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CA INTER
Advanced Accounting

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PREFACE

Dear Student,

Welcome to the World of Knowledge - J.K. Shah Classes !

I have the pleasure of presenting this study material to you. It contains good number of good problems, selected so carefully from wide-ranging sources. It covers the problems which will bring in to focus all important concepts that you need to study in order to fortify yourself for your examination. The subject will be taught by eminent professors who are highly experienced and well-versed with the job.

The coaching is very exhaustive and wholly concept based. The conceptual explanations are entirely supported by good problems that cover the past and the problems which peep into the future. Also, the coaching is very systematic, well - planned and absolutely time bound. For a change, say good - bye to mechanical learning. I am sure you will feel that the study is a pleasurable job and not a painful exercise.

Each Topic of four parts :

(A) Theory Section : This section covers theory related to the topic.

(B) Classwork Section : This section covers good number of quality problems which will be solved in the classroom.

(C) Homework Section : This section covers good number of problems. Students are strongly advised to solve these problems.

(D) Past Exam Questions : This section covers questions which were asked in past CA-IPCC/CA-Intre exams

I wish you a very happy study time.

BEST OF LUCK !

Prof. J.K. Shah.
Chartered Accountant

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ADVANCED ACCOUNTING

1 COMPANY FINAL ACCOUNTS

PART A : THEORY SECTION

Schedule III of the Companies Act, 2013

PART I – BALANCE SHEET

Name of the Company..........

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

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	**EQUITY AND LIABILITIES**			
1.	Shareholder's funds			
a	Share capital			
b	Reserves and surplus			
c	Money received against share warrants			
2.	Share application money pending allotment			
3.	Non-Current Liabilities			
a	Long-term borrowings			
b	Deferred tax liabilities (Net)			
c	Other long term liabilities			
d	Long-term provisions			
4.	Current Liabilities			
a	Short-term borrowings			
b	Trade payables			
c	Other current liabilities			
d	Short-term provisions			
	TOTAL			

B.	**ASSETS**			
1.	Non-Current Assets			
a	Property,Plant & Equipment & Intangible Assets			
i.	Property, Plant & Equipment			
ii.	Intangible assets			
iii.	Capital work-in-Progress			
iv.	Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	Current Assets			
a	Current investments			
b	Inventories			
c	Trade receivables			
d	Cash and cash equivalents			
e	Short-term loans and advances			
f	Other current assets			
	TOTAL			

Important Disclosures in Notes to Accounts

1) Share Capital: For each class of share capital (different classes of preference shares to be treated separately):

Shareholding of Promoter's

Shares held by Promoter at the end of the year				% change during the year
S.No.	Promoter Name	No. of Shares	% of total Shares	
Total				

2) Current maturities of Long term borrowings shall be disclosed separately under Short term borrowings & not under Other Current Liabilities

3) **Trade Payables ageing Schedule:**

Particulars	O/s for following periods from due date of payment				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME					
Others					
Disputed dues-MSME					
Disputed dues-Others					

4) **PPE & Intangible Assets:** A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment/ Intangible Assets) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.]

5) **Trade Receivables ageing Schedule:**

Particulars	O/s for following periods from due date of payment					
	Less than 6 months	6 months – 1 year	1-2 years	2-3 years	More than 3 years	Total
Undisputed - considered good						
Undisputed - considered doubtful						
Disputed - considered good						
Disputed - considered doubtful						

6) **Additional Disclosures**

(1) Title deeds of Immovable Property not held in name of the Company.

(2) Capital WIP/ Intangible Assets under development Ageing schedule.

(3) Following ratios to be disclosed: (Change >25% as compared to previous year to be explained)

(a) Current Ratio, (b) Debt-Equity Ratio, (c) Debt Service Coverage Ratio, (d) Return on Equity Ratio, (e) Inventory turnover ratio, (f) Trade Receivables turnover ratio, (g) Trade payables turnover ratio, (h) Net capital T/o ratio, (i) Net profit ratio, (j) Return on Capital employed, (k) Return on investment

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company...............

Profit and loss statement for the year ended ....

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
I.	Revenue from operations			
II.	Other income			
III.	Total Income (I + II)			
IV.	Expenses:			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, work-in- progress and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total Expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
VII.	Profit before extraordinary items and tax (V - VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			

X.	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
	(3) (Excess) / Short Income Tax Provision of earlier year			
XI.	Profit / (Loss) for the period from Continuing operations			
XII.	Profit / (Loss) from discounting operations (Before tax)			
XIII.	Tax expense of discounting Operations			
XIV.	Profit / (Loss) from discounting Operations (After tax)			
XV.	Profit / (Loss) for the period			

Additional Disclosures:

Corporate Social Responsibility (CSR): Expenditure to be spent, actually incurred, shortfall, reason of shortfall, nature of activities.

Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:

a) profit or loss on transactions involving Crypto currency or Virtual Currency.

b) amount of currency held as at the reporting date,

c) deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.

Depending upon the **Total Income** of the company, the figures appearing in the Financial Statements **shall** be rounded off as given below:

Total Income	Rounding Off
(a) Less than 100 crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(b) 100 crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

Notes to Accounts

Note 1: Share Capital			
Authorised			
............Preference Shares of ₹.. each	xx		
.... Equity Shares of ₹.. each	xx	xx	
Issued, Subscribed and paid up			
..........Preference Shares of ₹.. each, fully paid / called	xx		
.... Equity Shares of ₹.. each fully paid / called up	xx		
	xx		
Less : Call in Arrears (including due from directors / officers)	xx	xx	
Share Forfeiture A/c		xx	
		xx	
Notes :			
(i) Shares issued for consideration other than cash			
(ii) Shares issued as Bonus			
(iii) No. of shares bought back			

Notes to Accounts

Note 2: Reserves and Surplus			
(a) Capital Reserves		xx	
(b) Capital Redemption Reserve		xx	
(c) Securities Premium Reserve		xx	
(d) Debenture Redemption Reserve		xx	
(e) Revaluation Reserve		xx	
(f) General Reserve		xx	
(g) Employee Stock option Outstanding		xx	
(h) Surplus (Profit & Loss A/c)			
Surplus as at the beginning of the year	xx		
Add : Profit / (Loss) for the period	xx		
Less : Interim Dividend	(xx)		
Less : Transfer to Reserves	(xx)	xx	
Add : Transfer from Reserves	Xx		
		xx	

Note: Addition & deduction should shown under each of the specific heads

Note 3: Long term borrowings (A) Secured: Debentures, Bank Loan, loan from financial institutions, etc. (Security information also needs to be disclosed) (B) Unsecured: Directors loan, loan from related parties / subsidiaries, public deposits taken, etc. (C) Deferred Payment Liabilities		

Note 4: Long term Provisions Provision for Gratuity/ Provident fund/ pension.		

Note 5: Short term borrowings Bank O/D, Cash credit, Loans payable on demand (Security information also needs to be disclosed) Current maturity of long team borrowing		

Note 6: Trade Payables Creditors, Bills Payable		

Note 7: Other Current Liabilities O/s expenses, calls in advance, Advance from customers, unclaimed dividend, TDS on expense, Income Tax payable, dividend payable etc. Interest accrued but not due on borrowings Interest accrued & due on borrowings		

Note 8: Short term provision Provisions for Tax, etc.		

Note 9: Property Plant & Equipment Land & Building, Furniture, machinery, motor vehicle, office equipment, etc. (information of cost & Accumulated Depreciation to be disclosed)		

Note10: Intangible Assets Goodwill, Patents, Trade-marks, copyrights, Computer software etc. (information of cost & Amortisation to be disclosed)		

Note11: Non - Current Investments Investments in Shares, Bonds, Govt. securities, Property, Gold, etc. (market value of Investment must be disclosed)		

Note12: Long term Loan and Advances Loan to subsidiaries/ related parties, housing loan to employees, security deposit given, Deposit with Government Authorities, Telephone deposit, Capital Advances etc.		

Note13: Inventories Closing stock of RM/ WIP/FG Stock in Trade. Loose Tools, Stores & spares, Goods in transit etc. (Mode of valuation shall be stated)		

Note14: Trade Receivables			
(i) Bills receivables		x	
(ii) Sundry Debtors			
- O/s for more than 6 months	x		
- Other debts.	x	x	

Note 15: Cash & Cash Equivalents Cash in hand, <u>Cash at Bank</u> With scheduled banks With other banks [If information given in adjustment]		

Note 16: Short term Loans and Advances Advance to staff, prepaid expenses, Advance Tax, TDS on Income, Income Tax refund receivable, etc.		
Note 17: Other Current Assets Income Receivables		
Note18: Contingent Liabilities and Commitments - Claims against Co. not acknowledged as debts - Bills discounted but not matured . - Guarantee given by co. - Uncalled amount on partly paid shares held as investments. - Capital expenditure commitments - Arrears of cumulative preference share Dividend.		
Note 19: Other Incomes Rent / Interest / Dividend / Commission Received		
Note20: Change in Inventory of FG, WIP & Stock in Trade Opening Stock x Less: Closing Stock (x)	x	
Note21: Employee Benefit Cost Salary, Wages, Bonus allowance to staff, Staff welfare expenses		
Note22: Finance Cost Interest on all borrowings		
Note23: Other Expenses - All Administration expenses - All selling and distribution expenses - Bad debts - Auditors, Remuneration for Audit fees, Tax work, co. law matter, consultancy fee, other matters etc. - Reimbursement of employee expenses		

Note24: **Exception Items** Profit / Loss on Sale of FA / Investments **Note :** Alternately it can be shown under the head "Other Incomes"		

Note25: **Extra Ordinary Items** Loss due to earthquake and other natural calamities		

Adjustment in Final Accounts:

(1) Provision for Tax :

(a) Profit and loss a/c (Current Tax)

(b) Balance Sheet (Short term Provisions)

(The Provision for tax should be calculated as a specific percentage of PBT)

(2) Transfer to Reserves :

(a) Profit and Loss a/c in Reserves & Surplus (Less from Profit)

(b) Balance sheet (Add to concerned Reserves).

(3) Transfer from Reserves :

(a) Profit and Loss a/c in Reserves & Surplus (Add to Profit)

(b) Balance Sheet (Less from Concerned Reserve)

(4) Outstanding Debenture Interest :

(a) Profit and Loss A/c - (Finance Cost)

(b) Balance Sheet - (Other Current Liabilities)

ADJUSTMENTS IN FINAL ACCOUNTS

Adjustments	Profit & Loss Account	Balance Sheet
A. Errors		
1. Sales Not Recorded	Add to Sales as per T.B	Add to Trade Receivable as per T.B.
2. Purchases Not Recorded	Add to Purchases as per T.B.	Add to Trade Payable as per T.B.
3. Goods on Sale or Return	(a) Sold: Deduct Sale Value from Sales	(a) Sold: Deduct Sale Value from Debtors

	(b) Unsold: Add Cost to Closing Stock under 'Change in Inventory'	(b) Unsold: Add Cost to Closing Stock under 'Inventory'
4. Revenue Expenses Treated as Capital Expenses	Add to Expense A/c	Deduct from Non-Current Asset A/c
5. B/R Endorsed	-	Deduct from B/R Deduct from Creditors (Endorsee)
6. B/R (Endorsed) Dishonoured	-	Add to Debtors Add to Creditors (Endorsee)
7. B/R (Retained) Dishonoured	-	Add to Debtors Deduct from B/R
8. B/R (Discounted) Dishonoured	-	Add to Debtors Deduct from Bank
9. Bills Payable Dishonoured	-	Add to S/Creditors and Deduct from B/P, both on Liabilities side
10. Capital Expenses Treated as Revenue Expenses	Deduct from Expense A/c	Add to Bon-Current Asset A/c
B. Current Expenses		
11. Prepaid Expenses	Deduct from Expense A/c	Show on Assets side under 'Short-term Loans and Advances'
12. Outstanding Expenses	Add to Expense A/c	Show on Liability side under 'Trade Payable'
13. Depreciation	Show on Debit Side under 'Depreciation and Amortisation'	Deduct from Gross Cost of Each Asset
14. Closing Stock	Show on Credit Side under 'Increase/(Decrease) in Stocks'	Show on Asset Side under 'Inventories'
15. Deferred Revenue Exp. Written Off	Show Amount written off on Debit Side under Expenses	Show Remaining Balance on Assets side
C. Current Income		
16. Income Due Not Received	Add to Income A/c	Show on Assets side under 'Other Current Assets'
17. Income Received in Advance	Deduct from Income A/c	Show on Liability side under 'Other Current Liabilities'

D. Provisions/Reserves		
18. Reserve for Doubtful Debts	Bad Debts (T.B. + New) Add: New Reserve Less: Old Reserve Final Figure [Note]	Deduct New Reserve from Trade Receivable
19. Reserve for Discount on Debtors	Discount Add: NEW Reserve Less: Old Reserve Final Figure [Note]	Deduct New Reserve from Trade Receivable
E. Losses/Gains		
20. Goods Given Away as Samples	(a) Deduct Cost from Purchases (b) Show Cost on Dr. of P & L A/c as 'Other Expenses'	-
21. Goods Entirely Lost	(a) Deduct Cost from Purchases (b) Show Cost on Dr. of P & L A/c as 'Other Expenses'	-
22. Goods Lost; Insurance Claim Due	(a) Deduct Cost from Purchases (b) Show Loss (Cost Less Claim) on Dr. of P & L A/c as 'Other Expenses'	-
23. Profit on Sale of Asset	Show Profit on Cr. of P&L A/c under 'Other Income'	Deduct W.D.V. from Asset A/c
24. Loss on Sale of Assets	Show Loss on Dr. of P&L A/c UNDER 'Other Expenses'	Deduct W.D.V. from Asset A/c
F. Other Corporate Adjustments		
25. Remuneration/ Commission to Managing Director at certain Percentage of Net Profit Before Tax and Dividend	Employee Benefit Expenses	Other Current Liability
26. Debentures Interest: Accrued and Due or Accrued and Not Due	Financial Cost	Other Current Liabilities
27. Issue of Bonus Shares	-	(a) Deduct from Surplus / Reserve (b) Add to Share Capital
28. Forfeiture of Shares not Recorded	Make the following entry Debit: Share Capital A/c Credit: Calls in Arrears A/c Credit: Forfeited Shares A/c	In Balance Sheet Add to Paid up Capital

29. Unclaimed Dividend	-	Show in Other Current Liabilities
30. Calls-in-Arrears	-	Deduct from Subscribed Capital
31. Transfer Fees	Show in Other Income	-
32. Interest on Sinking Fund Investments	-	It is added to Sinking Fund appearing under Reserves and Surplus in the Balance Sheet.

ADJUSTMENTS ALREADY MADE IN TRIAL BALANCE

Sometimes, the adjustments for prepaid, outstanding, closing stock, depreciation are already made. In this case, the Trial Balance shows balances such as Prepaid Expenses A/c, etc. These balances are to be adjusted only once as shown below:

Adjustments	Profit & Loss Account	Balance Sheet
1. Prepaid Expenses A/c in T.B.	-	
2. Outstanding Expenses A/c in T.B.	-	
3. Income Received in Advance A/c in T.B.	-	
4. Income Due not Received A/c in T.B.	-	
5. Depreciation A/c in T.B.	Show on Dr. Side under 'Depreciation & Amortisations'	
6. Closing Stock A/c in T.B	-	
7. Prov. for Depreciation A/c in T.B.	-	

Rules for payment of dividend

Normally, Dividend is paid out of current year profits. But if the Current year's Profits are insufficient then it can be paid out of Divisible Profits lying with the company provided following 3 conditions are satisfied:

(1) Dividend Rate cannot exceed average rate of Dividend of last 3 years.

(2) Divisible profits utilised should not exceed 10% of paid up share capital and divisible Profits.

(3) Divisible profits left over after such utilisation should not fall below 15% of paid up capital.

PART B : CLASSWORK SECTION

Question 1

The following is the Trial Balance of Subhash Limited as on 31.3.2023:

(Figures in ₹ '000)

Debit	₹	Credit	₹
Land at Cost	110	Equity Capital (Shares of ₹10 each)	150
Plant & Machinery	385	10% Debentures	100
Debtors	48	General Reserve	65
Capital W.I.P	43	Profit & Loss A/c	36
Bank	10	Share Premium	20
Purchases	160	Sales	350
Factory Expenses	30	Creditors	26
Administration Expenses	15	Provision for Depreciation	86
Selling Expenses	15	Suspense Account	2
Opening Stock	10		
Interim Dividend Paid	9		
	835		**835**

Additional Information:

(a) During the year, the company issued bonus shares to the shareholders on 1 : 3 basis. No entry relating to this has yet been made.

(b) The authorised share capital of the company is 25,000 shares of ₹ 10 each.

(c) The company on the advice of independent valuer wish to revalue the land at ₹ 1,80,000.

(d) Declared dividend 10% after providing for tax at 40%.

(e) Suspense account of ₹ 2,000 represents cash received for the sale of some of the machinery on 1.4.2022. The cost of the machinery was ₹ 5,000 and the accumulated depreciation thereon being ₹ 4,000.

(f) Depreciation is to be provided on plant and machinery at 10% on cost.

(g) Closing stock ₹30,000.

You are required to prepare Subhash Limited's profit and loss account for the year ended 31.3.2023 and a balance sheet on that date as per the provisions of Schedule III of the Companies Act, 2013.

Question 2

Ring Ltd. was registered with a nominal capital of ₹ 10, 00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 2023:

Particulars	₹	Particulars		₹
Buildings	5,80,000	Sales		10,40,000
Machinery	2,00,000	Outstanding Expenses		4,000
Closing Stock	1,80,000	**Provision for Doubtful Debts**		
Loose Tools	46,000	(01.04.22)		6,000
Purchases (Adjusted)	4,20,000	Equity Share Capital		4,00,000
Salaries	1,20,000	General Reserve		80,000
Directors' Fees	20,000	Profit and Loss A/c (1-4-2022)		50,000
Rent	52,000	Creditors		1,84,000
Depreciation	40,000	Provision for depreciation		
Bad Debts	12,000	On Building	1,00,000	
Investment	2,40,000	On Machinery	1,10,000	2,10,000
Interest accrued on		14% Debentures		4,00,000
investment	4,000	Interest on Debentures		
Debenture Interest	56,000	accrued but not due		28,000
Advance Tax	1,20,000	Interest on Investments		24,000
Sundry expenses	36,000	Unclaimed dividend		10,000
Debtors	2,50,000			
Bank	60,000			
	24,36,000			**24,36,000**

You are required to prepare statement of Profit and Loss for the year ending 31st March, 2023 and Balance sheet as at that date after taking into consideration the following information:

(a) Closing stock is more than opening stock by ₹ 1, 60,000;

(b) Provide to doubtful debts @ 4% on Debtors

(c) Make a provision for income tax @30%.

(d) Depreciation expense included depreciation of ₹ 16,000 on Building and that of ₹ 24,000 on Machinery.

(e) The directors declared a dividend @ 25% and transfer to General Reserve @ 10%

(f) Bills Discounted but not yet matured ₹ 20,000.

Question 3

The Articles of Association of S Ltd. provide the following:

(i) That 20% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

 (a) In paying 14% on cumulative preference shares

 (b) In paying 20% dividend on equity shares.

 (c) One-third of the balance available as additional dividend on preference shares and two third as additional equity dividend.

A further condition was imposed by the article viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of ₹ 100 each fully paid 70,000 equity shares of ₹ 10 each fully paid.

The profit for the year 2022 was ₹10,00,000 and balance brought from previous year ₹ 80,000 provide ₹ 31,000 for depreciation and ₹ 80,000 for taxation before making other appropriations.

Calculate Additional Dividend on preference shares and Equity Shares.

Question 4

Due to inadequacy of profits during the year ended 31st march 2023, XYZ Ltd proposes to declare 10% dividend out of general reserves. From the following particulars ascertain the amount that can be utilized from general reserves according to the companies (declaration of dividend out of reserves) Rules 2014-

	₹
17,500 9% preference shares of ₹ 100each fully paid up	17,50,000
8,00,000 equity shares of ₹ 10 each fully paid up	80,00,000
General Reserves as on 1.4.2022	25,00,000
Capital Reserves as on 1.4.2022	3,00,000
Revaluation reserves as on 1.4.2022	3,50,000
Net profit for year ended 31.3.2023	3,00,000
Average rate of dividend during last 3 years	12%

Question 5

Company offers new shares of ₹100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹150. Calculate the value of a right. What should be the ex-right market price of a share?

Question 6

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share at ₹120 each. Calculate the value of a right. What should be the ex-right market price of a share?

Question 7

On 31st March, 2023 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2023:

Credit Balances:	₹
Equity shares capital, fully paid shares of ₹10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
Secured by hypothecation of Plant & Machinery	
(Repayable within one year ₹ 2,00,000)	
Loans : Unsecured (Long term)	8,40,000
Sundry Creditors for goods & expenses	14,00,000
Calls in Advance	7,000
Profit & Loss Account	7,00,000
Provision of Taxation	3,25,500
Dividend Payable	4,20,000
Provision for Dividend Distribution Tax	71,400
	1,33,63,000
Debit Balances:	₹
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000

Stocks : Finished goods	14,00,000
Raw Materials	3,50,000
Sundry Debtors	14,00,000
Advances : Short-term	2,98,900
Cash in hand	2,10,000
Balance with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trade marks	4,00,000
	1,33,63,000

The following additional information is also provided :

(i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 28,00,000

Cost of Plant & Machinery ₹ 49,00,000

Cost of Furniture & Fixture ₹ 4,37,500

(iii) Sundry Debtors for ₹ 3,80,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹18,000 with a bank which is not a scheduled Bank and the deposit of 5 lakhs are for a period of 9 months.

(v) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2023 as required under Revised Schedule III of the Companies Act, 2013.

Question 8

The following balances are extracted from the books of Travese Limited as on 31st March 2023:

Particulars	Debit ₹	Credit ₹
7% Debentures		48,45,000
Plant & Machinery (as cost)	37,43,400	
Trade Receivable	35,70,000	
Land	97,37,000	
Debenture Interest	3,39,150	
Bank Interest	13,260	
Sales		47,22,600
Transfer Fees		38,250
Discount received		66,300
Purchases	28,86,600	
Inventories 1.04.2022	4,97,250	

Factory Expenses	2,58,060	
Rates, Taxes and Insurance	65,025	
Repairs	1,49,685	
Sundry Expenses	1,27,500	
Selling Expenses	26,520	
Directors Fees	38,250	
Interest on Investment for the year 2022-2023		55,000
Provision for depreciation		5,96,700
Miscellaneous receipt		1,42,800

Additional Information:

(i) Closing inventory on 31.03.2023 is ₹ 4,76,850

(ii) Miscellaneous receipts represent cash received from the sale of the Plant on 01.04.2022. The cost of the Plant was ₹ 1,65,750 and the accumulated depreciation thereon is ₹ 24,865.

(iii) The Land is re-valued at ₹ 1,08,63,000.

(iv) Depreciation is to be provide on Plant & Machinery at 10% p.a. on cost.

(v) Make a provision for income tax @ 25%.

(vi) The Board of Directors declared a dividend of 10% on Equity shares on 4th April, 2023.

You are required to prepare a Statement of Profit and Loss as per Schedule III of the Companies Act, 2013 for the year ended 31.03.2023. (Ignore previous year figures)

PART C : HOMEWORK SECTION

Question 9

The following items were extracted from the Balance Sheet of Xansa Ltd. as on 1st April, 2014:

	₹
13½% Preference Share capital	4,00,000
Equity Share Capital fully paid up	10,00,000
Securities Premium	7,00,000
15% Debentures	10,00,000

Profit before interest on debentures and before payment of tax @ 30% is ₹ 11,50,000 for the year ended 31st March, 2014.

The company also decided to transfer creation of general reserve @ 5% of net profit (i.e. ₹ 7,00,000).

Pass the necessary Journal entries to incorporate the Board's recommendations and show how the items concerned would be shown on the liabilities side of the Balance Sheet of Xansa Ltd. as on 31st March, 2015.

Question 10

You are required to prepare Balance sheet and statement of Profit and Loss from the following trial balance of Haria Chemicals Ltd. for the year ended 31st March, 2011.

Trial Balance of Haria Chemicals Ltd. as at 31st March, 2011

Particulars	₹	Particulars	₹
Inventory	6,80,000	Equity Shares	
Furniture	2,00,000	Capital (Shares of ₹ 10 each)	25,00,000
Discount	40,000	11% Debentures	5,00,000
Loan to Directors	80,000	Bank loans	6,45,000
Advertisement	20,000	Trade payables	2,81,000
Bad debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Purchases	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit & Loss account	1,39,000
Rentals	25,000	Depreciation provision	
		Machinery	**1,46,000**

Current account	45,000		
Cash	8,000		
Interest on bank loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		
Tools & Equipment's	2,45,000		
Goodwill	2,65,000		
Trade receivables	4,40,000		
Dealer aids	21,000		
Transit insurance	30,000		
Trade expenses	37,000		
Distribution freight	54,000		
Debenture interest	55,000		
	85,35,000		85,35,000

Additional information: Closing Inventory on 31-3-2011: ₹ 8, 23,000.

PART D : PAST EXAM QUESTIONS

Question 11

Calculate the maximum remuneration payable to the Managing Director based on effective capital of a non-investment company for the year, from the information given below: **(Nov. 2011)**

		(₹ in '000)
(i)	Profit for the year (calculated as per Section 349, 350 AND 351 of the Companies Act, 2013)	3,000
(ii)	Paid up Capital	18,000
(iii)	Reserves & Surplus	7,200
(iv)	Securities Premium	1,200
(v)	Long term Loans	6,000
(vi)	Investments	3,600
(vii)	Preliminary expenses not written off	3,000
(viii)	Remuneration paid to the Managing Director during the year	600

Question 12

The Articles of Association of Samson Ltd. provide the following:

(i) That 25 % of the net profit of each year shall be transferred to reserve fund,

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(1) In paying 15% on cumulative preference shares.

(2) In paying 20% dividend on equity shares.

(3) one-third of the balance available as additional dividend on preference shares and two-third as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 14% on preference shares after making provision (i), (ii) and (iii) mentioned above. The company has issued 12,000, 15% cumulative participating preference shares of ₹ 100 each fully paid and 75,000 equity shares of ₹ 10 each fully paid up.

The profit for the year 2013-2014 was ₹ 10,00,000 and balance brought from previous year ₹ 1,50,000. Provide ₹ 37,500 for depreciation and ₹ 1,20,000 for taxation before making other appropriations.

Show net balance of Profit and Loss Account after making above adjustments.

(May 2017 IPCC)

Question 13

From the following particulars furnished by Elegant Ltd., prepare the Balance Sheet as on 31st March 2014 as required by Part I, revised, Schedule III of the Companies Act.

Particulars	Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)		50,00,000
Call in Arrears	5,000	
Land & Building	27,50,000	
Plant & Machinery	26,25,000	
Furniture	2,50,000	
General Reserve		10,50,000
Loan from State Financial Corporation		7,50,000
Stock:		
Raw Materials	2,50,000	
Finished Goods	10,00,000	
Provision for Taxation		3,40,000
Sundry Debtors	10,00,000	
Advances	2,13,500	
Dividend Payable		3,00,000
Profit & Loss Account		5,00,000
Cash in Hand	1,50,000	
Cash at Bank	12,35,000	
Preliminary expenses	66,500	
Unsecured Loan		6,05,000
Sundry Creditors (for Goods and Expenses)		10,00,000

The following additional information is also provided:

(i) Preliminary expenses included ₹ 25,000 Audit Fees and ₹ 3,500 for out of pocket expenses paid to the Auditors.

(ii) 10000 Equity shares were issued for consideration other than cash.

(iii) Debtors of ₹ 2,60,000 are due for more than 6 months.

(iv) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(v) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(vi) Balance at Bank includes ₹ 10,000 with Global Bank Ltd., which is not a Scheduled Bank.

(May 2017 IPCC)

Question 14

On 31st March, 2018, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 2018.

Particulars	Amount (₹)	
	Debit	Credit
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories : Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	**1,76,24,000**	**1,76,24,000**

The following additional information was also provided in respect of the above balances:

(1) 50,000 fully paid equity shares were allotted as considered for land.

(2) The cost of assets were:

Building	₹ 32,00,000
Plant and Machinery	₹ 30,00,000
Furniture and Fixture	₹ 16,50,000

(3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.

(4) Balances with banks include ₹ 56,000 with Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹ 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long term loans (unsecured) include:

Loan taken from Nixes Bank	₹ 13,80,000
(Amount repayable within one year	₹ 4,80,000)
Loan taken from Directors	₹ 8,50,000.

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 2018 has been discounted.

(9) Short term borrowings include:

Loan from Naya bank	₹ 1,16,000 (Secured)
Loan from directors	₹ 48,000

(10) Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS-10)

You are required to prepare the Balance Sheet of the Company as on March 31st, 2018 as required under Part-I of Schedule III of the Companies Acts 2013. You are not required to give previous year figures. **(May 2018 - Group 1)**

Question 15

Following is the trial balance of ABC Limited as on 31.3.2018. **(Figures in ₹ 000)**

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity capital (shares of ₹ 10 each)	500
Calls in arrears	5		
Cash in hand	2	10% Debentures	300
Plant & Machinery at cost	824	General reserve	150
Trade receivables	120	Profit & Loss A/c (F.Y. 2016-17)	75
Inventories (31-3-18)	96	Securities premium	40
Cash at Bank	28	Sales	1200
Adjusted Purchases	400	Trade payables	30
Factory expenses	80	Provision for depreciation	150
Administrative expenses	45	Suspense Account	10
Selling expenses	25		
Debenture Interest	30		
	2455		**2455**

Additional Information:

(i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.

(ii) The company revalued the land at ₹ 9,60,000.

(iii) Equity capital includes shares of ₹ 50,000 issued for consideration other than cash.

(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2017. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes ₹ 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2018 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2018 as per Schedule III. Ignore previous year's figures & taxation.

(16 Marks – May 2019 – IPCC)

Question 16

From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2019 as required by Schedule III of the Companies Act,2013:

Particulars	Debit ₹	Credit ₹
Equity share capital (face value of ₹ 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided :

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of ₹ 55,000 are due for more than six months.

(3) The cost of building and plant & machinery is ₹ 5,50,000 and ₹ 6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ₹ 2,10,000 in this account is inclusive of ₹ 10,000 for interest accrued but not due.

(5) Balance at Bank included ₹ 15,000 with Aakash Bank Ltd., which is not a scheduled bank. **(10 Marks – Nov 2019 – Inter)**

Question 17

The following extract of Balance Sheet of Prabhat Ltd. (Non investment Company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	₹
Issued and subscribed capital:	
30,000, 12% preference shares of ₹ 100 each (fully paid)	30,00,000
24,00,000 equity shares of ₹10 each, ₹ 8 paid up	1,92,00,000
Share suspense account	40,00,000
Reserves and Surplus:	
Securities premium	1,00,000
Capital reserves (₹ 3,00,000 is revaluation reserve)	3,90,000
Secured loans:	
12% debentures	1,30,00,000
Unsecured loans:	
Public deposits	7,40,000
Current liabilities:	
Trade payables	6,90,000
Cash credit from SBI (short term)	9,30,000
Assets	
Investments in shares, debentures etc.	1,50,00,000
Profit & loss account (Dr. balance)	30,50,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V.

Would your answer differ if Prabhat Ltd. is an investment company?

(5 Marks – Nov 2019 – Inter)

Question 18

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2019.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014:

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%.

(4 Marks – Nov 2019 – IPCC)

Question 19

What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein? **(5 Marks – Nov 2020 – Inter)**

Question 20

Following is the draft Profit & Loss Account of X Ltd. for the year ended 31st March, 2020:

	Amount (₹)		Amount (₹)
To Administrative Expenses	5,96,400	By Balance b/d	7,25,300
To Advertisement Expenses	1,10,500	By Balance from Trading A/c	42,53,650
To Sales Commission	1,05,550	By Subsidies received from Government	3,50,000
To Director's fees	1,48,900		
To Interest on Debentures	56,000		
To managerial Remuneration	3,05,580		
To Depreciation on fixed Assets	5,78,530		
To provision for taxation	12,50,600		
To General reserve.	5,50,000		
To Investment Revaluation Reserve	25,800		
To Balance c/d	16,01,090		
	53,28,950		**53,28,950**

Depreciation on fixed Assets as per Schedule II of the companies Act, 2013 was ₹6,51,750.

You are required to calculate the maximum limits of the managerial remuneration as per companies Act, 2013. **(5 Marks – Nov 2020 – Inter)**

Question 21

The following is the Draft Profit & Loss A/c of Brown Ltd. the year ended 31st March, 2020:

	Amount (₹)		Amount (₹)
To Administrative expenses	4,99,200	By Balance b/d	6,27,550
To Advertisement	1,18,200	By Balance from Trading A/c	38,15,890
To Commission on sales	95,225	By Subsidies received from Govt.	2,50,000
To Director's Fees	1,35,940		
To Interest on debentures	28,460	By Profit on sale of forfeited shares	20,000
To Managerial remuneration	2,75,550		
To Depreciation on fixed assets	4,82,565		
To Provision for Taxation	11,50,200		
To General Reserve	4,50,000		
To Investment Revaluation Reserve	52,800		
To Balance c/d	14,25,300		
	47,13,440		**47,13,440**

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 5,15,675. You are required to calculate the maximum limit of managerial remuneration as per Companies Act, 2013.

(Jan' 21)

Question 22

The following information is provided by Exe Limited for 31st March, 2022:

Particulars	₹
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	9,40,000
Depreciation provided in the Books	4,05,000
Provision for repairs for Machinery during the year	35,000
Depreciation Allowable under Schedule II	3,40,000
Actual Expenditure incurred on Repairs during the year	25,000
Provision for Income Tax	1,50,000

You are required to calculate Managerial Remuneration for Exe Limited as on 31st March, 2022 in the following situations:

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager

(May' 22)

Question 23

X Ltd. a non investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	₹ in lakhs
Paid up equity share capital	90
Paid up preference share capital	10
Reserves (including revaluation reserve ₹ 5 lakhs)	75
Securities premium	30
Long term loans	20
Deposit repayable after one year	10
Application money pending allotment	360
Accumulated losses not written off	40
Investment	90

X Ltd. has only one whole time director, Mr. Y. You are required to calculate the amount of maximum remuneration that can be paid to him if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years. **(Dec' 21)**

MULTIPLE CHOICE QUESTIONS

1. Which of the following statement is true?
   (a) Payment to Auditors must be shown as a separate item on the Cr. of the Profit & loss a/c of a company
   (b) Payment to Auditors can be clubbed with other expenses and shown under Misc. Expenses if it is less than 1% of the total revenue
   (c) Payment to Auditors advisor as advisor in Tax, Company Law must be shown as a separate item on the Dr. of the profit & loss a/c of a company
   (d) Payment to Auditors as auditors must not be shown as a separate item on the Dr. of the profit & loss a/c of a company in order to maintain confidentiality

2. Claims not acknowledged as debts
   (a) is shown under Trade Receivables in the balance sheet of a company
   (b) is shown under Trade Payables in the balance sheet of a company
   (c) is shown under Provisions in the balance sheet of a company
   (d) is shown by way of a note to the balance sheet of a company under Contingent Liabilities

3. Uncalled amount on partly paid shares
   (a) is shown under Investments in the balance sheet of a company
   (b) is shown under Share Capital in the balance sheet of a company
   (c) is shown under Provisions in the balance sheet of a company
   (d) is shown by way of a note to the balance sheet of a company under Contingent Liabilities

4. Amount of Arrears of cumulative dividends
   (a) is debited to the profit and loss a/c of a company as Provision for Proposed Dividends
   (b) is deducted from Pref. Share Capital in the balance sheet of a company
   (c) is added to Pref. Share Capital in the balance sheet of a company
   (d) is shown by way of a note to the balance sheet of a company under Contingent Liabilities

5. Unexecuted contracts on capital account
   (a) is shown as Capital Work-in-progress under Fixed assets in the balance sheet of a company
   (b) is shown under Share Capital in the balance sheet of a company
   (c) is shown under Loans and Advances on the Assets side in the balance sheet of a company
   (d) is shown by way of a note to the balance sheet of a company under Contingent Liabilities

6. In the Notes on Tangible Assets of a company
   (a) Gross Block Closing = Opening WDV + Purchases - Sales
   (b) Gross Block Closing = Opening Gross Block + Sales - Depreciation
   (c) Gross Block Closing = Opening WDV + Purchases – Sales - Depreciation
   (d) Gross Block Closing = Opening Gross Block + Purchases - Sales

7. In the Notes on Tangible Assets of a company
   (a) Depreciation Closing = Opening Depreciation – Depreciation for Current Year + Depreciation on Assets sold
   (b) Depreciation Closing = Opening WDV + Depreciation for Current Year – Depreciation on Assets sold
   (c) Depreciation Closing = Opening Depreciation + Depreciation on Assets Purchased during Year + Depreciation on Closing WDV
   (d) Depreciation Closing = Opening Depreciation – Depreciation for Current Year + Depreciation on Assets sold

8. In the Notes on Tangible Assets of a company
   (a) Net Block Opening = Closing Net Block – Opening Depreciation
   (b) Net Block Opening = Opening Gross Block – Closing Depreciation
   (c) Net Block Opening = Opening Gross Block – Current Depreciation
   (d) Net Block Opening = Opening Gross Block – Opening Depreciation

9. In the Notes on Tangible Assets of a company, Closing WDV + Depreciation for the year is equal to
   (a) Opening Gross Block (b) Opening WDV
   (c) Closing WDV (d) Closing Gross Block

10. In the Notes on Tangible Assets of a company

(a) Closing WDV = (Closing Gross Block + Assets Purchased – Assets Sold) – (Closing Depreciation + Depreciation during current Year – Depreciation on assets sold)

(b) Closing WDV = (Opening Gross Block + Assets Purchased – Assets Sold) – (Opening Depreciation - Depreciation during current Year + Depreciation on assets sold)

(c) Closing WDV = (Opening Gross Block + Assets Purchased – Assets Sold) – (Opening Depreciation + Depreciation during current Year – Depreciation on assets sold)

(d) Closing WDV = (Closing WDV + Assets Purchased – Assets Sold) – (Opening Depreciation + Depreciation during current Year – Depreciation on assets sold)

11. Short Term loans, for the purpose of disclosure in the balance sheet of a company

(a) have been defined as those which are due for not less than 1 year as at the date of the Balance Sheet

(b) have been defined as those which are due for not more than 1 year as at the date of the Balance Sheet

(c) have been defined as those which are due for not more than 6 months as at the date of the Balance Sheet

(d) have been defined as those which are due for not less than 6 months as at the date of the Balance Sheet

12. When demand for tax raised by the income-tax department is disputed by the company by the an appeal

(a) the amount is shown as a contingent liability in the notes to accounts

(b) no entry is passed

(c) the amount is debited to Profit & Loss Account and credited to Provision for Tax A/c

(d) the amount is debited to Tax Paid Account and credited to Provision for Tax A/c

13. When demand for additional tax raised by the income-tax department is accepted by the company
    (a) the amount is shown as a contingent liability in the notes to accounts
    (b) no entry is passed
    (c) the amount is debited to Profit & Loss Account and credited to Provision for Tax A/c
    (d) the amount is debited to Tax Paid Account and credited to Provision for Tax A/c

14. When assessed tax is less than the provision for tax made by the company
    (a) the amount is debited to Tax Paid Account and credited to Profit & Loss A/c
    (b) no entry is passed
    (c) the amount is debited to Profit & Loss Account and credited to Provision for Tax A/c
    (d) the amount is debited to Provision for Tax Account and credited to Profit & Loss A/c

15. Which of the following statement is false?
    (a) Dividend is normally calculated with reference to paid-up capital
    (b) No dividend is paid on amounts paid by shareholders as calls in advance
    (c) If the company's articles of association so provide, dividend may not be paid on the shares on which calls are still outstanding
    (d) If new shares are issued during the year, dividend is paid at full rate irrespective of the period of holding

16. Which of the following should be deducted from the share capital to find out paid-up capital?
    (a) Calls-in-advance (b) Calls-in-arrears
    (c) Securities Premium (d) Bonus

17. Dividends are usually paid on
    (a) authorised capital (b) issued capital
    (c) paid up capital (d) reserve capital

18. Interim dividends of a company can be declared by
    (a) Only be shareholders
    (b) Board of directors after approval of stock exchange
    (c) Board of directors
    (d) None of the above

19. Which of the following is not an example of contingent liability?
    (a) Liability in respect of bills discounted
    (b) Interim dividend
    (c) Liability under guarantee
    (d) All (a), (b) and (c) of the above

20. Assets to be sold, consumed or realised as part of the entity's normal operating cycle are:
    (a) current assets
    (b) non-current assets
    (c) classified as current or non-current in accordance with other criteria

21. Liabilities that an entity expects to settle in its normal operating cycle are:
    (a) classified as non-current liabilities
    (b) classified as current or non-current liabilities in accordance with other criteria
    (c) classified as current liabilities
    (d) Classified as provisions

22. Which of the following items does not appear under the head 'Reserves and Surplus' in the balance sheet?
    (a) General reserve (b) Sinking fund
    (c) Unclaimed dividend (d) Securities premium

23. Which of the following items should not appear under the head 'unsecured loans' in the Balance Sheet of a company?
    (a) Sinking fund (b) Short-term loans from banks
    (c) Short-term advances from banks (d) Fixed deposits

24. Which of the following is not classified as inventory in the financial statements?
    (a) Finished goods
    (b) Work-in-progress
    (c) Stores and spares
    (d) Advance payment made to suppliers for raw materials

25. Which of the following items appears as an asset in the Balance Sheet of a company?
    (a) Capital reserve
    (b) Retained earnings
    (c) Sinking fund investment
    (d) Securities premium

26. Provision for taxation for the current year is
    (a) Deducted from profit before tax
    (b) Deducted from profit after tax
    (c) Deducted from profit available to shareholders
    (d) Deducted from operating profit

27. As per schedule III of the Companies Act, 2013, under which of the following heads is 'Premium on issue of debentures' shown in the balance sheet of a company?
    (a) Miscellaneous expenditure
    (b) Debentures
    (c) Reserves and surplus
    (d) Current liabilities and provisions

28. The item 'Interest Accrued on Investments' appears in the balance sheet of a company under the category of
    (a) Loans and advances
    (b) Current assets
    (c) Investments
    (d) Current liabilities

29. Which of the following denotes the dividend declared by the directors between two annual general meetings?
    (a) Proposed dividend
    (b) Final dividend
    (c) Interim dividend
    (d) Unpaid dividend

30. Under which of the following heads is a claim against a company not acknowledged as debt shown?

(a) Notes to balance sheet
(b) Current liability
(c) Current asset
(d) Secured loan

31. Ranjit Ltd., furnishes the following information:

Issued capital of 10,000 shares @`100 each

Called-up capital of 8,000 shares @`100 each

Calls-in-arrear

Final dividend

The amount of final dividend paid to the shareholders was

(a) ₹1,00,000
(b) ₹72,000
(c) ₹80,000
(d) ₹75,000

32. Companies with turnover of less than INR 100 crore are permitted under the Schedule round off the figures in the financial statements to the

(a) nearest millions, thousands, hundreds or decimals thereof
(b) nearest lakhs, thousands, hundreds or decimals thereof
(c) nearest lakhs or millions, thousands, hundreds or decimals thereof
(d) nearest lakhs or thousands or decimals thereof

33. The choice of rounding off to nearest hundreds or thousands is not available under the Schedule III to

(a) Companies with turnover of INR 100 crores or more
(b) Companies with turnover less than INR 100
(c) Companies with turnover of INR 500 crores or more
(d) Companies with turnover between INR 50 and 100 crores

34. Once a unit of measurement is chosen by a company for rounding off under the Schedule

(a) it should be used in the financial statements but not in the notes to accounts
(b) it should be used uniformly in the financial statements including notes to accounts
(c) it should be used at the option of the company either in financial statements or the notes to accounts
(d) it should be used only in the notes to accounts

35. The broad headings under which balance sheet is divided under the Schedule III are
    (a) ‘liabilities’ and ’assets’
    (b) ‘equity and liabilities’ and ‘assets’
    (c) ‘sources of funds’ and ‘application of funds’
    (d) ‘current’ and ‘non-current’

36. Where a company constructs office buildings for third parties and the construction normally takes two to three years to complete, the company’s construction work in progress would be classified as
    (a) a fixed tangible asset
    (b) a fixed intangible asset
    (c) a long term loans and advance
    (d) a current asset

37. A trade receivable with an agreed credit term of three months which is not expected to be realised within 12 months from the year-end, shall be classified as
    (a) non-current
    (b) current
    (c) partly current and partly non-current

38. Under the Schedule III, calls in advance should be disclosed under
    (a) Other Current Liabilities
    (b) Share Capital
    (c) Non - current liabilities
    (d) Loans and advances

39. Under the Schedule III, Share options outstanding account should be disclosed under
    (a) Share capital
    (b) Non - current liabilities
    (c) Reserves and surplus
    (d) Non - current asset

40. The Schedule III specifically requires ‘money received against share warrants’ to be disclosed
    (a) under Share Capital
    (b) under Reserves and surplus
    (c) under ‘Cash and cash equivalents’
    (d) as a separate line item as part of ‘shareholders’ funds’

41. Share application money pending allotment (and not due for refund) has to be shown
    (a) under Share Capital
    (b) under 'Other non - current liabilities'
    (c) as a separate line item as part of 'shareholders' funds'
    (d) Separately under 'Equity' on the face of the balance sheet but is not included in 'shareholders' funds'

42. Share application money which is due for refund in the event of over - subscription has to be presented under
    (a) under Share Capital
    (b) under 'non - current liabilities'
    (c) under 'other current liabilities'
    (d) as a separate line item as part of 'shareholders' funds'

43. 'Advances' taken for goods and services to be supplied within 3 months from year - end should be disclosed as an item under
    (a) 'Other Payables' under 'Other Current Liabilities'
    (b) 'Other loans and advances' under 'Short - term borrowings'
    (c) Trade payable

44. Current maturities of long - term borrowings are classified under
    (a) long - term borrowings (b) short - term borrowing
    (c) other current liabilities

45. Interest accrued and due on debentures
    (a) should be added to debentures
    (b) Should be shown under Other current liabilities
    (c) should be shown under Short - term borrowing
    (d) should be shown under Short - term provisions

46. Capital advances are required to be disclosed under
    (a) long - term loans and advances
    (b) Capital work - in - progress
    (c) intangible assets under development
    (d) non - current investment

47. Schedule III required disclosure of trade receivables that are outstanding for more than six months
   (a) from the date of the sales bill
   (b) from the date of the balance sheet
   (c) from the date they are due for payment
   (d) from the date of the order

48. Which one of the following combinations of accounting assumptions are fundamental according to Accounting Standard 1:
   (a) Going concern, consistency and historic cost
   (b) Entity, accrual and materiality
   (c) Conservatism, accounting period and prudence
   (d) Going concern, consistency and accrual

49. Accounting Standard 1 is
   (a) Recommendatory (b) Mandatory
   (c) Optional (d) No longer valid

50. Accounting policies
   (a) Are same for all concern
   (b) Are laid down by law
   (c) Change from concern to concern
   (d) Are prescribed by AS 1

51. Purpose of Accounting Standard 1 is to establish a standard as to
   (a) The desirable accounting policies
   (b) The fundamental accounting assumptions
   (c) Disclosure of accounting policies
   (d) Preparation of final accounts

52. Vide Accounting Standard 1, fundamental accounting assumptions should
   (a) Always be disclosed
   (b) Be disclosed if not followed
   (c) Be disclosed in notes to accounts
   (d) Be disclosed in auditor's report

53. Following is an example of an accounting policy

(a) Accrual (b) Consistency
(c) Going concern (d) Depreciation

54. Following is an example of an accounting policy

(a) Entity (b) Consistency
(c) Going concern (d) Valuation of stock

55. Following is an example of an accounting policy

(a) Entity
(b) Conversion of foreign currency items
(c) Going concern
(d) Conservatism

56. Following is an example of an accounting policy

(a) Consistency (b) Treatment of goodwill
(c) Cost (d) Conservatism

57. Following is an example of an accounting policy

(a) Realisation (b) Materiality
(c) Dual Aspect (d) Valuation of investment

58. Following is an example of an accounting policy

(a) Realisation (b) Matching
(c) Disclosure (d) Valuation of fixed assets

59. Following is an example of an accounting policy

(a) Going concern (b) Accrual
(c) Treatment of retirement benefits (d) Disclosure

60. Following is an example of an accounting policy

(a) Realisation
(b) Objectivity
(c) Accounting Period
(d) Recognition of profit on long - term contracts

61. A concern should select an accounting policy which enables it to
    (a) Show good profits
    (b) Present a true and fair view of its state of affairs and profit or loss
    (c) Calculate the correct amount of cash in hand
    (d) Pay the proper amount of income - tax

62. The following factor should be considered while selecting and applying accounting policies
    (a) Consistency (b) Prudence
    (c) Dual Aspect (d) Cost

63. The following factor should be considered while selecting and applying accounting policies
    (a) Going Concern (b) Growth of business
    (c) Substances over form (d) Solvency

64. The following factor should be considered while selecting and applying accounting policies
    (a) Inflation (b) Employee Morale
    (c) Liquidity (d) Materiality

65. Accounting to AS 1, Disclosure should be made of
    (a) Fundamental accounting assumptions
    (b) All accounting principles
    (c) All significant accounting policies
    (d) All Accounting policies

66. According to AS 1, Disclosure should form part of
    (a) The final accounts (b) The Auditor's report
    (c) The Directors Report (d) The Books of Accounts

67. According to AS 1, Disclosure should be made
    (a) In relevant places (b) At one place
    (c) In the profit & loss account (d) In the balance sheet

68. According to AS 1, any change in accounting policy
    (a) Should never be made
    (b) Is not possible
    (c) Should be disclosed
    (d) Requires permission of the Institute of Chartered Accountants of India

69. According to AS 1, if the effect of any change in accounting policy on the value of any item in the final accounts should
    (a) Be ignored
    (b) Be discounted
    (c) Be reported in directors report
    (d) also be disclosed

70. According to AS 1, if the effect of any change in accounting policy on the value of any item in the final accounts cannot be ascertained,
    (a) It should be ignored
    (b) Such fact should be disclosed
    (c) It should be adjusted in the net profits
    (d) It should be disclosed in a separate report to the management

71. According to AS 1, A change likely to have an effect not in current but in later years, should be
    (a) Disclosed in such later year
    (b) Disclosed in the Auditor's report
    (c) Ignored
    (d) Disclosed in the year in which the change is made

72. A concern has written off capital expenditure as revenue expenses by disclosing in the notes to accounts that it is the accounting policy of the concern to do so. According to AS 1,
    (a) Disclosure can remedy an improper entry
    (b) Disclosure cannot remedy a wrong entry
    (c) Any accounting policy is valid if a special resolution of shareholders is passed
    (d) The accounting treatment is correct

73. An asset shall be a current asset
   (a) if it is expected to be realized in the company's normal operating cycle
   (b) If it is held primarily for the purpose of being traded
   (c) If it is expected to be realized within twelve months after the reporting date
   (d) any of the above

74. A liability shall be a current liability
   (a) If it is expected to be settled in the company's normal operating cycle
   (b) If it is held primarily for the purpose of being traded
   (c) If it is expected to be settled within twelve months after the reporting date
   (d) any of the above

75. Trade payables as per Schedule III will include:
   (a) Dues payable in respect to statutory obligation
   (b) Interest accrued on trade payables
   (c) Bills payables.
   (d) Bills receivables

76. Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:
   (a) Reserves and Surplus.
   (b) Current Liabilities.
   (c) Share Capital.
   (d) Share application money pending allotment

77. "Fixed assets held for sale" will be classified in the company's balance sheet as
   (a) Current asset
   (b) Non-current asset
   (c) Capital work- in- progress
   (d) Deferred tax assets

78. Current maturities of long- term debt will come under
   (a) Current Liabilities.
   (b) Short term borrowings.
   (c) Long term borrowings.
   (d) Short term provisions

79. Declaration of dividends for current year is made after providing for
    (a) Depreciation of past years only.
    (b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).
    (c) Depreciation on current year only and by forgoing arrears of depreciation of past years.
    (d) Excluding current year depreciation

-: ANSWER :-

1.	(c)	18.	(c)	35.	(b)	52.	(b)	69.	(d)
2.	(d)	19.	(b)	36.	(d)	53.	(d)	70.	(b)
3.	(d)	20.	(a)	37.	(a)	54.	(d)	71.	(d)
4.	(d)	21.	(c)	38.	(a)	55.	(b)	72.	(b)
5.	(d)	22.	(c)	39.	(c)	56.	(b)	73.	(d)
6.	(d)	23.	(a)	40.	(d)	57.	(d)	74.	(d)
7.	(d)	24.	(d)	41.	(d)	58.	(d)	75.	(c)
8.	(d)	25.	(c)	42.	(c)	59.	(c)	76.	(a)
9.	(b)	26.	(a)	43.	(a)	60.	(d)	77.	(a)
10.	(c)	27.	(c)	44.	(c)	61.	(b)	78.	(b)
11.	(b)	28.	(b)	45.	(b)	62.	(b)	79.	(b)
12.	(a)	29.	(c)	46.	(a)	63.	(c)		
13.	(c)	30.	(c)	47.	(c)	64.	(d)		
14.	(d)	31.	(b)	48.	(d)	65.	(c)		
15.	(d)	32.	(c)	49.	(b)	66.	(a)		
16.	(b)	33.	(a)	50.	(c)	67.	(b)		
17.	(c)	34.	(b)	51.	(c)	68.	(c)		

FILL IN THE BLANKS

1. Every Balance Sheet must comply with the requirements of part ____________ of Schedule ___________ of the Companies Act, 2013 as far as possible.

2. Every Profit and Loss Account must comply with the requirements of part ___________ of Schedule ___________ of the Companies Act, 2013 as far as possible.

3. Interest accrued on Investments is required to be shown under ___________ (Fixed Assets / Current Assets) in the balance sheet of a company.

4. Loose tools are required to be shown under __________ (Fixed Assets / Current Assets) in the balance sheet of a company

5. Bills Receivable are required to be shown under ____________ (Loans and Advances / Current Assets) in the balance sheet of a company.

6. Interest accrued but not due on a Secured Loan is required to be shown under _____________ (Current Liabilities / Secured loans) in the balance sheet of a company

7. Uncalled amount of partly paid shares is required to be shown under ___________ (Contingent liabilities / Secured loans) in the balance sheet of a company.

8. Short Term Loans have been defined vide Schedule III as those which are due for not ___________ (less / more) than 1 year as at the date of the Balance Sheet

9. Arrears of Fixed Cumulative Preference Dividends are required to be shown under _____________ (Current Liabilities / Contingent Liabilities / Share Capital) in the balance sheet of a company.

10. An item of expenditure of the company is to be shown separately if it exceeds ___________ % of the operating revenue of the company or ` ___________, whichever is higher.

11. Dividend ___________ (is / is not) paid on amounts paid by shareholders as calls in advance.

12. Dividend remaining unclaimed within __________ is to be transferred to a special 'Unpaid Dividend A/c' with a Scheduled Bank.

13. Share Application Money pending allotment is a ___________ (current / non - current) liability.

14. Application money received for allotment of shares and due for refund is a ____________ (current / non - current) liability.

15. Current maturities of long terms debts is a __________ (current / non - current) liability.

16. Where an entity has unconditional right to defer settlement of liability beyond 12 months from reporting date, such liability shall be classified as _____________ (current / non - current).

17. A company has excess finished good inventory that it does not expect to realize within the company's operating cycle and also does not expect to realise it within 12 months of reporting date. Operating Cycle is 6 months. Show it as ____________ (current / non - current).

----------: ANSWER :----------

1.	I, II	10.	1; 1,00,000
2.	II, III	11.	is not
3.	Current Assets	12.	30 days
4.	Current Assets	13.	non-current
5.	Loan and Advances	14.	current
6.	Current Liabilities	15.	current
7.	Contingent Liabilities	16.	non-current
8.	More	17.	current
9.	Contingent Liabilities		

2 BUY BACK OF SHARES

PART A : THEORY SECTION

The preference shares are those shares where the shareholders have following two preferences

1. At the time of dividend, they are paid first
2. At the time of liquidation, their capital is repaid first

The preference share capital is a periodical capital (maximum 20 years) and on expiry of stipulated period, their capital should be repaid which is called as 'Redemption'.

Legal Provisions (section 55)

1. As per companies Act, only fully paid preference shares can be redeemed. But if it is specifically mentioned in the question to redeem partly paid shares then, it should be assumed that first the call is made on these shares to make them fully paid and then they are redeemed
2. All those preference shares where there are calls-in-arrears cannot be redeemed.
3. When the preference shares are redeemed at a premium, the premium on redemption should be met out of divisible profits (Divisible Profits means profits available for dividend and it includes General Reserve or Reserve Fund, Profit & Loss A/c, dividend equalisation reserve, Revenue reserve, etc.).
4. **Creation of CRR:**

   The Preference Shares can be redeemed either out of fresh issue or profits available for dividend. When the preference share capital is redeemed, the company's capital base goes down which is required to be re-instated by either the proceeds of fresh issue of shares or out of divisible profits.

   Note:

   (1) If the proceeds of fresh issue is less than the nominal value of preference shares redeemed, then CRR Should be created for difference amount.

F.V. of preference shares redeemed	xx
(-) Proceeds of fresh issue of shares	xx
CRR Required	xx

(2) The term 'proceeds of fresh issue of shares' means either nominal value of shares issued or called up value whichever is less.

Journal Entries

1	**Entry for fresh issue**	
	Bank a/c	Dr.
	To Share Capital a/c	
	To Securities Premium a/c	
2	**Entry for Redemption (money payable to PSH)**	
	Preference share capital a/c	Dr.
	Premium on redemption a/c	Dr.
	To Preference shareholders a/c	
3	**Entry for writing off the premium**	
	Divisible Profit a/c	Dr.
	To Premium on redemption a/c	
	Note: If nothing is specified it is assumed that the company is governed by section 133 of the companies Act, 2013 which does not allow use of securities premium to write off premium on Redemption.	
4	**Entry for creation of CRR**	
	Divisible Profit a/c	Dr.
	To CRR a/c	
5	**Entry for pay off**	
	Preference shareholders a/c	Dr.
	To Bank a/c	

Redemption of Preference Shares

(I) Make arrangement of money

(A) From Assess
- Sale of Investment
- Recovery from Debtors
- Sale of Stock

C/B a/c Dr
P/L (If Loss) Dr
Or To Asset
To P/L (If Profit)

(B) From issue of Securities
C/B a/c Dr
To Eq / Pref Sh./ Deb.
To Sec. Prem

(II) Satisfy 1st Legal Condition

Co. Can Redeem Fully Paid Preference shares only

Case A: In Q Co. has Fully Paid Preference Shares
Eg.: B/s of A Ltd. (Liab only)
10000. 10% pref.
Share of ₹ 10 each 100000
Ans. 1st Condition is satisfied.

Case B: In Q. Co. has partly Paid Pref. Shares
Eg. B/s of A Ltd (liab only)
10000. 10% Pref.
Shares of ₹ 10 each ₹ 7 paid up 70000
Ans. Solve problems of partly paid shares
(1) Demand Final Call
Share final call Dr
To-% Preference Share Caps

(2) Receipt of final call
C/B a/c Dr
To Share Final Call

Case C: In Q. Co. has CIA
Eg. B/s of A Ltd. (lib.)
10000. 10% Preference Share of
₹ 10 each 1 10.0000
Less CIA
(on 1000 share@2) (2000)
98.000

Ans. Solve Problem of CIA
(1) If C/A Recd.
C/B Dr.
To CIA

(2) If CIA not Received then forfeiture
- % Preference Share Cap Dr
To C/A
To Share forfeiture

(3) If Q. Says then Reissue
C/B Dr
Share forfeiture Dr
To- % Preference Share Cap

(4) Transfer share forfeiture A/c
To Capital Reserve
Share forfeiture a/c Dr
To Capital Reserve

(III) Satisfy 2nd Legal Condition

To AVOD REDUCTION of share capital Co. Can either use proceeds of fresh issue of Eq./ preference shares and or Transfer Divisible profits to Capital Redemption Reserve.

Note 1: Proceeds means FV or IP whichever is less. Therefore, always FV

Note 2: CRR A/c can be used for issue of New fully paid up bonus shares only.

Ans.
(1) Freshissue
C/B a/c Dr
To Esc/- P.S.C
To Securities Premium
(2) Create CRR
Divisible Profits (GRRDP)
To CRR Dr

Divisible Profits
G – General Reserve
R – Revenue Reserve
R – Reserve fund
D – Dividend equalisation Reserve
P – P/L

(IV) Redemption of Preference Share

(1) Redemption Due
-% Preference Share Cap Dr
(POR) Premium on Redemption Dr
To Preference shareholders
(2) Payment-
Preference Share / holders a/c Dr
To C/B

(V) W/Off (PQR Premium on Redemption (3rd legal condition)

POR can be W/off by using
(1) Securities premium (if specified in question)
(2) Divisible profits (GRRDP)

Ans.
(1) Securities premium (if Q. says) Dr
Divisible profit Dr
To Premium on Redemption

(I) Types of Reserves

All Reserves of a Joint stock company can be classified into 3 parts.

1. **Capital type of reserves (Non Divisible Profits)**

   They are created out of capital events and they are not available for dividend purpose. They are normally used for Bonus purpose.

   Examples:

   a. Capital Redemption Reserve
   b. Capital Reserve
   c. Securities Premium
   d. Revaluation Reserve

2. **Statutory Types of Reserves**

   They are created as per some statute or law and they are neither available for dividend nor for bonus.

   Examples:

   (a) Investment Allowance Reserve
   (b) Development Rebate Reserve
   (c) Development Reserve
   (d) Export profit reserves

3. **Revenue type of reserves:** (also called as free reserves or divisible profits)

   They are created out of revenue events and they are available for dividend purpose

   Examples:

   (a) General Reserve/Reserve Fund
   (b) Profit and Loss A/c
   (c) Dividend equalisation reserve
   (d) Subsidy Reserve

(II) Issue of Bonus Shares (Sec. 63):

(a) Conversion of partly paid shares into fully paid by way of bonus

Demand Final Call

(i) Share final call A/c Dr.

To equity shares capital A/c

Declaration of Bonus

(ii)	Divisible profits A/c GRRDP	Dr.
	To Bonus to shareholders A/c	

Adjustments of Bonus & Final Call

(iii)	Bonus to share holder A/c	Dr.
	To Share final call A/c	

(b) Issue of fully paid bonus shares

Declaration of Bonus

(i)	Capital Redemption Reserve A/c	Dr.
	Capital Reserve (earned in cash) A/c	Dr.
	Securities Premium (earned in cash) A/c	Dr.
	Divisible Profit (if required) A/c	Dr.
	To Bonus to shareholders A/c	

Issue of Bonus Shares

(ii)	Bonus to shareholders A/c	Dr.
	To Equity share capital A/c	

Notes:

As per bonus guidelines given in the companies Act, no company can issue fully paid bonus shares until all partly paid shares are converted into fully paid shares by way of bonus.

BUY - BACK OF SHARES

Legal Provisions: (As per Sec. 68, 69 & 70 Companies Act, 2013):

1. The Nominal Value of Buy Back in a particular financial year cannot exceed 25% of paid equity share capital of the company.

2. Maximum expenditure on buy - back in a particular financial year cannot exceed 25% of total equity base of the company.
   (Equity Base = Preference Share Capital + Equity Share Capital + Divisible Profits Including Securities Premium - Miscellaneous Expenditure)

3. The Debt Equity Ratio after buy - back should not exceed 2 : 1.

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity (After Buy Back)}} = \frac{\text{Long - term Borrowings} + \text{Short term Borrowing}}{\text{Equity Base (Before Buy Back)} - \text{Total FV of Buy Back} - \text{Total Exp. on Buy Back}}$$

Journal Entries

1. For Fresh Issue
   Bank A/c Dr.
   To Preference Share Capital A/c

2. For Buy Back
   Equity Share Capital A/c Dr.
   Premium on Buy Back A/c Dr.
   To Bank A/c

3. For writing off the premium
   Divisible profits incl. securities premium A/c Dr.
   To Premium on Buy Back A/c

4. For Creation of C.R.R.
   Divisible Profit Incl. Securities Premium A/c Dr.
   To C.R.R. A/c

Note:

If the fresh issue is less than the buy - back amount, C.R.R. will have to the created for the difference amount.

PART B : CLASSWORK SECTION

Question 1

The Balance sheet of BHAVANA LTD., as on 31st March, 2023 is as follows:

Liabilities		₹	Assets		₹
Share Capital:			**Fixed Assets:**		
Issued & fully paid shares:			Land & Building	1,00,000	
500, 11% Red. Preference			Plant	30,000	
Shares of ₹ 100 each		50,000	Furniture	2,000	1,32,000
9,000 equity shares of			Current Assets:		
₹ 10 each		90,000	Stocks	30,000	
Reserves and Surplus:			Debtors	15,000	
Securities Premium	10,000		Investment	28,000	
General Reserve	20,000		Bank	20,000	93,000
P & L A/c	25,000	55,000			
Current Liabilities		30,000			
		2,25,000			**2,25,000**

The company decided to redeem its preference shares at a premium of 5% on 1st April, 2023.

A fresh issue of 1,000 equity shares of ₹ 10/- each was made at ₹ 12/- per share payable in full. These were fully subscribed and all moneys were duly collected. All the investments were sold realising ₹ 27,000.

You are required to give the journal entries, including those relating to cash, to record the above transactions and draw up the balance sheet as would appear after redemption of preference shares.

Assume sec 133 not applicable and securities premium can be used

Question 2

The Balance Sheet of A Ltd. as at 31.3.2023 is as follow:

Balance Sheet as at 31.3.2023

Liabilities	₹	Assets	₹
Authorised Share Capital		Sundry Assets	17,00,000
1,50,000 Equity Shares of ₹10 each	15,00,000		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of ₹ 10 each	6,00,000		
₹7.50 each paid-up			

Reserves:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Account	20,000		
Securities Premium A/c	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	3,00,000		
	17,00,000		**17,00,000**

The company wanted to issue bonus shares to its shareholders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were compiled with:

You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

Question 3

The following is the summarised Balance Sheet of Redeemable Limited :

Liabilities		₹	Assets	₹
Paid up Share Capital			Bank	90,000
50,000 Equity shares of ₹ 10			Other Assets	8,10,000
Each		5,00,000		
1,000, 10% Red. Pref. shares				
of ₹ 100 each	1,00,000			
(-) calls in Arrears	1,000	99,000		
(On 50 shares @ ₹ 20 each)				
General Reserve		1,00,000		
Development Rebate Reserve		50,000		
Other Liabilities		1,51,000		
		9,00,000		**9,00,000**

The Redeemable Preference Shares were redeemed on the following basis:

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

(2) Of the 50 Preference Shares, holder for 40 shares paid the call money before the date of redemption. The balance 10 shares were forfeited and reissued for a total sum of ₹ 500.

(3) Preference shares were redeemed at a premium of 10 per cent.

(4) Securities premium was utilised to write off premium on redemption.

Show journal entries including those relating to cash.

Question 4

Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2023:

Sources of Funds	In ₹
Authorised Capital:	
50,000, 10% preference share of ₹ 10 each	5,00,000
2,00,000 equity shares of ₹ 10 each	20,00,000
Issued and Subscribed Capital:	
40,000; 10% preference shares of ₹ 10 each fully paid	4,00,000
1,80,000; equity shares of ₹ 10 each, of which ₹ 7.50 paid up	13,50,000
Reserve and Surplus :	
General Reserve	2,40,000
Capital Reserve	1,50,000
Securities Premium	50,000
Profit and Loss Account	3,00,000

On 1st April, 2023, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2023. There after the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Securities premium of ₹ 50,000 includes a premium of ₹ 20,000 for shares issued to vendor for purchase of a special machinery. Capital reserve includes ₹ 60,000 being profit on exchange of plant and machinery.

Show necessary Journal Entries in the books of the company and after bonus issue. Necessary assumption, if any should form part of your answer.

(8 Marks - Nov. 2011 IPCC.)

Question 5

Shruti Ltd., resolved to buy - back 3,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 12 per share. For the purpose, it issued 10,000 13% preference shares of ₹ 100 each at par, the total sum being payable with applications. The company uses ₹ 9,00,000 of its balance in securities premium Account apart from its adequate balance in General Reserve Account to fulfil the legal requirements regarding buy - back.

Pass journal entries for all the transactions involved in the buy - back.

Question 6

Kuber Ltd. furnishes you with the following Balance Sheet as at 31st March, 2023.

(₹ in crores)

	₹	₹
Sources of funds:		
Share Capital:		
Authorised		100
Issued:		
12% redeemable preference shares of ₹ 100 each fully paid	75	
Equity shares of ₹10 each fully paid	25	100
Reserves and Surplus :		
Capital reserve	10	
Securities premium	30	
Revenue reserves	260	300
Total		**400**
Funds employed in		
Fixed assets : Cost	100	
Less : Provision for depreciation	100	Nil
Investments at cost (market value ₹ 400 Cr.)		100
Current assets	340	
Less : Current liabilities	40	300
Total		**400**

The company redeemed preference shares on 1st April, 2023 at 5% premium. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balance, which appeared as part of current assets. You are asked to pass journal entries to record the above.

Question 7

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2022:

Particulars	(₹ in crores)	
(1) Equity Share Capital (Shares of ₹ 10 each fully paid)	---	330
(2) Reserves and Surplus		---
General Reserve	240	---
Securities Premium Account	90	---
Profit & Loss Account	90	---
Infrastructure Development Reserve	180	600
(3) Loan Funds	---	1,800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2022 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company. The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2022, show the accounting entries in the company's books in each situation.

Question 8

Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2023:

Liabilities	₹	Assets	₹
Eq. Shares of ₹10 Each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans: 12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of long-term Borrowings	16,50,000		
Total	**76,50,000**	**Total**	**76,50,000**

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2023 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

Question 9

A, B, C and D hold Equity Share Capital in the proportion of 40:30:20:10 and P, Q, R and S hold Preference Share Capital in the proportion of 30:40:20:10 in Alpha Ltd. If the paid up Equity Share Capital of Alpha Ltd. is ₹ 75 lacs and the Preference Share Capital is ₹ 25 lacs, find their voting rights in the case of resolution of winding up of the company.

(5 Marks – Nov 2020 – Inter)

Question 10

KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2023:

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital (fully paid up shares of ₹ 10 each)	1,200	Machinery	1,800
		Furniture	226
Securities premium	175	Investment	74
General reserve	265	Inventory	600
Capital redemption reserve	200	Trade receivables	260
Profit & loss A/c	170	Cash at bank	740
12% Debentures	750		
Trade payables	745		
Other current liabilities	195		
	3,700		**3,700**

On 1st April, 2023, the company announced the buy - back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 2023, the company achieved the target of buy back. On 30th April, 2023 the company issued one fully paid up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

(1) Pass necessary journal entries for the above transactions.

(2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

PART C : HOMEWORK SECTION

Question 11

Dee Limited (a non-listed company) furnishes the following summarized Balance Sheet as at 31st March, 2011:

	₹ '000	₹ '000
Liabilities		
Share capital:		
Authorised capital		30,00
Issued and subscribed capital:		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹ 100 each	2,00	27,00
(Issued two months back for the purpose of buy back)		
Reserves and surplus		
Capital reserve	10,00	
Securities premium	30,00	
Revenue reserve	22,00	
Profit and loss account	35,00	97,00
Current liabilities and provisions		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

Question 12

From the following details calculate maximum buy - back permissible when market value is ₹ 25.

Equity Share Capital (₹ 10)	15,00,000
Preference Share Capital (₹ 100)	5,00,000
Development Rebate Reserve	2,00,000

Investment Allowance Reserve	1,50,000
Securities Premium	50,000
General Reserve	2,00,000
Capital Reserve	1,00,000
Discount on Issue of Debentures	40,000
Profit & Loss Account	1,50,000
Preliminary Expenses	60,000
10% Debentures	8,00,000
Loan from Directors	2,00,000

PART D : PAST EXAM QUESTIONS

Question 13

Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2012:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 10 each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue Reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans:			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current Liabilities	16,50,000		
Total	**76,50,000**	**Total**	**76,50,000**

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2012, at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as a part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the Companies Act, 2013.If yes, pass necessary journal entries towards buy back of shares and prepare Balance Sheet after buy back of shares.

(May 2012)

Question 14

Following is the summarized Balance Sheet of M/s Complicated Ltd. as on 31st March, 2016:

Liabilities	Amount (₹)
Equity shares of ₹ 10 each fully paid up	12,50,000
Bonus shares	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	1,00,000

Revaluation Reserve	1,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Assets	**Amount (`)**
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been passed by the Company towards this. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy back of shares by the Company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

(May 2016 – Group 2)

Question 15

The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd. as on 31st March, 2016:

Equity & Liabilities			Amount ₹			Amount ₹
1	Shareholders Fund			1	Non-Current Assets	
	a)	Share Capital			a) Fixed (Tangible)	
		1,00,000 Equity Shares of			Assets :	
		₹10 each fully paid up	10,00,000		Land & Building	21,50,000
	b)	Reserve & Surplus			Plant & Machinery	15,00,000
		Securities Premium	3,00,000		b) Non-Current	
		General Reserve	2,50,000		Investments	2,00,000
		Profit & Loss Account				
		Surplus	1,50,000			

2	Non-Current Liabilities		2	Current Assets	
	Long Term Borrowings:			a) Trade Receivables	5,50,000
	10% Debentures (Secured by	20,00,000		b) Inventories	1,80,000
	floating charge on all assets)			c) Cash and Cash	
	Unsecured Loans	8,00,000		Equivalents	40,000
3	Current Liability & Provisions				
	Trade Payables	1,20,000			
	Total	**46,20,000**		**Total**	**46,20,000**

On 21st April, 2016 the Company announced the buyback of 25,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2016, the company achieved the target of buy back

On 1st May, 2016 the company issued one fully paid up share of ₹ 10 each by way of bonus for every five equity shares held by the equity shareholders.

You are requested to pass necessary Journal Entries for the above transactions.

All necessary workings should form part of your answer.

(Nov. 2016 – Group 2)

Question 16

SMM Ltd. has the following capital structure as on 31st March, 2017:

	₹ in crores	
Particulars	Situation I	Situation II
(i) Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii) Reserves:		
General Reserves	1,080	1,080
Securities Premium	400	400
Profit & Loss	200	200
Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii) Loan Funds	3,200	6,000

The company has offered a buy back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

(May 2017 – Group 2)

Question 17

Pratham Ltd. (A non – listed company) has the following Capital structure as on 31st March, 2018:

Particulars	₹
Equity Share Capital	
(shares of ₹ 10 each fully paid)	30,00,000
Reserves & Surplus	
General Reserve	32,50,000
Security Premium Account	6,00,000
Profit & Loss Account	4,30,000
Revaluation Reserve	6,20,000
Loan Funds	42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share. **(Nov. 2018 – Group 2) - IPCC**

Question 18

Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2017:

Particulars	₹ in lakhs	₹ in lakhs
Equity & Liabilities		
Shareholders' Funds		
Equity share capital		2,400
(fully paid up shares of ₹ 10 each)		
Reserves and Surplus		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
Non-current Liabilities		
12% Debenture		1,500
Current Liabilities		
Trade Payables	1,490	
Other Current Liabilities	390	1,880
Total		**7,400**

Assets		
Non-current Assets		
Fixed Assets		4,052
Current Assets		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348
Total		**7,400**

(i) On 1st April, 2017, the company announced buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 150 lakhs.

(ii) On 10th April, 2017 the company achieved the target of buy-back.

(iii) On 30th April, 2017, the company issued one fully paid up equity share of ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.

You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue. **(May 2018- Group I)**

Question 19

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In ₹
Share Capital	
Equity Shares of ₹ 10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	15,50,000
	93,00,000
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	34,50,000
	93,00,000

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2018 at ₹ 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

(10 Marks – May 2019 – Inter)

Question 20

Following is the summarized Balance Sheet of Competent Limited as on 31st March, 2013:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 10 each fully paid up	15,00,000	Fixed Assets	61,80,000
Revenue reserve	18,00,000	Current Assets	30,00,000
Securities Premium	3,00,000		
Profit & Loss Account	1,50,000		
Secured Loans:			
12% Debentures	22,50,000		
Unsecured Loans	12,00,000		
Current maturities of long term borrowings	19,80,000		
Total	**91,80,000**	**Total**	**91,80,000**

The company wants to buy back 30,000 equity shares of ₹ 10 each, on 1st April, 2013 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares.

(8 Marks – May 2019 – IPCC)

Question 21

PAY Limited furnishes you with the following summarized Balance Sheet as at 31" March, 2020 :

	(₹ in Lakhs)	
Liabilities		
Share Capital :		
Authorised		300
Issued :		
11% Redeemable preference shares of ₹ 100	125	
each fully paid		
Equity shares of ₹ 10 each fully paid	175	300
Reserves and surplus:		
Capital reserve	35	
Securities premium	105	
Revenue reserves	460	
Profit and loss account	50	650
Current liabilities and provisions		50
		1000
Assets		
Fixed assets : cost	100	
Less: Accumulated depreciation	(90)	10
Non-current investments at cost (Market value		200
₹ 400 Lakhs)		
Current assets		790
		1000

(i) The company redeemed preference shares at a premium of 4% on 1st April, 2020.

(ii) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

(1) Pass journal entries to record the above.

(2) Prepare balance sheet as at 01.04.2020.

(10 Marks – Nov 2020 – IPCC)

Question 22

X Ltd. furnishes the following summarized Balance Sheet as at 31 -03-2018.

Liabilities	(in ₹)	(in ₹)
Share Capital		
Equity Share Capital of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of ₹ 100 each fully paid up	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total		1,21,50,000
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total		**1,21,50,000**

The shareholders adopted the resolution on the date of the above mentioned Balance Sheet to:

(1) Buy back 25% of the paid up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹ 30 per share.

(2) To finance the buy-back of shares, company:

(a) Issues 3000, 14% debentures of ₹ 100 each at a premium of 20%.

(b) Issues 2500, 10% preference shares of ₹ 100 each.

(3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.

(4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.

(5) Later the company issue three fully paid up equity share of ₹ 20 each by way of bonus share for every 15 equity share held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back. **(15 Marks – Nov 2019 – Inter)**

Question 23

(i) Can preference shares be also issued with differential rights? Explain in brief.

(ii) Explain the conditions under Companies (Shares Capital and Debentures) Rules 2014, to deal with equity shares with differential rights. **(5 Marks - Dec 21)**

Question 24

Mohan Ltd. furnishes the following summarised Balance Sheet on 31st March 2021.

(₹ in Lakhs)

	Amount
Equity and Liabilities:	
Shareholders' fund	
Share Capital	
Equity Shares of ₹ 10 each fully paid up	780
6% Redeemable Preference shares of ₹ 50 each fully Paid up	240
Reserves and Surplus	
Capital Reserves	58
General Reserve	625
Securities Premium	52
Profit & Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non-current liabilities	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
	2652
Assets:	
Non-current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1207
	2652

Other Information:

(1) The company redeemed preference shares at a premium of 10% on 1st April,2021.

(2) It also offered to buy back the maximum permissible number of equity shares of ₹ 10 each at ₹ 30 per share on 2nd April 2021.

(3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets.

(4) The company had investment in own debentures costing ₹ 60 lakhs (face value ₹ 75 lakhs). These debentures were cancelled on 2nd April 2021.

(5) On 4th April 2021 company issued one fully paid-up equity share of ₹ 10 each by way of bonus for every five equity shares held by the shareholders.

You are required to:

(a) Calculate maximum possible number of equity shares that can be bought back as per the Companies Act, 2013 and

(b) Record the Journal Entries for the above-mentioned information. **(Dec 21)**

Question 25

P, Q, R and S hold equity share capital in the proportion of 10:40:20:30. K, L, M and N hold preference share capital in the proportion of 20:10:40:30. If the paid up equity share capital of the company is ₹ 60 lakhs and Preference Share Capital is ₹ 30 lakhs, find their voting rights in case of resolution of winding up of the company. **(Dec 21)**

Question 26

Equity Capital is held by Anu, Adi and Arun in the proportion of 30 : 30 : 40 and Preference Share Capital is held by Sonu, Shri and Sanaya in the proportion of 40 : 10 : 50. If the paid up Equity Share Capital of the company is ₹ 60 lakhs and Preference Share Capital is ₹ 30 lakhs, find the proportion and percentage of their voting right in case of resolution of winding up of the company. **(Jan 21)**

Question 27

The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

(i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.

(ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.

(iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy-back of shares in the books of Umang Ltd. **(Jan 21)**

Question 28

A company provides the following 2 possible Capital Structures as on 31st March, 2021:

Particulars	Situation 1 (₹)	Situation 2 (₹)
Equity Share Capital (Shares of ₹ 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of ₹ 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

(15 Marks-July 21)

Question 29

(i) Explain the meaning of Equity Shares with Differential Rights. Can Preference Shares be also issued with differential rights ?

(ii) In Jugnu Limited A, B, C and D hold equity share capital in the proportion of 30:30:30:10 and M, N, O and P hold preference share capital in proportion of 40:20:30:10.

You are required to calculate their voting rights in case of resolution of winding up of the company, if the paid up Equity Share Capital of the company is ₹ 100 Lakhs and Preference Share Capital is ₹ 50 Lakhs. **(July 21)**

Question 30

Quick Ltd. has the following capital structure as on 31st March, 2021

		₹ In Crores	
(1)	Share Capital (Equity Shares of ₹ 10 each, fully paid)		462
(2)	Reserves and Surplus :		
	General Reserve	336	
	Securities Premium Account	126	
	Profit and Loss Account	126	

	Statutory Reserve	180	888
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	33	
(3)	Loan Funds :		
	Secured	2,200	
	Unsecured	320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is ₹ 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,680 Crores or ₹ 2,100 Crores,

Assuming that the entire buy-back is completed by 31st December, 2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation. **(May' 22)**

Question 31

In a limited company, Equity Share Capital is held by X, Y and Z in the proportion of 30 : 30 : 40. Also A, B and C hold preference share capital in the proportion of 50 : 30 : 20. The company has not paid the dividend to holders of preference share capital for more than 3 years Given that the paid-up equity share capital of the company is ₹ 1 Crore and that of preference share capital is ₹ 50 Lakh.

(i) Find out the relative weight in the voting right of equity shareholders and preference shareholders.

(ii) Also the company proposing to issue equity shares with differential voting rights (DVR) to the extent of ₹ 50 lakhs.

Assuming the company fulfils other conditions pertaining to the issue of shares with DVR. Can the company issue the shares with DVR? **(May' 22)**

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements show the position after buy - back of shares?
   (i) There is a reduction in the share capital to the extent of the face value of the shares bought back
   (ii) There is a payment from the company to the extent of the price of the shares paid to the shareholders.
   (iii) The shareholders whose shares are bought cease to be the shareholders of the company
   (a) (i) and (ii) (b) (ii) and (iii)
   (c) All of the above (d) None of the above

2. Which of the following are the main objectives of Buy - Back of equity shares?
   (i) To reduce the earnings per share (EPS)
   (ii) To increase the share capital
   (iii) To bring in additional cash in the business
   (a) (i) and (ii) (b) (ii) and (iii)
   (c) All the above (d) None of the above

3. The Micro Corporation Ltd. is authorised to issue 1,00,000 shares of equity shares. It has issued 30,000 shares. It has bought back 5,000 shares. As a result of these transactions, The no. of shares (i) in authorised share capital and (ii) in issued share capital will be
   (a) 1,00,000; 25,000 (b) 75,000; 25,000
   (c) 1,00,000; 30,000 (d) 75,000; 30,000

4. Which of the following statements is true?
   (a) Redemption of preference shares is known as Buy - back
   (b) Redemption of equity shares is known as Buy - back
   (c) Redemption of debentures in known as Buy - back
   (d) Purchase of own debentures is known as Buy - back

5. Which of the following statements is true?
   (a) S.55 states that premium payable on buy - back should be provided out of the profits of the company or out of the company's security premium account
   (b) Companies Act is silent about how premium payable on buy - back should be provided
   (c) Companies Act states that buy - back cannot be made at a premium
   (d) None of the above

6. Which of the following statements is true?
   (a) Buy - Back can be out free reserves + Securities premium
   (b) Buy -Back can be only out of free reserves; it cannot be out of securities premium
   (c) Buy - Back can be only out of security premium + capital reserves
   (d) None of the above

7. Which of the following statements is true?
   (a) Buy - back date is not known on the date of issue
   (b) Buy - back date is known on the date of issue
   (c) Buy - back date cannot be beyond 10 years from the date of issue
   (d) None of the above

8. Which of the following statements is true?
   (a) the buy - back must be authorised by the memorandum of association of the company
   (b) the buy - back must be authorised by the articles of association of the company
   (c) the buy - back must be authorised by the auditors of the company
   (d) the buy - back must be authorised by the central government

9. Which of the following statements is true?
   (a) the buy - back must be authorised by an ordinary resolution passed in general meeting
   (b) the buy - back must be authorised by resolution passed unanimously in board meeting
   (c) the buy - back must be authorised by a resolution passed with the consent of all members present in a general meeting
   (d) the buy - back must be authorised by a special resolution passed in general meeting

10. According to S. 68, Buy - back should be
    (a) less than twenty - five percent of the total nominal capital and free reserves of the company
    (b) less than twenty - five percent of the total issued capital and free reserves of the company
    (c) less than twenty - five percent of the total paid - up capital and free reserves of the company
    (d) More than twenty - five percent of the total paid - up capital and free reserves of the company

11. According to S. 68, Buy - back of equity shares in any financial year
    (a) shall not exceed twenty - five percent of its total paid - up equity capital and free reserves in that financial year
    (b) shall not exceed twenty - five percent of its total paid - up equity capital and less free reserves in that financial year
    (c) shall not exceed twenty - five percent of its total paid - up equity in that financial year
    (d) shall not be less than twenty - five percent of its paid -up equity capital in that financial year

12. According to S. 68,
    (a) the ratio of the debt owned by the company should not be more than twice the capital and its free reserves before such buy - back
    (b) the ratio of the debt owned by the company should not be more than twice the capital and its free reserves before such buy - back
    (c) the ratio of the capital and its free reserves should not be more than twice the debt owned by the company after such buy - back
    (d) the ratio of the debt owed by the company should not be less than half the capital and its free reserves before such buy - back

13. According to S. 68, before buy - back, all the shares
    (a) must be fully paid - up
    (b) must be fully issued and subscribed to the extent of the authorised capital
    (c) must be held by the same shareholders for at least for one year
    (d) none of the above

14. According to S. 68, every buy - back shall be
    (a) completed within twelve months from the date of passing the special resolution
    (b) completed within twelve months from date of authorization by the Articles of Association
    (c) completed within twelve months from the date the shares becoming fully paid - up
    (d) completed not before twelve months from the date of passing the special resolution

15. According to S. 68, the following methods can be adopted for buy - back
    (i) buy - back from the existing security - holders on a proportionate basis
    (ii) buy - back from the open market
    (iii) buy - back from odd lots
    (a) only (i) and (ii)
    (b) only (i) and (iii)
    (c) only (ii) and (iii)
    (d) all the above

16. Before making a buy - back, the company shall
    (a) file with the Registrar and the Securities and Exchange Board of India prospectus
    (b) file with the Registrar and the Securities and Exchange Board of India a statement in lieu of prospectus
    (c) file with the Registrar and the Securities and Exchange Board of India a declaration of insolvency
    (d) file with the Registrar and Securities and Exchange Board of India a declaration of solvency

17. Where a company buys - back its own securities,
    (a) it shall extinguish and physically destroy the securities so bought - back within thirty days of the last date of completion of buy - back
    (b) it shall hold the securities so bought - back in its physical custody for seven years from the last date of completion of buy - back
    (c) it shall re - issue the securities so bought - back within seven days of the last date of completion of buy - back
    (d) it shall extinguish and physically destroy the securities so bought - back within seven days of the last date of completion of buy - back

18. Where a company completes a buy - back of its shares or other specified securities under S. 68, it shall not make further issue of the same kind of shares or other specified securities within a period of six months including -
    (a) allotment of further shares under clause (a) of sub - section (1) of section 81
    (b) bonus issue
    (c) conversion of warrants
    (d) conversion of Preference shares

19. A company can buy - back
    (a) Equity Shares
    (b) Preference Shares
    (c) Both the above
    (d) None of the above

20. Equity shares can be bought back
    (a) out of profits only
    (b) out of proceeds of fresh issue only
    (c) out of capital profit only
    (d) its free reserves; or the securities premium account; or the proceeds of shares

21. If equity shares have been bought back out of free reserves, amount equal to the face value of equity shares have been bought back out of free reserves, amount equal to the face value of equity shares bought back should be transferred to
    (a) Development Rebate Reserve
    (b) General Reserve
    (c) Sinking Fund
    (d) Capital Redemption Reserve

22. On buyback of shares
    (a) There is a reduction in the share capital to the extent of the face value of the shares bought back
    (b) There is a payment from the company to the extent of the price of the shares paid to the shareholders
    (c) The shareholders whose shares are bought cease to be the shareholders of the company
    (d) All of the above

23. A company may purchase its own shares out of -
    (a) its free reserves only
    (b) The securities premium account only
    (c) The proceeds of any shares only
    (d) Any or all of the above

24. Which of the following is not a 'free reserve' for the purpose of buyback of shares
    (a) Profit & Loss Account
    (b) General Reserve
    (c) Dividend Equalisation Reserve
    (d) Revaluation Reserve

25. Which of the following is a 'free reserve' for the purpose of buyback of shares
    (a) Workmen's Compensation Fund (after meeting liabilities)
    (b) Capital Redemption Reserve balance b/d
    (c) Debenture Redemption Reserve
    (d) Share Forfeited Account

26. No company shall purchase its own shares unless the buy - back is less than 25% of the
    (a) Total paid - up capital of the company
    (b) Total paid - up capital and reserves of the company
    (c) Total paid - up capital and free reserves of the company
    (d) Total nominal capital and free reserves of the company

27. Buy - Back of equity shares in any financial year shall not exceed 25% of its
    (a) Total paid - up equity capital in that financial year
    (b) Total paid - up capital
    (c) Total paid - up equity capital and free reserves of the company
    (d) Total nominal capital and free reserves of the company

28. On buyback of shares, there is a reduction in the share capital to the extent of the
    (a) Market value of the share bought back
    (b) Face value of the share bought back
    (c) Called - up value of the shares bought back
    (d) Un - paid value of the shares bought back

29. A buy - back of 10% of the total paid - up equity capital and reserves of the company
    (a) can be authorised by the Shareholders; but no special resolution need be passed for the same
    (b) can be authorised by the Board; but a special resolution need be passed in a general meeting to ratify the same
    (c) can be authorised by the Board; but a special resolution with need be passed unanimously by all members present to ratify the same
    (d) can be authorised by the Board; and no special resolution need be passed in a general meeting

30. The buy - back of equity shares in any financial year shall not exceed twenty - five per cent of its total
    (a) Authorised capital in that financial year
    (b) Paid - up equity capital in that financial year
    (c) Paid - up capital and free reserves in that financial year
    (d) called - up capital in that financial year

31. As per section 68(1) of the Companies Act, buy-back of own shares by the company, shall not exceed
    (a) 25% of the total paid-up capital and free reserves of the company.
    (b) 20% of the total paid-up capital and free reserves of the company.
    (c) 15% of the total paid-up capital and free reserves of the company.
    (d) 10% of the total paid-up capital and free reserves of the company.

32. The companies are permitted to buy-back their own shares out of
    (a) Free reserves and Securities premium
    (b) Proceeds of the issue of any shares.
    (c) Both (a) and (b)
    (d) Neither (a) nor (b).

33. When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to
    (a) Revenue redemption reserve.
    (b) Capital redemption reserve.
    (c) Buy-back reserve
    (d) Special reserve

34. State which of the following statements is true?
    (a) Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves of the company.
    (b) Partly paid shares cannot be bought back by a company.
    (c) Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year.
    (d) Partly paid shares can be bought back by a company

35. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against
    (a) Free reserves.
    (b) Securities premium.
    (c) Both (a) and (b).
    (d) Neither (a) nor (b).

36. Advantages of Buy-back of shares include to
    (a) Encourage others to make hostile bid to take over the company.
    (b) Decrease promoters holding as the shares which are bought back are cancelled.
    (c) Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
    (d) All of the above.

37. Provisions relating to buy back of securities are contained in ______________ of the Companies Act, 2013.
    (a) Section 77
    (b) Section 77A
    (c) Section 68
    (d) Section 63

38. A company may purchase its own shares or other specified securities out of -
    A. Free reserves
    B. Securities premium account
    C. Proceeds of issue of any shares
    D. Proceeds of issue of specified securities.

    Select the correct answer from the options given below.
    (a) A and C only
    (b) A, B and C only
    (c) A, C and D only
    (d) A or B or C or D

39. Provisions of the Section 68 relating to buy back of shares are applicable to -
    (a) Private companies
    (b) Public companies
    (c) Listed companies
    (d) All of the above

40. No company shall purchase its own shares or other specified securities, unless buy-back is authorized by its-
    (a) Memorandum of Association
    (b) Registrar of Companies
    (c) Shareholders agreement
    (d) Article of Association

41. Maximum permissible buy back under the Companies Act, 2013 is -
    (a) 10% of paid-up capital with board resolution.
    (b) 25% of paid-up capital with board resolution.
    (c) 25% of the aggregate of paid-up capital and free reserves of the company with special resolution of shareholders.
    (d) 25% of the aggregate of paid-up capital and free reserves of the company with ordinary resolution of shareholders.

42. Which of the following is correct journal entry for the 'Amount due on buy back of shares'?
    (a) Equity Shareholders A/c
        To Equity Share Capital A/c
    (b) Equity Shareholders A/c
        To Equity Share Capital A/c
        To Reserves/Securities Premium A/c
    (c) Equity Share Capital A/c
        Reserves/Securities Premium A/c
        To Equity Shareholders A/c
    (d) Equity Shareholders A/c
        To Bank A/c

43. For buy-back up to ______________ of the company Board resolution is sufficient.
    (a) 10% of paid-up capital
    (b) 10% of free reserves
    (c) 10% of paid-up capital or free reserves
    (d) 10% of paid up equity capital and free reserve

44. Buy-back of equity shares in any financial year should not exceed -
    (a) 10% of net worth
    (b) 25% of the aggregate of paid-up capital and free reserves of the company
    (c) 25% of the paid-up equity capital
    (d) 25% of the aggregate of paid-up equity capital and preference capital

45. As per Section 68 of the Companies Act 2013, post buy back debt equity ratio should not exceed-

(a) 1 (b) 1.5
(c) 2 (d) 3

46. Companies are allowed to buy back shares which are -

(a) Partly paid-up
(b) Fully paid-up
(c) Partly paid-up or fully paid-up at the option of company
(d) Fully paid-up and partly paid-up with the permission of Central Government

47. The buy-back of the shares or other specified securities listed on any recognized stock exchange is in accordance with the -

(a) SEBI (Buy Back of Securities) Regulations, 2018
(b) SEBI (Buy Back of Securities) Regulations, 2014
(c) SEBI (Buy Back of Securities) Regulations, 1992
(d) SEBI (Buy Back of Securities) Regulations, 1994

48. No offer of buy-back shall be made within a period of ______________ reckoned from the date of the closure of the preceding offer of buy-back

(a) 6 months (b) 1 year
(c) 2 years (d) 10 months

49. Which of the following method of buy back is allowed under the Companies Act, 2013?

(i) Buy back from the existing shareholders or security holders on a proportionate basis.
(ii) Buy back from the promoters of the company only on selective basis.
(iii) Buy back from the open market.

Select the correct answer from the options given below.

(a) (i) only
(b) (i) and (ii) only
(c) (i) and (iii) only
(d) (i), (ii) and (iii)

50. Where a company proposes to buy-back its own shares or other specified securities, it shall before making such buy-back, file with the ROC and the SEBI, a declaration of solvency signed by
    (a) at least 2 directors of the company one of whom shall be the managing director.
    (b) at least 2 directors, managing director and Chief Financial Officer, if any.
    (c) at least 2 directors of the company and Company Secretary, if any.
    (d) at least 3 directors of the company, one of whom shall be the managing director.

51. A company used balance of 'General Reserve' and `P & L A/c' for buy back of equity shares. Which of the following is correct journal entry for this transaction?
    (a) Capital Redemption Reserve A/c
        To General Reserve A/c
        To Profit & Loss A/c
    (b) General Reserve A/c
        Profit & Loss A/c
        To Equity Shareholders A/c
    (c) General Reserve A/c
        Profit & Loss A/c
        To Capital Redemption Reserve A/c
    (d) Equity Shareholders A/c
        To General Reserve A/c
        To Profit & Loss A/c

52. Declaration of solvency in relation to buy back of shares has to be filed in -
    (a) Form SH-6 (b) Form SH-9
    (c) Form SH-4 (d) Form SH-8

53. As per Section 69(6) of the Companies Act, 2013, declaration of solvency should be verified by an affidavit to the effect that the Board of Directors of the company has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting it's liabilities and will not be rendered insolvent within a period of ____________from the date of declaration adopted by the Board.
    (a) 6 months (b) 1 year
    (c) 2 years (d) 10 months

54. Where a company buys back its own shares or other specified securities, it shall extinguish and physically destroy the shares or securities so brought back within ________ of the last date of completion of buy-back.

(a) 3 days (b) 8 days
(c) 7 days (d) 9 days

55. Where a company completes a buy-back of its shares or other specified securities, it shall not make a further issue of the same kind of shares or other securities including allotment of new shares u/s 62(1)(a) (i.e. right issue) or other specified securities within a period of -

(a) 6 months (b) 1 year
(c) 2 years (d) 10 months

56. Which of the following is allowed within next 6 months after the buyback of share?

(a) Bonus issue (b) Conversion of warrants
(c) Stock option schemes (d) All of the above

57. Which of the following is allowed within next 6 months after the buyback of share?

(a) Stock option schemes
(b) Sweats equity
(c) Conversion of preference shares or debentures into equity shares
(d) All of the above

58. Which of the following method of buy back is allowed under the Companies Act, 2013?

(i) Buy back by way of purchasing the securities issued to employees of the company pursuant to a scheme of stock option.
(ii) Buy back by way of purchasing the securities issued to employees of the company pursuant to a scheme of sweat equity.

Select the correct answer from the options given below.

(a) (i) only (b) (ii) only
(c) Both (i) and (ii) (d) Neither (i) or (ii)

59. Where a company buys back its shares or other specified securities it shall maintain a registration of the shares or securities so brought in

(a) Form SH-10 (b) Form SH-11
(c) Form SH-12 (d) Form SH-14

60. A company shall, after the completion of the buy-back, file with the ROC and the SEBI a return relating to the buy-back in –

(a) Form No. SH-14 (b) Form No. SH-12

(c) Form No, SH-10 (d) Form No. SH-11

61. Which of the following penalty is attracted if company makes default in Provisions of Section 68 relating to buy back of shares?

(a) The colony shall be punishable with fine which shall not be less dm Rs. 1 lakh but which may extend to Rs. 3 lakh

(b) The company shall be punishable with fine which shall not be less than Rs. 5 lakh but which may extend to Rs. 10 lakh

(c) The company shall be punishable with fine which shall not be less than Rs. 2 lakh but which may extend to Rs. 8 lakh

(d) The company shall be punishable with fine which shall not be less than Rs.5 lakh but which extend to Rs. 25 lakh.

62. A company shall, after the completion of the buy-back, file with the ROC and the SEBI a return relating to the buy-back in Form No. SH-11 within _______ from the date of completion of buy-back.

(a) 10 days (b) 30 days

(c) 60 days (d) 90 days

63. Which of the following penalty is attracted for officers of the company if there is default in provisions of Section 68 relating to buy back of shares?

(a) Every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 3 years or with fine which shall not be less than Rs. 1 lakh but which may extend to Rs. 3 lakh or with both.

(b) Every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 5 years or with fine which shall not be less than Rs. 2 lakh but which may extend to Rs. 5 lakh or with both.

(c) Every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 2 years or with fine which shall not be less than Rs. 1 lakh but which may extend to Rs. 2 lakh or with both.

(d) Every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 5 years or with fine which shall not be less than Rs. 5 lakh but which may extend to Rs. 25 lakh or with both.

64. As per Section 7 0 of the Companies Act 2013, the buy-back is not prohibited, if the various defaults mentioned in that section is remedied and a period of__________ has lapsed after such default ceased to subsist.

(a) 1 year (b) 3 years
(c) 2 years (d) 6 months

65. Which of the following is objective of buy back of equity shares?

(1) To improve earnings per share (EPS)
(2) To increase the sales of the company
(3) To prevent unwelcome takeover bids.
(4) To improve liquidity ratio.

Select the correct answer from the options given below.

(a) (2) & (3) (b) (1) & (3)
(c) (1) (3) & (4) (d) (1), (2), (3) & (4)

66. Which of the following statement is true?

(a) Partly paid-up shares can be brought back by the companies
(b) No company shall directly or indirectly purchase its own shares or other specified securities if a default is made by the company in the repayment of deposits interest payment thereon.
(c) The offer for buy-back shall remain open to the securities holders for a period not less than 5 days and not exceeding 10 days.
(d) The company can buy back up to 25% of paid-up share capital and free reserve in any financial year.

67. Where a company purchase its own shares out of free reserves or securities premium account, a sum equal to the nominal value of the shares so purchased shall be transferred to the

(a) Capital Reserve Account
(b) General Reserve Account
(c) Capital Redemption Reserve Account
(d) Equity Shares Redemption Account

68. Which of the following reserve can be used for buy back of equity shares?

(a) Statutory Reserve (b) Dividend Equalization Reserve
(c) Capital Redemption Reserve (d) All of the above

69. Which of the following reserve can be used for buy back of equity shares?
    (a) Dividend Redemption Reserve (preference shares)
    (b) Statutory Reserve
    (c) Capital Redemption Reserve
    (d) None of the above

70. Which of the following entry will be passed for payment of amount due on buy back of equity shares?
    (a) Credit to Equity Shareholders A/c and debit to Bank A/c
    (b) Credit to Equity Share Capital A/c and debit to Bank A/c
    (c) Debit to Equity Shareholders A/c and credit to Bank A/c
    (d) Debit to CRR A/c and credit to Bank A/c

71. N Ltd. had 90,000 equity shares of Rs. 100 each, fully paid up. The company decided to buy back 10% shares at par by the issue of sufficient number of preference shares. Company do not have any reserves. How much preference shares are required to be issued if new preference shares are to be issued at Rs. 10 each?
    (a) 9,00,000 shares (b) 90,000 shares
    (c) 1,00,000 shares (d) 1,20,000 shares

72. During the year 2018-2019, T Ltd. buy back 20,000 equity shares of Rs. 100 each at a premium of 5%. During the year 2018-2019, as the company did not have sufficient cash resources to buy back equity shares, it issued 1,00,000, 12% Preference shares of Rs. 10 each at a premium of 15%. The company has sufficient balance in general reserve. At the time of buy back equity shares, the amount to be transferred to capital redemption reserve = ?
    (a) Rs. 10,00,000 (b) Rs. 9,50,000
    (c) Rs. 12,00,000 (d) Rs. 15,00,000

73. Equity shares amounting, to Rs. 2 00 000 are brought back at a premium of 5% by issue of preference shares amounting to Rs. 1,00,000 at a premium of 10%. The amount to be transferred to capital redemption reserve = ?
    (a) Rs. 1,00,000 (b) Rs. 90,000
    (c) Rs. 1,50,000 (d) Rs. 50,000

74. ABC Ltd. has paid-up equity capital of 10,00,000 equity shares of Rs. 10 each fully paid-up

Position of reserves is as follows:

General Reserve = Rs. 30,00,000

Profit & Loss Account – Rs. 2,00,000

Securities Premium = Rs. 2,00,000

Company decided to buy back 2,00,000 equity shares of Rs. 10 each at 25% premium. For this purpose, the company sold the entire investments at Rs. 12,00,000 (book value Rs. 10,00,000) and made a fresh issue of 10% preference shares of Rs. 100 each to the extent minimum after utilizing the securities premium account and half of general reserve & full profit and loss. How much preference shares must be issued by the company so that provisions of the Companies Act, 2013 get complied?

(a) 20,000 preference shares

(b) 40,000 preference shares

(c) 1,000 preference shares

(d) 4,000 preference shares

75. Following are the extract of balance sheet of Light Co. Ltd.

	Rs.
Equity Shares of Rs. 10 each	10,00,000
Securities Premium	2,40,000
Reserves	7,50,000
Profit & Loss Account	2,80,000
Bank	9,10,000
Non-Trading Investments	4,20,000

Company brought back 15,000 shares at Rs. 40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non-trade investment for Rs. 5,90,000.

Amount to be transferred to capital redemption reserve = ?

(a) Rs. 6,00,000

(b) Rs. 1,00,000

(c) Rs. 4,50,000

(d) Rs. 1,50,000

76. Following are the extract of balance sheet of Tube Ltd.

	Rs.
Equity Shares of Rs. 10 each	20,00,000
Securities Premium	4,80,000
Reserves	15,00,000
Profit & Loss Account	5,60,000
Bank	18,20,000
Non-Trading Investments	8,40,000

Company brought back 30,000 shares at Rs. 40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non-trade investment for Rs. 11,80,000. Bank balance after buyback will be -

(a) Rs. 12,00,000

(b) Rs. 16,00,000

(c) Rs. 14,50,000

(d) Rs. 18,00,000

77. BABA Ltd. has equity share capital of Rs. 6,60,000 (Rs. 10 each fully paid-up). Details of its reserves & loan funds are given below:

	Rs.
General Reserve	4,80,000
Securities Premium Account	2,00,000
Profit & Loss Account	1,60,000
Loan Funds	30,00,000

Market price is Rs. 25 per share. The company wants to buy back maximum number of shares that are allowed under the Companies Act, 2013 at price 20% higher than its market price.

No. of shares to be brought back= ?

(a) 1,650 Equity shares

(b) 37,500 Equity shares

(c) Nil

(d) 62S Equity shares

-: **ANSWER** :-

1.	(c)	18.	(a)	35.	(c)	52.	(b)	69.	(d)
2.	(d)	19.	(c)	36.	(c)	53.	(b)	70.	(c)
3.	(a)	20.	(d)	37.	(c)	54.	(c)	71.	(b)
4.	(b)	21.	(d)	38.	(d)	55.	(a)	72.	(a)
5.	(b)	22.	(c)	39.	(d)	56.	(d)	73.	(a)
6.	(a)	23.	(d)	40.	(d)	57.	(d)	74.	(d)
7.	(a)	24.	(d)	41.	(c)	58.	(c)	75.	(d)
8.	(b)	25.	(a)	42.	(c)	59.	(a)	76.	(d)
9.	(d)	26.	(c)	43.	(d)	60.	(d)	77.	(c)
10.	(c)	27.	(a)	44.	(c)	61.	(a)		
11.	(c)	28.	(d)	45.	(c)	62.	(b)		
12.	(a)	29.	(d)	46.	(b)	63.	(a)		
13.	(a)	30.	(b)	47.	(b)	64.	(b)		
14.	(a)	31.	(a)	48.	(b)	65.	(b)		
15.	(d)	32.	(c)	49.	(c)	66.	(b)		
16.	(d)	33.	(b)	50.	(a)	67.	(b)		
17.	(d)	34.	(b)	51.	(c)	68.	(b)		

FILL IN THE BLANKS

1. No company shall purchase its own shares unless the buy - back is of less than ____________ percent of the total paid - up capital and free reserves of the company

2. Buy - back of equity shares in any financial year shall not exceed ______________ percent of its total paid - up equity capital in that financial year.

3. On buyback of shares, there is a reduction in the share capital to the extent of the ___________ Value of the shares bought back.

4. Buyback of shares leads to (increase / decrease) in the earnings per share (EPS).

5. No buy - back of any kind of shares shall be made out of the proceeds of an earlier issue of the (same / different) kind of shares.

6. No company shall purchase its own shares unless the buy - back is authorised by its (articles / memorandum).

7. No company shall purchase its own shares unless a special resolution has been passed in (General / Board) meeting of the company authorising the buy - back

8. A buy - back of ____________ per cent or less of the total paid - up equity capital and reserves of the company can be authorised by the Board; and no special resolution need be passed in a general meeting .

9. Every buy - back shall be completed within ____________ months from the date of passing the special resolution

10. Where a company buys - back its own securities, it shall extinguish and physically destroy the securities so bought - back within ____________ days of the last date of completion of buy - back.

11. The buy - back of shares may be from the existing security - holders on a _____________ basis.

12. The buy - back of shares may be from the ___________ (open /stock / commodities) market.

13. The buy - back of shares may be from ___________ lots.

14. The buy - back of shares may be by purchasing the securities issued to employees of the company pursuant to a scheme of ___________ or ___________

15. If the buy back is at a discount, the amount of discount is credited to ____________

16. While Investment Allowance Reserve (is / is not) a free reserve, Investment Allowance (Utilised) Reserve (is / is not) a free reserve.

----------: **ANSWER** :----------

1.	Twenty - five	11.	Proportionate
2.	Twenty - five	12.	Open
3.	Face	13.	Odd
4.	Increase	14.	Stock option; sweat equity
5.	Same	15.	Capital Reserve
6.	Articles	16.	Is not / is
7.	General		
8.	Ten		
9.	Twelve		
10.	Seven		

3 INVESTMENT ACCOUNTS

PART A : THEORY SECTION

(I) Investment in fixed interest securities

Accounting Procedure

1. When the given transaction is at ex-interest price, the price itself is cost and additionally, the interest should be recorded in interest column.
2. When the transaction is given at cum-interest price, the given price should be bifurcated into cost and interest for accounting purpose.
3. Record the entry for receiving half yearly interest on all the securities in hand on each interest date **(hidden adjustment).**
4. When the investments are sold, the profit or loss on sale should be calculated immediately (taking weighted average) and should be transferred to profit and loss Account.
5. If no specification is given, the price should be concluded as Ex-Interest Price.
6. At the time of recording closing balance accrued interest on closing balance should be credited to interest column and at the time of recording opening balance, accrued should be debited to interest column **(hidden adjustment).**

(II) Treatment of Convertible Debentures:

When a company converts its debenture into shares, for a debenture holder, it is a sort of barter exchange where he surrenders debentures and receives equity shares in return.

Entry :

Investment in equity shares of _______ Ltd. A/c	Dr.	xx	
To Investment in Debentures of _______ Ltd. A/c			xx

Note: 1. The cost of debentures surrendered will be considered as cost of equity shares acquired and there will be no profit or loss on conversion. The profit or loss will arise in future when these equity shares will be sold.

2. At the time of surrender of debentures, the debentureholder will receive interest on debentures surrendered upto the date of surrender because now a fixed interest security is getting converted into variable interest security **(hidden adjustment).**

(III) Investment Account of Equity Shares: When the equity shares are purchased the payment itself is considered as cost because this is a variable interest security and accrued dividend therein cannot be estimated.

Important Adjustments:

1. **Treatment of Bonus Shares:** When bonus shares are received it is technically not a financial transaction because the cost involved is NIL but still in investment a/c, the entry should be passed in quantity column as bonus shares received will reduce average cost of investment.
2. **Treatment of Right Issue:** When the right shares are offered the shareholders has following two options :
   (a) Subscribe for shares: this is like a normal purchase of investment
   (b) Renounce the right: the consideration received on transfer of right in favour of some other person is considered as a sundry income to be credited to profit / loss account.
3. **Treatment of Final Dividend:** When the dividend is received, it is to be bifurcated into two parts :
   (a) pre-acquisition period dividend - it is to be considered as a capital receipt which should be credited to cost column so as to reduce the cost of investment.

Bank A/c	Dr.	xx
To Investment A/c		xx

   (b) post-acquisition period dividend - it is a routine revenue income to be credited in dividend column.

Bank A/c	Dr.	xx
To Dividend A/c		xx

4. **Treatment of Interim Dividend:** To be treated as revenue income and should be credited to Dividend column
5. **Sale of Investment:** Calculate profit / loss on sale on weighted average cost basis.

RECLASSIFICATION OF INVESTMENTS

Where long-term investments are reclassified as current investments, transfer are made the lower of cost and carrying amount at the date of transfer.

Where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date for transfer.

Reclassification of investment

- **Long term to Current**
  - Lower of cost and carrying amount at the date of transfer
- **Current to Long term**
  - Lower of cost and fair value at the date of transfer

PART B : CLASSWORK SECTION

Question 1

Mr. A has made investment in 12% Debentures of X Ltd. (Interest dates March 31 and September 30). From the following details prepare Investment account in the books of Mr. A for the year 2022.

1.1.2022	Purchased 300 Debentures @ ₹ 96 Ex - interest
1.3.2022	Purchased 200 Debentures @ ₹ 99 Cum - interest
1.8.2022	Sold 100 Debentures @ ₹ 98 Ex - interest
1.12.2022	Purchased 200 Debentures @ ₹ 97.

Question 2

Calcutta Investments hold 400, 12% Debentures of ₹ 100 each in Acme Ltd. as on 1st April, 2022 at a cost of ₹ 50,000. Interest is payable on 30th June and 31st December each year. On 1st June, 2022, 200 debentures are purchased cum interest at ₹ 21,400. On 1st November, 2022, 200 debentures are purchased ex-interest at ₹ 19,200. On 31st December, 2022, 300 debentures are sold cum-interest for ₹ 32,250.

Prepare Investment account valuing closing stock as on 31st March, 2023 at cost or market price whichever is lower. The debentures were quoted at ₹ 98 on 31st March, 2023. (use FIFO method)

Question 3

A purchased on 1st March, 2022 ₹ 24,000 5% Bharat Debenture Stock at ₹ 90 cum-interest, interest being payable on 31st March and 30th September each year. Stamp and expenses on purchase amounted to ₹ 20 and brokerage at 2% was charged. Interest for the half year was received on the due date. On 1st September, ₹ 10,000 of the stock was sold at 92 ex-interest less brokerage at 2%. On 30th September, ₹ 8,000 stock was purchased at 91 ex-interest plus brokerage at 2% and charges ₹ 10. On 1st December, ₹ 6,000 stock was sold at ₹ 94 cum interest less brokerage 2%. The market price of stock on 31st December was ₹ 92. Show the Investment Account for the year ended 31st December, 2022.

Question 4

Bharat Finance Ltd. purchased on 1st May, 2022 13.5% convertible debentures in Glance Ltd. of the face value of ₹ 1,00,000 @ ₹ 105. Interest on debentures is payable each year on 31st March and 30th September. The following were the other transactions with regard to these debentures carried by Bharat Finance Ltd. in 2022.

Aug.1	Purchased ₹ 50,000 Debentures @ ₹ 107 cum-interest.
Oct. 31	Sold ₹ 40,000 Debentures @ ₹ 103
Nov. 30	Receipt of 2,200 Equity Shares in Glance Ltd. of ₹ 10 each in conversion of 20% of the Debentures held.
Dec.15	Purchased 1000 Equity Shares in Glance Ltd. @ ₹ 16.

The market value of the Debentures and Equity Shares in Glance Ltd. at the end of 2022 was respectively ₹ 96 and ₹ 15.

The accounting year of the Bharat Ltd. is the Calendar year. Prepare Investment Accounts in the books of Bharat Ltd. on Weighted Average Cost Basis.

Question 5

On 1.1.2022, sunder had 25,000 equity shares of "X" Ltd. a book value of ₹ 15 per share. On 20.6.2022, he purchased another 5,000 shares of the company at ₹ 16 per share. The directors of "X" Ltd. announced a bonus and right issue. The terms of the issue are as follows:

Bonus basis 1 : 6 (Date 16.8.2022)

Rights basis 3 : 7 (Date 31.8.2022) Price ₹ 15 per share.

Due date for payment 30.9.2022.

Shareholders can transfer their rights in full or in part. Accordingly Sundar Sold 33-1/3% of his entitlement to Shekhar for a consideration of ₹ 2 per share.

Dividends: Dividends for the year ended 31.3.2022 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.2022.

On 15.11.2022, Sunder sold 25,000 equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account.

For your exercise, assume that the books are closed on 31.12.2022 and shares are valued at average cost.

Question 6

Smart Investments made the following investments in the year 2022-23:

12% State Government Bonds having face value ₹ 100

Date	Particulars
01/04/2022	Opening Balance (1200 bonds) book value of ₹ 1,26,000
02/05/2022	Purchased 2,000 bonds @ ₹ 100 cum interest
30/09/2022	Sold 1,500 bonds at ₹ 105 ex interest

Interest on the bonds is received on 30th June and 31st December each year.

Equity shares of X Ltd.

Date	Particulars
15/04/2022	Purchased 5,000 equity shares @ ₹ 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)
03/06/2022	The company announced a bonus issue of 2 shares for every 5 shares held.
16/08/2022	The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share The entire money was payable by 31/08/2022
22/08/2022	A right to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.
02/09/2022	Dividend @ 15% for the year ended 31-03-2022 was received on 16.09.2022
15/12/2022	Sold 3,000 shares @ ₹ 300. Brokerage of 1 % was incurred extra
15/01/2023	Received interim dividend @ 10% for the year 2022-23
31/03/2023	The shares were quoted in the stock exchange @ ₹ 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

Question 7

Mr. Z has made following transactions during the financial year 2022-23: Investment 1: 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
01-06-2022	Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30th September and 31st March every year
15-02-2023	Sold 24,000 Bonds at ₹ 92 ex-interest

Interest on the bonds is received on 30th September and 31st March. Investment 2 : Equity Shares of G Ltd having face value ₹ 10

Date	Particulars
01-04-2022	Opening balance 8,000 equity shares at a book value of ₹ 190 per share
01-05-2022	Purchased 7,000 equity shares@ ₹ 230 on cum right basis; Brokerage of 1% was paid in addition.
15-06-2022	The company announced a bonus issue of 2 shares for every 5 shares held

01-08-2022	The company made a rights issue of 1 share for every 7 shares held at ₹ 230 per share. The entire money was payable by 31.08.2022
25-08-2022	Rights to the extent of 30% of his entitlements was sold @ ₹ 75 per share. The remaining rights were subscribed.
16-09-2022	Dividend @ ₹ 6 per share for the year ended 31.03.2022 was received on 16.09.2022. No dividend payable on Right issue and Bonus issue.
01-12-2022	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25-01-2023	Received interim dividend @ ₹ 3 per share for the year 2022-23.
31-03-2023	The shares were quoted in the stock exchange @ ₹ 260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2023, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2023, the shares were quoted in the stock exchange @ ₹ 180.

You are required to:

(i) Prepare Investment Accounts in the books of Mr. Z for the year 2022-23, assuming that the average cost method is followed.

(ii) Profit and loss Account for the year 2022-23, based on the above information.

(iii) Suggest values at which investment in equity shares should be reclassified in accordance with AS 13. **(July' 21)**

Question 8

ABC Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). Decide and state on the amount of transfer, based on the following information:

(1) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

(2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.

(3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise other than temporary decline as per AS 13 (Revised).

PART C : HOMEWORK SECTION

Question 9

On 1st April, 2011, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 each). He provides you the further information:

(1) On 20th June, 2011 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

(2) On 1st August, 2011, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2011, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2011.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2012.

Question 10

A Limited purchased 5,000 equity shares (nominal value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2011. The shares were quoted cum dividend. On 15th May, 2011, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2011. On 30th June, 2011 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2011 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share. A Limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement.

The company declared interim dividend of 1% on 30th November, 2011. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December, 2011 at ₹ 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.

You are required to prepare Investment Account in books of A Ltd for the year ended 31st March, 2012.

Question 11

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1.4.2011	Opening balance – Nominal value ₹ 1, 20,000, Cost ₹ 1,18,000
1.7.2011	100 Debentures purchased ex-interest at ₹ 98
1.10.2011	Sold 200 Debentures ex-interest at ₹ 100
1.1.2012	Purchased 50 Debentures at ₹ 98 cum-interest
1.2.2012	Sold 200 Debentures ex-interest at ₹ 99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.2012. Brokerage at 1% is to be paid for each transaction. Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.2012 is ₹ 99.

Question 12

On 1.4.2011, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2012, Bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31.3.2012, Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

Question 13

The following transactions of Nidhi took place during the year ended 31st March 2012:

1st April	Purchased ₹ 12,00,000, 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of ₹ 10 each in X Ltd. for ₹40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for ₹ 20 each.
1st October	Sold ₹ 3,00,000, 8% bonds at ₹ 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 2012.

Question 14

In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at ₹101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase.

On 1st March, 2013 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount. Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013.

Question 15

On 1st January 2011, Singh had 20,000 equity shares in X Ltd. Nominal value of the shares was ₹ 10 each but their book value was ₹ 16 per share. On 1st June 2011, Singh purchased 5,000 more equity shares in the company at a premium of ₹ 4 per share.

On 30th June, 2011, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 2011.

The terms of the rights issue were:

(a) Rights shares to be issued to the existing holders on 10th August, 2011.

(b) Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹ 15 per share-the whole sum being payable by 30th September, 2011.

(c) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of ₹ 1.50 per share.

(e) Dividends for the year ended 31st March, 2011, at the rate of 15% were declared by the Company and received by Singh on 20th October, 2011.

(f) On 1st November, 2011, Singh sold 20,000 equity shares at a premium of ₹ 3 per share.

The market price of share on 31-12-2011 was ₹ 14. Show the Investment Account as it would appear in Singh's books on 31-12-2011 and the value of shares held on that date.

Question 16

Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @ 2%.

10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for ₹ 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.2012	Beeta Limited made a right issue of one equity share for every four shares held at ₹ 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹ 2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at ₹ 90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited. Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012.

PART D : PAST EXAM QUESTIONS

Question 17

Mr. X purchased 1,000, 6% Government Bonds of ₹ 100 each on 31st January, 2009 at ₹ 95 each. Interest is payable on 30th June and 31st December. The price quoted is cum interest. Journalise the transaction. **(2 Marks May 2010 IPCC)**

Question 18

Gamma Investment Company hold 1,000, 15% debentures of Rs.100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of Rs.1,05,000. Interest is payable on June, 30 and December, 31 each year.

On May 1, 2009, 500 debentures are purchased cum-interest at ₹ 53,500. On November 1, 2009, 600 debentures are sold ex-interest at ₹ 57,300, on November 30, 2009, 400 debentures are purchased ex- interest at ₹ 38,400 on December 31, 2009, 400 debentures are sold cum-interest for ₹ 55,000.

Prepare the investment account showing value of holding on March 31, 2010 at cost, using FIFO method. **(5 Marks – May 2010 – I.P.C.C.)**

Question 19

On 1st April, 2010 Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:

(1) On 20th June, 2010 he purchased another 10,000 shares of P Ltd. of ₹ 16 per share.

(2) On 1st August, 2010, P ltd. issue one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2010 the directions of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholder can transfer their rights in full or in part. Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribe the rest on 5th November, 2010.

You are required to prepare investment A/c in the books of Rajat for the year ending 31st March, 2011. **(5 Marks – May 2011 – I.P.C.C.)**

Question 20

Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity share of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @2%.
10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹ 44 each through a broker, who charged brokerage @2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for ₹ 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited
15.1.2012	Beeta Limited made a right issue of one equity share for every four shares held at ₹ 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹ 2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at ₹ 90 ex-interest
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited. Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity shares of Alfa Limited and equity shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012. **(8 Marks – May 2012 – I.P.C.C.)**

Question 21

On 01-04-2011, Mr. T. shekharan purchased 5,000 equity shares of ₹ 100 each in V. Ltd. @ ₹ 120 each from a broker, who charged 2% brokerage. He incurred 50 paisa per ₹ 100 as cost of shares transfer stamps. On 31.1.1012 bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31.3.2012 Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage. Show the investment Account in the books of T. Shekharan who held the shares as Current Assets and closing value of investment shall be made at cost or market value whichever is lower.

(8 Marks – Nov 2012 – I.P.C.C.)

Question 22

In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each interest being payable half on 30th September and 31st March of every accounting year. On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 cum-interest price, also paying brokerage @1% of cum-interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at ₹ 106 cuminterest price, again paying brokerage @1% of cum-interest amount. Prepare Investment Account in the books of M/s. Bull &Bear for the period 1st December, 2012 to 1st March, 2013.

(5 Marks – May 2013 - I.P.C.C.)

Question 23

On 01-05-2012, Mr. Mishra purchased 800 equity shares of ₹ 10 each in Fillco Ltd. @ ₹ 50 each from a broker who charged 5%. He incurred 20 paisa per ₹ 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1 : 4. The shares were quoted at ₹ 110 and ₹ 60 per share before and after the record date of bonus shares respectively. On 30-11-2012, Mr. Mishra sold the bonus shares to a broker who charged 5%. You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of Investment shall be made at cost or market value whichever is lower. **(4 Marks Nov 2013 IPCC)**

Question 24

Smart Investments made the following investment in the year 2013-14:

12% State Government Bonds having face value ₹ 100

Date	Particulars
01.04.2013	Opening Balance (1200 bonds) book value of ₹ 1,26,000
02.05.2013	Purchased 2,000 bonds @ ₹ 100 cum interest
30.09.2013	Sold 1,500 bonds at ₹ 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity shares of X Ltd.

Date	Particulars
15/04/2013	Purchased 5,000 equity shares @ ₹ 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)
03/06/2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16/08/2013	The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share The entire money was payable by 31/08/2013

22/08/2013	A right to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.
02/09/2013	Dividend @ 15% for the year ended 31-03-2013 was received on 16.09.2013
15/12/2013	Sold 3,000 shares @ ₹ 300. Brokerage of 1 % was incurred extra
15/01/2014	Received interim dividend @ 10% for the year 2013-14
31/03/2014	The shares were quoted in the stock exchange @ ₹ 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

Question 25

On 1st April 2014, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹ 20 per share (face value of ₹ 10 each). He provides the following information:

(i) On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd., @ ₹ 15 per share.

(ii) On 1st August 2014, Vayu Ltd. issued one bonus share for every five shares held by the shareholders.

(iii) On 31st August 2014, the directors of Vayu Ltd. announced a rights issue which entitle the shareholders to subscribe two shares for every six shares held @ of ₹ 15 per share. The shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his right shares holding to Harsh for a consideration of ₹ 3 per share and subscribed the rest on 31st of October 2014.

Prepare Investment A/c in the books of Hasan as on 31st October 2014.

(8 Marks Nov 2014 IPCC)

Question 26

Mr. Chatur had 12% Debentures of Face value ₹100 of M/s. Unnati Ltd. as current investment. He provides the following details relating to the investment

Date	Particulars
1-4-2014	Opening balance 4000 debentures costing ₹ 98 each
1-6-2014	Purchased 2000 debentures @ ₹ 120 cum interest
1-9-2014	Sold 3000 debentures @ ₹ 110 cum interest
1-12-2014	Sold 2000 debentures @ ₹ 105 ex interest
31-1-2015	Purchased 3000 debentures @ ₹ 100 ex interest
31-3-2015	Market value of the investments ₹ 105 each

Interest due dates are 30th June and 31st December.

Mr. Chatur closes his books on 31-3-2015. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

(8 Marks – May 2015 – I.P.C.C.)

Question 27

A Limited purchased 5000 equity shares (face value 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2014. The shares were quoted cum dividend. On 15th May, 2014 Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2014. On 30th May 2014 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2014 Allianz Limited issued rights share in the ratio of 1:12 @ : 45 per share. A limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 2014. Right shares were not entitled to dividend. The company sold 3000 shares on 31st December, 2014 at 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares. You are required to prepare Investment Account in books of A Ltd.

(10 Marks - Nov 2015 I.P.C.C.)

Question 28

A Ltd. purchased on 1st April, 2015 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2015 A Ltd. purchased another ₹1,00,000 debenture @ ₹ 112 cum interest. On 1st October, 2015 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2015, C Ltd. gives option for convention of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2015 is ₹ 110 and ₹ 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

(8 Marks May 2016 IPCC)

Question 29

On 1st December 2015, M/s. Blue & Black purchased, 20,000 12% fully paid debentures of ₹ 100 each at ₹ 105 cum interest price, also paying brokerage @ 1 % of cum interest amount of the purchase. On 1st March, 2016, the firm sold all these debentures at ₹ 110 cum-interest price, again paying brokerage @ 1% of cum interest amount. Prepare Investment Account in the books of M/s. Blue & Black for the period 1st Dec, 2015 to 1st March 2016. Interest being payable half yearly on 30th September and 31st March of every accounting year.

(4 Marks Nov 2016 IPCC)

Question 30

Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2016. On 1st September 2016, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were –

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2016.

(2) Right shares are to be issued to the existing shareholders on 1st December 2016. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2016.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(5) Dividend for the year ended 31st March 2016, at the rate of 20% was declared by the company and received by Akash Ltd. on 20th January 2017.

(6) On 1st February 2017, Akash Ltd. sold half of its share holdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2017 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2017 and determine the value of share held on that date assuming the investment as current investment. **(8 Marks May 2017 IPCC)**

Question 31

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01.01.2016	600	Buy @ ₹ 20 per share
15.03.2016	900	Buy @ ₹ 25 per share
20.05.2016	1000	Buy @ ₹ 23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	Sale @ ₹ 22 per share
01.02.2017	1000	Sale @ ₹ 24 per share

Additional Information:

(1) On 15.09.2016 dividend @ ₹ 3 per share was received for the year ended 31.03.2016.

(2) On 12.11.2016 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of ₹ 3 per share.

(3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017. **(10 Marks May 2018 INTER C.A.)**

Question 32

Following transactions of Nisha took place during the financial year 2017-18:

Date	Particulars
1 st April, 2017	Purchased 9,000 8% bonds of ₹ 100 each at ₹ 80.50 cum interests. Interest is payable on 1st November and 1st May.
1 st May, 2017	Received half year's interest on 8% bonds.
10th July, 2017	Purchased 12,000 equity shares of ₹ 10 each in Moon Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
1 st October, 2017	Sold 2,250 8% bonds at ₹ 81 Ex-interest.
1 st November, 2017	Received half year's interest on 8% bonds.
15th January, 2018	Moon Limited made a rights issue of one equity share for every four Equity shares held at ₹ 5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at ₹ 2.25 per share.
15th March, 2018	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2018. Assume that the average cost method is followed. **(10 Marks Nov 2018 Inter C.A.)**

Question 33

On 1st April, 2017, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2017, he purchased another 5000 shares of the same company for ₹ 80,000.

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2017.

On 31st August, 2017 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2017, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 2017, Vijay received dividends from X. Ltd. @ 20% for the year ended 31st March, 2017. Dividend for the shares acquired by him on 22nd June, 2017 to be adjusted against the cost of purchase. On 15th November, 2017 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2018 assuming the shares are being valued at average cost.

(8 Marks – I.P.C.C. - Nov 2018)

Question 34

Mr. Ashok had 12% debentures of face value of ₹ 100 each of M/s XYZ Ltd. as current investments. He provides the following details relating to the investments:

Date	Particulars
1.4.2017	Opening balance 18,000 debentures costing at ₹ 98 each.
1.06.2017	Purchased 9,000 debentures @ ₹ 120 each cum interest.
1.09.2017	Sold 13,500 debentures @ ₹ 110 each cum interest.
01.12.2017	Sold 9,000 debentures @ ₹ 105 each ex interest.
31.01.2018	Purchased 13,500 debentures @ ₹ 100 each ex –interest
31.03.2018	Market value of the investment @ ₹ 105 each.

Interest due dates are 30th June and 31st December.

Mr. Ashok closes his book on 31.3.2018, show investment account in the books of Mr. Ashok assuming FIFO method is followed. **(8 Marks – I.P.C.C. May' 2019)**

Question 35

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of ₹ 100 each) of Exe Ltd. held as current assets:

Date	Particulars
1.4.2018	Opening Balance – 12,500 debentures, cost ₹ 12,25,000
1.6.2018	Purchased 9,000 debentures @ ₹ 98 each ex-interest
1.11.2018	Purchased 12,000 debentures @ ₹ 115 each cum-interest
31.1.2019	Sold 13,500 debentures @ ₹ 110 each cum-interest
31.3.2019	Market value of debentures @ ₹ 115 each

Due dates of interest are 30th June and 31st December. Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed.

(10 Marks – Inter - November 2019)

Question 36

XYZ Limited held on 1st April, 2018. 1000 9% Government securities at ₹ 90,000 (Face value of security ₹ 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government securities of the face value of ₹ 80,000 at ₹ 95 cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the securities was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest.

On 1st March, the company sold ₹10,000 face value of the government securities at ₹ 95 ex-interest.

You are required to draw up the 9% Government securities Account in the books of XYZ limited. FIFO method shall be followed calculation shall be made to the nearest rupee or multiple thereof. **(8 Marks- I.P.C.C. November 2019)**

Question 37

Mr. PK Purchased 1000 equity shares of ₹ 100 each in Savera Co.Ltd. for ₹ 1,25,000 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalize its profits and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalization, the shares of Savera Co Ltd. were quoted at ₹ 175 per share. After the capitalization, the shares were quoted at ₹ 92.50 per share. Mr.PK sold the bonus shares and received ₹90 per share. Prepare the investment Account in PK's books on average cost basis. **(4 Marks – Nov 2020 – I.P.C.C.)**

Question 38

On 1st April, 2019 Mr. H had 30,000 equity shares of ABC Ltd. at a book value of ₹ 18 per share (Nominal value ₹ 10 per share). On 10th June, 2019, H purchased another 10,000 equity shares of the ABC Ltd. at ₹ 16 per share through a broker who charged 1.5% brokerage. The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

(i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2019.

(ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2019. The Company decides to issue one right share for every five equity share held at 20% premium and the due date for payment will be 30th September, 2019. Shareholders were entitled to transfer their rights in full or in part.

(iii) No dividend was payable on these issues. Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of ₹ 5 per share.

Dividends for the year ending 31st March, 2019 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2019

On 15th January, 2020 Mr. H sold half of this shareholdings at ₹ 17.50 per share and brokerage was charged @ 1%

You are required to prepare Investment account in the books of Mr.H for the year ending 31st March, 2020, assuming the shares are valued at average cost.

(10 Marks – Nov 2020 – Inter)

Question 39

P Ltd. had 8,000 equity shares of K Ltd., at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April,2019. On 1st September, 2019, P Ltd. acquired another 2,000 equity shares of K Ltd. at a premium of ₹ 4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

The term of bonus and right issue were:

(i) Bonus was declared at the rate for two equity shares for every five shares held on 30th September, 2019.

(ii) Right shares are to be issued to the existing shareholders on 1st December, 2019. The Company had issued two right shares for every seven shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31st December, 2019.

(iii) Existing shareholders were entitled to transfer their right to outsiders either wholly or in part.

(iv) P Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(v) Dividend for the year ended 31st March,2019 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20th January, 2020.

(vi) On 1st February, 2020, P Ltd. sold half of its shareholdings at a premium of ₹ 4 per share.

(vii) The market price of share on 31st March,2020 was ₹ 13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31st March,2020 and determine the value of shares held on that date, assuming the investment as current investment. Consider average cost basis for ascertainment for cost for equity shares sold. **(10 Marks-Jan 21)**

Question 40

On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of ₹ 10 each. Ms. Jayshree has purchased the above shares at ₹ 15 per share and paid a brokerage of 2% and stamp duty of 1%.

On 15th May, 2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at ₹ 18 including brokerage and stamp duty.

On 26th August, 2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.

On 23rd October, 2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at ₹ 20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of ₹ 10 per share and subscribed the rest on 1st November 2021.

Ms. Jayshree also sold 10,000 shares at ₹ 25 per share on 1st November, 2021.

The shares of Rama Limited were quoted at ₹ 11 per share on 31st March, 2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March 2022.

(May' 22)

Question 41

During the year ended 31st March, 2021, Purple Ltd. entered into the following transactions:

1st April, 2020	Purchased ₹ 4,00,000, 10% Govt. loan 1(interest payable on 30th April and 31st October) at ₹ 70 cum interest.
1st April, 2020	Purchased 6,000 Equity shares of ₹ 5 each in XY Ltd. for ₹ 1,26,000.
1st October, 2020	Sold ₹ 80,000, 10% Govt. loan at ₹75 ex-interest.
15th January, 2021	XY Ltd. made a bonus issued of four equity shares for every three shares held. Purple Ltd. sold all of the bonus shares for ₹ 10 each.
1st March, 2021	Received dividend @ 22% on shares in XY Ltd. for the year ended 31st December, 2020.

Prepare Investment accounts in the books of Purple Ltd.

(Dec' 21)

Question 42

Mr. Saurabh held 10,000 equity share of BT Limited on 1st April 2021. Nominal value of the shares is ₹2 each and their book value is ₹7 per share.

- On 4th July, 2021 he purchased another 7,500 shares at ₹10 each.
- On 31st July, 2021 the company announced a Bonus and Right issue.

- Bonus was declared of one share for every five shares held and was received on 5th August, 2021.
- Right issue to be issued on 12th September 2021, which entitled the holders to subscribe to additional shares of 2 shares for every 7 shares held at ₹2 per share. Shareholders were entitled to transfer their rights in full or part. Mr. Saurabh sold whole of his entitlements to Mr. Nihal at ₹1.50 per share.
- Dividend was declared for the year ended 31st March 2021 @ 25% and received by Mr. Saurabh on 19th September 2021.
- On 11th December 2021 Mr. Saurabh sold 7,500 shares at ₹8 per share.
- The market price of the shares on 31st March 2022 was ₹7 per share.

You are required to prepare the Investment Account of Mr. Saurabh on 31st March, 2022 considering the above mentioned points, also state the value of shares held on that date. (Assume investment as current investment).

(Nov'22 - 10 Marks)

Question 43

(i) An unquoted long term investment made in the shares of Rachel Limited is carried in the books of Ziva Limited at a cost of ₹1,00,000. The audited financial statements of Rachel Limited received in May, 2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than ₹55,000.

(ii) On 1st December, 2021 Ziva Limited had made an investment of ₹5,00,000 in 4000 Equity Shares of Garry Limited at a price of ₹125 per share with an intention to hold it for not more than six months. In the fist week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March 2022. The shares of Garry Limited were trading at a price of ₹80 per share on the Stock Exchange.

How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March, 2022 as per the provisions of Accounting Standard 13 'Accounting for Investment'? **(Nov'22 - 5 Marks)**

MULTIPLE CHOICE QUESTIONS

1. Following is not a Fixed Income Bearing Security
   (a) Debentures
   (b) Equity Shares
   (c) Preference Shares
   (d) Government security

2. Interest is always calculated on the
   (a) Market Value of the security
   (b) Nominal Value of the security
   (c) Book value of the security
   (d) Weighted Average Cost of the security

3. Interest on bonds accrues
   (a) on the last day of the financial year
   (b) on the dates fixed in advance
   (c) on the date fixed by board resolution
   (d) as declared by the company in the beginning of every financial year

4. Interest is paid
   (a) to the holder of the security on the due date prorate as per his actual period of holding
   (b) to the original investor if the security is sold cum-interest
   (c) to the holder of the security on the due date irrespective of his actual period of holding
   (d) to the original investor if the security is sold ex-interest

5. If a security is transferred on 31st March, 2013 being the exact date when interest falls due
   (a) the entire interest up to 31st March, 2013 belongs to the purchaser
   (b) the interest up to 30th March, 2013 belongs to the purchaser
   (c) the entire interest up to 31st March, 2013 belongs to the seller
   (d) none of the above

6. A security is transferred on 31st May, 2013; while the next interest falls due on 30th June, 2013
   (a) The purchaser has the right to claim the Interest upto 31st May, 2013 as his income
   (b) The seller has the right to claim the Interest upto 31st May, 2013 as his income
   (c) The seller has the right to claim the Interest upto 30th June, 2013 as his income
   (d) Interest for June 2013 is divided equally between the seller and the purchaser

7. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
   (a) Nominal value of investment purchased is ₹20,000
   (b) Nominal value of investment purchased is ₹19,600
   (c) Nominal value of investment purchased is ₹20,200
   (d) Nominal value of investment purchased is ₹19,800

8. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (cum-interest) 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
   (a) Nominal value of investment purchased is ₹20,000
   (b) Nominal value of investment purchased is ₹19,600
   (c) Nominal value of investment purchased is ₹20,200
   (d) Nominal value of investment purchased is ₹19,800

9. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
   (a) XYZ has the right to claim interest of ₹400
   (b) ABC has the right to claim interest of ₹400
   (c) XYZ has the right to claim interest of ₹2,400
   (d) XYZ has the right to claim interest of ₹1,200

10. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) on 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
    Price paid by XYZ towards capital is
    (a) ₹20,000 (b) ₹19,600
    (c) ₹20,200 (d) ₹19,800

11. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) on 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
    Total payment made by XYZ is
    (a) ₹19,600 (b) ₹20,200
    (c) ₹20,000 (d) ₹19,800

12. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹101 (cum-interest) on 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
    Price paid by XYZ towards capital is
    (a) ₹19,600 (b) ₹20,200
    (c) ₹20,000 (d) ₹19,800

13. XYZ buys 200 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹101 (cum-interest) on 1-3-2012 from ABC. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
    Total payment made by XYZ is
    (a) ₹19,600 (b) ₹20,200
    (c) ₹20,000 (d) ₹19,800

14. ABC sells 100 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) on 1-3-2012 to XYZ. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.
    Nominal Value of investments sold is
    (a) ₹10,000 (b) ₹10,100
    (c) ₹9,800 (d) ₹9,900

15. ABC sells 100 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) on 1-3-2012 from XYZ. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.

Amount received towards capital is

(a) ₹10,000 (b) ₹10,100
(c) ₹9,800 (d) ₹9,900

16. ABC sells 100 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹101 (cum-interest) on 1-3-2012 to XYZ. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.

Amount received towards capital is

(a) ₹10,000 (b) ₹10,100
(c) ₹9,800 (d) ₹9,900

17. ABC sells 100 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) on 1-3-2012 to XYZ. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.

Total amount received is

(a) ₹10,000 (b) ₹10,100
(c) ₹9,800 (d) ₹9,900

18. ABC sells 100 Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹101 (cum-interest) on 1-3-2012 to XYZ. Interest @12% p.a. is to be paid half-yearly on 30th June and 31st December.

Total amount received is

(a) ₹10,000 (b) ₹10,100
(c) ₹9,800 (d) ₹9,900

19. XYZ buys Debentures of nominal value of ₹100 each of ICICI Ltd. at ₹98 (ex-interest) on 1-3-2012 from ABC. Interest of ₹400 has accrued from the last due date till the date of purchase.

In the entry for recording this investment in the books of XYZ

(a) ₹400 will be credited to Interest A/c
(b) ₹400 will be debited to Interest A/c
(c) ₹400 will be debited to Investment A/c
(d) ₹400 will be credited to Investment A/c

20. On each sale of investment, the profit or loss is calculated as
   (a) Sale Price Less Simple Average Cost
   (b) Sale Price Less Weighted Average Cost
   (c) Sale Price Less Cost on FIFO basis
   (d) Sale Price Less Cost on LIFO basis

21. Profit on sale of investment
   (a) is transferred to profit & loss a/c only if the investment is current investment
   (b) is transferred to profit & loss a/c
   (c) is transferred to capital reserve a/c if the investment is long term investment
   (d) none of the above

22. If market value of investment held as current asset is less than cost
   (a) difference is credited to profit & loss a/c
   (b) difference is debited to profit & loss a/c
   (c) difference is ignored
   (d) difference is debited to capital reserve a/c

23. If market value of investment held as long term asset is less than cost
   (a) difference is credited to profit & loss a/c
   (b) difference is debited to profit & loss a/c
   (c) difference is ignored
   (d) difference is debited to capital reserve a/c

24. Dividend on shares accrues
   (a) on the last day of the financial year
   (b) on due dates fixed in advance
   (c) on the date it is declared
   (d) on the first day of the financial year

25. Dividend is paid
    (a) to the holder of the shares on the date of book-closure prorate as per his actual period of holding
    (b) to the original investor if the shares are sold cum-dividend
    (c) to the holder of the shares on the date of book-closure irrespective of his actual period of holding
    (d) to the original investor if the shares are sold ex-dividend

26. XYZ Ltd. pays a dividend on 30-09-2012 for the year ended on 31-03-2012,
    (a) dividend on shares held as on 30-09-2012 will be treated as Revenue receipt (Income) irrespective of the date of acquisition
    (b) dividend on shares held as on 30-09-2012 will be treated as Capital receipt irrespective the date of acquisition
    (c) dividend on shares held as on 31-03-2012 will be treated as Revenue receipt (Income); and on shares acquired between 01-04-2012 and 30-09-2012 will be treated as Capital receipt
    (d) dividend on shares acquired between 01-04-2012 and 30-09-2012 will be treated as Revenue receipt (Income); and on shares acquired between 01-04-2011 and 31-03-2012 will be treated as Capital receipt

27. The current investments are valued on closing date at
    (a) Market value
    (b) Cost of purchase
    (c) Lower of cost and market value
    (d) Higher of cost and fair value

28. Any reduction to market value of current investment from cost, on valuation date is debited to
    (a) Revaluation reserve
    (b) Profit and loss account
    (c) Capital reserve
    (d) General reserve

29. Current investments should be valued at the lower of cost and market value determined on
    (a) Individual investment basis
    (b) Either individual investment basis or by category of investment
    (c) On an overall (or global) basis
    (d) None of the above

30. Interest on securities is paid
    (a) To the holder of the security on the due date, in respect of his actual period of holding
    (b) To the holders of the security on the due date, irrespective of his actual period of holding
    (c) To the original purchaser of the security
    (d) None of the above

31. When dividend is actually received on the due date,
    (a) The entire amount is entered in the Capital Column (Cr.) of the Investment A/c
    (b) The entire amount is entered in the Income Column (Dr.) of the Investment A/c
    (c) The pro-rate amount relating to the period after the date of acquisition is entered in the Income Column (Cr.) of the Investment A/c
    (d) The pro-rata amount relating to the period before the date of acquisition is entered in the Income Column (Cr.) of the Investment A/c

32. When bonus shares are received -
    (a) The Nominal Value [NV] of such bonus share is entered in the NV Column (Dr.); and amount is entered in the Capital column (Dr.) of the investment A/c
    (b) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Dr.); and Capital column (Dr.) of the Investment A/c
    (c) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Cr.) and in the Capital column (Cr.) of the Investment A/c
    (d) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Dr.) and no amount is entered in the NV column (Dr.) of the Investment A/c

33. When the rights shares are subscribed -
    (a) Nominal value is entered in the Capital column (Cr.) and Cost is entered in the Capital column (Cr.) of the Investment A/c
    (b) Nominal value is entered in the NV Capital column (Dr.) of the Investment A/c
    (c) Nominal Value is entered in the NV column (Dr.) and Cost is entered in the Capital column (Dr.) of the Investment A/c
    (d) Cost is entered in the NV column (dr.) of the Investment A/c

34. When the rights are sold (without subscribing)
   (a) Sale proceeds are credited to the Investment Account
   (b) Sale proceeds are debited to the Investment Account
   (c) No entry is made in the Investment Account; and Sale proceeds are credited to the Profit & Loss Account
   (d) None of the above

35. The cost of Right shares is
   (a) Added to the cost of investments
   (b) Subtracted from the cost of investments
   (c) No treatment is required
   (d) None of the above

36. Long term investments are carried at
   (a) Fair value
   (b) Cost Price
   (c) Cost or Market Value whichever is less
   (d) Market Value

37. Short term investments are carried at
   (a) Market Value
   (b) Cost Price
   (c) Cost or Market Value whichever is less
   (d) None of the above

38. A Ltd. acquired 2,000 equity shares of Omega Ltd., on cum-right basis at ₹75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at ₹60 per share, which was subscribed for by A. Total cost of investments at the year end will be ₹
   (a) 2,70,000 (b) 1,50,000
   (c) 1,20,000 (d) 30,000

39. The cost of Right shares is
   (a) added to the cost of investments.
   (b) subtracted from the cost of investments.
   (c) no treatment is required.
   (d) added to cost of investments at market value.

40. Long term investments are carried at
    (a) fair value.
    (b) cost less 'other than temporary' decline.
    (c) Cost and market value whichever is less.
    (d) Cost and market value whichever is higher.

41. Current investments are carried at
    (a) Fair value.
    (b) cost.
    (c) Cost and fair value, whichever is less.
    (d) Cost and fair value, whichever is higher.

42. A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ₹75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at ₹ 60 per share, which was subscribed for by A. Total cost of investments at the year-end will be ₹
    (a) 2,70,000. (b) 1,50,000.
    (c) 1,20,000. (d) 1,70,000.

43. Cost of investment includes
    (a) Purchase costs. (b) Brokerage and Stamp duty paid.
    (c) Both (a) and (b). (d) none of the above.

-: **ANSWER** :-

1.	(b)	11.	(c)	21.	(b)	31.	(c)	41.	(c)
2.	(b)	12.	(d)	22.	(b)	32.	(a)	42.	(a)
3.	(b)	13.	(b)	23.	(c)	33.	(c)	43.	(c)
4.	(c)	14.	(a)	24.	(c)	34.	(c)		
5.	(c)	15.	(c)	25.	(c)	35.	(a)		
6.	(b)	16.	(d)	26.	(c)	36.	(b)		
7.	(a)	17.	(a)	27.	(c)	37.	(c)		
8.	(a)	18.	(b)	28.	(b)	38.	(a)		
9.	(b)	19.	(b)	29.	(b)	39.	(a)		
10.	(b)	20.	(b)	30.	(b)	40.	(b)		

FILL IN THE BLANKS

1. Interest is always calculated on the __________ Value of the security.

2. If a security is transferred on the exact date when interest falls due, the entire interest up to that due date belongs to the ___________.

3. If a security is transferred on the date other that the due for payment of interest, the (seller / purchaser) has the right to claim the interest upto the date of transfer as his income

4. If a security is transferred on any date other that the due date for payment of interest, the purchaser has the right to claim the Interest (upto / after) the date of transfer as his income.

5. Dividend on shares accrues on the date of its ____________.

6. Dividend on shares is paid to the holder of the share on the date of ____________, irrespective of his actual period of holding.

7. If XYZ Ltd. pays a dividend on 30 - 09 - 2013 for the year ended on 31 - 03 - 2013, dividend on shares held as on 31 - 03 - 2013 will be treated as (Revenue / Capital) receipt; and on share acquired between 01 - 04 - 2013 and 30 - 09 - 2013 will be treated as (Revenue / Capital) receipt.

8. When shares are purchased, Cost is entered in the (Capital / NV) column (Dr.) in the Investment Account.

9. When dividend is actually received on the due date, the pro - rata amount relating to the period after the date of acquisition is entered in the (Capital / Income) Column (Cr.)

10. When dividend is actually received on the due date, the pro - rata amount relating to the period (before / after) the date of acquisition, if any, is entered in the Capital Column (Cr.)

11. Weighted Average Cost of Securities on Date of Sale

$$= \frac{?}{\text{Total no. Securities}} \quad \text{Total Cost of Investments on date of Sale}$$

----------: ANSWER :----------

1.	Nominal / Face	7.	Revenue Capital
2.	Seller	8.	Capital
3.	Seller	9.	Income
4.	After	10.	Before
5.	Declaration	11.	No. of Securities Sold
6.	Book - closure		

4 BRANCH ACCOUNTS

PART A : THEORY SECTION

- **Head office:** Main place of business.

- **Branch:** Business unit situated away from Head Office.

Branch
- Dependent Branch
  - Debtors system of accounting
  - Stock & Debtors system of accounting
- Independent Branch
  - Local Branch
  - Foreign Branch

FEATURES / CHARACTERISTICS OF DEPENDENT BRANCH:

1. Branch is fully controlled by H.O..
2. Normally Branch can sell only those goods which it gets from H.O.
3. Branch can sell goods only at a selling price fixed by H.O.
4. To hide the real profit from the branch, H.O. sends the goods to the branch at Invoice Price (Selling Price).
   Cost + Loading = Invoice Price.
5. H.O. will maintain the books of accounts for the branch.

DEBTORS METHOD

Under this method, Head Office will maintain only one Account that is Branch Account. Only those transactions shall be recorded which takes place between:

a) Head Office & Branch

b) Branch & Head Office

c) Head Office & 3rd parties in relation to Branch.

In other words, transactions between Branch & 3rd party shall not be recorded. (Eg. Credit Sales, Bad debts, Sales Return, Discount allowed etc.)

Accounting Entries:

1	For goods sent to Branch	Branch A/c Dr. To Goods sent to Branch A/c
2	For goods returned by branch	Goods sent to Branch A/c Dr. To Branch A/c
3	For cash remitted to Branch for exps. or Direct payment of Branch expenses	Branch A/c Dr. To Cash / Bank A/c
4	For remittance made by Branch to H.O.	Cash / Bank A/c Dr. To Branch A/c
5	For Branch assets at the end of the year	Branch Assets A/c Dr. To Branch A/c
6	For Branch liabilities at the end of the year	Branch A/c Dr. To Branch Liabilities A/c
	Note: The above two entries shall Be reversed at the beginning of the next year.	
7	For transfer of balance in goods sent to Branch A/c	Goods sent to Branch A/c Dr. To Trading A/c.
8	For branch profit	Branch A/c Dr. To general Profit & Loss A/c
9	For branch loss	General Profit & Loss A/c Dr. To Branch A/c

Whenever goods are sent at Invoice Price, the following additional points should be considered:-

1) Record goods sent to Branch at Invoice Price on the debit side of Branch A/c

2) Reverse the loading element by passing the following entry:

   Goods sent to Branch A/c Dr.

   To Branch A/c.

3) Record Closing Stock on Credit side of Branch A/c at Invoice Price.

4) Create appropriate Stock Reserve on Closing Stock by passing the following entry.

   Branch A/c Dr.

   To Stock Reserves A/c

STOCK AND DEBTORS METHOD

The following accounts shall be prepared normally in the books of Head Office :-

1) Branch Stock Accounts (At Invoice Price)
2) Branch Stock Adjustment Accounts (For Loading Element)
3) Branch Profit & Loss Accounts
4) Branch Debtors Accounts
5) Goods sent to Branch Accounts

Accounting Entries :-

1) **For Goods sent to Branch**

a) Branch Stock A/c Dr.

To Goods sent to branch A/c. (At Invoice Price)

b) Goods sent to Branch A/c Dr.

To Branch Stock Adjustment A/c. (For Loading)

2) **For Goods returned by the Branch**

Reversal of 1(a) & 1 (b)

3) **For Sales made by the branch**

a) **For cash sales**

Cash /bank A/c Dr.

To Branch Stock A/c.

b) **For Credit Sales**

Branch Debtors A/c Dr.

To Branch Stock A/c.

4) **For Sales Returns**

Branch Stock A/c Dr.

To Cash / Bank A/c. (For Cash Sales returns)

To branch Debtors A/c. (For Credit Sales returns)

Note : No reversal of loading in case of Sales or Sales Returns.

5) **Collection from Debtors**

Cash/Bank a/c Dr.

To Branch Debtors a/c

6) **For discount allowed and Bad Debts**

a) **Discount Allowed A/c** Dr.

Bad Debts A/c Dr.

To Branch Debtors A/c.

b) **Branch Profit & Loss A/c** Dr.

To Discount Allowed A/c.

To Bad Debts A/c.

7) **For expenses incurred and paid by the Branch**

a) Branch Exps. A/c. Dr.

To Cash / Bank A/c.

b) Branch Profit & Loss A/c. Dr.

To Branch Exps. A/c.

8) **For remittance made by Branch to head Office**

Cash / bank A/c Dr.

To Branch Cash / Bank A/c.

9) **For remittance made by head Office to branch**

Branch Cash / Bank A/c. Dr.

To cash / Bank Ac/.

10) **For Stock Reserve on Closing Stock**

Branch Stock Adjustment A/c Dr.

To stock Reserve A/c.

Note : In the beginning of next year, the above entry shall be reversed.

11) **For balance in goods sent to Branch A/c**

Goods sent to Branch A/c. Dr.

To trading A/c

12) **For balance in branch Stock Adjustment A/c**

Branch Stock Adjustment A/c. Dr.

To branch Profit & Loss A/c.

(This is gross profit realized)

13) **For net profit**

Branch Profit & Loss A/c. Dr.

To General profit & Loss A/c.

14) **For net Loss**

General Profit & Loss A/c. Dr.

To Branch profit & Loss A/c.

SPECIAL TRANSACTIONS

1) **Shortage of Stock / Abnormal Loss**

Branch Profit & Loss A/c Dr. (Cost)

Branch Stock Adjustment A/c Dr. (Loading)

To Branch Stock A/c (Invoice Price)

2) **Normal Loss**

Branch Stock Adjustment A/c. Dr. (Invoice Price)

To Branch Stock A/c. (Invoice Price)

Note : Unless otherwise specified all losses be treated as abnormal loss.

3) **For Excess of Selling Price above Invoice Price**

Branch Stock A/c Dr.

To Branch Stock Adjustment A/c

4) **For decrease in Selling Price below Invoice Price (Markdown)**

Branch Stock Adjustment A/c Dr.

To Branch Stock A/c

Note:

If Branch stock account shows difference then

(1) **Balancing Figure on Debit side**

Excess of selling Price over Invoice Price

(2) **Balancing Figure on Credit Price**

Shortage of Goods

Notes:

1. **Abnormal Loss:** Unexpected Loss

   Abnormal loss should not reduce Gross Profit but it should reduce Net Profit. Hence Abnormal Loss is recorded in trading A/c – Credit side & P&L A/c – Debit side. Hence Abnormal Loss is a charge on NET PROFIT.

2. **Normal Loss:** Expected Loss

   Normal Loss should reduce Gross Profit. hence it is not recorded in Trading A/c – Credit side. Hence Normal Loss is a charge on GROSS PROFIT.

Loading of every item will be recorded in Branch Stock Adjustment A/c except the following three items:

1. Cash Sales
2. Credit Sales
3. Sales Return

NOTE:

BRANCH STOCK ACCOUNTS

➢ **Credit Side short**

1. Closing stock (By balance c/d);
2. Shortage of stock;
3. Apparent Loss:

   (Actual selling price < Normal selling price)

➢ **Debit Side Short**

1. Apparent Profit

   (Actual Selling Price > Normal Selling price)
2. Surplus of stock

NOTE:

Apparent Profit – 1. Branch stock – Dr.
2. Branch stock adjustment – Cr.
With full amount

INDEPENDENT BRANCH (LOCAL)

When Branch maintains its own books of Accounts & prepares its own Trial Balance at the end of the year then such type of Branch is called as Independent Branch. Head Office will also prepare its own Trial Balance at the end of the year. From the point of view of an outsider, Head Office & Branch are one & the same. Therefore we are required to prepare consolidated Final Accounts for the entire organization (i.e. Head Office & Branch). Before we start with consolidation, the following adjustments have to be considered.

I. Reconciliation of Head Office Account & Branch Accounts

Usual transactions like goods sent to Branch and Cash remitted to Head Office shall take place between Head Office & Branch throughout the year. Such transactions shall be recorded in the books of Head Office through Branch Accounts & in the books of Branch through Head Office Accounts. If there is difference in Head Office Accounts & Branch Account then that difference could be because of following two reasons:-

i) Goods in Transit

ii) Cash in Transit

The above difference should be reconciled by passing a reconciliation entry either in books of Head Office or in the books of Branch but never in both the books.

Books of H.O.	Books of Branch
(i) Goods in Transit No Entry	Goods in Transit A/c Dr. To Head office A/c
(ii) Cash in transit Cash in transit A/c Dr. To Branch A/c	No Entry

II. ADJUSTMENT ENTRIES

1. Expenses paid by Head office chargeable to Branch.

Books of H.O.	Books of Branch
Branch A/c Dr. To Expense A/c	Expense A/c Dr. To Head office A/c

2. Expenses paid by branch chargeable to H.O.

Books of H.O.		Books of Branch	
Expense A/c	Dr.	Head Office A/c	Dr.
To Branch A/c		To Expenses A/c	

3. Depreciation of Branch Assets whose accounts is maintained by Head office.

Books of H.O.		Books of Branch	
Branch A/c	Dr.	Depreciation A/c	Dr.
To Asset A/c		To Head office A/c	

III INCORPORATION ENTRIES IN H.O. BOOKS

1. **Incorporating Trading A/c – Debit side items [except Gross Profit]**

   Branch Trading A/c Dr.
   To Branch A/c

2. **Incorporating Trading A/c – Credit side items [except Gross Loss]**

   Branch A/c Dr.
   To Branch Trading A/c

3. **Incorporating Branch Gross Profit**

   Branch Trading A/c Dr.
   To Branch P&L A/c

   (In case of Gross Loss the above entry will be reversed)

4. **Incorporating P&L A/c – Debit side items [except Gross Loss & Net Profit]**

   Branch P&L A/c Dr.
   To Branch A/c

5. **Incorporating P&L A/c – Credit side items [except Gross Profit & Net Loss]**

   Branch A/c Dr.
   To Branch P&L A/c

6. **Incorporating Branch Net Profit**

   Branch P&L A/c Dr.
   To H.O. P&L A/c

   (In case of Net Loss the above entry will be reversed)

NOTE: Instead of passing entries number 1 to 6, a combined entry can be passed.

Branch A/c Dr.

To H.O. P&L A/c

(For Net Profit)

In case of Net Loss the above entry is reversed

NOTE: Whenever, the details of Trading and P&L are available pass the entries number 1 to 6

When the details are not known and only the figure of Net profit is given pass the above entry.

7. **Incorporating Branch Assets**

Branch Assets A/c Dr.

To Branch A/c

8. **Incorporating Branch Liabilities**

Branch A/c Dr.

To Branch Liabilities A/c

NOTE: If all entries are passed, Branch A/c will tally and details of branch Assets & Branch Liabilities can be shown in H.O. Balance sheet.

FOREIGN BRANCH

The Accounting at the Foreign Branch would be in terms of foreign currency. The Accounting at the head office would be in terms of reporting currency i.e. currency in which the financial statements of the enterprise are being reported. The foreign branch trial balance has to be converted into reporting currency on the basis as specified under Accounting Standard 11 (revised). The conversion should be done in the following manner

(1) Integral Foreign Operations:

	Particulars	Basis
(i)	Opening Stock	Opening Rate i.e. rate prevailing at the Commencement of the accounting year
(ii)	Closing Stock	Closing Rate i.e. rate prevailing at the end of the accounting year.
(iii)	Purchases & Sales	Average Rate
(iv)	Expenses & Income	Average Rate
(v)	Fixed Assets / Investments	Original Rate (i.e. rate prevailing on date of purchase)
(vi)	Depreciation	Original Rate
(vii)	Provision for depreciation	Original Rate
(viii)	Secured / Unsecured Loans	Closing Rate
(ix)	Goods received from head office	Equivalent amount at which goods sent to branch appears in head office books.
(x)	Head Office	Equivalent amount at which branch account appears in head office books.
(xi)	All current Assets & Current Liabilities	Closing rate

The difference in the converted trial balance represents either an exchange gain or loss which is reflected in the profit & loss account.

(2) Non Integral Foreign Operations (NFOs):

Here even Fixed Asset , Investments & Depreciation will be converted at closing rate and the exchange difference is transferred to "Foreign Currency Translation Reserve".

PART B : CLASSWORK SECTION

Question 1

Modi Sales Ltd. Modi nagar has branch at Delhi. Goods are supplied to branch at a profit of 20% on sale price. Account are kept at head office from where all expenses are paid. Petty cash expenses are paid by the branch which is allowed to maintain petty cash. From the following balance as shown by books. Prepare Branch Account.

	₹
Balance as on 1st April 2010	
Petty cash in hand at Branch	500
Stock in hand at Branch at Invoice price	20,000
Sundry Debtors at Branch	4,000
Sundry Creditors at Branch	1,200
Furniture at Branch	10,000
Rent prepaid (up to 30th June 2010)	400
Transactions for the year ended 31st March, 2011 were follows:	
Goods sent to Branch	1,05,000
Cash Sales at Branch	80,000
Credit sales at Branch	45,000
Allowances to Debtors	500
Cash received from Debtors	40,000
Bad debts written off	200
Cash paid by branch to creditors	8,000
Creditors as on 31.3.2011	3,000
Payments made by H.O	
Rent for one year (Paid on 1st July 2010)-	2,000
Salaries	3,000
Insurance paid for the year ending 30th June 2011	800
Payment made by Branch Petty Expenses	300
Balance on 31st March, 2011	
Stock at cost	30,000
Petty Cash in Hand	700

Write off Depreciation @ 10% p.a on furniture.

Question 2

Indian Soap Mills Ltd. has two branches, at Agra and at Kanpur. Goods are invoiced to branches at cost plus 50%. Branches remit all cash received to the head office and all expenses are met by the H.O. From the following particulars prepare Branch Accounts to show the profit earned at the branches:

Particulars	Agra ₹	Kanpur ₹
Stock on 1st April, 2010 (Invoice Price)	9,300	15,600
Debtors on 1st April, 2010	6,800	8,700
Goods invoiced to Branches (cost)	34,000	36,000
Sales at branches :		
Cash Sales	25,010	35,000
Credit Sales	31,000	30,100
Cash collected from Debtors	30,400	29,800
Goods Returned by Debtors	1,200	1,500
Goods Returned by Branch to H.O.	1,500	----
Goods transferred from Kanpur to Agra	2,100	2,100
Surplus in Stock	----	300
Shortage in Stock	450	----
Discount allowed to customers	200	350
Expenses at Branches	5,400	6,700

Question 3

Pawan, of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost plus 25%.The branch is instructed to deposit the receipts every day in the head office account with the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the Branch.

From the following information, you are required to prepare Branch Account in the books of Head office:

Particulars	Kanpur ₹
Stock at invoice price on 1.4.2012	1,64,000
Stock at invoice price on 31.3.2013	1,92,000
Debtors as on 1.4.2012	63,400
Debtors as on 31.3.2013	84,300
Furniture & fixtures as on 1.4.2012	46,800
Cash sales	8,02,600

Credit sales	7,44,200
Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900
Furniture acquired by the branch on 1.10.2012 (payment was made by the branch from cash sales and collection from debtors)	5,000

Depreciation to be provided on branch furniture & fixtures @ 10% p.a. on WDV basis.

Question 4

Widespread Ltd. invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 10,000 necessary for meeting immediate requirements for cash. On 31st March, 2010 the assets at the branch were as follows:

	₹ ('000')
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 2011 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 1 crore 32 lakh. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 72,000. Other transactions at the branch during the year were as follows:

	₹ ('000')
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 2011 the branch purchased new furniture for ₹ 11 lakh for which payment was made by head office through a cheque.

On 31st March, 2011 branch expenses amounting to ₹ 6,000 were outstanding and cash in hand was again ₹10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balances method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2011.

Question 5

HLL Ltd. has two Branches, one at Calcutta and the Madras. Goods are invoiced to Branches at invoice price. Branches remit all cash received to the Head Office and all expenses are met by Head Office. From the following particular prepare the necessary accounts under the Stock and Debtors System.

	Calcutta	Madras
	₹	₹
Stock (on 1.4.2010 at invoice price)	93,000	1,56,000
Debtors (on 1.4.2010)	68,000	87,000
Goods invoiced to Branches (at cost price)	3,40,000	3,60,000
Sales at Branches		
Cash Sales	2,00,100	3,50,000
Credit Sales	3,10,000	3,01,000
Cash collection from Debtors	3,04,000	2,98,000
Goods returned by Branch (at invoice price)	15,000	----
Goods returned by Debtors	12,000	15,000
Goods transferred from Madras to Calcutta (cost)	20,000	20,000
Surplus of Stock (at invoice price)	----	3,000
Shortage of Stock (at invoice price)	4,500	----
Discount allowed to Debtors	2,000	3,500
Expenses at Branches	54,000	67,000

The goods are invoiced to Calcutta branch at cost plus 25% and Madras branch at cost plus 50%.

Question 6

MADRAS Ltd. invoices goods to its branch at cost plus 33 & 1/3%. From the following particulars prepare the Branch Stock Account and the Branch Stock Adjustment Account as they would appear in the books of the Head Office.

	₹
Stock at commencement of Branch at invoice price	1,50,000
Stock at close of Branch at invoice price	1,20,000
Goods sent to branch during the year at invoice price (including goods invoiced at ₹ 20,000 to branch on 31.3.2011 but not received by branch before close of the year)	10,00,000
Return of goods to Head Office (invoice price)	50,000

Cash Sales at Branch	9,00,000
Credit Sales at Branch	50,000
Invoice value of Goods pilfered	10,000
Normal loss at branch due to wastage & deterioration of Stock (at invoice price)	15,000

MADRAS LTD. closes its books on 31st March 2011.

Question 7

Atlantic Paper Products send goods to Bhopal Branch at cost plus 25%. You are given the following particulars:

	₹
Opening stock at branch at its cost	5,000
Goods sent to branch at invoice price	20,000
Loss-in-transit at invoice price	2,500
Theft at invoice price	1,000
Loss-in-weight (normal) at invoice price	500
Sales	25,500
Expenses	8,000
Closing stock at branch at cost to branch	6,000
Claim received from the insurance company for loss in transit	2,000

You are required to prepare in the Head Office books :

(a) Branch Stock Account

(b) Branch Adjustment Account

(c) Branch Profit & Loss Account

Show your working.

Question 8

Dara Store Ltd., with its head office at Delhi, invoiced goods to its branch at Ghaziabad at 20% less than the list price which is cost plus 100% with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

From the following particulars available from the branch, prepare branch stock account, branch adjustment account, branch profit and loss account and branch debtors account for the year ending March 31, 2011. You are also required to verify the gross profit and net profit so calculated by preparing branch trading account and branch P&L account.

		₹
Stock on 1st April, 2010 (invoice price)		6,000
Debtors on 1st April, 2010		5,000
Goods received from head office (invoice price)		66,000
Sales:		
Cash	23,000	
Credit	50,000	73,000
Cash received from debtors		42,817
Expenses at branch		8,683
Remittances to head office		60,000
Debtors on March 31, 2011		12,183
Stock on March 31, 2011		8,800

Question 9

Webb and Co. is retail organisation with a number of branch shops. All accounts are kept at the head office and goods sent to branches are recorded at cost plus the expected mark up of 33 & 1/3%. The accounting system is designed to give the head office as much control as possible over the branch stocks.

At the Hull branch at 1st April 2010, goods costing ₹ 1,200 in stock, but some of these, costing ₹ 150, had been reduced in selling price to ₹ 160. The balances of the Hull debtors accounts totalled ₹ 920 at the same date.

The following information relates to the Hull branch for the year to 31st March 2011 or at the end of that year:

	₹
Goods sent to branch (cost)	18,600
Cash sales (including all the goods marked down at the beginning of the year and others costing ₹1,800 sold for half of the normal selling price)	16,060
Cash received from debtors	6,280
Goods returned by branch debtors direct to head Office (Selling Price)	80
Bad debts written off	30
Closing Stock of goods at Invoice price	2,400
Closing total of debtors balances	830

Prepare the relevant accounts for the Hull branch, and calculate the branch profit for the year.

Question 10

Following is the information of the Jammu branch of Best Ltd., New Delhi for the year ending 31st March 2010 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other information's:

Stock as on 01-04-2009	2,20,000
Goods sent during the year	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain (i) the profit earned by the branch during the year (ii) branch stock reserve in respect of unrealized profit. **(Nov. 2010)**

Question 11

You are required to prepare the trading and profit and loss accounts and consolidated balance sheet of Eve Ltd in Calcutta and its branch at Delhi. Give journal entries for incorporation of Delhi branch accounts in the head office and branch also prepare Branch A/C in the books of H.O.

Trial Balance on 31-3-2011

Particulars	H.O. Dr.	Branch Dr.	H.O. Cr.	Branch Cr.
Manufacturing Expenses	30,000	10,000	----	----
Salaries	30,000	10,000	----	----
Wages	1,00,000	40,000	----	----
Cash in hand	10,000	2,000	----	----
Purchases	1,50,000	80,000	----	----
Capital	----	----	2,00,000	
Goods received from H.O.	----	15,000	----	----
Rent	8,000	4,000	----	----
General Expenses	20,000	5,000	----	----
Sales	----	----	4,50,000	1,50,000
Goods sent to branch	----	----	15,000	----
Purchases returns	----	----	5,000	1,000
Opening Stock	50,000	30,000	----	----
Discount earned	----	----	2,000	1,000

Machinery (H.O.)	1,50,000	----	----	----
Machinery (Branch)	50,000	----	----	----
Furniture (H.O.)	7,000	----	----	----
Furniture (Branch)	3,000	----	----	----
Debtors	40,000	15,000	----	----
Creditors	----	----	30,000	5,000
H.O. Account	----	----	----	54,000
Branch Account	54,000	----	----	----
	7,02,000	2,11,000	7,02,000	2,11,000

Closing stock at head office was ₹ 40,000 and at branch ₹ 30,000. Depreciation is to be provided on machinery @ 20% and furniture @ 15%. Rent outstanding is ₹ 500 (for branch).General Expense of Branch includes ₹ 1,000 paid for H.O.

Question 12

The head office of a business and its branch keep their own books and prepare own profit and loss account. The following are the balance appearing in the two sets of the books as on 31st March, 2011 after ascertainment of profits.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
	₹	₹	₹	₹
Capital	----	1,00,000	----	----
Fixed Assets	36,000	----	16,000	----
Stock	34,200	----	10,740	----
Debtors & Creditors	7,820	3,960	4,840	1,920
Cash	10,740	----	1,420	----
Profit & Loss	----	14,660	----	3,060
Branch Account	29,860	----	----	
Head Office A/c	----	----	----	28,020
	1,18,620	1,18,620	33,000	33,000

Set out the Balance Sheet of the business as on 31st March, 2011 after considering following adjustments.

(a) On 31st March, the branch had sent a cheque for ₹ 1,000 to the head office, not received by them nor credited to the branch till next month.

(b) Goods valued at ₹ 440 had been forwarded by the head office to the branch and invoiced on 30th March, but were not received by the branch nor dealt with in their books till next month.

(c) Branch paid salary to H.O. inspector 5,000 debited to salary a/c.

(d) It was agreed that the branch should be charged with ₹ 300 for administration service, rendered by the head office during the year.

(f) Stock stolen from the head office meant for the branch and charged to the branch by the head office but not credited to the head office in the branch books as the branch manager declined to admit any liability ₹ 400 (not covered by insurance).

(e) Depreciation of branch assets of which accounts are maintained by the head office not provided for ₹ 250.

Incorporate branch Trial balance in the H.O. Books and also pass entries in the books of the branch.

Question 13

M/s Shah commenced business on 1.4.2012 with Head Office at Mumbai and a Branch at Chennai. Purchases were made exclusively by the Head Office, where the goods were processed before sale. There was no loss or wastage in processing.

Only the processed goods received from Head Office were handled by the Branch. The goods were sent to branch at processed cost plus 10%.

All sales, whether by Head Office or by the Branch, were at uniform gross profit of 25% on their respective cost.

Following is the Trial Balance as on 31.3.2013.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
	₹	₹	₹	₹
Capital	----	3,10,000	----	----
Drawings	55,000	----	----	----
Purchases	19,69,500	----	----	----
Cost of processing	50,500	----	----	----
Sales	----	12,80,000	----	8,20,000
Goods sent to Branch	----	9,24,000	----	----
Administrative expenses	1,39,000	----	15,000	----
Selling expenses	50,000	----	6,200	----
Debtors	3,09,600	----	1,13,600	----
Branch Current account	3,89,800	----	----	----
Creditors	----	6,01,400	----	10,800
Bank Balance	1,52,000	----	77,500	----
Head Office Current account	----	----	----	2,61,500
Goods received from H.O.	----	----	8,80,000	----
	31,15,400	**31,15,400**	**10,92,300**	**10,92,300**

Following further information is provided:

(i) Goods sent by Head Office to the Branch in March, 2013 of ₹ 44,000 were not received by the Branch till 2.4.2013.

(ii) A remittance of ₹ 84,300 sent by the Branch to Head Office was also similarly not received upto 31.3.2013.

(iii) Stock taking at the Branch disclosed a shortage of ₹ 20,000 (at selling price to the branch).

(iv) Cost of unprocessed goods at Head Office on 31.3.2013 was ₹ 1,00,000.

Prepare Trading and Profit and Loss account in columnar form and Balance Sheet of the business as a whole as at 31.3.2013.

Question 14

Give Journal Entries in the books of Head Office to rectify or adjust the following:

(i) Goods sent to Branch ₹ 12,000 stolen during transit. Branch manager refused to accept any liability.

(ii) Branch paid ₹ 15,000 as salary to the officer of Head Office on his visit to the branch.

(iii) On 28th March, 2012, the H.O. dispatched goods to the Branch invoiced at ₹ 25,000 which was not received by Branch till 31st March, 2012.

(iv) A remittance of ₹ 10,000 sent by the branch on 30th March, 2012, received by the Head Office on 1st April, 2012.

(v) Head Office made payment of ₹ 25,000 for purchase of goods by Branch and wrongly debited its own purchase account.

Question 15

Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

Question 16

Head office passes adjustment entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in March 2011, make the entry in the books of Head Office:

(a) Bombay Branch

(1) Received Goods ₹ 6,000 from Calcutta Branch, ₹ 4,000 from Patna Branch.

(2) Send Goods to :₹ 10,000 to Patna, ₹ 8,000 Calcutta.

(3) Received B/R. : ₹ 6,000 from Patna

(4) Sent Acceptance : ₹ 4,000 to Calcutta, ₹ 2,000 to Patna

(b) Madras Branch (Apart from the above)

(5) Received Goods : ₹10,000 from Calcutta, ₹ 4,000 from Bombay.

(6) Cash Sent : ₹ 4,000 to Calcutta, ₹ 6,000 to Bombay.

(c) Calcutta Branch (Apart from the above)

(7) Sent Goods to Patna : ₹ 6,000.

(8) Paid B/P : ₹ 5,000 of Patna, ₹ 4,000 cash to Patna.

Question 17

DM Ltd. Delhi has a branch in London. London branch is an integral foreign operation of DM Ltd. At the end of the year 31st March, 2009, the branch furnishes the following trial balance in U. K. Pound:

Particulars	£ Dr.	£ Cr.
Fixed assets (Acquired on 1st April, 2005)	24,000	----
Stock as on 1st April, 2008	11,200	----
Goods from head office	64,000	----
Expenses	4,800	----
Debtors	4,800	----
Creditors	----	3,200
Cash at Bank	1,200	----
Head office account	----	22,800
Purchases	12,000	----
Sales	-----	96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		**69,36,000**

The following further information are given:

(a) Fixed assets are to be depreciated @ 10% p.a. on straight line basis.

(b) On 31st March, 2009 :

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1st April, 2005	-	₹ 70 to £ 1
1st April, 2008	-	₹ 76 to £ 1
31st March, 2009	-	₹ 77 to £ 1
Average	-	₹ 75 to £ 1

You are required to prepare :

(i) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.

(ii) Trading and Profit and Loss Account for the year ended 31st March, 2009 and the Balance Sheet as on that date of London Branch as would appear in the books of Delhi head office of DM Ltd.

Question 18

Omega has a branch at Washington. Its Trial Balance as at 30th September, 2012 is as follows: (The Branch is non-integral foreign operations)

	Dr.	Cr.
	US $	US $
Plant and Machinery	1,20,000	----
Furniture and Fixtures	8,000	----
Stock, Oct. 1, 2011	56,000	----
Purchases	2,40,000	----
Sales	----	4,16,000
Goods from Omega (H.O.)	80,000	----
Wages	2,000	----

Carriage inward	1,000	----
Salaries	6,000	----
Rent, rates and taxes	2,000	----
Insurance	1,000	----
Trade expenses	1,000	----
Head Office A/c	----	1,14,000
Trade debtors	24,000	----
Trade creditors	----	17,000
Cash at bank	5,000	----
Cash in hand	1,000	----
	5,47,000	**5,47,000**

The following further information is given:

(1) Wages outstanding – $ 1,000.

(2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.

(3) The Head Office sent goods to Branch for ₹ 39,40,000.

(4) The Head Office shows an amount of ₹ 43,00,000 due from Branch.

(5) Stock on 30th September, 2012 – $ 52,000.

(6) There were no in transit items either at the start or at the end of the year.

(7) On September 1, 2010, when the fixed assets were purchased, the rate of exchange was ₹ 38 to one $.

On October 1, 2011, the rate was ₹ 39 to one $.

On September 30, 2012, the rate was ₹ 41 to one $.

Average rate during the year was ₹ 40 to one $.

You are asked to prepare:

(a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.

(b) Trading and Profit and Loss Account for the year ended 30th September, 2012 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

Question 19

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 2012:

	$	$
Head Office A/c	----	22,800
Sales	----	84,000
Debtors and Creditors	4,800	3,400
Machinery	24,000	----
Cash at Bank	1,200	----
Stock, 1 January, 2012	11,200	----
Goods from H.O.	64,000	----
Expenses	5,000	----
	1,10,200	1,10,200

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

To Balance b/d	8,10,000	By Cash	28,76,000
To Goods sent to branch	29,26,000	By Balance c/d	8,60,000
	37,36,000		37,36,000

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2007, when $ 1.00 = ₹ 40.

Rates of exchange were :

1st January, 2012	$ 1.00	=	₹ 46
31st December, 2012	$ 1.00	=	₹ 48
Average	$ 1.00	=	₹ 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to :

(i) Prepare the Branch Trading and Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency.

(iii) Prepare Branch Trading and Profit and Loss A/c in rupees.

(iv) The Branch A/c in the books of head office after incorporating assets & liabilities.

PART C : HOMEWORK SECTION

Question 20

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office.

From the following, prepare Nagpur branch account in the books of head office by Debtors method:

	₹		₹
Opening balance (1-1-2011)		Bad Debts	1,000
Imprest Cash	2,000	Discount to Customers	2,000
Sundry Debtors	25,000	Remittances to H.O. (recd. by H.O.)	1,65,000
Stock:			
Transferred from H.O.	24,000	Remittances to H.O. (not recd. by H.O. so far)	5,000
Direct Purchases	16,000		
Cash Sales	45,000	Branch Exp. directly paid by H.O.	30,000
Credit Sales	1,30,000		
Direct Purchases	45,000	Closing Balance (31-12-2011)	
Returns from Customers	3,000	Stock:	
Goods sent to branch from H.O.	60,000	Direct Purchase	10,000
		Transfer from H.O.	15,000
Transfer from H.O. for Petty Cash expenses	4,000	Debtors	?
		Imprest Cash	?
		Petty Cash expenses	4,000

Question 21

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2011:

	₹
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-2011 at invoice price	2,20,000
Credit Sales for the year @ invoice price	1,65,000

Cash Sales for the year @ invoice price	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balances as on	1-1-2011 ₹	31-12-2011 ₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	35,750	26,000
Cash in hand	5,000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 2011.

Question 22

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 2011, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	₹
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 2011	60,000
Sales in the year	
Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan. 2011	72,000
Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad debts in the year	4,000
Sales returns at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 2011 at invoice price	1,20,000

Prepare Branch accounts in books of head office by Stock and debtors method.

Question 23

Show adjustment journal entry in the books of head office at the end of April, 2011 for incorporation of inter-branch transactions assuming that only head office maintains different branch accounts in its books.

A. Delhi branch:

(1) Received goods from Mumbai – ₹ 35,000 and ₹ 15,000 from Kolkata.

(2) Sent goods to Chennai – ₹ 25,000, Kolkata – ₹ 20,000.

(3) Bill Receivable received – ₹ 20,000 from Chennai.

(4) Acceptances sent to Mumbai – ₹ 25,000, Kolkata – ₹ 10,000.

B. Mumbai Branch (apart from the above):

(5) Received goods from Kolkata – ₹ 15,000, Delhi – ₹ 20,000.

(6) Cash sent to Delhi – ₹ 15,000, Kolkata – ₹ 7,000.

C. Chennai Branch (apart from the above):

(7) Received goods from Kolkata – ₹ 30,000.

(8) Acceptances and Cash sent to Kolkata – ₹ 20,000 and ₹ 10,000 respectively.

D. Kolkata Branch (apart from the above):

(9) Sent goods to Chennai – ₹ 35,000.

(10) Paid cash to Chennai – ₹ 15,000.

(11) Acceptances sent to Chennai – ₹ 15,000.

Question 24

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd.

At the end of 31st March, 2012, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

	Bombay (₹ thousand)		Sydney (Australian dollars in thousands)	
	Debit	Credit	Debit	Credit
Share Capital	----	2,000	----	----
Land	500	----	----	----
Buildings (Cost)	1,000	----	----	----
Buildings Dep. Reserve	----	200	----	
Plant & Machinery (Cost)	2,500	----	200	----

Plant & Machinery Dep. Reserve	----	600	----	130
Debtors / Creditors	280	200	60	30
Stock (1.4.2011)	100	----	20	----
Branch Stock Reserve	----	4	----	
Cash & Bank Balances	10	----	10	----
Purchases / Sales	240	520	20	123
Goods sent to Branch	----	100	5	----
Managing Director's salary	30	----	----	----
Wages & Salaries	75	----	45	----
Rent	----	----	12	----
Office Expenses	25	----	18	----
Commission Receipts	----	256	----	100
Branch / H.O. Current A/c	120	----	----	7
	4,880	4,880	390	390

The following information is also available:

(1) Stock as at 31.3.2012:

Bombay ₹ 1, 50,000

Sydney A $ 3,125

You are required to convert the Sydney Branch Trial Balance into rupees;

(use the following rates of exchange :

Opening rate	A $ = ₹ 20
Closing rate	A $ = ₹ 24
Average rate	A $ = ₹ 22
For Fixed Assets	A $ = ₹ 18).

Question 25

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2012 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other information:

	₹
Stock as on 01.04.2011 (invoice price)	2, 20,000
Goods sent during the year (invoice price)	11, 00,000
Sales during the year	12, 00,000
Expenses incurred at the branch	45,000

Ascertain

(i) The profit earned by the branch during the year.

(ii) Branch stock reserve in respect of unrealized profit.

Question 26

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 2011.

	₹		₹
Balances as on 1.1.2011:		Bad Debts	600
Stock	7,000	Goods returned by	
Debtor	12,600	customers	500
Petty Cash,	200	Salaries & Wages	6,200
Goods sent from H.O.	26,000	Rent & Rates	1,200
Goods returned to H.O.	1,000	Sundry Expenses	800
Cash Sales	17,500	Cash received from Sundry	
Credit Sales	28,400	Debtors	28,500
Allowances to customers	200	Balances as on 31.12.2011:	
Discount to customers	1,400	Stock	6,500
		Debtors	9,800
		Petty Cash	100

Prepare: (a) Branch Account (Debtors Method), (b) Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method and (c) Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account.

Question 27

XY & Co. with Head Office at Calicut and a Branch at Trichur presents you following:

All goods were purchased by Head Office and normally packed immediately but on 31.3.2011, goods costing ₹ 5,000 remained unpacked.

Only packed goods were sent to the Branch which was charged at selling price less 10%.

Following information is furnished to you as on 31st March, 2011 from the Head Office and Branch Office books.

	Head Office ₹	Branch ₹
Opening Stock	20,000	5,400
Capital amount	40,000	----
Drawing by Proprietor	10,000	----
Purchases	4,00,000	----
Packing material bought	6,000	----
Stock Reserve (1.4.2010)	600	----
Sales	3,20,000	1,00,000
Despatch of goods to Branch	1,13,400	----
Profit & Loss Account (Cr.)	24,800	----
Selling expenses	16,000	800
Clerk's salary, wages etc.	20,000	3,000
Sundry Debtors	28,000	4,200
Sundry Creditors	26,600	5,000
Current Accounts:		
Head Office (Credit balance)	----	12,000
Branch Office (Debit balance)	19,000	----
Bank Balance	1,000	1,000
Goods received from Head Office	----	1,08,000

You are further informed that:

(a) Sales by Head Office were at a uniform gross profit after charging packing materials of 20% on the fixed selling price.

(b) Sales at branches were at fixed selling price :

(c) Goods invoiced and despatched by Head Office to Branch in March, 2011 for ₹ 5,400 were received in the Branch only on 10th April, 2011.

(d) Stock of packing materials on Hand as on 31 March, 2011 was valued at ₹ 1,000.

(e) Remittance of ₹1,600 from the Branch to the Head Office was in transit on 31-3-2011;

(f) ₹ 2,000 worth of stock at selling price was damaged at the Branches. For valuing stock, this was reduced by ₹1,090 below the invoice cost to the branch. It was decided that the Head Office and the Branch Would share equally the loss occasioned by this and also the deficit in stock, ascertained on actual stock taking at the Branch of Goods at selling price of ₹ 500.

Prepare the Profit and Loss Accounts of the Tiruchur and Calicut Offices and also a Balance Sheet as at 31-3-2011 of the business.

PART D : PAST EXAM QUESTIONS

Question 28

Ram Limited of Chennai has a branch at Nagpur to which office, goods invoiced at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from-Head Office and the branch has to remit all cash received into the Head Office bank Account at Nagpur.

From the following details, relating to the year 2009, prepare the accounts in Head Office Ledger and ascertain Branch Profit. Branch does not maintain any books of accounts, but sends weekly returns to Head Office:

	₹
Goods received from Head office at invoice price	1,20,000
Returns of Head Office at invoice price	2,400
Stock at Nagpur Branch as on 1.1.2009 at invoice price	12,000
Sales during the year – Cash	40,000
Credit	72,000
Debtors at Nagpur Branch as on 1.1.2009	14,400
Cash received from Debtors	64,000
Discounts allowed to Debtors	1,200
Bad Debts during the year	800
Sales Returns at Nagpur Branch	1,600
Salaries and Wages at Branch	12,000
Rent, Rates and Taxes at Branch	3,600
Office expenses at Nagpur Branch	1,200
Stock at Branch on 31.12.2009 at invoice price	24,000

Question 29

XYZ Company is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Brunch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare branch account in the books of Head Office.

(May 2011)

	₹		₹
Stock on 1st April 2010 (@ IP)	30,000	Discount allowed to debtor	160
Sundry Debtors on 1st April,		Expenses paid by head Office:	
2010	18,000	Rent	1,800
Cash in hand as on 1st April,		Salary	3,200
2010	800	Stationery & Printing	800
Office furniture on 1st April,		Petty exp. Paid by the Branch	600
2010.	3,000	Depreciation to be provided	
Goods invoiced from the		on branch furniture at 10% pa	
head office (@ IP)	1,60,000	Stock on 31st March, 2011	
Goods return to Head Office	2,000	(@ IP)	28,000
Goods return by debtors	960		
Cash received from debtors	60,000		
Cash Sales	1,00,000		
Credit sales	60,000		

Question 30

Global Limited has a branch which closes its books of account every year on 31st March. This is an independent branch which maintains comprehensive books of account for recording their transaction.

You are required to show journal entries in the books of branch on 31st March. 2011 to rectify or adjust the following

(i) Head Office allocates ₹ 1,35,000 to the branch as head office expense which have not yet been recorded by branch

(ii) Depreciation of branch fixed assets, whose accounts arc kept by head office in its books, not yet recorded in the branch books, ₹ 1,15,000.

(iii) Branch paid ₹ 1,40,000 as salary to an official from head office on visit to branch and debited the amount to its Salaries Account.

(iv) Head Office collected ₹ 1,30,000 directly from a branch customer on behalf of the branch, but no intimation was received earlier by the branch. Now the branch learns about it,

(v) It is learnt that a remittance of ₹ 1,50,000 sent by the branch has not been received by head office till date.

(Nov. 2011)

Question 31

An Indian Company Moon Star Limited has a branch at Verginia (USA). The Branch is a non-integral foreign operation of the Indian Company. The trial balance of the Branch as at 31st March, 2012 is as follows:

	US $	
	Dr.	Cr.
Office equipment	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2011)	22,400	
Purchases	96,000	
Sales	-	1,66,400
Goods sent from H.O.	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates &. Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	-	45,600
Sundry Debtors	9,600	
Sundry Creditors	-	6,800
Cash at Bank	2,000	
Cash in Hand	400	
Total	**2,18,800**	**2,18,800**

The following further information's are given:

(1) Salaries outstanding $ 400.

(2) Depreciate office equipment and Furniture & Fixtures @ 10% p.a. at written down value.

(3) The Head Office sent goods to Branch for ₹ 15,80,000.

(4) The Head Office shown an amount of ₹ 20,50,000 due from Branch

(5) Stock on 31st March, 2012 - $ 21,500.

(6) There were no transit items either at the start or at the end of the year.

(7) On April 1, 2010 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 1, 2011, the rate was ₹ 47 per $. On March 31, 2012, the rate was ₹ 50 per $. Average Rate during the year was ₹ 45 to one $.

Prepare:

(a) Trial balance incorporating adjustments given converting dollars into rupees

(b) Trading, Profit and Loss Account for the year ended 31st March, 2012 and Balance Sheet as on date depiciting the profitability and net position of the Branch as would appear in the nooks of Indian Company for the purpose of incorporating in the main Balance Sheet. **(May 2012)**

Question 32

Give Journal Entries in the books of Head Office to rectify or adjust the following:

(i) Goods sent to Branch ₹ 12,000 stolen during transit. Branch manager refused to accept liability.

(ii) Branch paid ₹ 15,000 as salary to the officer of Head Office on his visit to the branch.

(iii) On 28th March. 2012, the H.O. dispatched goods to the Branch invoiced at ₹ 25,000 which was not received by Branch till 31st March. 2012.

(iv) A remittance of ₹ 10,000 sent by the branch on 30th March, 2012 received by the Head Office on 1st April. 2012

(v) Head Office made payment of ₹ 25,000 for purchase of goods by Branch and wrongly debited its own purchase account.

(Nov. 2012)

Question 33

ABCD Ltd., Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end of 31st March, 2013, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch:

	Delhi (₹ in thousand)		New York ($ in thousand)	
	Dr.	Cr.	Dr.	Cr.
Share Capital		1,250		
Reserves and Surplus		940		
Land	475			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		
Plant & Machinery (cost)	2,000		100	
Plant & Machinery Depreciation Reserve		500		20
Trade receivables/payables	500	270	60	20

Stock (01-04-2012)	250		25	
Branch Stock Reserve		65		
Cash & Bank Balances	125		4	
Purchases/Sales	275	600	25	125
Goods sent to Branch		1,500	30	
Managing Director's salary	50			
Wages & Salaries	100		18	
Rent			6	
Office Expenses	25		12	
Commission receipts		275		100
Branch/H.O. Current A/c	800			15
Total	**5,600**	**5,600**	**280**	**280**

The following information is also available:

(1) Stock as at 31-03-2013

Delhi - ₹ 12,00,000

New York - $ 10 (all stock received from Delhi)

(2) Head Office always sent goods to the Branch at cost plus 25%.

(3) Provision is to be made for doubtful debts at 5%.

(4) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down values.

You are required:

(a) To convert the Branch Trial Balance into rupees, using the following rates of exchange:

Opening rate 1 $ = ₹ 50

Closing rate 1 $ = ₹ 55

Average rate 1 $ = ₹ 52

For fixed assets 1 $ = ₹ 45

(b) To prepare the Trading and Profit & Loss Account for the year ended 31st March, 2013, showing to the extent possible, Head Office results and Branch results separately.

(May 2013)

Question 34

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Income of ₹ 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.

(ii) Provision for doubtful debts, whose accounts are kept by the Head Office not provided earlier for ₹ 1,000.

(iii) Branch paid ₹ 3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(iv) Branch incurred travelling expenses of ₹ 5,000 on behalf of other Branches, but not recorded in the books of Branch.

(v) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(vi) Head Office allocates ₹ 75,000 to the Blanch as Head Office expenses, which has not yet been recorded by the Branch.

(vii) Head Office collected ₹ 30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.

(viii) Goods dispatched by the Head office amounting to ₹ 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(May 2014 – Group 2)

Question 35

LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses, which are met by the Branch. From the following particulars, prepare branch account in the books of head office:

Particulars	₹	Particulars	₹
Stock as on 1st April, 2013 (Invoice Price)	40,000	Cash sales	1,20,000
Sundry Debtors as on 1st April, 2013	25,000	Credit sales	70,000
Cash in hand as on 1st April, 2013	1,000	Discount allowed to debtors	300
Office furniture as on 1st April, 2013	4,000	Expenses paid by head office:	
Goods invoiced from the head office (invoice price)	1,80,000	Salary	4,000
Goods return to head office	6,000	Staff Welfare	750
Goods return by debtors	1,250	Telephone Expenses	1,200
Cash received from Debtors	65,000	Other Misc. Expenses paid by branch	700
		Stock as on 31st March, 2014 (at invoice price)	35,000
		Depreciation to be provided on branch furniture	10%p.a.

(Nov. 2014 – Group 2)

Question 36

M/s. Sandeep, having Head Office at Delhi has a Branch at Kolkata. The Head Office does wholesale trade only at cost plus 80%. The Goods are sent to Branch at the wholesale price viz. cost plus 80%. The Branch at Kolkata wholly engaged in retail trade and the goods are sold at cost to Head Office plus 100%.

Following details are furnished for the year ended 31st March, 2014 :

	Head Office (₹)	Kolkata Branch(₹)
Opening Stock (As on 01.04.2013)	1,25,000	-
Purchases	21,50,000	-
Goods sent to Branch (cost to H.O. plus 80%)	7,38,000	-
Sales	23,79,600	7,30,000
Office Expenses	50,000	4,500
Selling Expenses	32,000	3,300
Staff Salary	45,000	8,000

You are required to prepare Trading and Profit & Loss Account of the Head Office and Branch for the Year ended 31st March, 2014. **(May 2015 – Group 2)**

Question 37

Raju Industries, Kolkata has a branch in Delhi to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch expenses are paid direct from head office, and branch has to remit all cash received to the Head office Bank Account.

From the following details, relating to calendar year 20l4, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office.

Particulars	Amount (₹)
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head Office at Invoice Price	12,000
Stock at Delhi as on 1st Jan., 2014	60,000
Sales during the year - Cash	1,80,000
- Credit	3,80,000
Sundry Debtors at Delhi as on 1st Jan., 2014	72,000
Discount allowed to debtors	8,000
Bad Debts in the year	6,000

Sales returns at Delhi Branch	6,000
Rent, Rates, Taxes at Branch	16,000
Salaries, Wages, Bonus at Branch	62,000
Office Expenses	6,000
Stock at Branch on 31st December, 2014	1,20,000

(Nov. 2015 – Group 2)

Question 38

Pass necessary Journal Entries (with narration) in the books of branch to rectify or adjust the following:

(i) Branch Paid ₹ 24,000 as salary to HO Supervisor and the amount was debited to Salaries Account by the branch.

(ii) Head Office Expenses allocated to branch were ₹ 22,500, but these expenditure were not recorded by the branch.

(iii) HO collected ₹ 50,000 directly from the customer on branch's behalf.

(iv) Branch has sent remittance of ₹ 1,20,000 but the same has not yet been received by HO.

Question 39

M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of M/s ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2015 and the additional information given thereafter:

	Dr.	Cr.
	(Rupee in thousands)	
Stock on 1st April, 2014	300	-
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	**3,360**

Additional Information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers.
Depreciate computers at 60% for the year.

(b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2015.

(c) The rates of exchange may be taken as follows:
- On 01.04.2014 @ ₹ 55 per US $
- On 31.03.2015 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2015 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US $ 29845.35 on 31.3.2015 in New York books and there were no items pending reconciliation.

(May 2016 – Group 2)

Question 40

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1500 per tin and 20 tins of Ghee @ ₹ 5,000 per tin on 1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details :

	Chennai H.O. Amount (₹)	Salem B.O. Amount (₹)
Purchases;		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year (including Cash Sales)		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	1/4/2015 Amount (₹)	31/3/2016 Amount (₹)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

Salem Branch Office		
Balance as on	1/4/2015 Amount (₹)	31/3/2016 Amount (₹)
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in Hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

(i) Addition to Building on 01-04-2015 ₹ 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building 5% (already adjusted to the above figure)

(iii) The Branch Manager is entitled to 10% commission on overall organisational profit after charging such commission.

(iv) The General Manager is entitled to a salary of ₹ 20,000 per month.

(v) General expenses incurred by Head Office is ₹ 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & Loss Account (excluding branch transactions) for the year ended 31st March, 2016. **(Nov. 2016 – Group 2)**

Question 41

Show Adjustment Journal Entry along with working notes in the books of head office at the end of April, 2017 for incorporation of inter branch transactions assuming that only head office maintains different branch account in its books :

(A) Delhi Branch:

(i) Received goods from Mumbai ₹ 1,40,000 and ₹ 60,000 from Kolkata.

(ii) Sent goods to Chennai ₹ 1,00,000, Kolkata ₹ 80,000

(iii) Bill receivable received ₹ 80,000 from Chennai

(iv) Acceptances sent to Mumbai ₹ 1,00,000, Kolkata ₹ 40,000

(B) Mumbai Branch (Apart from the above):

(i) Received goods from Kolkata ₹ 60,000, Delhi ₹ 80,000

(ii) Cash sent to Delhi ₹ 60,000, Kolkata ₹ 28,000

(C) Chennai Branch (Apart from the above):

(i) Received goods from Kolkata ₹ 1,20,000

(ii) Acceptances and cash sent to Kolkata ₹ 80,000 and ₹ 40,000 respectively.

(D) Kolkata Branch (Apart from the above)

(i) Sent goods to Chennai ₹ 1,40,000

(ii) Paid cash to Chennai ₹ 60,000

(iii) Acceptances sent to Chennai ₹ 60,000

(May 2017 – Group 2)

Question 42

M & S Co. of Lucknow has a branch in Canberra, Australia. At the end of 31st March 2017, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra. **(Nov 2017 – Group 2)**

	(₹ in thousand)		(Aust. Dollar in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital	-	2,000	-	-
Reserves & Surplus	-	1,000	-	-
Land	500	-	-	-
Buildings (Cost)	1,000	-	-	-
Buildings Dep. Reserves	-	200	-	-
Plant and Machinery (Cost)	2,500	-	200	-

Plant and Machinery Dep.				
Reserves	-	600	-	130
Debtors/Creditors	280	200	60	30
Stock as on 1/4/2016	100	-	20	-
Branch Stock Reserve	-	4	-	-
Cash & Bank Balances	10	-	10	-
Purchases/Sales	240	520	20	123
Goods sent to Branch	-	100	5	-
Managing Partner's Salary	30	-	-	-
Wages and Salary	75	-	45	-
Rent	-	-	12	-
Office Expenses	25	-	18	-
Commission Receipts	-	256	-	100
Branch/HO Current Account	120	-	-	7
Total	**4,880**	**4,880**	**390**	**390**

The following information is also available:

(i) Stock as at 31st March 2017

Lucknow ₹ 1,50,000

Canberra A $3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A$ = ₹ 50
Closing rate	1 A$ = ₹ 53
Average rate	1 A$ = ₹ 51.00
For Fixed Assets	1 A$ = ₹ 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2017 showing to the extent possible H.O. results and Branch results separately.

Question 43

Ayan Ltd. invoices goods to its branch at cost plus 3 & 1/3%. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	₹
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (Including goods invoiced at ₹ 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018. **(May 2018 – Group 1 – CA Inter)**

Question 44

M/s Marena Limited, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 2017, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	₹
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1st January, 2017	4,50,000
Sales during the year – Cash	15,00,000
Credit	27,00,000
Sundry Debtors at Bangalore as on 1st January, 2017	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31st December, 2017 at invoice price	9,00,000

(May 2018 – Group 2 – IPCC)

Question 45

From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2018, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

	₹
Opening Stock as on 01/04/2017	3,45,000
Goods sent during the year by HO to BO	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

Question 46

Martis Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 25%. Figures relevant to Department A for the year ended 31st March, 2013 were as follows:

Opening stock as on lst April, 2012, at cost	₹ 65,000
Purchase at cost	₹ 2,00,000
Sales	₹ 3,00,000

It is further ascertained that:

(1) Shortage of stock found in the year ending 31.03.2013, costing to ₹ 1,000 were written off.

(2) Opening stock on 01.04.12 including goods costing ₹ 6,000 had been sold during the year and had been marked down in the selling price by ₹ 600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ₹ 1,200 from a cost of ₹ 15,000. Marked-down stock costing ₹ 5,000 remained unsold on 31.03.13.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare:

(i) A Departmental Trading Account for Department A for the year ended 31st March, 2013 in the books of Head Office.

(ii) A Memorandum Stock Account for the year.

(iii) A Memorandum Mark-up Account for the year. **(Nov. 2018 – Group 2 – IPCC)**

Question 47

M/s. Shyam Udyog, a retail store, has two departments. Department X and Department Y for each of which stock account and memorandum 'mark-up' account are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark-up' which together make up the selling price of the goods and in the account the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark-up Account If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted both in the Stock Account and the Departmental Mark-up Account. The rate of 'Mark-up' for X Department is 33 1/3 % of the cost and for Y Department it is 50% of the cost.

The following figures have been taken from the books for the year ended March 2016;

	Dept. X ₹	Dept. Y ₹
Stock as on April 1st at cost	3,15,000	5,58,000
Purchases	22,77,000	28,02,000
Sales	28,68,000	37,50,000

(1) The stock of Department X on April 1, 2015 included goods the Selling price of which had been marked down by ₹ 37,800. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of ₹ 2,07,000 purchased from the Department X was later in the year transferred to the Department Y and sold for ₹ 3,10,500. As a result though cost of the goods is included in the Department X the sale proceeds have been credited to the Department Y.

(3) During the year 2015-16 to promote the goods, they were marked down as follows:

	Cost ₹	Marked down ₹
Department X	1,68,000	10,800
Department Y	3,00,000	60,000

All the goods marked down, were sold except of Department Y of the value of ₹ 1,50,000 marked down by ₹ 30.000.

(4) At the time of stock taking on 31st March. 2016, it was discovered that cloth of Department X of the cost of ₹ 11,700 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year ended 31st March, 2016:

(a) The Memorandum Stock Account; and

(b) The Memorandum Mark-up Account. **(Nov. 2016 - Group 2)**

Question 48

M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter:

	Dr.	Cr.
	(Rupee in thousands)	
Stock on 1st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Office A/c	-	3,040
Total	6,520	6,520

Additional information:

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was ₹ 15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows :

(i) on 1.4.2018 @ ₹ 50 per Singapore Dollar

(ii) on 31.3.2019 @ ₹ 52 per Singapore Dollar

(iii) Average Exchange Rate for the year @ ₹ 51 per Singapore Dollar.

(iv) Conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office you are required to prepare:

(1) Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)

(2) Balance Sheet as on that date. (In Singapore Dollar)

(10 Marks – May 2019 – Inter)

Question 49

Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31 -3-2019:

Particulars	Amount ($) Dr.	Amount ($) Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account	_	4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st April, 2015.

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method.

(iii) Closing inventory at branch is $ 700 as on 31-3-2019.

(iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.

(v) Remittances to HO were recorded at ₹ 1,62,000 in HO books.

(vi) HO account is recorded in HO books at ₹ 2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as :

1-4-2015	₹ 63
1-4-2018	₹ 65 and
31-3-2019	₹ 67

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

(5 Marks – Nov 2019 – Inter)

Question 50

ABC Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost plus a fixed percentage (mark-up) to give the normal selling price. The amount of mark-up is credited to a Memorandum Departmental Markup account. If the selling price of goods is reduced below its normal selling prices, the reduction (mark-down) will require adjustment both in the stock account and the mark-up account. The mark-up for department X for the last three years has been 20%. Figures relevant to department X for the year ended 31 st March, 2019 were as follows:

Stock as on 1st April, 2018, at cost	₹ 1,50,000
Purchases at cost	₹ 4,30,000
Sales	₹ 6,50,000

It is further ascertained that:

(1) Shortage of stock found in the year ending 31.3.2019, costing ₹ 4,000 were written off.

(2) Opening stock on 1.4.2018 including goods costing ₹ 12,000 had been sold during the year and had been marked-down in the selling price by ₹ 1,600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ₹ 3,600 from a cost of ₹ 30,000. Marked-down stock costing ₹ 10,000 remained unsold on 31.3.2019.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark- up and mark-down.

You are required to prepare for the year ended 31st March, 2019 :

(i) Departmental Trading Account for department X for the year ended 31st March, 2019 in the books of head office.

(ii) Memorandum Stock Account for the year ended 31st March, 2019.

(iii) Memorandum Mark-Up account for the year ended 31st March, 2019.

(10 Marks – Nov 2019 – Inter)

Question 51

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at invoice price	8,40,000
Goods return to Head office at invoice price	60,000
Cash sales for the year 2019-20	1,85,000
Credit sales for the year 2019-20	6,25,000
Stock at branch as on 01-04-2019 at invoice price	72,000
S. Debtors at Patna branch as on 01-04-2019	96,000
Cash received from Debtors	4,38,000
Discount allowed to Debtors	7,500
Goods returned by customers at Patna branch	14,000
Bad debts written off	5,500
Amount recovered from Bad debts previously written off as Bad	1,000
Rent Rates & Taxes at Branch	24,000
Salaries & wages at Branch	72,000
Office Expenses (at Branch)	9,200
Stock at Branch as on 31-03-2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following stock and Debtors method and ascertain Branch profit.

(5 Marks – Nov 2020 – Inter)

Question 52

The Washington branch of ABC India sent the following trial balance as on 31st December, 2017.

Particulars	$	$
Head office A/c	-	13,680
Sales	-	50,400
Debtors and creditors	2,880	2,040
Machinery	14,400	-
Cash at bank	720	-
Stock, 1 January, 2017	6,720	-
Goods from H.O.	38,400	-
Expenses	3,000	-
	66,120	66,120

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

Particulars		Particulars	
To Balance b/d	4,86,000	By Cash	23,25,600
To Goods sent to branch	23,55,600	By Balance c/d	5,16,000
	28,41,600		28,41,600

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2012, when $ 1.00 = ₹ 46.

Exchange rate per US$ were:

1st January, 2017	₹ 64
31st December, 2017	₹ 66
Average Rate	₹ 65

Machinery is depreciated @ 10% on written down value basis.

The branch manager is entitled to a commission of 5% on the profits of the branch. You are required to prepare in the books of Head Office:

(i) Branch Trading & Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency

(iii) Branch Trading & Profit and Loss Account in Rupees

(iv) Branch Account.

(8 Marks – May 2019 – IPCC – Adv. Accounting)

Question 53

Rohit of Delhi has a branch at Nagpur. Following is the information of Nagpur Branch for the year ending 31st March, 2019.

(1) Goods are invoiced to the branch at cost plus 25%.

(2) Sale Price is cost plus 40%.

(3) Goods sent during the year at invoice price ₹ 13,50,000

(4) Sales during the year ₹ 14,70,000

(5) Branch Expenses ₹ 55,000

(6) Stock as on 1st April, 2018 at Invoice Price ₹ 3,20,000

Calculate the profit earned by the branch during the year and Branch Stock Reserve in respect of unrealized profit.

(6 Marks – Nov 2019 – IPCC – Adv. Accounting)

Question 54

Explain in brief Non-Integral Foreign Operation (NFO) and Integral Foreign Operation (IFO) as per AS-11.

(4 Marks – Nov 2019 – IPCC – Adv. Accounting)

Question 55

PQR Limited is a retail organization with several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark-up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The markup for Department A for the last three years has been 20%. Figures relevant to Department A for the year ended 31st March, 2020 were as follows:

Opening stock as on 1st April, 2019, at cost	₹ 70,000
Purchases at cost	₹ 2,16,000
Sales	₹ 3,24,000

It is further ascertained that :

(1) Goods purchased in the period were marked down by ₹ 1,680 from a cost of ₹ 19,200. Marked down stock costing ₹ 4,800 remained unsold on 31st March 2020.

(2) Shortage of stock found in the year ending 31.03.2020, costing ₹ 1,440 was written off.

(3) Opening stock on 01.04.19 including goods costing ₹ 9,840 had been sold during the year and had been marked down in the selling price by ₹ 888. The remaining stock had been sold during the year.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare :

(i) A Departmental Trading Account for Department A for the year ended 31st March, 2020 in the books of Head Office.

(ii) A Memorandum Stock Account for the year.

(iii) A Memorandum Mark-up Account for the year.

(10 Marks – Nov 2020 – IPCC – Adv. Accounting)

Question 56

PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31" March, 2020 is as follows:

Particulars	US $	
	Debit	Credit
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2019	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	
Rent, Rates & Taxes	956	
Sundry debtors	12,560	
Sundry Creditors		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account		37,322
Total	**2,34,462**	**2,34,462**

Following further information are given :

(i) Salaries outstanding as on 31st March, 2020 is US $ 600.

(ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.

(iii) Closing stock as on 31st March, 2020 is US $ 24,650.

(iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31" March, 2020. No transaction in respect of the Branch is pending in Head office.

(v) Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 01/04/2019.

(vi) One furniture of carrying value of US $ 450 as on 01/04/2019 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2020 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

(vii) The rate of exchange on different dates are :

Date	1 US $ is equivalent to
1st April, 2019	₹ 64
31st December, 2019	₹ 70
31st March, 2020	₹ 75
Average for the year	₹ 72

You are required to prepare the Trial Balance after incorporating adjustments given and converting US $ into rupees.

(6 Marks – Nov 2020 – IPCC – Adv. Accounting)

Question 57

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following :

(i) Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.

(ii) Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.

(iv) Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(4 Marks – Nov 2020 – IPCC – Adv. Accounting)

Question 58

Give Journal Entries in the books of Branch to rectify or adjust the following:

(1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.

(3) A remittance of ₹ 8,000 sent by the branch has not been received by H.O.

(4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O to branch ₹ 5,000 not entered in branch books.

(Jan' 21)

Question 59

Walkway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March, 2022.

(Figures in ₹)

Particulars			₹
Stock on 1st April, 2021 (invoice price)			12,000
Debtors on 1st April, 2021			10,000
Goods received from head office (invoice price)			1,32,000
Sales:	Cash	46,000	
	Credit	1,00,000	1,46,000
Cash received from debtors			85,000
Expenses at branch			17,500
Debtors on 31st March, 2022			25,000
Stock on 31st March, 2022 (invoice price)			17,600
Remittances to head office			1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtor Account for the year ended 31st March, 2022.

(May' 22)

Question 60

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors Balance Head Office	62,000 1,88,000	Debtors Balance Building Extension A/c Closed by transfer to H.O. A/c Cash at Bank	2,24,000 - 26,000
	2,50,000		**2,50,000**

During the six months ending on 30-09-2020, the following transactions took place at Noida:

	₹		₹
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages Paid	24,000	Discounts allowed	16,000
Salaries	15,600	Discount earned	4,600
(inclusive of advance of ₹ 5,000)		Cash paid to creditors	88,500
General Expenses	7,800	Building Account	14,000
Fire Insurance		(further payment)	
(Paid for one year)	11,200	Cash in Hand	5,600
Remittance to H.O.	52,900	Cash at Bank	47,000

Set out the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books. **(July' 21)**

Question 61

Delta Ltd. has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office.

Prepare necessary Ledger accounts in the books of Delta Ltd. under Stock and Debtors system to show profit earned at the branch for the year ending 31 st March, 2021.

Following information related to Branch is given:

Stock on 1st April, 2020 (Invoice price)	31,200	Goods returned by Debtors	3,000
Debtors on 1st April, 2020	17,400	Surplus in stock (Invoice price)	600
Goods invoiced at cost	72,000	Expenses at Branch	13,400
Sales at Branch: Cash sales	20,000	Discount allowed to Debtors	700
Credit sales	68,200	Debtors on 31st March, 2021	14,300

(Dec' 21)

Question 62

Modern Stores of Delhi operates a retail branch at Nagpur. The Head office affects all the purchases and the branch is charged at cost plus 60%. All the cash received by the Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Impress Account which is reimbursed by the Delhi Head Office every month. The Branch maintains a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.

The following branch transactions took place during the year ended 31st March, 2022:

	₹
Goods received from Delhi at Selling Price	1,50,000
Cash sales	69,000
Goods returned to Delhi at Selling Price	3,000
Credit Sales (Net of returns)	63,000
Authorized Reduction in Selling Price of Goods Sold	1,500
Cash Received from Debtors	48,000
Debtors written off as irrecoverable	2,000
Cash Discount allowed to Debtors	1,500

- On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to ₹60,000 and the Debtors were ₹40,000.
- A consignment of goods sent to the Branch on 27th March, 2022 with a Selling Price of ₹1,800 was not received until 5th April, 2022 and had not been accounted for in stock.
- The Closing Stock at Selling Price was ₹72,900.
- The expenses relating to the Branch for the year ended 31st March, 2022 amounted to ₹18,000.

You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage.

(Nov'22 - 10 Marks)

MULTIPLE CHOICE QUESTIONS

1. HO at Mumbai keeps a single 'Pune Branch Account' which is used to record all items relating to the branch.
   (a) Pune branch is an independent branch whose accounts are kept under the 'Debtors' method
   (b) Pune branch is dependent branch whose accounts are kept under the 'Debtors' method
   (c) Pune branch is a dependent branch whose accounts are kept under the 'Stock and Debtors' method
   (d) None of the above

2. When the Head Office sends the goods at cost to a dependent branch, the Head Office opens the following accounts for that branch in its books under the Debtors method
   (a) (i) Branch Account
   (ii) Goods sent to Branch Account
   (iii) Branch Stock Account
   (b) (i) Branch Account
   (ii) Goods sent to Branch Account
   (iii) Branch Debtors Account
   (c) (i) Branch Account
   (ii) Goods sent to Branch Account
   (d) (i) Branch Account
   (ii) Goods sent to Branch Account
   (iii) Stock Reserve Account

3. The HO sends goods to its branch at a loading of 20% on cost.
   (a) The loading is 25% of sales
   (b) The loading is 1/6th of sales
   (c) The loading is 1/3rd of sales
   (d) none of the above

4. The HO sends its goods to its branch at a loading of 25% on sales.
   (a) The loading is 50% of cost
   (b) The loading is 1/4th of cost
   (c) The loading is 1/3rd of cost
   (d) The loading is 20% of cost

5. The following entry is passed for a dependent branch at Pune following the 'Debtors' method-

Goods sent to Pune Branch a/c Dr.
To Pune Branch a/c

This entry may indicate

(a) Goods returned to HO by the Pune branch
(b) Goods returned to HO directly by the Pune branch customers
(c) Goods sent by Pune branch to another branch
(d) All the above

6. The following entry is passed for a dependent branch at Pune following the 'Debtors' method-

Pune Branch a/c Dr.
To Goods sent to Pune Branch a/c

This entry may indicate

(a) Goods sent to Pune branch by HO
(b) Goods sent to Pune branch by another branch
(c) either (a) or (b)
(d) None of the above

7. The following entry is passed for a dependent branch at Pune following the 'Debtors' method-

Pune Branch a/c Dr.
To Cash/Bank a/c

This entry may indicate

(a) Cash sent to Pune Branch by HO
(b) Cash received from Pune Branch by HO
(c) Expenses of HO paid by Pune Branch
(d) None of the above

8. Under the 'Debtor' method, closing balance in the Branch Account indicates

(a) amount due from the branch (b) closing stock at the branch
(c) profit or loss at the branch (d) none of the above

9. Under the 'Debtor' method, closing balance in the Goods sent to Branch Account
   (a) indicates the closing stock at branch
   (b) indicates gross profit/loss at the branch
   (c) is transferred to Purchases/Trading Account
   (d) indicates the amount due from the branch debtors

10. Under the 'Debtor' method, Goods returned by debtors to branch
   (a) will not be recorded by the HO in the Branch A/c
   (b) will be debited to Goods sent to branch a/c and credited to the Branch a/c
   (c) will be debited to Goods sent to branch a/c and credited to the Branch Debtors a/c
   (d) will be debited to Branch Stock a/c and credited to the Branch Debtors a/c

11. Under the 'Debtor' method, depreciation on fixed assets at the branch
   (a) will be recorded by the branch in its Memorandum Accounts
   (b) will be debited to Depreciation a/c and credited to the Branch a/c
   (c) will be debited to HO a/c and credited to the Branch Fixed assets a/c
   (d) will be debited to Branch a/c and credited to the HO a/c

12. When the Head Office sends the goods at invoice price to a dependent branch, the Head Office opens the following accounts for that branch in its books under the Debtors method
   (a) (i) Branch Account (ii) Goods sent to Branch Account
   (iii) Branch Stock Account
   (b) (i) Branch Account (ii) Goods sent to Branch Account
   (iii) Branch Debtors Account
   (c) (i) Branch Account (ii) Goods sent to Branch Account
   (d) (i) Branch Account (ii) Goods sent to Branch Account
   (iii) Stock Reserve Account

13. When the Head Office sends the goods at invoice price to a dependent branch, the loading o goods sent by HO to branch is adjusted by passing the following entry
   (a) Goods sent to branch a/c Dr.
   To Branch A/c
   (b) Branch A/c Dr.
   To Stock Reserve A/c

(c) Stock Reserve A/c Dr.
  To Branch A/c
(d) None of the above

14. When the Head Office sends the goods at invoice price to a dependent branch, the loading o closing stock at branch is adjusted by passing the following entry
(a) Goods sent to branch a/c Dr.
  To Branch A/c
(b) Branch A/c Dr.
  To Stock Reserve A/c
(c) Stock Reserve A/c Dr.
  To Branch A/c
(d) None of the above

15. Head Office sends the goods at invoice price to a dependent branch. The total of (i) Cash remitted to H.O. + (ii) Cash balance with Branch + (iii) Closing stock with Branch (at Invoice price) is more than the total (at invoice price) of (i) Opening stock with Branch + (ii) Goods sent to Branch. This indicates
(a) Cash and stock on the last day of the year with the branch
(b) Profit for the year earned by the branch
(c) Likely fraud/error involving cash and/or stock
(d) none of the above

16. Under Stock and Debtors method, Branch Stock Account helps to
(a) Ascertain net profit/loss of branch
(b) Ascertain gross profit/loss of branch
(c) Ascertain closing stock at the branch
(d) Ascertain cost of goods sent to the branch

17. Branch Adjustment Account is opened
(a) under Debtors method, when goods are sent by HO to branch at cost
(b) under Stock and Debtors method, when goods are sent by HO to branch at cost
(c) under Debtors method, when goods are sent by HO to branch at invoice price
(d) under Stock and Debtors method, when goods are sent by HO to branch at invoice price

18. Branch account under debtors system is a
   (a) real account
   (b) nominal account
   (c) personal account
   (d) representative personal account

19. Branch account under stock and debtors system is a
   (a) real account
   (b) nominal account
   (c) personal account
   (d) representative personal account

20. When Branch 'A' sends goods to Branch 'B' in the books of Branch 'A' debit is given to
   (a) head office account (b) Branch 'B' account
   (c) sales return account (d) purchase returns account

21. The cash and credit sales of a branch are ₹ 5,000 and ₹ 10,000 respectively. The amount collected from debtors is ₹ 10,000. Under debtors system the amount credited to branch will be
   (a) ₹ 20,000 (b) ₹ 15,000
   (c) ₹ 25,000 (d) ₹ 10,000

22. Goods are sent to the branch at 20% margin on selling price. When branch stocks disclose a surplus of ₹ 2,000 the amount to be credited to branch adjustment account will be
   (a) ₹ 2,000 (b) ₹ 400
   (c) ₹ 333 (d) ₹ 1,600

23. Depreciation on branch assets under debtors system is
   (a) not shown separately in branch account
   (b) shown in branch account
   (c) not accounted
   (d) shown in the profit and loss account of head office

24. Stock reserve in relation to closing stock appears
    (a) on the debit side of branch account
    (b) on the credit side of branch account
    (c) on the debit side of profit and loss account
    (d) on the credit side of the profit and loss account

-: **ANSWER** :-

1.	(b)	7.	(a)	13.	(a)	19.	(a)
2.	(c)	8.	(c)	14.	(b)	20.	(a)
3.	(b)	9.	(c)	15.	(c)	21.	(b)
4.	(c)	10.	(a)	16.	(b)	22.	(b)
5.	(d)	11.	(a)	17.	(d)	23.	(a)
6.	(c)	12.	(d)	18.	(b)	24.	(a)

FILL IN THE BLANKS

1. A/an __________ branch keeps all accounts on its own and can ascertain its income, expenses, assets and liabilities on its own. (dependent / independent / foreign)

2. Payments to branch creditors are not recorded in the Branch Account kept under the '__________' method.

3. '__________' Account is used to adjust loading on closing stock lying at branch when HO sends goods to branch at invoice price.

4. Under Stock and Debtors method, __________ A/c is opened in order to ascertain gross profit/loss of branch.

5 When goods are sent at invoice price, __________ A/c is opened under Stock and Debtors method, in order to ascertain gross profit/loss of branch.

6. When goods are sent at invoice price, Branch Stock A/c is __________ under the Stock and Debtor method for any shortage in stock.

7. When goods are sent at invoice price, balancing figure in __________ A/c under the Stock and Debtor method indicates shortage or gain in stock.

8. Closing balance in Goods sent to branch a/c is transferred to __________ or __________ A/c, under both Debtors and Stock and Debtors methods.

9. If goods are sent to branch with a load at 1/6th of sale price, the gross profit is __________ % equal to on cost.

10. If goods are sent to branch with a load at 1/4th of cost, the gross profit is equal to __________ % on sales.

11. If goods are sent to branch with a load at __________ % of cost, such loading is equal to 1/4th of sale price.

12. Under Debtors method, Goods received from another branch at cost are debited to __________ a/c.

13. Under Debtors method, expenses of branch met by HO are credited to __________ a/c.

14. Under Debtors method, goods returned to HO are debited to __________ a/c.

15. Under Debtors method, branch a/c is closed by transfer to __________ a/c.

16. Under Debtors method, Goods sent to branch a/c is closed by transfer to __________ a/c.

17. Under Debtors method, when goods are sent at invoice price, load on goods sent by HO to branch is adjusted by credit to A/c.

18. Under Debtors method, when goods are sent at invoice price, load on opening stock brought down from last year is adjusted by debit to __________ A/c.

19. If branch sells all the goods only at the invoice price, H.O. can have an easy check on the branch cash and stock by using the following formula (stocks and goods sent at invoice price) : Cash remitted to H.O. + Cash balance with Br. + Closing stock with Br. = Opening stock with Br. + __________.

20. Under Stock and Debtors method, Goods received from another branch at cost are debited to __________ a/c.

21. Under Stock and Debtors method, expenses of branch met by HO are debited to __________ a/c.

22. Under Stock and Debtors method, credit sales are debited to__________ a/c.

23. Under Stock and Debtors method, loss of goods at branch by fire are credited to __________ a/c.

24. Under Stock and Debtors method, closing stock at branch is brought into books by debit to __________ a/c.

25. Under Stock and Debtors method, gross profit is credited to Branch Profit & Loss A/c and debited to __________ a/c.

26. Under Stock and Debtors method, when goods are sent at invoice price, __________A/c shows the load in the various entries shown in the Branch Stock A/c.

27. Under Stock and Debtors method, when goods are sent at invoice price, load on goods sent by HO to branch is debited to Goods sent to branch A/c and credited to __________ A/c.

28. Under Stock and Debtors method, when goods are sent at invoice price, net profit is transferred by credit to General P & L A/c and debit to Branch __________ A/c.

29. Under Stock and Debtors method, when goods are sent at invoice price, if the Credit Total in the Branch Stock A/c is more than the Debit Total, the difference is credited to __________ A/c.

----------: **ANSWER** :----------

1.	independent	16.	Purchases / Trading
2.	Debtor	17.	Branch
3.	Stock Reserve	18.	Stock Reserve
4.	Branch Stock	19.	Goods sent to Br.
5.	Branch Adjustment	20.	Branch Stock
6.	debited	21.	Branch Expenses
7.	Branch Stock	22.	Branch Debtors
8.	Purchase/Trading	23.	Branch Stock
9.	20	24.	Branch Closing Stock
10.	20	25.	Branch Stock
11.	33.33	26.	Branch Adjustment
12.	Branch	27.	Branch Adjustment
13.	cash/bank	28.	Profit & Loss
14.	Goods sent to HO	29.	Branch Adjustment
15.	Profit & Loss		

5 INTERNAL RECONSTRUCTION

PART A : THEORY SECTION

Internal Reconstruction means reconstructing the balance sheet position of the company without liquidating the company. The main purpose of the reconstruction scheme is to write off all fictitious assets and goodwill. For this purpose the company, creates an "artificial surplus" by the adoption of the following course :

(a) By utilising existing reserves
(b) By revaluation of existing assets
(c) By claims fully / partially waived by creditors or Debenture holders
(d) By reduction of share capital

The scheme is required to be approved by a special resolution of shareholders and by the High Court. In order to implement the scheme a special account called "Capital Reduction Account" is used and when the balance sheet is presented after implementing the scheme the words "And Reduced" should be added with the name of the company if ordered by the court.

Journal Entries

1. For utilisation of the existing reserves (if specified)

Reserves A/c Dr.
To Capital Reduction A/c

2. For revaluation of assets

Assets A/c Dr.
To Capital Reduction A/c

3. For claims waived by creditors / debentureholders

Creditors / Debentures A/c Dr.
To Capital Reduction A/c

4. For contingent liability cancelled

No Entry

(Because the balance sheet value of such liability is already nil)

Note: Examples of Contingent Liability (Uncertain liabilities)

1. Liability on Bills discounted
2. Capital Expenditure Commitment
3. Arrears of Dividend on Preference Shares

5. For contingent liability settled

Capital reduction A/c Dr.

To Cash / Bank A/c

(Since the book value of contingent liability is already nil, the entire settlement amount is treated as loss)

6. For reconstruction expenses

Capital Reduction A/c Dr.

To Cash / Bank A/c

7. For reduction of share capital

(a) When face value of the shares is reduced

Share Capital (Old) A/c Dr.

To Share Capital (New) A/c

To Capital Reduction A/c

(Replacement Entry)

(b) When only paid up value is reduced

Share Capital A/c Dr.

To Capital reduction A/c

(Reduction Entry)

Note: If in the question, no specification is given, it should be assumed that the face value is reduced and replacement entry should be passed.

8. For writing off fictitious assets, goodwill & Accumulated losses

Capital reduction A/c Dr.

To Fictitious Assets A/c

To Goodwill A/c

To Profit & Loss A/c

(These should be written off even if it is not specified in the question)

9. For credit Balance in Capital Reduction A/c, if any

Capital Reduction A/c Dr.

To Capital Reserve A/c

(Always to be done)

Surrender of shares

Under this scheme, the shareholders are expected to return a part of their holdings back to the company, which the company can reissue to the creditors and / or debenture holders to settle their dues. (It is technically a transfer of ownership by shareholders in favour of creditors / Debenture holders).

Journal Entries

(1) Entry for Surrender of shares :

Equity Share Capital A/c Dr.

To Share Surrender A/c

(2) Entry for Reissue of surrendered shares to creditors or debentures

(a) As Equity Shares

Share Surrender A/c Dr.

To Equity Share Capital A/c

(b) As Preference Shares

Share Surrender A/c Dr.

To Preference Share Capital A/c

(No special Entry is required to convert surrendered Equity shares into preference shares)

(3) Entry for cancellation of liability so settled

Creditors / Debentures A/c Dr.

To Capital Reduction A/c

(4) Balance in the share surrender a/c not utilised is transferred to Capital Reduction A/c (i.e. cancelled)

Share Surrender A/c Dr.

To Capital Reduction A/c

PART B : CLASSWORK SECTION

Question 1

The Balance Sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital:		Land & Building	75,00,000
Equity Shares of ₹ 50 each		Plant & Machinery	22,00,000
fully paid up	60,00,000	Trade Investment	16,50,000
9% Preference Shares of		Inventories	9,50,000
₹ 10 each fully paid up	40,00,000	Trade Receivables	18,00,000
7% Debentures (secured by		Cash and Bank Balances	3,60,000
plant & machinery)	23,00,000	Profit & loss Account	2,15,000
8% Debentures	17,00,000		
Trade Payables	6,00,000		
Provision for Tax	75,000		
	1,46,75,000		**1,46,75,000**

The Board of Directors of the company decided upon the following schema of reconstruction duly approved by all concerned parties:

(1) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under :

(a) New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.

(b) 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.

(c) ₹ 2,80,000, 10% debentures of ₹ 80 each.

(2) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.

(3) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.

(4) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.

(5) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

(6) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.

(7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.

(8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debenture of ₹ 80 each for every two debentures held by them.

(9) The land and building to be depreciated by 5%.

(10) The debit balance of profit and loss account is to be eliminated.

(11) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

(Nov. 2015 – Group 1)

Question 2

The Balance Sheet of Neptune Ltd., as on 31.3.2011 is given below:

Liabilities	₹	₹	Assets	₹
80,000 Equity shares of ₹ 10 each fully paid		8,00,000	Freehold Property	5,00,000
5,000, 6% Cumulative preference shares of ₹100 each fully paid		5,00,000	Plant & Machinery	1,80,000
6% Debentures (secured by freehold property)	3,75,000		Trade investment (at cost)	1,70,000
Arrear interest	22,500	3,97,500	Sundry debtors	4,50,000
Sundry creditors		17,500	Stock in trade	2,00,000
Directors Loan		3,00,000	Deferred advertisement expenditure	1,50,000
			Profit and Loss A/c	3,65,000
		20,15,000		20,15,000

The Court approved a scheme of re-organisation to take effect on 1.4.2011 and the terms are given below :

(i) Preference shares are to be written down to ₹ 75 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance equity shares of ₹ 2 each to be allotted.

(iii) Arrear of debenture interest to be paid in cash.

(iv) Debentureholders agreed to take one freehold property (Book value ₹ 3,50,000) at a valuation of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(v) Deferred advertisement expenditure to be written off.

(vi) Stock value to be written off fully in the books.

(vii) 50% of the Sundry Debtors to be written off as bad debt.

(viii) Remaining freehold property (after takeover by debentureholders) to be valued at ₹ 3,50,000.

(ix) Investment sold out for ₹ 2,00,000.

(x) 80% of the Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be issued.

(xi) Company's contractual commitments amounting to ₹ 5,00,000 to be cancelled by paying penalty at 3% of contract value.

(xii) Cost of reconstruction scheme is ₹ 20,000.

Show the Journal entries to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme.

Question 3

The following was the Balance Sheet of Ever Hopeful Ltd. as on 31st March, 2011.

Liabilities	₹	Assets	₹
Equity share capital in ₹100 each shares	5,00,000	Land & Building	2,00,000
10% Preference Capital in ₹ 100 each shares	3,00,000	Plant & Machinery	2,00,000
12% convertible debentures	90,000	Invention & Promotion Expenses	1,00,000
Loan from Bankers (secured)	1,10,000	Discount & Issue Expenses on shares & Debentures	30,000
Capital Reserve	40,000	Profit & Loss A/c	2,80,000
Creditors	1,60,000	Stock in hand	3,00,000
Securities premium	10,000	Debtors	1,00,000
	12,10,000		**12,10,000**

It was believed that worst was now over and Company's New Invention was certain to bring sizeable profit in future. But at present the Additional working capital was badly required. The dividend on Preference Shares was in arrears for the last three years. The company had a very valuable property which stood highly understated in the Balance Sheet and which it could not afford to sell, the said being required for the business.

In view of these shareholders and the creditors agreed upon the following scheme of reconstruction.

1. All fictitious assets including invention and promotion expenses were to be written off.
2. ₹ 30,000 from Debtors, ₹ 2,00,000 from stock and ₹ 1,50,000 from plant and machinery were to be written off.
3. The convertible debentureholders were given the option of subscribing Equity shares of ₹ 30 each upto 50% of their face value and subscribing preference shares of ₹ 50/- each upto 25% of their face value and the remaining 25% was to be paid to them in cash. All debenture holders exercised the option.
4. All reserves were to be utilised.
5. The creditors being unsecured agreed to reduce their claim by 25% on the condition that they will be paid off before 31st March, 2013. They also agreed not to charge any interest till the date of payment.
6. Preference shares were reduced to ₹ 50 per share and equity shares were reduced to 30 per share.
7. Land & Building were revalued at such a figure so as to put through the entire scheme.
8. Bankers were to be paid off fully. For this purpose the company was to issue 6,000 equity shares of ₹ 30 each for cash.
9. The arrears of dividend on preference shares is cancelled.

Assuming that the scheme had been duly sanctioned by the Court, prepare the Capital Reduction Account and Balance sheet after Reconstruction.

Question 4

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2011:

Liabilities	₹	Assets	₹
6,000 shares of ₹ 60 each, ₹ 30 paid up	----	Property, machinery and plant etc. (Cost ₹ 3,90,000)	
First debentures	3,00,000	Estimated at	1,50,000
Second debentures	6,00,000	Cash in hand of the receiver Charged under debentures	2,70,000
Unsecured trade payables	4,50,000		4,20,000
		Uncalled capital	1,80,000

		Deficiency	6,00,000 7,50,000
	13,50,000		**13,50,000**

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also an unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured trade payables for ₹ 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel ₹ 2,10,000 of the total debt owing to him, to bring ₹ 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
2. B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
3. Unsecured creditors (other than A and B) agreed to accept four shares of ₹ 7.50 each fully paid in satisfaction of 75% of every ₹ 60 of their claim. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

Question 5

Fair-weather Limited ran into a patch of bad financial management and its affairs were handed over to a Receiver appointed by the debenture-holders. Its statement of affairs was as given below:

	Book Value Assets ₹	Realisable Value ₹
Land & Building	8,00,000	10,00,000
Plant & Machinery	12,00,000	7,00,000
Stock in Trade	8,00,000	5,50,000
Trade Debtors	9,50,000	4,75,000
Cash	1,50,000	1,50,000
	39,00,000	28,75,000
Deduct : 7% First Mortgage Debenture		12,50,000
		16,25,000
Deduct: 8% Second Mortgage Debenture		20,00,000

Deficiency Regarding Second Debenture		3,75,000
Unsecured Creditors		4,50,000
Deficiency regarding unsecured creditors		8,25,000
Contributories :		
40,000 Equity Shares of ₹ 10 each fully paid up	4,00,000	
60,000 Equity Shares of ₹ 10, ₹ 5 per share paid up	3,00,000	7,00,000
Deficiency regarding contributories		15,25,000

All the mortgage debentures are held between two groups of individuals X and Y as indicated below:

	X and his Friends ₹	Y and his Friends ₹
First Mortgage Debentures	7,50,000	5,00,000
Second Mortgage Debentures	12,50,000	7,50,000

In addition, X and Y rank as unsecured creditors to the extent of ₹ 1,50,000 and ₹ 1,00,000 respectively. X also hold 10,000 fully paid equity shares and 4,000 partly paid equity shares in the company.

The following scheme of reconstruction was agreed upon:

(i) the partly paid up equity shares would be fully paid up by making a call; after the shares are fully paid, all equity shares other than shares of Mr. X would be reduced to shares of Re.1 each fully paid up.

(ii) X will give up all his claims regarding debentures and other credits, cancel all his equity shares and would receive in return 10% mortgage debentures of ₹ 18 lakhs and cash of ₹ 89,000.

(iii) Y will give up all his claims on debentures and credits he will bring in cash of ₹ 75,000 and in consideration would be issued with 10% mortgage debentures of ₹ 10 lakhs.

(iv) the rest of the sundry creditors agree to give up 121/2% of their claims get equity share of Re.1. each fully paid up allowed to them for 50% of their net claims and await discharge of the balance in due course.

Pass journal entries (narrations need not be given) to give effect to the above proposal and prepare the Balance Sheet after reconstruction.

Working should form part of your answer.

Question 6

The Balance Sheet of H Ltd. as on June 31st March, 2011 was as follows :

Liabilities	₹	Assets	₹
Share Capital		Freehold land & Building	34,000
Authorised, Issued and Fully paid		Plant	96,000
10,000 6% cumulative pref. shares of ₹ 10 each	1,00,000	Tools and Dies	27,300
15,000 ordinary sh. of ₹ 10 each	1,50,000	Investments	15,000
	2,50,000	Stocks	42,500
7% Debentures 60,000		Debtors	53,400
Interest due thereon 4,200	64,200	Research & Development Expenditure	18,000
18,000			
Bank overdraft secured on freehold		Profit & Loss A/c	98,000
Land & Building & Plant	20,000		
Creditors	50,000		
	3,84,200		**3,84,200**

The scheme of reorganisation detailed below has been agreed by all the interested parties and approved by the court. You are required to prepare :

(i) The Journal entries recording the transactions in the books, including cash; and

(ii) The balance sheet of the company as on April 1, 2011 after completion of the scheme.

(1) The following assets are to be revalued as shown below : Plant ₹ 59,000; Tools and dies ₹ 15,000; stock ₹ 30,000; and debtors ₹ 48,700.

(2) The research and development expenditure and the debit balance of Profit and Loss Account are to be written off.

(3) Piece of land recorded in the books at ₹ 6,000 is valued at ₹ 14,000 and is to be taken over by the debentureholders in part repayment of principal. The remaining freehold land and buildings are to be revalued at ₹ 40,000.

(4) A creditor for ₹ 18,000 has agreed to accept a second mortgage debenture of 10% p.a. secured on the plant for ₹ 15,500 in settlement of his debt. Other creditors totalling ₹10,000 agree to accept a payment of ₹ 0.85 in the rupee for immediate settlement.

(5) The investments at a valuation of ₹ 22,000 are to be taken over by the bank in settlement of Bank Over Draft.

(6) The ascertained loss is to be met by writing down the ordinary shares to Re.1 each and the preference to ₹ 8.00 each. The authorised share capital is to be increased immediately to the original amount.

(7) The ordinary shareholders agreed to subscribe for two new ordinary shares at par for every share held. This cash is fully received.

(8) The cost of the scheme are ₹ 1,500. These have been paid and are to be written off. The debenture interest has also been paid.

Question 7

The Summarised Balance Sheet of Revise Limited as at 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹
Authorised and subscribed		Fixed Assets:	
capital:			
10,000 Equity shares of ₹ 100		Machineries:	1,00,000
each fully paid	10,00,000		
Unsecured Loans :		Current Assets:	
12% Debentures	2,00,000	Inventory	3,20,000
Accrued interest	24,000	Trade receivables	2,70,000
Current liabilities		Bank	30,000
Trade payables-	72,000	Profit and loss account	6,00,000
Provision for income tax	24,000		
	13,20,000		**13,20,000**

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

(a) Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.

(b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.

(c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.

(d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.

(e) Trade payables claim shall be reduced to 50 percent, it is to be settled by the issue of equity shares of₹ 10 each out of shares surrendered.

(f) Balance of profit and loss account to be written off.

(g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

Question 8

The following is the Balance Sheet of Star Ltd. as on 31st March, 2015:

A.		₹
1.	**Shareholders' Fund:**	
	(a) Share Capital:	
	9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
	10,000 Equity Shares of ₹ 100 each fully paid	10,00,000
	(b) Reserve & Surplus:	
	Profit & Loss Account	(2,00,000)
2.	**Non-current liabilities:**	
	"A" 6% Debentures (Secured on Bombay Works)	3,00,000
	"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3.	Current Liabilities and Provisions:	
	(a) Workmen's Compensation Fund:	
	Bombay Works	10,000
	Chennai Works	5,000
	(b) Trade Payables	1,25,000
	Total	**24,90,000**
B.	**Assets:**	
1.	**Non - current Assets:**	
	Tangible Assets	
	Bombay Works	9,50,000
	Chennai Works	7,75,000
2.	**Investment:**	
	Investments for Workman's Compensation Fund	15,000
3.	**Current Assets:**	
	(a) Inventories	4,50,000
	(b) Trade Receivables	2,50,000
	(c) Cash at Bank	50,000
	Total	**24,90,000**

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 8% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the Sundry Creditors.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Stock was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-thirds to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

Question 9

The Balance Sheet of M/s. Raman Ltd. as at 31st March, 2011 is as follows:

Liabilities	₹	Assets	₹
Paid up Capital:		Fixed Assets:	
8,000 Equity shares of ₹ 100 each		Land, Building,	14,00,000
fully paid	8,00,000	Machinery	
Secured Loan:		Current Assets:	
8% Debentures	14,00,000	Stock	1,00,000
Accrued Interest on Debentures	70,000	Sundry Debtors	1,43,000
Sundry Creditors	4,50,000	Investments	15,000

Income Tax Liability	10,000	Cash at Bank	2,000
		Profit & Loss A/c	10,70,000
	27,30,000		**27,30,000**

The fixed assets are heavily overvalued. A scheme of reorganisation was prepared and passed. The salient points of the scheme are the following :

(1) Each share shall be sub divided into ten fully paid equity shares of ₹ 10 each.

(2) After such sub division, each share - holder shall surrender to the Company 90% of his holding for the purpose of re-issue to Debenture-holders and Creditors so far as required and otherwise for cancellation.

(3) Of these shares surrendered 50,000 Equity Shares of ₹ 10 each shall be converted into 8% preference shares of ₹ 10 each fully paid for debenture holders.

(4) The debenture-holder's total claim shall be reduced to ₹ 5,00,000. This will be satisfied by the issue of 50,000 preference shares of ₹ 10 each fully paid.

(5) The claim of sundry creditors shall be reduced by 80% and balance shall be satisfied by allotting them equity shares of ₹ 10 each, fully paid from the shares surrendered.

(6) Shares surrendered and not-reissued shall be cancelled.

Assuming that the scheme is duly approved by all parties interested and by the court, draft necessary journal entries and Balance Sheet of the Company after the scheme has been carried into effect.

PART C : HOMEWORK SECTION

Question 10

The Balance Sheet of A & Co. Ltd. as on 31-12-2011 is as follows:

Assets	₹	₹
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	1,30,000	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade receivables	4,85,000	
Inventory	4,25,000	9,10,000
Profit and Loss Account		5,35,000
Total		**21,42,500**
Liabilities		
Share Capital:		
4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000	
75,000 Equity Shares of ₹ 10 each	7,50,000	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued Interest	22,500	3,97,500
Current Liabilities:		
Bank Overdraft	1,95,000	
Trade payables	3,00,000	
Directors' Loans	1,00,000	5,95,000
Total		**21,42,500**

The Court approved a Scheme of re-organisation to take effect on 01-01-2012, whereby:

(i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.

(iii) Accrued interest on debentures to be paid in cash.

(iv) Debenture-holders agreed to take over freehold property, book value ₹ 1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.

(v) Patents and Goodwill to be written off.

(vi) Inventory to be written off by ₹ 65,000.

(vii) Amount of ₹ 68,500 to be provided for bad debts.

(viii) Remaining freehold property to be re-valued at ₹ 3,87,500.

(ix) Trade Investments be sold for ₹ 1,40,000.

(x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.

(xi) There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

Question 11

Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.2011:

Liabilities	Amount ₹	Assets	Amount ₹
Authorised and issued capital:		Building at cost less depreciation	4,00,000
12,000, 7% Preference shares of ₹ 50 each	6,00,000	Plant at cost less depreciation	2,68,000
(Note: Preference dividend is in arrear for five years)		Trademarks and goodwill at cost	3,18,000
15,000 Equity shares of ₹ 50 each	7,50,000	Inventory	4,00,000
	13,50,000	Trade receivables	3,28,000
Loan	5,73,000	Profit and loss A/c	4,51,000
Trade payables	2,07,000		
Other liabilities	35,000		
	21,65,000		**21,65,000**

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

(a) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.

(b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.

(c) Lenders to the company for ₹1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.

(d) The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.

(e) Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.

(f) The equity share capital cancelled is to be applied:

i. to write off the debit balance in the profit and loss A/c; and

ii. to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

Question 12

The Balance Sheet of Fortune Ltd. as on 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	5,14,000
6,000 Equity share of		Cash at Bank	2,80,000
₹ 60 each ₹ 30/- paid up	1,80,000	Profit & Loss A/c	8,60,000
5% First Debentures	3,00,000		
6% Second Debentures	6,00,000		
Unsecured Creditors	4,50,000		
Creditors for Expenses	1,24,000		
	16,54,000		**16,54,000**

Ms. Simple holds the First Debentures for ₹ 3,00,000 and Second Debentures of ₹ 3,00,000. She is also unsecured creditors for ₹ 90,000.

Ms. Dimple holds second debentures for ₹ 3,00,000/- and is an unsecured creditors for ₹ 60,000.

The following scheme of reconstruction was proposed :

(1) Ms. Simple is to cancel ₹ 2,10,000 of total debt owing to her, to advance ₹ 30,000 in cash and to take new 7% Debentures (In cancellation of those already held) for ₹ 5,10,000 in full satisfaction of all her claims.

(2) Ms. Dimple to accept ₹ 90,000 in cash in satisfaction of all her claims.

(3) Unsecured Creditors (other than Simple and Dimple) are to accept the allotment of 20,000 fully paid equity shares of ₹ 7.50 each in satisfaction of 75% of their claims and the balance of 25% is to be postponed and to be payable at the end of two years.

(4) Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled thus making the shares of ₹ 7.50 each fully paid up.

(5) The nominal share capital is to be increased to 50,000 equity shares.

Assuming that the scheme is duly approved, give the necessary journal entries and the Balance Sheet of the Company after the scheme has been put into effect.

Question 13

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.2011 before reconstruction:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets :	
Authorised:		Goodwill	20,00,000
1,50,000 Equity Shares of ₹ 50		Building	10,00,000
each	75,00,000		
Subscribed and Paid up Capital:		Plant	10,00,000
50,000 Equity Shares of ₹ 50 each	25,00,000	Computers	25,00,000
1,00,000 Equity Shares of ₹ 50		Investments	Nil
each, ₹ 40 per share paid up	40,00,000		
Secured Loans :		Current Assets	Nil
12% First Debentures	5,00,000	Profit and Loss A/c	20,00,000
12% Second Debentures	10,00,000		
Current Liabilities:			
Trade payables	5,00,000		
	85,00,000		85,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X ₹	Mr. Y ₹
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
Fully paid up ₹ 50 shares	12,00,000	6,00,000
Partly paid up shares (₹ 40 paid up)	3,00,000	2,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

(a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.

(b) Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.

(c) Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.

(d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

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

Question 14

The summarised Balance Sheet of M/s. Ice Ltd. as on 31-03-2015 is given below:

Liabilities		₹	Assets	₹
1,00,000 Equity shares of ₹ 10 each fully paid up		10,00,000	Freehold property	5,50,000
4,000, 8% Preference shares of ₹ 100 each fully paid		4,00,000	Plant and machinery	2,00,000
6% Debentures	4,00,000		Trade investment (at cost)	2,00,000
(secured by freehold property)			Trade receivables	4,50,000
Arrear interest	24,000	4,24,000	Inventories-in trade	3,00,000
Trade payables		1,01,000	Profit and loss account	5,25,000
Director's loan		3,00,000		
		22,25,000		**22,25,000**

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.

(iii) Debenture holders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be allotted.

(viii) 40% of Trade receivables, 80% of Inventories and 100% of debit balance of profit and loss account to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

(Nov. 2011 - Accounting)

Question 15

Following is the Summary Balance Sheet of ABC Ltd. as at 31st March, 20X1:

Liabilities	₹	Assets	₹
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of ₹ 10		Furniture and fixtures	2,50,000
each fully paid up	20,00,000	Patents and copyrights	70,000
60,000 8% Preference shares of ₹		Investment (at cost)	
10 each	6,00,000	(Market value ₹	68,000
		55,000)	
9% Debentures	12,00,000	Inventory	14,00,000
Bank overdraft	1,50,000	Trade receivables	14,39,000
Trade payables	5,92,000	Cash and bank	10,000
		balances	
		Profit and Loss A/c	4,05,000
	45,42,000		**45,42,000**

The following scheme of reconstruction was finalised:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

Question 16

X Ltd., whose Balance sheet as at 31st March, 2011 appears below formulated a scheme of reconstruction, details of which follow and secured approval of all concerned.

Liabilities		₹	Assets	₹
Equity share capital :			Fixed Assets	5,60,000
50,000 shares of ₹ 20 each ₹ 10			Patents and	
paid		5,00,000	copyrights	40,000
8% Preference Share - capital			Investments at cost	32,500
4,000 Shares of ₹ 100 each ₹ 75			(Market value ₹	
paid up		3,00,000	27,500)	
Secured Loans:			Current Assets	4,24,500
9% Debentures	3,00,000		Profit and Loss A/c	2,14,000
Int. accrued & due	54,000	3,54,000		
Bank Overdraft		75,000		
Creditors (including interest of ₹				
7,500 due to Bank)		42,000		
		12,71,000		12,71,000

Preference dividend is in arrears for one year.

(1) Preference shareholders to give up their claims; inclusive of dividends, to the extent of 30% and desire to be paid off.

(2) Debenture holders agree to give up their claims to interest in consideration of their rate of interest being enhanced to 10%.

(3) Sundry Creditors would like to grant a discount of 5% if they were to be paid off immediately.

(4) Balance on Profit and Loss Account, Patents and copyrights and 25% of the total Sundry Debtors of ₹ 60,000 to be written off. Fixed assets to be written down by ₹ 7,000. Investments to reflect their market value.

(5) To the extent not specifically stated, equity shareholders suffer on reduction of their rights.

(6) Costs of reconstruction ₹ 1,675.

(7) Bank agrees to give up 50% of their interest outstanding in consideration of their claims being paid off at once.

Pass Journal entries in the books of the company assuming that the scheme has been put through fully with the equity shareholders bringing in necessary cash to pay off the parties and to leave a closing cash balance of ₹ 10,000.

Also prepare Balance sheet After Reconstruction.

PART D : PAST EXAM QUESTIONS

Question 17

Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010:

Liabilities	₹	Assets	₹
8000 – 7½% preference shares		Plant and Machinery	8,50,000
@ ₹ 100 each fully paid	8,00,000	Furniture and Fittings	1,60,000
1,80,000 Equity shares @ ₹ 10		Patents and Copy right	60,000
each fully paid	18,00,000	Goodwill	35,000
11% Debentures	10,00,000	Investments (at cost)	65,000
Bank overdraft	1,65,000	Sundry debtors	12,00,000
Loan from director	15,000	Stock	13,00,000
Trade creditors	6,20,000	Cash in hand	12,000
		Profit & Loss A/c	7,18,000
	44,00,000		**44,00,000**

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalised:

(i) Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.

(ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement.

(iii) Trade creditors accepted to take over the stock up to the value of ₹ 6.20,000.

(iv) Equity shareholders are to accept reduction of ₹ 4 per share.

(v) Investment is to be valued at market price i.e. ₹ 60,000.

(vi) Sundry debtors and remaining stock is to be valued at 90% of their book value.

(vii) Directors have to forgo their loan in full.

(viii) Patents and Copy Right and Goodwill have no more value

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the Legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction. **(May 2010)**

Question 18

The Balance Sheet of X Limited as on 31st March 2011 was as follows:

Liabilities	₹	Assets	₹
Authorised and Subscribed		Fixed Assets:	
Capital:		Machineries	3,50,000
10,000 Equity Shares of ₹100		Current Assets:	
each fully paid	10,00,000	Stock	2,53,000
Unsecured loans:		Debtors	2,30,000
15% Debentures	3,00,000	Bank	20,000
Accrued interest	45,000	Profit & Loss A/c	5,80,000
Current Liabilities:			
Creditors	52,000		
Provision for Income Tax	36,000		
	14,33,000		14,33,000

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

(i) Each share is subdivided into 10 fully paid up equity share of ₹ 10 each.

(ii) After sub – division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and creditors as necessary

(iii) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 10% Preference Shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.

(v) Creditors claim shall be reduced by 25%; it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(vi) Balance of Profit and Loss Account to be written off.

(vii) The shares surrendered and not re - issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

(May 2011)

Question 19

M/s. Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the company as on 31st March, 2012 before reconstruction:

Liabilities	₹	Assets	₹
Share Capital		Goodwill	22,00,000
50,000 shares of ₹ 50 each		Land & Building	42,70,000
fully paid up	25,00,000	Machinery	8,50,000
1,00,000 shares of ₹ 50 each		Computers	5,20,000
₹ 40 paid up	40,00,000	Stock	3,20,000
Capital Reserve	5,00,000	Trade Debtors	10,90,000
8% Debentures of ₹ 100 each	4,00,000	Cash at Bank	2,68,000
12% Debentures of ₹ 100 each	6,00,000	Profit & Loss Account	7,82,000
Trade Creditors	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		**1,03,00,000**

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	**7,00,000**	**3,00,000**

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of ₹ 40 each for ₹ 12,50,000.

(3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debenture amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.

(5) Mr. Ganesh agrees to cancel debenture amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land and building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Stock at ₹ 3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss a/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

(May 2012)

Question 20

The Balance Sheet of M/s. Cube Limited as on 31-03-2013 is given below:

	Note No.	Amount (₹ in Lakhs)
Equity & Liabilities		
(1) Shareholders' fund:		
(a) Share capital	1	700
(b) Reserve and Surplus	2	(261)
(2) Non-current liabilities:		
(a) Long term Borrowings	3	350
(3) Current Liabilities:		
Trade Payables	4	51
Other Liabilities	5	12
Total		**852**
Assets		
(1) Non-Current Assets:		
Fixed Assets		
Tangible Assets	6	375
(2) Current Assets:		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & cash equivalents	10	2
Total		**852**

Notes:

1.	Share Capital Authorised:	
	100 lakh Equity Shares of ₹ 10 each	1,000
	4 lakh 8% Preference Shares of ₹ 100 each	400
		1,400
	Issued, Subscribed and Paid-up:	
	50 lakh Equity Shares of ₹ 10 each, fully paid up	500
	2 lakh 8% Preference Shares of ₹ 100 each, fully paid up	200
		700
2.	Reserve and Surplus:	
	Debit Balance of Profit & Loss Account	(261)
		(261)
3.	Long term Borrowing:	
	6% Debentures (Secured by Freehold Property)	200
	Director's Loan	150
		350
4.	Trade Payables:	
	Sundry Creditors for Goods	51
		51
5.	Other Current Liabilities:	
	Interest Accrued and Due on 6% Debentures	12
		12
6.	Tangible Assets:	
	Freehold Property	275
	Plant & Machinery	100
		375
7.	Current Investment:	
	Investment in Equity Instruments	100
		100
8.	Inventories:	
	Finished Goods	150
		150
9.	Trade Receivables:	
	Sundry Debtors for Goods	225
		225

10. Cash and Cash Equivalents:	
Balance with Bank	2
	2

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.

(2) Preference snares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture Holders agreed to take one Freehold Property at its book value of ₹ 150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 200 lakh;

(6) All investments sold out for ₹ 125 lakh.

(7) 70% of Directors loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Sundry Debtors and 80% of Inventories to be written off.

(9) Company s contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction.

(b) Prepare Reconstruction Account and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(May 2013)

Question 21

The summarized Balance Sheet of Bad Luck Ltd. as on 31st March, 2013 was as follows:

Particulars	Note No.	Amount (₹)	Amount (₹)
Equity & Liabilities			
(1) Shareholder's fund:			
(a) Share capital	1	7,50,000	
(b) Reserve and Surplus	2	(10,00,000)	(2,50,000)
(2) Non-current liabilities:			
(a) Long term Borrowings	3		5,00,000
(3) Current Liabilities:			
Short Term Borrowings	4	5,00,000	
Trade Payables		2,50,000	7,50,000
Total			**10,00,000**
Assets			
(1) Non-Current Assets:			
Fixed Assets			
Tangible Assets	5	5,50,000	
Intangible Assets	6	1,50,000	7,00,000
(2) Current Assets:			
Inventories		1,50,000	
Trade Receivables		1,25,000	
Deferred revenue expenditure		25,000	3,00,000
Total			**10,00,000**

Notes to Accounts:

1. Share Capital	
Authorised, issued & fully paid	
5,000 equity shares of ₹ 100 each	5,00,000
2,500 8% preference shares of ₹ 100 each	2,50,000
	7,50,000
2. Reserve and Surplus:	
Profit & Loss Account	(10,00,000)
	(10,00,000)
3. Long term Borrowing:	
8% Debentures	5,00,000

		5,00,000
4.	Short Term Borrowings:	
	Loan from Directors	3,00,000
	Bank overdraft	2,00,000
		5,00,000
5.	Tangible Assets:	
	Freehold Property	4,00,000
	Plant	1,50,000
		5,50,000
6.	Intangible Assets:	
	Goodwill	1,00,000
	Trademark	50,000
		1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

(i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.

(ii) The debenture holders to take over freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.

(iii) Loan from directors to be waived off in full.

(iv) Stock of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.

(v) Profit and Loss account balance, Trademark, goodwill and deferred revenue expenditure to be written off.

Pass Journal Entries for all the above mentioned transactions. Also, Prepare Capital Reduction account and company's Balance Sheet immediately after reconstruction.

(May 2013)

Question 22

Pass journal entries for the following transactions:

(i) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.

(ii) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of 10 each.

(iii) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.

(iv) Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.

Question 23

The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6% Cumulative Preference		Investments	
Shares of ₹ 100 each	1,00,00,000	(Market Value ₹	
5% Debentures of ₹ 100 each	80,00,000	19,00,000)	20,00,000
Sundry Creditors	1,00,00,000	Current Assets	2,00,00,000
Provision for taxation	2,00,000	P & L A/c	12,00,000
	4,82,00,000		4,82,00,000

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of Interest on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets are to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c

Pass journal entries and show the Balance Sheet of the company after giving effect to the above. **(Nov. 2014 – Group 1)**

Question 24

The Balance Sheet of X Ltd. as at 31st March, 2014 was as follows:

X Limited

Balance Sheet as at 31.03.2014

Particulars		Amount ₹
A. Equity and Liabilities		
1. Shareholder's Fund:		
Share Capital:		
(a) 40000 equity shares of ₹ 100 each fully paid		40,00,000
(b) 20000, 10% preference shares of ₹ 100 each fully paid		20,00,000
Reserve & Surplus:		
(a) Securities Premium Account		1,50,000
(b) Profit & Loss Account		(23,00,000)
2. Non-Current Liabilities:		
Long Term Borrowings:		
7% Debentures of ₹ 100 each		4,00,000
3. Current Liabilities:		
Other Current Liabilities:		
(a) Creditors		10,00,000
(b) Loan from Director		2,00,000
Total		**54,50,000**
B. Assets		
1. Non-Current Assets:		
Fixed Assets:		
(a) Land & Building	20,00,000	
(b) Plant & Machinery	12,00,000	32,00,000
Intangible Assets:		
Goodwill		4,00,000
2. Current Assets:		
(a) Debtors	12,00,000	
(b) Stock	5,00,000	
(c) Cash at Bank	1,50,000	18,50,000
Total		**54,50,000**

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

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

(i) Each equity share to be reduced to ₹ 25.

(ii) Each existing Preference Share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.

(iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.

(iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.

(v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery. Stock and Debtors by ₹ 3,00,000 ; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00.000.

(vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.

(viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal Entries to record the above transactions.

(Nov. 2014 – Group 2)

Question 25

The following is the Balance Sheet of Star Ltd. as on 31st March, 2015:

A. Equity & Liabilities :	₹
1. Shareholders' Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
10,000 Equity Shares of ₹ 100 each fully paid	10,00,000
(b) Reserve & Surplus :	
Profit & Loss Account	(2,00,000

2. Non-current liabilities:	
"A" 6% Debentures (Secured on Bombay Works)	3,00,000
"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3. Current Liabilities and Provisions :	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	1,25,000
Total	**24,90,000**
B. Assets:	
1. Non - current Assets :	
Tangible Assets:	
Bombay Works	9,50,000
Chennai Works	7,75,000
2. Investment:	
Investments for Workman's Compensation Fund	15,000
3. Current Assets:	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	50,000
Total	**24,90,000**

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the Sundry Creditors.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Stock was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-thirds to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect. **(Nov. 2015 – Group 2)**

Question 27

Proficient Infosoft Ltd. is in the hands of a Receiver for Debenture Holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2016:

Liabilities	₹	Assets	₹
8000 shares of ₹ 100 each ₹ 60 paid up	---	Property (cost is ₹ 3,80,800) estimated at	1,08,000
First Debentures	3,60,000	Plant & Machinery (Cost is ₹2,87,200) estimated at	72,000
Second Debentures	7,80,000	Cash in hand of the receiver	3,24,000
Unsecured trade payables	5,40,000	Uncalled capital	3,20,000
		Deficiency	8,56,000
	16,80,000		**16,80,000**

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000.

The following scheme of reconstruction is proposed.

(i) A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.

(ii) B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.

(iii) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹ 25 each, fully paid against their claim for each ₹ 100.

The balance of 40% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

(iv) Uncalled capital is to be called up in full and ₹ 75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries. **(Nov. 2016 – Group 1)**

Question 28

M/s Planet Limited has decided to reconstruct the. Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2017 before reconstruction:

Particulars	Note No.	₹ in lakhs
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		**2,556**
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	1,125
Current Assets		
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		**2,556**

Notes to Accounts:

	(₹ in lakhs)
(1) Share Capital Authorised :	
300 lakh shares of ₹ 10 each	3,000
12 lakh, 8% Preference Shares of ₹ 100 each	1,200
	4,200
Issued, Subscribed and Paid up :	
150 lakh Equity Shares of ₹ 10 each, fully paid up	1,500
6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
	2,100
(2) Reserves and Surplus	
Debit balance of Profit & Loss A/c	**(783)**
(3) Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	600
Director's Loan	450
	1,050
(4) Trade Payables	
Trade payables for Goods	153
(5) Other Liabilities	
Interest Accrued and Due on 6% Debentures	36
(6) Tangible Assets	
Freehold Property	825
Plant & Machinery	300
	1,125
(7) Current Investment	
Investment in Equity Instruments	300
(8) Inventories	
Finished Goods	450
(9) Trade Receivables	
Trade receivables for Goods	675
(10) Cash and Cash Equivalents	
Balance with Bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 550 lakh.

(6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allotted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction.

(Nov. 2017 – group 1)

Question 29

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

A. Liabilities :	₹
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000

Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	**81,00,000**
B. Assets:	₹
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	**81,00,000**

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lakhs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also prepare Bank Account and Reconstruction A/c. **(Nov. 2017 – Group 2)**

Question 30

Pass Journal Entries in the following conditions:

(1) Super Ltd. had 62,000 equity shares of ₹ 50 each on which ₹ 45 is paid up. In September 2017 Company decided to sub-divide each share into 5 shares of ₹ 10 with ₹ 9 paid up.

(2) Top Ltd. had 1,05,000 equity shares of ₹ 10 each fully paid up. In November 2017 company decided to convert the issued shares into stock. But in January 2018 the company re-converted the stock into equity shares of ₹ 100 each fully paid up.

(3) New Ltd. had capital of ₹ 15,00,000 divided into 1,50,000 equity shares of ₹ 10 each on which ₹ 6 is paid up. During the year, company decided to reorganize its capital by consolidating 5 shares into one share of ₹ 50 each, ₹ 30 paid up.

(May 2018 – Group 1)

Question 31

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

A. Liabilities :	₹ in '000
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000

Sundry Creditors	17,500
Provision for taxation	350
Total	**84,350**
B. Assets:	
Fixed Assets	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	**84,350**

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.

(ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.

(iii) The balance of Profit and Loss Account to be written off.

(iv) All the existing equity shares are reduced to ₹ 4 each.

(v) All preference shares are reduced to ₹ 60 each.

(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.

(vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹ 1,57,50,000.

(viii) Fixed Assets are written down to 80%.

(ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

Pass Journal entries for the above transactions. **(Nov. 2018 – Group 2)**

Question 32

The Summarised Balance Sheet of M/s. NTC Limited as on 31st March 2018 is given below:

A. Liabilities :	₹	₹
Share Capital		
15000 equity shares of ₹ 100 each	15,00,000	
10000, 7% cumulative preference shares of ₹ 100 each	10,00,000	25,00,000

Reserves & Surplus		
General Reserve	3,00,000	
Profit & Loss A/c.	(4,20,000)	(1,20,000)
Non-current Liabilities		
Loan from Directors		2,20,000
Current Liabilities		
Trade Payables	11,30,000	
Proposed Dividend	1,10,000	
Expenses Payable	1,60,000	14,00,000
Total		**40,00,000**

B. Assets:	₹	₹
Non-Current Assets		
Tangible Assets		
Plant & Machinery	15,00,000	
Building	2,75,000	17,75,000
Intangible Assets		
Patents		2,00,000
Current Assets		
Stock	7,15,000	
Trade Receivable	11,35,000	
Bank	1,75,000	20,25,000
Total		**40,00,000**

Due to disturbed market conditions, the company suffered losses since last 3 years and hope for a better position in the future. The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

(1) Equity shares to be converted into 1,50,000 shares of ₹ 10 each.

(2) Equity shareholders to surrender to the company 80 percent of their holdings.

(3) Preference shareholders forego their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 9% preference shares.

(4) Trade payables agree to reduce their claim by 40% in consideration of their getting shares of ₹ 2,50,000 out of the surrendered equity shares.

(5) Directors agree to forego the amounts due on account of loan.

(6) Surrendered shares not otherwise utilized to be cancelled

(7) Assets to be reduced as under:

Patent by	2,00,000
Plant & Machinery by	2,00,000
Inventory by	1,70,000

(8) Trade receivables to the extent of ₹ 8,50,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 3,50,000.

(10) Proposed dividend is paid to the equity shareholders.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 30,000

(13) Further 20,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the company. **(Nov. 2018 – Group 2)**

Question 33

The summarized Balance Sheet of Galaxy Limited, as at 31s March, 2020 was as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Authorized and		**Fixed Assets :**	
subscribed Capital :		Machineries	8,00,000
20,000 Equity shares of		**Current Assets:**	
100 each fully paid	20,00,000	Inventory	3,50,000
Unsecured Loans :		Trade Receivables	3,20,000
10% Debentures	3,00,000	Bank	50,000
Accrued interest on above	36,000	Profit and Loss Account	9,80,000
Current Liabilities :			
Trade payables	84,000		
Provision for Income tax	80,000		
	25,00,000		**25,00,000**

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

(a) Each share is sub-divided into ten fully paid equity shares of ₹ 10 each.

(b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.

(c) Out of shares surrendered, 20,000 shares of ₹ 10 each shall be converted into 15% preference shares of ₹ 10 each, fully paid.

(d) The claims of the debenture holders (including accrued interest) shall be reduced by 75%. In consideration of the reduction, the debenture holders shall receive all the preference shares of ₹ 10 each as issued above.

(e) Trade payables claim shall be reduced to 50%. Balance outstanding is settled by the issue of equity shares of ₹ 10 each out of the shares surrendered.

(f) Balance of profit & loss account to be written off.

(g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet. **(16 Marks – Nov 2020 – IPCC - Accounting)**

Question 34

The Paid-up capital of S Limited amounted to ₹ 5,00,000 Equity Shares of ₹ 10 each. Due to continuous loss incurred by the company, the following scheme of Reconstruction has been approved for S Limited on 1st April, 2019.

(i) In lieu of present holding the Equity Shareholders are to receive:

(a) Fully Paid Equity Shares equal to 3/5th of their holding.

(b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.

(c) 10% Second Debentures of ₹ 40,000.

(ii) An issue of 8% Debentures First Debentures of ₹ 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows:-

(a) Building from ₹ 2,00,000 to ₹ 1,50,000

(b) Plant & Machinery from ₹ 1,50,000 to ₹ 1,30,000

(c) Goodwill from ₹ 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect to the scheme of Reconstruction. **(4 Marks – May 2019 – IPCC)**

Question 35

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2019.

Particulars	Amount (₹)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250

Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. **(15 Marks – Nov 2019 – Inter)**

Question 36

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following:
- New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.
- Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
- 7% Debentures of ₹ 250,000.

(ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.

(iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.

(iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.

(v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses. **(Jul' 21)**

Question 37

The following is the Balance Sheet of Purple Limited as at 31st March, 2022:

Balance Sheet of Purple Limited as at 31st March, 2022

Particulars	Note	Amount in ₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserve & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings – Bank Overdraft		2,00,000
Total		**16,20,000**
II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600

(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
Total		**16,20,000**

Notes to Accounts

Particulars	₹	₹
(1) Share Capital		
90,000 Equity Shares of ₹10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
(4) Intangible Assets		
Goodwill	84,600	
Patents	36,000	1,20,600

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

(i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.

(ii) The value of equity shares is brought down to ₹8 per share.

(iii) The arrears of dividend on preference shares are cancelled.

(iv) The debit balance of Goodwill account is written off entirely.

(v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.

(vi) Book debts amounting to ₹14,400 are to be treated as bad and hence to be written off.

(vii) The company expects to earn a profit at the rate of ₹90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.

(viii) The balance of total capital reduction is to be utilized in writing down Patents.

(ix) A secured loan of ₹4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

(Nov'22 - 20 Marks)

MULTIPLE CHOICE QUESTIONS

1. Which of the following statement is true?
   (a) Asset side of the Balance Sheet of a sick company shows the assets at much lower values than the real values
   (b) Preference dividends on Cumulative Preference Shares of a sick company may be in arrears for several years
   (c) In internal reconstruction company is liquidated
   (d) External reconstruction involves reduction of capital

2. Which of the following statement is false?
   (a) The Assets side of the Balance Sheet of a loss-making or sick company shows many Intangible or Fictitious Assets
   (b) There may be a heavy debit balance in the Profit & Loss Account of a sick company due to accumulated losses of past years
   (c) Internal Reconstruction is governed by the Insolvency and Bankruptcy Code
   (d) In external reconstruction, a new company is formed to take over the business of the sick company

3. Increase, consolidation or sub-division of share capital of the company involves -
   (a) Alteration of Share Capital (b) Variation of Shareholders' Rights
   (c) Reduction of Share Capital (d) Compromise/Arrangement

4. A scheme of reconstruction involving _______ must be authorized by the Memorandum or Articles of Association, approved by the Board and a special resolution of the concerned members.
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

5. A scheme of reconstruction involving _______ must be authorized by the company's articles; approved by a special resolution by the shareholders of the company; and confirmed by the High Court/Tribunal.
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

6. Change in the rate of preference dividend payable in future without any change in the amount of capital is known as
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

7. Conversion of cumulative preference shares into non-cumulative preference shares (without any change in the amount of capital), in a scheme of reconstruction, is known as
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

8. Surrender of fully paid shares amounts to
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

9. Equity shareholders giving up their claim to the reserves and accumulated profits amounts to
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

10. Debentureholders accepting a cash payment less than the face value of their debentures amounts to
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

11. Extinguishment of the liability in respect of unpaid portion of the face value of any share, in a scheme of reconstruction, amounts to
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

12. Repayment of any paid-up share capital which is in excess of the company, in a scheme of reconstruction, amounts to
   (a) Reduction of Share Capital (b) Alteration of Share Capital
   (c) Variation of Shareholders' Rights (d) Compromise/Arrangement

13. Creditors accepting part payment of their claims, in a scheme of reconstruction, amounts to
    (a) Reduction of Share Capital
    (b) Alteration of Share Capital
    (c) Variation of Shareholders' Rights
    (d) Compromise/Arrangement

14. Share Capital (₹1) A/c Dr.
    To Share Capital (₹10) A/c

    The above entry, in a scheme of reconstruction, records
    (a) consolidation of share capital
    (b) sub-division of share capital
    (c) conversion of shares into stock
    (d) conversion of stock into share

15. Share Capital (₹100) A/c Dr.
    To Share Capital (₹10) A/c

    The above entry, in a scheme of reconstruction, records
    (a) consolidation of share capital
    (b) sub-division of share capital
    (c) conversion of shares into stock
    (d) conversion of stock into share

16. Which of the following statements is true?
    (a) In conversion of shares into stock, there is a change in the amount of shares capital
    (b) No entry is required to be passed for cancelling un-issued shares
    (c) In Sub-division of shares capital, there is a change in the number of shares and the nominal value [NV] of shares
    (d) Capital Stock can be purchased or sold only in marketable lots of 100

17. Which of the following statements is false?
    (a) In consolidation of share capital, the amount of share capital remains the same; only the number of shares and the nominal value per share change
    (b) Sub-division of shares is the reverse of consolidation of shares
    (c) Capital Stock can be purchased or sold even in fractions
    (d) Conversion of stock into shares is similar to consolidation

18. Shares of ₹100 each (paid-up value ₹90 each) are reduced to shares of nominal value of ₹90 each in a scheme of reconstruction.
    (a) There will be credit of ₹10 per share to Capital Reduction A/c
    (b) There will be credit of ₹90 per share to Capital Reduction A/c
    (c) There will be credit of ₹100 per share to Capital Reduction A/c
    (d) There will be no credit to Capital Reduction A/c

19. Shares of ₹100 each paid-up value are reduced to shares of nominal and paid up value of ₹10 each in a scheme of reconstruction.
    (a) There will be credit of ₹10 per share to Capital Reduction A/c
    (b) There will be credit of ₹90 per share to Capital Reduction A/c
    (c) There will be credit of ₹100 per share to Capital Reduction A/c
    (d) There will be no credit to Capital Reduction A/c

20. On cancellation of surrendered shares in a scheme of reconstruction
    (a) Share capital A/c will be debited
    (b) Share Surrendered A/c will be credited
    (c) Capital Reduction A/c will be credited
    (d) Capital Reduction A/c will be debited

21. If the pref. shareholders give up their claim for Arrears of Preference Dividend shown as Contingent Liability in Notes to Accounts in a scheme of reconstruction
    (a) Capital Reduction A/c will be debited
    (b) Pref. Shareholders A/c will be credited
    (c) No entry is passed
    (d) Preference Dividend Payable A/c will be credited

22. In Internal Reconstruction
    (a) No company is liquidated
    (b) Only one company goes into liquidation
    (c) two or more companies are liquidated
    (d) One or more companies go into liquidation

23. A limited company may alter the share capital so as to
    (a) Increase its reserve capital
    (b) Sub-divide its shares into shares of smaller amount
    (c) Give option to preference shareholders to get equity shares
    (d) None of the above

24. Reduction of share capital of a company means reduction in
    (a) Only called up share capital
    (b) Subscribed and/or paid-up share capital
    (c) Only authorised capital
    (d) Only uncalled share capital

25. Balance in Capital Reduction A/c is generally transferred to
    (a) General Reserve (b) Capital Reserve
    (c) Profit & Loss A/c (d) None of the above

26. The existing 1,000 shares of ₹1 each are altered to 100 shares of ₹10 each. This is known as
    (a) Consolidation (b) Sub-division
    (c) Conversation in Stock (d) Surrender

27. The existing 1,000 shares of ₹100 each are altered to 10,000 shares of ₹10 each. This is known as
    (a) Consolidation (b) Sub-division
    (c) Conversion in Stock (d) Surrender

28. While granting approval to any scheme of Capital Reduction, the court may direct the company to add the following words to its name for such period as it thinks fit.
    (a) And Reduced (b) Unlimited and Reduced
    (c) Liquidated (d) Limited and Reduced

29. Reconstruction refers to an arrangement, whereby
    (a) A previously unprofitable or a weak company is reconstructed by certain measures
    (b) Two companies come together to form a new company
    (c) Assets and liabilities of the company are not revalued
    (d) None of the above

30. The credit balance in capital reduction a/c is utilised for
    (a) Paying off dissentient shareholders
    (b) Writing off deferred expenses
    (c) Issuing bonus shares
    (d) None of the above

31. For capital reduction under internal reconstruction, authorisation /approval is required from
    (a) Shareholders
    (b) Articles of Association
    (c) Tribunal
    (d) All the above

-: ANSWER :-

1.	(b)	7.	(c)	13.	(d)	19.	(b)	25.	(b)
2.	(c)	8.	(a)	14.	(a)	20.	(c)	26.	(a)
3.	(a)	9.	(d)	15.	(b)	21.	(c)	27.	(b)
4.	(c)	10.	(d)	16.	(b)	22.	(a)	28.	(a)
5.	(a)	11.	(a)	17.	(d)	23.	(b)	29.	(a)
6.	(c)	12.	(a)	18.	(d)	24.	(b)	30.	(b)
								31.	(d)

FILL IN THE BLANKS

1. Splitting shares of a higher denomination into shares of smaller denomination is known as ____________

2. Past losses and fictitious assets are wiped out by making use of the credit balance in ___________ a/c under internal reconstruction.

3. Surrendered shares ____________ (can/cannot) be re-issued.

4. Capital Reduction A/c is ___________ to record all sacrifices by the lenders / shareholders. (credited/debited)

5. Increase in value of Land will be recorded on ____________ side of Capital Reduction A/c.

6. Company can alter the share capital provided it is authorised by _____________ (Memorandum of Association/Articles of Association / Prospectus).

7. The company can implement the capital reduction scheme only after getting permission from ____________ (Central Government / Shareholders / Competent Tribunal).

8. In case of internal reconstruction the existing company will be ___________ (liquidated/ amalgamated/ continued).

9. In case of subdivision of share capital the total number of shares__________. (increases/ decreases/does not change).

10. In case of consolidation of share capital the total number of shares ____________ . (increases/decreases/does not change).

11. The balance in the capital reduction account after writing of all accumulated losses and others is transferred to ___________ (Goodwill account / General reserve account/ Capital reserve account/Share capital account).

12. When a company converts its equity shares into capital stock then the account to be credited is ___________ (Equity share capital account / Preference share capital account / Equity capital stock account).

13. Increase in the value of fixed assets at the time of reconstruction will be credited to ____________ (Capital reserve account/ Share capital account/General reserve account / Capital reduction account).

14. At the time of reorganisation the amount of shares surrounded by share holder is transferred to ___________ (Capital reserve account / Capital reduction account / General reserve account / Surrendered share account).

15. For writting off the accumulated losses under the scheme of capital reduction we debit ____________(Share capital account/Capital reserve account/General reserve account/Accumulated loss account).

16. A contingent liability, not provided for materialised to the extent of ₹1,000, the insurance company paid ₹600 irrespective of this liability. Hence the amount to be charged from the capital reduction account will be _____________ (₹1,000/₹400/ c600).

17. In case of consolidation of share capital the total number of shares of the company is ____________.

18. Alteration of shares of smaller amount into shares of larger amount is called ___________ of share capital.

19. When uncalled amount of share capital is to be reduced then the amount of paid up capital of the company ____________.

20. A company can convert fully paid ___________ into stock and also reconvert ____________ back into shares.

21. To carry out the scheme of capital reduction ___________approval is necessary.

22. If the creditors are willing, their claims against the company __________ be reduced.

23. Reserves of the company ____________ be utilised in meeting the accumulated losses at the time of internal reconstruction.

24. When the company returns the excess share capital, it credits __________ account.

25. After giving permission for capital reduction, the court may order the use of the words ____________ after the names of the company for a specified period.

26. Cancellation of shares not taken up does not amount to __________ of capital.

27. The various losses can be written with help of capital reduction account at the time ____________ reconstruction.

28. The amount of surrendered shares is credited to ___________ account.

-----------: **ANSWER** :-----------

1.	Sub-division	15.	Accumulated loss account
2.	Capital Reduction	16.	₹400
3.	Can	17.	decreases
4.	Credited	18.	consolidation
5.	Credit	19.	does not change
6.	Articles of Association	20.	shares, stock
7.	Competent Court	21.	court
8.	Continued	22.	can not
9.	Increases	23.	can
10.	Decreases	24.	cash
11.	Capital reserve account	25.	and reduced
12.	Equity capital stock account	26.	reduction
13.	Capital reduction account	27.	internet
14.	Surrendered share account	28.	capital reduction

6 AMALGAMATION, ABSORPTION AND EXTERNAL RECONSTRUCTION

PART A : THEORY SECTION

There are two methods to calculate purchase consideration amount.

1) **Net Assets Methods :** Under this method purchase consideration will be

Revised value of Real Assets Takeover	x
Less : Revised value of outside liabilities Takeover	-x
Net Asset Takeover or Purchase Consideration	x

Purchase consideration will be discharged in the form of shares, debentures and cash by purchasing company. (Take Equity Shares if nothing is Prescribed)

2) **Net Payment Methods :** Under this method purchase consideration will be sum total of all payment made by purchasing company to shareholders of Selling company. (Always Calculate purchase consideration at net payment first).

As per Accounting Standard 14 issued by ICAI dealing with Accounting for Amalgamation. Purchase consideration consists of shares, debentures and cash given by purchasing company to shareholders of selling company. It means any payment made by purchasing company to selling company's debenture holders or creditors cannot be included in the purchase consideration, even liquidation expenses of selling company paid by purchasing company cannot be included in the purchasing consideration.

Accounting in the books of Selling Company (S Ltd.)

Following Accounts are to be opened in books of selling company.

1) Realisation A/c
2) Equity shareholders A/c
3) Preference shareholders A/c
4) Cash/ Bank A/c
5) Purchasing Company A/c (P Ltd.)
6) Share/ Debentures in P Ltd. A/c

Step 1 : Transfer of B/s items at B/s values (Empty B/s in Ans.)

Liabilities	Where to write	Assets	Where to write
1. PSC	PSH A/c	1. P / L or misc. exp.	ESH A/c
2. ESC	ESH A/c	2. Cash / Bank	
3. R & S		Not T/O	C/B A/c
4. All Remaining Liabilities Whether T/O or Not T/O	Realization A/c	T/O + All remaining Assets whether T/O or not T/O	Realization A/c

Step 2 : Demand PC from Buying Co.

Buying Co. A/c Dr.

To Realizations A/c

Step 3: Received PC

ES in Buying Co. A/c Dr.

PS in Buying Co. A/c Dr.

Deb. in Buying Co. A/c Dr.

Cash / Bank A/c Dr.

To Buying Co. A/c

Step 4: Sale of Assets not T/O

Cash / Bank A/c Dr.

To Realizations A/c

Step 5 : Payment of liability not T/O

Realization A/c Dr.

To Cash / Bank A/c

Step 6 : Payment of Realization Expenses

Case A: Seller pays & Bears

Realization A/c Dr.

To cash / Bank A/c

(Seller retains cash in B/S)

Case B: Seller pays but buyer reimburse

1. Seller Pays Dr.
   Realization A/c
   To Cash / Bank A/c
2. Buyer reimburses Dr.
   Cash / bank A/c
   To realization A/c

Case C : Buyer pays & Bears

No Transactions for seller

Step 7: Payment to PSH

PSH Dr.
To ES in buying Co. A/c
Or To PS in buying Co. A/c
Or To Deb. in buying Co. A/c
Or To Cash / Bank A/c

Note: Close PSH A/c and transfer difference if any to realization A/c

Step 8: Close Realization A/c and transfer the difference if any to ESH A/c.

1. If Profit Dr.
   Realization A/c
   To ESH A/c
2. If Loss Dr.
   ESH A/c
   To Realization A/c

Step 9: Payment to ESH or close all remaining A/c's and transfer difference to ESH A/c

ESH A/c Dr.
To Eq. Sh. in Buying Co. A/c
To Pref. Sh. in Buying Co. A/c
To Deb. in Buying Co. A/c
To cash / Book A/c

At the end ESH A/c must Tally

Accounting for Buying Company

I Purchase Method			II. Merger		
Step 1: Record PC					
Business Purchase A/c Dr.	PC	-	Same		
To liquidator of selling co. A/c	-	PC			
Step 2: Discharge of PC			Same		
Liquidator of Selling Co. A/c Dr.	PC	-			
Discount on new issue A/c Dr.		-			
To Eq. Sh. CAPITAL A/c	-	FV			
To __% P. Sh. CAPITAL A/c	-	FV			
To __% Debentures A/c	-	FV			
To Cash / Bank A/c					
To securities Premium A/c	-				
Step 3: Record Assets & Liabilities T/O			**Step 3 Record All**		
at revised figures (RF)			**Assets & Liab. except**		
			share capital at Book		
Individual assets T/O A/c Dr.	RF	-	**values**		
Goodwill A/c Dr.	Loss	-	All Individual Assets	B.	
To individual liability T/O	-	RF	Dr.	V.	
OR To business Purchase A/c	-	PC	To All Reserves &		
To Capital Reserve	-	Profit	surplus	-	
			To Individual	-	
			liabilities	-	B.V.
			To Business Purchase	-	P.C.
			* Diff. in Journal		
			entry to be adjusted		
			in R & S.		
Step 4: Payment of Debentures Holder of Seller			Same		
Old debentures A/c Dr.					
To New debentures A/c					
Or To Cash / Bank A/c					
Statutory Reserves : -					
E.g.: Investment Allowance reserve, Development Reserve, Development rebate reserve, Housing project reserve, foreign project reserve, export profit reserve.					

Step 5: carry forward of unexpired statutory reserve Amalgamation Adj. Rese A/c Dr. To Statutory Reserve A/c	→	→	→ Not required		
Step 6: Payment / reimbursement of selling co. exp. Case : b & c Capital Reserve or Goodwill A/c Dr. To Cash / Book A/c	→	→	→ Step 6 _______ Reserve Dr. To Cash / Bank		
Step 7: Extra Transactions : Fresh issue Cash / Bank A/c Dr. To ESC / PSC / Deb. A/c To Securities Premium A/c	→	→	→ Same		
Step 8: Pay underwriting commission Underwriting commission A/c Dr. To Cash / Bank A/c	→	→	→ Same		
Step 9: Pay preliminary Exp. Preliminary Exp. A/c Dr. To Cash / Bank A/c	→	→	→ Same		
Step 10: Cancel common debts. Crs / BP / loan taken Dr. To Drs / BR / loan given A/c	→	→	→ Same		
Step11:Cancel unrealized profit on stock Capital Reserve / Goodwill A/c Dr. To Stock A/c	→	→	→ Step 11 ______ Reserve Dr. To Stock		

Merger Method (Pooling of interest method) :

According to accounting standard 14 the following conditions should be satisfied if amalgamation is in the nature of merger :

1. All assets (including fictitious assets) & all liabilities (except equity share capital) should be taken over.
2. All above assets and liabilities are taken over at book value except to maintain uniform A/c policies.

3. Payment to equity shareholders of selling co. should be in form of equity share of purchasing Co. except for fractional shares.
4. Atleast 90% of equity shareholders of selling Co. in terms of face value should become share holders of purchasing co.
5. Business of selling co. should be continued by purchasing Co.

PART B: CLASSWORK SECTION

Question 1

Ajanta Limited agreed to acquire the business of Elora Limited as on 31st March, 2017. The Balance Sheet of Elora Limited as on that date was as under :

Liabilities	₹	Assets	₹
Paid - up Capital :		Fixed Assets :	
10,000, 12% Preference Shares of ₹ 10 each	1,00,000	Land & Building	2,00,000
20,000 Equity Shares of ₹ 10 each	2,00,000	Machineries	1,00,000
		Current Assets :	
Reserve	20,000	Stock	2,00,000
Profit & Loss A/c	30,000	Debtors	50,000
7% Debentures	1,00,000	Cash & Bank Balance	35,000
Sundry Creditors	1,50,000	Miscellaneous Expenditure:	
		Preliminary Expenses	10,000
		Debenture Discount	5,000
	6,00,000		6,00,000

The consideration payable by Ajanta Limited was agreed as under :

(i) The Preference Shareholders of Elora Limited were to be allotted 14% Preference Shares of ₹ 1,10,000.

(ii) Equity Shareholders to be allotted six Equity Shares of ₹ 10 each issued at a premium of 10% and ₹ 3 cash against every five shares held.

(iii) 7% Debentureholders of Elora Limited to be paid at 8% premium by issue of 9% Debenture at 10% discount.

While arriving at the agreed consideration, the Directors of Ajanta Limited valued Land & Building at ₹ 2,50,000, Stock ₹ 2,20,000 and Debtors at their book value subject to an allowance of 5% Doubtful Debts. Liquidation expenses are ₹ 5,000.

Close the books of Elora Limited and show Journal of Ajanta Ltd.

Question 2

Following is the Balance Sheet of Govind Limited as on 31st March, 2017

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	4,00,000
20,000 Equity Shares of	20,00,000	Land and Building	15,60,000
₹ 100 each fully paid		Plant & Machinery	14,00,000
Reserve Fund	5,00,000	Patent Rights	3,50,000
Sinking Fund	1,00,000	Stock	2,00,000
Workmen's Accident		Sundry Debtors	4,00,000
Compensation Fund		Investment	1,00,000
(Estimated Liability ₹ 9,000)	50,000	Cash at Bank	1,30,000
Development Reserve	1,00,000		
Staff Provident Fund	1,50,000		
Sundry Creditors	1,40,000		
'A' Debentures	4,00,000		
'B' Debentures	10,00,000		
Loan from Ramkrishna Ltd.	1,00,000		
	45,40,000		**45,40,000**

Ramakrishna Limited absorbed Govind Ltd. on the date of its above Balance Sheet. The terms being :

1. The payment of cost of absorption not exceeding ₹ 8000/-.
2. The repayment of the 'B' Debentures at a premium of 5% in cash.
3. The discharge of 'A' Debentures at a premium of 10% by the issue of 6% debentures in Ramakrishna Limited at 20% Discount.
4. A payment of ₹ 15 per share in cash.
5. Allotment of one 7% preference share of ₹ 100 each fully paid and five equity shares of ₹ 10 each fully paid for every four equity shares in Govind Ltd.
6. The actual expenses of absorption came to ₹ 10,000/-.
7. Stock of Govind Limited includes goods valued at ₹ 56,000/- purchased from Ramakrishna Limited which company invoices goods at cost plus 162/3%.
8. The directors of Ramakrishna Limited decided to create a provision of 5% on sundry debtors against doubtful debts.
9. Contingent liabillity ₹ 1,00,000 of Govind Ltd. settled by Ramakrishna Ltd. At ₹20,000.
10. Debtors of Govind Limited includes ₹50,000 due from Ramakrishna Ltd.

Pass Journal Entries in the books of Ramakrishna Limited.

Question 3

The All India Company Limited agrees to acquire, as a going concern, the business of the Presidency Company Limited on the basis of the Vendor's balance sheet at 31st March, 2017, which is follows:

Liabilities	₹	Assets		₹
Authorised Capital		Freehold property		2,50,000
25,000 shares of ₹ 50 each	12,50,000	Plant and Machinery		50,000
Issued Capital		Stock		3,00,000
20,000 Shares of ₹ 50 each	10,00,000	6% Government paper		10,000
Called -up Capital		Debtors	2,30,000	
20,000 Shares ₹ 30 each		Less: Reserve	10,000	2,20,000
called up	6,00,000	Bank		30,000
Reserve fund	1,25,000			
Creditors	75,000			
Profit and Loss Account	60,000			
	8,60,000			8,60,000

The All India Company Limited took over all the assets and liabilities of the vendor company, subject to the retention out of such assets of ₹ 13,500 to provide for cost of liquidation, Income tax, etc., and to satisfy dissenting shareholders.

The consideration for the sale is the allotment to the shareholders in the vendor company of one share of ₹ 100 (₹ 50 paid-up) in the All India Company for every three shares in the Presidency Company Limited.

The market value of the All India Company's shares, which are ₹ 50 paid-up, at the date of sale is ₹ 60 each. The liquidator of the vendor company has paid out of ₹ 13,500 retained, costs of liquidation amounting to ₹ 2,500 ; income-tax ₹ 7,500 and dissenting shareholders of 100 shares @ ₹ 35 per share.

The sale and purchase were carried through in terms of the agreement.

Prepare ledger accounts to close the books of selling company.

Question 4

B. Co. Ltd. had the following Balance Sheet as on 31st March, 2011 :

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	83,00,000
50,000 shares of ₹ 100 each	50,00,000	Current Assets	69,00,000
Capital Reserve	10,00,000	Investments	17,00,000
General Reserve	36,00,000	Goodwill	2,00,000
Unsecured Loans	22,00,000		
Sundry Creditors	42,00,000		
Provision for Taxation	11,00,000		
	1,71,00,000		**1,71,00,000**

B. Co. Ltd. is to be absorbed by Bessons Limited as on 31st March, 2011 on which date the Balance Sheet of Bessons Limited is as follows.

Bessons Ltd. Balance Sheet

Liabilities	₹	Assets	₹
Share capital:		Fixed Assets	1,60,00,000
8,00,000 Equity shares of ₹10 each fully paid	80,00,000	Current Assets	1,68,00,000
General Reserve	1,00,00,000		
Secured Loans	40,00,000		
Sundry Creditors	46,00,000		
Provision for Tax	52,00,000		
Proposed Dividend	10,00,000		
	3,28,00,000		**3,28,00,000**

For the purpose of absorption the Goodwill of B Ltd. is considered valueless. There are arrears of depreciation in B Ltd. amounting to ₹ 4,00,000. The shareholders in B Ltd. are to be allotted in full satisfaction of the claims, shares in Bessons Ltd. in the same proportion as the respective intrinsic values of the shares of the two companies bear to one another.

Determine Exchange Ratio and Calculate PC.

Question 5

The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2011:

Liabilities	P Ltd ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of ₹			Investment	80,000	80,000
10 each	6,00,000	3,00,000	**Current Assets**		
10% Pref. Shares			Inventory	2,40,000	3,20,000
of ₹ 10 each	2,00,000	1,00,000	Trade		
Reserves and			receivables	4,20,000	2,10,000
Surplus	3,00,000	2,00,000	Cash at Bank	1,10,000	40,000
Secured Loans					
12% Debentures	2,00,000	1,50,000			
Current Liabilities					
Trade payables	2,50,000	1,50,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
Trade Payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹₹ 10,000 due to P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

Question 6

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2011 was as under:

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Total	**13,50,000**	**5,70,000**

Liabilities	Hari Ltd. (₹)	Vayu Ltd. (₹)
Share Capital:		
Equity Shares of ₹ 10 each	10,00,000	3,00,000
9% Preference Shares of ₹ 100 each	1,00,000	--
10% Preference Shares of ₹ 100 each	--	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
Total	**13,50,000**	**5,70,000**

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2011.

Question 7

The following draft Balance Sheets are given as on 31st March, 2011:

Liabilities	(₹ in lakhs)		Assets	(₹ in lakhs)	
	Best Ltd. ₹	Better Ltd. ₹		Best Ltd. ₹	Better Ltd. ₹
Share Capital:			Fixed Assets	25	15
Shares of ₹ 100,					
each fully paid	20	10	Investments	5	----
Reserve and	10	8	Current Assets	20	5
Surplus					
Other Liabilities	20	2			
	50	**20**		**50**	**20**

The following further information is given –

(a) Better Limited issued bonus shares on 1st April, 2011, in the ratio of one share for every two held, out of Reserves and Surplus.

(b) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.

(c) The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

(d) Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2011 after the takeover.

Question 8

Following is the Balance Sheet of Backward Ltd. as on 31st March, 2017:

Liabilities	₹	Assets		₹
40,000 7% preference shares of		Land and Buildings		3,18,000
₹ 10 each fully paid	4,00,000	Plant & Machinery		1,65,000
60,000 Equity shares of ₹ 10		Motor Lorries		6,200
each	6,00,000	Trade Debtors	1,34,000	
Capital Reserve	12,100	Less: Provision	3,000	1,31,000
Loans	5,000	Stock in trade		83,500
Trade Creditors	86,100	Cash in hand and at Bank		13,100
Bills Payable	4,200	Profit & Loss A/c		4,00,000
Bank overdraft	9,400			
	11,16,800			**11,16,800**

Note: There is a contingent liability in respect of a claim for royalties amounting to 15,000.

It was arranged that a new company Progressive Ltd. should be formed to acquire the under mentioned assets at the values stated :

Land & Building	₹ 2,00,000
Plant & Machinery	₹ 1,20,000
Motor Lorries	₹10,000
Stock	₹ 70,000

The total of ₹ 4,00,000 payable was satisfied by the allotment of 20,000 6% preference shares of ₹ 10 each, fully paid and 20,000 equity shares of ₹10 each, fully paid. The new company also satisfied the contingent liability in respect of the claim for royalties by allotting to the claimant 400 Equity shares fully paid.

The book debts realised ₹ 1,30,000 and the amount of trade creditors proved to be ₹ 81,000. Loans and other liabilities were discharged and the costs of winding up amounted to ₹ 1,400.

The preference shareholders in the old company accepted the preference shares in the new company in full satisfaction whereas the equity shareholders took the equity shares in the new company and the balance in cash as final settlement.

Close the books of Selling Co.

Question 9

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under:

Liabilities	K Ltd.	L. Ltd.	Assets	K Ltd.	L. Ltd.
Share Capital			Goodwill	80,000	–
Equity shares of			Land & Building	4,50,000	3,00,000
₹100 each	8,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
7% Preference shares			Furniture & Fittings	60,000	20,000
of ₹ 100 each	4,00,000	3,00,000	Sundry Debtors	2,75,000	1,75,000
5% Debentures	2,00,000		Stores & Stock	2,25,000	1,40,000
General Reserve	–	1,00,000	Cash at Bank	1,20,000	55,000
Profit & Loss A/c	3,71,375	97,175	Cash in hand	41,375	17,175
Sundry Creditors	1,00,000	2,10,000			
Secured Loan	–	2,00,000			
	18,71,375	**12,07,175**		**18,71,375**	**12,07,175**

(A) The terms of amalgamation were as under :

1. The assumption of liabilities of both the Companies.
2. Issue of 5 equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each preference share held in both the Companies.
3. (a) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies.
   (b) In addition, necessary cash should be paid to the Equity shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.
4. Issue of such an amount of fully paid 6% debenture in LK Ltd. as is sufficient to discharge the 5% debentures in K. Ltd.

(B) You are further informed that :

1. The assets and liabilities are to be taken at Book values except stock and debtors for which a provision at 2% and 21/2% respectively to be raised.
2. The sundry debtors of K Ltd. include ₹ 20,000 due from 'L' Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each. ₹ 18 paid at premium of ₹ 4 per share so as to have sufficient working capital.

You are required to :

(1) Calculate Intrinsic value of both the companies shares.

(2) Calculate purchase consideration.

(3) Give opening entries in the Books of New Company.

Question 10

Given below are the summarised balance sheets of the two companies as on 31st March, 2017.

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Equity shares of ₹ 100 each	6,00,000	2,00,000	Goodwill	1,50,000	80,000
10% Preference shares of ₹ 100 each	2,00,000	–	Plant & Machinery	10,87,000	2,50,000
General reserve	75,000	–	Stocks	3,20,000	95,000
Profit & Loss A/c	22,500	6,800	Sundry Debtors	1,90,000	47,000
6% Mortgage Debentures	4,00,000	–	Cash & Bank Balances	70,800	6,400
Sundry creditors	5,38,300	2,71,600	Discount on debentures	18,000	–
	18,35,800	**4,78,400**		**18,35,800**	**4,78,400**

Due to unfavourable financial position, both the companies decided to amalgamate and form a new company. In substance the provision of the scheme were as under:

(a) A new company C Ltd. was to be formed to take over the net assets of A Ltd. and B Ltd. The new company was to have an authorised capital of ₹ 25,00,000 divided into 20,000 equity shares of ₹ 100 each and 5,000 10% cumulative preference shares of ₹ 100 each. The preference shares are convertible into equity shares after 5 years from the date of their issue.

(b) The preference shares of A Ltd. were to be exchanged for preference shares in the new company on equal basis. Every two equity shares of A Ltd. were to be exchanged for three equity shares in the new company.

(c) The remaining preference shares of the new company were to be issued for cash. All the available equity shares of the new company after withholding a sufficient number to meet the conversion privilege of the shareholders were to be offered for cash subscription at par.

(d) The sundry debtors of A Ltd. includes a sum of ₹ 24,000 due from B Ltd. for sale of goods, whose cost to A Ltd. was ₹ 18,000. These goods remaining on hand with B Ltd. are included in the company's stock inventory.

(e) The cash proceeds realised from the sale of the shares were to be applied as follows :

(i) The debentures were to be paid off in full.

(ii) The creditors were to be paid 30 percent of amount due to them.

You are required to pass journal entries in the books of C Ltd.

Question 11

A and B Ltd. agreed to amalgamate their business. The scheme envisaged the formation of C Ltd. with a share capital equal to the combined capitals of A Ltd. and B Ltd. for the purpose of acquiring the assets, liabilities and undertakings and the two companies in exchange for shares in C Ltd. The Balance sheets of A Ltd. and B Ltd. as on 31-3-2011 (the date of amalgamation) are summarised below:

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Authorised & Issued			Fixed Assets	1,20,000	1,80,000
Capitals	1,00,000	1,40,000			
Reserves	1,70,000	1,00,000	Stock	60,000	1,10,000
Creditors	40,000	90,000	Debtors	80,000	1,30,000
Bank Overdraft	----	90,000	Balance with		
			Bank	50,000	----
	3,10,000	**4,20,000**		**3,10,000**	**4,20,000**

The consideration was to be based on the net assets of companies as shown in their books on March 31, 2011 but subject to an addition to compensate A Ltd. for its super profits records. This addition was to be the weighted average of the net profits of A Ltd. for three years ended March 31, 2011. The weights for this purpose for the year 2008-09, 2009-10 and 2010-11 were agreed as 1, 2 and 3 respectively.

The profits had been:

Year ended 31st March, 2009	20,000
Year ended 31st March, 2010	80,000
Year ended 31st March, 2011	1,20,000

The shares in C Ltd. were to be issued to A Ltd. and B Ltd. at the premium and in proportion of the agreed net assets value of those companies.

In order to raise working capital, C Ltd. increased its authorised share capital by ₹ 2,00,000 and proceeds to issue 12,000 shares of ₹ 10 each at a price of ₹ 15 per share.

(a) You are required to calculate the number of shares issued to A Ltd. and B Ltd.

(b) To show Journal entries in the books of A Ltd.

(c) To prepare the summarised balance sheet of C Ltd. after the issue of shares.

Question 12

White Ltd. and Blue Ltd. propose to sell their business to a new company being formed for that purpose.

The summarised balance sheet as on 31st March, 2017 and profits of the companies for the past three years are as follows:

Liabilities	White Ltd. ₹	Blue Ltd. ₹	Assets	White Ltd. ₹	Blue Ltd. ₹
Equity shares of ₹ 10 each	6,00,000	2,50,000	Freehold property (at cost)	3,60,000	1,20,000
Capital Reserve	–	1,50,000	Plant & machinery (at cost)	3,20,000	1,80,000
General Reserve	3,90,000	1,20,000			
Profit and Loss A/c	1,10,000	1,60,000	Investment (at cost)	–	1,00,000
Creditors	2,15,800	1,26,800	Stock - in – trade	1,10,000	89,500
			Debtors	89,000	64,000
			Balance at Bank	4,36,800	2,53,300
	13,15,800	**8,06,800**		**13,15,800**	**8,06,800**

	White Ltd. ₹	Blue Ltd. ₹
Net profits for the year ended:		
31st March, 2015	1,74,500	1,07,600
31st March, 2016	1,93,400	1,22,900
31st March, 2017	2,14,700	1,44,500

You are given the following relevant information.

It is agreed:

(1) that the properties and plant and machinery be re-valued as follows :

	White Ltd. ₹	Blue Ltd. ₹
Freehold property	4,48,000	1,44,000
Plant and machinery	3,05,700	1,72,950

(2) that the value of stocks be reduced by 10% and a provision of 121/2% be made on debtors for bad and doubtful debts.

(3) that goodwill be valued at two years purchase of the average annual trading profits of the past three years after deducting a standard profit of 10% on the net trading assets before revaluation or adjustment on 31st March, 2017. Blue Ltd. had earned ₹ 17,000 on an average on its investments.

You are required to prepare the opening balance sheet of the new company.

Question 13

Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorised share capital of ₹ 2,00,000 divided into 40,000 equity shares of ₹ 5 each.

On 31st March, 2008 the respective Balance Sheet of Star and Moon were as follows:

	Star ₹	Moon ₹
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less : Current Liabilities	2,98,500	90,125
Representing Capital	1,82,500	1,76,250

Additional Information:

(a) Re-valued figures of Fixed and Current Assets were As follows:

	₹	₹
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

(b) The debtors and creditors include ₹ 21,675 owed by Star to Moon. The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 30,000 equity shares of Neptune Ltd. to Star & Moon in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	₹	₹
2006 Profit	2,24,788	1,36,950
2007 (Loss) / Profit	(1,250)	1,71,050
2008 Profit	1,88,962	1,79,500

(ii) 15% debentures in Neptune Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st March, 2008 after revaluation of assets.

Compute the amount of debentures and shares to be issued to Star & Moon.

Question 14

The following were the Balance Sheets of P Ltd and V Ltd as at 31st March, 2017:

(₹ in lakhs)

Liabilities	P Ltd.	V Ltd.	Assets	P Ltd.	V Ltd.
Equity Share Capital			Land & Building	6,000	----
(fully paid shares of			Plant &		
₹ 10 each)	15,000	6,000	Machinery	14,000	5,000
Securities Premium	3,000	----	Furniture &		
			Fixtures	2,304	1,700
Foreign Projects			and Fittings		
Reserve (Statutory)	----	310	Stock	7,862	4,041
General Reserve	9,500	3,200	Debtors	2,120	1,020
Profit & Loss A/c	2,870	825	Cash at Bank	1,114	609
12% Debentures	----	1,000	Bills Receivable	----	80
Bills Payable	120	----	Cost of Issue of	----	50
Sundry Creditors	1,080	463	Debentures		
Sundry Provisions	1,830	702			
	33,400	**12,500**		**33,400**	**12,500**

All the Bills Receivable held by V Ltd were P Ltd's acceptances. On 1st April, 2007, P Ltd took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, P Ltd would allot three fully paid ordinary shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12%

Debentures in V Ltd would be converted into 13% Debentures in P Ltd of the same amount and denomination. Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd and profit in internal stock is ₹ 2 lakhs.

You are required to pass journal entries in the books of P Ltd

Question 15

The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2017:

	(₹ in lakhs)	
Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference Shares of ₹ 10 each fully paid up	1,200	----
Capital Reserve	600	----
General Reserve	2,100	----
Profit and Loss Account	780	----
8% Redeemable debentures of ₹ 1,000 each	----	300
Trade Creditors	2,421	369
Provisions	870	93
	11,571	**1,662**
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	----	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	----	33
Discount on Issue of Debentures	----	6
	11,571	**1,662**

A new Company MN Ltd was got incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each for the purpose of amalgamation in the nature of merger. M Ltd and N Ltd were merged into MN Ltd on the following terms:

(i) Purchase consideration for M Ltd's business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd to the preference and equity shareholders of M Ltd in full satisfaction of their claims.

(ii) To discharge purchase consideration for N Ltd's business, MN Ltd to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd in full satisfaction of their claims.

(iii) Expenses on the liquidation of M Ltd and N Ltd amounting to ₹ 6 lakhs are to be borne by MN Ltd

(iv) 8% redeemable debentures of N Ltd to be converted into 8.5% redeemable debentures of MN Ltd

(v) Expenses on incorporation of MN Ltd were ₹ 15 lakhs.

You are requested to :

(a) Pass necessary Journal entries in the books of MN Ltd to record above transactions, and

(b) Prepare Balance Sheet of MN Ltd after merger.

PART C : HOMEWORK SECTION

Question 16

S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under:

Balance Sheet

	₹		₹
Share Capital:		Sundry Assets	13, 00,000
2,000 7% Preference shares of ₹			
100 each (fully paid-up)	2,00,000		
5,000 Equity shares of ₹ 100 each			
(fully paid-up)	5,00,000		
Reserves	3, 00,000		
6% Debentures	2,00,000		
Trade payables	1,00,000		
	13, 00,000		**13, 00,000**

P. Ltd. has agreed:

(i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(ii) to issue to the debenture-holders in S. Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;

(iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each (market value ₹ 125) in lieu of every five shares held in S. Ltd.; and

(iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

Question 17

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2011. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2011:

Liabilities	Neel ₹	Mini Ltd. ₹	Assets	Max Ltd. ₹	Mini Ltd. ₹
Capital	7,75,000	8,55,000	Plant &		
			Machinery	4,85,000	6,14,000
Current	6,23,500	5,57,600	Building	7,50,000	6,40,000
Liabilities			Current assets	1,63,500	1,58,600
	13,98,500	**14,12,600**		**13,98,500**	**14,12,600**

Following are the additional information:

(i) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel ₹	Gagan ₹
Plant and Machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel ₹	Gagan ₹
1st year	2,62,800	2,75,125
2nd year	2,12,200	2,49,875
Total	**4,75,000**	**5,25,000**

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2011 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

Question 18

Consider the following summarized balance sheets of X Ltd. and Y Ltd.

Balance Sheet as on 31st March, 2011

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	₹ '000	₹ '000		₹ '000	₹ '000
Equity Share Capital			Land & Building	25,00	15,50
(₹ 10 each)	50,00	30,00			
14% Preference Share			Plant &	32,50	17,00
Capital (₹ 100 each)	22,00	17,00	Machinery		
General Reserve	5,00	2,50	Furniture &	5,75	3,50
			Fittings		
Export Profit Reserve	3,00	2,00	Investments	7,00	5,00
Investment Allowance			Inventory	12,50	9,50
Reserve	---	1,00			

Profit & Loss A/c	7,50	5,00	Trade receivables	9,00	10,30
13% Debentures			Cash & Bank	7,25	5,20
(₹ 100 each)	5,00	3,50			
Trade payables	4,50	3,50			
Other Current					
Liabilities	2,00	1,50			
	99,00	**66,00**		**99,00**	**66,00**

X Ltd. takes over Y Ltd. on 1st April, 2011. X Ltd. discharges the purchase consideration as below:

(i) Issued 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of Y Ltd.

(ii) Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd.

The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

(a) the amalgamation is in the nature of merger.

(b) the amalgamation is in the nature of purchase.

Question 19

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Shares of ₹ 10 fully		Goodwill	5,00,000
Paid	30,00,000	Tangible Fixed Assets	30,00,000
Export Profit Reserves	8,50,000	Stock	10,40,000
General Reserves	50,000	Debtors	1,80,000
Profit and loss Account	5,50,000	Cash & Bank	2,80,000
9% Debentures	5,00,000	Preliminary Expenses	50,000
Trade Creditors	1,00,000		
	50,50,000		50,50,000

Anu Ltd. agreed to absorb the business of Srishti Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by Anu Ltd. as agreed:

(i) 4,50,000 equity Shares of ₹ 10 each issued by Anu Ltd. by valuing its share @ ₹ 15 per share.

(ii) Cash payment equivalent to ₹ 2.50 for every share in Srishti Ltd.

(b) The issue of such an amount of fully paid 8% Debentures in Anu Ltd. at 96% as is sufficient to discharge 9% Debentures in Srishti Ltd. at a premium of 20%.

(c) Anu Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.

(d) The actual cost of liquidation of Srishti Ltd. was ₹ 75,000. Liquidation cost of Srishti Ltd. is to be reimbursed by Anu Ltd. to the extent of ₹ 50,000.

(e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

(i) Close the books of Srishti Ltd. by preparing Realisation Account, Anu Ltd. Account, Shareholders Account and Debenture Account, and

(ii) Pass Journal Entries in the books of Anu Ltd. regarding acquisition of business.

Question 20

The summarised Balance Sheet of Mars Limited as on 31st March, 2015 was as follow:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
1,00,000 Equity shares of ₹ 10		Land and building	7,64,000
each fully paid up	10,00,000	Current Assets:	
Reserve and Surplus:		Inventory	7,75,000
Capital Reserve	42,000	Trade Receivables	1,82,000
Contingency Reserve	2,70,000	Cash at Bank	3,29,000
Profit and Loss A/c	2,52,000		
Current Liabilities & Provisions:			
Trade Payables	2,66,000		
Provision for income Tax	2,20,000		
	20,50,000		20,50,000

On 1st April, 2015, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

(1) Jupiter Limited will take over the assets at the following values:

	₹
Land and building	10,80,000
Inventory	7,70,000
Bills receivable	30,000

(2) Purchase consideration will be settled by Jupiter Ltd. as under:
4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.

(3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.

(4) trade receivables realized ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.

(5) Trade payables were finally settled with cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

(6) Details of trade receivables and trade payables as under:

Trade Receivables		
Debtors	1,60,000	
Less: Provision for doubtful debts	(8,000)	1,52,000
Bill receivable		30,000
Trade Payables		

Bills Payable		40,000
Creditors		2,26,000

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration

(ii) Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd.

Question 21

The Balance Sheet of X Co. Ltd. and Y Ltd. on 31st March, 2017 are as follows :

Balance Sheet of X Co. Ltd.

Liabilities	₹	Assets	₹
Share Capital :		Fixed Asset :	
Authorised Capital of 10,000 shares of ₹ 100 each	10,00,000	Goodwill 80,000	
Issued Capital 10,000 shares of ₹ 100 each fully paid	10,00,000	Others 8,00,000	8,80,000
		Current Assets,	
Reserves & Surplus		Loans and Advances	9,00,000
Capital Reserve 2,00,000			
General Reserve 70,000	2,70,000		
Unsecured Loans	2,00,000		
Current Liabilities & Provisions			
Sundry Creditors	3,10,000		
Total	**17,80,000**	**Total**	**17,80,000**

Balance Sheet of Y Ltd.

Liabilities	Amount	Assets	Amount
Share Capital		Fixed Assets	16,00,000
Authorised Capital 2,00,000 shares of ₹ 10 each	20,00,000	Current Assets, Loans and Advances	
Issued Capital:		Bank 2,00,000	
80,000 shares of ₹ 10 each fully paid	8,00,000	Others 6,60,000	8,60,000
Reserves and Surplus:			

General Reserve	8,00,000		
Secured Loans	5,00,000		
Current Liabilities & Provisions			
Sundry Creditors	3,60,000		
Total	**24,60,000**	**Total**	**24,60,000**

It was proposed that X Co. Ltd. should be taken over by Y Co. Ltd. The following arrangements were accepted by both the companies.

(a) Goodwill of X Co. Ltd. is considered valueless.

(b) Arrears of depreciation in X Co. Ltd. amounted to ₹ 40,000

(c) The holder of every 2 shares in X Co. Ltd. was to receive.

- (i) as fully paid 10 shares in Y Co. Ltd. and
- (ii) so much cash as is necessary to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares as per their Balance Sheet, subject to necessary adjustment with regard to Goodwill and depreciation in X Co. Ltd.'s Balance Sheet.

You are required to :

1. Determine the composition of purchase consideration
2. Show the Balance Sheet after absorption.

PART D : PAST EXAM QUESTIONS

Question 22

The summarised Balance Sheet of M/s. A Ltd. and M/s. B Ltd. as on 31.03.2014 were as under:

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital:			Freehold		
40,000 Equity Shares of			Property	3,00,000	2,40,000
₹ 10 each, Fully paid	4,00,000	----	Plant &		
30,000 Equity Shares of			Machinery	60,000	40,000
₹ 10 each, Fully Paid	----	3,00,000	Motor Vehicle	30,000	20,000
General Reserve	2,40,000	----	Trade		
Profit & Loss Account	50,000	50,000	Receivables	2,00,000	80,000
Trade Payables	2,10,000	1,30,000	Inventory	2,30,000	1,80,000
6% Debentures	----	1,20,000	Cash at Bank	80,000	40,000
	9,00,000	**6,00,000**		**9,00,000**	**6,00,000**

M/s. A Ltd. and M/s. B Ltd. carry on business of similar nature and they agreed to amalgamate. A new Company, M/s. AB Ltd. is formed to take over the Assets and Liabilities of M/s. A Ltd. and M/s. B Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of M/s. A Ltd. and M/s. B Ltd. is to be valued at ₹ 1,40,000 and ₹ 40,000 respectively.

(b) Plant & Machinery of M/s. A Ltd. are to be valued at ₹ 1,00,000.

(c) The Debentures of M/s. B Ltd. are to be discharged by the issue of 6% Debentures of M/s. AB Ltd. at a premium of 5%.

You are required to:

(i) Compute the basis on which shares in M/s. AB Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of M/s. AB Ltd. is ₹ 10.

(ii) Draw up a Balance Sheet of M/s. AB Ltd. as on 1st April, 2014, when Amalgamation is completed.

(iii) Pass Journal entries in the Books of M/s. AB Ltd. for acquisition of M/s. A Ltd. and M/s. B Ltd. **(May 2015 – Group 2)**

Question 23

Describe the conditions to be satisfied for Amalgamation in the nature of merger as per AS – 14.

Question 24

Given below are the Balance Sheets of two companies as on 31st December, 2015.

A Limited

Liabilities	₹	Assets	₹
Share Capital:		Patent	1,00,000
Issued and fully paid up:		Building	5,40,000
50,000 8% Cumulative Preference		Plant and Machinery	15,10,000
Shares of ₹ 10 each	5,00,000	Furniture	75,000
1,50,000 Equity shares of ₹ 10		Investment	1,55,000
Each	15,00,000	Stock	3,58,000
General Reserve	7,65,000	Sundry Debtors	72,000
Profit and Loss account	1,25,000	Cash and Bank	1,40,000
Sundry Creditors	60,000		
	29,50,000		**29,50,000**

B Limited

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	62,000
Issued and fully paid		Motor Car	1,26,000
50,000 Shares of ₹ 10 each	5,00,000	Furniture	58,000
Profit and Loss Account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash and Bank	20,000
	5,76,000		5,76,000

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions :

(i) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.

(ii) AB Ltd. is to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

(iii) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and Bank balances) for ₹ 4,91,000. to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

(iv) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.

(v) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.

(vi) AB Ltd. is to make a public issue of 60,000, 8% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value.

(May 2016 – Group 1)

Question 25

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below :

Summarised Balance sheet as at 31/03/2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity & Liability:			Assets:		
1. Shareholders Fund:			Non – current Assets:		
a. Share Capital	6,00,000	8,40,000	Fixed Assets	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	(excluding		

2. Current Liabilities:			Goodwill)		
			Current Assets		
Bank Overdraft	-	5,40,000	a. Inventories	3,60,000	6,60,000
Trade Payable	2,40,000	5,40,000	b. Trade receivables	4,80,000	7,80,000
			c. Cash at Bank	3,00,000	-
	18,60,000	**25,20,000**		**18,60,000**	**25,20,000**

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P. Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000 ; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase considerations to P Ltd. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording its journal entries. **(May 2017 – group 2)**

Question 26

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Goodwill	1,00,000	80,000
			Land& Building	4,50,000	3,40,000
9% Preference Shares (₹ 100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
			Plant &		

8% Debentures	2,00,000	1,00,000	Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Debtors	3,25,000	1,50,000
Profit & loss a/c	3,52,000	2,05,000	Stock	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	1,08,000	95,000
Creditors	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	**12,90,000**		**19,90,000**	**12,90,000**

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%.

The debtors of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd., will issue

(i) 5 Pref. shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new Equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

(May 2017 – group 1)

Question 27

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each.

On 31st March, 2018 the respective Summarised Balance Sheets of Sun and Neptune were as follow:

	Sun (₹)	Neptune (₹)
Fixed Assets	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750
	9,62,000	5,32,750
Less : Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

Additional Information:

(a) Revalued figures of Fixed and Current Assets were as follows:

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
2016 Profit	4,49,576	2,73,900
2017(Loss)/Profit	(2,500)	3,42,100
2018 Profit	3,77,924	3,59,000

(ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st March, 2018 after revaluation of assets.

You are required to:

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation. **(May 2018 – Group 2)**

Question 28

P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under:

Balance Sheet of P Limited as at 31.03.2014

Particulars	Amount ₹
A. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserve & Surplus	
Profit & Loss A/c	30,000
2. Non-Current Liabilities	
8% Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total	**3,34,000**
B. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,00,000
Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at Bank	30,000
Total	**3,34,000**

Balance Sheet of Q Limited as at 31.03.2014

Particulars	Amount ₹
A. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserve & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payables	1,40,000
Total	**5,45,000**
B. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,90,000
Plant & Machinery at cost less Depreciation	80,000
Furniture & Fixture at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at Bank	58,000
Total	**5,45,000**

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. is to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,

(iii) Write up journal entries including bank entries for closing the books of P Ltd.

(May 2014 – Group 2)

Question 29

The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31/3/2015 is as follows :

Balance Sheet as on 31/03/2015

	Abhay Ltd. (₹)	Asha Ltd. (₹)
Sources of Funds		
Share Capital - Issued and Subscribed		
15,000 equity shares @ ₹ 100, fully paid	15,00,000	
10,000 equity shares @ ₹ 100, fully paid		10,00,000
General Reserve	2,75,000	1,25,000
Profit & Loss	75,000	25,000
Securities Premium	1,50,000	50,000
Contingency Reserve	45,000	30,000
12% Debentures, @ ₹ 100 fully paid		2,50,000
Sundry Creditors	55,000	35,000
Total	**21,00,000**	**15,15,000**
Application of Funds		
Land and Buildings	8,50,000	5,75,000
Plant and Machinery	3,45,000	2,25,000
Goodwill		1,45,000
Inventory	4,20,000	2,40,000
Sundry Debtors	3,05,000	2,85,000
Bank	1,80,000	45,000
Total	**21,00,000**	**15,15,000**

They decided to merge and form a new company M/s. Abhilasha Ltd, as on 1/4/2015 on the following terms:

(1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill. Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.

(2) Land and Buildings. Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.

(3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.

(4) Sundry creditors to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd as on 1/4/2015.

(5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. and M/s. Asha Ltd. in the ratio of 2 : 1.

You are required to:

(i) Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of M/s. Abhilasha Ltd. is ₹ 100.

(ii) Draw Balance Sheet of M/s. Abhilasha Ltd. as on 1/4/2015 after the amalgamation.

(May 2015 – Group 1)

Question 30

Anjana Ltd. is absorbed by Sanjana Ltd., the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000) the payment of the 9% debentures of ₹ 50,000 at a premium of 20% in 8% debentures issued at a premium of 25% at face value and the payment of ₹ 15 per share in cash and allotment of three 11% preference share of ₹ 10 each at a discount of 10% and four equity share of ₹ 10 each at a premium of 20% fully paid for every five shares in Anjana Ltd. The number of share of the vendor company are 1,50,000 of ₹ 10 each fully paid.

Calculate purchase consideration as per Accounting Standard - 14.

(May 2016 – Group 1)

Question 31

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. ₹	Y Ltd. ₹
Equity & Liabilities		
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000

General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	**40,50,000**	**17,10,000**
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based upon two times of average profits of preceding three financial years (2016-17 ₹ 90,000; 2015-16 : ₹ 78,000 and 2014-15 : ₹ 72,000). The profits of 2014-15 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2013-14 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2015-16, there was an embezzlement of cash by an employee amounting to 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to:

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

(May 2018 – group 2)

Question 32

The following was the Balance Sheet of Rashmi Limited as on 31st March, 2018:

Particulars	Note No.	Amount
Equity & Liabilities		
(1) Shareholders' fund:		
(a) Share capital	1	18,00,000
(b) Reserve and Surplus	2	8,40,000
(2) Non-current liabilities:		
Long term Borrowings	3	2,85,000
(3) Current Liabilities:		
Trade Payables		75,000
Total		**30,00,000**
Assets		
(1) Non-Current Assets:		
(a) Fixed Assets		
- Tangible Assets	4	18,00,000
- Intangible Assets (Goodwill)		1,40,000
(b) Non-current Investments	5	1,60,000
(2) Current Assets:		
Inventories		6,24,000
Trade Receivables		1,08,000
Cash & cash equivalents		1,68,000
Total		**30,00,000**

Notes:

1. Share Capital:		
Issued, Subscribed and Paid up		
1,80,000 share of ₹ 10 each fully paid up		18,00,000
		18,00,000
2. Reserve and Surplus:		
General Reserve		4,10,000
Profit & Loss A/c	1,30,000	
Less: Preliminary Exp.	30,000	1,00,000
Export Profit Reserve		2,50,000
Investment Allowance Reserve		80,000
		8,40,000

3. Long term Borrowing:	
9% Secured Debenture of ₹ 100 each fully paid up	2,85,000
	2,85,000
4. Tangible Assets:	
Freehold Property	12,40,000
Plant & Machinery	5,60,000
	18,00,000
5. Non-Current Investments:	
Other Investments	1,60,000
(Current Market value ₹ 1,30,000)	
	1,60,000

On 1st April, 2018 Nitin Ltd. agreed to absorb the business of Rashmi Ltd. on the following terms and conditions:

(i) The purchase consideration would be settled by Nitin Ltd. as under:

(1) 3,00,000 equity shares of ₹ 10 each issued by Nitin Ltd. by valuing its share at ₹ 12 per share.

(2) Cash payment equivalent to ₹ 5 for every share in Rashmi Ltd.

(ii) The issue of such an amount of fully paid 10% debentures in Nitin Ltd. at 95% as is sufficient to discharge 9% debenture in Rashmi Ltd. at a premium of 25%.

(iii) Nitin Ltd. will take over the Freehold property at 120% more than the book value and Plant & Machinery at 10% less than the book value. Inventories at ₹5,20,000 and Trade receivables at their book value subject to a provision of 8% for doubtful debts. Investments will be taken over at current market value. Nitin Ltd. will take over trade payables at book value.

(iv) Liquidation expenses are to be reimbursed by Nitin Ltd. to the extent of ₹ 30,000. The cost of liquidation; ₹ 50,000.

(v) Statutory reserves are to be maintained for 2 more years.

You are required to:

(a) Prepare the Realisation Account, Nitin Ltd. Account, Shareholders Accounts and Debenture Account in the book of Rashmi Ltd. and

(b) Write up journal entries in the books of Nitin Ltd. regarding acquisition of business.

(Nov. 2018 – IPCC – group 1)

Question 33

The summarized Balance Sheet of Srishti Lid. as on 31st March, 2014 was as follows:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 10 fully paid	30,00,000	Goodwill	5,00,000
Export Profit Reserves	8,50,000	Tangible Fixed Assets	30,00,000
General Reserves	50,000	Stock	10,40,000
Profit and loss Account	5,50,000	Debtors	1,80,000
9% Debentures	5.00,000	Cash & Bank	2,80,000
Trade Creditors	1,00,000	Preliminary Expenses	50,000
	50,50,000		**50,50,000**

ANU Ltd. agreed to absorb the business of SRISHTI Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by ANU Ltd, as agreed:

(i) 4,50,000 equity Shares of ₹ 10 each issued by ANU Ltd. by valuing its share @ ₹15 per share.

(ii) Cash payment equivalent to ₹ 2,50 for every share in SRISHTI Ltd.

(b) The issue of such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a premium of 20%.

(c) ANU Ltd. will take over the Tangible Fixed Assets at 100% more than me book value. Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts .

(d) The actual cost of liquidation of SRISHTI Ltd. was ₹ 75,000. Liquidation cost of SRISHTI Ltd. is to be reimbursed by ANU Ltd. to the extent of ₹ 50,000.

(e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

(i) Close the books of SRISHTI Ltd. by preparing Realisation Account, ANU Ltd. Account, Shareholders Account and Debenture Account, and

(ii) Pass Journal Entries in the books of ANU Ltd. regarding acquisition of business.

(May 2014 – Group 1)

Question 34

A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows:

	₹
Share Capital:	
5,000 9% Preference shares of ₹ 100 each (Fully paid up)	5,00,000
12,500 Equity shares of ₹ 100 each (Fully paid up)	12,50,000
Reserves	7,50,000
6% Debentures	5,00,000
Trade payables	2,50,000
Total	**32,50,000**
Assets:	
Sundry Assets	32,50,000
Total	**32,50,000**

A Ltd. has agreed:

(i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.

(ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd for 4 Preference shares in B Ltd.

(iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%.

You are required to calculate the purchase consideration.

(Nov. 2017 – Group 1)

Question 35

Following is the Balance Sheet of Y Ltd., as at 31st March 2010:

Liabilities	₹	Assets	₹
Share Capital		**Fixed Assets**	
Issued & paid up:		Goodwill	8,00,000
2,50,000 equity share of ₹ 10 each, ₹		Building	7,00,000
8 per share paid up	20,00,000	Plant and machinery	13,00,000
1,00,000, 10% pref. shares of ₹ 10		**Current Assets**	
each fully paid up	10,00,000	Stock	7,00,000
Reserves & Surplus		Sundry debtors	9,00,000
General reserve	6,00,000	Bank Balance	6,60,000
Profit & Loss A/c	8,00,000		

Current Liabilities		**Misc. Exp.**	
Creditors	4,00,000	Preliminary Expenses	40,000
Workmen's profit sharing fund	3,00,000		
	51,00,000		**51,00,000**

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except Building which was valued at ₹ 12,00,000 and Plant & Machinery at ₹ 10,00,000.

The purchase consideration was payable as follows:

(i) Payment of liquidation expenses ₹ 5,000 and workmen's profit sharing fund at 10% premium;

(ii) Issue of equity share of ₹ 10 each fully paid at ₹ 11 per share for every pref. share and every equity share of Y Ltd. and a payment of ₹ 4 per equity share in cash

Calculate the purchase consideration; show the necessary ledger accounts in the books of Y Ltd., and opening Journal Entries in the books of X Ltd.

(Nov. 2010 – group 2)

Question 36

X Ltd and Y Ltd were carrying on same business independently. The companies agreed to amalgamate on and from 1/1/2011 and formed a new company Z Ltd. to take over the assets and liabilities of the existing companies. The Balance Sheets of two companies as on 31/3/2011 are as follows:

Liabilities	X Ltd. ₹	Y Ltd. ₹
Share capital : Equity shares of ₹ each (fully paid up)	30,00,000	18,00,000
Securities Premium	6,00,000	-
General Reserve	9,00,000	7,50,000
Profit & Loss Account	5,40,000	4,80,000
10% Debentures	15,00,000	-
Secured Loan	-	9,00,000
Sundry Creditors	7,80,000	5,10,000
Total	**73,20,000**	**44,40,000**
Assets		
Land & Building	27,00,000	13,50,000
Plant & Machinery	15,00,000	11,40,000

Investments (15,000 Shares of Y Ltd.)	2,40,000	-
Stock	15,60,000	10,50,000
Debtors	12,30,000	7,80,000
Cash at Bank	90,000	1,20,000
Total	**73,20,000**	**44,40,000**

Following are the additional information:

(i) For the purpose of amalgamation, the shares of the existing companies are to be valued as under

X Ltd. ₹ 18 per share

Y Ltd ₹ 20 per share

(ii) A contingent liability of X Ltd. of ₹ 1,80,000 is to be treated as actual existing liability

(iii) The shareholders of X Ltd and Y Ltd. are to be paid by issuing sufficient number of shares of Z Ltd. at a premium of ₹ 6 per share.

(iv) The face value of shares of Z Ltd. is to be of ₹ 10 each.

You are required to:

(i) Calculate the purchase consideration (i.e. the number of shares to be issued to X Ltd. and Y Ltd.)

(ii) Prepare Realisation Account and Shareholders Account in the books of X Ltd and Y Ltd.

(iii) Prepare the balance Sheet of Z Ltd. after amalgamation

(Nov. 2011)

Question 37

Given below balance sheet of Vasudha Ltd. and Vaishali Ltd. as at 31st March, 2012.

(Amount in ₹)

Liabilities	Vasudha Ltd.	Vaishali Ltd.	Assets	Vasudha Ltd.	Vaishali Ltd.
Issued Share Capital:			Factory Building	2,10,000	1,60,000
			Debtors	2,86,900	1,72,900
Equity Shares of			Stock	91,500	82,500
₹10 each	5,40,000	4,03,300	Goodwill	50,000	35,000
General Reserve	1,01,000	65,000	Cash at Bank	98,000	1,09,590
Profit & Loss A/c	66,000	43,500	Preliminary		
Sundry Creditors	44,400	58,200	Expenses	15,000	10,010
Total	**7,51,400**	**5,70,000**	**Total**	**7,51,400**	**5,70,000**

Goodwill of the Companies Vasudha Ltd. and Vaishali Ltd. is to be valued at ₹ 75,000 and ₹ 50,000 respectively. Factory Building of Vasudha Ltd. is wort ₹ 1,95,000 and of Vaishali Ltd. ₹ 1,75,000. Stock of Vaishali Ltd has been shown at 10% above of its cost.

It is decided that Vasudha Ltd. will absorb Vaishali Ltd. without liquidating later, by taking over its entire business by issue of shares at the Intrinsic Value.

You are required to draft the balance sheet of the two companies after putting through the scheme. **(May 2012)**

Question 38

The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows:

		₹
Assets		
Freehold Premises		2,20,000
Machinery		1,77,000
Furniture & Fittings		90,800
Stock		3,87,400
Sundry Debtors	80,000	
Less : Provision for Bad Debt	4,000	76,000
Cash in Hand		2,300
Cash at Bank		1,56,500
Bills Receivable		15,000
Total		**11,25,000**
Liabilities		
60,000 Equity shares of ₹ 10 each		6,00,000
Pre Incorporation profit		21,000
Contingency Reserve		1,35,000
Profit & Loss Appropriation Account		1,26,000
Acceptances		20,000
Creditors		1,13,000
Provision for Income-tax		1,10,000
Total		**11,25,000**

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2008 with the following assets at value noted against them:

	₹
Bills Receivable	15,000
Freehold Premises	4,00,000
Furniture and Fittings	80,000
Machinery	1,60,000
Stock	3,45,000

1/4 of the consideration was satisfied by the allotment of fully paid preference share of ₹ 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd. Equity shares of ₹ 10 each, ₹ 8 paid up.

Sundry Debtors realised ₹ 79,500. Acceptances were settled for ₹ 19,000. Income-tax authorities fixed, the taxation liability at ₹ 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expense amounting to ₹ 4,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.

(ii) Prepare the important ledger accounts in the books of Reckless Ltd.; and

(iii) Pass Journal entries in the books of Careful Ltd. with narration. **(May 2010 – IPCC)**

Question 39

The abstract of the Balance Sheet of the AXE Ltd. as at 31st March 2011, are as follows:

Liabilities	₹
Equity spare capital (₹ 100 each)	15,00,000
12% preference share capital (₹ 100 each)	8,00,000
13% Debentures	3,00,000

On 31st March, 2011 BXE Ltd. agreed to take over AXE Ltd. on the following terms:

(1) For each preference share in AXE Ltd., ₹ 10 in cash and one 9% preference share of ₹ 100 in BXE Ltd.

(2) For each equity share in AXE Ltd., ₹ 20 in cash and one equity share in BXE Ltd. of ₹ 100 each. It was decided that the share in BXE Ltd. will be issued at market price ₹ 140 per share.

(3) Liquidation expenses of AXE Ltd. are to be reimbursed by BXE Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

You are required to compute the amount of purchase consideration.

(May 2011 – Accounting)

Question 40

The Balance Sheet of Mars Limited as on 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹	₹
Share Capital:		**Fixed Assets**		
1,00,000 Equity Shares of		Land and building		7,64,000
₹ 10 each fully paid up	10,00,000	**Current Assets**		
Reserve and Surplus		Stock		7,75,000
Capital Reserve	42,000	Sundry Debtors	1,60,000	
Contingency Reserve	2,70,000	Less: Provision for		
Profit and Loss A/c	2,52,000	Doubtful debts	8,000	1,52,000
Current Liabilities &		Bills receivable		30,000
Provisions		Cash at Bank		3,29,000
Bills payable	40,000			
Sundry Creditors	2,26,000			
Provision for income Tax	2,20,000			
	20,50,000			**20,50,000**

On 1st April, 2011 Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

(1) Jupiter Limited will take over the assets at the following values:

Land and building	₹ 10,80,000
Stock	₹ 7,70,000
Bills receivable	₹ 30,000

(2) Purchase consideration will be settled by Jupiter Ltd. as under:
4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.

(3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.

(4) Sundry debtors realised ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income Tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.

(5) Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Jupiter limited in discharge of purchase consideration.

(ii) Prepare the Realisation A/c, Bank Account, Equity Shareholders Account and Jupiter Limited's account in the books of Mars Ltd. **(May 2011 – Accounting)**

Question 41

The following was the Balance Sheet of V Ltd. as on 31st March, 2012: (₹in Lakhs)

Particulars	Note No.	Amount
Equity & Liabilities		
(1) Shareholders' fund:		
(a) Share capital	1	1,150
(b) Reserve and Surplus	2	(87)
(2) Non-current liabilities:		
(a) Long term Borrowings	3	630
(3) Current Liabilities:		
Trade Payables		170
Total		**1,863**
Assets		
(1) Non-Current Assets:		
Tangible Assets	4	1,152
(2) Current Assets:		
Inventories		380
Trade Receivables		256
Cash & cash equivalents	5	75
Total		**1,863**

Notes:

1. Share Capital	
Authorised:	
Issued, Subscribed and Paid up:	?
80 lakh Equity Shares of ₹ 10 each, fully paid up	800
35 lakh 12% Cumulative Preference Shares of ₹ 10 each, fully paid up	350
	1,150
2. Reserve and Surplus:	
Debit Balance of Profit & Loss Account	(87)
	(87)

3.	Long term Borrowing:	
	10% Secured Cumulative Debentures of ₹ 100 each,	
	fully paid up	600
	Outstanding Debenture Interest	30
		630
4.	Tangible Assets:	
	Land and Building	445
	Plant & Machinery	593
	Furniture, Fixtures & Fittings	114
		1,152
5.	Cash & cash equivalents:	
	Balance at Bank	69
	Cash in Hand	6
		75

On 1st April, 2012 P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd. s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹ 10 each issued at a premium of ₹ 2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakh 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the takeover by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 lakh.

P Ltd. discovered that its creditors included ₹ 7 lakh due to V Ltd. for goods purchased.

Also P Ltd.'s stock included goods of the invoice price of ₹ 5 lakh earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to:

(i) Prepare Realisation A/c in the books of V Ltd.

(ii) Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

(Nov. 2012 – Accounting)

Question 42

A Limited and B Limited amalgamate to form a new company AB Limited. The financial position of these companies as on the date of amalgamation was as under:

Particulars	Amount A Ltd.	Amount B Ltd.
Equity and Liabilities		
Shareholders' Fund:		
(a) Equity share capital of ₹ 100 each	5,00,000	2,50,000
(b) 9% Preference Share Capital of ₹ 100 each	3,00,000	2,00,000
(c) General Reserve	1,50,000	1,40,000
(d) Profit & Loss Account	1,36,800	80,500
Non-Current Liabilities:		
12% Debentures	2,00,000	-
Secured Loan.	-	2,00,000
Current Liabilities:		
Trade Payables	3,17,500	2,00,800
	16,04,300	**10,71,300**
Assets		
Non-Current Assets		
Fixed Assets		
Land and Building	2,50,000	1,90,000
Plant and Machinery	1,75,000	2,00,000
Furniture	75,000	50,000
Intangible Assets (Goodwill)	2,00,000	
Current Assets:		
Inventories	1,20,000	1,00,000
Trade Receivables	4,21,000	3,00,000
Bank Balance	3,40,000	1,80,000
Cash in hand	23,300	51,300
	16,04,300	**10,71,300**

The terms of Amalgamation are as under :

(1) All assets and liabilities are to be taken at book value except inventory and trade receivables for which provision of 5% and 7.5% respectively is required.

(2) Issue of 5 preference shares of ₹ 20 each in AB Limited @ ₹ 18 paid up at a premium of ₹ 4 per share for each preference share held in both the companies.

(3) Issue of 6 equity shares of ₹ 20 each in AB limited @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the companies.

(4) In addition cash should be paid to the equity shareholders of both the companies as is required to adjust the rights of the shareholders in accordance with the intrinsic value of shares of both the companies.

(5) Issue of such amount of fully paid 15% debentures in AB limited as is sufficient to discharge the 12% debentures in A Limited.

(6) Trade receivable of A Limited include ₹ 25,000 due from B Ltd.

(i) Prepare necessary ledger accounts in the books of A limited to close their book.

(ii) Show necessary Journal entries in the books of AB Ltd. to give effect to the above transactions. **16 Marks – Nov 2019 – IPCC - Accounting)**

Question 43

The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd. You are required to prepare:

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

(10 Marks – May 2019 – Inter)

Question 44

Distinguish between Amalgamation, Absorption and External Reconstruction of Company.

(5 Marks – May 2019 – Inter)

Question 45

The following were summarized Balance sheet of Namo Ltd. and Raga Ltd. as at 31.03.2011:

	Namo Ltd. (₹ in lakhs)	Raga Ltd. (₹ in lakhs)
Liabilities		
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,237.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
	50,100	**18,750**
Assets		
Land and Buildings	9,000	
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5
Cost of Issue of Debentures	-	75
.	**50,100**	**18,750**

All the bills receivable held by Raga Ltd. were Namo Ltd.'s acceptances.

On 1st April 2011, Namo Ltd. took over Raga Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Namo Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Raga Ltd. It was also agreed that 12% debentures in Raga Ltd. would be converted into 13% debentures in Namo Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Namo Ltd.	Raga Ltd.
	(₹ in lakhs)	
Trade Payables		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Namo Ltd. You are required to:

(a) Pass journal entries in the books of Namo Ltd. and

(b) Prepare Namo Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of Raga Ltd. is not transferred to Namo Ltd. **(16 Marks – May 2019 – IPCC)**

Question 46

The financial position of two companies Orange Ltd. and Yellow Ltd. as on 31st March, 2019 was as under:

Assets	Orange Ltd. (₹)	Yellow Ltd. (₹)
Goodwill	2,10,000	90,000
Building	7,90,000	2,50,000
Machinery	12,50,000	3,80,000
Inventory	6,60,000	3,30,000
Trade receivables	4,80,000	3,60,000
Cash at Bank	2,40,000	85,000
	36,30,000	14,95,000
Liabilities	**Orange Ltd. (₹)**	**Yellow Ltd. (₹)**
Share Capital:		
Equity shares of ₹10 each	25,00,000	9,00,000
8% Preference Shares of ₹ 100 each	2,50,000	-
10% Preference Shares of ₹100 each	-	3,00,000
General Reserve	3,05,000	1,15,000
Retirement Gratuity fund	1,50,000	35,000
Trade• Payables	4,25,000	1,45,000
	36,30,000	14,95,000

Yellow Ltd. is absorbed by Orange Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid, at 10% premium, by issue of 9% Preference Shares of Orange Ltd.

(b) Goodwill of Yellow Ltd. is valued at ₹ 1,50,000, Buildings is worth ₹ 3,50,000, and Machinery ₹ 4,25,000.

(c) Inventory of Yellow Ltd. has been shown at 10% above its cost and expected realization from Trade Receivables is ₹ 3,33,000.

(d) Equity Shareholders of Yellow Ltd. will be issued Equity Shares of Orange Ltd., at 10% premium.

You are required to

(1) Prepare necessary Ledger Accounts to close the books of Yellow Ltd.

(2) Show the acquisition entries in the books of Orange Ltd.

(3) Also draft the Balance Sheet of Orange Ltd. after putting through the scheme assuming that the assets and liabilities of Yellow Ltd. are incorporated at fair value and assets and liabilities of Orange Ltd. are incorporated at carrying values only as at 31st March, 2019. **(16 Marks – Nov 2019 – IPCC)**

Question 47

Black Limited and White Limited have been carrying their business independently from 01/04/2018. Because of synergy in business, they amalgamated on and from 1st April, 2020 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 are as follows :

Liabilities	Black Ltd. (₹)	White Ltd. (₹)
Share Capital		
Equity share of ₹ 10 each	15,00,000	14,50,000
10% Preference shares of ₹ 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account		
Opening Balance	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payable	3,10,000	1,20,000
	30,25,000	**27,45,000**
Assets	**Black Ltd. (₹)**	**White Ltd. (₹)**
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivable	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000
	30,25,000	**27,45,000**

Additional Information :

(i) The authorised capital of the new company will be ₹ 50,00,000 divided into 2,00,000 equity shares of ₹ 25 each.

(ii) Trade payable of Black Limited includes ₹ 15,000 due to White Limited and trade receivable of White Limited shows ₹ 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd. (₹)	White Ltd. (₹)
1. Land And Building	5,20,000	10,40,000
2. Inventory	1,80,000	1,25,000

(iv) The purchase consideration is to be discharged as under:

(a) Issue 1,80,000 equity shares of ₹ 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of ₹ 120 per share (face value ₹ 100).

(c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase.

(16 Marks – Nov 2020 – IPCC)

Question 48

High Ltd. and Low Ltd. were amalgamated on and from 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:

(₹ in lakhs)

Liabilities	High Ltd.	Low Ltd.	Assets	High Ltd.	Low Ltd.
Share Capital :			Plant, Property		
Equity Shares of ₹			and		
100 each	1000	850	Equipment :		
14% Pref Shares of ₹			Land & Building	670	385
100 each	320	175	Plant & Machinery	475	355
Reserves & Surplus :			Investments	95	80
Revaluation Reserve	225	110	Current Assets :		
General Reserve	360	240	Stock	415	389
Investment			Sundry Debtors	322	213
Allowance Reserve	80	40	Bills Receivable	35	----
P & L Account	85	82	Cash & Bank	303	166
Non – Current					
Liabilities :					
Secured Loans:					
13% Debentures	100	56			
(₹ 100 each)					
Unsecured Loans	50	----			
(Public Deposits)					
Current Liabilities &					
Provisions :					
Sundry Creditors	65	35			
Bills Payable	30	----			
Total	**2315**	**1588**	**Total**	**2315**	**1588**

Other Information:

(1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)

(3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.

(4) Investment allowance reserve is to be maintained for two more years.

Prepare the balance sheet of Little Ltd. As on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of purchase.

(15 Marks – Nov 2020 – Inter)

Question 49

Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below:

	Particulars	Note No.	Dark Ltd.	Fair Ltd.
I	Equity and Liabilities			
	(1) Shareholders' Funds			
	(a) Share Capital	1	1,650	1,425
	(b) Reserves and Surplus	2	630	495
	(2) Non-Current Liabilities			
	Long Term Borrowings:			
	10% Debentures of 100 ₹ each		90	45
	(3) Current Liabilities			
	Trade Payables		630	285
	Total		**3,000**	**2,250**
II	Assets			
	(1) Non Current Assets			
	(a) Property, Plant and Equipment		1,350	975
	(b) Non Current Investments		225	75
	(2) Current Assets			
	(a) Inventories		525	375
	(b) Trade Receivables		450	525
	(c) Cash and Cash Equivalents		450	300
	Total		3,000	2,250

Notes to Accounts

		Dark Ltd. (₹ in Lakh)	Fair Ltd. (₹ in Lakh)
1	Share Capital		
	Equity Shares of ₹ 100 each	1, 200	1,125
	14% Preference Shares of ₹ 100 each	450	300
		1,650	1,425
2	Reserves and Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit and Loss Account	75	45
		630	495

Additional Information:

(i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.

(ii) Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ₹ 160 per share (face value ₹ 100).

(iii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Investment allowance reserve is to be maintained for 4 more years.

(v) Liquidation expenses are for Dark Limited ₹ 6,00,000 and for Fair Limited ₹ 3,00,000. It is decided that these expenses would be borne by Bright Limited.

(vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorized equity share capital of Bright Limited is ₹ 15,00,00,000 divided into equity share of ₹ 10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. **(Dec' 2021)**

Question 50

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

				Galaxy Ltd.	Glory Ltd.
				₹	₹
(I)	**Equity & Liabilities**				
	(1)	**Shareholders' fund**			
		Share Capital			
		Equity shares of ₹ 10 each		8,40,000	4,55,000
		Reserves & Surplus			
		General Reserve		4,48,000	40,000
		Profit & Loss A/c		1,12,000	72,000
	(2)	**Non-current Liabilities**			
		Secured Loan			
		6% Debentures		-	3,30,000
	(3)	**Current Liabilities**			
		Trade Payables		4,20,000	1,83,000
			Total	**18,20,000**	**10,80,000**
(II)	**Assets**				
	(1)	**Non-current assets**			
		Property, Plant &			
		Equipment		5,88,000	3,36,000
		Freehold property, at cost			
		Plant & Machinery, at cost less depreciation		1,40,000	84,000
		Motor vehicles, at cost less depreciation		56,000	-
	(2)	**Current Assets**			
		Inventories		3,36,000	4,38,000
		Trade Receivables		4,62,000	1,18,000
		Cash at Bank		2,38,000	1,04,000
			Total	**18,20,000**	**10,80,000**

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.

(iii) Goodwill is to be valued at : Galaxy Ltd. ₹ 4,48,000 Glory Ltd. ₹ 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid ₹ 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ₹ 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013. **(Jan' 21)**

Question 51

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
Equity and Liabilities			
Shareholders' Funds	1	6,000	3,600
(a) Share Capital	2	1,080	660
(b) Reserves and Surplus			
Current Liabilities			
Trade payables		600	360
Total		7,680	4,620
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Note No.	Particulars	Black Limited (₹ In 000)	White Limited (₹ In 000)
1.	Share Capital Equity Shares of ₹ 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment.

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

(Jul' 21)

Question 52

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2022 are as under:

Particulars	A Ltd. (in ₹)	B Ltd. (in ₹)
Equity shares of ₹ 10 each, fully paid up	30,00,000	24,00,000
Share Premium Account	4,00,000	-
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	-
10% Debenture	20,00,000	-
Unsecured Loan		
(Including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	**43,80,000**
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	-
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	**43,80,000**

B Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorised share capital of Z Ltd. is ₹ 60 lakhs divided into 6 lakhs equity shares of ₹ 10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability

(e) Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 50,000 and B Ltd. ₹ 30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies. **(May' 22)**

Question 53

Moon Limited is absorbed by Sun Limited; the consideration, being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9000); the payment of 9% Debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹ 18 per share in cash; allotment of two 11% preference shares of ₹ 10/- each and one equity share of ₹ 10/- each at a premium of 30% fully paid for every three shares in Moon Limited respectively.

The number of shares of the vendor company is 1,50,000 of ₹ 10/- each fully paid. Calculate purchase consideration as per AS-14. **(Dec' 21)**

Question 54

List the conditions to be fulfilled as per AS-14 (Revised) for an amalgamation to be in the nature of merger. **(Jan' 21)**

Question 55

Star Limited agreed to take over Moon Limited on 1st April, 2022. The terms and conditions of takeover were as follows:

(i) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.

(ii) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.

(iii) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharged the preference shareholders of Moon Limited.

You are required:

(i) to give the meaning of "consideration for the amalgamation' as per AS – 14, and

(ii) Calculate the amount of purchase consideration. **(Nov'22 - 5 Marks)**

MULTIPLE CHOICE QUESTIONS

1. Companies may combine in following ways
   (i) absorption (ii) amalgamation
   (iii) external reconstruction (iv) internal reconstruction
   (v) merger
   (a) any of above (b) none of above
   (c) any except (iv) (d) any except (v)

2. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited
   (a) it is called absorption
   (b) it is called amalgamation
   (c) it is called external reconstruction
   (d) it is called internal reconstruction

3. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited
   (a) ABC Ltd. and DEF Limited are known as the "vendor Companies"
   (b) ABC Ltd. and XYZ Ltd. are known as the "vendor Companies"
   (c) XYZ Ltd. and DEF Ltd. are known as the "vendor Companies"
   (d) XYZ Ltd. is known as the "vendor Company"

4. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited
   (a) ABC Ltd. and DEF Ltd. are known as the "Purchasing Companies"
   (b) ABC Ltd. and XYZ Ltd. are known as the "Purchasing Companies"
   (c) XYZ Ltd. and DEF Ltd. are known as the "Purchasing Companies"
   (d) XYZ Ltd. is known as the "Purchasing Company"

5. If the business of an existing company ABC Limited is taken over by an existing company PQR Limited, it is called
   (a) external reconstruction (b) internal reconstruction
   (c) absorption (d) amalgamation

6. If the business of an existing company ABC Limited is taken over by an existing company PQR Limited,
   (a) ABC Ltd. is known as the "vendor Company"; and PQR Ltd. is known as the Purchasing Company"
   (b) ABC Ltd. and PQR Ltd. are known as the "Purchasing Companies"
   (c) PQR Ltd. is known as the "vendor Company"; and ABC Ltd. is known as the "Purchasing Company"
   (d) ABC Ltd. and PQR Ltd. are known as the "vendor Companies"

7. If the business of ABC Limited, a loss - making company, is taken over by a new company ABC (New) Limited, it is called
   (a) internal reconstruction (b) absorption
   (c) external reconstruction (d) amalgamation

8. If the business of ABC Limited, a loss - making company, is taken over by a new company ABC (New) Limited,
   (a) ABC Ltd. is known as the "vendor Company"; and ABC (New) Ltd. is known as the "Purchasing Company"
   (b) ABC Ltd. and ABC (New) Ltd. are known as the "Purchasing Companies"
   (c) ABC (New) Ltd. is known as the "vendor Company"; and ABC Ltd. is known as the "Purchasing Company"
   (d) ABC Ltd. and ABC (New) Ltd. are known as the "vendor Companies"

9. When the merger involves liquidation of two existing companies and companies and formation of one new company, it is called
   (a) internal reconstruction (b) absorption
   (c) external reconstruction (d) amalgamation

10. When the merger involves liquidation of one or more existing companies and formation of no new company, it is called
   (a) internal reconstruction (b) absorption
   (c) external reconstruction (d) amalgamation

11. When the merger involves liquidation of one existing sick company and formation of one new company, it is called

(a) internal reconstruction (b) absorption
(c) external reconstruction (d) amalgamation

12. A feature which is common in all cases of merger viz. absorption, amalgamation and external reconstruction is

(a) purchase of one company by another company
(b) liquidation of at least one new company
(c) formation of at least one new company
(d) liquidation at least one existing company and formation of at least one new company

13. Under the Companies Act, 1956

(a) absorption' includes "amalgamation"
(b) amalgamation' includes 'absorption'
(c) amalgamation excludes 'absorption'
(d) internal reconstruction' includes "external reconstruction"

14. Accounting for amalgamation is governed by

(a) Accounting Standard 1 (b) Accounting Standard 13
(c) Accounting Standard 14 (d) Accounting Standard 11

15. Accounting for absorption is governed by

(a) Accounting Standard 1 (b) Accounting Standard 13
(c) Accounting Standard 14 (d) Accounting Standard 11

16. Accounting for amalgamation by way of purchase is governed by

(a) Accounting Standard 1 (b) Accounting Standard 13
(c) Accounting Standard 14 (d) None of the above

17. Accounting for amalgamation by way of merger is governed by

(a) Accounting Standard 1 (b) Accounting Standard 13
(c) Accounting Standard 14 (d) None of the above

18. According to AS 14, Transfer Company means the Company
    (a) which is amalgamated into another Company
    (b) into which a Company is amalgamated
    (c) which is newly formed
    (d) none of the above

19. According to AS 14, Transferee Company means the Company
    (a) which is amalgamation into another Company
    (b) into which a Company is amalgamated
    (c) which is liquidated
    (d) none of the above

20. According to AS 14, Amalgamation fall into two categories
    (a) amalgamation and absorption
    (b) merger and purchase
    (c) amalgamation and reconstruction
    (d) external reconstruction and internal reconstruction

21. On amalgamation, Share issue Expenses A/c appearing on Assets side of the balance sheet of the vendor company
    (a) is closed by debit to Realisation A/c
    (b) is closed by debit to Equity Shareholders A/c
    (c) is closed by debit to Profit & Loss A/c
    (d) is closed by credit to Equity Shareholders A/c

22. On amalgamation, Profit & Loss A/c (Dr.) balance of the vendor company
    (a) is closed by debit to Realisation A/c
    (b) is closed by debit to Equity Shareholders A/c
    (c) is closed by credit to Equity Shareholders A/c
    (d) is closed by credit to Realisation A/c

23. On amalgamation, Debenture A/c appearing in the balance sheet of the vendor company
    (a) is closed by credit to Purchasing Company A/c, if debentures are taken over by the purchasing company
    (b) is closed by credit to Realisation A/c, whether debentures are not taken over by the new or not

(c) is closed by credit to debenture holders A/c, if debentures are not taken over by the new company company
(d) is closed by debit to Realisation A/c, whether debentures are taken over by the new company or not

24. On amalgamation, Provident Fund A/c appearing on the Liabilities side in the balance sheet of the vendor company
(a) is closed by credit to Purchasing Company
(b) is closed by credit to Realisation A/c
(c) is closed by credit to Equity Shareholders A/c
(d) is closed by debit to Realisation A/c

25. On amalgamation, Sinking Fund A/c appearing on the Liabilities side in the balance sheet of the vendor company
(a) is closed by credit to Purchasing Company
(b) is closed by credit to Realisation A/c
(c) is closed by credit to Equity Shareholders A/c
(d) is closed by debit to Realisation A/c

26. On amalgamation, if the dissolution expenses are paid as well as borne by the purchasing company
(a) Entries are passed in the books of the vendor company
(b) no entry is passed in the books of the purchasing company
(c) no entry is passed in the books of the purchasing company
(d) no entry is passed in the books of the purchasing as well as the vendor company

27. On amalgamation, if Pref. shares are settled at a premium
(a) the premium is credited to Realisation A/c
(b) the premium is debited to Realisation A/c
(c) the premium is credited to Security Premium A/c
(d) the premium is debited to Capital Reserve A/c

28. On amalgamation, accounting procedure used by the vendor company
(a) is the same in all types of amalgamation
(b) is different depending upon whether the amalgamation is in the nature of a merger or a purchase as defined by Accounting Standard 14

(c) is different depending upon whether the companies are private or public

(d) is different depending upon the amount of purchase consideration

29. On amalgamation, accounting procedure used by the purchasing company (a) is the same in all types of amalgamation

(b) is different depending upon whether the amalgamation is in the nature of a merger or a purchase as defined by Accounting Standard 14

(c) is different depending upon whether the companies are private or public

(d) is different depending upon the amount of purchase consideration

30. All the assets and liabilities of the vendor company become the assets and liabilities of the purchasing company

(a) if the amalgamation is in the nature of merger as defined under AS 14

(b) if the amalgamation is in the nature of absorption as defined under the Companies Act

(c) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

(d) if the amalgamation is in the nature of purchase as defined under AS 14

31. Shareholders holding not less than 90% of the face value of the equity share capital in the vendor company become equity shareholders in the purchasing company

(a) if the amalgamation is in the nature of merger as defined under AS 14

(b) if the purchase consideration is calculated under payment method

(c) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

(d) if the amalgamation is in the nature of purchase as defined under AS 14

32. The assets and liabilities of the vendor company are incorporated in the accounts of the purchasing company at book values

(a) if the amalgamation is in the nature of merger as defined under AS 14

(b) if the amalgamation is in the nature of purchase as defined under AS 14

(c) if the purchase consideration is calculated under Net Assets method

(d) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

33. In the books of the purchasing company, the assets and liabilities of the vendor company are incorporated on the basis of their agreed values (i.e. either the book values or the fair values)
    (a) if the amalgamation is in the nature of merger as defined under AS 14
    (b) if the amalgamation is in the nature of purchase as defined under AS 14
    (c) if the purchase consideration is calculated under Net Assets method
    (d) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

34. The difference between the purchase consideration and the net assets of the vendor company Act if any, is either debited to the Goodwill Account or credited to the Capital Reserve Account
    (a) if the amalgamation is in the nature of merger as defined under AS 14
    (b) if the amalgamation is in the nature of purchase as defined under AS 14
    (c) if the purchase consideration is calculated under Net Assets method
    (d) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

35. Under purchase method of amalgamation, the reserves of the vendor Company
    (a) are not brought in the books of the purchasing company
    (b) (except a statutory reserve) are not brought in the books of the purchasing company
    (c) are brought in the books of the purchasing company
    (d) (except a statutory reserve) are brought in the books of the purchasing company

36. Amalgamation Adjustment Reserve
    (a) should be shown as a Fixed Asset in the balance sheet of the purchasing company
    (b) should be shown as a Fictitious Asset in the balance sheet of the vendor company
    (c) should be shown under Reserves and Surplus in the balance sheet of the purchasing compan
    (d) should be shown as a Fictitious Asset in the balance sheet of the purchasing company

37. The amounts paid by the purchasing company to discharge the debentures are
    (a) ignored while calculating purchase consideration by net payment method
    (b) ignored while calculating purchase consideration by net asset method
    (c) considered while calculating purchase consideration by net payment method

38. The amounts paid by the purchasing company to discharge the contingent liabilities are
    (a) ignored while calculating purchase consideration by net payment method
    (b) ignored while calculating purchase consideration by net asset method
    (c) considered while calculating purchase consideration by net payment method

39. The amounts paid by the purchasing company to meet the expenses of winding up are
    (a) ignored while calculating purchase consideration by net payment method
    (b) ignored while calculating purchase consideration by net asset method
    (c) considered while calculating purchase consideration by net payment method

40. The agreed values at which the assets or liabilities are taken over by the purchasing company are
    (a) ignored while calculating purchase consideration by net payment method
    (b) ignored while calculating purchase consideration by net asset method
    (c) considered while calculating purchase consideration by net payment method 3

41. The value of assets or liabilities not taken over by the purchasing company is
    (a) ignored while calculating purchase consideration by net payment method
    (b) ignored while calculating purchase consideration by net asset method
    (c) considered while calculating purchase consideration by net asset method.

42. The Unamortized Expenditure not written off is
    (a) ignored while calculating purchase consideration by net payment method
    (b) ignored while calculating purchase consideration by net asset method
    (c) considered while calculating purchase consideration by net asset method

43. Liquidation expenses of Vendor Co. agreed to be paid / re-imbursed by the Purchasing Co. should be
   (a) considered while calculating purchase consideration by net payment method
   (b) considered while calculating purchase consideration by net asset method
   (c) ignored while calculating the purchase consideration (whether under net payments method or net assets method).

44. As per AS-14 purchase consideration is what is payable to
   (a) Shareholders
   (b) Shareholders and debenture holders
   (c) Shareholders and creditors
   (d) None of the above

45. When amalgamation is in the nature of merger, the accounting method to be followed is:
   (a) Equity method
   (b) Purchase method
   (c) Pooling of interests method
   (d) None of the above

46. Amalgamation adjustment reserve is opened in the books of transferee company to incorporate
   (a) The assets of the transferor company
   (b) The liabilities of the transferor company
   (c) The statutory reserves of the transferor company
   (d) None of the above

47. Under the 'Purchase method of accounting, the transferee company incorporates in its books:
   (a) Only the assets and liabilities of the transferor company
   (b) Only the assets, liabilities and statutory reserves of the transferor company
   (c) Only the assets, liabilities and reserves of the transferor company.
   (d) None of the above

48. Goodwill arising on amalgamation is to be
    (a) Retained in the books of the transferee company.
    (b) Amortised to income on a systematic basis
    (c) Adjusted against reserves and profit and loss account of the transferee company immediately.
    (d) None of the above

49. Under the pooling of interests method the difference between the purchase consideration and share capital of transferee company should be adjusted to:
    (a) General reserve
    (b) Amalgamation adjustment reserve
    (c) Goodwill or capital reserve
    (d) None of the above

50. At the time of amalgamation, purchase consideration does not include
    (a) The sum which the transferee company will directly pay to the creditors of the transferor company
    (b) Payments made in the form of assets by the transferee company to the shareholders of the transferor company.
    (c) Preference shares issued by the transferee company to the preference shareholders of the transferor company.
    (d) preference shares issued by the transferee company to the equity shareholders of the transferor company.

51. The asset which is not taken under the Net assets method of calculating purchase consideration transferor company.
    (a) Loose Tools (b) Bills Receivables
    (c) Machinery (d) Share issue Expenses

52. Pooling of interest' is a method of
    (a) Charging Depreciation
    (b) Accounting for Amalgamation
    (c) Calculation of Purchase Consideration
    (d) None of the above

53. In which of the following methods, the purchase consideration is calculated on the basis of the agreed value of the shares of the transferor company?

(a) Net Asset Method (b) Net Payment Method

(c) Intrinsic Value Method (d) None of the above

54. The adjustment entry passed to eliminate the inter-company bills of exchange is

(a) Debit bills payable a/c credit bills receivable a/c

(b) Debit bills receivable a/c credit bills payable a/c

(c) Debit amalgamation adjustment a/c, credit statutory reserve a/c

(d) None of the above

55. Under 'Purchase method', any excess of the amount of purchase consideration over the net acquired assets of the transferor company should be recognised as:

(a) Capital Reserve (b) Goodwill

(c) Profit & Loss A/c (d) None of the above

56. If there is a provision (RDD) against the debtors, such debtors are transferred to the Realisation a/c at

(a) Net Amount i.e. Debtors less RDD (b) Current Market Value

(c) Gross Amount of Debtors (d) None of the above

57. Under payments method, purchase consideration for the amalgamation means

(a) Aggregate of shares and cash to shareholders

(b) Aggregate of shares, cash and payment to debenture holders

(c) Shares, cash, payment to debenture holders and expenses of realisation

(d) None of the above

58. Loss or profit on realisation a/c is transferred by the transferor company, under amalgamation to

(a) Preference shareholders a/c (b) Equity shareholders a/c

(c) Profit & loss appropriation a/c (d) None of the above

59. Intrinsic value of each equity share of the transferor company is 250 and that of the transferee company is 400. The ratio of exchange of shares on the basis of intrinsic value is

(a) 2:1 (b) 8:8

(c) 8:5 (d) None of the above

-: **ANSWER** :-

1.	(c)	13.	(b)	25.	(c)	37.	(a)	49.	(a)
2.	(b)	14.	(c)	26.	(b)	38.	(a)	50.	(a)
3.	(a)	15.	(c)	27.	(b)	39.	(a)	51.	(d)
4.	(d)	16.	(c)	28.	(a)	40.	(a)	52.	(b)
5.	(c)	17.	(c)	29.	(b)	41.	(b)	53.	(c)
6.	(a)	18.	(a)	30.	(a)	42.	(b)	54.	(a)
7.	(c)	19.	(b)	31.	(a)	43.	(c)	55.	(b)
8.	(a)	20.	(b)	32.	(a)	44.	(a)	56.	(c)
9.	(d)	21.	(b)	33.	(b)	45.	(c)	57.	(a)
10.	(b)	22.	(b)	34.	(b)	46.	(c)	58.	(b)
11.	(c)	23.	(b)	35.	(b)	47.	(b)	59.	(c)
12.	(a)	24.	(b)	36.	(c)	48.	(b)	60.	

FILL IN THE BLANKS

1. In ______________ a new company is formed to take over the business of two or more old companies.

2. In amalgamation, the old Companies taken over are known as the "_______________"- Companies", and the new company taking over is known as the "_____________ Company".

3. If the business of an existing company ABC Limited is taken over by another existing company PQR Limited, it is called _____________.

4. If the business of ABC Limited, a loss-making company, is taken over by a new company ABC (New) Limited, it is called _____________ reconstruction.

5. Under AS 14, Purchase Consideration (would/would not) include payments made by the purchasing company to discharge the debentures of the vendor company.

6. Under AS 14, Purchase Consideration (would/would not) include payments made by the purchasing company to meet the liquidation expenses of the vendor company.

7. In amalgamation, if the liquidation expenses are paid as well as borne by the purchasing company, (an/no) entry is passed in the books of the vendor company.

8. AS 14 recommends that Goodwill arising on amalgamation should be written off within _____________. years.

9. The Amalgamation Adjustment Reserve should be shown under __________ in the balance sheet of the purchasing company.

10. If Purchase Consideration is ascertained under the Net Assets method, this (will/will not) give rise to Goodwill or Capital Reserve.

11. Dissolution expenses paid & borne by purchasing company are debited in its books to____________ Account.

12. In merger, Shareholders holding not less than____________ % of the face value of the equity share capital in the vendor company become equity shareholders in the purchasing company.

13. In merger, the purchase consideration due to the equity shareholders of the vendor company is discharged by the purchasing company wholly by way of issue of ____________ (equity / preference) shares.

14. An amalgamation in the nature of merger is brought about if shareholders holding _____________% of the face value of equity shares become equity shareholders of the transferee company.

15. Value of shares based on agreed value of net assets is known as the ____________ value of shares.

----------: **ANSWER** :----------

1.	Amalgamation	9.	Reserve
2.	Vendor; Purchasing	10.	Will not
3.	Absorption	11.	Goodwill
4.	External	12.	90
5.	Would not	13.	Equity
6.	Would not	14.	90
7.	No	15.	Intrinsic
8.	5		

7 CONSOLIDATED FINANCIAL STATEMENT

PART A : THEORY SECTION

AS 21

I Meaning

1. **C.F.S** → Financial statement of "GROUP" viewed as single economic entity

2. **Group** → Group means Parent Company and all its subsidiary.

3. **Parent Company (Holding Company)** → Enterprise having one or more subsidiary.

4. **Subsidiary Company** → Enterprise controlled by Parent Company.

5. **CONTROL**

   OR

Ownership directly or indirectly through subsidiary for more than one half of voting power. (> 50%)	Control over BOD in case of company OR governing body in Case of other than company for getting economic benefit.

II Why Consolidated Financial Statement?

H Ltd.	S Ltd.
NP 30	NP 20

$$\text{H Ltd.} \xrightarrow{60\%} \text{S Ltd.}$$

Logical NP of H Ltd. = 30 + (20 × 60%)

= 30 + 12

= 42

To show true and fair view of GROUP

III Who will prepare Consolidated Financial Statement?

→ Holding Company

IV What does Consolidated Financial Statement consist?

- Consolidated B/S
- Consolidated P/L
- Consolidated Cash Flow Statement
- Notes to Accounts

➢ Important terms to be used in Consolidated Financial Statements regard to B/S

1. **Cost of control:** In order to find cost of control (Goodwill / Capital reserve) comparisons should be made between Shareholders funds of S Ltd. on the date of acquisition with the cost of investment made by H Ltd.
2. **Pre & Post acquisition:** The entire share capital & reserves & losses of S Ltd. upto the date of acquisition are pre acquisition items.
   Whatever profits and losses arise after the date of acquisition will be post period items.
3. **Minority interest:** If the holding Company has more than 50% but less than 100% shares of S Ltd., then it means apart from H, S Ltd. has other shareholders also who are called as minority interest. These will be shown on liability side of consolidated B/S.
4. **Mutual Owings:** It means amount due to / receivable by H & S Ltd. while preparing consolidated B/S, all the Mutual Owings must be cancelled.
5. **Unrealised profit on stock:**
   i. One Company sold goods to another at profit.
   ii. Receiver has such goods in closing stock.

CASE I	CASE II
H Ltd. sells good to S Ltd. (Downstream transaction) cancel the profit included in stock from:	S Ltd. sells goods to H Ltd. (Upstream transaction) cancel the profit included in the stock from:
a. P/L A/c of H Ltd.	a. P/L of S Ltd. (Post period)
b. Stock of S Ltd.	b. Stock of H Ltd.

6. **Pre-acquisition dividend received by H Ltd.: It must be adjusted against the cost of investment.**

∴ Correct accounting treatment would be;

Cash A/c Dr.
To Investment A/c

However, if H Ltd. has recorded wrongly as;

Cash A/c Dr.
To P/L A/c

Rectification Entry:

P/L Dr. (Less from P/L of H)
To Investment A/c (Less from investment)

7. **Issue of bonus shares by S Ltd.:**

Accounting Treatment

Books of H	Books of S
No entry	General reserve A/c Dr.
	To ESC

NOTE:

While calculating % of holding, be careful in taking either figures before / after bonus, but never take 1 figure before bonus, another after bonus.

8. **Revaluation of assets of S Ltd.:**

Step 1: Find increase / decrease in valuation of assets on date of acquisition.

Step 2: If date of acquisition is either beginning of accounting year or middle of accounting year, then due to revaluation post period depreciation will get affected which will have to be adjusted.

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PART B : CLASSWORK SECTION

Question 1

The balance sheet of Big Limited and Small Limited as at 31st March, 2012 were as under:

	Big Ltd. ₹	Small Ltd. ₹		Big Ltd. ₹	Small Ltd. ₹
Equity Capital	9,00,000	3,00,000	Fixed Assets	9,00,000	4,00,000
(Shares of ₹ 10 each)			Investments	6,00,000	--
General Reserve	5,00,000	30,000	Sundry Debtors	1,60,000	90,000
Profit & Loss A/c	6,00,000	2,00,000	Inventory	2,10,000	1,20,000
Sundry Creditors	1,00,000	1,70,000	Cash & Bank	2,30,000	90,000
	21,00,000	**7,00,000**		**21,00,000**	**7,00,000**

Big Ltd. has acquired 75 per cent of Small Ltd.'s shares at ₹ 6,00,000 on 1st July, 2011. Small Ltd. had an opening balance of ₹ 1,00,000 in Profit and Loss Account from which it paid dividend for 2010-2011 at 20 per cent on 30th September, 2011. The dividend received by Big Ltd. is included in its Profit & Loss Account.

Inventory of Big Ltd. included ₹ 20,000 out of purchases of ₹ 50,000 made from Small Ltd. in January 2012. Credit period is 100 days. Small Ltd. had sold these items at a margin of 25 per cent on cost. There had been no change in the General Reserve Account of Small Ltd. during 2011-2012.

Prepare a consolidated balance sheet as at 31st March, 2012.

Question 2

A Ltd. acquired 1,600 ordinary shares of ₹ 100 each of B Ltd. on 30th September, 2011. On 31st March, 2012 the Balance Sheets of the two companies were as given below :

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital			Land & Buildings	1,50,000	1,80,000
(of ₹ 100 each			Plant & Machinery	2,40,000	1,35,000
fully paid)	5,00,000	2,00,000	Investment in		
Reserves	2,40,000	1,00,000	B Ltd. at cost	3,40,000	–
Profit & Loss A/c	57,200	82,000	Stock	1,20,000	36,400
Bank Overdraft	80,000	–	Sundry Debtors	44,000	40,000
Bills Payable	–	8,400	Bills Receivable	15,800	–
Creditors	47,100	9,000	Cash	14,500	8,000
	9,24,300	3,99,400		9,24,300	3,99,400

The Profit & Loss Account of B Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2011 out of which a dividend of 10% was paid on 31st October, 2011 ; A Ltd. has credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st April, 2011 was considered as worth ₹ 1,80,000 on 30th September, 2011 ; this figure is to be considered while consolidating the Balance Sheets.

Prepare consolidated Balance Sheet as on 31st March, 2012.

Question 3

The following are the Balance Sheets of H Ltd. and S Ltd. as on 31st March, 2012 :

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share Capital			Fixed Assets	4,80,000	2,50,000
Shares of ₹ 100/-					
each	10,00,000	5,00,000			
Reserve & Surplus			in S Ltd.	5,00,000	--
General Reserve	1,00,000	1,50,000	Current Assets	7,20,000	7,50,000
Profit & Loss A/c	1,60,000	1,50,000			
Current Liabilities	4,40,000	2,00,000			
	17,00,000	**10,00,000**		**17,00,000**	**10,00,000**

The following further information is furnished :

(1) H Limited acquired 3000 shares in S Limited on 1.7.2011. The Reserves and Surplus position of S Limited as on 1.4.2011 was as under :

(a) General Reserve ₹ 2,50,000

(b) P & L A/c. Bal. ₹ 1,20,000

(2) On 1.10.2011 S Limited issued 1 share for every 4 shares held as Bonus Share at a face value of ₹ 100 per share. No entry has been made in the books of H Limited for the receipt of these bonus shares.

(3) On 30.9.2011, S Limited declared a dividend out of its pre-acquisition profits of 25% on its then share capital. H Limited credited the dividend to its Profit and Loss Account.

(4) H Limited owed S Limited ₹ 50,000 for purchase of stock from S Limited. The entire stock is held by H Limited on 31.3.2012. S Limited made a profit of 25% on cost.

(5) H Limited transferred a machinery to S Limited for ₹ 1,00,000. The book value of the machinery to H Ltd. was ₹ 80,000.

Prepare a consolidated Balance Sheet as on 31.3.2012.

Question 4

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

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

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

Balance sheets as at 31st December, 2010.

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

Question 5

From the following Balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March 2011, and the additional information provided there after prepare consolidated Balance sheet on 31.3.11

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share capital	25,00,000	5,00,000	Land	5,00,000	1,00,000
(₹10)			Building	10,00,000	3,00,000
Reserve	2,00,000	----	Machinery	6,00,000	4,50,000
Profit & Loss A/c	3,00,000	4,00,000	Investment	7,50,000	12,000
Current Liabilities	1,60,000	90,000	Current Assets	3,10,000	1,28,000
	31,60,000	9,90,000		31,60,000	9,90,000

Additional Information:

1. H. Ltd. acquired 40,000 Equity shares of S Ltd. for ₹ 7,00,000 on 1 July 2010.
2. Land of S Ltd. was revalued as on 30.6.2010 ₹ 5,00,000
3. Profit & Loss A/c of S Ltd. as on 1st April 2010 showed Dr. Balance amounting ₹ 4,00,000

Question 6

Following are the Balance Sheets of H. Ltd. and S. Ltd. as at 31st March 2011.

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share capital share			Goodwill	40,000	30,000
of ₹ 10 each	5,00,000	2,00,000	Land & Building	2,00,000	1,30,000
General Reserve			Debtors	20,000	75,000
as on 1.4.10	1,00,000	60,000	Plan & Mach.	1,60,000	90,000
Profit & Loss	1,40,000	90,000	Stock in Trade	1,00,000	90,000
Bills Payable	----	40,000	Shares in S. Ltd.	2,40,000	----
			(1500 Shares)		
Creditors	80,000	50,000	Cash at Bank	60,000	25,000
	8,20,000	4,40,000		8,20,000	4,40,000

The Profit and Loss Account of S Ltd. showed a credit balance of ₹ 50,000 on 1st April 2010. A dividend of 15% was paid in December 2010 for the year 2009-10. This dividend was credited to profit and loss account by H Ltd.

H Ltd. acquired the shares in S. Ltd. on 1st October, 2010.

The Bills Payable of S Ltd. were all issued in favour of H Ltd. which company got the bills discounted.

Included in the Creditors of S Ltd. is ₹ 20,000 for goods supplied by H Ltd. Included in the stock of S Ltd. are goods to the value of ₹ 8,000 which were supplied by H. Ltd. at a profit of 33 1/3% on cost.

In arriving at the value of S. Ltd. shares, the plant and machinery which then stood in the books at ₹ 1,00,000 on 1.4.2010 was revalued at ₹ 1,50,000 on 01.10.10. The new value was not incorporated in the books. No changes in these have been made since then in books of S. Ltd.

Prepare the consolidated balance sheet as on that date.

Question 7

The following are the Profit & Loss A/c of H. Ltd. & S. Ltd. for the year ended March 31st, 2011

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
To Opening Stock	2,00,000	1,00,000	By Sales	19,80,000	14,00,000
To Purchases	12,00,000	7,50,000	By Closing Stock	2,10,000	60,000
To Carriage	20,000	10,000			
To Wages	2,10,000	80,000			
To Gross Profit c/d	5,60,000	5,20,000			
	21,90,000	**14,60,000**		**21,90,000**	**14,60,000**
To Salaries	95,000	45,000	By Gross Profit b/d	5,60,000	5,20,000
To Rent	40,000	25,000	By Commission	1,00,000	----
To Commission	----	50,000	By Debenture Interest S Ltd.	10,000	----
To Sundry Expenses	65,000	25,000	By Rent	40,000	----
To Debentures Interest	-	25,000			
To Provision for Taxation	1,90,000	1,10,000			

To Net Profit c/d	3,20,000	2,40,000			
	7,10,000	**5,20,000**		**7,10,000**	**5,20,000**
To Preference Dividend	----	40,000	By Balance B/d	1,00,000	40,000
To Transfer to Reserve	1,05,021	76,690	By Net Profit B/fd	3,20,000	2,40,000
To Balance carried to Balance sheet	3,14,979	1,63,310			
	4,20,000	**2,80,000**		**4,20,000**	**2,80,000**

You are given following additional information :

1. H. Ltd. acquired 3000 Equity shares in S. Ltd. on 1st April 2010, out of 4000 Equity shares of S. Ltd. However Debentures were acquired on 1st April 2009.
2. During the year H. Ltd. sold goods to S Ltd. costing ₹ 60,000 for ₹ 80,000. One fourth of the goods remained unsold on March 31st 2011. It is included in closing stock at cost to S. Ltd.
3. Commission, Rent credited to profit & Loss A/c of H. Ltd. include ₹ 40,000, ₹ 10,000 received from S. Ltd.

Prepare a consolidated profit and Loss A/c for the year ended March 31st 2011.

Question 8

A Ltd. acquired 70% of equity shares of B Ltd. as on 1st January, 2010 at a cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. Both the companies follow calendar year as the accounting year. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2014, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015 and 2016, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively.

Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

Question 9

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

Liabilities	H Ltd. ₹ in lakhs	S Ltd. ₹ in lakhs
Income :		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
(A)	**6,000**	**1,200**
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	100	50
Interest	100	50
Depreciation	200	50
(B)	**2,400**	**700**
Profit before tax (A - B)	3,600	500
Provision	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of profit	**1,200**	**150**

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

Prepare a consolidated profit and loss account.

Question 10

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of ₹ 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

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

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

Fixed Assets Up by 20%

Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2017.

Exe Ltd. purchased the shares of Zed Ltd. @ ₹ 20 per share.

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

Question 11

Consider the following summarized balance sheets of subsidiary B Ltd.:

	2015 ₹	2016 ₹		2015 ₹	2016 ₹
Share-Capital			Fixed Assets		
Issued &			Cost	3,20,000	3,20,000
subscribed					
5,000 equity	5,00,000	5,00,000	Less:	(48,000)	(96,000)
shares of ₹ 100			Accumulated		
each			depreciation		
Reserves &				2,72,000	2,24,000
Surplus					
Revenue reserves	2,86,000	7,14,000	Investments at	--	4,00,000
			cost		
Current Liabilities			Current Assets:		
& Provisions:			Inventory	5,97,000	7,42,000
Trade Payables	4,90,000	4,94,000	Trade	5,94,000	8,91,000
			Receivables		

Bank overdraft	--	1,70,000	Prepaid Expenses	72,000	48,000
Provision for taxation	3,10,000	4,30,000	Cash at Bank	51,000	3,000
	15,86,000	**23,08,000**		**15,86,000**	**23,08,000**

Also consider the following information:

(a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.

(b) A Ltd. values inventory on WAM basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by ₹12,000 at the end of 2015 and ₹ 34,000 at the end of 2016.

(c) Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.

(d) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(e) Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2015 & ₹ 30,000 in 2016, being part of initial advertising expenditure of ₹ 90,000 in 2015, which is being written off over 3 years. Similar amount of advertising expenditure of A Ltd. has been fully w/off in 2015. Restate Balance sheet of B Ltd. for 2016.

PART C : HOMEWORK SECTION

Question 12

On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its ubsidiary S Ltd. stood as follows:

(₹ in lakhs)

Liabilities	H Ltd.	S Ltd.
Share Capital		
Authorized	15,000	6,000
Issued and Subscribed		
Equity Shares of ₹ 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	----
Total	**21,387**	**9,208**
Assets	**H Ltd**	**S Ltd.**
Land and Buildings	2,718	----
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	-----
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	----
	21,387	**9,208**

The following information is also provided to you:

(a) H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.

(b) On 31st March, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.

(c) On 1st January, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2016.

(d) On 31st March, 2017, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

(e) On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2017.

Question 13

The Trial Balances of H Ltd. and S Ltd. as on 31.12.2016 were as under:

	H Ltd.		S Ltd.	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Equity Share Capital(Share of ₹ 100 each)		10,00,000		2,00,000
7% Preference Share Capital (Share of ₹ 100 each)		----		2,00,000
Reserves		3,00,000		1,00,000
6% Debentures		2,00,000		2,00,000
Debtors /Creditors	80,000	90,000	50,000	60,000
P & L A/c balance		20,000		15,000
Purchases / Sales	5,00,000	9,00,000	6,00,000	9,50,000
Wages & Salaries	1,00,000		1,50,000	
Debenture Interest	12,000		12,000	
General Expenses	80,000		60,000	
Preference-Dividend up to 30.6.2016		3,500	7,000	
Inventory (31.12.2016)	1,00,000		50,000	
Cash at Bank	13,500		6,000	
Investment in S Ltd.	5,28,000			
Fixed Assets	11,00,000		7,90,000	
	25,13,500	**25,13,500**	**17,25,000**	**17,25,000**

Investment in S Ltd. were acquired on 1.4.2016 and consisted of 80% of Equity Capital and 50% of Preference Capital. Depreciation on fixed assets is written off @ 10% p.a (computed on the basis of useful life. After acquiring control over S Ltd., H Ltd. supplied to it goods at cost plus 20%, the total invoice value of such goods being ₹ 60,000; 1/4 of such goods were still in Inventory at the end of the year.

Prepare the Consolidated Profit and Loss Account for the year ended on 31.12.2016.

Question 14

On 31st March, 2001, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The Balance Sheet of Q Ltd. on that date was as under:

Liabilities	₹	Assets	₹
1,50,000 equity shares of		Fixed Assets	10,50,000
₹10 each fully paid	15,00,000	Current Assets	6,45,000
Pre-incorporation profits	30,000		
Profit and Loss Account	60,000		
Creditors	1,05,000		
	16,95,000		**16,95,000**

On 31st March, 2002 the Balance Sheets of two companies were as follows :

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares of ₹10			Fixed Assets	79,20,000	23,10,000
each fully paid			Equity Shares in		
(before bonus issue)	45,00,000	15,00,000	Q Ltd. at cost		
Securities Premium	9,00,000	----	(1,05,000 shares)	12,00,000	----
Pre-incorporation			Current Assets	44,10,000	17,55,000
Profits	----	30,000			
General Reserve	60,00,000	19,05,000			
Profit & Loss A/c	15,75,000	4,20,000			
Creditors	5,55,000	2,10,000			
	1,35,30,000	**40,65,000**		**1,35,30,000**	**40,65,000**

Directors of Q Ltd. made bonus issue on 31.3.2002 in the ratio of one equity share of ₹10 each fully paid for every two equity shares held on that date.

It may be assumed that bonus shares were issued out of post-acquisition profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the bonus issue.

PART D : PAST EXAM QUESTIONS

Question 15

The following summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. was prepared as on 31st March, 2017:

	H Ltd. ₹	S Ltd. ₹
Equity & Liabilities		
Shareholders' Funds		
Equity Share Capital	12,00,000	2,00,000
(fully paid up shares of ₹ 10 each)		
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Total	**22,37,000**	**5,43,000**
Assets		
Non-Current Assets		
Fixed Assets		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd.	3,20,000	-
16,000 shares @ ₹ 20 each		
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
Total	**22,37,000**	**5,43,000**

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2016. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively. Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April, .2016 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. includes ₹ 35,000 due to S

Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. include goods costing ₹ 55,000 purchased from S Ltd. You are required to prepare the Consolidated Balance Sheet as at 31st March, 2017.

(May 2018 – Group 2)

Question 16

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below:

	A Ltd. ₹	B Ltd. ₹
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	**9,000**	**1,800**
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	**3,600**	**1,050**
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450
Dividend paid	1,800	225
Balance of Profit	1,800	225

The following information is also given:

(i) A Ltd sold goods of ₹ 180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)

(ii) Administrative expenses of B Ltd include ₹ 8 Lakhs paid to A Ltd as consultancy fees.

(iii) Selling and distribution expenses of A Ltd include ₹ 15 Lakhs paid to B Ltd as commission.

(iv) A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016 – 17 is ₹ 1,500 Lakhs.

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2018.

(Nov. 2018 – Group 2)

Question 17

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively.

Thereafter in 2015, S Ltd. Experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2016 and 2017, S Ltd. Recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation. **(10 Marks – May 2019 – Inter)**

Question 18

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2017-18 Amount in ₹	2018-19 Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000

Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

(1) MNT Ltd. is a subsidiary of LTC Ltd.

(2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2017-2018 and increased by ₹ 12,000 at the end of 2018-2019. (Inventory of 2017-18 has been sold out during the year 2018-19)

(3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.

(4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25 ,000 in 2017-18 and ₹ 12,500 in 2018-19 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2017-18, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2017-18.

Restate the balance sheet of MNT Ltd. as on 31st March, 2019 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

(10 Marks – Nov 2019 – Inter)

Question 19

From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2018		31-12-2018	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				₹	₹	₹	₹
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

(5 Marks – Nov 2019 – Inter)

Question 20

H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1st October, 2019. The Balance Sheet of the two companies as on 31st March, 2020 were as under:

Particulars	H Ltd. (₹)	S Ltd.(₹)
Equity and Liabilities :		
Equity Share Capital of ₹ 10 each	20,00,000.	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	-20,000
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
Total	**36,55,200**	**16,60,000**
Assets:		
Land and Building	7,20,000	7,60,000
Plant and Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000

Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
Total	**36,55,200**	**16,60,000**

Additional Information:

(1) The Profit and Loss Account of S Ltd. showed a balance of ₹ 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.

(2) The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1st April, 2019 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery. Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the companies Act, 2013.

(15 Marks – Nov 2020 – Inter)

Question 21

Moon Ltd. and its subsidiary Star Ltd. provided the following information for the year ended 31st March, 2021:

Particulars	Moon Ltd (₹)	Star Ltd. (₹)
Equity Share Capital	20,000,000	6,000,000
Finished Goods Inventory as on 01.04.2020	4,200,000	3,010,000
Finished Goods Inventory as on 31.03.2021	8,575,000	3,762,500
Dividend Income	1,680,000	437,500
Other non-operating Income	350,000	105,000
Raw material consumed	13,930,000	4,725,000
Selling and Distribution Expenses	3,325,000	1,575,000
Production Expenses	3,150,000	1,400,000
Loss on sale of investments	262,500	Nil
Sales and other operating income	33,250,000	19,075,000
Wages and Salaries	13,300,000	2,450,000
General and Administrative Expenses	2,800,000	1,225,000
Royalty paid	Nil	50,000
Depreciation	315,000	140,000
Interest expense	175,000	52,500

Other information

- On 1st September 2018 Moon Ltd., acquired 50,000 equity shares of ₹ 100 each fully paid up in Star Ltd.
- Star Ltd. paid a dividend of 10% for the year ended 31st March 2020. The dividend was correctly accounted for by Moon Ltd.
- Moon Ltd. sold goods of ₹ 17,50,000 to Star Ltd. at a profit of 20% on selling price. Inventory of Star Ltd. includes goods of ₹ 7,00,000 received from Moon Ltd.
- Selling and Distribution expenses of Star Ltd. include ₹ 2,12,500 paid to Moon Ltd. as brokerage fees.
- General and Administrative expenses of Moon Ltd. include ₹ 2,80,000 paid to Star Ltd. as consultancy fees.
- Star Ltd. used some resources of Moon Ltd., and Star Ltd. paid ₹ 50,000 to Moon Ltd. as royalty.

Prepare Consolidated Statement of Profit and Loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013.

(Dec' 21)

Question 22

On 31st March, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

		H Ltd.	S Ltd.
		₹	₹
Shareholders' Fund			
Issued and subscribed			
	Equity shares of ₹ 10 each	13,40,000	2,40,000
	Reserves and Surplus	4,80,000	1,80,000
	Profit & Loss Account	2,40,000	60,000
Secured Loans			
	12% Debentures	1,00,000	-
Current Liabilities			
	Trade Payables	2,00,000	1,22,000
	Bank Overdraft	1,00,000	-
	Bills Payable	60,000	14,800
Total		**25,20,000**	**6,16,800**
Assets			
Non-Current Assets		•	

(a)	**Property, Plant & Equipment**	.	
	Machinery	7,20,000	2,16,000
	Furniture	3,60,000	40,800
(b)	**Investments**		
	Investments in S Ltd.	3,84,000	-
	(19,200 shares at ₹ 20 each)		
Current Assets			
	Inventories	6,00,000	2,00,000
	Trade Receivables	3,00,000	90,000
	Bill Receivables	1,00,000	30,000
	Cash at Bank	56,000	40,000
Total		**25,20,000**	**6,16,800**

The following information is also provided to you:

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.

(b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives:
Machinery 10%, Furniture 15%).

(c) On 31st March, 2020, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

(Jan' 21)

Question 23

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under:

	X Limited (₹ In 000)		Y Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹ 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400

Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900
Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160		120	
Preference share dividend up to 30.09.2020			14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27	7	12	
Investment in Y Limited	1,056		-	
Fixed Assets	2,200		1,580	
Total	**5,027**	**5,027**	**3,450**	**3,450**

Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being ₹ 1,20,000, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021. **(Jul' 21)**

Question 24

Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

(i) On consolidation of Balance Sheet.

(ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.

(iii) If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs. **(Jul' 21)**

Question 25

White Ltd. acquired 2,250 shares of Black Ltd. on 1st October, 2020. The summarized balance sheets of both the companies as on 31st March, 2021 are given below:

Particulars	White Ltd. (₹)	Black Ltd. (₹)
(I) Equity and Liabilities		
(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus		
General Reserve	60,000	30,000
Profit and Loss Account	1,50,000	90,000
(2) Current Liabilities		
Trade Payables	1,15,000	75,000
Due to White Ltd.	-	30,000
Total	**9,75,000**	**5,25,000**
(II) Assets:		
Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	-
Current Assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	-
Cash and Cash equivalents	39,000	54,000
Total	**9,75,000**	**5,25,000**

Other information:

(i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30th March, 2021.

(ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March, 2021.

(ii) Profits during the year 2020-2021 were earned evenly.

(iv) The balances of Reserves and Profit and Loss account as on 1st April, 2020 were as follows :

	Reserves	Profit and loss a/c
	₹	₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31st March, 2021 as per the requirement of Schedule III of the Companies Act, 2013.

(May' 22)

Question 26

H Ltd. and S Ltd. provide the following information as at 31st March, 2022:

	H Ltd. ₹	S Ltd. ₹
Property, Plant and Equipment	2,00,000	2,60,000
Investments (14,000 Equity Shares of S Ltd.)	2,52,000	-
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of ₹10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

Additional information:

H Ltd. acquired the shares of S Ltd. on 1st July, 2021 and Balance of profit and loss account of S Ltd. on 1st April, 2021 was ₹60,000.

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 2022.

(Nov'22 - 15 Marks)

MULTIPLE CHOICE QUESTIONS

1. Holding company, in relation to one or more other companies, means a company of which such companies are -

   (a) Associate Companies (b) Subsidiary Companies

   (c) Both (a) and (b) (d) Either (a) or (b)

2. Which of the following would qualify a company to be regarded as a parent of another?

   (a) A parent should control the majority of the votes at subsidiary's shareholders' meetings.

   (b) A parent should own majority shares in the subsidiary.

   (c) A parent and its subsidiary both must be in the same line of business.

   (d) A parent and the subsidiary both should have the same persons as their directors.

3. Subsidiary company in relation to any other company (that is to say the holding company), means a company in which the holding company -

   (a) Controls the composition of the Board of Directors

   (b) Exercises or controls more than 50% of the total voting power either at its own or together with one or more of its subsidiary companies

   (c) Both (a)or (b)

   (d) Neither (a)nor (b)

4. Pre-acquisition profit in subsidiary company is considered as:

   (a) Revenue profit (b) Capital profit

   (c) Goodwill (d) Cost of control

5. Which section of the Companies Act, 2013 requires the preparation of consolidated financial statements?

   (a) Section 127 (b) Section 128

   (c) Section 130 (d) Section 129

6. Associate company in relation to another company, means –
   (a) A company which cannot be classified as subsidiary company or joint venture company
   (b) A company which is a subsidiary company of the company having significant influence
   (c) A company which is originally formed as associate company as such.
   (d) A company in which that other company has a significant influence

7. Holding company holds more than ______ voting power in subsidiary company.
   (a) 25% (b) 40%
   (c) 50% (d) 75%

8. In associate companies, one company holds ______ of share capital.
   (a) more than 20% but less than 50%
   (b) more than 10% but less than 25%
   (c) more than 25% but less than 50%
   (d) more than 50% but less than 75%

9. Term 'subsidiary company' is defined in:
   (a) Section 2(4) (b) Section 2(5)
   (c) Section 2(6) (d) Section 2(87)

10. Minority interest represents -
   (a) Shares owned by minor persons in a consolidated financial statement of holding company.
   (b) Shares owned by persons who can be classified as small shareholders in a consolidated financial statement of holding company.
   (c) Shares owned by third parties in a consolidated financial statement of holding company.
   (d) Shares owned by creditors in a total debt in preparation of consolidated financial statement of holding company.

11. Term 'associate company' is defined in -
   (a) Section 2(6) (b) Section 2(7)
   (c) Section 2(5) (d) Section 2(4)

12. Holding company's share in revenue profits of subsidiary company is adjusted in:
    (a) Cost of control
    (b) Shown on assets side of balance sheet
    (c) Profit and loss account of holding company
    (d) Capital profits of holding company

13. Which of the following statements are correct with regard to preparation of consolidated financial statements?
    A. To be a subsidiary a parent should hold 100% of its equity shares.
    B. Consolidation is merely addition together of two Statements of financial position.
    C. In consolidation a subsidiary and an associate are treated identically.
    D. Consolidated balance sheet excludes assets not owned by the group.

    Select the correct answer from the options given below.
    (a) A & D (b) B & C
    (c) A & B (d) None

14. While preparing a consolidated financial statements, in share capital held by outsider if we add pre-acquisition post-acquisition profits proportionate to share capital held by those outsider resultant figure will be -
    (a) Goodwill (b) Cost of control
    (c) Minority interest (d) Capital reserve

15. If cost of acquisition of shares in the subsidiary company is less than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
    (a) Minority interest (b) Capital Reserve
    (c) Goodwill (d) Significant cost

16. Issue of bonus shares by the subsidiary company:
    (a) Affects the cost of control.
    (b) Increases the control percentage in subsidiary company.
    (c) Reduces the cost of investment of holding company.
    (d) Does not affect the cost of control.

17. Issue of bonus shares by subsidiary company out of pre-acquisition profit:
    (a) Will reduce the paid-up value shares held by holding company.
    (b) Will reduce holding company's share in pre-acquisition profits of subsidiary company.
    (c) Must be debited to General Reserve A/c and credited to Profit & Loss A/c of subsidiary.
    (d) Will affect the market capitalization of subsidiary company.

18. Holding company's share in pre-acquisition losses of subsidiary -
    (a) Should be treated as capital loss
    (b) Added to the 'cost of control'
    (c) Will increase the goodwill while calculating cost of control
    (d) All of the above

19. Holding company's share in pre-acquisition profits of subsidiary -
    (a) Should be credited to the profit & loss account of holding company
    (b) Deducted from the cost of the 'cost of control'
    (c) Needs separate disclosure in consolidated financial statements.
    (d) None of the above

20. With regard to preparing consolidated statements of financial position which of the following statements is / are correct?
    1. The consolidated statement of financial position reports only parent's goodwill.
    2. Any unrealized profit made by a subsidiary should be eliminated from its profit.
    3. An amount owed to each other within the group needs to be cancelled.
    4. Only the group portion of any unrealized profit need be eliminated. Select the correct answer from the options given below.

    (a) 3 (b) 1
    (c) 2 & 3 (d) 3 & 4

21. Dividend received out of pre-acquisition profits of subsidiary
    (a) It should be treated as revenue income and credited to the Profit and Loss A/c.
    (b) Added while calculating 'cost of control'
    (c) Should be treated as capital receipt and credited to Investment A/c
    (d) Will increase the Goodwill while calculating cost of control.

22. If cost of acquisition of shares in the subsidiary company is more than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
    (a) Minority interest (b) Capital Reserve
    (c) Goodwill (d) Significant cost

23. Which of the following treatment of 'Share Capital' of subsidiary company is correct?
    (a) Share capital held by the holding company will be added to the cost of control statement.
    (b) Share capital held by minority will be deducted in minority statement.
    (c) Share capital of subsidiary held by holding company will be deducted from the cost of Investment to find out goodwill/capital reserve.
    (d) Share capital of subsidiary will be set-off against the negative net worth of other subsidiary.

24. If closing balance of general reserve of subsidiary is more than opening balance of general reserve then it can be concluded that -
    (a) Capital profits are debited to the General Reserve A/c
    (b) Pre-acquisition dividend is declared by the subsidiary company
    (c) Some profit must have been transferred to general reserve by debiting profit & loss account by the subsidiary company
    (d) Bonus share capital is issued by the subsidiary company

25. If closing balance of general reserve of subsidiary is less than opening balance of general reserve then it can be concluded that -
    (a) Pre-acquisition dividend is declared by the subsidiary company
    (b) Bonus share capital is issued by the subsidiary company
    (c) Some profit must have been transferred to general reserve by debiting profit & loss account by the subsidiary company
    (d) Capital profits are credited to the General Reserve A/c

26. Unrealized profit on goods sold and included in stock is deducted from:
    (a) Capital Profit (b) Revenue Profit
    (c) Fixed Assets (d) Minority interest

27. Which of the following treatment is correct for mutual debts with regard to purchase and sale of goods between holding and subsidiary company?
    (a) Amount of mutual debt will be added to the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.
    (b) Amount of mutual debt will be ignored as it is not asset or liability at all.
    (c) Amount of mutual debt will be deducted from the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.
    (d) Amount of mutual debt will require adjustment on debtors figure on asset side only if amount receivable by subsidiary company is more than amount payable to holding company.

28. Which of the following statements are incorrect with regard to preparation of a consolidated statement of financial position?
    (a) Gain on fair valuation of a subsidiary's asset is a pre-acquisition profit.
    (b) Non-controlling interest does not deserve any portion of fair valuation gain.
    (c) If an asset is not reported in the subsidiary's ledger it need not be fair valued.
    (d) Gain on fair valuation of subsidiary's asset inflates the cost of goodwill. Select the correct answer from the options given below.
    (a) (b), (c) & (d) (b) (c) & (d)
    (c) (a), (c) & (d) (d) (a), (b)& (c)

29. If less than 100% of a subsidiary's share capita] has been acquired then what is the rule for inclusion of the subsidiary's assets on the consolidated balance sheet?
    (a) Only a proportional amount should appear.
    (b) All the assets should appear.
    (c) None can appear until all the shares have been acquired.
    (d) Half the value should appear.

30. What is the term used to describe dividends paid by one company in the group to another in the same group?
    (a) Inter-group dividends (b) Intra-group dividends
    (c) Group dividends (d) Interim dividends

31. Which of the following is true?

(a) Minority shareholders share of pre-acquisition losses should be added to the amount of Minority Interest.

(b) Holding company's share of pre-acquisition losses must be debited to Profit & Loss A/c

(c) Dividend received out of pre-acquisition profits of subsidiary should be credited to Investment A/c.

(d) Dividend received out of post-acquisition profits of subsidiary should be debited to Investment A/c.

32. If stock is sold for a profit from one group member to another, how should this be dealt with in the final accounts?

(a) Stock should appear at the original cost.

(b) The profits should be included but stock would appear at the value sold for.

(c) Profit on sale should be eliminated and stock appears at original cost.

(d) Profits on the sale should be eliminated.

33. The claim by outsiders to assets featured on a consolidated balance sheet is known as:

(a) Subsidiary (b) Negative goodwill

(c) Minority interest (d) Wholly owned subsidiary

34. On consolidation, if the total of the fair value of the assets acquired is less than the whole purchase consideration then the differences should be treated as:

(a) Negative goodwill (b) Goodwill

(c) Profit on acquisition (d) Loss on acquisition

35. When dealing with consolidated balance sheets, the expression cost of control could be used instead of:

(a) Acquisition expenditure (b) Goodwill

(c) Intangible investments (d) Negative goodwill

-: ANSWER :-

1.	(b)	8.	(a)	15.	(b)	22.	(c)	29.	(b)
2.	(a)	9.	(d)	16.	(d)	23.	(c)	30.	(b)
3.	(c)	10.	(c)	17.	(b)	24.	(c)	31.	(c)
4.	(b)	11.	(a)	18.	(d)	25.	(b)	32.	(c)
5.	(d)	12.	(c)	19.	(b)	26.	(b)	33.	(c)
6.	(d)	13.	(d)	20.	(c)	27.	(c)	34.	(b)
7.	(c)	14.	(c)	21.	(c)	28.	(a)	35.	(b)

8 ASSOCIATE AND JOINT VENTURE

CLASSWORK SECTION

Question 1

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000. Following are the extracts of balance sheet of B Ltd. as of 1 April 20X 1:

Paid up Equity Share Capital	₹ 10,00,000
Securities Premium	₹ 1,00,000
Reserve & Surplus	₹ 5,00,000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Question 2

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shores of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X7-20X2, B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

Question 3

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of "60,000 on 12-06-20X2.

Calculate the carrying amount of investment in:

(i) Separate financial statements of Bright Ltd. as on 31-03-20X2;

(ii) Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;

(iii) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

Question 4

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	5,00,000
	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
II. Current Assets	3,00,000
	10,00,000

During the year ended 31.3.20X2 the following are the additional information available:

(i) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.

(ii) B Ltd., made a profit after tax ₹ 7 lakhs for the year ended 31.3.20X2.

(iii) B Ltd., declared a dividend @ 50% for the year ended 37.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 27 for its various subsidiaries, Calculate:

(i) Goodwill if any on acquisition of B Ltd.'s shares.

(ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?

(iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

Question 5

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.07.20X7 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.20X7 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow: Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer.

Question 6

A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them, for the purpose following expenditure was incurred by them: Buildings ₹ 12,00,000 to be depreciated @ 5% p.a., Pipeline for ₹ 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for 3,00,000 to be depreciated @ 40% p.a. and various vehicles of ₹ 9,00,000 to be depreciated @ 20% p.a.

They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to ₹ 6,00,000 each year.

You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

Question 7

A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Properly, Plant and Equipment	6,00,000	

Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		7,00,000
Capital		401,000

Closing inventory was valued at ₹ 1,00,000.

You are required to prepare the Consolidated Financial Statement.

Question 8

A Ltd. entered into a joint venture with B Ltd. on 1:1 basis and a new company C Ltd. was formed for the same purpose and following is the balance sheet of all the three companies:

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	76,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	1940,000
Investment in IV	2,50,000	2,50,000	
Current Assets	2,00,000	1,25,000	50,000

Prepare the balance sheet of A Ltd. and B Ltd. under proportionate consolidation method.