



**CA WALLAH**

**WORK  
BOOK**

**Accountancy : Nitin Goel**

**Law : Gurpreet Singh**

**CA MARATHON 2023**



**CA WALLAH**



**CA Nitin Goel**

**(Accountancy)**

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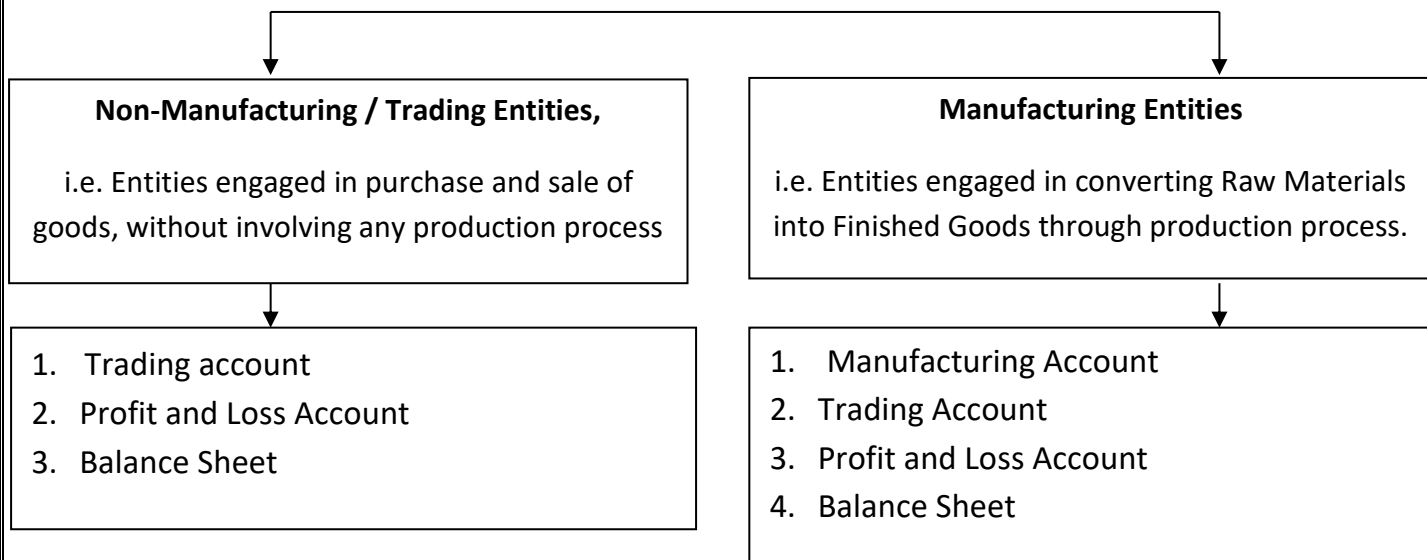
# FINAL ACCOUNTS OF SOLE PROPRIETOR

## FINANCIAL STATEMENTS

- Financial Statements** (also called General Purpose Financial Statements) consist of the following –
  - Statement of Performance - Profit and loss Account
  - Statement of Financial Position - Balance Sheet
- Meaning:** the above terms are explained below –

Item	Description
<i>Statement of Performance</i>	<ul style="list-style-type: none"> <li>This Statement / Account shows the <b>result of operations</b>, i.e. Profit or Loss of the entity for the period.</li> <li>It is also called “<b>Performance Statement</b>”, or “<b>Income Statement</b>”</li> <li>Consists of – (i) Manufacturing Account, (ii) Trading Account, and (iii) Profit and Loss Account.</li> </ul>
<i>Statement of Financial Position</i>	<ul style="list-style-type: none"> <li>This Statement (not an Account) shows the <b>financial position</b>, i.e. Assets and Liabilities of the entity as on a particular date.</li> <li>It is also called “<b>Position Statement</b>” or “<b>Balance Sheet</b>”</li> </ul>

### Final Accounts of Sole Proprietorship Entities



## TRADING ACCOUNT

The Trading Account shows the surplus of the Sale Value over the Cost of Goods Sold. This is called as the **Gross Profit**. Since the Gross Profit is the basic indicator of business profitability, the preparation of the Trading Account assumes significance.

### Trading Account of ..... For the year ended .....

Particulars	₹	Particulars	₹
To Opening Stock		By Sales (net of returns)	
To Purchases (net of Returns)		By Closing Stock	
To Direct Expenses like Freight Inward, Octroi, Wages, etc.			
To Gross Profit c/d to P/L Account		By Gross Loss c/d to P&L Account	
<b>Total</b>		<b>Total</b>	

**Gross Profit** = Sales - Cost of Goods Sold

Where Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses – Closing Stock

**GP (%)** = Gross Profit/ Sales \* 100

## FORMAT OF PROFIT AND LOSS ACCOUNT

Profit and Loss Account of ..... for the year ended .....

Particulars	₹	Particulars	₹
To Gross Loss b/d (if any)		By Gross Profit b/d from Trading A/c	
To Administrative Expenses		By Other Income items	
To Selling Expenses		By Net Loss, if any, transferred to	
To Financing Expenses		Capital A/c	
To Depreciation			
To Other Items, Adjustments & Prov.			
To Net Profit, transferred to Capital A/c			
<b>Total</b>		<b>Total</b>	

## BALANCE SHEET

The Balance Sheet is a statement of financial position which sets out the Assets and liabilities of an enterprise as at a certain date.

Balance Sheet of ..... as at .....

Liabilities	₹	Assets	₹
<b>Capital</b>		<b>Fixed Assets</b>	
<b>Reserves &amp; Surplus</b>		<b>Investments</b>	
<b>Loans</b>		<b>Current Assets:</b>	
<b>Current Liabilities:</b>		Stock	
Sundry Creditors		Debtors	
Outstanding Expenses		Cash at Bank, Cash in Hand	
<b>Total</b>		<b>Total</b>	

## ARRANGEMENT OF ASSETS AND LIABILITIES

	<b>Method 1: Permanence Approach</b>	<b>Method 2: Liquidity Approach</b>
<b>Assets</b>	Assets which are to be used in the business for a longer span of time and which are not meant for sale, are shown first. <ol style="list-style-type: none"> <li>1. <b>Fixed Assets:</b> <ul style="list-style-type: none"> <li>• Land and Building</li> <li>• Plant &amp; Machinery</li> <li>• Furniture &amp; Fixtures</li> </ul> </li> <li>2. <b>Current Assets</b> <ul style="list-style-type: none"> <li>• Stock</li> <li>• Sundry Debtors</li> <li>• Bills Receivable</li> <li>• Other Investments</li> <li>• Government Securities</li> <li>• Cash at Bank</li> <li>• Cash in hand</li> </ul> </li> </ol>	Assets which are readily convertible into cash are shown first <ol style="list-style-type: none"> <li>1. <b>Current Assets</b> <ul style="list-style-type: none"> <li>• Cash in hand</li> <li>• Cash at Bank</li> <li>• Government Securities</li> <li>• Other Investments</li> <li>• Bills Receivable</li> <li>• Sundry Debtors</li> <li>• Stock</li> </ul> </li> <li>2. <b>Fixed Assets</b> <ul style="list-style-type: none"> <li>• Furniture &amp; Fixtures</li> <li>• Plant &amp; Machinery</li> <li>• Land and Building</li> </ul> </li> </ol>
<b>Liabilities</b>	<ul style="list-style-type: none"> <li>• Capital</li> <li>• Reserves &amp; Surplus</li> <li>• Loans</li> <li>• Trade Creditors</li> <li>• Bills Payable</li> </ul> One way is to first show the capital, then long-term liabilities and then short-term	<ul style="list-style-type: none"> <li>• Bills Payable</li> <li>• Trade Creditors</li> <li>• Loans</li> <li>• Reserves &amp; Surplus</li> <li>• Capital</li> </ul> Start with short-term liabilities and then long term liabilities and last of all capital

## ADJUSTMENT ENTRIES IN FINAL ACCOUNTS

### 1. EXPENSES

#### Expenses



**Note:**

If O/s Expense, Prepaid Expense appearing in trial balance then effect only in balance sheet as entry has already been passed & respective expense has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	

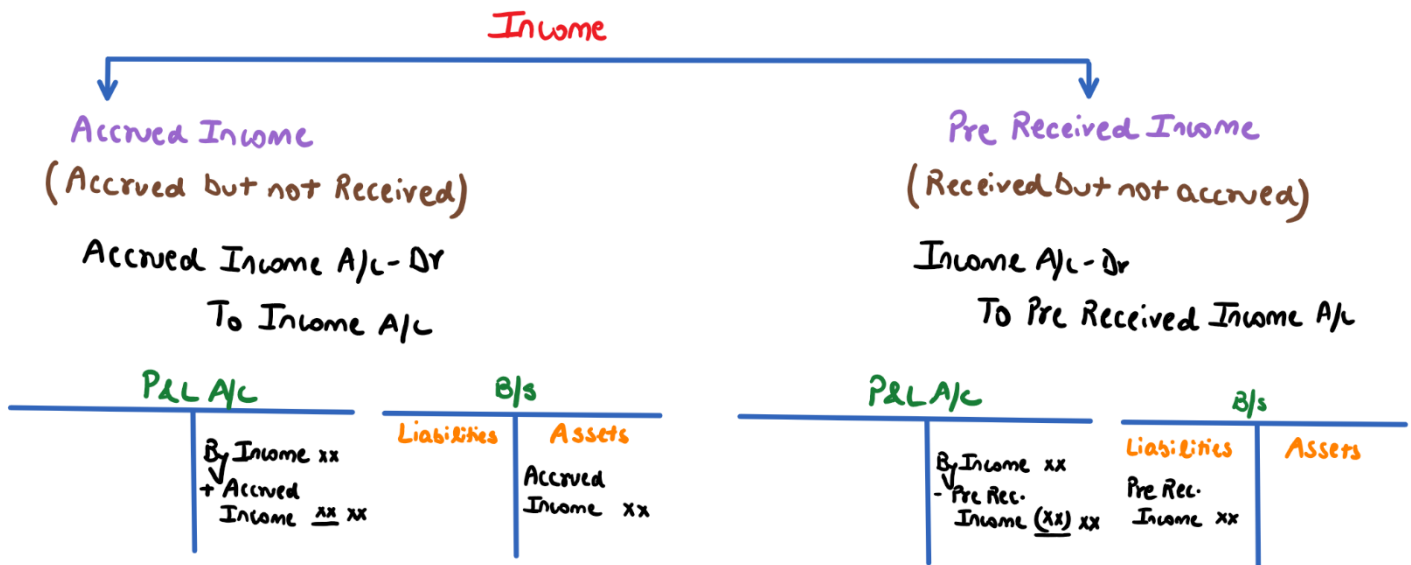
Adjustments:

- 1) O/s Salary 20000
- 2) Prepaid Rent 8000

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	
O/s Salary		20000
Prepaid Rent	8000	

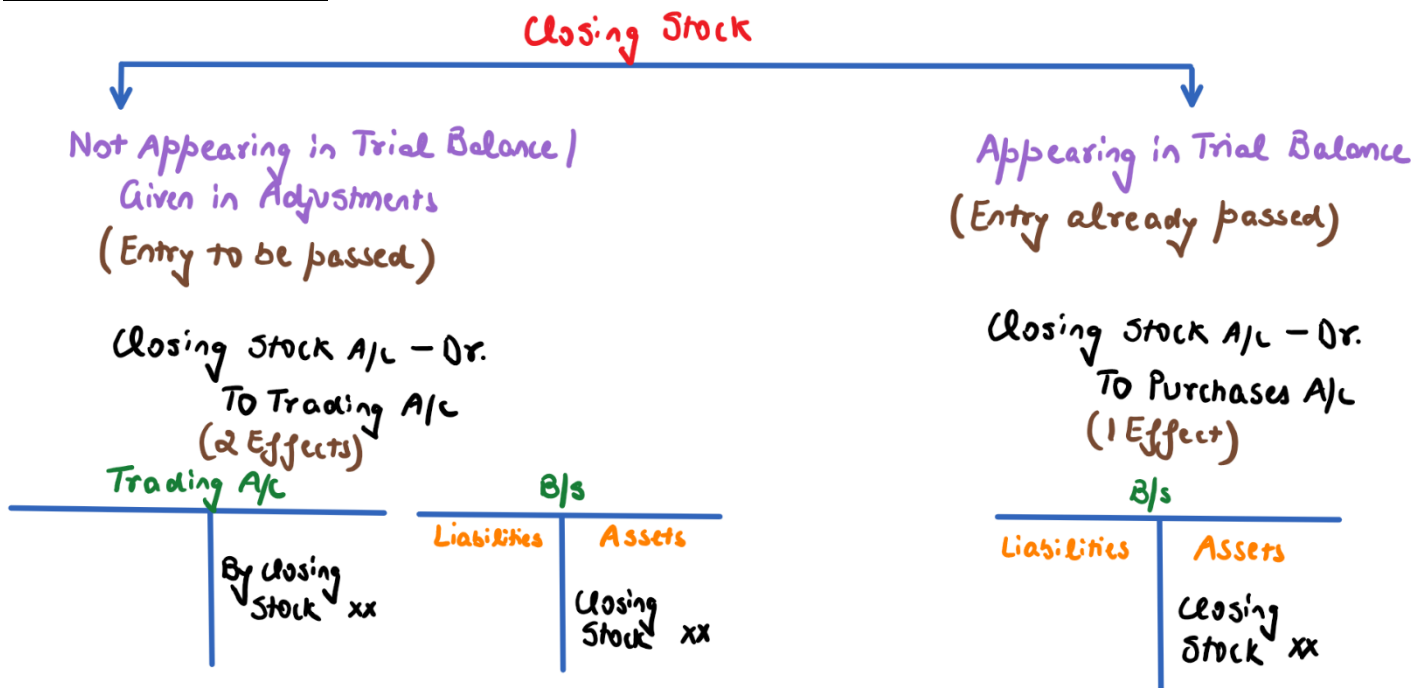
## 2. INCOMES



Note:

If Accrued Income, Pre received income appearing in trial balance then effect only in balance sheet as entry has already been passed & respective income has already been adjusted.

## 3. CLOSING STOCK



Example: Trial Balance

	Dr.	Cr.
Opening stock	100000	
Purchases	1200000	
Sales		2000000

Adjustments:

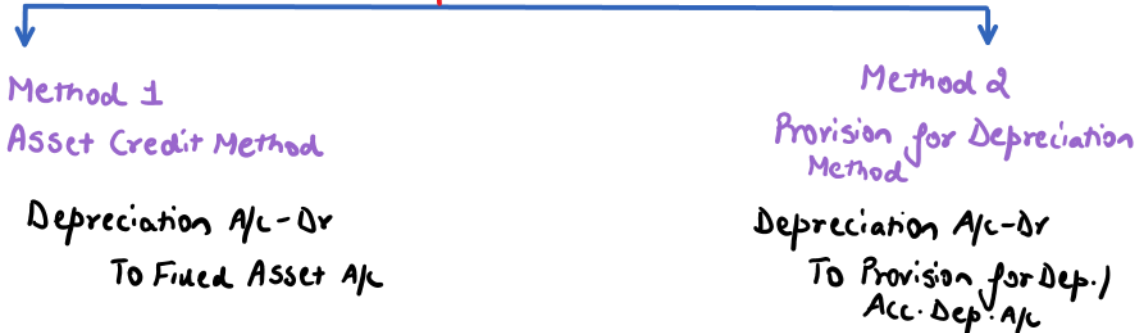
Closing stock 200000

Example: Trial Balance

	Dr.	Cr.
Purchases	1200000	
Closing stock	200000	
Sales		2000000

4. DEPRECIATION

Depreciation



P&L A/c		B/s		P&L A/c		B/s	
		Liabilities	Assets			Liabilities	Assets
To Dep. xx			Fixed Ass. xx	To Dep. xx			Fixed Ass. xx
			- Dep. (xx) xx				- Acc. Dep (xx) xx

Note:

If Depreciation appearing in trial balance then effect only in P&L Account

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	

Adjustments:

Dep. on Machinery 10% p.a.

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	
Dep. on Machinery	50000	

Example: Trial Balance

	Dr.	Cr.
Machinery	600000	
Prov. for Dep.		100000

Adjustments:

Dep. on Machinery 10% p.a.  
(WDR Method)

Example: Trial Balance

	Dr.	Cr.
Machinery	600000	
Prov. for Dep.		100000
Dep. on Machinery	30000	



## 5. ABNORMAL LOSS

1) Abnormal loss A/c - Dr  
To Trading A/c

2) Insurance claim Rec. A/c - Dr  
P&L A/c (Loss) - Dr  
To Abnormal loss A/c

Trading A/c		P&L A/c		B/s	
	By Abnormal loss xx	To Abnormal loss xx		Liabilities	Assets
					Ins. claim Rec. xx

## 6. SALE OF GOODS ON APPROVAL OR RETURN BASIS PENDING CONFIRMATION

1) Sales A/c - Dr  
To Debtors A/c  
(At Selling Price)

2) Stock with customers A/c - Dr  
To Trading A/c  
(Lower of cost or NRV)

Trading A/c		Balance sheet	
	By sales xx	Liabilities	Assets
	- Approval Basis (xx) xx		Debtors xx
	By closing stock		- Approval Basis (xx) xx
	In hand xx		Closing Stock
	With customers xx xx		In hand xx
			With customers xx xx

## 7. MANAGER COMMISSION

### Manager Commission

1) Manager Commission A/c - Dr  
To O/s Manager Commission

Before charging

$$\text{Net Profit before comm.} \times \frac{\text{Rate}}{100}$$

After charging

$$\text{Net Profit before comm.} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

Example:

Net Profit before Commission 110000

Commission

- a) 10% of Profits before charging Commission
- b) 10% of Profits after charging Commission

## 8. BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

### Bad Debts

1) Bad debts A/c - Dr  
To Debtors A/c

a) P/L A/c - Dr  
To Bad debts

P/L A/c	
To Bad debts xx	

B/s	
Liabilities	Assets
	Debtors xx
	- Bad debts (xx) Xx

### Example: Trial Balance

	Dr.	Cr.
Debtors	400000	

### Adjustments:

Bad debts 10000

### Example: Trial Balance

	Dr.	Cr.
Debtors	500000	
Bad debts	10000	

### Adjustments:

Further Bad debts 15000

## Provision for Doubtful Debts

P&L A/c - Dr

To Provision for Doubtful debts A/c

B/s		Provision for Doubtful Debts A/c		P&L A/c
Liabilities	Assets			
	Debtors xx	To Bad debts xx	By Bal b/d xx	
	- PDD (xx)	To Bal c/d xx	By P&L A/c (B.f.) xx	To PDD xx
	xx			

### Example:

Year 1: Debtors 500000  
Create Provision for Doubtful debts @ 2%.

Year 2: Case (a)

### Trial Balance

	Dr.	Cr.
Prov. for Doubtful Debts		10000
Debtors	1000000	
Bad debts	30000	

Create Provision for Doubtful Debts @ 2%.

Year d: Case (b)

**Trial Balance**

	Dr.	Cr.
Prov. for Doubtful debts		10000
Debtors	1000000	
Bad debts	30000	

Adjustments:

Further Bad debts 20000  
Create Provision for Doubtful debts @ 2%.

### 9. DISCOUNT ALLOWED AND PROVISION FOR DISCOUNT ON DEBTORS

The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who make their payment promptly after getting the discount.

Example:

**Trial Balance**

	Dr.	Cr.
Bad debts	20000	
Discount Allowed	30000	
Debtors	1000000	
Prov. for Doubtful debt		5000
Prov. for Discount		15000

Adjustments:

Create Provision for Doubtful debts @ 3%  
Create Provision for Discount @ 5%.

## 10. DISCOUNT RECEIVED AND RESERVE FOR DISCOUNT ON CREDITORS

**Note:** Provision for discount on creditors is often not provided in keeping with principle of conservatism.

Example :

Trial Balance

	Dr.	Cr.
Prov. for Disc. on Creditors	15000	
Creditors		500000
Discount Received		25000

Create Provision @ 2%.

## 11. GOODS USED OTHER THAN FOR SALE

	Situation	Journal Entry	Treatment in financial Statement
1.	Goods withdrawn by Proprietor for personal use	Drawings A/c           Dr. To Purchases A/c	Reduce from capital in B/ sheet Purchases reduced in Trading A/c
2.	Goods given away as charity/ donation	Donation / Charity A/c Dr. To Purchases A/c	Add to donation / charity A/c Purchases reduced in Trading A/c
3.	Goods distributed as free sample	Sample/Advertisement A/c Dr. To Purchases A/c	Add to samples/advt. in P/L A/c Purchases reduced in Trading A/c
4.	Goods used in business, for construction of building or machinery	Building/Machinery A/c Dr. To Purchases A/c	Add to Assets Cost in B/ sheet Purchases reduced in Trading A/c

## 12. OTHER MISC. ITEMS

	Adjustment	Journal entry	Treatment in Trading and P&L A/c	Treatment in Balance sheet
1.	Stock of stationery, advertisement Material, etc.	Stock of stationery, advertisement Material Dr. To Expenses A/c	Reduce from respective expense on debit side of P&L A/c	Assets side under "current assets"
2.	Interest on capital	Interest on capital A/c Dr. To Capital	Show in debit side of P&L A/c	Add to capital A/c on the liabilities Side.
3.	Interest on drawings	Capital A/c                   Dr. To Interest on drawings	Show in credit side of P&L A/c.	Reduce from capital A/c on liabilities side

**Question 1: (ICAI Study Material)**

Mr. Ravi gives you the following trial balance and some other information:

**Trial Balance as on 31st March, 2023**

Particulars	Debit (Rs.)	Credit (Rs.)
Capital Account		6,50,000
Sales		9,70,000
Purchases	4,30,000	
Opening Inventory	1,10,000	
Freights Inward	40,000	
Salaries	2,10,000	
Other Administration Expenses	1,50,000	
Furniture	3,50,000	
Trade receivables and Trade payables	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	1,00,000	
Cash in Hand and Cash at Bank	1,87,000	
<b>Total</b>	<b>18,31,000</b>	<b>18,31,000</b>

(i) Closing Inventory was Rs. 1,80,000; (ii) Depreciate Furniture @ 10% p.a. Prepare final accounts & pass opening journal entry as on 01.04.2023.

**Solution:****Books of Ravi****Trading Account for the year ended 31st March, 2023**

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Inventory		1,10,000	By Sales	9,70,000	
To Purchases	4,30,000		Less Return Inward	(20,000)	9,50,000
Less: Return Outward	(12,000)	4,18,000	By Closing Inventory		1,80,000
To Freight Inwards		40,000			
To Gross Profit (Bal. Fig.)		5,62,000			
		<b>11,30,000</b>			<b>11,30,000</b>

**Profit & Loss Account for the year ended 31st March, 2023**

Particulars	Amount	Particulars	Amount
To Salaries	2,10,000	By Gross Profit	5,62,000
To Administration expenses	1,50,000	By Discount received	9,000
To Discount allowed	19,000		
To Bad debts	5,000		
To Depreciation (3,50,000*10%)	35,000		
To Net Profit (Bal. Fig.)	1,52,000		
	<b>5,71,000</b>		<b>5,71,000</b>

**Balance Sheet as on 31.03.2023**

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	6,50,000		Furniture	3,50,000	
Add: Net profit	1,52,000	8,02,000	Less: Depreciation	(35,000)	3,15,000
Trade payables		1,90,000	Closing Inventory		1,80,000
			Trade receivables		2,10,000
			Investment in Govt Sec.		1,00,000
			Cash in Hand and Bank		1,87,000
		<b>9,92,000</b>			<b>9,92,000</b>

**Opening Entry (01.04.2023)**

Date	Particulars	L.F.	Debit	Credit	
01.04	Furniture A/c Dr.		3,15,000		
	Inventory A/c Dr.		1,80,000		
	Trade receivables A/c Dr.		2,10,000		
	Investment in Govt Sec. A/c Dr.		1,00,000		
	Cash and Bank A/c Dr.		1,87,000		
		To Trade Payables A/c			1,90,000
		To Capital A/c			8,02,000
		(Being the balances brought forward)			

**Question 2: (RTP Nov 2018)/(RTP May 2021)/(RTP May 2023) (Similar)**

The following is the Trial Balance of Hari as at 31<sup>st</sup> December, 2023:

	Dr. (Rs.)	Cr. (Rs.)
Hari's Capital Account	-	76,690
Stock 1st January, 2023	46,800	-
Sales	-	3,89,600
Returns Inwards	8,600	-
Purchases	3,21,700	-
Returns Outwards	-	5,800
Carriages Inwards	19,600	-
Rent & Taxes	4,700	-
Salaries & Wages	9,300	-
Sundry Debtors	24,000	-
Sundry Creditors	-	14,800
Bank Loan @14% p.a.	-	20,000
Bank Interest	1,100	-
Printing and Stationary Expenses	14,400	-
Bank Balance	8,000	-
Discount Earned	-	4,440
Furniture & Fittings	5,000	-
Discount Allowed	1,800	-
General Expenses	11,450	-
Insurance	1,300	-
Postage & Telegram Expenses	2,330	-
Cash Balance	380	-
Travelling Expenses	870	-
Drawings	30,000	-
	<b>5,11,330</b>	<b>5,11,330</b>

The following adjustments are to be made:

- Included amongst the Debtors is Rs. 3,000 due from Ram and included among the Creditors Rs. 1,000 due to him.
- Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.
- Depreciation on Furniture & Fittings @ 10% shall be written off.
- Personal Purchases of Hari amounting to Rs. 600 had been recorded in the Purchases Day Book.
- Interest on Bank Loan shall be provided for the whole year.
- A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
- Credit Purchase Invoice amounting to Rs. 400 had been omitted from the Books.
- Stock on 31.12.2023 was Rs. 78,600.

Prepare:

- Trading & Profit and Loss Account for the year ended 31.12.2023 and
- Balance Sheet as on 31<sup>st</sup> December, 2023.



**Solution:****Trading and Profit and Loss Account of Mr. Hari**

Particulars	Amount	Particulars	Amount
To Opening Stock	46,800	By Sales	3,89,600
To Purchases	3,21,700	Less : Returns	<u>(8,600)</u>
Add: Omitted Invoice	400	By Closing Stock	78,600
Less: Returns	<u>(5,800)</u>		
Less: Drawing	<u>(600)</u>		
To Freight & Carriage	19,600		
To Gross Profit c/d	77,500		
	<b>4,59,600</b>		<b>4,59,600</b>
To Rent and taxes	4,700	By Gross Profit b/d	77,500
To Salaries and wages	9,300	By Discount	4,440
To Bank Interest	1,100		
Add: Due	<u>1,700</u>		
To Printing & Stationery	14,400		
Less: Prepaid	<u>(3,600)</u>		
To Discount allowed	1,800		
To General Expenses	11,450		
To Insurance	1,300		
To Postage & Telegram Expenses	2,330		
To Traveling Expenses	870		
To Provision for Bad Debts (New)	1,150		
To Provision for Discount on Debtors	437		
To Depreciation on Furniture & Fittings	500		
To Net Profit tfd. to Capital A/c	34,503		
	<b>81,940</b>		<b>81,940</b>

**Balance Sheet of Hari  
as at 31<sup>st</sup> December, 2023**

Liabilities	Amount	Assets	Amount
Capital	76,690	Furniture and Fittings	5,000
Add: Net Profit	34,503	Less: Dep.	<u>(500)</u>
Less: Drawings	<u>(30,600)</u>	Sundry Debtors(24,000-1,000)	23,000
(Cash 30,000+Goods 600)	80,593	Less: Prov. for D/D	<u>(1,150)</u>
Bank Loan	20,000		21,850
Bank Interest Due	1,700	Less: Provision for discount	<u>(437)</u>
Sundry Creditors [1]	14,200	Stock	78,600
		Prepaid: Printing & Stationery	3,600
		Bank Balance	8,000
		Cash Balance	380
	<b>1,16,493</b>		<b>1,16,493</b>

**Working Note (1):**

Sundry Creditors Balance as per Trial Balance	14,800
Less : Set off in respect of Ram	<u>(1,000)</u>
	13,800
Add : Purchases Invoice which were omitted	<u>400</u>
	<b>14,200</b>

**Question 3: (CA Foundation May 2018) (20 Marks)/(RTP May 2020)/(RTP Nov 2023)**

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2023, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

	Dr. (Rs.)	Cr. (Rs.)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs of Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
	<b>30,73,400</b>	<b>30,73,400</b>

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the Balance Sheet as at that date after making provision for the following:

- Depreciate Building by 5%, Furniture & Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was Rs. 4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022
- Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes Rs. 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

**Solution:**

**M/s Raghuram & Associates**  
**Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2023**

Particulars	Amount	Particulars	Amount
To Opening Stock	3,20,000	By Sales	15,00,000
To Purchases	12,00,000	Less: Return	(24,000)
Less: Returns	(18,000)	By Closing Stock	4,10,000
To Freight	62,000		
To Gross Profit c/d	3,22,000		
	<b>18,86,000</b>		<b>18,86,000</b>
To Salaries	72,000	By Gross Profit b/d	3,22,000
To Rent	55,000	By Discount Received	12,000
Add: O/s Rent	5,000		
To Provision for Doubtful Debts (WN-1)	16,200		
To Rent and Taxes	24,000		
To Discount Allowed	7,500		
To Carriage outwards	8,500		
To Printing and stationery	6,000		
To Electricity charges	14,000		
To Insurance premium (W.N. 1)	4,800		
To Depreciation (W.N. 2)	80,000		
To General expenses	11,000		
To Bank Charges	3,800		
To Interest on loan	4,400		
Add: O/s Interest	100		
To Motor car expenses (Repairs)	13,000		
To Net profit tfd to Capital Account	8,700		
	<b>3,34,000</b>		<b>3,34,000</b>

**Balance Sheet of M/s Raghuram & Associates**  
**(as at 31<sup>st</sup> March, 2023)**

Liabilities	Amount	Assets	Amount
<u>Capital Account</u>		Land & Building	5,00,000
Opening Balance	14,11,400	Less: Dep.	(25,000)
Add: Profit	8,700	Motor Vehicles	1,00,000
Less: Drawings	(20,000)	Less: Dep.	(20,000)
Less: Prop. Ins Prem.	(42,000)	Office equipment	2,00,000
Loan from Rajan	60,000	Less: Dep.	(30,000)
Add: O/s Interest	100	Furniture & Fixture	50,000
Sundry Creditors	62,000	Less: Dep.	(5,000)
O/s Rent	5,000	Closing Stock	4,10,000
		Sundry Debtors	2,80,000
		Less: Prov. for D/D	(14,000)
		Prepaid insurance (W.N. 1)	1,200
		Cash at Bank	16,000
		Cash in Hand	22,000
	<b>14,85,200</b>		<b>14,85,200</b>

**Working Notes:****1. Insurance premium**

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months (6,000*3/15)	(1,200)
Transfer to Profit and Loss A/c	<b>4,800</b>

**2. Depreciation**

On Building (5% of 5,00,000)	25,000
On Motor Vehicles (20% of 1,00,000)	20,000
On Furniture & Fittings (10% of 50,000)	5,000
On Office Equipment (15% of 2,00,000)	30,000
	<b>80,000</b>

**3. Interest on Loan**

Interest on Loan (60,000*10%*9/12)	4,500
Less: Interest as per Trial Balance	(4,400)
Amount Outstanding	<b>100</b>

**4. Provision for Doubtful Debts Account**

Particulars	Amount	Particulars	Amount
To Bad Debts A/c	12,200	By Balance b/d	10,000
To Balance c/d (2,80,000)*5%	14,000	By P&L A/c (Bal. Fig.)	16,200
	<b>26,200</b>		<b>26,200</b>

## **MANUFACTURING ACCOUNT**

- (a) The Manufacturing Account shows the total cost of manufacturing the finished products, with appropriate details and classifications of **Cost**.
- (b) The debits to this account consist of the cost of materials consumed, Manufacturing Wages and Expenses incurred directly or indirectly on manufacture.
- (c) This Account is relevant only for Manufacturing Entities, and is not applicable for Trading Entities.

### Manufacturing Account of .....for the year ended.....

Particulars	Rs.	Particulars	Rs.
To Material consumed: Opening stock of raw materials <b>Add:</b> Purchases of Raw Materials <b>Less:</b> Closing Stock of Raw Materials To Direct Manufacturing Wages To Direct Expenses ( <b>Note 1</b> ) To Production Overheads ( <b>Note 2</b> ) To Opening Stock of WIP		By Closing stock of WIP By Net Factory Cost of Production Trfd to Trading A/c (bal. fig) By NRV/ Sale Value of By-Products, if any ( <b>Note 3</b> )	
<b>Total</b>		<b>Total</b>	

### Trading Account of .....for the year ended.....

Particulars	Rs.	Particulars	Rs.
To Opening stock of finished goods To Manufacturing account – Cost of Prodn To Gross Profit c/d to P&L Account		By Sales By Closing stock of finished goods	
<b>Total</b>		<b>Total</b>	

#### **Note:1**

Direct Manufacturing Expenses are costs, other than Materials and Wages, which are incurred for a specific product/ service.

**Examples:** (a) Royalty for use of license/ technology, (b) Hire Charges of Plant / Equipment, if based on units produced.

#### **Note:2**

These are called factory Overheads/ Production Overheads/ Works Overheads/ Manufacturing Overheads etc.

It is the Total **Indirect costs** (Indirect Materials + Indirect Labour + Indirect Expenses) which cannot be linked directly to units produced.

**Examples:** Factory Rent, Depreciation on Machinery, Supervisor's Salary, Consumables like Oils, Lubricants, etc.

#### **Note:3**

By-Product is an incidental product, arising during the production operations, having some saleable value.

**Examples:** Molasses is the by-product in sugar manufacturing  
Net Realizable Value of By-product is credited to this account

**Question 4: (ICAI Study Material)**

Mr. Sahil runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2023

W.I.P.	- Opening	3,90,000
	- Closing	5,07,000
Raw Materials	- Purchases	12,10,000
	- Opening	3,02,000
	- Closing	3,10,000
	- Returned	18,000
	- Indirect material	16,000
Wages	- direct	2,10,000
	- Indirect	48,000
Direct expenses	- Royalty on production	1,30,000
Indirect Expenses	- Repairs and maintenance	2,30,000
	- Depreciation on factory shed	40,000
	- Depreciation on plant & machinery	60,000
By-product at selling price		20,000

You are required to prepare Manufacturing Account of Mr. Sahil for the year ended on 31.3.2023.

**Solution:**

**Books of Mr. Sahil**  
**Manufacturing Account for the year ended 31st March, 2023**

Particulars	Amount	Amount	Particulars	Amount
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By- products (at S.P.)	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished goods transferred (Bal. Fig.)	
Less: Return	(18,000)			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Dep. on Factory Shed	40,000			
Dep. on Plant & Machinery	60,000	3,94,000		
		<b>23,08,000</b>		<b>23,08,000</b>

**Question 5: (CA Foundation June 2022) (20 Marks)**

The following is the trial balance of Mr. B for the year ended 31st March,2023:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad and doubtful debts	7,000
Plant and Machinery	1,05,000	Sales	29,75,000
Investments	87,500	Bank Overdraft	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

- Stock of finished goods at the end of the year was ₹ 3,50,000.
- A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.
- Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.
- Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March,2023 and Balance Sheet as at that date.

**Solution:**

**In the books of Mr. B**  
**Manufacturing Account for the year ended 31st March, 2023**

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	<u>(17,500)</u>	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent & Rates		70,000		
To Depreciation on Machinery		10,500		
		<b>28,28,000</b>		<b>28,28,000</b>

**Trading Account for the year ended 31st March, 2023**

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	<u>(35,000)</u>
To Gross Profit c/d	1,99,500	By Closing Stock	3,50,000
	<b>32,90,000</b>		<b>32,90,000</b>

**Profit and Loss Account for the year ended 31st March, 2023**

Particulars		₹	Particulars	₹
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	<u>7,000</u>	77,000		
To Interest Paid	24,500			
Less: Prepaid	<u>(5,250)</u>	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	<u>(7,000)</u>	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		<b>2,95,750</b>		<b>2,95,750</b>

\*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.



**Balance Sheet as at 31st March, 2023**

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	<u>84,000</u>		Less: Depreciation	<u>(10,500)</u>	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	<u>(70,000)</u>	3,64,000	Less: Depreciation	<u>(3,500)</u>	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	
			Less: Provision for Bad & Doubtful Debts	<u>(7,000)</u>	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		<b><u>14,10,500</u></b>			<b><u>14,10,500</u></b>

\*\*If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

# DEPRECIATION

## CONCEPT OF DEPRECIATION

**Property, plant and equipment** are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than a period of 12 months.

It is necessary that part of the acquisition cost of the fixed assets is treated or allocated as an expense in each of the accounting period in which the asset is utilized. The amount of fixed assets allocated in such manner to respective accounting period is called depreciation.

### Meaning of Depreciation

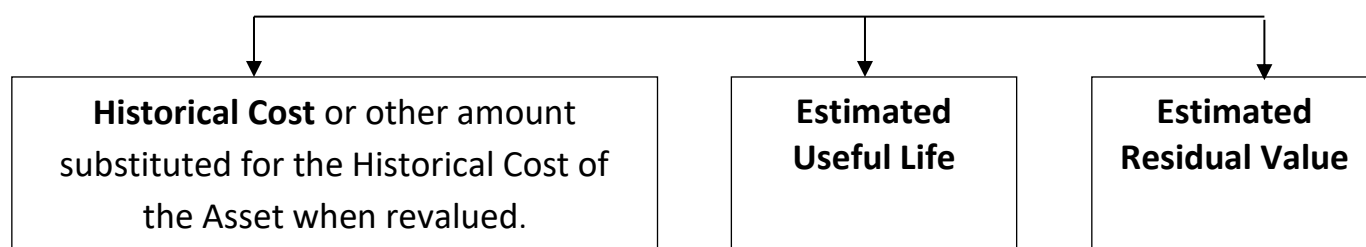
Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation starts from the day asset is available for use.

### OBJECTIVES FOR PROVIDING DEPRECIATION

1. True cost of production
2. Income measurement
3. True Position Statement
4. Funds for replacement

## FACTORS FOR DEPRECIATION

Assessment of depreciation & amount of depreciation are usually based on the following three factors



These factors are explained as follows -

### 1. Historical Cost:

Purchase price	XX
Add : Other Non-refundable taxes & duties	XX
Add: Any directly attributable cost of bringing the asset to its working condition for its intended use	XX
Less: Trade discount & rebates	(XX)
<b>Cost of Asset</b>	<b>XX</b>

2. 'Useful Life' is either -

- (a) The period over which a depreciable asset is expected to be used by the enterprise, or
- (b) The number of production or similar units expected to be obtained from the use of the asset by the enterprise.

3. **Residual/Scrap Value** is the amount likely to be obtained by the disposal of the Fixed Asset at the end of its Useful Life.

### **DEPRECIABLE AMOUNT**

'Depreciable Amount' of a Depreciable Asset is determined as under -

Particulars	Amount
Historical Cost, or other amount substituted for it in the Financial Statements	XX
Less: Estimated Residual Value	(XX)
Depreciable Amount	<b>XX</b>

## METHODS OF DEPRECIATION

The following methods are available for computing and allocating the depreciable amount of an asset over its useful life -

- ❖ Fixed Instalment or Straight Line Method
- ❖ Reducing Balance or Written Down Value (WDV) Method,
- ❖ Sum of Digits of Years Method
- ❖ Machine Hour Method,
- ❖ Production Units Method,
- ❖ Depletion Method,

### **Method 1: FIXED INSTALMENT/ORIGINAL COST OR STRAIGHT LINE METHOD (SLM)**

<b>Meaning</b>	<ul style="list-style-type: none"> <li>➤ Under this method, an equal or constant amount of depreciation is written off from Depreciable Asset every year.</li> <li>➤ Suitable for assets which generates equal utility during every year of its useful life.</li> <li>➤ At the end of the useful life of the asset, the cost of the asset will be NIL or equal to its Residual Value / Scrap Value.</li> </ul>
<b>Formula</b>	$\text{Straight Line Depreciation} = \frac{\text{Cost of Asset Less Residual Value}}{\text{Useful Life}}$ $\text{SLM Depreciation Rate} = \frac{\text{SLM Depreciation}}{\text{Cost of Asset}} \times 100$
<b>Example</b>	X Ltd purchased a Machine costing Rs 10 Lakhs, having a useful life of 5 years. Its estimated Residual Value is Rs 1 Lakh.

## Method 2: REDUCING/DIMINISHING BALANCE/WRITTEN DOWN VALUE (WDV) METHOD

<b>Meaning</b>	<ul style="list-style-type: none"> <li>➤ Depreciation Amount for each year is computed by applying a fixed % on the Opening Balance of the Asset (i.e. Diminishing Balance of the Asset.)</li> <li>➤ Reducing Balance refers to the Written Down Value of the Asset, i.e. value of the asset as reduced by the depreciation upto the previous year.</li> <li>➤ The value of the asset will never be extinguished, as it happens in SLM Method.</li> <li>➤ Depreciation Rate is computed such that at the end of the useful life of the asset, the cost of asset will be equal to its Residual Value / Scrap Value.</li> </ul>
<b>Formula</b>	$\text{WDV Depreciation Rate} = 1 - \sqrt[n]{\frac{\text{Residual.Value}}{\text{Cost.of.Asset}}}$ , where n = Useful Life.
<b>Example</b>	X Ltd purchased a machine costing Rs 10 Lakhs, and has ascertained its WDV rate as 10% p.a. Depreciation amounts for the first five years will be as under –

Particulars	Year 1	Year 2	Year 3
Cost / Opening WDV			
(-)Depreciation			
Closing WDV			

## Method 3: SUM OF DIGITS OF YEARS METHOD

<b>Meaning</b>	It is a variation of the WDV Method. Under this method, Depreciation Amount for each year is computed by applying the following formula -
<b>Formula</b>	$\text{Dep.} = \text{Depreciable Amt.} \times \frac{\text{No.of years of balance useful life (including current year)}}{\text{Total of Digits of the Useful Life of the Asset (in years)}}$
<b>Example</b>	X Ltd purchased a machine costing Rs 78 Lakhs, having a useful life of 5 years, and estimated Scrap Value Rs 3 Lakhs. Depreciation amounts for the five years will be -

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Depreciation Amount for the year					

Note: Depreciation is calculated on the Depreciable Amt, i.e. Cost less Residual Value

#### Method 4: MACHINE HOUR METHOD

<b>Meaning</b>	In this method, Depreciation is computed based on the number of Machine Hours (rather than years). Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life
<b>Formula</b>	$\text{Dep.} = \text{Depreciable Amt} \times \frac{\text{No. of Machine Hours during the year}}{\text{Total Machine Hours during the entire useful life}}$
<b>Example</b>	X Ltd purchased a machine costing Rs 23,00,000, having a Scrap Value of Rs 2,30,000. The machine has a useful life of 20,700 machine hours distributed as under – <ul style="list-style-type: none"><li>• Years 1 to 3: 2,500 machine hours each,</li><li>• Years 4 to 6: 2,000 machine hours each, and</li><li>• Years 7 to 10: 1,800 machine hours each.</li></ul> In this case, Depreciation Amounts will be computed as under – $\text{Dep. (Yr 1 to 3)} = \frac{2070000 \times 2500}{20700} = 250000 \text{ p.a.}$ $\text{Dep. (Yr. 4 to 6)} = \frac{2070000 \times 2000}{20700} = 200000 \text{ p.a.}$ $\text{Dep. (Yr 7 to 10)} = \frac{2070000 \times 1800}{20700} = 180000 \text{ p.a.}$

#### Method 5: PRODUCTION UNITS METHOD

<b>Meaning</b>	In this method, Depreciation is computed based on the production / output quantity.
<b>Formula</b>	$\text{Dep.} = \text{Depreciable Amt} \times \frac{\text{Production Quantity for the current year}}{\text{Total Estimated Production Quantity from the Machine}}$
<b>Example</b>	X Ltd purchased a machine costing Rs 25,00,000, having a Scrap Value of Rs 5,00,000. The machine is expected to produce 10,00,000 units of output in the following manner – <ul style="list-style-type: none"><li>• Years 1 &amp; 2: 1,15,000 units each,</li><li>• Years 3 to 7: 1,00,000 units each, and</li><li>• Years 8 to 10: 90,000 units each.</li></ul> In this case, Depreciation Amounts will be computed as under – $\text{Dep. (Yr 1 \& 2)} = \frac{2000000 \times 115000}{1000000} = 230000 \text{ p.a.}$ $\text{Dep. (Yr 3 to 7)} = \frac{2000000 \times 100000}{1000000} = 200000 \text{ p.a.}$ $\text{Dep. (Yr 8 to 10)} = \frac{2000000 \times 90000}{1000000} = 180000 \text{ p.a.}$

## Method 6: DEPLETION METHOD

<b>Meaning</b>	<ul style="list-style-type: none"> <li>➤ Depletion means reduction or exhaustion.</li> <li>➤ This method is used in the case of Mines, Quarries, Oil Well, etc. containing only a certain estimated quantity of resources / products.</li> </ul>
<b>Formula</b>	$\text{Dep.} = \text{Depreciable Amt} \times \frac{\text{Quantity of Mineral / Oil extracted during current year}}{\text{Total Estimated Quantity from the Mine / Quarry / Well}}$
<b>Example</b>	<p>X Ltd took a quarry on lease by paying Rs. 75,00,000. As per technical estimate, the total quantity mineral deposit is 1,00,000 tonnes. The extraction pattern is given below –</p> <ul style="list-style-type: none"> <li>• Year 1: 6,000 tones,</li> <li>• Years 2 to 5: 15,000 tones each, and</li> <li>• Years 6 &amp; 7: 17,000 tones each.</li> </ul> <p>In this case, Depreciation Amounts will be computed as under –</p> <p><b>Dep. (Yr.1) =</b> <math>75L \times \frac{6000}{1L} = 450000</math></p> <p><b>Dep. (Yr 2 to 5) =</b> <math>75L \times \frac{15000}{1L} = 1125000 \text{ p.a.}</math></p> <p><b>Dep. (Yr 6 &amp; 7) =</b> <math>75L \times \frac{17000}{1L} = 1275000 \text{ p.a.}</math></p>

## ACCOUNTING ENTRIES FOR DEPRECIATION

Depreciation can be recorded in the books of account, under 2 approaches, which are described below -

Method	Method 1 Asset Credit Method	Method 2 Provision for Depreciation Method
<b>Journal Entry</b>	Depreciation A/c Dr. To Fixed Asset A/c Profit and Loss A/c Dr. To Depreciation A/c	Depreciation A/c Dr. To Provision for Depreciation A/c Profit and Loss A/c Dr. To Depreciation A/c
<b>Provision for Depreciation A/c</b>	There is no Provision for Depreciation Account at all.	Depreciation for each year is credited to Provision for Depreciation A/c, which shows the Accumulated Depreciation on the Asset.
<b>Effect on Asset A/c</b>	Asset A/c is shown at Historical Cost less Depreciation. So, balance in Asset A/c is reduced year after year.	Asset is shown in the books at Original Cost. Net Book Value = Original Cost less Accumulated Depreciation thereon.

**Note:** The above schemes are applicable to SLM and WDV Methods. The same treatment is applicable under - (a) Sum of Digits, (b) Machine Hours, (c) Production Units, and (d) Depletion Methods.

**Example:** Cost = 1000000 Life = 10 years Scrap Value = 100000 SLM

$$\text{Dep.} = \frac{10L - 1L}{10}$$

$$\Rightarrow 90000 \text{ p.a.}$$

Balance sheet			
Liabilities	Assets	Yr 1	Yr 2
	Machinery	910000	820000
	Machinery - Prov. for Dep.	1000000 (90000)	1000000 (180000)

## **CHANGE IN ESTIMATED USEFUL LIFE & SCRAP VALUE**

The useful lives & scrap values of major depreciable assets or classes of depreciable assets may be reviewed periodically. The change should be accounted for as a change in an accounting estimate. Where there is a revision of the estimated useful life or scrap value of an asset, the unamortised depreciable amount should be charged over the revised estimate.

### **Example**

B Ltd. owns an asset with an original cost of Rs. 2,00,000. On acquisition, management determined that the useful life was 10 years and the residual value would be Rs. 20,000. The asset is now 8 years old, and during this time there have been no revisions to the assessed residual value. At the end of year 8, management has reviewed the useful life and residual value and has determined that the useful life can be extended to 12 years in view of the maintenance program adopted by the company. As a result, the residual value will reduce to Rs. 10,000. How would the above changes in estimates be made by B Ltd.?

### **Solution**

The changes in estimates would be effected in the following manner:

The asset has a carrying amount of Rs. 56,000 at the end of year 8 [Rs. 2,00,000 – Rs. 1,44,000] i.e. Accumulated Depreciation.

**Accumulated depreciation is calculated as**

Depreciable amount {Cost less residual value} = Rs. 2,00,000 – Rs. 20,000 = Rs. 1,80,000.

Annual depreciation = Depreciable amount / Useful life = 1,80,000 / 10 = Rs. 18,000.

Accumulated depreciation = 18,000 × No. of years (8) = Rs. 1,44,000.

Revision of the useful life to 12 years results in a remaining useful life of 4 years (12 – 8).

The revised depreciable amount is Rs. 46,000. (56,000 – 10,000)

Thus, depreciation should be charged in future at Rs. 11,500 per annum (Rs. 46,000/4 years).

## **CHANGE IN METHOD OF DEPRECIATION**

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Whenever any change in depreciation method is made such change in method is treated as change in accounting estimate as per Accounting Standards.

Change in method of depreciation is applied with prospective effect. Hence, it is recalculated in accordance with the new method from the date method is changed.

## **REVALUATION OF DEPRECIABLE ASSETS (Applied on entire class of PPE)**

<b>First Revaluation</b>	<b>Upward</b>	Use Revaluation Surplus (R/S)				
	<b>Downward</b>	Use P & L A/c				
<b>Subsequent Revaluation</b>		<b>Case</b>	<b>1st</b>	<b>2nd</b>	<b>1st</b>	<b>2<sup>nd</sup></b>
		1	↑	↑	R/S	R/S
		2	↓	↓	P & L	P & L
		3	↑	↓	R/S	Use R/S 1st
		4	↓	↑	P & L	Use P&L 1st

### ***Example***

A Plant & Machinery costing Rs. 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of fourth year, the machinery was revalued upwards by Rs. 40,000. The remaining useful life was reassessed at 8 years. Calculate depreciation for the fifth year.

### **Solution**

Depreciable amount {Cost less residual value} = Rs. 10,00,000 – Nil = Rs. 10,00,000.

Annual depreciation = Depreciable amount / Useful life = 10,00,000 / 10 = Rs. 1,00,000.

Accumulated depreciation = 1,00,000 × No. of years (4) = Rs. 4,00,000.

Carrying amount at the end of year 4 = Rs. 6,00,000 [Rs. 10,00,000 – Rs. 4,00,000]

Revised carrying amount after revaluation = 6,00,000+40,000 = 6,40,000

Now remaining useful life 8 years . The revised depreciable amount is Rs. 6,40,000.

Thus, depreciation for 5<sup>th</sup> year = Rs. 80,000 (Rs. 6,40,000/8 years).

### **SALE / DISPOSAL OF DEPRECIABLE ASSETS**

Sale/Disposal of Depreciable Assets in dealt with in the following manner —

1. Ascertain Depreciation for the year (upto the date of disposal), and charge the same for that year.
2. Determine Net Book Value" (or) Written Down Value of the Asset = Historical Cost less Depreciation till date, including depreciation upto the date of disposal.
3. Compare Net Book Value of Asset with its Disposal Value and ascertain Profit / (Loss) on disposal & thereafter transfer the Profit / (Loss) on disposal to the Profit and Loss Account.



**Question 1: (CA Foundation Jan 2021) (10 Marks)**

M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year. Give the motor truck account for two years ending 31st December, 2020.

**Solution**

**Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
1/1	To Balance b/d	3,50,00,000	1/10	By Bank A/c	35,00,000
1/10	To P&L A/c (Profit on Settlement of Truck)	7,50,000	1/10	By Depreciation on lost assets	7,50,000
1/10	To Bank A/c	60,00,000	31/12	By Depreciation A/c	93,00,000
			31/12	By Balance c/d	2,82,00,000
		<b>4,17,50,000</b>			<b>4,17,50,000</b>
2020			2020		
1/1	To Balance b/d	2,82,00,000	31/12	By Depreciation A/c	1,02,00,000
			31/12	By Balance c/d	1,80,00,000
		<b>2,82,00,000</b>			<b>2,82,00,000</b>

**Working Note:** To find out loss on Profit on settlement of truck

Original cost as on 1.4.2017	50,00,000
Less: Depreciation for 2017 (6 months)	(5,00,000)
	45,00,000
Less: Depreciation for 2018	(10,00,000)
	35,00,000
Less: Depreciation for 2019 (9 Months)	(7,50,000)
	27,50,000
Less: Amount received from Insurance company	(35,00,000)
<b>Profit</b>	<b>7,50,000</b>

**Calculation of WDV of 10 Trucks as on 01.01.2019**

WDV of 1 truck as on 31.12.2018 35,00,000  
WDV of 10 trucks as on 01.01.2019 3,50,00,000

**Calculation of Depreciation for 2019 & 2020**

**Depreciation for 2019**

On 9 trucks (50,00,000\*9\*20%) 90,00,000  
On new truck (60,00,000\*20%\*3/12) 3,00,000  
93,00,000

**Depreciation for 2020**

On 9 trucks (50,00,000\*9\*20%) 90,00,000  
On new truck (60,00,000\*20%) 12,00,000  
1,02,00,000

**Question 2: (CA Foundation May 2019) (10 Marks)**

A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2018 and spent ₹ 3,000 on its overhauling. On 1st July 2019, another machine was purchased for ₹ 10,000. On 1st July 2020, the machinery which was purchased on 1st January 2018, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2021, the machine which was purchased on 1st July, 2019 was sold for ₹ 2,000. Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2019 and the rate was increased to 15% per annum. The books are closed on 31st December every year. Prepare Machinery account for four years from 1st January, 2018.

**Solution**

**Machine A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
1/1	To Bank A/c (37,000+3,000)	40,000	31/12	By Depreciation A/c	4,000
			31/12	By Balance c/d	36,000
		<b>40,000</b>			<b>40,000</b>
2019			2019		
1/1	To Balance b/d	36,000	31/12	By Depreciation A/c (5,400+750)	6,150
1/7	To Bank A/c	10,000	31/12	By Balance c/d (30,600+9,250)	39,850
		<b>46,000</b>			<b>46,000</b>
2020			2020		
1/1	To Balance b/d	39,850	1/7	By Bank A/c	28,000
1/7	To Bank A/c	25,000	1/7	By Depreciation A/c	2,295
			1/7	By Profit & Loss A/c (Loss on sale)	305
			31/12	By Depreciation A/c (1,388+1,875)	3,263
			31/12	By Balance c/d (7,862+23,125)	30,987
		<b>64,850</b>			<b>64,850</b>
2021			2021		
1/1	To Balance b/d	30,987	1/7	By Bank A/c	2,000
			1/7	By Depreciation A/c	590
			1/7	By Profit & Loss A/c (Loss on sale)	5,272
			31/12	By Depreciation A/c	3,469
			31/12	By Balance c/d	19,656
		<b>30,987</b>			<b>30,987</b>

**Working Note:**

Book Value of machines (Straight line method) & WDV from 2019

	Machine 1	Machine 2	Machine 3
Cost of Machinery	40,000	10,000	25,000
Less: Depreciation for 2018	(4,000)		
Written down value as on 31.12.2018	36,000		
Less: Depreciation for 2019	(5,400)	(750) [6 months]	

Written down value as on 31.12.2019	30,600	9,250	
Less: Depreciation for 2020 [6 months]	(2,295)	(1,388)	(1,875) [6 months]
Written down value as on 1.7.2020	<b>28,305</b>		
Less: Sale Proceeds	(28,000)		
Loss on Sale	<b>305</b>		
Written down value as on 31.12.2020		<b>7,862</b>	<b>23,125</b>
Depreciation for 6 months in 2021		(590)	
Written down value as on 1.7.2021		<b>7,272</b>	
Sale proceeds		(2,000)	
Loss on sale		<b>5,272</b>	
Depreciation for 2021			(3,469)
Written down value as on 31.12.2021			<b>19,656</b>

**Question 3: (CA Foundation July 2021) (4 Marks)**

The balance of Machinery Account of a firm on 1<sup>st</sup> April, 2020 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1<sup>st</sup> April, 2020 was sold on 1<sup>st</sup> July, 2020 for ₹ 82,000.

On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1<sup>st</sup> November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method.

Calculate the depreciation for the year ended 31<sup>st</sup> March, 2021.

**Question 4:**

On April 1, 2019 a firm purchased a machinery for ₹ 2,00,000. On 1st October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for ₹ 90,000. On October 1, 2021, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on 1st October 2019 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the period of three accounting years ending March 31, 2022.

**Solution**

Dr.			Machinery Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
01.04.2019	To Bank A/c	2,00,000	31.03.2020	By Balance c/d	3,00,000			
01.10.2019	To Bank A/c	1,00,000						
		<b>3,00,000</b>						<b>3,00,000</b>
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Machinery Disposal A/c	2,00,000			
			31.3.2021	By Balance c/d	1,00,000			
		<b>3,00,000</b>						<b>3,00,000</b>
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Machinery Disposal A/c	1,00,000			
01.10.2021	To Bank A/c	2,50,000	31.3.2022	By Balance c/d	2,50,000			
		<b>3,50,000</b>						<b>3,50,000</b>

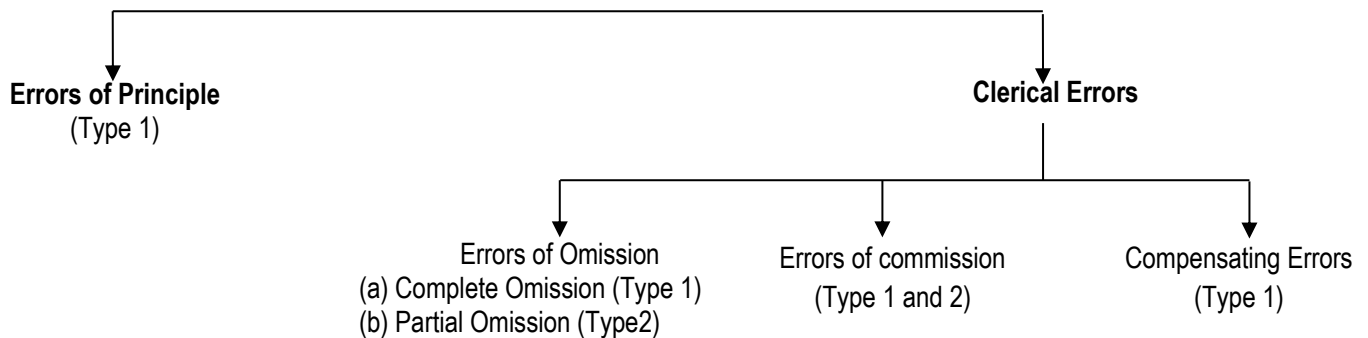
Dr.			Provision for Depreciation Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (₹ 20,000 + ₹ 5,000)	25,000			
		<b>25,000</b>						<b>25,000</b>
01.10.2020	To Machinery Disposal A/c (₹ 20,000 + ₹10,000)	30,000	01.04.2020	By Balance b/d	25,000			
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000			
			31.03.2021	By Depreciation A/c	10,000			
		<b>45,000</b>						<b>45,000</b>
01.10.2021	To Machinery Disposal A/c (₹ 5,000 + ₹ 10,000+ ₹ 5,000)	20,000	01.04.2021	By Balance b/d	15,000			
31.03.2022	To Balance c/d	12,500	01.10.2021	By Depreciation A/c	5,000			
			31.03.2022	By Depreciation A/c	12,500			
		<b>32,500</b>						<b>32,500</b>

Dr.		Machinery Disposal Account				Cr.
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)	
1.10.2020	To Machinery A/c	2,00,000	01.10.2020	By Provision for Dep. A/c	30,000	
			01.10.2020	By Bank A/c	90,000	
			01.10.2020	By Profit & Loss A/c (Loss on Sale)	80,000	
		<b>2,00,000</b>			<b>2,00,000</b>	
1.10.2021	To Machinery A/c	1,00,000	01.10.2021	By Provision for Dep. A/c	20,000	
1.10.2021	To P & L A/c (Profit on Sale)	5,000	01.10.2021	By Bank A/c	85,000	
		<b>1,05,000</b>			<b>1,05,000</b>	

# RECTIFICATION OF ERRORS

## TYPES OF ERRORS

### Errors in Accounting



**Note:** Type 1 Error Trial balance will still agree.  
Type 2 Error = Trial balance will not agree.

### ERROR OF PRINCIPLE

<b>Meaning</b>	It arises when a financial transaction is recorded in the books in an <b>incorrect manner</b> . i.e., Journal Entry is <b>not as per the Accounting Principles</b>
<b>Example</b>	Capital Expenditure is treated as revenue expenditure or vice versa, E.g. Repairs to machinery wrongly treated as capital expenditure and debited to Machinery Account instead of Machinery Repairs A/c.
<b>Stage</b>	Such errors are normally <b>committed while recording in the journal</b>

### ERROR OF OMISSION

<b>Meaning</b>	Error of Omission means that a transaction is <b>not recorded/posted/transferred</b> either wholly or partially, in the books of accounts.	
<b>Types</b>	They may be further analyzed into-	
	<b>Partial Omission</b>	<b>Complete Omission</b>
	(a) One aspect of the transaction, either debit or credit, is omitted to be recorded/posted	Both aspects of the transaction, debit and credit are omitted to be recorded/posted.
	(b) Trial Balance will not agree.	Trial Balance will still agree
	(c) Arises from posting errors-one sided posting and omission of other side entry.	Arises from omission-either in the book of original entry or in the ledger.

### ERROR OF COMMISSION

<b>Meaning</b>	A transaction is recorded <b>wrongly or incorrectly</b> in the books. It also includes all clerical errors during the Accounting process.
<b>Types and Effect on T.B</b>	These may be categorized into- (a) <b>Posting error:</b> wrong account, wrong amount, wrong side, etc. This <b>may or may not affect</b> Trial Balance (b) <b>Casting Errors:</b> wrong totaling or balancing. This <b>affects</b> Trial Balance

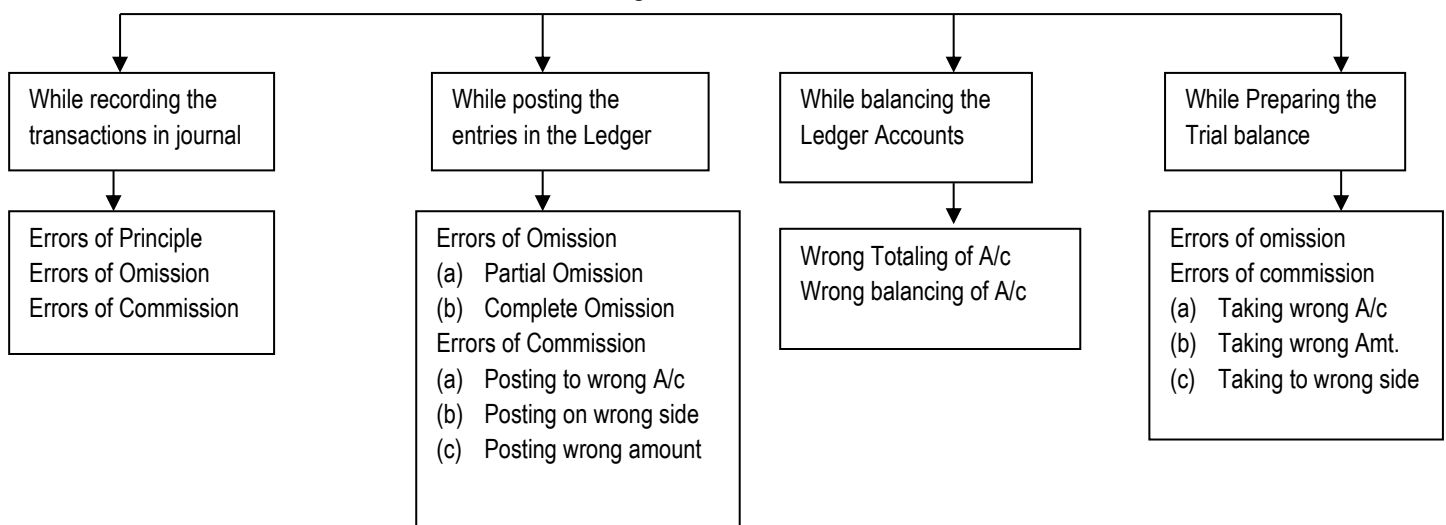
- (c) **Carry Forward Errors:** carrying forward a wrong amount, wrong side, etc. This **affects** Trial Balance.
- (d) **Duplication Errors:** recording the same transactions twice in the original book of entry and also posting it to the ledger. This **does not affect** the **Trial Balance**

### COMPENSATING ERROR

**Meaning** One set of errors on the debit side for a specified amount is counter-balanced by another set of errors for the same amount on credit side. Due to this the trial Balance is not affected.

## STAGES OF OCCURRENCE OF ERRORS

### Stages when Error occurs



## SUSPENSE ACCOUNT

### 1. Purpose:

- (a) The Suspense Account is opened for the **differential amount on the column** which is lower to make the trial balance **artificially tally**. (i.e., **Trial Balance is temporarily tailed by opening the suspense account**).
- (b) It is kept till the errors are identified are rectified. After the rectification, **Suspense A/c balance will become zero**.

2. **Type:** Suspense A/c is a combination of Real, Personal and Nominal Accounts. It is a temporary Account

3. Hence, Suspense Account will appear only when an error affects the Trial Balance.

### 4. Disclosure in Balance Sheet:

Nature of Suspense A/c Balance	Shown in	Side
Debit Balance in Suspense A/c	Balance sheet	Assets
Credit Balance in Suspense A/c	Balance sheet	Liabilities

## STAGES OF RECTIFICATION OF ERRORS

Error in the accounts can be detected and rectified in any of the following stages-

Stage	Treatment
1. Before preparation of Trial Balance	<ul style="list-style-type: none"> <li>Errors of Complete Omission are rectified by recording the same fully</li> <li>Errors of Partial Omission are rectified by making the relevant posting</li> <li>Errors of Principle are rectified by making the rectification Journal Entry</li> <li><b><i>Suspense Account shall not be opened. Direct rectification is done.</i></b></li> </ul>
2. After Trial Balance but before Final Accounts are prepared	<ul style="list-style-type: none"> <li>Errors of Complete Omission are rectified by recording the same fully</li> <li>Errors of Partial Omission are rectified by rectification Journal Entry, <b>by using the Suspense Account.</b></li> <li>Errors of Principle are rectified by making the rectification Journal entry.</li> <li>Errors of Commission are rectified based on the nature of error</li> </ul>
3. After Final Accounts i.e., in the next a / cing period	<ul style="list-style-type: none"> <li>Errors of Partial Omission are rectified by way of rectification Journal Entry by using the Suspense Account</li> <li><b>Errors which have an impact on Profit (Nominal Accounts) are rectified by using the P&amp;L Adjustment Account. Instead of Nominal Accounts, P&amp;L Adjustment Accounts debited or credited</b></li> </ul>

### Rectification of Errors (Few Examples)

	Before Trial Balance	After Trial Balance	After Final Accounts
1) Cash received from A, 1000 wrongly credited to B			
2) Cash received from A, 1000			
a) Not credited to A			
b) Debited to his account			
3) Repairs to Machinery 5000 wrongly capitalised			
4) Total of Sales Book undercast by 500			
5) Purchase of A, 1000 wrongly recorded in Sales Book but correctly posted to A's Account.			



**Question 1: (CA Foundation Nov 2019) (10 Marks)**

Correct the following errors (i) without opening Suspense Account (ii) with opening Suspense A/c

- 1) The sales book has been totalled Rs. 2,100 short.
- 2) Goods worth Rs. 1,800 returned by Gaurav & Co. have not been recorded anywhere.
- 3) Goods purchased Rs. 2,250 have been posted to the debit of the supplier Sen Brothers.
- 4) Furniture purchased from Mary Associates, Rs. 15,000 has been entered in the purchase Daybook.
- 5) Discount received from Black and White Rs. 1,200 has not been entered in the books.
- 6) Discount allowed to Radhe Mohan & Co. Rs. 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

**Solution**

**(i) Without Opening a Suspense Account:**

Dr.				<u>Sales Account</u>				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount				
					By Wrong Totaling of Sales Book		2,100				

**Journal**

Date	Particulars	L.F.	Dr.	Cr.
	Sales Return A/c Dr.		1,800	
	To Gourav & Co. A/c			1,800
	(Being omitted to entered now rectify)			

Dr.				<u>Sen Brothers Account</u>				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount				
					By Error in posting (wrongly debited, now rectify)		4,500				

**Journal**

Date	Particulars	L.F.	Dr.	Cr.
	Furniture A/c Dr.		15,000	
	To Purchase A/c			15,000
	(Being wrongly entered, now rectify)			

**Journal**

Date	Particulars	L.F.	Dr.	Cr.
	Black & White A/c Dr.		1,200	
	To Discount received A/c			1,200
	(Being Not entered, now rectify)			

Dr.				<u>Discount Allowed Account</u>				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount				
	To Omission of entry in the Cash Book		180								

(ii) With opening a suspense Account:

Dr.		Journal		Cr.	
Sr. No.	Particulars	L.F.	Dr.	Cr.	
1	Suspense Account	Dr.	2,100		
	To Sales A/c				2,100
	(Being Rs. 2100 undercast, now rectify)				
2	Sales Return A/c	Dr.	1,800		
	To Gaurav & Co. A/c				1,800
	(Being Omitted, now rectify)				
3	Suspense A/c	Dr.	4,500		
	To Sen Brothers A/c				4,500
	(Being wrongly debited, now rectify)				
4	Furniture A/c	Dr.	15,000		
	To Purchase A/c				15,000
	(Being wrongly entered, now rectify)				
5	Black & White A/c	Dr.	1,200		
	To Discount received A/c				1,200
	(Being Omitted , now rectify)				
6	Discount Allowed A/c	Dr.	180		
	To Suspense A/c				180
	(Being Omitted, Now rectify)				

### Question 2:

Correct the following errors found in the books of Mr. Mehra. The Trial Balance was out by Rs. 493 excess credit. The difference thus has been posted to a Suspense Account.

- An amount of Rs.100 was received from Ramesh on 31st December, 2015 but has been omitted to enter in the Cash Book.
- The total of Returns Inward Book for December has been cast Rs.100 short.
- The purchase of an office table costing Rs. 300 has been passed through the Purchases Day Book.
- Rs. 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
- A purchase of Rs. 67 had been posted to the trade payables' account as Rs. 60.
- A cheque for Rs. 200 received from Arvind had been dishonoured and was passed to the debit of "Allowances Account".
- Rs. 1,000 paid for the purchase of a motor cycle for Mr. Mehra had been charged to "Miscellaneous Expenses Account".
- Goods amounting to Rs.100 had been returned by customer and were taken into inventory, but no entry in respect there of, was made into the books.
- A sale of Rs. 200 to Gopi & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

### Solution

#### Journal Entries

S.No.	Particulars	L.F.	Debit	Credit
1.	Cash A/c Dr.		100	
	To Ramesh A/c			100
	(Being the amount received)			
2.	Returns Inward A/c Dr.		100	
	To Suspense A/c			100
	(Being the mistake in totalling the Returns Inward Book corrected)			
3.	Furniture A/c Dr.		300	
	To Purchases A/c			300
	(Being the rectification of mistake by which purchase of furniture was entered in Purchases book)			
4.	Furniture A/c Dr.		375	
	To Wages A/c			375
	(Being the wages paid to workmen for making show-cases which should be capitalised and not to be charged to Wages Account)			
5.	Suspense A/c Dr.		7	
	To Creditors A/c			7
	(Being the mistake in crediting the Trade payables Account less by Rs. 7, now corrected)			
6.	Arvind A/c Dr.		200	
	To Allowances A/c			200
	(Being the cheque of Arvind dishonoured, previously debited to Allowances Account)			
7.	Drawings A/c Dr.		1,000	
	To Misc. Expenses A/c			1,000

	(Being the motor cycle purchased for Mr. Mehra debited to his Drawings Account instead of Miscellaneous Expenses Account as previously done by mistake)			
8.	Returns Inward A/c Dr.		100	
	To Debtors (Personal) Account			100
	(Correction of the omission to record return of goods by customers)			
9.	Gopi & Co. A/c Dr.		400	
	To Suspense A/c			400
	(Being the correction of mistake by which the account of Gopi & Co. was credited by Rs. 200 instead of being debited)			

### Suspense Account

Date	Particulars	Amount	Date	Particulars	Amount
Dec 31	To Difference in Trial Balance	493	Dec 31	By Returns Inward A/c	100
	To Trade Payables A/c	7		By Gopi & Co.	400
		<b>500</b>			<b>500</b>

### **Question 3: (CA Foundation Jan 2021) (10 Marks)**

Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

- The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.
- A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.
- A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- Cash received from Senu, ₹ 895 was posted to debit of Sethu.
- Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.
- ₹ 600 due from Mr. Q was omitted to be taken to the trial balance.
- Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

### **Solution**

#### Journal Entries

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Suspense Account Dr.		936	
	To Profit and Loss Adjustment A/c			936
	(Correction of error by which Purchase Account was over debited last year- ₹5,615 carried forward instead of ₹6,551)			

(ii)	Profit & Loss Adjustment A/c	Dr.	540	
	Customer's Account		1,102	
	To Suspense Account			1,642
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)			
(iii)	Suspense Account	Dr.	590	
	To Profit & Loss Adjustment A/c			590
	(Correction of error by which Returns Inward Account was debited by ₹295 instead of Returns Outwards Account being credited by ₹295)			
(iv)	Suspense Account	Dr.	1,790	
	To Senu			895
	To Sethu			895
	(Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)			
(v)	Customer's Account	Dr.	1,400	
	To Profit & Loss Adjustment A/c			1,400
	(Rectification of the error arising from non-preparation of invoice for goods delivered)			
(vi)	Profit & Loss Adjustment A/c	Dr.	1600	
	To Customer's Account			1,600
	(The Customer's A/c credited with goods not yet purchased by him)			
(vii)	Inventory A/c	Dr.	1280	
	To Profit & Loss Adjustment A/c			1280
	(Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)			
(viii)	Trade receivable/ Q's Account	Dr.	600	
	To Suspense Account			600
	(₹600 due by Q not taken into trial balance, now rectified)			
(ix)	R's account/Trade receivable	Dr.	3,000	
	To Profit & Loss Adjustment A/c			3,000
	(Sales to R omitted, now rectified)			
(x)	Profit & Loss Adjustment A/c	Dr.	5,066	
	To Joshi's Capital Account			5,066
	(Transfer of P&L Adj. A/c balance to the Capital A/c)			

**Question 4: (CA Foundation July 2021) (10 Marks)**

Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

- Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.
- Purchase account was over cast by ₹ 1,00,000.
- A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.
- Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.
- Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.
- ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
- Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.
- Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries.

**Solution**

Date	Particulars	Dr. ₹	Cr. ₹
(1)	Scooter Account Dr.	27,000	
	To Profit and Loss Adjustment A/c		27,000
	(Purchase of scooter wrongly debited to conveyance A/c now rectified-capitalization of 27,000, i.e., 30,000 less 10% dep.)		
(2)	Suspense Account Dr.	1,00,000	
	To Profit & Loss Adjustment A/c		1,00,000
	(Purchase A/c overcast in previous year error now rectified).		
(3)	Profit & Loss Adjustment A/c Dr.	40,000	
	To X's Account		40,000
	(Credit purchase from X ₹20,000, entered as sales last year, now rectified)		
(4)	Bhaskar's Account Dr.	10,000	
	To Anand's Account		10,000
	(Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)		
(5)	Suspense Account Dr.	10,000	
	To Chandu's Account		10,000
	(₹ 5,000 received from Chandu wrongly debited to his account; now rectified)		
(6)	Trade receivables (Ramesh) / Ramesh Dr.	5,000	
	To Suspense Account		5,000
	(₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)		
(7)	Ram's Account Dr.	20,000	
	To Profit & Loss Adjustment A/c		20,000
	(Sales to Ram omitted last year; now adjusted)		
(8)	Suspense Account Dr.	1,980	
	To Profit & Loss Adjustment A/c		1,980

	(Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted)		
(9)	Profit & Loss Adjustment A/c Dr.	1,08,980	
	To Ratan's Capital Account		1,08,980
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)		
(10)	Ratan's Capital Account Dr.	1,06,980	
	To Suspense Account		1,06,980
	(Balance of Suspense Account transferred to Capital Account)		

# COMPANY ACCOUNTS: SHARES

## SHARE

<b>Meaning</b>	“Share” is the basic unit which the Capital of a Company is divided. <i>Example:</i> A company with a total Capital of Rs 1 crore is divided into 1 Lakh units of Rs 100 each. Each unit of Rs 100 is called a Share of the Company.
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## KINDS OF SHARES RECOGNIZED IN THE COMPANIES ACT, 2013

The Share Capital of a Company limited by Shares can only be of two kinds-

- Equity Share Capital** – (a) with Voting rights, or (b) with differential rights as to dividend, voting or otherwise in accordance with the prescribed Rules
- Preference Share Capital**, i.e. Priority for Dividend at Fixed Rate + Priority for repayment of Capital.

## DIFFERENT TYPES OF PREFERENCE SHARE CAPITAL

### 1. Cumulative and Non-Cumulative Preference Shares

	Cumulative Preference Shares	Non-Cumulative Preference shares
a)	Dividend is at fixed rate, but keeps on accumulating until it is fully paid	Dividend is at a fixed rate, but does not accumulate for future years.
b)	Dividend is payable even out of future profits, if current year’s profits are insufficient	If no dividend is declared in a year, the right to receive such dividend for that year expires
c)	Arrears of fixed Cumulative dividend shown in the Balance sheet as a Contingent Liability	There is no contingent liability

**Note:** Cumulative Preference shareholders will get voting rights if dividend remains in arrear for not less than 2 years

### 2. Redeemable and Irredeemable Preference Shares

	Redeemable Preference Shares	Irredeemable Preference Shares
a)	These are issued on the condition that the company will repay the same after a fixed period or even at company’s discretion. This repayment is called Redemption	These are Preference shares, which are redeemable only at the time of winding up of the company
b)	Companies can issue only this category of preference shares. Also, the redemption period shall be a <b>maximum of 20 years</b> . <u>Exception:</u> Infrastructure Projects	No Company limited by shares shall issue – <ul style="list-style-type: none"> <li>• Irredeemable Preference Shares, or</li> <li>• Preference Shares redeemable after the expiry of 20 years from the date of issue</li> </ul>

### 3. Participating and Non-Participating Preference Shares

	Participating Preference Shares	Non-Participating Preference Shares
a)	In addition to a fixed dividend, the holders of these Shares have the right to participate in the surplus profits, if any, after the Equity Shareholders have been dividend at a stipulated rate.	Here, only a fixed rate of dividend is paid every year, without any additional rights in surplus profits.



b)	In the event of winding-up of the Company, the holders have the right to receive a pre-determined proportion of surplus, after the Equity Shareholders have been paid off towards their Capital.	In case of winding-up of the Company, the holders of these Shares are not entitled to any additional rights in the surplus on winding-up.
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#### 4. Convertible and Non-Convertible Preference Shares

	Convertible Preference Shares	Non-Convertible Preference Shares
a)	These Shares give the right to the holder to get them converted into Equity Shares <b>at their option</b> , and according to the terms and conditions of their issue.	There is no right to the holder, to get his holding converted into Equity Shares.

### DIFFERENT TYPES OF SHARE CAPITAL

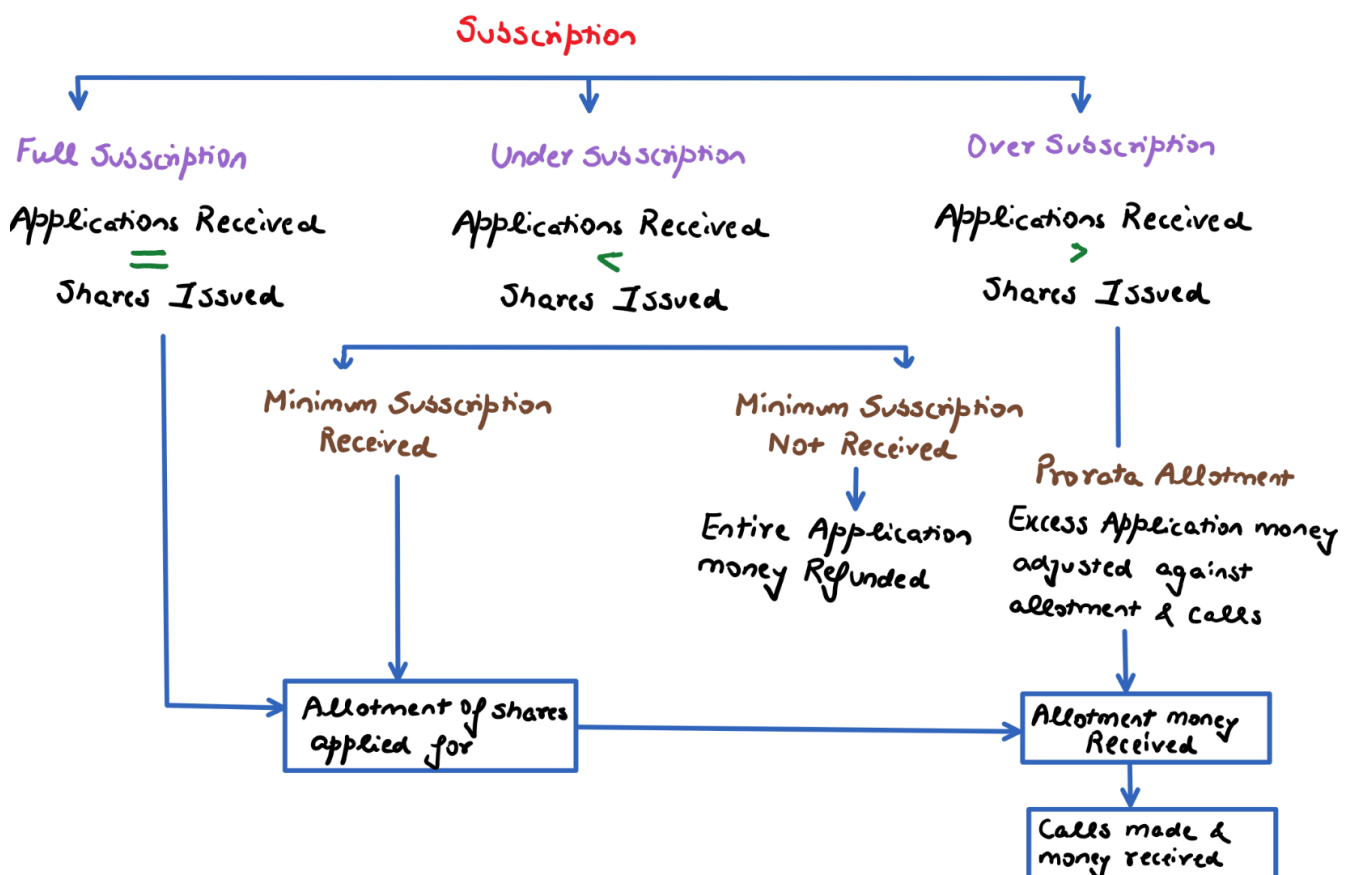
ITEM	EXPLANATION
<b>Authorised Share Capital</b>	<ul style="list-style-type: none"> <li>It is the amount of Share Capital which can be raised by the Company.</li> <li>The Authorised Share Capital is also known as the “Registered Capital” or “Nominal Capital” and is given in the Memorandum of Association.</li> <li>Authorised Capital is shown in the Balance Sheet at Nominal Value (Face Value).</li> <li><u>Example</u>: Authorised Capital=10,000 Shares of ₹ 100 each, Total=₹ 10,00,000.</li> </ul>
<b>Issued Share Capital</b>	<ul style="list-style-type: none"> <li>It represents that part of Authorised Share Capital which has been given or issued or offered to Shareholders.</li> <li>Issued Capital includes Shares issued for- (i) Cash, and (ii) Consideration other than cash, to Promoters and Others.</li> <li>Issued Share Capital is shown in the Balance Sheet at Nominal/Face Value.</li> <li><u>Example</u>: Issued Capital= 9,000 Shares of ₹ 100, each, Total= ₹ 9,00,000 .</li> <li><b>Note</b>: The remaining portion of Authorised Capital, which is not issued is called as Unissued Capital. It is not shown in the Balance Sheet.</li> </ul>
<b>Subscribed Share Capital</b>	<ul style="list-style-type: none"> <li>Subscribed Capital is the part of Issued Capital which has been subscribed (i.e. applied for) by the public/ Shareholders, and allotted by the Company.</li> <li><u>Example</u>: Out of 9,000 Shares issued; 8,500 Shares are subscribed by public.</li> <li><b>Note</b>: The remaining portion of Issued Capital, which is not subscribed, is not shown in the Balance Sheet.</li> </ul>
<b>Called up Share capital</b>	<ul style="list-style-type: none"> <li>Companies generally receive the Issue Price of Shares in installments, e.g. Application stage, Allotment stage, First Call, Second Call, etc.</li> <li>The portion of the Face Value of Shares which a Company has demanded or called from Shareholders is known as “Called-Up Capital”.</li> <li>The Balance portion which the Company has decided to call / demand in future is called as Uncalled Capital.</li> <li><u>Example</u>: Out of ₹ 100 per Share, the Company has called up ₹ 70 per Share. In such case, the Uncalled Capital is ₹ 30 per Share.</li> </ul>

<b>Paid-Up Capital</b>	<ul style="list-style-type: none"> <li>• It is that portion of called up capital which has been actually paid by shareholders</li> <li>• The unpaid portion is called “Unpaid Calls” or “Calls in Arrears”.</li> <li>• So, Paid Up Capital = Called Up Capital Less Call in Arrears.</li> <li>• <u>Example</u>: If out of ₹ 70 per Share Called up, only ₹ 60 has been paid by some shareholders, the remaining ₹ 10 per Share constitutes Calls in Arrears.</li> </ul>
<b>Reserve Capital</b>	<ul style="list-style-type: none"> <li>• Company may decide by passing a resolution, that a certain portion of its Subscribed Uncalled Capital shall be called up only in the event of winding-up / liquidation of the Company.</li> <li>• That portion is called Reserve Capital. It is not shown in the Balance Sheet.</li> </ul>

### DISCLOSURE REQUIREMENTS - SHARE CAPITAL OF A COMPANY

Share Capital should be disclosed in a Company's Balance Sheet as under:

Particulars	Amount
<b>Authorised:</b> .... Shares of ₹ ... each	
<b>Issued:</b> ... .. Shares of ₹ ... each	
<b>Subscribed:</b> ..... Shares of ₹ .. each (Various classes of capital should be distinguished while stating the above particulars)	
<b>Called up &amp; Paid Up:</b> ... .. Shares of ₹ ... each [ of the above Shares .... Shares are allotted as fully paid up for consideration other than cash, .... Shares are allotted as fully paid up by way of Bonus Shares] Less: Call unpaid: Add : Forfeited Shares (amount originally paid up)	





## **CALLS IN ARREARS**

1. **Meaning:** Calls in Arrears is the money remaining unpaid by the shareholder on the calls raised by the Company in respect of the shares held by him.
2. **Disclosure:** Calls in Arrears always have a Debit Balance and are shown as a deduction from called up capital to arrive at paid up value of the Share Capital on Liabilities Side of the Balance Sheet.
3. **Interest:** The Company can recover interest on the amount of calls in arrears from the date it became due till the when the call is received at the rate of 10% p.a. (Table F).
4. **Waiver of Interest:** The Directors may also be empowered to waive the Interest on Calls in Arrears, subject to certain conditions laid down in the Articles.

## **CALLS IN ADVANCE**

1. **Meaning:** Calls in Advance is the surplus money received by the Company from the allottees, i.e. its Shareholders.
2. **Calls in Advance:** A Company, if permitted by its Articles, may accept from members either the whole or part of amount remaining unpaid on any shares held by him as Calls in Advance.
3. **No Voting Rights:** The Member shall not be entitled to any voting rights on Calls in Advance, until the same becomes presently payable and duly appropriated. Shareholders are not entitled for any dividend on calls in advance
4. **Disclosure:** Calls in Advance will always have a Credit Balance and will be shown under the Liabilities Side (Other Current Liabilities). It is not added to the amount of Paid -Up Capital.
5. **Interest:** The Company is liable to pay interest on the amount of Calls in Advance from the date of receipt till the when the Call is due for payment, at the rate of 12% p.a. (Table F)

## **JOURNAL ENTRIES**

<b>CALLS -IN –ARREARS</b>		
1.	Transfer of non - receipt of Share Allotment/ Call Money	Calls in Arrears A/c Dr. To Share Allotment / Share ..... Call A/c (This Journal Entry is optional. The amount may also be left in the Share Allotment/Share .....Calls A/c)
2.	Receipt of Calls in Arrears	Bank A/c Dr. To Calls in Arrears A/c (If this account was opened)
3.	Interest on Calls in Arrears	Shareholders' A/c Dr. To Interest on Calls -in -Arrears A/c
4.	Receipt of Interest on Calls -in –Arrears	Bank A/c Dr. To Shareholders' A/c
<b>CALLS -IN –ADVANCE</b>		
1.	Receipt of Calls -in- Advance	Bank A/c Dr. To Calls -in -Advance A/c
2.	Adjusting Calls -in- Advance	Calls -in -Advance A/c Dr. To Particular Call A/c
3.	Interest on Calls- in – Advance	Interest on Calls -in -Advance A/c Dr. To Shareholders' A/c
4.	Payment of Interest on Calls -in- Advance	Shareholders' A/c Dr. To Bank A/c

**Question 1: (ICAI Study Material)**

X Ltd. invited applications for 10 lakhs shares of ₹100 each payable as follows:

	₹		₹
On Application	20	On First Call (on 1st Oct., 2022)	30
On Allotment (on 1st May, 2022)	30	On Final Call (on 1st Feb., 2023)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2023

**Solution****Books of X Limited**

Date	Particulars	L.F.	Debit (in Lakhs)	Credit (in Lakhs)
1.05.22	Bank A/c Dr.		200	
	To Share Application A/c (Being Application money received)			200
01.05.22	Share Application A/c Dr.		200	
	To Share Capital A/c (Being amount transferred to Capital Account)			200
01.05.22	Share Allotment A/c Dr.		300	
	To Share Capital A/c (Being allotment money due)			300
01.05.22	Bank A/c Dr.		310	
	To Share Allotment A/c			300
	To Calls in Advance (Being allotment money received)			10
01.10.22	Share First Call A/c Dr.		300	
	To Share Capital A/c (Being first call money due)			300
01.10.22	Bank A/c Dr.		294	
	Calls in Advance A/c Dr.		6	
	To Share First Call A/c (Receipt of the first call on 9.80 lakh shares)			300
01.02.23	Share Final Call A/c Dr.		200	
	To Share Capital A/c (Being final call money due)			200
01.02.23	Bank A/c Dr.		196	
	Calls in Advance A/c Dr.		4	
	To Share Final Call A/c (Receipt of final call on 9.80 lakhs shares)			200
01.02.23	Interest on Calls in Advance A/c Dr.		0.66	
	To Shareholder A/c (Being interest on call in advance made due)			0.66
01.02.23	Shareholder A/c Dr.		0.66	
	To Bank A/c (Being interest paid)			0.66

**Working Note:**

The interest on calls in advance paid @ 12% on

a) 6,00,000 (first call) from 1st May to 1st Oct., 2022–5 months =  $6,00,000 \times 12\% \times 5/12 = 30,000$

b) 4,00,000 (final call) from 1st May to 1st Feb., 2023–9 months =  $4,00,000 \times 12\% \times 9/12 = 36,000$

Total Interest Amount Due=

**66,000**

## FORFEITURE OF SHARES

1. **Meaning:** Forfeiture of Shares refers to the action taken by the Company, to cancel the Shares.
2. **Situation:** When Shareholders fail to pay Allotment or Call Money due, the Directors may forfeit the Shares in the bonafide interests of the Company, and in accordance with the Articles of Association. Proper Notice should be sent to the defaulting Shareholder, before forfeiture.
3. **Effect:** The amount actually received from Shareholder is transferred to "Shares Forfeited A/c".
4. **Treatment:** Till Forfeited Shares are re -issued, the amount is shown as an addition to Share Capital, on the Liabilities Side of the Balance Sheet.

## RE-ISSUE OF FORFEITED SHARES

1. **Sale, not Allotment:** Re -issue of Forfeited Shares is **not an allotment**, it is only a Sale. So, the Company need not file a Return of Allotment with the Registrar of Companies.
2. **Loss on Re -issue:** It should not exceed the Forfeited Amount, i.e. amount paid by Original Allottee, excluding premium, if any.)
3. **Surplus:** Surplus arising on Re -issue of Forfeited Shares (i.e. Forfeited Amount > Loss on Re -issue), should be transferred to Capital Reserve A/c.
4. **Re-issue at Premium:** When Forfeited Shares are re-issued at a price higher than its Face Value, the excess amount should be credited to Securities Premium A/c.

	TRANSACTION	JOURNAL ENTRY
<b>FORFEITURE OF SHARES</b>		
1.	Forfeiture of Shares Issued at Par	Share Capital A/c (to the extent called) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up & unpaid) (or alternatively Share Allotment A/c or Share ..... Call A/c)
2.	Forfeiture of Shares Issued at Premium - premium fully collected	Share Capital A/c (to the extent called - excluding Premium) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up and unpaid) (or alternatively Share Allotment A/c or Share ..... Call A/c)
3.	Forfeiture of Shares Issued at Premium - premium not fully collected	Share Capital A/c (to the extent called excluding Premium) Dr. Securities Premium A/c (Premium amount on Shares forfeited) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up and unpaid) (or alternatively Share Allotment A/c or Share ..... Call A/c)
<b>Note:</b> When Shares are originally issued at a Premium, and the Premium has been collected in full, the Securities Premium A/c should not be reversed.		
<b>RE -ISSUE OF SHARES FORFEITED</b>		
1.	Re -issue of Forfeited Shares	Bank A/c (Shares Reissued x Reissue Price) Dr. Shares Forfeited A/c (to the extent discount given) Dr. To Share Capital A/c (Shares Reissued x Paid up Value)
2.	Transfer of Share Forfeited A/c Balance on Reissued Shares	Shares Forfeited A/c Dr. To Capital Reserve A/c

**Question 2: (CA Foundation Nov 2018)**

Give necessary journal entries for the forfeiture & reissue of shares:

- (i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non payment of allotment money of ₹ 3 per share & final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were issued to Suresh for ₹ 8 per share.
- (ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these 150 shares were reissued to Mahesh as fully paid for ₹ 6 per share.

**Solution****Journal Entries**

Case	Particulars	L.F.	Debit	Credit
(i)	Share Capital A/c (300*10) Dr.		3,000	
	(300*3) To Share Allotment A/c			900
	(300*4) To Share First Call A/c			1,200
	(300*3) To Share Forfeited A/c			900
	(Being the forfeiture of 300 shares)			
	Bank A/c (300*8) Dr.		2,400	
	Share Forfeited A/c (300*2) Dr.		600	
	To Share Capital A/c			3,000
	(Being re-issue of shares at ₹ 8 per share paid-up as ₹ 10)			
	Share Forfeited A/c Dr.		300	
	To Capital Reserve A/c			300
	(Being profit on re-issue transferred to Capital Reserve)			
(ii)	Share Capital A/c (200*7) Dr.		1,400	
	(200*2) To Share Call A/c			400
	(200*5) To Share Forfeited A/c			1,000
	(Being the forfeiture of 200 shares)			
	Bank A/c (150*6) Dr.		900	
	Share Forfeited A/c (150*4) Dr.		600	
	To Share Capital A/c			1,500
	(Being re-issue of 150 shares at ₹ 6 per share paid-up as ₹ 10)			
	Share Forfeited A/c Dr.		150	
	To Capital Reserve A/c			150
	(Being profit on re-issue transferred to Capital Reserve)			

**Working Note: Calculation of amount to be transferred to Capital Reserve****Case (ii)**

Forfeited amount per share = ₹ 1,000/200	5
Loss on re-issue = ₹ 10 – ₹ 6	(4)
Surplus per share re-issued	1
Transferred to Capital Reserve ₹ 1 * 150	150

### Question 3:

Y Ltd. forfeited 1,000 equity shares of ₹ 10 each, ₹ 7 called-up, issued at a premium of 20% (to be paid at the time of allotment) for non-payment of allotment money of ₹ 4 per share (including premium) and first call of ₹ 2 per share. Out of these, 600 shares were re-issued as fully paid-up for ₹ 8.50 per share.

Pass the journal entries for forfeiture and re-issue of shares.

### Solution

#### Books of Y Ltd.

Date	Particulars	L.F.	Debit	Credit
	Equity Share Capital A/c (1,000*7) Dr.		7,000	
	Securities Premium A/c (1,000*2) Dr.		2,000	
	(1,000*4) To Share Allotment A/c			4,000
	(1,000*2) To Share First Call A/c			2,000
	(1,000*3) To Share Forfeited A/c			3,000
	(Being the forfeiture of 1,000 shares ₹7 each being called up for non-payment of allotment & first call)			
	Bank A/c (600*8.50) Dr.		5,100	
	Share Forfeited A/c (600*1.50) Dr.		900	
	To Share Capital A/c			6,000
	(Being re-issue of 600 shares at ₹ 8.50 per share paid-up as ₹ 10)			
	Share Forfeited A/c Dr.		900	
	To Capital Reserve A/c			900
	(Being profit on re-issue transferred to Capital Reserve)			

#### Working Note: Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,000/1,000	3
Loss on re-issue = ₹ 10 – ₹ 8.50	(1.50)
Surplus per share re-issued	1.50
Transferred to capital Reserve ₹ 1.50 * 600	900

### Question 4: (CA Foundation Nov 2019) (15 Marks)

B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on applications, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed.

Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All these 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.



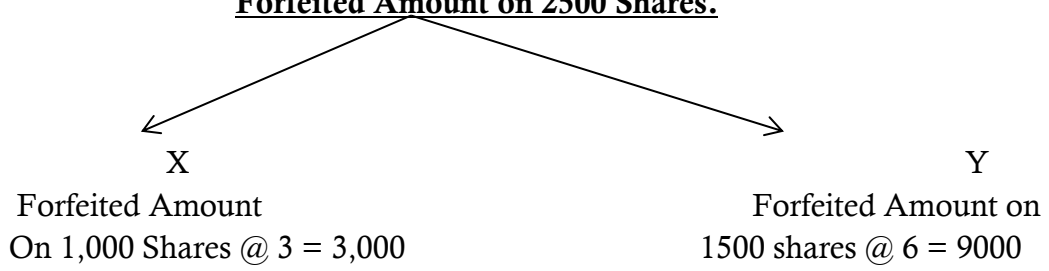
**Solution**

**Journal of B Ltd.**

S. No.	Particulars	L.F	Debit	Credit
1	Bank A/c Dr.		1,50,000	
	To Equity Share Application A/c (Being application money received ₹3 per share on 50,000 shares)			1,50,000
2	Equity Share Application A/c Dr.		1,50,000	
	To Equity share Capital A/c (Being Application money transferred)			1,50,000
3	Equity Share Allotment A/c Dr.		2,50,000	
	To Equity share capital A/c			1,50,000
	To Securities Premium A/c (Being allotment money due on 50,000 shares @ 5 including ₹2 Premium)			1,00,000
4	Bank A/c Dr.		2,45,000	
	To Equity Share Allotment A/c (Being Allotment received on 49,000 shares @ 5 each)			2,45,000
5	Equity share call A/c Dr.		2,00,000	
	To Equity Share Capital A/c (Being Call money due on 50,000 shares @ 4 each)			2,00,000
6	Bank A/c Dr.		1,88,000	
	To Equity share call A/c (Being call money received on 47000 shares @ 4 each)			1,88,000
7	Equity share capital A/c Dr.		30,000	
	Securities Premium A/c Dr.		2,000	
	To Equity share Allotment A/c			5,000
	To Equity share Call A/c			12,000
	To Share forfeiture A/c (Being 3000 shares forfeited due to non payment or Allotment & Call)			15,000
8	Bank A/c Dr.		20,000	
	Share Forfeiture A/c Dr.		5,000	
	To Equity share capital A/c (Being Reissued 2,500 shares @ 8 per share)			25,000
9	Share forfeiture A/c Dr.		7,000	
	To Capital reserve A/c (Being excess forfeited amount on 2500 share transferred)			7,000

**W.N**

**(1) Calculation of Amount transferred to Capital Reserve :  
Forfeited Amount on 2500 Shares.**



Total Forfeited Amount = 12,000  
 Less: Reissued Discount = (5,000)  
 Transfer to Capital Res. = 7,000

**Balance Sheet as on \_\_\_\_\_**

<b>Particulars</b>	<b>Notes No.</b>	<b>Current Year</b>
(I) Equity & Liabilities :		
(1) Shareholders funds :		
a) Share Capital	(1)	4,98,000
b) Reserve & Surplus	(2)	1,05,000
<b>Total</b>		<b>6,03,000</b>
(II) Assets:		
(1) Current Assets		
a) Cash & Cash Equivalents		6,03,000
<b>Total</b>		<b>6,03,000</b>

**Note to Accounts:**

**(1) Share Capital :**

<b>Particulars</b>	<b>Amount</b>
Subscribed & Fully paid up capital	
49,500 equity shares @ 10 each	4,95,000
Add: Share Forfeiture amount on 500 shares	3,000
	<b>4,98,000</b>

**(2) Reserve & Surplus:**

<b>Particulars</b>	<b>Amount</b>
Securities Premium Reserve	1,00,000
Less: Arrear or not received	(2,000)
	<b>98,000</b>
Capital Reserve	7,000
	<b>1,05,000</b>

Example:

Prorata Allotment

Application Invited = 100000 shares

Received 30000 shares

Applied	Allotted
100000	3 for every 5
150000	1 for every 5
10000	Full
40000	Nil
<u>300000</u>	

Stages

Application : 3

Allotment : 5

Call : 2

Adjustment till allotment & balance refunded

Applied	Allotted	Money Rec.	Application	Allotment	Call	Refund
100000	60000	300000	180000	100000	-	-
150000	30000	450000	90000	150000	-	210000
10000	10000	30000	30000	-	-	-
40000	Nil	100000	-	-	-	100000
<u>300000</u>	<u>100000</u>	<u>900000</u>	<u>300000</u>	<u>270000</u>	-	<u>330000</u>

## Share Forfeiture in case of Pro-rata Allotment

### Case 1:

Shares Applied = 1000

Application = 2

Shares Allotted = 600

Allotment = 3+1 (Sec. Prem.)

Call = 5

No Allotment & Call. Shares forfeited

Applied	Allotted	Money Rec.	Application	Allotment
1000	600	2000	1000	800

### Forfeiture:

Share Capital A/c - Dr	6000	(600 x 10)
Sec. Premium A/c - Dr	600	(600 x 1)
To Share Allotment	1600	(600 x 4) - 800
To Share Call	3000	600 x 5
To Share Forfeiture	2000	

### Case 2:

Shares Applied = 1000

Application = 2

Shares Allotted = 600

Allotment = 1+1 (Sec. Prem.)

Call = 7

No Allotment & Call. Shares forfeited

Applied	Allotted	Money Rec.	Application	Allotment
1000	600	2000	1000	800

### Forfeiture:

Share Capital A/c - Dr		
Sec. Premium A/c - Dr		
To Share Allotment		
To Share Call		
To Share Forfeiture		

**Question 5: (CA Foundation July 2021) (15 Marks)**

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows: -

₹ 9 per share (including premium) on application and allotment

- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants.

The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share. Pass necessary journal entries for the above transactions in the books of X Limited.

**Solution****Journal of X Ltd.**

		Dr. ₹	Cr. ₹
1	Bank Account Dr.	27,00,000	
	To Share Application & Allotment A/c		27,00,000
	(Being Application money on 3,00,000 shares at ₹ 9 per share received.)		
2	Share Application & Allotment A/c Dr.	27,00,000	
	To Share Capital A/c (75,000 x ₹ 4)		3,00,000
	To Securities premium A/c (75,000 x ₹ 5)		3,75,000
	To Bank A/c (2,00,000 x ₹ 9)		18,00,000
	To Share First & Final Call A/c		2,25,000
	(Being application money transferred)		
3	Share First & Final Call A/c (75,000 x 6) Dr.	4,50,000	
	To Share Capital Account		4,50,000
	(Amount First & Final Call A/c due from members as per Directors, resolution no..... dated )		
4	Bank Account A/c Dr.	2,21,625	
	Calls in arrear A/c Dr.	3,375	
	To Share First & Final Call Account		2,25,000
	(Being Receipt of the amounts due on first call.)		
5	Equity share capital A/c Dr.	11,250	
	To Share forfeiture A/c		7,875
	To Calls in arrear A/c		3,375
	(Being 1,125 shares forfeited for non payment of final call.)		
6	Bank Account A/c (1,125 x ₹ 6) Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4) Dr.	4,500	
	To Share Capital Account (1,125 x ₹ 10)		11,250
	(Being forfeited shares reissued at ₹ 4 discount)		
7	Share forfeiture A/c Dr.	3,375	
	To Capital reserve A/c		3,375
	(Being share forfeiture transferred to capital reserve*)		

**Working notes:**

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital @ ₹ 4/-	Money tfd to Security Premium @ ₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First & Final Call after adjusting excess appl. money	Money Refunded
2,00,000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	2,25,000	-
<b>3,00,000</b>	<b>75,000</b>	<b>27,00,000</b>	<b>3,00,000</b>	<b>3,75,000</b>	<b>2,25,000</b>	<b>4,50,000</b>	<b>2,21,625*</b>	<b>18,00,000</b>

\* ₹ 4,50,000 less ₹ 3,375.

2. Number of shares allotted to Mr. Raj =  $1,500 \times 75,000 / 1,00,000 = 1,125$  shares**3. Calculation of calls in arrear**

Application money received from Raj	(1,500 x 9)	13,500
Less: actual application money	1,125 x 9	10,125
Excess Application & Allotment Money Adjusted with first and final call		3,375
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

**SHARES ISSUED FOR CONSIDERATION OTHER THAN CASH**

- Meaning:** A Company can issue shares for valuable Consideration other than Cash. For example, Shares may be issued to - (a) Vendors towards payment of Purchase Consideration, (b) Promoters towards reimbursement of Preliminary Expenses incurred by them for incorporation, (c) Underwriters towards payment of Underwriting Commission, etc.
- Disclosure:** Shares issued for Consideration other than Cash shall be separately disclosed in the Balance Sheet of Company, as required by Part I of Schedule III.

**JOURNAL ENTRIES**

1.	Recording Purchase of Machinery, Assets etc.	Machinery / Assets A/c (in case of assets purchased) Dr. To Liabilities A/c To Vendor's A/c (Difference if any to be transferred to Goodwill/Capital Reserve A/c)
2.	Allotment of Shares to the Vendor	Vendor's A/c Dr. To Share Capital (Nominal Value of Shares issued) To Securities Premium (if issued at Premium)

# NOTES

# NOTES



# NOTES

# NOTES

# NOTES

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# NOTES





**CA WALLAH**



**CA Gurpreet Singh**

**(LAW)**

Scan to explore more



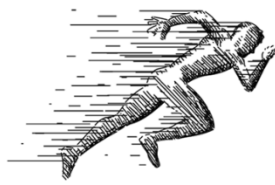
@CAWallahbyPW



@CAIntermediatebyPW



# CA



# FOUNDATION MARATHON

Subject Name

Business Laws Marathon

Day- 01



By- CA GURPREET SINGH



## Introduction of The Sale of Goods Act, 1930

01 Applicable to **whole of India**

02 Came into force on  
**1<sup>st</sup> July 1930**

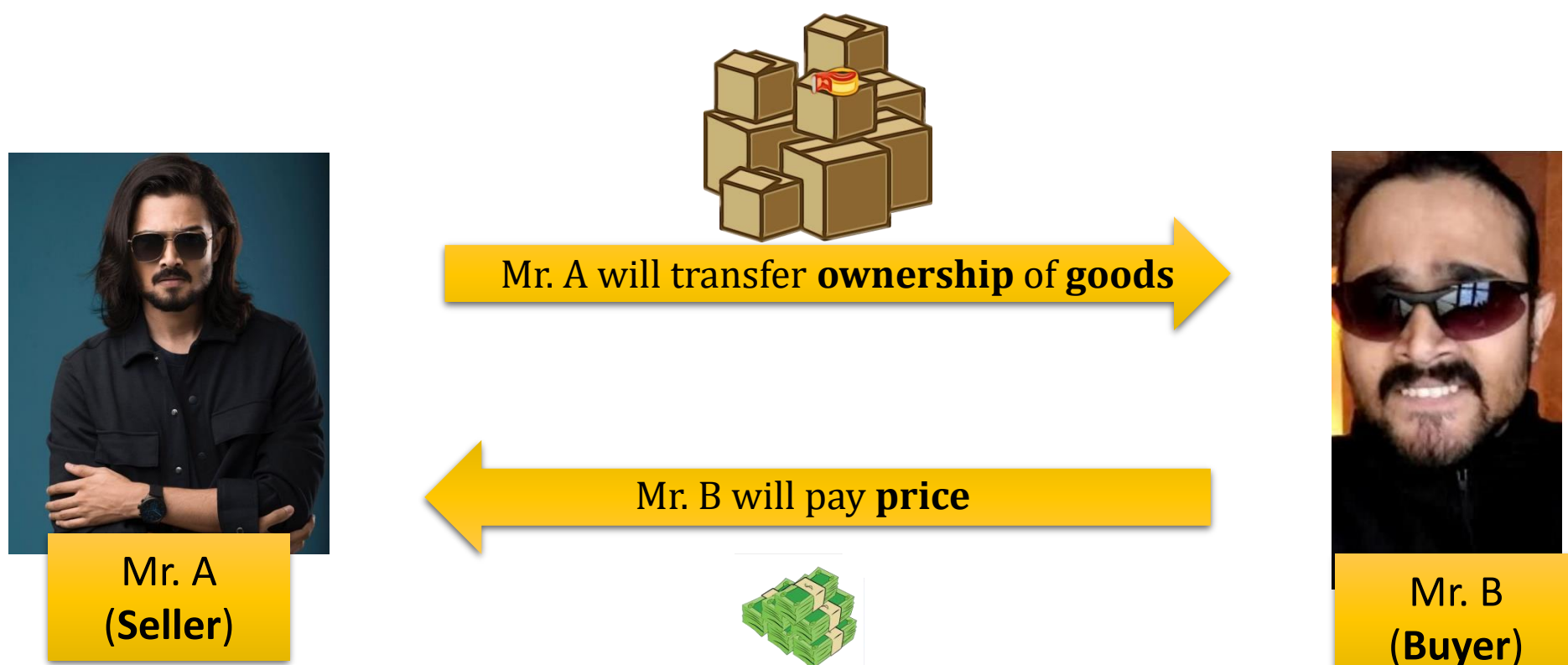
03 **Section 1-66**

04 Deals with Contract of Sale of  
Goods

# AB KI BAAR CA FOUNDATION PAAR

## UNIT - 1 FORMATION OF CONTRACT OF SALE

Contract of Sale of Goods (Layman Language)





## Topic : Contract of Sale



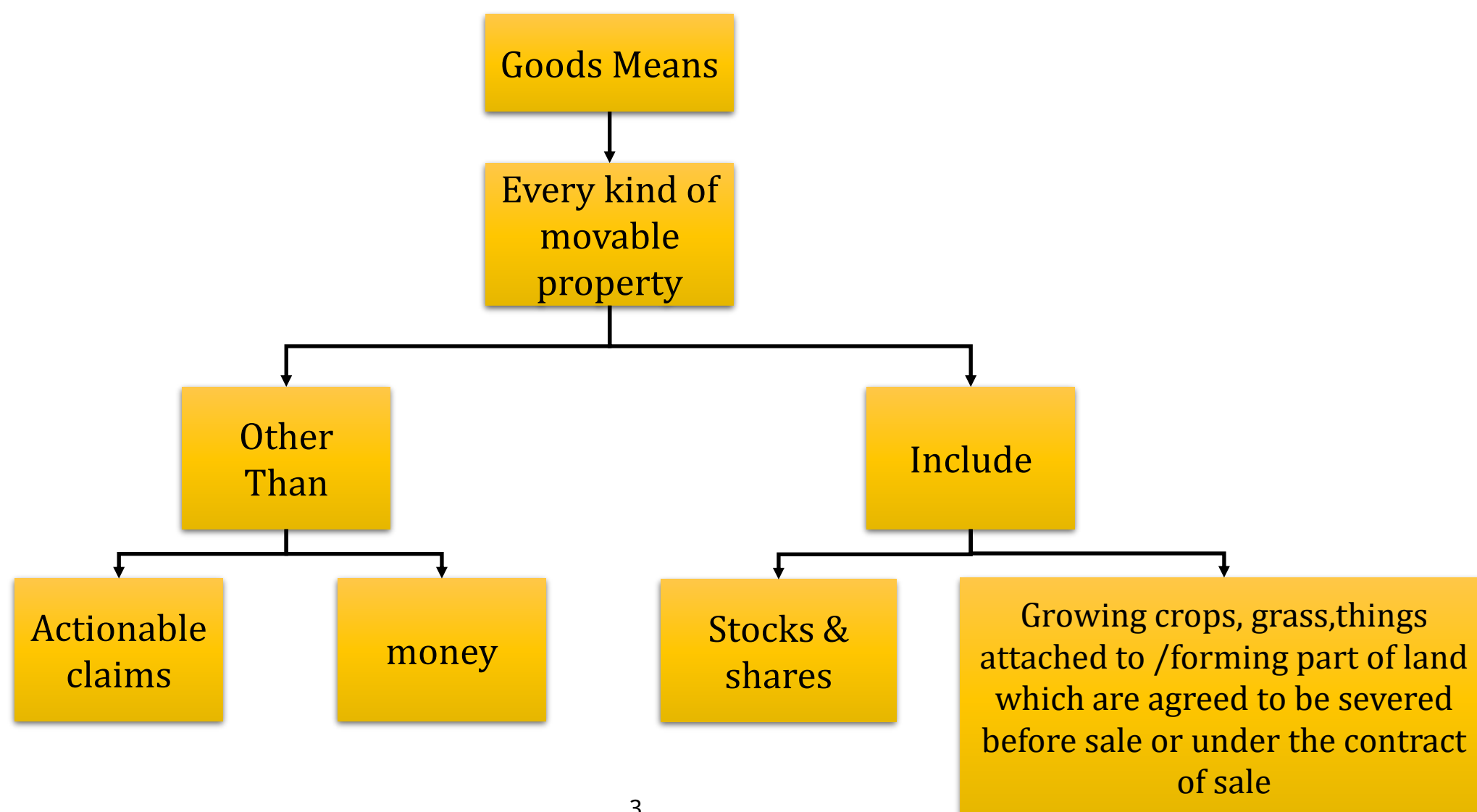
*“A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property(ownership) in goods to the buyer for a price”. There may be a contract of sale between one part-owner and another.*

*For understanding contract of sale, we need to understand the following terms in details :-*

- Goods
- *PROPERTY* in goods
- Price
- Seller
- Buyer



## Topic : Definition of Goods





## Topic : Actionable Claims (Technical Language)



'Actionable claims' are claims, which can be enforced only by an action or suit, e.g., debt.

- A debt is not a movable property or goods

Example of Goods
Fixed Deposit receipt
Shares/stock of Company
Electricity
Decree of Court
Goodwill
Copyrights/patents/trademarks



## Topic : Price



Price [Section 2(10)]: Price means the money consideration for a sale of goods. It is the value of goods expressed in monetary terms.

Note :- Price can be money & in kind but not wholly in kind  
It is the essential requirement to make a contract of sale of goods.

A agrees to buy a new TV from a shop keeper for Rs. 30,000 payable partly in cash of Rs. 20,000 and partly in exchange of old TV set. Is it a valid Contract of Sale of Goods? Give reasons for your answer.

## Price

Price [Section 2(10)]: Price means the money consideration for a sale of goods. It is the value of goods expressed in monetary terms.

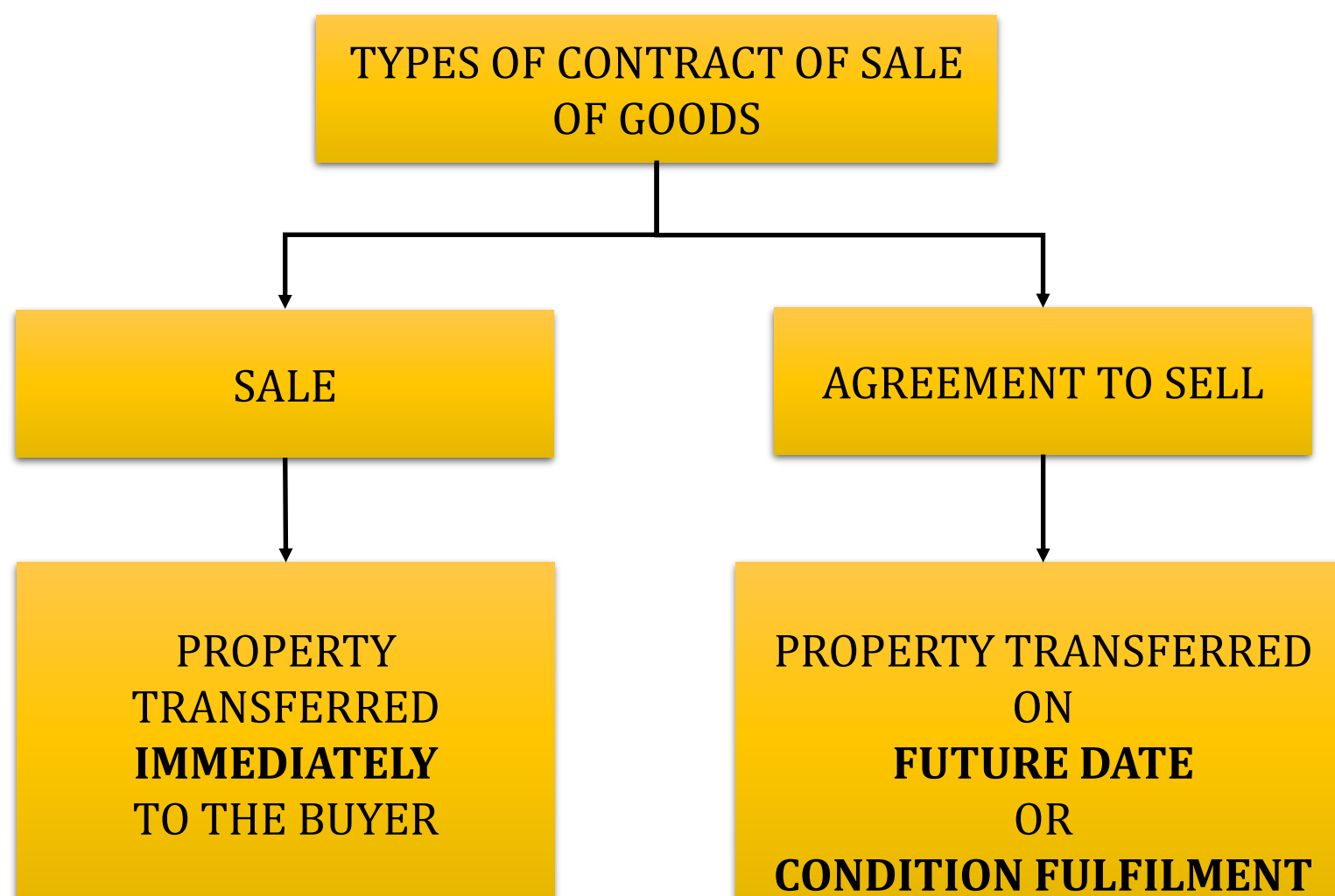
Note :- Price can be money & in kind but not wholly in kind

It is the essential requirement to make a contract of sale of goods.

## Seller & Buyer

'Buyer' means a person who buys or agrees to buy goods [Section 2(1)].

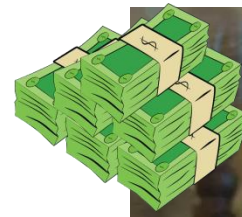
'Seller' means a person who sells or agrees to sell goods [Section 2(13)].



## SALE



Mr. Hola  
Seller



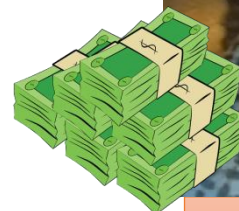
Mr. Lakhan Chatriwala  
Buyer

Mr. Hola, transfers the property (ownership) in goods immediately to the Mr. Lakhan Chatriwala (buyer) for Rs. 100 (price)

## Agreement to Sell



Mr. Bean  
Seller



Mr. Lakhan Chatriwala  
Buyer

On, 23 June, Mr. Bean, agrees to transfers the property (ownership) in Car (goods) to the Mr. Lakhan Chatriwala (buyer) for Rs. 5 Lakhs (price) on 3 July. Therefore on 3<sup>rd</sup> July, agreement of sale will convert into sale.

# DISTINCTION BETWEEN SALE AND AN AGREEMENT TO SELL



The differences between the two are as follows:

Basis of difference	Sale	Agreement to sell
<b>Transfer of property</b>	The property in the goods passes to the buyer immediately.	Property in the goods passes to the buyer on future date or on fulfilment of some condition.
<b>Nature of contract</b>	It is an executed contract i.e. contract for which consideration has been paid.	It is an executory contract i.e. contract for which consideration is to be paid at a future date.
<b>Remedies for breach</b>	The seller can sue the buyer for the price of the goods because of the passing of the property therein to the buyer.	The aggrieved party can sue for damages only and not for the price, unless the price was payable at a stated date.
<b>Liability of parties</b>	A subsequent loss or destruction of the goods is the liability of the buyer.	Such loss or destruction is the liability of the seller.
<b>Burden of risk</b>	Risk of loss is that of buyer since risk follows ownership.	Risk of loss is that of seller.
<b>Nature of rights</b>	Creates Jus in rem (against things)	Creates Jus in personam (against person)
<b>Right of resale</b>	The seller cannot resell the goods.	The seller may sell the goods since ownership is with the seller.
<b>In case of insolvency of seller</b>	The official assignee will not be able to take over the goods but will recover the price from the buyer.	The official assignee will acquire control over the goods but the price will not be recoverable.
<b>In case of insolvency of buyer</b>	The official assignee will have control over the goods.	The official assignee will not have any control over the goods.

**Sale and Bailment:** A 'bailment' is the delivery of goods for some specific purpose under a contract on the condition that the same goods are to be returned when the purpose is accomplished to the bailor or are to be disposed of according to the directions of the bailor. Provisions related to bailment are regulated by the Indian Contract Act, 1872.



Basis of difference	Sale	Bailment
<b>Transfer of property</b>	The property in goods is transferred from the seller to the buyer. So, it is transfer of general property.	There is only transfer of possession of goods from the bailor to the bailee for any of the reasons like safe custody, carriage etc. So, it is transfer of special property.
<b>Return of goods</b>	The return of goods in contract of sale is not possible.	The bailee must return the goods to the bailor on the accomplishment of the purpose for which the bailment was made.
<b>Consideration</b>	The consideration is the price in terms of money.	The consideration may be gratuitous or non-gratuitous.



Basis of difference	Sale	Hire- Purchase
<b>Time of passing property</b>	Property in the goods is transferred to the buyer immediately at the time of contract.	The property in goods passes to the hirer upon payment of the last instalment.
<b>Position of the party</b>	The position of the buyer is that of the owner of the goods.	The position of the hirer is that of a bailee till he pays the last instalment.
<b>Termination of contract</b>	The buyer cannot terminate the contract and is bound to pay the price of the goods.	The hirer may, if he so likes, terminate the contract by returning the goods to its owner without any liability to pay the remaining instalments.
<b>Burden of Risk of insolvency of the buyer</b>	The seller takes the risk of any loss resulting from the insolvency of the buyer.	The owner takes no such risk, for if the hirer fails to pay an instalment, the owner has right to take back the goods.
<b>Transfer of title</b>	The buyer can pass a good title to a bona fide purchaser from him.	The hirer cannot pass any title even to a bona fide purchaser.
<b>Resale</b>	The buyer in sale can resell the goods.	The hire purchaser cannot resell unless he has paid all the instalments.

**Sale and contract for work and labour:** A contract of sale of goods is one in which some goods are sold or are to be sold for a price. But where no goods are sold, and there is only the doing or rendering of some work of labour, then the contract is only of work and labour and not of sale of goods.

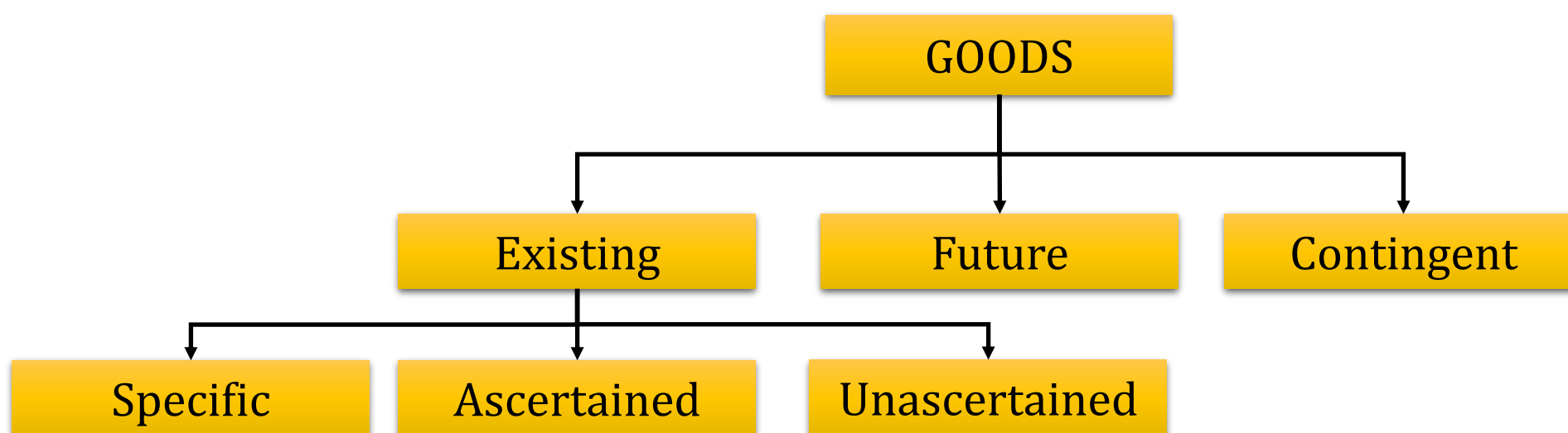
**Example :** Where gold is supplied to a goldsmith for preparing an ornament or when an artist is asked to paint a picture.

## Subject Matter of Contract of Sale

Subject matter of Contract of Sale is Goods

Goods can be future goods, existing goods or contingent goods

## TYPES OF GOODS



# Existing Goods

Goods already in existence at the time of contract of sale

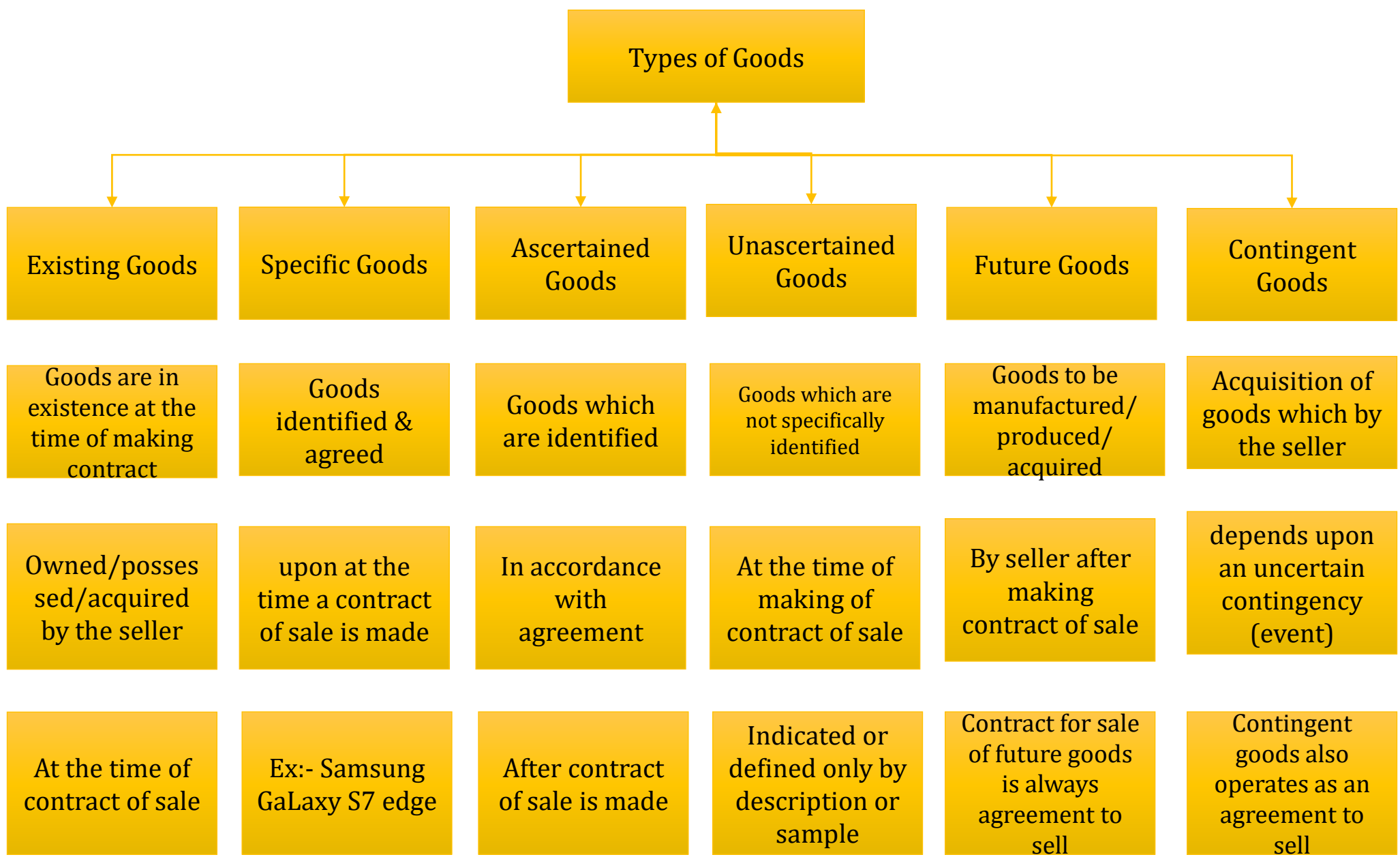
May be owned or possessed by the seller at the time of contract of sale

For existing goods, parties can execute sale or Agreement to sale



# Specific Goods V/s Unascertained Goods V/s Ascertained Goods





## Contingent Goods

Acquisition of goods by **SELLER** depends on the uncertain event

Contract for sale of contingent goods is always an agreement to sell

### Example:-



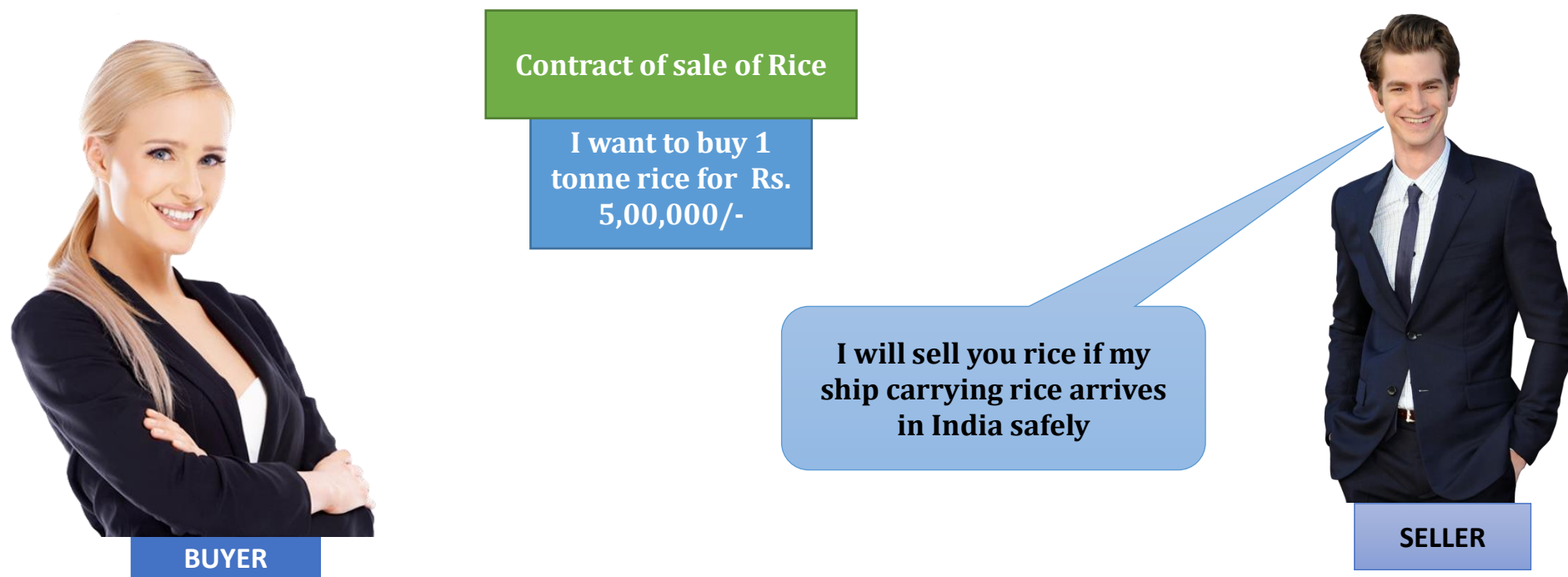
Akshay  
(Seller)

**Akshay agrees to sell to Pooja, painting of Majnu Bhai provided he is able to purchase it from the current owner**



Dhinchak Pooja  
(Buyer)





## Topic : Classify the Goods



- (i) A wholesaler of cotton has 100 bales in his godown. He agrees to sell 50 bales and these bales were selected and set aside.
  - (ii) A agrees to sell to B one packet of sugar out of the lot of one hundred packets lying in his shop.
  - (iii) T agrees to sell to S all the apples which will be produced in his garden this year.
- (i) A wholesaler of cotton has 100 bales in his godown. So, the goods are existing goods. He agrees to sell 50 bales and these bales were selected and set aside. On selection, the goods become ascertained. In this case, the contract is for the sale of ascertained goods, as the cotton bales to be sold are identified and agreed after the formation of the contract.



## Topic : Classify the Goods



- (ii) If A agrees to sell to B one packet of sugar out of the lot of one hundred packets lying in his shop, it is a sale of existing but unascertained goods because it is not known which packet is to be delivered.
- (iii) T agrees to sell to S all the apples which will be produced in his garden this year. It is contract of sale of future goods, amounting to 'an agreement to sell.'

### Elements of Contract of sale of Goods



Minimum 2 parties (Buyer and seller)

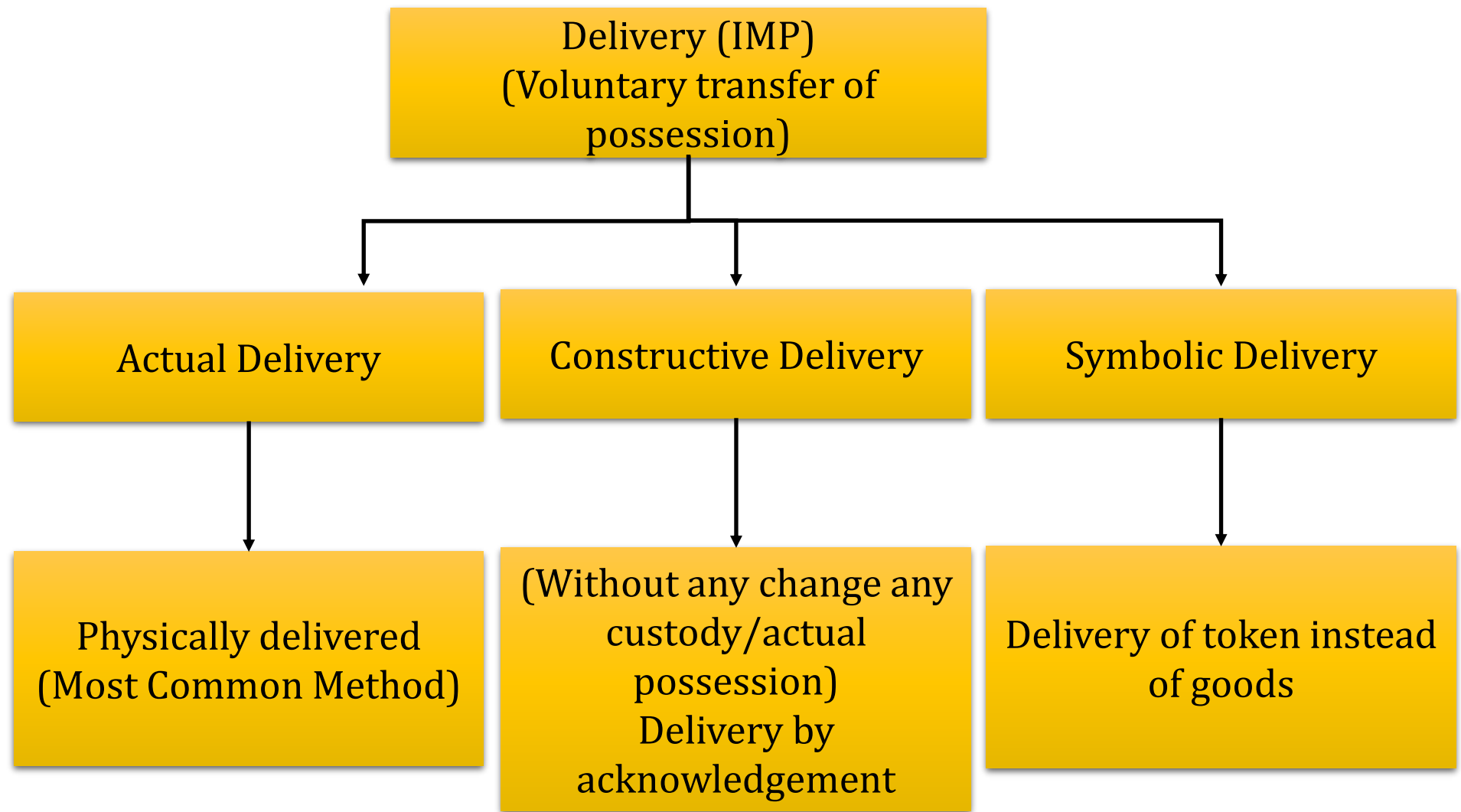
Subject Matter of Contract – Goods (Movable property)

Price – Wholly in Money or Partly in Money and Partly in kind

Transfer of property (ownership) of Goods – Immediately or future

May be Absolute or Conditional

All other essentials of a valid contract (Covered under ICA, 1872)



## Actual Delivery



Gurpreet Sir

Gurpreet Sir ordered Kadhai Paneer, Dal Makhani and Tandoori Roti from Zomato app and paid online

Restaurant accepted the offer and started preparing the order

**Delivery guy reached Gurpreet sir's home and handed over the order to Gurpreet (actual delivery)**



Zomato Delivery Guy Sonu

Majority of the sale contracts are discharged through actual delivery

## Constructive Delivery



Mr. Gabbar  
Seller

Ok.. Kalia

I want to  
purchase  
all the  
goods in  
the  
warehouse



Mr. Kalia  
Buyer



Mr. Thakur  
Warehouse  
keeper



Mr. Gabbar calls Mr. Thakur that now the goods in warehouse belongs to Mr. Kalia. Mr. Thakur agrees that now he is holding goods on behalf of Kalia instead of Mr. Gabbar

## Symbolic Delivery



Mr. Gabbar  
Seller

Ok.. Kalia..  
ye le  
warehouse  
ki chaabi

I want to  
purchase  
all the  
goods in  
the  
warehouse



Mr. Kalia  
Buyer



Mr. Gabbar calls Mr. Thakur that now the goods in warehouse belongs to Mr. Kalia. Mr. Thakur agrees that now he is holding goods on behalf of Kalia instead of Mr. Gabbar





## Document of title to goods

Unconditional undertaking to deliver the goods to the holder of the document

Bill of lading - detailed list of a ship's cargo in the form of a receipt given by the master of the ship

Dock-warrant - certifies that the holder is entitled to goods imported and warehoused in the docks

Warehouse keeper's certificate - document issued in favour of the owner or depositor of goods by the warehouse keeper

Wharfingers' certificate / Multimodal Transport Document -

Railway receipt - which entitles the consignee to take delivery of the goods at the Private Terminal at which the train terminates

## Mercantile Agent



Agent who is the customary course of business has any of the following authorities

Sell Goods

Consign goods

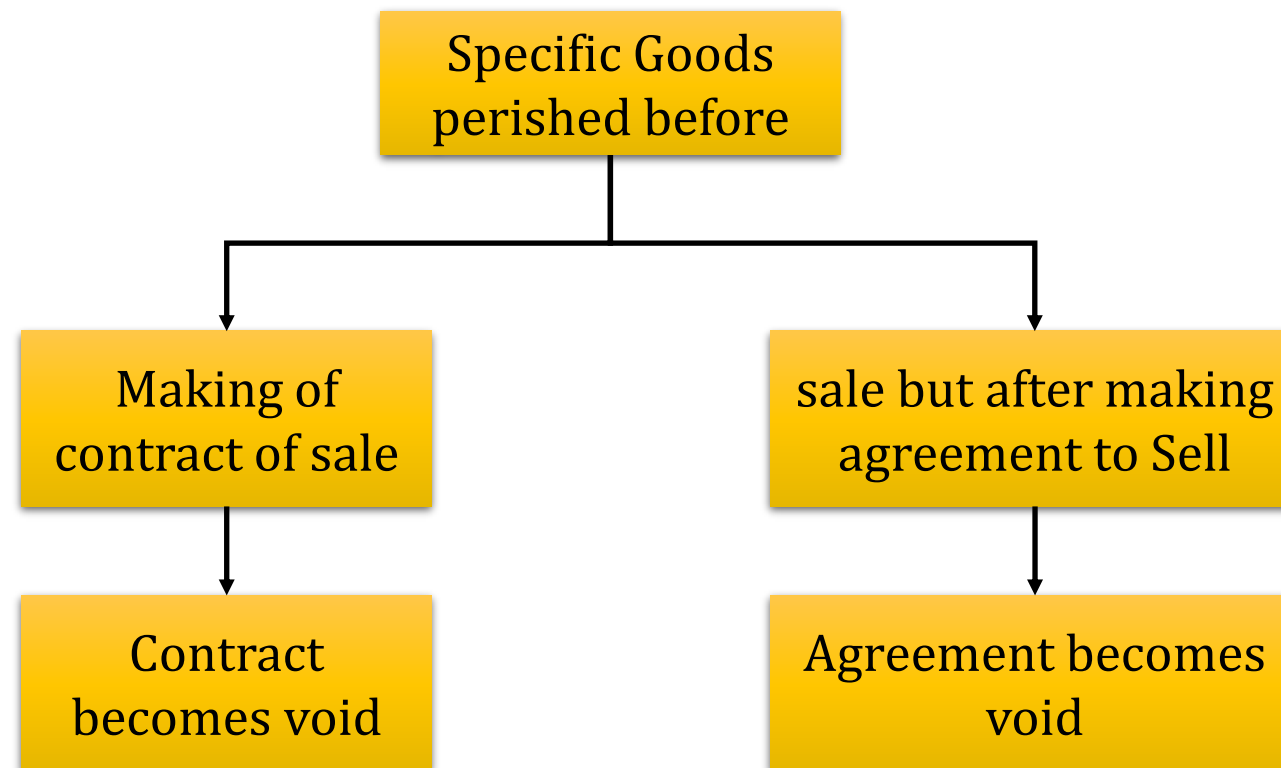
Buy goods

money on security of

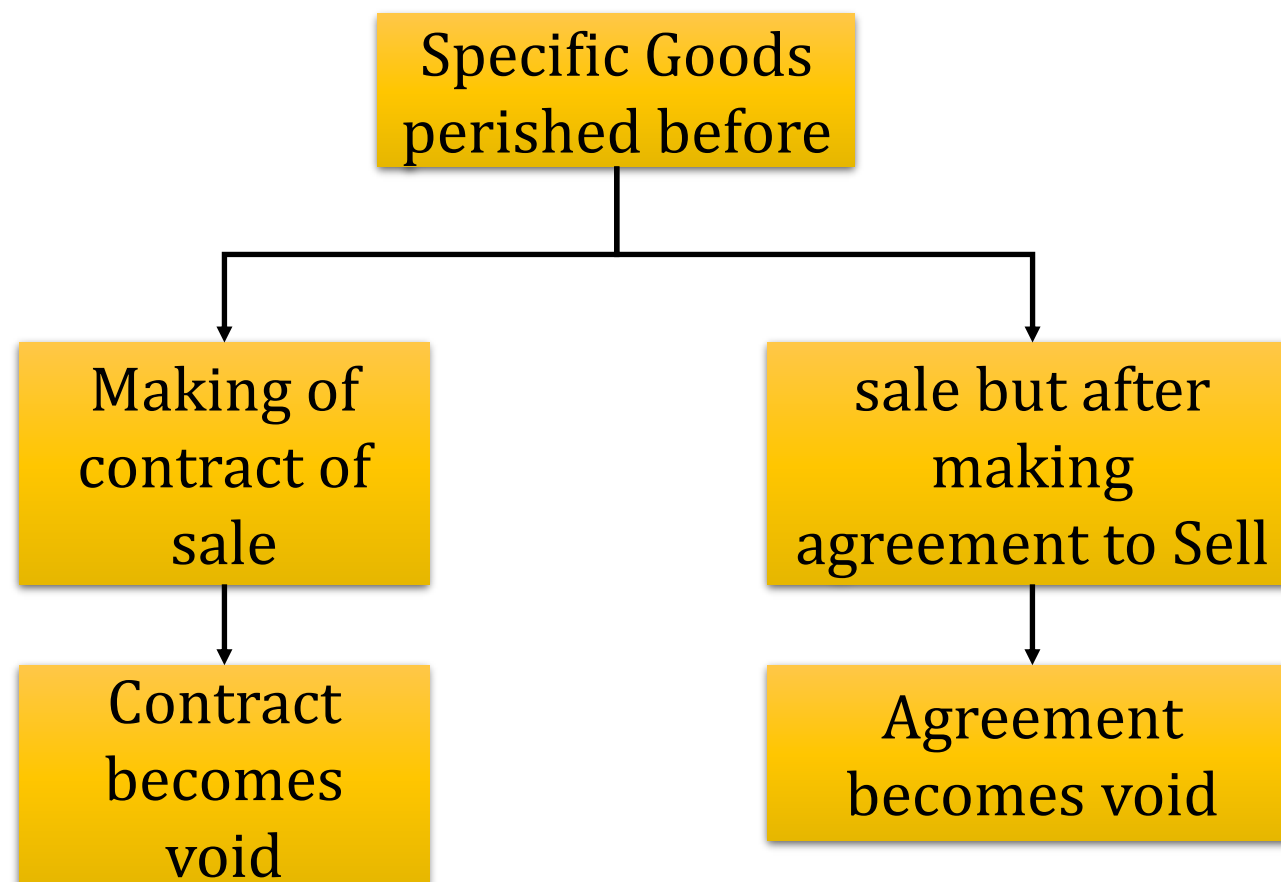


He ceases to pay his debt in the ordinary course of business

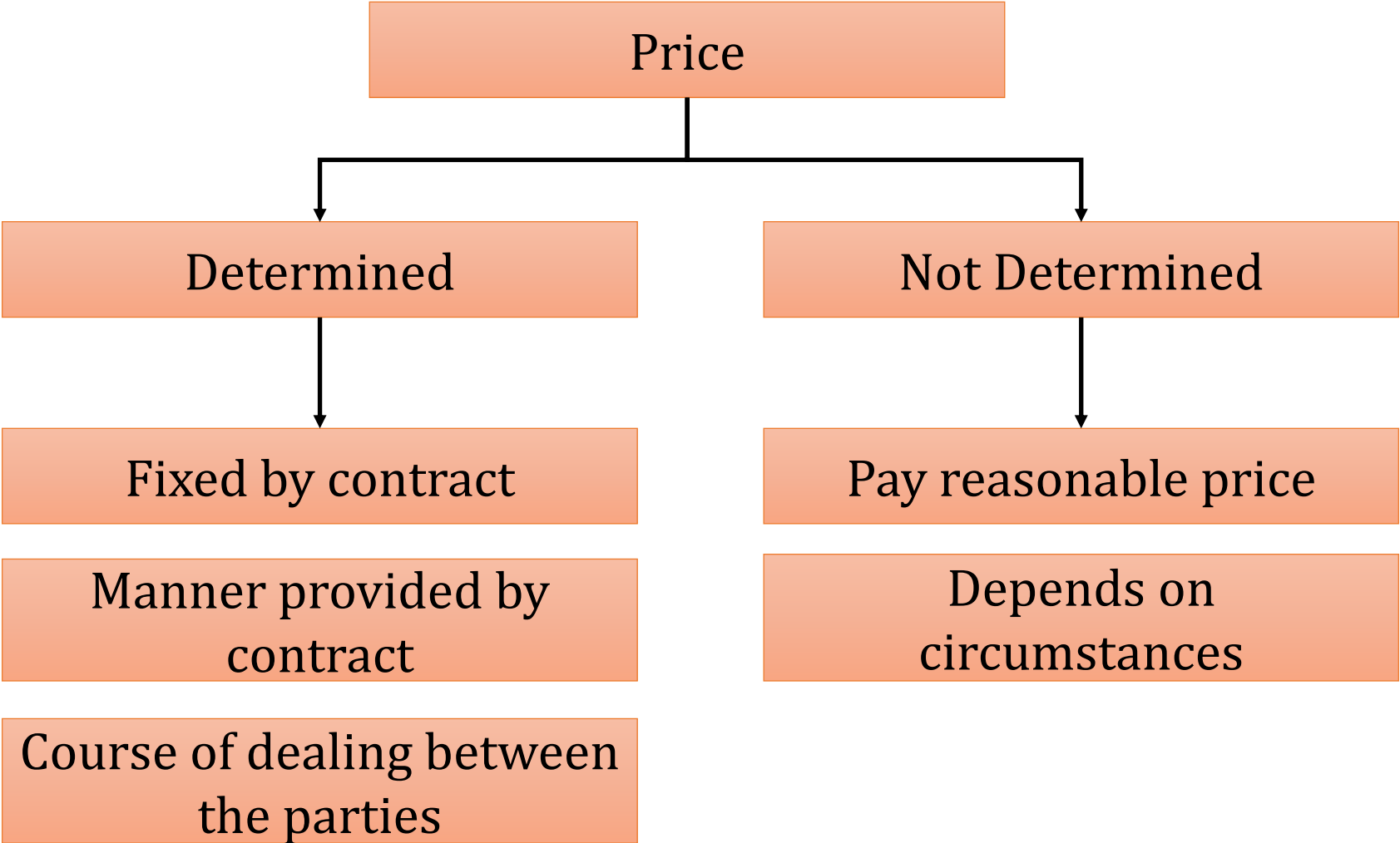
or Who cannot pay his debt as they become due



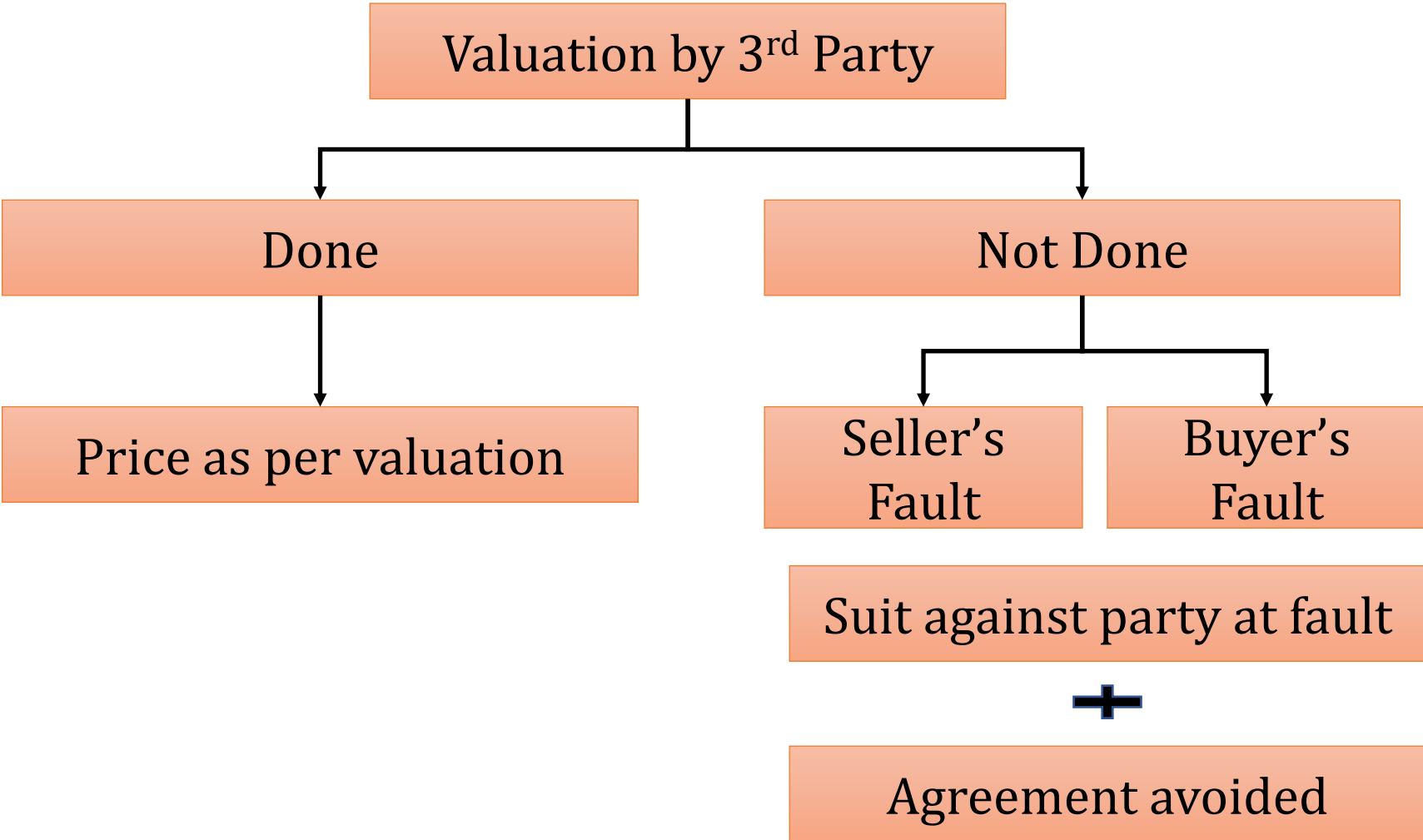
Perishing of specific goods



Ascertainment of price



Ascertainment of price



Note :- Buyer shall pay reasonable price if goods already delivered and appropriated and valuation is not done



Offer + Acceptance

Immediate delivery & Immediate payment (Cash sales)

Immediate delivery & payment in future (credit sales)

Immediate payment & delivery in future (Advance payment)

Payment and delivery both in future (Agreement to sell)

Delivery / payment / both in instalments (EMI)

Contract can be oral or in writing or partly oral or partly writing

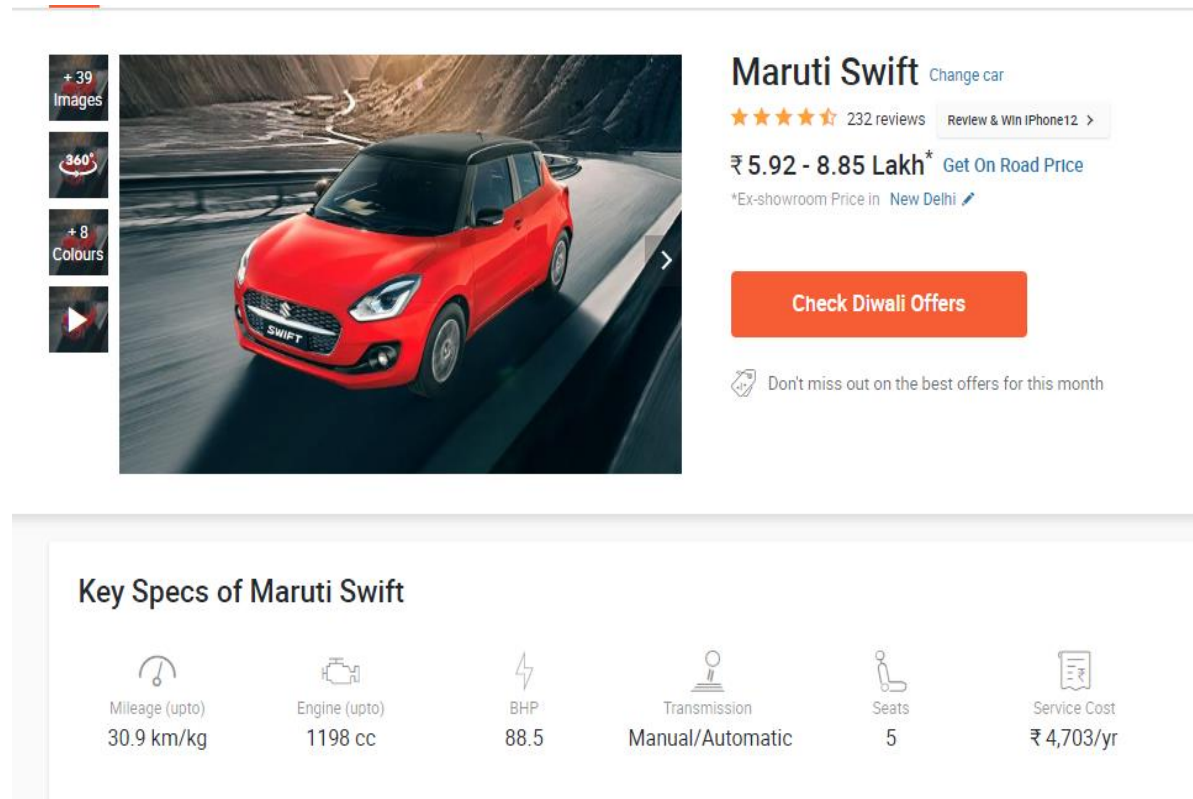


**AB KI BAAR  
CA FOUNDATION PAAR**

**UNIT - 2  
CONDITIONS & WARRANTIES**

## What is Representation ?

At the time of selling the goods, a seller usually makes certain statements or representations with a view to induce the intending buyer to purchase the goods. Such representations are generally about the nature and quality of goods, and about their fitness for buyer's purpose.



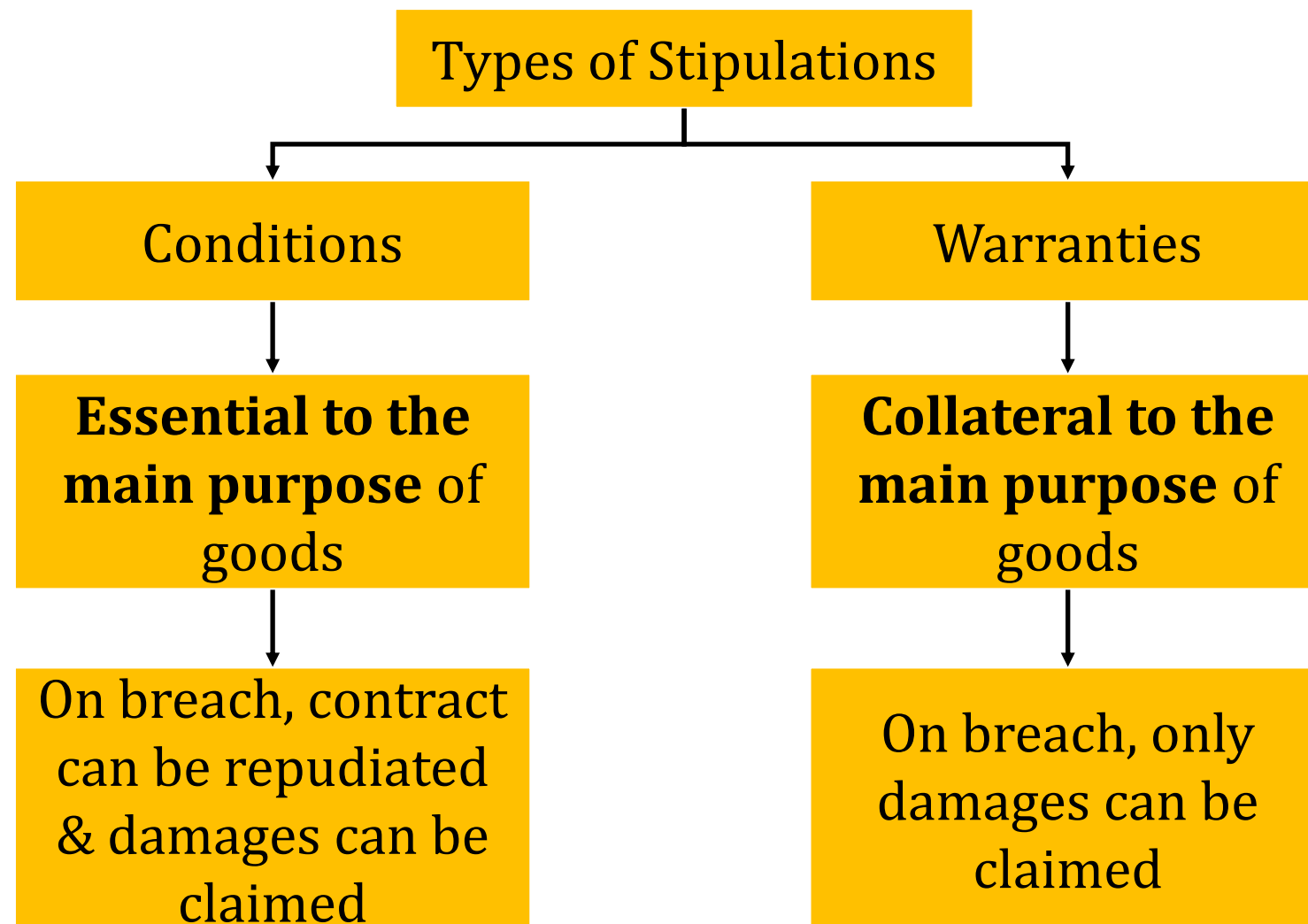
## What is Stipulation?

A representation which forms a part of the contract of sale and affects the contract, is called a stipulation.

## Importance of stipulation

Every stipulation is not of equal importance. Some of these may be very vital while others may be of somewhat lesser significance. The more significant stipulations contained in a contract of sale of goods have been called as “Conditions”, while the less significant stipulation have been given the name “Warranties”.

# Types of Stipulation



Point of differences	Condition	Warranty
<b>Meaning</b>	A condition is a stipulation essential to the main purpose of the contract.	A warranty is a stipulation collateral to the main purpose of the contract.
<b>Right in case of breach</b>	The aggrieved party can repudiate the contract or claim damages or both in the case of breach of condition.	The aggrieved party can claim only damages in case of breach of warranty.
<b>Conversion of stipulations</b>	A breach of condition may be treated as a breach of warranty.	A breach of warranty cannot be treated as a breach of condition.





X consults Y, a motor-car dealer for a car suitable for touring purposes to promote the sale of his product. Y suggests 'Santro' and X accordingly buys it from Y. The car turns out to be unfit for touring purposes. What remedy X is having now under the Sale of Goods Act, 1930?

In the instant case, the term that the 'car should be suitable for touring purposes' is a condition of the contract. It is so vital that its non-fulfilment defeats the very purpose for which X purchases the car. X is therefore entitled to reject the car and have refund of the price.

### When Condition can be treated as warranty? (Section 13)

#### 4 Cases where Condition can be treated as Warranty

Buyer altogether waives the performance of the condition

Buyer elects to treat the breach of the conditions, as one of a warranty

Contract is non-severable and the buyer has accepted either the whole goods or part of it

Where the fulfilment of any condition or warranty is excused by law by reason of impossibility or otherwise.

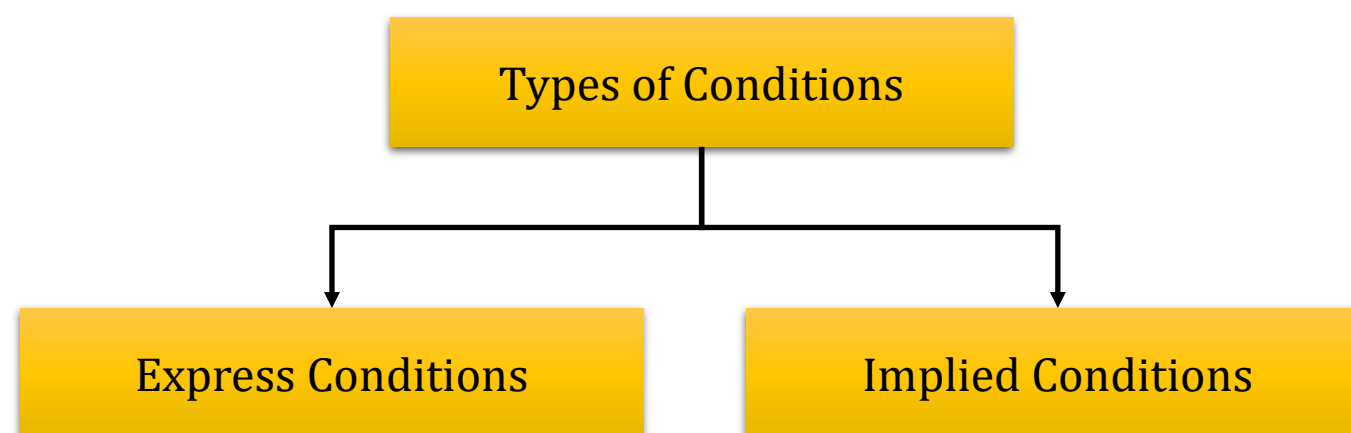


### Stipulation as to time of payment & time of delivery:

As regard to time for the payment of price, unless a different intention appears from the terms of contract, stipulation as regard this, is not deemed to be of the essence of a contract of sale.

But delivery of goods must be made without delay. Whether or not such a stipulation is of the essence of a contract depends on the terms agreed upon.

Stipulation as to time of delivery are usually the essence of the contract.



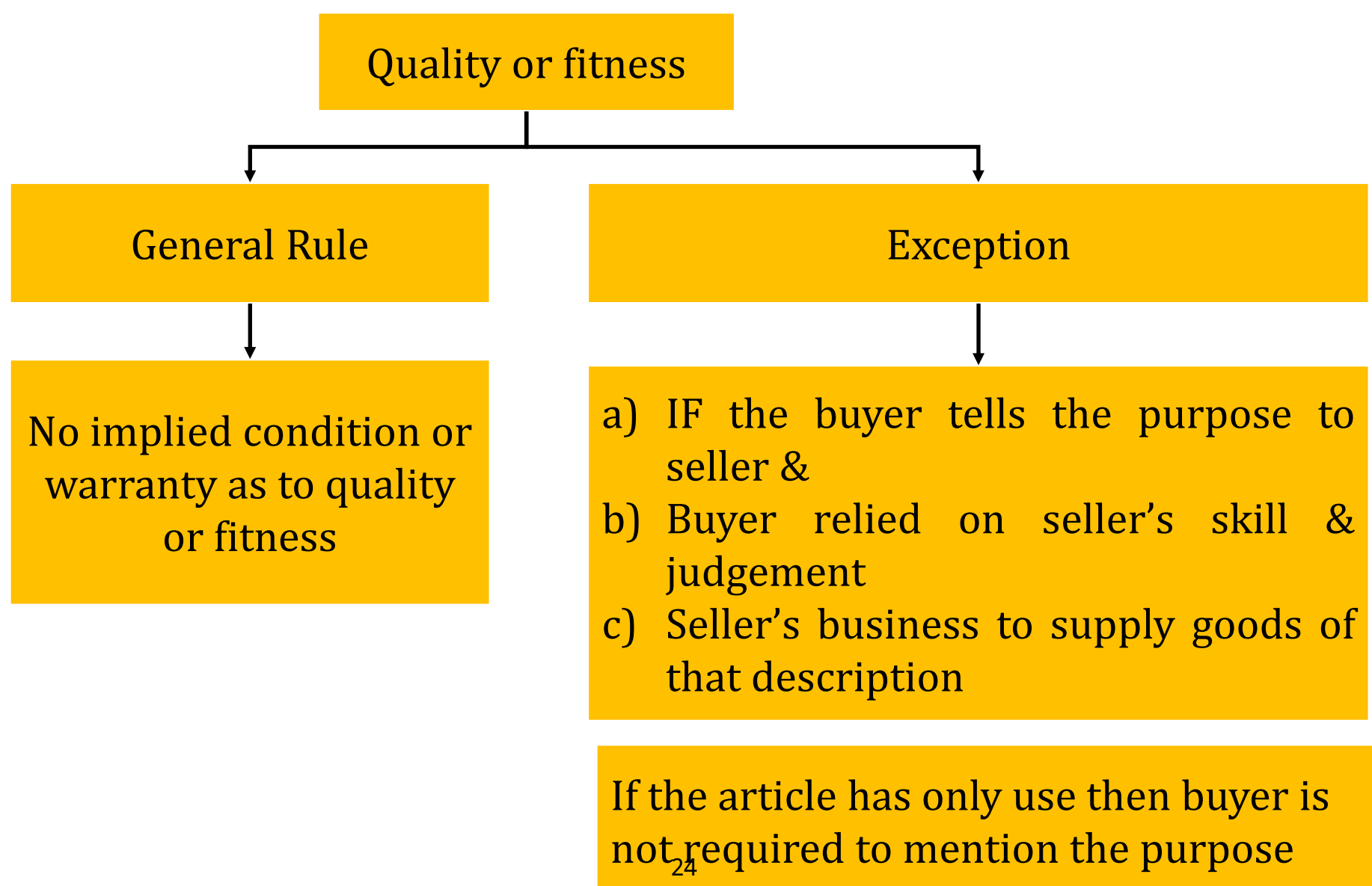
**Express conditions** are those, which are agreed upon between the parties at the time of contract and are expressly provided in the contract.

Example : Ram consults Shyam, a motor-car dealer for a car suitable for touring purposes to promote the sale of his product. Shyam suggests 'Maruti' and Ram accordingly buys it from Shyam. The car turns out to be unfit for touring purposes. Here, the term that the 'car should be suitable for touring purposes' is a condition of the contract. It is so vital that its non-fulfilment defeats the very purpose for which Ram purchases the car. Ram is therefore entitled to reject the car and have refund of the price.



**Implied conditions**, on the other hand, are those, which are presumed by law to be present in the contract. It should be noted that an implied condition may be negated or waived by an express agreement.

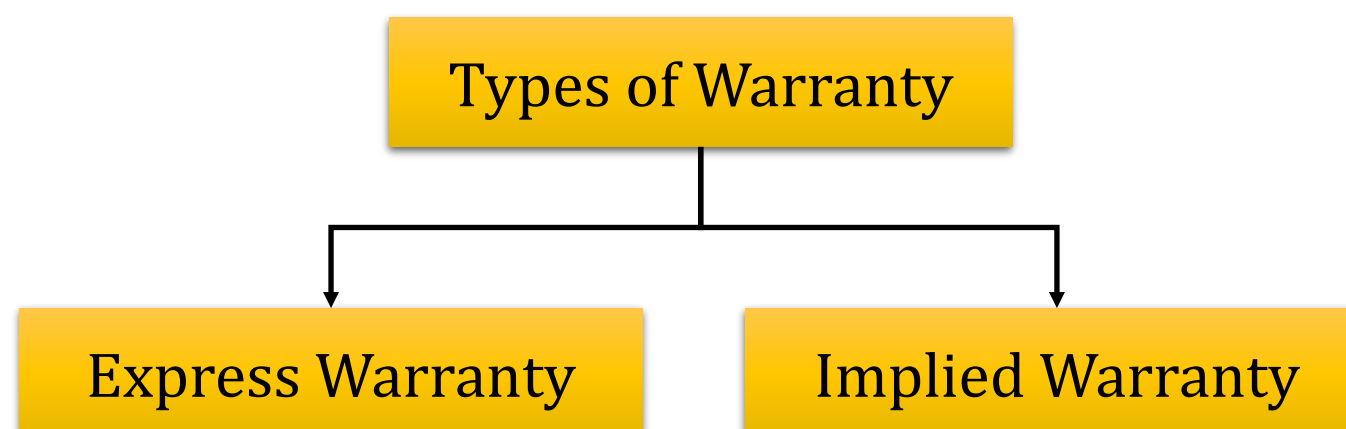
Implied Conditions	Examples
Condition as to title (right to sell)	Stolen tractor/Copyright
Sale by sample (reasonable opportunity)	T-shirt design
Condition as to quality or fitness	Exception
Condition as to wholesomeness	Milk/Bread containing stone
Condition as to description	Amazon sale
Sale by sample as well as by description	
Condition as to merchantability	Damaged horns due to packaging



For the purpose of making uniform for the employees, Mr. Yadav bought dark blue coloured cloth from Vivek, but did not disclose to the seller the purpose of said purchase. When uniforms were prepared and used by the employees, the cloth was found unfit. However, there was evidence that the cloth was fit for caps, boots and carriage lining.

Advise Mr. Yadav whether he is entitled to have any remedy under the sale of Goods Act, 1930?

What would be your answer if Yadav has told the purpose to seller before purchasing?



**Express warranties** are those, which are agreed upon between the parties at the time of contract and are expressly provided in the contract.

**Implied Warranties:** It is a warranty which the law implies into the contract of sale. In other words, it is the stipulation which has not been included in the contract of sale in express words. But the law presumes that the parties have incorporated it into their contract. It will be interesting to know that implied warranties are read into every contract of sale unless they are expressly excluded by the express agreement of the parties. These may also be excluded by the course of dealings between the parties or by usage of trade (Section 62).

## Implied Warranties

Warranty as to undisturbed possession	warranty as to quality or fitness by usage of trade	Warranty as to non- existence of encumbrances	disclosure of dangerous nature of goods
Enjoy the quiet possession of the goods	Let the buyer be aware. But rule has exceptions	Free from any charge in favour of third party	Buyer is ignorant of the danger otherwise liable for damages



## Topic : Doctrine of Caveat Emptor /Duties of Buyer

In case of sale of goods, the doctrine 'Caveat Emptor' means 'let the buyer beware'. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be defective, he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.

It is the duty of the buyer to satisfy himself before buying the goods that the goods will serve the purpose for which they are being bought. If the goods turn out to be defective or do not serve his purpose or if he depends on his own skill or judgment, the buyer cannot hold the seller responsible.

The rule of Caveat Emptor is laid down in the Section 16, which states that, "subject to the provisions of this Act or of any other law for the time being in force, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale".



Following are the conditions to be satisfied:

- if the buyer had made known to the seller the purpose of his purchase, and
- the buyer relied on the seller's skill and judgement, and
- seller's business to supply goods of that description (Section 16).

**Example :** A sold pigs to B. These pigs being infected, caused typhoid to other healthy pigs of the buyer. It was held that the seller was not bound to disclose that the pigs were unhealthy. The rule of the law being "Caveat Emptor".

**Example :** A purchases a horse from B. A needed the horse for riding but he did not mention this fact to B. The horse is not suitable for riding but is suitable only for being driven in the carriage. Caveat emptor rule applies here and so A can neither reject the horse nor can claim compensation from B.

### Exceptions to Doctrine of Caveat Emptor/Duties of Seller



**Exceptions:** The doctrine of Caveat Emptor is, however, subject to the following exceptions:

#### Duties of Seller

Fitness as to quality or use (except brand or trade name)

Goods Sold by description

Goods of Merchantable Quantity

Sale by Sample

Goods by sale as well as description

Trade usage (Garment business)

Seller actively conceals a defect or is guilty of fraud

# AB KI BAAR CA FOUNDATION PAAR

## UNIT - 3 TRANSFER OF OWNERSHIP & DELIVERY OF GOODS

Time of Transfer of Property Section 19

Transfer of Property in  
Goods

General Rule (sec 19)

Intention of the parties

Law

Specific Circumstances  
(20-24)

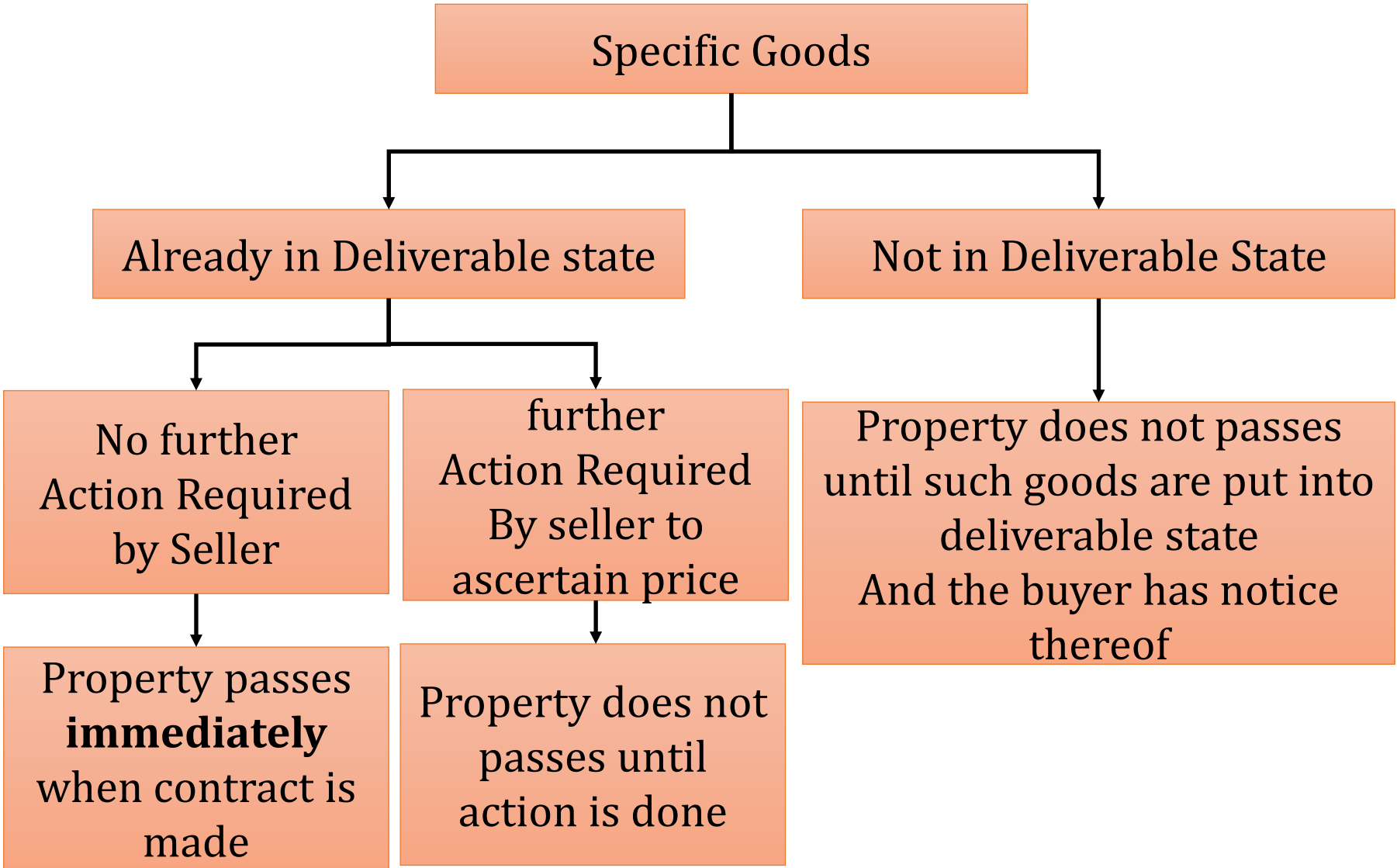
How to ascertain intention of the parties?

Terms of the contract

Conduct of the parties

Circumstances of the case

Time of Transfer of Property in Specific Goods (Section 20,21 & 22)



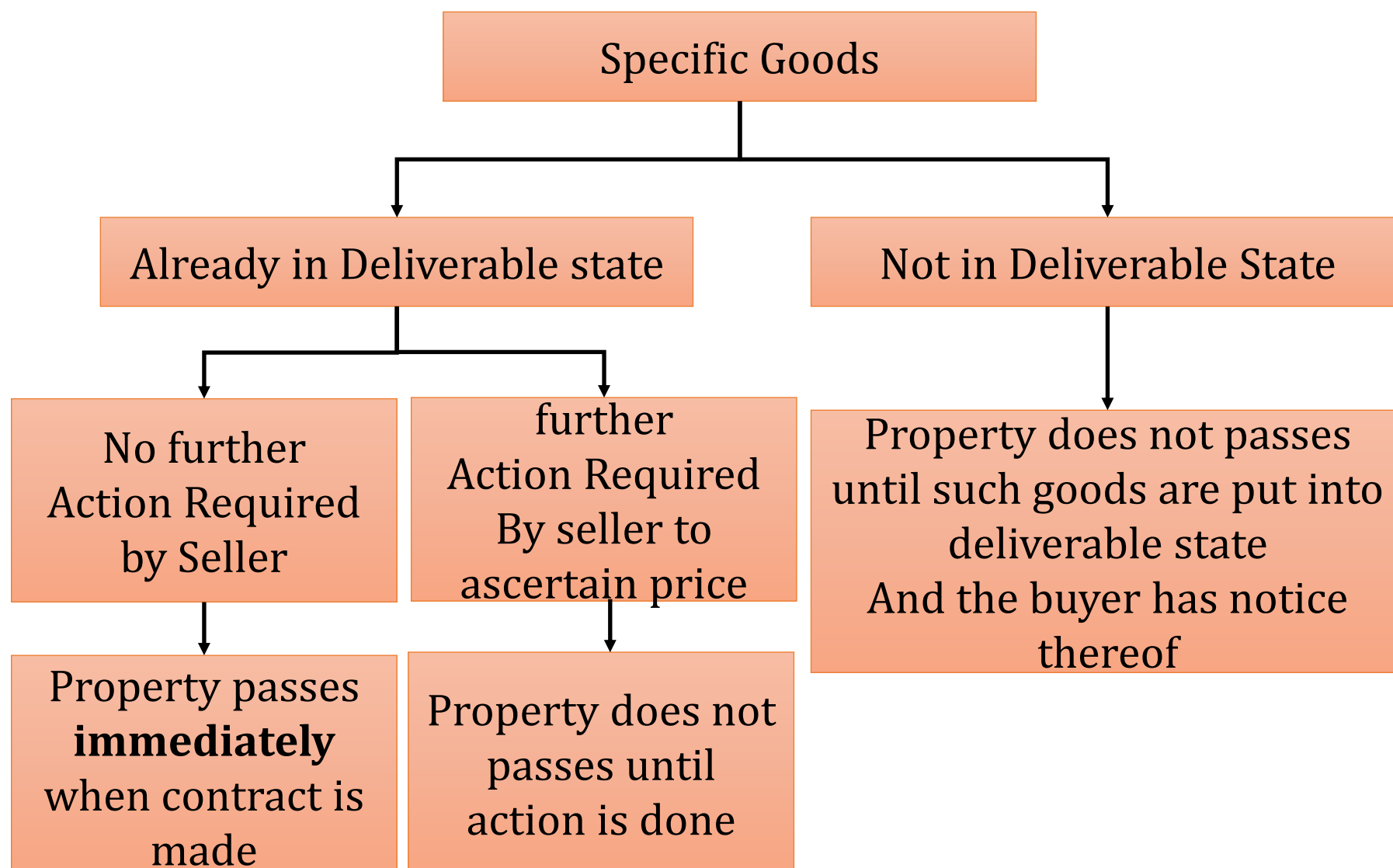
Goods already in deliverable state & no action is required by seller



Goods already in deliverable state & action is required by seller to ascertain price



Time of Transfer of Property in Specific Goods (Section 20,21 & 22)

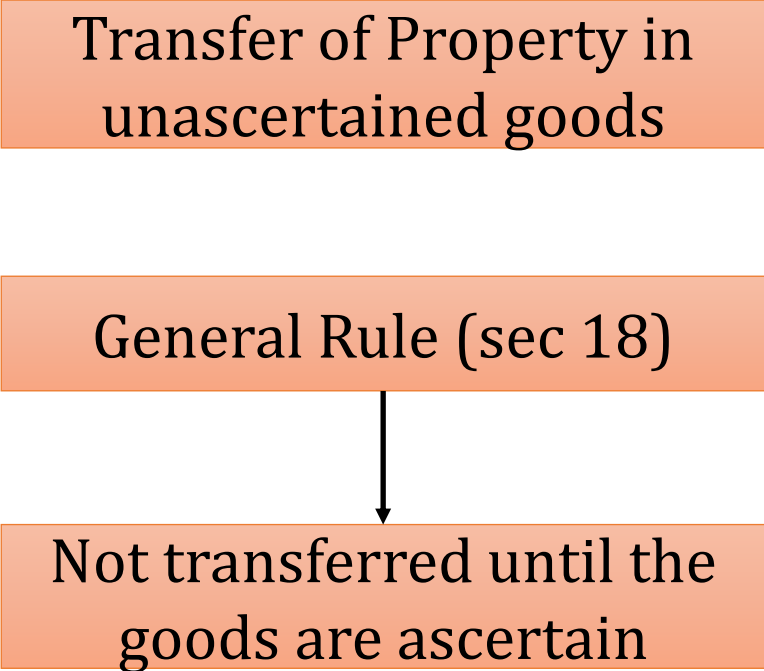


## Goods not in deliverable state

Technical Guruji buys a laptop from Gada electronics store and asks for a home delivery. The shopkeeper agrees to it. However, the laptop does not have a Windows operating system installed. The shopkeeper promises to install it and call technical Guruji before making the delivery. In this case, the property transfers to Peter only after the shopkeeper has installed the OS making the laptop ready for delivery and intimated the buyer about it.



## Time of Transfer of Property in Unascertained Goods



The process of selection of ascertain goods from the lot of unascertained goods is called appropriation of goods





Mr. Bhide ordered one Packet of TATA salt and paid Rs. 22



In shop, there are multiple packets of Tata salt

Therefore, the goods are unascertained



As per section 18, property in TATA salt will not be transferred until the goods are ascertained



## Topic : Section 18

**Identification of Goods:** Section 18 provides that where there is a contract of sale for unascertained goods, the property in goods cannot pass to the buyer unless and until the goods are ascertained. The buyer can get the ownership right on the goods only when the goods are specific and ascertained.



## Essentials of Appropriation of goods (Section 23(1)) (IMP)

### Sale of Unascertained or future goods

Goods should conform to the description & quality stated in the contract

Goods must be in a deliverable state

Goods must be unconditionally appropriated

Appropriation must be made by  
a) Seller with assent of buyer  
b) Buyer with assent of seller

Assent may be express or implied  
Assent may be given either before or after appropriation.

### Deemed Appropriation of goods (Section 23(2))

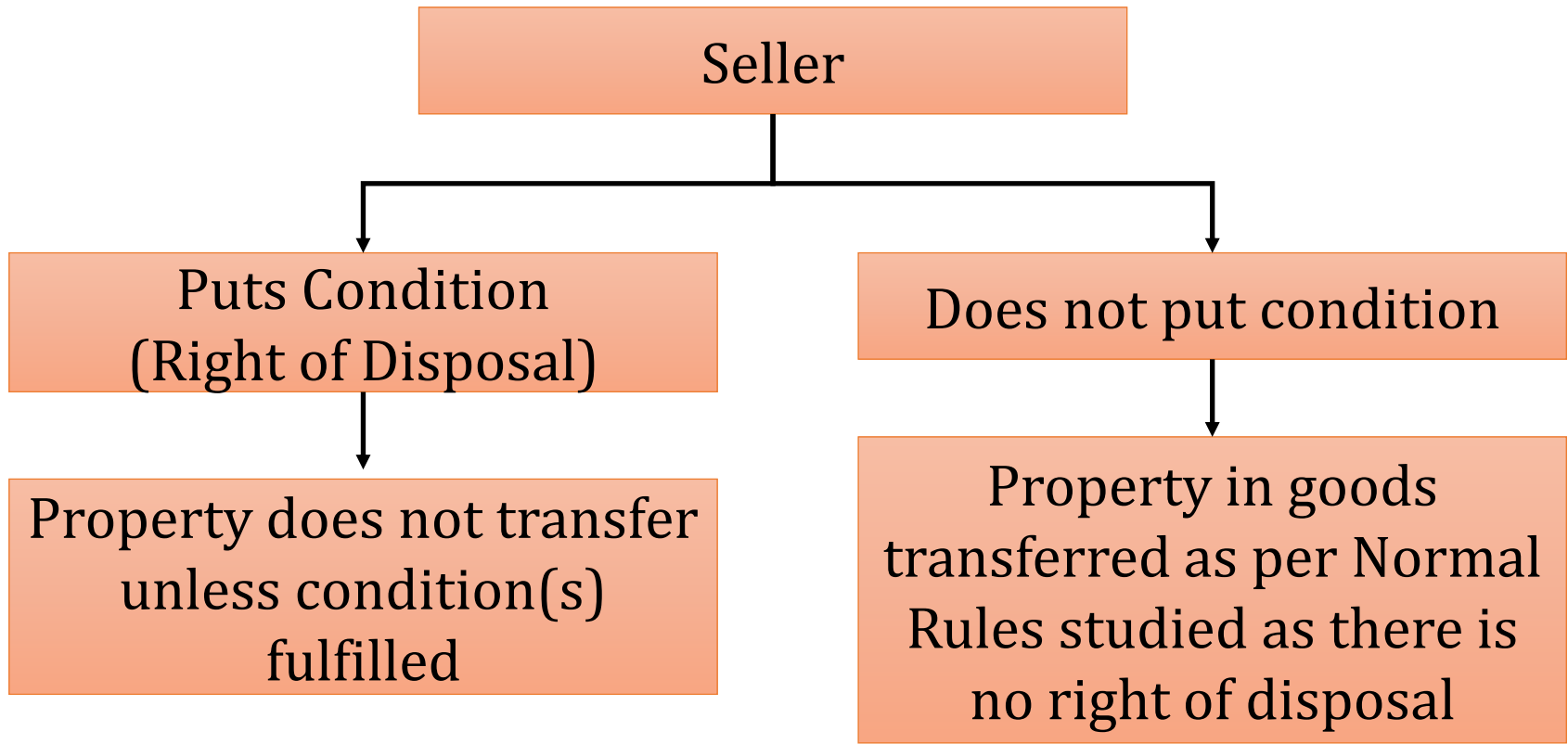
When the seller does not reserve the right of disposal & delivers the goods to the

Buyer

or carrier or bailee for the transmission to the buyer



# Seller - Right of Disposal (section 25)



Note :- Delivery to buyer/carrier/agent/baliee will not transfer property in case right of disposal is there

X sends furniture to B by truck

Instructs driver not to deliver unless B makes payment

Property passes only when payment is made

**X**  
Seller

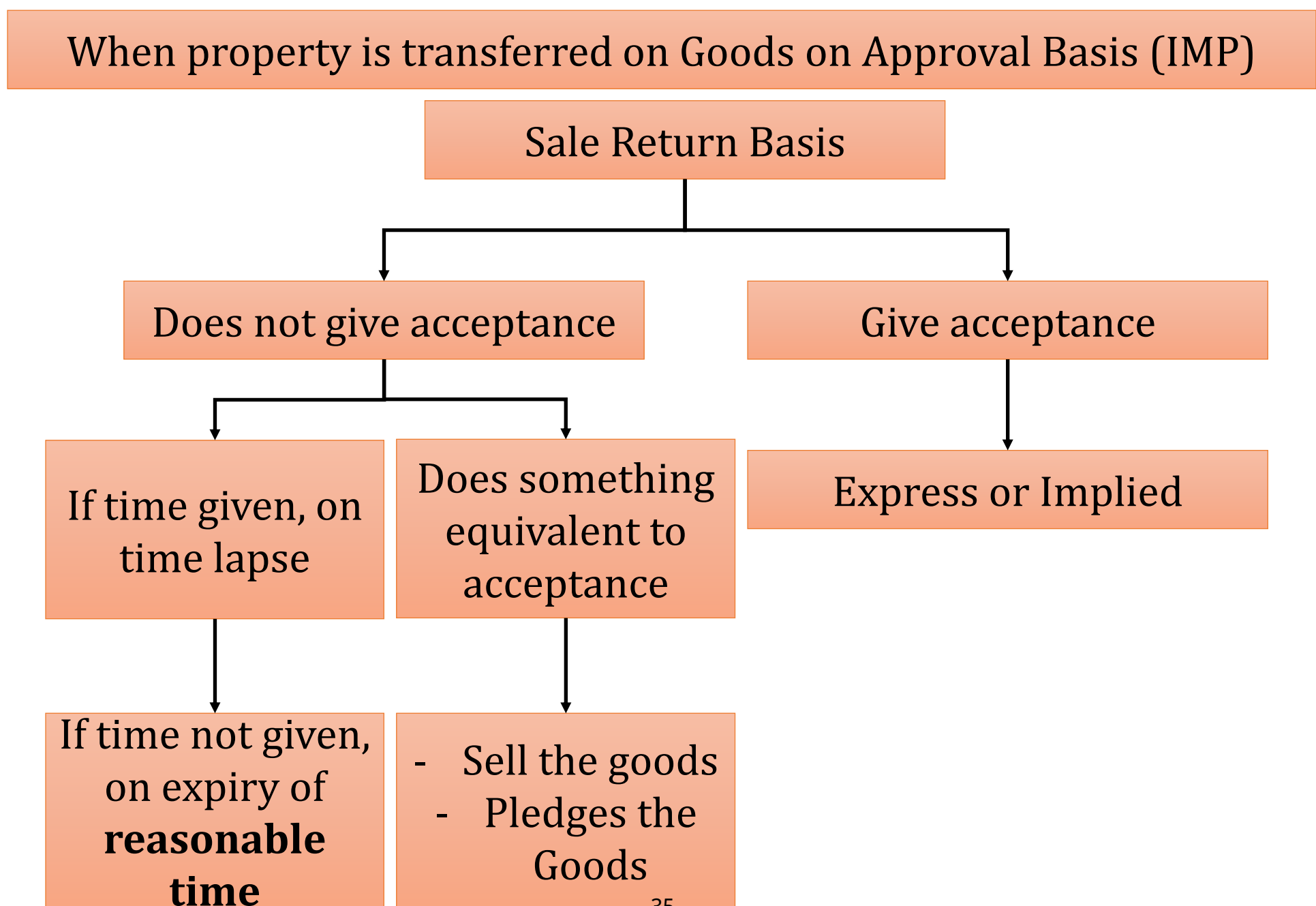
**B**  
Buyer



**Circumstances under which the right to disposal may be reserved:** In the following circumstances, seller is presumed to have reserved the right of disposal:

Case 1:- If the goods are shipped or delivered to a railway administration for carriage and by the bill of lading or railway receipt, as the case may be, the goods are deliverable to the order of the seller or his agent, then the **seller will be prima facie deemed to have reserved to the right of disposal.**

Case 2 :- Where the seller draws a bill on the buyer for the price and sends to him the bill of exchange together with the bill of lading or (as the case may be) the railway receipt to secure acceptance or payment thereof, the buyer must return the bill of lading, if he does not accept or pay the bill. And if he wrongfully retains the bill of lading or the railway receipt, the property in the goods does not pass to him.



## Goods on Approval Basis – Equivalent to Acceptance



I want to gift something to Katrina. Please suggest.. Guri Bhai

Katrina like Jewellery. You can gift her the same...Sallu Bhai



## Goods on Approval Basis – Time Lapses



Sallu Bhai purchased Jewellery on Sale on Return Basis

Time Period Given – 7 Days

Sallu Bhai gifted the same to Katrina on 3<sup>rd</sup> Day



Property in jewellery is transferred when he does something equivalent to acceptance (gift)



Sallu Bhai purchased Jewellery on Sale on Return Basis

Time Period Given – 7 Days

Sallu Bhai Gifted the same to Katrina on 3<sup>rd</sup> Day



Property in jewellery is transferred when he does something equivalent to acceptance (Gift etc.)



## Topic : Sale for Cash only or Return Basis

### Sale for cash only or Return

It may be noted that where the goods have been delivered by a person on “sale or return” on the terms that the goods were to remain the property of the seller till they are paid for, the property therein does not pass to the buyer until the terms are complied with, i.e., cash is paid for.

**Example :** ‘A’ delivered his jewellery to ‘B’ on sale for cash only or return basis. It was expressly provided in the contract that the jewellery shall remain ‘A’s property until the price is paid. Before the payment of the price, ‘B’ pledged the jewellery with ‘C’. It was held that at the time of pledge, the ownership was not transferred to ‘B’. Thus, the pledge was not valid and ‘A’ could recover the jewellery from ‘C’.



**OWNERSHIP JISKI RISK USKA**

Or

**PROPERTY JISKI RISK USKA**

Or

**Risk passes with the property**



**OWNERSHIP JISKI RISK USKA**

Exception to risk follows ownership :-

If delivery has been delayed by the fault of the seller or the buyer, the goods shall be at the risk of the party in default, as regards loss which might not have arisen but for the default.

Duties & liabilities of the seller/buyer as bailee remain unaffected

# NEMO DAT QUOD NOT HABET

NO ONE CAN GIVE WHAT HE HAS NOT GOT

If A sells some stolen goods to B, who buys them in good faith, B will get no title to that and the true owner has a right to get back his goods from B.

Jo Mera Paas Hai Nahi wo main kisi aur ko Nahi de sakta

## Exceptions to Nemo Dat Quod non habet

Sale by Mercantile Agent	Sale by One of the Joint Owners	Sale in case of voidable contract	Sale by person who has already sold the goods	Sale by buyer obtaining possession before property is transferred to buyer	Sale by unpaid seller exercising right of lien or stoppage in transit	Sale under the provisions of other act	Effect of Estoppel
Agent has Possession of Goods/document with consent of owner	One joint owner has sole possession of goods	Buyer acquire a good title to the goods sold by seller	Sale by person who has already sold the goods but continues with the possession	Sale by buyer obtaining possession before property is transferred to buyer	Sale by unpaid seller who had exercised his right of lien or stoppage in transit	Sale by official receiver/ Liquidator of company will give valid title	Where the owner is estopped by the conduct from denying the seller's authority
Sale made by agent in ordinary course of business as agent	Possession is with the consent of other joint owners	Who obtained possession of goods under voidable contract	Of goods or documents of title, he may sell them to third person	He may sell, pledge or otherwise dispose of the goods to a third person	who resells the goods to other person	Purchase of goods from a finder of goods under certain circumstances	The transferee will get a good title against the true owner
Buyer acted in good faith, no notice of fact that seller has not authority to sell	Buyer acted in good faith, no notice of fact that seller has not authority to sell	Contract has not been rescinded until the time of the seller	Buyer acted in good faith, without notice of previous sale	Buyer acted in good faith, without notice of lien or other right that	Buyer acquires a valid title against the original buyer	A Sale by Pawnee can convey a good title to the buyer	Proof that true owner has actively suffered /held out other person as owner





## Rules Regarding Delivery of goods (Section 33-41)

The Sale of good Act, 1930 prescribes the following rules of delivery of goods:

Part Delivery	Instalment deliveries	Delivery to carrier / wharfinger
Buyer to apply for delivery	Delivery of wrong quantity	Deterioration during transit
Place of delivery	Expenses of delivery	Buyer's right to examine the goods
Time for delivery	Goods in possession of a third party	

### Performance of the Contract of Sale

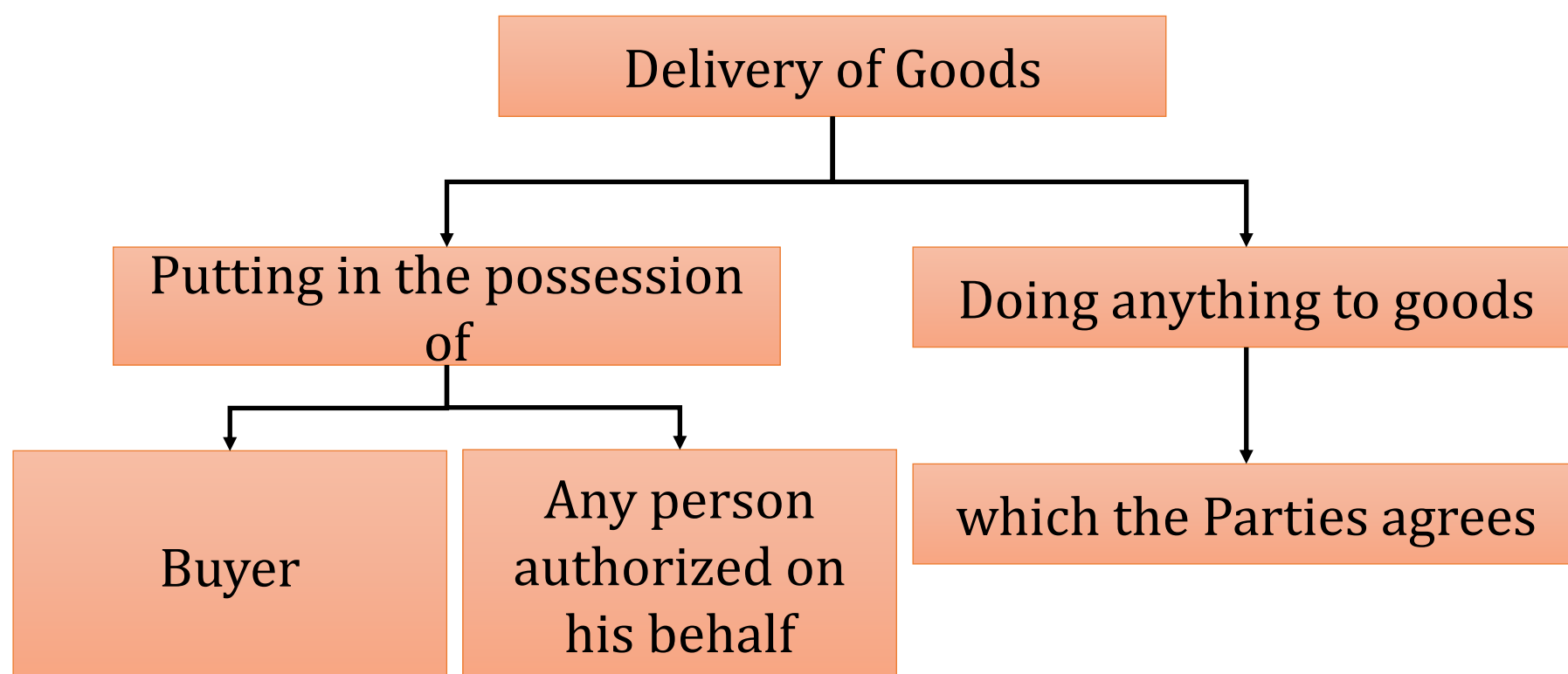


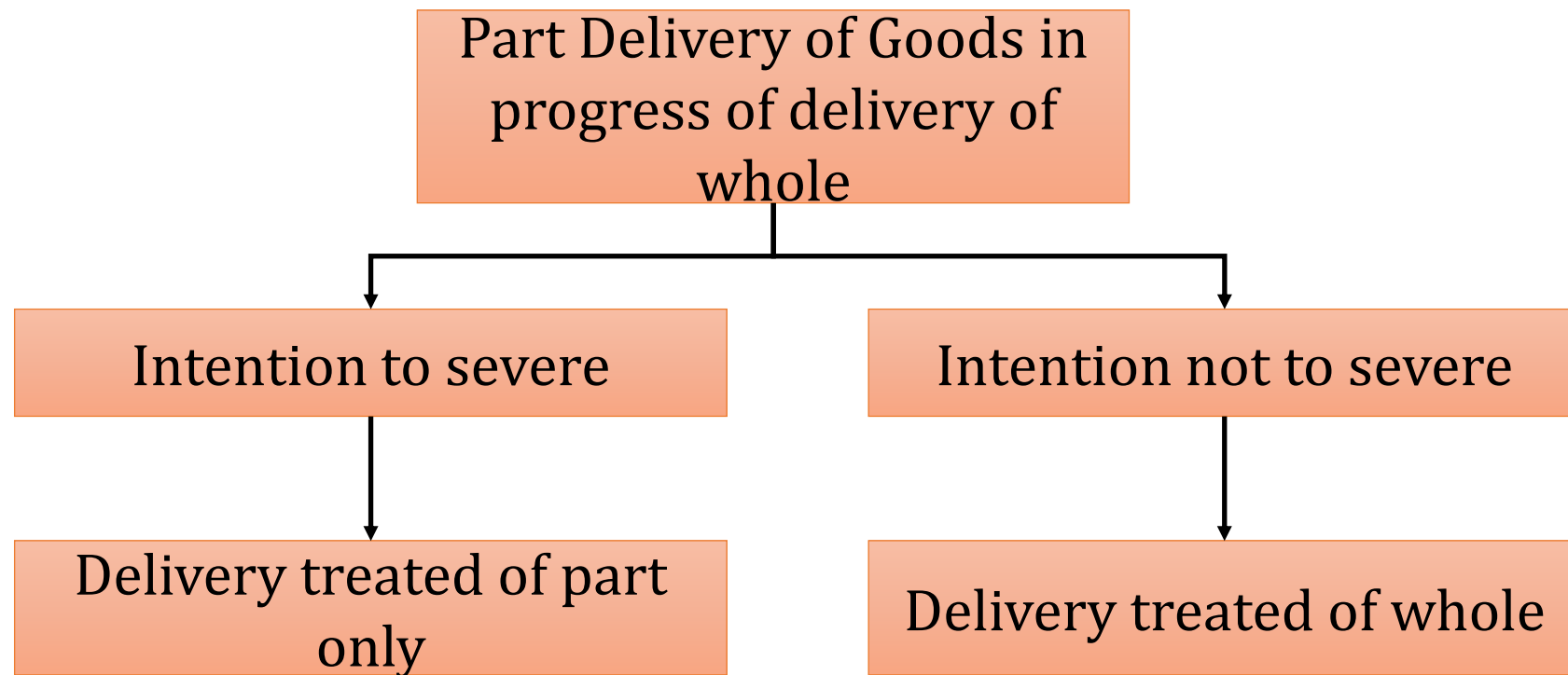
Note :- Unless otherwise agreed, Payment and delivery are concurrent conditions



**Delivery (Section 33):** Delivery of goods sold may be made by doing anything which the parties agree shall be treated as delivery or which has the effect of putting the goods in the possession of the buyer or of any person authorised to hold them on his behalf.

### Delivery of Goods (Sec 33)



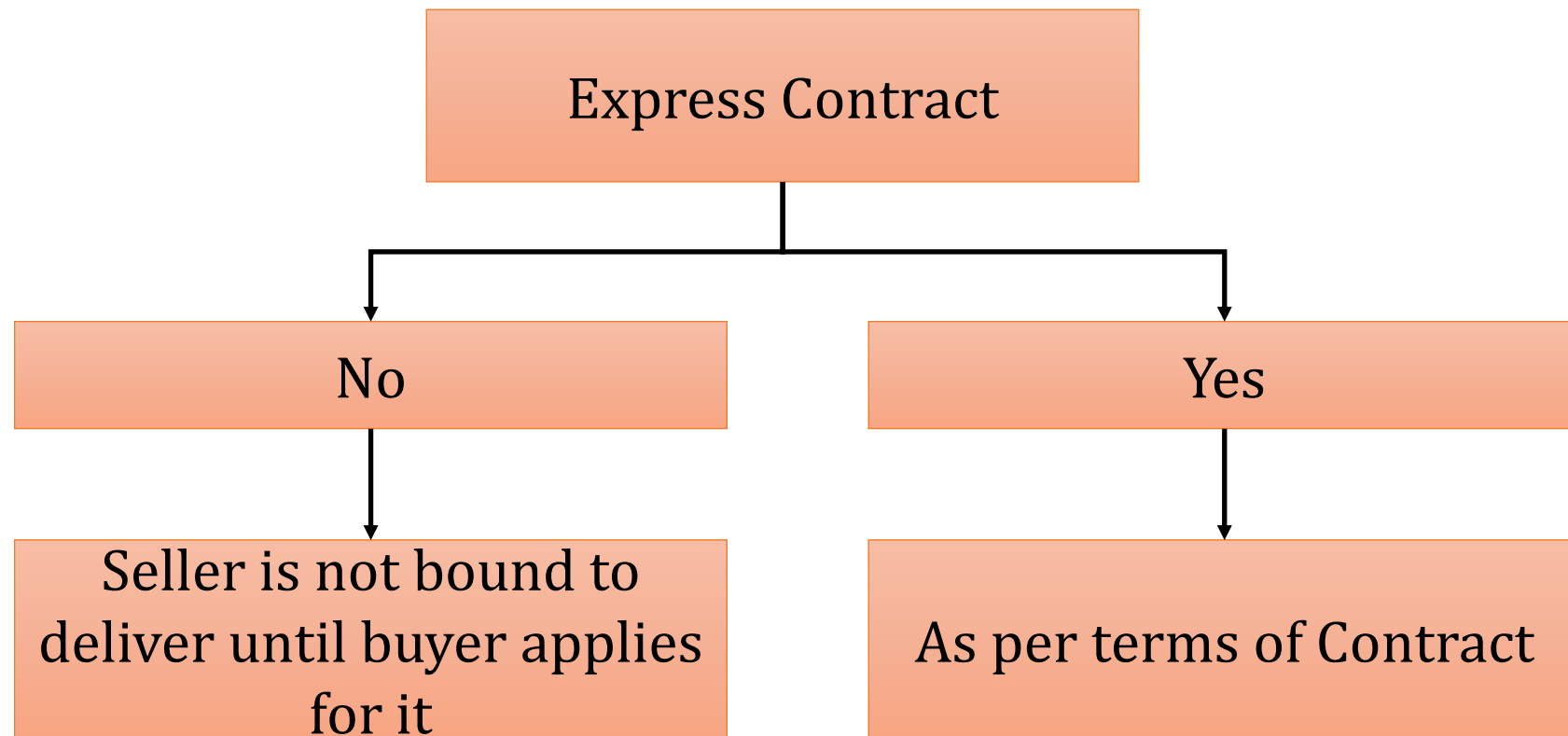


Who will apply for delivery ?



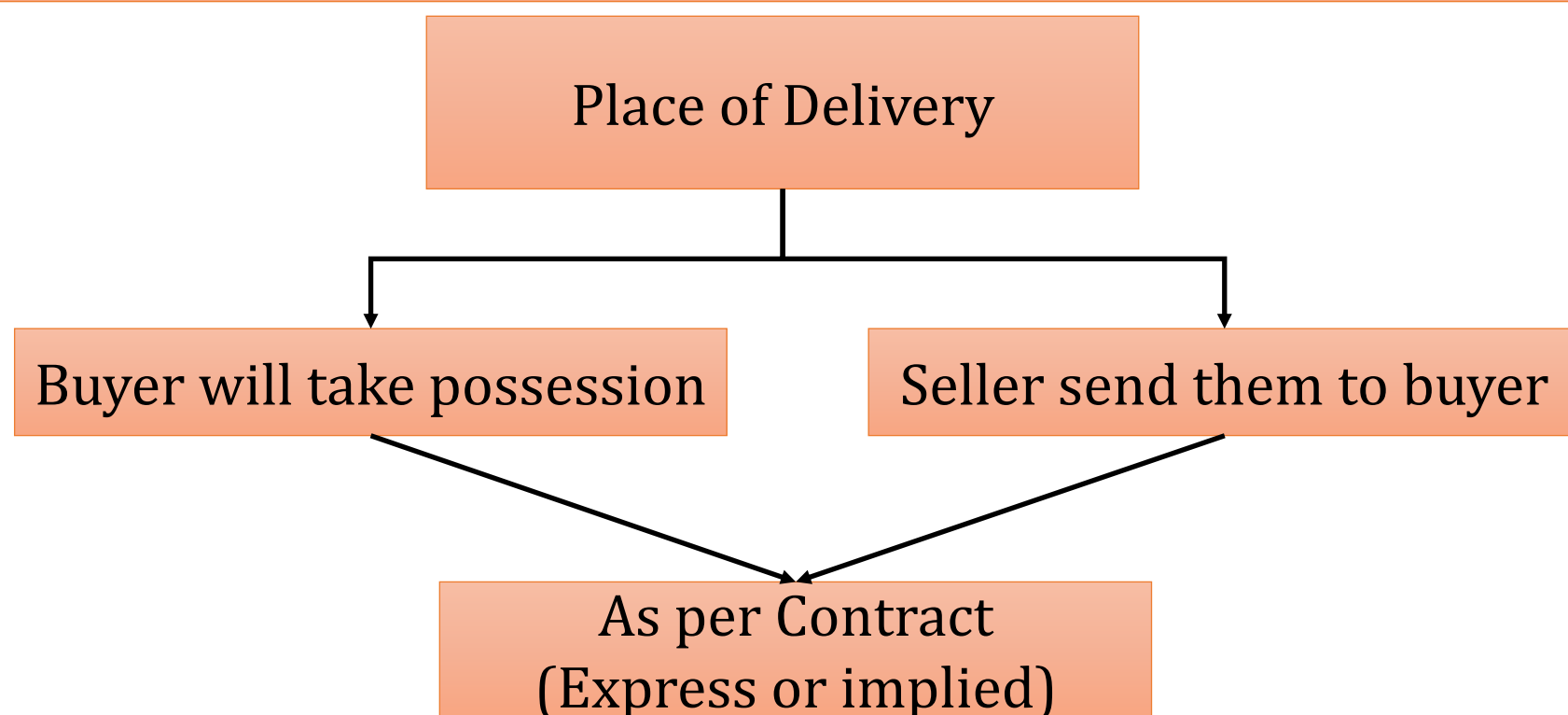
**Buyer to apply for delivery:** Apart from any express contract, the seller of goods is not bound to deliver them until the buyer applies for delivery. **(Section 35)**

## Buyer to apply for delivery (Sec 35)

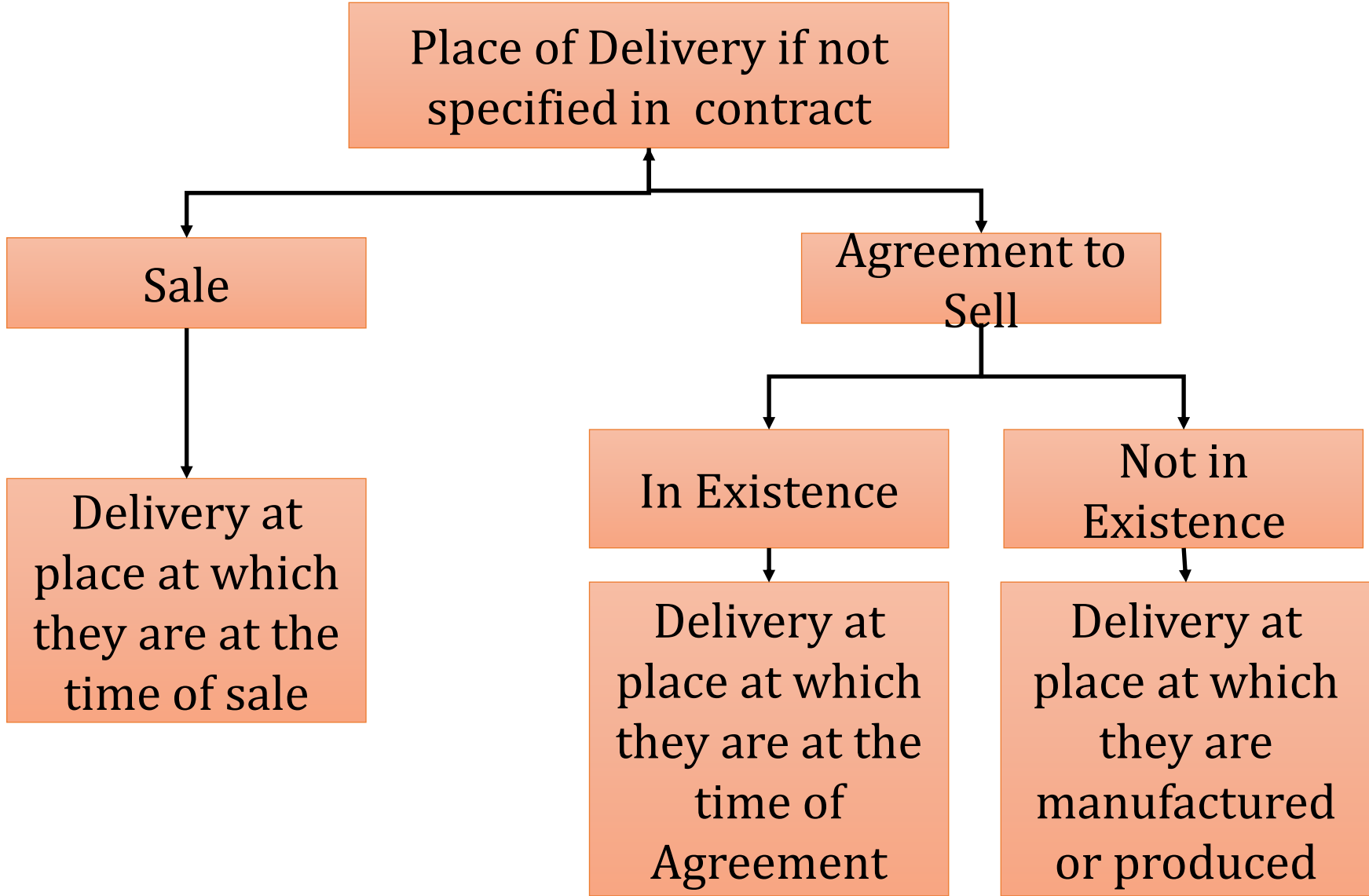


Note :- Demand / Tender of delivery to be made in reasonable hour otherwise treated as ineffectual (sec 36(4))

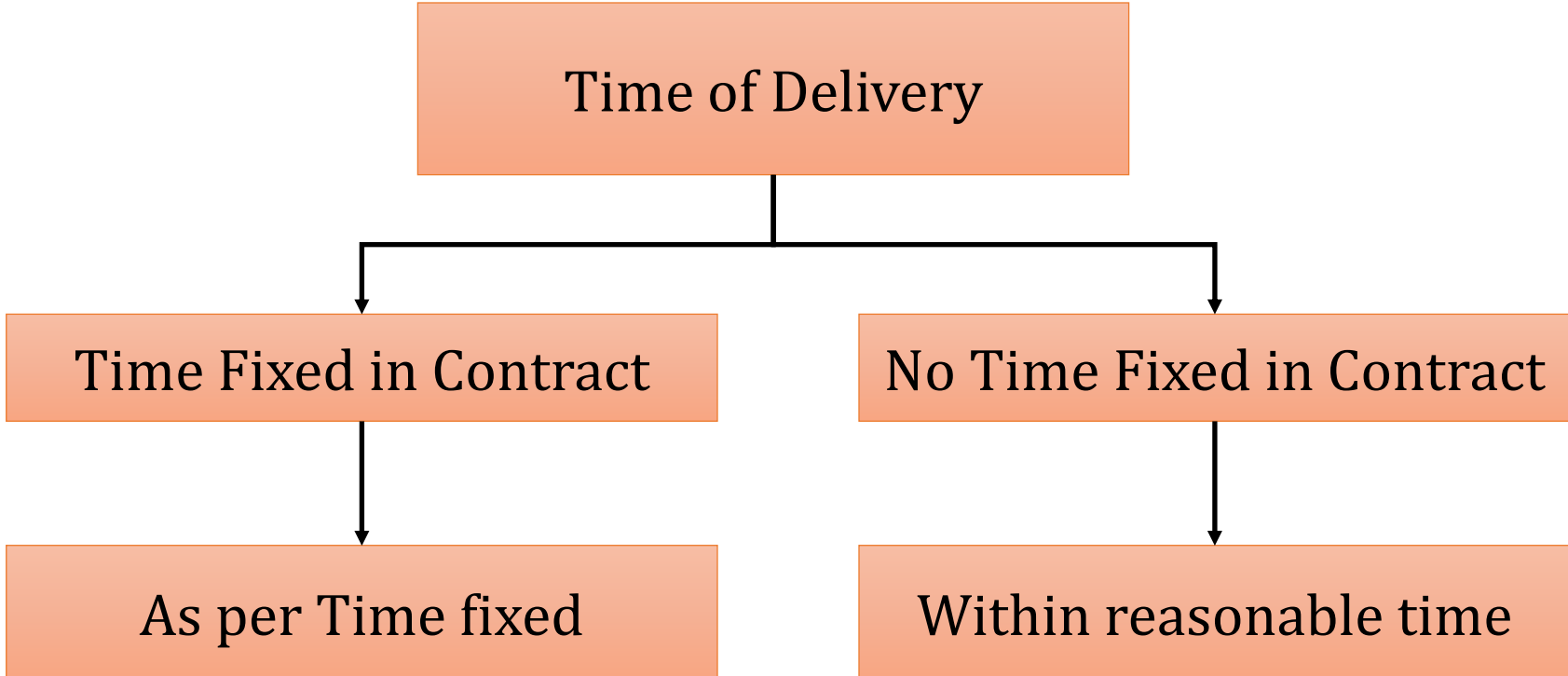
## Place of Delivery (Sec 35)



# Place of Delivery (Sec 35)



# Time of Delivery (Sec 36)



Time for tender of delivery: Demand or tender of delivery may be treated as ineffectual unless made at a reasonable hour. What is reasonable hour is a question of fact. [Section 36(4)].



## Topic : Delivery when goods are in possession of third party

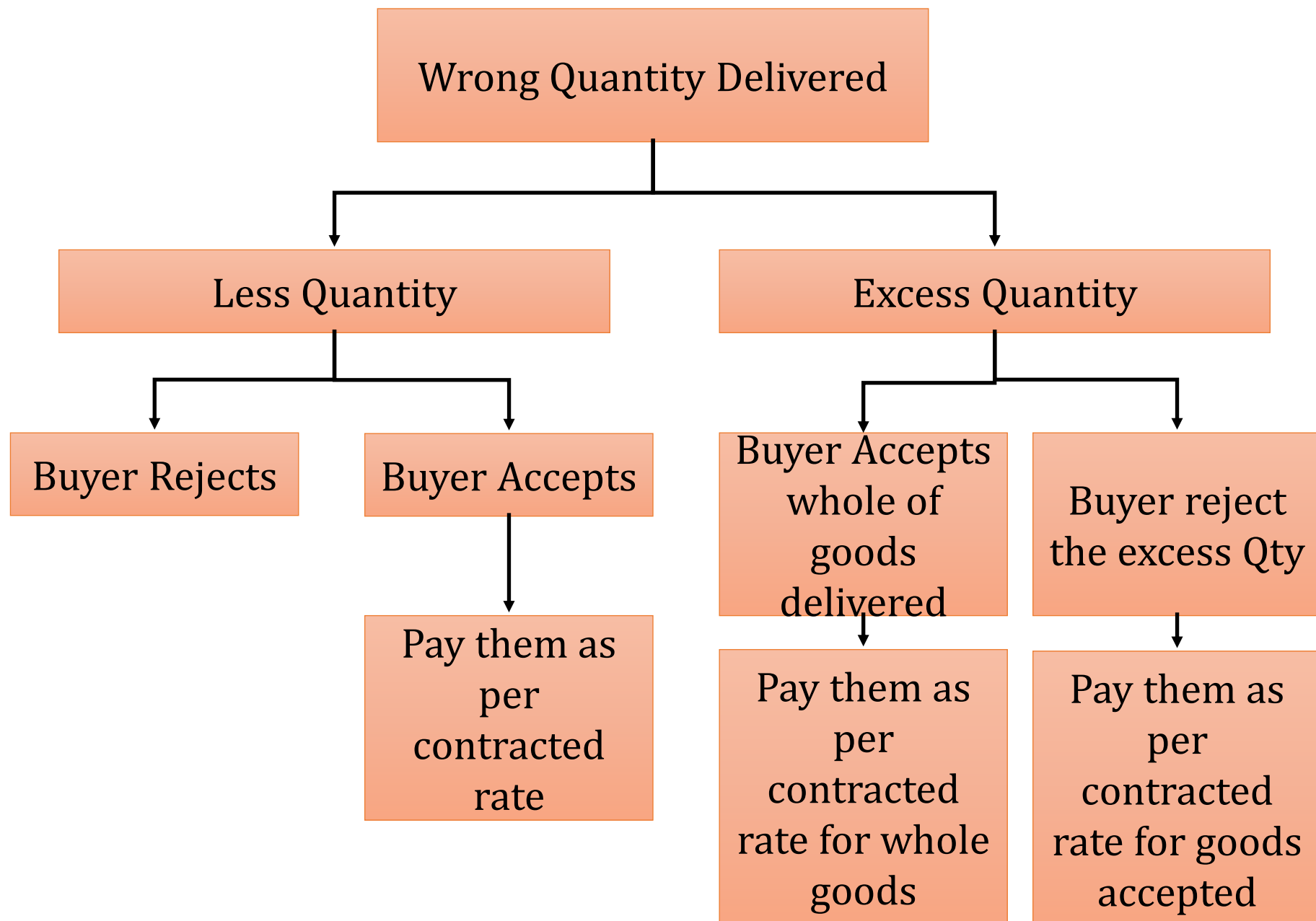


**Goods in possession of a third party:** Where the goods at the time of sale are in possession of a third person, there is no delivery unless and until such third person acknowledges to the buyer that he holds the goods on his behalf. Provided that nothing in this section shall affect the operation of the issue or transfer of any document of title to goods. **[Section 36(3)]**

Who will bear the expenses for delivery of goods?



**Expenses for delivery:** The expenses of and incidental to putting the goods into a deliverable state must be borne by the seller in the absence of a contract to the contrary. **[Section 36(5)].**



**Topic : Delivery of wrong Quantity**

Where the seller delivers to the buyer the goods he contracted to sell mixed with goods of a different description not included in the contract, the buyer may accept the goods which are in accordance with the contract and reject, or may reject the whole. **[Sub-section (3)]**

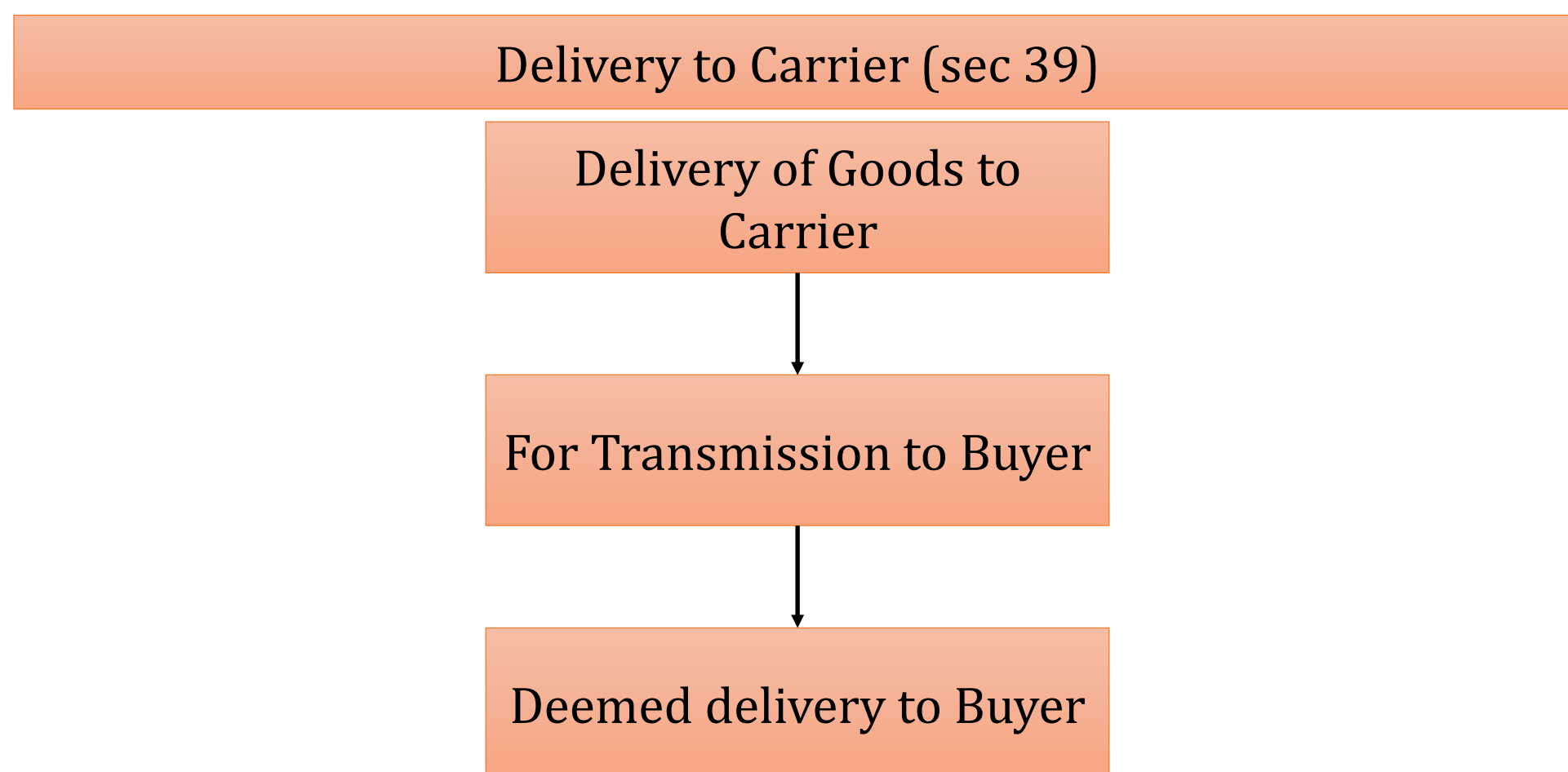
The provisions of this section are subject to any usage of trade, special agreement or course of dealing between the parties. **[Sub-section (4)]**

**Example 21:** A agrees to sell 100 quintals of wheat to B at ₹ 1,000 per quintal. A delivers 1,100 quintals. B may reject the whole lot or accept only 1,000 quintals and reject the rest or accept the whole lot and pay for them at the contract of sale.

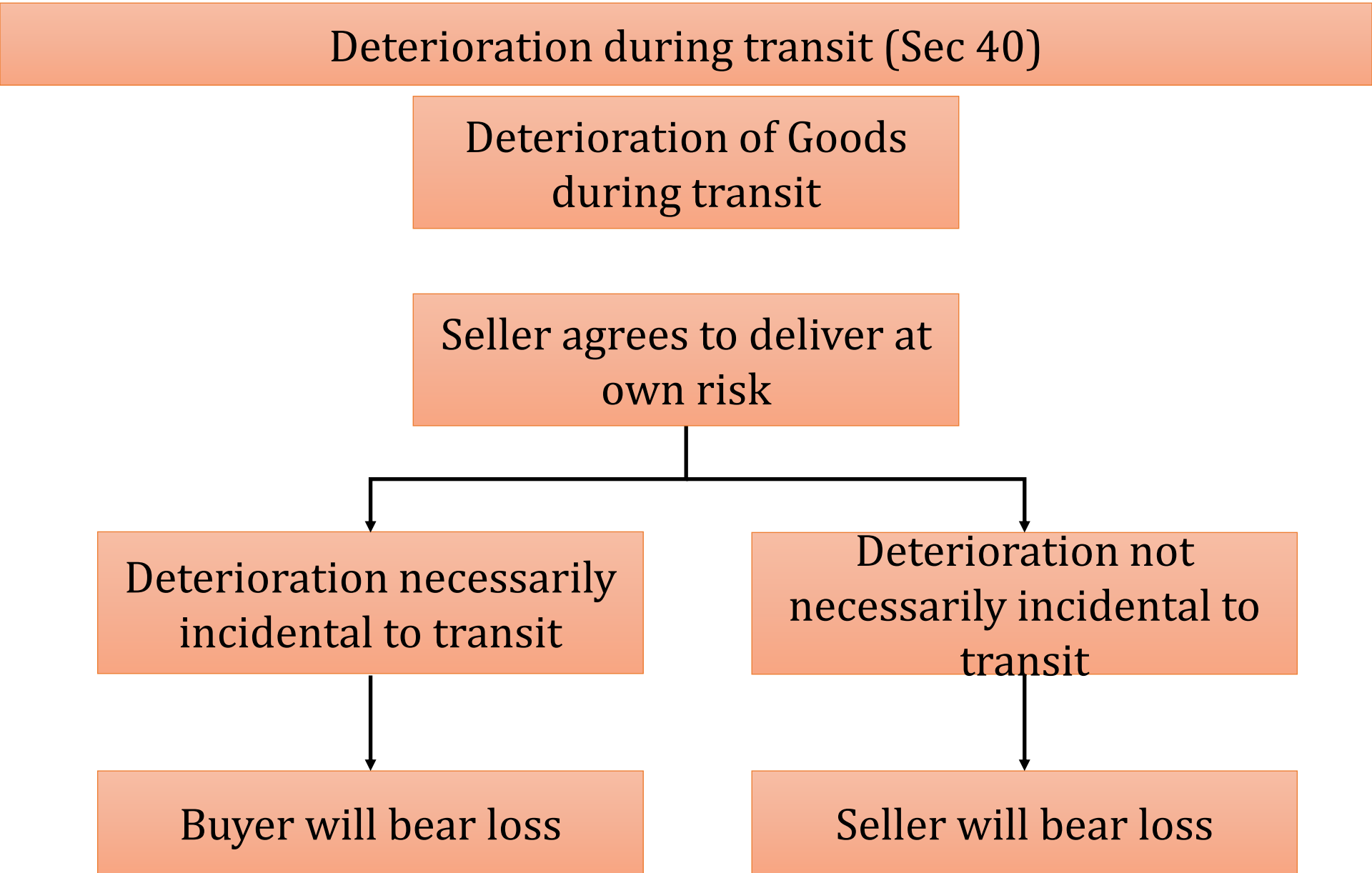


**Instalment deliveries:** Unless otherwise agreed, the buyer is not bound to accept delivery in instalments. The rights and liabilities in cases of delivery by instalments and payments thereon may be determined by the parties of contract. **(Section 38)**

**Delivery to carrier:** Subject to the terms of contract, the delivery of the goods to the carrier for transmission to the buyer, is *prima facie* deemed to be delivery to the buyer. **[Section 39(1)]**





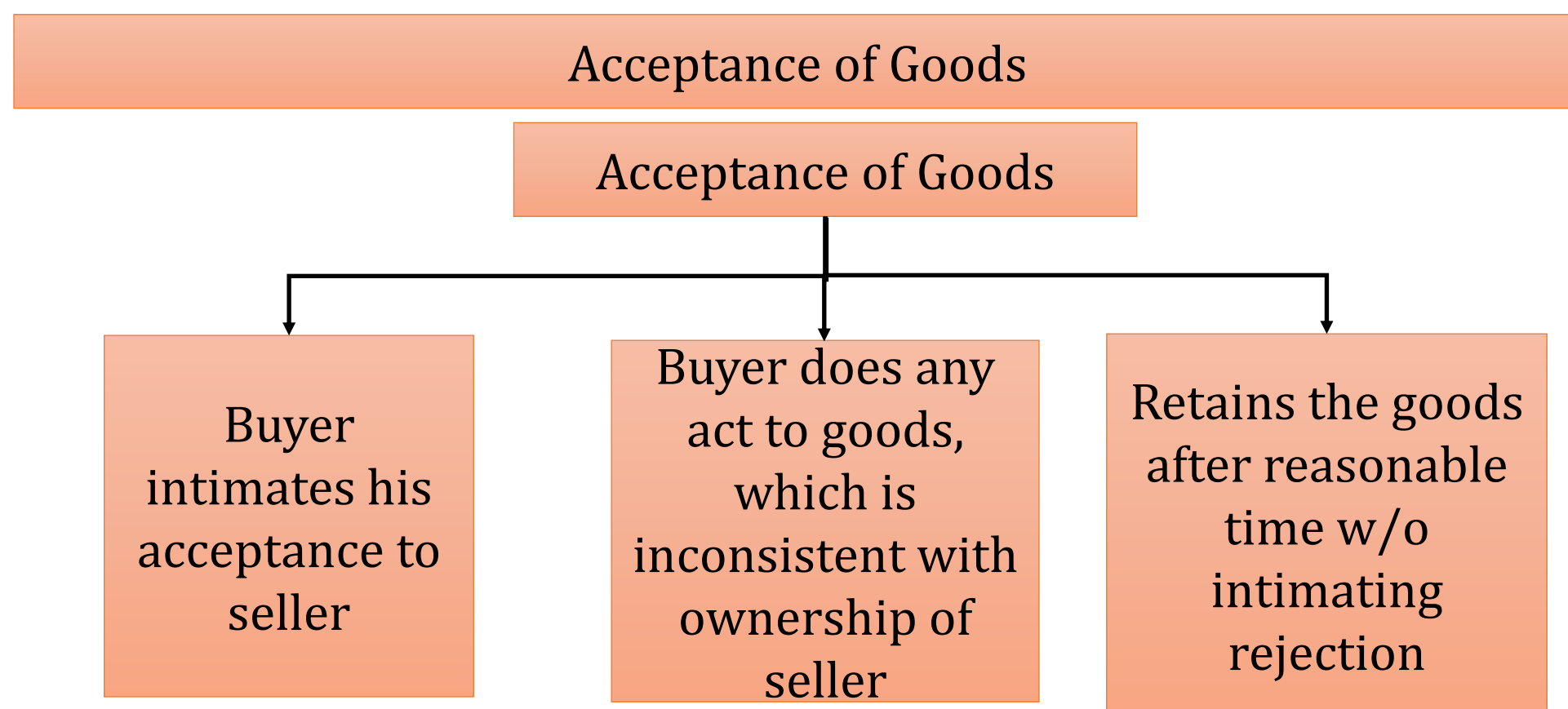


## Topic : Incidental deterioration during transit

**Example :** P sold to Q a certain quantity of iron rods which were to be sent by proper vessel. It was rusted before it reached the buyer. The rust of the rod was so minimal and was not effecting the merchantable quality and the deterioration was not necessarily incidental to its transmission. It was held that Q was bound to accept the goods.

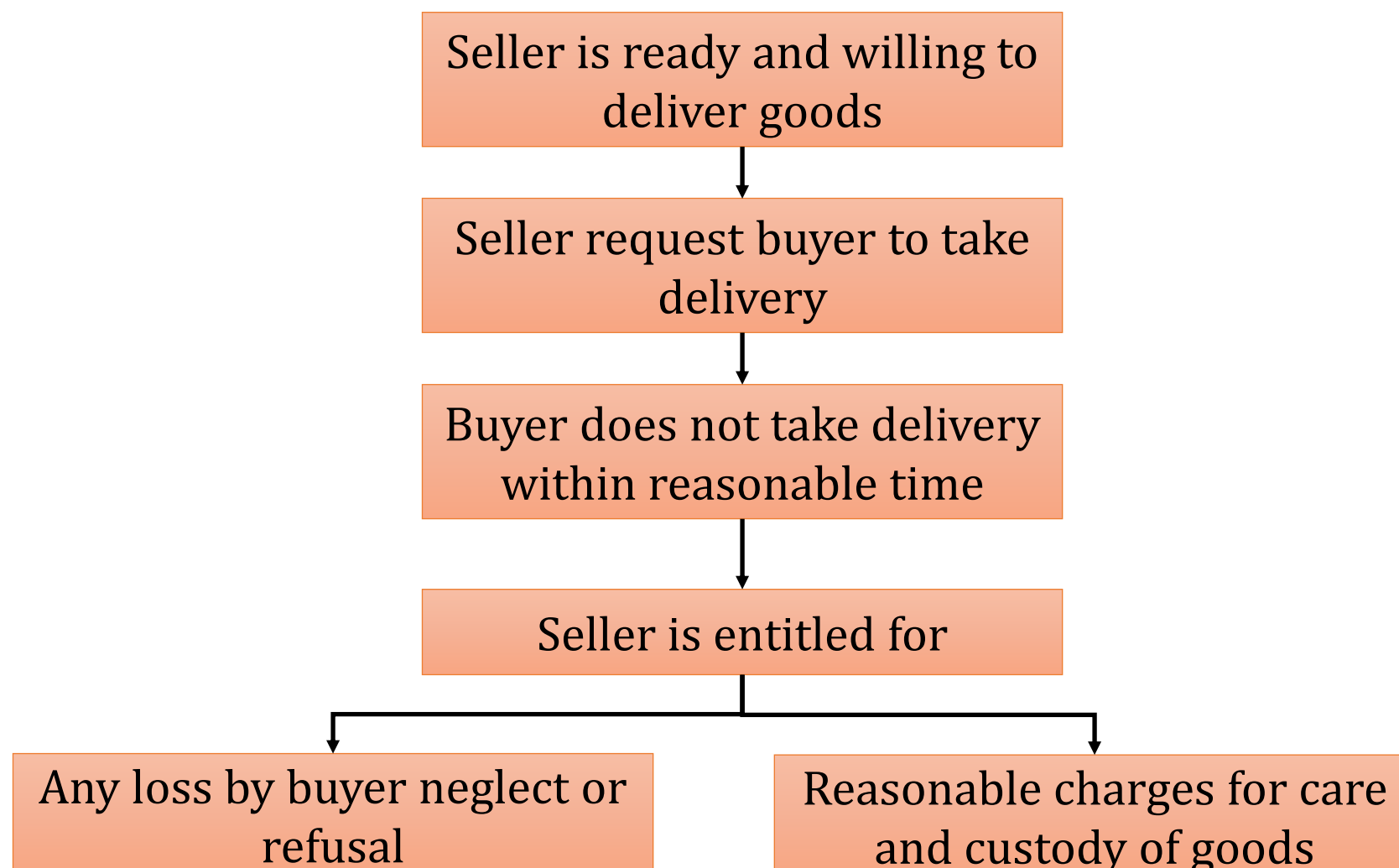


**Buyer's right to examine the goods:** Where goods are delivered to the buyer, who has not previously examined them, he is entitled to a reasonable opportunity of examining them in order to ascertain whether they are in conformity with the contract. Unless otherwise agreed, the seller is bound, on request, to afford the buyer a reasonable opportunity of examining the goods. **(Section 41).**



**Buyer not bound to return rejected goods (Section 43):** Unless otherwise agreed, where goods are delivered to the buyer and he refuses to accept them, having the right so to do, he is not bound to return them to the seller, but it is sufficient if he intimates to the seller that he refuses to accept them.

## Buyer Liability for neglecting delivery of goods (sec 44)



Note :- Seller may also repudiate contract if he has a right even when he has claimed damages



**AB KI BAAR  
CA FOUNDATION PAAR**

**UNIT - 4  
UNPAID SELLER**

## Who is unpaid seller??

Whole price not  
paid/Tendered

Bill of exchange/Negotiable  
instrument transferred but  
dishonored

Note :- Seller includes person who is in position of seller



### Topic : Unpaid Seller

According to Section 45(1) of the Sale of Goods Act, 1930, the seller of goods is deemed to be an 'Unpaid Seller' when-

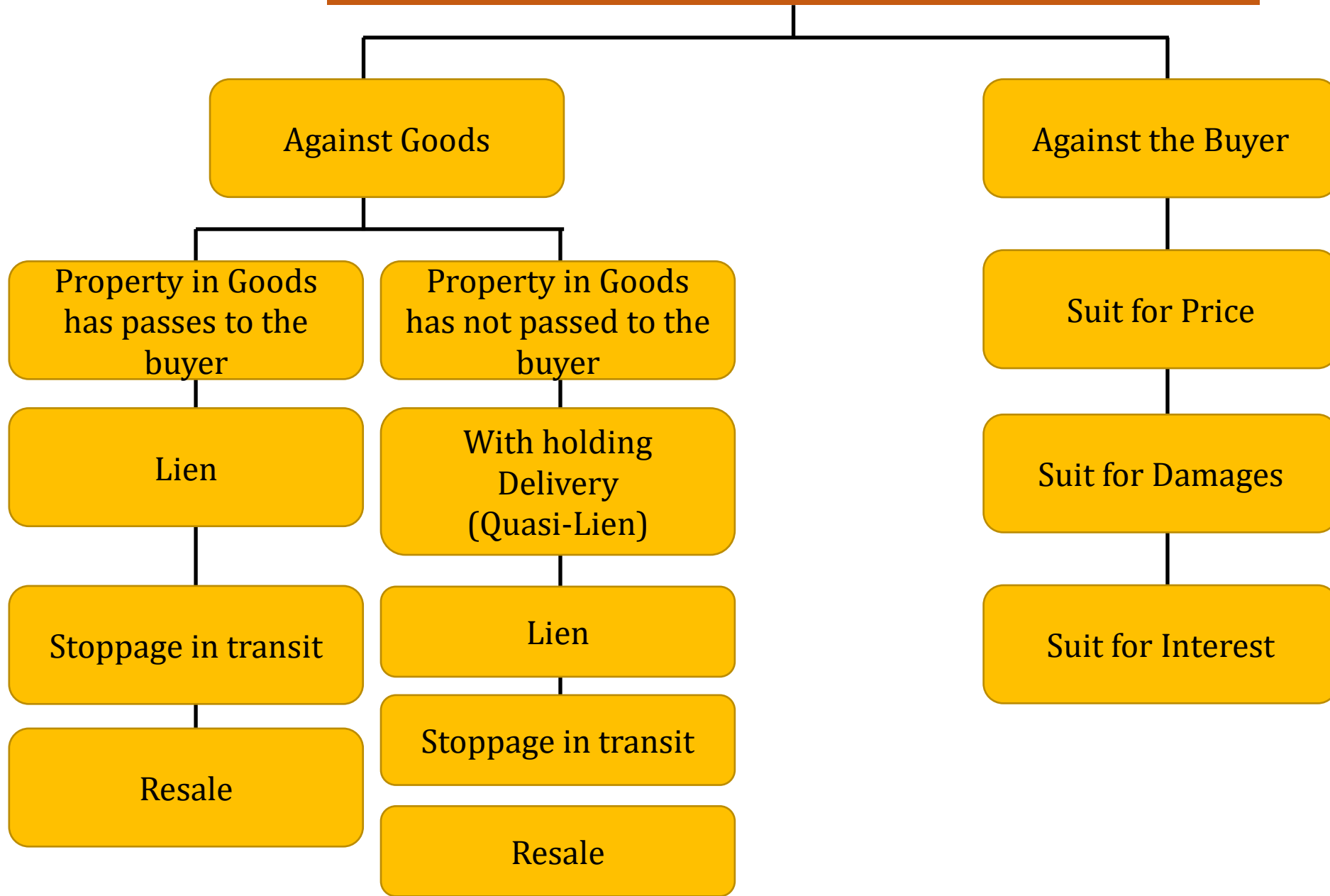
The whole of the price has not been paid or tendered and the seller had an immediate right of action for the price

or

When a bill of exchange or other negotiable instrument has been received as conditional payment, and the condition on which it was received has not been fulfilled by reason of the dishonor of the instrument or otherwise.

The term 'seller' here includes any person who is in the position of a seller, as, for instance, an agent of the seller to whom the bill of lading has been endorsed, or a consignor or agent who has himself paid, or is directly responsible for, the price [Section 45(2)].

# Rights/remedies of an Unpaid Seller



Right of Lien – Retain possession of Goods

The seller must be unpaid



The seller must be in possession of goods.



where the goods have been sold without any stipulation as to credit

where the goods have been sold on credit, but the term of credit has expired

where the buyer becomes insolvent.

## Insolvent

He ceases to pay his debt in the ordinary course of business

Who cannot pay his debt as they become due

Whether he has committed an act of insolvency or not

## Right of Lien

**Part delivery (Section 48):** Where an unpaid seller has made part delivery of the goods, he may exercise his right of lien on the remainder, unless such part delivery has been made under such circumstances as to show an agreement to waive the lien.

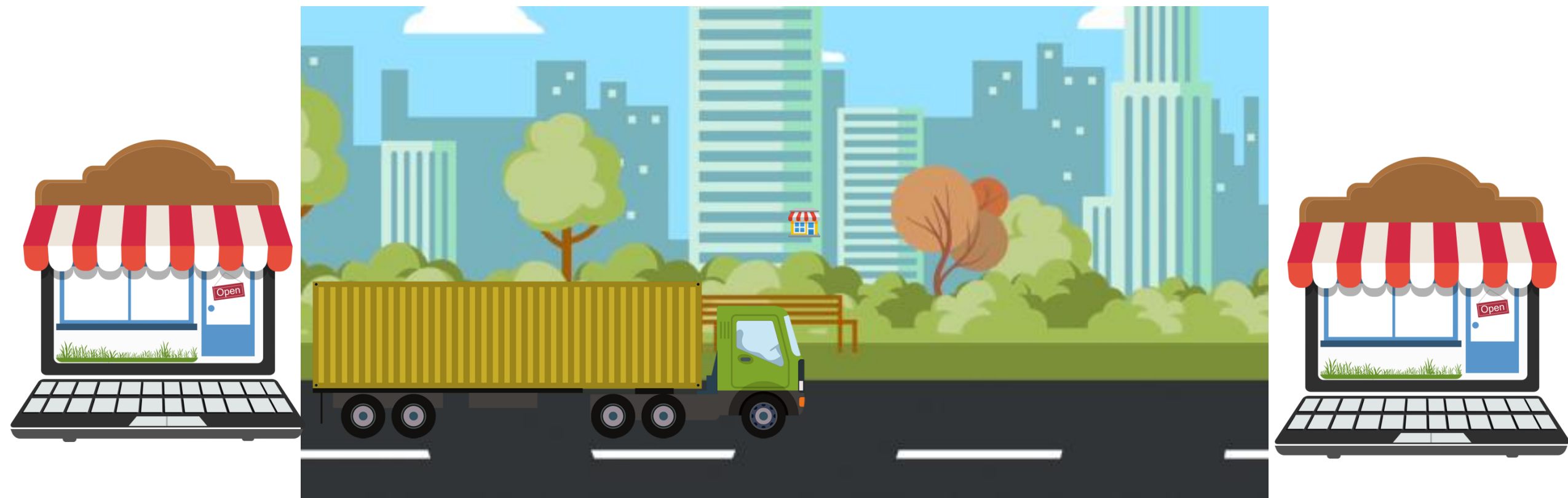


## Topic : Termination of Lien

**Termination of lien (Section 49):** According to sub-section (1), the unpaid seller of goods loses his lien thereon-

- when he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods;
- when the buyer or his agent lawfully obtains possession of the goods;
- Where seller has waived the right of lien.
- By Estoppel i.e., where the seller so conducts himself that he leads third parties to believe that the lien does not exist.

# Right of Stoppage in Transit



Designed by pngtree

## Right of Stoppage in Transit



The seller must be unpaid



The buyer has become insolvent.



Seller must have parted with the possession of goods.



The goods are in transit.



Subject to the Provisions of this Act



## Topic : Methods of Stoppage in transit



### **How stoppage in transit is effected (Section 52)**

The unpaid seller may exercise his right of stoppage in transit either by taking actual possession of the goods, or by giving notice of his claim to the carrier or other bailee in whose possession the goods are.

When notice of stoppage in transit is given by the seller to the carrier or other bailee in possession of the goods, he shall re-deliver the goods to, or according to the directions of, the seller.

The expenses of such re-delivery shall be borne by the seller.



## Topic : When transit comes to an end?



- ◆ When the buyer or other bailee obtains delivery.
- ◆ Buyer obtains delivery before the arrival of goods at destination. It is also called interception by the buyer which can be with or without the consent of the carrier.
- ◆ Where the carrier or other bailee acknowledges to the buyer or his agent that he holds the goods as soon as the goods are loaded on the ship, unless the seller has reserved the right of disposal of the goods.
- ◆ If the carrier wrongfully refuses to deliver the goods to the buyer.
- ◆ Where goods are delivered to the carrier hired by the buyer, the transit comes to an end.
- ◆ Where the part delivery of the goods has been made to the buyer, the transit will come to an end for the remaining goods which are yet in the course of transmission.
- ◆ Where the goods are delivered to a ship chartered by the buyer, the transit comes to an end. [section 51]





## Topic : Distinction between Right of Lien and Right of Stoppage in Transit



The essence of a right of lien is to retain possession whereas the right of stoppage in transit is right to regain possession.

Seller should be in possession of goods under lien while in stoppage in transit (i) seller should have parted with the possession (ii) possession should be with a carrier & (iii) buyer has not acquired the possession.

Right of lien can be exercised even when the buyer is not insolvent but it is not the case with right of stoppage in transit.

Right of stoppage in transit begins when the right of lien ends. Thus, the end of the right of lien is the starting point of the right of stoppage in transit.



## Topic : Distinction between Right of Lien and Right of Stoppage in Transit



Right of lien comes to an end as soon as the goods go out of the possession of the seller but the right of stopping in transit comes to an end as soon as the goods are delivered to the buyer.

Sometimes it is said that right of stopping the goods in transit is nothing but an extension of right of lien.



**Effects of sub-sale or pledge by buyer (Section 53):** The right of lien or stoppage in transit is not affected by the buyer selling or pledging the goods unless the seller has assented to it. This is based on the principle that a second buyer cannot stand in a better position than his seller. (The first buyer).

The right of stoppage is defeated if the buyer has transferred the document of title or pledges the goods to a sub- buyer in good faith and for consideration.

**Example :** A sold certain goods to B of Mumbai and the goods are handed over to railways for transmission to B. In the mean time, B sold these goods to C for consideration. B becomes insolvent. A can still exercise his right of stoppage in transit.

### **Exceptions where unpaid seller's right of lien and stoppage in transit are defeated:**

When the seller has assented to the sale, mortgage or other disposition of the goods made by the buyer.

**Example :** A entered into a contract to sell cartons in possession of a wharfinger to B and agreed with B that the price will be paid to A from the sale proceeds recovered from his customers. Now B sold goods to C and C duly paid to B. But anyhow B failed to make the payment to A. A wanted to exercise his right of lien and ordered the wharfinger not to make delivery to C. Held that the seller had assented to the resale of the goods by the buyer to the sub-buyers. As a result, A's right to lien is defeated (*Mount D.*

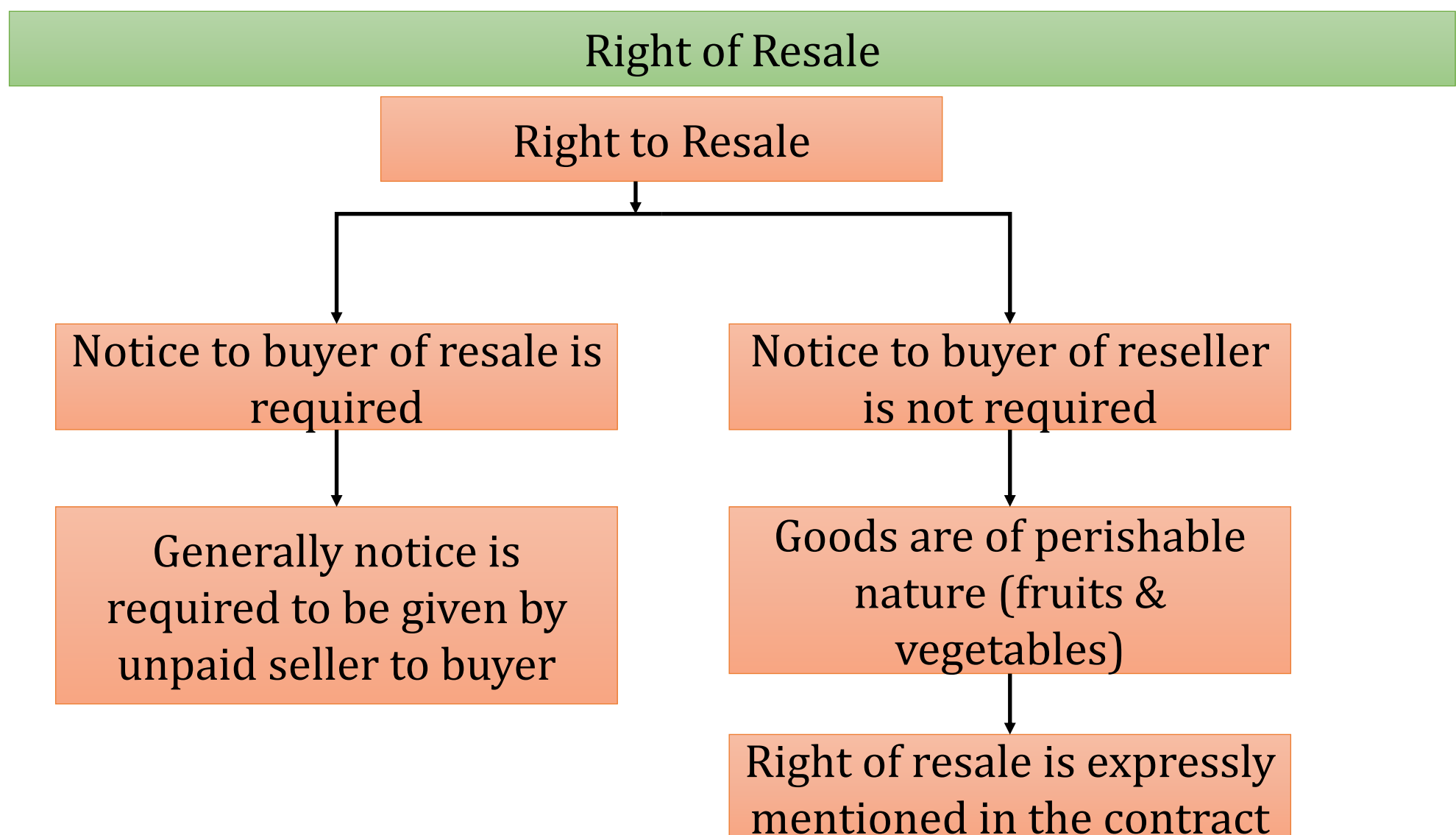
*F. Ltd. vs Jay & Jay (Provisions) Co. Ltd).*

When a document of title to goods has been transferred to the buyer and the buyer transfers the documents to a person who has bought goods in good faith and for value i.e. for price, then, the proviso of sub-section (1) stipulates as follows:

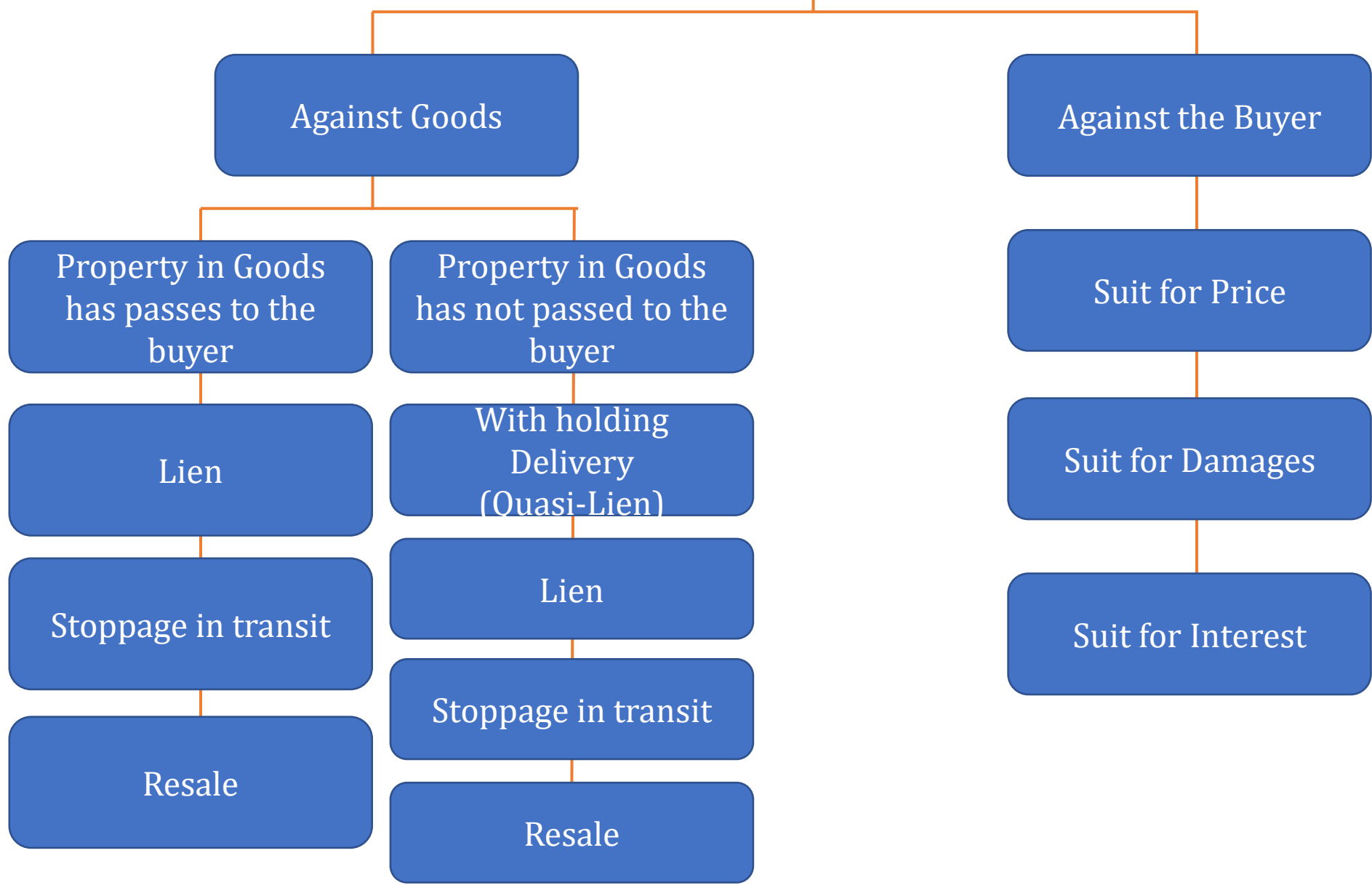
a) If the last-mentioned transfer is by way of sale, right of lien or stoppage in transit is defeated, or

b) If the last mentioned transfer is by way of pledge, unpaid seller's right of lien or stoppage only be exercised, subject to the rights of the pledgee.

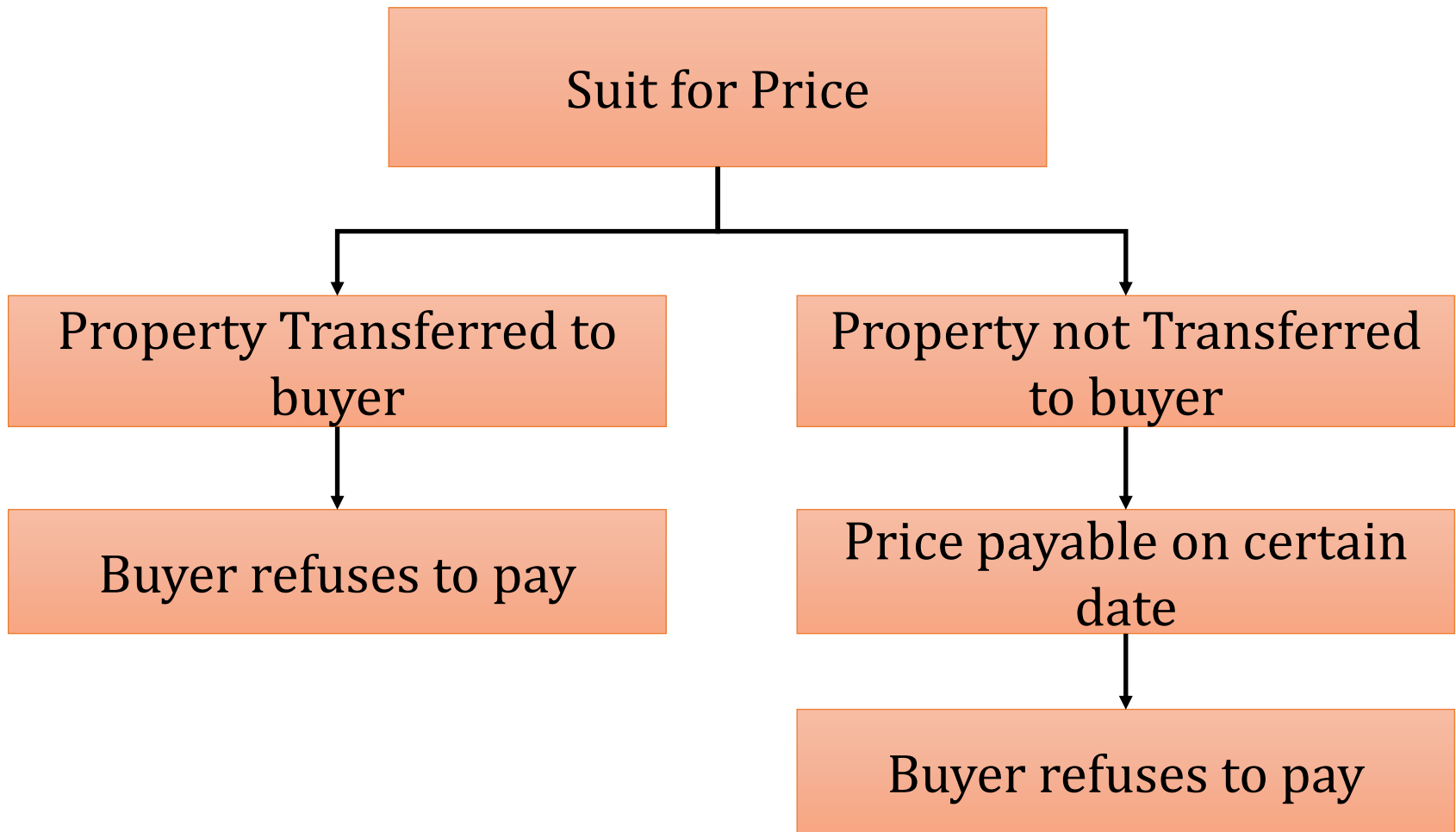
However, the pledgee may be required by the unpaid seller to use in the first instance, other goods or securities of the pledger available to him to satisfy his claims. [Sub-section (2)].



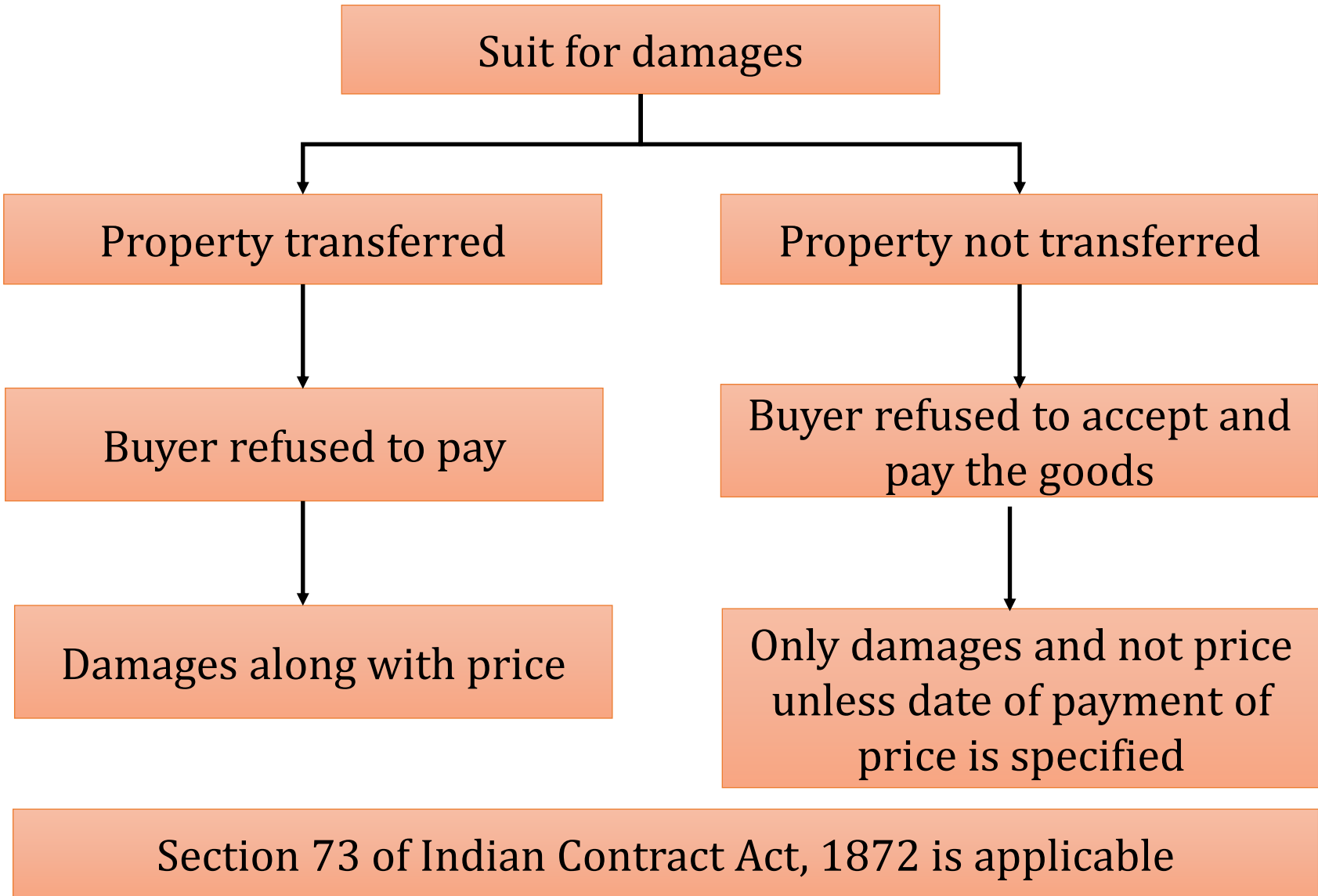
# Rights of an Unpaid Seller



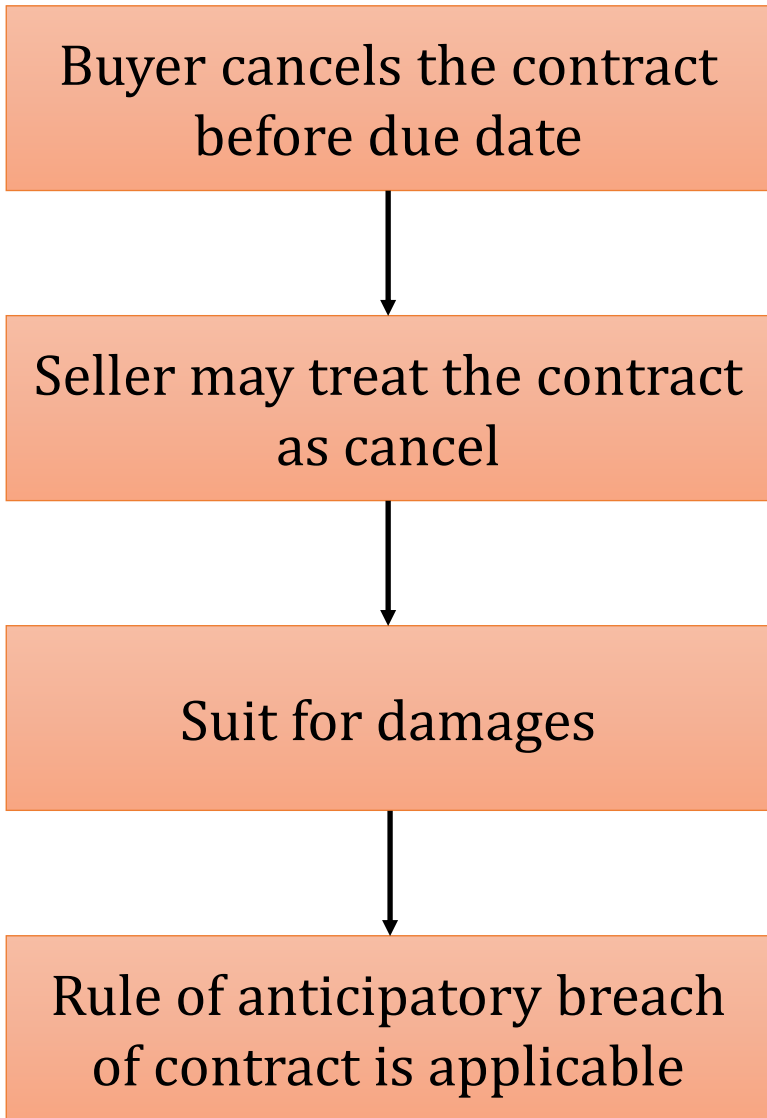
## Suit for Price (Section 55)



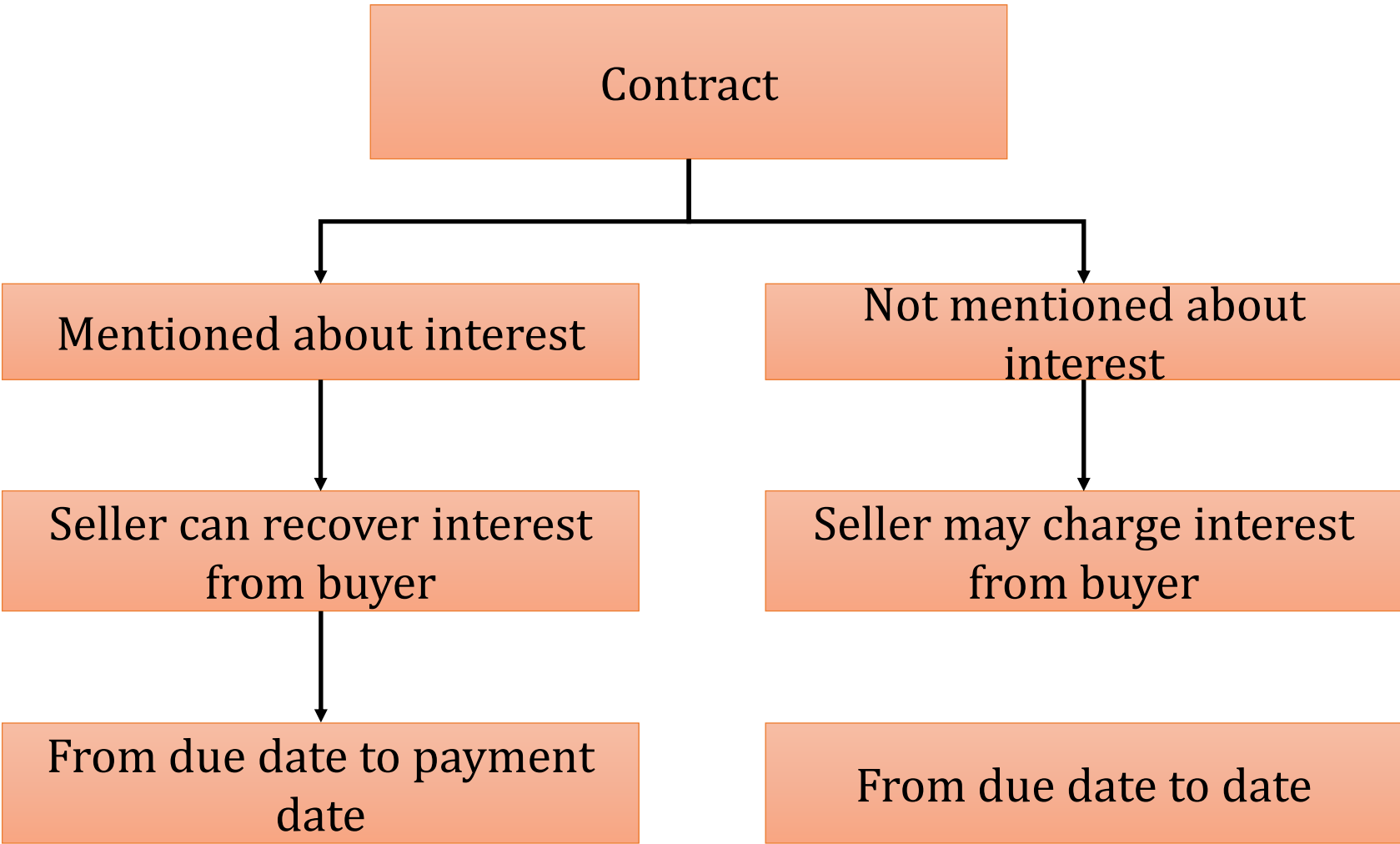
## Suit for damages (Section 56)



## Repudiation/Cancellation of Contract before due date



Suit for interest



What if Seller breach the contract ??

**Breach of Contract by Seller**

Breach of contract by seller, where he-	Fails to deliver the goods at the time or in manner prescribed
Breach of contract by seller, where he-	Repudiates the contract
Breach of contract by seller, where hi-	Deliver non-confirming goods and buyer rejects and revokes acceptance

If the seller commits a breach of contract, the buyer gets the following rights against the seller:

- 1. Damage for non-delivery**
- 2. Suit for Specific performance**
- 3. Suit for breach of warranty**
- 4. Suit for anticipatory breach**
- 5. Suit for interest**

## What is Auction Sale?



Antique Monalisa  
Painting



Auctioneer  
(Agent of Seller)

An 'Auction Sale' is a mode of selling property by inviting bids publicly and the property is sold to the highest bidder.

An auctioneer is an agent governed by the Law of Agency. When he sells, he is only the agent of the seller. He may, however, sell his own property as the principal and need not disclose the fact that he is so selling.



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Painting

### Auction Rules

1. Separate contract of sale for each lot
2. Contract completed on fall of hammer or other customary manner
3. Right to bid may be reserved expressly
4. Fraud if right to bid not notified
5. Reserved or upset price may be notified (Lowest acceptable price)
6. Sale voidable if seller use pretending bidding



**Example :**

P sold a car by auction. It was knocked down to Q who was only allowed to take it away on giving a cheque for the price and signing an agreement that ownership should not pass until the cheque was cleared. In the meanwhile till the cheque was cleared, Q sold the car to R. It was held that the property was passed on the fall of the hammer and therefore R had a good title to the car. Both sale and sub sale are valid in favour of Q and R respectively.

Section 64A :- When tax on goods (like excise/custom/GST) increase or decrease after entering into contract of sale but before performance, then buyer would have to pay the revised price considering the revised tax rates. The effect of above provision can be excluded by an agreement to contrary



**FOUNDATION  
MARATHON**

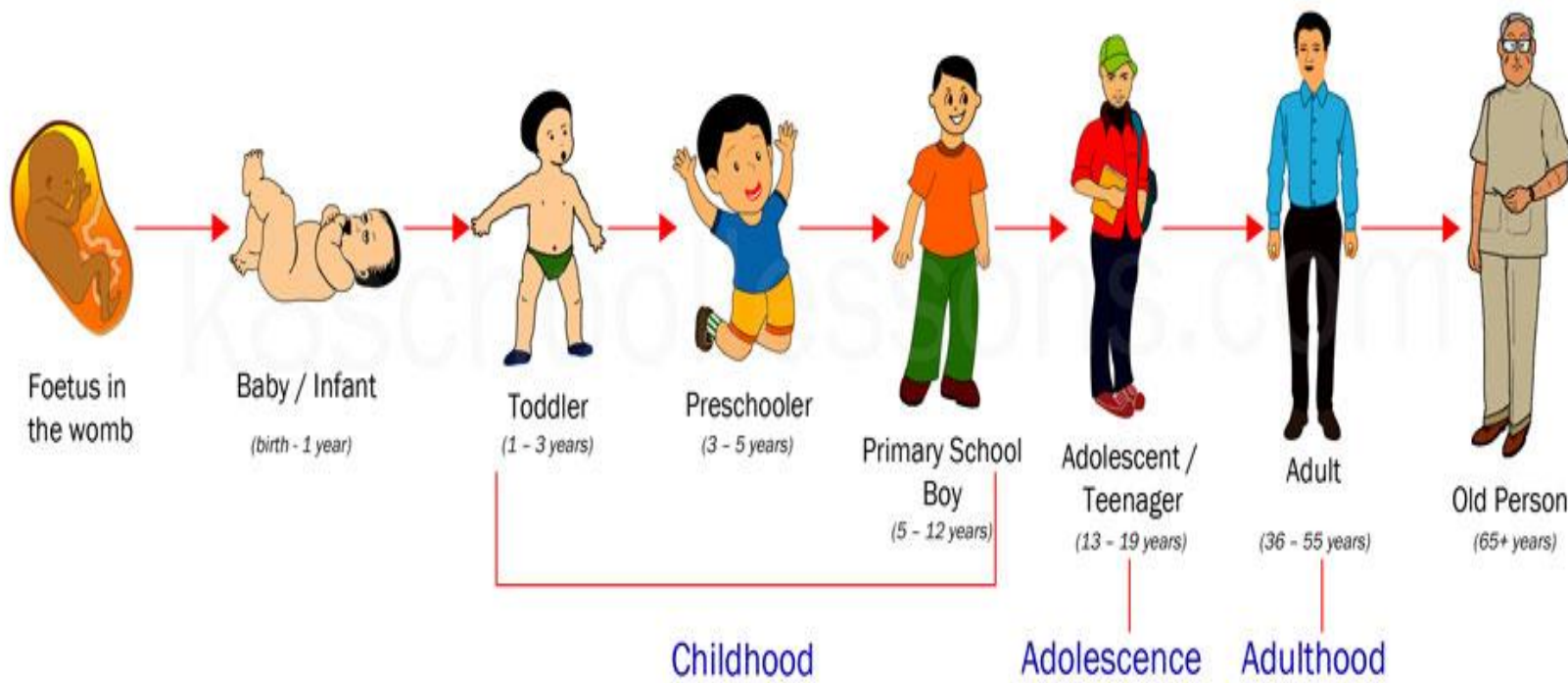
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Business Laws marathon

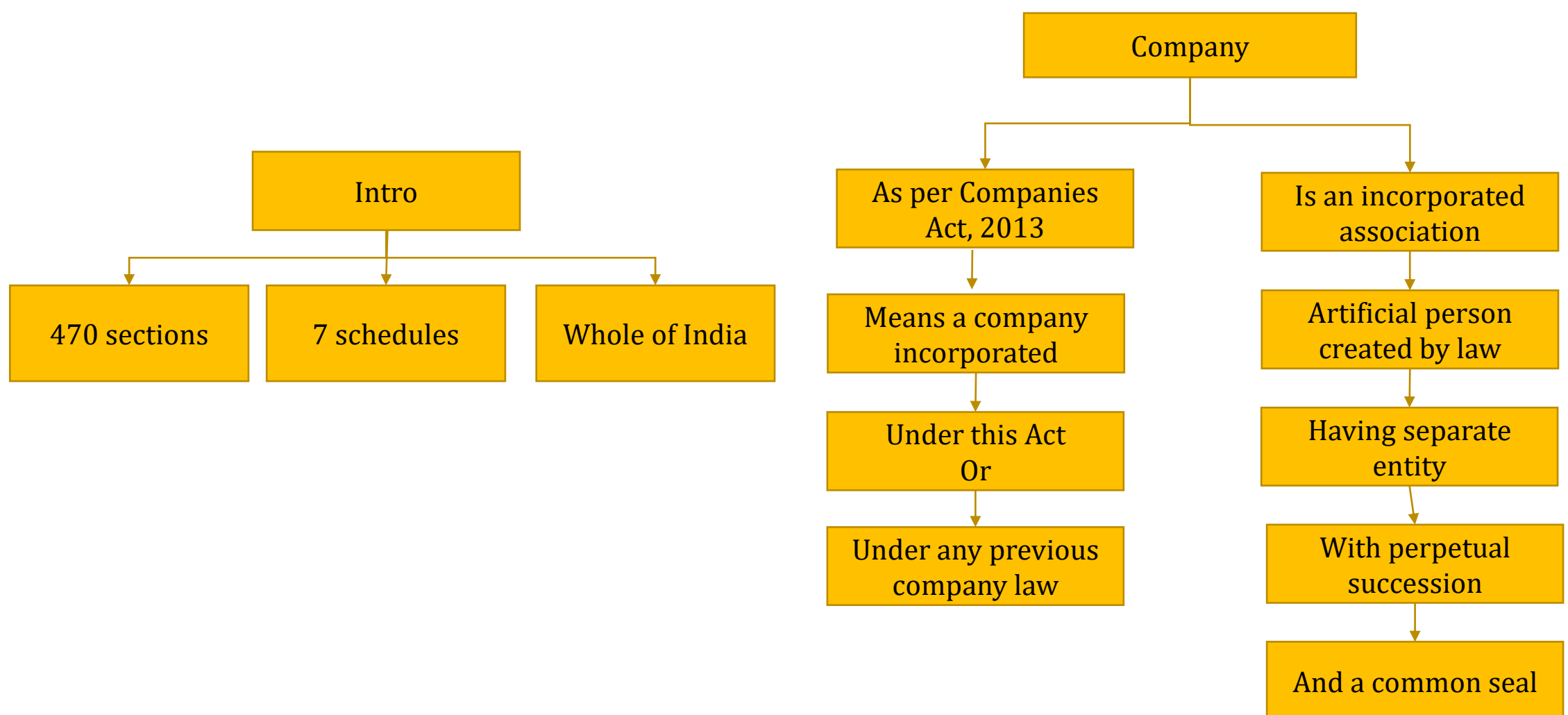
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# Topic : Why Company is required? (Layman Language)

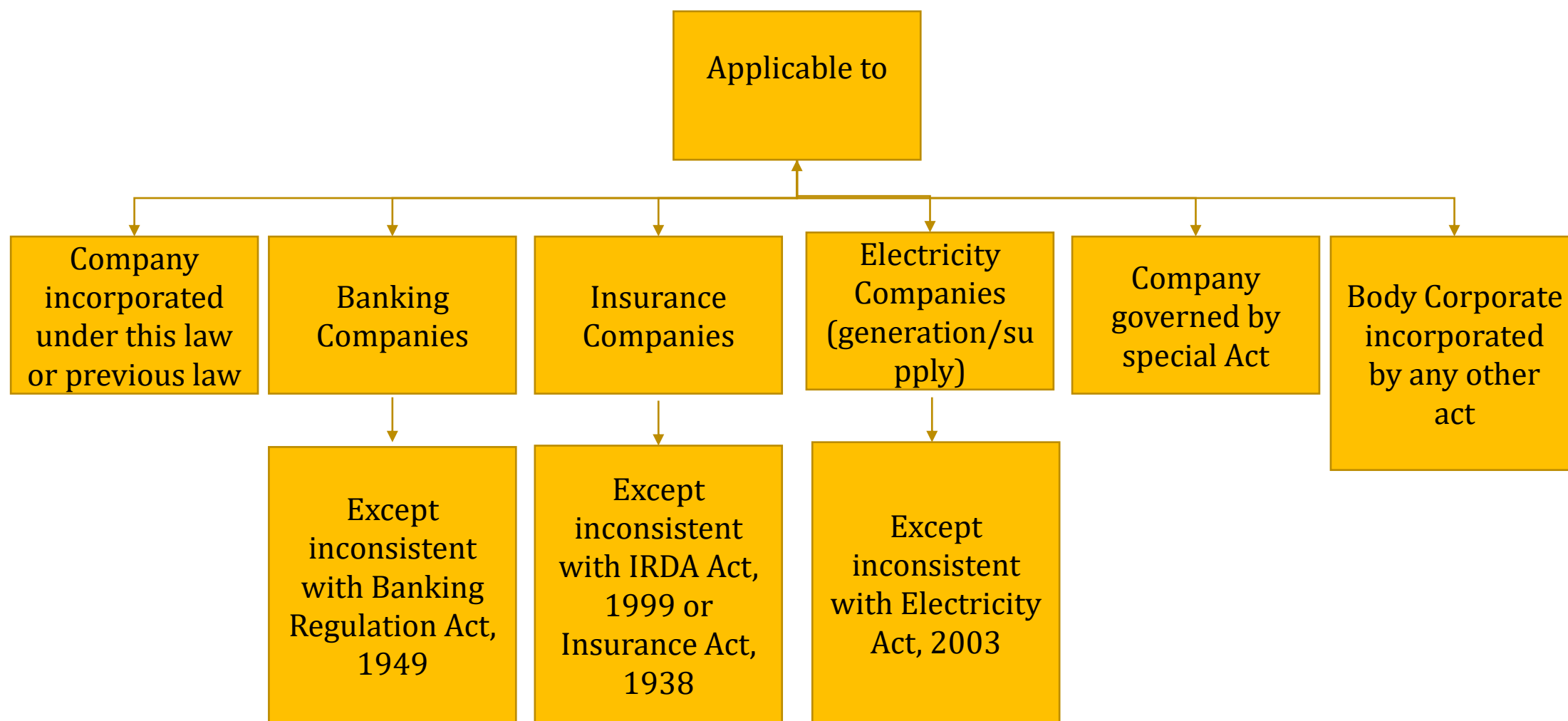


# Topic : Intro Companies Act, 2013:

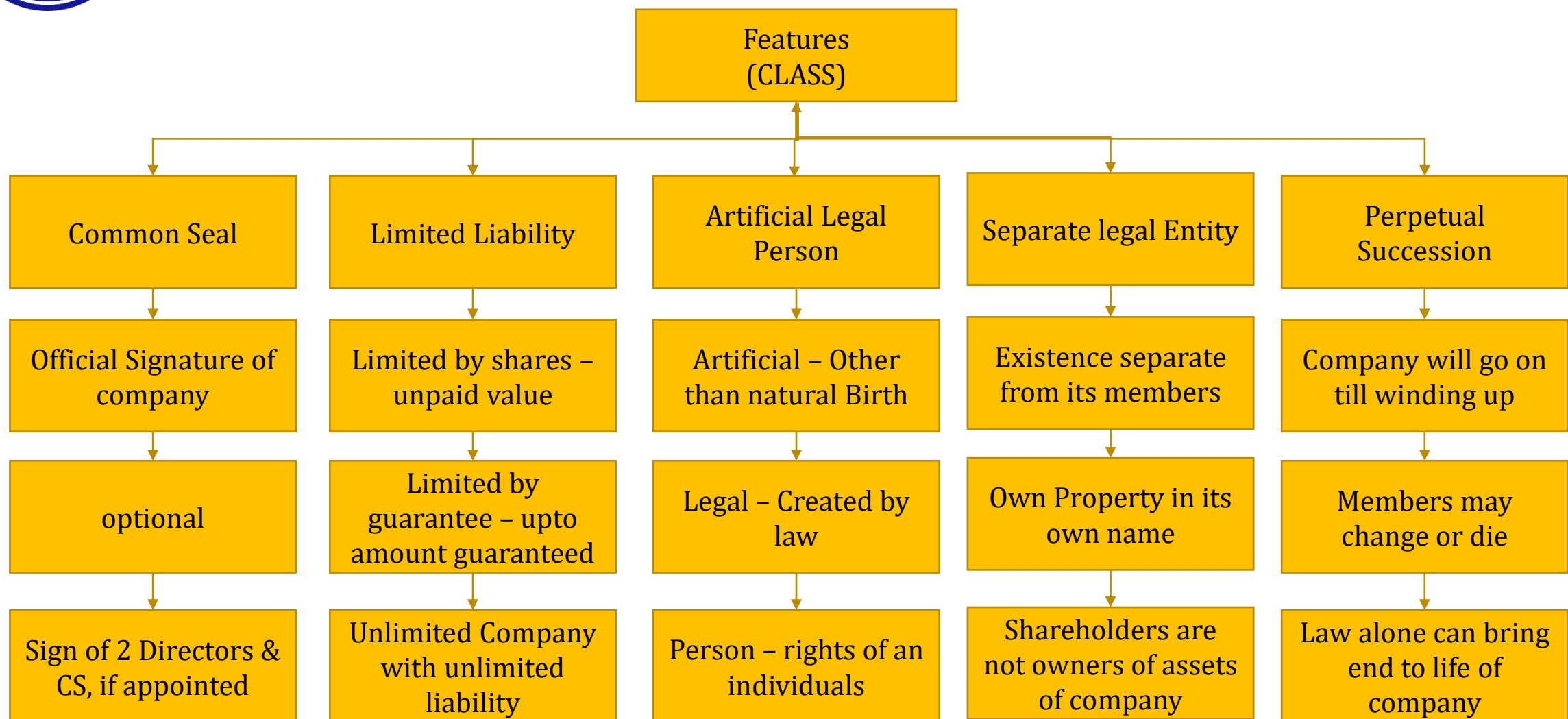




# Topic : Applicability of the Companies Act, 2013:



# Topic : Features of a Company (IMP)

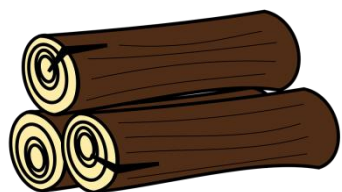


# Macaura Vs Northern Assurance Co. Ltd.



Mr. Macaura

Irish Canadian Sawmills Ltd.



Mr. Macaura holds 100 percent share of Irish Canadian Sawmills Ltd., engaged in the business of timber wood.

Mr. Macaura takes insurance of timber from Northern Assurance Co. Ltd.

One Day, All timber was lost in fire. Mr. Macaura filed claim for loss from insurance Company.

Court held that Shareholder & company are separate persons in the eyes of law. Mr. Macaura does not have any insurable interest in the property owned by company

He is not eligible for any compensation.



Northern Assurance Co. Limited

## Perpetual Succession (Layman Language)



Ed, Edd & Eddy

Friends Private Limited

Company law se banti hai and Law hi use khatam kar sakta hai

Company can exist for unlimited years until its ended by law



3 Friends created one Company to do business together.

All 3 friends who are 100 percent shareholder of the Company died in airplance accident

What will happen to company???

## Artificial Legal Person (Layman Language)

**Why Artificial ?**  
Company is created by process other than natural birth

**Why Legal ?**  
Company is created by Law

**Why Person ?**  
Company has almost all powers similar to individual (except for few)

- Own & Sell Property
- Own Bank Account
- Raise Loans
- Enter into contracts

- Cannot be sent to Jail
- Cannot take Oath
- Cannot marry
- Cannot practice profession



## Topic : Corporate Veil Theory / Separate Legal Entity Concept

**Corporate Veil:** Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company.

The term Corporate Veil refers to the concept that members of a company are shielded from liability connected to the company's actions.

If the company incurs any debts or contravenes any laws, the corporate veil concept implies that members should not be liable for those errors. In other words, they enjoy corporate insulation.

Thus, the shareholders are protected from the acts of the company.

The **Salomon Vs. Salomon and Co Ltd.** laid down the foundation of the concept of corporate veil or independent corporate personality.

## Salomon Vs. Salomon & Co. Ltd.



Salomon Bhai



Salomon was running a business of shoes manufacturing under sole proprietorship

Salomon with his family members created a Company named “Salomon Vs. Salomon & Co. Ltd.

Salomon transferred all the business assets of shoes manufacturing to the Company & in consideration Company issued 20000 shares & debentures worth 10000 with charge against the company’s assets & liabilities

Due to trade depression, Company went into liquidation. Unsecured creditors said that Salomon could not be treated as secured creditor of the company as he himself is the owner

Salomon Vs. Salomon & Co. Ltd.

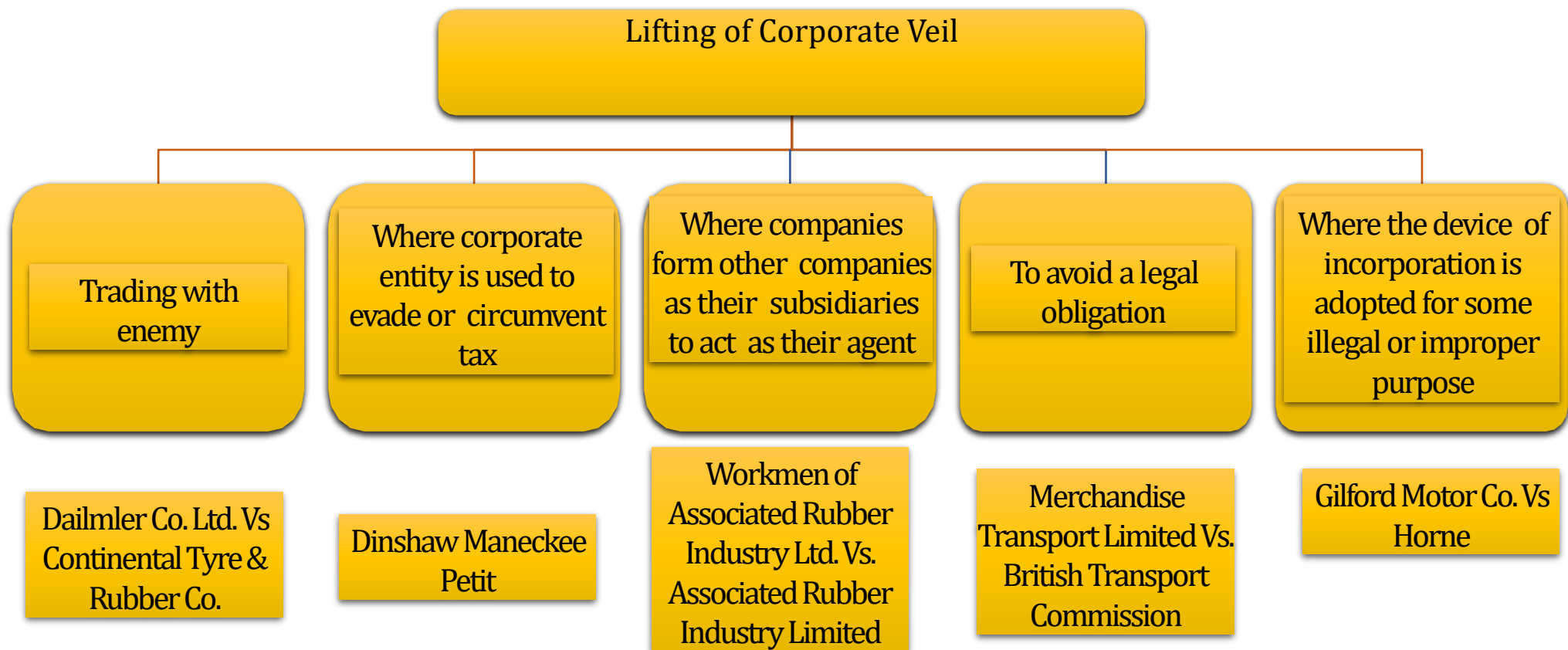
## Salomon Vs. Salomon & Co. Ltd.

Court Held that “The Company is at law a different person altogether from the subscribers to the memorandum, and though it may be that after incorporation the business is precisely the same as it was before and the same persons are managers, and the same hands receive the profits, the company is not in law the agent of the subscribers or trustees for them. Nor are the subscribers, as members, liable, in any shape or form, except to the extent and in the manner provided by the Act.”

Thus, this case clearly established that company has its own existence and as a result, a shareholder cannot be held liable for the acts of the company even though he holds virtually the entire share capital. The whole law of corporation is in fact based on this theory of separate corporate entity.

## Can Veil of Corporate be lifted ? (IMP)

**In Very Rare Circumstances, Court can lift the Corporate Veil**

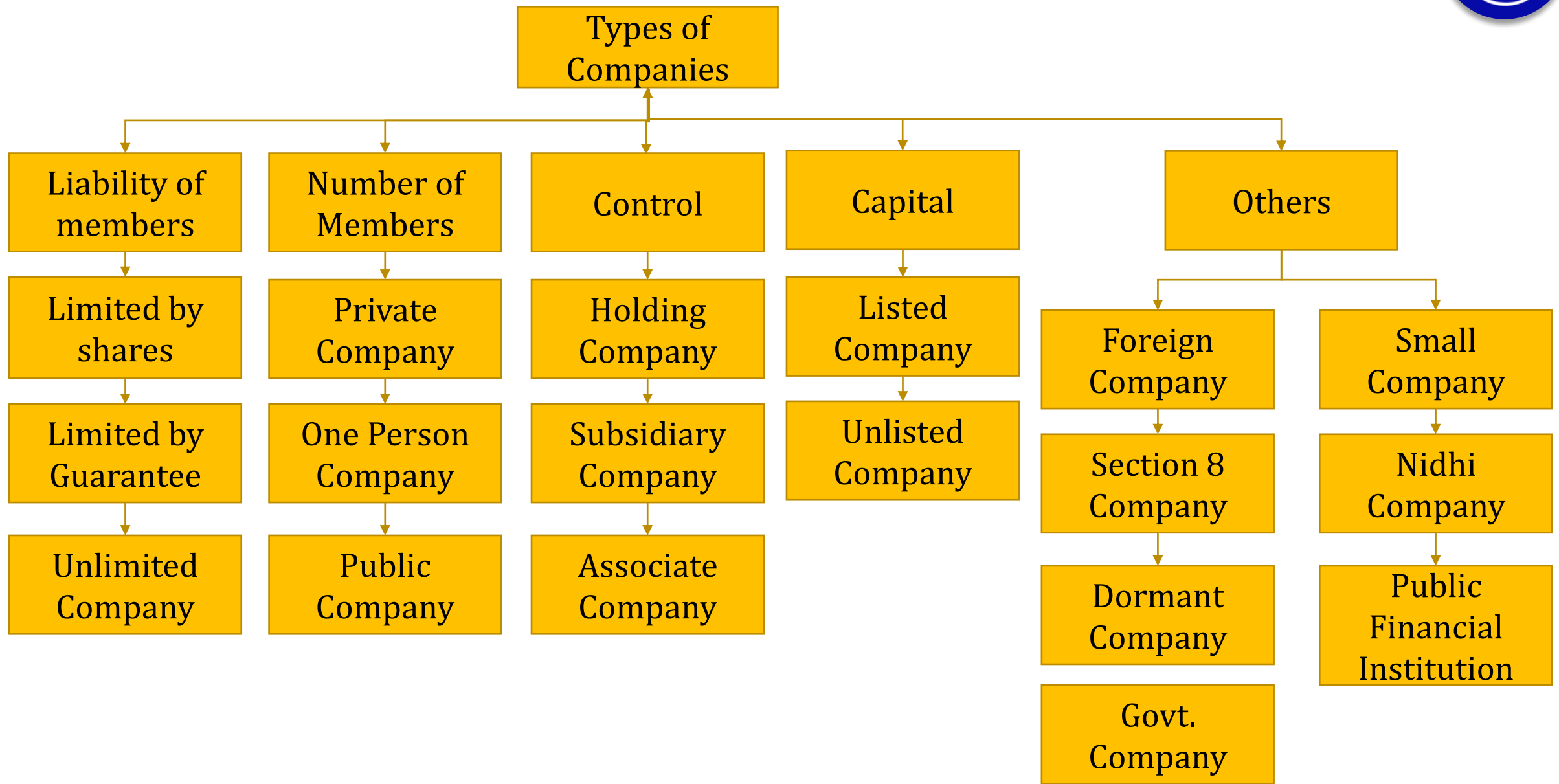


## EFFECT OF REGISTRATION (Section 9)

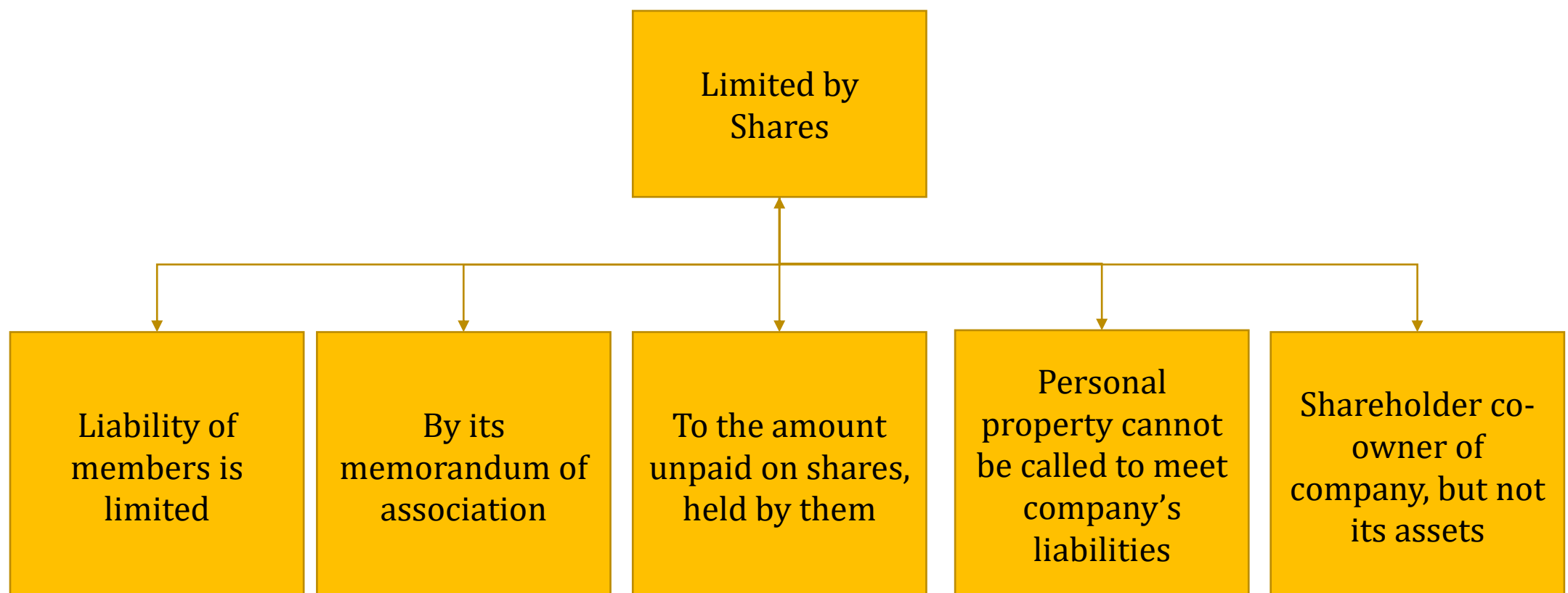
According to Section 9, from the date of incorporation (mentioned in the certificate of incorporation), the subscribers to the memorandum and all other persons, who may from time to time become members of the company, shall be a body corporate by the name contained in the memorandum. Such a registered company shall be capable of exercising all the functions of an incorporated company under this Act and having perpetual succession with power to acquire, hold and dispose of property, both movable and immovable, tangible and intangible, to contract and to sue and be sued, by the said name.

- 1) From date of incorporation, Company is separate from Subscriber to MoA ( Separate legal entity)
- 2) A company purchase 100 percent shares of other company but still they are different
- 3) Central Govt owns 100 percent shares of all the company but still it is not an agent of Govt
- 4) Any money payable by members to company will be considered as debt due to company

# Types of Companies

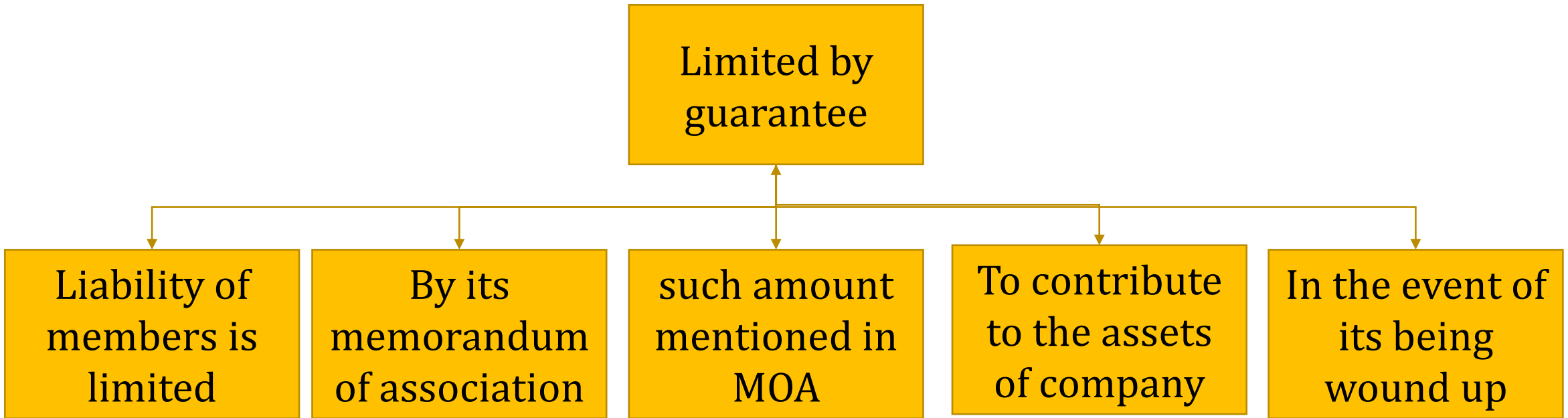


## On the basis of Liability of members

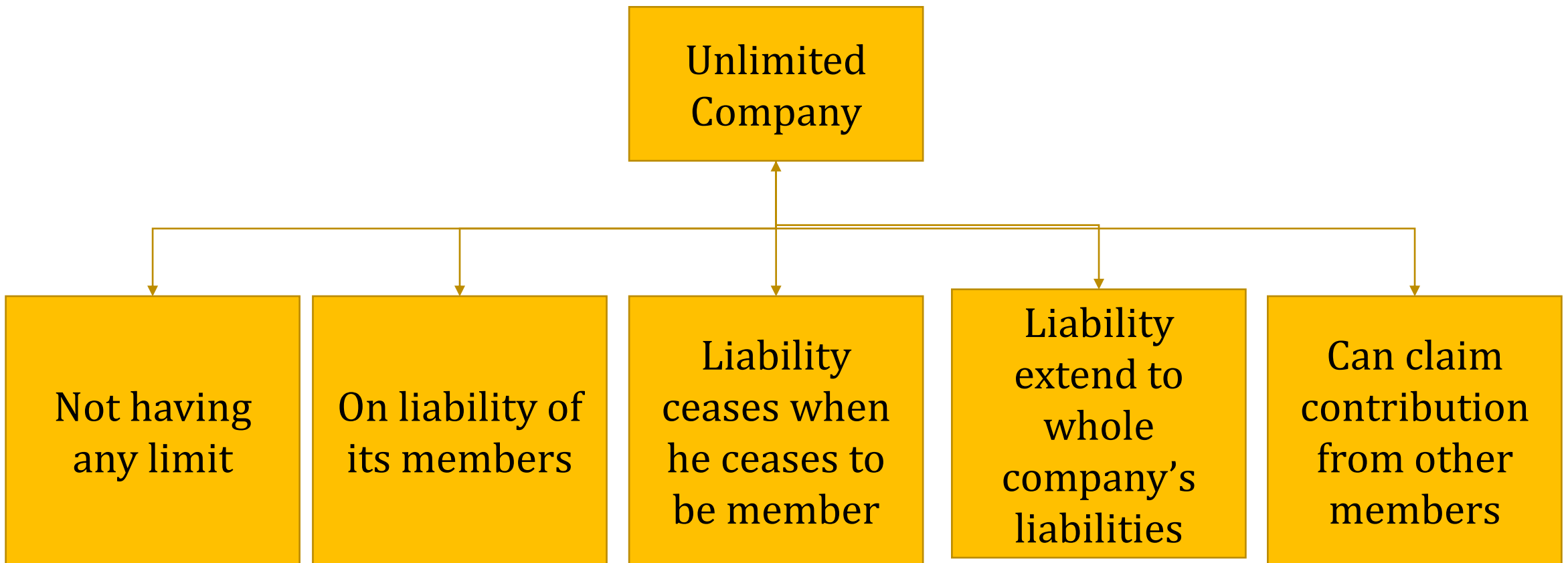




**On the basis of Liability of members**



**On the basis of Liability of members**



In case the company has share capital, the Articles of Association must state the amount of share capital and the amount of each share. So long as the company is a going concern the liability on the shares is the only liability which can be enforced by the company.

## Similarity & Difference between Limited by shares & guarantee



The **common features** between a 'guarantee company' and 'the company having share capital' are legal personality and limited liability.

Both of them have to state in their memorandum that the members' liability is limited.

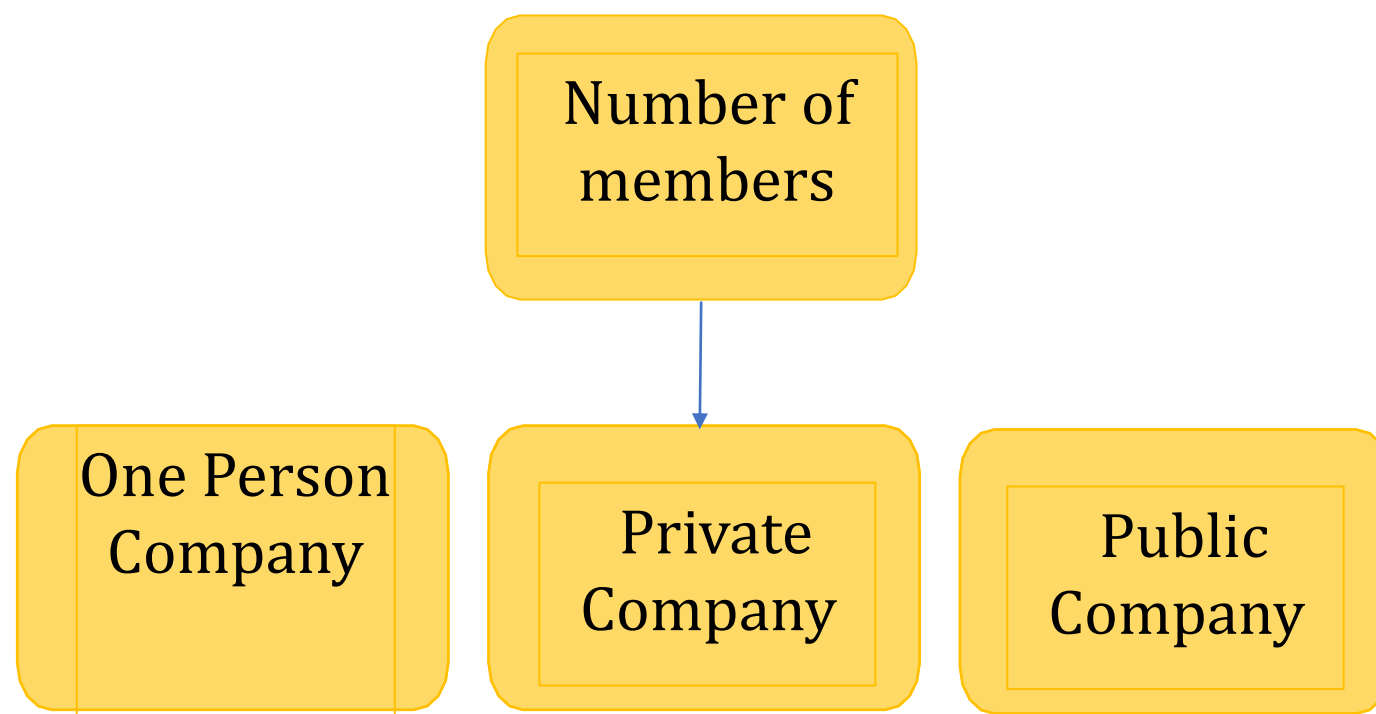
**Distinction** between these two types of companies is that in the former case the members may be called upon to discharge their liability only after commencement of the winding up and only subject to certain conditions; but in the latter case, they may be called upon to do so at any time, either during the company's life-time or during its winding up.

It is clear from the definition of the guarantee company that it does not raise its initial working funds from its members. Therefore, such a company may be useful only where no working funds are needed or where these funds can be held from other sources like endowment, fees, charges, donations, etc.

In **Narendra Kumar Agarwal vs. Saroj Maloo**,

The Supreme Court has laid down that the right of a guarantee company to refuse to accept the transfer by a member of his interest in the company is on a different footing than that of a company limited by shares. The membership of a guarantee company may carry privileges much different from those of ordinary shareholders.

### On the basis of number of members



## ONE PERSON COMPANY SECTION 2(62) (V. IMP)

- 1) Only one person as member
- 2) No minimum paid up capital
- 3) Mandatory Nominee Clause in MoA
- 4) Company cannot be incorporated or converted into a company under section 8 of the Act
- 5) OPC cannot carry out Non-Banking Financial Investment Activities
- 6) OPC cannot invest in securities of any body corporate
- 7) OPC can be incorporated as private Company only
- 8) OPC can be converted into private or public company

## NOMINEE IN ONE PERSON COMPANY

- 1) Nominee is a person who will become member of OPC on death or his incapacity to contract of existing member
- 2) Prior written consent of Nominee to filed with RoC at the time of incorporation & after every change of nominee
- 3) Nominee has the right to withdraw his consent at any time
- 4) Member of OPC can change the nominee at any time by giving notice to Company which further intimate RoC
- 5) No person shall become member or Nominee of more than one OPC
- 6) Minor cannot become member or nominee of OPC
- 7) Minor cannot hold beneficial interest in OPC

For OPC, Nominee Clause is the mandatory clause in MoA. In case of any change in name of nominee shall not be deemed to alteration in MoA.

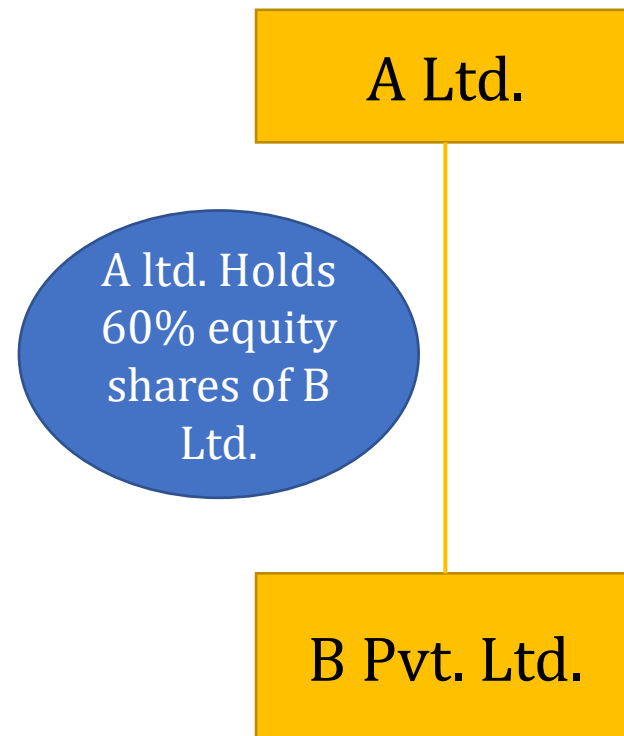
## Who can become Nominee or Member in OPC?

- 1) Natural Person + Indian Citizen + ~~Minimum 120 days stay in India in Last Financial Year~~
- 2) No person shall become member or Nominee of more than one OPC

## PRIVATE COMPANY SECTION 2(68)

- 1) Restrict the right to transfer shares mentioned in Articles
- 2) One Person Company – Minimum and Maximum Number of Member - 1
- 3) Other Private Company – Minimum - 2 and Maximum - 200
- 4) Prohibition on invitation to subscription of the securities of the Company
- 5) Must use Private Limited in its Name
- 6) No Minimum paid-up capital requirement

**Status of private company, which is subsidiary to public company:**  
 In view of Section 2(71) of the Companies Act, 2013 a Private company, which is subsidiary of a public company shall be deemed to be public company for the purpose of this Act, even where such subsidiary company continues to be a private company in its articles.



## How to Compute members in a Private Company (IMP)

Question:- Flora Fauna Limited was registered as a public company. There are 230 members in the company as noted below:

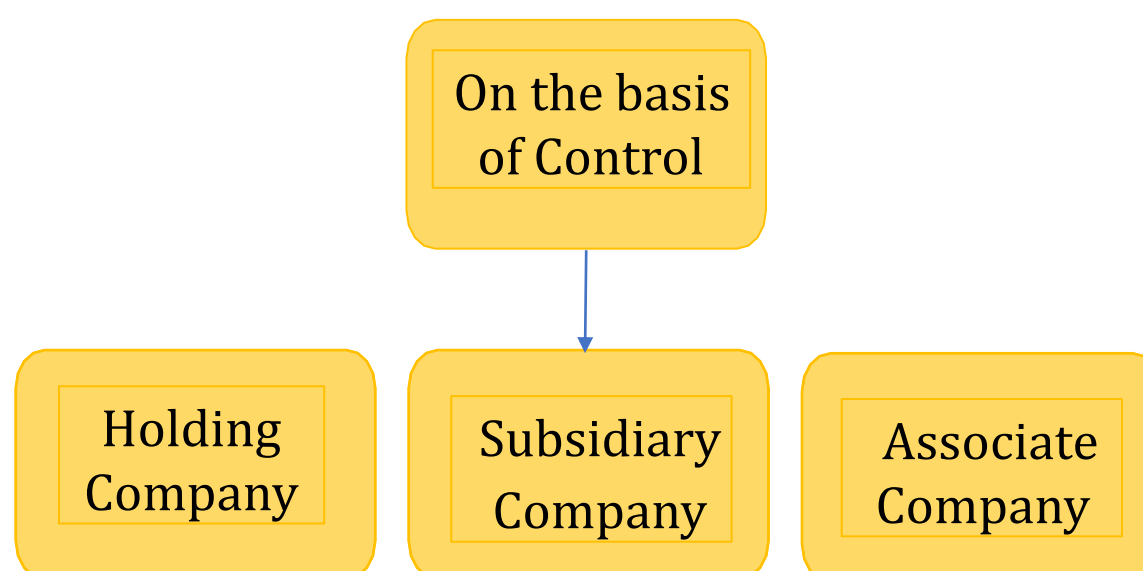
Directors and their relatives	190
Employees	15
Ex-Employees (Shares were allotted when they were employees)	10
5 couples holding shares jointly in the name of husband and wife (5*2)	10
Others	5

The Board of Directors of the company propose to convert it into a private company. Also advise whether reduction in the number of members is necessary.

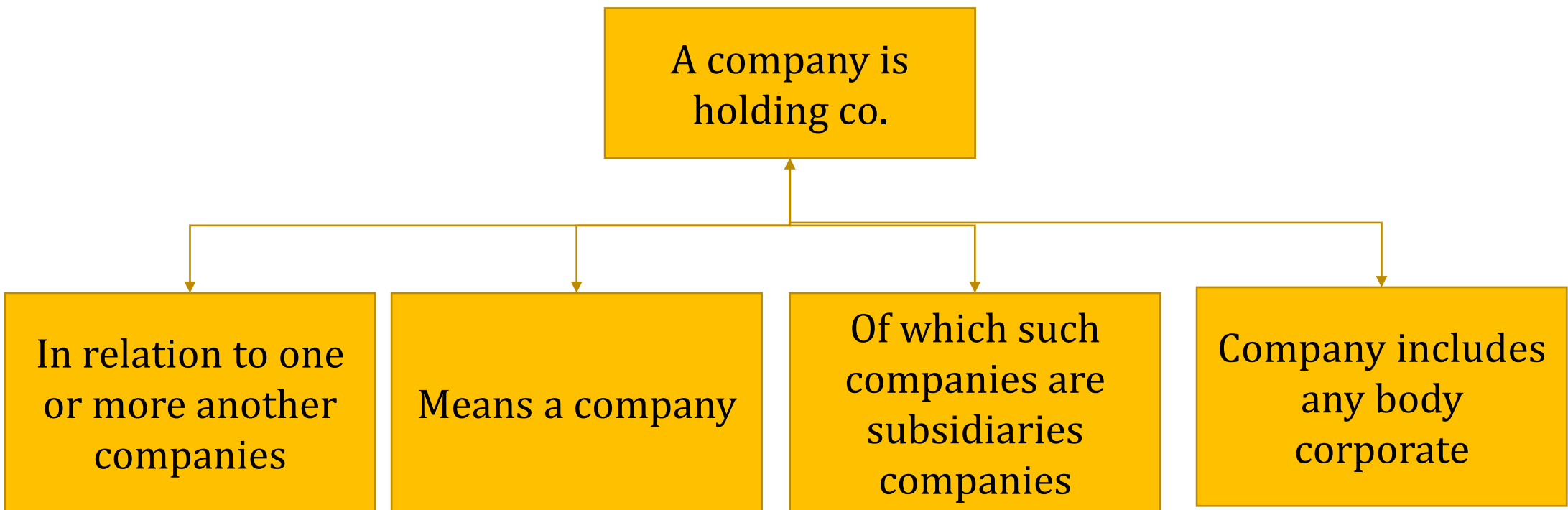
## PUBLIC COMPANY SIGNIFICANT POINTS

- 1) Is not a private company (i.e. no restriction on transfer of shares in articles)
- 2) No minimum capital requirement
- 3) Number of member – Minimum - 7 and Maximum – No Limit
- 4) No Prohibition on invitation to subscription of the securities of the Company
- 5) Private Company which is a subsidiary company of Public Company is deemed to be public Company for this Act even where such subsidiary continues to be a private company.
- 6) Shares are freely transferable

### On the basis of control of company

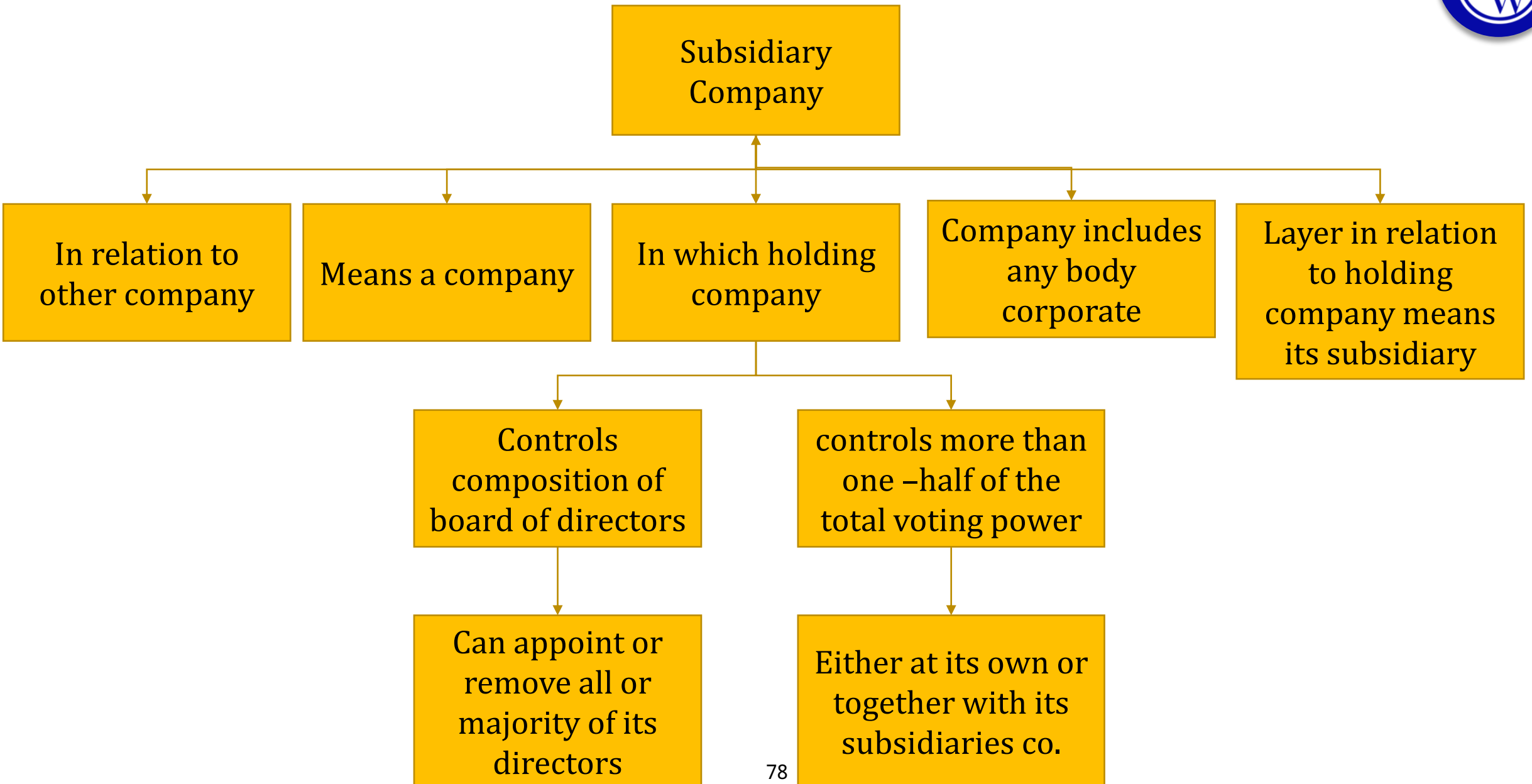


## Holding Company Sec 2(46)



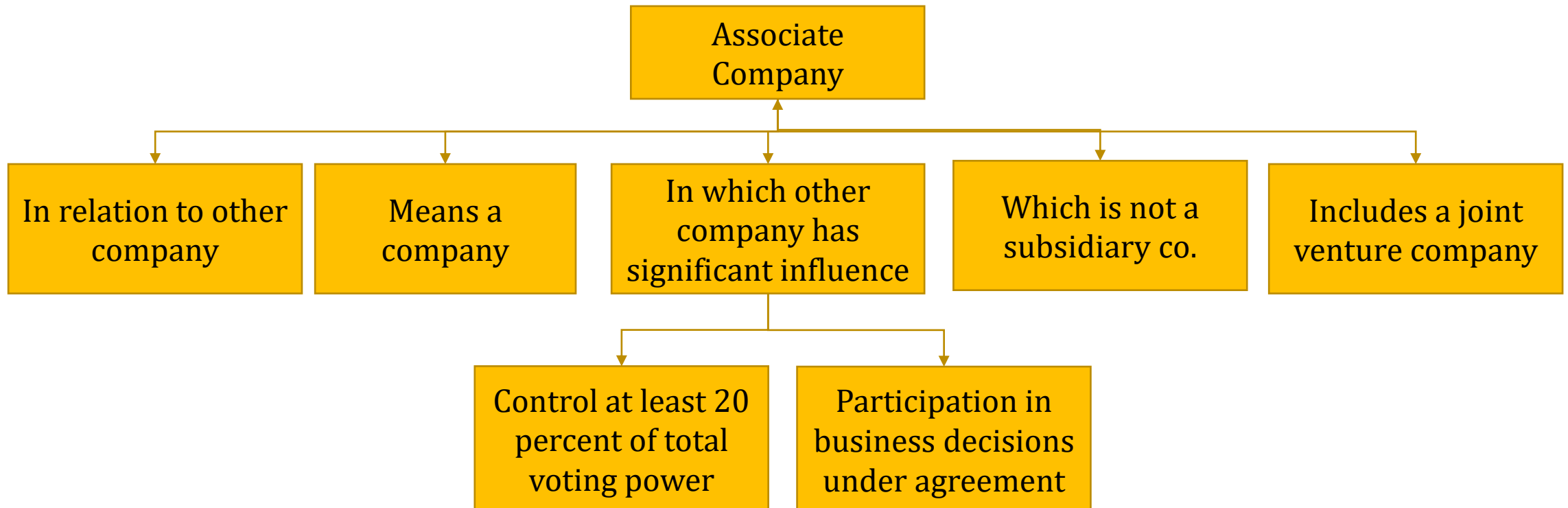
For the purposes of this clause, the expression “company” includes any body corporate. Holding and subsidiary companies.

## Subsidiary Company Sec 2(87)



## Associate Company

- 1) When one company has significant influence in other company
- 2) It is not a subsidiary company
- 3) It includes a joint venture company



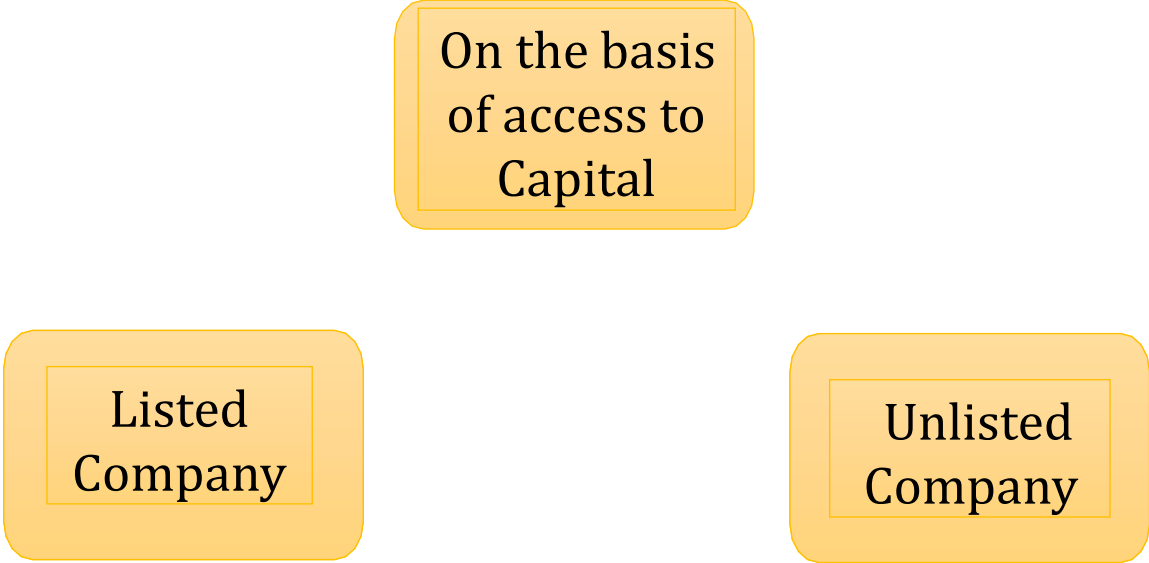
## Associate Company

For the purpose of Associate Company, The term “Total Share Capital”, means the aggregate of the -  
Paid-up equity share capital; and  
Convertible preference share capital.

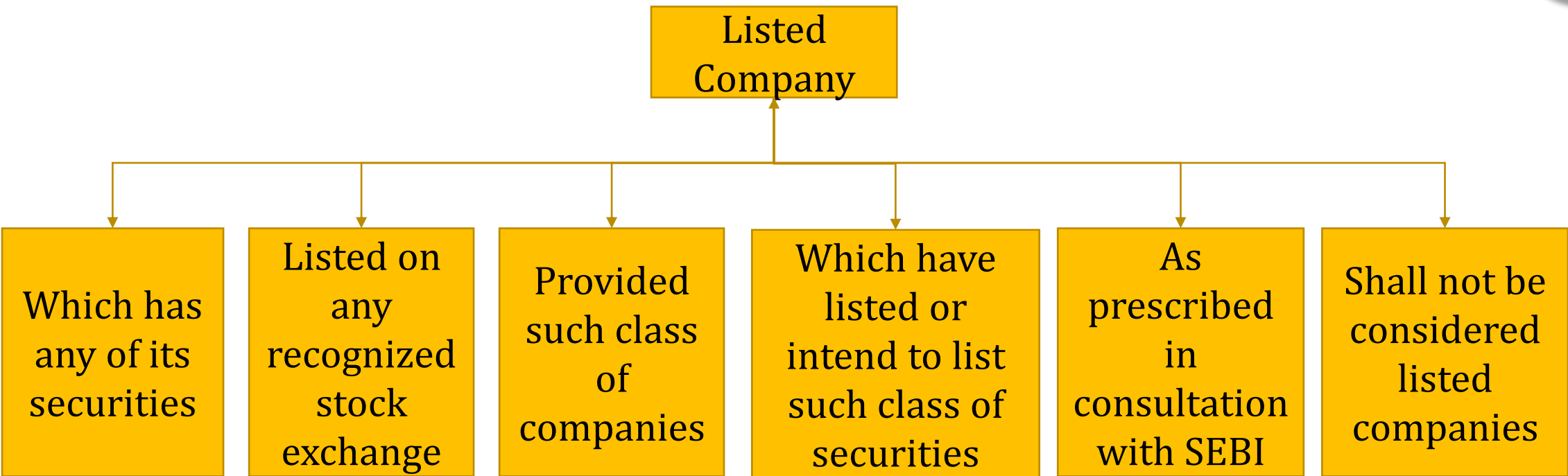
Vide General Circular no. 24/2014 dated 25th of June 2014, the Ministry of Corporate Affairs has clarified that the shares held by a company in another company in a ‘fiduciary capacity’ shall not be counted for the purpose of determining the relationship of ‘associate company’ under section 2(6) of the Companies Act, 2013.



**On the basis of Access to capital**



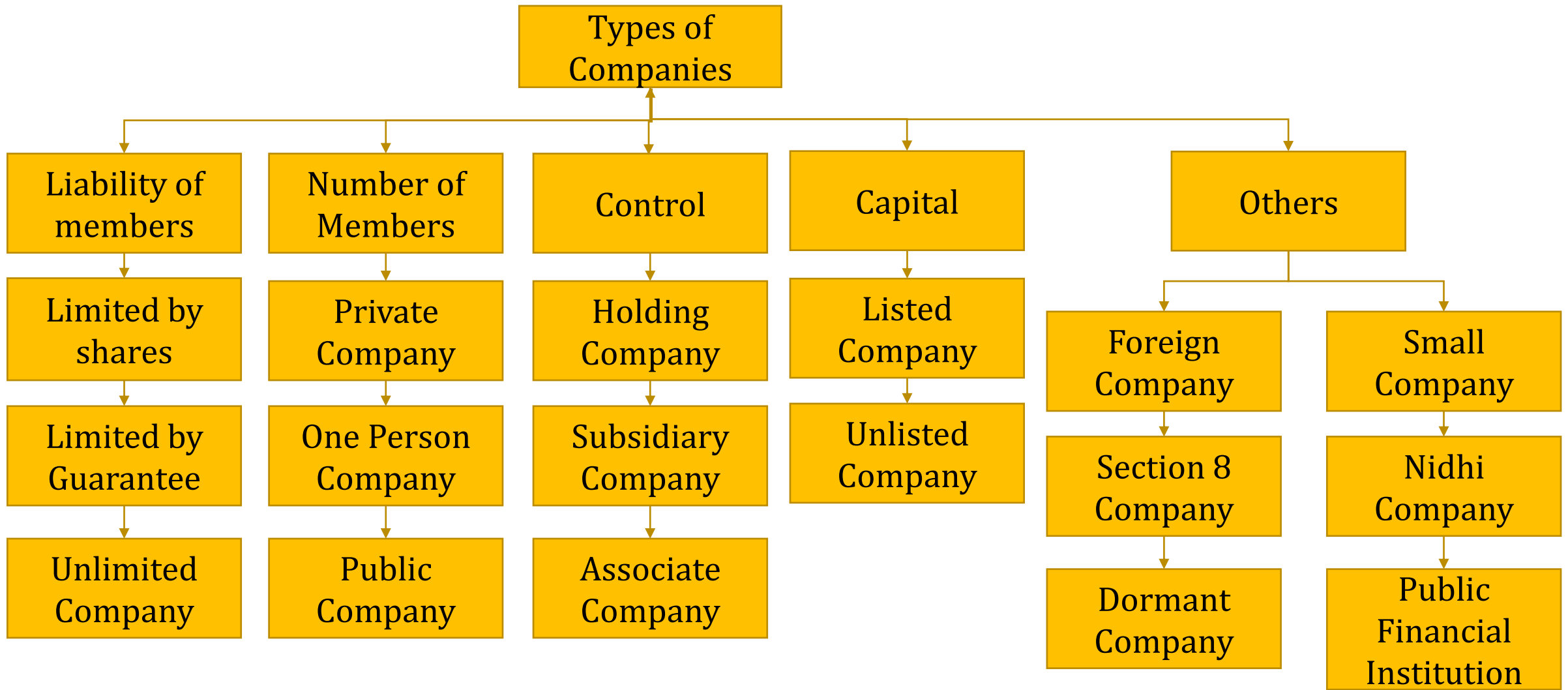
**Listed Company sec 2 (52)**



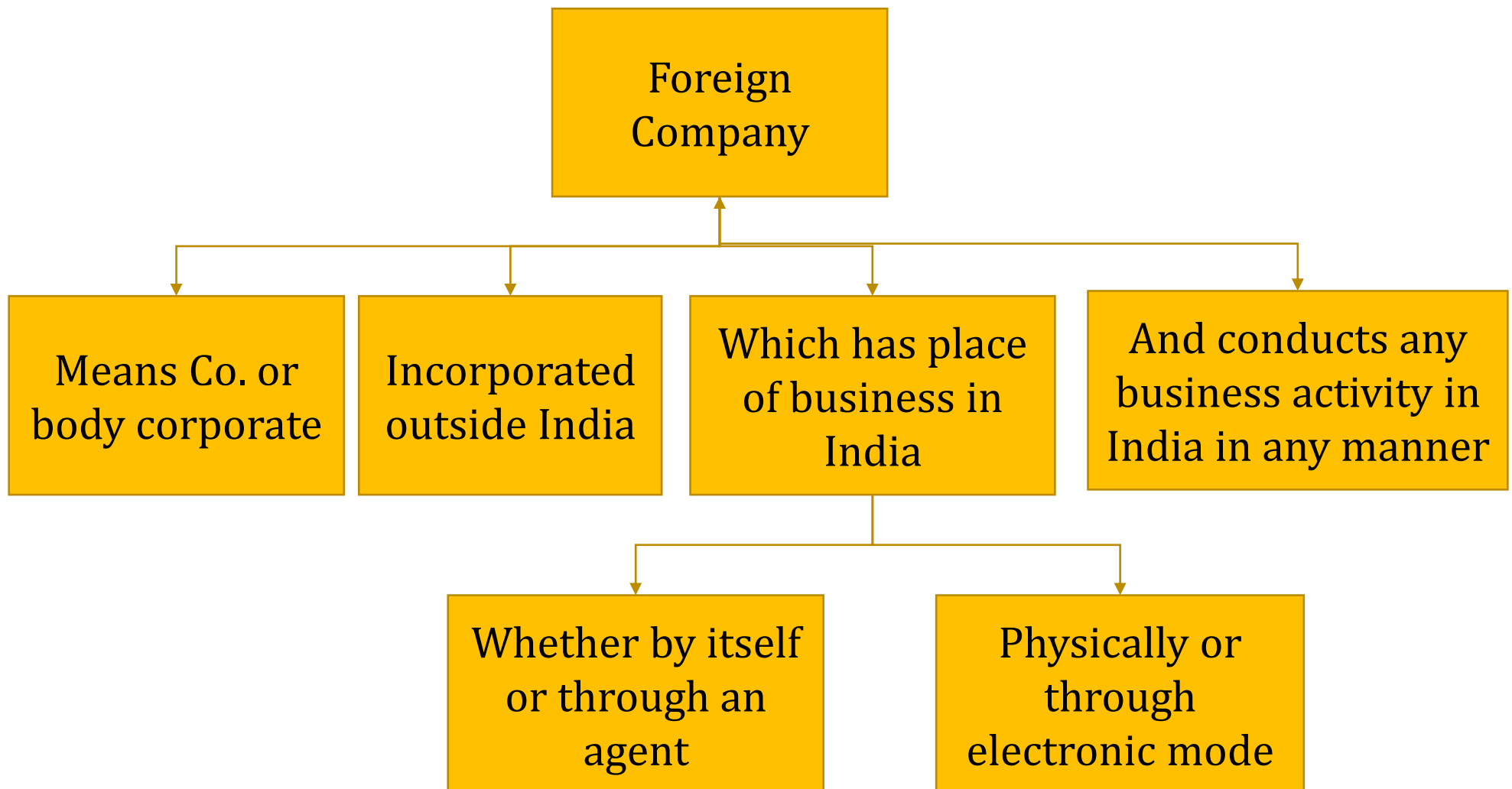
**Unlisted company means company other than listed company.**

**Example** Scan Steel Rods Limited is a Public Limited Company whose shares are listed in the Stock Exchange, Kolkata. Hence Scan Steel Rods Limited is a Listed Company. The reason for calling it “Listed” is because the company and the Stock Exchange have signed a Listing Agreement for trading of shares in the capital market.

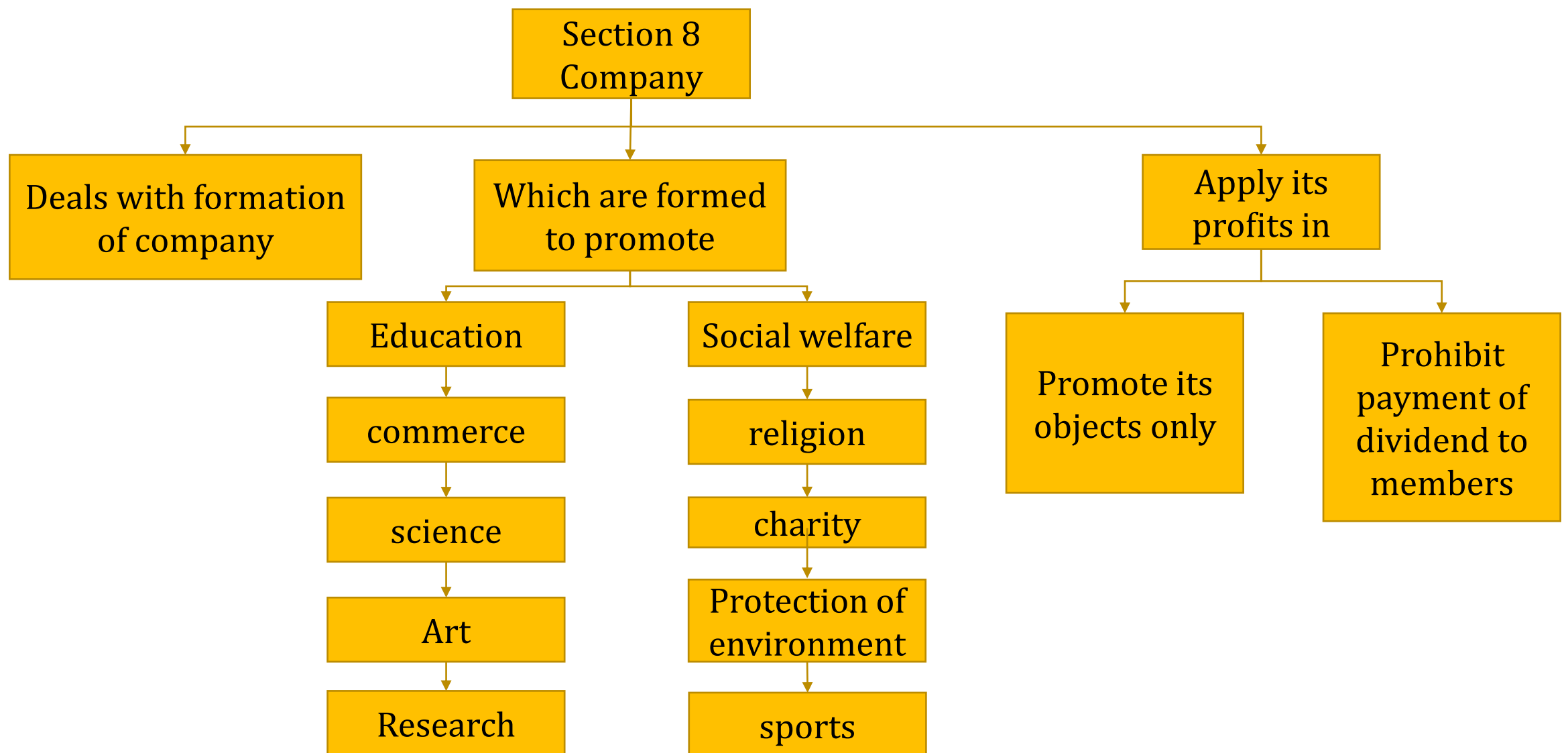
# Types of Companies



# Foreign Company



## Section 8 Company (IMP)



## Significant points Section 8 Company (IMP)

### Section 8 Company- Significant points

- Formed for promotion of commerce, art, science, religion, charity, protection of environment sports, etc.
- Requirement of minimum share capital does not apply.
- Uses its profits for the promotion of the objective for which formed.
- Does not declare dividend to members.
- Operates under a special licence from Central Government.
- Need not use the word Ltd./Pvt. Ltd. in its name and adopt a more suitable name such as club, chambers of commerce etc.
- Licence revoked if conditions contravened.
- On revocation, Central Government may direct it to
  - converts its status and change its name.
  - Wind – up

## Significant points Section 8 Company (IMP)

### Section 8 Company- Significant points

- Amalgamate with another company having similar object.
- Can call its general meeting by giving a clear 14 day's notice instead of 21 days.
- Requirement of minimum number of directors, independent directors etc. does not apply.
- Need not constitute Nomination and Remuneration Committee and Shareholders Relationship Committee.
- A partnership firm can be a member of Section 8 company.

## Section 8 Company

### Power of Central government to issue the license–

- Section 8 allows the Central Government to register such person or association of persons as a company with limited liability without the addition of words 'Limited' or 'Private limited' to its name, by issuing license on such conditions as it deems fit.
- The registrar shall on application register such person or association of persons as a company under this section.
- On registration the company shall enjoy same privileges and obligations as of a limited company.

## Section 8 Company

**Revocation of license:** The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.

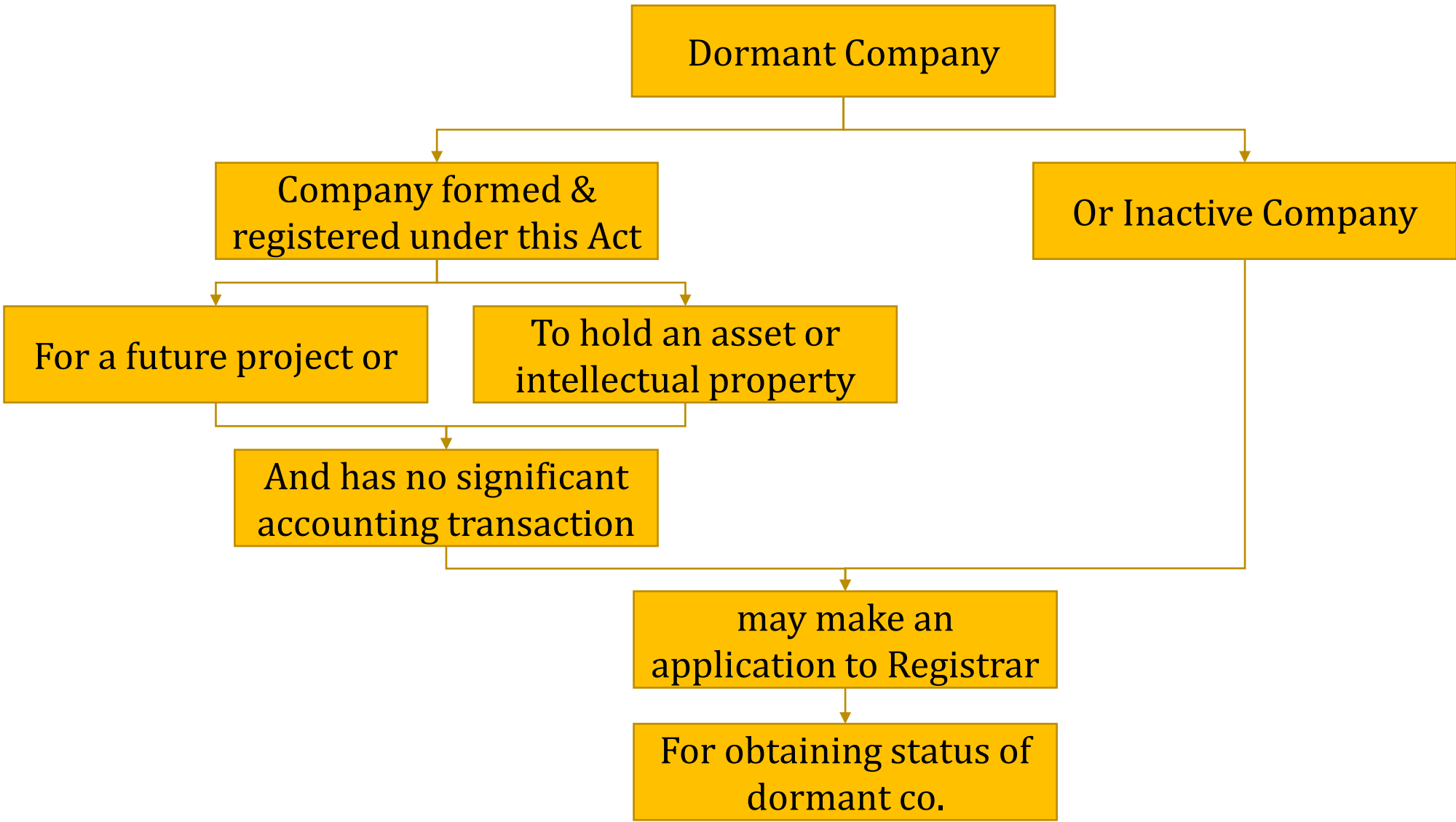
**Order of the Central Government:** Where a licence is revoked there the Central Government may, in the public interest order that the company registered under this section should be amalgamated with another company registered under this section having similar objects, to form a single company with such constitution, properties, powers, rights, interest, authorities and privileges and with such liabilities, duties and obligations as may be specified in the order, or the company be wound up.

## Section 8 Company

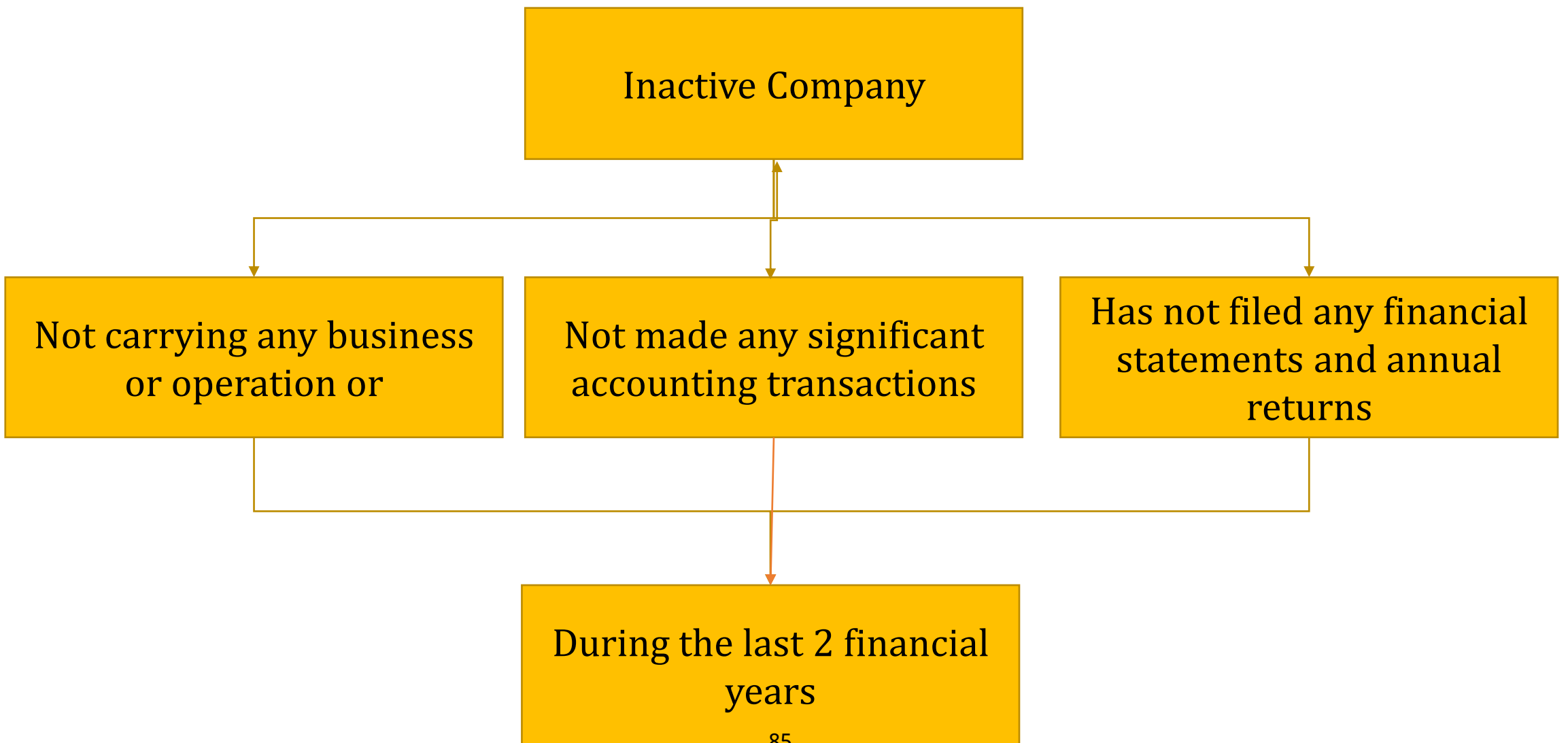
**Penalty/punishment in contravention:** If a company makes any default in complying with any of the requirements laid down in this section, the company shall, without prejudice to any other action under the provisions of this section, be punishable with fine which shall not be less than ten lakh rupees but which may extend to one crore rupees and the directors and every officer of the company who is in default shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to twenty-five lakh rupees.

Provided that when it is proved that the affairs of the company were conducted fraudulently, every officer in default shall be liable for action under section 447.

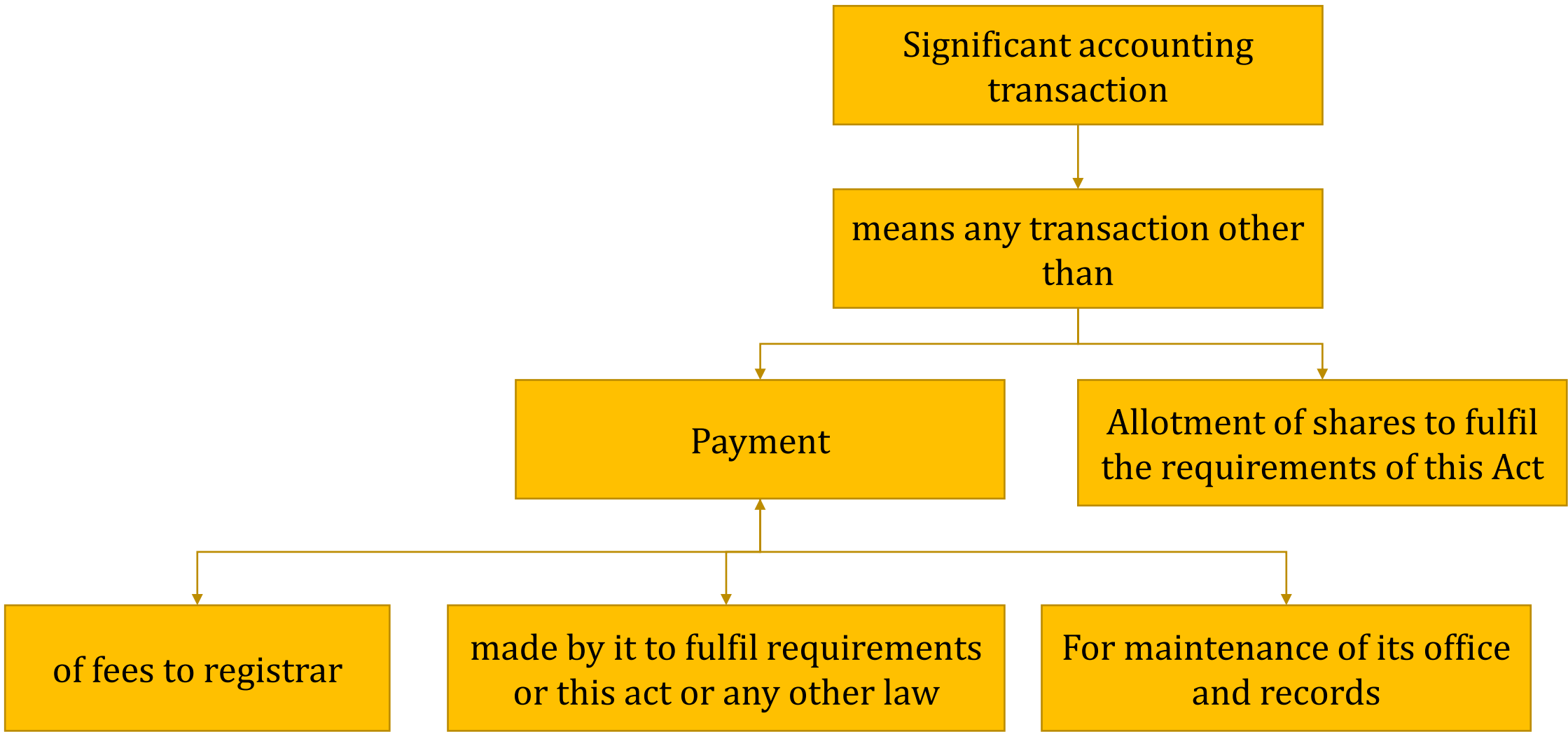
# Dormant Company (Section 455)



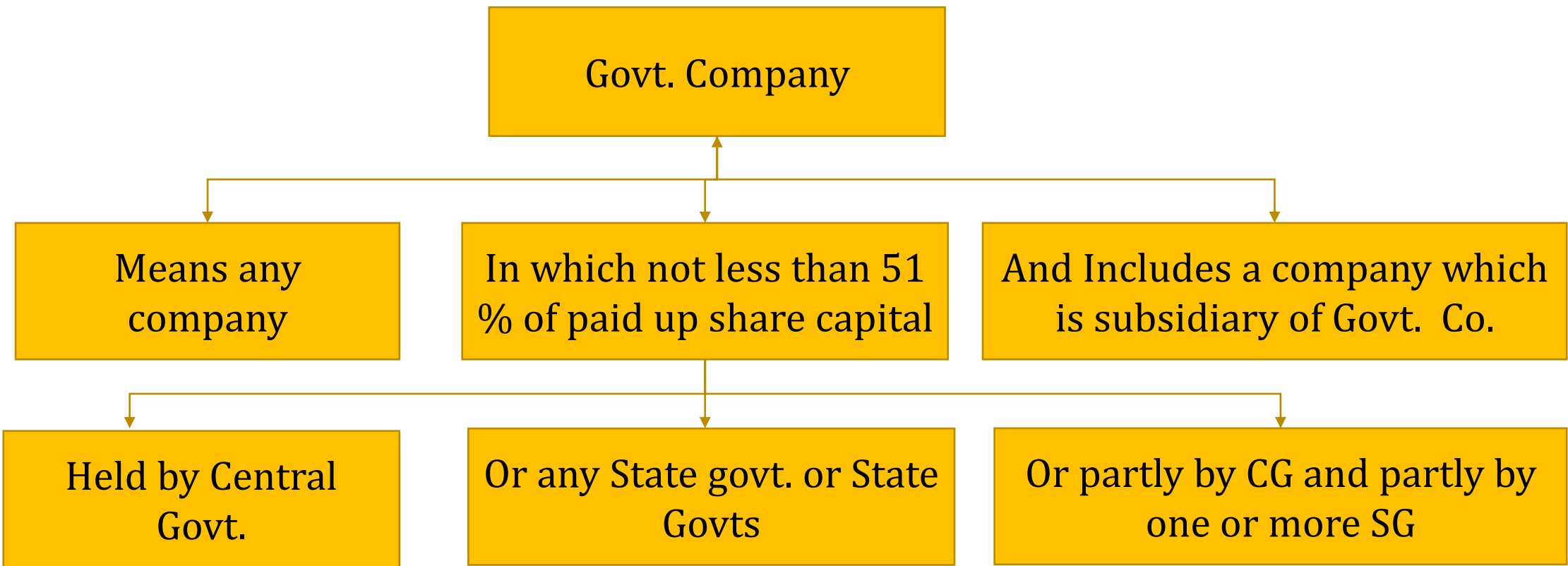
# Dormant Company



## Dormant Company



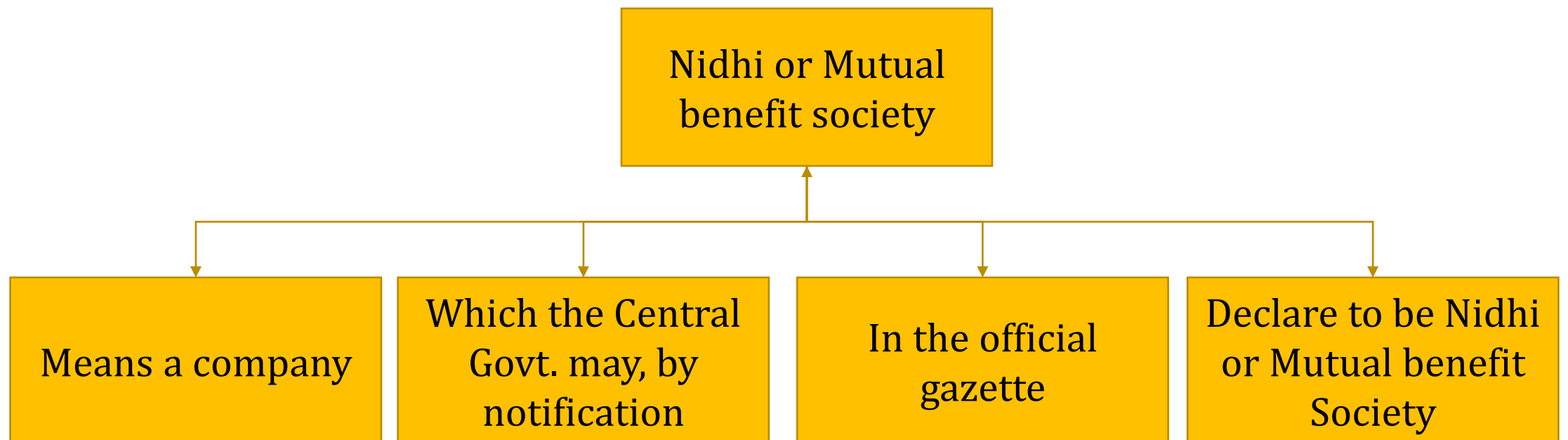
## Government Company



**Explanation:** For the purposes of this clause, the “paid up share capital” shall be construed as “total voting power”, where shares with differential voting rights have been issued.

## Nidhi Companies

**Meaning of Nidhi Companies [Section 406(1) of the Companies Act, 2013]:** In this section, “Nidhi” or “Mutual Benefit Society” means a company which the Central Government may, by notification in the Official Gazette, declare to be a Nidhi or Mutual Benefit Society, as the case may be.



## Public Financial Institutions (PFI)

PFI includes

Life Insurance Corporation of India established under LIC Act, 1956

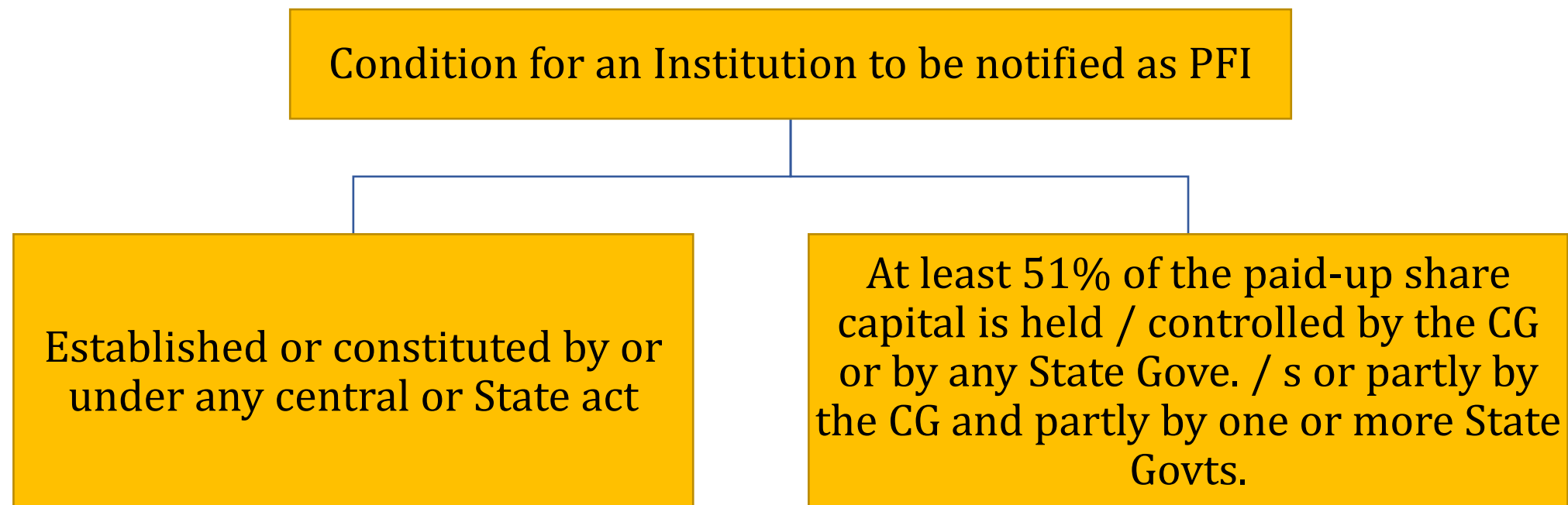
Infrastructure Development Finance Co. Ltd.

Specified company in Unit Trust of India Act, 2002

Institutions notified by CG under old act

Such other Institutions notified by CG in consultation with RBI





**Small Company:** Small company given under the Section 2(85) of the Companies Act, 2013 which means a company, other than a public company— **paid-up share capital** of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and **turnover** of which as per profit and loss account for the immediately preceding financial year does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees: Exceptions: This clause shall not apply to:

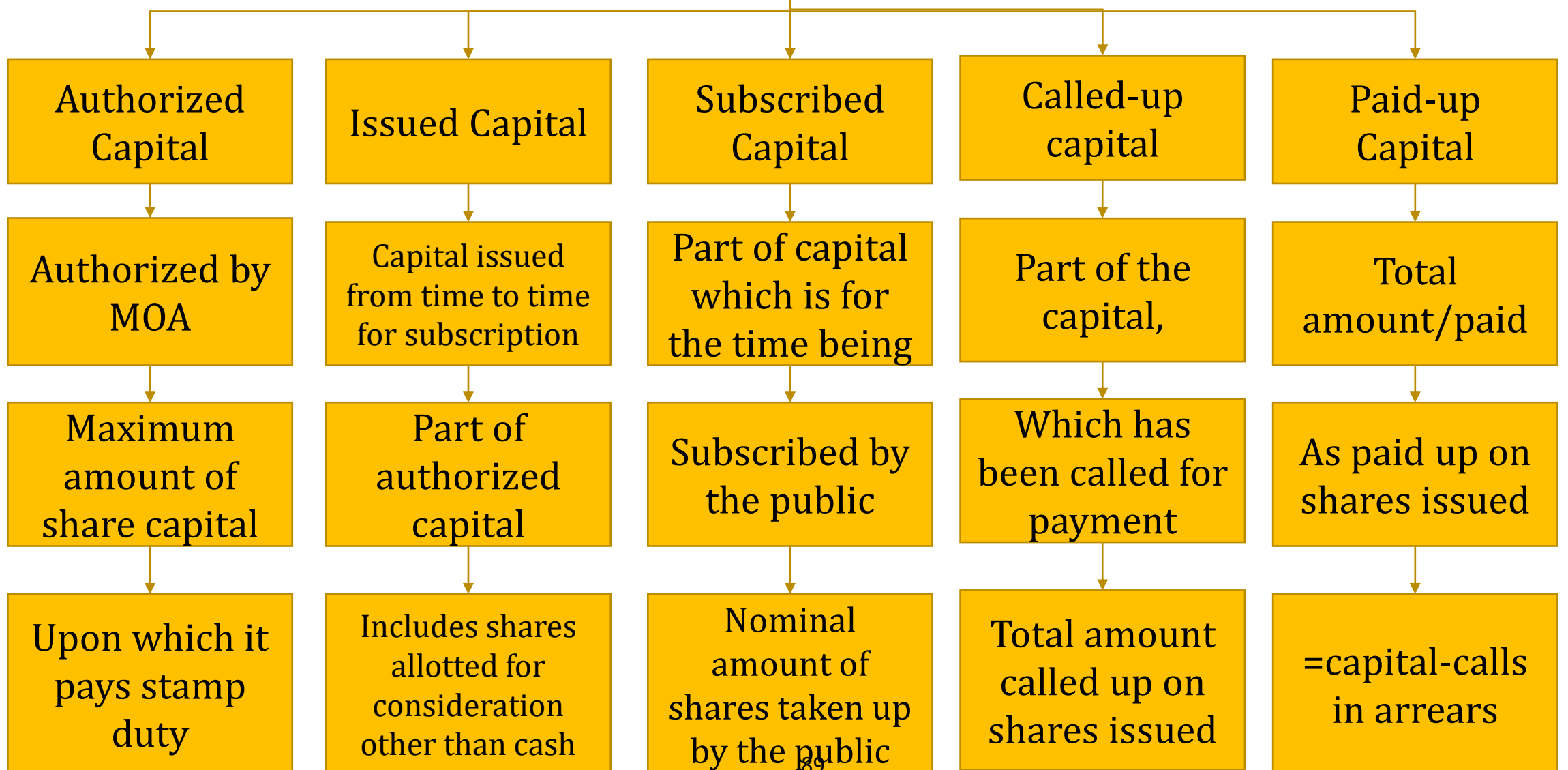
a holding company or a subsidiary company;

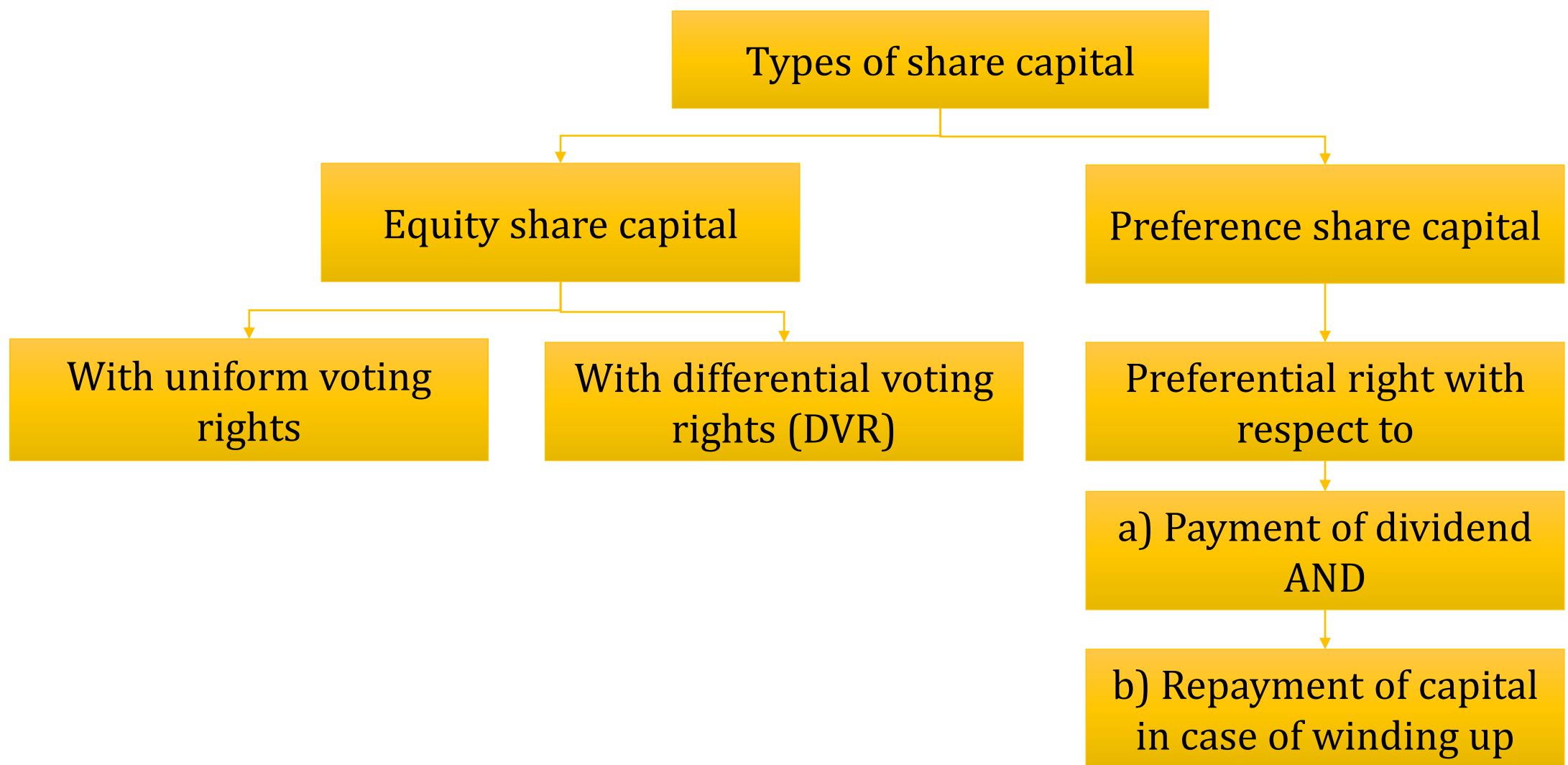
a company registered under section 8; or

a company or body corporate governed by any special Act.

For the purpose of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed rupees **two crores and rupees twenty crores respectively**. [(Specification of Definitions Details) Amendment Rule, 2021, w.e.f. 1-4-2021.]

Types of Capital



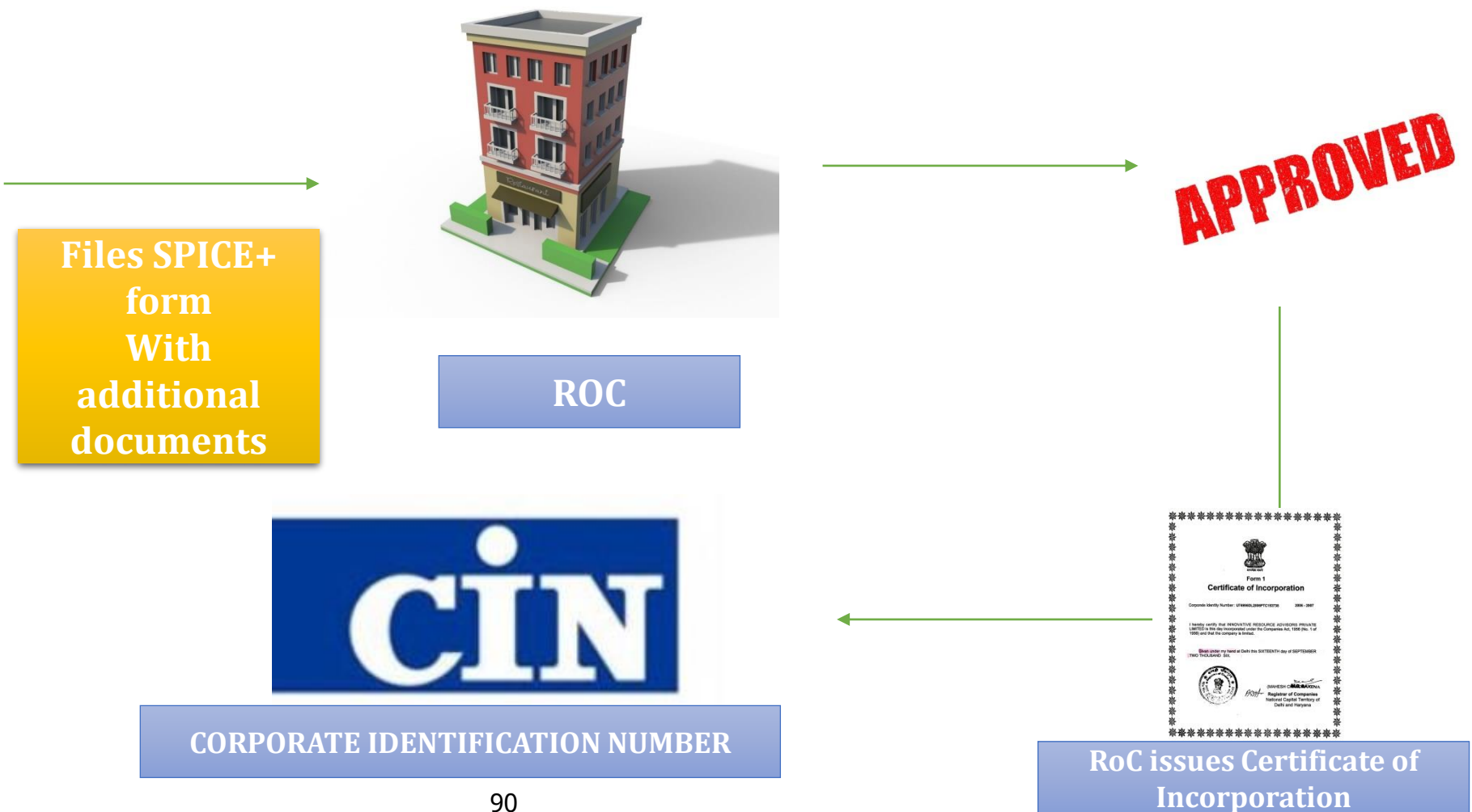


## Section 7 – INCORPORATION OF COMPANY

**SPICE = Simplified Proforma for Incorporating a Company Electronically**



**Promoter**



## LIST OF ADDITIONAL DOCUMENTS

- 1) MoA and AoA duly signed by subscribers to the MOA
- 2) Declaration that requirement for registration mentioned in the Act and rules are complied
- 3) Declaration that not convict/ not filed guilty for fraud
- 4) Correspondence address till registered office is established
- 5) Specified particulars of every subscriber to the memorandum
- 6) Specified particulars of First Director mentioned in articles
- 7) Interest of the first directors in other companies or firms

## EFFECT OF REGISTRATION

- 1) From date of incorporation, Company is separate from Subscriber to MoA ( Separate legal entity)
- 2) A company purchase 100 percent shares of other company but still they are different
- 3) Central Govt owns 100 percent shares of all the company but still it is not an agent of Govt
- 4) Any money payable by members to company will be considered as debt due to company

## Order of Tribunal



- 1) pass such orders, as it may think fit, for regulation of the management of the company including changes, if any, in its memorandum and articles, in public interest or in the interest of the company and its members and creditors; or
- 2) direct that liability of the members shall be unlimited
- 3) direct removal of the name of the company from the register of companies;
- 4) pass an order for the winding up of the company
- 5) pass such other orders as Tribunal may deem fit:

### Before passing order, Tribunal

- 1) Give the company shall be given a reasonable opportunity of being heard in the matter &
- 2) shall take into consideration the transactions entered into by the company, including the obligations, if any, contracted or payment of any liability.

## CONTENT OF MOA – Compulsory Clauses



- 1) Name Clause – Name of the Company Private Co/. – Private Limited, Public Co. – Limited
- 2) Registered Office Clause – Only name of state in which registered office is situated
- 3) Object Clause – Main object and incidental objects thereto
- 4) Liability Clause – Limited by shares/guarantee/ unlimited Liability
- 5) Capital Clause – Only applicable for company limited by shares
- 6) Association Clause – Every subscriber must take atleast 1 share
- 7) Nominee clause (applicable to OPC) – In death of subscriber who will become member

# MOA IS CHARTER OF THE COMPANY

- 1) Contains the object of the Company
- 2) Identifies the possible scope of its operations
- 3) MoA is a public document
- 4) Deemed Assumption – Everyone dealing with Co. has knowledge about the content of MoA
- 5) Format of MoA is given for each type of company

FORMAT	Applicable for
Table A	Limited by shares
Table B	Limited by guarantee and not having share capital
Table C	Limited by guarantee and having a share capital
Table D	Unlimited Company
Table E	Unlimited Company having share capital

# Content of AOA

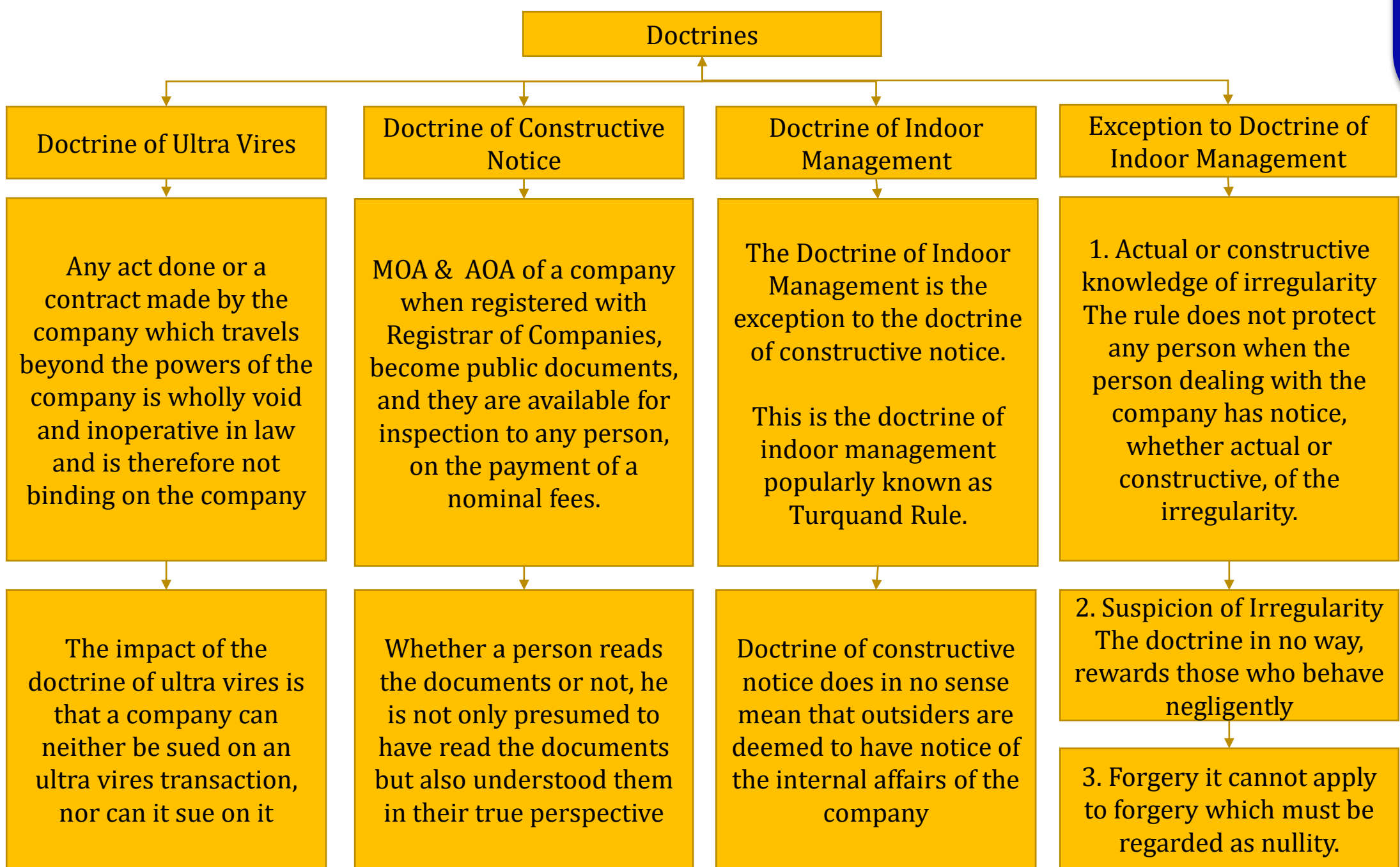
- 1) Contains Regulations – contain the regulations for management of the Company
- 2) Other Matters – Contains Matters as are prescribe under the Rules
- 3) Contains provision for Entrenchment
- 4) Manner of Inclusion of Entrenchment
- 5) Notice to Registrar of the entrenchment Provision
- 6) Forms of Articles :- Table F,G,H,I & J in Schedule I
- 7) A company may adopt all or any of the regulations contained in the model articles.
- 8) In case of any company, which is registered after the commencement of this Act, in so far as the registered articles of such company do not exclude or modify the regulations contained in the model articles applicable to such company, those regulations shall, so far as applicable, be the regulations of that company in the same manner and to the extent as if they were contained in the duly registered articles of the company.

**Contain provisions for entrenchment:** The articles may contain provisions for entrenchment (to protect something) to the effect that specified provisions of the articles may be altered only if conditions or procedures as that are more restrictive than those applicable in the case of a special resolution, are met or complied with.

**Manner of inclusion of the entrenchment provision:** The provisions for entrenchment shall only be made either on formation of a company, or by an amendment in the articles agreed to by all the members of the company in the case of a private company and by a special resolution in the case of a public company.

**Notice to the registrar of the entrenchment provision:** Where the articles contain provisions for entrenchment, whether made on formation or by amendment, the company shall give notice to the Registrar of such provisions in such form and manner as may be prescribed.

Basis of differences	Memorandum of Association	Articles of Association
<b>Objectives</b>	Memorandum of Association defines and delimits the objectives of the company	Articles of association lays down the rules and regulations for the internal management of the company. Articles determine how the objectives of the company are to be achieved.
<b>Relationship</b>	Memorandum defines the relationship of the company with the outside world	Articles define the relationship between the company and its members.
<b>Alteration</b>	Memorandum of association can be altered only under certain circumstances and in the manner provided for in the Act. In most cases permission of the Regional Director, or the Tribunal is required	The articles can be altered simply by passing a special resolution of the shareholders.
<b>Ultravires</b>	Acts done by the company beyond the scope of the memorandum are ultra-vires and void. These cannot be ratified even by the unanimous consent of all the shareholders	The acts ultra-vires the articles can be ratified by a special resolution of the shareholders, provided they are not beyond the provisions of the memorandum.



### FACTS of the Royal British Bank vs. Turquand

Mr. Turquand was the official manager (liquidator) of the insolvent Cameron's Coalbrook Steam, Coal and Swansea and Loughor Railway Company. It was incorporated under the Joint Stock Companies Act, 1844. The company had given a bond for £ 2,000 to the Royal British Bank, which secured the company's drawings on its current account. The bond was under the company's seal, signed by two directors and the secretary. When the company was sued, it alleged that under its registered deed of settlement (the articles of association), directors only had power to borrow up to an amount authorized by a company resolution. A resolution had been passed but not specifying how much the directors could borrow.

Held, it was decided that the bond was valid, so the Royal British Bank could enforce the terms. He said the bank was deemed to be aware that the directors could borrow only up to the amount resolutions allowed. Articles of association were registered with Companies House, so there was constructive notice. But the bank could not be deemed to know which ordinary resolutions passed, because these were not registrable. The bond was valid because there was no requirement to look into the company's internal workings. This is the indoor management rule, that the company's indoor affairs are the company's problem.



**Question:-** The Object Clause of Memorandum of Association of ABC Pvt. Ltd. authorised the company to carry on the business of trading in Fruits and Vegetables. The Directors of the company in recently concluded Board Meeting decided and accordingly, the company ordered for fish for the purpose of trading. FSH Limited supplied fish to ABC Pvt. Ltd. worth Rs. 36 Lakhs. The members of the company convened an extraordinary general meeting and negated the proposal of the Board of Directors on the ground of ultra vires acts. FSH Limited being aggrieved of the said decision of ABC Pvt Ltd. seeks your advice. Advice them.

**Doctrine of ultra vires:** It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act, thus far and no further. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company.

The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a “public document”, it is open to public inspection.

Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company.

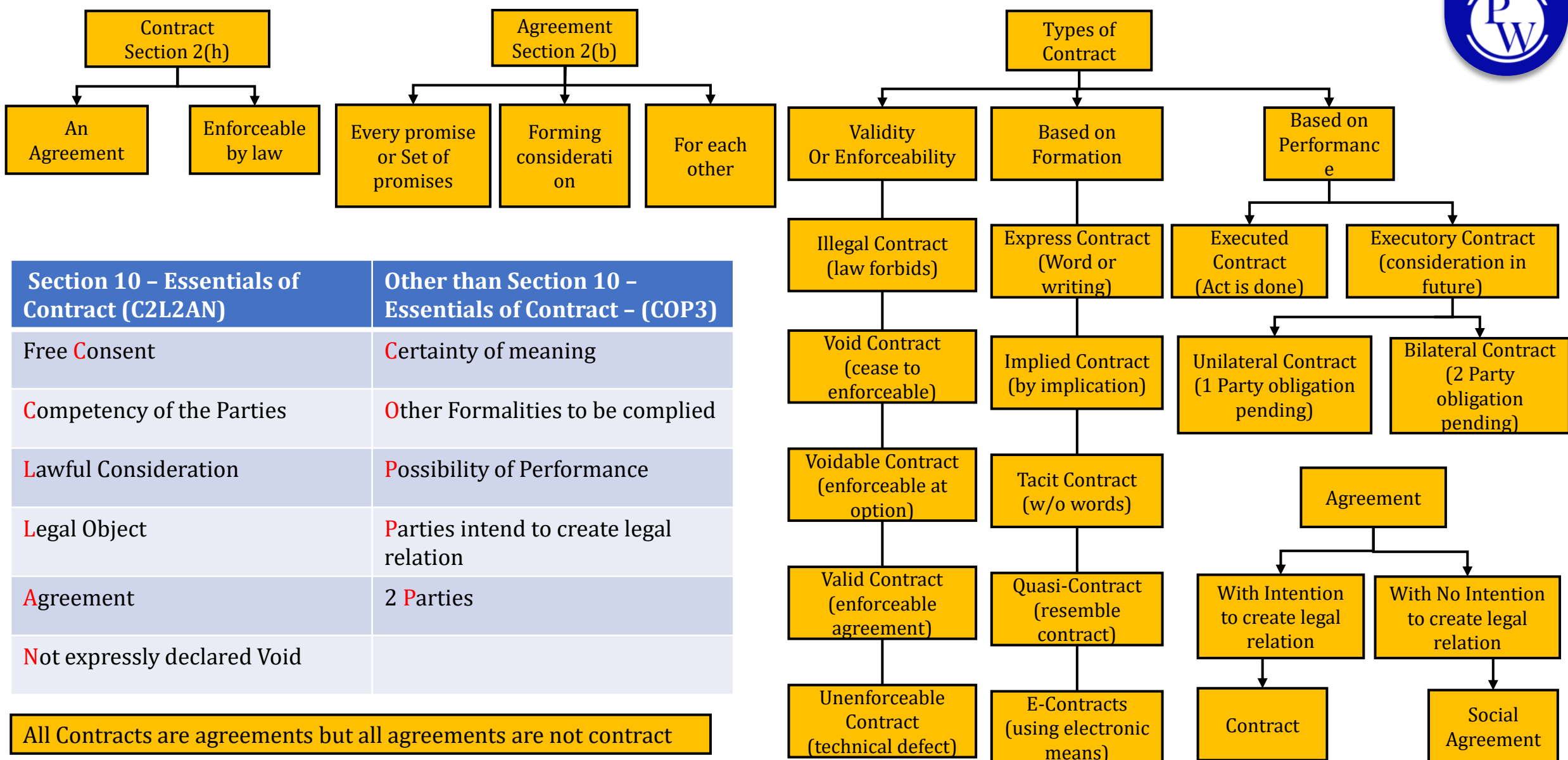
Therefore, the resolution passed by the Board of Director ABC Pvt. Limited for an ultra vires transaction is invalid. As a result of this, the transaction entered into the supply of fish with FSH Limited is not legal and is void.

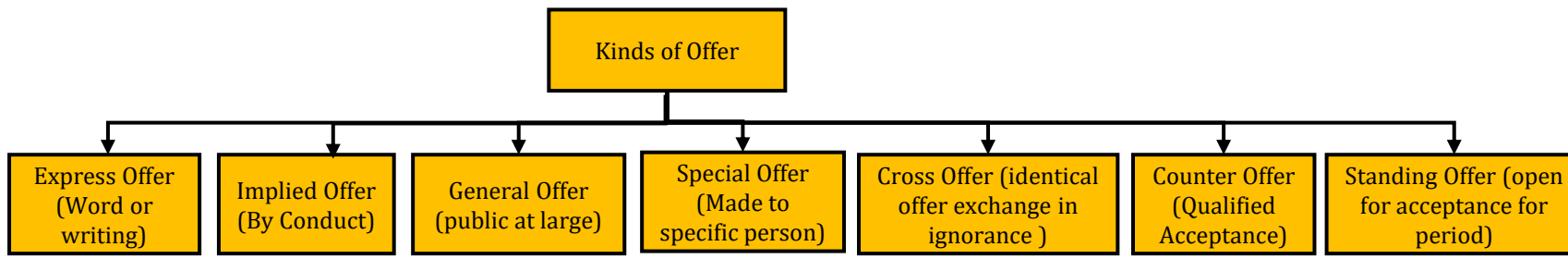
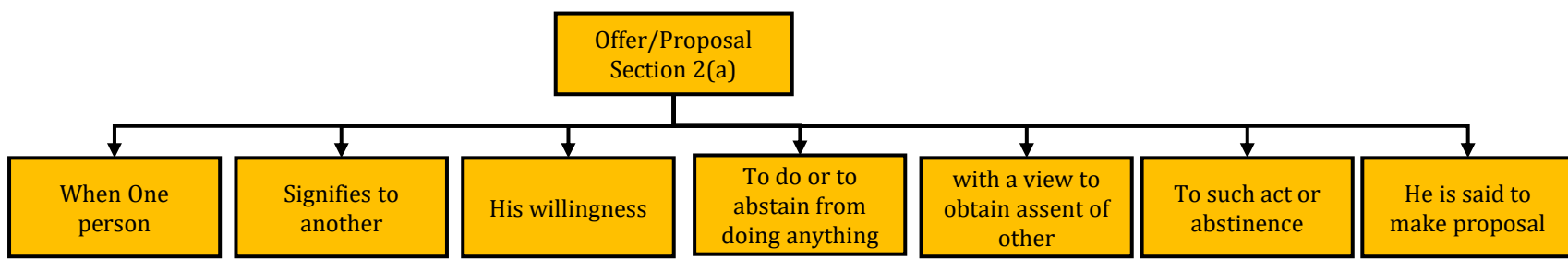
# SANJEEVNI BOOTI SLIDES FOR SUPER FAST REVISION

Name of Act	Effective from	Applicable to
The Indian Contract Act, 1872	1 <sup>st</sup> September, 1872	Whole of India
The Sale of Goods Act, 1930	1 <sup>st</sup> July, 1930	Whole of India
The Indian Partnership Act, 1932	1st October, 1932	Whole of India
The Limited Liability Act, 2008	31 <sup>ST</sup> March 2009	Whole of India
The Companies Act, 2013	Different Sections are effective on multiple dates (30 August 2013)	Whole of India

**Note :-**

**1 Refer LLP chapter, Differences & Case Laws of all other chapters from Study Material**

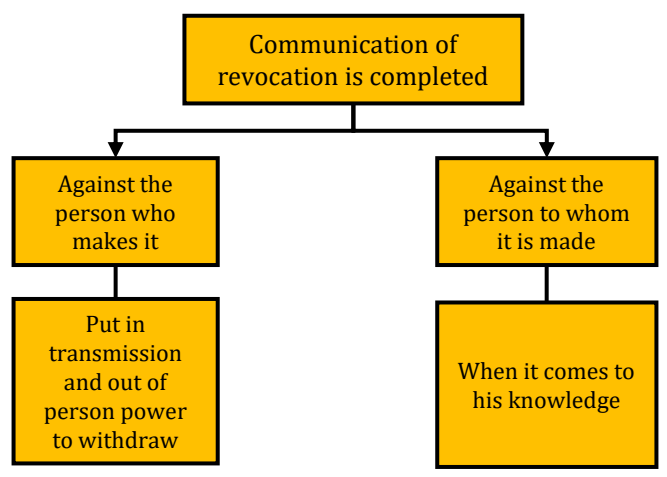
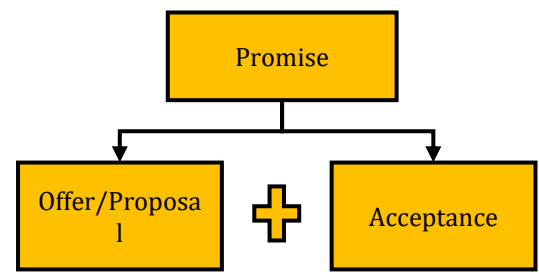
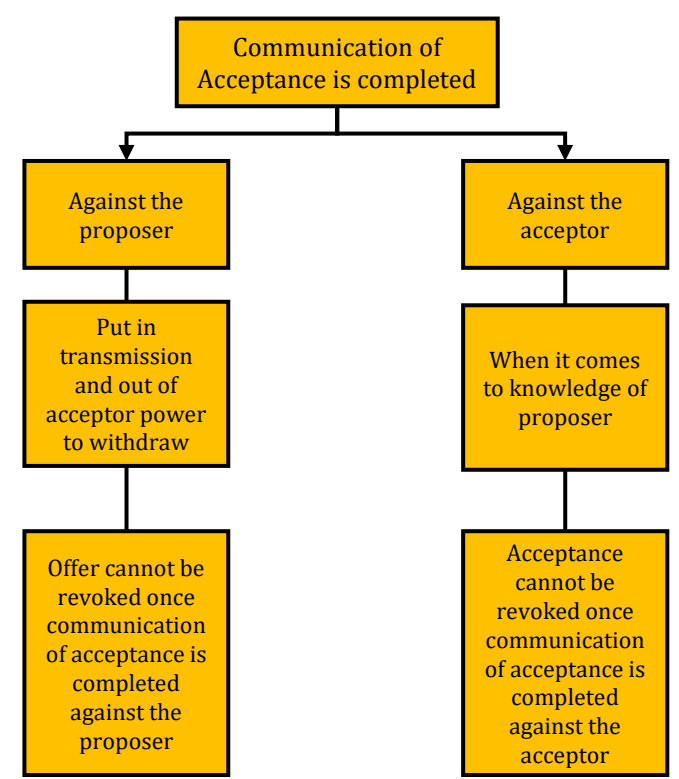
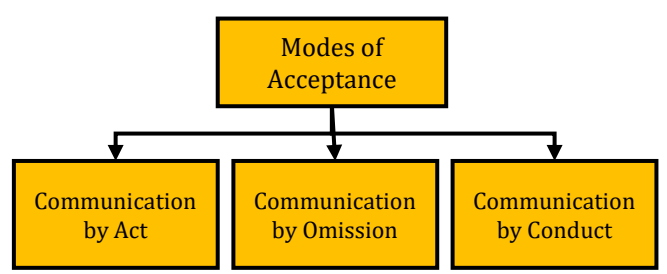
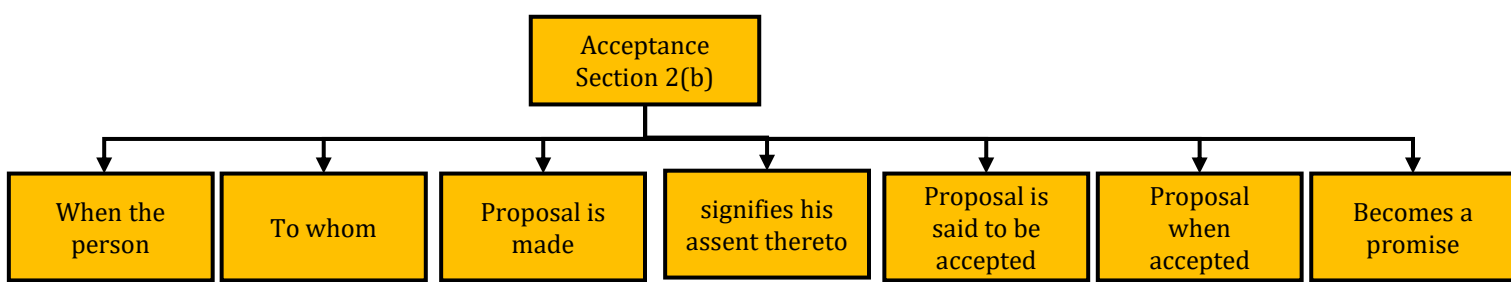
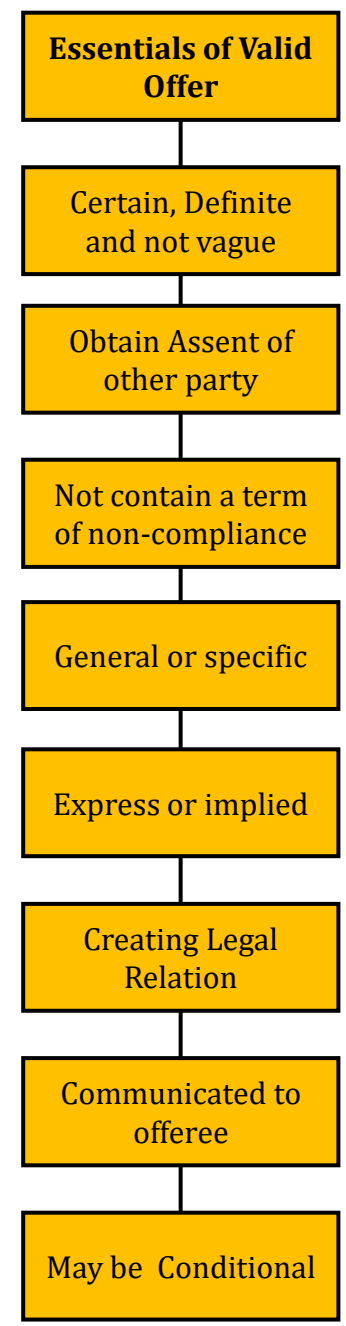




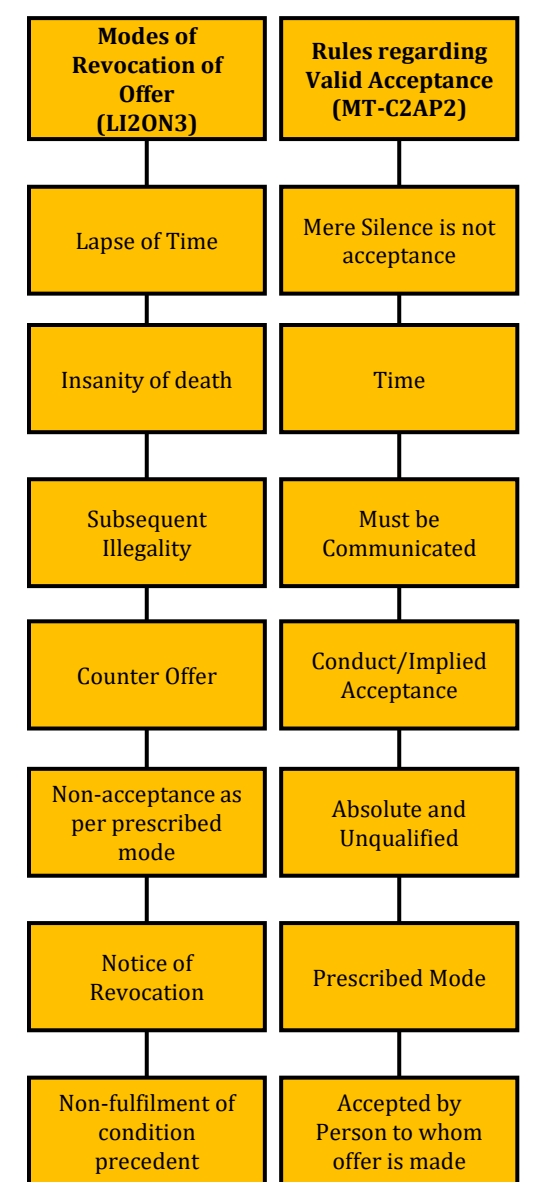
Examples of Invitation to Offer :-	Offer is different from :-
Invitation by company to public for subscribing its shares	Statement of Intention
Display of Goods for sale in shop	Statement of Price
Advertisement of Auction Sales	Statement of Announcement
Price Quotation in reply to query of price Menu card/price tags etc.	Invitation to Offer

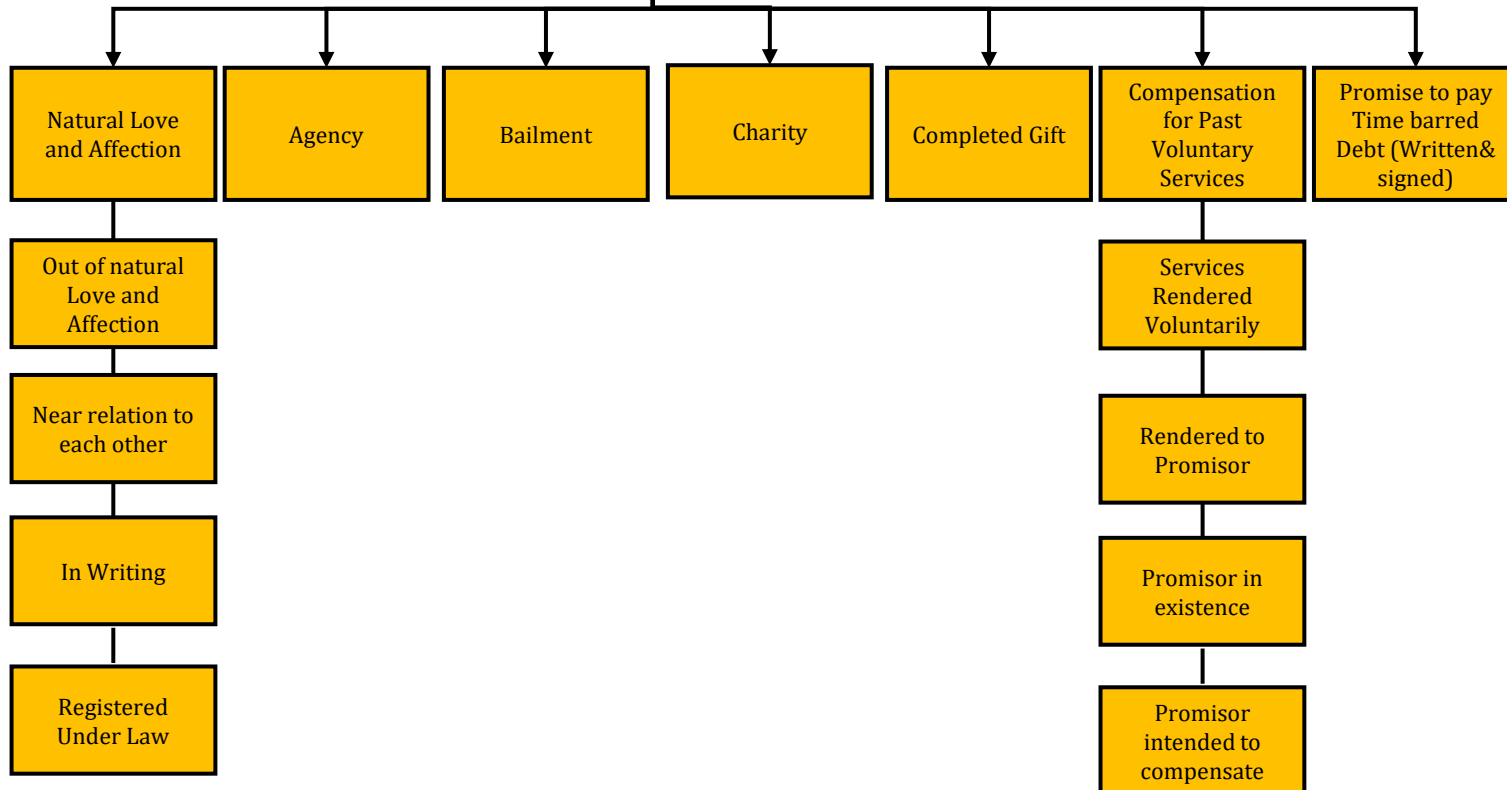
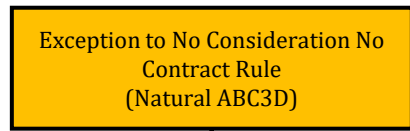
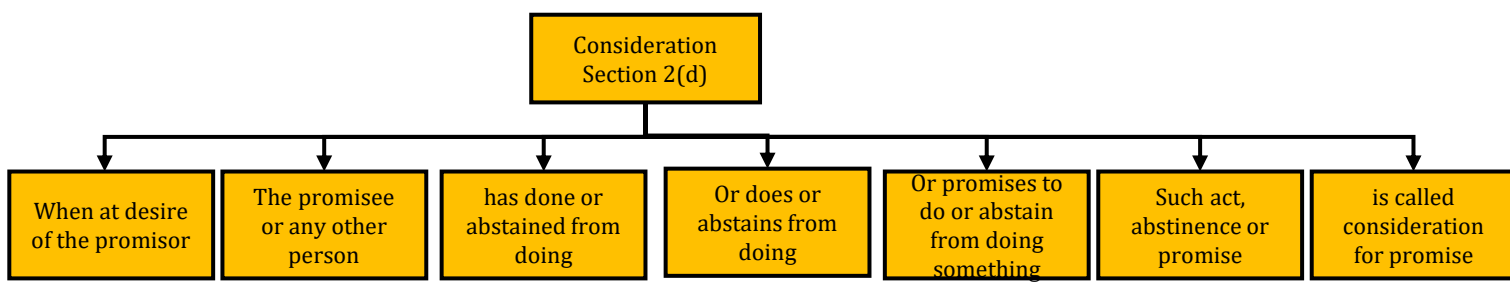
Communication of offer is complete when it comes to the knowledge of the person to whom it is made

Advertisements are Invitation to offer except it is announced in the form of reward. Then it is considered as General Offer.

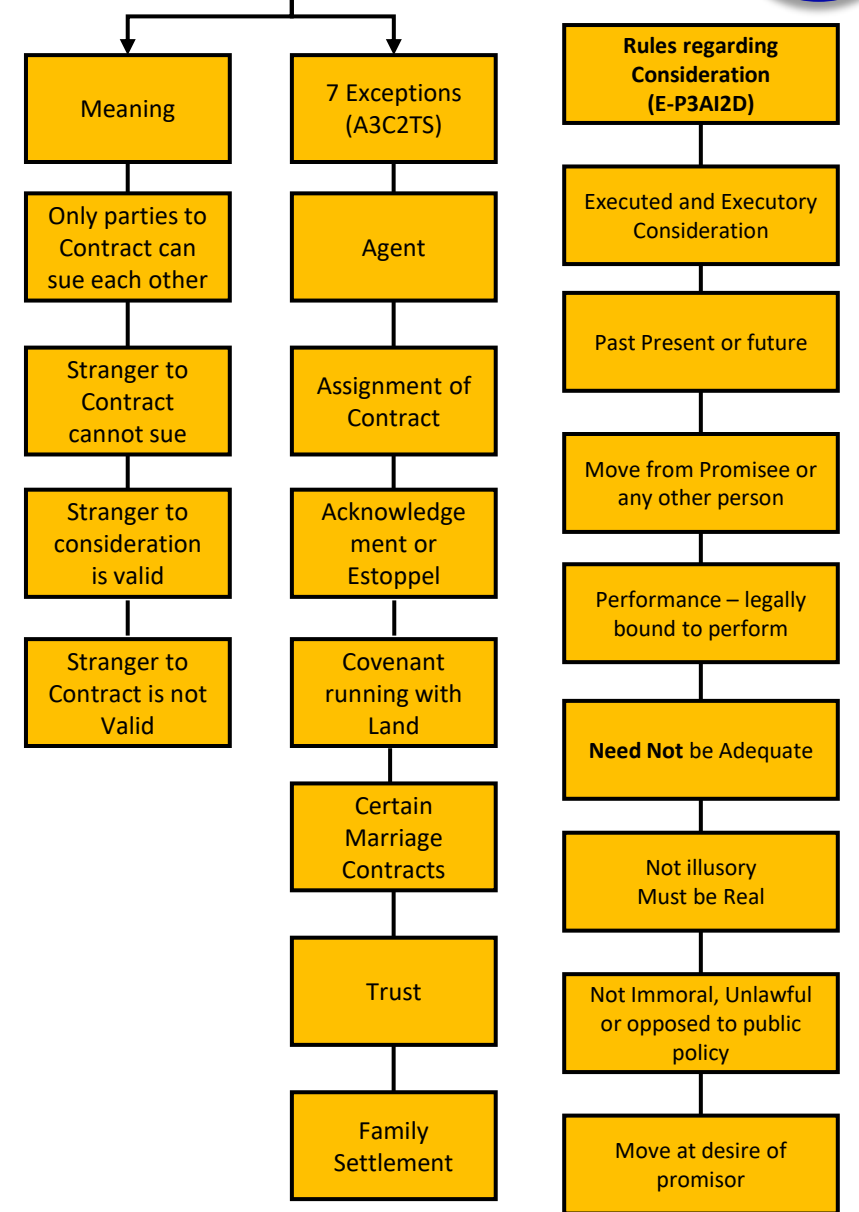


Silence does not amount to acceptance except for the any previous conduct

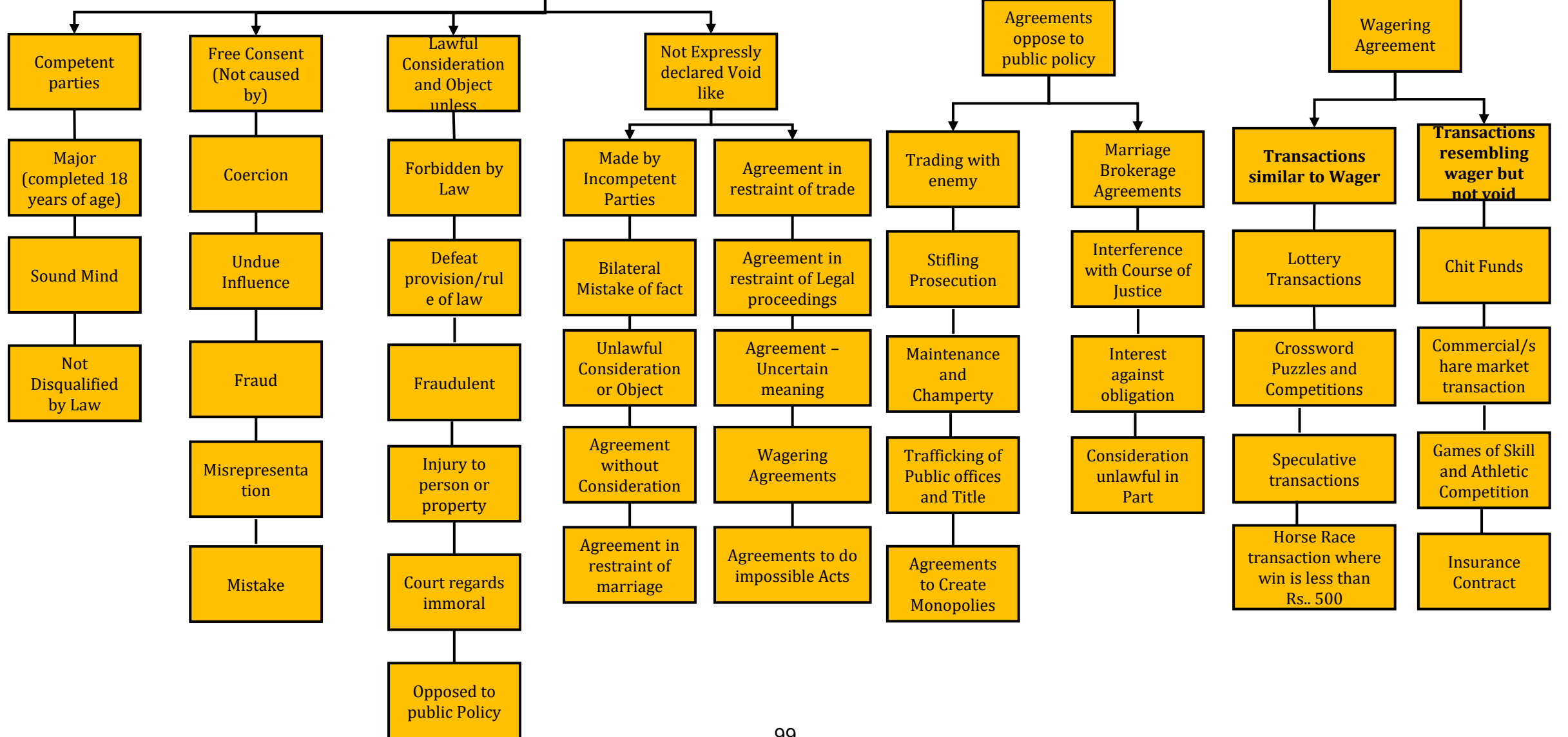




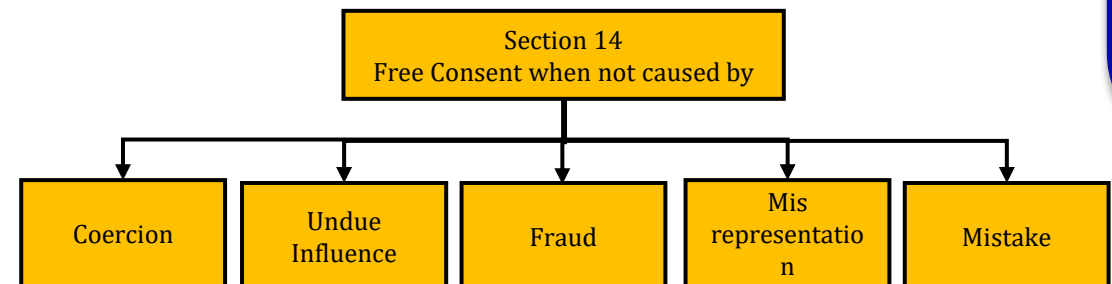
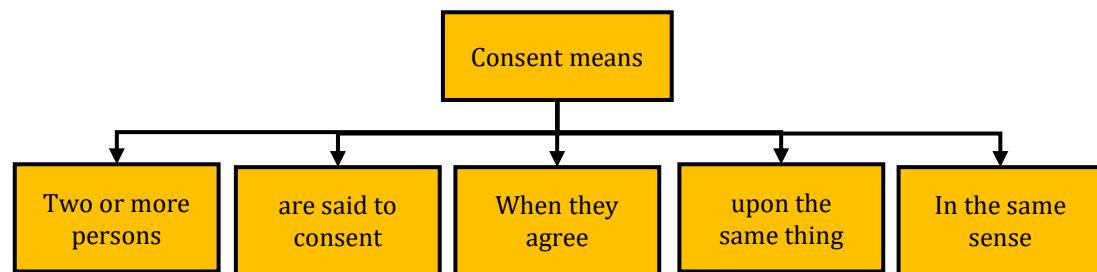
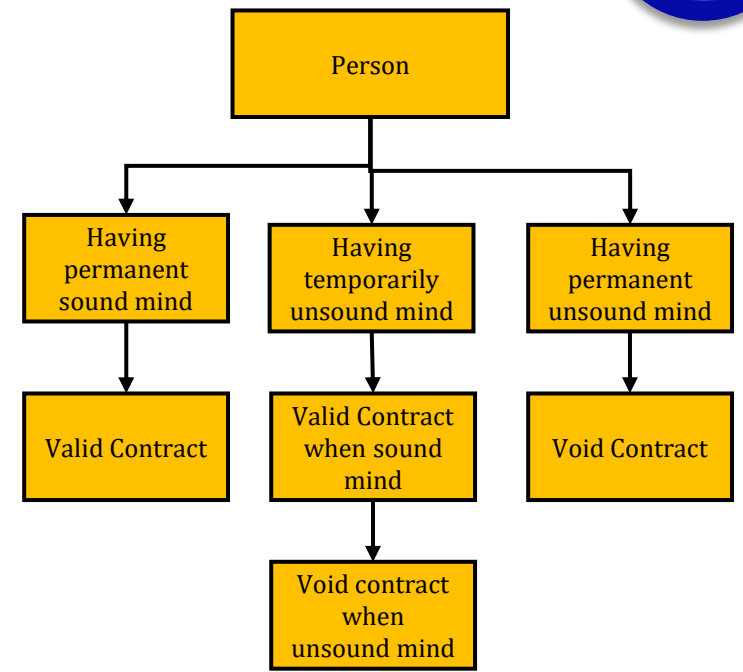
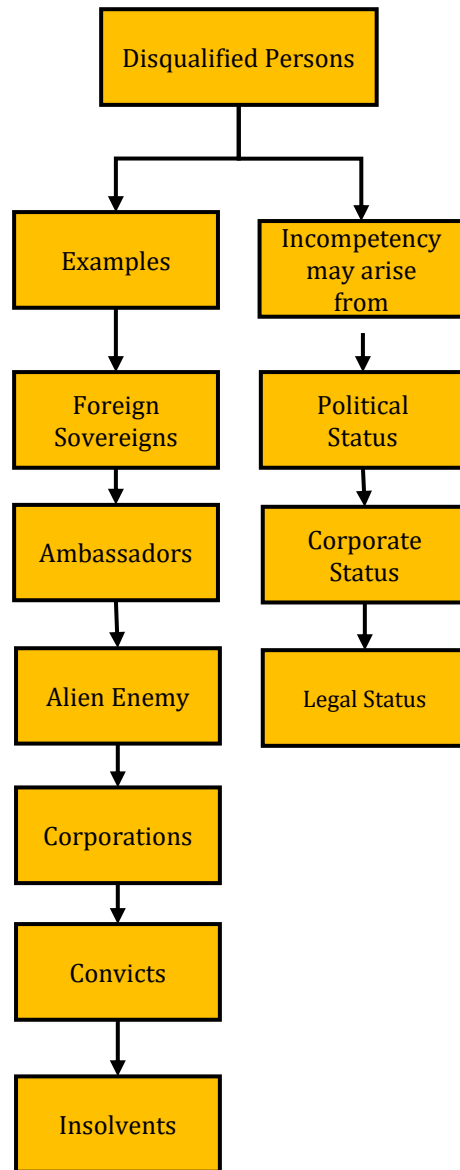
**Doctrine of privity of Contract**



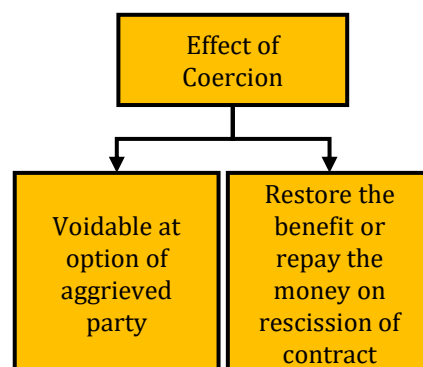
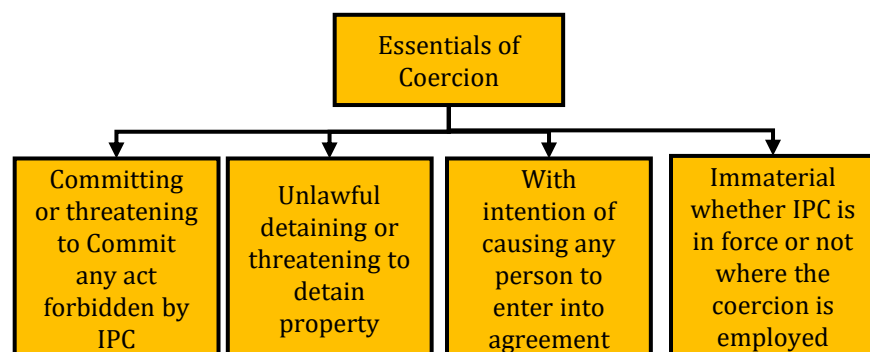
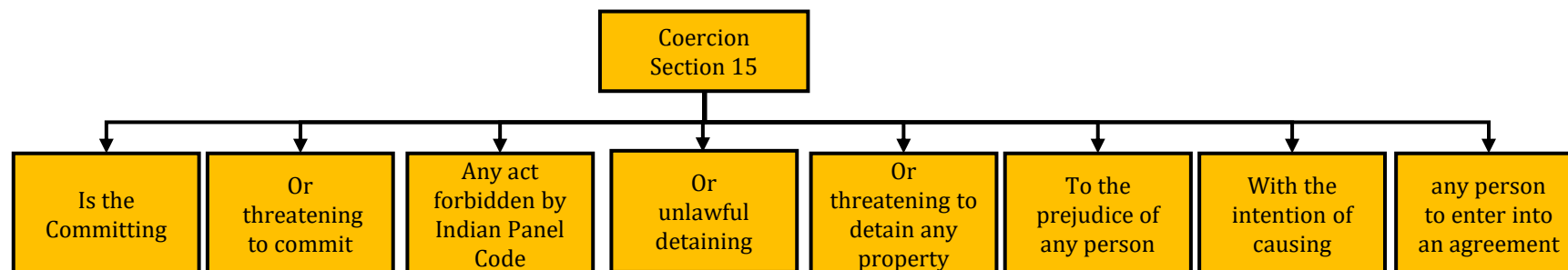
**Essentials of Valid Contract**



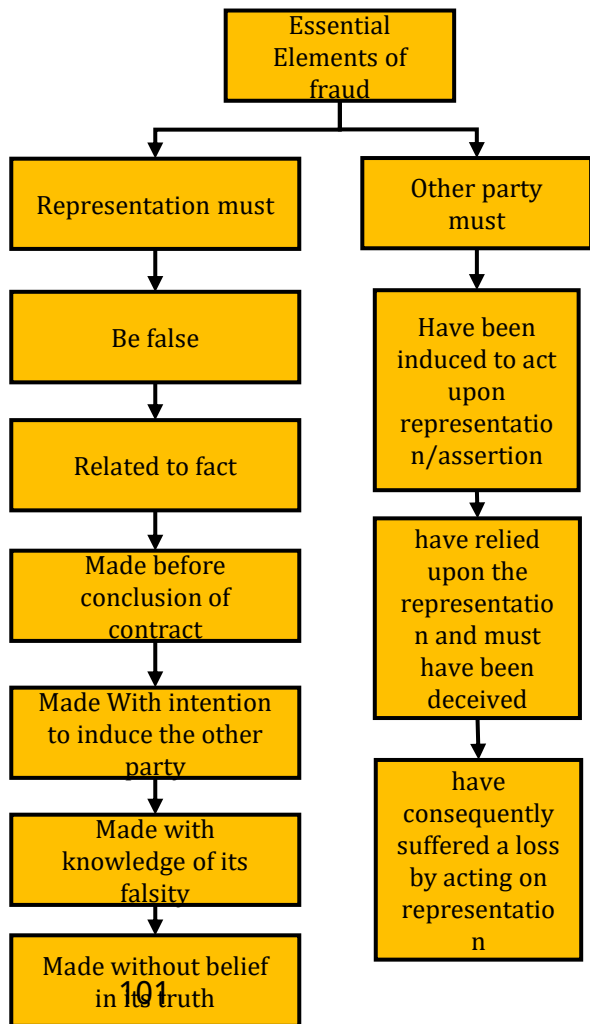
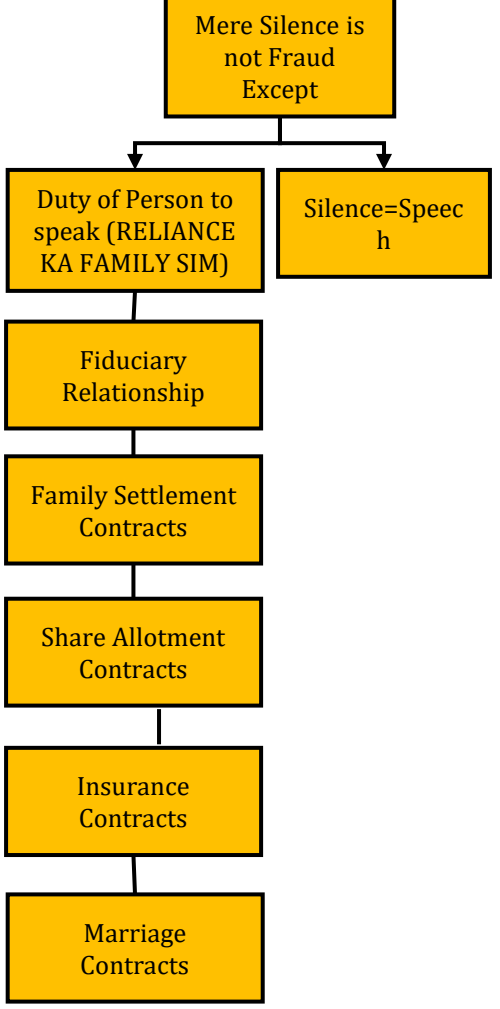
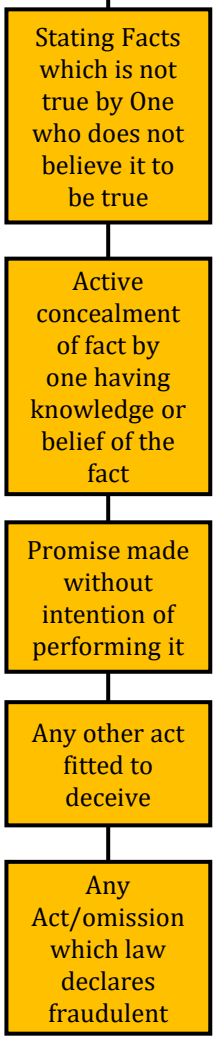
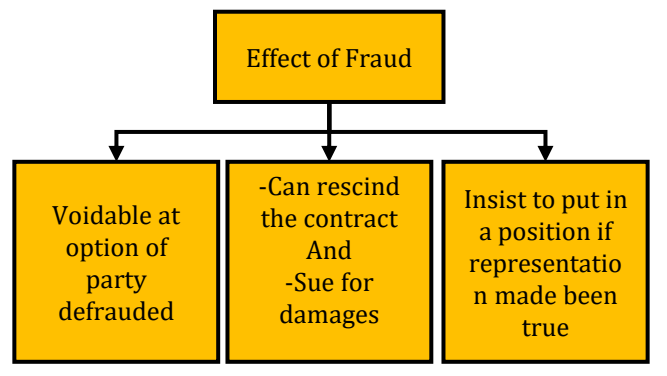
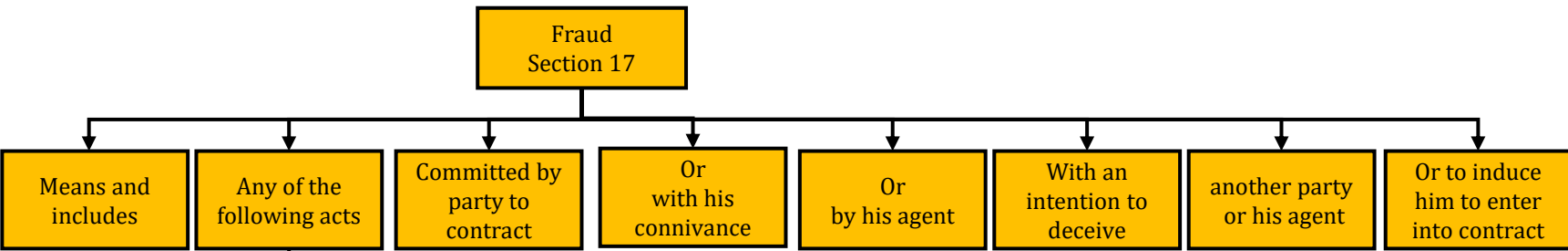
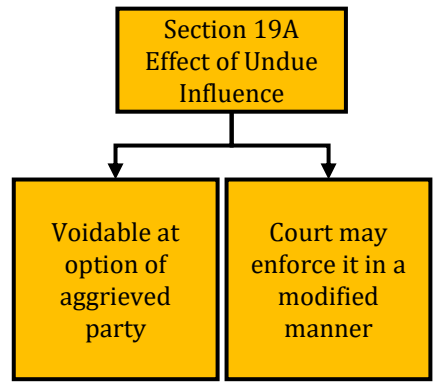
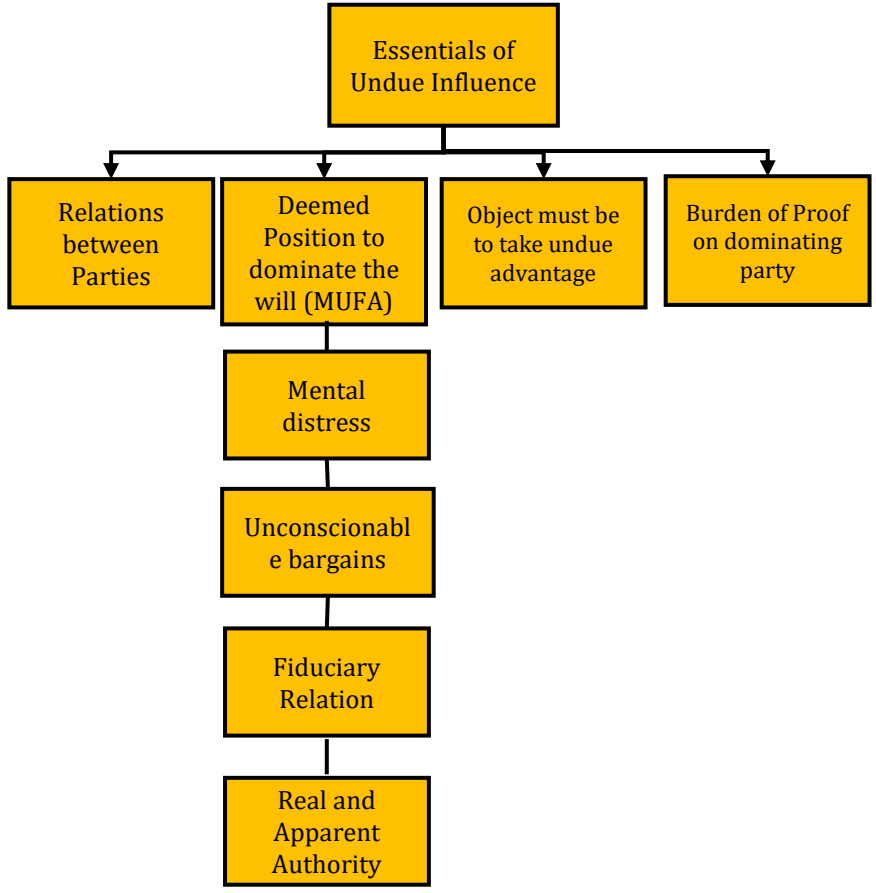
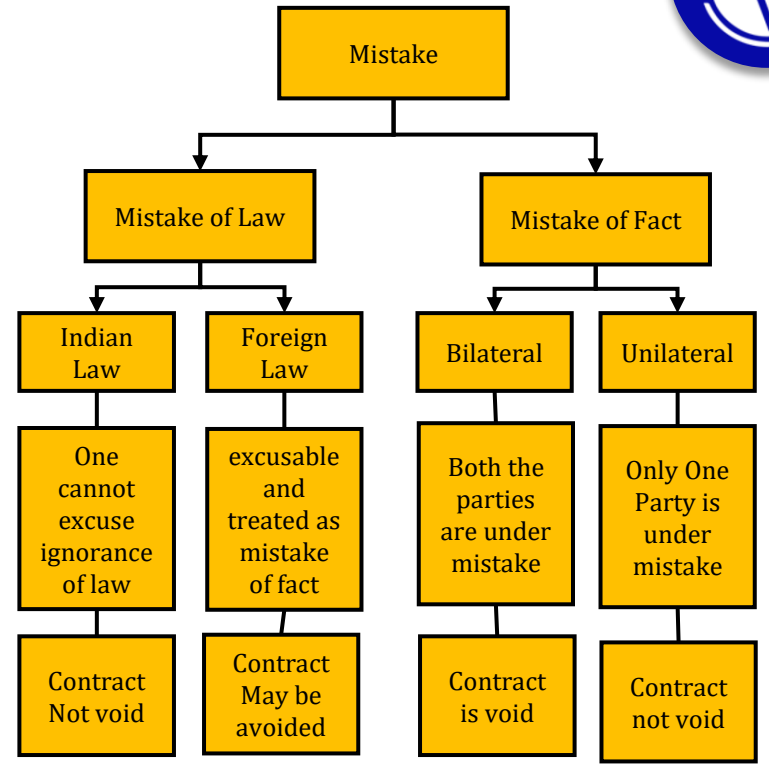
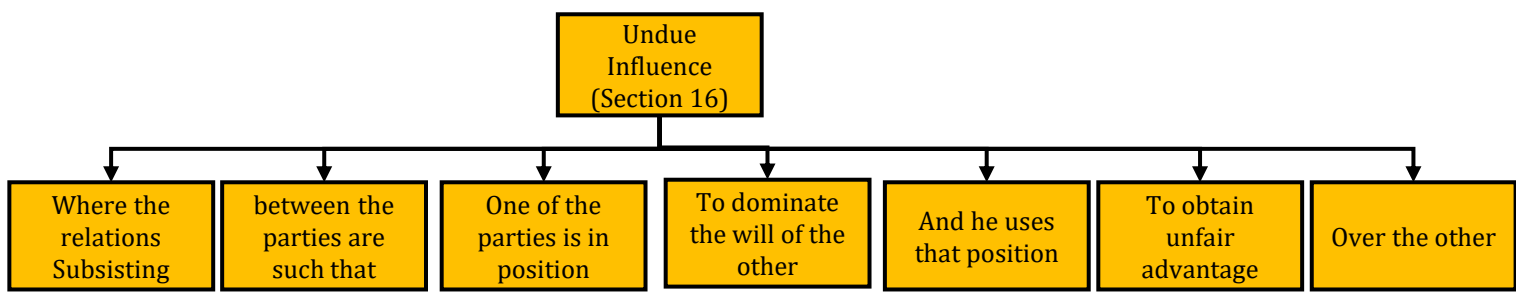
<b>Minor - Age of majority is regulated by Indian Majority Act, 1875</b>	<b>Every person domiciled in India who not completed as 18 years of age will be termed as minor</b>
Contract with Minor is <b>Void ab initio</b>	Guardian can enter into contract for benefit of minor
No ratification after attaining majority	Minor is not liable for specific performance
Minor can be beneficiary or take benefit out of contract	Minor cannot become a partner in partnership
Promissory note can be made in favour of Minor	Minor can be admitted to benefits of partnership with consent of all partners
Minor is liable for torts (civil wrong)	Minor cannot be declared insolvent
For Necessaries, Minor's estate is liable but he is not personally liable	Minor can become agent but not liable to principal
Minor cannot bind guardian or parent	Adult will be liable in case of joint promise by Minor and adult
Minor cannot become shareholder of the Company. However through legal guardian can become shareholder of fully paid shares by transfer or transmission.	Surety (adult) of minor is directly liable to third party
Company will remove name of minor from member register if he mistakenly becomes a member	Minor can always plead minority even when earlier he falsely represent himself as major

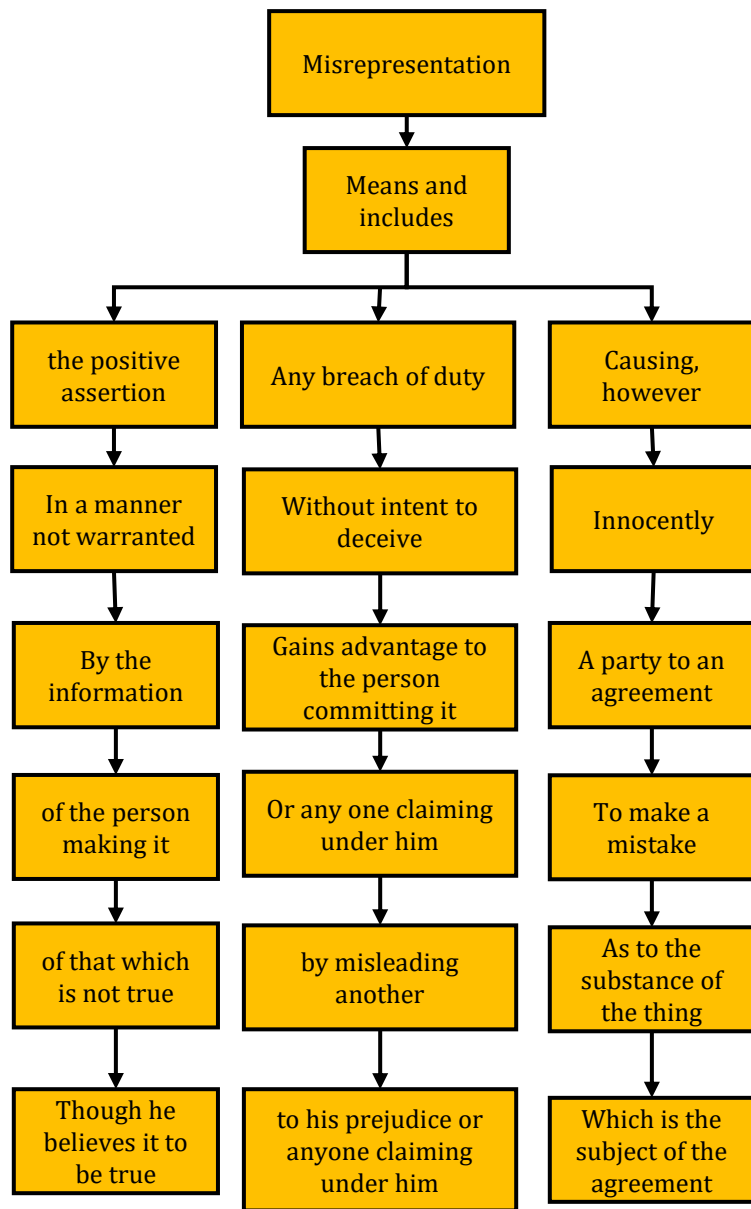


In case of Coercion, fraud, misrepresentation, or undue influence, the contract is voidable



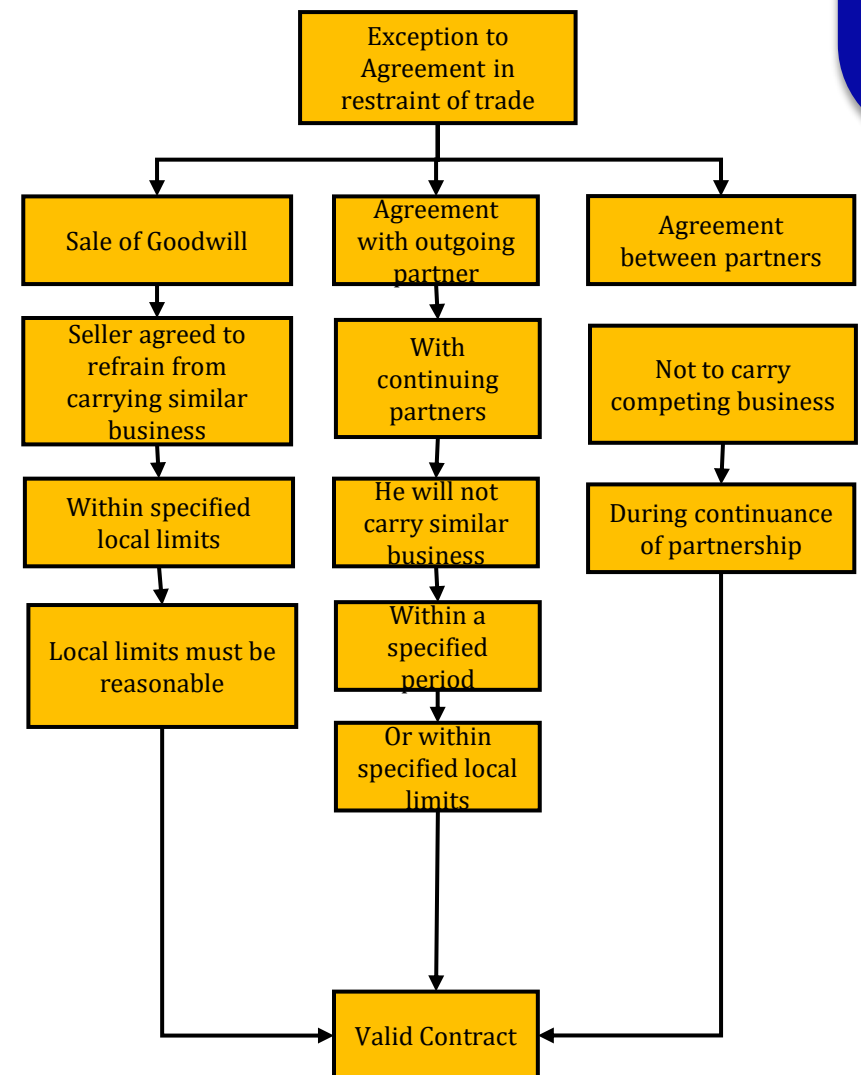
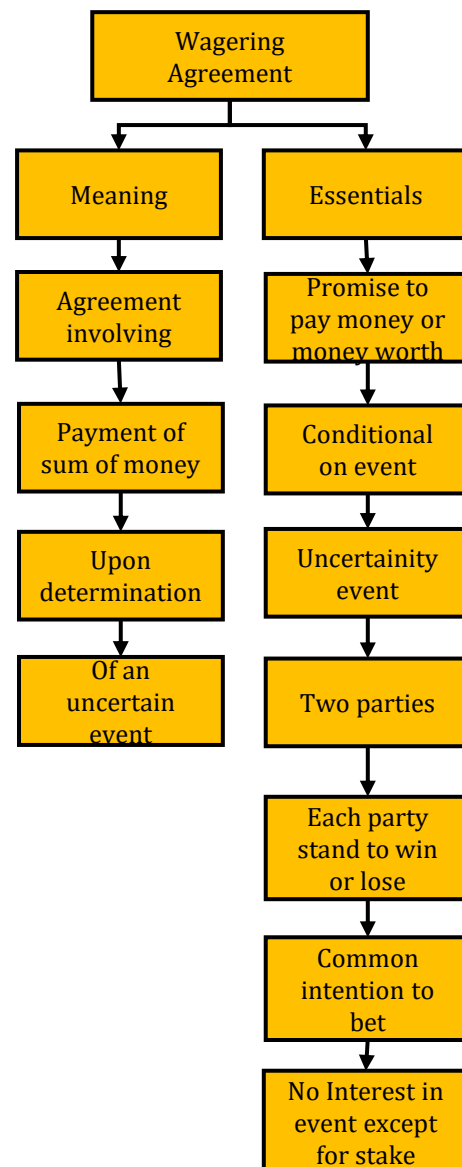
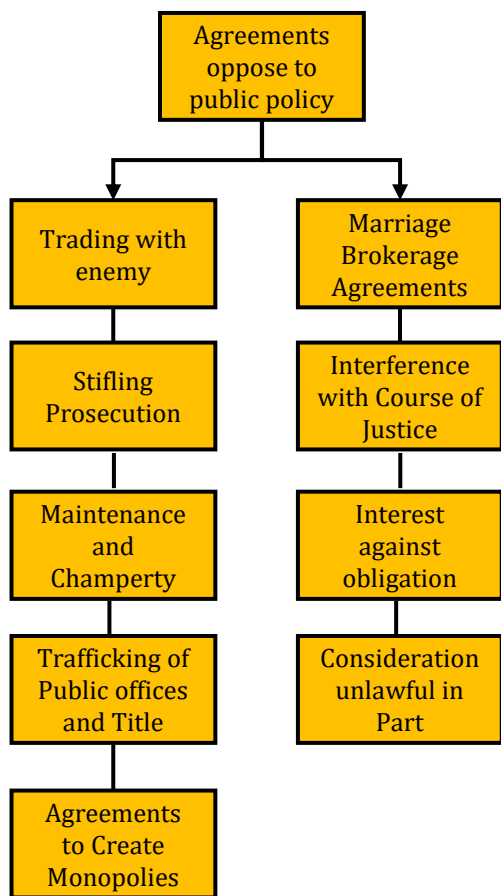
List of Voidable Contracts	
1.	Where consent is not Free due to <ul style="list-style-type: none"> <li>a) Coercion</li> <li>b) Fraud</li> <li>c) Misrepresentation</li> <li>d) Undue influence</li> </ul>
2.	Party preventing event on which the contract is to take effect (Sec 53)
3.	Effect of failure to perform at fixed time, in which time is essential (Section 55)

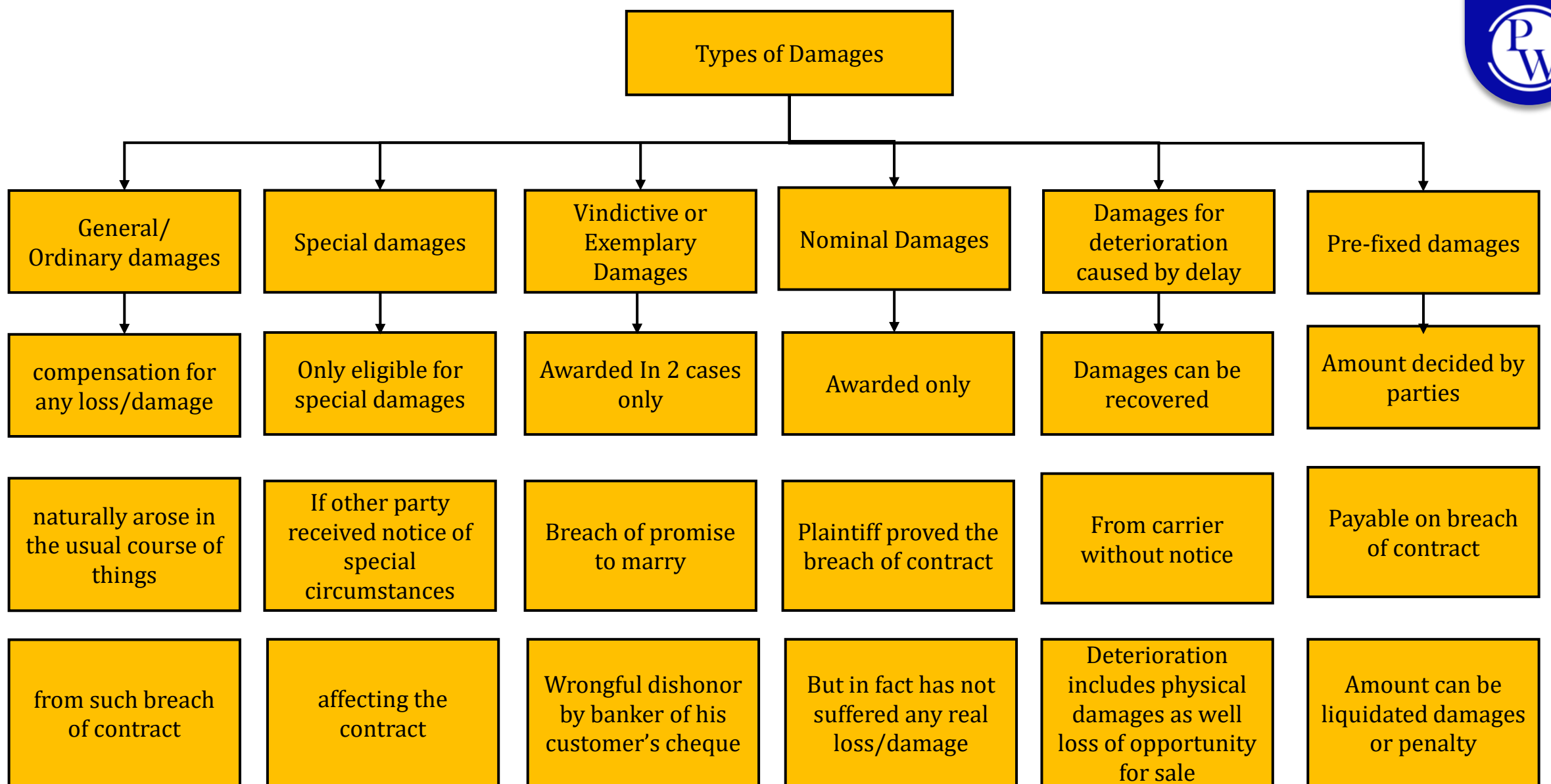
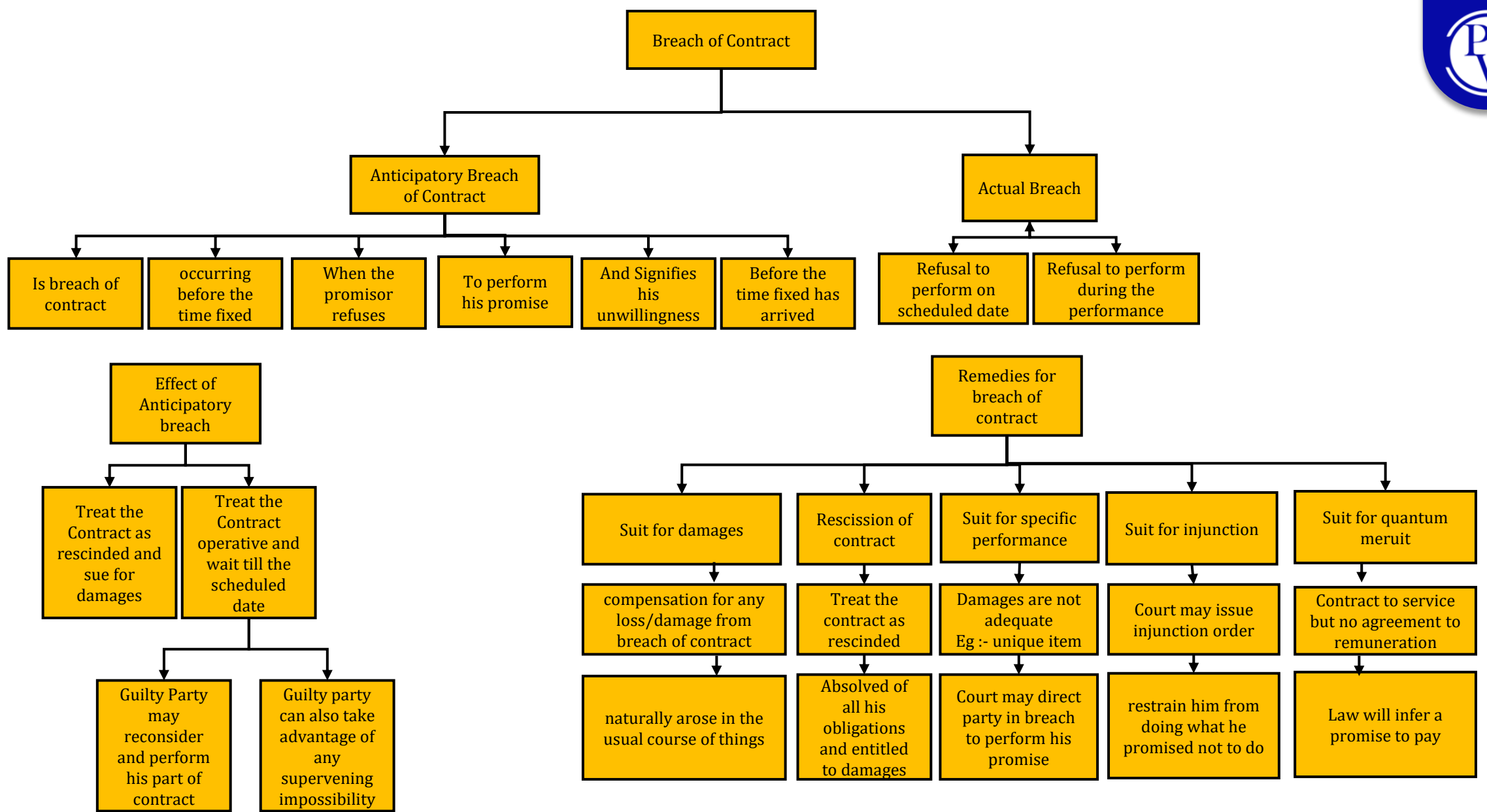




List of Agreements where consideration or object is unlawful	
1.	Forbidden by Law
2.	Defeat the provisions of Law
3.	Fraudulent
4.	Involves injury to the person or property of another
5.	Court regards it as immoral
6.	Opposed to Public Policy (9 cases)

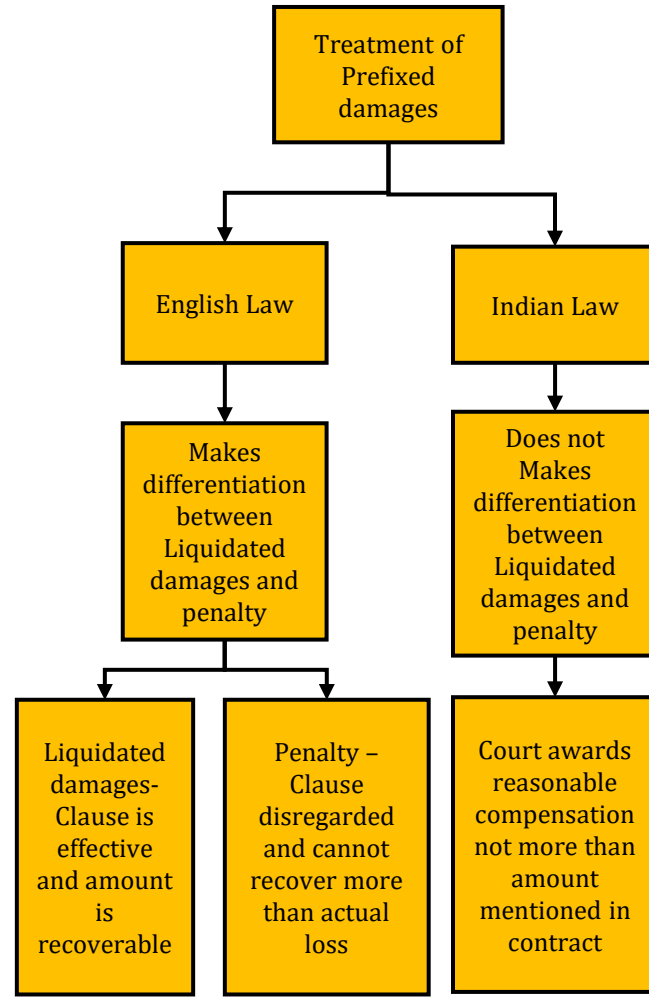
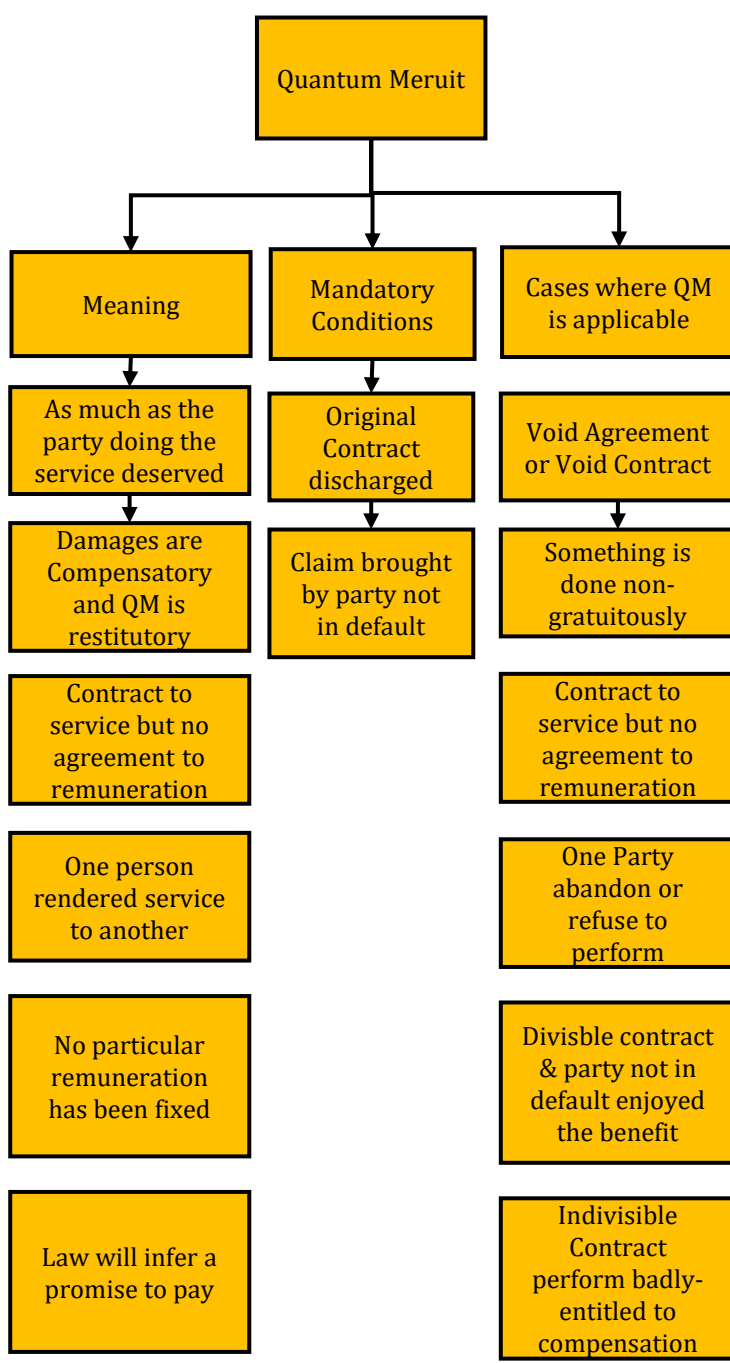
List of Void Agreements			
1.	Made by incompetent parties (Section 11)	6.	Agreement in restraint of marriage (Section 26)
2.	Agreements made under Bilateral mistake of fact (Section 20)	7.	Agreements in restraint of trade (Section 27)
3.	Agreements the consideration or object of which is unlawful (Section 23)	8.	Agreement in restraint of legal proceedings (Section 28)
4.	Agreement the consideration or object of which is unlawful in parts (Section 24)	9.	Agreement the meaning of which is uncertain (Section 29)
5.	Agreements made without consideration (Section 25)	10.	Agreements to do impossible Acts (Section 56)
		11.	Wagering Agreement



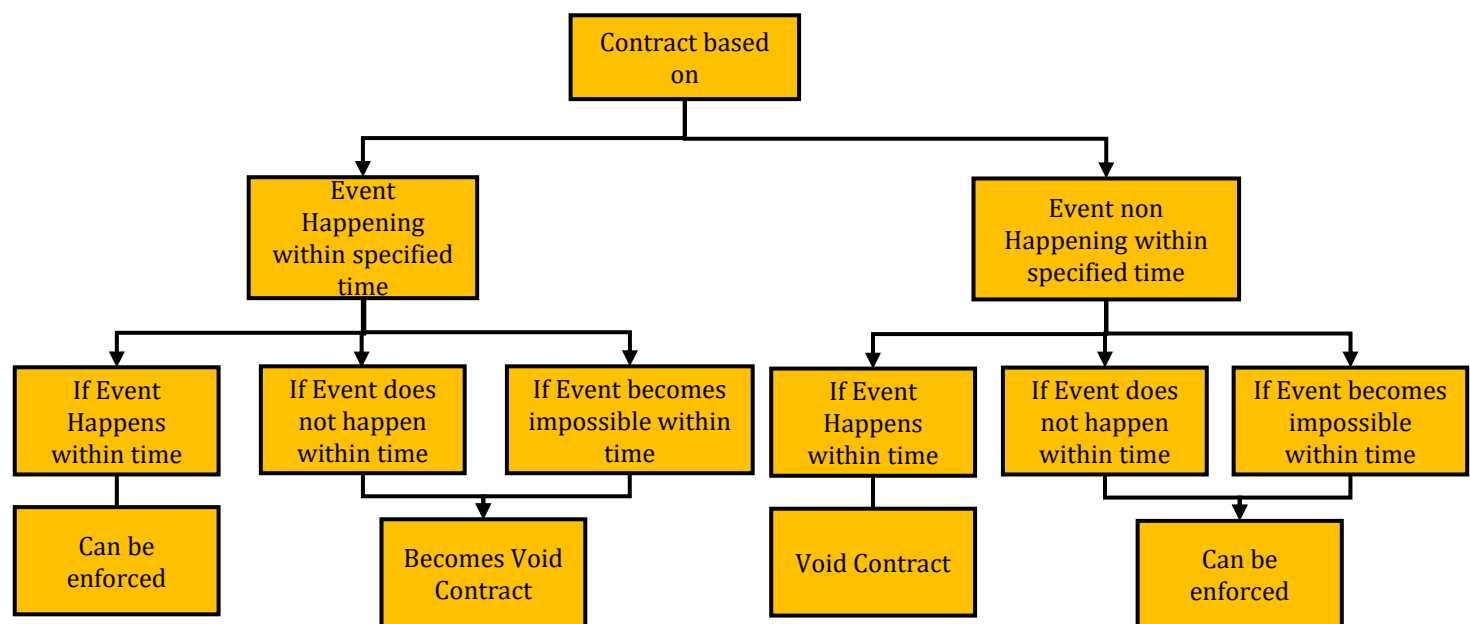
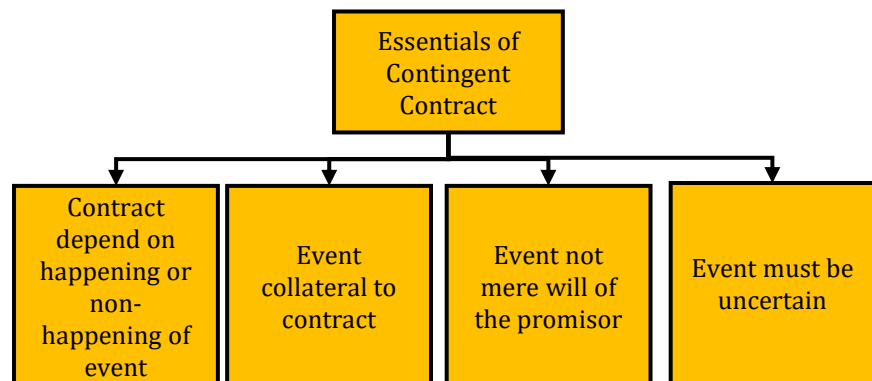
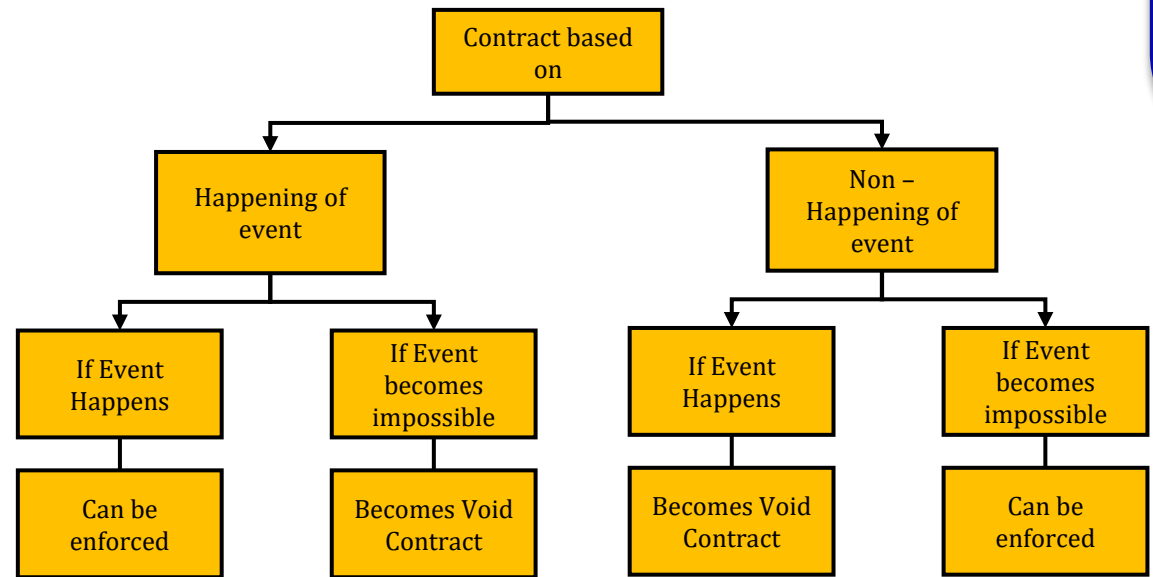
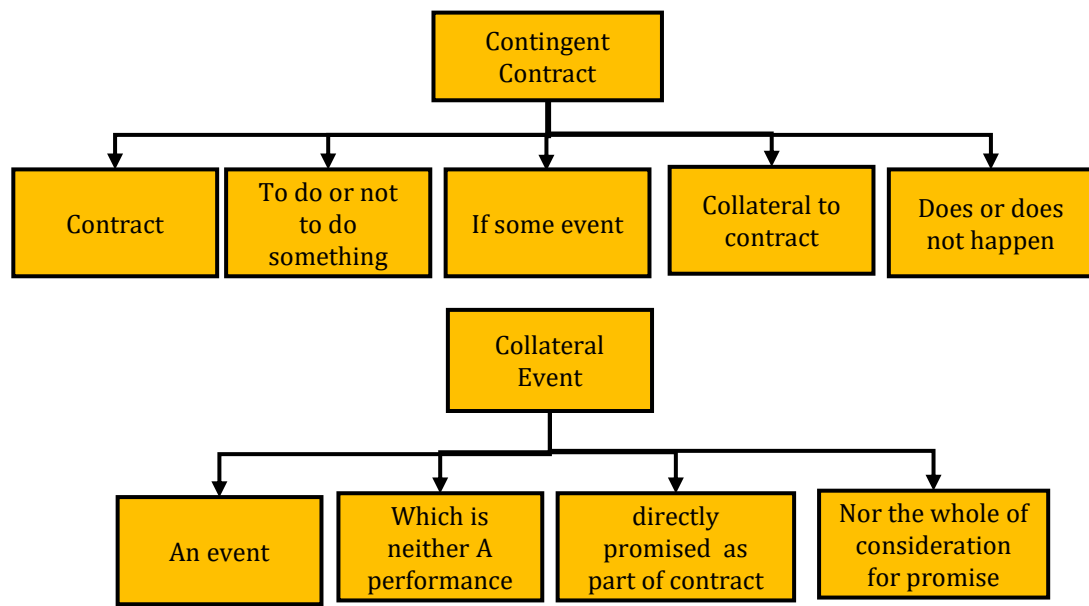


**Note :- No compensation is payable for any remote or indirect loss**



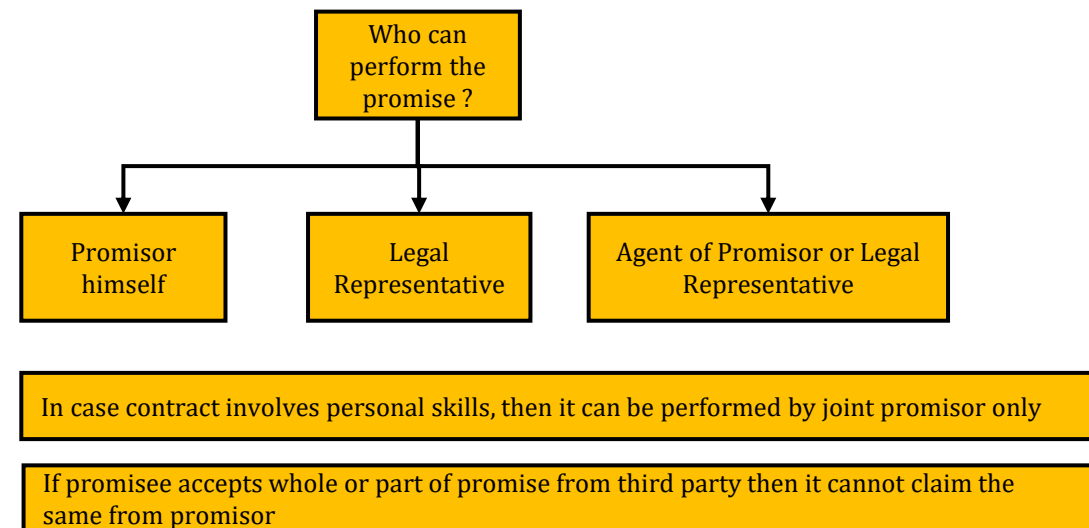
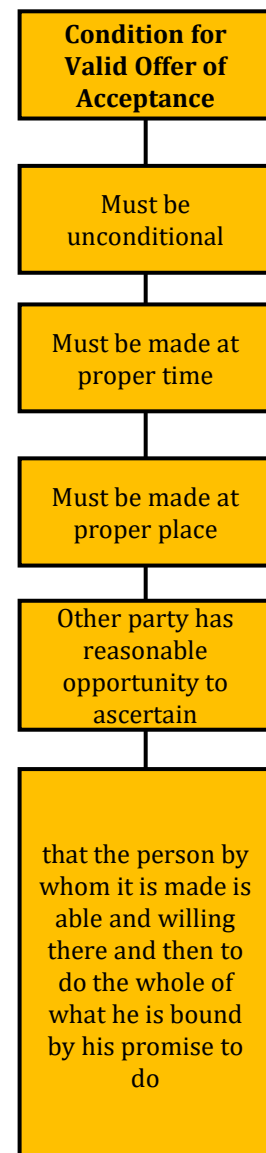
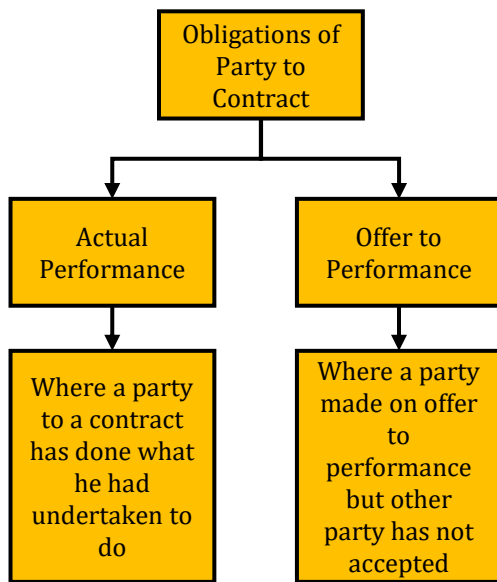
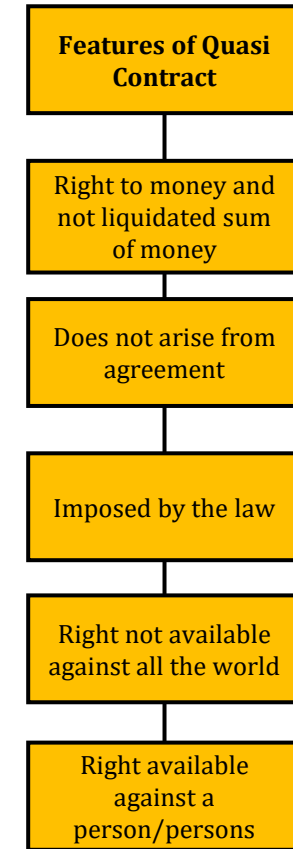
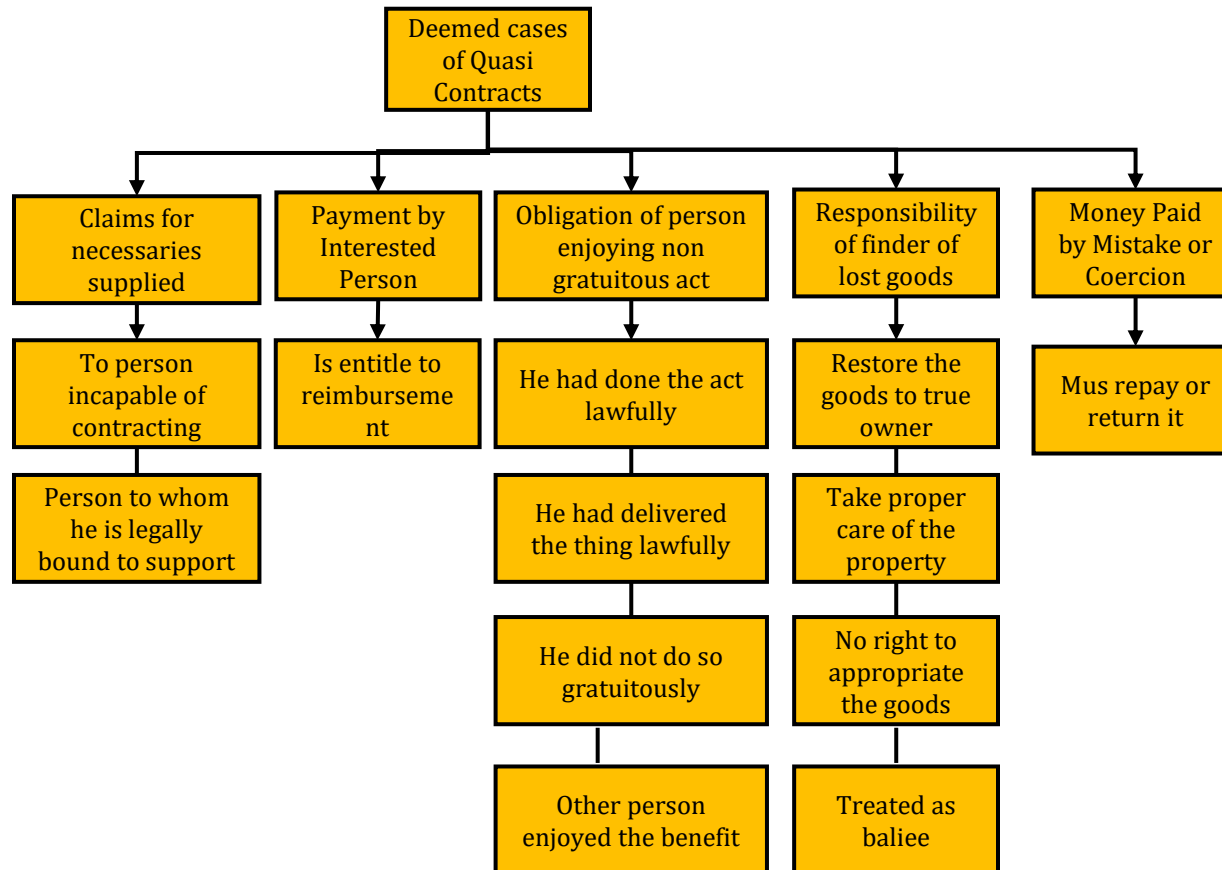
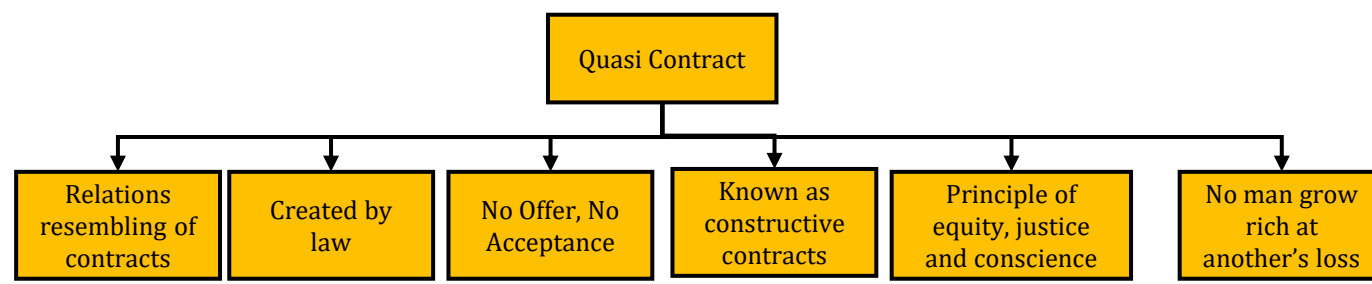


Pre-Fixed Damage	
Liquidated Damages	Penalty
Reasonable estimate of likely loss in case of breach	An amount arbitrarily fixed as the damages payable
Sum payable is approx. to the probable damage	Sum payable is so large as to be far in excess of probable damages
Liquidated damages is a genuine pre-estimate of the damage	Penalty is amount stipulated as terrorem of the offending party
Promissory note can be made in favour of Minor	Minor can be admitted to benefits of partnership with consent of all partners



Contracts contingent on happening of an impossible event is void

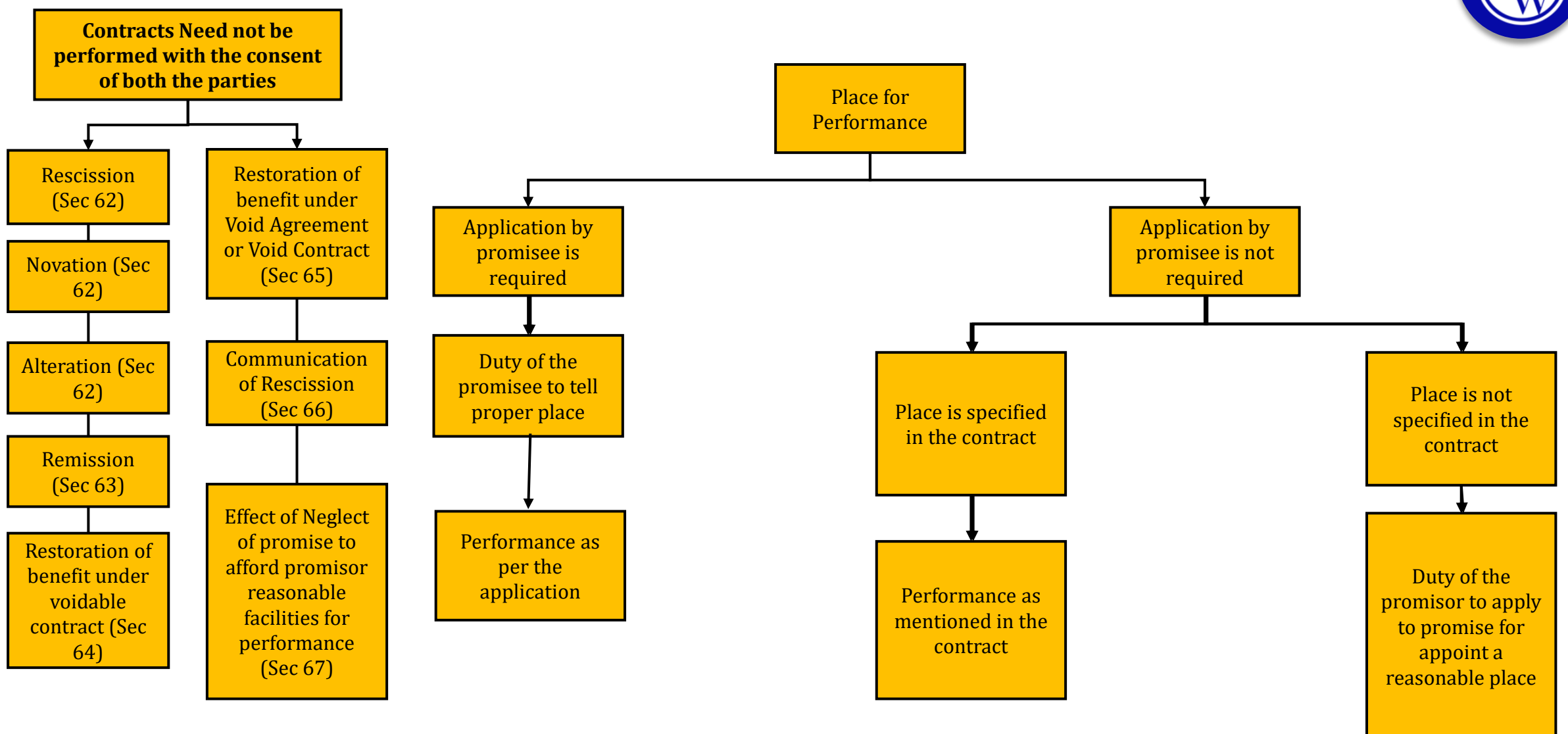
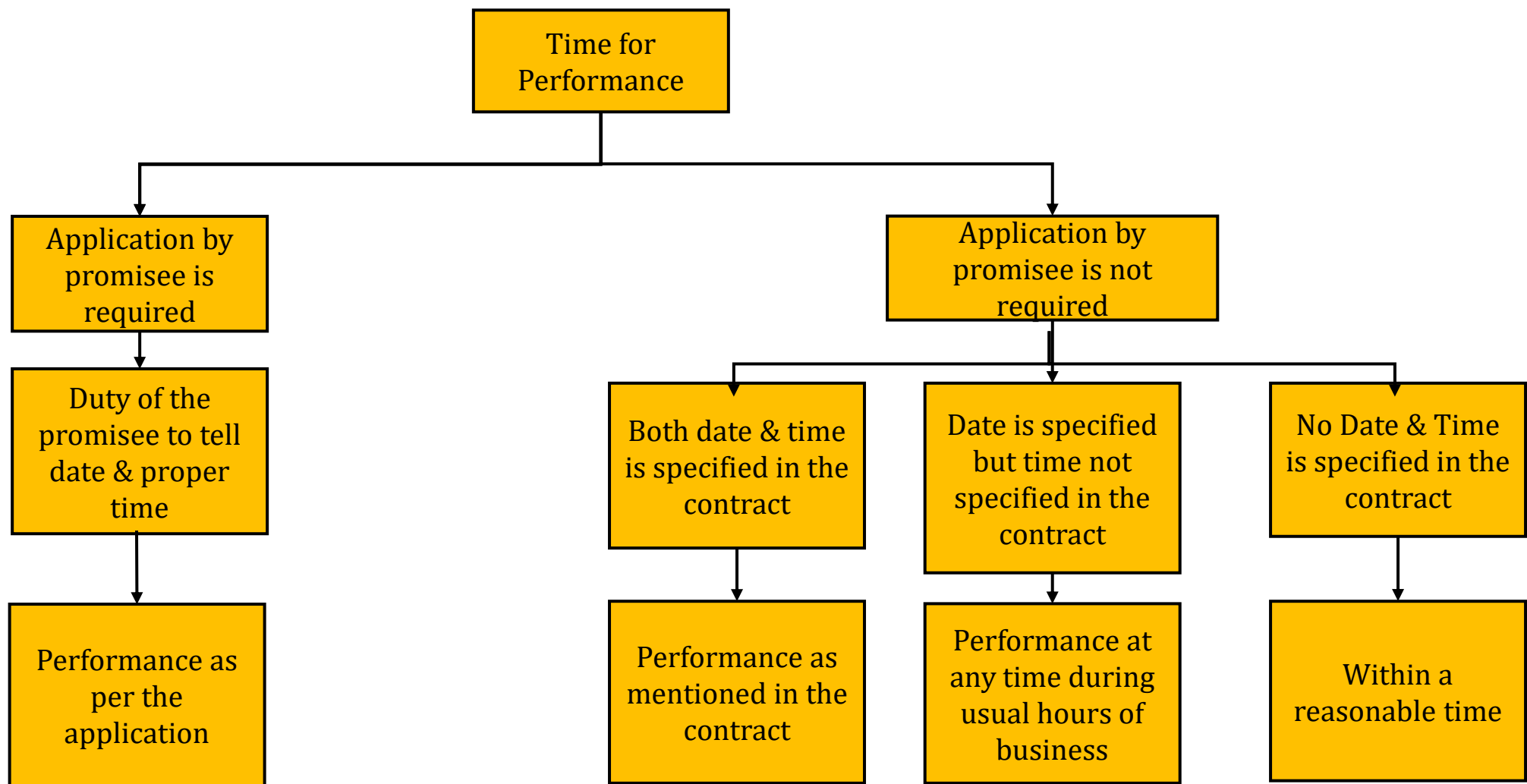
Contingent Contract based on happening of conduct of living person is unenforceable if living person does something to retributory make event impossible



Succession	Assignment
Succeeded by law	Voluntarily
Both Burden and benefits get devolve on legal heir	Only benefits can get assigned to assignee and not the liabilities thereunder
Ex :- A son becomes owner of estate of his father after his death	Ex :- Creditors assigns the benefit of a promise, he thereby entitles the assignee to realise the debt from the debtor
Liability of son is limited to the extent of the property inherited by him	In case of personal consideration, benefit cannot be assigned.



# Topic : Time for Performance of the Contract (Sec 46 to 50)



## Joint Promisors

Devolution of Join Liabilities	Devolution of Joint Rights
When two or more persons have made a joint promise, then all such persons during lives, must jointly perform the promise	When a person has made a promise to two or more persons jointly, then unless a contrary intention appears from the contract, the right to claim performance rests, as between him and them, with them during their joint lives, and after the death of any of them, with the representative of such deceased person jointly with the survivor or survivors, and after the death of the last survivor, with the representatives of all jointly
After the death of any of joint promisor, then legal representative jointly with the survivors must fulfil the promise	
In case of death of all the joint promisors, then legal representative of all joint promisors jointly must fulfil the promise	
Promise may any one or more of joint promisors to perform the whole of promise	
If one of the joint promisors is made to perform the whole contract, then Joint Promisor may compel other joint promisors to compel equally	
A release of one of such joint promisors by the promisee does not discharge the other joint promisors neither it does free the joint promisor from responsibility to the other joint promisors	
In case of default in contribution by the joint promisor(s), remaining joint promisors must bear the loss arising from such default in equal shares	

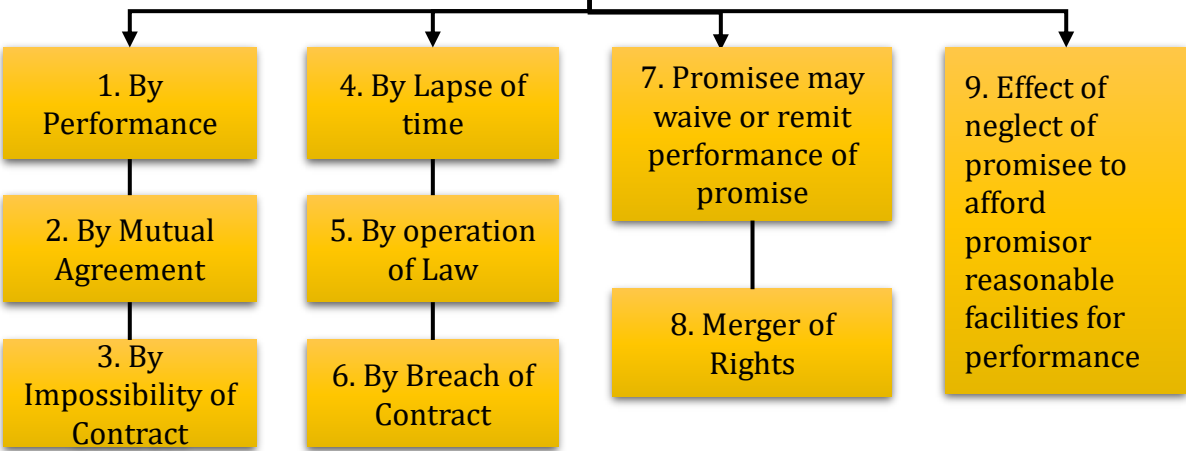
## Sequence for Appropriation of Payments

Section 59 :- Debtor expressly or impliedly intimated against which debt to be applied against particular Debt

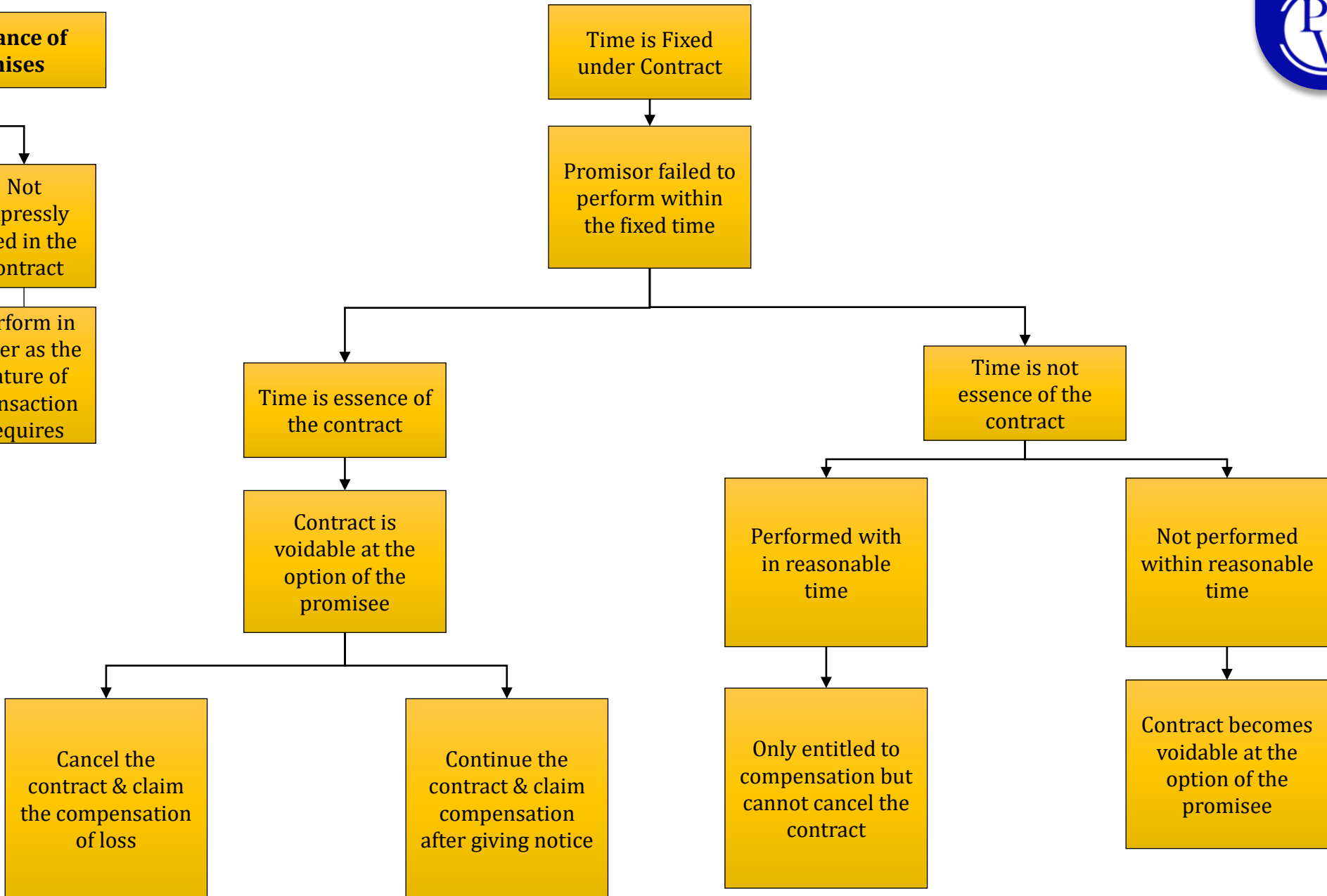
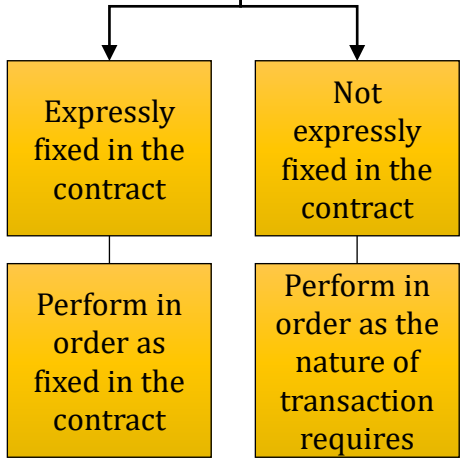
Section 60 :- If debtor does not intimate expressly or impliedly, then Creditor may apply as per his wish against any debt sue & payable including time barred debt but excluding disputed debts

Section 61 :- Neither Debtor nor Creditor appropriated, then as per law ,apply payment in order of time of debts including time barred debts. If the debt are of same date then then apply proportionately

### 9 Ways to Discharge a Contract

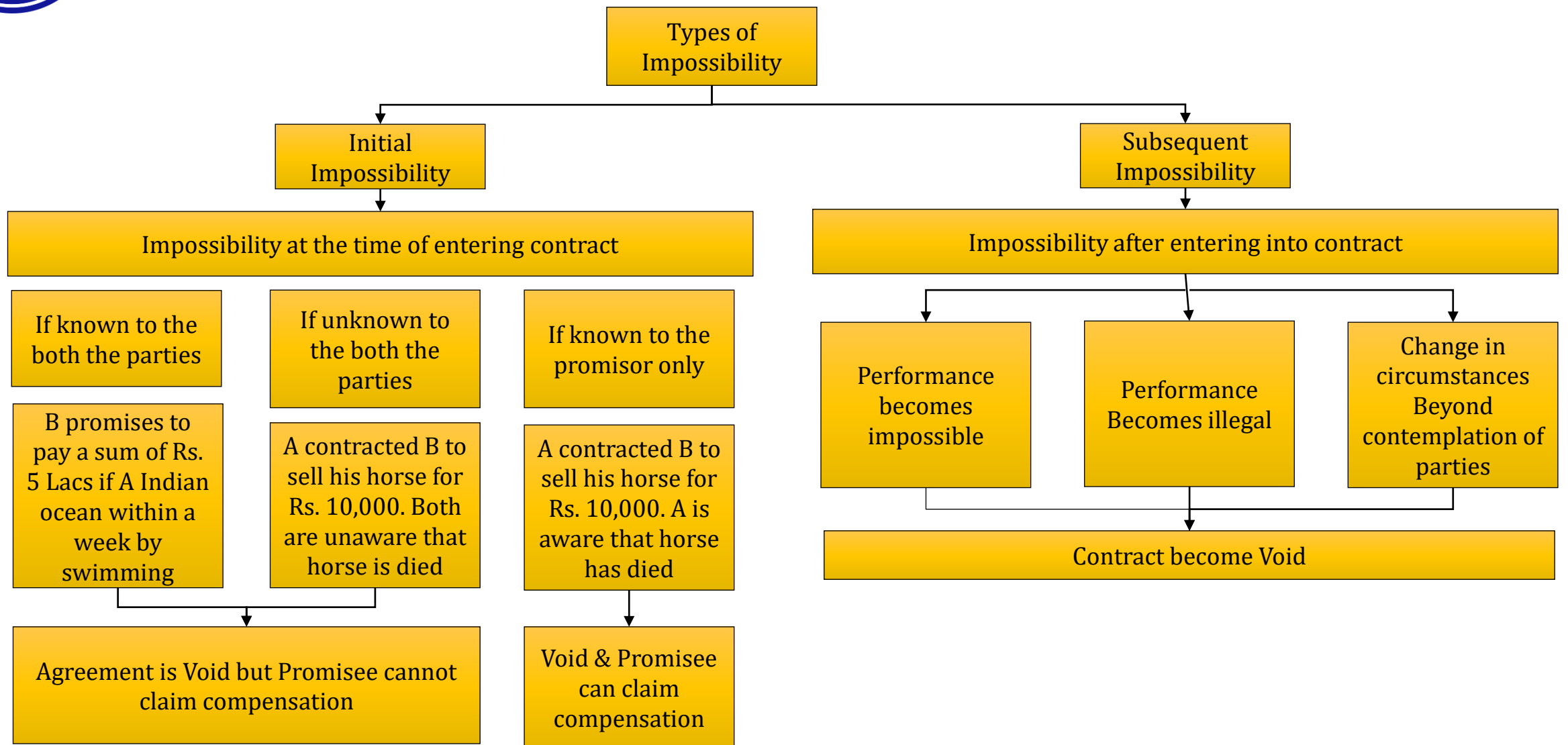


### Order of performance of reciprocal promises

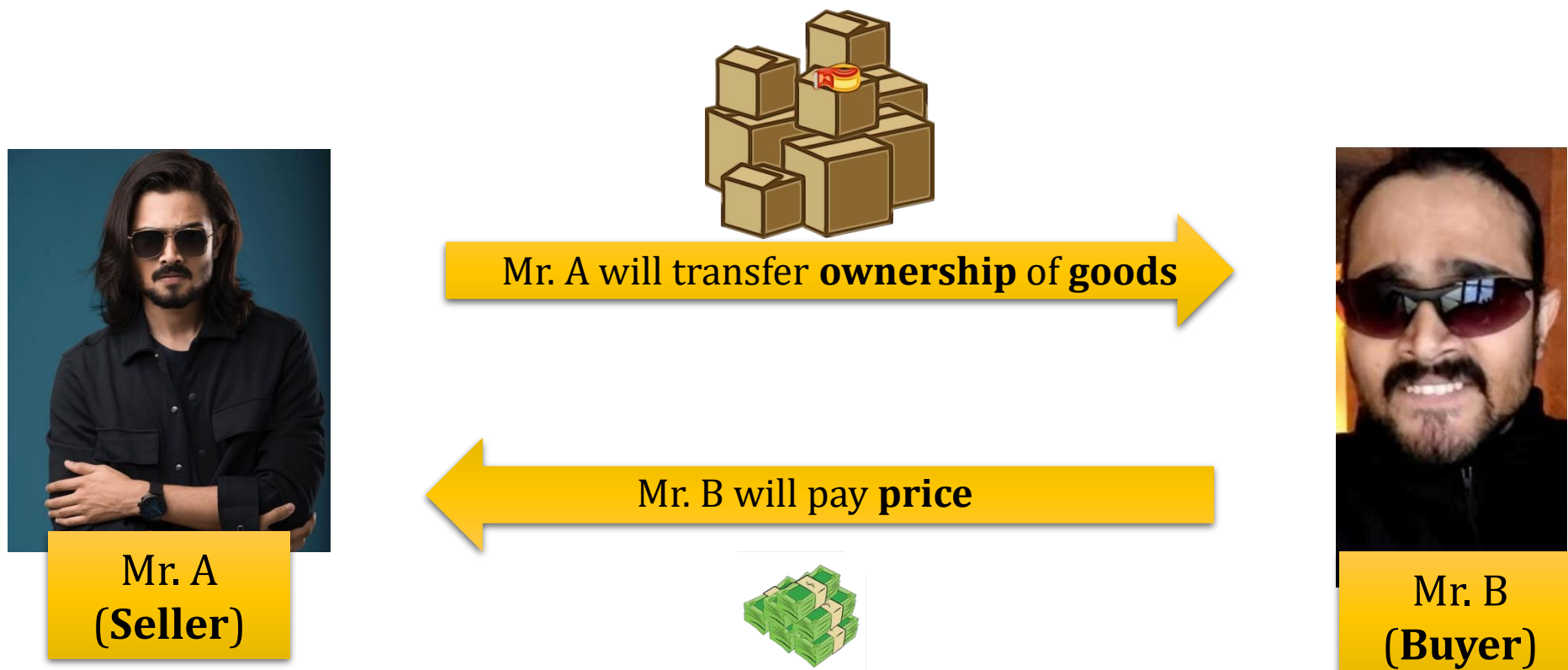


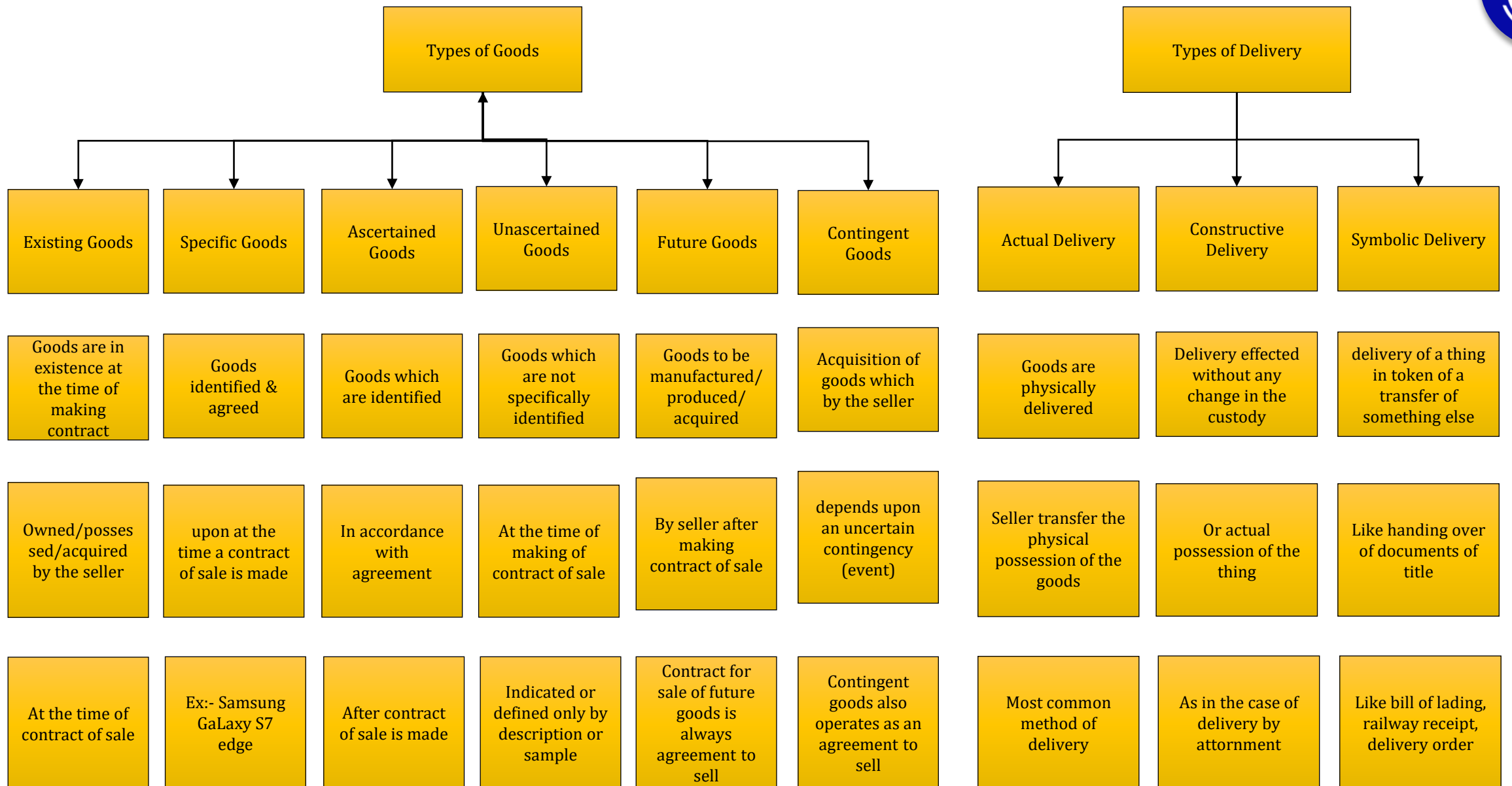
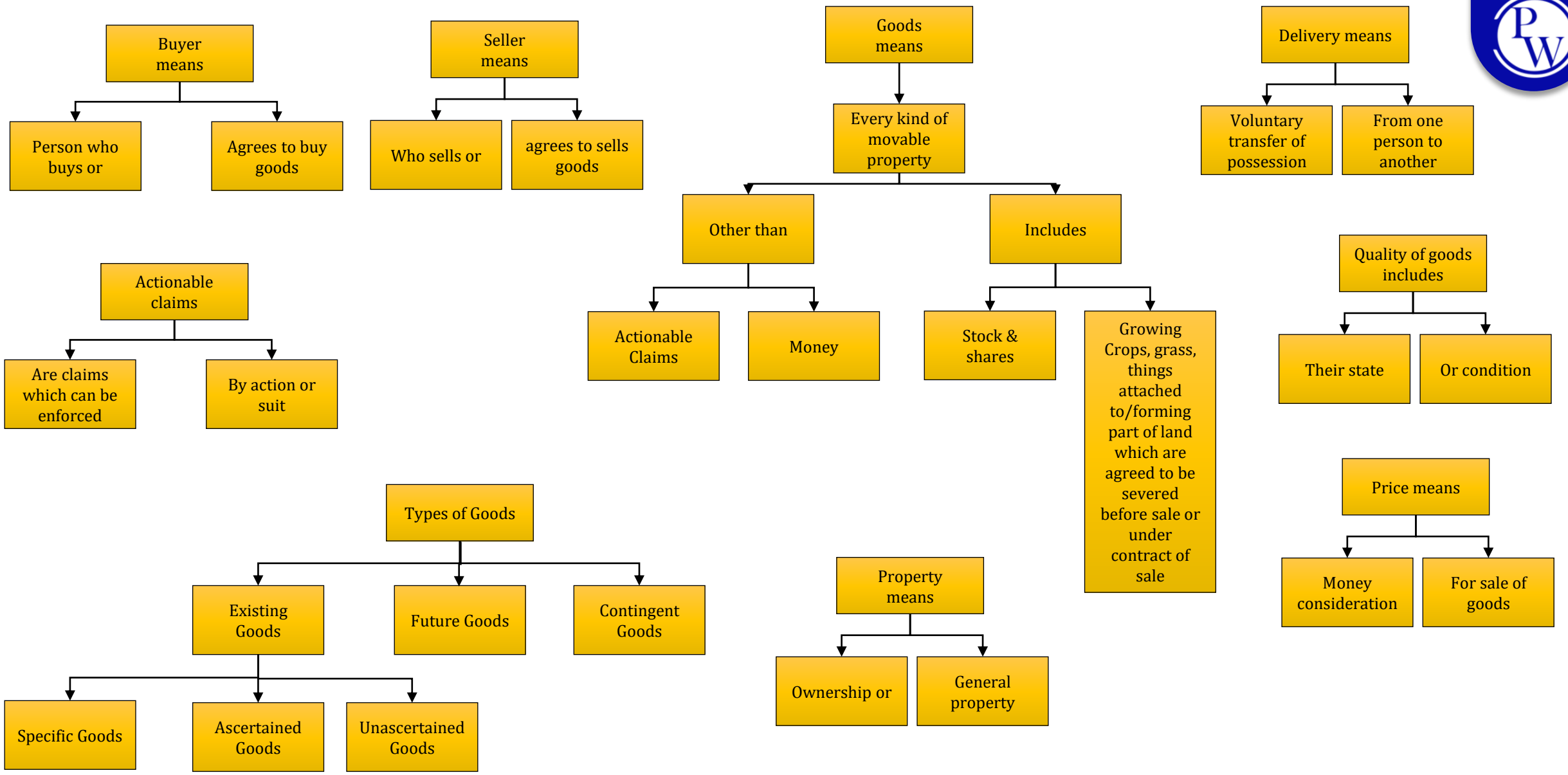


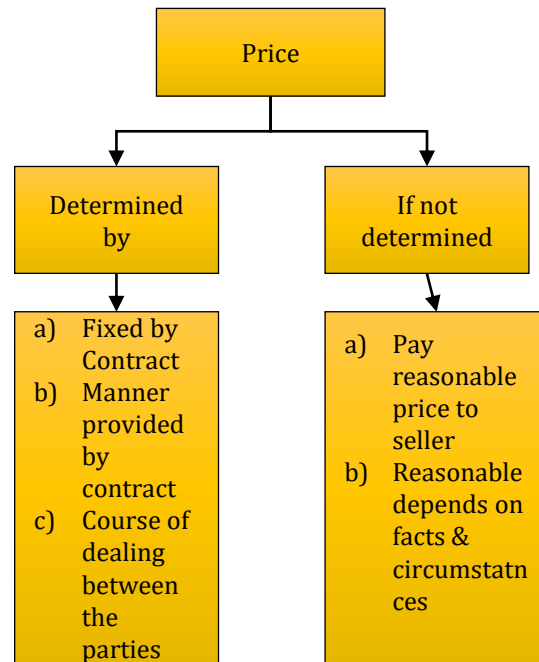
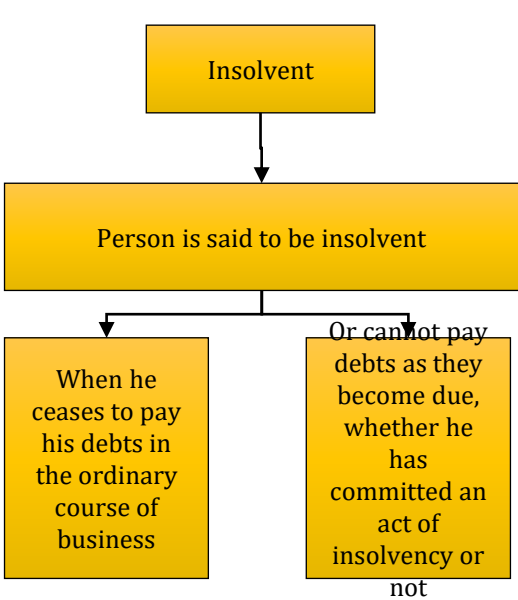
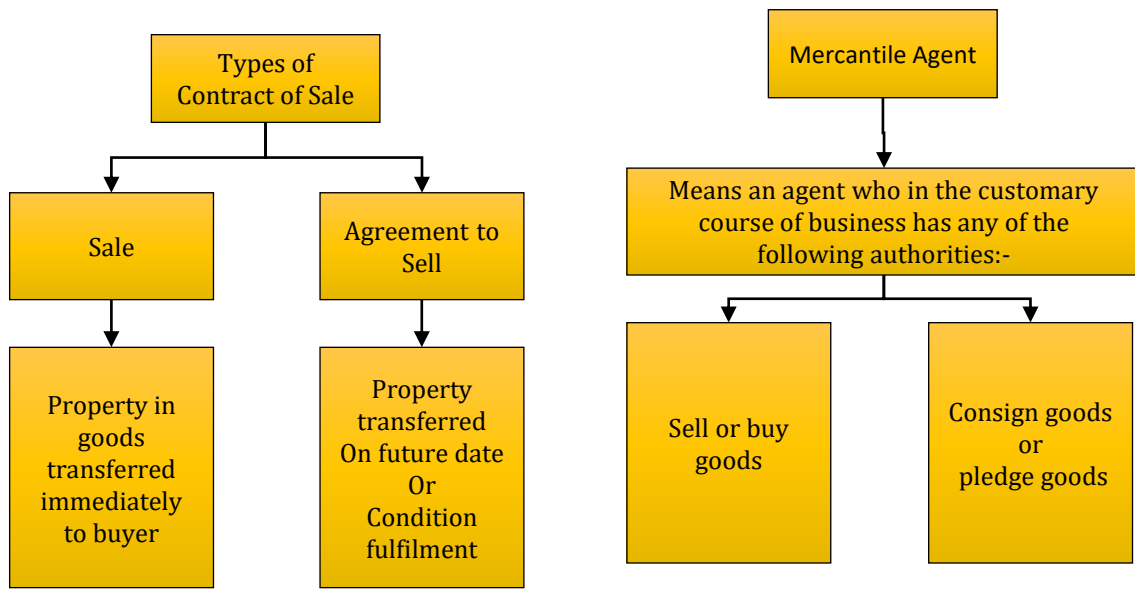
# Topic : Agreement to do Impossible Act is Void (Section 56)



## THE SALE OF GOODS ACT, 1930

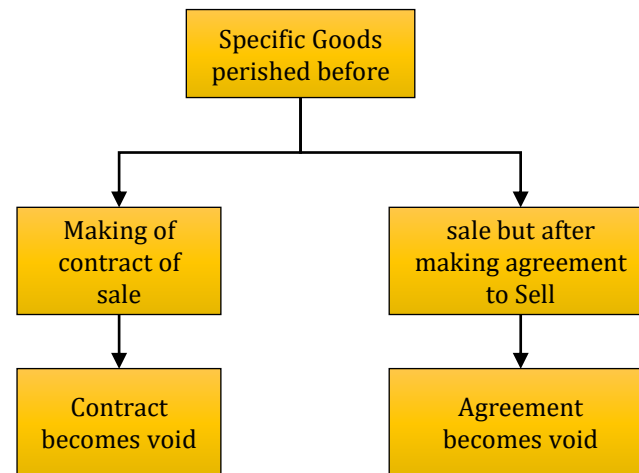
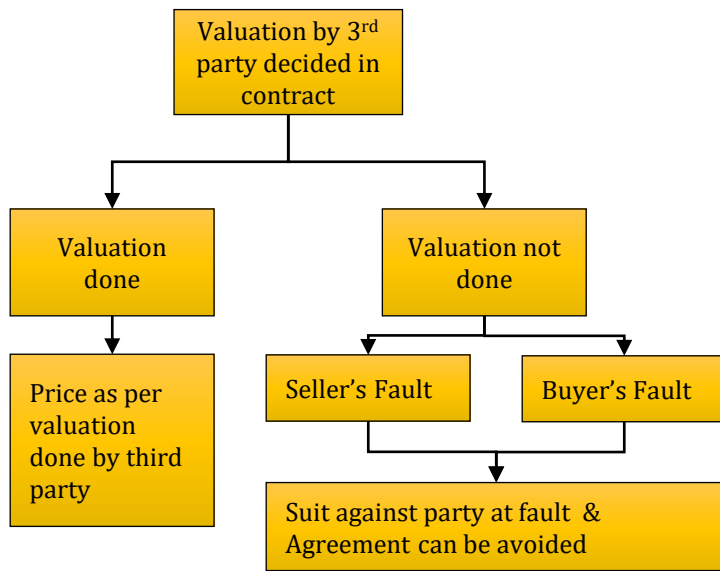






**Essential elements of Contract of Sale**

1. Minimum 2 parties (Buyer and seller)
2. Subject Matter of Contract - Goods (Movable property)
3. Price - Wholly in Money or Partly in Money and Partly in kind
4. Transfer of property (ownership) of Goods - Immediately or future
5. May be Absolute or Conditional
6. All other essentials of a valid contract (Covered under ICA, 1872)



**OWNERSHIP JISKI RISK USKA**

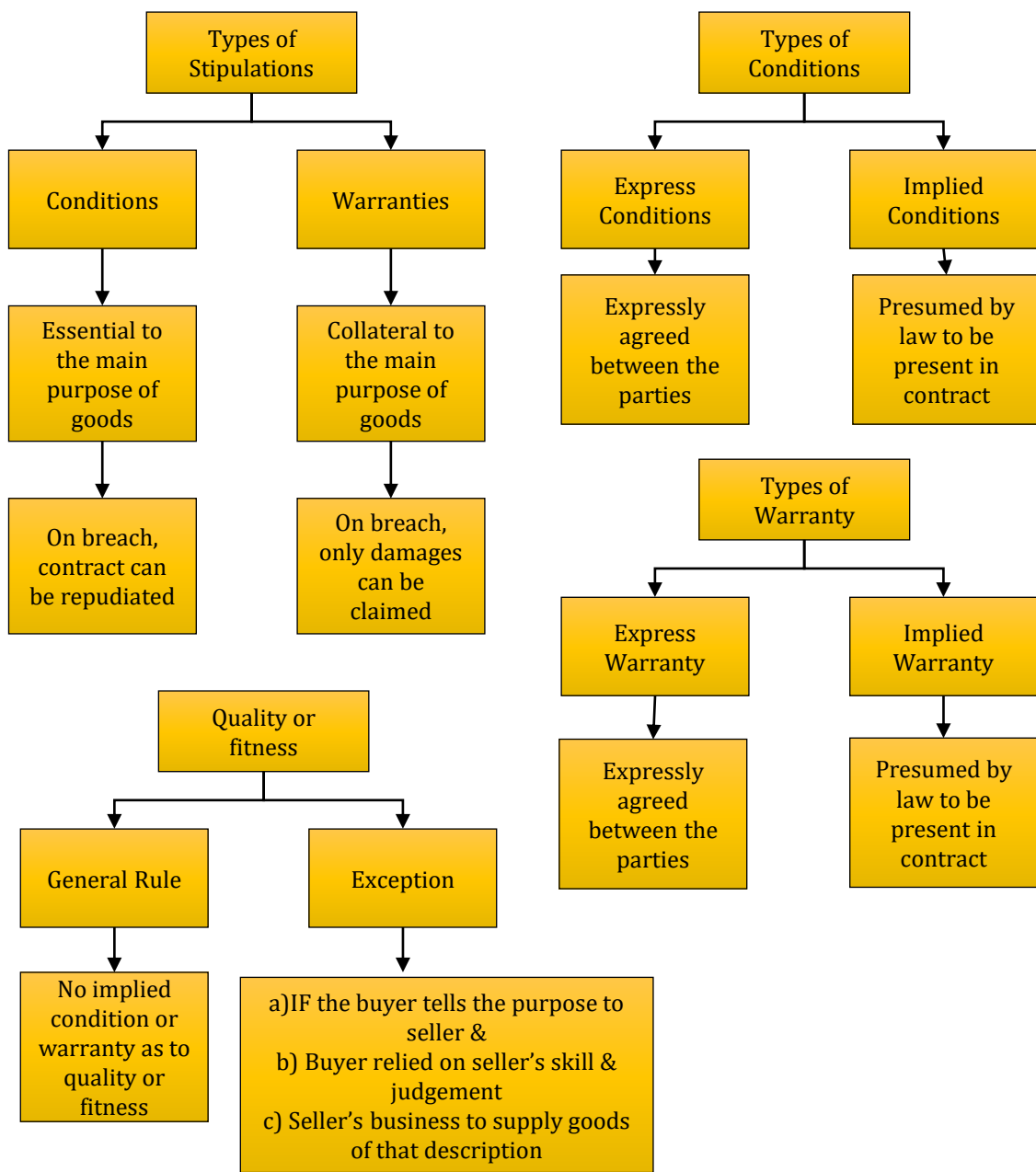
**PROPERTY JISKI RISK USKA**

**Risk passes with the property**

Exception to risk follows ownership :-  
If delivery has been delayed by the fault of the seller or the buyer, the goods shall be at the risk of the party in default, as regards loss which might not have arisen but for the default.

**Various Mode of Contract of Sale :-**

1. Immediate Delivery & Immediate Payment
2. Immediate Delivery & payment in future
3. Immediate payment & delivery in future
4. Payment & Delivery both in future
5. Delivery/payment / both in instalments



### 4 Cases where Condition can be treated as Warranty

Buyer altogether waives the performance of the condition

Buyer elects to treat the breach of the conditions, as one of a warranty

Contract is non-severable and the buyer has accepted either the whole goods or part of it

Where the fulfilment of any condition or warranty is excused by law by reason of impossibility or otherwise.

### 7 Implied Conditions

Condition as to title

Sale by sample

Condition as to quality or fitness

Condition as to wholesomeness

Condition as to description

Sale by sample as well as by description

Condition as to merchantability

### 4 Implied Warranties

Warranty as to undisturbed possession

warranty as to quality or fitness by usage of trade

Warranty as to non- existence of encumbrances

disclosure of dangerous nature of goods



### Exceptions to Caveat Emptor/ Duties of Seller

Goods Sold by Description

Sale by sample

Fitness as to quality or use except brand or patent name

Goods by sample as well as description

Trade usage

Seller actively conceal defect or guilty of fraud

Condition as to merchantability

Goods of Merchantable quality

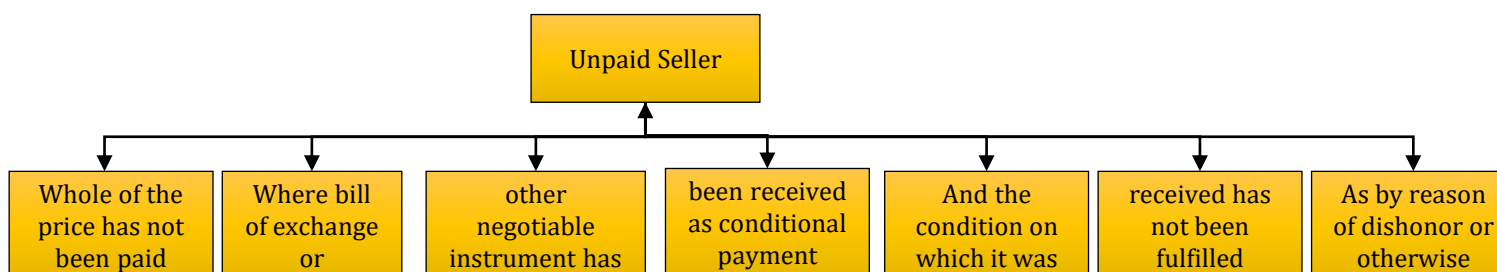
### Caveat Emptor/Duties of Buyer

Let the Buyer beware

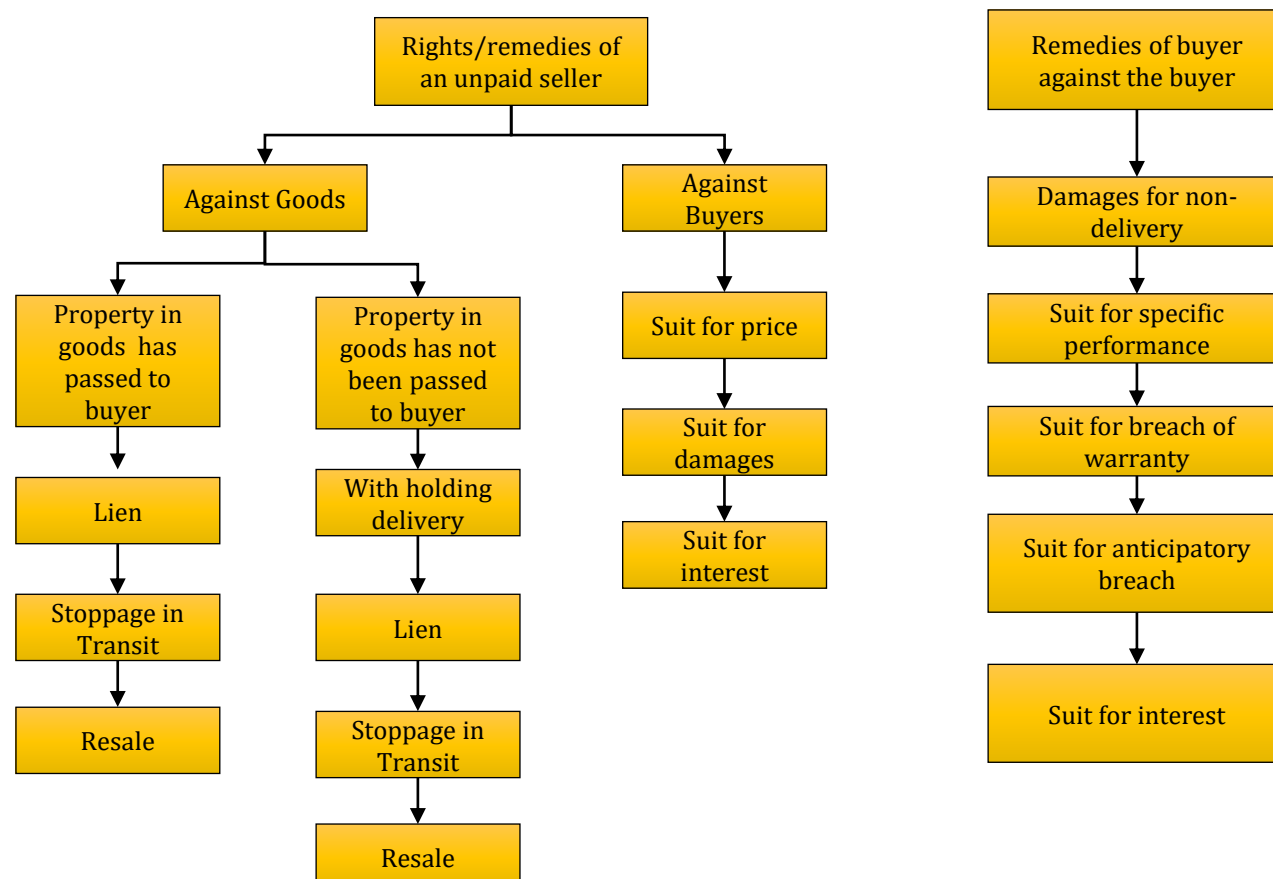
Seller is not bound to disclose the defects in the goods

Buyer cannot hold seller responsible for his bad selection of goods

Rule is laid down in section 16



Unpaid seller includes any person who is in the position of seller



### Auction Rules

1. Separate contract of sale for each lot

2. Contract completed on fall of hammer

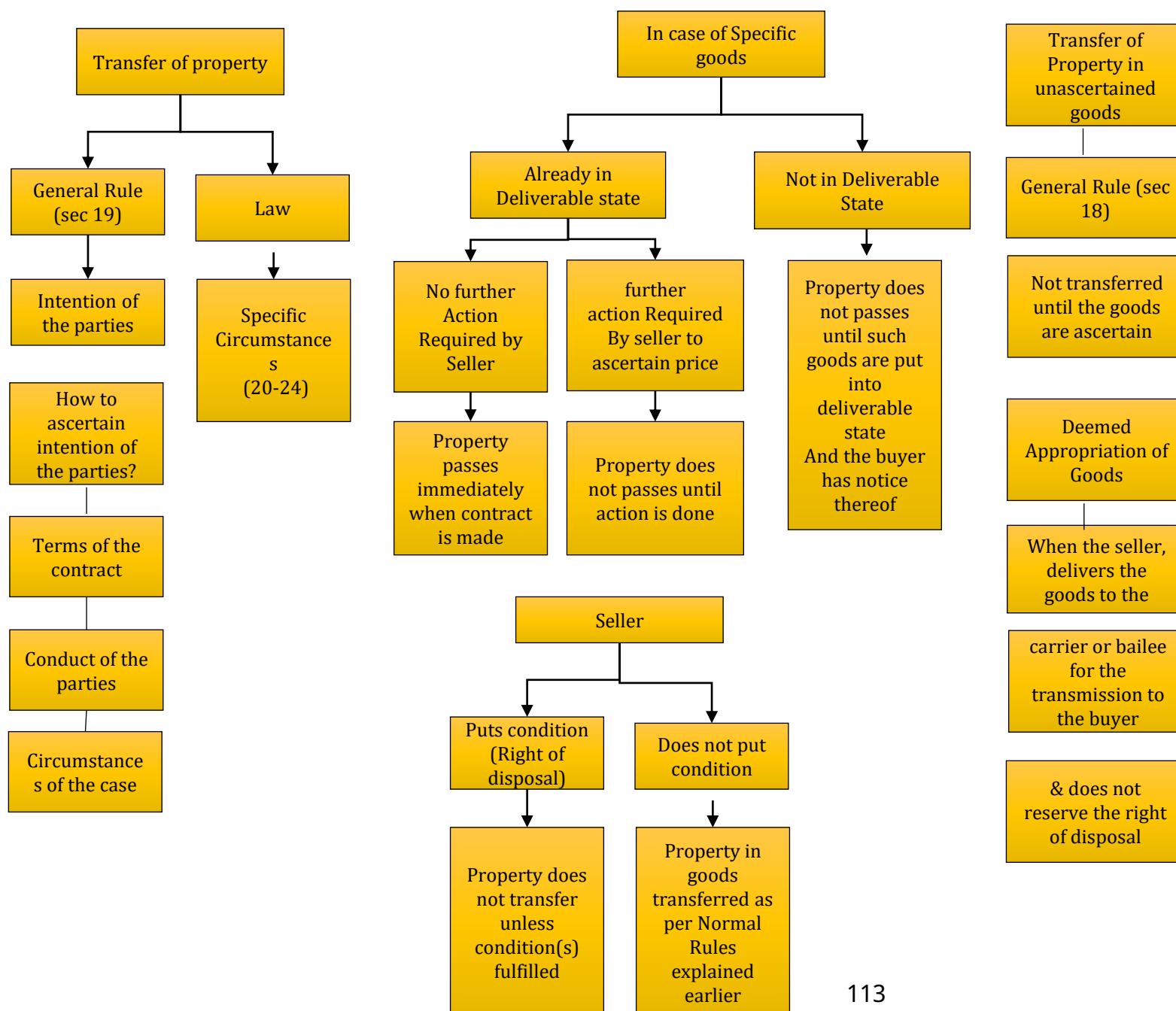
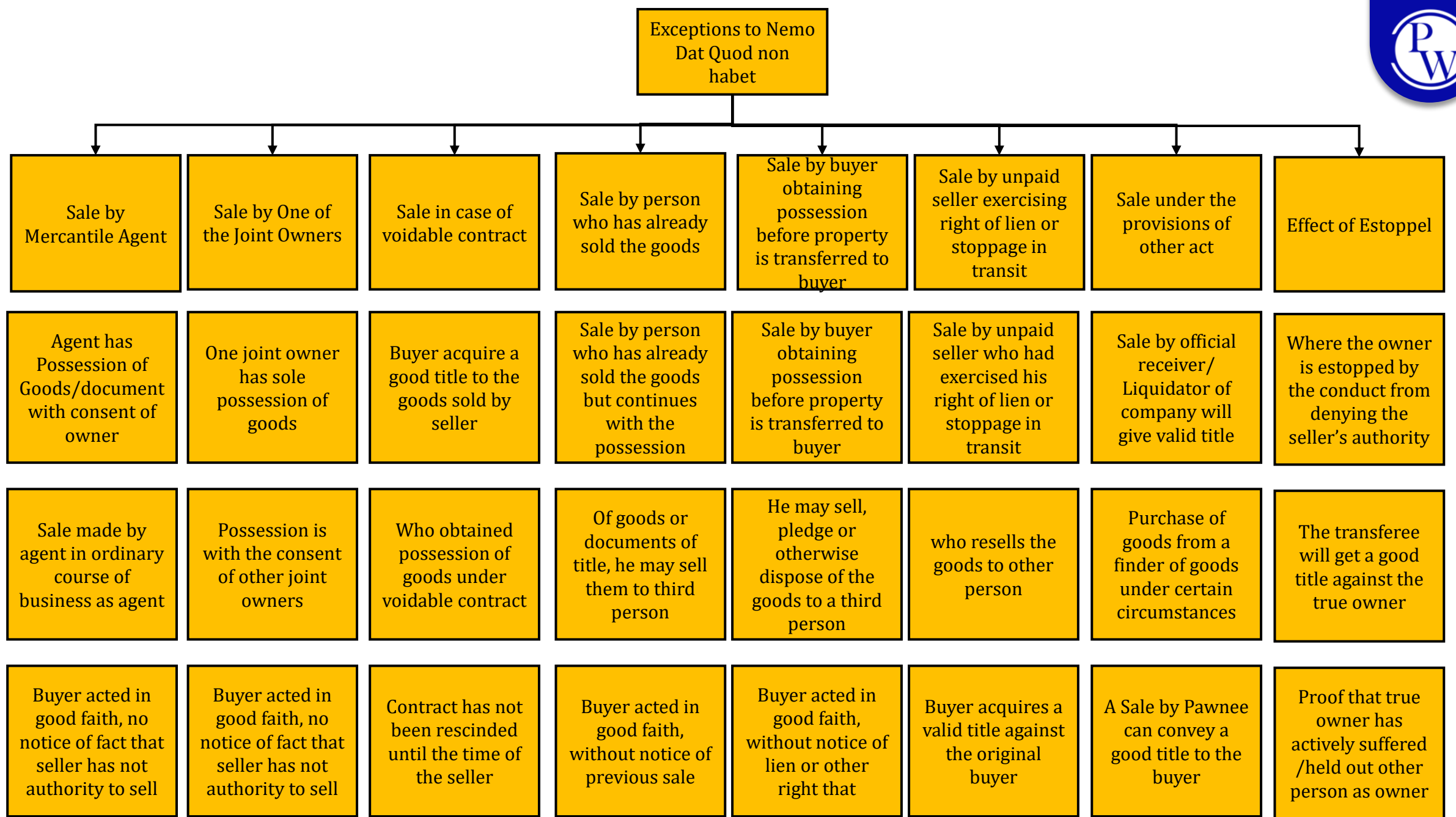
3. Right to bid may be reserved expressly

4. Fraud if right to bid not notified

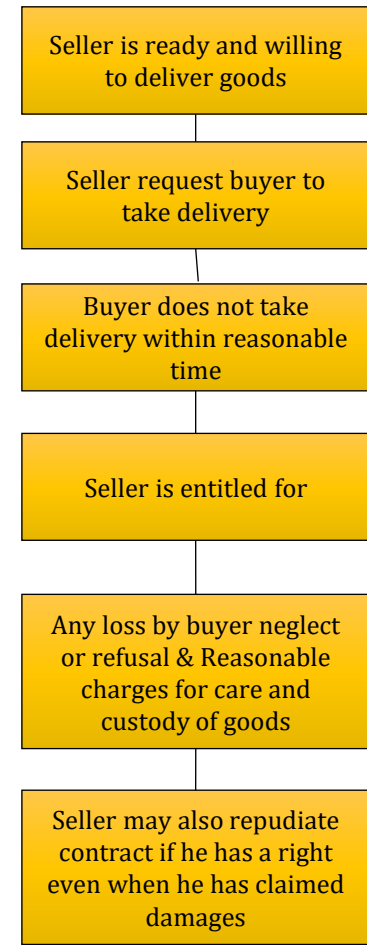
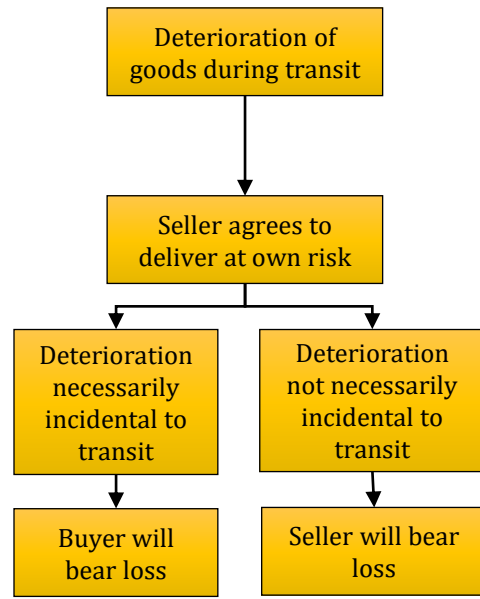
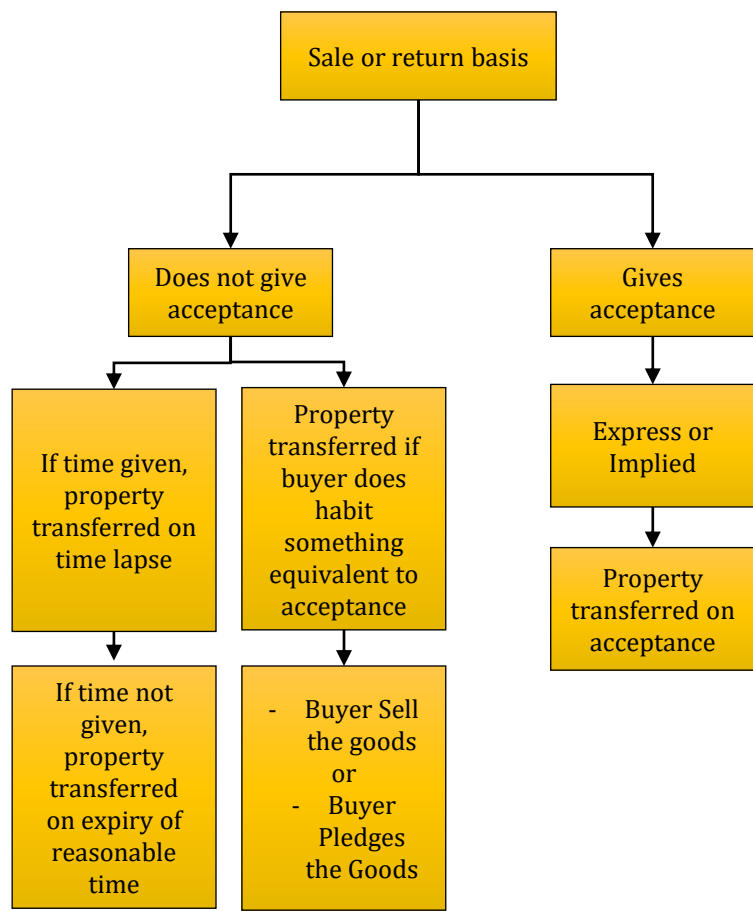
5. Reserved or upset price may be notified

6. Sale voidable if seller use pretending bidding

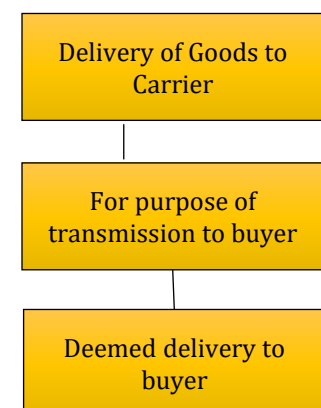
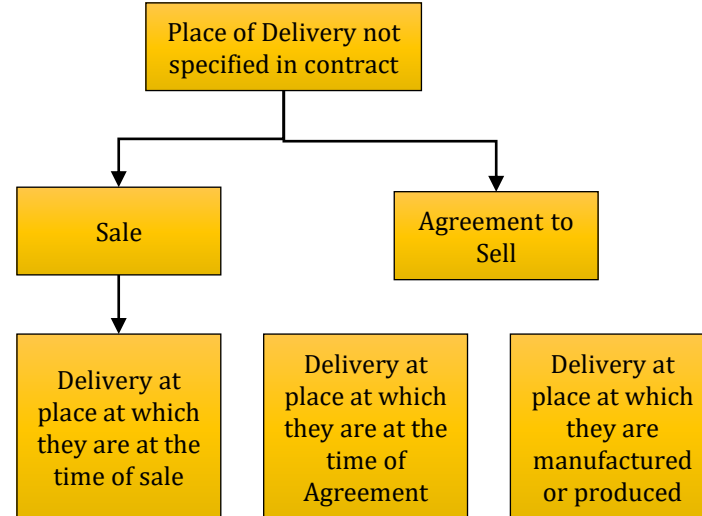
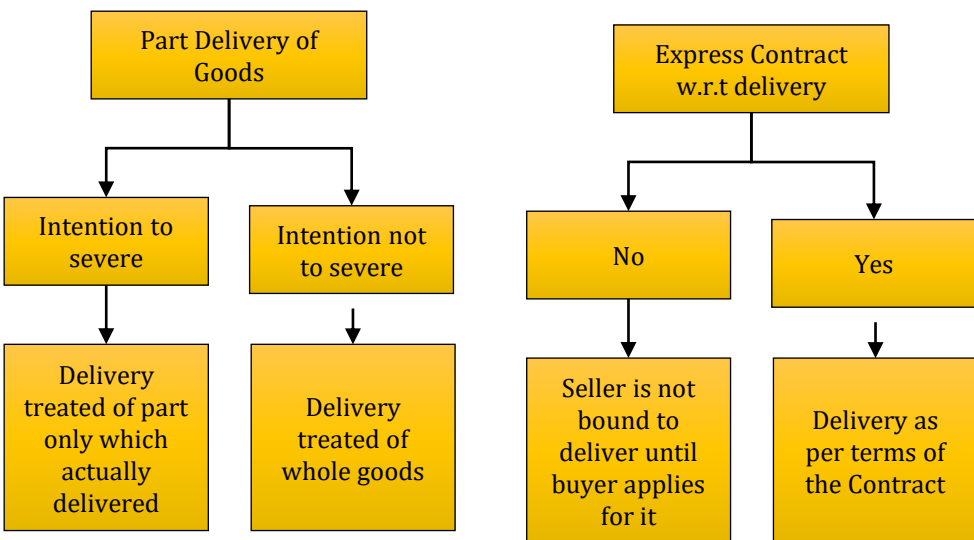
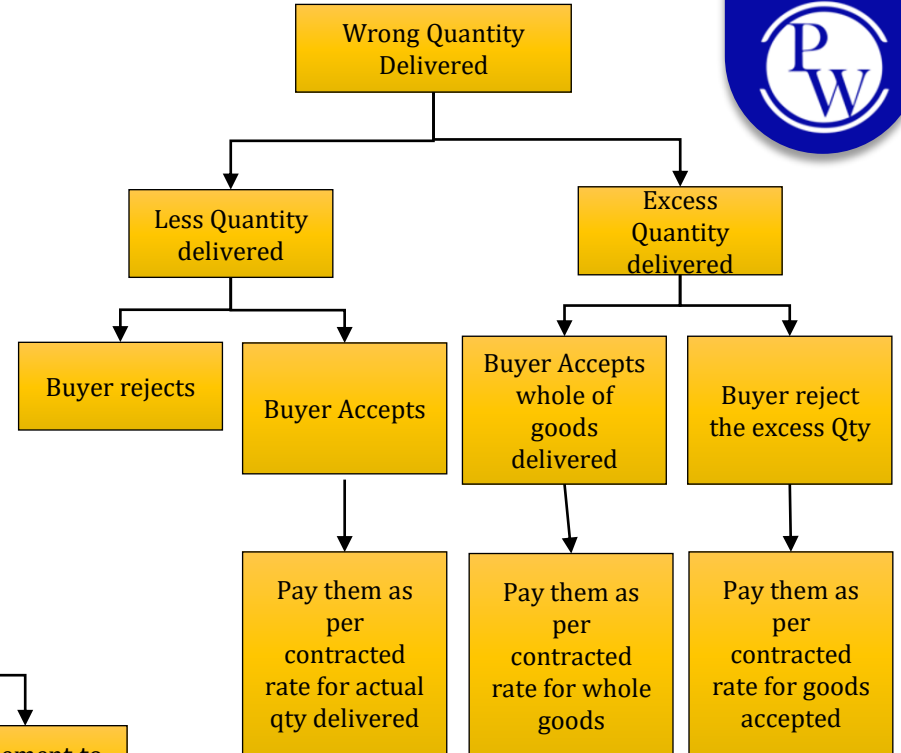
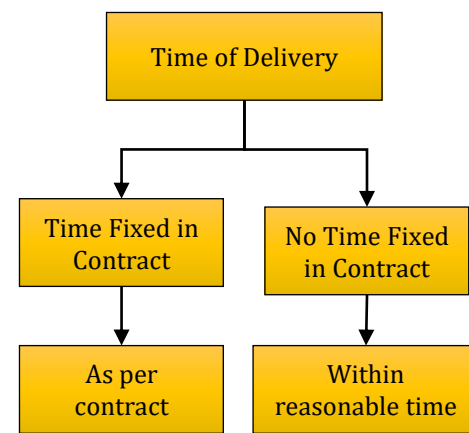
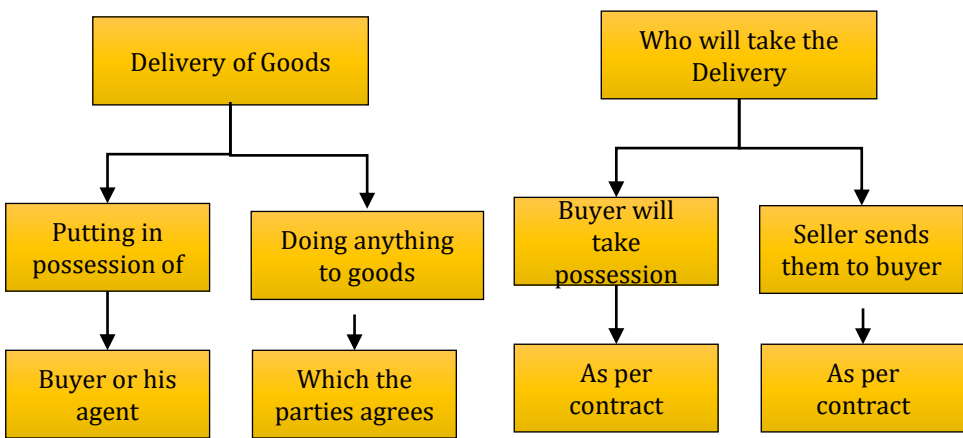
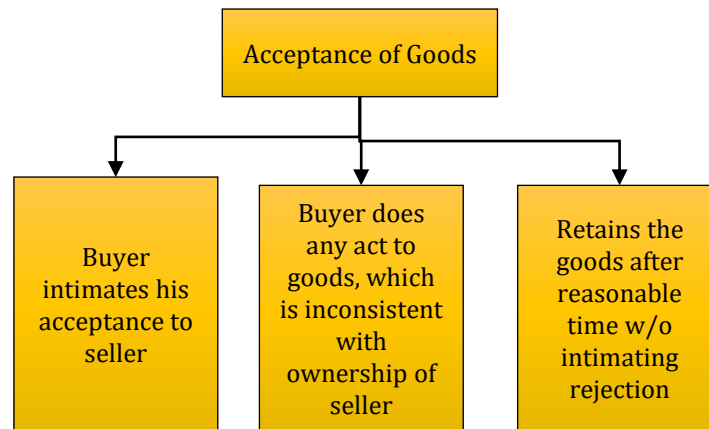
When tax on goods (like excise/custom/GST) increase or decrease after entering into contract of sale but before performance, then buyer would have to pay the revised price considering the revised tax rates. The effect of above provision can be excluded by an agreement to contrary



- Essentials of Appropriation of goods (Section 23(1))**
- 1. Sale of Unascertained or future goods**
  - 2. Goods should conform to the description & quality stated in the contract**
  - 3. Goods must be in a deliverable state**
  - 4. Goods must be unconditionally appropriated**
  - 5. Assent may be express or implied**
  - 6. Assent may be given either before or after appropriation.**
  - 7. Appropriation must be made by :-**
    - a) Buyer with the assent of seller or**
    - b) Seller with the assent of buyer**



**Sale for cash only or Return :-** where the goods have been delivered by a person on "sale or return" on the terms that the goods were to remain the property of the seller till they are paid for, the property therein does not pass to the buyer until the terms are complied with, i.e., cash is paid for.



**Note :- Expenses of and incidental to putting goods into deliverable state must be borne by seller in absence of contract to contrary**

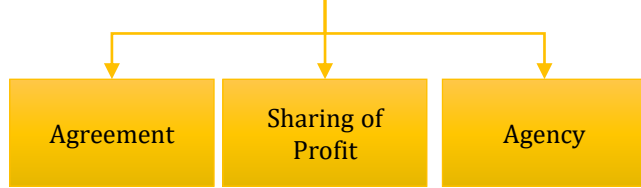
**Note :- Buyer must have a reasonable opportunity to examine the goods on delivery if not previously examined**

# THE INDIAN PARTNERSHIP ACT, 1932

### Partnership Section 4



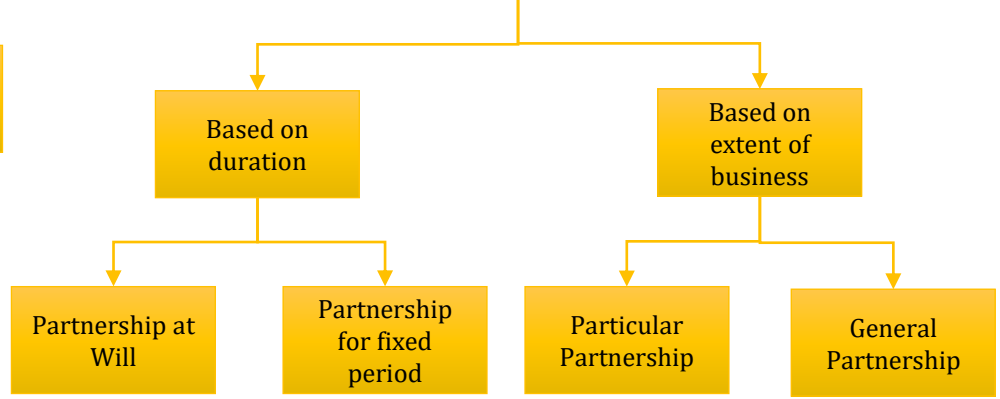
### True Test of Partnership



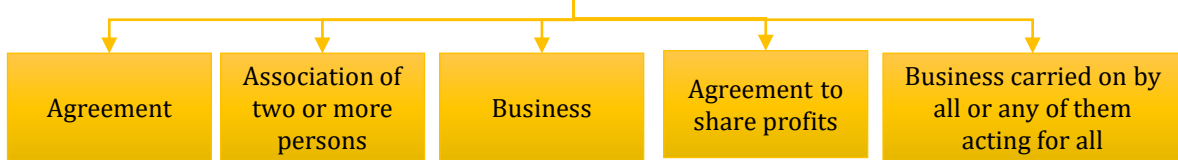
### Persons who entered into partnership with one another are called



### Kinds of partnership



### Elements of Partnership



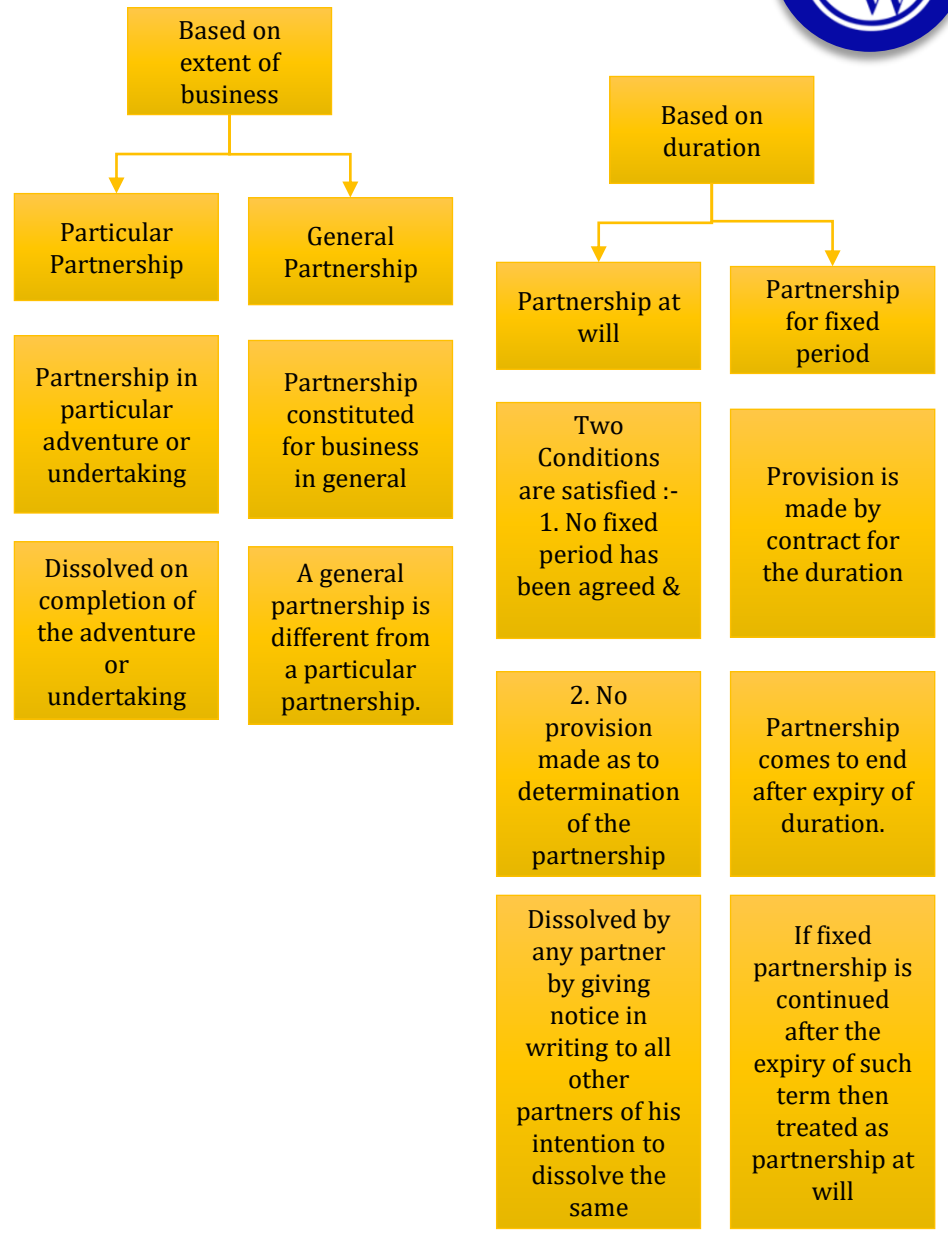
### Content of Partnership Deed / Agreement

- Name of the Partnership Firm
- Name of all the partners
- Nature of business of firm
- Principal place & other place of business of firm
- Date of Commencement of partnership
- Duration of Partnership Firm
- Capital Contribution of each partner
- Profit sharing ratio
- Provision for admission, retirement, expulsion
- Rate of interest on Capital, drawings & Loan etc.
- Salaries or Commission payable to partners

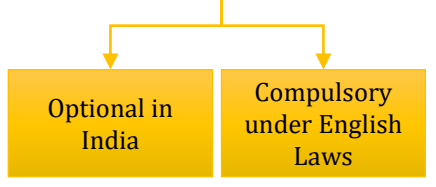
### Types of Partner

Active or Ostensible	Sleeping or Dormant	Nominal Partner	Incoming Partner	Outgoing Partner	Partner by Holding Out	Partner in profits only
Actively participates in conduct of partnership	Does not take Actively part in conduct of partnership	Not a Partner by Agreement	New person admitted into partnership	Person who leaves the firm	Holds himself as partner or allows others to do it	Entitled to profits only
Must Give public Notice on retirement	Not require to give public notice on retirement	Lends his name and liable to third party for all acts of the firm	Not liable for acts done prior to admission by other partners	Requires public notice on retirement	Liable to anyone who acts on faith of representation	Not liable in case of losses

Note :- Nominal Partner and Partner by holding out/estoppel is not entitled to share in profits



### Registration of Firm



### Steps for Registration of Firm (Section 58 & 59)

- Files statement with RoF in the prescribed form with prescribed Fees
- RoF of the area in which any place of business is situated
- Statement need to be signed by all the partners

RoF issues Certificate of Registration after

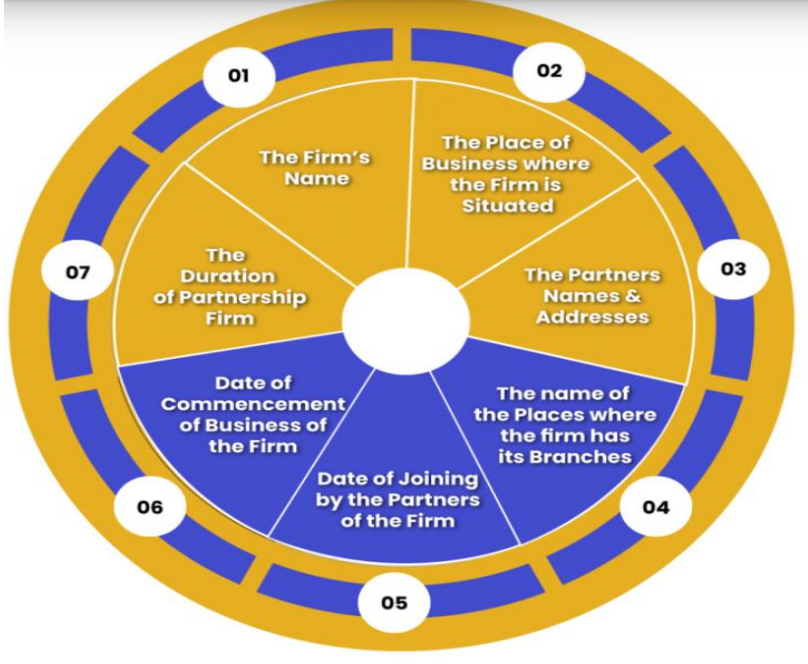
- Satisfying all the provisions are being complied with
- Recording an entry in the register of firms

**Effective Date of Registration :-**

Registration is deemed to be completed as soon as an application in the prescribed form with the prescribed fee and necessary details concerning the particulars of partnership is delivered to the Registrar

Registered Firm shall use the bracket & word (Registered) immediately after is name

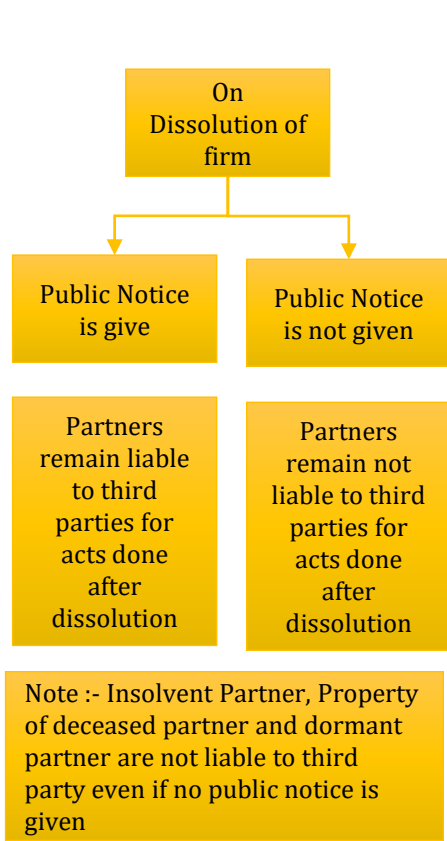
### Content of Statement



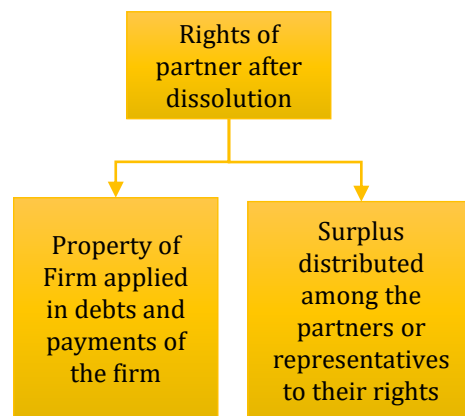
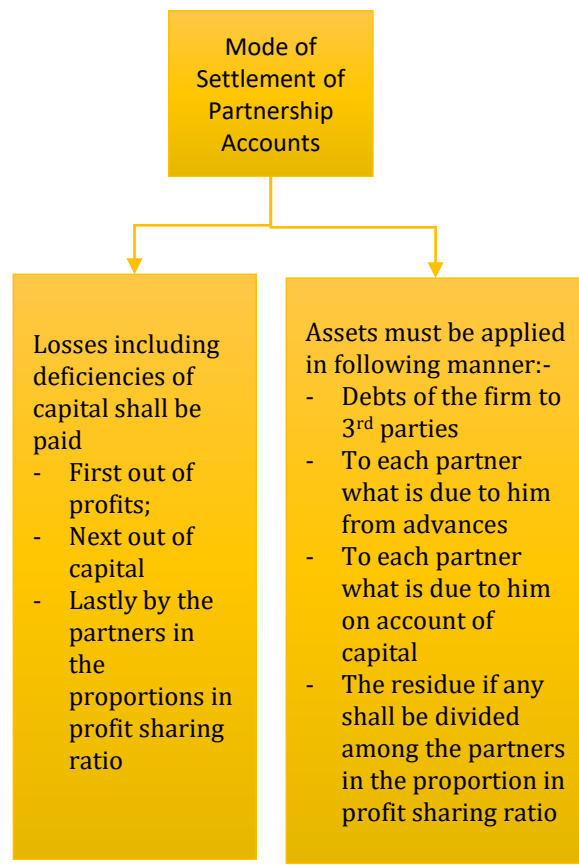
### Firm name shall not contain following words:-

- Crown X
- Emperor X
- Empire X
- Imperial X
- King X
- Queen X
- Royal X
- Govt linked X

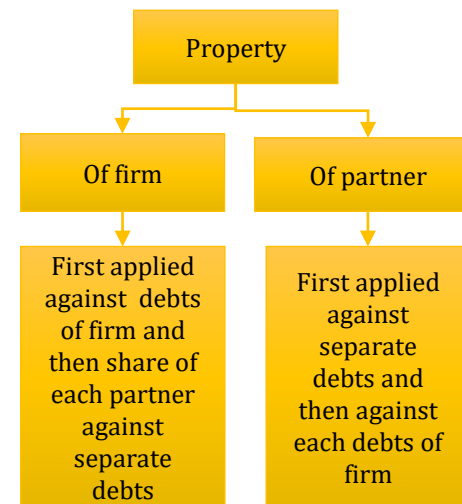
State Govt can give approval to use firm name linked with govt. by order in writing



Note :- After dissolution, each partner has the authority which is necessary to wind up the affairs of the firm



Consequences of Non-Registration (Section 69)	Exceptions :- Non - Registration of firm does not, however the following rights
1. No suit in civil court by firm or other co-partners against third party	1. Right of third parties to sue the firm or any partner
2. No relief to firm or partner for set-off of claim	2. right of partners to sue for the dissolution of the firm or for the settlement of the accounts of a dissolved firm, or for realization of the property of a dissolved firm.
3. Aggrieved partner cannot partner legal action against firm or other partners	3. The power of an Official Assignees, Receiver of Court to release the property of the insolvent partner and to bring an action
4. Third party can sue both registered or unregistered firm	4. The right to sue or claim a set-off if the value of suit does not exceed Rs. 100 in value
	5. The right to suit and proceeding instituted by legal representatives or heirs of the deceased partner of a firm for account s of the firm or to realise the property of the firm



## Modes of Dissolution of Firm

### Without Court Intervention

Dissolution by Agreement (Section 40)

Dissolution by notice (in partnership at will) (Section 43)

Compulsory dissolution of firm (Section 41)

Dissolution on happening of certain contingencies (Section 42)

1. After expiry of fixed term of partnership
2. Completion of adventure/undertaking
3. Death of a partner
4. Adjudication of partner as insolvent

### With Court Intervention (Section 44)

Insanity / Unsound Mind

Permanent Incapacity

Persistent Breach of agreement

Transfer of Interest

Continuous Losses / Perpetual Losses

Just & equitable grounds

1. Deadlock in Management
2. Partners are not in talking terms
3. Loss of substratum
4. Gambling by partner on a stock exchange



**4 General Duties of Partner (Section 9):-**

- Bound to carry business to the greatest common advantage
- Just & faithful to each other
- To render true accounts to other partners or their legal representative
- To render full information of all things affecting firm to other partners or their legal representative

**What is Partnership property?**

**all property, rights and interests which Partners contributed to common business**



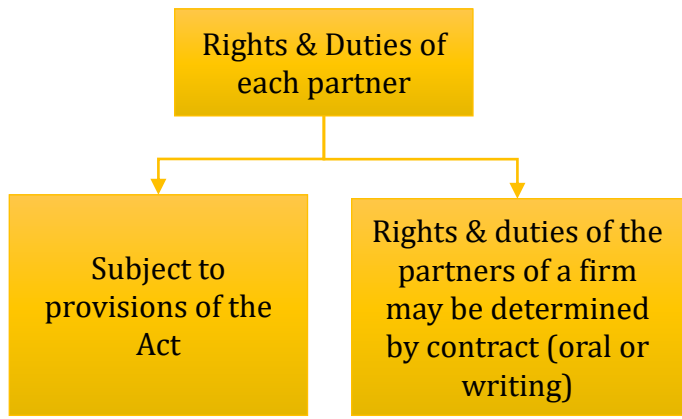
**all the property, rights and interest acquired or purchased by or for the firm**



**Goodwill of the business**

**Subject to contract, partnership property shall be used by partners exclusively for the purpose of the business of firm only**

**What is property of partner? Property which exclusively belong to the partner only**



**Mutual Rights & Liabilities :- Subject to Contract,**

**Partner is not entitled to any remuneration for taking part in conduct of business of firm except in case of customs**

**Both Profit & Losses to be shared equally amongst partners**

**where a partner is entitled to interest on the capital subscribed by him such interest shall be payable only out of profits;**

**partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of six percent per annum**

**firm shall indemnify a partner in respect of payments made and liabilities incurred by him**

**Conduct of Business :- Subject to Contract,**

**Every partner has a right to take part in the conduct of the business**

**Every partner is bound to attend diligently to his duties in the conduct of the business**

**Every partner has right to express his opinion on business matters**

**Ordinary matters are decided by majority of partners**

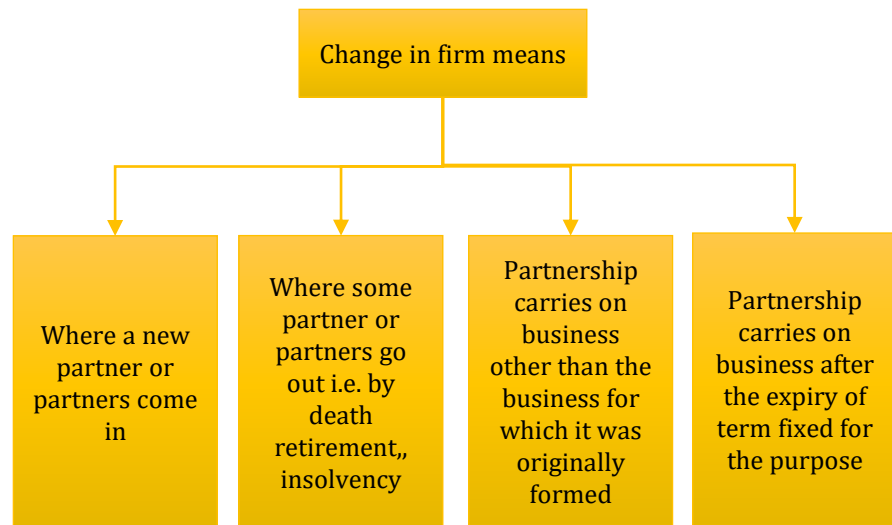
**Change in nature of firm business require consent of all partners**

**Every partner & his duly authorized agent has right to have access to / inspect / take copy of books of firm**

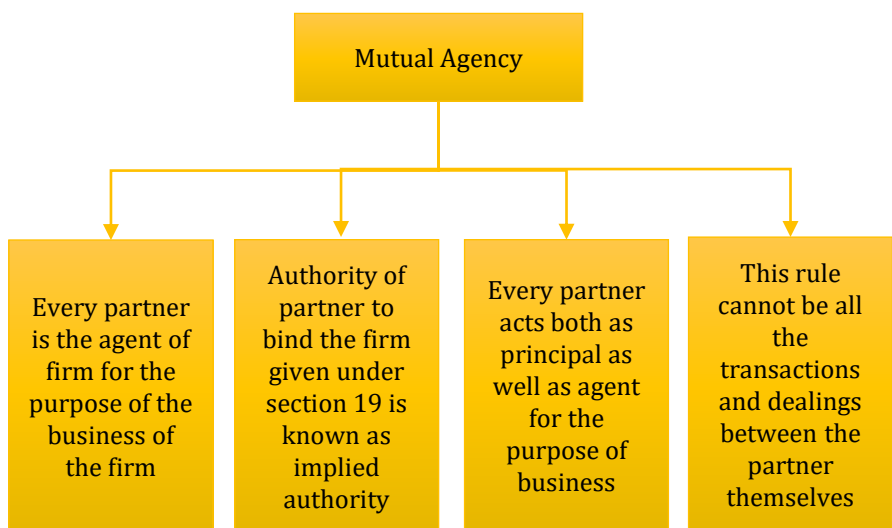
**In event of death, partner's legal representative has right to have access to / inspect / take copy of books of firm**



**In case of emergency, partner has the authority to perform all the acts to protect the firm from losses as would be done by person of ordinary prudence whether such act falls under his implied authority or not**



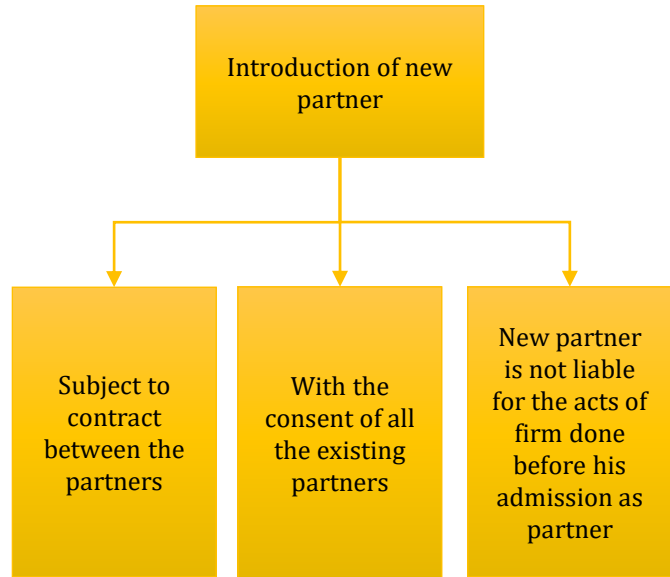
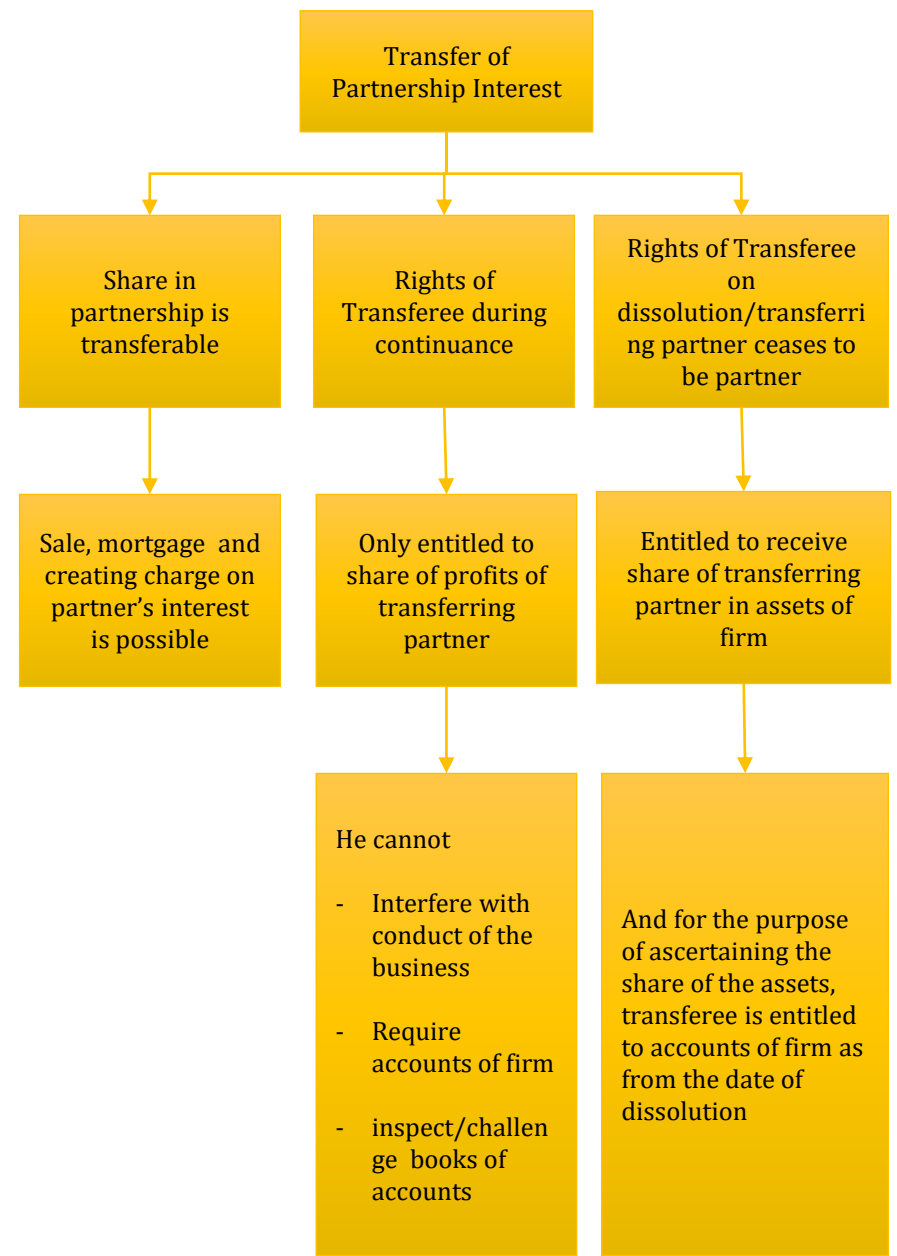
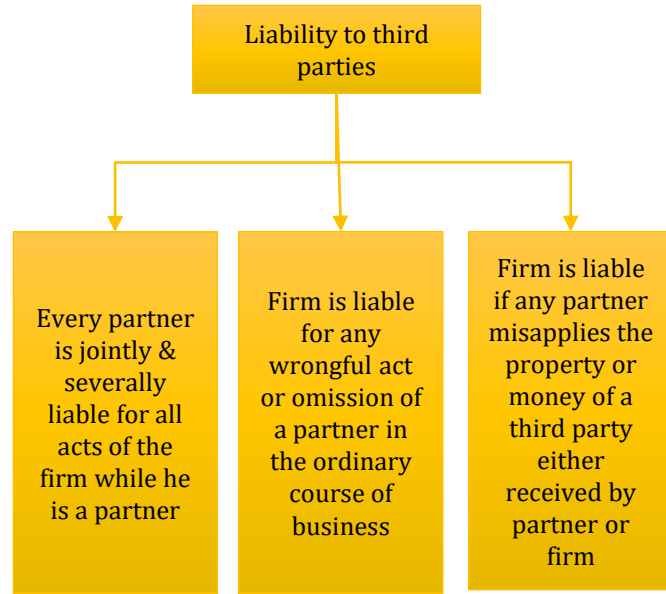
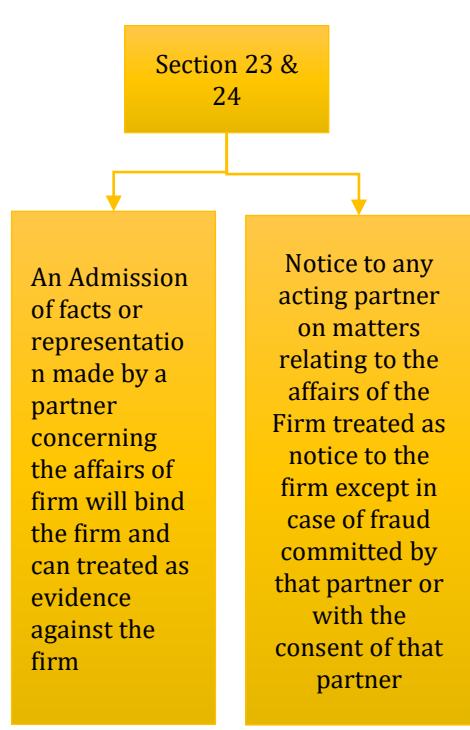
**As per section 17, subject to contract, rights & duties of partner remain same as far as possible after there is any change in the firm**



- 8 Acts which are not in implied authority of partners**
- Submit a dispute relating to business of firm to arbitration
  - Open a bank account on behalf of firm in his own name
  - Compromise or relinquish any firm's claim or its portion
  - Withdraw a suit or proceedings filed on behalf of firm
  - Admit any liability in a suit or proceedings against the firm
  - Acquire any immovable property on behalf of firm
  - Transfer immovable property belonging to the firm
  - Enter into partnership on behalf of firm

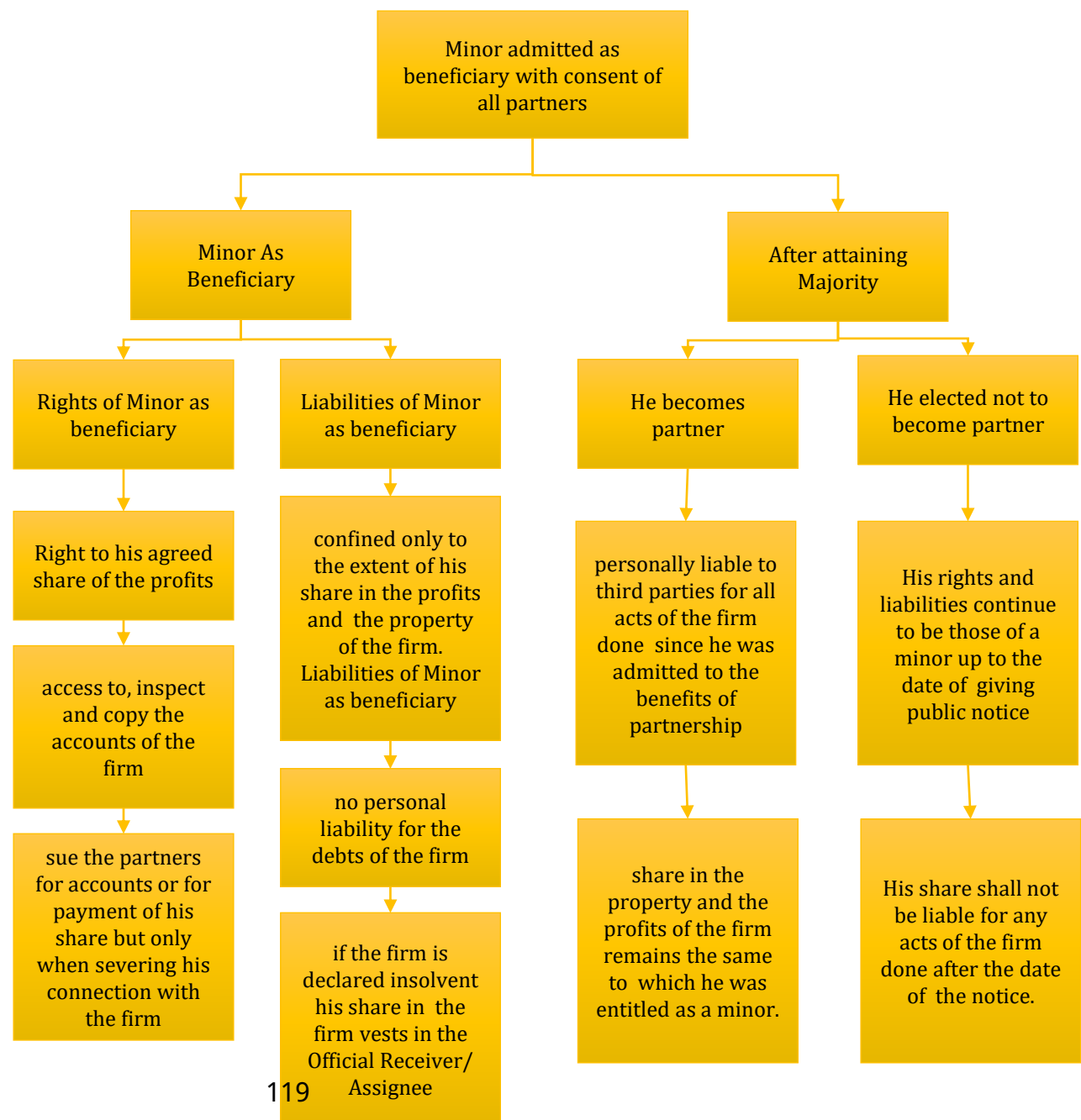
**Implied authority can be extended or restricted by a contract between the partners**  
 But restriction on implied authority is only effective against a third party if  
 a) Third party knows about such restriction; or  
 b) Third party does know that he is dealing with a partner of firm



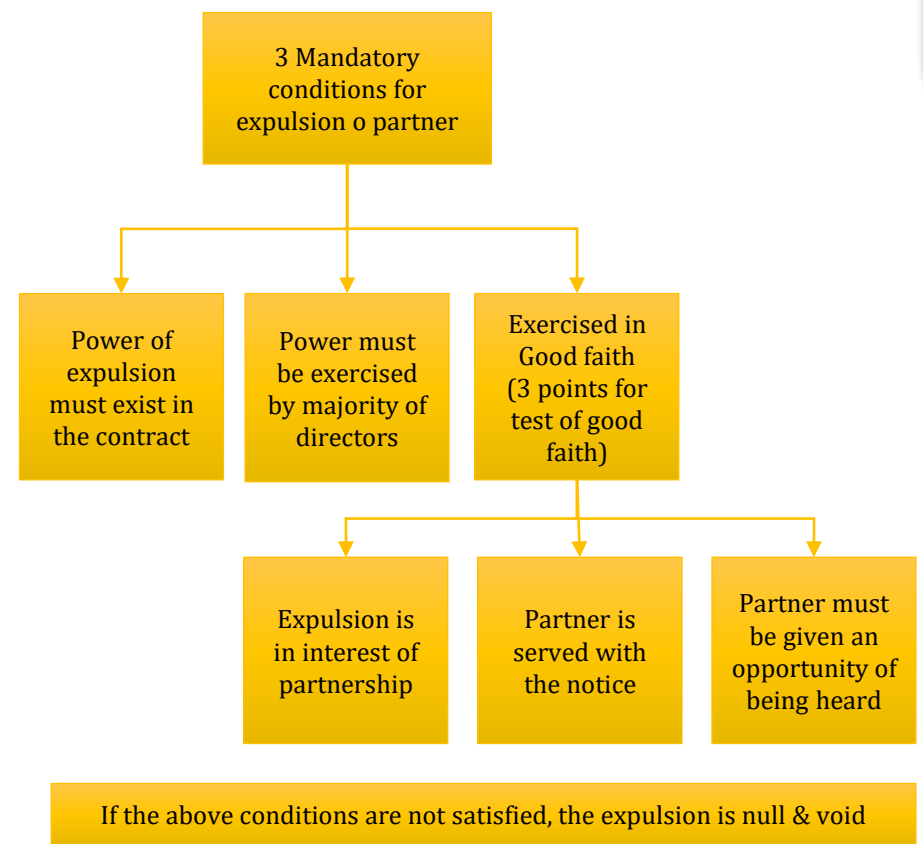
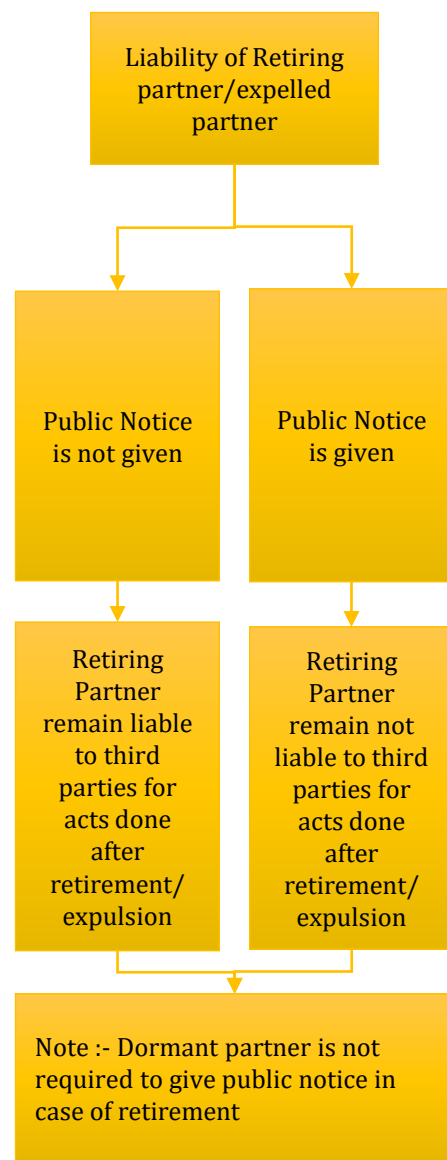
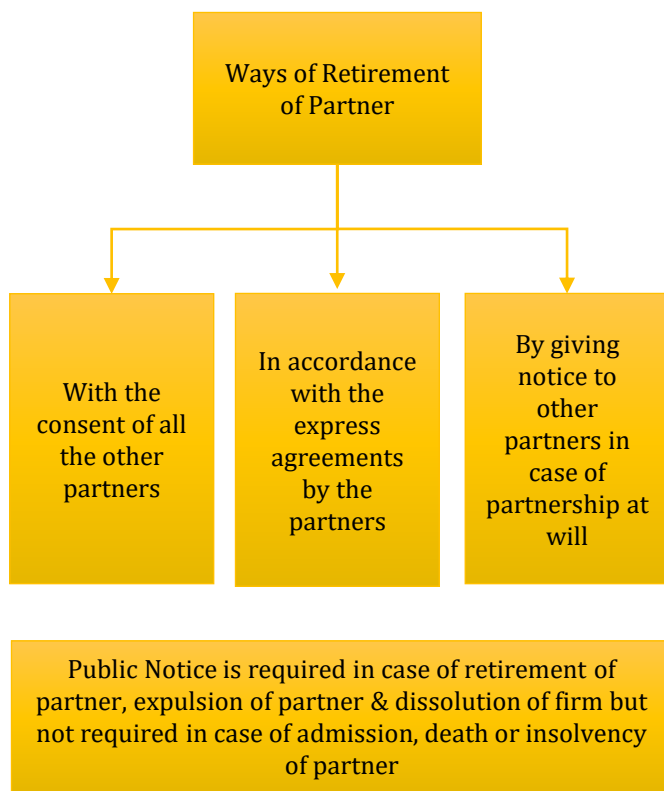


Minor cannot become a partner in firm but can be admitted as beneficiary in the firm with the consent of all the existing partner

Within 6 months on attaining majority or obtaining knowledge that he is a beneficiary in firm, whichever date is later, such person require to give public notice that whether he has elected to become partner or not. If he fails to give notice within 6 months, then treated as partner of firm on expiry of said 6 months

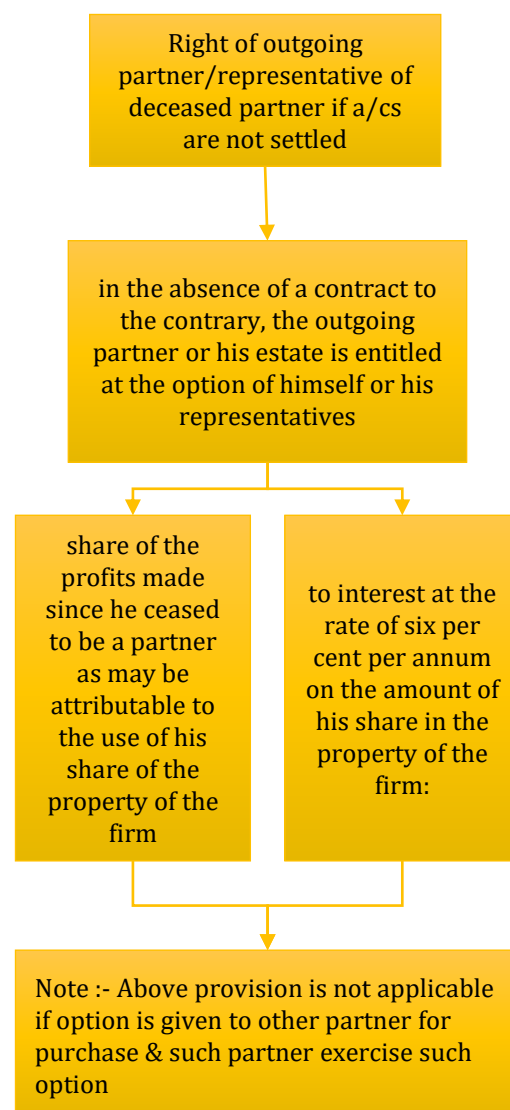
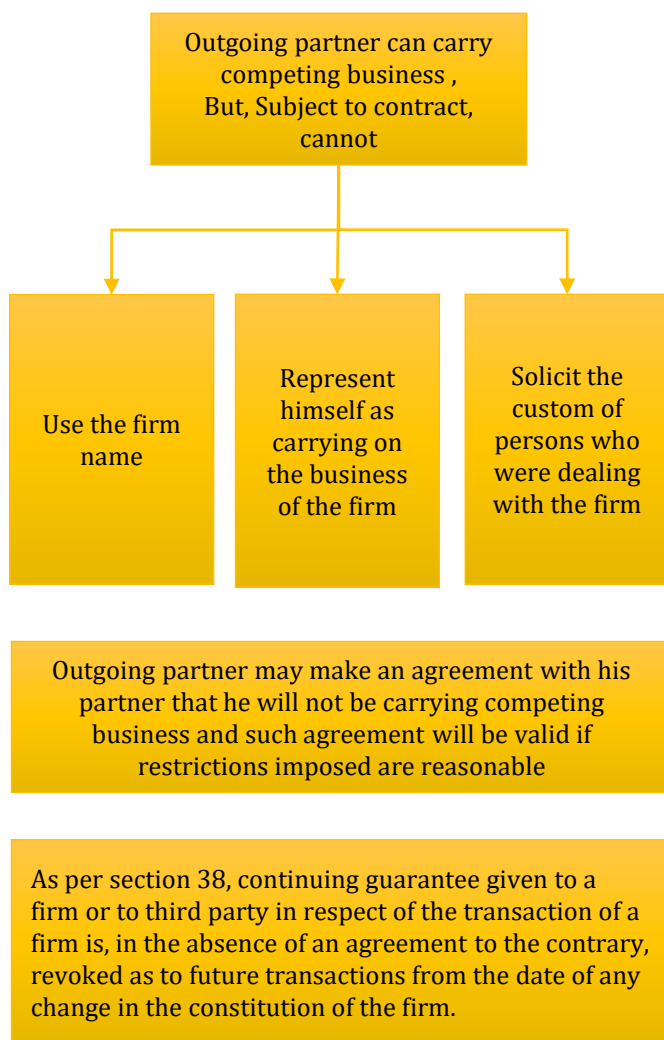






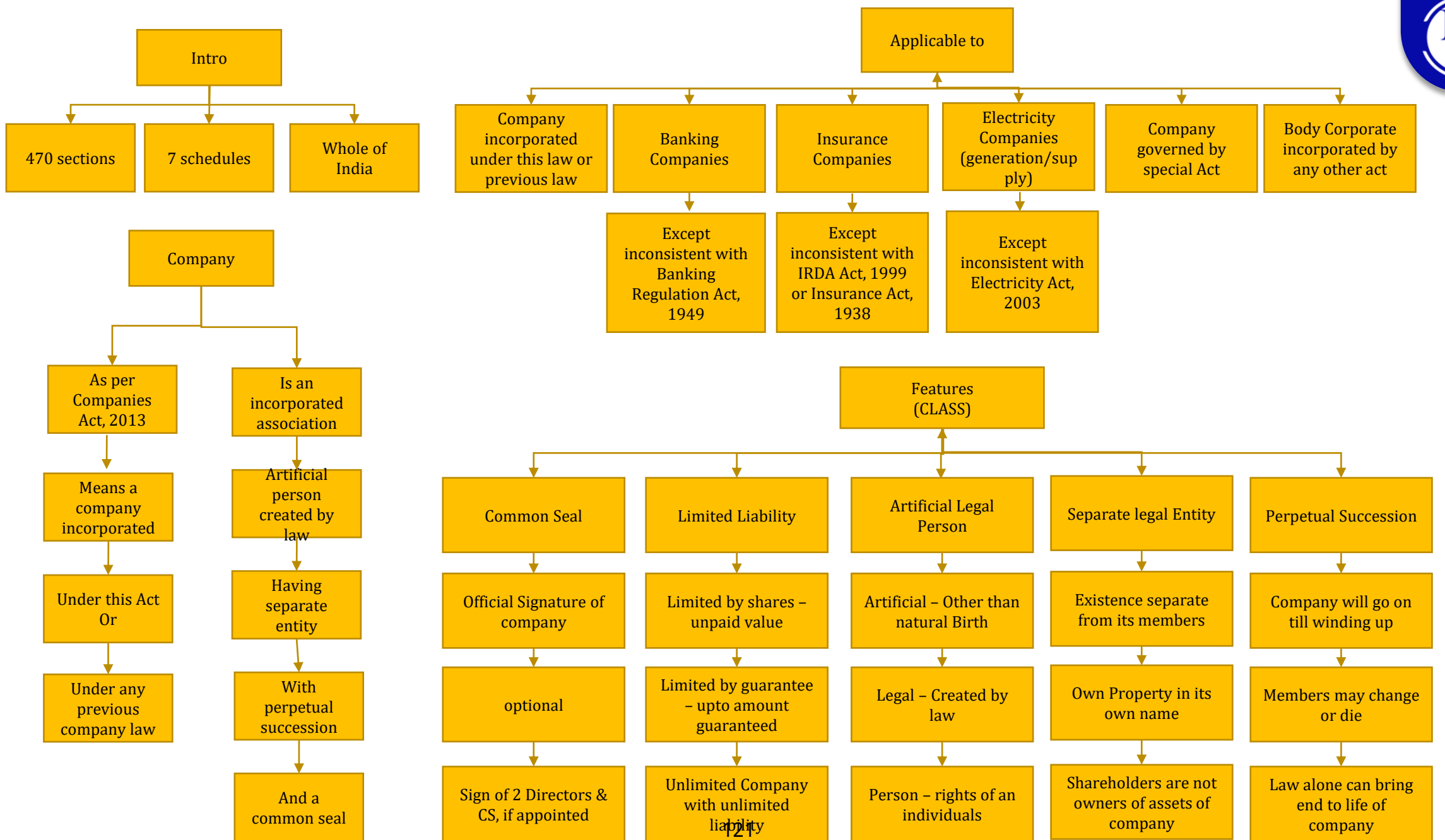
#### LIABILITY OF ESTATE OF DECEASED PARTNER :-

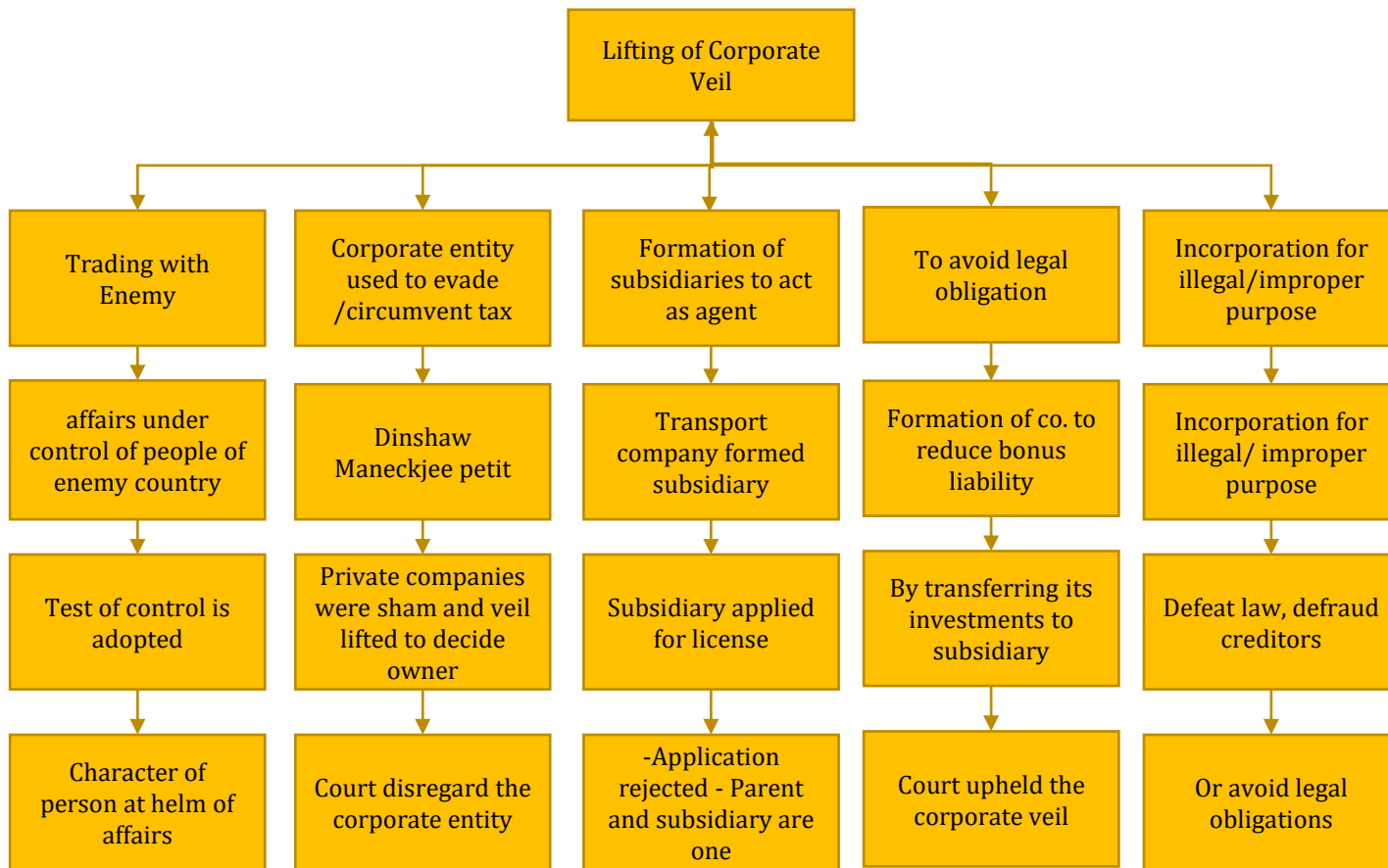
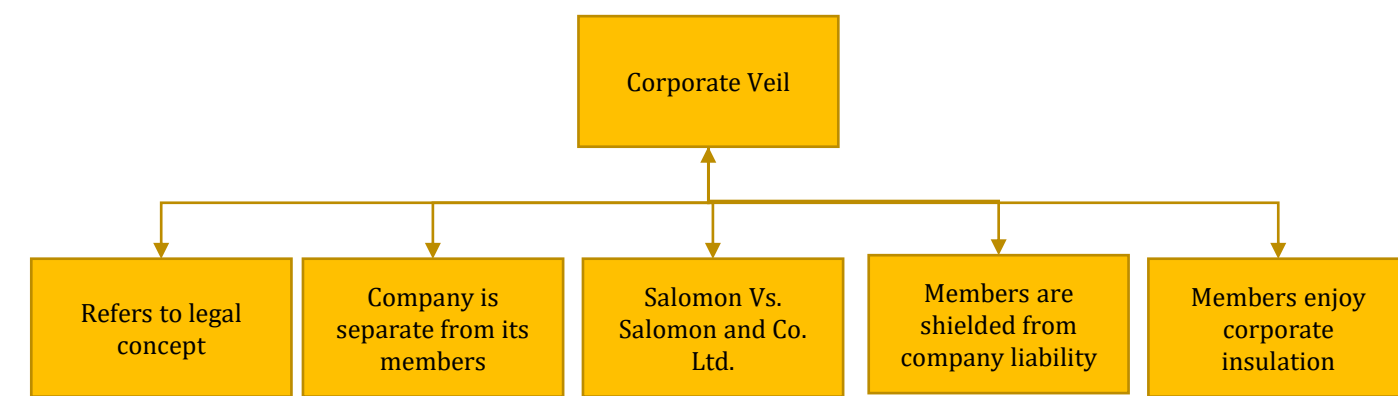
Where under a contract between the partners, the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death.



- ### Effect of Insolvency of a partner
- No public notice is required in case any partner become insolvent
  - He will be ceased to be a partner from the very date on which the order of adjudication is made.
  - The insolvent partner cannot be continued as a partner.
  - The estate of the insolvent partner is not liable for the acts of the firm done after the date of order of adjudication.
  - The firm is also not liable for any act of the insolvent partner after the date of the order of adjudication,
  - Ordinarily but not invariably, the insolvency of a partner result in dissolution of a firm; but the partners are competent to agree among themselves that the adjudication of a partner as an insolvent will not give rise to dissolution of the firm

# THE COMPANIES ACT, 2013

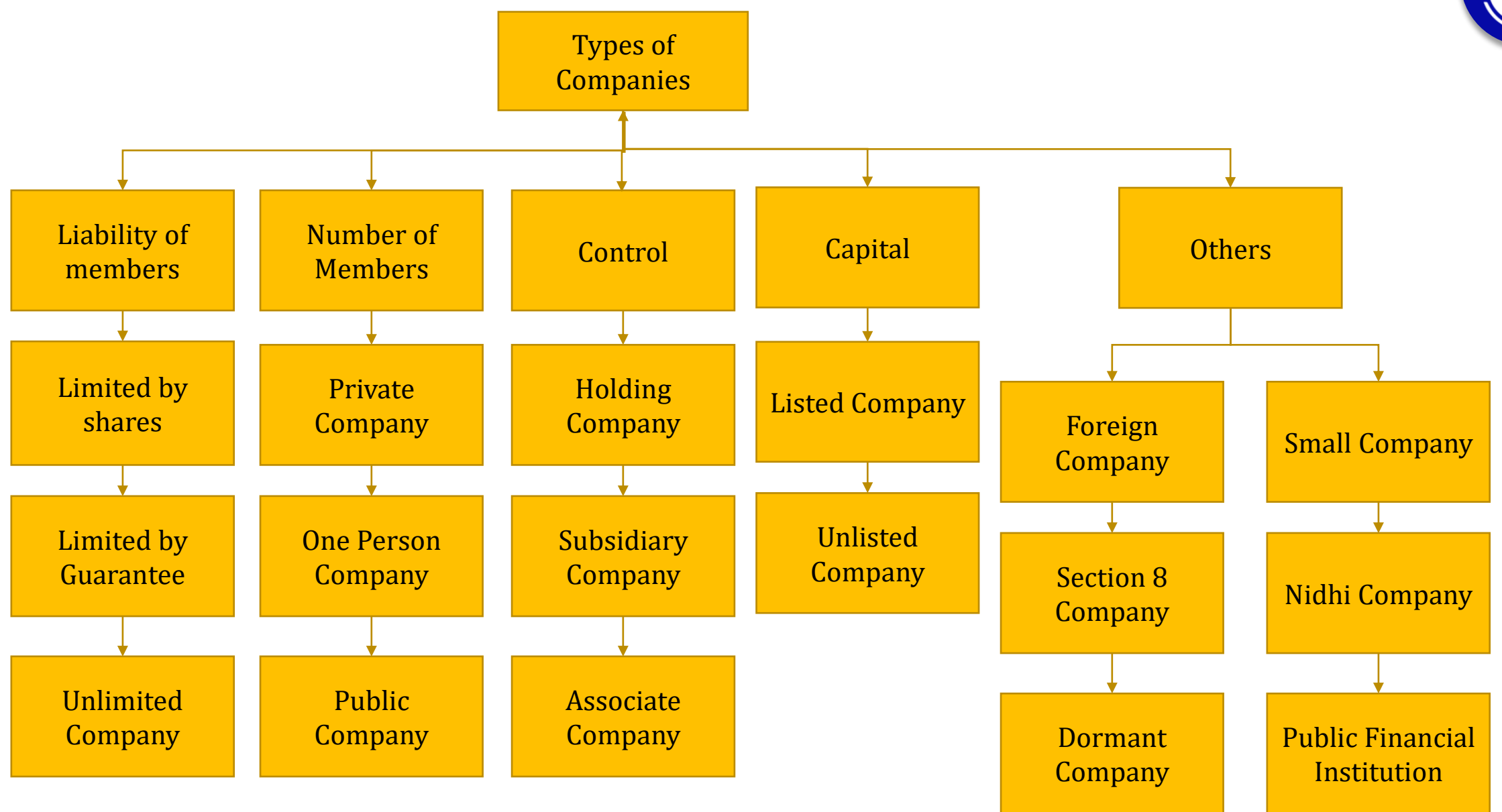


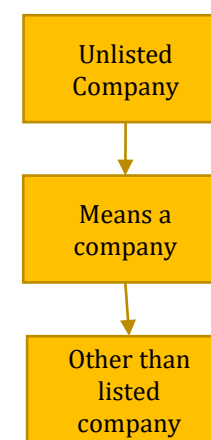
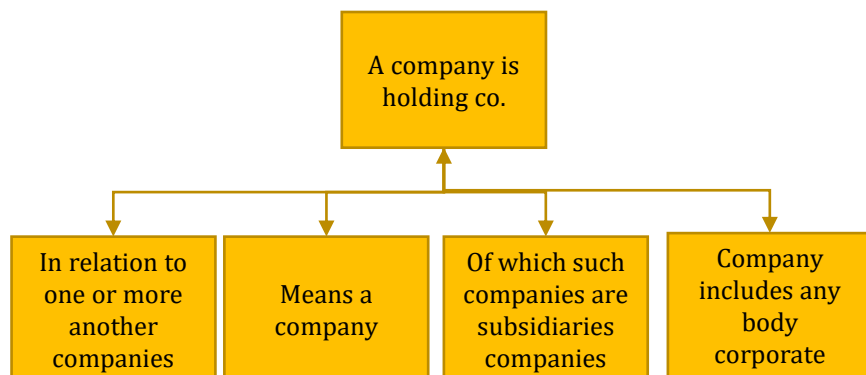
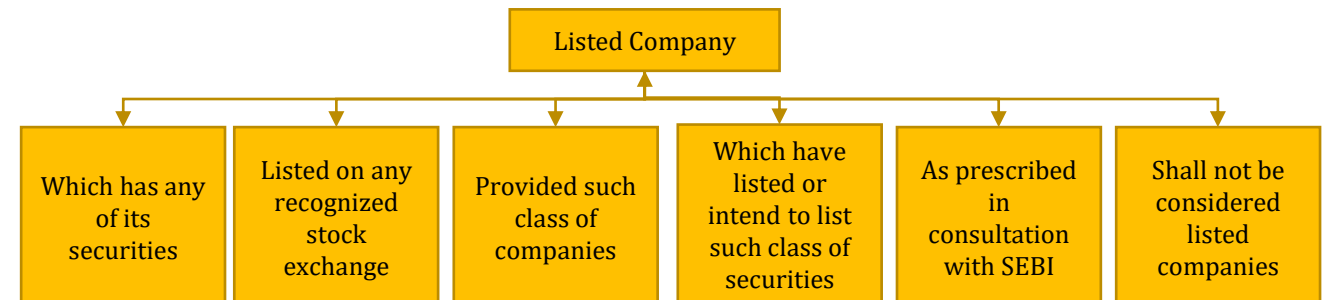
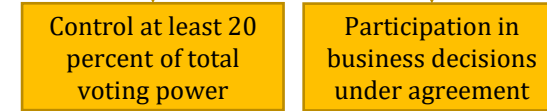
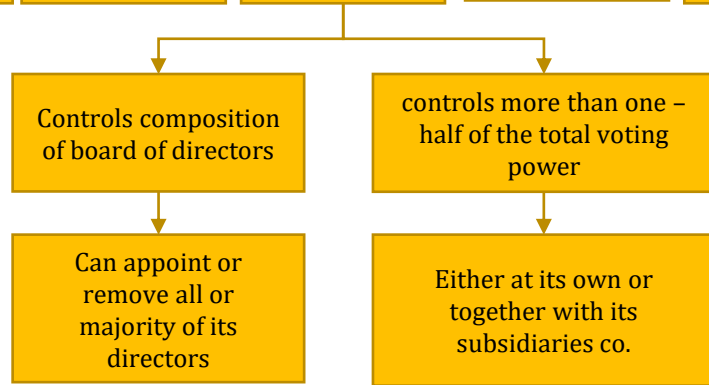
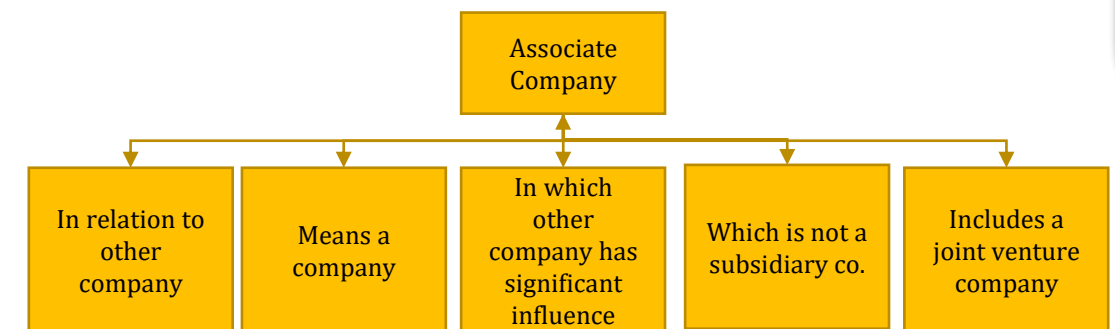
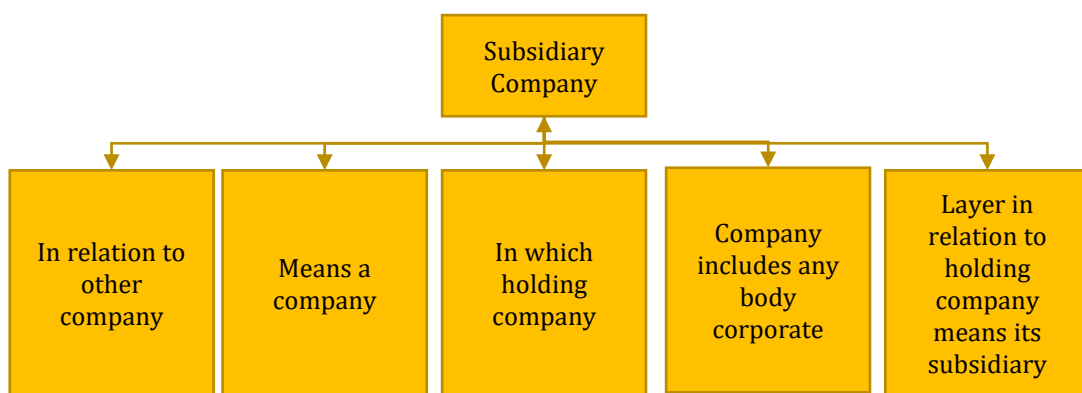
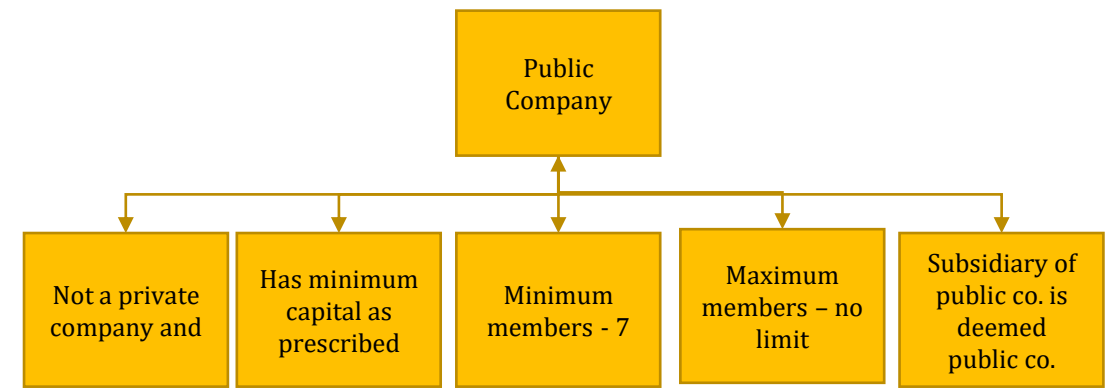
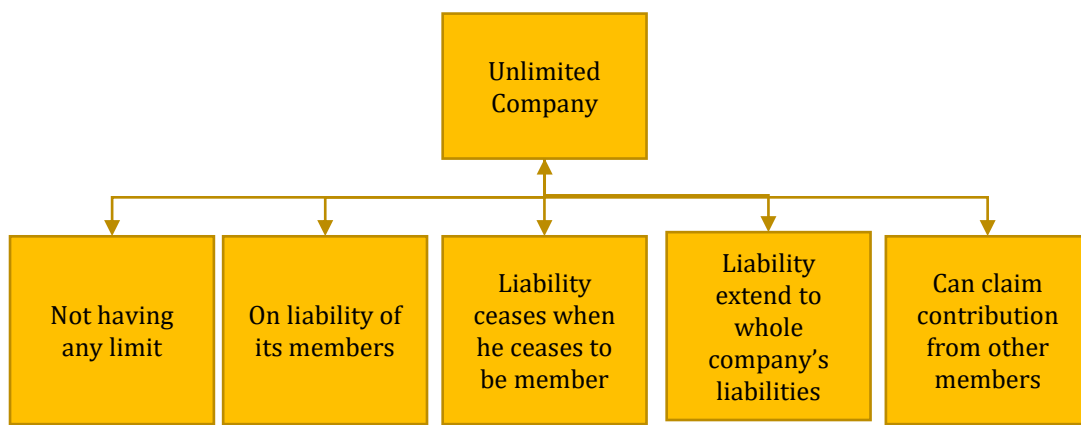
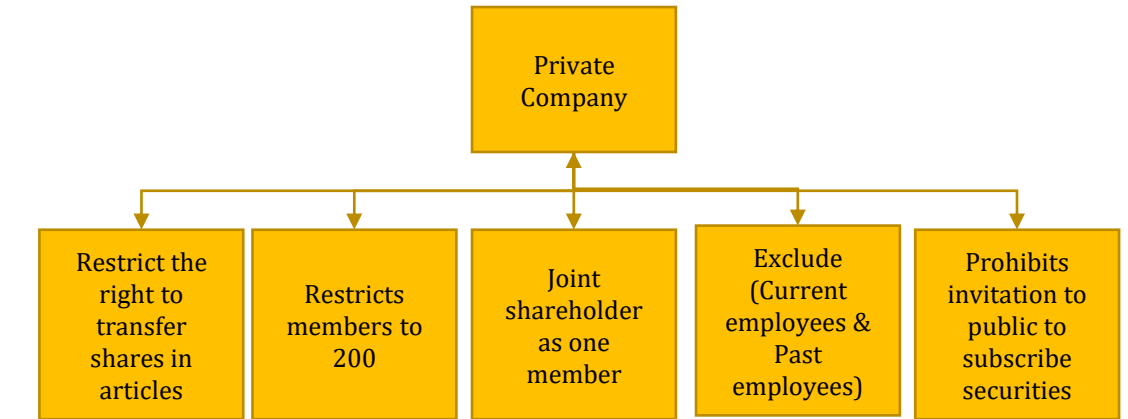
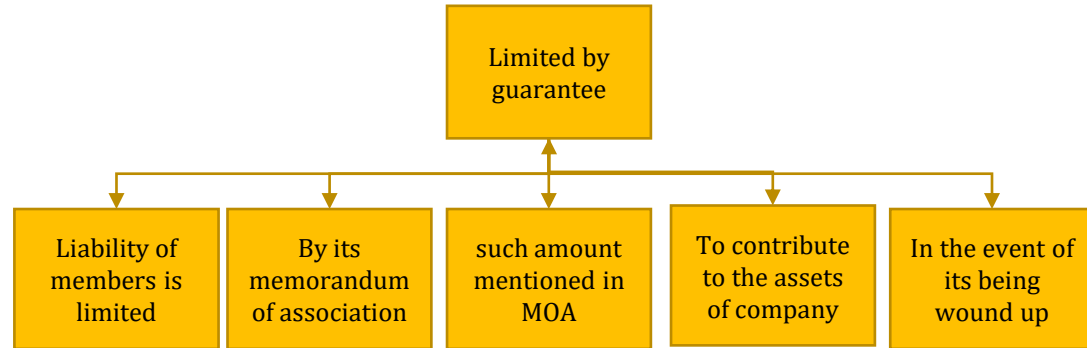
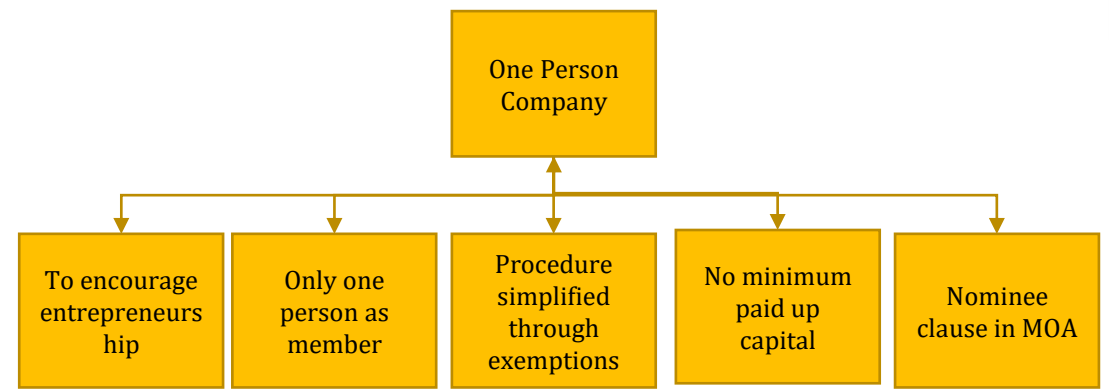
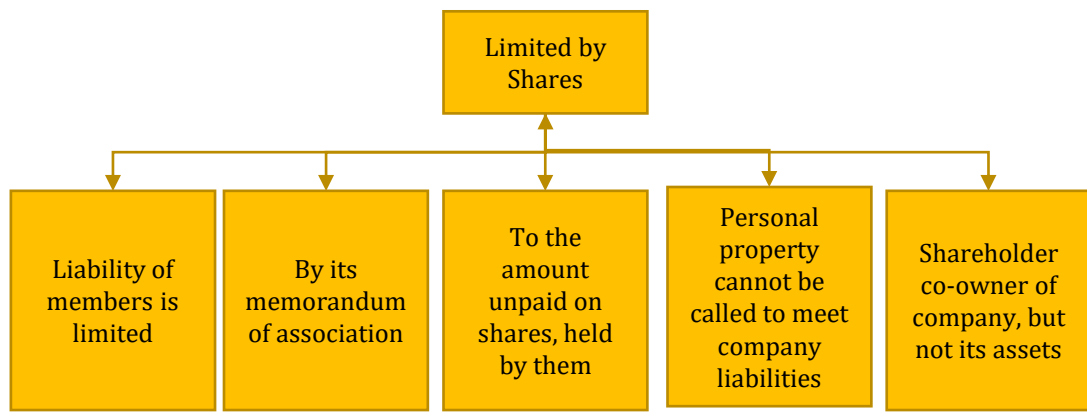


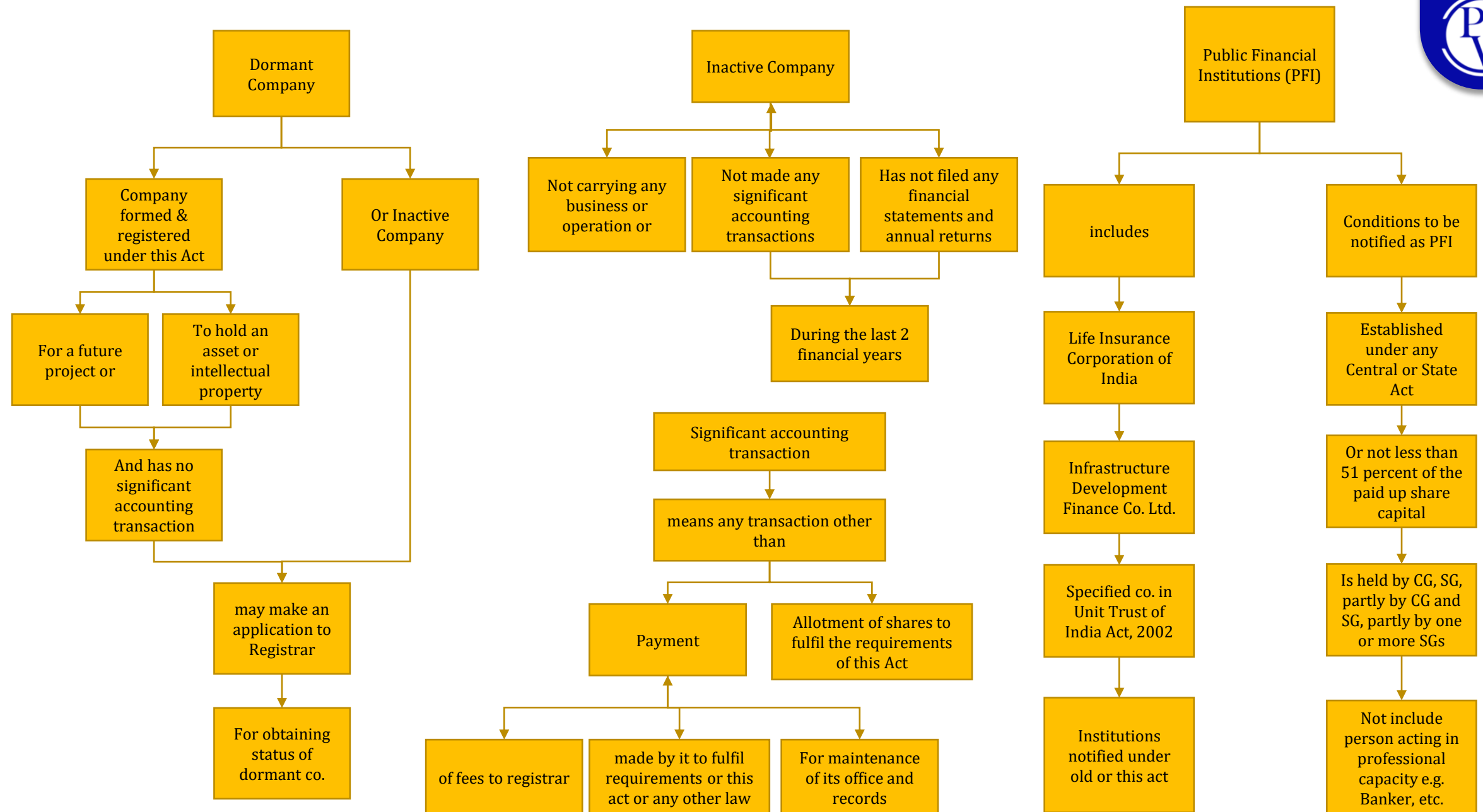
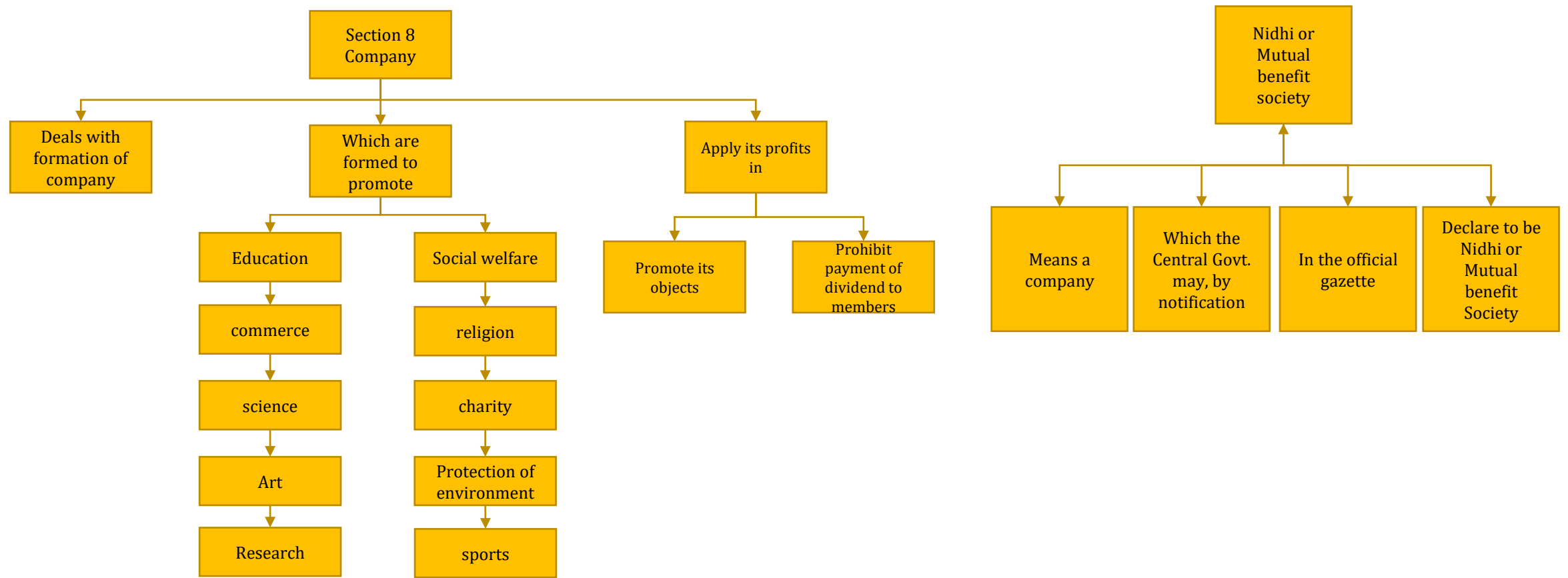
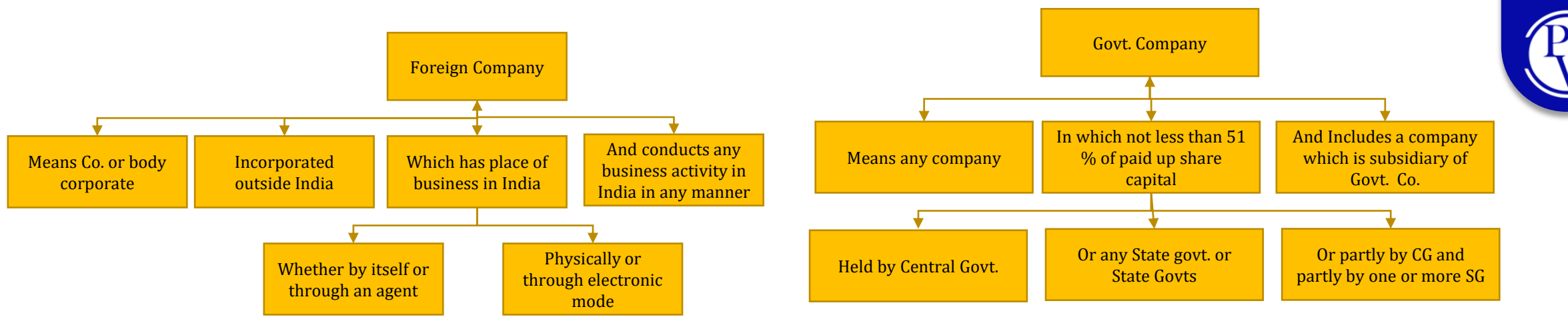
In **Salomon vs. Salomon & Co. Ltd.** the House of Lords laid down that a company is a person distinct and separate from its members. In this case one Salomon incorporated a company named "Salomon & Co. Ltd.", with seven subscribers consisting of himself, his wife, four sons and one daughter. This company took over the personal business assets of Salomon for £ 38,782 and in turn, Salomon took 20,000 shares of £ 1 each, debentures worth £ 10,000 of the company with charge on the company's assets and the balance in cash. His wife, daughter and four sons took up one £ 1 share each. Subsequently, the company went into liquidation due to general trade depression. The unsecured creditors to the tune of £ 7,000 contended that Salomon could not be treated as a secured creditor of the company, in respect of the debentures held by him, as he was the managing director of one-man company, which was not different from Salomon and the cloak of the company was a mere sham and fraud.

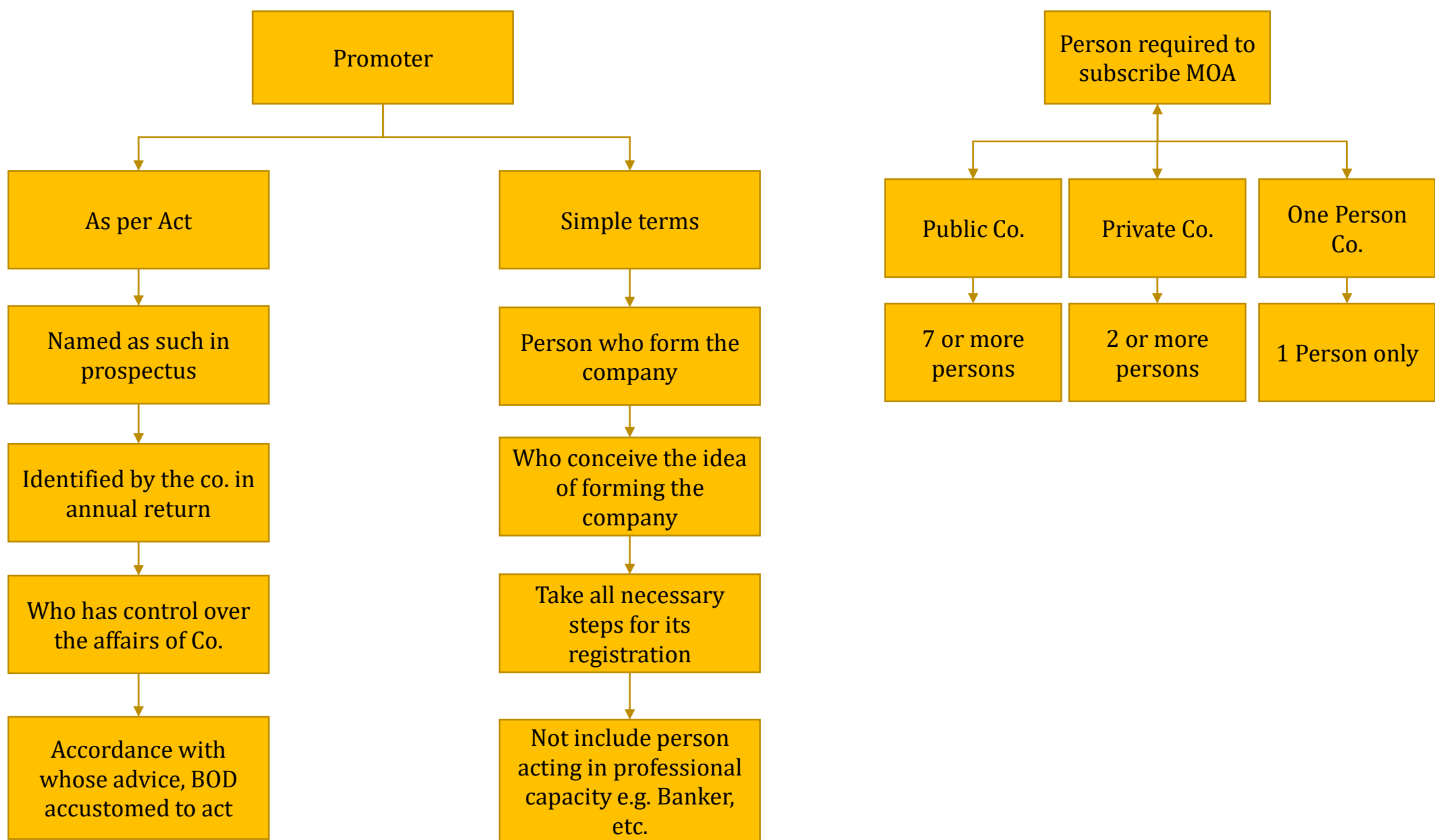
It was held by Lord Mac Naughten:

*"The Company is at law a different person altogether from the subscribers to the memorandum, and though it may be that after incorporation the business is precisely the same as it was before and the same persons are managers, and the same hands receive the profits, the company is not in law the agent of the subscribers or trustees for them. Nor are the subscribers, as members, liable, in any shape or form, except to the extent and in the manner provided by the Act."*









## Topic : Section 7 – INCORPORATION OF COMPANY



**SPICE = Simplified Proforma for Incorporating a Company Electronically**



**Promoter**

Files SPICE form With additional documents



**ROC**

**APPROVED**

**CIN**

CORPORATE IDENTIFICATION NUMBER



RoC issues Certificate of Incorporation



## Topic : Effect Of Registration



- 1) From date of incorporation, Company is separate from Subscriber to MoA ( Separate legal entity)
- 2) A company purchase 100 percent shares of other company but still they are different
- 3) Central Govt owns 100 percent shares of all the company but still it is not an agent of Govt
- 4) Any money payable by members to company will be considered as debt due to company

Where a company has been got incorporated by furnishing false or incorrect information or representation or by suppressing any material fact or information in any of the documents or declaration filed or made for incorporating such company or by any fraudulent action, the Tribunal may, on an application made to it, on being satisfied that the situation so warrants



- 1) pass such orders, as it may think fit, for regulation of the management of the company including changes, if any, in its memorandum and articles, in public interest or in the interest of the company and its members and creditors; or
- 2) direct that liability of the members shall be unlimited
- 3) Declaration that not convict/ not filed guilty for fraud
- 4) direct removal of the name of the company from the register of companies;
- 5) pass an order for the winding up of the company
- 6) pass such other orders as Tribunal may deem fit:

Before passing order, Tribunal

- 1) Give the company shall be given a reasonable opportunity of being heard in the matter &
- 2) shall take into consideration the transactions entered into by the company, including the obligations, if any, contracted or payment of any liability.



## Topic : Content Of Moa – compulsory clauses

- 1) Name Clause – Name of the Company Private Co/. – Private Limited, Public Co. – Limited
- 2) Registered Office Clause – Only name of state in which registered office is situated
- 3) Object Clause – Main object and incidental objects thereto
- 4) Liability Clause – Limited by shares/guarantee/ unlimited Liability
- 5) Capital Clause – Only applicable for company limited by shares
- 6) Association Clause – Every subscriber must take atleast 1 share
- 7) Nominee clause (applicable to OPC) – In death of subscriber who will become member



## Topic : Moa Is Charter Of The Company

- 1) Contains the object of the Company
- 2) Identifies the possible scope of its operations
- 3) MoA is a public document
- 4) Deemed Assumption – Everyone dealing with Co. has knowledge about the content of MoA
- 5) Format of MoA is given for each type of company

FORMAT	Applicable for
Table A	Limited by shares
Table B	Limited by guarantee and not having share capital
Table C	Limited by guarantee and having a share capital
Table D	Unlimited Company
Table E	Unlimited Company having share capital





## Topic : Content of AOA



- 1) Contains Regulations –contain the regulations for management of the Company
- 2) Other Matters – Contains Matters as are prescribe under the Rules
- 3) Contains provision for Entrenchment
- 4) Manner of Inclusion of Entrenchment
- 5) Notice to Registrar of the entrenchment Provision
- 6) Forms of Articles :- Table F,G,H,I & J in Schedule I
- 7) A company may adopt all or any of the regulations contained in the model articles.
- 8) In case of any company, which is registered after the commencement of this Act, in so far as the registered articles of such company do not exclude or modify the regulations contained in the model articles applicable to such company, those regulations shall, so far as applicable, be the regulations of that company in the same manner and to the extent as if they were contained in the duly registered articles of the company.



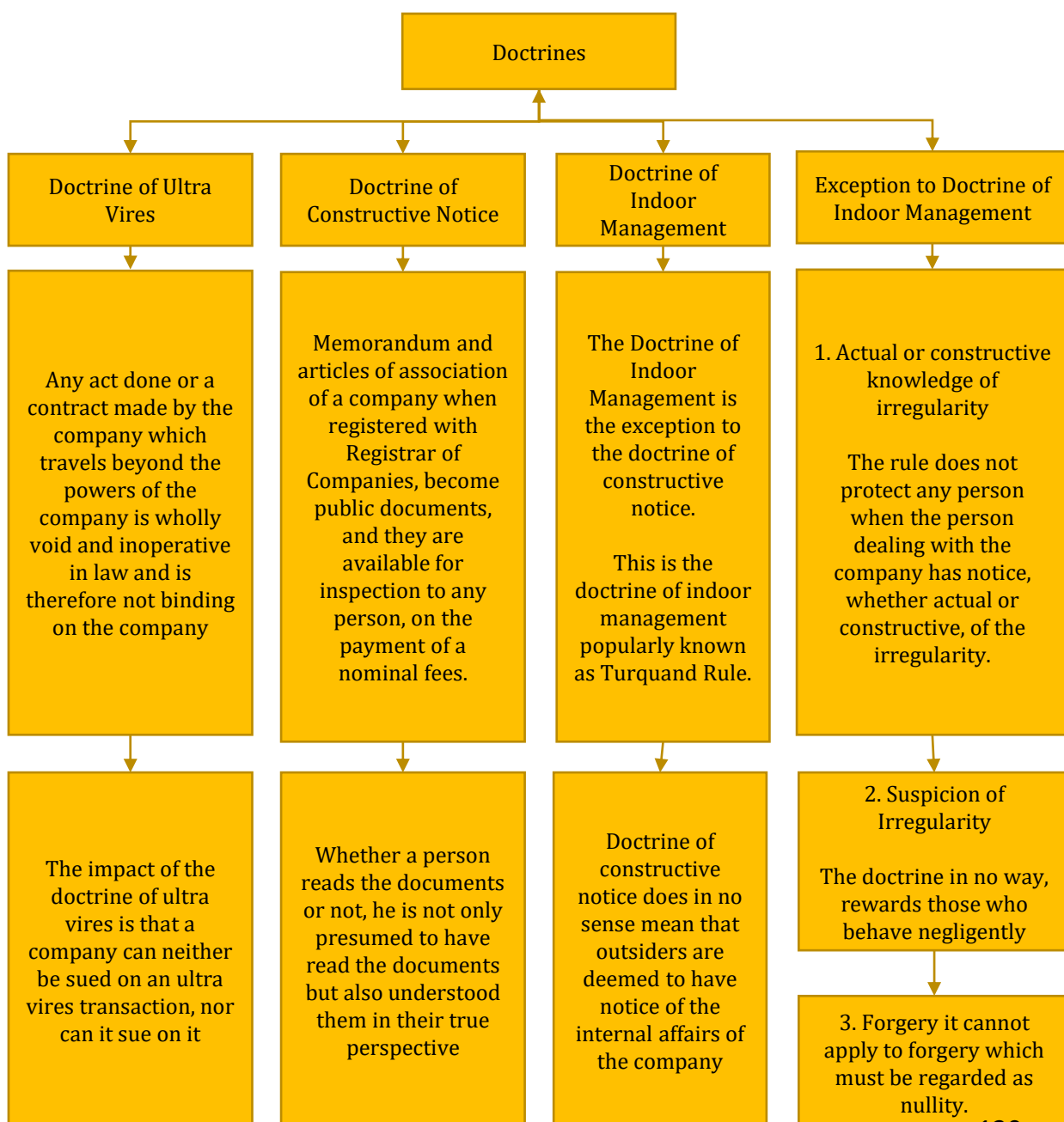
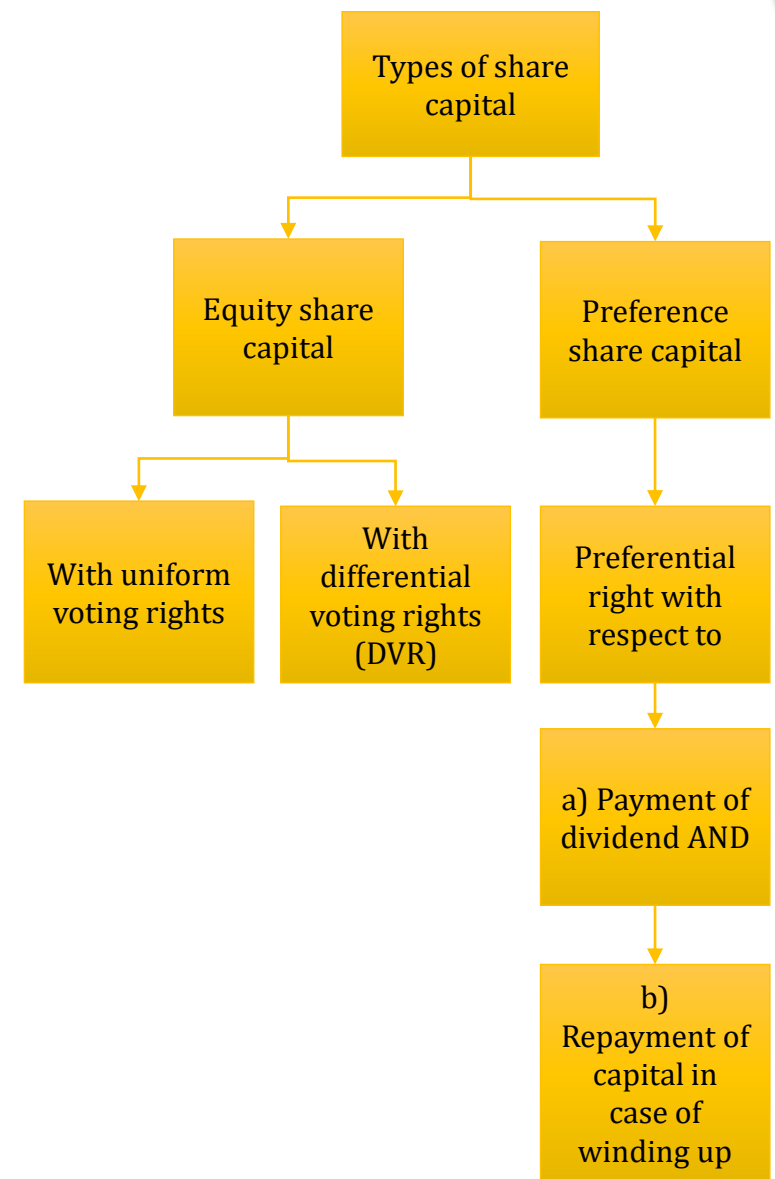
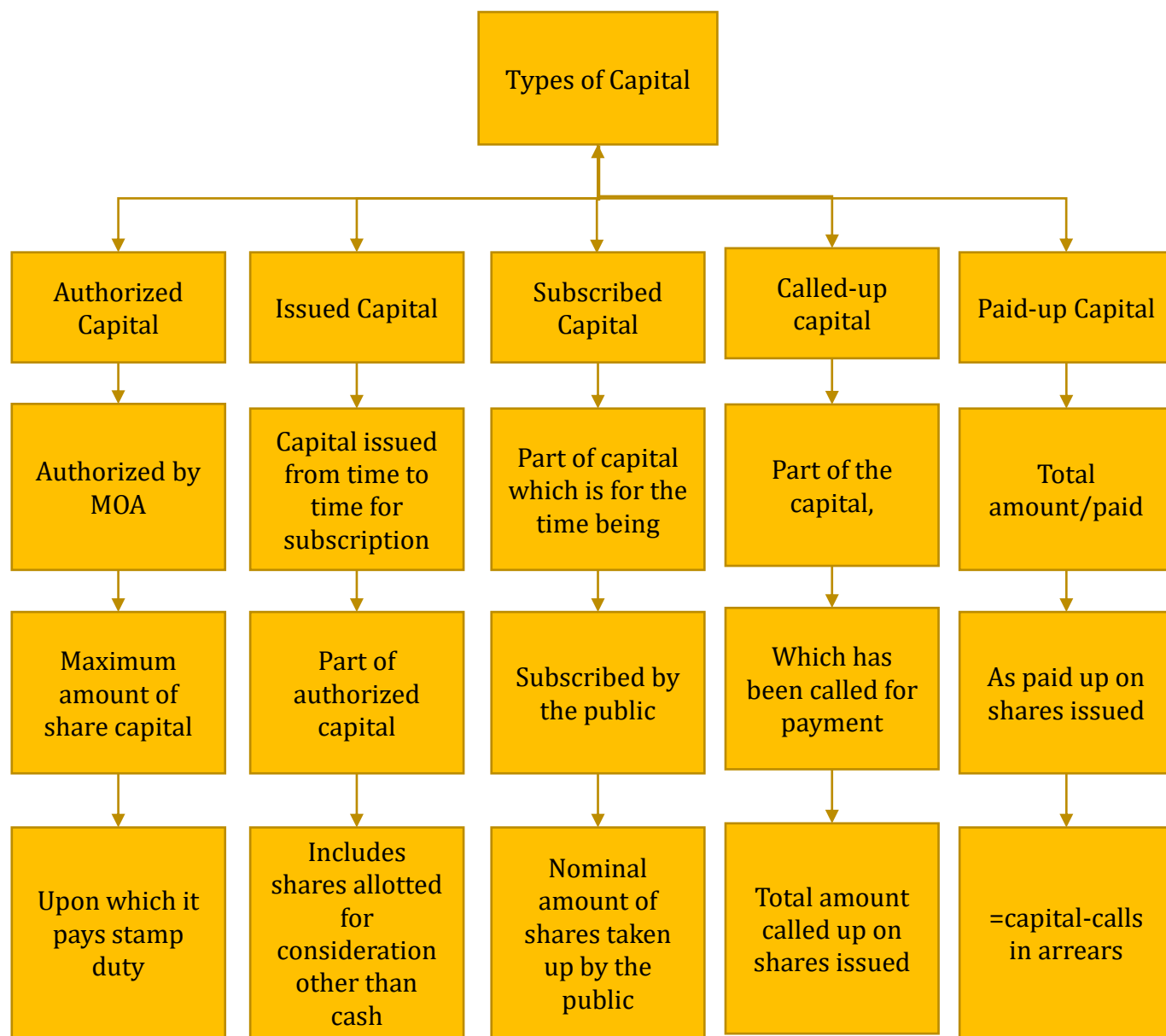
## Topic : Entrenchment



**Contain provisions for entrenchment:** The articles may contain provisions for entrenchment (to protect something) to the effect that specified provisions of the articles may be altered only if conditions or procedures as that are more restrictive than those applicable in the case of a special resolution, are met or complied with.

**Manner of inclusion of the entrenchment provision:** The provisions for entrenchment shall only be made either on formation of a company, or by an amendment in the articles agreed to by all the members of the company in the case of a private company and by a special resolution in the case of a public company.

**Notice to the registrar of the entrenchment provision:** Where the articles contain provisions for entrenchment, whether made on formation or by amendment, the company shall give notice to the Registrar of such provisions in such form and manner as may be prescribed.



**FACTS of the Royal British Bank vs. Turquand**

Mr. Turquand was the official manager (liquidator) of the insolvent Cameron's Coalbrook Steam, Coal and Swansea and Loughor Railway Company. It was incorporated under the Joint Stock Companies Act, 1844. The company had given a bond for £ 2,000 to the Royal British Bank, which secured the company's drawings on its current account. The bond was under the company's seal, signed by two directors and the secretary. When the company was sued, it alleged that under its registered deed of settlement (the articles of association), directors only had power to borrow up to an amount authorized by a company resolution. A resolution had been passed but not specifying how much the directors could borrow.

Held, it was decided that the bond was valid, so the Royal British Bank could enforce the terms. He said the bank was deemed to be aware that the directors could borrow only up to the amount resolutions allowed. Articles of association were registered with Companies House, so there was constructive notice. But the bank could not be deemed to know which ordinary resolutions passed, because these were not registrable. The bond was valid because there was no requirement to look into the company's internal workings. This is the indoor management rule, that the company's indoor affairs are the company's problem.

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