

CHAPTER 14

COMPANY ACCOUNTS – ISSUE OF SHARES

THEORY SECTION

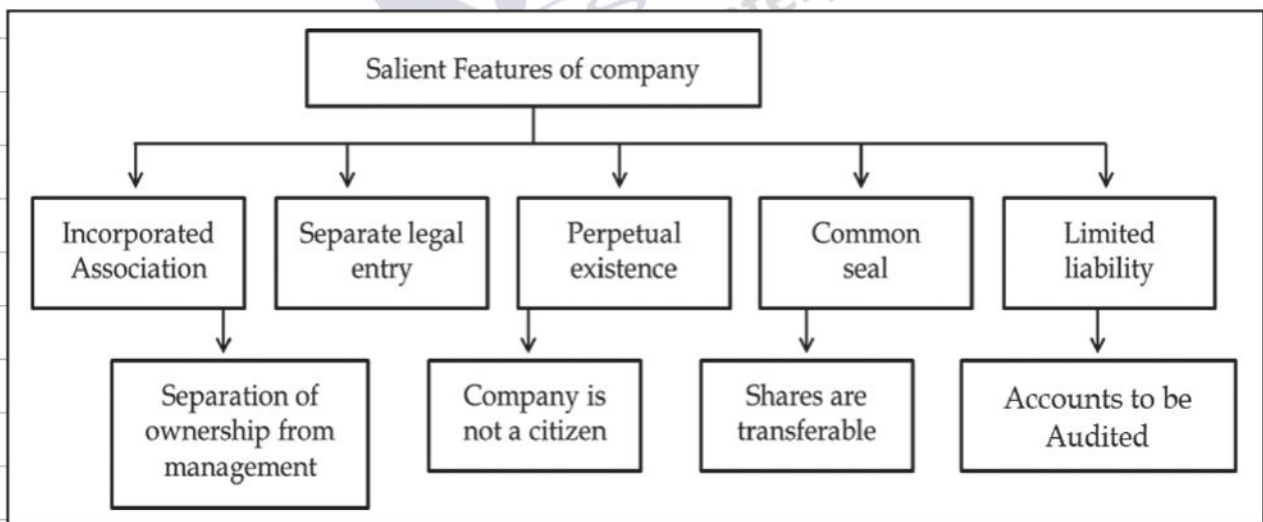


1. Meaning of company:-

- The word “Company” is derived from latin word ‘com’ i.e. together & ‘panis’ means bread i.e. association of persons or merchants discussing matters & taking food together.
- In law ‘company; means a company which is incorporated under companies Act, 2013 or any of previous company laws.



2. Salient feature of Company

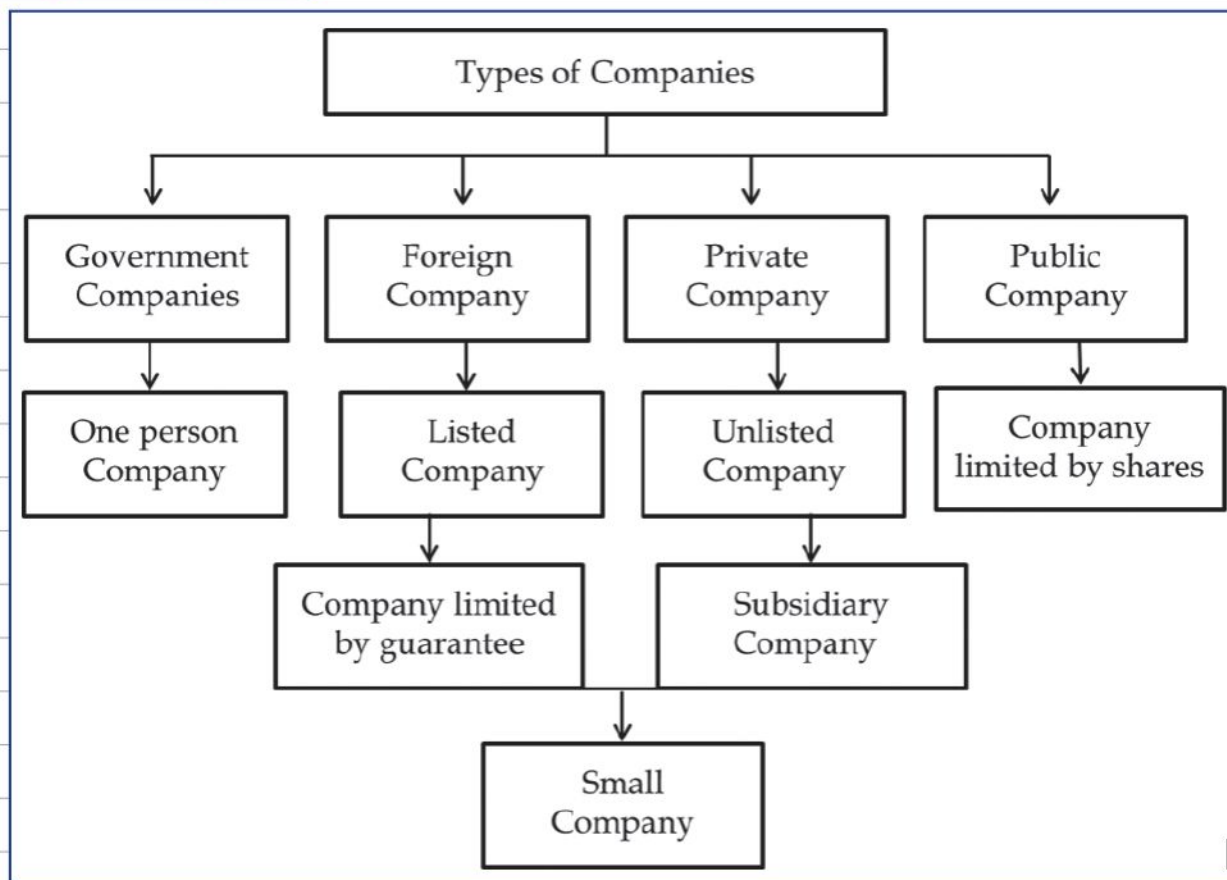


1. **Incorporated Association:** Company is created by law i.e. registration compulsory.
2. **Separate legal Entity:** Company is a separate entity & can contract, sue & be sued in its own capacity.
3. **Perpetual existence:** Its existence is independent of its members. It continues to be in existence despite of death, insolvency or change in members

4. **Common Seal:** Company signs documents by using common seal.
5. **Limited liability:** Liability of shareholders is limited to face value of a share / Amount he has agreed to pay to company on shares i.e. issue price.
6. **Separation of ownership from management:** shareholders (owners) are different from management who manage day to day affairs of the company.
7. **Company is not a citizen**
8. **Shares are transferable** except in case of private limited company.
9. Company has to get their **books of accounts audited** by chartered accountants.



3. Types of companies



1. **Government Companies:**
Company in which not less than 51% of paid up capital held by various governments / government companies.
2. **Foreign Company:**
Company incorporated outside India but has place of business in India by itself or through an agent and conducts business activity in India.

3. Private Company:

Company which by its articles-

1. Restricts right to transfer its shares
2. Limits number of members to 200 (except one person co.)
3. Prohibits invitation to public to subscribe for its shares.

4. Public Company:

Company which is -

1. Not a private Co.
2. A subsidiary of public company

5. One person Company:

Company which has only one person as member. ®

6. Listed Company:

Company which has its securities listed on recognised stock exchanges.

7. Unlisted Company:

1. Company whose shares are not listed on recognised stock exchange.
2. Unlisted Company can be public or private company.

8. Company limited by shares:

Company having liability of its members limited to amount unpaid on shares.

9. Company limited by guarantee

Company having liability of its members limited to such amount as members may undertake to contribute in case of winding up.

10. Subsidiary Company:

Company in which holding company -

1. Controls composition of director.
2. Exercises/controls more than half of total share capital on its own or together with other subsidiaries.

11. Small Company:

Company other than public company whose -

1. Paid up capital does not exceed ₹ 50 lacs or such prescribed amount not more than ₹ 5 crores OR
2. Latest turnover does not exceed ₹ 2 crores or such prescribed amount not more than ₹ 20 crores.



4. Financial Statements

- Financial statement should include Balance sheet, profit & loss a/c or Income & expenditure a/c, cash flow statement (not for one person company, small company, Dormant company), statement of changes in equity and explanatory notes.
- Financial statements should give true & fair view of state of affairs of company, should comply with notified accounting standard & should be in schedule III format.

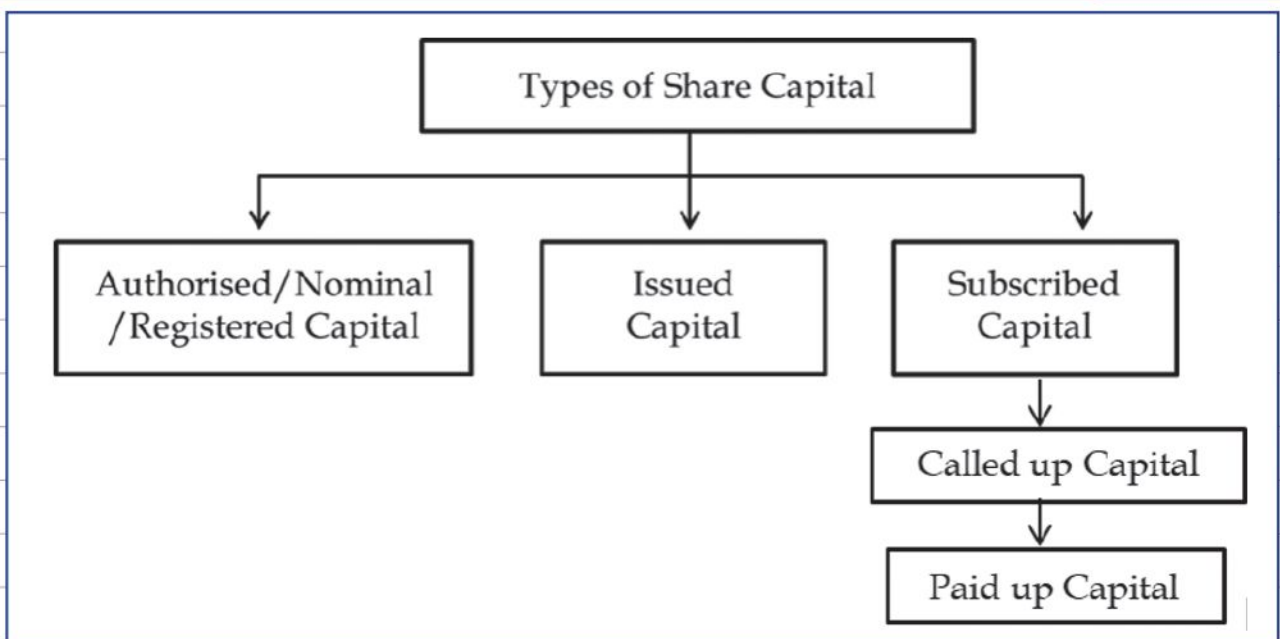


5. Books of Accounts

As per the Companies Act, every company shall prepare and keep at its registered office books of accounts, papers, financial statements of every financial year and such books should be kept on accrual basis and according to double entry system of accounts.



6. Types of Share Capital (share capital is divided in to following categories)



1. Authorised/Nominal/Registered Capital

1. Maximum Capital Company is authorised to raise in lifetime
2. Mentioned in capital clause of memorandum of association
3. Authorised capital is shown in the balance sheet at face value (nominal value)

2. Issued Capital

1. Part of authorised capital offered to public
2. It includes share issued by company for cash, and for consideration other than cash (to promoters / other)
3. Issued capital is shown in the balance sheet at face value (nominal value)
4. Unissued capital is not shown in the balance sheet.

3. Subscribed Capital

1. Part of issued capital which is applied by public & allotted by company. It includes share for consideration other than cash.
2. Subscribed capital is shown in the balance sheet at face value (nominal value)

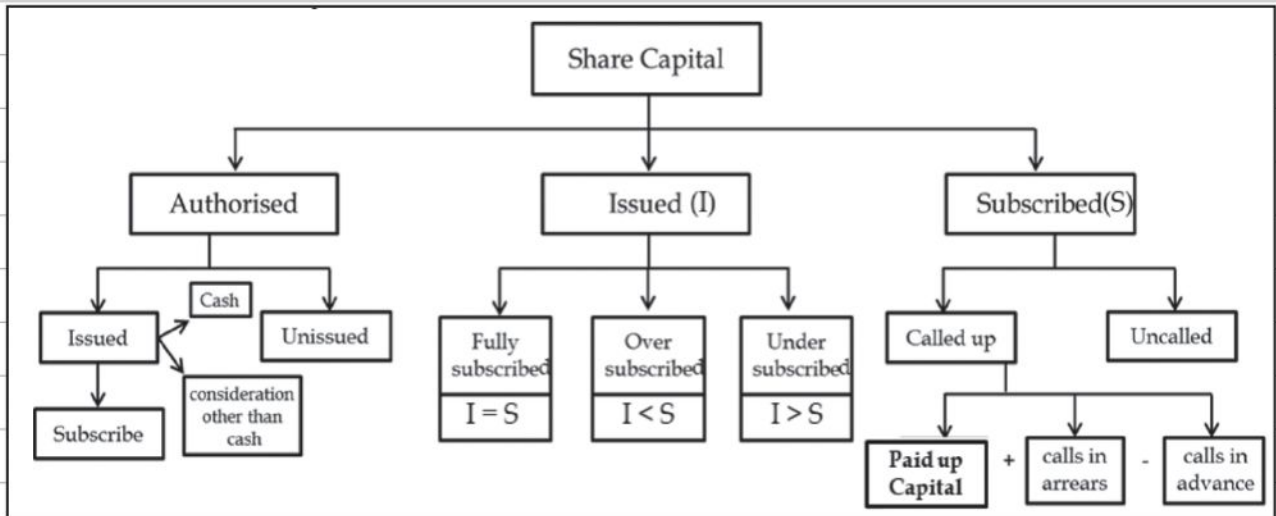
4. Called up Capital

Part of subscribed capital which company has demanded / called from shareholders.

5. Paid up Capital

1. Part of called up capital paid by shareholders
2. Paid up Capital = Called up Capital (-) Calls in arrears
3. If shareholders fails to pay the amount fully / partly it is called calls in arrears. Such calls in arrears is deducted from share capital in the balance sheet.
4. In Balance sheet called up & paid up capital is shown together.
5. Calls in advance is portion of capital which is not called by the company but paid by shareholders.

6. Share Capital



Note 1: Authorised, issued and subscribed capital are given in the balance sheet only for information (disclosure purpose)

Note 2: only paid up share capital is actually accounted in balance sheet.

Note 3: If subscribed capital > issued capital then amount relating to balance shares are refunded or shares allotted pro rata.

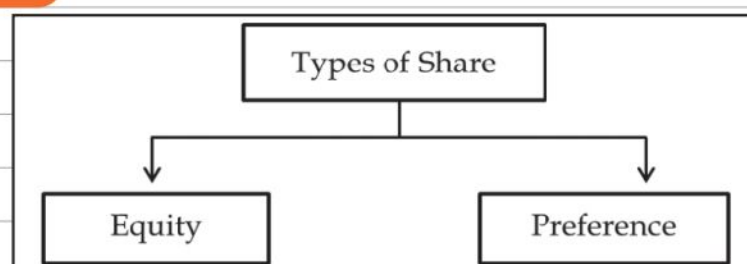


7. Shares

1. Total share capital (i.e. capital) of a company is divided into number of small units of fixed amount and each unit is called a share.
2. Fixed value of a share is called nominal or face value.
3. Company can issue shares at prices different from face value and prices at which shares are issued is called issue price.
4. Liability of a shareholder is limited to issue price of a share acquired by him.
5. Nowadays issue price is fixed by book building process through which company determines a price band of its shares and on the basis of bids received from potential investor at various prices within a price band, finally issue price is fixed.



8. Types of shares



1. Equity shares:

- Equity shares are those shares which do not enjoy preferential rights in matter of dividend and repayment of capital.
- Rate of dividend to such shareholders vary from year to year depending upon profits of the company.
- This shareholder is paid dividend after paying dividend to preference shareholders.
- Equity shareholders bears the risk and has voting rights.

2. Preference shares:

- Preference shares are shares whose holders get preference of payment of dividend & repayment of capital over other shareholders.
- They are entitled to fixed rate of dividend (if there is profit) but they do not get voting right except for issues concerning their rights.



9. Types of preference shares

1. Cumulative & Non-Cumulative preference shares:

Cumulative preference share carries right to accumulate & carry forward dividend which is not paid due to insufficiency of profit. Such back log of dividend is paid when there is profit to company. Such arrears of dividend is shown in the balance sheet as contingent liability. If the dividends are in arrears for 2 years such preference shareholders will get voting rights on every matter of the company.

2. Participating & non-participating:

Participating preference share carries right to get fixed dividend plus share in surplus profit remaining after payment of stipulated dividend to equity shares.

3. Redeemable & non-redeemable:

Redeemable preference share has to be repaid after fixed time frame. In India, company can issue redeemable preference shares only & that too redeemable in maximum 20 years (except for specified infrastructure projects).

4. Convertible / non-convertible:

Convertible preference shares confer on their holders right to convert these shares at their option into equity shares.

In absence of information preference shares are cumulative, non-participating, non-convertible & redeemable in nature.



10. Pro rata allotment

Pro rata allotment means allotment in proportion of shares applied for i.e. all applicants (who are allotted pro rata) will get shares less than their shares applied. Under pro rata allotment excess application money is adjusted against amount due on allotment / calls.



11. Forfeiture of shares

- Forfeiture is action taken by the company to cancel the shares.
- Articles authorise directors to forfeit the shares of members for non payment of calls
- When shares are forfeited, shareholders ownership / title of shares is cancelled and amount already paid by the shareholder up to date is not refunded to him but is transferred to share forfeited account.
- Such share forfeited account is added to share capital in the balance sheet.



12. Reissue of forfeited shares:

- Reissue of forfeited shares is not allotment of shares but only a sale of shares.
- Reissue of forfeited share can be as follows.
 - (a) At discount to face value / at loss
 1. Such discount cannot exceed share forfeited amount
 2. Such discount should be debited to share forfeited account
 - (b) At more than face value
 1. In this case no discount is given on reissue
 2. Amount received in excess of face value is transferred to securities premium account.

➤ Profit on reissue of shares is calculated as follows.	₹
Amount received from old shareholder per share on reissue	xx
Less: Discount given to new shareholder per share on reissue	xx
Profit per share	<u>xx</u>
 x shares reissued	 <u>yy</u>
Profit on reissue transferred to capital reserve	xx

- Maximum discount which can be given to a new shareholder on reissue = amount received from old shareholder lying in share forfeited account.



13. Points to remember in share forfeiture and reissue of shares:

- (a) Share capital is debited or credited with called up amount and share forfeited account is credited with amount received on forfeited shares from old shareholder.
- (b) Share forfeited account consists of amount received from old shareholder who has defaulted.
- (c) If shares are forfeited and reissued maximum discount to be given on reissue is the amount received from old shareholder and minimum reissue price is amount not received / unpaid by old shareholder.
- (d) Share forfeited account is used to give discount on reissue.
- (e) Balance in share forfeited account = amount received from old shareholder per share x No. of share forfeited not re issued.



14. Issue of share for consideration other in cash:

- (a) It means issue of shares in exchange for assets or payment of services like payment to promoters / lawyers etc.
- (b) A separate note should be written under share capital in balance sheet as disclosure (additional information) relating to issue of such shares.



15. Miscellaneous points to remember relating to shares:

- (a) As per companies Act minimum application money should be 5% of face value of share.
- (b) As per SEBI regulations minimum application money should be 25% of issue price.
- (c) As per SEBI guidelines minimum subscription to be received in an issue shall not be less than 90% of public offer failing which company has to refund all application money.
- (d) Under companies Act, Companies cannot issue shares at discount to face value except in case of sweat equity shares (issued to employees / directors)
- (e) Issue of shares at discount is void as per Companies Act.
- (f) If company issues shares at price more than face value it is said to be issuing shares at premium. There is no restriction on maximum premium to be collected on shares

- (g) Premium collected on shares is credited to securities premium a/c & shown under 'Reserve & Surplus' in Balance sheet.
- (h) Securities premium can be used only for following purpose as per companies Act -
- For giving fully paid up bonus shares
 - Writing off commission, expense or discount on any securities / debenture, purchase of own shares.
 - Writing off preliminary expenses. in case of companies not covered by section 133.
 - Writing off premium on redemption of preference shares / debentures in case of companies not covered by section 133.
- (i) Interest on calls in arrears & calls in advance is to be at the rates mentioned in article of company. Table F of Companies Act gives maximum interest on calls in arrears i.e. 10% p.a. & on calls in advance i.e. 12% p.a. Directors can waive off interest on calls in arrears.
- (j) Dividends are paid as percentage on paid up share capital
- (k) Share application and allotment accounts are personal accounts

16. 1. Difference between reserve capital & capital reserve

	Reserve Capital	Capital Reserve
1.	Is part of subscribed capital which company has decided to call only in case of liquidation of company	Is part of reserves & surplus which is not available for declaration of dividend

2. Interest on Calls-In-Arrears and Calls-In-Advance

	Interest on Calls-In-Arrears	Interest on Calls in Advance
1.	It is payable by shareholders to company on the calls due but remaining unpaid.	It is payable by the Company to Shareholders on the call money received in advance but not yet due.
2.	As per Table F maximum prescribed rate is 10%.	As per Table F maximum prescribed rate is 12%
3.	Period considered: From the date call money was due to the date money is -finally received.	Period considered: From the date money was received to the day call was -finally made due.

4.	Directors have a right to waive off such interest in individual cases at their own discretion.	Shareholders are not entitled for any dividend on calls in advance.
5.	It is a nominal account in nature and is credited to statement of profit and loss as an income.	It is a nominal account in nature with interest being an expense for the company.

3. Equity Shares and Preference Share

	Preference Shares	Equity Shares
1.	If there is profit, Preference shares are entitled to a fixed rate of dividend	The rate of dividend on equity shares is not fixed and depends upon the availability of net profit.
2.	Dividend on preference share is paid on priority to the equity shares.	Dividend on equity shares is paid only after the preference dividend has been paid
3.	Preference Share have preference as regards to refund of capital over equity capital	Equity Share capital cannot be paid before preference capital
4.	Redeemable Preference shares are redeemed by the company on expiry of the stipulated period.	Equity shares are usually redeemed only on winding up of the company.
5.	A company cannot issue bonus shares and rights shares to preference shares.	The bonus shares and rights shares can be issued to existing equity shares.
6.	Voting right of preference shares is restricted.	Any equity shareholder can vote on all matters.



JOURNAL ENTRIES

(A) Issue at par

1. Entry for receipt of application money

Bank a/c	Dr.	xx
To Share Application a/c		xx
(no. of shares applied X application money per share)		

2. Entry for transfer of application money to capital

Share Application a/c	Dr.	xx	
To Share Capital a/c			xx

(no. of shares allotted X application money per share)

3. Entry for refund of excess application money

Share application a/c	Dr.	xx	
To Bank a/c			xx

(no. of share rejected X application money per share)

4. Entry for allotment money becoming due

Share allotment a/c	Dr.	xx	
To share capital a/c			xx

(no. of shares allotted X allotment money per share)

5. Entry for transfer of excess application money to allotment

Share Application a/c	Dr.	xx	
To Share allotment a/c			xx

(In case of pro-rata allotment excess application money will be adjusted in allotment)

6. Entry for receiving allotment money

Bank a/c	Dr.	xx	
Calls in Arrears a/c	Dr.	xx	
To share allotment a/c			xx

7. Entry for making a call

Share call a/c	Dr.	xx	
To Share capital a/c			xx

8. Entry for receiving call money

Bank a/c	Dr.	xx	
Calls in Arrears a/c	Dr.	xx	
To share call a/c			xx

9. Entry for forfeiture of share

Share capital a/c	Dr.	xx	
To calls in arrears a/c			xx
To share forfeiters a/c			xx

10. Entry for re issue of shares

Bank a/c	Dr.	xx	
Share forfeiture a/c	Dr.	xx	
To share capital a/c			xx

(The discount on re-issue of shares can not exceed balance available in share forfeiture a/c)

11. Entry for transfer to capital reserve

Share forfeiture a/c	Dr.	xx	
To Capital Reserves a/c			xx

(Profit on reissue of forfeited shares)

(B) Issue at Premium

When a company has issued share at premium (no limit) then normally, the premium is collected together with allotment money and the entry for allotment money due will be as under :

Share allotment a/c	Dr.	xx	
To share capital a/c			xx
To Securities Premium a/c			xx



Forfeiture Entry

When Premium money Not received

Share Capital a/c	Dr.	xx	
Securities Premium a/c	Dr.	xx	
To calls in arrears a/c		xx	
To share forfeiture a/c		xx	

When premium money is Already received

Share Capital a/c	Dr.	xx	
To calls in arrears a/c			xx
To share forfeiture a/c			xx

- Hint: If the defaulter has not paid premium money then at the time of forfeiture of his shares, Securities Premium a/c also will get cancelled.
- Instead of share forfeiture account, forfeited shares account can also be used.

(C) Calls-in-Advance

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. This amount is credited in Calls-in-Advance Account. The following entry is recorded:

Bank A/c	Dr. [Call amount received in advance]
To Call-in-Advance A/c	

When calls become actually due, calls-in-advance account is adjusted at the time of the call. For this the following journal entry is recorded:

Calls-in-Advance A/c	Dr. [Call amount received in advance]
Bank A/c	Dr. [Remaining call money received, if any]
To Particular Call A/c [Call money due]	

(Being call in advance adjusted and call money due received)

(D) Journal entries for interest on calls-in-arrears:

(i) For interest receivable on calls-in-arrears

Shareholders' A/c	Dr.
To Interest on calls-in-arrears A/c	

(Being interest on calls in arrears at the rate of ...% made due)

(ii) For receipt of interest

Bank A/c	Dr.
To Shareholders' A/c	

(Being interest money received)

(E) Journal entries for interest on Calls-in-Advance:

(i) Interest Due

Interest on Calls-in-Advance A/c	Dr. [Amount of interest due for payment]
To Shareholder's A/c	

(Being interest on calls in advance made due)

(ii) Payment of Interest

Shareholder's A/c	Dr. [Amount of interest paid]
To Bank A/c	

(Being interest paid on calls-in-advance)

(F) Issue of Shares for Consideration Other Than Cash

Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. These shares should be shown separately under the heading 'Share Capital'.

Accounting Entries

When assets are purchased in exchange of shares

Assets Account Dr.

To Share Capital Account

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CLASSWORK SECTION

Q.1 Moon Wanderers Limited offered for public subscription 2,000 Equity Shares of ₹100/- each at a premium of ₹ 20/- per share of the following terms:

- (a) Applications money to be paid ₹ 40 per share.
- (b) Allotment money to be paid ₹ 50/- per share including ₹ 20/- premium.
- (c) 1st and final call money to be paid ₹ 30/- per share.

The applications were received for 3,000 shares and pro-rata allotment was done to applicants of 2400 shares.

Mr. A who has applied for 120 shares failed to pay allotment money and Mr. B who was allotted 50 shares failed to pay final call. Later on 100 shares were re-issued @ 90 per share. Shares of A and B are forfeited after the final call.

Show Journal Entries for all events.

Q.2 X Ltd. made a public issue of 90,000 shares of ₹ 10 each payable as under:

On Application	₹ 3
On Allotment	₹ 4
On First call	₹ 2
On Final call	₹ 1

Application were received for 1,25,000 shares and the allotment was made as under:

- (1) Applications of 30,000 shares were fully accepted
- (2) Applications for 15,000 shares were fully rejected.
- (3) Balance applications were accepted pro-rata.

Mr. A to whom 3,000 shares were allotted pro - rata failed to pay allotment & call money. Mr. B to whom 2,000 shares were allotted had paid for 2nd call along with 1st call. All the shares of Mr. A were forfeited of which 2,000 shares were reissued at the rate of ₹ 9.5 each.

Please pass journal entries.

Q.3 X Ltd. issued 10,000 shares of ₹ 100 each at 20% premium as under:

On Application	₹ 20 (Last date 31/7/10)
On Allotment	₹ 70 (Last date 30/9/10)
On First call	₹ 30 (Last date 31/1/210)

The allotment resolution was passed on 1/9/10 and 1st call was made on 1/12/10. Mr. A holding 200 shares has failed to pay allotment & call money and Mr. B holding 400 shares failed to pay call money. All the shares were forfeited on 31/1/11 of which 500 shares were reissued on 15/2/11 @ ₹ 110. Show journal entries with appropriate dates and narrations and also show the relevant items will appear in balance sheet.

Q.4 The Delhi Artware Ltd. issued 50,000 equity shares of ₹ 100 each and 1,00,000 preference shares of ₹ 100 each. The Share Capital was to be collected as under:

	Equity Shares ₹	Preference Shares ₹
On Application	25	20
On Allotment	20	30
First call	30	20
Final call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares.

Prepare the cash book and journalise the remaining transactions in the books of the company.

CHAPTER 15

COMPANY ACCOUNTS - ISSUE OF DEBENTURES

THEORY SECTION



Debentures Defined

Debentures mean a loan taken by company from the general public in form of securities. In the balance sheet of a Joint stock company, the debentures will appear under the head "Non-Current Liabilities"

As per Companies Act debenture is a instrument of a company evidencing (Proof of) a debt.



Distinguish between Shares & Debenture

	Debentures	Shares
1.	They are creditors of company	They are owner of company
2.	They do not have voting rights	They have voting right relating to company's affairs
3.	They are paid fixed rate of interest which is paid before payment to any type of shareholder	Preference dividend are paid at fixed rate (on availability of profit) but equity dividend is dependent on availability of profit.
4.	Interest to debentures are charge against profit & is payable even if there is a loss	Dividends are appropriation of profit & is payable only if there is profits
5.	Debentures are classified as long term borrowings in company balance sheet	Shares are classified under "Share Capital" in company balance sheet
6.	Debentures cannot be forfeited for non-payment of call money	Shares can be forfeited for non-payment of allotment & call money
7.	At maturity debentures are to be repaid	Only preference shares are repaid back after fixed term, equity shares cannot be paid back expect on liquidation of company.



Types of debentures

1. Secured & unsecured (naked) debentures:

Secured debentures are secured by charge on specific assets (fixed charges) or all the assets of company (floating charge)

2. Convertible & non-convertible debenture:

Convertible debentures can be converted into equity shares fully or partly after certain time from date of issue at specific price.

3. Redeemable & Irredeemable (perpetual) debentures:

Redeemable debentures are repayable after fixed / specific time whereas irredeemable debentures can be repaid only on liquidation of company.

4. Registered & Bearer debentures:

Registered debentures are those which are payable to registered holder whose details are recorded in register of debenture holders. They are transferable subject to complying provisions of Companies Act whereas bearer debentures are transferable by delivery & payable to bearer as no record is kept by company in respect to debenture holder.

5. First mortgage & 2nd mortgage debentures:

First mortgage debentures are payable first out of property / asset charged & after satisfying them 2nd mortgage debentures are paid.



Treatment of discount on issue / loss on issue (due to premium on redemption)

- Above losses should first be taken to asset side of balance sheet (as non-current / current asset) & then to be transferred to P & L A/c (amortised) by any of two methods given below.

Method of amortisation	
Straight line method	Sum of years digit method
If debentures are redeemable after certain year say after 5 years then above loss should be amortised equally throughout life of debentures	If debentures are redeemable at different dates then losses amortised in ratio of face value of debentures outstanding every year.

On amortisation entry is

P & L A/c Dr.
 To Discount / loss on issue
 (i.e. in ratio of benefits derived from debenture loan in particular year)



Debenture Interest & tax deducted at source (TDS)

- Debenture interest is always paid on face value of debentures & entry is

Debenture Interest A/c Dr.
 To Debenture holders

- Sometimes company may have to deduct income tax (TDS) as per tax law from interest payable & entry is

Debenture holders A/c Dr.
 To TDS Payable
 To Bank (net interest)

- Above tax deducted should be paid to government & entry is

TDS Payable A/c Dr.
 To Bank

- Transfer interest to profit & loss

Profit & Loss A/c Dr.
 To Debenture Interest



Entries for issue of debentures

1. Issue at par and redeemable at par

(a)	Bank a/c	Dr.	xx	
	To Debentures a/c(F.V.)			xx

2. Issue at discount and redeemable at par

(a)	Bank a/c	Dr.	xx	
	Discount on issue of debentures a/c	Dr.	xx	
	To Debentures a/c(F.V.)			xx

3. Issue at par and redeemable at premium

(a) Bank a/c	Dr.	xx	
Loss on issue of debenture a/c	Dr.	xx	
To Debentures a/c (F.V.)			xx
To Premium payable on redemption / Debenture redemption premium a/c			xx

4. Issue at Discount and Redeemable at Premium

(a) Bank a/c	Dr.	xx	
Discount on issue of debenture a/c	Dr.	xx	
loss on issue of debenture a/c	Dr.	xx	
To Debenture a/c(F.V.)			xx
To Premium payable on redemption/ Debenture redemption premium a/c			xx

5. Issue at Premium and Redeemable at Premium

Bank a/c	Dr.	xx	
Loss on issue of Debenture a/c	Dr.	xx	
To Debenture a/c(F.V.)			xx
To Securities Premium a/c			xx
To Premium payable on redemption / Debenture redemption premium a/c			xx

Note: Debenture redemption premium account is a personal account and will appear in the balance sheet.

6. Issue of debentures for a consideration other than cash

Assets a/c	Dr.	xx	
Dis. on issue of Debentures a/c (if any)	Dr.	xx	
To Debenture a/c(F.V.)			xx
To Securities Premium a/c (if any)			xx

7. Issue of debentures as collateral security (i.e. secondary / supporting security)

When a company has taken loan from some financial institution and has issued debentures as collateral security, following two options of accounting are available

1. Pass no entry for issue of debentures, and show debentures issued an additional information below the loan in balance sheet

2. Pass following entry for issue of such debentures

Debentures Suspense a/c	Dr.	xx	
To Debentures a/c			xx

Note 1: The holder of such debentures (e.g. financial institution) is entitled to interest only on the amount of loan but not on debentures.

Note 2: In absence of information follow above option 1 as it is more logical.

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CLASSWORK SECTION

- Q.1** A Ltd. issued 5,000 6% Debenture of ₹ 100 each at 10% discount which are redeemable after 6 years at par. Show journal entry.
- Q.2** C Ltd. issued ₹ 6,00,000 7% Debentures of ₹ 100 each at par which are to be redeemed after 5 years at 10% premium. Show journal entry.
- Q.3** B Ltd. issued 10,000 8% Debentures of ₹ 100 each at 6% discount which are redeemable after 8 years at 20% premium. Show journal entry.
- Q.4** D Ltd. issued 5,000, 9% Debentures of ₹ 100 each at 10% Premium which will be redeemed after 6 years at 40% Premium. Show journal entry.
- Q.5** G Ltd. issued ₹10,00,000 8% Debenture at 6% discount which will be redeemed after 5 year at par. Discuss how the discount will be written off over 5 years:
- When the debentures will be redeemed in lumpsum after 5 years.
 - When the debentures will be redeemed in 5 equal annual instalments.
 - ₹ 200,000 was redeemed at the end of 1st year, ₹ 1,00,000 was redeemed at the end of 2nd year, ₹ 2,00,000 at the end of 3rd year, ₹ 1,00,000 at the end of 4th year and balance at the end.
- Q.6** Company issued 12% debentures of ₹ 10,00,000 @ 10% discount on 1/1/19. Debenture interest after TDS of 10% is payable on 30th June & 31st December every year.
Pass journal entries for 2019 if debentures are redeemable after expiry of 5 years at 5% premium.

CHAPTER 16
COMPANY ACCOUNTS - FORMAT
(SCHEDULE III)

Refer Module Directly

J.K. SHAH[®]
CLASSES
a Veranda Enterprise

CHAPTER 17

COMPANY ACCOUNTS - BONUS AND RIGHT ISSUE

THEORY SECTION



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.

CLASSWORK SECTION

Q.1 Following items appear in the trial balance of Infosys Ltd. (a listed company) as on 31st March, 2022:

Particulars	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

Q.2 Pass Journal Entries in the following circumstances:

- (i) Acc Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) Acc Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Q.3 Following notes pertain to the Balance Sheet of Hul Ltd. as at 31st March, 2022:

Particulars	₹
Authorised capital:	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000

Reserves and Surplus:	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2022 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

Q.4 Following notes pertain to the Balance Sheet of abc Ltd. as at 31st March, 2022

Particulars	₹
Share capital:	
Authorised capital:	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Q.5 Following items appear in the Trial Balance of Tarun Ltd. as on 31st March, 2022:

Particulars	₹
4,500 Equity Shares of ₹ 100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Tarun Ltd.

Q.6 The following notes pertain to XYZ Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	(₹ in Lakhs)
(1) Share Capital	
Authorised:	
20 crore shares of ₹ 10 each Issued and Subscribed:	20,000
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	12,000
Called and paid up:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called & paid up	8,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus:	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 2022, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

Q.7 Following notes pertain to the Balance Sheet of Saral Ltd. as at 31st March, 2022

Authorised capital:	₹
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Q.8 A Raj Ltd 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 of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

Q.9 Ajay Ltd company having share capital of 25,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

Q.10 Following notes pertain to the Balance Sheet of Rahul Company Limited as at 31st March 2022:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹ 10 each fully paid	5,00,000
4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit and Loss Account	16,00,000

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on 1st May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

- Q.11** (a) A company offers new right shares of ₹ 100 each at 20% premium to existing shareholders on one for four shares. The cum-right market price of a share is ₹140. You are required to calculate (i) Ex-right value of a share; (ii) Value of a right.
- (b) A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 45 issues rights shares in the ratio of 1:5 at an issue price of ₹ 25. Pass journal entry for issue of right shares.
- Q.12** A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31. Pass journal entry for issue of right shares.
- Q.13** Super company offers new shares of ₹ 100 each at 20% premium to existing shareholders on the basis one for four shares. The cum-right market price of a share is ₹ 190.
You are required to calculate the value of a right share.

HOMEWORK SECTION

Q.1 Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2011:

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, 2011, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2011. 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 prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any should form part of your answer.

(8 Marks - Nov. 2011 IPCC.)

Q.2 The following notes pertain to Brite Ltd.'s Balance sheet as on 31st March, 2012:

		(₹ in Lakhs)
(1)	Share Capital	
	Authorised:	
	20 crore shares of ₹ 10 each	20,000
	Issued and Subscribed	
	10 crore Equity Shares of ₹ 10 each	10,000
	2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
		12,000

	Called and paid up:	
	10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
	2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
		10,000
(2)	Reserves and Surplus:	
	Capital Reserve	485
	Capital Redemption Reserve	1,000
	Securities Premium	2,000
	General Reserve	1,040
	Surplus i.e. credit balance of Profit & Loss (Appropriation)	273
	A/c	
		4,798

On 2nd April, 2012 the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2012.

On 1st June, 2012 the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided to utilize the capital reserves to the maximum possible extent.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

(8 Marks - Nov. 2012 IPCC)

Q.3 Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014:

Particulars	₹
4,500 Equity Shares of ₹ 100 each	4,50,000
Capital Reserve (including ₹ 40,000 being profit on sale of Plant)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

(4 Marks - May 2014 IPCC)

Q.4 Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2018.

	₹
Issued and Subscribed Capital:	
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries. **(5 Marks Inter C.A. - May 2018)**

Q.5 Pass Journal Entries in the following circumstances:

- (i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up. **(2 Marks)**
- (ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company. **(2 Marks - Nov. 2018 IPCC)**

Q.6 Following items appear in the Trial Balance of Satish Limited as on 31st March, 2018:

Particulars	Amount
9,000 Equity shares of ₹ 100 each	9,00,000
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	1,80,000
Securities Premium	80,000
Capital Redemption Reserve	60,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	1,30,000

The company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Satish Ltd.

(4 Marks – I.P.C.C. May 2019)

Q.7 Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2018 :

	₹
Authorized capital:	
3,00,000 equity shares of ₹ 10 each	30,00,000
25,000, 10% preference shares of ₹ 10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	27,00,000
24,000, 10% preference shares of ₹ 10 each fully paid up	2,40,000
	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2018, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

(5 Marks – Nov 19 – Inter)

Q.8 Following is the extract of the Balance sheet of Sindhu Limited as at 31st March, 2020.

	All amounts in ₹
50,000 Equity shares of ₹ 10 each, ₹ 8 paid up	4,00,000
General Reserve	80,000
Revaluation Reserve	20,000
Securities Premium	10,000
Surplus i.e. credit in Profit & Loss Account	1,60,000

On 1st April, 2020 the company made a final call of ₹ 2 each on 50,000 Equity shares. The call money was received on 15th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every five shares held. Additionally, the company passed the board resolution to use securities premium, general reserve and balance if any from the surplus in the profit and loss account. Pass necessary entries in the books of Sindhu Limited.

(4 Marks – Nov 2020 – I.P.C.C.)

Q.9 Following is the extract of the Balance Sheet of Sujata Foods Limited as at 31st March, 2021:

Particulars	₹
Authorised Capital	
1,00,000 12% Preference shares of ₹ 10 each	10,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	60,00,000
Issued and Subscribed capital	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus	
General Reserve	1,20,000
Capital Redemption Reserve	75,000
Securities Premium (Collected in cash)	25,000
Profit and Loss Account	2,00,000
Revaluation Reserve	80,000

On 1st April 2021, the company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 15th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.

On 1st June 2021, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June, 2021,

You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.

(May' 22)

Q.10 Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2020

Authorized capital:	₹
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

(July' 21)

Q.11 Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2020

Authorised Capital	
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and Surplus	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company

decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

Q.12 Following items appear in the Trial Balance of Satish Limited as on 31 st March, 2022:

Particulars	₹
9,000 Equity shares of ₹ 100 each	9,00,000
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	1,80,000
Securities Premium	80,000
Capital Redemption Reserve	60,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	1,30,000

The company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Satish Ltd.

Q.13 Raman Ltd. gives the following information as at 31st March, 2021:

	₹
Authorised capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
Issued and Subscribed capital:	64,50,000
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2021, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company.

Q.14 The Balance Sheet of A Ltd. as at 31.3.2015 is as follow:

Balance Sheet as at 31.3.2015

Liabilities	₹	Assets	₹
<u>Authorised Share Capital</u>		Sundry Assets	17,00,000
1,50,000 Equity Shares of ₹10 each	15,00,000		
<u>Issued, Subscribed and Paid-up</u>			
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.

Q.15 Mobile Limited has authorized share capital of 1,00,000 equity shares @ ₹ 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

General Reserve	₹1,60,000
Plant Revaluation Reserve	₹ 25,000
Securities Premium Account (Realised in cash)	₹ 60,000
Capital Redemption Reserve	₹ 80,000

Answer the following questions:

- What is the number of Bonus shares to be issued?
- Can company issue Bonus out of General Reserve only?
- Give Journal Entries and also give the extracts of the balance-sheet after such Bonus issue.
- Is it possible for the company to issue partly paid-up bonus shares?

Q.16 A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2022 is given below:

Receipts	₹	Payments	₹
Bank Balance as on 1st April, 2021	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st March, 2022	6,400
		Cash in hand on 31st March, 2022	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

	1st April, 2021	31st March, 2022
Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2022 after providing depreciation at 10 per cent on machinery and furniture and ₹ 800 against doubtful debts.

Q.17 From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on 1st April 2021	As on 31st March 2022
	₹	₹
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2022		1,200
Cheques issued to trade creditors		60,270

Q.18 Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31 st March 2021	31 st March 2022
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021- 2022:

- (i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.
- (ii) Cash Withdrawn from bank ₹ 1,21,000.
- (iii) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.
- (iv) Cheques collected from customers but dishonoured ₹ 5,700.
- (v) Bills accepted by customers ₹ 40,000.
- (vi) Bills endorsed ₹ 10,000.
- (vii) Bills discounted ₹ 20,000, discount ₹ 750.
- (viii) Bills matured and duly collected ₹ 16,000.
- (ix) Bills accepted ₹ 24,000.
- (x) Paid suppliers by cheque ₹ 3,20,000.
- (xi) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.
- (xii) Rent received ₹ 14,000 by cheque for the premises owned by proprietor.
- (xiii) A building was purchased on 30-11-2021 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained.
- (xiv) Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.

Other transactions:

- (i) Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.
- (ii) Goods returned to suppliers ₹ 4,200.
- (iii) Goods returned by customers ₹ 1,200.

- (iv) Discount offered by suppliers ₹ 2,700.
- (v) Discount offered to the customers ₹ 2,400.
- (vi) The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

J.K. SHAH[®]
CLASSES
a Veranda Enterprise



HOMEWORK SECTION

Q.1

In the books of M/s. Yahoo Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
01/04/11	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call made)		4,50,000	4,50,000
30/04/11	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money received)		4,50,000	4,50,000
?	Capital Reserve A/c Dr. Securities Premium A/c Dr. Profit and Loss A/c Dr. General Reserves A/c Dr. To Bonus to Shareholder A/c (Being reserves capitalized for Bonus)		90,000 30,000 3,00,000 1,80,000	6,00,000
?	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being bonus issued)		6,00,000	6,00,000

Balance Sheet extract (after bonus issue)

Particulars	Notes No.	P.Y.
I. EQUITY AND LIABILITIES		
(1) Shareholders funds		
(a) Share Capital	1	28,00,000
(b) Reserves and Surplus	2	1,40,000

Notes to Accounts:

Notes 1 - SHARE CAPITAL	₹
Authorised Capital	
50,000, 10% Preference shares of ₹10 each.	5,00,000
2,00,000, equity Shares of ₹10 each	20,00,000
Issued, Subscribed and Paid up.	
40,000, 10% Preference shares of ₹10 each fully paid	4,00,000
2,40,000, equity Shares of ₹10 each fully paid (of the above 60,000 equity shares issued as bonus shares)	24,00,000
Total	28,00,000

Notes 2 - RESERVES AND SURPLUS	₹
General Reserve	60,000
Capital Reserve	60,000
Securities Premium	20,000
Total	1,40,000

Working Note:

1. Bonus

$$\frac{\text{Old}}{3} : \frac{\text{New}}{1}$$

$$1,80,000 : ?$$

= 60,000 shares

$$\begin{aligned} \text{Bonus amount} &= 60,000 \text{ shares} \times ₹ 10 \\ &= 6,00,000 \end{aligned}$$

Q.2

In the books of Brite Ltd.

Journal Entries

(₹ in lakhs)

Date	Particulars	L. F.	Debit ₹	Credit ₹
02/04/12	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made)	Dr.	2,000	2,000

30/04/12	Bank A/c To Equity Share Final Call A/c (Being final call money received)	Dr.	2,000	2,000
01/06/12	Capital Redemption Reserve A/c Capital Reserve A/c Securities Premium A/c General Reserves A/c To Bonus to Shareholder A/c (Being reserves capitalized for Bonus)	Dr. Dr. Dr. Dr.	1,000 485 2,000 515	4,000
01/06/12	Bonus to Shareholders A/c To Equity Share Capital A/c (Being bonus issued)	Dr.	4,000	4,000

Balance Sheet extract (after bonus issue)

Particulars	Notes No.	P.Y.
I. EQUITY AND LIABILITIES		
(1) Shareholders funds		
(a) Share Capital	1	16,000
(b) Reserves and Surplus	2	798

Notes to Accounts:

Notes 1 - SHARE CAPITAL	₹
Authorised Capital 20 crore, shares of ₹10 each.	
Issued, Subscribed and Paid up.	
14 crore equity Shares of ₹10 each	14,000
2 crore, 11% Cumulative Preference shares of ₹10 each	2,000
Note :	
1. 4 Crore equity shares issued as Bonus	
Total	16,000

Notes 2 - RESERVES AND SURPLUS	₹
General Reserve	525
Surplus i.e. credit balance of Profit and Loss (Appropriation) Account	273
Total	798

Working Note:

1. Bonus

$$\frac{\text{Old}}{5} : \frac{\text{New}}{2}$$

$$10,00,00,000 : ?$$

$$= 4,00,00,000 \text{ shares}$$

$$\text{Bonus amount} = 4,00,00,000 \text{ shares} \times ₹ 10$$

$$= ₹ 40,00,00,000$$

Q.3

Saral Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
1.	Capital Redemption Reserve A/c Capital Reserve A/c Securities Premium A/c General Reserves A/c To Bonus to Shareholder A/c (Being reserves capitalized for Bonus)	Dr. Dr. Dr. Dr.	30,000 50,000 40,000 30,000	1,50,000
1/6/12	Bonus to Shareholders A/c To Equity Share Capital A/c (Being bonus issued)	Dr.	1,50,000	1,50,000

Working Note:

1. Bonus

$$\frac{\text{Old}}{3} : \frac{\text{New}}{1}$$

$$4,500 : ?$$

$$= 1,500 \text{ shares}$$



Bonus amount = 1,500 shares × ₹ 100
= ₹ 1,50,000

Q.4

Arya Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
01/04/18	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call of ₹ 2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)		2,00,000	2,00,000
15/04/18	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money received)		2,00,000	2,00,000
?	Securities Premium A/c Dr. General Reserves A/c Dr. To Bonus to Shareholder A/c (Being Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)		25,000 1,75,000	2,00,000
?	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being Capitalization of profit)		2,00,000	2,00,000

Note: Profit and Loss Account balance may also be utilized along with General Reserve for the purpose of issue of Bonus shares.

Q.5

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
i)	General Reserve A/c Dr. To Bonus to Shareholders A/c (Being Reserves capitalized)		1,25,000	1,25,000

	Equity Share Call A/c To Equity Share Capital A/c (Being final call made)	Dr.	1,25,000	1,25,000
	Bonus to Shareholders A/c To Equity Share Call A/c (Being final call adjusted against Bonus to shareholder)	Dr.	1,25,000	1,25,000
ii)	General Reserves A/c To Bonus to Shareholder A/c (Being reserves capitalized)	Dr.	5,00,000	5,00,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Being bonus shares issued)	Dr.	5,00,000	5,00,000

Q.6

Journal Entries in the Books of Satish Ltd

Date	Particulars	L. F.	Debit ₹	Credit ₹
1.	Capital Redemption Reserve A/c Securities Premium A/c Capital Reserve A/c General Reserve A/c * To Bonus to Shareholders (Being issue of one bonus shares for every 3 shares held, by utilization of various Reserves, as per Board's resolution dated.....)	Dr. Dr. Dr. Dr.	60,000 80,000 80,000 80,000	3,00,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Being capitalisation of profit)	Dr.	3,00,000	3,00,000

Note: Instead of general reserve, Profit and Loss Account may also be used.

Q.7

Prem Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	10,80,000
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			
	(Bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
Bonus to Shareholders A/c	Dr.	10,80,000	10,80,000	
To Equity Share Capital A/c			10,80,000	
(Issue of bonus shares)				

Balance Sheet (Extract) as on 1st April, 2018 (after bonus issue)

Particulars	Notes No.	₹
I. EQUITY AND LIABILITIES		
(1) Shareholders funds		
(a) Share Capital	1	40,20,000
(b) Reserves and Surplus	2	75,000

Notes to Accounts

1 Share Capital	(₹)
Authorized share capital:	
3,78,000* Equity shares of ₹ 10 each	37,80,000*
25,000 10% Preference shares of ₹ 10 each	2,50,000
	40,30,000
Issued, subscribed and fully paid share capital: 3,78,000 Equity shares of ₹ 10 each, fully paid (Out of above, 1,08,000 equity shares @ ₹ 10 each were issued by way of bonus)	37,80,000
24,000 10% Preference shares of ₹ 10 each	2,40,000
	40,20,000
Reserves and Surplus	
Profit & Loss Account	75,000

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.

Q.8

Sindhu Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
01/04/20	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call of ₹ 2 per share on 50,000 equity shares due as per Board's Resolution dated....)	Dr.	1,00,000	1,00,000
15/04/20	Bank A/c To Equity Share Final Call A/c (Being final call money received)	Dr.	1,00,000	1,00,000
?	Securities Premium A/c General Reserves A/c Profit & Loss A/c To Bonus to Shareholder A/c (Being Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)	Dr. Dr.	10,000 80,000 10,000	1,00,000
?	Bonus to Shareholders A/c To Equity Share Capital A/c (Being Capitalization of profit)	Dr.	1,00,000	1,00,000

Q.9 Journal Entries in the books of Sujata Foods Ltd. Journal Entries

Date		Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of ₹ 2 per share on 90,000 equity shares made due)	1,80,000	1,80,000
April 15	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on equity shares received)	1,80,000	1,80,000
	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to Shareholders A/c (Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated.....)	75,000 25,000 1,20,000 5,000	2,25,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalization of profit)	2,25,000	2,25,000
June 20	Bank A/c Dr. To Securities Premium A/c To Equity Share Capital A/c (Being Right issue of 2 shares for every 5 shares held as per board resolution dated)	5,40,000	90,000 4,50,000

Q.10 Journal Entries in the books of Star Ltd.

2019	Particulars	L. F.	Debit ₹	Credit ₹
1.04.2020	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call of ₹ 2/- per share on 2,00,000 equity shares due as per Board's resolution dated)		4,00,000	4,00,000

25.04.2020	Bank A/c To Equity Share Final Call A/c (Final Call money on 2,00,000 equity shares received)	Dr.	4,00,000	4,00,000
	Capital Redemption Reserve A/c General Reserve A/c Profit and Loss A/c To Bonus to shareholders (Being provision for bonus shares at one share for every four shares held as per Board's resolution dated)*	Dr. Dr. Dr.	1,20,000 3,60,000 20,000	5,00,000
	Bonus to shareholders To Equity Share Capital A/c (Being issue of bonus shares)	Dr.	5,00,000	5,00,000

*Any other logical method for utilization of reserves may be followed as per the Companies Act, 2013.

Extract of Balance Sheet

Authorized Capital	₹
3,00,000 Equity shares of ₹ 10/- each	30,00,000
Issued and Subscribed Capital	
2,50,000 Equity shares of ₹10/- each, fully paid	25,00,000
(Out of the above 50,000 Equity shares ₹10/- each were issued by way of bonus shares)	75,000
Reserves and Surplus	
Securities premium (not realized in cash) Profit and Loss Account	5,80,000

Note:

As per SEBI regulations, securities premium should be realized in cash, whereas under the Companies Act, 2013 there is no such requirement. In accordance with Section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

Q.11 Journal Entries

Date	Particulars	₹	₹
1.04.2020	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call of ₹2/- per share on 2,00,000 equity shares due as per Board's resolution dated.....)	4,00,000	4,00,000
25.04.2020	Bank A/c Dr. To Equity Share Final Call A/c (Final Call money on 2,00,000 equity shares received)	4,00,000	4,00,000
	Capital Redemption Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders (Being provision for bonus shares at one share for every four shares held as per Board's resolution dated.....)*	1,20,000 3,60,000 20,000	5,00,000
	Bonus to shareholders Dr. To Equity Share Capital A/c (Being issue of bonus shares)	5,00,000	5,00,000

*Any other logical method for utilization of reserves may be followed as per the Companies Act, 2013.

Extract of Balance Sheet

	₹
Authorized Capital	
3,00,000 Equity shares of ₹ 10/- each	<u>30,00,000</u>
Issued and Subscribed Capital	
2,50,000 Equity shares of ₹10/- each, fully paid (Out of the above 50,000 Equity shares ₹10/- each were issued by way of bonus shares)	25,00,000
Reserves and Surplus	
Securities premium (not realized in cash) Profit and Loss Account	75,000
	<u>5,80,000</u>

Note: As per SEBI regulations, securities premium should be realized in cash, whereas under the Companies Act, 2013 there is no such requirement. In accordance with Section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

Q.12 Journal Entries in the Books of Satish Ltd

Particulars		Debit (₹)	Credit (₹)
Capital Redemption Reserve A/c	Dr.	60,000	
Securities Premium A/c	Dr.	80,000	
Capital Reserve A/c	Dr.	80,000	
General Reserve A/c *	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of one bonus shares for every 3 shares held, by utilization of various Reserves, as per Board's resolution dated....)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital A/c			3,00,000
(Being capitalisation of profit)			

***Note:** Instead of general reserve, Profit and Loss Account may also be used.

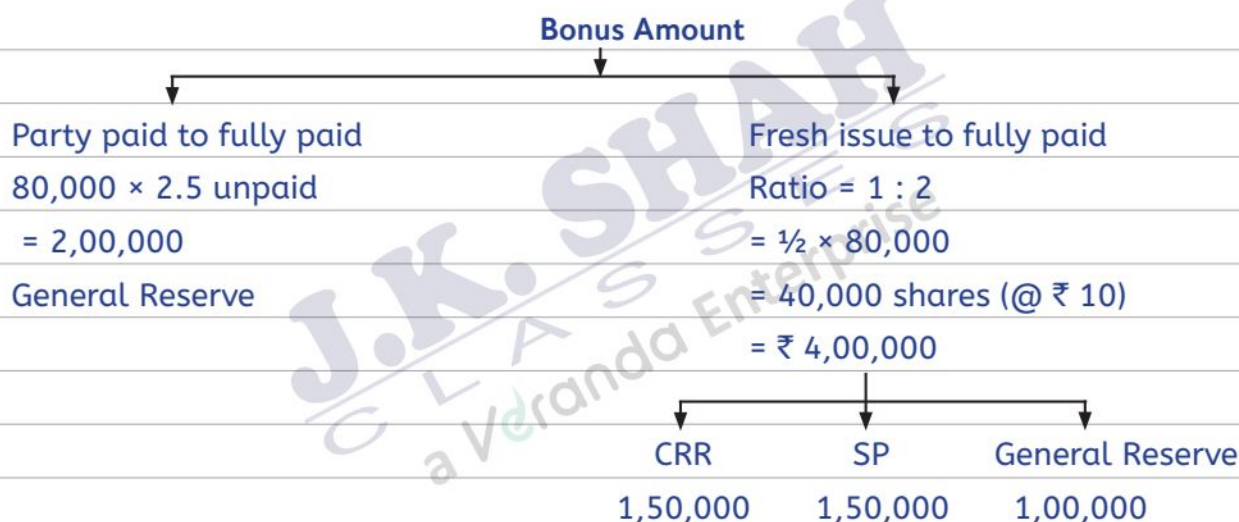
Q.13 Journal Entries in the books of Raman Ltd.

			₹	₹
1-4-2021	Equity share final call A/c	Dr.	8,10,000	
	To Equity share capital A/c			8,10,000
	(For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated...)			
20-4-2021	Bank A/c	Dr.	8,10,000	
	To Equity share final call A/c			8,10,000
	(For final call money on 4,05,000 equity shares received)			

Securities Premium A/c	Dr.	1,12,500	
Capital Redemption Reserve A/c	Dr.	1,80,000	
General Reserve A/c	Dr.	5,40,000	
Profit and Loss A/c (b.f.)	Dr.	1,80,000	
To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)			10,12,500
Bonus to shareholders A/c	Dr.	10,12,500	
To Equity share capital A/c (For issue of bonus shares)			10,12,500

Q.14 WN – 1

Bonus



In the books of A Ltd

Journal Entries

Sr. No.	Particulars	L/F	Dr. Amt.	Cr. Amt.
(1)	Share final call A/c To equity share capital A/c (Being final call demanded)	Dr.	2,00,000	2,00,000
(2)	General Reserve A/c To Bonus to shareholders A/c (Being bonus declared)	Dr.	2,00,000	2,00,000

(3)	Bonus to shareholders A/c To share final call A/c (Being bonus & Final call adjusted)	Dr.		2,00,000	2,00,000
(4)	Capital redemption Reserve A/c Securities premium A/c General reserve A/c To Bonus to shareholders (Being bonus declared)	Dr. Dr. Dr.		1,50,000 1,50,000 1,00,000	4,00,000
(5)	Bonus to shareholders A/c To Equity share capital A/c (Being bonus share issued)	Dr.		4,00,000	4,00,000
				14,00,000	14,00,000

Q.15

(a) **Number of Bonus shares to be issued:**

Existing paid up Capital = 60,000 Shares

Number of Bonus Shares = $(60,000 \times 1) \div 5 = 12,000$ Shares (i.e. for ₹ 1,20,000)

(b) **Bonus out of General Reserve:**

It is a usual practice to utilize specific reserve (available for specific purpose).

Therefore, if CRR and Securities Premium are available, then company should utilize these reserves in priority over other free reserves. It is clear that company should not use General Reserve, in the given example, as Capital Redemption Reserve and Securities Premium are sufficiently available

(c) **Journal Entries in the Books of Mobile Ltd.**

Particulars		Dr. (₹)	Cr. (₹)
Capital Redemption Reserve A/c	Dr.	80,000	
Securities Premium A/c	Dr.	40,000	
To Bonus to Shareholders A/c (Being issue of 1 Share for every 5 Shares held, by utilizing various reserves as per Board's Resolution dated)			1,20,000
Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c (Capitalization of profits)			1,20,000

Extracts of the Balance-Sheet after Bonus issue

	Particulars	Note No.	Amount (₹)
	EQUITY AND LIABILITIES		
1.	Shareholder's funds		
	(a) Share Capital	1	7,20,000
	(b) Reserves and Surplus	2	2,05,000

Notes to Accounts

1.	Share capital Authorised Capital 1,00,000 Equity Shares @ ₹ 10 each Issued, Called up & Paid up Capital 72,000 Equity Shares @ ₹ 10 each (Out of above, 12,000 shares have been issued as bonus shares).		10,00,000 7,20,000
2.	Reserve and Surplus Plant Revaluation Reserve Securities Premium A/c General Reserve	25,000 20,000 1,60,000	2,05,000

(d) Fully Paid-up bonus shares only

As per section 63 of the Companies Act, 2013, only fully paid-up bonus shares can be issued. Therefore, it is not possible for the company to issue partly paid-up bonus shares.

Q.16

A. Adamjee

Trading Account for the year ended 31st March 2022

	₹	₹		₹
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		67,800

Profit & Loss Account for the year ended 31st March 2022

	₹	₹		₹
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on investment	200
To General expenses		2,500		
To Dep:				
Machinery@ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful debts		800		
To Net profit carried to Capital A/c (b.f.)		2,830		
		15,000		15,000

Balance Sheet as on 31st March 2022

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital on 1 st April, 2021	29,100		Machinery	7,500	
Add: Fresh Capital	6,000		Less : Depreciation	(750)	6,750
Add: Profit for the year	2,830		Furniture	1,200	
	37,930		Less : Depreciation	(120)	1,080
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
Sundry creditors		7,900	Sundry debtors Less :	17,600	
			Provision for Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bankCash in hand		6,400 500
		42,230			42,230

Working Notes:

1. Balance sheet of A. Adamjee as on 1st April 2021

Liabilities	₹	Assets	₹
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital	29,100	Furniture	1,200
(balancing figure)		Inventory	3,900

		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash statement)	2,800
	34,900		34,900

2. Ledger Accounts

A. Adamjee's Capital Account

		₹			₹
31.03.22	To Drawings	3,600	01.04.21	By Balance b/d	29,100
			31.03.22	By Net Profit	2,830
31.03.22	To Balance c/d (b.f.)	34,330	31.03.22	By Cash	6,000
		37,930			37,930

Sales Account

		₹			₹
31.03.22	To Trading A/c(b.f.)	62,100	31.03.22	By Cash	11,000
			31.03.22	By Total Debtors Account (Credit Sales)	51,100
		62,100			62,100

Total Debtors Account

		₹			₹
01.04.21	To Balance b/d	14,500	31.03.22	By Cash	48,000
31.03.22	To Credit sales (Balancing figure)	51,100	31.03.22	By Balance c/d	17,600
		65,600			65,600

Purchases Account

		₹			₹
31.03.22	To Cash A/c	12,000	31.03.22	By Trading Account (b.f.)	49,100
	To total Creditors A/c (credit Purchases)	37,100			
		49,100			49,100

Total Creditors Account

		₹			₹
31.03.22	To Cash	35,000	01.04.21	By Balance b/d	5,800
31.03.22	To Balance b/d	7,900	31.03.22	By Credit Purchases	37,100
				(Balancing figure)	
		42,900			42,900

Q.17

In the books of Mr. Manoj

Trading Account for the year ending 31st March, 2022

	₹	₹		₹	₹
To Opening Inventory		8,040	By Sales		
To Purchases	59,030		Cash	4,600	
(58,000 + 1,030)			Credit	67,210	
Less: Returns To	(400)	58,630		71,810	
Gross profit c/d		14,810	Less: Returns	(1,450)	70,360
			By Closing inven-		11,120
		81,480	tory		
					81,480

Profit & Loss Account for the year ending 31st March, 2022

	₹		₹
To Sundry expenses (W.N.(v))	9,300	By Gross profit b/d	14,810
To Discount	1,500	By Discount	700
To Bad Debts	420		
To Net Profit transfer to Capital	4,290		
	15,510		15,510

Balance Sheet of Mr. Manoj as on 31st March, 2022

Liabilities	₹	₹	Assets	₹
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			
Less: Drawings	(3,180)	36,380		

Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		49,110

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	₹		₹
To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery [Ⓡ]	430
To Sales (Cash Sales-Balancing Figure)	4,600	By Sundry expenses	9,570
		By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(ii) Total Debtors Account

	₹		₹
To Balance b/d (bal. fig.)	16,530	By Bank	62,500
To Sales (71,810-4,600 ¹)	67,210	By Discount(64,000 - 62,500)	1,500
		By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(iii) Total Creditors Account

	₹		₹
To Bank	60,270	By Balance b/d (bal. fig.)	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400		
To Balance c/d	12,400		
	73,770		73,770

(iv) Balance Sheet as on 1st April, 2021

Liabilities	₹	Assets	₹
Capital (bal. fig.)	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(v)

Expenses paid in Cash	9,570
Add: Outstanding on 31-3-2022	330
	9,900
Less: Outstanding on 1-4-2021	(600)
	9,300

(vi) Due to lack of information, depreciation has not been provided on fixed assets.

Q.18 Trading Account of Mr. Anup for the year ended 31st March 2022

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	(1,200)	9,58,550
Less: Purchases Return			By Closing		1,90,000
	(4,200)	4,49,900	Inventory		
To Gross Profit (b.f.)		5,88,650			
		11,48,550			11,48,550

Profit & Loss Account of Mr. Anup for the year ended 31st March 2022

	₹		₹
To salary (9,200 × 12)	1,10,400	By Gross Profit	5,88,650
To Electricity & Tel. Charges (18,700+2,200)	20,900	By Discount	2,700
To Legal expenses	17,000		
To Discount (2,400 + 750)	3,150		
To Shop exp. (600 × 12)	7,200		
To Provision for claims for damages	1,55,000		
To Shop Rent	20,000		

To Net Profit (b.f.)	2,57,700		
	5,91,350		5,91,350

Balance Sheet as on 31st March 2022

Liabilities	₹		Assets	₹
Capital A/c (W.N.vi)	2,38,200		Building (from summary	3,72,000
Add : Fresh capital introduced			cash and bank A/c)	
Maturity value from LIC	20,000		Furniture	25,000
Rent	14,000		Inventory	1,90,000
Add : Net Profit	2,57,700		Sundry debtors	92,000
	5,29,900		Bills receivable	6,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash at Bank	87,000
Rent outstanding		20,000	Cash in Hand	5,300
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims				
for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) **Sundry Debtors Account**

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-	3,000	Bills accepted by customers	40,000
Bills dishonoured			
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c - Cheque received	5,700
To Credit sales	9,59,750	By Cash (from summary	8,97,150
(Balancing Figure)		cash and bank account)	
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) **Bills Receivable Account**

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c (Bills accepted)	40,000	(Bills endorsed)	10,000
		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c (Bills discounted)	750
		By Bank Bills collected on maturity	16,000
		By Sundry debtors Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) **Sundry Creditors Account**

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase	
To Bill Payable A/c	24,000	(Balancing figure)	4,54,100
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) **Bills Payable A/c**

	₹		₹
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c Bills accepted	24,000
	36,000		36,000

(v) **Summary Cash and Bank A/c**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors	8,97,150		By Cash		1,21,000
(Bal. Fig)		7,62,750	By Shop exp. (600 x 12)	7,200	
To Cash			By Salary (9,200 x 12)	1,10,400	
To Bank	1,21,000				
To Sundry Debtors		5,700	By Drawing A/c	16,800	
To Bills receivable		19,250	(1,400 x 12)		
To Bills receivable		16,000	By Bills Payable		22,000
To Capital (maturity value of LIC policy)		20,000	By Sundry creditors	77,200	3,20,000
To Capital			By Furniture	25,000	
		14,000	By Sundry Debtors		5,700
			By Electricity & Tel. Charges	18,700	
			By Building (Bal. fig)		
			By Balance c/d		3,72,000
				5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) **Statement of Affairs as on 31st March 2021**

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

CHAPTER 18

COMPANY ACCOUNTS - REDEMPTION OF PREFERENCE SHARES

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 To Share Capital a/c To Securities Premium a/c	Dr.
2	Entry for Redemption (money payable to PSH) Preference share capital a/c Premium on redemption a/c To Preference shareholders a/c	Dr. Dr.
3	Entry for writing off the premium Divisible Profit a/c 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.	Dr.
4	Entry for creation of CRR Divisible Profit a/c To CRR a/c	Dr.
5	Entry for pay off Preference shareholders a/c To Bank a/c	Dr.



Redemption of Preference Shares

<p>(I) <u>Make arrangement of money</u></p> <p>(A) <u>From Assess</u></p> <ul style="list-style-type: none"> • Sale of Investment • Recovery from Debtors • Sale of Stock <p>C/B a/c Dr P/L (If Loss) Dr Or To Asset To P/L (If Profit)</p> <p>(B) <u>From issue of Securities</u></p> <p>C/B a/c Dr To Eq / Pref Sh./ Deb. To Sec. Prem</p>	<p>Case C: In Q. Co. has CIA Eg. B/s of A Ltd. (lib.) 10000. 10% Preference Share of , 10 each 1 10,000 Less CIA (on 1000 share@2) (2000) 98,000</p> <p>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</p> <p>(3) If Q. Says then Reissue C/B Dr Share forfeiture To- % Preference Share Cap Dr</p> <p>(4) Transfer share forfeiture A/c To Capital Reserve Dr Share forfeiture a/c To Capital Reserve</p>	<p>Ans.</p> <p>(1) Fresh issue C/B a/c Dr To Esc/- P.S.C To Securities Premium</p> <p>(2) Create CRR Divisible Profits (GRRDP) Dr To CRR</p> <p>Divisible Profits G – General Reserve R – Revenue Reserve R – Reserve fund D – Dividend equalisation Reserve P – P/L</p>
<p>(II) <u>Satisfy 1st Legal Condition</u></p> <p>Co. Can Redeem Fully Paid Preference shares only</p> <p>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.</p> <p>Case B: In Q. Co. has partly Paid Pref. Shares</p> <p>Eg. B/s of A Ltd (liab only) 10000. 10% Pref. Shares of ` 10 each ` 7 paid up 70000</p> <p>Ans. Solve problems of partly paid shares</p> <p>(1) Demand Final Call Share final call Dr To- % Preference Share Caps</p> <p>(2) Receipt of final call C/B a/c Dr To Share Final Call</p>	<p>(III) <u>Satisfy 2nd Legal Condition</u></p> <p>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.</p> <p>Note 1: Proceeds means Fv or IP whichever is less. Therefore, always FV</p> <p>Note 2: CRR A/c can be used for issue of New fully paid up bonus shares only.</p>	<p>(IV) <u>Redemption of Preference Share</u></p> <p>(1) Redemption Due Dr - % Preference Share Cap Dr (POR) Premium on Redemption To Preference shareholders</p> <p>(2) Payment- Preference Share / holders a/c Dr To C/B</p> <p>(V) <u>W/Off (POR Premium on Redemption (3rd legal condition)</u></p> <p>POR can be W/off by using</p> <p>(1) Securities premium (if specified in question)</p> <p>(2) Divisible profits (GRRDP)</p> <p>Ans.</p> <p>(1) Securities premium (if Q. says) Dr Divisible profit Dr To Premium on Redemption</p>



(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.

CLASSWORK SECTION

Q.1 The Balance sheet of BHAVANA LTD., as on 31st March, 2017 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, 2017. 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.

Q.2 SK Ltd. had ₹ 1,00,000 Equity share capital (₹ 10), 1,000 8% ₹ 100 redeemable preferences shares and ₹ 60,000 and ₹ 40,000 respectively in general reserve and profit and loss account. It had also ₹ 3,000 in securities premium account. The company exercised its option to redeem the preference shares at 10% premium. For this purpose 5,000 ₹ 10 rights shares were issued at 10% premium which were fully paid at a time. The company had also ₹ 30,000 investments which were sold for ₹ 38,000.

All payments were made except to holders of 50 shares who could not be traced. The directors then issued bonus shares to the then shareholders at the rate of 2 for 3 held.

Pass entries (without narration).

Q.3 The books of B Ltd. showed the following balance on 31st December, 2013: 30,000. Equity Shares of ₹ 10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2012).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.

Preference shares are redeemed on 1st January, 2014 at a premium of ₹ 2 per share. The whereabouts of the holders of 100 shares of ₹ 10 each fully paid are not known. For redemption, 3,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account.

Show the necessary Journal Entries to record the transactions.

Q.4 In addition to Equity Shares, Kamini Ltd. has issued at par 6,000 6% redeemable preference shares of ₹ 100 each fully paid, and 2,000. 7% redeemable preference shares of ₹ 100 each ₹ 75 paid. All these preference shares were redeemable, on or after 1st April, 2018 at premium of 5%.

The summarised Balance Sheet of the Company on 31st March, 2018 was as follows:

Liabilities	₹	Assets	₹
Issued Share Capital :		Fixed Assets	17,00,000
6,000 6% Red. Pref. Shares of ₹ 100 each fully paid	6,00,000	Cash & Bank Balance	9,00,000
2,000 7% Red. Pref. Shares of ₹ 100 each, ₹ 75 paid	1,50,000		
1,00,000 Equity Shares of ₹ 10 each fully paid	10,00,000		
Securities Premium A/c	1,00,000		
Profit & Loss A/c	2,40,000		
Creditors	5,10,000		
	26,00,000		26,00,000

1. It was decided to redeem both classes of preference shares on 1st April, after taking the steps necessary to comply with the requirements of the Companies Act, 2013.

2. Company issued for cash so many (but no more) equity shares of ₹ 10 each at par as were necessary to provide for the redemption of all preference shares which could not otherwise be redeemed. These equity shares were fully paid up on allotment.
3. All necessary steps were duly taken and the redemption of both classes of preference shares was effected on 1st April, 2018
You are required to show : i) Journal entries (including cash) necessary to record the foregoing transactions.

Q.5 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		
(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.

Q.6 The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2011).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and

Loss Account ₹ 20,000; Investment Allowance Reserve (out of which ₹ 5,000, not free for distribution as dividend) ₹ 10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements.

Q.7 The Balance Sheet of M Ltd. as on 31.3.2017 is given below:

Liabilities	₹	Assets	₹
9% Red. Pref. Shares of ₹100 each, fully paid up	6,50,000	Fixed Assets	9,50,000
Equity Shares of ₹ 5 each fully paid up	2,25,000	Investments	2,75,000
General Reserve	1,00,000	Cash at Bank	67,500
P & L A/c	2,60,000		
Sundry Creditors	57,500		
	12,92,500		12,92,500

The preference shares are to be redeemed on 1.4.2017, at a premium of 7½%. In order to facilitate redemption the company had decided:

- (i) To sell the investments for ₹ 2,60,000.
- (ii) To finance part of the redemption from company's fund;
- (iii) Premium on Redemption was met out of Securities Premium a/c
- (iv) To issue sufficient equity shares at a premium of Re. 1 per share to raise the balance of funds required.
- (v) Minimum Bank Balance to be retained at ₹ 10,500. The investments were sold, the equity shares were fully subscribed and the shares were duly redeemed.

Show the entries and prepare the Balance Sheet.

Note: Minimum reduction was to be made against general reserve.

Q.8 The Balance Sheet of XYZ as at 31st December, 2011 inter alia includes the following:

	₹
50,000, 8% Preference Shares of ₹ 100 each, ₹ 70 paid up	35, 00,000
1,00,000 Equity Shares of ₹ 100 each fully paid up	1,00,00,000
Securities Premium	5, 00,000
Capital Redemption Reserve	20, 00,000
General Reserve	50, 00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2012 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2013. The issue was fully subscribed and allotment made on 1st March, 2012. The money due on allotment were received by 31st March, 2012.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2012 with the corresponding figures as on 31st December, 2011.

HOMEWORK SECTION

Q.1 C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Q.2 The Balance Sheet of X Ltd. as on 31st March, 2013 is as follows:

	Particulars	₹
	EQUITY AND LIABILITIES	
1.	Shareholder's funds	
	(a) Share Capital	2,90,000
	(b) Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
	Total	3,94,500
	ASSETS	
1.	Fixed Assets	
	Tangible asset	3,45,000
	Non-Current Investments	18,500
2.	Current Assets	
	Cash and cash equivalents (bank)	31,000
	Total	3,94,500

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹ 65,000(issued on 1.4.2008). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

- (a) To sell all the investments for ₹ 15,000.
- (b) To finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.
- (c) To issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions.

Q.3 C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 25,000 Equity Shares of ₹ 10 each at par,
- (ii) 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

Q.4 The TATA STEEL LTD. whose issued share capital on 31st March 2011 consisted of 6,000; 8% redeemable preference shares of ₹ 100 each fully paid and 20,000 equity shares of ₹ 100 each, ₹ 80 paid up, decided to redeem preference shares at a premium of ₹ 10 per share. The Co.'s Balance Sheet as at 31st March, 2011 showed a General Reserve of ₹ 9,00,000 and a Capital Reserve of ₹ 85,000. The redemption was effected partly out of profits and partly out of the proceeds of a new issue of 3,000; 7.5% cumulative preference shares of ₹ 100 each at a premium of ₹ 25 per share. The premium payable on redemption met out of the premium received on the new issue. On 1st July, the company at its General Meeting resolved that all the capital reserves be applied in the following manner:

- (a) The declaration of bonus at the rate of ₹ 20 per share on equity shares for the purpose of making the said shares fully paid; and
- (b) The issue of bonus shares to the equity shareholders in the ratio of 1 share for every four shares held.

Required: Pass necessary Journal Entries.

Q.5 Following is the Balance Sheet of Comfortable Ltd. as on 31.3.2018

		SOURCES:	₹ in lakhs	₹ in lakhs
(I)		OWN FUND :		
	1.	Share Capital		
		(i) Equity Shares		1.00
		(ii) 11% Red. Preference Shares of ₹ 100 each	1.00	



		Less : Calls in arrears (@ ₹ 20/-per share)		
			0.06	0.94
		(iii) 10% Redeemable Preference Shares		1.00
	2.	Reserves A Surplus :		
		(i) Share Premium Account	0.06	
		(ii) Capital Reserve (Profit on Sale of Assets available for Distribution by way of Dividend as per A/A of Co.)	0.36	
		(iii) General Reserve Account	0.40	
		(iv) P&L Account	0.20	1.02
				3.96
		APPLICATIONS :		
(I)		Fixed Assets	2.60	
(ii)		Investments	0.30	
(iii)		Working Capital	1.06	3.96

Directors Resolved:

- (1) To issue reminders to 300 shareholders in default.
- (2) To issue 2000 Equity Shares of ₹10/-each @ Premium of ₹ 5/-per share
- (3) To redeem 11% Redeemable Preference Shares @ Premium of ₹ 10/-each.
- (4) To sell off all investments to redeem Preference Shares.
- (5) To forfeit shares on which calls are not received.

Accordingly:

- (1) 200 shareholders paid off their dues and remaining shares forfeited.
- (2) Sold off investments @ 90% of the costs.
- (3) Utilised divisible profit for redemption.
- (4) Redeem 11% Redeemable Preference Shares of which shareholders holding 20 shares were not traceable.

You are required to:

- (1) Pass necessary Journal entries to implement redemption.
- (2) Prepare Balance Sheet after redemption.

PAST EXAM

Q.1 Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at premium of 10%.

It was decided by the company to issue the following:

- (i) 40,000 Equity Shares of ₹ 10 each at par
- (ii) 2,000, 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

(10 Marks Inter C.A. - May 2018)

Q.2 The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars		₹
EQUITY AND LIABILITIES:		
1.	Shareholder's funds:	
	(a) Share Capital	5,80,000
	(b) Reserves and Surplus	96,000
2.	Current Liabilities:	
	Trade Payables	1,13,000
	Total	7,89,000
ASSETS:		
1.	Non - Current Assets	
	(a) Property, Plant and Equipment Tangible Assets	6,90,000
	(b) Non - Current Investments	37,000
2.	Current Assets	
	Cash and cash equivalents (Bank)	62,000
	Total	7,89,000

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2017).

Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

- (a) to sell all the investments for ₹ 30,000.
- (b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

- (c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to

- (1) Pass Journal Entries to record the above transactions.
- (2) Prepare Balance Sheet after completion of the above transactions.

(10 Marks – Inter C.A. May 19)

Q.3 The books of Arpit Ltd. shows the following Balances as on 31st December, 2019

	Amount(₹)
6,00,000 equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issues, the preference shares are redeemable on 31st March, 2020 at a Premium of 10%. in order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹ 10 each at a premium of 20%, ₹ 2 being payable on application, ₹ 7 (including Premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020. The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2013.

You are required to pass necessary journal entries and show how the relevant items will appear in the balance sheet of the company after the redemption carried out on 31st March, 2020.

(12 Marks – Nov 2020 – Inter)

Q.4 The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2020. the other particulars as at 31.03.2020 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4,500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption is carried out. (Jan 21)

Q.5 Following items appear in the Trail Balance of Star Ltd. as on 31 st March, 2019:

Particulars	₹
80,000 Equity shares of ₹10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April, 2019, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2019.

On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves.

Pass necessary journal entries in the Books of Star Ltd. (Jan 21)

Q.6 Given below is the extracts of Balance Sheet of Daisy Limited as at 31st March, 2021

Particulars	₹
15% 650 Redeemable Preference Shares of ₹ 100 each, ₹ 80 per share paid up	52,000
22,500 Equity Shares of ₹ 10 each, ₹ 9.50 per share paid up	2,13,750

Revaluation Reserve	45,000
Capital Reserve (realized in cash)	500
General Reserve	40,000
Securities Premium	500
Profit & Loss Account	40,500
Current Liabilities	1,07,750
Fixed Assets	3,71,500
Non-Current Investments [Face Value ₹ 50,000]	1,00,000
Bank Balance	28,500

The following information are provided:

- On 1st April, 2021, the Board of Directors decided to make a final call of ₹ 20 on Redeemable Preference Shares and to redeem the same at a premium of 10% on 1st June, 2021.
- The investments of the face value of ₹ 20,000 are sold at the market price which was 150% of the face value.
- It is decided to issue sufficient number of Equity Shares of ₹ 10 each at a premium of 25% after leaving a balance of ₹ 50,000 in bank accounts.
- It was also decided to convert the partly paid-up Equity shares into fully paid up without requiring the shareholders to pay for the same.
- On 1st July, 2021 the Board decided to issue fully paid bonus shares to the equity shareholders in the ratio of one for five.

You are required to pass the necessary journal entries for the above. (May 22)

Q.7 Given below are the extracts of Balance Sheet of Sea Chemicals Limited as on 31st March, 2022:

Particulars	Amount in ₹
9% Redeemable Preference Share Capital	10,00,000
Calls in arrears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that:

- Preference Shares are of ₹100 each fully – called, due for immediate redemption at a premium of 5%.
- Calls – in arrears are on account of final call on 1000 shares held by four members whose whereabouts are not known



- Balance of General Reserve and Securities Premium to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹10 each at par.
- The redemption of preference shares was duly carried out.
You are required to pass the necessary journal entries (narration not required) to give effect to the above redemption.

(Nov'22 - 5 Marks)



HOMEWORK SOLUTION

Q.1

In the books of C Ltd.

Journal Entries

Sr. No.	Particulars	L. F.	Debit ₹	Credit ₹
1.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being issue of 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share)		12,00,000	10,00,000 2,00,000
2.	10% Redeemable Preference Share Capital A/c Dr. To Preference Shareholders A/c (Being amount payable on redemption of Preference Shares transferred to Preference Shareholders A/c)		10,00,000	10,00,000
3.	Preference Shareholders A/c Dr. To Bank A/c (Being amount paid on Redemption)		10,00,000	10,00,000

Q.2

In the books of X Ltd.

Journal Entries

Sr. No.	Particulars	L. F.	Debit ₹	Credit ₹
1.	Bank A/c Dr. Profit / Loss A/c Dr. To Investment A/c (Being investment sold at loss)		15,000 3,500	18,500
2.	Bank A/c Dr. To Equity Share Capital A/c [625 × 50] To Securities Premium A/c [625 × 10] (Being fresh issue made at premium)		37,500	31,250 6,250

3.	Profit / Loss A/c To Capital Redemption Reserve A/c (Being Capital Redemption Reserve created)	Dr.		33,750	33,750
4.	Preference Share Capital A/c Premium on Redemption A/c To Preference Shareholders A/c (Being amount due to preference shareholder)	Dr. Dr.		65,000 6,500	71,500
5.	Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.		71,500	71,500
6.	Profit / Loss A/c To Premium on Redemption A/c (Being premium written off)	Dr.		6,500	6,500

Balance sheet of Comfortable Ltd. as on 31.03.2018

Particulars	Notes No.	C.Y.	P.Y.
I. EQUITY AND LIABILITIES			
(1) Shareholders funds			
(a) Share Capital	1	2,56,250	
(b) Reserves and Surplus	2	44,250	
(2) Current Liabilities		-	
(a) Trade Payables		56,500	
Total		3,57,000	
II. ASSETS			
(1) Property, Plant and Equipment			
(a) Tangible Assets		3,45,000	
(2) Current Assets (net)			
(a) Cash and Cash equivalent	3	12,000	
Total		3,57,000	

Notes to Accounts:

(1) Share Capital	
Authorized	?
<u>Issued Subscribed & Paid up</u>	
5,125 equity share of ₹ 50 each fully paid	2,56,250
(2) Reserve and Surplus	
Profit and Loss Account (48,000 – 6,500 – 33,750 – 3,500)	4,250
Capital Redemption Reserve	33,750
Securities Premium	6,250
	44,250
(3) Cash & Cash Equivalent	
Balance with Bank [31,000 + 37,500 – 71,500 + 15,000]	12,000

Working Note:

1. Calculation of No. of shares to be issued

Cash required for Redemption of Preference Share (65,000 + 10%)	71,500
(+) Closing Cash Balance	12,000
Total requirements	83,500
(-) Opening balance of cash	(31,000)
(-) Investment sold	(15,000)
Balance Funds required	37,500
(÷) Issue Price (50 + 10)	÷ 60
No. of equity shares to be issued	625

2. FV of PSC to be redeemed = Proceeds (FV) of F.I. + of shares + DP transfer to CRR

$$65,000 = 31,250 + \text{33,750}$$

P & L

Q.3

In the books of C Ltd.

Journal Entries

Sr. No.	Particulars	L. F.	Debit ₹	Credit ₹
1.	Bank A/c Dr. To 14% Debentures A/c (Being issue of 1,000, 14% debentures of ₹ 100 each)		1,00,000	1,00,000

2.	Bank A/c To Equity Share Capital A/c (Being issue of 25,000 equity shares of ₹ 10 each)	Dr.	2,50,000	2,50,000
3.	Profit / Loss A/c To Capital Redemption Reserve A/c (Being Capital Redemption Reserve created)	Dr.	50,000	50,000
4.	12% Redeemable Preference Share Capital A/c Premium on Redemption A/c To Preference Shareholders A/c (Being amount due to preference shareholders)	Dr. Dr.	3,00,000 30,000	3,30,000
5.	Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	3,30,000	3,30,000
6.	Profit / Loss A/c To Premium on Redemption A/c (Being amount of premium written off)	Dr.	30,000	30,000

Working Notes:

2.	FV of PSC to be redeemed	=	Proceeds (FV) of F.I. + of shares	+	DP transfer to CRR
	3,00,000	=	2,50,000	+	50,000
					P & L

Q.4

In the books of TATA Steel Ltd.

Journal Entries

Sr. No.	Particulars	L. F.	Debit ₹	Credit ₹
1.	Bank A/c To 7.5% cumulative Preference Share Capital A/c To Securities Premium A/c (Being fresh / new issue made)	Dr.	3,75,000	3,00,000 75,000

2.	General Reserve A/c To Capital Redemption Reserve A/c (Being Capital Redemption Reserve created)	Dr.	3,00,000	3,00,000
3.	8% Redeemable Preference Share Capital A/c Premium on Redemption A/c To Preference Shareholders A/c (Being amount due to preference shareholders)	Dr. Dr.	6,00,000 60,000	6,60,000
4.	Preference Shareholders A/c To Bank A/c (Being amount due to preference shareholders)	Dr.	6,60,000	6,60,000
5.	Securities Premium A/c To Premium on Redemption A/c (Being premium on redemption written off)	Dr.	60,000	60,000
6.	Share final call A/c To Equity Share Capital A/c (Being final call due)	Dr.	4,00,000	4,00,000
7.	Capital Reserve A/c General Reserve A/c To Bonus to Shareholders A/c (Being bonus declared)	Dr.	85,000 3,15,000	4,00,000
8.	Bonus to Shareholders A/c To Share final call A/c (Being bonus adjusted against share final call)	Dr.	4,00,000	4,00,000
9.	Capital Redemption Reserve A/c Securities Premium A/c General Reserve A/c To Bonus to Shareholders A/c (Being bonus declared)	Dr. Dr. Dr.	3,00,000 15,000 1,85,000	5,00,000



10.	Bonus to Shareholders A/c To Equity Share Capital A/c (Being bonus transferred to Equity Share Capital)	Dr.		5,00,000		5,00,000
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Working Notes:

1. FV of PSC to be redeemed = Proceeds (FV) of F.I. + of shares + DP transfer to CRR

$$6,00,000 = 3,00,000 + 3,00,000$$

(6,000 × 100) GR

2.

Premium on Redemption = SP (if Q.s specify) + DP

$$60,000 = 60,000 + \text{NIL}$$

(6,000 × 10)

3. Final call bonus

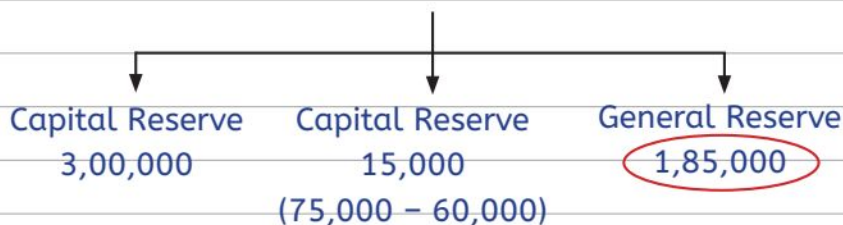
Amount of Bonus = Amount of Final call = 4,00,000



4. Fully Paid Bonus

Held	Bonus Shares
4	1
20,000	? 5,000 shares

Amount of Bonus = 5,000 × 100 = 5,00,000



Q.5

In the books of Comfortable Ltd.

Journal Entries

Sr. No.	Particulars	L. F.	Debit ₹	Credit ₹
1.	Bank A/c To Calls-in-arrears A/c (Being arrears of 200 shares received)	Dr.	4,000	4,000
2.	11% Redeemable Preference Share Capital A/c To Calls-in-arrears A/c To Share Forfeiture A/c (Being remaining 100 shares forfeited)	Dr.	10,000	2,000 8,000
3.	Share forfeiture A/c To Capital Reserve A/c (Being amount in share forfeiture account transferred to capital reserve)	Dr.	8,000	8,000
4.	Bank A/c Profit / Loss A/c To Investment A/c (Being investment sold at loss)	Dr. Dr.	27,000 3,000	30,000
5.	Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being issue of 2,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share)	Dr.	30,000	20,000 10,000
6.	General Reserve A/c Profit and loss A/c Capital Reserve A/c To Capital Redemption Reserve A/c (Being Capital Redemption Reserve created)	Dr. Dr. Dr.	31,000 17,000 22,000	70,000

7.	11% Redeemable Preference Share Capital A/c	Dr.	90,000	
	Premium on Redemption A/c	Dr.	9,000	
	To Preference Shareholders A/c			99,000
	(Being amount due to preference shareholders)			
8.	Preference Shareholders A/c	Dr.	96,800	
	To Bank A/c			96,800
	(Being amount paid to Preference shareholders)			
9.	General reserve A/c		9,000	
	To Premium on Redemption A/c			9,000
	(Being premium on redemption written off)			

Working Note:

1. FV of PSC to be redeemed = Proceeds of F.I shares + DP transfer to CRR

$$90,000 = 20,000 + 70,000$$

(900 × 100)

	GR	P & L	CR
	31,000	17,000	22,000

2. Premium on Redemption = 900 × 10 = 9,000GR

Balance sheet of Comfortable Ltd. as on 31.03.2018

Particulars	Notes No.	C.Y.	P.Y.
I. EQUITY AND LIABILITIES			
(1) Shareholders funds			
(a) Share Capital	1	2,20,000	
(b) Reserves and Surplus	2	1,08,000	
(2) Current Liabilities		-	
Total		3,28,000	
II. ASSETS			
(1) Property, Plant and Equipment			
(a) Tangible Assets		2,60,000	
(2) Current Assets (net)	3	68,000	
Total		3,28,000	

Notes to Accounts:

(1) Share Capital	
Equity share capital (1,00,000 + 20,000)	1,20,000
10% Redeemable preference share capital	1,00,000
	2,20,000
(2) Reserve and Surplus	
Capital Redemption Reserve	70,000
Capital Reserve (36,000 – 22,000 + 8000)	22,000
Securities Premium	16,000
	1,08,000
(3) Current Assets (NET i.e. current assets – current liability)	
(1,06,000 + 4,000 + 27,000 – 96,800 + 30,000 – 2,200 i.e. amount payable to PSH)	68,000



PAST EXAM SOLUTION

Q.1

Dheeraj Limited.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
1.	10% Redeemable Preference Shares Capital A/c Premium on Redemption A/c To Preference Shareholders A/c (Being amount payable to shareholders on redemption transferred to their account)	Dr. Dr.	5,00,000 50,000	5,50,000
2.	Profit & Loss A/c To Premium on Redemption A/c (Being Premium adjusted against Profit & Loss A/c)	Dr.	50,000	50,000
3.	Profit & Loss A/c To Capital Redemption Reserve A/c (Being Capital Redemption Reserve Created)	Dr.	1,00,000	1,00,000
4.	Bank A/c To Equity Share Capital A/c (Being equity Shares issued at par)	Dr.	4,00,000	4,00,000
5.	Bank A/c To 12% Debentures A/c (Being Debentures issued)	Dr.	2,00,000	2,00,000
6.	Preference Shareholders A/c To Bank A/c (Being preference Shareholders paid off)	Dr.	5,50,000	5,50,000

Q.2

In the books of Clean Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
1.	Bank A/c To Share Application A/c (For application money received on 1,250 shares @ ₹ 60 per share)	Dr.	75,000	75,000
2.	Share Application A/c To Equity Share Capital A/c To Securities Premium A/c (For disposition of application money received)	Dr.	75,000	62,500 12,500
3.	8% Redeem. Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable on redemption of preference shares)	Dr. Dr.	1,30,000 13,000	1,43,000
4.	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	Dr.	13,000	13,000
5.	Bank A/c Profit and Loss A/c (loss on sale) A/c To Investment A/c (For sale of investments at a loss of ₹ 3,500)	Dr.	30,000 7,000	37,000
6.	Preference Shareholders A/c To Bank (Being amount paid to Preference shareholders)	Dr.	1,43,000	1,43,000
7.	Profit and Loss A/c To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ₹ 1,30,000 - ₹ 62,500)	Dr.	67,500	67,500

Balance Sheet of Clean Ltd. (after redemption)

Particulars	Notes No.	₹
I. EQUITY AND LIABILITIES		
(1) Shareholders funds		
(a) Share Capital	1	5,12,500
(b) Reserves and Surplus	2	88,500
(2) Current Liabilities		-
Trade Payables		1,13,000
Total		7,14,000
II. ASSETS		
(1) Non-Current Assets		
(a) Property, Plant and Equipment Tangible Assets		6,90,000
(2) Current Assets		
(b) Cash and cash equivalents (bank)	3	24,000
Total		7,14,000

Notes to accounts

1. Share Capital Equity share capital ₹ (4,50,000 + 62,500)	5,12,500
2. Reserves and Surplus Capital Redemption Reserve Profit and Loss Account ₹ (96,000 - 13,000 - 7,000 - 67,500) Security Premium	67,500 8,500 12,500 88,500
3. Cash and cash equivalents Balances with banks ₹ (62,000 + 75,000 + 30,000 - 1,43,000)	

Working Note:

Calculation of Number of Shares:	₹
Amount payable on redemption (1,30,000 + 10% Premium)	1,43,000
Less: Sale price of investment	<u>(30,000)</u>
	1,13,000
Less: Available bank balance (62,000 - 24,000)	<u>(38,000)</u>
Funds required from fresh issue	<u>75,000</u>
No. of shares = 75,000/60	= 1,250 shares

Q.3

Arpit Ltd.

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
01-03-20	Pref. share Final call a/c To 10% Pref. share Capital a/c (Being final call money due to make pref. share fully paid up)	Dr.	6,00,000	6,00,000
01-03-20	Bank a/c To Pref. share Final call a/c (Being Final call money received & shares are made fully paid up)	Dr.	6,00,000	6,00,000
01-03-20	Bank a/c To Equity share Application a/c (Being Application money received on 1,50,000 equity shares @ ₹2 per shares.)	Dr.	3,00,000	3,00,000
01-03-20	Equity share Application a/c To Equity share capital a/c (Being shares Allotted)	Dr.	3,00,000	3,00,000
01-03-20	Equity share Allotment a/c To Equity share capital a/c To Securities premium a/c (Being shares Allotment money due on 1,50,000 shares @ ₹7 per share)	Dr.	10,50,000	7,50,000 3,00,000
20-03-20	Bank a/c To equity share Allotment a/c (Being Allotment money received)	Dr.	10,50,000	10,50,000

31-03-20	10% Preference share capital a/c Premium Redemption a/c To Preference share Holder a/c (Being redemption Due on 30,000 shares of ₹100 each @ 10% Premium.)	Dr. Dr.	30,00,000 3,00,000	33,00,000
31-03-20	General reserve a/c To premium Redemption a/c To CRR a/c (30,00,000 – 10,50,000)	Dr.	22,50,000	3,00,000 19,50,000
31-03-20	Preference share Holder a/c To Bank a/c (Being Amount paid)	Dr.	33,00,000	33,00,000

Balance Sheet of Arpit Ltd as on 31-03-2020

(An Extract after Redemption)

Particular	Notes	Amounts (₹)
Equity and Liabilities		
1. Shareholders' Funds		
(a) Share capital	1	70,50,000
(b) Reserve and surplus	2	59,00,000
	Total	1,29,50,000

Note 1 – Share Capital

Particular	Amounts (₹)
Equity Share capital (6,00,000 shares @ ₹10 each)	60,00,000
Equity Share capital (1,50,000 shares @ ₹10 each, 7 paid up)	10,50,000
Total	70,50,000

Note 2 – Reserve and surplus

Particular	Opening	Addition	Deduction	Closing
CRR	18,00,000	19,50,000	--	37,50,000
Securities Premium	6,00,000	3,00,000	--	9,00,000
General Reserve a/c	35,00,000	--	22,50,000	12,50,000
				59,00,000

Q.4

Journal Entries

Date	Particulars	L. F.	Debit ₹	Credit ₹
	Bank A/c Dr. To Equity Share Capital A/c (Being the issue of 8,450 Equity Shares of ₹10 each as per Board's Resolution No..... dated.....)		84,500	84,500
	9% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)		2,00,000 20,000	2,20,000
	Bank A/c Dr. Profit and Loss A/c (loss on sale) A/c Dr. To Investment A/c (Being investment sold at loss of ₹ 4,500)		40,500 4,500	45,000
	Preference Shareholders A/c Dr. To Bank A/c (Being the amount paid on redemption of preference shares)		2,20,000	2,20,000
	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account)		80,000 35,500	1,15,500

Balance Sheet as on [Extracts]

Particulars	Notes No.	₹
I. EQUITY AND LIABILITIES		
(1) Shareholders funds		
(a) Share Capital	1	3,84,500
(b) Reserves and Surplus	2	1,70,500



(2) Current Liabilities		-
Cash and cash equivalents (1,95,000 + 84,500 + 40,500 - 2,20,000)		1,00,000

Notes to Accounts

1 Share Capital	(₹)
38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up	3,84,500
2 Reserves and Surplus	
General Reserve	40,000
Profit and loss account	NIL
Capital Redemption Reserve	1,15,500
Investment Allowance Reserve	15,000
	1,70,500

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹ 2,00,000
Less: Profit available for distribution as dividend:	₹ 80,000	
General Reserve: ₹ (1,20,000 - 40,000)	₹ 35,500	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)		₹(1,15,500)
		₹ 84,500

Therefore, No. of shares to be issued = $84,500 / ₹10 = 8,450$ shares.

Q.5

Journal Entries in the books of Star Ltd.

2019	Particulars	L. F.	Debit ₹	Credit ₹
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of ₹ 2 per share on 80,000 equity shares made due)	Dr.	1,60,000	1,60,000

	Bank A/c To Equity Share Final Call A/c (Final call money on 80,000 equity shares received)	Dr.	1,60,000	1,60,000
June 1	Capital Redemption Reserve A/c Capital Reserve Securities Premium A/c General Reserve A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated.....)	Dr. Dr. Dr. Dr.	75,000 45,000* 60,000 1,40,000*	3,20,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	3,20,000	3,20,000

* Considering it as free reserve as it has been realized.

** General reserve has been used here. Alternatively, different combination of profit and loss balance and general reserve may also be used.

Q.6

Journal Entries

2021			Dr. (₹)	Cr. (₹)
April 1	15% Redeemable Preference Share Final Call A/c To 15% Preference Share Capital A/c (For final call made on 650 preference shares @ ₹ 20 each to make them fully paid up)	Dr.	13,000	13,000
	Bank A/c To 15% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	13,000	13,000
1st June	15% Redeemable preference share capital A/c Premium on redemption of pref. share A/c To Redeemable Preference Shareholders A/c (Being amount payable to preference shareholders on redemption)	Dr. Dr.	65,000 6,500	71,500

Bank A/c	Dr.	30,000	
Profit & Loss A/c	Dr.	10,000	
To Investment A/c			40,000
(Being investment sold out and loss on sale debited to Profit & Loss A/c)			
[Book value = ₹ 1,00,000 × ₹ 20,000/ ₹ 50,000 = ₹ 40,000.			
Sale proceeds = ₹ 20,000 × 150/100 = ₹ 30,000]			
Bank A/c	Dr.	50,000	
To Equity share capital A/c			40,000
To Securities premium A/c			10,000
(Being 4,000 equity shares of ₹ 10 issued at premium of ₹ 2.50 per share)			
Preference shareholders A/c	Dr.	71,500	
To Bank A/c			71,500
(Being amount paid to preference shareholders)			
Profit and loss A/c/ General reserve A/c *	Dr.	25,000	
To Capital redemption reserve A/c			25,000
(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law i.e. face value of shares redeemed ₹ 65,000 less fresh equity shares issued ₹40,000)			
Profit and Loss A/c **	Dr.	6,500	
To Premium on redemption of preference shares A/c			6,500
(Being premium on preference shares adjusted from P&L A/c)			
Profit & Loss/ General reserve A/c*	Dr.	11,250	
To Bonus to shareholders A/c			11,250
(Being 50 paise for 22,500 shares making partly paid up as fully paid up)			
Share final call A/c	Dr.	11,250	
To Equity share capital A/c			11,250
(for making the final call due)			
Bonus to shareholders A/c	Dr.	11,250	
To Equity share final call A/c			11,250
(Adjusted at final call)			



July 1	Capital Redemption Reserve A/c	Dr.	25,000	
	Securities Premium A/c	Dr.	10,500	
	Capital Reserve A/c	Dr.	500	
	Profit & Loss A/c / General Reserve*	Dr.	17,000	
	To Bonus to shareholders A/c			53,000
	(Being balance in reserves capitalized to issue bonus shares)			
	Bonus to shareholders A/c	Dr.	53,000	
	To Equity share capital A/c			53,000
	(Being 5,300 fully paid equity shares of ₹ 10 each issued as bonus in ratio of 1 share for every 5 shares held (22,500+4,000) divided by 5)			

Note: *Different combination of utilisation of available balances of general reserve and P& L A/c is possible in the given entries.

** Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and hence the company has to comply with the prescribed Accounting Standards.

*** As per the sequence of the information given in the question it has been considered that the fresh issue of equity shares is made at the time of the redemption of preference shares. Alternatively, it may be assumed that shares are issued after the redemption of preference shares. In that case the amount transferred to Capital Redemption Reserve will get changed.

Q.7.

Journal Entries

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because of non-payment of calls as holders are unknown)			
Bank A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No dated....)			

General Reserve A/c	Dr.	7,00,000	
To Capital Redemption Reserve A/c			7,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
Premium on Redemption of Preference shares A/c	Dr.	45,000	
To Preference Shareholders A/c			9,45,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	9,45,000	
To Bank A/c			9,45,000
(For amount paid to preference shareholders)			
Securities Premium A/c	Dr.	45,000	
To Premium on Redemption of Preference Shares A/c			45,000
(For writing off premium on redemption of preference shares)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve	7,00,000
	<u>2,00,000</u>
Therefore, number of shares to be issued = ₹ 2,00,000/₹ 10= 20,000 shares	

Note: Securities premium has been utilized for the purpose of premium payable on redemption of preference shares as per the information given in the question assuming that the company referred in the question is not governed by Section 133 of the Companies Act, 2013 and the company is not required to comply with the prescribed Accounting Standards.

However, certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purpose of premium on redemption of preference shares. Hence General Reserve is utilized instead of Securities premium for premium payable on redemption of preference shares. In that case, the solution will be given as follows:

Alternative answer

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because holders are unknown)			
Bank A/c	Dr.	2,45,000	
To Equity Share Capital A/c			2,45,000
(Being the issue of 24,500 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated.....)			
General Reserve A/c	Dr.	6,55,000	
To Capital Redemption Reserve A/c			6,55,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	45,000	
To Preference Shareholders A/c			9,45,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	9,45,000	
To Bank A/c			9,45,000
(For amount paid to preference shareholders)			
General Reserve A/c	Dr.	45,000	
To Premium on Redemption A/c			45,000
(For writing off premium on redemption of preference shares)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve (7,00,000 – 45,000 set aside for adjusting premium payable on redemption of preference shares)	6,55,000
	2,45,000
Therefore, number of shares to be issued = ₹ 2,45,000/₹ 10 = 24,500 shares.	

CHAPTER 19

COMPANY ACCOUNTS - REDEMPTION OF DEBENTURES

THEORY SECTION



ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below

- (a) the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
- (b) the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

Sr. No.	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required
2	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No.1 above):	
	(a) All listed NBFCs (registered with RBI under section 45 - IA of the RBI Act,) and listed HFCs (Housing Financial Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required

	(b) Other listed companies for both public as well as privately placed debentures.	No DRR is required
4	For unlisted companies (other than AIFs and Banking Companies as specified in Sr. No. 1 above)	
	(a) All unlisted NBFCs (registered with RBI under section 45 - IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
	(b) Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued



INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies

- (a) All listed NBFCs
- (b) All listed HFCs
- (c) All other listed companies (other than AIFs, Banking Companies and Other FIs); and
- (d) All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

- (a) in deposits with any scheduled bank, free from charge or lien;
- (b) in unencumbered securities of the Central Government or of any State Government;
- (c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- (d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

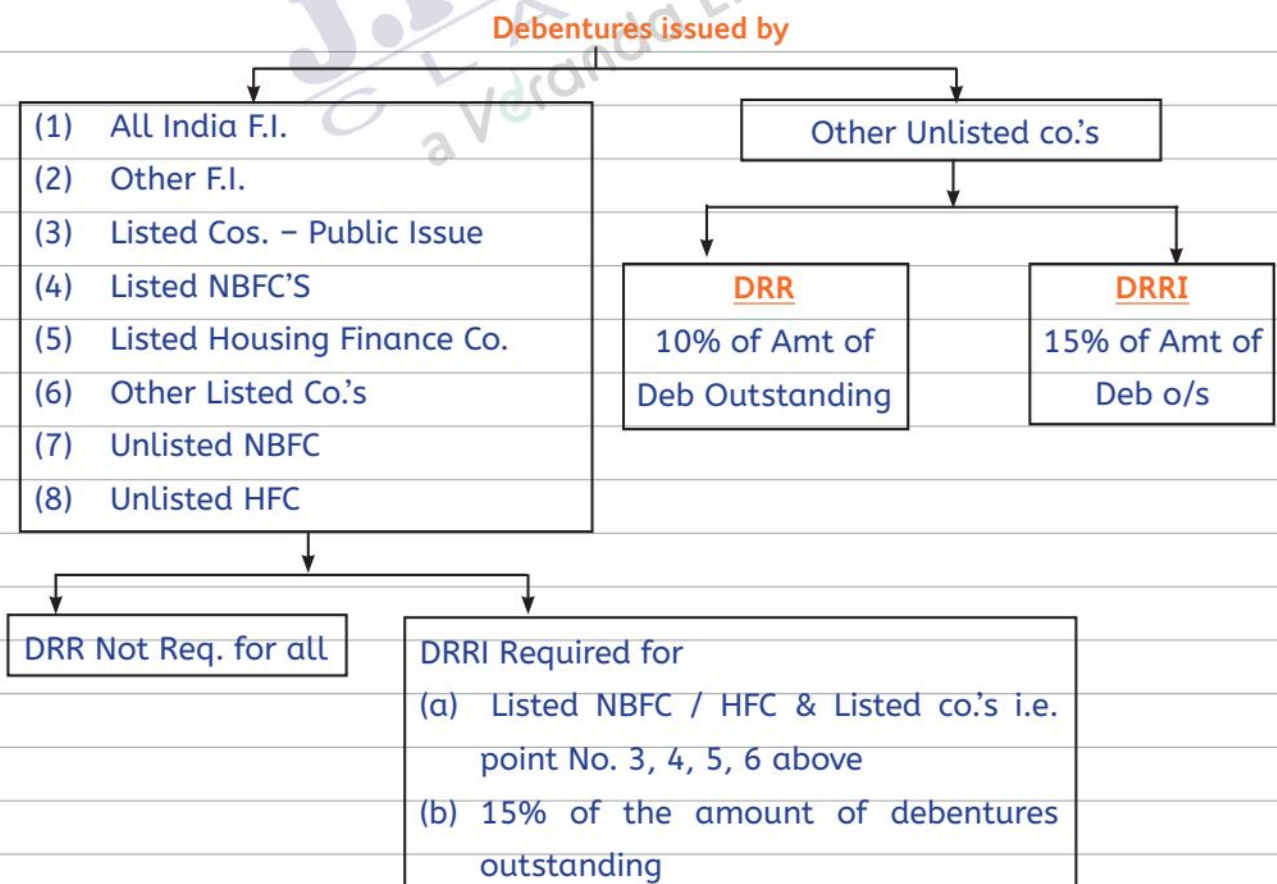
Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of nonconvertible portion of debenture issue in accordance with this sub-rule.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Note:

It should be noted that appropriation to DRR can be made any time before redemption and Investments in specified securities as mentioned above can be done before 30th April for the debentures maturing that year, however, for the sake of simplicity and ease, **it is advisable to make the appropriation and investment immediately after the debentures are allotted** assuming that the company has sufficient amount of profits (issued if allotment date is not given in the question). **Also, in some cases, the date of allotment could be missing, in such cases the appropriation and investments should be done on the first day of that year for which ledgers accounts are to be drafted.**





JOURNAL ENTRIES

The necessary journal entries passed in the books of a company are given below:

1 After allotment of debentures

(a) For setting aside the fixed amount of profit for redemption

Profit and Loss A/c	Dr.
To Debenture Redemption Reserve A/c	

(b) For investing the amount set aside for redemption

Debenture Redemption Reserve Investment A/c	Dr.
To Bank	

(c) For receipt of interest on Debenture Redemption Reserve

Investments

Bank A/c	Dr.
To Interest on Debenture Redemption Reserve Investment A/c	

(d) For transfer of interest on Debenture Redemption Reserve

Investments (DRRI)

Interest on Debenture Redemption Reserve Investment A/c	Dr.
To Profit and Loss A/c*	

- Considering the fact that interest is received each year through cash/bank account and it is not re-invested. In the illustrations given in the chapter, the same has been considered and hence interest on DRR investment is not credited to DRR A/c but taken to P&L A/c.

2 At the time of redemption of debentures

(a) For encashment of Debenture Redemption Reserve Investments

Bank A/c	Dr.
To Debenture Redemption Reserve Investment A/c	

(b) For amount due to debenture holders on redemption

Debentures A/c	Dr.
Premium on Redemption A/c	Dr.
To Debenture holders A/c	

(c) For payment to debenture holders

Debenture holders A/c	Dr.
To Bank A/c	

(d) After redemption of debentures, DRR should be transferred to general reserve

Debenture Redemption Reserve A/c	Dr.
To General Reserve A/c	

(e) W/off Premium on Redemption (POR)

Profit & Loss A/c	Dr.
To Premium on Redemption A/c	

Note:

In absence of Information assume

- (a) Profit or Loss on Debenture Redemption Reserve Investment must be transferred to Profit & Loss A/c
- (b) Loss on cancellation of own debentures must be transferred to Profit & Loss A/c
- (c) Profit on cancellation of own debentures must be transferred to Capital Reserve A/c
- (d) Premium on Redemption must be written off by using Profit & Loss A/c

Purchase of own Debentures for immediate cancellation

Method I:

(a) Purchase & immediate cancellation

_____% Debentures A/c	Dr.	F.V.	
Loss on cancellation A/c	Dr.	Loss	
To Bank A/c		----	EIP
To Profit on cancellation		----	Profit

(b) Payment of Debenture Interest

Debentures Interest A/c	Dr.	X	----
To Bank A/c		----	X

Method 2 :

If question says prepare own Debenture A/c

(a) Purchase of own Debentures

Own Debentures A/c	Dr.	EIP	----
Deb. Int. A/c	Dr.	Int.	----
To Bank A/c		----	CIP



(b) For cancellation

_____ % Debentures A/c	Dr.	FV	
→ Loss on cancellation A/c	Dr.	Loss	
OR			
To own Debenture A/c			EIP
→ To Profit on cancellation			Profit

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CLASSES
 a Veranda Enterprise

CLASSWORK SECTION

Q.1 The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2011: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.

The Interest on debentures had been paid up to December 31, 2011.

On February 28, 2012, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (including bank transactions). Ignore taxation.

Q.2 The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2011:

(i) 12 % Debentures ₹ 7,50,000

(ii) Balance of DRR ₹ 25,000

(iii) DRR Investment ₹ 1,12,500 represented by 10% 1,125 Secured Bonds of the Government of India of ₹ 100 each.

On 31-3-2012, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par, for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2012.

Assume Debenture Interest upto 31-3-12 to be already paid.

(1) Debentures Account

(2) DRR Account

(3) DRR Investment Account

(4) Bank Account

(5) Debenture Holders Account

Q.3 Pass necessary journal entries in the books of the company in following cases for redemption of 1,000, 12% Debentures of ₹10 each issued at par:

- Debentures redeemed at par by conversion into 12% Preference Shares of ₹100 each.
- Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at par.
- Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at a premium of 25%.

Q.4 The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2011 is as under:

Liabilities	₹	Assets	₹
Share Capital:		Freehold Property	1,15,000
Authorised:		Stock	1,35,000
30,000 Equity Shares of ₹10 each	3,00,000	Trade Receivables	75,000
Issued and Subscribed:		Cash	30,000
20,000 Equity Shares of ₹10 each		Balance at Bank	2,00,000
fully paid	2,00,000		
Profit and Loss Account	1,20,000		
12% Debentures	1,20,000		
Trade Payables	1,15,000		
	5,55,000		5,55,000

At the Annual General Meeting, it was resolved:

- To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- To issue one bonus share for every five shares held.
- To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Q.5 A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2011. The debentures are due for redemption on 1st July, 2012. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option

to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

Q.6 The summarised Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as on 30th June, 2011, stood as follows:

Liabilities	₹
Share Capital: 5,00,000 equity shares of ₹ 10 each fully paid	50,00,000
General Reserve	90,00,000
Profit And loss A/c	10,00,000
Debenture Redemption Reserve	10,00,000
1,00,000 13.5% Convertible Debentures,	1,00,00,000
Other loans	65,00,000
Current Liabilities and Provisions	1,25,00,000
	4,50,00,000
Assets :	₹
Fixed Assets (at cost less depreciation)	1,60,00,000
Debenture Redemption Reserve Investments	15,00,000
Cash and bank Balances	75,00,000
Other Current Assets	2,00,00,000
	4,50,00,000

The debentures are due for redemption on 1st July, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holdings into equity shares at a predetermined price of ₹ 15.75 per share and the payment in cash. Assuming that:

- (i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
- (ii) the investments were realised at par on sale; and
- (iii) all the transactions are put through, without any lag, on 1st July, 2011.

Redraft the balance sheet of the company as on 1st July, 2011 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the necessary cash payment.

Q.7 Libra Limited recently made a public issue in respect of which the following information is available:

- No. of partly convertible debentures issued - 2,00,000; face value and issue price - ₹ 100 per debenture.
- Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
- Date of closure of subscription lists- 1.5.2011, date of allotment - 1.6.2011, rate of interest on debenture - 15% payable from the date of allotment, value of equity share for the purpose of conversion - ₹ 60 (Face Value ₹ 10).
- Underwriting Commission - 2%.
- No. of debentures applied for - 1,50,000.
- Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2012 (including cash and bank entries).

Q.8. The following balances appeared in the books of X Ltd. as on 1st January 2013.

9% Debentures	₹2,50,000
10% Debentures Redemption Reserve	
(represented by ₹2,00,000, 10% Govt. Stock)	₹1,80,000

Company policy is to redeem the debentures fully out of profits.

The annual contribution to the Debenture Redemption Reserve was ₹50,000 made on 31st December each year. On 31st December, 2013, balance at bank before the receipt of interest was ₹70,000. On the date all the investments were sold at 95% and the debentures were duly redeemed.

Required:

- Pass the Journal entries for the year ending 31st December, 2013.
- Prepare (i) Debentures Redemption (DRR) A/c, (ii) Debenture Redemption Reserve Investment (DRRI) A/c (iii) 9% Debentures A/c (iv) Debentureholders' A/c and (v) Bank A/c.

HOMework SECTION

Q.1 A company had issued 40,000, 12% debentures of ₹ 100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2019. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

Q.2 During the year 2019-2020, A Limited (a listed company) made a public issue in respect of which the following information is available:

- (i) No. of partly convertible debentures issued-1,00,000; face value and issue price ₹ 100 per debenture. (Whole issue was underwritten by X Ltd.)
- (ii) Convertible portion per debenture -60%, date of conversion -on expiry of 6 months from the date of closing of issue.
- (iii) Date of closure of subscription lists -1st May,2019, date of allotment - 1st June, 2019, rate of interest on debenture -15% p.a. payable from the date of allotment, value of equity share for the purpose of conversion - ₹ 60 (face value ₹ 10)
- (iv) Underwriting Commission -2%
- (v) No. of debentures applied for by public -80,000
- (vi) Interest is payable on debentures half yearly on 30th September and 31st March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31st March,2020. (including cash and bank entries) (Jan' 21)

Q.3 AB Limited (a listed company) recently made a public issue in respect of which the following information is available:

- (i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price ₹ 100 per debenture.
- (ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of issue.

- (iii) Date of closure of subscription lists 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity share as on date of conversion ₹ 60 (Face Value ₹ 10).
 - (iv) Underwriting Commission 1%
 - (v) No. of debentures applied for 2,50,000.
 - (vi) Interest payable on debentures half-yearly on 30th September and 31st March.
- Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries). (July' 21)

Q.4 A Company had issued 25,000, 12% Debentures of ₹ 100 each on 1st April, 2018. The Debentures were due for redemption on 1st July, 2020. The terms of issue of Debentures provided that they will be redeemable at a premium of 5% and also conferred option to convert 20% of their holding into equity Shares (Nominal value ₹ 10 each) at a price of ₹ 20 per share.

Debenture holders holding 5,000 Debentures did not exercise the option. Calculate the number of Equity shares to be allotted to the debenture holders exercising the option to the maximum. (Dec' 21)

Q.5 The following balances appeared in the books of R Ltd. on 1-4-2013:

1. Debenture Redemption Fund ₹60,000 represented by investments of an equal amount (nominal value ₹75,000).
2. The 12% Debentures stood at ₹90,000.

Company policy is to redeem the debentures fully out of profits.

The company sold required amount of investments at 90% for redemption of ₹30,000 debentures at a premium of 20% on the above date. Show the (i) 12% Debentures Account; (ii) Debenture Redemption Fund Account; (iii) Debenture Redemption Fund Investment Account; and (iv) Debentureholders' Account.

Q.6 Hindustan Pvt. Ltd. had issued 5000 – 12% debentures of ₹100 each redeemable on 31-12-2013 at par.

The company offered three options to the Debentureholders as under:

- (i) 14% Preference shares of ₹10 each at ₹12.
- (ii) 15% Debentures of ₹100 each at par.
- (iii) Redemption in cash.

The options were accepted as under:

Option (i) by holders of 1500 debentures

Option (ii) by holders of 1500 debentures

Option (iii) by holders of 2000 debentures.

The redemption was carried out by the Co.

Pass journal entries in the books of Hindustan Pvt. Ltd. without narration. Company decided to use the minimum amount of profits required by law.

Q.7 Hindustan Manufacturing Limited gave notice of its intention to redeem its 6% Debenture, amounting to ₹ 4,00,000 of ₹100 each at ₹102 and offered the debenture holders the following three options, to apply the redemption money to subscribe for:

(a) 5% cumulative preference shares of ₹20 each at ₹22.50 per share.

(b) 6% debenture at ₹96 and

(c) to have their holdings redeemed for cash.

Debenture holders for ₹1,71,000 accepted the proposal (a)

Debenture holders for ₹1,44,000 accepted the proposal (b)

Remaining debenture holders accepted the proposal (c).

Pass the necessary journal entries to record the above transactions in the books of the company. The redemption in cash, wherever applicable, was made fully out of profit.

HOMEWORK SOLUTION

Q.1

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000

Redemption value of 7,000 debentures at a premium of 5% [7,000 × (100+5)] ₹7,35,000

Equity shares of ₹10 each issued to debenture holders on redemption
[₹7,35,000 / ₹15] 49,000 shares

Amount of cash to be paid
Amount to be paid into cash [42,00,000 (40,000 × ₹ 105) – 7,35,000] on redemption ₹34,65,000

Q.2

Journal Entries in the books of A Ltd.

Date	Particulars	Amount Dr. ₹	Amount Cr. ₹
1.5.2019	Bank A/c Dr. To Debenture Application A/c (Application money received on 80,000 debentures @ ₹100 each)	80,00,000	80,00,000
1.6.2019	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)	80,00,000 20,00,000	1,00,00,000

	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2% on ₹ 1,00,00,000)	Dr.	2,00,000	2,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	18,00,000	18,00,000
01.06.2019	Debenture Redemption Investment A/c To Bank A/c (1,00,000 × 100 × 15% × 40%) (Being Investments made for redemp- tion purpose)	Dr.	6,00,000	6,00,000
30.9.2019	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)	Dr.	5,00,000	5,00,000
31.10.2019	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	60,00,000	10,00,000 50,00,000
31.3.2020	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (Refer working note below)	Dr.	3,75,000	3,75,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2020

On ₹ 40,00,000 for 6 months @ 15% = ₹ 3,00,000

On ₹ 60,00,000 for 1 months @ 15% = 75,000

3,75,000

Q.3

Date	Particulars	Debit (₹)	Credit (₹)
1.05.2020	Bank A/c Dr. To Debenture Application A/c (Being application money received on 2,50,000 debentures @ ₹100/- each)	2,50,00,000	2,50,00,000
1.06.2020	Debenture Application A/c Dr. Underwriters A/c Dr. To 8% Debentures A/c (Being allotment of 2,50,000 debentures to applicants and 50,000 debentures to underwriters)	2,50,00,000 50,00,000	3,00,00,000
1.06.2020	Underwriting Commission A/c Dr. To Underwriters A/c (Being commission payable to underwriters @ 1% on ₹ 3,00,00,000)	3,00,000	3,00,000
1.06.2020	Bank A/c Dr. To Underwriters A/c (Being amount received from underwriters in settlement)	47,00,000	47,00,000
1.06.2020	Debenture Redemption Investments A/c Dr. To Bank A/c (3,00,000 × 100 × 15% × 40% - Being investments for redemption purposes)	18,00,000	18,00,000
30.09.2020	Debenture Interest A/c Dr. To Bank (Being interest paid on debentures for 4 months @ 8% on ₹ 3,00,00,000)	8,00,000	8,00,000
30.11.2020	8% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being conversion of 60% of the debentures into shares of ₹ 60 each with a face value of ₹10/-)	1,80,00,000	30,00,000 1,50,00,000
31.03.2021	Debenture Interest A/c Dr. To Bank A/c (Being interest paid on debentures for 6 months @ 8%)	7,20,000	7,20,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2021 On ₹ 1,20,00,000
for 6 months @ 8% = ₹4,80,000
On ₹ 1,80,00,000 for 2 months @ 8% = ₹ 2,40,000
₹7,20,000

Q.4

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	25,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	20,000
Option for conversion	20%
Number of debentures to be converted (20% of 20,000)	4,000
Redemption value of 4,000 debentures at a premium of 5% [4,000 × (100+5)]	₹ 4,20,000
Equity shares of ₹ 10 each issued on conversion [₹ 4,20,000/ ₹ 20]	21,000 shares

Q.5

In the Books of R Ltd.

Dr.			12% Debentures Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
1-4-2013	To Debentureholder's A/c	30,000	1-4-2013	By Balance b/d	90,000			
1-4-2013	By Balance c/d	60,000						
		90,000			90,000			
			1-4-2013	By Balance b/d	60,000			

Dr.			Debentures Redemption Fund Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
1-4-2013	To Premium on Redemption of Debenture A/c	6,000	1-4-2013	By Balance b/d	60,000			

			1-4-2013	By Debenture Redemption Fund Investment A/c	4,000
1-4-2013	To General Reserve A/c (transferred)	30,000			
1-4-2013	To Balance c/d	28,000			
		64,000			64,000
			1-4-2013	By Balance b/d	28,000

Dr.			Cr.		
Debentures Redemption Fund Investment Account					
Date	Particulars	₹	Date	Particulars	₹
1-4-2013	To Balance b/d (Nominal value ₹75,000)	60,000	1-4-2013	By Bank A/c	36,000
1-4-2013	To Debenture Redemption Fund A/c (WN 2)	4,000	1-4-2013	By Balance c/d	28,000
		64,000			64,000
1-4-2013	By Balance b/d	28,000			

Dr.			Cr.		
Debentureholders' Account					
Date	Particulars	₹	Date	Particulars	₹
1-4-2013	To Bank A/c	36,000	1-4-2013	By 12% Debentures A/c	30,000
			1-4-2013	By Premium on Redemption of Debenture A/c	6,000
		36,000			36,000

Working Notes:

1. Debentures of ₹ 30,000 are to be redeemed at a premium of 20%. Therefore, the amount payable to the debentureholders is ₹ 30,000 × 120% = ₹36,000. To get ₹ 36,000, investments worth ₹ 40,000 is to be sold at 90% (₹36,000/90% = ₹40,000).

2. Profit on Sale of Investments:	₹
Sale proceeds from investments (as above)	36,000
Less: Cost of Investments sold (₹60,000/75,000 × 40,000)	32,000
Profit on Sale of Investments	<u>4,000</u>

Q.6

HINDUSTAN LTD.

Journal

No.	Particulars	Dr. ₹	Cr. ₹
	Common Entry		
1.	12% Debentures A/c Dr. To 12% Debentureholders A/c [5,000 x 100]	5,00,000	5,00,000
	Option (i)		
2.	12% Debentures A/c Dr. To 14% Preference Share Capital [12,500 x 10] To Securities Premium A/c [12,500 x 2]	1,50,000	1,25,000 25,000
	Option (ii)		
3.	12% Debentures A/c Dr. To 15% Debentureholders A/c [1,500 x 100]	1,50,000	1,50,000
4.	Profit & Loss A/c Dr. To General Reserve A/c [Being debentures redeemed out of minimum profits (10% of FV) allowed under S.117C of the Companies Act]	20,000	20,000
	Option (iii)		
5.	12% Debentures A/c Dr. To Bank A/c [2,000 x 100]	2,00,000	2,00,000

Working Note:

$$\text{Number of Preference Shares Issued} = \frac{1,50,000}{12} = 12,500$$

Q.7

Journal of Hindustan Mfg.Co.Ltd.

No.	Particulars	Debit ₹	Credit ₹
1.	6% Debentures A/c Dr. Premium on Redemption of Debentures Dr. To Debentureholders A/c	4,00,000 8,000	4,08,000
	[Being amount payable on redemption of Debentures at premium of 2%]		
2.	Debentureholders A/c Dr. To 5% Cum. Pref. Share Capital A/c To Security Premium A/c	1,74,420	1,55,040 19,380



	[Being 7,752 Shares of ₹20 issued at premium of ₹2.50 against redemption of Debentures worth ₹1,71,000: WN 1 (a)]			
3.	Debentureholders A/c Dr.	1,46,880		
	Discount on Issue of 6% Debentures Dr.	6,120		
	To 6% Debentures (New) A/c		1,53,000	
	[Being new debentures of ₹100 issued @ ₹96 each against redemption of debentures worth ₹1,44,000: WN 1 (b)]			
4.	Debentureholders A/c Dr.	86,700		
	To Bank A/c		86,700	
	[Being amount paid on redemption of part Debentures in cash: WN 1 (c)]			
5.	Security Premium Dr.	8,000		
	To Premium on Redemption of Debentures		8,000	
	[Being premium on redemption of debentures adjusted]			
6.	Profit & Loss A/c Dr.	85,000		
	To General Reserve A/c		85,000	
	[Being transfer of amount equal to face value of debentures redeemed in cash: WN 2]			

Working Note:

1. Options for Redemption:	₹
(a) Preference Shares of ₹ 20 @ ₹ 22.50:	
Face Value of Debentures redeemed against Pref. Shares	1,71,000
Add: 2% Premium	3,420
Total Amount Due	<u>1,74,420</u>
No. of pref. Shares Issued (1,74,420/22.50) = 7,752	
Face value of Pref. Shares 7,752 × ₹20	1,55,040
Premium on issue of Pref. Shares 7,752 × ₹2.50	19,380
	<u>1,74,420</u>
(b) 6% Debentures of ₹100 @ ₹96:	
Face value of Debentures redeemed against New Debentures	1,44,000
Add: 2% Premium	<u>2,880</u>

Total Amount Due	<u>1,46,880</u>
No. of Debentures Issued $(1,46,880/96) = 1,530$	
Face value of Debentures $1,530 \times 100$	1,53,000
Less: Discount on Issue of Deb. $1,530 \times ₹4$	<u>6,120</u>
	<u>1,46,880</u>

(c) Cash:

Face value of Debentures redeemed against Cash (balance)	85,000
$(4,00,000 - 1,71,000 - 1,44,000)$	
Add: 2% Premium	<u>1,700</u>
Total Amount Due & Paid in Cash	<u>86,700</u>

2. Entry (5) is passed to transfer the amount equal to face value of debentures redeemed in cash to general reserves as the redemption is **fully** out of profits.