100 3% on unsecured Creditors i.e. 10,00,000 x 3/100	1,10,000 30,000

		By Debenture holders Including 6% interest for 6 months	10,30,000
		By Preference Shareholders:	
		Preference Share Capital	10,00,000
		Dividend for 3 years @ 6% p.a.	1,80,000
		By Unsecured Creditors	10,00,000
		By Equity Shareholders :	
		On 20,000 shares @ Rs. 57.40	11,48,000
		On 30,000 shares @ Rs. 7.40	2,22,000
	58,00,000		**58,00,000**

UNIT 5				
QUESTION	Option 1	Option 2	Option3	Option4
Good will is ______________	tangible asset	sub-division of sharecapital	Fictitious asset	capital
Goodwill is shown in company 's balance sheet under the head___________	fixed asset	.investments	Misecellaneous expenditure	current assets.
The value of goodwill according to the simple profit method is ____________	the product of current year's profit and number of years.	the product of last year's profit and number of years.	the product of average profits of the given year's and number of years	the product of profit.
Super profit is the difference between __________	capital employed and average capital employed	average profit and normal profit	current year profit and last year profit	capital
The average return of similar concerns should be considered is ___________	average profit	expected rate of return	normal rate of return	yield return
From the point of view of valuation of good will , the term 'capital employed means the fund provided by	Shareholders only	.Debentures holders only	both shareholders and debenturesholder and creditors.	.shareholders,debentureholders and creditors.
The average capital employed can be ascertained ___________	by deducting half of current year's profit from opening capital employed.	by deducting 1/2 of current year profit from closing capital employed	by adding 1/2 of current year profit to closing capital employed	adding the profit

A business had capital ofRs 80,000 at the end ,It had earned profits of 10,000 during the year.	. Rs85,000	.Rs75000	.Rs70,000	.Rs90,000.	

The average capital employed of the business will be ______					
For calculating the value of equity share by intrinsic value method, it is essential to know__________	Normal rate of return	Expected rate of return	Net assets.	Net profit	
For calculating the value of an equity share by yield method, it is essential to know ________	Expected rate of return	called up equity share capital	.capital employed	netprofit .	
For calculating price-earnings ratio, it is essential to know_________	.Market value per share	Nominal value per share	.Paid-up value per share	less than face value per share	
Under net assets method, the value of a share depends on the amount that would be available to __________	Preference shareholders	Equity shareholders	Creditors	Debentureholders.	
Under Asset - backing method, the value of equity share is calcualted under the presumption that the company would be _________	.Liquidated	.continued	liquidated or continued	Liquidator	

Under the yield method, the value of equity share is calculated on the presumption that the company would be __________	wound up	continued	.wound up or continued	by court	
The excess of	super profit	capital profts	average profit	Annuity	

The proceeds of assets not specifically pledged and the ___ average profits over normal profits is known as				
Surplus of the assets specifically pledged is first available for the ___ Normal profit may be calculated with the help of normal rate of return and the ___	preferential creditors. average capital	unsecured creditors net tangible	.legal charges, liquidators and liquidation expenses	preferential shareholders.
Any sum due an	employed	asset	super profit	capitalisation method
employee out of provident fund is known as ___ Asset backing method is also known as An example of	Unsecured creditors super profit	preferential creditors Intrinsic value method	.secured creditors yield method	Fairly secured creditors. Fair value method.
Under capitalisation method, goodwill is taken as the difference between the The liquidator's final statement of Account is prepared	Only in case of creditors voluntary winding up.	.Only in case of members voluntary winding up	only in case of comlusory winding up by the court.	only in caseof member and creditor and court voluntary winding up
Capitalised value of the business and ___ Bills discounted to the extent of Rs10000	average profit	super profit	net tangible asset	annuity
A contributory is a Of which bills of Rs4,000 are likely	unsecured creditors.	preferential creditors	Shareholders	debentureholders.
List 'A' in statement of affairs gives the list of to be dishonoured. Hence, the liability to rank in respect of these bills will be ___	Asset specifically pledged	.asset not specifically pledged	Preferential creditors.	.Unsecured creditors.
List 'E' in	Rs.10,000	.Rs4,000	Rs6,000	Rs14,000
statement of affairs gives the list of When the sale proceeds of pledged secutrity is not sufficient to	preferential creditors	debentureholders	unsecured creditors	secured creditors.
pay off secured creditors fully, the balance due to them should be added to Secured creditors are shown in the statement of affairs under	.List A unsecured creditors	List B preferential creditors	List C equity share capital	.List D
Preferential	creditors	creditors	capital	.preference share capital.

When the liquidated company has adequate cash to pay off all creditors are shown in the statement of affairs under	upto date of commencement of insolvency proceedings . List D	up tothe date of actual payment of liabilities. List B	upto the date of payment to shareholders List C	Upto the date of profit . List D

liabilities, the interest on liabilities should be paid___________				
When windingup takes place , shareholders are described as _________	contributories	Liquidator	Creditors	debtors
List H shows ___________ A/cs	Deficiency /surplus	Debentures	Preferential creditors	secured creditors.
When a company is woundup at the instance of either the members or thecreditors , the windingup is termed as ___________	compulsory windingup	Voluntary windingup	By supervision of court	by court order
The term profitability here refers to the profit which the firm is expected to earn in _____________	Present	past	future	current assets.
____________ is the rate of return of earnings which investors in general expect on their investment in a particular type of industry.	.Normal rate of return	capital employed	Profitability	profit.
Under super profit method _________is compared with the normal profit on the invested capital in the firm.	Average profit	profits	capital employed	normal profit.

__________ is more valuable than the tangible asset.	(1).machinery	good will	.land & building	Furniture	
_________ method	average profits	super profits	annuity	Capitalisation	

good will is valued on the basis of an agreed number of year's purchase of the average annual profits.					
_______ method average profit of the firm is compared with the normal profit on the invested capital in the firm	average profits	Super profit	annuity	Cpaitalisation	
________ method , the total value of the business is found out by capitalising the expected average profits on the basisi of normal rate of return	Super profit	Average profits	Capitalisation	annuity	
________ method measures the value of the net assets of the company against each share.	net asset	yield	fair value	annuity	
_______ method is also called as break up value method.	net asset	yield	fair value	Annutiy	
________method , the asset of the company at market values are added up	yield	fair value	net asset	annuity	

________ is a the effective rate of return on the investment made in the shaes by the investors.	Asset	fair value	yield	annuity	
________ method the future	yield	fair value	net asset	annuity	

maintainable profit for equity dividend is estimated by reference to past performance.					
_______ method is also called as average of asset backing and yeild method.	yield	fair value	net asset	.annutiy	
__________ method is also called as Market value method.	yield	fair value	net asset	annutiy	
It is duty of ________ to realise the assets of the company under liquidation and settle the account of every creditors proving his claim against the company.	Liquidator	creditor	preferntial creditor	detors	
The statement is to be submitted to the liquidator withing______ days from the date of the windingup order	22	31	34	21	
_________ is process by which a company is dissolved .	.liquidation	.dissolved	petition	.liabilities	

A voluntary winding up of a company in the case of which no 'Declaration of solvency is required is called ___________	creditors winding up	debtors winding up	supervision winding up	winding up by court	
________ is one who holds some	creditors winding up	Secured creditors	.preferential creditors	.debentureholders	

security for a debt to him from the company, such as a plegde, mortgage.					
The term __________ also includes the holder of fully paid shares.	owner	.contributory	debentureholder	preferntial creditors	
________ contains names of unsecured creditors and the amount due.	List E	List O	List C	ListA	
________ contains the list of equity shareholders togenther with the amount of the shares held.	List R	List T	List G	List H	
For calculating price-earnings ratio, it is essential to know_________	Market value per share	Nominal value per share	Paid-up value per share	face value	
when the members of the company decide to wind up the company then it is called _________	members voluntary winding up	court winding up	creditors winding up	Liquidator windingup	
The amount receivable on calls in arreas is shown in _________	List E	List B	.List R	ListA	
If the companies financial position is weak, there will be __________	Surplus	Deficit	revenue	.profit	

Who get the preferenctial rights in getting payment at the time of winding	debentureholders	unsecured creditors	shareholders	preferenctial creditors

up					
The statement of affairs must always be properly verified by an __________	affidavit	cashier	.court	creditors	

PART-C

1. What do you understand by winding up of companies? Briefly explain the types of winding up of companies?
2. Explain the various Lists to be attached to the statement of affairs.
3. What do you mean by the term "Contributory" ? Describe the various types of contributories.
4. Explain briefly the different methods of valuation of goodwill.
5. Critically examine various methods of valuing shares.

Problems:

1. Calculate liquidator's remuneration from the following particulars: Assets Realized Rs.9.00, 000 including cash balance Rs.50, 000, liquidator's remuneration: 3% on the assets realized. **(Ans-liquidator's remuneration-27,000)**

2. A firm earns a profit of Rs.40, 000 and has invested capital amounting to Rs.3, 00,000. In the same class of business, normal rate of earning is 10%. Calculate goodwill according to capitalization method. 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

(Ans-goodwill-5,00,000).

3. Calculate liquidator's remuneration from the following particulars: Assets Realized Rs.6.30, 000 including cash balance Rs.30,000, liquidator's remuneration : 2% on the assets realized . **(Ans-liquidator's remuneration-12,600)**

4. 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**.** **(Ans-good will-19,55,030)**

5. A firm earned net profits during the last three years as follows :I Year –Rs.18,000, II Year – Rs.20,000, III Year – Rs.22,000The capital investment of the firm is Rs.50,000. A fair

return on the capital, having regard to the risk involved, is 10%. Calculate the value of goodwill on the basis of 3 years purchase of super profit. **(Ans-goodwill-75,000)**

6. 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. **(Ans- goodsill-7,200)**

7. The Particulars relate to a company limited which went into voluntary liquidation: Preferential creditors Rs.25,000, Unsecured creditors Rs. 58,000, 6% debentures Rs.30, 000.The assets realized Rs. 80,000. The expenses of liquidation amount to Rs.1, 500 and liquidator's remuneration was agreed at 2.5% on the amount realized and 2% on amount paid to unsecured creditors including preferential creditors. Show liquidator's final statement of account. **(Ans unsecured creditors-(bal fig- 20,588)**

8. **Vijay 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.

(Ans-Liquidator's remuneration:on asset realize-Rs2,840;

On payment to preferential creditors-Rs14;

On payment to unsecured creditors-Rs727

Amount paid to unsecured creditors-Rs36,367)

9. 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	3,00,000	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.700000 and the goodwill at Rs.100000. The net profits for the three years were 1996- Rs.103200, 1997- Rs.104000 and 1998- Rs.103300 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.

(Ans-intrinsic value per share-Rs9.25; yield value per share-Rs10.35)

10. Shri B.Bose is appointed liquidator of a company in a voluntary liquidation on 1.7.2008 and the following balance are extracted from the books on that date:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital: 32000 shares of Rs.5 each	1,60,000	Machinery	60,000
Provision for bad debts	20,000	Leasehold properties	80,000
Debentures	1,00,000	Stock-in-trade	2,000
Bank Overdraft	36,000	Book debts	1,20,000
Liabilities for Purchases	40,000	Investments	12,000
		Calls in arrears	10,000
		Cash in hand	2,000
		Profit & Loss A/c	70,000
	3,56,000		**3,56,000**

The assets are revalued as under:

Investments at Rs.8,000, Stock-in-trade Rs.4,000, Machinery Rs.1,20,000, Leasehold properties Rs.1,46,000, Bad debts are Rs 4,000; Doubtful debts are Rs.8,000, estimated to realize Rs.4,000. The Bank overdraft is secured by deposit of title deeds of leasehold properties. Preferential creditors for tax and wages Rs.2,000. Telephone rent owing is Rs.

160You are required to prepare Statement of affairs and Deficiency or surplus A/c

(Ans -Estimated surplus as regard contribution as per List H)-63,840

11. The Happy Ltd. is to be liquidated. Their summarized Balance sheet as at 30th Sep 2005 appears as under:

Liabilities	Rs	Assets	Rs
2,50,000 equity shares of Rs.10 each	25,00,000	Land & Buildings	5,00,000
Secured debentures (on land & Buildings)	10,00,000	Other fixed assets	20,00,000
Unsecured loans	20,00,000	Current assets	45,00,000
Trade creditors	35,00,000	Profit & Loss A/c	20,00,000
	90,00,000		**90,00,000**

Contingent Liabilities are:	Rs.
For bills discounted	1,00,000
For excise duty demands	1,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and the assets are likely to be realized as follows: Rs.

Land & Buildings	11,00,000
Other fixed assets	18,00,000
Current assets	35,00,000

Taking the above into account, prepare the statement of affairs.

(Ans -estimated deficiency as regards contributors(as per list H)-28,50,000

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

Rs Rs

Liabilities	Amount	Assets	Amount
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. **(Ans- estimated surplus as regards creditors-Rs1,67,380)**

13. The Maha lakshmi co ltd went into voluntary liquidation on 31.12. 1975. Their balance sheet on the date of liquidation was as follows:

Liabilities	**Amount**	**Assets**	**Amount**
Equity capital Preference capital Profit and loss a/c Creditors Bank loan(with charge on fixed asset)	5,00,000 2,00,000 1,00,000 2,00,000 3,00,000	Fixed assets Current assets	6,00,000 7,00,000
	13,00,000		**13,00,000**

The assets were realized by liquidator as follows

	Fixed assets	current assets
1.2.76	1, 00,000	2, 00,000
1.3.76	3, 00,000	2, 00,000

1.4.76	----	1, 00,000

The liquidator is entitled to get commission of 5% on assets realized and 2% on amounts distributed among share holders. After reserving Rs.20,000 for expenses (which ultimately amounted to Rs.16,000) amounts were distributed as and when received. Show liquidators account. **(Ans- equity shareholders:97,059)**

18. Physical assets are valued on the basis of _____ Concept
a) Income b) Stock c) Expenses d) None of these

19. The Various ways in which Financial accounts can be adjusted for changing prices have come to be known as
a) Human resources accounting b) inflation accounting
c) Government accounting d) Accounting standards

20. Assets which are acquired for own use and not for resale are known as
a) Fixed assets b) Wasting assets c) Current assets d) Fictitious assets

PART B (5 X 4 = 20 Marks)
Answer ALL the Questions

21. (a) From the following information find out the amount of provision to be shown in the profit and loss account of commercial Bank

Assets	Rs. In Lakhs
Standards	8,000
Substandard	6,000
Doubtful	
For one year	1,000
For three years	1,600
For more than 3 years	400
Loss assets	1,200

Or

(b) From the following particulars relating to the Tamilnadu Bank Ltd ascertain the profit balance carried over to the Balance Sheet

Net Profit for the year	1,28,000
Profit brought forward from the previous year	1,20,000
Transfer to Statutory Reserve	23%
Transfer to other reserves	10%
Transfer to proposed dividend	20,000

22. (a) Calculate the net claim to be debited to Revenue a/c of an insurance company

Claims paid for the year ended 31.03.2012	5,75,000
Claims outstanding on 1.4.2011	55,000
Claims outstanding on 31.3.2012	98,000
Claims covered under reinsurance	28,000

Or

(b) The life Assurance Fund of an Insurance Company on 31.3.2012 showed a balance on Rs.87,76,500. It was found later that the following were not taken into account.

Dividend from investments	4,80,000
Income tax on above	48,000
Bonus in reduction of premium	8,77,500
Claims covered under re-insurance	4,23,000
Claims intimated but not accepted by company	7,62,000

Ascertain the correct balance of Fund

23. (a) P Ltd. acquired 65% shares of Q Ltd. on 1-10-02. Profit and Loss a/c in the books of Q Ltd. showed a debit balance of Rs.40,000 on 01-04-02. On 31-(the Balance sheet of Q Ltd. showed Profit and Loss a/c balance of Rs.1,20,(Calculate capital profits and Revenue profits.

Or

(b) On 01-07-01, X Ltd. Acquired 60% shares of Y Ltd. (with a total capital of Rs.5,00,000) for Rs.3,80,000. The balance sheet of Y Ltd., showed Profit a Loss a/c balance on 01-01-01 Rs.1,20,000 and profit for the year 2001 Rs.1,00,000. Calculate the value of goodwill or Capital Reserve.

24. (a) Compute Reasonable return from the following information given below.

Particulars	Rs.
Capital Base	34,00,000
Loan form Electricity Board	30,00,000
Development Reserve	10,00,000
10% Debentures	8,00,000
Reserve Fund Investment (6%)	60,00,000
Assume the bank rate to be 8%	

Or

(b) From the following information relating to Gunter Power & Light Co. Ltd. prepare Net Revenue A/c for the year ended 31-03-04.

Particulars	Rs.
Net Revenue A/c Balance(1-4-03)	25,000
Profit transferred from Current year	
Revenue A/c	45,000
Interest on Debentures	8,000
Interim Dividend	16,000

25. (a) Explain briefly the net benefits method of valuing human resources

Or

(b) What are the objectives of accounting standards?

PART C (3 x 10 = 30 Marks)
Answer any THREE Questions

26. From the following information relating to Sri Devi bank ltd., prepare the loss a/c for the year ended 31[st] December 1987.

Rent received	72,000
Exchange and commission	32,800
Interest on fixed deposits	1,10,000
Interest on savings bank accounts	2,72,000
Interest on overdrafts	2,16,000
Discount on bills discounted	7,80,000
Interest on current accounts	1,68,000
Interest on cash credits	8,92,000
Depreciation on bank property	20,000
Salaries and allowances	2,18,800
Postage	5,600
Sundry charges	4,000
Directors and auditors fees	16,800
Printing	8,000
Law charges	3,600
Locker rent	1,400
Transfer fees	2,800
Interest on loans	10,36,000

27. From the following balances extracted from the banks of the LIC as at 31.3.06, prepare a Revenue A/c for the year ending 31.3.2006 in the prescribed form:

Particulars	Rs.(000)	Particulars	Rs.(000)
Claims by death	3,30,000	Life assurance fund (1.04.05)	63,31,000
Claims by maturity	2,15,000	Premiums	20,65,000
Agents & canvasser's allowance	26,500	Bonus in reduction of premiums	1,000
Salaries	44,200	Income tax on interest and dividends	5,700
Traveling expenses	1,200	Printing & stationary	13,900
Directors fees	8,700	Postage & telegrams	14,300
Auditors fees	1,000	Receipt stamps	2,300
Medical fees	52,000	Reinsurance premiums	40,950
Commission	2,18,000	Interest & dividend(gross)	2,72,000
Rent	2,800	Policy renewal fees	9,600
Law charges	200	Assignment fees	540
Advertising	4,300	Endowment fees	690
Bank charges	3,500	Transfer fees	1,400
Surrenders	47,500		

Provide Rs.1500 thousands for depreciation of furniture and Rs.2,20,000 for depreciation on investments.

28. From the following summarised Balance Sheets of H Ltd. and S Ltd. as on 31-12-94, prepare a consolidated Balance Sheet of two companies

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd Rs.
Share Capital: Shares of Rs.10 each fully paid	25,00,000	12,50,000	Fixed Assets	18,10,000	15,75,000
	7,50,000	5,00,000	Investements (1,00,000 shares in S Ltd.)	11,00,000	---
Reserves creditors	2,25,000	2,00,000	Current Assets	5,65,000	3,75,000
	34,75,000	19,50,000		34,75,000	19,50,000

H Ltd. purchased the shares in S. Ltd. on 1st January 1994. When reserves in S Ltd. stood at Rs.3,00,000 and in H Ltd. at Rs.4,50,000.

29. The following balances have been extracted at the end of March 1999, from the books of an electricity company.

Particulars	Rs.
Share Capital	2,00,00,000
Fixed assets	5,00,00,000
Depreciation Reserve on Fixed Assets	60,00,000
Reserve Fund(invested in 8% Govt. Securities at par)	1,20,00,000
Contingency Reserve invested in 7% State Loan	24,00,000
Consumers' Deposit	80,00,000
Amount contributed by consumers towards cost of fixed assets	4,00,000
Tariffs and dividends control reserve	20,00,000
Development Reserve	16,00,000
12% Debentures	40,00,000
Loan from State Electricity Board	50,00,000
Intangible assets	16,00,000
Current Assets (monthly average)	30,00,000

The company earned a profit of Rs.56,00,000 (after tax) in 1998-99. Show how the profits have to be dealt with by the company assuming the bank rate was 10%. All workings should form part of your answer

30. Explain the various 'Cost based methods' of valuing human resources.

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Register No………..

[16PAU301]

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Established Under Section 3 of UGC Act 1956)
COIMBATORE-21
(For the candidate admitted 2016 onwards)
First internal examination-July 2017
B.COM (PA)
Third Semester
CORPORATE ACCOUNTING

Time: 2 Hours **Maximum:50 marks**

PART-A (20*1=20 Marks)
Answer All the Questions

) Share allotment is a _______________

a)Personal a/c b)Real a/c c)Impersonal a/c d)Nominal a/c

2) Share application A/c is a ____________

a)Personal a/c b)Real a/c c)Nominal a/c d)Impersonal a/c

3) Fully paid of share capital is called____________.

a)Share b)Stock c)Share dividend d)Debenture

4) Forfeiture share amount transferred to________reserve a/c

a) Capital reserve b)General reserve c)Share capital d)Redemption

5) The difference between subscribed capital and called-up capital__________.

a)Uncalled capital b)Calls-in-arrears c)Paid-up capital d)Calls-in-advance

6) Owners of company are called___________.

a)Debentures b)Dividend c)Share holder d)Lands

7) Calls in advance do not form part of___________capital.

a) Paid up capital b) Called up amount c)Calls in arrear d)Nominal value of such shares

8) Premium received on issue of share a/c is shown on__________

a) Asset side of balance sheet b) Liabilities side of b/s

c) Credit side of P&L a/c d) debit side of P&l A/c

9) Preferences share as that part of the_______________.

a) Capital b)Share capital c)Deferred share d)Preferences share

10) Deferred share are also known as_______________shares.

a)Founder's shares b)Management c)Partners d)Shareholders

11) Authorized capital is also known as__________capital.

a)Registered b)Unregistered c)Nominal d)Registered and Nominal

12) The profit on re-issue of forfeited shares is transferred to____________General reserve

a) Capital redemption reserve a/c b) Capital reserve c) Profit &loss a/c d.) reserve

13) The share is issued at a price which is above its face value is called____.

a)Premium . b) Discount c)Par d)Premium or discount

14) The process of cancellation of default share is called___________

a)Forfeiture b)Issue c)Reissue d)calls in advance

15) The reissue of shares______than face value.

a) More than face value b)Less than face value c)Equal d)More or Less

16) The person to undertake up the whole of portion of the share is called_________.

a) Under writing b)Under writer c)Firm under writing d)Pure Under writing

17) In the balance sheet of a limited company assets are arranged in the order of_________.

a) Liquidity b) Permanency c) Neither of the two d) Either liability of performance

18) Dividend are usually paid on________

a) Authorized capital b) Subscribed capital c) Paid up capital d) Called up capital

19) Goodwill is shown in asset side of the company's balance sheet under the heading of________

a) Fixed assets b)Current asset c) Miscellaneous expenditure d) Investment

20) Advance payment of tax is in the nature of________

a) Capital expense b) Revenue expenses c) Prepaid expenses d) Outstanding expenses

PART – C (3 X 2 = 6 Marks)

Answer All the Questions

21. What is meant by Allotment of shares?

22. List out various kinds of shares ehich can be issued by companies.

23. Define dividend.

PART – C (3 X 8 = 24 Marks)

Answer All the Questions

24. a) Menon Ltd. issued 15,000 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.

(Or)

b) Pallav Ltd. Has a share capital of 50,000 equity shares of Rs.100 each. Market value is Rs.250 per share. The company decides to make a rights issue to the existing shareholders in proportion of one rights share of Rs.100 at a premium of Rs.30 per share for every 5 shares held. Calculate the value of rights.

25. a) Kailash Ltd. Purchased the business of Mani Bros. for Rs.5400000 payable in fully paid shares of Rs.100 each. What entires will be made in the books of Kailash Ltd., if such issue is (a) at par (b)at a premiumof 20% and (c) at discount of 10%.

(Or)

b) X Co. Ltd. Issued 50000 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 60,000 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.

26. a) Balu Ltd invited application for 12000 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

(Or)

b) Star Ltd has an authorized capital of Rs. 10,00,000 divided into 10,000 equity shares of Rs.

100 each. The following is the Trial balance of the company for the year ended 31st December 2001.

Particulars	Dr(Rs.)	Cr(Rs.)
Equity Share Capital		5,00,000
Bills Receivable	40,000	
Land & building	1,50,000	
Furniture	1,00,000	
Debtors	1,00,000	
Cash	3,500	
Bank	5,500	
Sundry Creditors		1,10,000
Opening Stock	2,70,000	
Purchases & Sales	8,00,000	10,43,000
Wages	80,000	
Fuel and Power	35,000	
Carriage inwards	16,000	
Discount received		7,000
Auditor's fees	11,000	
Salary	44,000	
Traveling Expenses	14,000	
Purchase returns		8,000
Carriage outwards	4,000	
15% Bank Loan		1,00,000
Interest on Bank Loan	15,000	
Factory Rent	40,000	
Bad Debts	40,000	
	16,68,000	**16,68,000**

Adjustments:

1. Value of stock on 31.12.2001 Rs. 2, 20,000.
2. Provide 5% Provision for Bad Debts on Debtors.
3. Depreciate Land & building at 10%
4. Unpaid wages Rs. 5,000 and Salary Rs. 6,000

Prepare Trading and Profit & Loss A/C and Balance Sheet for the year ended 31.12.2001 and the Balance Sheet as on that date.

Register No………..

[16PAU301]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed university Established Under Section
3 of UGC Act 1956)
COIMBATORE-21
(For the candidate admitted 2016 onwards)
Second internal examination-July 2017
B.COM (PA)
Third Semester
CORPORATE ACCOUNTING

Time: 2 Hours **Maximum:50 marks**

PART-A (20*1=20 Marks)
Answer All the Questions

1. Loose tools shown in the balance sheet under the lead
   a) Current liabilities b) Current asset c) Fixed asset d) Miscellaneous expenses
2. A reserve which is represented by investments outside the business is known as
   a) Reserve fund b) Dividend c) Interim dividend d) Income tax
3. Interim dividend paid between_____gereral meeting
   a) One b)Two c) Five d) Three
4. "For calculating the value of equity share by intrinsic value method, it is essential to know__________"
   a) Normal rate of return b) Expected rate of return c) Net assets. d) Net profit
5. "Under net assets method, the value of a share depends on the amount that would be available to __________ "
   a) Preference shareholders b) Equity shareholders c) Creditors d) Debentureholders.
6. The excess of average profits over the normal profits is known as ____________
   a) super profit b) capital profits c) average profit d) Annuity
7. The term profitability here refers to the profit which the firm is expected to earn in _______
   a) Present b) past c) future d) current assets.
8. Goods in transit and Cash – in – Transit should be entered on the__________of the Consolidated balance sheet.
   a) Assets side b) Liabilities side c) Debit side d) None of these
9. The difference between subscribed capital and called up Capital________
   a)Paid up capital b)Calls in arrears c)Calls in advance d)Uncalled capital
10. In the balance sheet of a limited company assets are arranged in the order of________.
    a) Liquidity b) Permanency c) Neither of the two d) Either liability of performance
11. Dividend are usually paid on_______
    a) Authorized capital b) Subscribed capital c) Paid up capital d) Called up capital
12. In the asset side of the company?s balance sheet fictitious asset like discount on issue of debenture are shown under the heading
    a) Fixed asset b) Investments c) Current assets d) Miscellaneous expenses
13. Divisible profits do not include

a) Reserve fund b) P/L a/c balance c) Revaluation reserved) Insurance fund

14. Goodwill is shown in asset side of the company's balance sheet under the heading of________
a) Fixed assets b) Current asset c) Miscellaneous expenditure d) Investment
15. Advance payment of tax is in the nature of________
a) Capital expense b) Revenue expenses c) Prepaid expenses d) Outstanding expenses
16. Goodwill is
a) Tangible assets b) Intangible assets c) Fictitious assets d) None of the above.
17. Advance payment of tax is in the nature of________
a) Capital expense b) Revenue expenses c) Prepaid expenses d) Outstanding expenses
18. Securities premium is shown on the_____side of the balance sheet
a) Asset b) Liabilities c) Debit d) Credit
19. The amount set aside to meet the loss of bad debts is a
a) Reserve b) Liability c) Contingent liability d) Provision
20. Super profit is the difference between __________
a) capital employed and average capital employed b) average profit and normal profit c)current year profit and last year profit d) capital

PART – C (3 X 2 = 6 Marks)
Answer All the Questions

21. What is Reserve?
22. Define goodwill?
23. Write a short note on the 'goodwill valuation'

PART – C (3 X 8 = 24 Marks)
Answer All the Questions

24. a) A Ltd. is a company with an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.1985 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger on 31.12.1985.

Trail Balance of A Ltd

Debt	Rs	Credit	Rs
Opening Stock	50,000	Sales	3,25,000
Purchase	2,00,000	Discount Received	3,150
Wages	70,000	Profit and Loss A/C	6,220
Discount Allowed	4,200	Creditors	35,200
Insurance (upto	6,720	Reserves	25,000
31.3.86)	18,500	Loan from managing	15,700
Salaries	6,000	directors	2,50,000
Rent	8,950	Share Capital	
General Expenses	2,400		
Printing	3,800		
Advertisement	10,500		
Bonus	38,700		
Debtors	1,80,500		
Plant	17,100		
Furniture	34,700		
Bank	3,200		
Bad debts	5,000		
Calls in arrears			
	6,60,270		6,60,270

You are required to prepare Profit and Loss for the year ended 31.12.1985 and a balance sheet as on the date. The following further information is given.

a) Closing Stock was valued at Rs. 1,91,500

b) Depreciation on plant at 15% and on furniture 10%
c) A tax provision of Rs.8000 is considered necessary.

(Or)

b) The silver ore Co.Ltd was formed on 1.4.1997 with an authorized capital of Rs.6,00,000 in shares of Rs.10 each of these 52,000 shares has been issued and subscribed but there were calls in arrear on 100 shares. From the following trail balance as on March 31, 1998, prepare the Trading and profit & Loss Account and the Balance Sheet.

	RS		RS
Cash at bank	1,05,500	Share Capital	5,19,750
Plant	40,000	Sale of silver	1,79,500
Mines	2,20,000	Interest on F.D up to	3,900
Promotion Expenses	6,000	Dec31	3,200
Advertisement	5,000	Dividend on investment	
Cartage on plant	1,800		
Furniture & Buildings	20,900		
Advertisement Expenses	28,000		
Repairs to plant	900		
Coal and oil	6,500		
Royalties paid	10,000		
Railway Track and Wagons	17,000		
Wages of Miners	74,220		
Cash	530		
Investment-Share of tin mines	80,000		
Brokerage on above	1,000		
6% F.D in Syndicate Bank	89,000		
	7,06,350		7,06,350

Adjustment:

a) Depreciation on Plant and railways By 10%, Furniture & Buildings by 5%
b) Write off a third of the promotion expenses
c) Value of Silver Ore on March 31, 1998 Rs. 15,000
d) The directors forfeited on Dec 20,1997, 100 shares on which only Rs.7.50 has been paid.

25. a) The balance sheet of James Company Ltd. as on 31st December 1998 was as follows.

Liabilities	Rs	Assets	Rs
2,000 shares of Rs. 10 each	2,00,000	Land And Buildings	1,68,000
Profit and Loss A/c	40,000	Plant and Machinery	1,20,000
Debentures	30,000	Furniture and Fittings	10,000
Trade Creditors	40,000	5% (tax free) Govt.bonds	40,000
Provision for Taxation	18,000	Stock	4,000
Proposed dividend	30,000	Book Debts	12,000
		Cash	4,000
	3,58,000		3,58,000

The net profits of the company after charging depreciation and taxes were as follows:
1994 – Rs. 34,000, 1995 – Rs. 38,000; 1996 – Rs.36,000 ; 1997 – Rs. 40,000: 1998 – Rs. 38, 000

On 31st December 1998 Land & Buildings were revalued at Rs.1,90,000; Plant & Machinery at Rs. 1,42,000 ; and furniture and fittings at Rs. 8,000.

10% represent a fair commercial rate of return on investment in the company. Calculate the value of goodwill basing it at 5 years' purchase of the average super profit for the last 5 years.

(OR)

b) The following is the balance sheet of Mr. Chauhan as on 30th Sep. 1998

Liabilities	Rs	Assets	Rs

Capital General reserve Creditors	1,64,000 40,000 38,040 2.42,040	Land And Buildings Plant Investments Stock Bank Debtors	36,000 54,000 30,000 26,850 75,990 19,200 2,42,040

The following were the net profit for the year ended

30th September 1996 - Rs. 32,280
30th September 1997 - Rs. 36,870
30th September 1998 - Rs. 43,350

The above amounts include income from investments Rs. 1,800 each year.

You are required to value the goodwill of the above business at 2 years purchase of the average super profit for 3 years, taking into accounts that fact that the standard rate of return on capital employed in such type of business is 10% assume that each year's profit is immediately withdrawn in fully by Mr. Chauhan.

26. a) Following is the balance sheet of Maruthy Co. Ltd as on 31st March 1998.

Liabilities	Rs	Assets	Rs
60,000 equity shares of rs.100 each, fully paid	60,00,000	Goodwill at cost	5,00,000
Capital reserve	2,00,000	Plant & Machinery *Less* depreciation	17,00,000
General reserve	13,90,000	Furniture & Fixtures *Less* depreciation	6,00,000
Profit & Loss A/c	30,000	Stock	32,00,000
Sundry Creditors	25,70,000	Sundry debtors	20,00,000
Provision for taxation	15,00,000	Cash	49,10,000
Proposed dividend	13,20,000	Preliminary expenses	1,00,000
	1,30,10,000		1,30,10,000

The following addition information is provided to you;

(i) The reasonable return on capital employed in the industry in which Maruthy Co.Ltd. engaged is 18%.

(ii) The rate of tax is 50%. The balance in provision for taxation account is in respect of profit for the year ended 31st March 1998.

(iii) The year 1997 – 1998 was a normal year and the prospects for 1998 – 1999 are equally good. Calculate value of goodwill at four years' purchase of super profits of the company.

(Or)

b) The silver ore Co.Ltd was formed on 1.4.1997 with an authorized capital of Rs.6,00,000 in shares of Rs.10 each of these 52,000 shares has been issued and subscribed but there were calls in arrear on 100 shares. From the following trail balance as on March 31, 1998, prepare the Trading and profit & Loss Account and the Balance Sheet.

	RS		RS
Cash at bank	1,05,500	Share Capital	5,19,750
Plant	40,000	Sale of silver	1,79,500
Mines	2,20,000	Interest on F.D up to	3,900
Promotion Expenses	6,000	Dec31	3,200
Advertisement	5,000	Dividend on investment	
Cartage on plant	1,800		
Furniture & Buildings	20,900		
Advertisement Expenses	28,000		
Repairs to plant	900		

Coal and oil	6,500		
Royalties paid	10,000		
Railway Track and Wagons	17,000		
Wages of Miners	74,220		
Cash	530		
Investment-Share of tin mines	80,000		
Brokerage on above	1,000		
6% F.D in Syndicate Bank	89,000		
	7,06,350		7,06,350

Adjustment:

e) Depreciation on Plant and railways By 10%, Furniture & Buildings by 5%

f) Write off a third of the promotion expenses

g) Value of Silver Ore on March 31, 1998 Rs. 15,000

h) The directors forfeited on Dec 20,1997, 100 shares on which only Rs.7.50 has been paid.

Reg. No--------------------------

[16PAU301]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed University Established Under section 3 of UGC Act 1956)
Coimbatore – 641021
(For the candidates admitted from 2016 onwards)
Third Internal Examination
B.Com. (Professional Accounting)
Third Semester
CORPORATE ACCOUNTING

Time duration : 2 Hrs **Maximum Marks: 50**

PART – A (20 X 1 =20 MARKS)
ANSWER ALL THE QUESTIONS

1. A company in which more than 50% of shares are held by another company is termed as:
   a) Holding company b) Subsidiary company
   c)Government Company d) Public company
2. Bonus shares issued out of Post acquisition profits will;
   a) Have no effects on CBS b) Decrease the revenue profits
   b) decrease the total of assets side of CBS d) increase the goodwill
3. The term minority interest represent
   a) The shareholders holding 50% of shares in subsidiary co.
   b) The interest of the outsiders in the subsidiary co.
   c) The company which holds more than 51% of shares in subsidiary co.
   d) None of the above
4. Profit made by a subsidiary company after the date of purchase of shares by the holding companies are known as;
   a) Revaluation profits b) Realization profits c) Capital Profit d) Revenue Profit
5. Disclosure of Accounting Policies is dealt in;
   a) AS-2 b) AS – 1 c) AS – 5 d) AS – 19
6. Inventories should be valued at:
   a) Cost b) Net realisable value
   c) Cost or net realisable value whichever is lower d) none of these.
7. The excess of the share in equity or net assets of the subsidiary over and the above the price paid for the investments is shown as
   a) Capital Reserve b) Cost of control c) Revenue reserve d) None of the above
8. The holding company shares of Revenue Profits of the Subsidiary is added to__________
   a) Trading account b) Profit and Loss A/c in Balance Sheet
   c) Assets in Balance sheet d) None of the above
9. A holding companies is one which holds more than:
   a) 2/3 rd share capital of subsidiary company b)50% of share capital of subsidiary company c) 75% of share capital of Government Company d) None of the above
10. The price payable by the purchasing company to the selling company for taking over business is called ______________

a) Purchasing consideration b) sale consideration
c) cash consideration d) business consideration

11. In the general body meeting, a________must be passed for reduction of share capital.
a) ordinary meeting b) special resolution c) annual meeting d) general resolution
12. The books of the selling company which is liquidated must be_________ .
a) opened b) started c) closed d) begin
13. The undistributed profits of both revenue and capital nature appear on the__________of the balance sheet.
a) Liabilities b) Assets c) fixed assets d) current asset
14. Rights shares are those share which are______________
a) Issued by a newly formed company b Fixed offered to the existing share holder
c)Issued to the directors of the company d)Issued to holders of convertible debentures
15. Assets which are acquired for own use and not for resale are known as;
a) Fixed assets b) Miscellaneous expenditure c) Current Assets d) Investments.
16. Amortization of an intangible assets means
a) Purchasing assets b) Selling assets
c) Recording the assets in book d) writing off over estimated.
17. Bonus shares issued out of Post acquisition profits will;
a) Have no effects on CBS b) Decrease the revenue profits
b) decrease the total of assets side of CBS d) increase the goodwill
18. The statement is to be submitted to the liquidator within______days from the date of the winding up order

a) 22 b) 31 c) 34 d) 21

19. The term___________also includes the holder of fully paid shares.

a) Owner b) contributory c) debenture holder d) preferential creditors

20. _________ is process by which a company is dissolved.

a) Liquidation b) dissolved c) petition d) liabilities

PART – B (3 X 2 = 6 Marks)
Answer All the Questions

21. Write a note on Holding Company
22. Give the meaning of Subsidiary company
23. What is Liquidation of a company?

PART – C (3 X 6 = 24 Marks)
Answer All the Questions

24. a) The balance sheet of X Ltd. and its subsidiary Y Ltd as on 31 st March 1996 as given below:

Liabilities	X Ltd Rs.	Y Ltd Rs.	Assets	X Ltd Rs.	Y Ltd Rs.
Equity shares of Rs.100 each	6,00,000	2,00,000	Buildings	4,12,000	1,20,000
General Reserve	3,80,000	8,000	Machinery	1,00,000	96,000

Profit & Loss A/c	3,20,000	1,44,000	Furniture	20,000	12,400
Sundry Creditors	60,000	64,400	Stock	1,36,000	80,800
			Investment	4,48,000	-
			Debtors	1,12,000	63,200
			Cash	1,32,000	44,000
	13,60,000	**4,16,400**		**13,60,000**	**4,16,400**

You are required to prepare consolidated Balance Sheet of X Ltd. and is subsidiary Y ltd as on 31 March 1996 .

(i) X Ltd acquired 80% equity shares in Y Ltd on 1 st July 1995 at a cost price of Rs. 4,48,000

(ii) In the Profit & loss A/c of X ltd- interim dividend declared by Y Ltd on 1St July 1995 at the rate of 10% p.a is included.

(iii) Creditors of X ltd include an amount of Rs. 24,000 in respect of purchase from Y Ltd and Stock of X Ltd also includes stock at cost price of Rs. 12,000 purchased from Y Ltd which sells the goods by adding 25% profit on the cost price.

On 1St April,1995 in the books of Y Ltd., Profit & Loss account credit balance was Rs.1,12,000 from which the company declared 10% interim dividend. During the year 1995-1996 profit of the company was constant.

(OR)

b) From the following Balance Sheet relating to H Ltd and S Ltd prepare Consolidated Balance Sheet.

Liabilities	**H Ltd Rs.**	**S Ltd Rs**	**Assets**	**H Ltd Rs**	**S Ltd Rs.**
Share Capital (Shares of			Sundry Fixed	8,00,000	1,20,000
Rs.10 each)	10,00,000	2,00,000	Assets		
General reserve	1,00,000	1,20,000	Stock	6,10,000	2,40,000
P&L A/c balance on	4,00,000	60,000	Debtors	1,30,000	1,70,000
1.1.2000	2,00,000	1,20,000	Bills Receivable	10,000	_
Creditors	_	30,000	Shares in ‘S Ltd’		
Bills Payable			at cost (15,000	1,50,000	
			Shares)		
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S Ltd have been earned after the shares were acquired by H Ltd but there was already a reserve of Rs.60,000 on that date
b) All the bill payable of S Ltd were accepted in favour of H Ltd.
c) The stock of H Ltd includes Rs. 50,000 purchased from S Ltd. the profit added was 25% on cost.

25. a) a)You are asked by a liquidator of a company to prepare a statement of accounts to be laid before a meeting of the shareholders from the followings.

Balance sheet of the company as on date of liquidation 1.1.1998

Liabilities	**Rs**	**Assets**	**Rs**
Share Capital:		Fixed Assets	8,00,000
8000 equity shares of Rs.100 each called Rs.90	7,20,000	Sundry Debtors	6,00,000

2,000 preference shares of Rs.100 each called Rs.60 Secured Loans from bank Plant and Machinery Sundry Creditors	1,20,000 3,00,000 5,20,000	Profit and Loss A/c	2,60,000
	16,60,000		16,60,000

The assets realized as follows:

On 1.4.1998	Sundry debtors Fixed Assets Expenses paid	2,00,000 2,00,000 8,000
On 1.6.1998	Fixed Assets (Final) Sundry Debtors	4,00,000 2,00,000
On 1.8.1998	Sundry Debtors (final)	1,00,000

The liquidation is entitled to 4% on collection from debtors and 2% on the amount paid to equity shareholders. Prepare the statement on the assumption the disbursements are made in accordance with law as and when cash is available.

(OR)

b) What is mean by accounting for taxes on Income: AS 20 and Explain its features.

26. a) X Ltd. purchased 750 shares in Y Ltd on 1.7.2000. the following were their balance sheet on 31.12.2000

Liabilities	X Ltd Rs	Y Ltd Rs	Assets	X Ltd Rs	Y Ltd Rs
Share capital: Shares of Rs,100 each General Reserve on 1.1.94 Profit and Loss A/c Creditors Bills Payable Current Account: X Ltd	 3,00,000 1,00,000 1,00,000 80,000 50,000 _	 1,00,000 70,000 60,000 40,000 20,000 20,000	Buildings Stock Debtors Investment in Y Ltd Bills Receivable Cash at Bank Current Account: -Y Ltd	2,05,000 1,00,000 1,00,000 1,00,000 40,000 60,000 25,000	1,25,000 80,000 40,000 _ 45,000 20,000 _
	6,30,000	**3,10,000**		**6,30,000**	**3,10,000**

Additional Information:

a) Bills receivable of X Ltd. include Rs.10, 000 accepted by Y Ltd.
b) Debtors of X Ltd. include Rs.20,000 payable by Y Ltd.
c) A cheque of Rs.5,000 sent by Y Ltd on 31 st December 1994
d) Profit and Loss A/c of Y Ltd. showed a Balance of Rs. 20,000 on 1.1.2000

You are required to prepare a consolidated Balance sheet of X Ltd. and Y Ltd as on 31.12.2000

(Or)

26. b) On 31.3.1998 the date of liquidation of a company, its Balance Sheet was as under;

Liabilities	**Rs**	**Assets**	**Rs**
Share Capital		Land & Buildings	4,00,000

7% Preference shares	3,00,000	Plant & Machinery	1,60,000
6,000 equity shares of Rs.10		Stock	4,00,000
each Rs.8 paid up	48,000	Debtors	6,40,000
3000 equity shares of Rs.10		Cash at Bank	51,000
each Rs.7 paid up	21,000		
6% debentures of Rs.100 each	12,00,000		
outstanding interest on	72,000		
debenture	8,000		
Creditors	2000		
Bills Payable	**16,51,000**		**16,51,000**

The assets were realized as under:

a) Land and Buildings Rs. 3,50,000; Plant & Machinery – Rs.2,00,000; Debtors – Rs 6,00,000; Stock – Rs. 4,61,000; Liquidation expenses – Rs. 2,000
b) Remuneration of liquidator; 1/2 % on the assets realized including cash and 1 % on the amount paid to unsecured creditors.
c) Creditors show in the balance sheet included – Rs. 2,000 preferential.
d) Interest on debenture is to be paid upto 31.5.1998
e) Dividend on preference shares is in arrears for 1/2 years . Legal charges Rs.1,000.

You are asked by the liquidator of a company to prepare a statement of accounts.

Register No………..

[16PAU301]

Karpagam Academy of Higher Education
(Deemed to be University Established Under Section 3 of UGC Act 1956)
COIMBATORE-21
(For the candidate admitted 2016 onwards)
First internal examination-July 2017
B.COM (PA)
Third Semester
CORPORATE ACCOUNTING

Time: 2 Hours **Maximum:50 marks**

PART-A (20*1=20 Marks)
Answer All the Questions

) Share allotment is a ________________

a)Personal a/c b)Real a/c c)Impersonal a/c d)Nominal a/c

2) Share application A/c is a _____________

a)Personal a/c b)Real a/c c)Nominal a/c d)Impersonal a/c

3) Fully paid of share capital is called ____________.

a)Share **b)Stock** c)Share dividend d)Debenture

4) Forfeiture share amount transferred to________ reserve a/c

a) Capital reserve b)General reserve c)Share capital d)Redemption

5) The difference between subscribed capital and called-up capital___________.

a)Uncalled capital b)Calls-in-arrears c)Paid-up capital d)Calls-in-advance

6) Owners of company are called____________.

a)Debentures b)Dividend **c)Share holder** d)Lands

7) Calls in advance do not form part of____________capital.

a) Paid up capital b) Called up amount c)Calls in arrear d)Nominal value of such shares

8) Premium received on issue of share a/c is shown on___________

a) Asset side of balance sheet **b) Liabilities side of b/s**

c) Credit side of P&L a/c d) debit side of P&l A/c

9) Preferences share as that part of the _______________.

a) Capital **b)Share capital** c)Deferred share d)Preferences share

10) Deferred share are also known as_______________shares.

a)Founder's shares b)Management c)Partners d)Shareholders

11) Authorized capital is also known as__________capital.

a)Registered b)Unregistered c)Nominal **d)Registered and Nominal**

12) The profit on re-issue of forfeited shares is transferred to ____________General reserve

a) Capital redemption reserve a/c **b) Capital reserve** c) Profit &loss a/c d.) reserve

13) The share is issued at a price which is above its face value is called____.

a)Premium . b) Discount c)Par d)Premium or discount

14) The process of cancellation of default share is called___________

a)Forfeiture b)Issue c)Reissue d)calls in advance

15) The reissue of shares _____than face value.

a) More than face value **b)Less than face value** c)Equal d)More or Less

16) The person to undertake up the whole of portion of the share is called_________.

a) Under writing **b)Under writer** c)Firm under writing d)Pure Under writing

17) In the balance sheet of a limited company assets are arranged in the order of_________.

a) Liquidity **b) Permanency** c) Neither of the two d) Either liability of performance

18) Dividend are usually paid on________

a) Authorized capital b) Subscribed capital **c) Paid up capital** d) Called up capital

19) Goodwill is shown in asset side of the company's balance sheet under the heading of________

a) Fixed assets b)Current asset c) Miscellaneous expenditure d) Investment

20) Advance payment of tax is in the nature of________

a) Capital expense b) Revenue expenses **c) Prepaid expenses** d) Outstanding expenses

PART – C (3 X 2 = 6 Marks)

Answer All the Questions

21. What is meant by Allotment of shares?

22. List out various kinds of shares ehich can be issued by companies.

23. Define dividend.

PART – C (3 X 8 = 24 Marks)

Answer All the Questions

24. a) Menon Ltd. issued 15,000 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.

(Or)

b) Pallav Ltd. Has a share capital of 50,000 equity shares of Rs.100 each. Market value is Rs.250 per share. The company decides to make a rights issue to the existing shareholders in proportion of one rights share of Rs.100 at a premium of Rs.30 per share for every 5 shares held. Calculate the value of rights.

ANSWER KEY: Issue price of one Share = Rs.230, Right Issue – Rs. 20

25. a) Kailash Ltd. Purchased the business of Mani Bros. for Rs.5400000 payable in fully paid shares of Rs.100 each. What entires will be made in the books of Kailash Ltd., if such issue is (a) at par (b)at a premiumof 20% and (c) at discount of 10%.

ANSWER KEY

Particulars	**Debit in Rs**	**Credit in Rs**
AT PAR VALUE		
Bank A/c Dr	**54,00,000**	
To Share Capital A/c		54,00,000
(Being Shares Purchased at par from Mani Brothers)		
AT PREMIUM VALUE		
Bank A/c Dr	**54,00,000**	
To Share Capital A/c		45,00,000
To Securities premium A/c		9,00,000
(Being 45,000 Shares issued at Rs. 100 each including premium of Rs.20)		
AT DISCOUNT VALUE		
Bank A/c Dr	**54,00,000**	
Discount on Shares A/c Dr	**6,00,000**	
To Share Capital A/c		**60,00,000**
(Being 60,000 Shares issued at Rs. 90)		

(Or)

b) X Co. Ltd. Issued 50000 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 60,000 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.

ANSWER KEY

Particulars	Debit	Credit
Bank A/c Dr	**15,000**	
To Share Application A/c		**15,000**
(Being Shares Application money received for 5000 shares)		
Share Application A/c Dr	**15,000**	
To Share Capital A/c		**12,000**
To Share Allotment A/c		**2,400**
To Bank A/c		**600**
(Being Shares Application money on 4000 shares transferred to share capital A/c, on 800 shares adjusted to share allotment A/c and on 200 shares refunded)		
Share Allotments A/c Dr	**16,000**	
To Share Capital A/c		**8,000**
To Securities Premium A/c		**8,000**
(Being Shares Allotment money @ Rs.4 per shares on 4000 shares credited to capital A/c and premium A/c respectively)		
Bank A/c Dr	**13,600**	
To Share Allotments A/c		**13,600**

(Being shares allotment money on 4,000 shares = 16,000 less Rs, 2,400 now received)		
Share First Call A/c Dr **To Share Capital A/c** **(Being share first call money at Rs.3 per shares due on 4,000 shares)**	**12,000**	**12,000**
Bank A/c Dr **To Share first call A/c** **(Being shares first call money duly received except on 200 shares)**	**11,400**	**11,400**
Share Second call A/c Dr **To Share Capital A/c** **(Being shares second call money at Rs.2 per shares due on 4000 shares**	**8,000**	**8,000**
Bank A/c Dr **To Share Second call A/c** **(Being share second call money duly received except on 300 shares)**	**7,400**	**7,400**

26. a) Balu Ltd invited application for 12000 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

ANSWER KEY:

(Or)

b) Star Ltd has an authorized capital of Rs. 10,00,000 divided into 10,000 equity shares of Rs. 100 each. The following is the Trial balance of the company for the year ended 31st December 2001.

Particulars	Dr(Rs.)	Cr(Rs.)
Equity Share Capital		5,00,000
Bills Receivable	40,000	
Land & building	1,50,000	
Furniture	1,00,000	

Debtors	1,00,000	
Cash	3,500	
Bank	5,500	
Sundry Creditors		1,10,000
Opening Stock	2,70,000	
Purchases & Sales	8,00,000	10,43,000
Wages	80,000	
Fuel and Power	35,000	
Carriage inwards	16,000	
Discount received		7,000
Auditor's fees	11,000	
Salary	44,000	
Traveling Expenses	14,000	
Purchase returns		8,000
Carriage outwards	4,000	
15% Bank Loan		1,00,000
Interest on Bank Loan	15,000	
Factory Rent	40,000	
Bad Debts	40,000	
	16,68,000	**16,68,000**

Adjustments:

1. Value of stock on 31.12.2001 Rs. 2, 20,000.
2. Provide 5% Provision for Bad Debts on Debtors.
3. Depreciate Land & building at 10%
4. Unpaid wages Rs. 5,000 and Salary Rs. 6,000

Prepare Trading and Profit & Loss A/C and Balance Sheet for the year ended 31.12.2001 and the Balance Sheet as on that date.

ANSWER KEY: Gross Profit – Rs.25,000, Net Profit – Rs.1,22,000, Balance Sheet – 5,99,000.