Semester III

17PAU301	CORE- CORPORATE ACCOUNTING	L	T	P	C
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SCOPE

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.

OBJECTIVES

- 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. (2014). *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. (2008). *Advanced Accounts* Vol.-II. New Delhi: S. Chand and Company Ltd.
3. Maheshwari, S.N., & and Maheshwari, S.K. (2009). *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. (2009). *Corporate Accounting* (1^{st} ed.). New Delhi: McGraw Hill Education.

KARPAGAM ACADEMY OF HIGHER EDUCATION

DEPARTMENT OF COMMERCE

NAME OF THE STAFF : N.SUMATHI

NAME OF THE SUBJECT : CORPORATE ACCOUNTING

SUBJECT CODE : 17PAU301

SEMESTER :III

UNIT-1

S.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1	1	ACCOUNTING FOR SHARE CAPITAL AND DEBENTURE ISSUE	
2	1	Company: Meaning& characteristics	R1:1.1-1.3
3	1	Difference between Partnership and company	W1
4	1	Shares Meaning, features kinds of share	R1:1.1-1.3
5	1	Problems to be worked in issue of share at par	R1:1.1-1.3
6	1	Problems to be worked in issue of share at discount	R1:1.13-1.15
7	1	Problems to be worked in issue of share at Premium	R1:1.104-1.105
8	1	Problems to be forfeiture of share	R1:1.69-1.70
9	1	Problems to be reissue of share	R1:1.70-1.71
10	1	Problems to be worked in issue of bonus share &rights	R1:1.72-1.73
11	1	Problems to be Issue of debenture	
12	1	Problems to be redemption of debenture	
13	1	Problems to be issue and redemption of Preference share	
14	1	Problems to be issue and redemption of Preference share	
15	1	Tutorial I:Accounting of Share Capital	R1:1.70-1.72
16	1	Tutorial II: Issue of Debenture	R1:4.77-4.80
17	1	Tutorial III: Issue of Preference Share	R1:4.77-4.80
18	1	Tutorial IV: Redemption of debenture and Preference Share	R1:4.82-4.83
19	1	Recapitulation and discussion of Important questions	
		Total No of Hours planned for Unit-I	19

UNIT-II

S.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1	1	Preparation of final Accounts	R2:2.22-2.25
2	1	An over view of final Accounts	R2:2.22-2.25
3	1	Format of statement of Profit and Loss	R2:2.22-2.25
4	1	Concepts of Profit and Loss Accounts	R2:2.22-2.25
5	1	From Operation, other income, Natural expenses, statement of balance sheet, Meaning and Form of balance sheet.	R1:7.7-7.11
6	1	Statement of balance sheet, Meaning and Format	R1:7.7-7.11
7	1	Problems worked in final Accounts	R1:7.82-7.126
8	1	Problems worked in final Accounts	R1:7.82-7.126
9	1	Managerial Remuneration-Introduction	R1:7.82-7.126
10	1	Requisition to be included categories of remuneration	R1:7.27-7.28
11	1	Administration ceilings regards managerial remuneration	R1:7.28-7.29
12	1	Disposal of company Profit	R1:7.29-7.30
13	1	Computation of Net Profit for managerial remuneration	R1:7.30-7.31
14	1	Tutorial I: Computation of final accounts	R1:7.7-7.11
15	1	Tutorial II: Computation of final accounts	R1:7.12-7.13
16	1	Tutorial III: Accounting treatment of certainties	R1:7.31-7.32
17	1	Tutorial IV: Placing entering items in final computation of Profit &Loss A/c	R1:7.33-7.35
18	1	Tutorial V: Placing entering items in final computation of Profit &Loss A/c	R1:7.36-7.38
19	1	Recapitulation and discussion of Important questions	
		Total No of Hours planned for Unit-II	19

UNIT III

S.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1	1	Introduction about 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	R1:8.89-8.91
4	1	Valuation of weighted average profit method	R1:8.92-8.95
5	1	Valuation of weighted average profit method	R1:8.96-8.98
6	1	Problems to be worked out in super profit method	R1:8.99-8.100
7	1	Problems to be worked out in super profit method	R1:8.102-8.103
8	1	Problems to be worked out in capitalisation method	R1:8.104-8.105
9	1	Problems to be worked out in capitalisation method	R1:8.106-8.107
10	1	Valuation of shares an overview	R1:8.106-8.107
11	1	Problems to be worked out in valuation of shares	R1:8.108-8.110
12	1	Problems to be worked out in yield method	R1:8.108-8.110
13	1	Problems to be worked out in Fair valuation method	R1:8.108-8.110
14	1	Tutorial I: Valuation of goodwill	
15	1	Tutorial II: Valuation of goodwill	
16	1	Tutorial III: Valuation of goodwill	
17	1	Tutorial IV: Valuation of Shares	
18	1	Tutorial V: Valuation of Shares	
19	1	Recapitulation and discussion of Important questions	
		Total No of Hours planned for Unit-III	19

UNIT IV

S.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1	1	Accounting of Holding Companies	R1:14.1-14.16
2	1	Overview of Accounts of holding companies	R1:14.17-14.18
3	1	Overview of subsidiary company	R1:14.18-14.19
4	1	Preparation of consolidated balance sheet	R1:14.20-14.22
5	1	Preparation of consolidated balance sheet	R1:14.23-14.24
6	1	Steps involved in Preparation of balance Sheet	R1:14.26-14.27
7	1	Relevant Provisions of accounting Standard 21	R1:14.28-14.30
8	1	Relevant Provisions of accounting Standard 21	R1:18.50-18.52
9	1	Relevant Provisions of accounting Standard 21	R1:18.50-18.52
10	1	Preparation of consolidated Balance Sheet	R1:18.50-18.52
11	1	Preparation of consolidated Balance Sheet	R1:18.50-18.52
12	1	Preparation of consolidated Balance Sheet	R1:18.53-18.54
13	1	Preparation of consolidated Balance Sheet	R1:18.53-18.54
14	1	Preparation of consolidated Balance Sheet	R1:14.28-14.30
15	1	Tutorial I: Accounting for holding companies	R1:14.31-14.32
16	1	Tutorial II: Accounting for holding companies	R1:14.33-14.34
17	1	Tutorial III: Preparation for Consolidated Balance Sheet	R1:14.35-14.36
18	1	Tutorial IV: Accounting Standard 21	R1:18.54-18.56
19	1	Recapitulation and discussion of Important questions	
		Total No of Hours planned for Unit-IV	19

UNIT V

S.No	Lecture Duration(Hr)	Topics 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 accounts	R1:11.25-11.27
5	1	Problems to be worked out Liquidators final statement of accounts	
6	1	Modes of winding up	W2
7	1	Orders of payment	R1:11.72-11.83
8	1	Important calculation of liquidators remuneration	R1:11.29-11.30
9	1	Accounting Standard 16:Meaning	W3
10	1	Definition and features of borrowing cost	W3
11	1	Accounting Standards 19:Leases	W3
12	1	Accounting standard 20:Main features of earning per share	W3
13	1	Accounting Standards 26:features of intangible assets	W2
14	1	Tutorial I: Preparation of statement of Affairs	R3:4.18
15	1	Tutorial II: Preparation of statement of Affairs	R3:4.19
16	1	Tutorial III: Accounting Standards	
17	1	Tutorial IV: Accounting Standards	
18	1	Recapitulation and discussion of Important questions	
19	1	Discussion of Previous year ESE Question Paper	
20	1	Discussion of Previous year ESE Question Paper	
		Total No of Hours planned for Unit-V	20

Suggested Readings

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.

UNIT 1

SYLLABUS

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

ACCOUNTING FOR SHARE CAPITAL AND 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:**		xxx	

	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
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			Rs.	Rs.
Jan 5.	On receipt of application money: Bank Account Dr. To Share Application Account (Being the application money on ...shares @ Rs. ......per share)		3,00,000	3,00,000
Jan 5.	On allotment of Shares: (a)Application money on allotted shares is			

	transferred to share capital account: Share Application Account Dr. To Share Capital Account (Being the application money transferred to Share Capital Account)		3,00,000	3,00,000
Feb 9.	On the allotment of shares, all allotment money becomes due to the company: Share Allotment Account Dr. To Share Capital Account (Being the share allotment money on .... shares @ Rs. ...... per share as per resolution dated ....)		4,50,000	4,50,000
Feb 9	On receipt of allotment money: Bank Account Dr. To Share Allotment Account (Being the receipt of share allotment money)		4,50,000	4,50,000
May16.	On making the first call due from the shareholders: Share first Call Account Dr. To Share Capital Account (Being the first call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)		2,25,000	2,25,000
May 16.	On receipt of the first call money: Bank Account Dr. To Share First Call Account (Being the receipt of share first call money)		2,25,000	2,25,000
July.27	On making the second call due from the shareholders: Share second Call Account Dr. To Share Capital Account (Being the second call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)		2,25,000	2,25,000

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

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

Solution: **Journal** Dr. Cr.

1.	Bank Account Dr. To Equity Share Application A/C (Being the receipt of application money on 80,000 equity shares @ Rs. 2 per share)		Rs. 1,60,000	Rs. 1,60,000
2.	Equity Share Application Account Dr. Equity Share Allotment Account Dr. To Equity Share Capital Account		1,60,000 2,40,000	4,00,000

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

Issue of Shares for Purchase of Assets:

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

Asset Account Dr. xxx

To Share Capital Account xxx

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

Issue of Shares at a Premium:

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

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

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

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

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

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

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

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

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

Journal Entries:

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

	(i)Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being the allotment money and securities premium money due on ……. shares)		xxx	 xxx xxx
	(ii) Bank Account Dr. To Share Allotment Account (Being the receipt of allotment money along with securities premium account)		xxx	 xxx

Issue of Shares at a Discount:

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

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

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

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

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

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

Journal Entry:
Dr Cr

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

	Dr. Discount on the Issue of Shares Account Dr. To Share Capital Account			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 Mar. 1	Bank Account Dr. To Share Application Account (Being application money received on 26,000 shares @ Rs. 2 per share)		Rs. 52,000	Rs. 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. Securities Premium Account Dr. To Share Capital Account To Discount on Issue of Shares Account To Shares Forfeited Account	(with the called amount on such shares as capital) (if not received) (with amount which becomes due but not paid) (if shares are issued at discount) (with the amount already received on such shares)

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

Reissue of Forfeited Shares:

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

The following journal entry on such reissue is passed:

Bank Account Dr. Discount on Issue of Shares Account Dr. Shares Forfeited Account Dr. To Share Capital Account To Securities Premium Account	(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) (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.		3,500 500 500	4,500

	7 per share credited as Rs. 9 per share paid-up)			
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		4,400	

	Dr. To Capital Reserve Account (Being balance of shares forfeited account taking as capital profit transferred to Capital Reserve Account)			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 (Being the application money received on 30,000 equity shares @ Rs. 2 per share)		Rs. 60,000	Rs. 60,000
2.	Equity Share Application Account Dr. To Share Capital Account To Equity Share Allotment Account To Bank Account (Being application money transferred to share capital account, share allotment account and the balance refunded to the applicants)		60,000	 40,000 8,000 12,000
3.	Equity Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being the allotment money due on 20,000 equity shares @ Rs. 5 per share including premium)		1,00,000	 60,000 40,000
4.	Bank Account (1) Dr. To Equity Share Allotment account (Being the share allotment money received)		88,320	 88,320

5.	Equity Share First Call Account Dr. To Share Capital Account (Being the share first call money due on 20,000 equity shares @ Rs. 2 per share)		40,000	40,000
6.	Bank Account Dr. To Equity Share First Call Account (Being the receipt of share first call money)		36,400	36,400
7.	Equity Share Final Call Account Dr. To Share Capital Account (Being the share final call money due on 20,000 equity shares @ Rs. 3 per share)		60,000	60,000
8.	Bank Account Dr. To Equity Share Final Call Account (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 To Share Forfeited Account (Being the forfeiture of 1,800 shares for the non-payment of allotment on 800 shares and first and final call money on 1,800 equity shares)		18,000 1,600	3,680 3,600 5,400 6,920
10.	Bank Account Dr. Share Forfeited Account Dr. To Equity Share Capital Account (Being the reissue of the forfeited shares as fully paid up @ Rs. 8 per share)		14,400 3,600	18,000
11.	Share Forfeited Account Dr. To Capital Reserve Account (Being the profit on reissue of forfeited shares transferred to Capital Reserve		3,320	3,320

	Account)			

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 Mar. 6	To 10% Preference Shares Applications & Allotment Account (application money on	Rs.	2009	By 10% Preference Share Application Account (refund of application money	Rs.

April 1-14 July 1-14 Nov 1-14	51,000 10% preference shares @ RS. 4 per share) To 10% Preference Shares allotment Account To 10% Preference Shares First call account To 10% Preference Shares Second and Final call	2,04,000 50,000 1,87,500 1,87,500		on 1,000 preference shares @ Rs. 4 per share) By Balance c/d	4,000 6,25,000
		6,29,000			6,29.000

Journal **Dr.**
Cr.

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

Working Notes:

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

Rs.

Total allotment money on 25,000 10% Preference shares @ Rs. 6 per share 1,50,000

Less: Amount of application money appropriate towards allotment money 1,00,000

Balance received after allotment 50,000

Ledger

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

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

10% Preference Share first Call Account

2009		Rs.	2009		Rs.
July	To 10% Preference		July		

1	Share capital Account	1,87,500	1-14	By Bank Account	1,87,500

10% Preference Share Second and Final Call Account

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

10% Preference Share Capital Account

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

BOOK BUILDING PROCESS

Concept :

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

The Process:

- The Issuer who is planning an IPO nominates a lead merchant banker as a 'book runner'.
- The Issuer specifies the number of securities to be issued and the price band for orders.
- The Issuer also appoints syndicate members with whom orders can be placed by the investors.
- Investors place their order with a syndicate member who inputs the orders into the 'electronic book'. This process is called 'bidding' and is similar to open auction.
- A Book should remain open for a minimum of 5 days.
- Bids cannot be entered less than the floor price.
- Bids can be revised by the bidder before the issue closes.
- On the close of the book building period the 'book runner evaluates the bids on the basis of the evaluation criteria which may include -
    - ✓ Price Aggression
    - ✓ Investor quality
    - ✓ Earliness of bids, etc.

- The book runner the company concludes the final price at which it is willing to issue the stock and allocation of securities.
- Generally, the numbers of shares are fixed; the issue size gets frozen based on the price per share discovered through the book building process.
- Allocation of securities is made to the successful bidders.
- Book Building is a good concept and represents a capital market which is in the process of maturing.
- Book-building is all about letting the company know the price at which you are willing to buy the stock and getting an allotment at a price that a majority of the investors are willing to pay. The price discovery is made depending on the demand for the stock.

Issue of rights:

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

- the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;

- unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;

- after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not dis-advantageous to the shareholders and the company.

Valuation of Rights:

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

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

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

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

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

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

(i) Theoretical market price after rights issue;

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

Solution:

` Market value of 5 shares already held by a shareholder @ ` 42 210

Add: Price to be paid by him for acquiring 2 more shares @ ` 11 per share 22

Total price of 7 shares after rights issue 232

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

(ii) Value of Rights = Market Price - Theoretical Market Price= ` 42 - ` 33.14. = ` 8.86 (iii) Percentage Increase in Share Capital

Present Capital 50,00,000

Rights Issue ` 50,00,000 × 2/5 20,00,000

% Increase In Share Capital (20,00,000/50,00,000) × 100 40%

Or,

5 2 ×100 = 40%

Capitalisation:

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

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

Way to capitalize profits or reserves:

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

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

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

Exclusions from Free Reserves:

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

BONUS ISSUE

Capitalisation:

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

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

- decreases the Reserve & Surplus;
- Increases the issued capital but does not bring any change in cash flow and net worth.

Way to capitalize profits or reserves:

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

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

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

Restrictions

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

Exclusions from Free Reserves:

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

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

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

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

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

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

Members' resolution —

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

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

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

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

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

SEBI guidelines on issue of bonus issues:

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

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

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

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

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

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

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

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

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

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

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

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

On issue of fully paid Bonus Shares

Accounting Entries:

The various accounting entries relating to bonus issue are given below

Particulars	L.f	Debit	Credit
On issue of fully paid Bonus Shares			
❖ On Declaration of such bonus			

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

Buy Back of Shares

Theory:

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

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

a. Redemption of Preference Shares Under Section 80 or

b. Capital Reduction under Section 100-104.

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

a. Fresh Issue of Preference Shares. Or

b. Free Reserves. Or

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

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

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

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

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

REDEMPTION OF PREFERENCE SHARES:

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

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

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

(2) Such shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares

made with the object of redemption. These shares cannot be redeemed out of the proceeds of fresh issue of debentures or out of the sale proceeds of any property of the company as it will lead to erosion of available security to the creditors. Capital profits such as shares forfeited account, development rebate account, capital redemption reserve account, securities premium account, profit prior to incorporation and capital reserve are not available for dividend. If shares are to be redeemed at premium, then such premium must be provided either out of the accumulated profits of the company or out of the company's securities premium account. The word 'proceeds' implies the amount received excluding the amount of securities premium if the shares are issued at premium but the net amount if the shares are issued either at a par or at a discount. This clause is inserted in order to protect the interest of the creditors.

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

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

(5) Redemption of preference shares should not be regarded as a reduction of the authorized capital of the company and as such the

reduced shares should remain part of the authorized capital and must be shown in the Balance Sheet.

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

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

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

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

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

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

	Bank Account Dr. Discount on Issue of Shares Account		xxx xxx	xxx

	Dr. To Equity Share Capital Account To Securities Premium Account			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.		xxx	xxx

	To Bank Account			

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

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

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

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

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

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

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

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

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

Solution:

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

2009 Dec. 31	Bank Account Dr. To Equity Share Capital account To Share Premium Account (Being the allotment of 10,000 shares of Rs.100 each at a premium of Rs. 10 each.)		Rs. 11,00,000	Rs. 10,00,000 1,00,000
Dec. 31	Bank Account Dr. To 12% Debentures Account (Being allotment of 10,000 12% debentures of Rs. 100 each)		10,00,000	10,00,000
Dec. 31	Profit and Loss Account Dr. 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) Reserves and Surplus: General Reserve Dev. Rebate Reserve Other Liabilities	5,00,000 99,000 1,00,000 50,000 1,51,000	Bank Other Assets	90,000 8,10,000
	9,00,000		9,00,000

The Redeemable Preference Shares were redeemed on the following basis:

(1) Further 4,500 equity shares were issued at a premium of 10 per cent;
(2) Expenses for fresh issue on shares – Rs. 5,000;
(3) Of the 50 preference shares, holders for 40 shares paid the call before the date of redemption. The balance 10 shares were forfeited for nonpayment of calls before redemption. The forfeited shares were reissued as fully paid on receipt of Rs. 500 before redemption;
(4) Preference shares were redeemed at a premium of 10 per cent, and securities premium amount was utilized on full for the purpose.

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

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

			Rs.	Rs.
	Bank Account Dr. To Equity Share Capital Account To Securities Premium Account (Being the issue of 4,500 equity shares at a premium of 10%)		49,500	45,000 4,500
	Shares Issue Expenses Account Dr. To Bank Account (Being the expenses on the issue of shares)		5,000	5,000
	Bank Account Dr. To Preference Shares Call in Arrears A/C (Being the receipt of calls in arrears on 40 preference shares @ Rs. 20 each)		800	800
	Redeemable Preference Share Capital A/c Dr. To Preference Shares Calls in Arrear A/c To Shares Forfeited Account (Being the forfeiture of 10 preference shares for nonpayment of final call of Rs. 20 each)		1,000	200 800
	Bank Account Dr. Shares Forfeited Account Dr. To Redeemable Preference Share Capital To Capital Reserve Account (Being the reissue of redeemable preference shares on payment of Rs. 500 and the profit transferred to Capital Reserve Account)		500 800	1,000 300
	Securities Premium Account Dr.		4,500 5,500	

	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)			10,000
	General Reserve Account Dr. To Capital Redemption Reserve A/C (Being the transfer of Rs. 55,000, the amount of shares redeemed out of profit, to Capital Redemption Reserve Account)		55,000	55,000
	Redeemable Preference Share Capital A/C Dr. Premium on Redemption Account Dr. To Preference Shareholders Account (Being the amount due to redeemable preference shareholders on redemption)		1,00,000 10,000	1,10,000
	Preference Shareholders Account Dr. To Bank Account (Being amount paid on redemption of 1,000 Redeemable Preference Shares)		1,10,000	1,10,000

BALANCE SHEET OF RELIANCE LIMITED. (after redemption)

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

General Reserve Dev. Rebate Reserve Current Liabilities: Other Liabilities	50,000 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 To Share Capital To Securities Premium To Pref. Shares Calls in Arrears To Red Pref. Share Capital	 90,000 45,000 4,500 800 500	By Share Issue Expenses By Preference Shareholders By Balance c/d	 5,000 1,10,000 25,800
	1,40,800		1,40,800

REDEMPTION OF DEBENTURES

Meaning of Debentures

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

Difference between Debenture and Debenture Stock

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

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

Stages of Debentures:

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

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

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

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

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

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

I.	When debentures are issued at par and repayable at per: (a) On issue of debentures:		Rs. xxx	Rs.

	Bank Account Dr. To Debentures Account			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		xxx	

	Dr. To General Reserve Account			xxx

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

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

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

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

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

			Rs.	Rs.
	4 ½ % Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Debenture holders Account (Being redemption of debentures of Rs. 4,00,000 at 102 per cent)		4,00,000 8,000	4,08,000
(1)(a)	Debenture holders Account Dr. To 6% Cumulative Preference Share Capital A/c 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 (redemption value Rs. 1,46,880) issued new 6% Debentures at Rs. 96)		1,46,880 6,120	1,53,000
	Debenture holders Account Dr. To Bank Account (Being Debenture holders of Rs. 85,000 (redemption value Rs. 86,700) paid in cash)		86,700	86,700
(2)	Total amount required for Redemption is Rs. 4,08,000, i.e., (4,00,000 X 102/100)			

UNIT-I

POSSSIBLE QUESTIONS
PART B

1.What is meant by Share Capital? Explain the different categories of share capital with the help of an illustration.

2.Distinguish between

A) Over-subscription and under-subscription.

B) Calls in arrears and calls in advance.

C) Forfeiture of shares and surrenders of shares.

3.Give the journal entries only with narration of the following:

a. Forfeiture of shares issued at a premium.

b. Forfeiture of shares issued at a discount.

c. Redemption of redeemable preference shares.

d. Interest on calls in advance.

4.What are the provision of Companies Act, 1956 regarding redemption of redeemable preference shares?

5.What is a debenture? Describe the various methods for redemption of debentures. Give Illustrations.

6.Explain with the help of journal entries how Sinking Fund Method for redemption of debentures is used.

7.State how will you deal with loss on issue of debentures in the books of accounts.

PART C

1. What are the provision of Companies Act, 1956 regarding Redemption of redeemable preference shares?

2. A limited company offered for subscription 50,000 equity shares of Rs.10

each at a premium of Rs.1.25 per share and 2,500 six per cent cumulative preference shares of Rs.100 each at par. The shares were payable as follows: On application Rs.3.75 per equity share (including the premium) and Rs.25 per preference shares ; on allotment Rs.2.50 per equity share and Rs.25 per preference share; on first and final call the balance due in both cases.

3. The public applied for 80,000 equity shares and 2,000 preference shares. Applications for 5,000 equity shares were declined, the application money being returned. The remaining applicants received allotment for two-thirds of their applications. Applications for preference shares were allotted in full.

4. Give journal entries to record these transactions in the company's books.
New Ventures Ltd. made an offer of 1,00,000 Equity Shares of Rs.10 each payable as follows:

On application	Rs.2 per share
On allotment	Rs. 2 per share
On first call	Rs. 3 per share
On second call	Rs.3 per share

Applications were received for 1,60,000 shares and allotments were made pro-rata to the applicants for 1,50,000 shares, the remaining applications being refused and money refunded. Application money paid in excess by the allottees was adjusted with the money due on allotment.

Romesh the holder of 200 shares failed to pay the allotment money and on his failure to pay the first call, the shares were forfeited.

Karim another shareholder to whom 500 shares were allotted failed to pay the first and second call amounts and his shares were also forfeited after making the second call.

Out of the forfeited shares, 600 shares were reissued as fully paid on payment of Rs.9 per share.

You are required to show the journal entries for recording the forfeitures and re-issue of the shares.

5.A company has 4,000 6% redeemable preference shares of Rs.100 each fully paid. The company decides to redeem the shares on December 31, 1998 at a premium of 5 per cent. The company makes the following issues:

(a) 1,000 equity shares of Rs.100 each at a premium of 10 percent.

(b) 1,000 9% 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.

6.Journalise the following transactions :

(a) Debenture issued at 95 payable at 100.

(b) Debenture issued at 95 repayable at 105.

(c) Debenture issued at 100 repayable at 105.

(d) Debenture issued at 105 repayable at 100.

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II B.COM PA -THIRD SEMESTER
CORPORATE ACCOUNTING- [17PAU301]
UNIT-I

QUESTION	Option 1	Option 2	Option3	Option4	Answer
Share allotment is a ______________	Personal a/c	Real a/c	Impersonal a/c	Nominal a/c	Personal a/c
Share application A/c is a ____________	Personal a/c	Real a/c	Nominal a/c	Impersonal a/c	Personal a/c
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 face value of share
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
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
The rate of discount on share cannot exceed____________	3%	6%	5%	10%	10%
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
Interest on calls paid in advance has to be paid @______________	4%	6%	7%	9%	6%

Discount on issue of share is a___________	Revenue loss	Capital loss	Deferred revenue expenditure	General reserve	Capital loss
Interest @__________is charged on call-in-arrear according the companies act.	5%	9%	3%	12%	5%
When shares are forfeited the share capital a/c is debited	Paid up capital	Called up amount	Calls in-arrear	Nominal value of such share	Called up amount
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
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
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
Rights shares are those share which are_____________	Issued by a newly formed company	Fixed offered to the existing share holders	Issued to the directors of the company	Issued to holders of convestible debentures	Fixed offered to the existing share
The difference between subscried capital and called-up capital__________	Uncalled capital	Calls-in-arrears	Paid-upcapital	Calls-in-advance	Uncalled capital

Owners of company are called___________	Debentures	Dividend	Share holder	Lands	Share holder
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
Call money on share should not exceed___________of the Face value of	25%	50%	10%	1%	25%
___________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
The objects of the company are given in the__________of associations	Memorandum	Voluntary	article	Involuntary	Memorandu m
A new company cannot issue share as______________	Par	Premium	Discount	Par or discount	Discount
The allotment of share be completed within ________days of the issue of the prospectus	90	100	120	24	120
The difference between subscribed capital and called up	Paid up capital	Calls in arrear	Calls in advance	Uncalled capital	Uncalled capital
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 the existing share holders

Unless otherwise stated a preferences share is always deemed to	Un cumulative	non-participiing	paticipating	Non convertible	non-participiing
A company is a__________association of a person	Voluntary	Primary	Involuntary	Limited	Voluntary
The capital divisible into parts known	Share	Share capital	Subscribed share capital	Issued capital	Share
The company gets with the _________liability	Share	Share capital	Subscribed share capital	Issued capital	Share capital
A company has a __________succession	Separate	Common	Perpetual	Legal	Perpetual
The partnership business is regulated by the Indian partnership	1956	1959	1932	1949	1932
A company of private is registered with minimum___________Members	One	Two	Ten	Fifty	Two
The profit of the company are disposed of it the form of	Dividend	Bonus shares	Assets	Stock	Dividend
The profit of the partnership business are distributed among the partners into agreed with___________	Ratio	Equally	Percentages	Ratio and Equally	Ratio and Equally

Companies registered under the companies act are known as___________companie	Registered	Unregistered	Special	Ordinary	Registered
Limited companies can be limited by__________	Share	Debentures	Dividend	Non	Share
A company is required to add words___________as	Limited company	Unlimited company	Private	Public limited	Private
According to sec.617 a company of which not less than _______of the paid up share capital	50	51	49	52	50
Preferences share as that part of the	Capital	Share capital	Deferred share	Preferences share	Share capital
Deferred share are also known as______________shares	Founder's shares	Management	Partners	Shareholders	Founder's shares
Authorized capital is also known	Registered	Unregistered	Nominal	Registered and Nominal	Registered and
Subscribed capital refer to the part of ___________capital	Issue	Called up	Paid up	Authorized	Issue
Called up capital refer to the part of the_________capital	Issue	Subscribed	Authorized	Forfeited	Subscribed
Paid-up capital it refer to the part of the________capital	Paid up	Call up	Subscribed	Issue	Call up
The shares are forfeited for	Payment	Non payment	Paid	Unpaid	Non payment

The application is required to remit at least________of the Nominal value of	5%	10%	20%	25%	5%
The amount not paid is called__________	Calls in arrear	Paid up capital	Uncalled capital	Call in advance	Calls in arrear
The shares are allotted the amount due on allotment is transferred to	Capital	Share capital	Share allotment	share application	Share allotment
The company has required to pay interest on such call-in advance__________	5%	6%	4%	10%	5%
The share is issued at a price which is above its face value is	Premium	Discount	Par	Premium or discount	Premium
The process of cancellation of default share is	Forfeiture	Issue	Reissue	calls in advance	Forfeiture
The reissue of shares _____than face value	More than face value	Less than face value	Equal	More or Less	Less than face value
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
The _________person to undertake the shares which is not issued to public	Under writing	Under writer	Shareholder	Special	Under writer

The percentage of underwriter commission payable to equity is Share	2.5	2%	1%	1.50%	2.5
Fully paid of share capital is called	Share	Stock	Share dividend	Debenture	Stock
Forfeiture share amount transferred to________ reserve a/c	Capital reserve	General reserve	Share capital	Redemption	Capital reserve
Raja ltd. Issued shares of Rs.100 each at Rs.95. The Underwriting	Rs.100	Rs.95	Rs.195	Rs.50	Rs.95
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
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

UNIT II

SYLLABUS

Preparation Of Profit And Loss Account And Balance Sheet Of Corporate Entities(Excluding Calculation Of Managerial Remuneration)- Disposal Of Company Profits.

FINAL ACCOUNTS

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 - Performa

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 To Loss on sale of assets To Depreciation To Preliminary Expenses To Provision for Income Tax To Net Profit c/d		By Commission By Profit on sale of Assets	
	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 To Income Tax for previous year not provided for To Interim Dividend To Proposed dividend To Surplus (Balance figure) carried to Balance Sheet	Xxx Xxx Xxx Xxx Xxx xxx	By Last year's Balance b/d By Net Profit for the year b/d By Amount withdrawn from General Reserve or any other reserve By Provision such as Income Tax provision no longer required	Xxx Xxx Xxx Xxx xxx

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	50,000		

10,00,000*5/100			
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**

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. **Less: Calls Unpaid**: (i) By			**Fixed Assets:** (a)Goodwill (b)Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machinery (g) Furniture and Fittings (h) Development of Property (i) Patents, trademarks and	

	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			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	

	subsidiaries 3. Short term Loans and Advances 4. Other loans and advances **Current Liabilities 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			10. Bills of Exchange 11. Balances with customs, port trust etc., **Miscellaneous Expenditure:** 1.Preliminary Expenses 2.discount on issue of Shares 3. Underwriting Commission 4. Development Expenditure **Profit and Loss Account**	

	5.For insurance, pension and similar staff benefit schemes 6.For Provident Fund scheme 7. Other Provisions				

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.SOURCES 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**			

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 (b) Less : Depreciation (c) Net Block (d) Capital work-in-progress 2. Investments 3. Current Assets, Loans & Advances (a) Inventories (b) Sundry Debtors (c) Cash and Bank Balances (d) Loans and Advances Less : Current Liabilities & Provisions : (a) Current Liabilities (b) Provisions 4. Miscellaneous Expenditure : (a) Profit and Loss Account (b) Miscellaneous Expenses	13,45,000 1,70,000	56,50,000 5,00,000 51,50,000 2,00,000 12,00,000 12,04,800 2,75,000 4,27,000 31,06,800 15,15,000 3,00,000 58,000	53,50,000 2,25,200 15,91,800 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		By Gross Profit b/d	
To General Expenses	1,45,000		
To Directors' Fees	68,350		15,20,200
To Bad debts	57,250		
21,100			
Add: New Provision			
43,500			
--			
---------	29,600		
64,600			
Less: Old Provision			
35,000	3,60,000		
--			

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

DISPOSAL OF PROFITS

The main objectives of a firm are to maximize the shareholders wealth. Cash generated from the successful operation of business are generally distributed among the shareholders' in the forms of dividend. But a company may also decide not to pay dividend to their shareholders if it is better to put the business's profits to work making the business itself more valuable.

It simply means that a company can dispose their profits in two different ways: Disposal in the forms of dividend; and transferring the profits to reserve funds/retained earnings.

After making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided for by bankers, the company may out of its net annual profits declare a dividend. In the process of making dividend decision a company generally consider following factors:

- Transaction cost
- Personal taxation
- Dividend clientele
- Dividend payout ratio
- Dividend cover
- Liquidity
- Divisible profits
- Rate of expansion
- Rate of return
- Stability of earnings
- Stability of dividend
- Legal provisions
- Degree of control and

- Cost of financing

Considering these factors a company can take the decisions regarding dividend. A dividend is generally considered to be a cash payment issued to the holders of company stock. However, there are several types of dividends, some of which do not involve the payment of cash to shareholders. Some of these are:

- Stock dividend
- Property dividend
- Scrip dividend
- Liquidating dividend

Opposite to this, a company might choose to hoard its profit. This is especially true for businesses with cyclical sales and profits. For example, an airplane manufacturer might spend a lot of money one year building or upgrading a factory. It might lose money that year. In a couple of years, when the factory is making lots of planes and selling lots of planes, profits might go up, and so the company will prefer to save that money to buy the next factory.

Similarly, a company that plans to grow much larger might reinvest its profits back into the company so that it's worth more in the near future. You often see this in technology stocks, where acquiring more customers or increasing the value of each customer will hopefully produce even more revenue in the future—and more profits.

A company might also acquire other companies. This is similar to investing in the company. You can see this happen in very large companies, where it's cheaper and easier to buy an established but smaller company than it is to start a new line of business.

Added to these, a company may prefer to retain earning within the company due to the following reasons:

- Financial security of the company
- Expansion activities
- Sources of finance for planned future investment
- Want to maintain/increase working capital
- It is more tax efficient
- To fund pension or remuneration
- Regulatory requirements
- Build up reserves due to concern about future cash flow.

POSSIBLE QUESTIONS

UNIT II

PART B

1. What is outstanding expenses?

2. What is prepaid expenses?
3. What is preliminary expenses?
4. What is surplus?
5. What is current liability?

PART C

1."Every Balance Sheet of Company shall give a true and fair view of the state of affairs of the company as at the end of the financial year and shall subject to the provision of Sec 211 of the Companies Act, be in the form set out in Part I of Schedule VI ....".

Amplify and give the form of Balance Sheet.

2.What are the various heads under which profits are usually appropriated by companies and for what reason?

3.The following is the Trial Balance on March 31, 1998 of the Partial Manufacturing Co. Ltd.

	Rs.	Rs.
Stock on 1st April, 1997	7,500	
Sales		35,000
Purchases	24,500	
Productive wages	5,000	
Discounts	700	500
Salaries	750	
Rent	495	
General expenses (including insurance)	1,705	
Profit and loss account 1st April, 1997		1,503
Dividend paid August 1997	500	
Interim dividend paid February 1998	400	
Capital 10,000 Re.1 shares fully paid		10,000
Debtors and creditors	3,750	1,750
Plant and machinery	2,900	
Cash in hand and at bank	1,620	
Reserves		1,550

Loan to managing director	325	
Bad debts	158	
	50,303	50,303

Stock on 30th June 1960 Rs.8,200.

You are required to make out the Trading Account, Profit and Loss account for the year ended 31st March, 1998, and the Balance Sheet as on that date. You are also to make provision in respect of the following.

(1) Depreciate machinery @10% per annum.

(2) Reserve 5% discount on debtors.

(3) Allow 2½% discount on creditors.

(4) Provide managing director's commission 15% of the net profit before deducting his commission.

(5) One month rent Rs.45 per mensem was due on 30th June.

(6) Six months insurance included in general expenses was unexpired at Rs.75 per annum.

4.Sun 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.

5.The XYZ Ltd was formed on 1.4.2007 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, 2008, 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 Dec31	3,900
Promotion Expenses	6,000	Dividend on investment	3,200
Advertisement	5,000		
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		
	1,000		

Brokerage on above 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 XYZ on March 31, 2008 Rs. 15,000
d) The directors forfeited on Dec 20, 2007, 100 shares on which only Rs.7.50 has been paid.

6.B Ltd. is a company with an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.2005 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger on 31.12.2005.

Trail Balance of B 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 31.3.86)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing directors	15,700
Rent	6,000	Share Capital	2,50,000
General Expenses	8,950		
Printing	2,400		
Advertisement	3,800		
Bonus	10,500		

Debtors	38,700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls in arrears	5,000		
	6,60,270		6,60,270

You are required to prepare Profit and Loss for the year ended 31.12.2005 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.

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II B.COM PA -THIRD SEMESTER
CORPORATE ACCOUNTING- [17PAU301]
UNIT-II

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 percentage of profits to be transferred to reserves	10%	7.50%	5%	2.50%	10%
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 the company	Interim dividend	Dividend tax	Unclaimed dividend	Interest dividend	Unclaimed dividend

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 a company at its annual general meeting is known as_____	Final or nominal dividend	Share dividend	Reserve	Final or personal dividend	Final or 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 III

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

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 :

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

(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

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

$$= \frac{3,55,000}{7} = \text{Rs. } 50,714.2857$$

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	Profit		Transfer	Director's

ending 31st March	After Tax	Taxation	to Reserve	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

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{51,24,000}{5} = 10,24,800$$

	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	
	3,52,800	
Profit before Tax		
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

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

(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 = Actual profit / 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	19,500	Book debts	90,000

taxation			
	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 **Net tangible assets**	 58,350 90,500 19,500	 1,68,350 2,81,650
(ii)calculation of adjusted annual average profits **Profits for 5years** (Rs61,000+Rs64,000+Rs71,500+Rs78,000+Rs85,000) Less: 50% income tax **Adjusted profits**		 3,59,500 1,79,750 **1,79,750**

Adjusted annual average profits = 1,79,750 / 5 years

= Rs35,950

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

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

$$= \frac{Rs35,950}{10\%}$$

$$= 3,59,500$$

(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

VALUATION OF SHARES

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 | Yield method | Fair value 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

(Or)
Market value method
(Or)
Earning capacity method
(Or)
Dividend yield 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 = $\frac{\text{net assets}}{\text{No. of equity shares}}$

$$= \frac{Rs7,20,000}{6,000 \text{ shares}}$$

=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 :

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

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

= 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 $= \dfrac{\text{Rs. } 48,150}{4,500} =$ 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

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

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

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

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

POSSIBLE QUESTIONS
UNIT III

PART B

1.What is valuation of shares?

2.What is valuation of goodwill?

3.Mention any two methods of valuation of goodwill

4.What is intrinsic method of goodwill

5.What is average profit method?

PART C

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.

2.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.

3.The following particulars are available in relation to Abinaya 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.

4.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.5,000

5 . Sathya 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.

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UG DEGREE EXAMINATION, NOVEMBER-2018
II B.COM PA -THIRD SEMESTER
CORPORATE ACCOUNTING- [17PAU301]
UNIT-III

QUESTION	Option 1	Option 2	Option3	Option4	Answer
Good will is ____________	tangible asset	sub-division of sharecapital	Fictitious asset	capital	intangible asset
Goodwill is shown in company 's balance sheet under the head__________	fixed asset	.investments	Misecellaneous expenditure	current assets.	fixed asset
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.	the product of average profits of the given year's and number of years
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	average profit and normal profit
The average return of similar concerns should be considered is ___________	average profit	expected rate of return	normal rate of return	yield return	normal rate of 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 debentureshol der and creditors.	.shareholders,debe ntureholders and creditors.	Shareholders only
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	by adding 1/2 of current year profit to closing capital employed
A business had capital ofRs 80,000 at the end ,It had earned profits of 10,000 during the year. The average capital employed of the business will be ______	. Rs85,000	.Rs75000	.Rs70,000	.Rs90,000.	.Rs75000
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	Net assets.

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 .	Expected rate of return
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	.Market 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.	Equity shareholders
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	.Liquidated
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	continued

The excess of average profits over the normal profits is known as ____________	super profit	capital profts	average profit	Annuity	super profit
Normal profit may be calcualted with the help of normal rate of return and the _____________	average capital employed	.net tangible asset	super profit	capitalisation method	average capital employed
Asset backing method is also known as ______________	.super profit	.Intrinsic value method	yeild method	fair value method.	yeild method
Under capitalisation method, goodwill is taken as the difference between the capitalised value of the business and the _______	average profit	super profit	net tangible asset	annuity	net tangible asset
A contirbutory is a __________	unsecured creditors.	preferential creditors	Shareholders	debentureholders.	Shareholders
List 'A' in statement of affairs gives the list of _____________	Asset specifically pledged	.asset not specifically pledged	Preferential creditors.	.Unsecured creditors.	.asset not specifically pledged
List 'E' in statement of affairs gives the list of _______________	preferential creditors	debentureholder s	unsecured creditors	secured creditors.	unsecured creditors

Secured creditors are shown in the statement of affairs under ___________	.List A	List B	List C	.List D	List B
Preferential creditors are shown in the statement of affairs under ______	.List D	List B	List C	.List D	List C
The proceeds of assets not sepcifically pledged and the surplus of the assets specifically pledged is first available for ________	preferential creditors.	unsecured creditors	.legal charges, liquidators and liquidation expenses	preferential shareholders.	.legal charges, liquidators and liquidation expenses
Any sum due an employee out of provident fund is an example of ___________	Unsecured creditors	preferential creditors	.secured creditors	Partly secured creditors.	.secured creditors
The liquidator's final statemnt of A/c 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	only in caseof member and creditor and court voluntary winding up

Bills were discounted to the extent of Rs10000 of which bills of Rs4,000 are likely to be dishonoured .Hence , the liability to rank in respect of these bills will be _______	Rs.10,000	.Rs4,000	Rs6,000	Rs14,000	Rs10,000
When the sale proceeds of pledged securtity is not sufficient to pay off securedcreditors fully, the balance due to them should be added to _________	unsecured creditors	preferential creditors	equity share capital	.preference share capital.	unsecured creditors
When the liquidated company has adequate cash to pay off all liabilities, the interest on liabilities should be paid__________	upto date of commencement of insolvency proeedings	up tothe date of actual payment of liabilities.	upto the date of payment toshareholder s	Up to the date of profit	upto date of commencement of insolvency proeedings
When windingup takes place , shareholders are described as _________	contributories	Liquidator	Creditors	debtors	contributories

List H shows __________ A/cs	Deficiency /surplus	Debentures	Preferential creditors	secured creditors.	compulsory windingup
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	past
The term profitability here refers to the profit which the firm is expected to earn in _____________	Present	past	future	current assets.	future
____________ 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.	Profitability
Under super profit method __________is compared with the normal profit on the invested capital in the firm.	Average profit	profits	capital employed	normal profit.	Average profit
__________ is more valuable than the tangible asset.	(1).machinery	good will	.land & building	Furniture	good will

________ method good will is valued on the basis of an agreed number of year's purchase of the average annual profits.	average profits	super profits	annuity	Capitalisation	average 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	Super profit
________ 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	Capitalisation
________ method measures the value of the net assets of the company against each share.	net asset	yield	fair value	annuity	net asset
_______ method is also called as break up value method.	net asset	yield	fair value	Annutiy	net asset

________method , the asset of the company at market values are added up	yield	fair value	net asset	annuity	net asset
________ is a the effective rate of return on the investment made in the shaes by the investors.	Asset	fair value	yield	annuity	yield
________ method the future maintainable profit for equity dividend is estimated by reference to past performance.	yield	fair value	net asset	annuity	yield
_______ method is also called as average of asset backing and yeild method.	yield	fair value	net asset	.annutiy	fair value
__________ method is also called as Market value method.	yield	fair value	net asset	annutiy	fair value

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	Liquidator
The statement is to be submitted to the liquidator withing______ days from the date of the windingup order	22	31	34	21	21
_________ is process by which a company is dissolved .	.liquidation	.dissolved	petition	.liabilities	.liquidation
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	creditors winding up
________ is one who holds some security for a debt to him from the company, such as a plegde, mortgage.	creditors winding up	Secured creditors	.preferential creditors	.debentureholders	Secured creditors

The term __________ also includes the holder of fully paid shares.	owner	.contributory	debentureholder	preferntial creditors	.contributory
________ contains names of unsecured creditors and the amount due.	List E	List O	List C	ListA	List E
________ contains the list of equity shareholders togenther with the amount of the shares held.	List R	List T	List G	List H	List G
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	Market value per share
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	members voluntary winding up
The amount receivable on calls in arreas is shown in _________	List E	List B	.List R	ListA	ListA
If the companies financial position is weak, there will be __________	Surplus	Deficit	revenue	.profit	Deficit

Who get the preferenctial rights in getting payment at the time of winding up	debentureholders	unsecured creditors	shareholders	preferenctial creditors	preferenctial creditors
The statement of affairs must always be properly verified by an ________	affidavit	cashier	.court	creditors	affidavit

UNIT 1V

SYLLABUS

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

ACCOUNTS OF HOLDING COMPANIES/ PARENT COMPANIES

INTRODUCTION

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

MEANING UNDER COMPANIES ACT 1956

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

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

b) That other –

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

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

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

ADVANTAGES OF HOLDING COMPANIES

Following are the advantages of Holding Company:

1) Subsidiary company maintained their separate identity.

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

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

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

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

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

DISADVANTAGES OF HOLDING COMPANIES

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

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

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

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

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

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

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

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

PRESENTATION OF ACCOUNTS BY HOLDING COMPANIES

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

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

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

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

d) A copy of the Auditors Report of subsidiary.

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

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

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

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

1.6 AS. 21 – Consolidation of Financial statement

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

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

i) Profit & Loss A/c

ii) Balance sheet

iii) Cash flow statement

iv) Notes of Accounts except typical notes.

v) Segment reporting

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

CONSOLIDATION OF BALANCE SHEET

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

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

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

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

3) Date of Acquisition of control in subsidiary companies.

4) Inter company owing.

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

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

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

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

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

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

• MINORITY INTEREST :

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

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

1) Share in share capital in subsidiary.

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

3) Share in accumulated losses should be deducted.

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

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

• CAPITAL PROFITS AND REVENUE PROFITS :

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

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

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

• **ELIMINATION OF INVESTMENTS IN SHARES OF SUBSIDIARY COMPANY :**

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

• MUTUAL OWING / INTER COMPANY TRANSACTIONS :

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

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

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

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

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

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

For e.g.

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

3. S Ltd. issued debentures of Rs. 1,00,000 which are held by H Ltd. then S Ltd. balance sheet will show a liability of Rs. 50,000 while H Ltd. books will show an assets of Rs. 50,000.

All the above inter company transactions have to be eliminated while preparing the consolidated balance sheet. These can be done by deducting inter company transactions from the respective items on both sides of balance sheet.

• **UNREALIZED PROFIT:**

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

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

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

• **CONTINGENT LIABILITIES:**

As 29 defines a contingent liabilities as:

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

Such contingent liability may be of two types.

a) External contingent liability.

b) Internal contingent liability.

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

• REVALUATION OF ASSETS AND LIABILITIES :

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

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

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

• PREFERENCE SHARES IN SUBSIDIARY COMPANY :

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

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

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

• BONUS SHARES:

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

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

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

• TREATMENT OF DIVIDEND :

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

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

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

ii**) Proposed dividend :**

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

iii) **Dividend payable :**

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

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

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

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

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

• PRELIMINARY EXPENSES :

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

• PROVISION FOR TAXATION :

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

• PURCHASE OF SHARES IN INSTALLMENT :

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

• SALE OF SHARES :

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

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

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

How to prepare Consolidated Balance Sheet of Holding Company

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

1stStep

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

2nd step

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

3rd Step

Calculate of Minority Interest

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

We can calculate minority interest with following formula

Total share capital of Subsidiary company = XXXXX

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

Add proportionate share of the subsidiary company's profit and
Reserves or increase in the value of assets + XXXX

Less proportionate share of the subsidiary company's loss and decrease
In the value of total assets of company - XXXXX

Value of Minority Interest XXXXX

4th Step

Calculate cost of capital / Goodwill or Capital Reserve

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

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

5th Step

Treatment of Pre – Acquisition of reserve and profit

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

Total profit before acquisition of subsidiary company = XXXX

Less share of minority interest - XXXX

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

Pre – acquisition profit and reserve shown as capital reserve XXX

6th Step

Calculate post acquisition profits

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

7th Step

Elimination of common transactions

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

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

8th Step

Treatment of Unrealized profit

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

Suppose

Closing stock of H 50000

Closing stock of S 50000

____

100000

Less stock reserve

2000

98000

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

9th Step

Treatment of dividend

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

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

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

`

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

70,000

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

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

1,26,000

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

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

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

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

`

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

70% of Reserves and Surplus 1,00,000 70,000

70% of Revaluation Profit 20,000 14,000

1,54,000

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

Illustration 3

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

Consolidated Financial Statements of Group Companies

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

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

Fixed Assets	Up by 20%
Investments	Down by 10%

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

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

Solution

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

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	in lakhs	in lakhs
Fixed Assets [120 X 120 %]	144.0	

Investments [55 X 90 %]			49.5
Current Assets		70.0	
Loans and Advances			15.0
Total Assets after revaluation		278.5	
Less:			
15% Debentures	90.0		
Current Liabilities	50.0		(140.0)
Equity / Net Worth			138.5
Exe Ltd.'s share of net assets (70%)			96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd.			
(70 lakhs – 7 lakhs*)			63.00
Capital reserve		33.95	

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

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

Illustration 4

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

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

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

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

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

	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Equity and Liabilities			Non-current assets		
Shareholders' funds Share Capital Shares of Rs.100 each	6,00,000	1,00,000	Fixed assets Machinery Furniture Other non-current assets	3,00,000 1,50,000 4,40,000	90,000 17,000 1,50,000
Reserves Profit and	2,00,000	75,000	Non-current		

Loss Account Trade Payables	1,00,000 1,50,000	25,000 57,000	Investments Shares in S Ltd.: 800 share ` 200 each	1,60,000	-
	10,50,000	2,57,000		10,50,000	2,57,000

Solution

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

Particulars	Note No	Rs
I. Equity and Liabilities (1). Shareholder's Funds (a) Share Capital (b) Reserves and Surplus (2) Minority Interest	1	6,00,000 3,44,600 48,150

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

ACCOUNTING STANDARD (AS)21

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

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

Scope

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

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

Consolidation Procedures

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

- the cost to the parent of its investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated;
- any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which

investment in the subsidiary is made, should be described as goodwill to be recognized as an asset in the consolidated financial statements;

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

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

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

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

- Intragroup balances and intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.9

- Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting

- In a parent's separate financial statements, investments in subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments

Disclosure:

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

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

(b) in consolidated financial statements, where applicable:

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

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

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

POSSIBLE QUESTIONS

UNIT IV

PART B

1) What is cost of control?
2) What is Minority Interest?
3) Which is Holding Company as per companies Act 1956?
4) What is capital profit?
5) How you treat Revenue profit?
6) Why date of acquisition of shares by Holding Company is important?
7) Which Accounting standard is issued for preparation of consolidated financial statements?
8) How inter company debts are dealt with?
9) Does issue of Bonus share by Holding Company change value goodwill / capital reverse.

PART C

1.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
Reserve & Surplus			Investment in S. Ltd.	2,10,00,000	
Securities Premium	60,00,000	--	Current Asset	8,50,000	2,40,000
General Reserve	19,00,000	1,20,000			
Profit & Loss A/c	15,00,000	1,00,000			
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

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.

2.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	_	1,00,000	Buildings	2,70,000	1,35,000
Rs.100 each			Machinery less		
Equity share of Rs.100	10,00,000	4,00,000	Depreciation	4,50,000	_
each	1,00,000	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.

3.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.

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UG DEGREE EXAMINATION, NOVEMBER-2018
II B.COM PA -THIRD SEMESTER
CORPORATE ACCOUNTING- [17PAU301]
UNIT-IV

QUESTION	Option 1	Option 2	Option3	Option4	Answer
Purchase consideration is payable in____________	goods	shares	.loan	bond	shares
Realisation consideration met by the purchasing company should be debited to _________	.Realisation A/c	.goodwill	vendor A/c	Creditor A/c.	.goodwill
Accounting standard for amalgamation is __________	.AS-8	.As-20	AS-14	.As-3	AS-14
used to account for amlgamation in the nature of ________.	Purchase	.sale	.merger	credit	.merger
As-14 should include cash and securities agreed to be given by the transferee company to	Shareholders	Shareholders & debentures	debentures and shareholders	. Debentures	Shareholders
transferor company may be shown as "Reimbursement" in transferor company's books, if	.Transferor company	Transferee company	transferor and transferee the companies	X company	Transferee company
paid to the transferor company and debited to goodwill account under the purchase	2 years	8 years	.20 years	5 years	5 years

committee of the ICAI (Institute of chartered Accountants of India) has developed	As14	As16	As20	.As 15	As14
used to record amalgamation in the nature of merger is called __________ mehtod.	Purchasing method	.Pooling of Interest	payment method	Net asset method	.Pooling of Interest
consideration paid over and above the share capital of the transferor company should be	.Reserves	Assets	Capital	.secured loan	.Reserves
value method of ascertaning purchase consideration are both based on the ___________	Net assets	Net liability	capital employed	.current asset	Net assets
companies combine together to form a new company ,is called ________	Amalgamation	Absorption	External reconstruction	internal reconstruction .	Amalgamation
takes over the business of one or more existing companies , is called	Amalgamation	.Absorption	external reconstruction	.Internal reconstruction.	.Absorption
liquidated and a new company is formed with the same shareholders to take over its	Absorption	amalgamation	.internal reconstruction	.external reconstruction.	.external reconstruction.
Alteration of share capital is effected by a company if it is authorised by the ____________	Memorandum of association	.Articles of association	shareholders	.board of directors.	.Articles of association
can be implemented only after getting permission from _________	.central Govt	controller of capital issues	shareholders	.the competent court.	.the competent court.
In case of sub-division of share capital , the total number of shares__________	.Does not change	Decreases.	Increases	.Decrease proportionately.	Increases

equity shares into the capital stock, then the account to be credited is ____________	Preference share capital A/c	equity share capital A/c	Equity capital Stock A/c	No entry is required .	Equity capital Stock A/c
accumulated losses, the balance in capital reduction A/c if any should be	share capital A/c	Capital Reserve A/c	General Reserve A/c	Good will A/c	Capital Reserve A/c
assets at the time of internal reconstruction will be credited to ________	capital reserveA/c	Capital reduction A/c	share capital A/c	General reserve A/c.	Capital reduction A/c
, amount of shares surrended by shareholdersis transferred to ______	Capital reserve A/c	General reserve A/c	surrendered shares A/c	sharecapital A/c	surrendered shares A/c
assets, at the time of internal reconstruction , will be charged to __________	.good will A/c	capital reduction A/c	revaluation a/c	share capital A/c.	capital reduction A/c
of 40000 equity shares of Rs10 each fully paid. It decides to convert its capital into 80000	Decrease in unissued sharecapital	sub-division of sharecapital	consolidation of share capital	division of capital	sub-division of sharecapital
purchasing company to the selling company for taking over business is called	purchasing consideration	sale consideration	cash consideration	business consideration	purchasing consideration
committee of the ICAI (Institute of chartered Accountants of India) has developed	.As14	As16	As20	As 15	.As14
________ section of companies Act permits a limited company to alter the capital	95	90	94	91	94
be filed with him within ________ of the date of passing of such resolution.	32	34	30	41	30

Act, any such alteration must be notified to the registrar of companies.	80	0.9	94	95	95
________ of the company must permit reduction of share capital.	AOA	MOA	AOC	MOC	AOA
In the general body meeting, a _______ must be passed for reduction of share capital.	ordinary meeting	.special resolution	annual meeting	general resolution	.special resolution
any surplus amount in capital reduction is transferred to ________	reserve account	capital reserve account	General Reserve A/c	capital redemption A/c	capital reserve account
Intrinsic value method is also called as _________	share exchange method	hare and stock method	share capital method	share method	share exchange method
The new values given for assets and liabilities must be shown in the books of the ___________	purchasing company	vendor company	creditor company	seller company	purchasing company
Purchasing company records the assets on _________values.	marked value	market value	.book value	any value	market value
The books of the selling company which is liquidated must be ________	.opened	started	closed	begin	closed
both revenue and capital nature appear on the _________of the balance sheet.	Liabilities	Assets	fixed assets	.current asset	Liabilities
________ are the amount payable to all outsiders except shareholders.	liabilites	external laibilities	.current liabilities	reserve	external laibilities

companies Act 1956 facilities amalgamation, absorption and external reconstruction.	495	465	494	490	494
________ means the company which is amalgamated into another company.	transferee company	transferor company	transfered company	transport company	transferor company
________ _______ method the price paid in the agreement directly.	.net payment method	net asset method	Liumpsum method	Intrinsic value method	Lumpsum method
purchasing company is deemed as the purchase consideration under the net asset method.	net paymanet method	net asset method	Lumpsum method	Intrinsic value method	net asset method
Purchasing company records the assets on _________values.	marked value	market value	book value	.any value	market value
value method of ascertaning purchase consideration are both based on the ___________	Net assets	Net liability	capital employed	current asset	Net assets
Purchase consideration is payable in____________	cash	loan	.bonds	goods	cash
The exchange ratio is generally determined on the basis of ___________ value .	face value	.Intrinsic value	agreed value	mormal value	.Intrinsic value
companies Act specify the provision relating to amalgamation.	390&396A	.391&392A	.350& 350A(4)	.346& 360A	390&396A
Share which are not yet issued by the company are _________	cancelled	entered	.uncalled	.Paid	cancelled

Reconstruction refers to reorganisation of the _______- of acompany	.asset	.liabilities	reserves	Capital structure	Capital structure
sharecpaital as per the provisions of section __________ of the companies Act 1956.	99to 100	89to 90	100 to 105	60 to 67	100 to 105
altered through ___________ to enable the company to reduce its share capital.	ordinary resolution	special resolution	annual resolution	general resolution	special resolution
be _______ immediately by transferring their value to capital reduction account.	paid	unpaid	called	Cancelled	Cancelled
Agreed value of asset taken over-Agreed value of liabilities taken over is ________	net assets	net payment	purchasing method	yield method	net assets
both revenue and capital nature appear on the _________of the balance sheet.	Liabilities	Assets	fixed assets	current asset	Liabilities
________ are the amount payable to all outsiders except shareholders.	liabilites	external laibilities	current liabilities	reserve	.external laibilities
______ profits do not form part of liabilities , they belong to the shareholders.	future	.net	.accumulated	gross	.accumulated
between the purchasing and selling companies govern the mode of ascertaining the	purchase	.cashier	net asset	.purchase consideration	.purchase consideration
involving two or more companies requires th eapproval of a ___________	creditors winding up	.members	court	Unsecured creditors.	court

Fictitious assets are called as ______--	profit	.loss	good name	current asset	.loss
and capital nature may appear on the __________ of the balance sheet.	.Liabilities	share capital	Assets	.current liabilities	.Liabilities
The books of the selling company which is liquidated must be ________	opened	started	.closed	.begin	.closed

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 doesnot commence its business for a whole Year.within a year from its incorporation or suspends its business	(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 requiring the company to be wound up voluntarily.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.
2. Who may present petition			A meeting of the creditors moves the resolution that the company be wound

3.Commencement of winding up	(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.	(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.	The time of passing creditors' resolution for voluntary winding
	(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.	A meeting of the members passes a special resolution that the company be wound up voluntarily.	
	(1)The company	The time when members' resolution for voluntary winding up is	
	(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.		
4. Appointment and remuneration of liquidators	(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.	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
5. Committee of Inspection	(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 direct.	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 liquidator settles the list and has the power to	Same as in the case of members' voluntary

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 priorityof 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.Format of statement of affairs

	Assets not specially pledged (as per list 'A')—	
	Balance at Bank	Estimated realisable values Rs.
	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 and Utensils	
	Investments other than Marketable Securities	
	Livestock	
	Other Properties, viz.	
	....	
	....	

Gross Liabilities Rs.			Rs.
	Assets specially pledged (as per list 'B')		
	(a) Estimated Realisable Values Rs. / (b) Due to Secured Creditors Rs. / (c) Deficiency ranking as Unsecured Rs. / (d) Surplus carried to Last Column Rs.		
	Freehold Property		
	....		
	....		
	Estimated surplus from assets specially pledged		
	Estimated Total Assets available for Preferential Creditors, Debentureholders secured by Floating Charges and Unsecured Creditors.		
	Summary of Gross Assets		
	Gross realisable value of assets specially pledged	Rs.	
	Other Assets	Rs.	
	Gross Assets	Rs.	
	Liabilities (To be deducted from surplus or added to deficiency as the case may be)		
	Secured Creditors (as per list 'B') to the extent to which claims are estimated to be covered by assets specially pledged item (A) or (Insert in gross liabilities column only).		
	Preferential Creditors (as per list 'C')		
	Estimated balance of assets available for Debentureholders secured by floating charge and unsecured creditors	Rs.	
	Debentureholders secured by a floating charge (as per list 'D')		
	Estimated Surplus/Deficiency as regards debentureholders, unsecured creditors (as per list 'E')	Rs.	
	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 brought from preceding page and liabilities)		
Rs.		Rs.	

LIST H—DEFICIENCY OR SURPLUS ACCOUNT

Statement of Affairs—List H

Form of Deficiency or Surplus Account

	Items contributing to Deficiency or Reducing Surplus :		
1.	Excess (if any) of capital and liabilities over (assets as … 20 …) (as shown by Balance Sheet, copy annexed)		
2.	Net dividends and bonuses declared during the period from … 20 … to the date of statement		
3.	Net trading losses (after charging items shown in note below) for the same period		
4.	Losses other than trading losses written-off or for which provision has been made in the books during the same period (give particulars or annex schedule)		
5.	Estimated losses now written-off or for which provision has been made for purposes of preparing the statement (give particulars or annex schedule)		
6.	Other items contributing to Deficiency or Reducing Surplus: ………………………………		
	Items reducing Deficiency (or Contributing to Surplus):		
7.	Excess (if any) of assets over capital and liabilities on the … 20 … as shown on the Balance Sheet (copy annexed)	Rs.	
8.	Net trading profit (after charging items shown in note below) for the period from the … 20 … to the date of statement		
9.	Profit and income other than trading profit during the same period (give particulars or annex schedule)		
10.	Other items reducing Deficiency or Contributing to Surplus:		
	Deficiency/Surplus as shown in Statement of Affairs	Rs.	
	Note: As to Net Trading Profits and Losses		
	Particulars are to be inserted here (so far as applicable) of the items mentioned below. Which are to be taken into account in arriving at the amount of net trading Profits or Losses shown in this account :		
	Provisions for Depreciation, Renewals, or Diminution in value of fixed assets		
	Charges for Indian Income-tax and other Indian taxation of profits		
	Interest on Debentures and other fixed loans		
	Payment to Directors made by the company required by law to be disclosed in the accounts:		
	Exceptional or non-receiving expenditure: ………………………………	Rs.	
	Less: Exceptional or non-receiving receipts: ………………………………	Rs.	
	Balance, being other trading Profits or Losses: ………………………………	Rs.	
	Net trading Profits or Losses as shown in Deficiency or Surplus Account above	Rs.	

Signature Dated ……………… 20 ……

Issued and Paid-up Capital Rs.	
Preference Share of Rs. ……each	
Called-up (as per list 'G')	
Equity Shares of Rs. …… each	
Called-up (as per list 'G')	
………………………………	
………………………………	
Estimated Surplus/Deficiency as regards members (as per list 'H')	

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., itexplains 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 thewinding 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
		Other fixed assets	20,00,000
		Current Assets	45,00,000
Secured Debentures (on Land and building)	10,00,000	Profit and Loss Account	20,00,000
	20,00,000		
	35,00,000		
	90,00,000		90,00,000

Contingent liabilities are :

For bills discounted 1,00,00

For excise duty demands 1,50,00

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

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

Taking the above into account, prepare the statement of

Solution :

STATEMENT OF AFFAIRS OF HIND LTD. (IN LIQUIDATION) As on 30th Sept., 2005

Assets	Realizable values
Assets not specifically Pledged (as per list A) Other Fixed Assets Current Assets	
Assets Specifically Pledged (as per list B)	53,00,000
Estimated realizable valu... | Due to secured credito... | 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 ...	Realizable values Estimated Rs.
	53,00,000 1,00,000

	54,00,000
pledged 11,00,000 Other Assets 53,00,000 -------------- Gross Assets 64,00,000 -------------- Gross Liabilities Liabilities Secured Creditors (as per List B) to the extent to to which claims are estimated to be covered by Unsecured Loans Trade Creditors 20,00,000 35,00,000 1,00,000	1,50,000 52,50,000 20,00,000 35,00,000

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.	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 :	4,20,000	
	1,00,000	
	60,000	
Secured on Land and	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 OMPANY LTD. As on January, 2007

	Assets					Realizable Rs.
	Assets not specifically pledged (as per List A)					
	Cash in Hand					
	Debtors					
	Furniture and Fixtures					2,37,000
	Assets specifically pledged (as per List B)					
		Estimated realizable	Due to secured	Deficiency ranked as	Surplus carried to	
	Land and	4,80,00	4,20,00	---	60,00	

	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	
Debtors 4,000	3,04,000
1,80,000	34,43,000 Nil

Contingent Liabilities (Rs. 60,000 + Rs. 1,20,000)	34,43,000
Items reducing deficiency	

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

$$= \frac{\text{Amount due to unsecured creditors} \times \text{\% of commission on creditors}}{100}$$

If the amount available is not sufficient to make the full payment of unsecured creditors, the commission is calculated as below:

$$= \frac{\text{Amount available for unsecured creditors} \times \text{\% of commission}}{100 + \text{\% of commission}}$$

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:

$$\frac{2,06,000 \times 3}{100 + 3} = \frac{2,06,000 \times 3}{103} = \text{Rs. } 6,000.$$

Illustration 3 : Good Ltd. was placed in voluntary liquidation on

31st December, 2009, when its

Liabilities	Rs.	Assets	Rs.
Issued Share Capital :		Freehold Factory	58,00,000
5,00,000 Equity		Plant and	28,90,000
Shares of Rs. 10		Machinery	5,75,000
each fully paid less		Motor Vehicles	18,60,000
calls in arrears	47,50,000	Stock	7,40,000
amounting to Rs.		Debtors	21,40,000
2,50,000		Profit and Loss Account	
60,000 5%	60,00,000		
Cumulative	5,00,000		
Preference Shares	10,00,000		
of Rs. 100 each	25,000		
fully paid	5,80,000		
Share Premium	11,50,000		
Account 5%	**1,40,05,000**		**1,40,05,000**
Debentures			

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	70,00,0
Plant and Machinery	24,00,000
Motor Vehicles	5,90,0
Stock	15,00,0
Debtors	6,00,0
Calls in Arrears	2,50,0

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

Freehold Factory	70,00,000	Remuneration : @ 2% on Rs. 1,23,40,000	2,46,800
Plant and Machinery	24,00,000	By Liquidation costs	38,200
Motor Vehicles	5,90,000	By Debenture holders : 5% Debentures 10,00,000 Interest as given In Balance Sheet 25,0 Interest 3 months 12,500 ----------- 37,500	10,37,500
Stock	15,00,000	By Bank Overdraft	5,80,000
Debtors	6,00,000	By Creditors 11,50,000 Less: 5% Discount 57,500 -------------	10,92,500
Calls in Arrears	2,50,000	By Preference Shareholders Preference Share Capital 60,00,0 Add: 10% 6,00,0 Arrears of Dividend	78,00,000
			15,45,000
			1,23,40,000

Illustration 4 : The following is the Balnce Sheet of Monisha Limited. As on 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Paid up Capital :		Fixed Assets :	
10,000, 6% Preference Shares of Rs. 100 each	10,00,000	Land and Building	20,00,000
20,000 Equity Shares of Rs. 100 each fully paid	20,00,000	Plant and Machinery	22,00,000
30,000 Equity	15,00,000	Current Assets :	
		Stock	10,00,000
		Debtors	10,00,000
		Cash at Bank	3,00,000
		Miscellaneous	10,000
6% Debentures (Floating charge on all assets	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	24,00,0
Plant and Machinery	18,00,0
Stock	7,00,00
Debtors	6,00,00
The expenses of liquidation amounted to	0

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 To Assets Realised : Land & Building Plant and Machinery	3,00,000 24,00,000 18,00,000	By Secured Creditors By Expenses of Liquidation By Liquidators	10,00,000 80,000
Debtors	6,00,000	2% on assets realized 55,00,000x2/100 3% on unsecured	1,10,000 30,000
	        58,00,000	By Debenture holders Including 6% interest for 6 months By Preference Shareholders: Preference Share Capital Dividend for 3 years @ 6% p.a. By Unsecured Creditors By Equity Shareholders :	10,30,000 10,00,000 1,80,000 10,00,000 11,48,000 2,22,000 **58,00,000**

POSSIBLE QUESTIONS

UNIT V

PART-B

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. 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)

5. 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).

6. 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)

PART -C

1. 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)**

2. 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 fairreturn 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)**

3. 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- goodwill-7,200)**

4. 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)**

5. **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)

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

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		
	14,80,0		**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)

7. 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

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(For the candidates admitted from 2017 onwards)
UG DEGREE EXAMINATION, NOVEMBER-2018
II B.COM PA -THIRD SEMESTER
CORPORATE ACCOUNTING- [17PAU301]
UNIT-V

QUESTION	**Option 1**	**Option 2**	**Option3**	**Option4**	**Answer**
Disclosure of accounting policies is dealt in______	AS-1	AS-4	AS-19	AS-2	AS-1
Income tax on interest, dividend and rent should be debited to _________	Provision for depreciation a/c	Provision for taxation a/c	Proposed dividend a/c	Proposed debenture a/c	provision for taxation
acquiring the controlling interest in another company is called__________	Subsidiary Company	Holding company	Private Company	Deemed Public Company	Subsidiary Company
company up to the date of acquisition of shares by the holding company is known	Revaluation profits	Realization profits	Capital profits	Revenue profits	Capital profits
holding company to acquire controlling interest in the subsidiary company is	capital reserve	goodwill a/c	Revenue reserve	capital profit	capital reserve
Depreciation accounting is dealt in__________	AS-1	AS-4	AS-6	AS-2	AS-6
Accounting standard board was constituted on____________________	21.1.77	21.4.78	23.5.79	20.12.77	21.1.77

Schedule 4 relates to________	Deposits	Advances	other assets	Borrowings	Borrowings
Cash Flow Statement is dealt in	AS-1	AS-4	AS-2	AS-3	AS-3
Valuation of Inventories dealt in	AS-1	AS-4	AS-2	AS-3	AS-2
The accounting relating to corporate body is __________	Financial accounting	Corporate accounting	Cost accounting	Management Accounting	Corporate accounting
Government Company must hold _________ of shares of another company	51%	41%	61%	33%	51%
Borrowing costs are dealt in ______	AS-16	AS-19	AS-20	AS-26	AS-16
According to Companies Act a _________must hold 51 % of shares of another company	Government Company	Private company	Semi government company	Non trading company	Government Company
Outstanding expenditure is a __________ account	Nominal	Personal	Real	Current	Nominal
_________ deals with the depreciation account.	AS4	AS6	AS10	AS13	AS6
Current Investments are otherwise called as ___________	Floating Investments	Trading Investments	Fixed Investments	Long term Investment	Trading Investments

Short term investments are otherwise called __________	Long term Investment	Floating Investments	Current Investments	Fixed Investments	Current Investments
Net worth of business means_______	Total assets	Fixed assets – current assets	Equity capital	Total assets – total liabilities	Total assets – total liabilities
Intangible assets are dealt in _____	AS-16	AS-19	AS-20	AS-26	AS-26
Trading Investments are otherwise called as ______	Long term Investment	Floating Investments	Current Investments	Fixed Investments	Current Investments
Capital account is a ___________	Fictitious account	Personal account	Liability account	Nominal account	Personal account
Revenue is generally recognized as being earned at the point of time _____________	Sale is effected	Cost is effected	Expenditure is effected	Overcast is effected	Sale is effected
Provisions, contingent liabilities and contingent assets are dealt in __________	AS-29	AS-19	AS-20	AS-26	AS-29
nature which occur frequently are first recorded in the__________	General ledger	Special journal	Cashbook	Subsidiary book	Special journal
equation Assets = liabilities is the formal expression of_________	Matching concept	Entity concept	Going concern concept	Dual aspect concept	Dual aspect concept
compared with the others in order to have a ___________over the cost	control	plan	organise	motto	control

'Every debit has a corresponding credit' it is the concept of_________	Incomplete records	Cost sheets	Single entry system	Double entry system	Double entry system
Bank loan account is a ______	Real Account	Nominal Account	Personal Account	Current Account	Personal account
The process of recording transactions in a journal is known as _______	Journalizing	Journal	Posting	Journal entry	Journalizing
Accounting records transactions in term of ________	Commodity units	Production units	Monetary units	Expense units	Monetary units
Income received in advance by a business units is___________	liability	An assets	A loss	Gain	liability
Leases are dealt in _________	AS-16	AS-19	AS-20	AS-26	AS-19
Expenditure incurred by a publisher for acquiring copyright is a_________	Deferred revenue expenditure	Capital expenditure	Revenue expenditure	Assets	Capital expenditure
committed by cashier after business hours is a ____________	Revenue loss	Deferred revenue loss	Capital loss	Business loss	Capital loss
An expenditure incurred to derive long term advantage is ________	Revenue expenditure	Expense	Capital expenditure	Deferred capital expenditure	Capital expenditure
In accounting only ________ discount is recorded	Trade	Cash	Real	Nominal	Cash

Debit balance of all personal accounts are collectively called__________	Sundry creditors	Sundry debtors	Personal account balance	Total of personal accounts	Sundry debtors
Under______ system branch profit or loss is ascertained by preparing branch accounts	Debtors	Stock and debtors	Wholesale	Final accounts	Debtors
Discount on issue of share is __________	Capital loss	Revenue loss	Capital expenditure	Revenue expenditure	Capital loss
Trial balance will detect ________	Errors of commission	Errors of omission	Errors of principle	Compensating errors	Errors of commission
Machinery purchased on account is recorded in_______________	Journal	Ledger	Purchase book	Cash book	Journal
The error disclosed by Trial Balance is______	amount posted in ledger	Error of principle	of a transaction in the books of	Errors of omission	Wrong amount posted in ledger account
Normally value of closing stock ________ in the trial balance	Appears	Does not appear	May or may not appear	Sometime appear	Does not appear
Cost of goods sold plus selling expenses equals_______________	Cost of production	Gross profit	Sales	Cost of sales	Gross profit
Trading account is a _________ account	Personal	Real	Nominal	Expense	Nominal
Cash discount is allowed by___________	Wholesaler	Debtor	Creditor	Retailer	Creditor

Rent prepaid is_____________	Assets	Liabillity	Income	Expense	assets
Unearned income is a __________	Assets	Liabillity	Income	Expense	Liability
Closing stock given in the trial balance will be taken to_______	P&L account only	Income and expenditure account only	Trading account only	Balance sheet only	Balance sheet only
Sale of grass in the case of a sports club is___________	assets	Revenue receipt	Capital receipt	Income	Revenue receipt
Double entry system was propounded by ____________	Chanakya	Lee	Confucius	Luca Pacioli	Luca Pacioli
purchased on hire purchase terms are recorded at ____________	Net realization value	Cash value	Hire purchase price	Cost price	Cash value
Amount received against revenue income are called ______ receipt	revenue	income	payment	loss	revenue
_________ profit which is earned on the sale of the fixed assets.	revenue	income	payment	Capital	Capital
business in the ordinary course of business is called ______ loss	Revenue	income	payment	Capital	Revenue
Prepaid expenses are ______ account	Nominal	Personal	Personal account without name	Real	Personal account without name

In non – profit organizations excess of assets over liabilities is called_________	Capital block	General fund	Shareholders fund	Capital	General fund
Earnings per share is dealt in _________	AS-16	AS-19	AS-20	AS-26	AS-20
Unexpired expenses is a ______	Liabilitiy	Asset	Income	Expenditure	Asset