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ACCOUNTING

Head Office

Shraddha, 4th Floor, Old Nagardas Road,
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022 - 2683 66 66

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INDEX : ACCOUNTING

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CHAPTER 1
INTRODUCTION AND FUNDAMENTAL TO ACCOUNT

THEORY SECTION

UNIT I – MEANING AND SCOPE OF ACCOUNTING

Although accounting is used by almost all the persons and institutions but accounting, as an organized activity is associated with everyday business. Due to importance of accounting for a business, accounting is called the "Language" of business. According to Amercian Accounting Association, "accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information". Accounting can be viewed as an information system which has input processing methods and output.

1. Accounting is process comprising
    (a) Recording of transactions.
    (b) Classifying and summarizing of transactions.
    (c) Interpreting the results.
    (d) Communicating the results to interested parties.
2. Accounting requires transactions to be expressed in monetary terms.
3. It is not confined only to recording but also related to interpreting the results.
4. It helps in communicating information to various groups interested in them.

Transaction & events:

All economic activities are performed through transactions & events. Transaction means performance of business act & events means consequence of transaction. e.g. profits, closing stock are events.

What is procedure / objective of accounting?

1. Recording – recording all transactions / events in subsidiary books from source documents.

2. Classifying (grouping / marshalling) – grouping transaction of same nature at one place i.e. posting in ledger a/c.

3. Summarising – i.e. preparing trial balance, P & L a/c & balance sheet. (Stage upto preparation of trial balance is book keeping).

4. Analysing – Classification of data in financial statement e.g. fixed assets are separated from current asset in balance sheet.

5. Interpretation – explaining meaning & significance of data in financial statements so that user can have judgement about position & profitability of business.

6. Communication – Of above accounting information to end users through accounting reports.

Who are users of accounting information?

There are two users

Internal	**External**
Boards of directors, partners management, employees	Investors, lenders supplier / customers, government

Subfield of accounting

- Financial Accounting
- Management Accounting
- Cost Accounting
- Social reporting Accounting
- Human resource Accounting

Financial Accounting - making financial statements & communicating the same

Management Accounting - Internal reporting to management by grouping information & preparing reports.

Cost Accounting- finding cost of goods & services & controlling it.

Social reporting Accounting - accounting for social costs & benefits of enterprise.

Human resource Accounting - attempt to quantify & report investment made in human resource by an organisation.

Functions of accounting

1. Measurement of past performance.
2. Forecasting future performance based on past data.
3. Facilitates decision making based on data.
4. Control of weakness in systems .
5. Provide data for regulation and tax.

Distinguish between Bookkeeping & Accounting

	Book keeping	Accounting
1	Concerned with recording of transactions.	Concerned with summarising of recorded transaction.
2	It is a base of accounting.	It is a language of business.
3	No subfield.	It has several subfields.
4	Financial statements are not part of bookkeeping and so financial position cannot be ascertained.	Financial statement are prepared in accounting and so financial position can be ascertained.
5	Managerial decision cannot be taken on basis of these records.	Management takes decisions based on these records.

Root cause of financial accounting

In its oldest form, accounting aided the stewards to discharge their stewardship function. The wealthy men employed stewards to manage their property; the stewards in turn rendered an account periodically of their stewardship. This 'Stewardship Accounting' was the root of financial accounting system.

Limitations of Accounting

1. Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.

2. Accounting ignores changes in some money factors like inflation etc.
3. There are occasions when accounting principles conflict with each other.
4. Certain accounting estimates depend on the sheer personal judgement of the accountant, e.g., provision for doubtful debts, method of depreciation adopted, recording certain expenditure as revenue expenditure or capital expenditure, selection of method of valuation of inventories and the list is quite long.
5. Financial statements consider those assets which can be expressed in monetary terms. Human resources although the very important asset of the enterprise are not shown in the balance sheet.
6. Different accounting policies for the treatment of same item are followed.

UNIT II – ACCOUNTING CONCEPTS, CONVENTIONS AND PRINCIPLES

What are concept, Conventions & principles

Concept = Assumption having universal application based on which financial statements are prepared.

Conventions = Rules as per usage, practice & customs.

Principle = rules relating to theory & procedures.

Above are known as GAAP (Generally Accepted Accounting Principles) which is backbone of accounting system.

Various Concept , Conventions & Principle

Basic	**Valuation**	**Income measurement & Recognition of assets & liabilities**	**Others**
Business Entity	Going concern	Periodicity	Disclosures
Money measurement	Cost concept	Matching	Materiality
Dual aspect	Realisation	Accrual	Consistency
			Conservatism

(1) Business Entity or Entity Concept:

Entity concept states that business enterprise is a separate identity apart from its owner. Accountants should treat a business as distinct from its owner. Business transactions are recorded in the business books of accounts and owner's transactions in his personal books of accounts.

Summary of the Concept:

- Business & owners are considered as separate entities.
- Capital is considered as liability.
- Personal Expenses are considered as Drawings.
- Interest is provided on Capital & charged on Drawings.

(2) Money Measurement :

As per this concept, only those transactions, which can be measured in terms of money are recorded. Transactions, even if, they affect the results of the business materially, are not recorded if they are not convertible in monetary terms. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

Summary of the Concept:

- Only those transactions / events are recognised which can be expressed in terms of money.
- Qualitative aspects of business are ignored. E.g.Quarrel between partners, efficiency of employees, change in fashions and change in government policies.
- According to Money measurement currency transactions & events are recorded in books of accounts in the ruling currency of the country in which books of accounts are prepared.

(3) Dual Aspect

- Every Business transaction has two effects on assets and liabilities of Business. This gives rise to basic accounting equation
  i.e. Equity + Liabilties = Assets or
  Equity = Assets – Liabilities or
  Equity + longterm liability + Current Liability = Fixed asset + Current Asset or
  Equity = Fixed assets + working Capital – Longterm liabilities

- Impacts of Every transaction
  (a) ↑ in some assets & ↓ in some liabilities.
  (b) ↑ in some assets & ↓ in some liabilities.
  (c) ↑ in some assets & ↓ in some assets.
  (d) ↑ in some liabilities & ↓ in some liabilities.

(4) Going Concern / Continuity:

- Financial Statements are normally prepared on assumption that business has indefinite Life.
- This concept enables distinction between capital and Revenue.
- This concept determines value of fixed asset and depreciation. It also forms basis of bifurcation of asset into fixed asset and current assets.
- This concept not applicable to Joint Venture business.

(5) Cost Concept :

- As per this concept, assets are recorded at historical cost (Price paid for it) and not at current market value.
- This is done because cost is objective and assets are held to earn revenue.

(6) Realisation

As per this concept-

- Income / Revenue of a period should be recognised only when it is certain that amount will be realised and ownership of goods transferred.
- Asset should not be valued at market price i.e. any change in the value of asset to be recorded only when realised.

(7) Periodicity Concept (also called concept of definite accounting period):-

- Indefinite life of the business is classified in small intervals called as accounting years for measuring performance and financial position.
- According to this concept accounts should be prepared every year & not at end of life of entity, thus making comparison of financial statements of different periods possible.

(8) Matching

- Revenue / sales of current period should be matched with expenditure incurred to generate that revenue.
- Profit = periodic revenue – matched expenses
- This concept determines expenses and closing stock.

(9) Accural

- Income / Expenses are recognised when they are earned / incurred and not when money is received / paid.
- As per this concept profit = Revenue – Expenses whereas as per the cash basis of accountancy profit = Cash Received – Cash Paid.
- This concept leads to accounting for prepaid expenses / pre received income or outstanding expenses / income receivable.
- e.g.: Mr. J D buys clothing of 50,000 paying cash 20,000 and sells at 60,000 of which customers paid only 50,000. Therefore profit of J D as per accrual concept is 10,000.

(10) Disclosure

- As per this concept, all material facts are to be disclosed in or below financial statements.
- This will help readers of financial statements to take rationale decisions.
- As per this concept all significant accounting policies used in financial statements, contingent liabilities & Events occurring after Balance sheet date are disclosed as foot note to financial statements.

(11) Materiality (Relative importance)

- All material information should be separately shown and all immaterial information can be clubbed in financial statements.
- Material information depends upon amount, size of business, nature of information, etc.
- E.g. depreciation on small items like books, calculator, to be taken at 100% in the year of purchase it self, stationery stock is normally debited to stationery expenses, paises in any financial items are rounded off to nearest rupee.

(12) Consistency

- An accounting policy (methods) selected once should be consistently followed year after year e.g. depreciation methods, inventory methods etc.
- This is to achieve comparability of financial statements of enterprise over a period of time.
- Change is accounting policy is allowed only when
  (a) Required by Law or accounting standards.
  (b) For improvement of Reporting / Presentation of financial statements.
- Comparison of performance of organisation from year to year is based on horizontal consistency.

(13) Conservatism (Prudence)

- As per this concept, all anticipated losses are provided for but anticipated profit are ignored.
- Because of this convention closing stock is valued at cost or market price whichever is lower.
- This convention leads to Reserve for Doubtful Debts & Reserve for Discount on Debtors creation.
- This convention denies Reserve for Discount on Creditors.

- This concept leads to under statement of assets and incomes and over statement of liabilities and expenses.

Fundamental Accounting Assumptions

There are three fundamental accounting assumptions :

(i) Going Concern

(ii) Consistency

(iii) Accrual

If nothing has been written about the fundamental accounting assumption in the financial statements then it is assumed that they have already been followed in their preparation of financial statements. However, if any of the above mentioned fundamental accounting assumption is not followed then this fact should be specifically disclosed.

Qualitative characteristics of financial statements

(a) Principal characteristics

1. Understandability – Information provided in financial statements should be readily understandable to users.

2. Relevance – Information in financial statements must be relevant to make decision of future for users.

3. Reliable – Information in Financial statements should be free from errors so that users can take rationale decisions.

4. Comparability – Financial statements should be comparable over period of time & with financial statements of other enterprises. Compliance with Accounting Standards & disclosure of accounting policies in financial statements helps comparability.

(b) Other characteristics

1. Faithful representation – transactions & events should be represented as it is in financial statements.

2. Substance over form – Accounting to be done as per substance or facts, reality & not merely as per its legal form e.g. where immovable property sold but legal formalities pending, sales / purchase of such property should still be recorded in books.

3. Neutral – information in financial statement should be free from bias.

4. Materiality - explained earlier

5. Prudence - (degree of caution to be exercised in preparation of financial statements.) this concept is similar to conservatism.

6. Adequate disclosure – explained earlier.

7. Completeness – information in financial statements should be complete as omission can cause information to be false and misleading.

Difference Between Cash & mercantile system of accounting

	Cash System	Mercantile System
1	Transaction is recognized only when cash is received or paid.	Transaction is recognized only when liability / asset is created.
2	Entries are made only when cash is received or paid.	Entries are made when amount becomes due for payment / receipt irrespective of whether actual cash is paid or received.
3	Normally followed by professionals, educational institutions or NPO.	This is generally accepted accounting system by business entities.

UNIT III – CONCEPT OF CAPITAL AND REVENUE

Capital and Revenue Expenditure

Expenditure

Capital (fixed asset)	Revenue	Deferred Revenue
↓	↓	↓
1 Acquisition of Assets	Day to Day Expenses (recurring)	Non-recurring (long benefit period)
2 Expenditure incidental to purchase of asset i.e. first time expenditure to bring asset to working condition	↓	↓
	Benefit period < 1 year (includes some non-recurring Expense with no extended benefit)	Also called as Fictitious assets
3 Interest on Borrowings during construction period		
	↓	↓
4 Overhauling/special repairs which will increase life or efficiency or earning capacity of asset	Appears in Trading /P& L a/c	Appears in Balance sheet as "Miscellaneous Expenditure"
5 Acquisition of rights		
↓		

→ Non Recurring in nature

→ Benefit Period > 1 year

→ Appears as Fixed Assets in Balance-sheet

Note: Bifurcation of expenditure into capital and revenue also depends upon nature of business e.g. Furniture is revenue expenditure (purchase) for furniture dealer but it is capital expenditure for other organisations.

Examples of Capital Expenditure

(1) Purchase of Tangible Assets.

(2) Acquisition of Intangible Assets.

(3) Non- recuring Expenses incurred at the time of purchase of assets like installation of machine, Registration of vehicles, Legal Expenses, first time white wash of factory.

(4) Expenses by which efficiency or life of assets will increases e.g. renovation expenses which increases seating capacity of cinema hall or overhauling of machinery.

(5) Interest on loan for construction Period of assets.

(6) First time repairs of secondhand asset.

(7) Money spent to reduce working expenses.

(8) Expenses in connection with obtaining a licence for running the cinema.

(9) Amount spent for construction of temporary huts which were necessary for construction of cinema house & were demolished when cinema house was ready.

(10) Petrol driven engine of passenger bus was replaced by diesel engine.

Examples of Revenue Expenditure

(1) All day to day expenses like salaries, printing & stationery, postage, wages, travelling, Advertising etc. (no enduring benefits).

(2) Even some non-recurring expenses with no future benefit.

- (a) Accident compensations paid.
- (b) Bonus payment to employees.
- (c) Replacement of defective parts of machine.
- (d) Research & development expenses of project abondoned.
- (e) Purchase of uniform for employees.
- (f) White washing of factory.
- (g) Compensations for breach of contract.
- (h) Renewal of licence.
- (i) 1000 paid for removal of stock to new site.
- (j) Inanguration expenses of 25 lakhs incurred on opening new manufacturing unit in existing business.
- (k) Renewal fees for patents.
- (l) Custom duty on material.

Examples of Deferred Revenue Expenditure:(Fictitious assets):

(1) Special Advertisement for launching a new product.
(2) Preliminary Expenses to start a new company.
(3) Discount/ Issue Expenses on shares/Debentures.
(4) Underwriting commission.
(5) Inauguration Expenses of new office/factory.
(6) Research and Development Expenses.
(7) Expenses on preparation of Project Report.
(8) Compensation of 2.5 crores paid to workers who opted for voluntary retirement.
(9) Amount paid to management company for consultancy to reduce working expenses.

Note: revenue expenditure wrongly recorded as capital expenditure will lead to overstatement of profit and asset and vice versa.

Receipts

Capital	Revenue (obtained in course of normal business activity)
↓	↓
Non Recurring in nature (Affects long term items in the Balance Sheet)	Recurring in nature (Affects Short term items Balance Sheet and & P& L A/c)

Examples of Capital Receipts:

(1) Issue of Shares/Debentures.
(2) Capital brought by proprietor/partner.
(3) Bank Loan Raised.
(4) Sale of Fixed Assets / Investments.
(5) Legacies/Admission fees/ Entrance fees received.
(6) Insurance claim received on account of machinery damaged by fire.
(7) Entrance frees received by social club.
(8) Term loan taken from bank.

Examples of Revenue Receipts:

(1) Brokerage Received by Broker.

(2) Commission Received by Agent.

(3) Interest/Dividend on Investments.

(4) Collection from debtors.

(5) Bad debts Recovered.

(6) Bill Receivable honoured.

(7) Advance from customers.

(8) Subsidy of 40,000 received from government for working capital by manufacturing concern.

Capital and Revenue Payments

Payments

Capital	Revenue
↓	↓
Non Recurring in nature (Affects long term items in the Balance sheet	Recurring in nature (Affects Short term items in the Balance Sheet

Examples of capital payments:

(1) Redemption of Shares/Debentures

(2) Capital withdrawn by proprietor/ partner

(3) Bank Loan repaid

(4) Investments made

(5) Deposits placed

Examples of Revenue payments:

(1) Payment to Creditors

(2) Bills payable honoured

(3) Outstanding Expenses of last year paid

(4) Advance to suppliers.

Treatment of sale of fixed assets:

A. Sale of fixed asset at loss

e.g. Original cost = 10,000

WDV = 4,000

Selling price = 2,500

Interpretation

Capital receipt = 2500

Revenue loss = 1500

B. Sales of fixed asset at profit (sale proceeds < original cost)

e.g. Original cost = 10,000

Selling price = 6,500

WDV = 4,000

Interpretation

Capital receipt = 4,000

Revenue profit = 2,500

C. Sale of fixed asset at profit (Sale proceeds > original cost)

e.g. Selling price = 11,000

Original cost = 10,000

WDV = 4,000

Interpretation

Capital receipt = 4,000

Capital Profit = 1,000

Revenue Profit = 6,000

Distinguish between

1. Going Concern concept and Cost concept

Going Concern concept	Cost concept
This is a fundamental accounting assumption and is assumed to be followed is financial statement.	This is not a fundamental accounting assumption.
In this concept it is assumed that the enterprise will continue in operation for foreseeable future and there is no intention to close down the business.	According to this concept the value of an asset is to be determined on the basis of historical cost (acquisition cost).
This concept affects all items of financial statements, if not followed.	This concept affects fixed assets.

2. Capital and Revenue

Basis	Capital Expenditure	Revenue Expenditure
Purpose	Incurred for acquiring fixed assets to be used in business.	Incurred for day to day operations of business.
Earning Capacity	Increase.	Remains Same.
Treatment	Is shown in balance sheet.	Is shown as a part of Trading and Profit and Loss A/c.
Nature	Non recurring in nature.	Recurring in nature.
Examples	(i) Cost of fixed assets. (ii) Installation expenses.	(i) Depreciation of fixed Assets. (ii) Repairs and maintence of plant and machinery.

UNIT IV – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Distinguish Between

	Provisions	Reserves	Contingent Liabilites	Contingent assets
1.	Profit kept aside for known liability.	Profit kept aside for unknown liability.	Liabilities arising from past events and whose existence is confirmed by future uncertain events.	Assets arising from past events and whose existence is confirmed by future uncertain events (arises out of unplanned & uncertain future events).
2.	Amount cannot be determined with accuracy but reliably estimated.	–	Estimate of liability cannot be made reliably.	Estimate of asset cannot be made with reliability.
3.	Satisfies recognition criteria & shown in Balance Sheet (liability). Further it is charge against profit.	Shown in balance sheet (liability) Further it is appropriation out of profits.	Does not satisfy recognition criteria & shown as notes to balance sheet (below balance sheet).	As per prudence not shown in accounts but shown in report of approving authority such as Directors report.
4.	Out flow of economic resource probable.	No outflow of resources.	Outflow of economic resource not probable & if probable cannot be estimated.	Possibility of inflow of resources (probable) but not certain.
5.	e.g. depreciation RDD, tax liability	e.g. retained profit	e.g. Claims in court cases, guarentees, bill discounting, uncalled investments, arrears of preference dividend.	e.g. Legal cases

UNIT V – ACCOUNTING POLICIES

Accounting Policies

Accounting policy refers to specific accounting principles and method of applying this principles adopted by an organisation in preparing financial statements.

Areas where different accounting policies may be followed are

(1) Method of Valuation of Investments.
(2) Method of Valuation of Inventories.
(3) Method of Valuation of Goodwill.
(4) Method of Depreciation.
(5) Method of Calculation of Retirement benefit of Employees.

Accounting policies followed in the financial statements change from concern to concern

An accounting policy selected once should be consistently followed. However, change in accounting policy is permitted in following 3 cases:

(a) Required by law
(b) Required by Accounting Standard
(c) Required for better presentation of accounts.

Selection of an accounting policy depends on following factors:

(a) Prudence
(b) Substance over form
(c) Materiality

- All significant accounting policies followed in financial statements should be disclosed. But disclosure of accounting policies in financial statements cannot rectify a wrong treatment of an accounting items.

- Choice of accounting policies affect performance & financial position of organization. Selection of wrong accounting policies may lead to over or under statement of performance & financial position.

- If accounting policies are changed effect of such change should be stated & quantified in financial statement.

UNIT VI – Accounting as a Measurement Discipline – Valuation Principles, Accounting Estimates

Accounting as a measurement discipline

- Measurment is vital aspect of accounting
- Transactions and events are measured in terms of money
- Measurement deals with three elements viz
  1. Indentification of events
  2. Selection of standard / scale of measurement
  3. Evaluation of dimension of such scale

- In accounting money is a scale of measurement but money as a scale has no universal denomination, it takes the shape of currency ruling in a country e.g. in india it is , in US it is USD. Since rate of exchange fluctuates between two currencies over time, money as a scale also becomes volatile.

- Further money as a measurement scale is not stable. There occures continuous changes in input output prices. Same quantity of money may not have ability to buy same quantity of identical goods at different date. Thus information of one year measured in money terms may not be comparable with that of another year. (i.e. due to inflation).

- Since accounting measures information in money terms (which is not stable scale in respect of universal application and with respect to dimension for comparision over period of time) accounting is not an exact measurement discipline.

Valuation principles

Assets & Liabilities can be valued as per following alternative principles–

1. Historical cost:
   (a) Assets are valued at amount paid for it at time of acquisition.
   (b) Liabilities are valued at amount received in exchange for such liability / at amount expected to be paid to satisfy it.

2. Current cost:
   (a) Assets are valued at amount that would have to be paid if same / similar asset was acquired currently.
   (b) Liabilities are valued at amount that would be required to settle the liabilities currently.

3. Realisable Value:

(a) Assets are valued at amount that would be currently received by selling the asset.

(b) Liabilities are valued at amount required to settle / pay the liabilities in ordinary course.

4. Present value :

(a) Assets are valued at discounted value of future net cash inflows expected out of such asset in normal course of busness.

(b) Liabilities are valued at discounted value of future net cash outflows expected to settle the liabilities & in normal course of business.

Accounting Estimates

- Management makes various estimates or assumptions with regards to assets, liabilities, expenses & incomes due to uncertainties inherent in business.

- Such estimates are made in connection with depreciation, amortization, RDD, outstanding expenses, employee retirement benefits, determining bad debts, useful life / residual value of fixed assets, Inventory obsolescence.

- Changes in accounting estimate means difference arising between

Parameters estimated earlier &

reestimated in current year or Actual results achieved in current year

UNIT VII – ACCOUNTING STANDARDS

What is an accounting standard?

Accounting standard is document issued by ICAI which deals with

Recognisation of events & transactions & Its measurement, presentation & disclosure in financial statement

What are objectives / advantages of accounting standard?

1. Eliminates variation in accounting treatment i.e. harmonises accounting treatment.
2. Standardise accounting policies & norms.
3. Above 2 objectives facilitates transparency, consistency, comparability & reliability of financial statements of different organizations.
4. Standard may require disclosure of certain important information in financial statements which may not be required as per law.

What are limitation of accounting standards ?

1. Sometimes accounting standard may recommend more that one alternative accounting treatment. Then choice between two accounting treatment may be difficult.
2. Accounting standards cannot override statute (law).

UNIT VIII – INDIAN ACCOUNTING STANDARD (IND AS)

Write a note on Ind AS

1. A need was felt for standard accounting norms world over to facilitate comparability & transperancy of financial statements of organization of different countries.

2. So International Accounting Standard board (IASB) issued International financial reporting standard (IFRS) to standardize accounting norms world over.

3. This standardization would help has follows –
   - → Raise capital from foreign country.
   - → Facilitate global listing of shares of company & consequently facilitate global flow of money.
   - → Facilitate comparability of financial statement of companies in different countries.
   - → Boost confidence of global investors.

4. In India, government along with Accounting standard board of ICAI decided to converge & not adopt IFRS. So Ind AS are IFRS converged standards issued by central government under supervision & control of accounting standard board (ASB) of ICAI & in consultation with national advisory committee on accounting standard (NACAS).

CHAPTER 2
ACCOUNTING PROCESS - BOA AND TRIAL BALANCE AND THEORY

THEORY SECTION

UNIT I - BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES

Double Entry System

Double entry system of accounting is more than 500 years old. Double entry system of accounting owes its origin to "Luca Pacioli" an Italian mathematician. It is the only scientific system of accounting. According to it, every transaction has two-fold aspects debit and credit and both the aspects are to be recorded in the books of accounts. Therefore, in every transaction at least two accounts are effected.

Advantages of Double Entry System

(i) By the use of this system the accuracy of the accounting work can be established, through the trial balance.

(ii) The profit earned or loss suffered during a period and financial position of enterprise can be known by preparation of P & L Statement and balance sheet at the end of each year.

(iii) The system permits accounts to be kept in as much details as necessary and, therefore affords significant information for the purposes of control etc.

(iv) Result of one year may be compared with those of previous years and reasons for the change may be ascertained.

Transactions

Transactions are performance of business act. These transactions are recorded in books accounts as per two approaches –

1. Accounting Equation Approach.
2. Traditional Approach.

1. Accounting Equation Approach:

The relationship of assets with that of liabilities and owners' equity (capital) in the equation form is known as 'Accounting Equation'. Under double entry system, every business transaction has two-fold effect on the business enterprise where each transaction affects changes in assets, liabilities or capital in such a way that an accounting equation is completed and equated. This accounting equation holds good at all points of time and for any number of transactions and events except when there are errors in accounting process. The accounting equation is as follows–

Capital (owners' equity) + Liabilities = Assets

Therefore all transaction will change accounting equation items in such a way that accounting equation will always tally.

2. Traditional Approach:

Transactions are recorded on the basis of the rules of debit and credit only. For the purpose of recording, these transactions are classified in three groups:

(i) Personal transactions.

(ii) Transactions related to assets and properties.

(iii) Transactions related to expenses, losses, income and gains.

Accordingly accounts are classified as under -

(i) Personal Accounts: Personal accounts relate to persons, trade receivables or trade payables. This account is further classified into three categories:

(a) Natural personal accounts: It relates to transactions of human beings like Ram, Rita, etc.

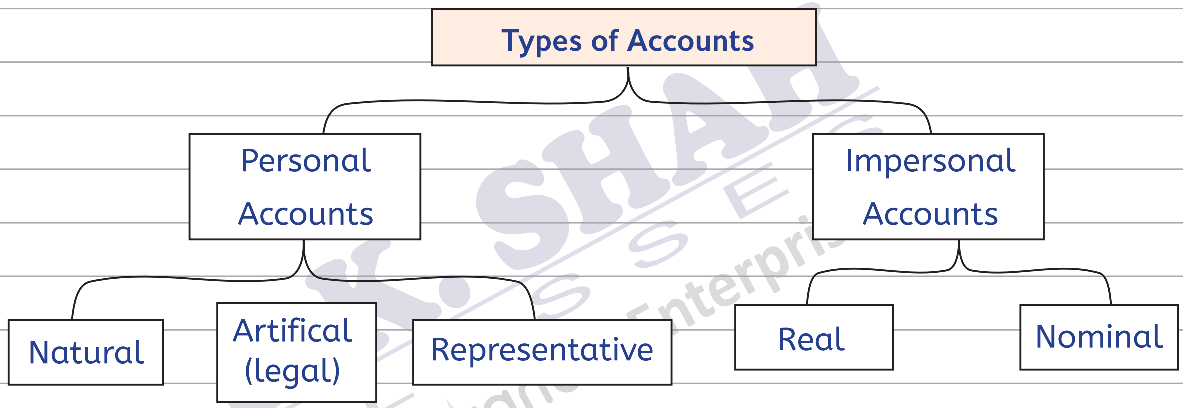
(b) Artificial (legal) personal accounts: For business purpose, business entities are treated to have separate entity. They are recognised as persons in the eye of law for dealing with other persons. For example: Government, Companies (private or limited), Clubs, Co-operative societies etc.

(c) Representative personal accounts: These are not in the name of any person or organisation but are represented as personal accounts. For example: outstanding liability account or prepaid account, capital account, drawings account.

(ii) Impersonal Accounts: Accounts which are not personal such as machinery account, cash account, rent account etc. These can be further sub-divided as follows:

(a) Real Accounts: Accounts which relate to assets of the firm but not debt. For example, accounts regarding land, building, investment, fixed deposits, cash etc. are real accounts.

(b) Nominal Accounts: Accounts which relate to expenses, losses, gains, revenue, etc. like salary account, interest paid account, commission received account. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are, therefore, temporary.



Note: That procedure for analysis of transactions, classification of accounts and rules for recording business transactions under accounting equation approach and traditional approach are different. But the accounts affected and entries in affected accounts remain same under both approaches. Thus, the recording of transactions in affected accounts on the basis of double entry system is independent of the method of analysis followed by a business enterprise. In other words, accounts to be debited and credited to record the dual aspect remain same under both the approaches.

Rules of Debit and Credit

1. Traditional Approach (Golden Rules of Accounting)

All the above classified accounts have two rules each, one related to Debit and one related to Credit for recording the transactions which are termed as golden rules of accounting, as transactions are recorded on the basis of double entry system.

Types of Account	Account to be Debited	Account to be Credited
Personal Account	Receiver	Giver
Real Account	What comes in	What goes out
Nominal Account	Expense and losses	Income and gains

2. Modern Approach

Real, nominal and personal accounts is the traditional classification of accounts. The modern classification of accounts

Types of account	Normal balance of account	Account to be debited when there is:	Account to be credited when there is:
Asset account	Debit	Increase	Decrease
Liabilities account	Credit	Decrease	Increase
Capital account	Credit	Decrease	Increase
Revenue account	Credit	Decrease	Increase
Expenditure account	Debit	Increase	Decrease
Drawing account	Debit	Increase	Decrease

Therefore in nutshell, account classification can be done as follows –

Classification of accounts

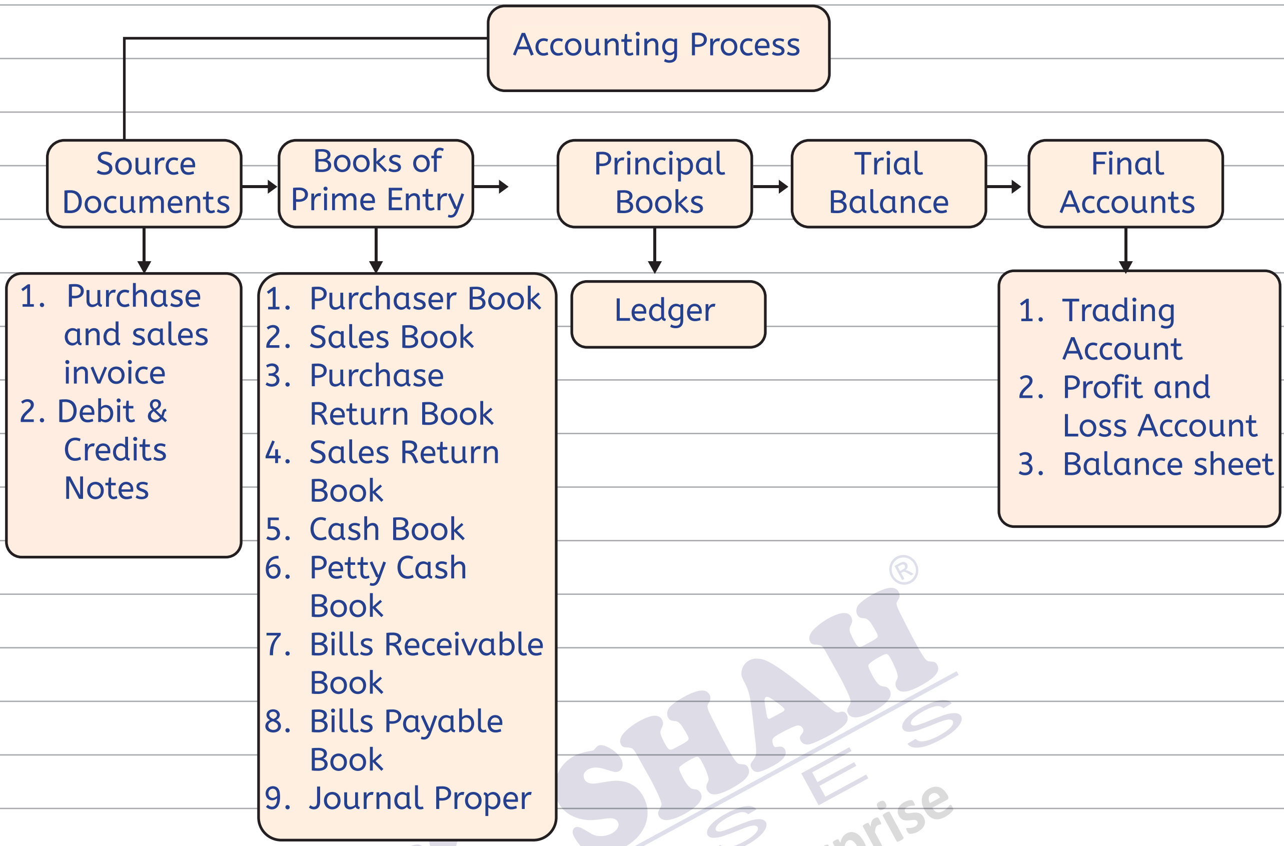
Traditional Approach

1. Personal Account
2. Real Account
3. Nominal Account

Modern Approach

1. Assest Account
2. Liabilities Account
3. Capital Account
3. Revenue Account
4. Expenditure account
5. Drawing account

Journey of transaction & events in accounts



Journal

Transactions are first entered in this book to show which accounts should be debited and which credited.

All financial transactions are initially recorded in the journal (a book of prime entry) which is prepared in chronological order (date wise).

Recording of transactions in journal is termed as journalizing the entries.

There are basically two types of journals:

1. General journal
2. Specialized journal (Subsidiary Books)

Journal entries can be single entry (i.e. one debit and one credit) or compound entry (i.e. one debit and two or more credits or two or more debits and one credit or two or more debits and credits).

Advantages of Journal

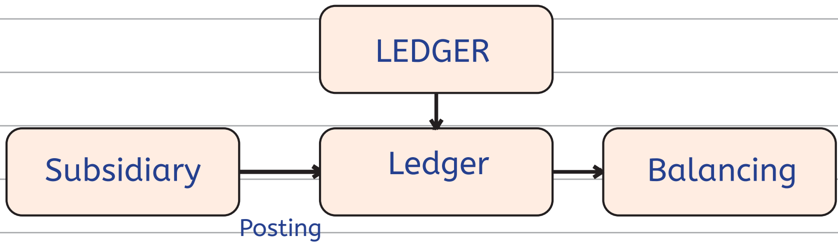
1. As transactions are recorded in chronological order, one can get complete information about the business transactions on time basis.
2. Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry.
3. Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.

Example of classification of accounts under traditional and accounting equation approach Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
(a)	Building	Real	Asset
(b)	Purchases	Real	Asset
(c)	Sales	Real	Revenue
(d)	Bank Fixed Deposit	Personal	Asset
(e)	Rent	Nominal	Expense
(f)	Rent Outstanding	Personal	Liability
(g)	Cash	Real	Asset
(h)	Adjusted Purchases	Nominal	Expense
(i)	Closing Inventory	Real	Asset
(j)	Investment	Real	Asset
(k)	Trade receivables	Personal	Asset
(l)	GST Payable	Personal	Liability
(m)	Discount Allowed	Nominal	Expense
(n)	Bad Debts	Nominal	Expense
(o)	Capital	Personal	Capital
(p)	Drawings	Personal	Drawings
(q)	Interest receivable	Personal	Asset
(r)	Rent received in advance	Personal	Liability
(s)	Prepaid salary	Personal	Asset
(t)	Bad debts recovered	Nominal	Revenue
(u)	Depreciation	Nominal	Expense
(v)	Personal Income Tax	Personal	Drawings
(w)	Bank	Personal	Asset

Note: There are two views on classification of "Purchase Account" and "Sales Account". One view is that they represents "flow of goods", so they should be classified as 'Real A/c'. However, others are of the opinion that only nominal a/cs are closed by transferring to 'Trading or Profit and Loss A/c'. Therefore, purchases and sales shall be classified as Nominal A/cs. However, in both the views, there will be debit balance of Purchase A/c and credit balance of Sales A/c.

UNIT II - LEDGERS



Introduction

After recording the transactions in the journal, recorded entries are classified and grouped into by preparation of accounts. The book which contains all set of accounts (viz. personal, real and nominal accounts), is known as Ledger. It is known as principal books of account in which account-wise balance of each account is determined.

- Account is a statement showing the summary of transactions and the final balance in respect of a person or an item. Each account is kept on a separate page of folio. All the pages or folios are bound together in a book which is called Ledger. Ledger contains a separate account for every person, a debtor or a creditor, and for each item of asset, income, expenses, gain or loss. i.e. entries from journal are transferred to ledger (also called as principal books) which are prepared in analytical order.

- The process of transferring the debit and credit items from journal to classified accounts in the ledger is known as posting.

- At the end of the each month or year or any particular day it may be necessary to ascertain the balance in an account. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as balancing of accounts.

- Nominal accounts are closed down (not balanced) and its balance in the end are transferred to the profit and loss account. Only personal and real accounts ultimately show balances (are balanced) and their balances are taken to balance sheet which will become opening balance next year.

- If in a ledger account debit side total is more than credit side, then balance is known as debit balance and if credit side total is more than debit side then balance is known as credit balance.

Reading of ledger account

- If personal account shows debit balance then that account is Accounts receivable (debtors) & if personal account shows credit balance then that account is Accounts payable (creditors).

- Real account (asset a/c) will always show debit balance. Debit entry in real account is an indication of increase / purchase of asset & credit entry in real account is an indication of decrease / sale / depreciation of asset.

- Nominal account (expense) will show debit balance & Nominal account (income) will show credit balance.

Example of ledger accounts

Dr. Trade Receivable A/c Cr.

To balance b/d	x	By Cash / Bank / Bills receivable	x
To Sales (credit)	x	By Discount allowed	x
		By bad debts	x
		By sales returns	x
		By balance c/d	x
	xx		xx

Dr. Trade Payable A/c Cr.

To Discount received	x	To balance b/d	x
To Cash / Bank / Bills payable	x	To purchase (credit)	x
To balance c/d	x		
	xx		xx

UNIT III - TRIAL BALANCE

Introduction

- Trial Balance is a statement containing the list of the balances of all the Ledger Accounts on a particular day. It is a table showing all debit and credit ledger balances.

- The main object of preparing a Trial Balance is to check the arithmetical accuracy of the books. If there is no arithmetical error in writing the books, the total debit balances will be equal to the total credit balances. An agreed Trial Balance thus means that the books are arithmetically accurate i.e., the figures are written correctly.

- If the Trial Balance does not tally, it is an indication that the books contain some errors.

- Tallied trial balance is not a conclusive proof that there are no errors in the accounts.

- Once the trail balance tallies, there is reasonable confidence that the accounting work is free from clerical errors, though it is not proof of cent per cent accuracy, because some errors of principle and compensating errors may still remain.

- Some errors which do not cause any difference in the Trial Balance are called two sided errors. Thus, even if the Trial Balance tallies, there may be some two sided errors in the books.

- Generally, to check the arithmetic accuracy of accounts, trial balance is prepared at monthly intervals. But because double entry system is followed, one can prepare a trial balance any time. Though a trial balance can be prepared any time but it is preferable to prepare it at the end of the accounting year to ensure the arithmetic accuracy of all the accounts before the preparation of the financial statements.

- It may be noted that trial balance is a statement and not an account.

Objectives of Preparing the Trial Balance

The preparation of trial balance has the following objectives:

(i) Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books.

(ii) Financial statements are normally prepared on the basis of agreed trial balance; otherwise the work may be cumbersome.

(iii) The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.

Methods of Preparation of Trial Balance

1. TOTAL METHOD (Gross Method)

Under this method, every ledger account is totalled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totalled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is not commonly used as it cannot help in the preparation of the financial statements.

2. BALANCE METHOD (Net Method)

Under this method, every ledger account is balanced and those balances only are carried forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balances of the ledger accounts

3. TOTAL AND BALANCE METHOD

Under this method, total method and balance method are combined i.e. trail balance will consists of four amount columns, two for total of ledger accounts (as done in total method) and two for balance of ledger accounts (as done in balance method)

Adjusted Trial Balance (Through Suspense Account)

If the trial balance does not agree after transferring the balance of all ledger accounts including cash and bank balance and also errors are not located timely, then the trial balance is tallied by transferring the difference of debit and credit side to an account known as suspense account. This is a temporary account opened to proceed further and to prepare the financial statements timely.

Rules of Preparing the Trial Balance

While preparing the trial balance from the given list of ledger balances, following rules should be taken into consideration:

1. The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings (v) cash and bank balances are placed in the debit column of the trial balance.
2. The balances of all (i) liabilities accounts (ii) income accounts (iii) profits (iv) capital are placed in the credit column of the trial balance.

UNIT IV - SUBSIDIARY BOOKS

Introduction

- In a business, most of the transactions generally relate to receipts and payments of cash, sale of goods and their purchase. It is convenient to keep a separate register for each such class of transactions one for receipts and payments of cash, one for purchase of goods and one for sale of goods. A register of this type is called a book of original entry or of prime entry. For transactions recorded in such books there will be no journal entry. The system by which transactions of a class are first recorded in the book, specially meant for it and on the basis of which ledger accounts are then prepared is known as the Practical System of Book keeping or even the English System.

- These books of original or prime entry are also called subsidiary books since ledger accounts are prepared on their basis and, without the further process of ledger posting, a trial balance cannot be taken out. Normally, the following subsidiary books are used in a business:

  (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
  (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
  (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
  (iv) Sales Book to record the sales of the goods dealt in by the firm.
  (v) Sale Returns Book to record the returns made by the customers.
  (vi) Bills Receivable Books to record the receipts of promissory notes or bills receivables from various parties.
  (vii) Bills Payable Book to record the issue of the promissory notes or bills payables to other parties.
  (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

- It may be noted that in all the above cases the word “Journal” may be used for the word “book”

Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

(i) Division of work: Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) Specialization and efficiency: When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

(iii) Saving of the time: Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) Availability of information: Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) Facility in checking: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Errors and frauds will be checked by the use of various subsidiary books.

Distinction between Subsidiary Books and Principal Books

	Subsidiary Books	Principal Books
1.	Transaction is initially recorded in these books.	Transaction is subsequently recorded in these books.
2.	These books furnish information for ledger.	These books furnish information for trial balance & financial statements.
3.	e.g. Purchase Book, Sales Book, Purchase Return Book, Sales Return Book, Bills Receivable Book, Bills Payable Book, Cash Book, Petty Cash Book and Journal Proper.	e.g. Ledger

Purchases Book / Journal

Format of Purchase Book

Date	Supplier's Name	Particulars of purchase	Invoice No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹	Freight ₹	Total ₹

Points to remember:

(i) Cash purchases are not entered in this book since these will be entered in the cash book.

(ii) Credit purchases of goods or material dealt by business are entered in purchase book but credit purchase of assets are journalised and are not entered in the Purchases Book.

(iii) The purchase book is prepared on basis of inward invoice.

Posting the Purchases Book

1. Total of individual entries in the purchase book are posted to credit side of creditors account.
2. The total of purchase book i.e. total of net column is posted to debit side of purchase account and total of freight column is posted to debit side of freight account

Sales Book / Journal

Format of Sales Book

Date	Customer's Name	Particulars of sales	Invoice No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹

The Sales Book is a register specially kept to record credit sales of goods dealt in by the firm.

Points to remember:

(i) Cash sales are not entered in this book since these will be entered in the cash book.

(ii) Credit sales of goods or material dealt by business are entered in sales book but credit sales of assets are journalised and are not entered in the sales Book.

(iii) The sales book is prepared on basis of outward invoice.

(iv) In case of GST, Separate column of GST can be prepared after net column in the above of format of sales book. After GST column a total column should also prepared in Sales book.

Posting the Sales Book:

1. Total of individual entries in the sales book are posted to debit side of debtors account.
2. The total of sales book i.e. total of net column is posted to credit side of sales account.
3. If GST column is prepared in the sales book then total of GST column will be posted to GST payable account in the credit side, total of net column will be posted to credit side of sales a/c and total of individual entries (including GST) will be debited to customer account.

Sales Returns Book or Returns Inward Book:

Format of Sales Returns Book or Returns Inward Book

Date	Customer's Name	Particulars of sales returns	Credit No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹

If customers frequently return the goods sold to them, it would be convenient to record the returns in a separate book, which is named as the Sales Returns Book or the Returns Inward Book.

Points to remember:

(i) Only those sales returns which are not adjusted against cash is entered in above book. I.e. only credit transaction.

(ii) Sales returns of goods or material (and not assets) dealt by business are entered in sales returns book.

(iii) The sales returns book is prepared on basis of credit note.

(iv) The credit note is issued by seller (to whom goods are returned) to buyer (who returns the goods).

Posting the Sales Returns Book

1. Total of individual entries in the sales return book are posted to credit side of debtors account.
2. The total of sales return book i.e. total of net column is posted to debit side of sales returns account.

Purchase Returns or Returns Outward Book

Format of Purchase Returns or Returns Outward Book

Date	Customer's Name	Particulars of sales returns	Debit Note No.	L.F.	Gross ₹	Trade Discount ₹	Net ₹

If purchase returns are frequent it would be convenient to record the returns in a separate book, which is named as the Purchase Returns or Returns Outward Book.

Points to remember:

(i) Only those purchase returns which are not adjusted against cash is entered in above book. I.e. only credit transaction.

(ii) purchase returns of goods or material (and not assets) dealt by business are entered in purchase returns book.

(iii) The purchase returns book is prepared on basis of debit note.

(iv) The debit note is issued by buyer (who returns the goods) to seller (to whom goods are returned).

Posting the Purchase Returns Book:

1. Total of individual entries in the purchase return book are posted to debit side of creditors account.
2. The total of purchase return book i.e. total of net column is posted to credit side of purchase returns account.

Bills Receivable Books and Bills Payable Book

Format of Bills Receivable Books

Date of receipt	Party from whom Received	Acceptor	Date of Bill	Due Date	L.F.	Amount ₹

Format of Bills Payable Book

Date of Acceptance	Drawer	Payee	Date of Bill	Due Date	L.F.	Amount ₹

Point to Remember:

1. When transaction of bill receivable & payable are large it is better to maintain bills receivable & bills payable book. Both these books are subsidiary books.
2. Individual entries posting is done from bills receivable book to Credit side of debtors account & total of bills receivable book is posted to debit side of bills receivable account.
3. Individual entries posting is done from bills payable book to debit side of creditors account & total of bills payable book is posted to credit side of bills payable account.

Journal Proper

This is a residual part of the journal which will cover all remaining transactions which cannot go in the special books listed above.

In fact, if there is no special book meant to record a transaction, it is recorded in the journal (proper). The role of the journal is thus restricted to the following types of entries.

(i) Opening entries: When books are started for the new year, the opening balance of assets and liabilities are journalised.

(ii) Closing entries: At the end of the year the profit and loss account has to be prepared. For this purpose, the nominal accounts are transferred to this account. This is done through journal entries called closing entries. (refer final accounts chapter).

(iii) Rectification entries: If an error has been committed, it is rectified through a journal entry. (refer rectification of errors chapter).

(iv) Transfer entries: If some amount is to be transferred from one account to another, the transfer will be made through a journal entry.

(v) Adjusting entries: At the end of the year the amount of expenses or income may have to be adjusted for amounts received / paid in advance or for amount receivable / payable (outstanding). Such an adjustment is also made through journal entries. Usually, the entries pertain to the following:
   (a) Outstanding expenses, i.e., expenses incurred but not yet paid;
   (b) Prepaid expenses, i.e., expenses paid in advance for some period in the future;
   (c) Interest on capital, i.e., the interest on proprietor's investment in the business and
   (d) Depreciation, i.e., fall in the value of the assets used on account of wear and tear.

(vi) Entries on dishonour of Bills: If someone who accepted a promissory note (or bill) is not able to pay in on the due date, a journal entry will be necessary to record the non-payment or dishonour.

(vii) Miscellaneous entries :
The following entries will also require journalising:
   (a) Credit purchase / sales of assets e.g. credit purchase of furniture or machinery will be journalised.
   (b) An allowance to be given to the customers or a charge to be made to them after the issue of the invoice.
   (c) On an amount becoming irrecoverable, say, because, of the customer becoming insolvent.
   (d) Effects of accidents such as loss of property by fire.
   (e) Transfer of net profit to capital account.

UNIT V - CASH BOOK

Cash Book - A Subsidiary Book and A Principal Book

Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. (as no cash a/c & bank a/c is prepared in ledger). The Cash Book, therefore, is part of the ledger also. Hence, it has also to be treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

Kinds of Cash Book

The main Cash Book may be of the three types:

(i) Simple Cash Book;

(ii) Two-column Cash Book;

(iii) Three-column Cash Book.

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

Simple Cash Book:

Such a cash book appears like an ordinary account, with one amount column on each side. The left-hand side records receipts of cash and the right-hand side the payments. The cash book is balanced like other accounts. The total of receipts column is always greater than total of payments column.

Double-Column Cash Book

- This cashbook consists of two columns on debit as well as on credit side, one cash column and second discount or bank column.

- In the cash column on the debit side, actual cash received is entered; the amount of the discount allowed, if any, to the customer concerned is entered in the discount column. Similarly, actual cash paid is entered in the cash column on the credit side and discount received in the discount column. Also the bank column on the debit side records all receipts through bank and the same column on the credit side shows payment through bank. (Debit side denotes receipt & credit side denotes payment).

- Balancing: It should be noted that the discount columns are not balanced. They are merely totalled. The total of the discount column on the receipts side shows total discount allowed to customers and is debited to the Discount allowed account. The total of the column on the payments side shows total discount received and is credited to the Discount received account. The Cash/ Bank columns are balanced and transferred to trial balance.

Three-Column Cash Book

- This type of cash book has three columns i.e. cash, discount and Bank column.

- The cash column represents cash a/c and bank column represents the bank a/c and their balances are transferred directly to the trial balance.
- Discount column is not balanced but totalled. The discount column on receipt side represents discount allowed and its total is posted to discount allowed a/c debit side. The discount column on payment side represents discount received and its total is posted to discount received a/c credit side.
- The Cash in bank column are balanced. Cash column will have only debit balance i.e. debit side will be more than credit side. The bank column can have debit balance (positive balance) or credit balance (credit side is more i.e. overdraft).

- Contra Entries: Contra entries are entries which affects cash and bank column simultaneously. There are three types of contra entry.
  1. Cash Withdrawn from bank for official use.
  2. Cash deposited in to bank.
  3. Cheque received on previous day but deposited next day.

- Some special entries in three column cash book
  1. When a bearer cheque is received, the entry is passed in cash column.
  2. If a crossed cheque is received, the entry is passed in bank column if the cheque is deposited on the same day, otherwise it is initially recorded in cash column and later on a contra entry is passed, when it is deposited.
  3. If the cheque is issued, it is recorded in bank column whether it is a crossed cheque or a bearer cheque.
  4. When a cheque received is endorsed, it is recorded on both the sides of cash book in cash column.

- **Posting the Cash Book Entries to Various Accounts**

  From the debit side of the cash book posting will be done to the credit of the accounts mentioned in the particular column with their respective amounts (including any discount that may have been allowed); from the credit side of cash book the posting will be to the debit of the accounts mentioned in the particular column with their respective amounts (including the discount which may have been received).

Petty Cash Book

- In a business house a number of small payments, such as for stationery, taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work. Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments say below ₹ 200, to him. Of course he will be reimbursed for the payments made.

- Petty Cash Book records all petty expenses of the business and the balance in petty cash book at the end of the month represents petty cash on hand which is shown as an asset.

- **Imprest System of Petty Cash**

  1. It is convenient to entrust a definite sum of money to the petty cashier in the beginning of a period and to reimburse him for payments made at the end of the period. Thus, he will have again the fixed amount in the beginning of the new period. Such a system is known as the imprest system of petty cash.
  2. The amount fixed for petty cash should be sufficient for the likely small payments for a relatively short period, say for a week or a fortnight.
  3. The reimbursement should be made only when petty cashier prepares a statement showing total payments supported by vouchers, i.e., documentary evidence.

- **Advantages of Petty Cash Book**

  There are mainly three advantages:

  (i) Saving of time of the chief cashier;

  (ii) Saving in labour in writing up the cash book and posting into the ledger; and

  (iii) Control over small payments.

➢ Posting the Petty Cash Book

1. In the ledger, a petty cash account is maintained; when an amount is given to the petty cashier, the petty cash account is debited. Each week or forth night, the total of the payments made is credited to this account. The petty cash account will then show the balance in the hand of the cashier; at the end of the year, the balance is shown in the balance sheet as part of cash balance.
2. From the petty cash book the total of the various columns showing expenses may be directly debited to the concerned expenses accounts; or
3. Alternatively a journal entry may first be prepared on the basis of the petty cash book, debiting the expenses accounts shown by the various analysis columns, and crediting the total of the payment to the petty cash account.

Entries for Sale through Credit/Debit Cards

➢ Now a days sales through Credit/Debit Cards are issued by almost every Bank in India either directly or with collaboration of some other agencies. HSBC Card, SBI Card, BOB Card, ICICI Bank Card, HDFC Card and Andhra Bank Card are some of the popular Cards.

Accounting For Credit/Debit Card Sale

➢ From the seller's point of view, this type of sale is equivalent to a cash sale. Commission charged by the bank will be treated as selling expenses. The following journal entries will be made in the seller's books of accounts.

1. Bank A/c Dr.
   To Sales Account (Sales made through Credit/Debit Card)

2. Commission Account Dr.
   To Bank Account (Commission charged by bank)

CLASSWORK SECTION

UNIT I - BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES

Q.1 Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2019. Find the unknowns, showing computation to support your answer:

Particulars	₹	Particulars	₹
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during the year	1,00,000

Additional Information: During the year sales of ₹ 15,55,000 was made of which ₹ 15,00,000 have been received.

UNIT II - LEDGERS

Q.1 The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2019.

1	Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.
4	Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.
5	Mr. S sold to Mr. H goods prices at ₹ 30,000.
17	Record a purchase of ₹ 25,000 net from R, which were sold to H at a profit of ₹15,000.
18	Mr. S rejected 10% of Mr. R's goods of 4th April.
19	Mr. S issued a cash memo for ₹10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.
22	Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received, ₹ 20,000 was by cheque).
26	R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made.
29	Close H's Account to record the fact that all but ₹ 5,000 was cleared by him, by a cheque, because he was declared bankrupt.
30	Balance R's Account.

CHAPTER 3
RECTIFICATIONS OF ERRORS

THEORY SECTION

(A) Types of Errors and its impact on agreement of Trial Balance

Errors

↓

Errors of Principle

↓

(fundamentally incorrect)

↓

Where principle of Capital & Revenue is Violated

↓

Trial Balance will Tally

Clerical Errors

↓

1. Compensating Errors
   (set of two errors where one mistake automatically compensates another mistake)
   Trial Balance will Tally

2. Errors of Omission
   (transaction is fully / partially omitted from books)
   (a) Complete Omission -
   Trial Balance Will Tally
   (b) Partial Omission
   (Trial Balance will not Tally)

3. Errors of Commission
   (Refer Examples)

Examples of Errors of Commission

(1) Wrong Entry in book of Prime Entry → TB will Tally

(2) Posting in Wrong Account → TB will Tally

(3) Posting in wrong side of Account → TB will show difference of double amount

(4) Any Error in extracting Trial Balance → TB will not tally

(5) Totaling error in any book → TB will not tally

(B) Stages of detection of Error

Before preparation of trial balance	After trial balance but before final a/c	In next accounting year
Journal entry for rectification of errors not possible in every case. If journal entry not possible write rectification statement.	Journal entry for rectification of errors possible in every case as suspense a/c is opened.	Rectification of expenses & incomes (affecting P & L) is through P & L adjustment a/c or prior period items.

(C) Suspense Account

- Shows Temporary Difference in Trial Balance
- Appears in Balance-sheet
- If Trial Balance shows excess Debit, suspense a/c will show credit balance.
- If Trial Balance shows excess credit, suspense a/c will show debit balance.
- Balance of suspense account represents net effect of all one sided error as difference in trial balance is caused only by one sided error.
- In exam if balance of suspense account is not given, then post all rectification entries relating to suspense account and put the difference of two sides of suspense account at top of shorter side, as difference in trail balance.

(D) Impact of Errors on profit

Due to Errors		Profit
If Income is overstated	→	Overstated
If Income is understated	→	Undersated
If Expense is overstated	→	Understated
If Expense is understated	→	Overstated

(E) Effect of Rectification on Profit

		Profit
↑ in Income	→	↑
↓ in Income	→	↓
↑ in Expenses	→	↓
↓ in Expenses	→	↑

(F) Prior Year Rectification

As per Accounting standard (AS - 5) issued by ICAI, the prior period rectification should be done with the help of profit & loss adjustment a/c so that the current year's profits are not affected.

Important Points

1. The rectification entries should be dated FIRST DAY of the current accounting year.
2. The nominal a/c of last year appearing in rectification entry should be replaced by profit & loss adjustment a/c.
3. Whenever prior year asset a/c is rectified, its corresponding effect on depreciation should be taken into consideration.
4. Whenever prior year 'debtors a/c' is rectified, its corresponding effect on R.D.D and R.F.D.D should be taken into consideration.

(a) **If Debtors will increase, the RDD will increase :**

Profit & Loss Adj. a/c	Dr.	xx
To R.D.D a/c		xx

(b) **If Debtors will decrease, the RDD will decrease:**

RDD a/c	Dr.	xx
To Profit & Loss Adj. a/c		xx

5. The final balance in P & L Adjustment a/c represents net increase or decrease in last year's profit and it should be transferred to capital account.

Difference between Error of Principle & Error of Commission

	Error of Principle	Error of Commission
1.	This is error due to wrong classification of capital and revenue	This is error due to posting, casting, balancing and making entry in wrong subsidiary books.
2.	Does not affect trial balance	It may affect trial balance in most of cases.
3.	Not a clerical error	This is a clerical error
4.	It affects profits, assets and liabilities	It may or may not affect profits, assets and liabilities.

CLASSWORK SECTION

Q.1 The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them:

(1) ₹ 500 paid for furniture purchased has been charged to ordinary Purchases A/c

(2) An amount of ₹ 100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses A/c.

(3) Salary ₹ 125 paid to a clerk due to him has been debited to his personal account.

(4) ₹ 100 received from Shah & Co. has been wrongly entered as from Shaw & Co.

(5) Cash Sales ₹ 1,325 wrongly recorded as ₹ 1,235.

(6) Wages paid ₹ 5,000 recorded twice in the cash Book.

(7) Goods withdrawn not recorded in the books ₹ 3,000.

(8) A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.

(9) A Credit sales of goods 120 to Ramesh has been wrongly passed through the Purchases Book.

(10) Goods of the value of ₹ 300 were returned by Hari Saran and were taken into stock on the same date but no entry was passed in the books.

(11) An amount of ₹ 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.

(12) A cheque for ₹ 100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

Q.2 A book-Keeper while preparing his trial Balance find that the debit exceeds by ₹ 7,250. Being required to prepare the final account he places the difference to a Suspense Account. In the next year the following mistakes were discovered:

(a) A sale of ₹ 4,000 has been passed through the purchase Day Book. The entry in customers account has been correctly recorded.

(b) Goods worth's ₹ 2,500 taken away by the proprietor for his use has been debited to repairs Account.

(c) A Bill receivable for ₹ 1,300 received from Krishna has been dishonored on maturity but no entry passed.

(d) Salary ₹ 650 paid to a clerk has been debited to his personal Account.

(e) A purchase of ₹ 750 from Raghubir has been debited to his account. Purchase Account has been correctly debited.

(f) A sum of ₹ 2,250 written off as depreciation on furniture has not been debited to depreciation Account.

Draft a journal Entries for Rectifying the above mistakes and prepare suspense account.

Q.3 On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

(1) The totals of debit side of "Expenses Account" have been cast in excess by ₹ 50.

(2) The "Sales Account" has been totalled in short by ₹ 100.

(3) One item of purchase of ₹ 25 has been posted from the day book to ledger as ₹ 250.

(4) The sale return of ₹ 100 from a party has not been posted to that account though the Party's account has been credited.

(5) A cheque of ₹ 500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.

(6) A credit sale of ₹ 50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

(i) Pass necessary journal entries for correcting the above;

(ii) Show how they affect the Profits; and

(iii) Prepare the "Suspense Account" as it would appear in the ledger.

CHAPTER 4
BANK RECONCILIATION STATEMENT

THEORY SECTION

1. Bank Reconciliation Statement Explained:

A businessman maintains a record of his transactions with the bank, in the bank column of the cash book. The bank maintains a record of its transactions with its clients in the pass book. Transactions recorded in both the books are the same and therefore on a given date the bank balance as per the cash book, and the bank balance as per the pass book should be the same. But it is not same due to various reasons therefore we need to prepare a Bank Reconciliation Statement to reconcile the difference between the two books. Normally it is prepared at the end of every month by the accountant.

2. Bank Reconciliation Statement Defined:

Prepared to explain the reasons of difference between Bank balance as per cash book and pass book. For this we have to compare Closing balance of Bank column of Cash Book with pass book/ Bank statement. Normally it is prepared at the end of every month, by the account holder.

3.

Reasons for preparing Bank Reconciliation Statement

- The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book
- Any undue delay in the clearance of cheques will be shown up by the reconciliation
- A regular reconciliation discourages the accountant of the firm from embezzlement

4. Types of Balances

(i) Cash Book Balance (Favourable) - Debit Balance

(ii) Cash Book Overdraft (Unfavourable) - Credit Balance

(iii) Pass Book Balance (Favourable) - Credit Balance

(iv) Pass Book Overdraft (Unfavourable) - Debit Balance

5. Reasons of Differences between cash book and pass book:

(a) Timing Differences

(b) Difference arising due to errors in recording the entries

Following are example of differences

(1) Cheque Deposited but not cleared.

(2) Cheque issued but not presented for payment.

(3) Cheque deposited but dishonoured.

(4) Cheque issued but dishonoured.

(5) Overcasting Error in CB / PB.

(6) Under casting Error in CB / PB.

(7) Bank charges, Commission etc. debited by Bank.

(8) Interest Credited by Bank.

(9) Direct payment by Bank.

(10) Direct collection by Bank.

(11) Direct Deposit by Customer.

(12) Debit Balance wrongly taken as Credit Balance in CB / PB.

(13) Credit Balance wrongly taken as Debit Balance in CB / PB.

(14) Bank transaction recorded in cash column of cash Book.

(15) Transfer to /from Current Account.

(b) Cash Book Rectification

As per traditional concept all items of difference between bank balance as per cash book and pass book appears in BRS but as per practical approach all those items where cash book has a mistake or discrepancy should be corrected in the cash book itself and the bank balance as per cash book should be rectified.

Items requiring Cash Book Correction:

1. Direct payments or collections made by bank but not recorded in cash book.
2. Cheques deposited or issued but dishonoured and the dishonor entry is not yet passed in cash book.

3. Bank charges, interest, commission etc. debited by bank but not yet recorded in cash book.
4. Mistakes committed in cash book.

Note: Now, the BRS will show only those items where the pass book has a discrepancy.

CLASSWORK SECTION

Q.1 D's Cash Book shows an overdrawn position of ₹ 3,630 on 31st March, although the Bank Statement shows only ₹ 3,378 overdrawn. Detailed examination of two records revealed the following:

(a) A cheque for ₹ 1,560 in favour of Rath Associates had been omitted by the Bank from its statements, the cheque having been debited to another customer's A/c.

(b) The debit side of his own book had been undercast by ₹ 300.

(c) A cheque for ₹ 182 drawn in payment of Electricity charges had been entered in the Cash Book as ₹ 128 but was shown correctly in Bank Statement

(d) A cheque for ₹ 210 from S. Gupta, having been paid into the bank, was dishonoured and shown as such on Bank Statement, although no entry relating to dishonoring of the cheque had been made in the Cash Book.

(e) The bank had debited a cheque for ₹ 126 to D's Account in error. It should have been debited to Shukla' A/c.

(f) A dividend of ₹ 90 on D's holding of Equity Shares has been directly collected by the bank, but no entry, has been made in Cash Book.

(g) A lodgment of ₹ 1,080 on 31.3 had not been credited by the bank.

(h) Interest of ₹ 228 had been directly debited by bank not recorded in the Cash Book.

Q.2 The following is a summary of a cash book as presented to you for the month of December 2017.

	₹		₹
Receipt	1,469	Balance b/d	761
Balance c/d	554	Payment	1,262
	2,023		**2,023**

All receipt are banked and payment made by cheque. On investigation you discover:

1. Bank charges of ₹ 136 entered in the bank statement had not been entered in the cash book.
2. Cheque drawn amounting to ₹ 267 had not been presented to the bank for payment
3. Cheque received totaling ₹ 762 had been entered in the cash book and paid in to bank but had not been credited by the bank until Jan 2018
4. A cheque for ₹ 22 had been entered as a receipt in the cashbook instead of as a payment.

5. A cheque for ₹ 25 had been debited by the bank in error.
6. A cheque received for ₹ 80 had been returned by the bank and marked "no fund available". No adjustment had been made in the cashbook.
7. All dividend receivable are credited directly to the bank Account. During December amount totaling ₹ 62 were credited by the bank and no entries made in the cashbook.
8. A cheque drawn for ₹ 6 had been incorrectly entered in the cashbook as ₹ 66.
9. The balance brought forward should have been ₹ 711
10. The bank statement as on 31st December,2017 showed an overdraft of ₹ 1,162.

You are required to:

(1) Show the adjustment required in the cash book

(2) Prepare a bank reconciliation statement as on 31.12.2017.

Q.3 The following are the Cash book (bank column) and Pass book of Jain for the months of March, 2017 and April, 2017:

Cash Book (Bank Column only)

DR. **CR.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01/3/2017	To Balance b/d	60,000	03/3/2017	By Cash A/c	2,00,000
06/3/2017	To Sales A/c	3,00,000	07/3/2017	By Modi	60,000
10/3/2017	To Ram	65,000	12/3/2017	ByPatil	30,000
18/3/2017	To Singhal	2,70,000	18/3/2017	BySuresh	40,000
25/3/2017	To Goyal	33,000	24/3/2017	By Ramesh	1,50,000
31/3/2017	To Patel	65,000	31/3/2017	By Balance c/d	3,13,000
		7,93,000			**7,93,000**

Pass Book

Date	Particulars	Amount Dr. ₹	Amount Cr.₹	Dr.or Cr.	Balance ₹
1/4/2017	By Balance b/d		3,65,000	Cr.	3,65,000
3/4/2017	By Goyal		33,000	Cr.	3,98,000
5/4/2017	ByPatel		65,000	Cr.	4,63,000
7/4/2017	To Naresh	2,80,000		Cr.	1,83,000
12/4/2017	To Ramesh	1,50,000		Cr.	33,000
15/4/2017	To Bank Charges	200		Cr.	32,800
20/4/2017	By Usha		17,000	Cr.	49,800
25/4/2017	By Kalpana		38,000	Cr.	87,800
30/4/2017	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cash book on 31/3/2017.

CHAPTER 5
INVENTORIES

THEORY SECTION

A. Inventory Defined (as per AS 2)

(1) Inventory is usually the second largest item after Fixed Asset in the Financial Statement of manufacturing concerns. It affects both the profit / loss of operations & financial position as reflected in Balance Sheet.

(2) Inventories Consists of:

- Goods purchased & held for resale
- Finished goods produced for sale
- Work-in-progress
- Store, spares, consumable, loose tools, wrapping papers, cartons, etc. which will be consumed during production or awaiting use in production process.

(3) What is not covered in Accounting Standards 2

- Financial Instrument held on stock such as shares, debentures, etc.
- Work-in-progress under construction contracts or work-in-progress of service providers.
- Equipments, Machinery spare parts, live stocks, agriculture, forest products, mineral ores and gases.

B. Effect of inventory valuation

(1)

Effect of inventory valuation

Affects profits of previous, current and next year	**Affects assets**	**Affects liquidity Calculation**
as Opening Stock & Closing Stock are part of trading A/c & so affect GP & NP	i.e. financial position as inventory is shown under current assets	as inventory is current asset which is a component of working capital which reveals liquidity position

(2) Effect of inventory on cost of goods sold (COGS) and profit

- → Closing Stock is directly related to profits and inversely related to COGS
- → Opening Stock is inversely related to profits and directly related to COGS
- → COGS = Opening Stock + Purchase + Direct Expenses − Closing Stock

C. Inventory valuation

(1) Inventories are valued at cost or Net realisable value whichever is less.

(2) Cost of Inventories includes:

Cost of Purchase + Cost of conversion + Other cost incurred in bringing the inventories to their present condition & location.

(a) Cost of Purchase includes:

- → Purchased price
- → Duties & Taxes
- → Freight Inward
- → Other expenses directly attributable.

Less: Duties & taxes recoverable, Trade Discount & Rebate, etc.

(b) Cost of Conversion includes:

- → Direct Labor
- → Variable production overhead (calculated on actual production)

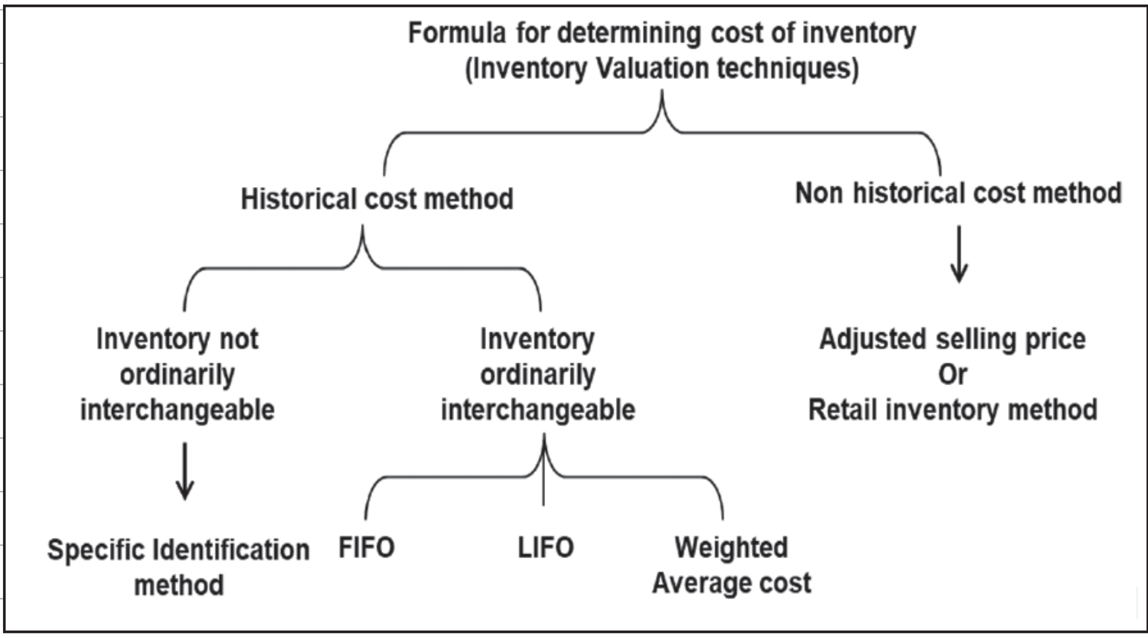
Cost does not include:

- → Administration costs
- → Selling & Distribution costs
- → Finance cost like interest, bank charges etc.
- → Storage Costs

(3) Net Realisable Value is defined as the estimated selling price in ordinary course of business less estimated costs necessary to make the sale and also deduct estimated cost of completion.

(4) When finished goods are not expected to fetch the cost & there is a decline in prices of material & other supplies then material are written down to NRV. In this case replacement cost of material is NRV i.e. raw material valuation depends upon valuation of finished goods in which it is used.

(1)



(a) Specific identification/Specific cost Method:

It is possible to link a particular item in the stock with a particular purchase, such item can be valued at its specific cost. AS - 2 states that the costs of inventories of items that are not ordinarily interchangeable should be valued at their specifically identified individual costs. Similarly, the goods and services produced and segregated (kept aside) for specific projects should be valued at their specifically identified individual costs. This method tracts the actual physical flow of goods. This method is also called actual cost method because specific job bears the actual cost of materials bought for the job. This method is suited for antique shops, expensive jewellery or custom made merchandise.

(b) First in First Out (FIFO) Method:

This method assumes that the items received first are issued (sold or consumed) first, so that the latest items are in stock. In this method, an issue is valued at the oldest rate, while the closing stock is valued at the latest rate. The FIFO formula assumes that the items of inventory which were purchased or produced first are consumed or sold first Consequently, the items, remaining in the inventory are those most recently purchased or produced.

(c) Last in first out [LIFO] method:

This method is just the opposite of FIFO. It assumes that the items received last are issued (sold or consumed) first, so that the earliest items are in stock. In this method, the issues are valued at the latest rates, while the stocks are valued at the old rates under this method, the cost of goods sold will be at a price same as current replacement cost.

(d) Weighted average cost method:

Under the Weighted Average Cost formula, the cost of each item is determined from the weighted average of the cost of similar items purchased or produced during the period. The average may be calculated on each additional shipment received.

$$\text{Average Cost} = \frac{\text{Total Cost}}{\text{Total Qty.}}$$

(e) Simple average method:

Under this method, closing stock is valued at the average purchase rate. In this method, stocks are valued at an average of the old and new rates. Simple average cost means the Arithmetical Average of all purchase rates. Thus,

$$\text{Simple Average Rate} = \frac{\text{All purchase Rates}}{\text{No. of Purchases}}$$

It should be noted that the quantities purchased are not relevant at all.

(f) Adjusted selling price method

This method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The use of this method is appropriate for measuring inventories of large numbers of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing from the sales value of the inventory an appropriate percentage of gross margin. The percentage used takes into consideration inventory which has been marked below its original selling price. An average percentage for each retail department is often used. The calculation of the estimated gross margin of profit may be made for individual items or groups of items or by departments, as may be appropriate to the circumstances.

(2) Comparison / Impact of FIFO and LIFO

(a) Under Inflationary Conditions (Rising Prices)

	FIFO	LIFO
Closing Stock	High	Low
COGS	Low	High
Gross Profit	High	Low

(b) Under Deflationary Condition (Falling Prices)

	FIFO	LIFO
Closing Stock	Low	High
COGS	High	Low
Gross Profit	Low	High

E. INVENTORY RECORD SYSTEMS:

Closing stock can be ascertained either at the end of a specific period (say year-end) or after each transaction in stocks (purchase, sale, issue etc.). There are two systems of Inventory.

(1) PERIODIC SYSTEM OF INVENTORY:

Under the Periodic Inventory Systems, closing stock is ascertained by taking an actual physical count of all the inventory on hand on a particular date. The value of stock on such date is equal to: Quantity of stock so ascertained x Rate.

(2) PERPETUAL SYSTEM OF INVENTORY:

Under the Perpetual Systems, closing stock is ascertained by taking physical count, from the stock ledger itself, after each receipt and issue. The value of stock is also calculated after each transaction of receipt or issue. The perpetual system thus helps to keep constant track of high-value items.

Distinguish between – Periodic inventory system & Perpetual inventory system

	Periodic inventory system	Perpetual inventory system
1.	Based on physical verification of stock.	Based on book records.
2.	This system determines inventory and takes COGS as balancing figure.	This system determines COGS (Issues) in stores ledger and takes inventory as balancing figure.
3.	COGS (which is balancing figure) includes loss of goods.	Closing inventory (which is balancing figure) includes loss of goods.
4.	It is assumed that goods lost are sold.	It is assumed that goods lost are in inventory.
5.	Inventory control not possible.	Inventory control can be exercised.
6.	This system is less expensive.	System is costlier.
7.	This system requires closure of business for counting of inventory.	Inventory can be found out without affecting operation of business.

F. STOCK TAKING:

Verification means physical inspection of stock also known as stock taking. In stock taking the items lying in the warehouse, factory etc. as on a particular date are actually counted or measured. The employees taking the stock count, measure or weigh the stock and record the item and quantity. The work is done systematically so that an item is neither omitted nor counted twice. There is no movement of stocks during counting. No goods are received or issued till the stock taking is complete. The stock sheets are prepared separately to show the total physical stock of (a) Finished Goods (b) Raw materials and (c) Work-in-process, on the date of counting physical stock means actual stock as counted in the godwon.

STOCK TAKING BEFORE OR AFTER YEAR END

Normally, stock taking is done as on the last day of the accounting year. However, sometimes stock may be taken on a date either before or after the end of the year.

In such cases the physical stock must be adjusted for receipts and issues between the two dates to arrive at closing stock as at the end of the accounting year, as shown below:

Particulars	₹	₹
PHYSICAL STOCK (on a date after Year - end)		xxx
ADD :		
1. Sales/goods going out/ (at cost) between Year - end and Date of Counting	xxx	
2. Purchase Returns between Year - end and Date of Counting	xxx	
		xxx
LESS :		
1. Purchases / goods coming in between Year - end and Date of Counting	xxx	
2. Sales Returns (at cost) between Year-end and Date of Counting	xxx	
		(xxx)
= ESTIMATED PHYSICAL STOCK (at the Year - end)		xxx

Notes:

1. The sales or sales returns are to be adjusted at their cost (sale value less gross profit) and not at their sale value.
2. When the physical stock is taken on a date before the year end, the above formula is reversed. The items added above are deducted from and the items deducted above are added to the physical stock, in order to arrive at the closing stock as the year - end.
3. Such estimated physical stock at the year end is further adjusted for stock of outsiders, stock with outsiders or cut - off transactions as explained below.

G. ADJUSTMENTS IN PHYSICAL STOCK:

The physical stock as per the stock sheets is not the closing stock to be brought in the books. The physical stock is adjusted for the following items in order to arrive at the closing stock as per books i.e. book stock.

(1) Stock of Outsider:

Physical stock may include stock belonging to outsider such as stock held on consignment or on approval etc. This stock is deducted from the physical stock to arrive at the closing stock.

(2) Stock with Outsider:

Stock belonging to the concern may be lying with outsider e.g. stock on consignment or on approval or with bank as a security against loan etc. This stock is added to the physical stock to arrive at the closing stock. Such stock is added at its cost (sale value less gross profit) and not at its sale value.

(3) Cut-off transactions:

On the particular date when stock taking is done some goods may not be yet received though the entries are made in the books for purchase or goods may not be dispatched but entries made in the books for sales. Such transactions are known as the cut-off transactions.

Summary of adjustment to physical stock to arrive at book stock

Physical stock at year end (at cost) (Calculated as per point no. F)	xx
(-) Stock of outsider e.g. consignor (at cost)	xx
(+) Stock with consignee / branch / customer on sale or return at year end (at cost)	xx
(+) Cut off transaction i.e. purchase made / invoice received but stock not received at year end	xx
(-) cut off transaction i.e. sale made / Invoice made but stock not dispatched at year end	xx
Book stock at year end (Cost price)	xx

Note: In absence of information in question always calculate book stock.

H. Points to remember

1) Inventory of by product is valued at NRV if cost of by product cannot be determined separately.
2) Inventory is part of current asset which is part of working capital (working capital = current assets – current liabilities). Working capital reveals liquidity position.
3) Inventory is valued as per conservatism principle of accountancy which states account for future losses but do not account for future profits.
4) Cost of good available for sale = opening stock + purchase + Direct Expenses.
5) Accounting Standard 2 recommends FIFO and weighted average cost method.

CLASSWORK SECTION

Q.1 M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2018:

Goods received from suppliers	
(Subject to trade discount and taxes)	₹ 15,75,500
Trade discount 3% and sales tax 11%	
Packaging and transportation charges on purchase	₹ 87,500
Sales during the year	₹ 22,45,500
Sales price of closing inventories	₹ 2,35,000

Find out the historical cost of inventories using adjusted selling price method.

Q.2 Consider the following information pertaining to G and Sons as on March 31, 2019:

Particular	₹
Opening inventory	15,00,000
Purchase during the year 2018-19	45,00,000
Sales during the year 2018-19	50,00,000

As per physical inventory taken on March 31, 2019 the closing inventory was ₹ 20,90,000. Gross profit on sales has remained constant at 25%. This management of the firm suspect that some inventory might have been taken away by a new employee.

Calculate Missing Inventory (if any).

Q.3 Physical verification of stock was done on 23rd June, the value of stock was ₹ 4,80,000. Following transactions took place between 23rd June and 30th June

1. Out of goods sent on consignment before 23rd June, goods costing ₹ 24,000 were unsold.
2. Purchases of ₹ 40,000 were made, out of which goods worth ₹ 16,000 were delivered on 5th July.
3. Sales were ₹ 1,36,000 which include goods worth ₹ 32,000 sent on approval. Half of these goods were returned before 30th June, but no intimation is available regarding the remaining goods. Goods are sold at cost plus 25%. However, goods costing ₹ 24,000 had been sold for ₹ 12,000.

You want to determine the value of stock on 30th June. You start with physical stock on 23rd June.

Q.4 Inventory taking for the year ended 31st March, 2019 was completed by 10th April 2019, the valuation of which showed a inventory figure of ₹ 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for ₹ 68,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the inventory amounted to ₹ 90,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of ₹ 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow moving items costing ₹ 11,250, which should be taken at ₹ 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing ₹ 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 31st March, 2019.

Q.5 From the following information ascertain the value of stock as on 31st March 2019 and also the profit for the year.

	₹
Stock as on 1.4.2018	14,250
Purchases	76,250
Manufacturing Expenses	15,000
Selling Expenses	6,050
Administrative Expenses	3,000
Financial Charges	2,150
Sales	1,24,500

At the time of valuing stock as on 31st March 2019, a sum of ₹ 1,750 was written off on a particular item, which was originally purchased for ₹ 5,000 and was sold during the year at ₹ 4,500. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

Q.6 The Profit and loss account of Hanuman showed a net profit of ₹ 6,00,000, after considering the closing stock of ₹ 3,75,000 on 31st March, 2019. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 15,000 paid for the new electric fittings for the shop.

(ii) Hanuman gave away goods valued at ₹ 40,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods purchased amounting to ₹ 2,50,000 have been entered on 27th March, 2019, but the goods were not included in stock.

(iv) In March, 2019 goods of ₹ 2,00,000 sold and delivered were taken in the sales for April, 2019.

(v) Goods costing ₹ 75,000 were sent on sale or return in March, 2019 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 019 these were taken as sales for March, 2019.

Calculate the value of stock on 31st March, 2019 and the adjusted net profit for the year ended on that date.

CHAPTER 6

DEPRECIATION AND AMMORTIZATION

THEORY SECTION

1. Meaning

(A) **General meaning:** Reduction in value of fixed assets due to physical wear & tear.

(B) **Specific meaning:** Allocation of capital expenditure over useful life of the assets.

2. Depreciation Method

(A) **Fixed installment method / Straight line method / Original cost method**

Under this method, the amount of depreciation to be charged every year remains constant as the depreciation is calculated as a fixed percentage of original cost of the asset. Normally this method is used when useful life of the asset can be estimated in advance. In this method depreciation amount and depreciation rate remains same. The value of the asset will be zero at end of useful life in this method. To calculate depreciation rate (in theory) in this method depreciation per annum is divided by cost of asset. The amount of annual depreciation is determined by following formula:

$$\text{Annual Depreciation} = \frac{\text{O.C. of asset} - \text{Estimated Scrap Value}}{\text{Estimated useful life of asset}}$$

(B) **Reducing balance method / Written down value method / Diminishing balance method**

Under this method, the amount of depreciation goes on reducing every year as the depreciation is calculated on WDV of the asset.

This method is more practical as compared to SLM because under this method, the asset account never becomes nil. The asset account will continue to appear is the books till the time asset is physically existing.

Under this method the overall charge on profit and loss a/c because of use of asset remains more or less constant as the amount of depreciation under this method reduces year after year and against this the maintenance expenditure increases every year. Income tax rules prescribes this method.

Under WDV method, if the rate of depreciation is not given, then it will be calculated as under.

$$\text{Rate of depreciation} = 1 - \sqrt[n]{\frac{\text{Residual Value}}{\text{Cost of asset}}} \times 100$$

(C) Depletion method

Normally this method of charging depreciation is used in case of self-extracting assets (wasting assets) like coal mines, oil fields, forests etc. Normally the cost of such assets depends upon the total output which is expected to be extracted from the asset over its useful life. Hence the depreciation on these assets will also depend upon the output actually extracted year after year

$$\text{Annual Depreciation} = \frac{\text{O.C.of the mine} - \text{estimated Scrap value}}{\text{Total output estimated from the mine}} \times \text{Actual output extracted in the year}$$

(D) Machine hour rate method

This method of charging depreciation is used if the useful life of the asset can be estimated in terms of number of hours and the depreciation for year after year will be determined on the basis of actual no. of hours for which the asset is actually used every year.

$$\text{Depreciation for the year} = \frac{\text{OC of the machine} - \text{estimated scrap value}}{\text{Total no.of hours in useful life}} \times \text{Actual production in units in the current year}$$

(E) Production units method

This method is used for charging depreciation on machinery where the useful life is expressed in terms of number of units the machine can produce over its useful life and the depreciation for year after year will depend on the no of units actually produced during the year. This method is mostly applicable to machines producing product of uniform specification.

$$\text{Depreciation for the year} = \frac{\text{OC of the machine} - \text{estimated scrap value}}{\text{Total production estimated in units}} \times \text{Actual production in units in the current year}$$

(F) Sum of the years digits method

This method is developed to combine the advantages of SLM & RBM. Under this method the amount of depreciation will reduce every year & still the assets will become zero at the end of its useful life

$$\text{Depreciation for the year} = \frac{\text{OC of the machine} - \text{estimated scrap value}}{\text{Sum of the digits of no.of years in useful life}} \times \text{years left including CY}$$

3. Alternative Depreciation Accounting Systems

(A) Provision for depreciation system

Under this system, the depreciation is not credited to the asset account but it is credited to a specially opened account called "Provision for Depreciation A/c". The asset account will continue to remain at its original cost and the depreciation gets accumulated in provision for depreciation account.

Entry for Charging Depreciation

Depreciation A/c	Dr.	xxx	
To Provisions for depreciation A/c			xxx

Note: WDV on any particular date can be determined by reducing provision for depreciation from original cost.

WDV = OC - PFD

Entry when the asset is sold

Cash / Bank a/c	Dr.	xxx	
Provision for Depreciation a/c	Dr.	xxx	
P & L a/c (loss on sale)	Dr.	xxx	
To Assets (O.C) a/c			xxx
To P & L a/c (profit on sale)			xxx

(B) Preparation of Asset disposal account

When the organisation has several sale of assets during the year then it may adopt preparation of asset disposal a/c to determine net profit or net loss on all the sales put together. The Entries are passed as under:

Step: 1 Record Sales proceeds

Cash / Bank A/c	Dr.	xx	
To Asset disposal A/c			xx

Step: 2 Transfer O.C. of asset sold to asset disposal A/c

Asset disposal A/c	Dr.	xx	
To Asset A/c			xx

Step: 3 Transfer accumulated depreciation on asset sold to asset disposal A/c

PFD A/c	Dr.	xx	
To Asset disposal A/c			xx

Note: The net balance in asset disposal a/c at the end of the year represents net profit or loss on all the sales effected during the year and it should be transferred to profit and loss account.

4. Other Issues (As per Accounting Standards)

(A) Change in the Method of Deprecation

Whenever any change in depreciation method is made, such change in method is treated as change in accounting estimate & not change in accounting policy. As per revised AS, at the time of change in method of providing depreciation the effect of change should be given PROSPECTIVELY and not RETROSPECTIVELY as suggested by old AS.

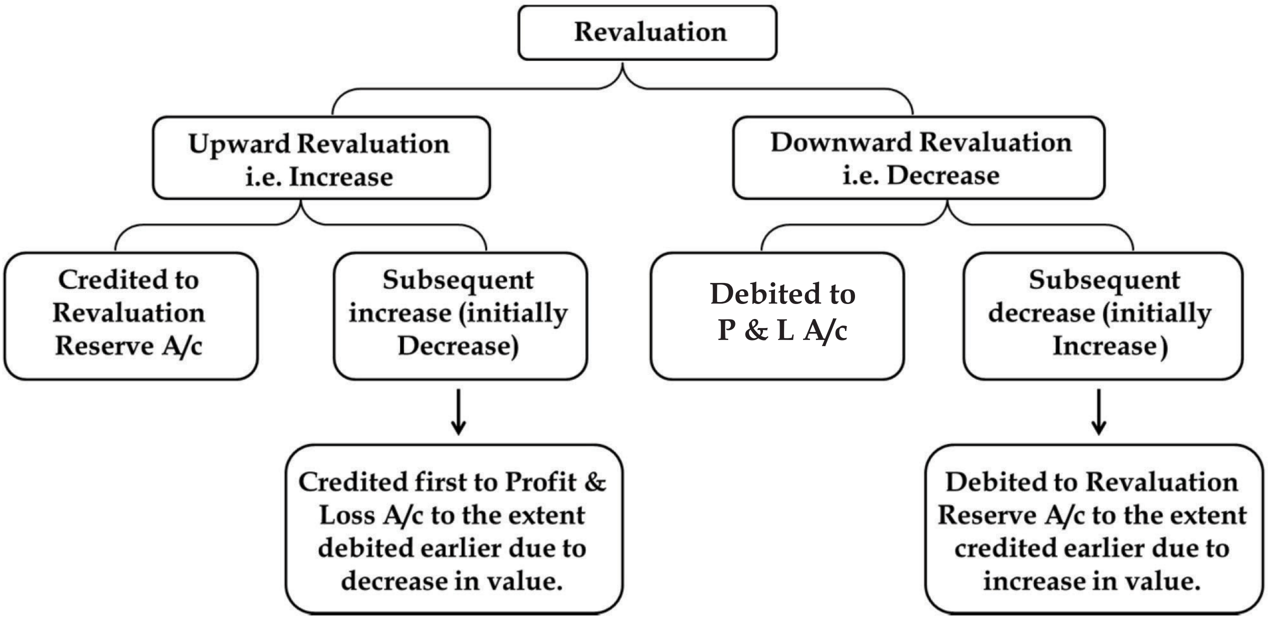
(B) Revision of Estimated Useful Life of Property, Plant and Equipment

Useful life of tangible fixed assets are given under schedule II of Companies Act, 2013. The residual value and the useful life of an asset should be reviewed at least at each financial year end and if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with According Standards.

Whenever there is a revision in the estimated useful life of the asset, the unamortised depreciable amount should be charged to the asset over the revised remaining estimated useful life of the asset.

(C) Revaluation of Property, Plant and Equipment

If there is an upward revision in the value of asset for the first time, then the amount of appreciation is debited to Asset Account and credited to Revaluation Reserve Account. If an asset was earlier revalued downward and later on revalued upward then the appreciation to the extent of earlier downfall is credited to profit and loss account. If there is downward revision in the value of asset then Profit and Loss Account is debited and Asset Account is credited. If an asset was earlier revalued upward and then later on it was revalued downward then the downfall to the extent of earlier appreciation is debited to Revaluation Reserve Account. In case the revaluation has a material effect on the amount of depreciation, the same should be disclosed separately in the year in which revaluation is carried out. It is shown in following chart.



5. Point to Remember

(a) Depreciation is a process of allocating cost of asset to estimated useful life of asset.

(b) Depreciation is charged from date when asset is available for use.

(c) Objective of providing depreciation is
   (i) To find correct Profit / Loss, correct value of asset and cost of production
   (ii) Provide funds for replacement.

(d) Depreciation is charge against profit and not appropriation. It is not at discretion of management.

(e) Causes of depreciation are
   (i) Physical wear and tear
   (ii) Passage of time
   (iii) Obsolescence i.e. out dated due to technological changes, change in demand, legal restriction or innovation and invention.

(f) Depreciation is charged on fixed asset.

(g) Fixed asset is asset held for purpose of production of goods and services or providing administrative or rental purpose.

(h) In case of companies depreciation is provided as per schedule II of companies Act, 2013.
WDV (Book value) = Cost (-) Accumulated depreciation
Depreciable amount = Cost – Scrap

(j) Depreciation on intangible asset is called amortisation

(k) Depreciation is a non-cash expenditure.

(l) Calculation of depreciation are based on 3 factors (factors affecting amount of depreciation)

Cost of asset	**Estimated useful life**	**Residual value**
Means purchase cost + all expenses to bring asset to working condition + Expenses which increases efficiency or capacity of asset	Period over which asset is available for use or number of similar units expected to be obtained from asset	Residual value at end of estimated useful life

CLASSWORK SECTION

Q.1 A Company whose accounting year is the financial year purchased on 1st July, 2004, machinery costing ₹ 40,000.It further purchased on 1st October 2004, machinery costing ₹ 20,000 and on 1st July, 2005, it purchased additional machinery costing ₹ 10,000.

On 1st october, 2006, one fourth of the machinery which was installed on 1st July, 2004, became obsolete and was sold for ₹ 3 ,000.

Show how the machinery account would appear in the books of the company the machinery being depreciated at 10%p.a. and a separate Provision for Depreciation A/c being maintained.

(1) Show necessary accounts (a) By SLM (b) By RBM

(2) Also show entries for 2006-07 if asset disposal a/c is used.

Q.2 Matadeen purchased one asset for ₹ 8,400 and estimated its life at 6 years. Show the Asset A/c for the first three years if depreciation is charged under the sum of years digit method.

Q.3 A firm's plant and machinery account at 31st December, 2014 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery	Depreciation Provision ₹
1998	2,00,000	2,00,000
2004	3,00,000	3,00,000
2005	10,00,000	9,50,000
2006	7,00,000	5,95,000
2013	5,00,000	75,000
2014	3,00,000	15,000
	30,00,000	**21,35,000**

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2015 the following transactions took place:

1. Purchase of plant and machinery amounted to ₹ 15,00,000
2. Plant that had been bought in 2004 for ₹ 170,000 was scrapped.
3. Plant that had been bought in 2005 for ₹ 90,000 was sold for ₹ 5,000.
4. Plant that had been bought in 2006 for ₹ 2,40,000 was sold for ₹ 15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2015. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2015.

(i) Plant and machinery at cost;

(ii) Depreciation provision;

(iii) Sales or disposal of plant and machinery.

CHAPTER 7
BILLS OF EXCHANGE AND PROMISSORY NOTES

THEORY SECTION

Definition:

"It is an instrument in writing where an unconditional order is given by the person called drawer to a person called drawee to pay a certain sum to a certain person on a certain date".

Features:

1. It must be in writing.
2. Unconditional order.
3. Amount must be certain.
4. It must be dated.
5. It must be accepted by drawee.
6. It should be stamped.

Terms:

Drawer: Person who draws the bill or person who gives the order.

Drawee: Person on whom the bill is drawn or person to whom order is given.

Acceptor: Person who accepts the bill (Drawee and acceptor are always the same).

Payee: Person receiving the money (Drawer and payee may or may not be the same).

Accounting Entries		
	Books of Drawer	Books of Drawee
(1)	Entry for sales/ Purchase	
	Drawee A/c Dr. xx	Purchase A/c Dr. xx
	To Sales A/c xx	To Drawer A/c xx
(2)	Entry for drawing / accepting bill	
	Bills Receivable A/c Dr. xx	Drawer A/c Dr. xx
	To Drawee A/c xx	To Bills payable A/c xx
(3)	Entry for bill retained upto due date	
	No Entry	No Entry

	Note : The duration of the bill should be counted from the date of drawing, however in case of "Sight Bills" it should be from the date of acceptance	
(4)	Entry for bill honoured on due date	
	Cash / Bank A/c Dr. xx	Bills Payable A/c Dr. xx
	To Bills Receivable A/c xx	To Cash / Bank A/c xx
	Note : The due date before days of grace is called nominal due date and the due date after counting the days of grace is called legal due date. If the legal due date falls on public holiday (including Sunday) then previous day is taken as due date. But if a sudden holiday is de-clared then next day should be taken as due date.	
(5)	Entry for bill dishonoured on due date	
	Drawee A/c Dr. xx	Bills Payable A/c Dr. xx
	To Bills Receivable A/c xx	To Drawer A/c xx
(6)	Entry for noting charges	
	Drawee A/c Dr. xx	Noting charges A/cDr. xx
	To Cash A /c xx	To Drawer A/c xx
	(They are paid by drawer initially and then recovered from drawee)	
(7)	Entry for charging / providing interest	
	Drawee A/c Dr. xx	Interest A/c Dr. xx
	To Interest A/c xx	To Drawer A/c xx
(8)	Entry for cash + New bill	
	Cash / Bank A/c Dr. xx	Drawer A/c Dr. xx
	Bills Receivable A/c Dr. xx	To Cash / Bank A/c xx
	To Drawee A/c xx	To Bills Payable A/c xx
(9)	Entry for retirement of bill	
	Cash / Bank A/c Dr. xx	Bills Payable A/c Dr. xx
	Rebate A/c Dr. xx	To Cash / Bank A/c xx
	To Bill Receivable A/c xx	To Rebate A/c xx
	Note: When the bill is honoured before the due date, it is said to be retired.	
(10)	When the drawee is declared insolvent	
(a)	Entry for dishonoured of bill	
	Drawee A/c Dr. xx	Bills Payable A/c Dr. xx
	To Bill Receivable A/c xx	To Drawer A/c xx

(b)	Entry for recovery	
	Bank A/c Dr. xx	Drawer A/c Dr. xx
	Bad Debts A/c Dr. xx	To Bank A/c xx
	To Drawee A/c xx	To Deficiency A/c xx
(11)	Entries when the bill is discounted with the bank	
(a)	Entry for discounting the bill	
	Bank A/c Dr. xx	No Entry.
	Discount A/c Dr. xx	
	To Bill Receivable A/c xx	
(b)	Entry when such bill is honoured	
	No Entry.	Bills Payable A/c Dr. xx
		To Cash / Bank A/c xx
(c)	Entry when such bill to dishonoured	
	Drawee A/c Dr. xx	Bills Payable A/c Dr. xx
	To Bank A/c xx	Noting Charges A/c Dr. xx
	(Bill Amount + noting charges)	To Drawer A/c xx
(12)	Entries when the bill is endorsed	
(a)	Entry for endorsement of bill	
	Endorsee A/c Dr. xx	No Entry.
	To Bill Receivable A/c xx	
(b)	Entry when such bill is honoured	
	No Entry.	Bills Payable A/c Dr. xx
		To Cash / Bank A/c xx
(c)	Entry when such bill is dishonoured	
	Drawee A/c Dr. xx	Bills Payable A/c Dr. xx
	To Endorsee A/c xx	Noting Charges A/c Dr. xx
	(Bill amount + Noting Charges)	To Drawer A/c xx
(13)	Entries when bill is sent to bank for collection	
	Entry for sending the bill	
(a)	Bills for collection A/c Dr. xx	No Entry.
	To Bill Receivable A/c xx	
(b)	Entry when such bill is honoured	
	Bank A/c Dr. xx	Bills Payable A/c Dr. xx
	Bank Comm. A/c Dr. xx	To Cash / Bank A/c xx
	To Bills for collection A/c xx	

(c)	Entry when such bill dishonoured	
	Drawee A/c Dr. xx	Bills Payable A/c Dr. xx
	To Bills for collection A/c xx	Noting Charges A/c Dr. xx
	To Cash A/c xx	To Drawer A/c xx

➢ IMPORTANT POINTS TO REMEMBER

A. Term of bill

1. When bill is drawn after date, term of bill begins from date of bill.
2. When bill is drawn after sight, term of bill begins (or counted) from date of acceptance.
3. When bill is drawn at sight, at presentment or when no term is mentioned on bill, then bill is payable whenever payment is demanded (no days of grace allowed in this case).

B. Foreign bill of exchange.

1. It is bill drawn for foreign trade operations.
2. Following are examples:-

	Bill drawn	On person resident in	Bill payable
Case I	In India	Outside India	Outside India
Case II	Outside India	Outside India	-
Case III	Outside India	-	In India
Case IV	Outside India		Outside India

C. Promissory notes

1. It is instrument in writing, containing unconditional promise signed by maker to pay certain sum of money to order of certain person.
2. Features -
   (a) Must be in writing.
   (b) It should contain unconditional promise.
   (c) Not to be payable to bearer.
   (d) It should be stamped.
   (e) There are two parties (Maker & Payee) to promissory note.
   (f) Acceptance not required.
   (g) Promissory note is made by debtor / buyer.
3. Indian currency is promissory note.

D. Noting Charges

It is necessary that the fact of dishonour and the causes of dishonour should be established. If the acceptor can prove that the bill was not properly presented to him for payment, he may escape liability. Therefore, if there is dishonour, or fear of dishonour, the bill will be given to a public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But if the bill is dishonoured they will note the fact of dishonour, with the reasons and give the bill back to their client. For this service they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party which is responsible for dishonour.

E. RENEWAL OF BILL (Giving more time for honouring the bill)

Sometimes the acceptor is unable to pay the amount and he himself moves that he should be given extension of time and in consideration agrees to bear interest for the extended time period (calculated from the date of renewal till the date of expected settlement). In such a case a new bill will be drawn and the old bill will be cancelled.

F. RETIREMENT OF BILLS OF EXCHANGE & REBATE

Many a time acceptor has spare funds much before the maturity date of the bill of exchange accepted by him. In such circumstances he approaches the payee of the bill of exchange and asks him whether the payee is prepared to accept cash before the maturity date. In such cases the acceptor gets a certain rebate or interest or discount for premature payment. The rebate becomes the income of the acceptor and expense of the payee. It is a consideration of premature payment.

G. Distinguish between Bills of exchange & Promissory Notes

	Particulars	Bills of exchange	Promissory Notes
1	Nature of Investment	It is an order to pay.	It is promise to pay
2	Drawn By	It is drawn by creditor.	It is drawn by debtor
3	Number of parties	Three.	Two.
4	Name of parties	Drawer Drawee Payee.	Maker / Promisor. Payee / Promisee.
5	Acceptance	Required.	Non required.

6	Can be drawn payable to maker him self	Yes.	No.
7	can be drawn without consideration	Yes (Accommodation Bill).	No.

	Particulars	Trade Bill	Accommodation Bill
1	Purpose	It is drawn and accepted for some consideration i.e. for trade purpose.	It is drawn and accepted without any consideration.
2	Need	It is drawn to settle a business transaction.	It is a drawn to meet the financial requirements of the drawer / drawee / both temporarily.
3	Legal Status	The drawer can take legal action if the bill is dishonoured.	The drawer cannot take any legal action when the bill is dishonoured.
4	Discounting Charges	Discounting charges are borne by the drawer.	Discounting charges are divided between the drawer and drawee in the ratio of the proceeds.

H. Other points

1. Bill discounted is contingent liability in books of drawer and shown as foot note to balance sheet.
2. When bill is retained by drawer, drawer and payee are same persons.
3. When bill is dishonoured, noting charges are paid by holder of bill but ultimately borne by drawee of bill. i.e. noting charges A/c is debited in books of drawee.
4. Discount charges are calculated from date of discounting to due date of bill and if date of discounting not given then calculate from date of bill.
5. Rebate on retirement is calculated from date of payment (honour) to due date of bill.
6. Accommodation bill are drawn to raise finance and for mutual help.
7. No consideration is necessary in case of accommodation bill.

8. When transaction of bill receivable & payable are large it is better to maintain bills receivable & bills payable book. Both these books are subsidiary books.

9. Individual entries posting is done from bills receivable book to Credit side of debtors account & total of bills receivable book is posted to debit side of bills receivable account.

10. Individual entries posting is done from bills payable book to debit side of creditors account & total of bills payable book is posted to credit side of bills payable account.

11. Bills of exchange is drawn by creditor on debtor (it is accepted by debtor).

12. Bills of exchange is also known as trade bill.

E. Format of Bills of Exchange

Illustration 1: (General Acceptance)

Partner Akshay of Mother food products, Charni road, Mumbai 42 - draws a bill of exchange for ₹ 15,000/- for 2 months after date on 21st july 2011 on Sheetal Bali, Mahjana peth, Pune 52. The bill was accepted on 24th july, 2011. Prepare a bill of exchange.

Solution:

Stamp

₹ 15,000/-

Bill of exchange

Mother food Product
Charny Road, Mumbai – 042.
Date: 21st july, 2011

Two months after date pay to me or my order the sum of Rupees Fifteen thousand only for the value received.

Sd/-
(Akshay)
Partner of Mother Food Products.

To,
Sheetal Bali,
Mahjana Peth, Pune – 52

Accepted
Sd/-
(Sheetal Bali)
Date: 24th july, 2011

Illustration 2 : (Qualified acceptance)

Aditi Swapnil Gade, A- 16 Venkatesh Heritage, Pune 411 052, drew a bill on 15th November, 2010 of ₹ 25,000 after sight for 90 days on Sunita Vikaschandra Gade, 62 Bhoitenagar, jalgaon. Payable to Sushma Arun Khare, 25 Anup Trade Centre, Chalisgaon. The bill was accepted for ₹ 22,500/- only on 18th November 2010. Prepare a bill of Exchange.

Solution :

Bill of exchange

Stamp

₹ 15,000/-

Aditi Swapnil Gade.
A-16 Venkatesh Heritage,.
Pune – 411 052.
Date: 15th November, 2010.

Ninety days after sight pay to Sushma Arun khare, 25, Anup Trade Centre, Chalisgaon or her order the sum of Rupees Twenty five Thousand only for the value received.

Sd/-
Aditi Gade

Accepted for ₹ 22,500 only

To,
Sunita Vikaschandra Gade,
62, Bhoitenagar, Jalgaon

Accepted
Sd/-
(Sunita Vikaschandra Gade)
Date: 18th November, 2010

CLASSWORK SECTION

Q.1 Abhay draws a bill on Ajay for ₹ 1,400 at 3 months. Ajay accept the bill and returned it to Abhay. The bill sent to bank for collection. On the maturity, Ajay finds himself unable to make payment of the bill and request Abhay to renew it. Abhay accept the proposal on the condition that Ajay should pay ₹ 700 in cash along with noting charges ₹10 and drew a new bill at 1 month for the balance. These arrangements were carried through. Afterwards Ajay retired the bill by paying ₹ 695.

Give journal entries and Ajay's A/c in the books of Abhay.

Q.2 Journalize the following in the books of Don:

(a) Bob informs Don that Ray's acceptance for ₹ 3,000 has been dishonoured and noting charges are ₹ 40. Bob accepts ₹ 1,000 cash and the balance as bill at three months at interest of 10% p.a. Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.

(b) James owes Don ₹ 3,200; he sends Don's own acceptance in favour of Ralph for ₹ 3,160; in full settlement.

(c) Don meets his acceptance in favour of Singh for ₹ 4,500 by endorsing John's acceptance for ₹ 4,450 in full settlement.

(d) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

Q.3 Lata draws a bill for ₹ 40,000/- and Pallavi accepts the same for the mutual accommodation of both of them to the extent of 3/4 and 1/4 respectively. Lata discounts the bill for ₹ 39,800/- and remits 1/4 of the proceeds to Pallavi. Before the due date, Pallavi draws another bill for ₹ 50,000 on Lata in order to provide funds to meet the first bill. The second bill is discounted for ₹ 49,000/- with the help of which the first bill is met and a sum of ₹ 9200/- is remitted to Lata. Before the due date of the second bill, Lata becomes insolvent and Pallavi received a dividend of 60 paise in a rupee in full satisfaction.

Show journal entries in the books of Lata & Pallavi.

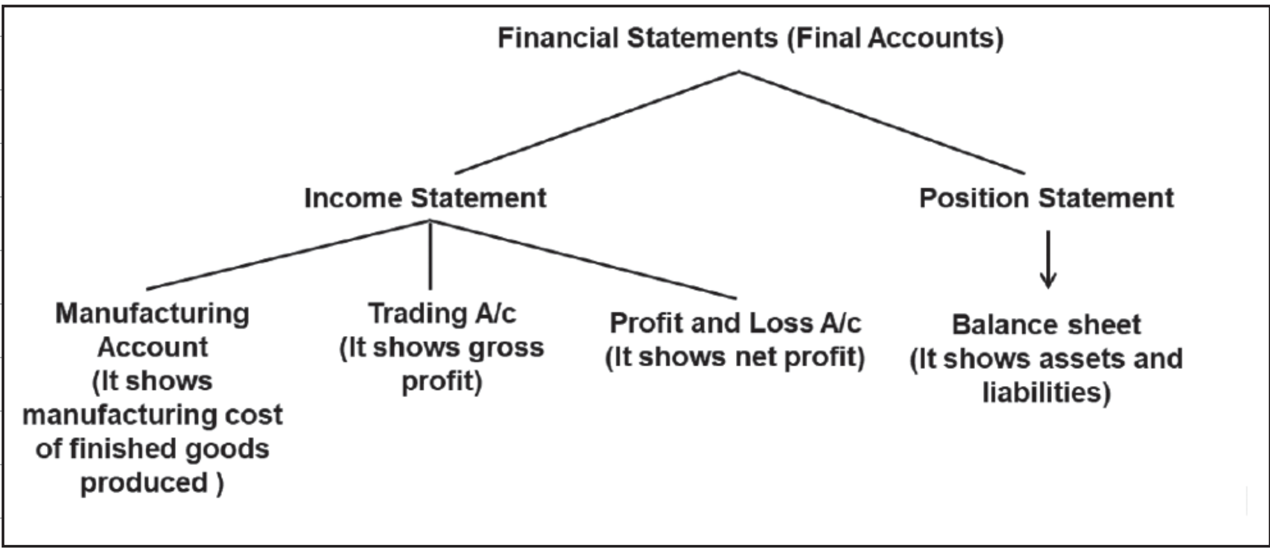
CHAPTER 8
FINAL ACCOUNTS OF STC AND MANUFACTURER

THEORY SECTION

1. Book - keeping begins with making entries in Journal and ends with classifying and collecting all entries under various Accounts in the Ledger. At the end of the year, the ledger contains hundreds of accounts relating to a number of items of income, gains, expenses, losses, debtors, creditors, assets, liabilities, capital and so on. These accounts must be grouped under main heads such as Income, Expenses, Assets, Liabilities etc. The first step in Accounting is the grouping of such accounts. So, Accounting includes Book - keeping, but is much wider in scope. Accounting takes over where Book - keeping ends.

   The balances of income and expense accounts appearing in the ledger are summarised in a statement called the Profit and Loss Account. A businessman can find out his profit or loss for the entire year from the Profit and Loss Account.

   The balances of assets, liabilities and capital accounts appearing in the ledger are summarised in a statement called Balance Sheet. Both these statements (profit and loss account and balance sheet) together are called the Final Accounts.



2. Limitations of Financial Statements

(a) Financial Statements are prepared on the bases of money value prevailing at the time of transaction without taking into account subsequent changes in value of money.

(b) Financial statements does not take in to account strengths and weaknesses which cannot be measured in money e.g. efficiency of staff.

(c) Due to going concern concept, cost of the asset are arbitrarily distributed over number of years. So accounts are not absolutely correct.

(d) Different accounting policies are followed by different organisation for financial statements.

3. Closing Entries

(a) Closing Entries for Trading A/c

Trading A/c	Dr.
To Opening Stock A/c	
To Purchase A/c	
To All other Direct Expenses A/c Individually	

Sales A/c	Dr.
Closing Stock A/c	
To Trading A/c	

Trading A/c	Dr.
To P & L A/c	
(For Gross Profit)	

(b) Closing Entries for P & L A/c

P & L A/c	Dr.
To All Indirect Expenses A/c Individually	

Other Incomes A/c Individually	Dr.
To P & L A/c	

P & L A/c Dr.
To Capital A/c
(For Net Profit)

4. Opening Entries

All Assets A/c Individually (of previous year) Dr.
To All liabilities A/c Individually (of previous year)
To Capital A/c

5. List of Adjustments

(1) Closing Stock

(a) Trading a/c - Cr. side
(b) Balance Sheet - Asset side

Note: As per AS - 2 the inventory should be valued at its original cost or net realisable value whichever it less (NRV = Sales proceeds expected - expected selling expenses – expected cost of completion).

Adjusting Entries

Closing Stock A/c Dr.
To Trading A/c

(2) Depreciation

(i) When provision for depreciation account is not maintained
(a) Less from Asset
(b) P & L A/c Dr. side

(ii) When provision for depreciation account is maintained
(a) Add to Provision for depreciation
(b) P & L A/c Dr. side

Note:

(1) In absence of any specification the depreciation should be calculated on WDV of the asset.

(2) If depreciation is given as 10% p.a, it will mean as proportionate depreciation on additions during the year but if it is mentioned that the depreciation is at 10% then it will mean that it is charged as 10% flat on closing balance.

Adjusting Entries

Depreciation A/c Dr.

To Fixed Assets/Provision for Depreciation A/c

(3) Outstanding Expenses

(a) Add to concerned expenses

(b) Balance Sheet liabilities side

Adjusting Entries

Expenses A/c Dr.

To Outstanding Expenses A/c

(4) Prepaid Expenses

(a) Less from Concerned Expenses

(b) Balance Sheet Assets Side

Adjusting Entries

Prepaid Expenses A/c Dr.

To Expenses A/c

(5) Incomes receivable

(a) Add to Concerned Income

(b) Balance Sheet Asset side

Adjusting Entries

Incomes receivable/Accrued Income A/c Dr.

To Income A/c

(6) Income received in advance

(a) Less from Concerned Income

(b) Balance Sheet liabilities side

Adjusting Entries

Incomes A/c Dr.

To Pre received Income A/c

(7) Interest on capital

(a) P & L Dr. side

(b) Add to Capital

Note: Interest on capital should be calculated on final amount of capital after making prior year adjustments.

Adjusting Entries

Interest on Capital A/c Dr.

To Capital A/c

(8) Interest on drawings

(a) P & L Cr. side

(b) Less from capital

Note: If date of withdrawal is not given then interest on drawing should be calculated for 6 months and it should be on all drawings (i.e., cash as well as goods withdrawn)

Adjusting Entries

Capital A/c Dr.

To Interest on Drawings A/c

(9) Goods distributed as free samples

(a) Trading A/c Cr. side (Cost)

(b) P & L A/c Dr. side (Add to Advertisement Expenses)

Adjusting Entries

Advertisement A/c Dr.

To Purchase A/c

(10) Goods withdrawn for personal use

(a) Trading A/c - Cr. side

(b) Add to drawings

Adjusting Entries

Drawings A/c	Dr.
To Purchase A/c	

(11) Uninsured goods lost by fire

(a) Trading A/c - Cr. side

(b) P & L A/c - Dr. side

Adjusting Entries

Loss by Fire A/c	Dr.
To Purchase A/c	

(12) Insured goods lost by fire

(a) Trading A/c Cr. Side (Total goods cost)

(b) Balance sheet - Asset side (Insurance claim)

(c) P & L A/c Dr. side (Loss by fire)

Adjusting Entries

Loss by Fire A/c	Dr.
Insurance Claim A/c	
To Purchase A/c	

(13) Goods still on approval, included in sale

(a) Less from sales (Selling Price)

(b) Less from debtors (Selling Price)

(c) Add to closing stock (Cost)

Adjusting Entries

Sale A/c	Dr.
To Trade Receivable A/c	

Closing Stock A/c	Dr.
To Trading A/c	

(14) TDS on Income

(a) Show gross income in P & L A/c Cr. Side (Net Income received + TDS)

(b) Show TDS as an Asset

(15) TDS on Expenses

(a) Show gross expenses in P & L Dr. side (Net Expenses paid + TDS)

(b) Show TDS as Liability

6.

Presentation of Debtors and Creditors in Balance Sheet

LIABILITIES			ASSETS		
			Sundry Debtors	xxx	
			(±) Any other Adj	xxx	
				xxx	
			(-) New BD (Adj)	(xxx)	
Sundry Creditors	xx			xxx	
(±) Any other Adj	xx		(-) New RDD (Adj)	(xxx)	
	xx			xxx	
(-) New RFDC (Adj)	xx	xx	(-) New RFDD (Adj)	(xxx)	xxx

Presentation in Profit & Loss Account

DR. SIDE			CR. SIDE		
To Bad - debts (TB)	xx		By Discount Received	xx	
Add : New BD (Adj.)	xx		Add : New RFDC (Adj.)	xx	
Add : New RDD (Adj.)	xx		Less : Old RFDC (TB)	(xx)	xx
Less : Old RDD (TB)	(xx)	xx			
To Discount Allowed	xx				
Add : New RFDD (Adj.)	xx				
Less : Old RFDD (TB)	(xx)	xx			

Adjusting Entries of RDD/ Bad Debts

(1) Reserve for Doubtful Debts

P & L A/c Dr.

To RDD A/c

(2) Bad Debts

Bad Debts A/c	Dr.
To Trade Receivables A/c	
RDD (If exists) A/c / P & L A/c	Dr.
To Bad Debts A/c	

Notes:

(1) RDD affects debtors (which is the part of current asset) and profits.

(2) Where in examination problem requires that certain bad debts should be written off and a provision of doubtful debts made, the amount of bad debts to be written off should be first debited against existing RDD A/c and resulting balance in the RDD A/c should be raised to the required figure by debiting to P & L A/c.

(3) Provision for discount should be created in the same manner as RDD A/c.

7. Assets and Liabilities

Assets

Current Assets	Long term Assets
Assets converted to cash over short time e.g. trade receivable, inventories, cash, etc.	Meant to be used for long time e.g. fixed assets, long term investment

Liabilities

Current Liabilities	Long term Liabilities
Settled / paid within one year e.g. trade payables, bills payable etc.	Exits for more than one year e.g. long term loan

8. Contingent Liabilities

- Contingent Liabilities are liabilities which may or may not happen and happening of which depends upon future uncertain events e.g. court cases, guarantees given, bill discounted, etc.

- Contingent Liabilities are shown as foot notes to balance sheet

9. Arrangements of assets & liabilities in balance sheet

(a) Liquidity approach – All assets which are converted into cash first & all liabilities which are to be paid first (in short term) is to be arranged at top of balance sheet.

(b) Permanence approach – All long term assets & liabilities are presented at top of balance sheet & short term asset & liabilities presented last.

10. Manufacturing Concerns:

A manufacturer sells finished goods manufactured by him in his factory; while a trader sells goods purchased by him. A manufacturer purchases raw materials and converts them into finished goods by means of machinery and labour at a factory. So, it is necessary for a manufacturer to spend on wages to workers, on the manufacturing process, on the factory etc. The manufacturer therefore prepares a 'Manufacturing Account' to find out his cost of manufacture. Manufacturing Account means an account showing the summary of the cost of the manufacturing activity during the accounting year.

Dr. **Manufacturing Account for the year ended.......** Cr.

Particulars	₹	₹	Particulars	₹
To opening work in progress		xx	By Sale of Scrap / byproduct	xx
To Raw material consumed			By Closing Work in progress	xx
Opening stock	x			
+ Net purchase	x			
- Closing Stock	x	xx	By Trading a/c	
To Direct wages		xx	(cost of production	xx
To Direct expenses (based on units produced)		xx	Balancing figure)	
To Indirect factory Expense /overhead (Not based on unit produced)		xx		

Note: Raw material consumed + Direct wages + Direct expenses = Prime cost

Purpose of manufacturing Account

1. It shows cost of manufacturing finished goods.
2. It provides details of factory cost.
3. It facilitates reconciliation of financial and cost records

11. Distinguish between

(1) Provision and Reserves

	Provisions	Reserves
1.	It is profit kept aside for known liability	It is profit kept aside for unknown liability.
2.	Amount cannot be determined with accuracy but reliably estimated.	Amount cannot be determined with accuracy & cannot be estimated.
3.	Charge against profit.	Appropriation of profit
4.	Outflow of resources probable.	No outflow of resources.
5.	e.g. Depreciation, RDD, Stock spoilt, tax liability etc.	e.g. Retained profit, general reserve etc.

(2) Income and Position statements

	Income statements	Position Statements
1.	Purpose is to know profit and loss	Purpose is to know financial position i.e. assets and liabilities
2.	Comprises of trading and profit and loss account	Comprises of balance sheet and cash flow statement.
3.	Balancing figure shows GP and NP	This statement is balanced
4.	Discloses profit / loss for the year	Discloses financial position on a particular date

(3) Cash discount and trade discount

	Cash discount	Trade discount
1.	Cash discount is a discount allowed to a debtor on prompt payment of cash	Trade discount is a deduction allowed to the buyers from the gross or catalogue price
2.	It is allowed only when the customer makes the payment on time	It is allowed by the seller to the purchaser for the purpose of selling more goods.
3.	It is allowed only when the customer make the payment within a fixed period	It is allowed immediately when the seller sells the goods to the customers
4.	It is separately recorded in the books of accounts.	Purchases and sales are accounted net of trade discount. Therefore trade discount is not separately recorded in books of accounts.
5.	It is not deducted from the invoice	It is deducted from the invoice

(4) Trial balance and balance sheet

	Trial balance	Balance sheet
Meaning	it is a statement prepared as on a particular date to check the arithmetical accuracy of the ledger balance primarily	It is a statement on the financial position of a firm as at a given date
Object	It is prepared to check accuracy of the ledger postings and arithmetical accuracy	It is prepared to ascertain the financial position of a business
Periodicity	It is generally prepared at the end of a month	It is generally prepared at the end of an accounting period.
Statements	It includes the ledger balance of all type of accounts	It includes only the real & personal accounts

12. Some equations related to Final A/c

(a) Cost of goods sold (COGS) = Opening stock + purchase (net) + Direct expense – Closing stock

(b) Cost (COGS) + GP = Sales

(c) Net profit = GP – indirect expenses

(d) Cost of goods available for sale = Opening stock + purchase + Direct expense

(e) Average stock = $\frac{\text{Opening stock + Closing stock}}{2}$

(f) GP margin or GP % = $\frac{\text{GP}}{\text{Sales}} \times 100$

(g) Managers commission

If commission is on NP before charging commission, then commission =

$\text{NP} \times \frac{\text{Commission \%}}{100}$

If commission is on NP after charging commission, then commission =

$\text{NP} \times \frac{\text{Commission \%}}{100 + \text{Commission \%}}$

(h) Working Capital = Current assets – Current Liabilities

(I) Capital = Assets – Liabilities

CLASSWORK SECTION

Q.1 From the following particulars prepare trading and profit and loss account of Mr. R for the year ended 31 – 3 – 1997 and a balance sheet as on 31 – 3 – 1997

	Debit (₹)	Credit (₹)
Building	5,00,000	
Machineries	2,00,000	
Furniture	1,00,000	
Cash at Bank	90,000	
Cash on hand	10,000	
18% p.a. loan obtained by Mr. R on 1 – 6 – 1996 on mortgage of his building		3,00,000
R's capital		5,20,000
Sundry debtors / Sundry creditors	5,00,000	4,00,000
Stock on 1 – 4 – 1996	1,20,000	
Purchases / Sales	25,00,000	32,20,000
Sales returns / Purchases returns	1,20,000	1,00,000
Rent	60,000	
Establishment expenses	1,80,000	
Electricity charges	15,000	
Telephone charges	10,000	
Commission on sales	30,000	
Insurance premium	10,000	
Bad debts	20,000	
Bills receivable	75,000	
	45,40,000	**45,40,000**

You are required to provide for depreciation on buildings at 5% p.a.; on machineries at 25% p.a.; on furniture at 10% p.a. Provision for bad and doubtful debts is to be made at 5%on sundry debtors. Mr. R's manager is entitled to a commission of 10% on the net profit after charging his commission. Closing stock was not taken on 31 – 3 – 1997 but only on 7 – 4 – 1997. Following transactions had taken place during the period from 1 – 4 – 1997 to 7th April, 1997. Sales ₹ 2,50,000, purchases 1,50,000, stock on 7th April, 1997 was ₹ 1,80,000 and the rate gross profit on sales was 20%. Insurance premium mentioned in the trial balance was in respect of building and machineries. Interest on mortgage loan to be provided up to 31.3.1997.

Q.2 The following are the balances as at 31st March, 2004 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad Debts	1,100
Furniture and Fittings	10,250	Bad Debts recovered	450
Bank Overdraft	80,000	Salaries	22,550
Capital Account	65,000	Salaries payable	2,450
Drawings	8,000	Prepaid Rent	300
Purchases	1,60,000	Rent	4,300
Opening Stock	32,250	Carriage inward	1,125
Wages	12,165	Carriage outward	1,350
Provision for doubtful debts	3,200	Sales	2,15,300
Provision for Discount		Advertisement Expenses	3,350
on debtors	1,375	Printing and Stationery	1,250
Sundry Debtors	1,20,000	Cash in hand	1,450
Sundry Creditors	47,500	Cash at Bank	3,125
		Office Expenses	10,160
		Int. paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchase return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of Plant and Machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for Publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5 % and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on Plant and Machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2004 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a trading and Profit Loss Account for the year ended 31st March, 2004, and a Balance Sheet as on that date. Also show the rectification entries.

Q.3 The balance sheet of Thapar on 1st January, 2017 was as follows:

Liabilities	₹	Assets Amount	₹
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,00,000
	66,50,000		**66,50,000**

During 2017, his Profit and Loss Account revealed a net profit of ₹ 15,30,000. This was after allowing for the following:

(a) Interest on capital @ 6% p.a.

(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st December, 2017.

But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totaling ₹ 1,80,000 and (2) prepaid insurance to the extent of ₹ 20,000. His current assets and liabilities on 31st December, 2017 were : Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹11,40,000. During the year he withdrew ₹ 6,00,000 for domestic use.

Required

Draw up his Balance Sheet at the end of the year.

Q.4 Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2016:

	₹
Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ ₹ 0.60 per unit manufactured	

Hire charges of factory	2,20,000
Direct wages-Contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of Closing W.I.P.	
Repairs and Maintenance	1,80,000
Units produced – 5,00,000 units	

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2016.

CHAPTER 9
FINAL ACCOUNTS FOR NOT FOR PROFIT ORGANISATIONS

THEORY SECTION

Generally the term trading means the exchange of goods and services in order to earn profits. The sole trading concern, partnership firms and other types of organisation commence business with the view of earning profits. Therefore, they are known as trading concerns. However, there are some institutions like hospitals, educational institutions, co-operative societies, clubs etc., which are non-trading organisations. It means that these institutions are established with the object of providing services and not with the object of profit making.

At the end of the accounting year, a non-trading institution also prepares its final accounts, which includes :

1. Receipts and Payments Account
2. Income and Expenditure Account
3. Balance Sheet (Statement of affairs)

Treatment of Some Important Items :

Receipt of NPO

Credit to income and expenditure account (recurring)	Balance sheet (liability side) (Non recurring)
1. Ordinary / General donations	1. Donation Received for capital expenditure
2. Membership Fees / Subscriptions	2. Donation Received for special purpose
3. Amount received for special activity e.g. charity show collection	3. Legacy
4. Entrance fees (if amount is small)	4. Life membership fees
	5. Endowments fund
	6. Entrance fees

1. Donation

   (a) Special purpose donation: (received for specific purpose) If donation has been received to meet some capital expenditure such as purchase of books or equipment or building, it is shown in the liability side of Balance Sheet. If donation is received to meet some one time revenue expenses and such expenses have not been incurred during the current financial year, such donation will also be shown on the liability side of Balance sheet but in case expenses have been incurred any deficit or surplus is shown in Income & Expenditure Account (Amount raised for special activity).

(b) General donation: If donation received is not for any specific purpose, this is shown as income in Income & Expenditure Account.

2. Legacy

When any property or amount is received under a will of deceased person, it is treated as capital receipt shown in the liability side of the Balance Sheet (add to capital fund)

3. Entrance or Admission Fee

Any entry fees received from the members as admission fee or entrance fees is treated as capital receipt and shown in the liability side of the Balance Sheet. However, small amount may be shown as income in income & expenditure account.
If question is silent then take it as capital receipt and add to capital fund.

4. Life Membership Fee

If one time subscription is received from a member for his whole life, such subscription cannot be treated as income of one year. This item can be treated in one of the following manner :

(a) Total amount received during the year may be credited to "Life Membership Fee A/c' and shown in the Liability side of the Balance Sheet. In case of death of a member, his subscription will be transferred to accumulated fund account.

(b) Out of the total of life membership fee received an amount equal to normal annual subscription may be transferred to credit of Income and Expenditure Account and balance is shown in Liability side of Balance Sheet until total amount is exhausted. However, if a member dies before his total subscription has been exhausted, his unexhausted amount is transferred to accumulated fund account.

In absence of any information life membership fees is to be added to capital fund.

5. Special Funds

Sometimes special funds are created to meet some recurring expenses such as sports fund, prize fund etc. Any amount received for such purpose is credited to the relevant fund account. Any expenses incurred for such purposes are debited to fund account. If amount of fund has been invested in some securities, income earned on such securities is also credited to Fund Account. Closing balance of fund is shown in the Liability side of the Balance Sheet and corresponding investments in the Assets side of Balance Sheet.

If donor, instead of paying cash, has given some securities or some other readily saleable asset the value of such asset should be credited to the specific fund account for which such asset has been received. Amount of fund and corresponding investments will appear in the liabilities and assets side of Balance Sheet respec-tively.

6. Endowment Fund

It is the donation received and only income from such donation is to be used for certain specific purpose. In such cases income relating to such special fund should be added to these funds on liability side and all related expenses should be deducted from such fund.

7. Grants

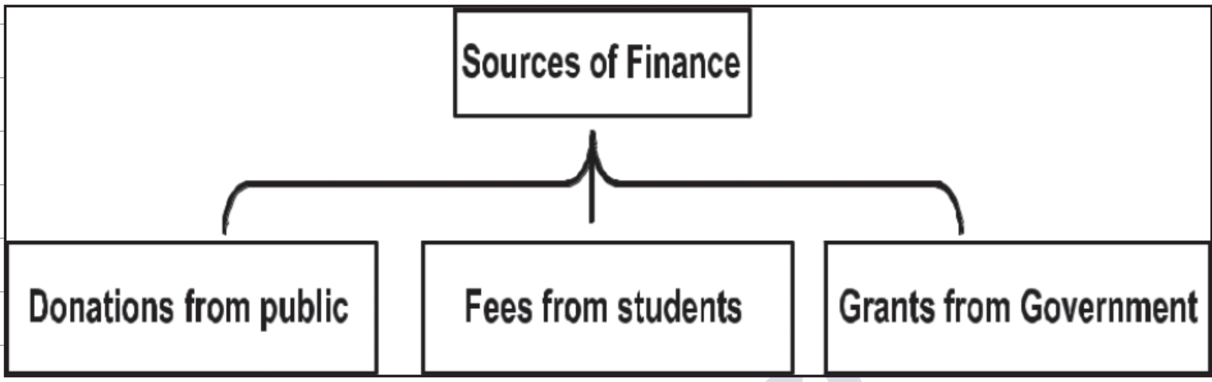
It is a financial help received from some public funds as local bodies or other government body, unless it is received for some special purpose, it is treated as revenue receipt.

Distinguish between Receipt and Payment A/c & Income and Expenditure A/c.

	Receipt and Payment A/c	Income and Expenditure A/c
1.	It is a Real A/c	It is a Nominal A/c
2.	Shows Cash / Bank Balance	Shows Surplus / Deficit
3.	Both Capital and Revenue items are taken	Only Revenue items of current year are taken
4	It start with opening balance and difference between Dr. and Cr. side shows closing balance of cash & Bank	It does not have opening balance and difference between debit and credit side shows surplus or Deficit
5.	Dr. Side = Receipt Cr. Side = Payment	Dr. Side = Expense Cr. Side = Income

6.	Only Cash transactions are entered. All transactions relating to current, past and future are entered	Both Cash and Non – Cash transactions (Depreciation) are entered. Only current years transactions are entered

Accounting for educational institutions



Meaning of a Fund

The term fund is strictly applicable to the amount collected for special purpose when these are invested e.g. prize fund, Building fund etc. In other cases when amount collected is not invested in securities till the time it is used the word 'account' is more appropriate e.g. Building collection account.

Fund based accounting

Meaning -

It involves preparation of financial statements on fund wise based i.e. separate ledgers are maintained for each fund

Purpose-

A fund may be created

a) for asset creation - e.g. purchase or construction of any asset like building.

b) for special activities - e.g.distribution of prizes

Journal Entries relating to fund

(A) Receipt / Investment entries (same for all funds whether fund related to capital expenditure like building fund or other funds like prize fund)

(a) Receipt of Donations -

Cash / Bank A/c	Dr.	xx	
To Respective funds			xx

(b) On investment of money received on funds

Respective fund investment A/c	Dr.	xx	
To Cash / Bank			xx

(c) On receipt / accrual of interest on investment

Cash / Bank A/c	Dr.	xx	

Accrued Interest A/c	Dr.	xx	
To Respective Fund			xx

(B) Expenditure / spending out of fund (capital expenditure related to fund e.g. building fund)

(a) On Capital expenditure being due

Capital work in progress A/c	Dr.	xx	
To Contractor A/c			xx

(b) On making payment to contractor

Contractor A/c	Dr.	xx	
To Cash / Bank			xx

(c) On asset being ready / completed

Respective Asset (Asset Value) A/c	Dr.	xx	
To Capital work inprogress			xx

Respective Fund (Asset Value) A/c	Dr.	xx	
To General Fund / CapitalFund A/c			xx

(C) Expenditure / spending out of fund (For funds other than capital exprndiure fund e.g. prize fund)

(a) On Expenditure being made

Respective Fund A/c	Dr.	xx	
To Bank			xx

CLASSWORK SECTION

Q.1 The following is the Receipts and Payments Account of Free Medical Society for the year ended 31st March, 2020.

Receipts	₹	Payments	₹
To Cash (1.4.19)	7,000	By Payment for medicines	30,000
To Subscriptions	50,000	By Honorarium to doctors	10,000
To Donations	14,500	By Salaries	27,500
To Interest on 7% Investments	7,000	By Sundry Expenses	500
To Charity show proceeds	10,000	By Equipment purchased	15,000
		By Charity show expenses	1,000
		By Cash (31.3.20)	4,500
	88,500		**88,500**

Additional Information:

	Particulars	On 1.4.19	On 31.3.20
(i)	Subscription due	500	1,000
(ii)	Subscription Received in advance	1,000	500
(iii)	Stock of medicines	10,000	15,000
(iv)	Amounts due to medicines suppliers	8,000	10,000
(v)	Value of Equipments	21,000	30,000
(vi)	Value of Buildings	40,000	38,000
(vii)	Outstanding salaries	3,000	5,000
(viii)	Prepaid Sundry Expenses	100	200

You are required to prepare:

(a) Income and Expenditure Account for the year ended 31st March 2020, and

(b) Balance sheet as on that date.

Q.2 The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2020:

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		**36,120**

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	₹ 2019	₹ 2020
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid sundry expenses	417	620
Furniture	9,600	?
Sports equipments	7,200	?
Library books	5,000	?

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2020 was ₹ 5,250. Required

From the above information you are required to prepare:

(a) The Club's Balance Sheet as at March 31, 2019;

(b) The Club's Income and Expenditure Account for the year ended March 31, 2020.

(c) The Club's Closing Balance Sheet as at March 31, 2020.

Q.3 'Citizen Club' was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended March. 31, 2020 and showed a deficit of ₹ 14,520.

	₹	₹
Receipts :		
Subscriptions	62,130	
Fair Receipts	7,200	
Variety Show Receipts (net)	12,810	
Interest	690	
Bar Collection	22,350	
Cash spent more	1,000	1,06 180
Payments :		
Premises	30,000	
Honorarium to Secretary	12,000	
Rent	2,400	
Rates and Taxes	3,780	
Printing and Stationery	1,410	
Sundry Expenses	5,350	
Wages	2,520	
Fair Expenses	7,170	
Bar Purchases-payments	17,310	
Repairs	960	
New Car (less proceeds of old car ₹ 9,000)	37,800	1,20,700
Deficit		**14,520**

The additional information could be obtained:

	1.4.2019 ₹	31. 3.2020 ₹
Cash in hand	450	Nil
Bank Balance as per Pass Book	24,690	10,440
Cheque issued not presented for Sundry Expenses	270	90
Subscription due	3,600	2,940
Premises at Cost	87,000	1,17,000
Accumulated depreciation on Premises	56,400	?
Car at Cost	36,570	46,800
Accumulated depreciation on Car	30,870	?
Bar Stock	2,130	2,610
Creditors for Bar Purchases	1,770	1,290

Cash overspent represent honorarium to secretary not withdrawn due to Cash deficit. His annual honorarium is ₹ 12,000. Depreciation on premises and car is to be provided at 5% and 20% on written down value.

You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet as at March 31, 2020.

Q.4 (a) Noida School Maintains separate building fund. As on 31.3.2019, balance of building fund was ₹ 10,00,000 and it was represented by fixed deposit (15% per annum) of ₹ 6,00,000 and current account balance of ₹ 4,00,000. During the year 2019-20, the school collected as donation towards the building fund ₹ 5,60,000 and transferred 40% of development fees collected ₹22,56,500 to building fund. Capital work progress as on 31st March, 2019 was ₹ 8,25,000 for which contractors' bill upto 75% was paid on 14.4.2019. The extension of building was finished on 31.12.2019 costing ₹ 7,25,000 for which contractors' bill was fully met. It was decided to transfer the cost of completed building (₹ 15,50,000) to the corresponding asset account.

You are required to pass journal entries to incorporate the above transaction in the books of Noida School of the year 2019 - 20

Q.4 (b) A club provide following data relating to prize fund as on 31st March 2020.

Prize fund balance as on 1/4/19	₹ 25,000
Prize fund investment as on 1/4/19	₹ 20,000
Interest received during the year for above investment	₹1,000
Prizes given during the year	₹ 2,000
Donation received towards above fund during the year	₹ 5,000

Give journal entries relating to transactions given above & show an extract of balance sheet as on 31st March 2020 incorporating the above data.

CHAPTER 10

SINGLE ENTRY SYSTEM

THEORY SECTION

There are two methods of ascertaining profit or loss under single entry system :

(a) statement of affairs method (calculation of profit or loss without preparing trading and profit and loss account)

(b) conversion method (Accounts from incomplete records)

(A) Statement of Affairs Method :

Here, total capital at the end of the year is compared with total capital at the beginning and profit is calculated as under:

Total Capital at the End	xx
(-) Total capital at the Beginning	xx
	xx
Add : Drawings during the year (Including Interest on Drawings)	xx
	xx
Less : Capital introduced during the year (Including Interest on capital)	xx
PROFIT	xx

(B) Conversion Method

Here, all scattered and incomplete data is converted into double entry system. Here in addition to Trading, Profit & Loss A/c and Balance Sheet following additional notes are to be prepared.

(a) Opening Balance - Sheet (If opening capital is not given)

(b) Cash / Bank A/c (In columnar form if cash on hand and Cash at Bank is separately given)

(c) Total Debtors A/c

(d) Total Creditors A/c

(e) Bills Receivable A/c

(f) Bills Payable A/c

Preparation of Various Accounts:

(i) In order to ascertain missing figures, various accounts are required to be prepared. These have been explained below:

Dr. Total Debtors Account Cr.

To Opening Balance	xxx	By Cash Received	xxx
To Credit Sale	xxx	By Bad Debts	xxx
To B/R Dishonoured	xxx	By Discount Allowed	xxx
To Expenses Charged	xxx	By Bills Receivable	xxx
		By Sales Returns	xxx
		By Closing Balance	xxx
	xxx		**xxx**

Out of various contents of Total Debtors Account significant are - opening balance, Credit Sales, Cash Received, Bills Receivable drawn during the year and closing balance. Out of the above any one figure may be missing figure.

(ii) Dr. Total Creditors Account Cr.

To Cash paid	xxx	By Opening Balance	xxx
To Discount Received	xxx	By Credit Purchased	xxx
To Bills Payable	xxx	By B/P Dishonoured	xxx
To B/R endorsed	xxx	By Endorsed B/R Dishonoured	xxx
To Closing Balance	xxx		
	xxx		**xxx**

Out of the above contents of Total Creditors Account significant are opening balance, Credit Purchases, Cash Paid, Bills Payable accepted during the year and closing balance. Out of these any one figure may be missing figure.

(iii) Dr. Bills Receivable Account Cr.

To Opening Balance	xxx	By Cash Received	xxx
To Total Debtors	xxx	By Bank	xxx
(Drawn during the year)		By Discount	xxx
		By Total Debtors (Dishonour)	xxx
		By Total Creditors (Endorsed)	xxx
		By Closing Balance	xxx
	xxx		**xxx**

If B/R is dishonoured it is debited to Total Debtors Account and credited to B/R Account. But if B/R has been discounted with Bank or endorsed to creditor is dishonoured then, Bank Account and Creditors Accounts respectively will be credited.

Out of the above contents of Bill Receivable Account significant contents are opening balance, Bill drawn during the year, Cash received and closing balance. Any one missing figure will be balancing amount.

(iv) Dr. Bills Payable Account Cr.

To Cash Paid	xxx	By Opening Balance	xxx
To Total creditors (Dishonour)	xxx	By Total Creditors	xxx
To Closing Balance	xxx	(Bill accepted during the year)	xxx
	xxx		**xxx**

Out of the above contents of Bills Payable Account significant contents are-opening balance. Bills accepted during the year, Cash paid and closing balance, any one figure may be missing figure.

(v) Cash Book

If there are bank transaction Cash Book should be prepared having two separate columns-one for cash transactions and other for bank transactions. Sometimes, details of bank transaction are not available. In such case single column Cash Book should be prepared - containing cash as well as bank transaction. Normal contents of Cash Book will be:

Dr. Cash Book Cr.

To Opening Balance	xxx	By Balance (overdraft)	xxx
To Cash Sales	xxx	By Cash purchase	xxx
To Collection from Debtors	xxx	By Paid to creditors	xxx
To Collection for B/R	xxx	By Paid for B/P	xxx
To Additional Capital	xxx	By Expenses	xxx
To Other Receipts	xxx	By Drawings	xxx
		By Closing Balance	xxx
	xxx		**xxx**

Balancing figure may be any one figure. Amount derived from one account may be used in the other account also. For example, if balancing figure of Total Debtors Account is cash collection, this will be shown in cash also.

CLASSWORK SECTION

Q.1 Rajesh does not maintain proper records of his business. However, he provides the following information:

	₹
Opening capital	10,000
Closing capital	12,500
Drawings during the year	3,000
Capital added during the year	3,750

You are required to calculate the profit or loss for the year.

Q.2 Ria started his business on 1st of April 2021. He invested a capital of Rs 1,00,000. On 31st March 2022, he has the following information available as per the Single-entry system maintained by him.

	₹
Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Ria for the year ended 31st March 2022

Q.3 Assets and Liabilities of Ms. Tina as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021	31-03-2022
	₹	₹
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000

Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5%p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹40,000 is retained in the business. Proprietor took @ ₹2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022.

Q.4 Take figures given in Illustration 4. Find out profit of Ms. Dhruvi for the year ended 31-03-2022.

Q.5 The Income Tax Officer, on assessing the income of Abhay for the financial years 2020-2021 and 2021-2022 feels that Abhay has not disclosed the full income. He gives you the following particulars of assets and liabilities of Abhay as on 1st April, 2020 and 1st April, 2022.

		₹
1-4-2020 Assets :	Cash in hand	25,500
	Inventory	56,000
	Sundry debtors	41,500
	Land and Building	1,90,000
	Wife's Jewellery	75,000
Liabilities :	Owing to Abhay's Brother	40,000
	Sundry creditors	35,000
1-4-2022 Assets :	Cash in hand	16,000
	Inventory	91,500
	Sundry debtors	52,500
	Land and Building	1,90,000
	Motor Car	1,25,000
	Wife's Jewellery	1,25,000
	Loan to Abhay's Brother	20,000
Liabilities :	Sundry creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 2020-2021 and ₹ 1,23,000 for 2021-2022 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Q.6 A. Arvind 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
		Salaries	6,500
Received from Sundry Debtors	48,000	General expenses	2,500
Cash Sales	11,000	Rent and Taxes	1,500
Capital brought during the year	6,000	Drawings	3,600
Interest on Investments	200	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.7 From the following data furnished by Mr. Saket, 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.8 Mr. Dhruvin runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31st March 2021	31st 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. Dhruvin for the year ended 31st March 2022 and Balance Sheet as on that date.

Q.9 Ramesh had ₹ 3,30,000 in the bank account on 1st January,2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:

	31.3.2021	31.3.2022
Stock	20,900	31,900
Debtors	1,100	3,200
Cash	2,200	3,300
Creditors	5,500	4,300

On and from 1st February, 2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

	Deposits	Withdrawals
1.1.2021 to 31.3.2021	-	2,45,300
1.4.2021 to 31.3.2022	2,53,000	2,97,000

- The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31 March,2021 and from 1st April,2021 to 31st March,2022 respectively for the purchase of Machines for the business.
- The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.
- One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April 2021 to 31st March 2022 given above.

You are required to draw up Ramesh's Statement of Affairs as at 31st March, 2021 and 31st March, 2022 respectively and work out his Profit or Loss for the year ended 31st March, 2021 and 31st March, 2022. (10 Marks)

Q.10 Stevie and Alicia are in partnership sharing profits and losses equally. They maintain their books on Single Entry System.

The following balances are available from their books as on 31.3.2021 and 31.3.2022:

Particulars	31.3.2021 ₹	31.3.2022 ₹
Building	3,00,000	3,00,000
Equipment	4,80,000	5,44,000
Furniture	50,000	50,000
Debtors	?	2,00,000
Creditors	1,30,000	?

Stock	?	1,40,000
Bank loan	90,000	70,000
Cash	1,20,000	?

The transactions during the year ended 31.3.2022 were the following:

Collection from Debtors	7,60,000
Payment to Creditors	5,00,000
Expenses Paid	80,000
Drawings by Stevie	60,000
Discount allowed	11,000
Discount received	9,600

Other information:

(i) On 1.4.2021, an equipment of book value ₹ 40,000 was sold for ₹ 30,000. On 1.10.2021, some more equipment were purchased.

(ii) Cash sales amounted to 10% of total sales.

(iii) Credit sales amounted to ₹ 9,00,000.

(iv) Credit purchases were 80% of total purchases.

(v) Cash purchases amounted to ₹ 1,30,000.

(vi) The firm sells goods at cost plus 25%.

(vii) Outstanding expenses were ₹ 6,000 as on 31.3.2022.

(viii) Capital of Stevie as on 31.3.2021 was ₹ 30,000 more than the capital of Alicia, equipment and furniture to be depreciated at 10% p.a. and building @ 2% p.a. (apply depreciation of new equipment for 1/2 year)

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3 .2022 and;

(ii) Balance Sheet as on that date. (12 Marks)

Q.11 Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		6,07,500

You are furnished with following information:

(1) His sales, for the year ended 31st March, 2021 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total Sales during the year 2019-20 were ₹ 6,25,000

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay by cheques only.

(4) Deprecation on furniture is to be charged 10% p.a.

(5) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expenses ₹ 1,500 and personal expenses ₹ 625.

Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:

	₹
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2021	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2021:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer. (10 Marks)

Q.12 The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2022 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

		in ₹
	1.4.2021	**31.3.2022**
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face Value ₹ 100 each) on 1st October 2021 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(d) Goods costing ₹ 9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtors.

Q.13 From the following details furnished by Mittal ji, prepare Trading and Profit and Loss account for the year ended 31.3.2021. Also draft his Balance Sheet as at 31.3.2021:

	1.4.2020	31.3.2021
	₹	₹
Creditors	3,15,400	2,48,000
Expenses outstanding	12,000	6,600
Plant and Machinery	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Sundry debtors	3,30,600	____
Details of the year's transactions are as follows:		
Cash and discount credited to debtors		12,80,000
Returns from debtors		29,000
Bad debts		8,400
Sales (Both cash and credit)		14,36,200
Discount allowed by creditors		14,000
Returns to creditors		8,000
Capital introduced by cheque		1,70,000
Collection from debtors (Deposited into bank after receiving cash)		12,50,000
Cash purchases		20,600
Expenses paid by cash		1,91,400
Drawings by cheque		8,600
Machinery acquired by cheque		63,600
Cash deposited into bank		1,00,000
Cash withdrawn from bank		1,84,800
Cash sales		92,000
Payment to creditors by cheque		12,05,400

Note: Mittalji has not sold any machinery during the year.

Q.14 Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		6,07,500

You are furnished with following information:

(1) His sales, for the year ended 31st March, 2021 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total Sales during the year 2019-20 were ₹ 6,25,000

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay by cheques only.

(4) Deprecation on furniture is to be charged 10% p.a.

(5) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expenses ₹ 1,500 and personal expenses ₹ 625.

Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:

	₹
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2021	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2021:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer. (10 Marks)

Q.15 Ramesh had ₹ 3,30,000 in the bank account on 1st January,2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:

	31.3.2021	31.3.2022
Stock Debtors	20,900	31,900
Cash	1,100	3,200
Creditors	2,200	3,300
	5,500	4,300

On and from 1st February,2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

	Deposits	Withdrawals
1.1.2021 to 31.3.2021	- 2,53,000	2,45,300
1.4.2021 to 31.3.2022		2,97,000

- The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31 March,2021 and from 1st April,2021 to 31st March, 2022 respectively for the purchase of Machines for the business.
- The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.
- One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April 2021 to 31st March 2022 given above.

You are required to draw up Ramesh's Statement of Affairs as at 31st March, 2021 and 31st March, 2022 respectively and work out his Profit or Loss for the year ended 31st
March, 2021 and 31st March, 2022.

HOMEWORK SECTION

Q.1 K. Azad, who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.2011.

From the files, you pick up his Balance Sheet as at 31.3.2010 reading as below:

Balance Sheet as at 31.3.2010

Liabilities	₹	₹
K. Azad's Capital		1,50,000
Creditors for Oil Purchases		2,00,000
12% Security Deposit from Customers		50,000
Creditors for Expenses:		
Rent		6,000
Salaries		4,000
Commission		20,000
		4,30,000
Assets		
Cash and Bank Balances		75,000
Debtors		1,60,000
Stock of Oil (125 tins)		1,25,000
Furniture	30,000	
Less: Depreciation	(3,000)	27,000
Security Deposit with Landlord		12,000
Electricity Deposit		1,000
3-Wheeler Tempo Van	40,000	
Less: Depreciation	(10,000)	30,000
		4,30,000

A Summary of the rough Cash Book of K. Azad for the year ended 31.3.2011 is as below:

Cash and Bank Summary

	₹
Receipts	
Cash Sales	5,26,500
Collections from Debtors	26,73,500
Payments	
To Landlord	79,000
Salaries	48,000
Miscellaneous Office Expenses	12,000
Commission	20,000
Personal Income-tax	50,000
Transfer on 1.10.2010 to 12% Fixed Deposit	6,00,000
To Creditors for Oil Supplies	24,00,000

A scrutiny of the other records gives you the following information:

(i) During the year oil was purchased at 250 tins per month basis at a unit cost of ₹ 1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for ₹ 1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was 3,000 at a unit price of ₹1,750.

(ii) Rent until 30.9.2010 was ₹ 6,000 per month and was increased thereafter by ₹ 1,000 per month. Additional Security Deposit of ₹ 2,000 was paid and this is included in the figure of payments to landlord.

(iii) Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.

(iv) It is further noticed that a customer has paid ₹ 10,000 on 31.3.2011 as security deposit by cash. One of the staff has defalcated. The claim against the Insurance Company is rejected by insurance company.

You are requested to prepare final accounts for the year ended 31.3.2011.

Q.2 A and B are in Partnership having Profit sharing ratio 2 : 1. The following information is available about their assets and liabilities:

	31.3.2016 ₹	31.3.2017 ₹
Furniture	1,20,000	?
Advances	70,000	50,000
Creditors	32,000	30,000
Debtors	40,000	45,000
Inventory	60,000	74,750
Loan	80,000	----
Cash at Bank	50,000	1,40,000

The partners are entitled to salary @ ₹ 2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

Drawings of A and B

	A (₹)	B (₹)
April 30	2,000	-----
May 31	-----	2,000
June 30	4,000	-----
Sept. 30	-----	6,000
Dec. 31	2,000	-----
Feb. 28	-----	8,000

On 30th June, they took C as 1/3rd partner who contributed ₹ 75,000. C is entitled to share of 9 months' profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases ₹ 10,000 may be depreciated for 1/4th of a year.

Current account balance as on 31-3-2016: A ₹5,000 (cr.), B ₹2,000 (Dr.) Prepare Statement of profit, Current account of partners and Statement of Affairs as on 31-3-2017

Q.3 A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2016 is given below:

Receipt	**(₹)**	**Payment**	**(₹)**
Bank Balance as on 1st January, 2016	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 Dec., 2016	6,400
		Cash in hand on 31st Dec., 2016	500
	68,000		**68,000**

Particulars of other assets and liabilities are as follows:

	1st January, 2016	31st December,2016
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 December, 2016 after providing depreciation at 10 percent on machinery and furniture and ₹ 800 against doubtful debts.

Q.4 Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31.12.2015 (₹)	31.12.2016 (₹)
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 2016:

(i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., wages @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.

(ii) Withdrawals ₹ 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 30-11-2016 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 31-12-2016 and Balance Sheet as on that date.

Q.5 Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2016 was as follows:

Liabilities	(₹)	Assets	(₹)
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		**4,86,000**

You are furnished with the following information:

(1) His sales, for the year ended 31st March, 2017 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total sales during the year 2015-16 were ₹ 5,00,000.

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay by cheques only.

(4) Deprecition on furniture is to be charged 10% p.a.

(5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.

Analyses of bank pass book for the year ending 31st March 2017 disclosed the following:

	₹
Payment to creditors	3,00,000
Payment of rent up to 31st March, 2017	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2017:

	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2017, the cashier absconded with the available cash. You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2017 and Balance Sheet as on that date. All the workings should form part of the answer.

Q.6 The following is the Balance Sheet of a concern on 31st March, 2015:

	₹		₹
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		**12,00,000**

The management estimates the purchases and sales for the year ended 31st March, 2016 as under:

	Upto 28.2.2016 ₹	March 2016 ₹
Purchase	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ₹ 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 2016 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

Q.7 A trader keeps his books of account under single entry system. On 31st March, 2015 his statement of affairs stood as follows:

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixtures and	1,00,000
Bills Payable	1,25,000	Fittings	6,10,000
Outstanding Expenses	45,000	Stock	1,48,000
Capital Account	2,50,000	Trade Debtors	60,000
		Bills Receivable	2,000
		Unexpired Insurance	80,000
		Cash in Hand and at Bank	
	10,00,000		**10,00,000**

The following was the summary of Cash–book for the year ended 31st March, 2016:

Receipts	₹	Payments	₹
Cash in Hand and at Bank on 1st		Payments to Trade Creditors	75,07,000
April, 2016	80,000	Payments for Bills payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700
Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank on	1,27,300
		31st March, 2016	
	93,10,000		**93,10,000**

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balances method.

You are also informed about the following balances as on 31st March, 2016:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as at that date.

Q.8 Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2011:

	1.1.2011 ₹	31.12.2011 ₹
Debtors	1,02,500	-----
Creditors	----	46,000
Stock	50,000	62,500
Bank Balance	----	50,000
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

	₹
Received from debtors	3,40,000
Additional capital brought in	5,000
Sale of fixed assets (book value ₹ 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal drawings	25,000
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000.

Q.9 Lokesh, who keeps books by single entry, had submitted his Income-tax returns to Income-tax authorities showing his incomes to be as follows:

		₹
Year ending March 31, 2005	=	33,075
Year ending March 31, 2006	=	33,300
Year ending March 31, 2007	=	35,415
Year ending March 31, 2008	=	61,875
Year ending March 31, 2009	=	54,630
Year ending March 31, 2010	=	41,670

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

(a) Business liabilities and assets at March 31, 2004 were:
Creditors: ₹ 32,940, Furniture & Fittings: ₹ 22,500, Stock: ₹ 24,390 (at selling price which is 25% above cost), Debtors: ₹ 11,025, Cash at Bank and in hand ₹15,615.

(b) Lokesh owed his brother ₹ 18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother ₹ 13,500.

(c) Lokesh owns a house which he purchased in 1999 for ₹ 90,000 and a car which he purchased in October, 2005 for ₹ 33,750. In January, 2009, he bought debentures in X Ltd. having face value of ₹ 40,000 for ₹ 33,750.

(d) In May, 2009 a sum of ₹ 13,500 was stolen from his house.

(e) Lokesh estimates that his living expenses have been 2004-05 – ₹ 13,500; 2005-06 – ₹ 18,000; 2006-07 – ₹ 27,000; 2007-08, 2008-09 and 2009-10 – ₹ 31,500 p.a. exclusive of the amount stolen.

(f) On March 31, 2010 business liabilities and assets were: Creditors ₹37,800, Furniture, Fixtures and Fittings ₹ 40,500, Stock ₹ 54,330 (at selling price with a gross profit of 25%), Debtors ₹ 26,640, Cash-in-Hand and at Bank ₹ 29,025.

From the information submitted, prepare statements showing whether or not the incomes declared by Lokesh are correct.

Q.10 Shri. Kanubhai is operating a small manufacturing business. He did not keep adequate records to determine his income or prepare a proper Balance Sheet. The following particulars are furnished to you :

Statement of Affairs

	31.3.2016 ₹	31.3.2017 ₹
Cash in hand	700	900
Cash at Bank	6,000	4,100
Sundry Debtors	27,800	20,600
Stock of Raw Materials	7,500	12,000
Stock of Finished goods	33,000	36,000
Fixed Assets	95,000	1,10,000
Investments	36,700	24,900
	2,06,700	**2,08,500**

Sundry Creditors	25,000	32,500
Loan from Banubhai	---	9,000
Kanubhai Capital	1,81,700	1,67,000
	2,06,700	**2,08,500**

Your examination of the available records reveals the following additional information :-

(i) Sundry debtors as at the end of the year 31st March 2017, do not include the sum of ₹ 4,600/- due from a customer as full collection from him was considered doubtful. However, prior to the time you start your work, you find that the above account was settled for ₹ 3,500/-.

(ii) The stocks of finished goods have been valued at sale price. The average margin of profit on sales was 30% at 31st March, 2016 and 40% at 31st March, 2017. Raw materials were valued at cost.

(iii) Sundry debtors include the sum of ₹ 1,000/- in respect of goods sent on consignment on 30th March, 2017. The same has been billed at sale price.

(iv) The details of investments are as under:

Name of the Company	Shares	Face Value	31.3.2016 ₹	31.3.2017 ₹
A Ltd.	200	100	20,000	20,000
B Ltd.	167	100	16,700	---
C Ltd.	98	50	---	4,900
			36,700	**24,900**

(a) The shares of A Ltd. were acquired in 2006 for ₹ 27,000/-.

(b) The shares of B Ltd. were purchased in June 2006 for ₹ 17,000/- and sold in April, 2016 for ₹ 22,000/-.

(c) The shares of C Ltd. were purchased in June, 2016 for ₹ 7,000/-.

(v) The loan from Banubhai was utilised for making a gift to the proprietor's newly born daughter.

(vi) The figures of cash at Bank are amounts appearing as the balances in his bank statements as on 31st March, 2016 and 31st March, 2017, respectively. By reviewing subsequent bank statements, you find the following:

(a) A deposit of ₹ 2,000/- made on 31st March, 2016 was not recorded by the bank until 4th April, 2016. A cheque for ₹ 900/- issued prior to 31st March, 2016 was not presented to Bank until April, 2016.

(b) A deposit of ₹ 4,000/- from a customer was entered by the bank on 30th March, 2017. Shri Kanubhai did not receive notice of this collection until 6th April, 2017.

(vii) The following expenditures were made during the year 2016 - 2017. All these were paid out of account with bank:

(a)	Advance payment of tax	₹ 6,000
(b)	Household and personal expenses	₹ 25,600

You are required to prepare :

(i) A statement of Shri Kanubhai's income for the year ending 31st March, 2017.

(ii) His balance sheet as on that date, and

(iii) Supporting schedules

HOMEWORK SOLUTION

Q.1 * 3,000 tins x (1,750 -1,000) = 22,50,000

K.Azad

Dr. Trading & P/L A/c for the year ended 31st march 2019 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		12,50,000	**By Sales**		
(125 tins)			Cash		
To Purchases			[5,26,500-1,500]	5,25,000	[3,000x1,750]
(3,000 tins)		30,00,000	Credit	[2]47,25,000	52,50,000
To Gross Profit		[3]22,50,000	By Damaged		
			Stock (5 tins)		5,000
			By Drawings		
			(1 tin)		1,000
			By Closing Stock		
			[(119) tins]		1,19,000
		53,75,000			53,75,000
To Rent paid	79,000		By Gross Profit b/d		22,50,000
(-) O/s (at			By Profit on		
Beginning)	(6,000)		Damaged Stock		500
(+) O/s (at end)	[4]7,000		By Interest on		
(-) Security			Fixed Deposit		
Deposit Paid	(2,000)	78,000	[6,00,000x12% x 6/12]		36,000
To Salary Paid	48,000				
(-) Outstanding					
(at Beginning)	(4,000)				
(+) O/s (at end)	-	44,000			
To Commission					
Paid	20,000				
(-) O/s (at					
Beginning)	(20,000)				
(+) O/s (at end)	-	-			
To Depreciation					

Furniture	2,700				
3 wheeler					
tempo Van	7,500	10,200			
To Defalcation					
Loss		10,000			
To Misc. office					
Expenses		12,000			
To Interest on					
Security Deposit					
[50,000 x 12%]		6,000			
To Net Profit c/d		[8]21,26,300			
		22,86,500			22,86,500

Balance Sheet of k Azad

as on 31st March 2011

Liabilities	₹	₹	Assets	₹	₹
Capital	1,50,000		Furniture	27,000	
(-) Drawings	(10,000)		(-) Depreciation @10%	(2,700)	24,300
(-) Drawings			3 wheeler Tempo van	30,000	
(Personal IT)	(50,000)		(-) Depreciation @25%	(7,500)	22,500
(+) Net profit	21,26,300	22,25,300	Security deposit with		
12% Security			Landlord	12,000	
Deposit from			(+) paid	2,000	14,000
Customer	50,000		Electricity Deposit		1,000
(+) Received on			Insurance claim		4,000
31.3.11	10,000	60,000	Stock in Trade		1,19,000
Outstanding Rent		7,000	12% Fixed Deposit		6,00,000
Outstanding Interest		6,000	Interest Accrued on		
Creditors		8,00,000	Fixed Deposit		36,000
			Cash / Bank		66,000
			Debtors		22,11,500
		30,98,300			**30,98,300**

WN 1:

Total Debtors A/c

Particulars	₹	Particulars	₹
To Balance b/d	1,60,000	By Cash/Bank	26,73,500
To Sales	47,25,000	By Balance c/d	[5]22,11,500
	48,85,000		**48,85,000**

WN 2:

Total Creditors A/c

Particulars	₹	Particulars	₹
To Cash/Bank	24,00,000	By Balance b/d	2,00,000
To Balance c/d	[6]8,00,000	By Purchases	30,00,000
	32,00,000		32,00,000

WN 3:

Total Creditors A/c

Particulars	₹	Particulars	₹
To Balance b/d	75,000	By Rent	79,000
To Sales	5,26,500	By Defalcation Loss	10,000
To 12% Security Deposit	10,000	By Salary	48,000
To Debtors	26,73,500	By Misc. office Expenses	12,000
		By Commission	20,000
		By Drawings (personal IT)	50,000
		By 12% Fixed Deposit	6,00,000
		By Creditors	24,00,000
		By Balance c/d	[7]66,000
	32,85,000		32,85,000

WN 4:

Damaged Stock A/c

Particulars	₹	Particulars	₹
To Trading [5 tins @ 1,000]	5,000	By Insurance claim	4,000
To P&L (profit)	[1]500	[80% of 5,000]	
		By Cash sale	1,500
	5,500		5,500

WN5: Rent for 10 -11

April - September	6,000 pm x 6m	=	36,000
October – March	7,000 pm x 6m	=	42,000
			78,000

Note: Analysis of Rent verifies that 1 month's rent remains outstanding at end of year
O/s at beginning 6,000 (old rate per month)
O/s at end 7,000 (new rate per month)

Q.2 **Last Paragraph of question is missing in textbook**

Current A/c balance as on 31.3.16: A ₹5,000 (Cr.) & B ₹ 2,000 (Dr.)

Prepare statement of profit partners current A/c and statement of affairs as on 31.3.2017.

Statement of Affairs as on 31.03.16 and 31.03.17

Particulars	31.03.16	31.03.17	Particulars	31.03.16	31.03.17
Capital A/cs			Furniture	1,20,000	1,17,750
A	1,50,000	75,000	Advances	70,000	50,000
B	75,000	75,000	Debtors	40,000	45,000
C	-	75,000	Inventory	60,000	74,750
Loan	80,000	-	Cash at Bank	50,000	1,40,000
Creditors	32,000	30,000	B's current A/c	2,000	
Current A/cs					
A	5,000	74,036*			
B		48,322*			
C		50,142*			
	3,42,000	**4,27,500**		**3,42,000**	**4,27,500**

Alternatively separate statement of affairs can be prepaid (instead of columnar form)

1. **Depreciation on Furniture**

10% on 1,20,000	12,000
10% 10,000 for ¼	250
	12,250

2. Furniture on 31.03.17

Balance as on 31.03.16	1,20,000
(+) New purchases	10,000
	1,30,000
(-) Depreciation	(12,250)
	1,17,750

This is after adding Salary, Interest on Capital and deducting Drawings & Interest on drawings.

3. Total of Current account as on 31.03.17

Total of Assets (1,17,750 + 50,000 + 45,000 + 74,750 + 1,40,000)	4,27,500
(-) Fixed capital (75,000 + 75,000 + 75,000) + Liab. (30,000)	(2,55,000)
	1,72,500

This is after adding Salary, Interest on Capital and deducting Drawings & Interest on drawings.

4. Interest on Capital

A	1,50,000 @ 6% for 3 months	2,250
	75,000 @ 6% for 9 months	3,375
		5,625

B	75,000 @ 6% for 1 year	4,500
C	75,000 @ 6% for 9 months	3,375
		7,875

5. Interest on Drawings

A	2,000 @ 10% for 11 months	183
	4,000 @ 10% for 9 months	300
	2,000 @ 10% for 3 months	50
		533

B	2,000 @ 10% for 10 month	167
	6,000 @ 10% for 6 months	300
	8,000 @ 10% for 1 month	67
		534

Allocation of Profit

To 3 months profit 28,767

To 9 months profit 86,300

A : $\frac{2}{3} \times 28{,}767 + \frac{1}{3} \times 86{,}300$	47,944
B : $\frac{1}{3} \times 1{,}15{,}067$	38,356
C : $\frac{1}{3} \times 86{,}300$	28,767
	1,15,067

Dr. **Partner's Current Accounts** **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Balance b/d	-	2,000	-	By Balance b/d	5,000	-	-
To Drawing	8,000	16,000	-	By Salary	24,000	24,000	18,000
To Interest on drawings	533	534	-	By Interest on Capital	5,625	4,500	-
To Balance c/d	74,036	48,322	50,142	By Share of Profit		38,356	28,767
	82,569	**66,856**	**50,142**		**82,569**	**66,856**	**50,142**

Statement of Profit

Particulars	₹	₹
Current A/c balance as on 31.03.17		1,72,500
(-) Salary :		
A 2,000 × 12	24,000	
B 2,000 × 12	24,000	
C 2,000 × 9	18,000	(66,000)
(-) Interest on Capital :		
A	5,625	
B	4,500	
C	3,375	(13,500)

(+)	Drawings :		
	A	8,000	
	B	16,000	24,000
(+)	Interest on Drawings :		
	A	533	
	B	534	1,067
			1,18,067
(-)	Current A/c balance as on 31.03.16 (5,000 – 2,000)		(3,000)
			1,15,067

Q.3 **In the Books of A. Adamjee**

Dr. Trading and Profit / Loss Account for the year ended 31.12.16 Cr.

Particulars		₹	Particulars		₹
To Opening inventory		3,900	**By Sales**		
To Purchases			Cash	11,000	
Cash	12,000		Credit	51,100	62,100
Credit	37,100	49,100	By Closing inventory		5,700
To Gross Profit c/d		14,800			
		67,800			67,800
To Salaries		6,500	By Gross Profit b/d		14,800
To Rent & Taxes		1,500	By interest on investment		200
To General expenses		2,500			
To Depreciation:					
Machinery	750				
Furniture	120				
To Profit for doubtful debts		870			
To Net being profit		800			
Carried to Capital A/c		2,830			
		15,000			15,000

Balance sheet as on 31.12.16

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee cap.			Machinery	7,500	
on 01.01.16	29,100		(-) 10%Depreciation	(750)	6,750
(+) Fresh capital			Furniture	1,200	
(+) Net Profit	6,000		(-)10%Depreciation	(120)	1,080

	2,830		Inventory		5,700
(-) Drawings	37,930	34,330	Debtors	17,600	
Creditors	(3,600)	7,900	(-) R.D.D.	(800)	16,800
			Investment		5,000
			Cash at Bank		6,400
			Cash in hand		500
		42,230			**42,230**

Working Notes:

1. Balance sheet of A. Adamjee as on 01.01.16

Liabilities	₹	Assets	₹
A. Adamjee's Capital	29,100	Machinery	7,500
Creditors	5,800	Furniture	1,200
		Inventory	3,900
		Investment	5,000
		Debtors	14,500
		Bank balance	2,800
	34,900		34,900

2. Dr. Total Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	14,500	By Cash	48,000
To Credit sales	51,100	By Balance c/d	17,600
	65,600		65,600

3. Dr. Total Creditors Account Cr.

Particulars	₹	Particulars	₹
To Cash	35,000	By Balance b/d	5,800
To Balance c/d	7,900	By Purchases credit	37,100
	42,900		**42,900**

Q.4 In the Books of Mr. Anup

Dr. Trading and Profit / Los Account for the year ended 31.12.16 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Inventory			By Sales	9,59,750	
		1,10,000		(1,200)	9,58,550
To Purchases	4,54,100		By Closing stock		1,90,000
(-) Returns	(4,200)	4,49,900			
To Wages		1,10,400			
To Gross Profit c/d		4,78,250			
		11,48,550			11,48,550
To Shop expenses		7,200	By Gross Profit b/d		4,78,250
			By Discount		2,700
To Electricity & Telephone	18,700				
(+) outstanding	2,200	20,900			
To Legal expenses		17,000			
To Discount		3,150			
(2,400 + 750)					
To Provision for					
claim for damages		1,55,000			
To Shop rent		20,000			
To Net Profit		2,57,700			
		4,80,950			**4,80,950**

Balance sheet as on 31.12.16

Liabilities	₹	₹	Assets	₹	₹
Capital	2,38,200		Building	3,50,000	
			(+) Expenses	22,000	3,72,000
(+) Fresh capital			Furniture		25,000
LIC maturity	20,000		Inventory		1,90,000
Rent	14,000		Sundry debtors		92,000
(+) Net Profit	2,57,700		Bills Receivable		6,000
	5,29,900		Cash at Bank		87,000
(-) Drawings	(16,800)	5,13,100	Cash in hand		5,300
Rent outstanding		20,000			
Sundry Creditors		56,000			
Bills Payable		14,000			

Outstanding Exp.:					
Legal expenses	17,000				
Electricity &					
Telephone	2,200	19,200			
Provision for claims					
for damages		1,55,000			
		7,77,300			7,77,300

Working Notes:

1. Statement of Affairs as on 31.03.15

Liabilities	₹	Assets	₹
Anup's Capital	2,38,200	Inventory	1,10,000
Creditors	40,000	Debtors	70,000
Bills Payable	12,000	Bank	90,000
		Cash	5,200
		Bills Receivable	15,000
	2,90,200		2,90,200

Dr. Sundry Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	70,000	By Bills Receivable A/c	40,000
To Bank A/c – Cheque dishonoured	5,700	By Bank A/c - Cheque receivable	5,700
To Bills Receivable	3,000	By Return inward	1,200
To credit sales	9,59,750	By Discount	2,400
		By Cash	8,97,150
		By Balance c/d	92,000
	10,38,450		10,38,450

Dr. Bills Receivable Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	15,000	By Sundry creditors	
To Sundry debtors	40,000	- - Bill endorsed	10,000
		By Bank A/c (20,000 – 750)	19,250
		By Discount	750
		By Bank A/c – Bill matured	16,000
		By Debtors (dishonoured)	3,000
		By Balance c/d	6,000
	55,000		**55,000**

Dr. Sundry Creditors Account Cr.

Particulars	₹	Particulars	₹
To Bank A/c	3,20,000	By Balance b/d	3,20,000
To Cash A/c	77,200	By Credit purchase	77,200
To Bills receivable	10,000		10,000
To Bills payable	24,000		24,000
To Returns outward	4,200		4,200
To Discount	2,700		2,700
To Balance c/d	56,000		56,000
	4,94,100		**4,94,100**

Dr. Sundry Creditors Account Cr.

Particulars	₹	Particulars	₹
To Bank A/c	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors	
		- Bills accepted	24,000
	36,000		**36,000**

Dr. Cash and Bank Account Cr.

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	5,200	90,000	By Bank	7,62,750	-
To Cash	-	7,62,750	By Cash	-	1,21,000
To Bank	1,21,000	-	By Shop expenses	7,200	-
To Sundry debtors	-	5,700	By Wages	1,10,400	-

To Bills Receivable	-	19,250	By Drawings	16,800	-
To Bills Receivable	-	16,000	By Creditors	77,200	3,20,000
To Capital (LIC)	-	20,000	By Furniture	25,000	-
To Capital (Rent)	-	14,000	By Electricity & Telephone	18,700	-
To Debtors	8,97,150	-			
			By Debtors	-	5,700
			By Building	-	3,50,000
			By Building (Exp.)		22,000
			By Bills Payable	-	22,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

Note: Bills receivable and Bills payable honoured can be recorded in cash column. In that case amount of collection from debtors & building expenses will change.

Q.5

Dr. Trading and Profit / Loss Account for the year ended 31.03.16 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		2,80,000	By Sales		
To Purchases		3,64,000	Credit	4,80,000	
To Gross Profit c/d		1,16,000	Cash	1,20,000	6,00,000
			By Closing stock		1,60,000
		7,60,000			**7,60,000**
To Salary		24,000	By Gross Profit b/d		1,16,000
To Office expenses		14,400			
To Rent		16,000			
To Depreciation		4,000			
To Loss of cash		23,600			
To Net Profit		34,000			
		1,16,000			**1,16,000**

Balance sheet as on 31.03.16

Liabilities	₹	₹	Assets	₹	₹
Capital	4,04,000		Furniture	40,000	
(+) Net Profit	34,000		(-) Depreciation	(4,000)	36,000
(-) Drawings	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at Bank		2,62,000
		5,78,000			**5,78,000**

Working Notes:

1.

Dr. Creditors Account Cr.

Particulars	₹	Particulars	₹
To Cash / Bank	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases	3,64,000
	4,46,000		4,46,000

2. Calculation of total sales

Sales for 2015 - 16	5,00,000
(+) 20% increase	1,00,000
Sales for 2016 – 17	6,00,000

3. Calculation of credit sales

Sales	6,00,000
(-) Cash sales (20% of total sales)	(1,20,000)
	4,80,000

4.

Dr. Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c	4,60,000
To Sales	4,80,000	By Balance c/d	1,20,000
	5,80,000		**5,80,000**

5.

Dr. **Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors	3,00,000
To Debtors	4,60,000	By Rent	16,000
To Cash	80,000	By Balance c/d	2,62,000
	5,78,000		**5,78,000**

6. Calculation of amount of cash dislocated by cashier

Particulars	₹	₹
Cash balance as on 01.04.16		28,000
(+) Cash sales		1,20,000
		1,48,000
(-) Salary	24,000	
Office expenses	14,400	
Drawings	6,000	
Cash deposited	80,000	(1,24,400)
Cash balance as on 31.03.17 (deflected by the cashier)		**23,600**

Q.6

Projected Balance sheet as on 31.03.16

Particulars	₹	₹	Particulars	₹	₹
Capital		10,00,000	Fixed assets	4,00,000	
Profit/Loss A/c 1.4.15	60,000		(+) Additions	1,00,000	
(+) Profit for the year				5,00,000	
	3,74,000	4,34,000	(-) Depreciation	(50,000)	4,50,000
Creditors		1,10,000	Stock in trade		3,36,000
			Sundry debtors		2,00,000
			Cash & Bank		5,58,000
		15,44,000			**15,44,000**

Note: Time lag for payment to creditors & receipt from debtors is one month. It means March months is credit purchase is closing creditors & march month is credit sales is closing debtors.

Also payment to creditors = Opening creditors + purchase upto Feb. collection from debtors = Opening Debtors + Sales upto Feb.

Working note:

1.

Dr. Projected Trading and Profit / Los Account for the year ended 31.03.16 Cr.

Particulars	₹	Particulars	₹
To Opening stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing stock	3,36,000
To Gross Profit c/d (30%)	6,36,000		
	24,56,000		24,56,000
To Sundry expenses	2,12,000	By Gross Profit	6,36,000
(10% of sales)			
To Depreciation	50,000		
To Net Profit	3,74,000		
	6,36,000		6,36,000

Dr. Cash / Bank Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	3,50,000	By Sundry Creditors	15,50,000
To Sundry Debtors	20,70,000	(1,40,000 + 14,10,000)	
(1,50,000 + 19,20,000)		By Expenses	2,12,000
		By Fixed Asset	1,00,000
		By Balance c/d	5,58,000
	24,20,000		**24,20,000**

Q.7

Dr. Trading and Profit / Loss Account for the year ended 31.03.16 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		6,10,000	By Sales		
To Purchases		84,10,000	Credit	73,80,000	
To Gross Profit c/d		9,30,000	Cash	19,20,000	93,00,000
(93,00,000 x 10%)			By Closing stock		6,50,000
		99,50,000			99,50,000
To Sundry expenses	6,20,000	5,80,000	By Gross Profit b/d		9,30,000
(+) L.y. Prepaid insurance	2,000		By discount received		28,000
(-) L.y O/s Expenses	(45,000)				
(+)C.y O/s Exp.	5,000				
(-) C.Y prepaid insurance	(2,000)	5,80,000			

(6,000 x 4/12)					
To Discount allowed.		36,000			
To Depreciation					
(15% on 1,00,000)		15,000			
To Net Profit		3,26,300			
		9,58,000			9,58,000

Balance sheet as on 31.03.16

Liabilities	₹	₹	Particulars	₹	₹
Capital			Furniture & Fitting	1,00,000	
Opening balance	2,50,000		(-) 5%Depreciation	(15,000)	85,000
(-) Drawings	(2,40,000)		Stock		6,50,000
	10,000		Trade Debtors		1,52,000
(+) Net Profit	3,26,300	3,36,300	Bills Receivable		75,000
Bills Payable		1,40,000	Unexpired Insurance.		2,000
Trade Creditors		6,10,000	Cash in hand & Bank		1,27,300
Outstanding exp.		5,000			
		10,91,300			**10,91,300**

Working note:

1.

Dr. **Bills Receivable Account** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors	3,70,000	By Trade creditors	15,000
		By Balance c/d	75,000
	4,30,000		**4,30,000**

2.

Dr. **Trade Debtors Account** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	1,48,000	By Cash / Bank	15,10,000
To Credit sales	19,20,000	By Discount allowed	36,000
		By Bills Receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		**20,68,000**

3.

Dr. **Bills Payable Account** Cr.

Particulars	₹	Particulars	₹
To Cash / Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors	8,30,000
	9,55,000		**9,55,000**

4.

Dr. **Trade Creditors Account** Cr.

Particulars	₹	Particulars	₹
To Cash / Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases	84,10,000
To Bills Receivable	15,000	(From Trading A/c)	
To Bills Payable	8,30,000		
To Balance c/d	6,10,000		
	89,90,000		89,90,000

Q.8 **In the books of Lucky**

Dr. **Trading and Profit / Los Account for the year ended 2011** Cr.

Particulars	₹	Particulars	₹
To Opening stock	50,000	By Sales	3,25,000
To Purchases	2,72,500	By Closing stock	62,500
To Gross Profit c/d	65,000		
	3,87,500		**3,87,500**
To Loss on sale of FA	750	By Gross Profit b/d	65,000
To Expenses	49,250		
To Depreciation	1,000		
To Net Profit c/d	14,000		
	65,000		**65,000**

Balance sheet as on 31.03.11

Liabilities	₹	₹	Assets	₹	₹
Capital	1,69,000		Fixed Assets	7,500	
(+) Capital intro.	5,000		(-) Sold	(2,500)	
(-) Drawings	(25,000)			5,000	
(+) Net Profit	14,000	1,63,000	(+) Additions	5,000	
Creditors		46,000		10,000	
			(-) Depreciation	(1,000)	9,000
			Closing stock		62,500
			Debtors		87,500
			Bank		50,000
		2,09,000			**2,09,000**

Opening Balance sheet

Liabilities	₹	Assets	₹
Capital	1,69,000	Debtors	1,02,500
Creditors	53,500	Stock	50,000
		Bank balance	62,500
		Fixed assets	7,500
	2,22,500		**2,22,500**

Dr. Total Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	1,02,500	By Cash / Bank	3,40,000
To Sales	3,25,000	By Balance c/d	87,500
	4,27,500		**4,27,500**

Dr. Total Creditors Account Cr.

Particulars	₹	Particulars	₹
To Cash / Bank	2,80,000	By Balance b/d	53,500
To Balance c/d	46,000	By Purchases	2,72,500
	3,26,000		**3,26,000**

Dr. **Cash / Bank Account** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Additional capital	5,000	By Drawings	25,000
To Sale of Fixed assets	1,750	By Fixed Asset	5,000
		By Balance c/d	50,000
	4,09,250		**4,09,250**

C	+	P	=	S
100	+	25	=	125
↓		↓		↓
2,60,000		65,000		3,25,000

Q.9

In the books of Lokesh

Dr. **Statement of Affairs as on 31.03.04** Cr.

Liabilities	₹	Assets	₹
Capital	1,07,712	Furniture & Fittings	22,500
Creditors	32,940	Stock (24,390 ÷ 125%)	19,512
Loan from to Brother	18,000	Debtors	11,025
		Cash / Bank	15,615
		House	90,000
	1,58,652		**1,58,652**

Dr. **Statement of Affairs as on 31.03.10** Cr.

Liabilities	₹	Assets	₹
Capital	2,07,113	Furniture & Fixture	40,500
Creditors	37,800	Stock (54,330 – 25%)	40,748
		Debtors	26,640
		Cash / Bank	29,025
		House	90,000
		Car	33,750
		Debentures in X Ltd.	33,750
		Loan to Brother	13,500
	3,07,913		**3,07,913**

Statement of Profit

Particulars	₹	₹
Capital as on 31.03.10		2,70,113
(+) Drawings (Living expenses)		
2004 – 05	13,500	
2005 – 06	18,000	
2006 – 07	27,000	
2007 – 08	31,500	
2008 – 09	31,500	
2009 – 10	31,500	1,53,000
		4,23,113
(+) Amount stolen in May 2009 (it is as good as joint)		13,500
		4,36,613
(-) Capital as on 31.03.04		(1,07,712)
		3,28,901
(-) Profits shown in income tax returns		
31.03.05	33,075	
31.03.06	33,300	
31.03.07	35,415	
31.03.08	61,875	
31.03.09	54,630	
31.03.10	41,670	(2,59,965)
Understatement of Income by Lokesh		**68,936**

Q.10 **Mr. Kanubahi**

Statement of Profit and Loss for the year ended 31st March 2017.

Particulars	₹	₹
Closing capital		1,60,800
(+) Drawings		
Gift	9,000	
Advance Tax	6,000	
Household & personal Expenses	25,600	40,600
(-) Opening Capital		(1,80,200)
Net Profit		21,200

Balance Sheet as at 31st March 2017

Liabilities	₹	₹	Assets	₹
Capital			Cash at Bank	4,100
Opening Capital	1,80,200		Debtors	19,100
(+) Net Profit	21,200		Stock of Finished goods	22,200
(-) Drawings	(40,600)	1,60,800	Stock of Raw material	12,000
Loan from Banubhai		9,000	Investment	34,000
Creditors		32,500	Cash in Hand	900
			Fixed Assets	1,10,000
		2,02,300		**2,02,300**

WN1:

Opening statement of Affairs as on 31.3.16

Liabilities	₹	Assets	₹
Capital (Opening)	1,80,200	Cash at Bank [WN 2]	7,100
Creditors	25,000	Stock of Finished Goods [WN3]	23,100
		Stock of Raw Material [cost]	7,500
		Investment [WN4]	44,000
		Cash in Hand	700
		Debtors	27,800
		Fixed Assets	95,000
	2,05,200		**2,05,200**

WN 2: BRS as on 31.3.16

Bank Balance as per passbook ↓↑	6,000
(+) Cheque deposited but not cleared*	2,000
(-) Cheque issued but not presented*	(900)
	7,100

* The effects have already been given in the Cash Book and hence no further effects are to be given after reconciliation

WN 3: Stock of Finished Goods on 31.3.16

Selling Price	33,000
(-) 30% Profit	(9,900)
Cost	23,100

WN 4: Investment of 31.3.16 (cost)

A Ltd	27,000
B Ltd	17,000
	44,000

WN 5:

Closing statement of Affairs as on 31.3.17

Liabilities	₹	Assets	₹
Capital (Closing)	1,60,800	Cash at Bank [WN 6]	4,100
Loan from Banubhai	9,000	Debtors [WN 7]	19,100
Creditor	32,500	Stock of Finished Goods [WN8]	22,200
		Stock of Raw Material [cost]	12,000
		Investment [WN 9]	34,000
		Cash in hand	900
		Fixed Assets	1,10,000
	2,02,300		**2,02,300**

WN 6: **BRS as on 31.3.17**

Bank Balance as per passbook ↑	4,100
(-) Amount directly deposited by debtor	*(4,000)
Bank Balance as per cash book ↓	100

***I. A. Implied Adjusted**

Bank A/c Dr. 4,000

To Debtors 4,000

∴ Revised Bank Balance = 100 + 4,000 = 4,100

Revised Debtors = 20,600 – 4,000 = 16,600

WN 7: **Debtors on 31.3.17**

Debtors as per WN 6	16,600
(-) Goods on consignment	(1,000)
(+) Amount due from debtor in Adj (i) [4,600 -1,100]	3,500
	19,100

WN 8: Stock of Finished Goods on 31.3.17

Selling Price	36,000
Add: Goods on Consignment (SP)	+ 1,000
	37,000
(-) Profit @ 40%	(14,800)
Cost	22,200

WN 9: Investment of 31.3.17 (cost)

A Ltd	27,000
B Ltd	7,000
	34,000

CHAPTER 11

PARTNERSHIP AND LLP ACCOUNTS

CLASSWORK SECTION

UNIT I – GENERAL PARTNERSHIP

Q.1 Ram, Rahim and Karim are partners in a firm. They have no agreement in respect of profit - sharing ratio, interest on capital, interest on loan advanced by partners and remuneration payable to partners. In the matter of distribution of profits they have put forward the following claims:

(i) Ram, who has contributed maximum capital demands interest on capital at 10% p.a. and share of profit in the capital ratio. But Rahim and Karim do not agree.

(ii) Rahim has devoted full time for running the business and demands salary at the rate of ` 500 p.m. But Ram and Karim do not agree.

(iii) Karim demands interest on loan of ` 2,000 advanced by him at the market rate of interest which is 12% p.a.

How shall you settle the dispute and prepare Profit and Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims amounted to ` 45,000 at the end of the first year of their business.

Q.2 Good ,Better and Best are in partnership sharing profits and losses in the ratio 3:2:4.Their capital account balances as on 31st March, 2012 are as follows :

	₹
Good	1,70,000 (Cr)
Better	1,10,000 (Cr)
Best	1,22,000 (Cr)

Following further information provided:

(1) ₹ 22,240 is to be transferred to General Reserve.

(2) Good, Better and Best are paid monthly salary in cash amounting ₹ 2,400, ₹ 1,600 and ₹ 1,800 respectively.

(3) Partners are allowed interest on their closing balance @ 6% p.a. and are changed interest on drawings @ 8% p.a.

(4) Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.

(5) Better is entitled to commission @ 15% of the net profit before charging Interest on Drawings but after making all other appropriations.

(6) During the year Good withdraw ₹ 2,000 at the beginning of every month, Better ₹ 1,750 at the end of every month and Best ₹ 1,250 at the middle of every month.

(7) Firm's Accountant is entitled to a salary of ₹ 2,000 per month and a commission of 12% of net profit after charging such commission.

The Net Profit of the firm for the year ended on 31st March, 2012 before providing for any of the above adjustments was ₹ 2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2012.

UNIT II – TREATMENT OF GOODWILL IN PARTNERSHIP ACCOUNTS

Q.1 A and B are partners in a firm with capitals ₹ 48,000 and ₹ 32,000 respectively. C is admitted for 1/5th share for which he is asked to bring ₹ 30,000 as capital. Calculate Hidden Goodwill.

Q.2 Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. M/s. Lee and Lawson earned profits during 2013-2016 as follows:

Year	Profits ₹
2013	1,20,000
2014	1,25,000
2015	1,30,000
2016	1,50,000

On 31.12.2016 capital employed by M/s. Lee and Lawson was ₹ 5,00,000. Rate of normal profit is 20%.

Required

Find out the value of goodwill by average profit, weighted average profit, super profit and Capitalisation method assuming goodwill is valued at 3 year purchase of super profits. Also calculate goodwill by annuity method assuming 3 years purchase of super profits & interest rate is 20% p.a.

Q.3 A, B & C are equal partners. They wanted to change the profit sharing ratio into 4:3:2. Make the necessary journal entries. Goodwill of the firm is valued at ₹ 90,000.

UNIT III – ADMISSION OF PARTNER

Q.1 X and Y are partners in a firm sharing profits in the ratio of 3: 2. On 31st March, 2011 the position of the business was as follows:

Balance Sheet

Liabilities	₹	Assets	₹
Sundry creditors	10,000	Stock	20,000
Capital account		Plant & Machinery	25,000
X 30,000		Debtors	18,000
Y 25,000	55,000	Cash	7,000
General reserve	5,000		
	70,000		**70,000**

Z agrees to join the business on the following condition:

(a) He will introduce ₹ 20,000/- as his capital and pay ₹ 10,000/- to the partners as premium for goodwill. The new profit sharing ratio is 2 : 1 : 1. It was decided that 1/2 of the amount of the goodwill is to be withdrawn by partners.

(b) A revaluation of the assets of the firm will be made by reducing plant and machinery account to ₹ 20,000/- and stock by 10% and by creating a provision for bad debts at 5% of debtors.

You are asked to give the necessary accounts in the books of the firm recording the above transactions and give the balance sheet of the new firm on completion of the transactions. General reserve is to appear at old figure in the new balance sheet. The partners have decided to maintain capitals after admission in PSR.

Q.2 Hari and Ram were in partnership, sharing profits and losses equally. On 1st January, 2020, Suraj was admitted into partnership on the following terms:

Suraj is to have one-sixth share in the profits/losses, which he has got from Hari, paying him ₹ 40000 for that share as goodwill. Out of this amount. Hari is to withdraw ₹ 30000 and the balance amount is to remain in the firm. It was further agreed that the value of investments should be reduced by ₹ 12,000 & ₹ 3,000 one of the creditors has closed his business and gone. Plant is to be reduced by ₹ 6,000. Suraj is to bring in proportionate capital on his admission.

The Balance sheet is at 31st December, 2019 was as follows:

Liabilities		₹	Assets	₹
Creditors		105,000	Cash at Bank	40,000
Capital Accounts :			Book Debts	60,000
Hari	60,000		Stock	50,000
Ram	60,000	1,20,000	Investments	30,000
			Furniture	10,000
			Plant	35,000
		2,25,000		**2,25,000**

The profits for the year ended 31st December 2020 were ₹ 60000 and the drawings were: Hari ₹ 15000, Ram ₹ 22500 and Suraj ₹ 7500.

Journalise the entries on Suraj's admission and give the Capital Accounts and the Balance Sheet as at 31st December 2020.

UNIT IV – RETIREMENT OF A PARTNER

Q.1 M/s X and Co. is a partnership firm with the partners A,B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2011, was as under:

Balance Sheet of X and Co. as on 30.6.2011

Liabilities	₹	Assets	₹
A's capital A/c	1,04,000	Land	1,00,000
B' capital A/c	76,000	Building	2,00,000
C' capital A/c	1,40,000	Plant and Machinery	3,80,000
Long term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade payables	1,93,000	Trade receivables	1,39,000
	9,57,000		**9,57,000**

It was mutually agreed that B will retire from partnership and his place D will be admitted as a partner with effect from 1st July, 2011. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to valued at ₹ 2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 25,000. Trade receivables are considered good only up to 90% of balance sheet figure. Balance be considered bad.

(c) In the reconstituted firm, the total capital will be ₹ 3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partner's Capital accounts.

Q.2 A, B and C are partners in a firm. A retires on 1st January, 2013. On the date of retirement, ₹ 80,000 is due to him in all. It is agreed to pay him this amount in installments every year at the end of the year. Prepare A's Loan A/c in the following cases.

(i) Four yearly installments plus interest @ 10% p.a.

(ii) Three installments of ₹ 25,000 including interest @ 10% p.a. on the outstanding balance and the balance including interest in the fourth year.

UNIT V – DEATH OF A PARTNER

Q.1 The balance sheet of seed, plant and flower as at 31st December, 2010 was as under:

Liabilities		₹	Assets	₹
Trade payables		20,000	Fixed Assets	40,000
General Reserve		5,000	Trade receivables	10,000
Capital :			Bills Receivable	4,000
Seed	25,000		Inventories	16,000
Plant	15,000		Cash at Bank	10,000
Flower	15,000	55,000		
		80,000		**80,000**

The profit sharing ratio was: seed 5/10, plant 3/10 and flower 2/10. On 1st May, 2011 plant died. It was agreed that:

(a) Goodwill should be valued at 3 years purchase of the average profit for 4 years. The profit were:

2007	₹ 10,000	2009	₹12000
2008	₹ 13,000	2010	₹ 15,000

(b) The deceased partner to be given share of profit up to the date of death on the basis of the previous year.

(c) Fixed assets were to be depreciated by 10%. A bill for ₹ 1000 was found to be worthless. These are not to affect goodwill.

(d) A sum of ₹ 7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed and flower agreed to share profit and losses in future in the ratio of 3: 2. Give necessary journal entries.

Q.2 Peter, Paul and Prince were partners sharing profits and losses in the ratio 2:1:1. It was provided in the partnership deed that in the event of retirement /death of a partner he/his legal representatives would be paid:

(i) The balance in the capital Account.

(ii) His share of goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st December preceding the retirement or death.

(iii) His share of profits from the beginning of the accounting year to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%.

(iv) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

(v) All the asset are to be revalued on the date of retirement or death and the profit and loss be debited/ credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2016. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 2016 were Peter ₹ 10,000, Paul ₹ 5,000 and Prince ₹ 5,000. The balance in the Current Account as on 1st January, 2016 were Peter ₹ 20,000, Paul ₹ 10,000 and Prince ₹ 7,000. Drawings of Peter till 30th September, 2016 were ₹ 10,000. The profits of the firm before charging interest on capital for the calendar years 2013, 2014 and 2015 were ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,50,000 respectively. The profits include the following abnormal items of credit:

	2013 ₹	2014 ₹	2015 ₹
Profit on sale of assets	5,000	7,000	10,000
Insurance claim received	3,000	-	12,000

The firm has taken out a Joint Life Policy for ₹1,00,000. Besides the partners had severally insured their lives for ₹ 50,000 each, the premium in respect thereof being charged to the Profit and Loss account. The surrender value of the Policies were 30% of the face value. On 30th June, 2016 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of ₹ 6,000 in the year 2015 and the firm has to pay immediately.

The revaluation of the assets indicates an upward revision in value of assets to the extent of ₹ 20,000. Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2016 along with necessary workings.

Q.3 Wise, Clever and Dull were trading in partnership sharing profits and losses 4:3:3 respectively. The accounts of the firm are made up to 31st December every year. The partnership provided, interalia, that:

On the death of a partner the goodwill was to be valued at three years' purchase of average profits of the three years up to the date of the death after deducting interest @8 percent on capital employed and a fair remuneration of each partner. The profits are assumed to be earned evenly throughout the year.

On 30th June, 2016, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed for the purpose of valuation of goodwill that the fair remuneration for work done by each partner would be ₹15,000 per annum and that the capital employed would be ₹1,56,000. Clever and Dull were to continue the partnership, sharing profits and losses equally after the death of Wise.

The following were the amounts of profits of earlier years before charging interest on capital employed.

	₹
2013	67,200
2014	75,600
2015	72,000
2016	62,400

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

CHAPTER 12
DISSOLUTION OF PARTNERSHIP FIRM & LLPs

THEORY SECTION

The following ledger A/c's would be opened in the books of the partnership firm.

(1)	Realisation A/c	(2)	Capital A/c
(3)	Loan A/c	(4)	Cash / Bank A/c

Steps:

(1) Transfer all Balance Sheet items to their respective accounts:

	Items	Accounts
(i)	Partners Capital Balances	Partners Capital a/c
(ii)	Partners Current Account	Partners Capital a/c
(iii)	All Reserves	Partners Capital a/c
(iv)	Cash/ Bank Balance	Cash / Bank a/c
(v)	Sundry Assets	Realisation a/c (Debit)
(vi)	Sundry Liabilities	Realisation a/c (Credit)

(2) Dispose of Assets & Pay off the liabilities :

(a) **Disposal of Assets**

Cash / Bank A/c Dr.
Partners Capital A/c Dr.
To Realisation A/c

(b) **Payment of Liabilities**

Realisation A/c Dr.
To Cash / Bank A/c
To Partners Capital A/c

Note: If no information is given then it is assumed that the asset is disposed off or liability is settled at book values. However if no information is given then it is to be assumed that Goodwill have no realisable value.

(3) Expenses of Realisation

Realisation A/c	Dr.	xx	
To Cash / Bank A/c			xx

(4) Payment of Partners Loan

Partners Loan A/c	Dr.	xx	
To Cash / Bank A/c			xx
To Realisation A/c (If assets is taken over)			xx

(5) Close the realisation Account and the profit / loss on realisation should be distributed amongst the partners in the P.S.R.

(6) Balance the partners capital account and the final balance in the partners capital account should be settled in cash.

(7) The Cash / Bank Account must tally.

Insolvency loss: At the stage of final settlement if there is a debit balance in the partner Capital A/c's then the partner is required to bring in cash. If the partner is unable to bring in cash then there would be a loss arising out of insolvency. The distribution of this insolvency loss would depend upon the no. of partners who are insolvent / solvent. The following are the various possibilities :

(i) **When one partner is solvent.**

In this case the question would arise regarding the basis (ratio) in which the insolvency loss has to be distributed. The insolvency loss can be distributed

(1) If partnership deed provides for specific method for distribution of insolvency loss, then provision of deed should be applied.

(2) If deed does not make any provisions then.

(a) **As per the provisions of the Indian Partnership Act, 1932.** According to the Indian Partnership Act, such loss should be distributed in the PSR.

OR

(b) **According to the principle of Garner vs Murray** such loss should be distributed in the capital ratio.

The capital ratio is ascertained in the following manner :

(a) **If the Capital's are fixed:** In this case the insolvency loss should be distributed in the fixed capital ratio.

(b) **If the Capital's are not fixed:** Than ascertain the adjusted capital i.e. opening capital + Reserves - Losses appearing in the Balance sheet. (A solvent partner having a debit balance will not bear the insolvency loss).

Note: The solvent partners will bring cash to met up their share in realisation loss.

(ii) **When all partners are insolvent:**

Unless otherwise specified the following steps would be applicable :

(a) Transfer the assets to the realisation A/c.

(b) Open separate Accounts for the liabilities.

(c) Realise the assets & pay realisation expenses.

(d) Close the realisation A/c & distribute the profit / loss amongst the partners in their PSR.

(e) Collect the final amounts (if any) from the partners. At this stage the amount available would be opening balance + Net Realisation from assets + Final amounts received from the partners. This amount would be insufficient to pay off the liabilities.

(f) Pay off the liabilities to the extent possible & transfer the unpaid liabilities to a separate A/c called as "Capital Deficiency."

(g) Transfer the final balances in the partners capital A/c's to the capital deficiency A/c. (The A/c must tally).

CLASSWORK SECTION

Q.1 X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3:

2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	(₹)	Assets	(₹)
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date. Fixed assets realized ₹ 5,20,000 and book debts ₹ 4,40,000.

Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹6,000. You are required to prepare:

(i) Realization account;

(ii) Partners capital account; and

(iii) Cash account.

Q.2 The firm of Kapils and Devs dissolved on 31st March, 2017. Its Balance Sheet stood as follows:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital A/c's		Land	50,000
F. Kapil	2,00,000	Building	2,50,000
S. Kapil	2,00,000	Office equipment	1,25,000
R. Dev	1,00,000	Computer	70,000
Current A/cs		Debtors	4,00,000
F. Kapil	50,000	Stocks	3,00,000
S. Kapil	1,50,000	Cash at Bank	75,000

R. Dev	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c	
Current Liabilities	70,000	B. Dev	87,400
	13,80,000		**13,80,000**

The partners have been sharing profits and losses in the ratio of 4 : 4 : 1 : 1. It has been agreed to dissolve the firm on 1.4.2017 on the basis of the following understanding:

(a) The following assets to be adjusted to the extent indicate with respect to the book value:

Land	200%
Building	120%
Computer	70%
Debtors	95%
Stock	90%

(b) In the case of the loan, the lender's are to be paid at their insistence a prepayments premium of 1%.

(c) B. Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

Assuming that the realisation of the assets and discharge of liabilities is carried out immediately show the Cash A/c, Realisation Account and the Partners' Accounts.

Q.3 M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2011 :

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital			Fixed Assets		40,000
X	29,200		Stock		25,000
Y	10,800		Book Debts	25,000	
Z	10,000	50,000	Less : Provision	5,000	20,000
Z's Loan		5,000	Cash		1,000
Loan from Mrs. X		10,000	Advance to Y		4,000
Sundry Trade Creditors		25,000			
		90,000			**90,000**

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2011 and had been received but the purchase was not recorded in books. Fixed assets realised ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything. Give accounts to close the books; work according to the decision in Garner vs. Murray.

Q.4 Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2017 when the firm was dissolved:

	₹		₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		**5,550**

The assets realised as under:

	₹
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only. Show necessary ledger accounts to close the books of the firm.

Q.5 Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1.

On 30th September, 2011 their Balance Sheet was as follows :

Liabilities		(₹)	Assets	(₹)
Capital Accounts :			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200

Current Accounts :			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		**3,05,480**

Thin' decides to retire on 30th September, 2011 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2011. It then transpires that 'Fat' has no private assets whatsoever. The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realise ₹ 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise ₹ 45,900. Realisation expenses amount to ₹ 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realisation Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

Q.6 Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	(₹)	Assets		(₹)
Capital Accounts:		Land & Building		1,35,000
Amit	55,200	Plant & Machinery		45,000
Sumit	55,200	Furniture		25,500
General Reserve	61,500	Investments		15,000
Kumar's Loan A/c	15,000	Book Debts	60,000	
Loan from D	1,20,000	Less: Prov. for bad debts	6,000	54,000
Trade Creditors	30,000	Stock		36,000
Bills Payable	12,000	Bank		13,500
Outstanding Salary	7,500	Capital Withdrawn:		
		Kumar		32,400
	3,56,400			3,56,400

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture	- Remaining taken over by Kumar at 90% of book value
Stock	- Realized 120% of book value
Book Debts	- ₹ 12,000 of debts proved bad, remaining were fully realized
Land & Building	- Realized ₹ 1,65,000
Investments	-Taken over by Amit at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

Q.7 A and B were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities		₹	Assets	₹
Capitals:			Bank	30,000
A	1,00,000		Debtors	25,000
B	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
B's current account		10,000	Machinery	60,000
Reserves		15,000	A's current account	10,000
Bank overdraft		5,000		
		2,00,000		2,00,000

The firm was dissolved on the above date:

A took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

HOMEWORK SECTION

Q.1 P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2011 is as follows:

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Fixed Capital			Goodwill		40,000
P	20,000		Freehold Property		8,000
Q	20,000		Plant and Equipment		12,800
R	10,000	50,000	Motor Vehicle		700
Current Accounts :			Stock		3,900
P	500		Trade Debtors	2,000	
Q	9,000	9,500	Less : Provision	(100)	1,900
Loan from P		8,000	Cash at Bank		200
Trade Creditors		12,400	P & L account		12,000
			R's Current Account		400
		79,900			**79,900**

On 1st July, 2011 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following amounts:

	(₹)
Goodwill	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

You are required to show:

(a) Cash and Bank Account,

(b) Realisation Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Q.2 P, Q and R are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2018 when their Balance Sheet was as under:

Liabilities	₹	Assets		₹
Capital Accounts:		Land & Building		90,000
P	40,000	Plant & Machinery		30,000
Q	40,000	Furniture		17,000
General Reserve	41,000	Investments		10,000
R's Loan A/c.	10,000	Book Debts	40,000	
Loan from D	80,000	Less : Prov. for bad		
Trade Creditors	20,000	debts	(4,000)	36,000
Bills Payable	8,000	Stock		24,000
Outstanding Salary	5,000	Bank		9,000
		Deferred Advertisement		
		Expenses		8,000
		Capital withdrawn:		
		'R'		20,000
Total	**2,44,000**	**Total**		**2,44,000**

The following information is given to you :

(i) Realisation expenses amounted to ₹ 12,000 out of which ₹ 2,000 was borne by P.

(ii) A creditor agreed to takeover furniture of book value ₹ 8,000 at ₹ 7,200. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows :

Furniture	-	Remaining taken over by R at 90% of book value
Stock	-	Realised 120% of book value
Book Debts	-	₹ 8,000 of debts proved bad, remaining were fully realized
Land & Building	-	Realised ₹ 1,10,000
Investments	-	Taken over by P at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 5,000 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st march, 2018, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form in the books of Partnership firm. **(Nov. 2018 – IPCC Group 2)**

Q.3 P, Q, R and S had been carrying on business in partnership sharing profit & Losses in the ratio or 4 : 3 : 2 : 1. They decide to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:

Liabilities	₹	Assets	₹
Capital Accounts		Land & Building	2,46,000
P 1,68,000		Furniture & Fixtures	65,000
Q 1,03,000	2,76,000	Stock	1,00,000
General Reserve	95,000	Debtors	72,500
Capital Reserve	25,000	Cash in hand	15,500
Sundry Creditors	36,000	Capital overdrawn:	
Mortgage Loan	1,10,000	R 25,000	
		S 18,000	43,000
	5,42,000		**5,42,000**

(i) The assets were realised as under:

Land & Building	2,30,000
Furniture & Fixtures	42,000
Stock	72,000
Debtors	65,000

(ii) Expense dissolution amounted to ₹ 7,800

(iii) Further creditors of ₹ 18,000 had to be met

(iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner v/s Murray; prepare the Realisation Account, Partner's Capital Accounts and Cash Account. **(Nov. 2011)**

Q.4 G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Partners' fixed capital accounts			Fixed assets		
G	24,000		Goodwill	48,000	
S	24,000		Land	9,600	
J	12,000	60,000	Plant & Machinery	15,360	

Partners' current accounts			Motor car	840	73,800
G	600		Current assets		
S	10,800		Stock		4,680
J	(480)	10,920	Trade debtors	2,400	
Loan from G		9,600	Less: provision	120	2,280
Trade creditors		14,880	Cash at bank		240
			Miscellaneous losses		
			Profit & loss sale		14,400
		95,400			95,400

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹ 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	₹
Goodwill	Nil
Land	8,400
Plant & machinery	6,000
Stock	3,600
Trade debtors	1,920

Trade creditors were paid ₹ 14,040 in full settlement of their debts. The cost of dissolution amounted to ₹ 1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

You are required to prepare:

(i) Cash & Bank account

(ii) Realization account, and

(iii) Partners' Fixed Capital Accounts (after transferring current accounts balances)

Apply Garner Vs. Murray rule. **(15 Marks – Nov 2019 – Inter Group I)**

HOMEWORK SOLUTION

Q.1

Dr. **Realisation Account** **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Sundry Assets:			By Sundry Liabilities:		
Goodwill	40,000		Sundry Creditors		12,400
Freehold prop.	8,000		By R.D.D.		100
Plant & Equip.	12,800		By Q A/c:		
Motor vehicle	700		Motor vehicle		500
Stock	3,900		By Bank A/c:		
Debtors	2,000	67,400	Freehold prop.	7,000	
To Bank A/c:			Plant & Equip.	5,000	
Creditors	11,700		Stock	3,000	
Diss Expenses	1,500	13,200	Debtors	1,600	16,600
			By Partner's Capital:		
			P	25,500	
			Q	17,000	
			R	8,500	51,000
		80,600			**80,600**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	P	Q	R	Particulars	P	Q	R
To Current A/c	5,500	-	2,400	By Balance b/d	20,000	20,000	10,000
To Realisation (Loss)	25,500	17,000	8,500	By Current A/c	-	5,000	-
				By Cash/Bank	25,500	17,000	-
To Realisation (Motor vehi.)	-	500	-	By P & Q capital	-	-	600
				By Cash/Bank	-	-	300
To R's Cap. A/c	300	300	-				
To Bank A/c	14,200	24,200	-				
	45,500	**42,000**	**10,900**		**45,500**	**42,000**	**10,900**

Dr. Cash / Bank Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	200	By Realisation A/c	13,200
To Realisation A/c	16,600	By P's Loan A/c	8,000
To P's Capital A/c	25,500	By P's Capital A/c	14,200
To Q's Capital A/c	17,000	By Q's Capital A/c	24,200
To R's Capital A/c	300		
	59,600		**59,600**

	P	Q	R
Current A/c balance	500	9,000	(400)
Profit / Loss (Dr.) (3 : 2 : 1)	(6,000)	(4,000)	(2,000)
Net (Dr.) /Cr. balance	(5,500)	5,000	(2,400)

WN: Insolvency of R

Step 1: Solvent partners should bring their share of realization loss

Cash / Bank A/c	Dr.	42,500	
To P's Capital A/c			25,500
To Q's Capital A/c			17,000

Step 2: Capital Ratio of Solvent Partners (Fixed Capital Ratio)

	P		Q
Capital Balance	20,000		20,000
Capital Ratio	1	:	1

Step 3: Insolvency loss of R = 900 – (Dr. – Cr.)

1/3rd → 300; 2/3rd → 600

600 → P : Q = 1 : 1 → P 300, Q 300

Cash / Bank A/c	Dr.	300	
P's Capital A/c	Dr.	300	
Q's Capital A/c	Dr.	300	
To R's Capital A/c			900

Q.2

Realization A/c

To L & B		90,000	By RDD			4,000
To P & M		30,000	By Loan from D			80,000
To Furniture		17,000	By Creditors			20,000
To Investment		10,000	By Bills Payable			8,000
			By O/S salary			5,000
To Book Debts		40,000	By R's Capital (furniture)			8,100
To Stock		24,000	By Bank A/c			
To Bank (Expense)		10,000	Stock	28,800		
To P's Capital (Expense)		2,000	L & B	1,10,000		
To Bank A/c.			Debtors	32,000		1,70,800
Bills payable	7,960					
D's Loan	41,000		By P's Capital (investment)			8,500
Creditors	12,000					
O/s Salary	5,000	65,960				
To Profit trf. to						
P's Cap. A/c	6,176					
Q's Cap. A/c	6,176					
R's Cap. A/c	3,088	15,440				
		3,04,400				**3,04,400**

Bank A/c

To Balance b/d	9,000	By Realization A/c	10,000
To Realization A/c	1,70,800	By Realization A/c	65,960
To R's Capital	8,412	By P's Capital	52,876
		By Q's Capital	59,376
	1,88,212		**1,88,212**

Partners Capital A/c

	P	Q	R		P	Q	R
To Bal. b/d	-	-	20,000	By Bal. b/d	40,000	40,000	-
To Def. Advt.	3,200	3,200	1,600	By R's Loan			10,000
Exp. w/off				By Gen. Reserve	16,400	16,400	8,200
To Realization	8,500	-	-	By Realization	2,000	-	-
To Realization	-	-	8,100	By Realization	6,176	6,176	3,088
To Bank A/c.	52,876	59,376	-	By Bank A/c.	-	-	8,412
	64,576	**62,576**	**29,700**		**64,576**	**62,576**	**29,700**

WN1: Payment to B/P

Bills Payable		= 8,000
(-) Discount		(40)
[8,000 x 6% x 1/12]		
Amt. paid in cash		7,960

WN2: D's Loan

D's Loan		80,000
50% P & M	30,000	
Cash	5,000	

50% 40,000 – Discount of 10%

= 36,000

Total cash paid = 5,000 + 36,000 = 41,000

WN3: Payment to Crs.

Creditors	20,000
(-) Furniture	(7,200)
	12,800
(-) Discount @ 6.25%	(800)
Amt. paid in Cash	12,000

WN4: Furniture value T/O by R

Furniture	17,000
(-) Book Value	(8,000)
(Accepted by crs.)	
	9,000
(-) 10% of Book Value	(900)
Value of Furniture taken over by R	8,100

Q.3

Realization A/c

Particulars		Amount	Particulars		Amount
To Land & Building		2,46,000	By Sundry Creditors		36,000
To Furniture & Fixture		65,000	By Mortgage Loan		1,10,000
To Stock		1,00,000	By Cash A/c		
To Debtors		72,500	Land & Building	2,30,000	
To Cash A/c			Furniture & Fixtures	42,000	
Expenses	7,800		Stock	72,000	
Creditors	54,000		Debtors	65,000	4,09,000
Mortgage	1,10,000	1,71,800	By Partners Capital A/c		
			P	40,120	
			Q	30,090	
			R	20,060	
			S	10,030	1,00,300
		6,55,300			**6,55,300**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	15,500	By Realization A/c	1,71,800
To Realization A/c	4,09,000	By P's Capital A/c	2,03,364
To P' s capital A/c	40,120	By Q's Capital A/c	1,35,576
To Q' s capital A/c	30,090		
To S' s capital A/c	10,030		
To S's capital A/c	6,000		
	5,10,740		**5,10,740**

Partners Capital A/c

Particulars	P	Q	R	S	Particulars	P	Q	R	S
To Bal.b/d	-	-	25,000	18,000	By Bal.b/d	1,68,000	1,08,00	-	-
To Realiz - ation	40,120	30,090	20,060	10,030	By Gen. Res.	38,000	28,500	19,000	9,500
To R's cap.	12,636	8,424	-	-	By Capital Res.	10,000	7,500	5,000	2,500
To Cash	2,03,364	1,35,576	-	-	By Cash	40,120	30,090	-	10,030
					By P's cap.	-	-	12,636	-
					By Q's cap.	-	-	8,424	-
					By Cash	-	-	-	6,000
	2,56,120	**1,74,090**	**45,060**	**28,030**		**2,56,120**	**1,74,090**	**45,060**	**28,030**

WN1: Capital Ratio of Solvent partners

	P	Q	R
Capital Balance	1,68,000	1,08,000	(18,000)
(+) General Reserve	3,80,000	28,500	9,500
(-) Capital Resreve	10,000	7,500	2,500
Adjusted capital	2,16,000	1,44,000	(6,000)

Capital Ratio = 2,16,000 : 1,44,000 = 3:2

Solvent Partner having Dr. balance will not share insolvency loss

WN2:

Deficiency of R = 25,000 + 20,060 − 19,000 - 5,000 = Rs. 21,060

Deficiency of R will be shared by P & Q in the capital Ratio of 3:2

P = 21,060 x 3/5 = Rs. 12,636

Q = 21,060 x 2/5 = Rs. 8,424

Q.4

Cash & Bank Account

		₹		₹
To Balance b/d		240	By Realisation A/c Creditors	14,040
To Realisation A/c-		19,920	By Realisation A/c Expenses	1,800
To Capital Accounts:			By G's Loan A/c	9,600
G	27,200		By G's Capital A/c	16,280
S	20,400		By S's Capital A/c	28,680
J	2,640	52,240		
		70,400		**70,400**

Realisation Account

	₹			₹
To Goodwill	48,000	By Trade Creditors		14,880
To Land	9,600	By Provision for Bad Debts		120
To Plant and Machinery	15,360	By Bank:		
To Motor Car	840	Land	8,400	
To Stock	4,680	Plant and		
To Sundry Debtors	2,400	Machinery	6,000	
To Bank (Creditors)	14,040	Stock	3,600	

To Bank (Expenses)	1,800	Debtors	1,920	19,920
		By G (Car)		600
		By Capital Accounts:		
		(Loss)		
		G	27,200	
		S	20,400	
		J	13,600	61,200
	96,720			**96,720**

Partners' Fixed Capital Accounts

	G ₹	S ₹	J ₹		G ₹	S ₹	J ₹
To Current A/c	-	-	480	By Balance b/d	24,000	24,000	12,000
To profit & loss A/c	6,400	4,800	3,200	By Current A/c			
To Realisation A/c	27,200	20,400	13,600	(Transfer)	600	10,800	-
(Loss)				By Bank			2,640
To Realisation A/c	600	-	-	By Bank	27,200	20,400	-
(Car)				(realisation loss)			
To J's Capital A/c				By G & S			
(Deficiency)	1,320	1,320		(Deficiency)	-	-	2,640
To Bank	16,280	16,280					
	51,800	**55,200**	**17,280**		**51,800**	**55,200**	**17,280**

Note:

1. G, S and J will bring cash to make good their share of the loss on realization.
2. As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio 1:1

Insolvency Loss of J

Total Debit	17,280
(-) Total Credit	(12,000)
Amount Receivable	5,280
(-) Half Received	(2,640)
Insolvency Loss	2,640

1 :1

G	S
1,320	1,320

CHAPTER 13
PIECEMEAL DISTRIBUTION

THEORY SECTION

When the firm goes into dissolution the assets of the firm would be realised gradually. As and when the amounts are realised it should be utilised towards the payment of liabilities and expenses. Hence in this topic there would be a stage wise distribution of cash. The amount received should be applied in the following manner:

Steps:

(1) Realisation Expenses
(2) Secured Loans
(3) Preferential Creditors for e.g. government dues and employees' dues
(4) Unsecured Liabilities + Deficiency in respect of Secured Loans
(5) Partners Loans
(6) Partners Capital

The amounts are to be distributed to the partners by following one of the alternative methods stated below:

(a) Maximum Loss / Notional Loss Method
(b) Excess / Surplus / Highest Relative Capital Method

(a) **Maximum loss / notional loss method:** Basic presumption of this method at every stage of realisation is that there will be no further realisation of assets.

Practical steps for distribution among partners:

(1) Calculate balance of capital a/c of all partner after adjusting accumulated profit / losses / current a/c balances
(2) Calculate maximum loss assuming that remaining asset will realise nothing
Maximum loss = Total capital balance (-) Cash available
(3) Distribute maximum loss among partners in profit sharing ratio

(4) Calculate balance of capital after distribution of maximum loss

(5) If no capital balance in step 4 shows negative balance then capital balance in step 4 = Cash distributed among partners

(6) If any of capital balance shows negative balance after step 4 transfer such negative capital to capital a/c of other partner (having positive capital) in ratio of capital (capital balance + reserves (-) Losses) assuming partner having negative capital balance as insolvent & application of Garner Murray. Repeat the process till negative balance is obolished. Thus capital balances = cash distributed among partners (as in steps 5)

(7) Calculate fresh capital after distribution of cash as in step (5) or (6) & repeat same process from step no (2) on every realisation of assets.

(b) Excess / surplus / Highest Relative / proportionate capital method / quotient method

The basic presumption of this method is that a partner who has contributed more than his proportionate share of capital, should be paid first to the extent of his excess capital over & above the proportionate capital.

Practical steps for distributions among partners:

(1) Calculate actual capital of all partners after making adjustment for reserves / losses / current a/c

(2) Divide actual capital (as above) of partners by their profit sharing ratio & treat smallest quotient as base capital

(3) Base capital x profit sharing ratio = proportionate capital (i.e. this should have been the capital)

(4) Surplus capital = Actual capital (Step 1) (−) proportionate capital [step (3)]

(5) If there is only one partner having surplus capital, make payment of such surplus capital to the partner first

(6) If there is more than one partner having surplus capital then divide surplus capital by profit sharing ratio & treat the smallest quotient as revised base capital

(7) Repeat above process (step 2-4) until number of partner having excess capital reduces to one.

CLASSWORK SECTION

Q.1 A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹9,600, ₹ 6,000 and ₹ 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	(₹)	Assets	(₹)
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent. You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

Q.2 The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	(₹)	Assets	(₹)
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realized the following sums in installments:

I	1,000	
II	3,000	
III	3,900	
IV	6,000	**(including saving in expenses)**
V	20,100	
	34,000	

The expenses of realization were expected to be₹ 500 but ultimately amounted to ₹400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

Q.3 A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their accounts. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2022	25,200
On 30th August, 2022	60,000
On 15th September, 2022	80,000

The partners shared profits and losses in the ratio of 2:2:1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Q.4 P, Q, R were in partnership sharing profits and losses as 3 : 2: 1 respectively. The partnership was dissolved on 30th June 2017, when the position was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	3,50,000	Cash on Hand	70,000
Unsecured Loan	1,75,000	Stock in Trade	7,35,000
Capital Accounts:		Debtors	2,80,000
P	3,50,000		
Q	1,75,000		
R	35,000		
	10,85,000		10,85,000

1. There was a bill for ₹25,000 due on 30th November under discount.
2. It was agreed that the net realisations should be distributed in their due order (at the end of each month) but as safely as possible. The realisations and expenses were as under:

Date	Realisation	Expenses
31st July	2,10,000	17,500
31th August	3,15,000	13,500
30th September	1,75,000	12,250
30th November	2,81,250	17,500

3. The acceptor of the bill under discount met the bill as on the due date.

Prepare a statement showing Piecemeal Distribution of Cash as per Excess Capital Method.

Q.5 The firm of Rich Person presented you with the following Balance Sheet drawn as at 31st March, 2013:

<table>
<tr><th>Liabilities</th><th></th><th>₹</th><th>Assets</th><th></th><th>₹</th></tr>
<tr><td>Sundry Creditors</td><td></td><td>37,000</td><td>Cash on Hand</td><td></td><td>3,000</td></tr>
<tr><td>Capital Accounts of partners:</td><td></td><td></td><td>Sundry Debtors</td><td></td><td>34,000</td></tr>
<tr><td>A</td><td>40,000</td><td></td><td>Stock - in - Trade</td><td></td><td>39,000</td></tr>
<tr><td>B</td><td>30,000</td><td></td><td>Plant and Machinery</td><td></td><td>51,000</td></tr>
<tr><td>C</td><td>27,000</td><td>97,000</td><td>Current Account:</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>B</td><td>4,000</td><td></td></tr>
<tr><td></td><td></td><td></td><td>C</td><td>3,000</td><td>7,000</td></tr>
<tr><td></td><td></td><td>1,34,000</td><td></td><td></td><td>1,34,000</td></tr>
</table>

Partners shared profits and losses in the ratio of 4:3:3. Due to differences among the partners it was decided to wind up the firm, realise the assets and distribute among the partners at the end of each month.

The following realisations were made:-

(i) **May 2013** ₹15,000 from debtors and ₹20,000 by sale of stock. Expenses on realisation were ₹500.

(ii) **June 2013** Balance of debtors realised ₹10,000. Balance of stock fetched ₹24,000.

(iii) **August 2013** Part of machinery was sold for ₹18,000. Expenses incidental to sale were ₹600.

(iv) **September 2013** Part of machinery valued in the books at ₹5,000 was taken by A in part discharge at an agreed value of ₹10,000. Balance of machinery was sold for ₹30,000 (net).

Partners decided to keep a minimum cash balance of ₹2,000 in the first 3 months and ₹1,000 thereafter.

Show how the amounts due to partners will be settled. All working should form part of your answer.

HOMEWORK SECTION

Q.1 Uma, Maya and Kama are sharing profit in the ratio of 3:2:1.

Liabilities	₹	Assets	₹
Reserve	3,12,000	Stock	7,90,400
Creditors	2,08,000	Debtors	7,04,600
Uma's Capital	6,24,000	Cash in Hand	52,000
Maya's Capital	6,76,000	Goodwill	4,16,000
Kama's Capital	4,68,000	Building	2,73,000
		Machinery	52,000
	22,88,000		22,88,000

It is decided to distribute the cash as and when it was received. Uma agreed to work as a receiver on a remuneration of ₹26,000 and bear all expenses of realisation. When it was completed, it was realised that she had spent ₹5,460 for expenses. Details of realisation of assets - 1st realisation ₹2,34,000, 2nd realisation ₹6,29,200 and 3rd realisation ₹5,92,800.

There was some stock of the book value ₹46,800 lying unsold and it was taken over by Kama at an agreed value of ₹26,000

Prepare a statement showing distribution of cash under Excess Capital Method.

Q.2 A, B, C were in partnership sharing profits and losses in the ratio 2:1:1. They decided to dissolve the partnership on the basis of the following Balance Sheet:

Equity and Liabilities		₹	Assets	₹
Sundry Creditors		5,000	Premises	40,000
Loan (on Mortgage of Premises)		30,000	Sundry Debtors	60,000
Partner's Loan (A)		15,000	Stock	70,000
General Reserve		10,000	Cash	3,000
A	50,000			
B	40,000			
C	23,000	1,13,000		
		1,73,000		1,73,000

The assets were realised piecemeal as follows:

June 2013 - ₹5,000 received after meeting in full the mortgage loan.

July 2013 - Debtors ₹15,000; Stock ₹10,000

August 2013 - Debtors ₹20,000; Stock ₹25,000

September 2013 - Debtors ₹17,000; Stock ₹23,000 (Final)

The remaining stock was taken over by B at an agreed value of ₹3,000.

The Sundry Creditors were settled for ₹4,000.

The partners decided to distribute cash as when realised.

You are required to show the distribution of cash, applying the "highest relative capitals' method.

Q.3 A, B and C are carrying on business in partnership has decided to dissolve it on and from 31 Dec. 2005. The following was the balance sheet on that date:

Liabilities		₹	Assets	₹
Capital Account:			Fixed Assets	80,000
X	40,000		Current Assets	40,000
Y	10,000		Banks	30,000
Z	20,000	70,000		
Creditors		80,000		
		1,50,000		1,50,000

As per the arrangement with the bank, the partners were entitled to withdraw ₹ 10,000 each in the month of Jan. 2006, Feb. 2006, March 2006. Actual realisation expenses amounted to ₹ 4,400. You are requested to submit a statement showing distribution of cash among the partners under excess capital method. It was decided that after keeping aside an amount of ₹ 2,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised. The following are the realisation:

January 2006 (first)	30,000
February 2006 (second)	75,000
March 2006 (third)	44,000

Actual realisation expenses amounted to ₹ 1,400. You are requested to submit a statement showing distribution of cash among the partners by maximum loss method.

Q.4 The firm of Py Ra Mides present you with the following Balance Sheet drawn as on 31st March, 2003:

Liabilities		₹	Assets		₹
Sundry Creditors		74,000	Cash in hand		6,000
Capital Accounts:			Sundry Debtors		68,000
P	80,000		Stock in trade		78,000
R	60,000		Machinery		1,02,000
M	54,000	1,94,000	Current Accounts:		
			R	8,000	
			M	6,000	14,000
		2,68,000			**2,68,000**

Partners shared profits and losses in the ratio of 4 : 3 : 3. Due to differences among the partners, it was decided to wind up the firm, realise the assets and distribution cash among the partners at the end of each month.

(i) April 2003 – ₹ 30,000 from Debtors and ₹ 40,000 by sale of stock. Expenses on realisation ₹ 1,000.

(ii) May 2003 – Balance of Debtors realised ₹ 20,000. Balance of stock fetched ₹ 48,000.

(iii) June 2003 – Part of machinery was sold for ₹ 36,000. Expenses incidental to sale ₹ 1,200.

(iv) July 2003 – Part of Machinery valued in the books at ₹ 10,000 was taken by P, in part discharge at an agreed value of ₹ 20,000. Balance of Machinery was sold for ₹ 60,000 (net).

Partners decided to keep a minimum cash balance of ₹ 4,000 in the first two months and ₹ 2,000 thereafter. Show how the amounts due to partners will be settled as per Highest Relative Capitals.

Q.5 J and K were in partnership. Their Balance sheet as on 31-3-2002 was as under:

Liabilities	₹	Assets	₹
J's capital	1,00,000	Stock	1,60,000
K's capital	1,00,000	Other Assets	2,40,000
Loan from Bank	1,00,000		
(Secured by stock)			
Creditors	1,00,000		
	4,00,000		**4,00,000**

The assets realised as under:

30-4-2002	Other Assets	₹ 1,00,000
31-5-2002	Stock	₹ 40,000
30-6-2002	Other Assets	₹ 30,000
31-7-2002	Other Assets	₹ 1,20,000

You are required to prepare a statement showing piecemeal distribution of cash under Maximum Loss Method.

HOMEWORK SOLUTION

Q.1

STATEMENT OF EXCESS CAPITAL

Steps	Particulars	Formula	Uma	Maya	Kama
1.	Profit Sharing Ratio (PSR)		3	2	1
2.	Capital Balances		6,24,000	6,76,000	4,68,000
	Add : Reserve		1,56,000	1,04,000	52,000
	Adjusted Capitals		7,80,000	7,80,000	5,20,000
3.	Unit capital (UC)		2,60,000	3,90,000	5,20,000
4.	Base Capital (BC)	= Lowest Unit Capital = ₹2,60,000			
5.	Proportionate Capital	= BC x PSR [4 x 1]	7,80,000	5,20,000	2,60,000
6.	Excess Capital of Maya and Kama	[2-5]	-	2,60,000	2,60,000
7.	Profit Sharing Ratio		-	2	1
8.	New Unit Capital	[6/7]	-	1,30,000	2,60,000
9.	New Base Capital	₹1,30,000			
10.	New Proportionate Capita	= New Base Capital x PSR		2,60,000	1,30,000
11.	Final Excess Capital of Kama	= 6 - 10			1,30,000

STATEMENT OF DISTRIBUTION

Particulars	Cash	Creditors	Uma	Maya	Kama
Opening Balances	52,000	2,08,000	7,80,000	7,80,000	5,20,000
Less: Remuneration of Uma	26,000				
Less: Creditors	26,000	26,000			
Balance	-	1,82,000			
1st Realisation	2,34,000				
Less: Creditors	1,82,000	1,82,000			
Less: Kama's Capital	52,000				52,000
	-	-	7,80,000	7,80,000	4,68,000

2nd Realisation	6,29,200				
Less: Kama's Capital	78,000				78,000
Less: M and K is 2:1	3,90,000			2,60,000	1,30,000
Less: Balance in PSR	1,61,200		80,600	53,733	26,867
	-		6,99,400	4,66,267	4,33,133
3rd Realisation	5,92,800				
Add: Stock by Kama	26,000				
	6,18,800				
Less: Balance in PSR	6,18,800		3,09,400	2,06,267	1,03,133
Unpaid Balances			3,09,000	2,60,000	1,30,000

Q.2

STATEMENT OF EXCESS CAPITAL

Steps	Particulars	Formula	A (₹)	B (₹)	C (₹)
1.	Profit Sharing Ratio (PSR)		2	1	1
2.	Capital Balances		50,000	40,000	23,000
	Add: General Reserve		5,000	2,500	2,500
	Adjusted Capitals		55,000	42,500	25,500
3.	Unit capital (UC)	(2/1)	27,500	42,500	25,500
4.	Base Capital (BC)	= [Lowest UC] ₹25,500			
5.	Proportionate Capital (PC)	= BC x PSR (4 x 1)	51,000	25,500	25,500
6.	Excess Capital of A & B	(2-5)	4,000	17,000	25,500
7.	Profit Sharing Ratio of A & B		2	1	
8.	New Unit Capital	(6/7)	2,000	17,000	
9.	New Base Capital	= ₹2,000 [Lower New Unit Capital]			
10.	New Proportionate Capital	= New Base Capital x PSR (9 x 7) [II]	4,000	2,000	
11.	Final Excess Capital of B	(6 - 10) [I]	-	15,000	

ORDER OF PAYMENTS

A. Liabilities:

1. First pay to Sundry Creditors (settlement amount) ₹4,000
2. Next Pay A's Loan ₹15,000

B. Partners' Capitals:

[I] First Pay to B ₹15,000

[II] Next Pay to A & B ₹6,000 (2:1)

[III] Balance Pay in PSR

STATEMENT OF DISTRIBUTION

A. Liabilities		Cash (₹)	Creditors (₹)	A's Loan (₹)
Balance Due	....		4,000	15,000
Cash Balance b/d	....	3,000		
Less: Paid to Creditors	....	3,000	3,000	-
Balance Due	....	-	1,000	15,000
June Realisation	....	5,000		
Less: Paid to Creditors	....	1,000	1,000	-
Balance Due	....	4,000	-	15,000
Less: Paid to A against loan	....	4,000		4,000
Balance Due		-		11,000
July Realisation (15,000 + 10,000)	....	25,000		
Less: Paid to A against loan		11,000		11,000
Balance c/d for payment of Partner's Capital	....	14,000		-

B. Partners' Capitals		Cash	A	B	C
Adjusted Capitals	....		55,000	42,500	25,500
Cash Balance b/d	....	14,000			
Less: Paid to B [I]	....	14,000	-	14,000	-
Balance Due	....	-	55,000	28,500	25,500
August Realisation (20,000 + 25,000)	....	45,000			
Less: Paid to B [I]	....	1,000	-	1,000	-
Balance	....	44,000	55,000	27,500	25,500
Less: Paid to A &B (2:1) [II]	....	6,000	4,000	2,000	-
Balance	....	38,000	51,000	25,500	25,500
Less: Paid to A, B & C in PSR	....	38,000	19,000	9,500	9,500
Balance Due	....	-	32,000	16,000	16,000

September Realisation (17,000 + 23,000)	40,000			
Add: Received from B for Stock	3,000			
....	43,000			
Less: Paid to A, B & C in PSR	43,000	21,500	10,750	10,750
Unpaid Balances	-	10,500	5,250	5,250

Working Notes:

1) Creditors are settled for ₹4,000. Hence, in the statement for distribution, creditors are taken at ₹4,000 and not ₹5,000 as per Balance Sheet.
2) June realisation is after meeting in full the mortgage loan. Hence, repayment of loan is not included in the statement of distribution.
3) B takes over stock for ₹3,000. This amount will be added to September realisation and will be distributed among the partners (including B) and balance in cash.

Q.3

Statement showing Distribution of Cash

(Maximum Loss Method)

Particulars	Cash	Creditors	X	Y	Z
Balance	10,000	80,000	40,000	10,000	20,000
Jan.: Asset realised	30,000				
Less: prov. for exp.	2,000				
	38,000				
Paid to creditors	38,000	38,000			
Balance	NIL	42,000	40,000	10,000	20,000
Feb.: Bank	10,000				
Assets realised	75,000				
	85,000				
Paid to creditors	42,000				
	43,000	NIL	40,000	10,000	20,000
Maximum loss					
(70000 – 43000) = 27000			(9,000)	(9,000)	(9,000)
Paid to X, Y and Z	43,000		31,000	1,000	11,000
March: Bal.	NIL		9,000	9,000	9,000

Bank	10,000				
Asset realisation	44,000				
Excess prov.	600				
	54,600				
Profit on realisation					
Paid to X, Y and Z			9,200	9,200	9,200
	54,600		**18,200**	**18,200**	**18,200**

Q.4

In the books of Py Ra Mides Statement of Excess Capital

Particulars	P (4)	R (3)	M (3)
Capital	80,000	60,000	48,000
Less: Current A/c	-	8,000	NIL
Adjusted Capitals	80,000	52,000	48,000
M's Capital being lowest taken as base (Note 1)	64,000	48,000	48,000
Excess Capital	16,000	4,000	NIL
R's Capital being lowest taken as base (Note 2)	5,333	4,000	
Ultimate Excess Capital	10,667	NIL	
Note 1: Capital per unit of profit	$\frac{80,000}{4} = 20,000$	$\frac{52,000}{3} = 17,333.33$	$\frac{48,000}{3} = 16,000$
Note 2: Capital per unit of profit	$\frac{16,000}{4} = 4,000$	$\frac{4,000}{3} = 1,333.33$	

Statement of Piecemeal Distribution of Cash

(Highest Relative Capital)

Date	Particulars	Cash	Crs.	P's Cap.	R's Cap.	M's Cap.
2003		₹	₹	₹	₹	₹
Mar. 31	Balances	6,000	74,000	80,000	52,000	48,000
	Less: Minimum Balance	-4,000				
	Less: Paid Creditors	-2,000	-2,000			
	Balances	-	72,000	80,000	52,000	48,000
Apr. 30	Realisation (30,000 + 40,000 - 10,000)	69,000				
	Less: Paid Creditors	-69,000				

	Balance	-	3,000	80,000	52,000	48,000
May 31	Realisation (20,000 + 48,000)	68,000				
	Add: Cash not required	+2,000				
		70,000				
	Less: Paid Creditors	-3,000	-3,000			
	Less: Paid P	-10,667		-10,667		
	Less: Paid P and R	- 9,333		-5,333	-4,000	
	Less: Paid P,R, and M	- 47,000		- 18,800	- 14,100	- 14,100
	Balance	-	-	31,280	23,460	23,460
June 30	Realisation (36,000 + 60,000)	34,800				
	Less: Paid P, R and M	- 34,800		- 13,920	- 10,440	-10,440
	Balance	-	-	31,280	23,460	23,460
July 31 (Final)	Realisation (20,000 + 60,000)	80,000				
	Add: Cash not required	+ 2,000				
		82,000				
	Less: Paid P, R and M	-82,000		-32,800	-24,600	-24,600
	Realisation profit	-	-	1,520	1,140	1,140

Q.5

In the Books of J and K

Statement of Piecemeal Distribution of Cash

(Maximum Loss Method)

Date	Particulars	Amount Available	Total Liabilities	Bank Loan	Creditors	J's Cap.	K's Cap.
2002							
Mar. 31	Balances	-	4,00,000	1,00,000	1,00,000	1,00,000	1,00,000
Apr. 30	Realisation (Other assets)	1,00,000					
	Less: Paid Bank Loan & Creditors in 1:1	-1,00,000	-1,00,000	-50,000	-50,000		
	Balance	-	3,00,000	50,000	50,000	1,00,000	1,00,000
May 31	Realisation (stock)	40,000					
	Less: Paid Bank Loan	-40,000	-40,000	-40,000			
	Balance	-	2,60,000	10,000	50,000	1,00,000	1,00,000

June 30	Realisation (other assets)	30,000					
	Less: Paid Bank Loan and creditors in 1:5	-30,000	-30,000	-5,000	-25,000		
	Balance	-	2,30,000	5,000	25,000	1,00,000	1,00,000
July 31 (Final)	Realisation (other assets)	1,20,000					
	Less: Paid Bank loan and Creditors	-30,000	-30,000	-5,000	-25,000		
	Less: Paid Bank loan & Creditors	90,000	2,00,000	-	-	1,00,000	1,00,000
	Maximum loss ₹1,10,000 Transferred in PSR 1: 1					- 55,000	-55,000
	Less: Paid to J and K	-90,000	-90,000			45,000	45,000
	Realisation loss	-	1,10,000	-	-	55,000	55,000

CHAPTER 14
COMPANY ACCOUNTS – ISSUE OF SHARES

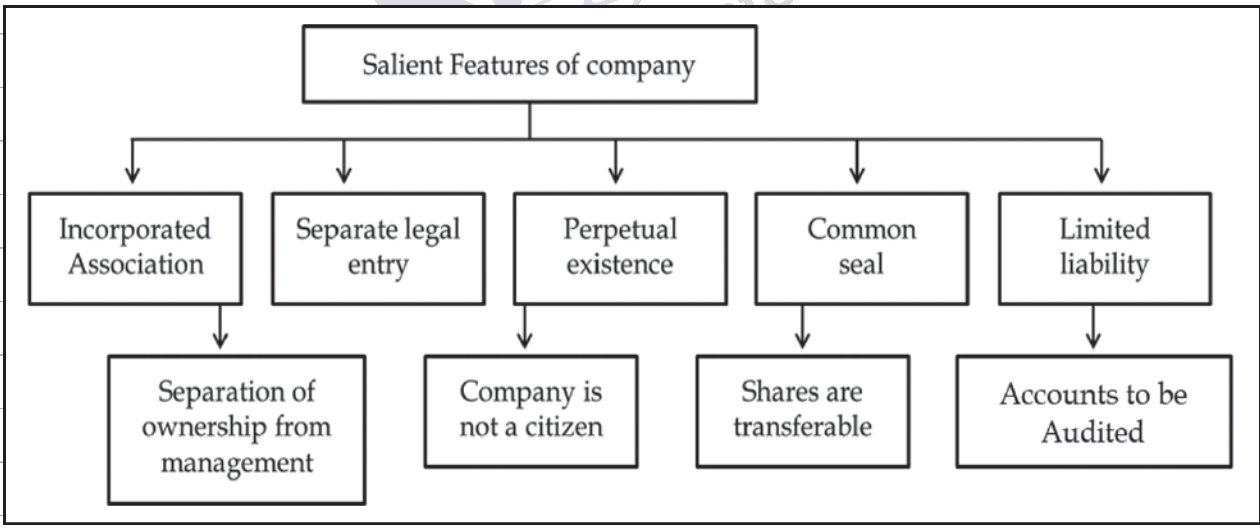
THEORY SECTION

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.

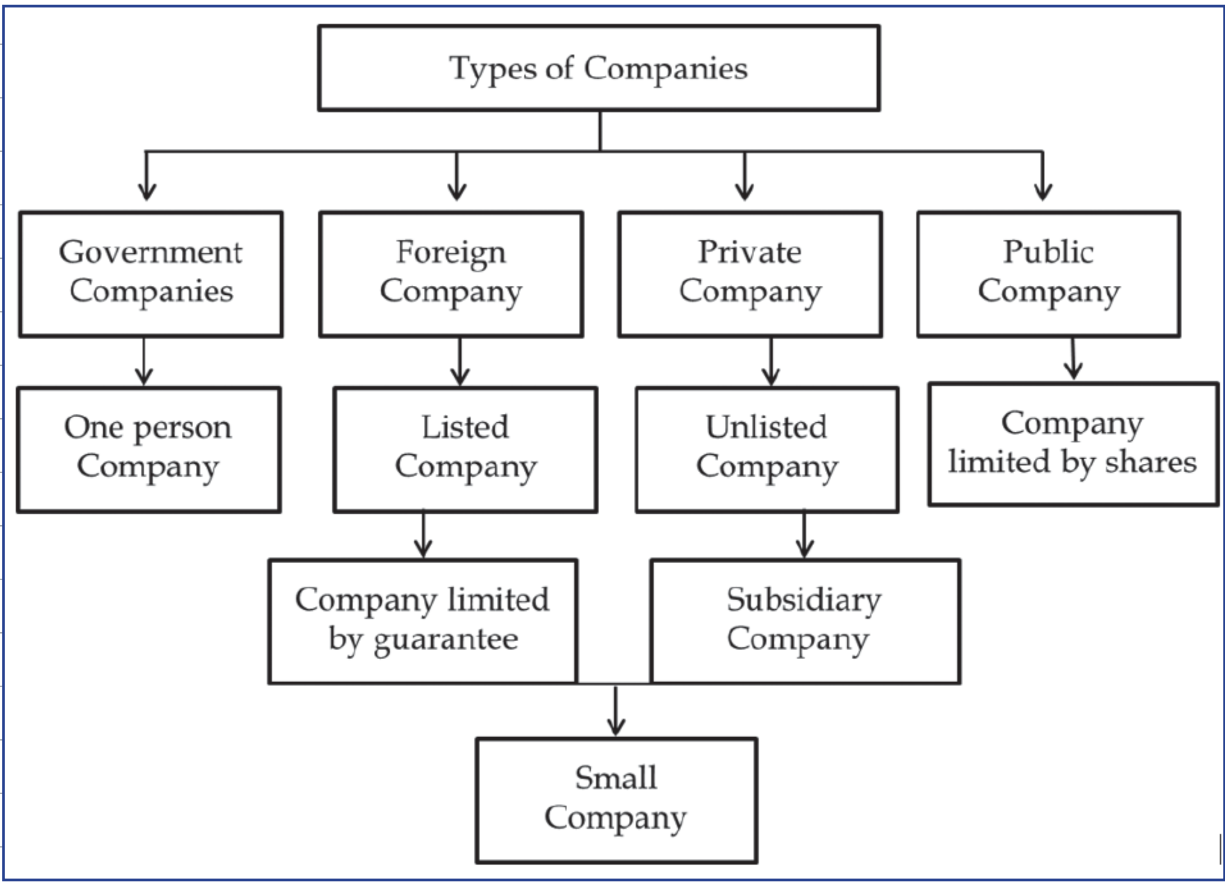
2. Salient feature of Company



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

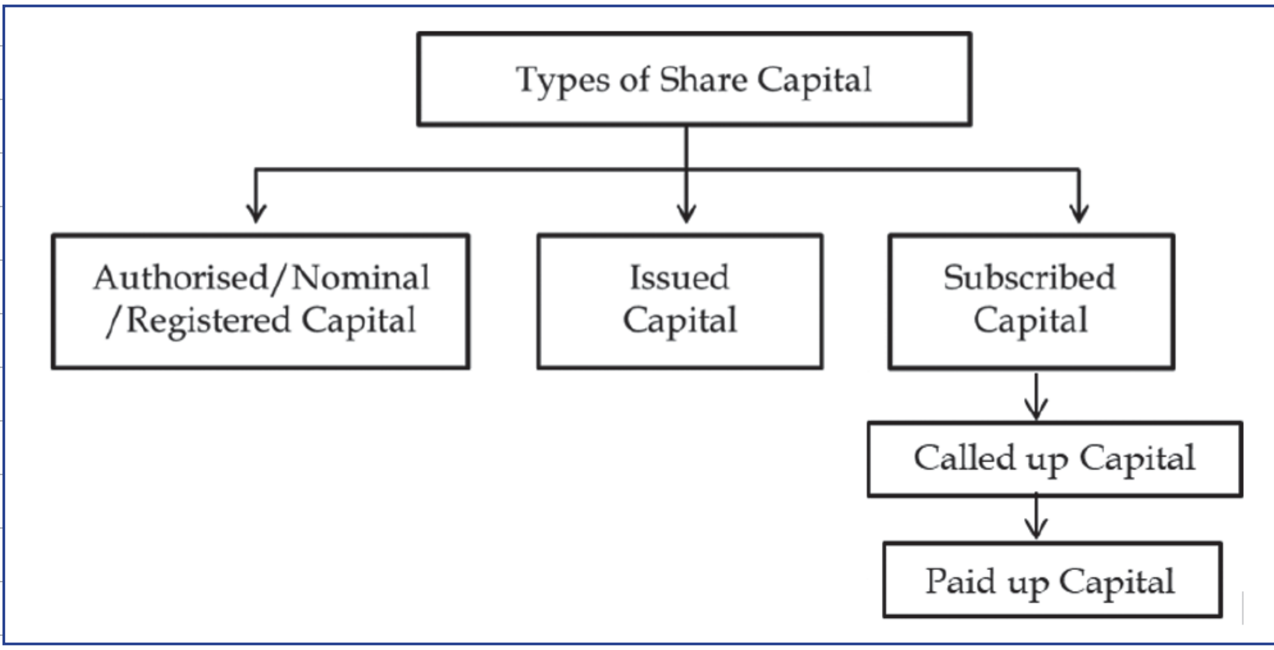
➢ Financial statement should include Balance sheet, profit & loss a/c or Income & expenditure a/c, cash flow statement (not for one person company, small company, Dormant company), statement of changes in equity and explanatory notes.

➢ 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.

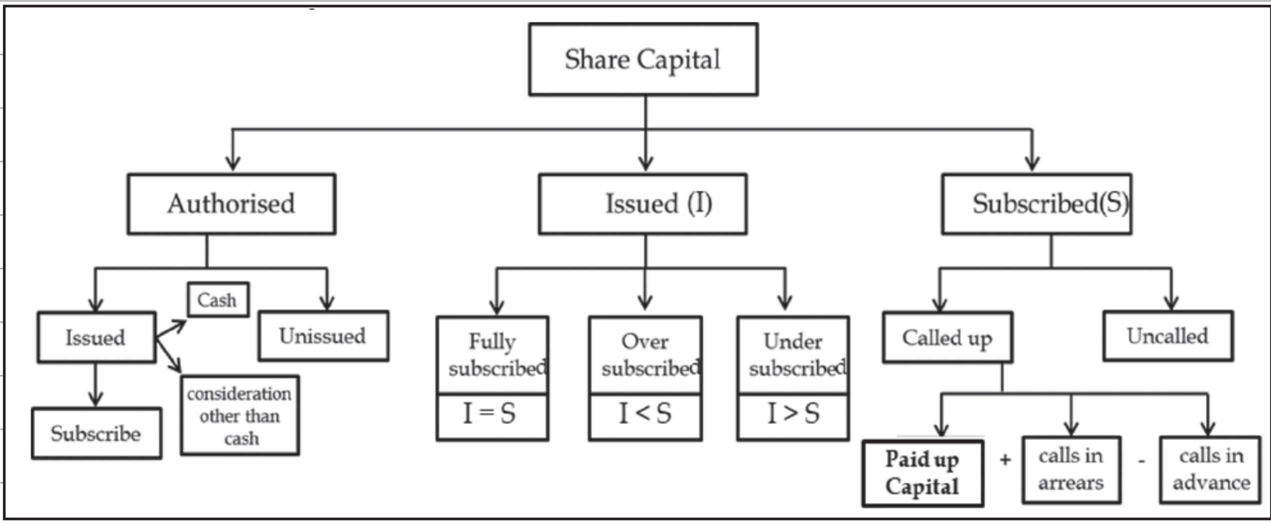
3. Subscribed Capital
    1. Part of issued capital which is applied by public & allotted by company. It includes share for consideration other than cash.
    2. Subscribed capital is shown in the balance sheet at face value (nominal value)

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)

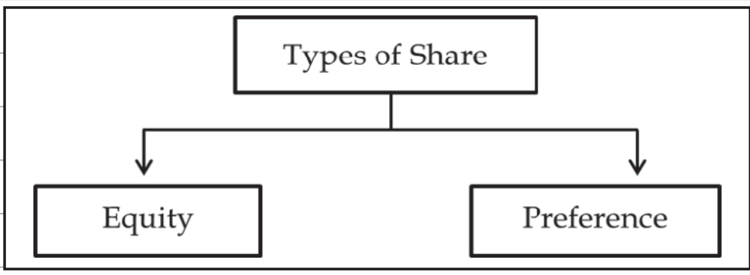
Note 2: only paid up share capital is actually accounted in balance sheet.

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	**xx**
x shares reissued	yy
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 profi¬t 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			When premium money is Already received		
Share Capital a/c Dr.	xx		Share Capital a/c Dr.	xx	
Securities Premium a/c Dr.	xx		To calls in arrears a/c		xx
To calls in arrears a/c		xx	To share forfeiture a/c		xx
To share forfeiture a/c		xx			

1. 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.
2. 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

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 an 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 debenture 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 debenture 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.

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:

(a) When the debentures will be redeemed in lumpsum after 5 years.

(b) When the debentures will be redeemed in 5 equal annual instalments.

(c) ₹ 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

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) A/c	273
		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	₹
Authorised Share Capital		Sundry Assets	17,00,000
1,50,000 Equity Shares of ₹10 each	15,00,000		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of ₹ 10 each	6,00,000		
₹7.50 each paid-up			
Reserves:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Account	20,000		
Securities Premium A/c	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	3,00,000		
	17,00,000		**17,00,000**

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

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

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:

(a) What is the number of Bonus shares to be issued?

(b) Can company issue Bonus out of General Reserve only?

(c) Give Journal Entries and also give the extracts of the balance-sheet after such Bonus issue.

(d) 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:

	31st March 2021	31st 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.

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

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	24,00,000
(of the above 60,000 equity shares issued as bonus shares)	
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

Bonus amount = 60,000 shares × ₹ 10

= 6,00,000

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	Dr.		2,000	
	To Equity Share Capital A/c				2,000
	(Being final call made)				

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

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 shares

Bonus amount = 4,00,00,000 shares × ₹ 10

= ₹ 40,00,00,000

Q.3 **Saral Ltd.**

Journal Entries

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

Working Note:

1. Bonus

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

4,500 : ?

= 1,500 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.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being final call of ₹ 2 per share on 1,00,000 equity shares due as per Board's Resolution dated....)				
15/04/18	Bank A/c	Dr.		2,00,000	
	To Equity Share Final Call A/c				2,00,000
	(Being final call money received)				
?	Securities Premium A/c	Dr.		25,000	
	General Reserves A/c	Dr.		1,75,000	
	To Bonus to Shareholder A/c				2,00,000
	(Being Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)				
?	Bonus to Shareholders A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being Capitalization of profit)				

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.		1,25,000	
	To Bonus to Shareholders A/c				1,25,000
	(Being Reserves capitalized)				

	Equity Share Call A/c Dr. To Equity Share Capital A/c (Being final call made)		1,25,000	1,25,000
	Bonus to Shareholders A/c Dr. To Equity Share Call A/c (Being final call adjusted against Bonus to shareholder)		1,25,000	1,25,000
ii)	General Reserves A/c Dr. To Bonus to Shareholder A/c (Being reserves capitalized)		5,00,000	5,00,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being bonus shares issued)		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 Dr. Securities Premium A/c Dr. Capital Reserve A/c Dr. General Reserve A/c * Dr. 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..................)		60,000 80,000 80,000 80,000	3,00,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being capitalisation of profit)		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	
	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				10,80,000
	(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	
	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	Dr.		1,00,000	
	To Equity Share Capital A/c				1,00,000
	(Being final call of ₹ 2 per share on 50,000 equity shares due as per Board's Resolution dated....)				
15/04/20	Bank A/c	Dr.		1,00,000	
	To Equity Share Final Call A/c				1,00,000
	(Being final call money received)				
?	Securities Premium A/c	Dr.		10,000	
	General Reserves A/c	Dr.		80,000	
	Profit & Loss A/c			10,000	
	To Bonus to Shareholder A/c				1,00,000
	(Being Bonus issue @ one share for every 5 shares held by utilizing various reserves as per Board's Resolution dated...)				
?	Bonus to Shareholders A/c	Dr.		1,00,000	
	To Equity Share Capital A/c				1,00,000
	(Being Capitalization of profit)				

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

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.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being final call of ₹ 2/- per share on 2,00,000 equity shares due as per Board's resolution dated)			

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

*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)	
Reserves and Surplus	
Securities premium (not realized in cash) Profit and Loss Account	75,000
	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.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		10,12,500
	(For issue of bonus shares)		

Q.14 **WN – 1**

Bonus

Bonus Amount

Party paid to fully paid
80,000 × 2.5 unpaid
= 2,00,000
General Reserve

Fresh issue to fully paid
Ratio = 1 : 2
= ½ × 80,000
= 40,000 shares (@ ₹ 10)
= ₹ 4,00,000

CRR	SP	General Reserve
1,50,000	1,50,000	1,00,000

In the books of A Ltd

Journal Entries

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

(3)	Bonus to shareholders A/c Dr. To share final call A/c (Being bonus & Final call adjusted)		2,00,000	2,00,000
(4)	Capital redemption Reserve A/c Dr. Securities premium A/c Dr. General reserve A/c Dr. To Bonus to shareholders (Being bonus declared)		1,50,000 1,50,000 1,00,000	4,00,000
(5)	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being bonus share issued)		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 × 1) ÷ 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. Securities Premium A/c Dr. 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 ....)	80,000 40,000	1,20,000
Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalization of profits)	1,20,000	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		10,00,000
	Issued, Called up & Paid up Capital		
	72,000 Equity Shares @ ₹ 10 each		7,20,000
	(Out of above, 12,000 shares have been issued as bonus shares).		
2.	**Reserve and Surplus**		
	Plant Revaluation Reserve	25,000	
	Securities Premium A/c	20,000	
	General Reserve	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			Machinery	7,500	
on 1st April, 2021	29,100		Less : Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add: Profit for the year	2,830		Less : Depreciation	(120)	1,080
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors Less :	17,600	
Sundry creditors		7,900	Provision for		
			Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bankCash in		6,400
			hand		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 inventory		11,120
		81,480			**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	16,530
		debtors A/c)	
		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 x 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 x 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 summarycash and	8,97,150
(BalancingFigure)		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	40,000	(Bills endorsed)	10,000
(Bills accepted)		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c	750
		(Bills discounted)	
		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		20,000	By Sundry creditors	77,200	3,20,000
value of LIC policy)			By Furniture	25,000	
To Capital			By Sundry Debtors		5,700
		14,000	By Electricity & Tel.	18,700	
			Charges		
			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	Dr.
	To Share Capital a/c	
	To Securities Premium a/c	
2	**Entry for Redemption (money payable to PSH)**	
	Preference share capital a/c	Dr.
	Premium on redemption a/c	Dr.
	To Preference shareholders a/c	
3	**Entry for writing off the premium**	
	Divisible Profit a/c	Dr.
	To Premium on redemption a/c	
	Note: If nothing is specified it is assumed that the company is governed by section 133 of the companies Act, 2013 which does not allow use of securities premium to write off premium on Redemption.	
4	**Entry for creation of CRR**	
	Divisible Profit a/c	Dr.
	To CRR a/c	
5	**Entry for pay off**	
	Preference shareholders a/c	Dr.
	To Bank a/c	

Redemption of Preference Shares

(I) Make arrangement of money

(A) From Assess

- Sale of Investment
- Recovery from Debtors
- Sale of Stock

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

(B) From issue of Securities

C/B a/c Dr
To Eq / Pref Sh./ Deb.
To Sec. Prem

(II) Satisfy 1st Legal Condition

Co. Can Redeem Fully Paid Preference shares only

Case A: In Q Co. has Fully Paid Preference Shares

Eg.: B/s of A Ltd. (Liab only)
10000. 10% pref.
Share of ` 10 each 100000

Ans. 1st Condition is satisfied.

Case B: In Q. Co. has partly Paid Pref. Shares

Eg. B/s of A Ltd (liab only)
10000. 10% Pref.
Shares of ` 10 each ` 7 paid up 70000

Ans. Solve problems of partly paid shares

(1) Demand Final Call
Share final call Dr
To-% Preference Share Caps

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

Case C: In Q. Co. has CIA

Eg. B/s of A Ltd. (lib.)

10000. 10% Preference Share of	
` 10 each 1	10.0000
Less CIA	
(on 1000 share@2)	(2000)
	98.000

Ans. Solve Problem of CIA

(1) If C/A Recd.
C/B Dr.
To CIA

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

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

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

(III) Satisfy 2nd Legal Condition

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

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

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

Ans.

(1) Freshissue
C/B a/c Dr
To Esc/- P.S.C
To Securities Premium

(2) Create CRR
Divisible Profits (GRRDP)
To CRR Dr

Divisible Profits

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

(IV) Redemption of Preference Share

(1) Redemption Due
-% Preference Share Cap Dr
(POR) Premium on Redemption Dr
To Preference shareholders

(2) Payment-
Preference Share / holders a/c Dr
To C/B

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

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

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

(I) Types of Reserves

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

1. Capital type of reserves (Non Divisible Profits)

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

Examples:

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

2. Statutory Types of Reserves

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

Examples:

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

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

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

Examples:

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

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

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

Demand Final Call

(i) Share final call A/c Dr.
    To equity shares capital A/c

Declaration of Bonus

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

Adjustments of Bonus & Final Call

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

(b) Issue of fully paid bonus shares

Declaration of Bonus

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

Issue of Bonus Shares

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

Notes:

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

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 ₹		Cash & Bank Balance	9,00,000
100 each fully paid	6,00,000		
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	99,000		
(On 50 shares @ ₹ 20 each)				
General Reserve		1,00,000		
Development Rebate Reserve		50,000		
Other Liabilities		1,51,000		
		9,00,000		**9,00,000**

The Redeemable Preference Shares were redeemed on the following basis:

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

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

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

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

Show journal entries including those relating to cash.

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		Fixed Assets	9,50,000
each, fully paid up	6,50,000	Investments	2,75,000
Equity Shares of ₹ 5 each		Cash at Bank	67,500
fully paid up	2,25,000		
General Reserve	1,00,000		
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	15,000
(not free for distribution as dividend)	
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 where abouts 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.		12,00,000	
	To Equity Share Capital A/c				10,00,000
	To Securities Premium A/c				2,00,000
	(Being issue of 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share)				
2.	10% Redeemable Preference Share Capital A/c	Dr.		10,00,000	
	To Preference Shareholders A/c				10,00,000
	(Being amount payable on redemption of Preference Shares transferred to Preference Shareholders A/c)				
3.	Preference Shareholders A/c	Dr.		10,00,000	
	To Bank A/c				10,00,000
	(Being amount paid on Redemption)				

Q.2 **In the books of X Ltd.**

Journal Entries

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

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	?
Issued Subscribed & Paid up	
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 + 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.		1,00,000	
	To 14% Debentures A/c			1,00,000
	(Being issue of 1,000, 14% debentures of ₹ 100 each)			

2.	Bank A/c Dr. To Equity Share Capital A/c (Being issue of 25,000 equity shares of ₹ 10 each)		2,50,000	 2,50,000
3.	Profit / Loss A/c Dr. To Capital Redemption Reserve A/c (Being Capital Redemption Reserve created)		50,000	 50,000
4.	12% Redeemable Preference Share Capital A/c Dr. Premium on Redemption A/c Dr. To Preference Shareholders A/c (Being amount due to preference shareholders)		 3,00,000 30,000	 3,30,000
5.	Preference Shareholders A/c Dr. To Bank A/c (Being amount paid to preference shareholders)		3,30,000	 3,30,000
6.	Profit / Loss A/c Dr. To Premium on Redemption A/c (Being amount of premium written off)		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 Dr. To 7.5% cumulative Preference Share Capital A/c To Securities Premium A/c (Being fresh / new issue made)		3,75,000	 3,00,000 75,000

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

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

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 x 100) GR

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

   60,000 = 60,000 + NIL

   (6,000 x 10)

3. Final call bonus

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

   Capital Reserve 85,000

   General Reserve 3,15,000

4. Fully Paid Bonus

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

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

Capital Reserve 3,00,000

Capital Reserve 15,000 (75,000 – 60,000)

General Reserve 1,85,000

Q.5 **In the books of Comfortable Ltd.**

Journal Entries

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

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 x 100)

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

2. Premium on Redemption = 900 x 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 liablity)	
(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	Dr.		5,00,000	
	Premium on Redemption A/c	Dr.		50,000	
	To Preference Shareholders A/c				5,50,000
	(Being amount payable to shareholders on redemption transferred to their account)				
2.	Profit & Loss A/c	Dr.		50,000	
	To Premium on Redemption A/c				50,000
	(Being Premium adjusted against Profit & Loss A/c)				
3.	Profit & Loss A/c	Dr.		1,00,000	
	To Capital Redemption Reserve A/c				1,00,000
	(Being Capital Redemption Reserve Created)				
4.	Bank A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being equity Shares issued at par)				
5.	Bank A/c	Dr.		2,00,000	
	To 12% Debentures A/c				2,00,000
	(Being Debentures issued)				
6.	Preference Shareholders A/c	Dr.		5,50,000	
	To Bank A/c				5,50,000
	(Being preference Shareholders paid off)				

Q.2 In the books of Clean Ltd.

Journal Entries

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

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	67,500
Profit and Loss Account ₹ (96,000 − 13,000 − 7,000 − 67,500)	8,500
Security Premium	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		(30,000)
		1,13,000
Less: Available bank balance (62,000 - 24,000)		(38,000)
Funds required from fresh issue		75,000
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	Dr.		6,00,000	
	To 10% Pref. share Capital a/c				6,00,000
	(Being final call money due to make pref. share fully paid up)				
01-03-20	Bank a/c	Dr.		6,00,000	
	To Pref. share Final call a/c				6,00,000
	(Being Final call money received & shares are made fully paid up)				
01-03-20	Bank a/c	Dr.		3,00,000	
	To Equity share Application a/c				3,00,000
	(Being Application money received on 1,50,000 equity shares @ ₹2 per shares.)				
01-03-20	Equity share Application a/c	Dr.		3,00,000	
	To Equity share capital a/c				3,00,000
	(Being shares Allotted)				
01-03-20	Equity share Allotment a/c	Dr.		10,50,000	
	To Equity share capital a/c				7,50,000
	To Securities premium a/c				3,00,000
	(Being shares Allotment money due on 1,50,000 shares @ ₹7 per share)				
20-03-20	Bank a/c	Dr.		10,50,000	
	To equity share Allotment a/c				10,50,000
	(Being Allotment money received)				

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

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

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 Dr.		1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of ₹ 2 per share on 80,000 equity shares made due)			

	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on 80,000 equity shares received)		1,60,000	1,60,000
June 1	Capital Redemption Reserve A/c Dr. Capital Reserve Dr. Securities Premium A/c Dr. General Reserve A/c (b.f.) Dr. 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...........)		75,000 45,000* 60,000 1,40,000*	3,20,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalization of profit)		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 Dr. To 15% Preference Share Capital A/c (For final call made on 650 preference shares @ ₹ 20 each to make them fully paid up)	13,000	13,000
	Bank A/c Dr. To 15% Preference Share Final Call A/c (For receipt of final call money on preference shares)	13,000	13,000
1st June	15% Redeemable preference share capital A/c Dr. Premium on redemption of pref. share A/c Dr. To Redeemable Preference Shareholders A/c (Being amount payable to preference shareholders on redemption)	65,000 6,500	71,500

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

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			
(For amount payable to preference shareholders on redemption at 5% premium)			9,45,000
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
	2,00,000
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 AIFIs 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 AIFIs, 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.**

Debentures issued by

- (1) All India F.I.
- (2) Other F.I.
- (3) Listed Cos. – Public Issue
- (4) Listed NBFC'S
- (5) Listed Housing Finance Co.
- (6) Other Listed Co.'s
- (7) Unlisted NBFC
- (8) Unlisted HFC
  - DRR Not Req. for all
  - DRRI Required for
    - (a) Listed NBFC / HFC & Listed co.'s i.e. point No. 3, 4, 5, 6 above
    - (b) 15% of the amount of debentures outstanding

- Other Unlisted co.'s
  - **DRR** 10% of Amt of Deb Outstanding
  - **DRRI** 15% of Amt of Deb o/s

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 ebenture 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 cancelation 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	
OR 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

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:

(a) Debentures redeemed at par by conversion into 12% Preference Shares of ₹100 each.

(b) Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at par.

(c) 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:

(a) 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.

(b) To issue one bonus share for every five shares held.

(c) 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:

(a) No. of partly convertible debentures issued - 2,00,000; face value and issue price - ₹ 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

(c) 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).

(d) Underwriting Commission - 2%.

(e) No. of debentures applied for - 1,50,000.

(f) 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:

(a) Pass the Journal entries for the year ending 31st December, 2013.

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

	Underwriting Commission Dr. To Underwriters A/c (Commission payable to underwriters @ 2% on ₹ 1,00,00,000)	2,00,000	 2,00,000
	Bank A/c Dr. To Underwriters A/c (Amount received from underwriters in settlement of account)	18,00,000	 18,00,000
01.06.2019	Debenture Redemption Investment A/c Dr. To Bank A/c (1,00,000 x 100 x 15% x 40%) (Being Investments made for redemption purpose)	6,00,000	 6,00,000
30.9.2019	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)	5,00,000	 5,00,000
31.10.2019	15% Debentures A/c Dr. 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)	60,00,000	 10,00,000 50,00,000
31.3.2020	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year) (Refer working note below)	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 x 100 x 15% x 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 x (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. **Debentures Redemption Fund Investment Account** **Cr.**

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. **Debentureholders' Account** **Cr.**

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 x 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 x 40,000)	32,000
Profit on Sale of Investments	4,000

Q.6 **HINDUSTAN LTD.**

Journal

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

Working Note:

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.	4,00,000	
	Premium on Redemption of Debentures	Dr.	8,000	
	To Debentureholders A/c			4,08,000
	[Being amount payable on redemption of Debentures at premium of 2%]			
2.	Debentureholders A/c	Dr.	1,74,420	
	To 5% Cum. Pref. Share Capital A/c			1,55,040
	To Security Premium A/c			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	1,74,420
	No. of pref. Shares Issued (1,74,420/22.50) = 7,752	
	Face value of Pref. Shares 7,752 x ₹20	1,55,040
	Premium on issue of Pref. Shares 7,752 x ₹2.50	19,380
		1,74,420
(b)	**6% Debentures of ₹100 @₹96:**	
	Face value of Debentures redeemed against New Debentures	1,44,000
	Add: 2% Premium	2,880

Total Amount Due	1,46,880
No. of Debentures Issued (1,46,880/96) = 1,530	
Face value of Debentures 1,530 x 100	1,53,000
Less: Discount on Issue of Deb. 1,530 x ₹4	6,120
	1,46,880
(c) Cash:	
Face value of Debentures redeemed against Cash (balance)	85,000
(4,00,000 – 1,71,000 – 1,44,000)	
Add: 2% Premium	1,700
Total Amount Due & Paid in Cash	86,700

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.