Intermediate
Course: Paper 1

ADVANCED ACCOUNTING

(New Scheme of Education and Training)

Part 2

By

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Dedicated

To My Parents

Late Sh. SATPAL SHARMA

Smt. JANKI DEVI

Syllabus

PAPER 1: ADVANCED ACCOUNTING

(One paper – Three hours – 100 Marks)

Objective:

To acquire the ability to apply specific accounting standards and legislations to different transactions and events and in preparation and presentation of financial statements of various business entities.

Contents:

1. Process of formulation of Accounting Standards including Indian Accounting Standards (IFRS converged standards) and IFRSs; Convergence vs Adoption; Objective and Concepts of carve outs.
2. Framework for Preparation and Presentation of Financial Statements (as per Accounting Standards).
3. (i) Applicability of Accounting Standards to various entities

   (ii) Application of Accounting Standards:

   AS 1: Disclosure of Accounting Policies

   AS 2: Valuation of Inventories

   AS 3: Cash Flow Statements

   AS 4: Contingencies and Events Occurring After the Balance Sheet Date

   AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

   AS 7: Construction Contracts

   AS 9: Revenue Recognition

   AS 10: Property, Plant and Equipment

   AS 11: The Effects of Changes in Foreign Exchange Rates

   AS 12: Accounting for Government Grants

   AS 13: Accounting for Investments

   AS14: Accounting for Amalgamations (excluding inter- company holdings)

   AS 15: Employee Benefits

   AS 16: Borrowing Costs

   AS 17: Segment Reporting

   AS 18: Related Party Disclosures

   AS 19: Leases

AS 20: Earnings Per Share

AS21: Consolidated Financial Statements of single subsidiaries (excluding problems involving acquisition of Interest in Subsidiary at Different Dates, Cross holding, Disposal of a Subsidiary and Foreign Subsidiaries).

AS 22: Accounting for Taxes on Income

AS 23: Accounting for Investment in Associates in Consolidated Financial Statements

AS 24: Discontinuing Operations

AS 25: Interim Financial Reporting

AS 26: Intangible Assets

AS 27: Financial Reporting of Interests in Joint Ventures

AS 28: Impairment of Assets

AS 29: Provisions, Contingent Liabilities and Contingent Assets

4. Company Accounts

   (i) Schedule III to the Companies Act, 2013 (Division I)

   (ii) Preparation of financial statements – Statement of Profit and Loss, Balance Sheet and Cash Flow Statement

   (iii) Buy back of securities

   (iv) Accounting for reconstruction of companies.

5. Accounting for Branches including foreign branches.

Note: If either new Accounting Standards (AS), Announcements and Limited Revisions to AS are issued or the earlier ones are withdrawn or new AS, Announcements and Limited Revisions to AS are issued in place of existing AS, Announcements and Limited Revisions to AS, the syllabus will accordingly include/exclude such new developments in the place of the existing ones with effect from the date to be notified by the Institute.

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Buy-Back of Securities

Question 1

M Ltd. furnishes the following Balance Sheet as at 31st March, 20X1:

Particulars			**Notes**	**₹ (in 000)**
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*5,000*
	B	*Reserves and Surplus*	*2*	*6,310*
2		***Non-current liabilities***		
		Long term borrowings	*3*	*400*
3		***Current liabilities***		
	A	*Trade Payables*		*40*
		Total		*11,750*
		Assets		
1		***Non-current assets***		
	A	*Property, plant and Equipment*	*4*	*2,750*
	B	*Non-Current Investments (at cost)*		*5,000*
2		***Current assets***		
	A	*Inventories*		*1,000*
	B	*Trade receivables*		*2,000*
	C	*Cash and Cash equivalents*		*1,000*
		Total		*11,750*

Notes to accounts

No.	**Particulars**		**₹ in ('000)**
1	***Share Capital***		
	Authorized, Issued and Subscribed Capital:		
	3,00,000 Equity shares of ₹ 10 each fully paid up		*3,000*
	20,000 9% Preference Shares of 100 each		*2,000*
	Total		*5,000*
2	***Reserves and Surplus***		
	Capital reserve		*10*
	Revenue reserve		*4,000*
	Securities premium		*500*
	Profit and Loss account		*1,800*
	Total		*6,310*

No.	Particulars		₹ in ('000)
3	***Long term borrowings***		
	10% Debentures		*400*
4	***Property, Plant and Equipment (PPE)***		
	PPE: Cost		*3,000*
	Less: Provision for depreciation		*(250)*
	Net carrying value		*2,750*

The company passed a resolution to buy-back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹ 25 lakhs.

You are required to pass necessary Journal entries.

(*Source: Illustration 1, Study Material*)

Solution

Journal Entries in the books of M Ltd.

₹ in '000

	Particulars		Dr.	Cr.
1.	Bank A/c	Dr.	2,500	
	Profit and Loss A/c	Dr.	500	
	To Investment A/c			3,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2.	Equity share capital A/c Premium payable on buy-back	Dr.	600	
	To Equity shares buy-back A/c	Dr.	300	
	(Being the amount due on buy-back of equity shares)			900
3.	Equity shares buy-back A/c To Bank A/c	Dr.	900	
	(Being payment made for buy-back of equity shares)			900
4.	Securities Premium A/c	Dr.	300	
	To Premium payable on buy-back			300
	(Being premium payable on buy-back charged from Securities premium)			
5.	Revenue reserve A/c	Dr.	600	
	To Capital Redemption Reserve A/c			600
	(Being creation of capital redemption reserve to the extent of the equity shares bought back)			

Question 2

Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 20X1:

(in crores ₹)

		Particulars	Notes	₹
1		***Equity and Liabilities***		
		Shareholders' funds		
	A	*Share capital*	*1*	*100*
	B	*Reserves and Surplus*	*2*	*300*
2		***Current liabilities***		
	A	*Trade Payables*		*40*
		Total		*440*

		Particulars	**Notes**	**₹**
1		***Assets***		
	A	***Non-current assets***	3	-
	B	*Property, plant and equipment*	4	*100*
		Non-Current Investments		
2				
	A	***Current assets***		*140*
	B	*Trade receivables*		*200*
		Cash and Cash equivalents		
		Total		*440*

Notes to accounts

No.	**Particulars**		**₹**
1	***Share Capital***		
	Authorized, issued and subscribed share capital:		
	12% Redeemable preference shares of ₹ 100 each, fully paid up		*75*
	Equity shares of ₹ 10 each, fully paid up		*25*
	Total		*100*
2	***Reserves and Surplus***		
	Capital reserve		*15*
	Securities premium		*25*
	Revenue reserves		*260*
	Total		*300*
3	***Property, Plant and Equipment***		
	PPE Cost		*100*
	Less: Provision for depreciation		*(100)*
	Net carrying value		*NIL*
4	***Non-Current Investments***		
	Non-current investments at cost (Market value ₹ 400 Cr.)		*100*

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

(i) *Pass journal entries to record the above.*

(ii) *Prepare balance sheet as at 1.4.20X1.*

(*Source: Illustration 2, Study Material*)

Solution

Journal entries in the books of Anu Ltd.

₹ in crores

	Particulars	**Dr.**	**Cr.**
1st April, 20*X1*	12% Preference share capital A/c Dr.	75	
	To Preference shareholders A/c		
	(Being preference share capital account transferred to shareholders account)		75
	Preference shareholders A/c Dr.	75	
	To Bank A/c		75
	(Being payment made to shareholders)		

	Particulars		Dr.	Cr.
	Shares buy-back A/c	Dr.	25	
	To Bank A/c			25
	(Being 50 lakhs equity shares bought back @ ₹ 50 per share)			
	Equity share capital A/c (50 lakhs x ₹ 10)	Dr.	5	
	Securities premium A/c (50 lakhs x ₹ 40)	Dr.	20	
	To Shares buy-back A/c			25
	(Being cancellation of shares bought back)			
	Revenue Reserve A/c	Dr.	80	
	To Capital Redemption Reserve A/c (75+5)			80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

(ii) **Balance Sheet of Anu Ltd as at 1.4.20X1**

(in crores ₹)

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	20
	B	Reserves and Surplus	2	280
2		**Current liabilities**		
	A	Trade Payables		40
		Total		340
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	3	-
	B	Non-Current Investments	4	100
2		**Current assets**		
	A	Trade receivables		140
	B	Cash and Cash equivalents	5	100
		Total		340

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed share capital		
	200 lakhs Equity shares of ₹ 10 each fully paid		20
	Total		20
2	**Reserves and Surplus**		
	Capital reserve		15
	Capital redemption reserve		80
	Securities premium	25	
	Less: Utilization for buy-back of shares	(20)	5
	Revenue Reserve	260	
	Less: transfer to Capital redemption reserve	(80)	180
	Total		280

No.	Particulars		₹
3	**Property, plant and Equipment**		
	PPE: cost		100
	Less: Provision for depreciation		(100)
	Net carrying value		**—**
4	**Non-Current Investments**		
	Non-current investments at cost		100
	(Market value ₹ 400 Crores)		
5	**Cash and Cash Equivalents**		
	Cash and Cash Equivalents as on 31.3.20X1		200
	Less: Bank payment for redemption and buy-back		(100)
	Total		100

Question 3

Dee Limited (*a non-listed company*) *furnishes the following Balance Sheet as at 31st March, 20*X1*:*

(in thousand ₹)

Particulars			Notes	₹
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*2,700*
	B	*Reserves and Surplus*	*2*	*9,700*
2		***Current liabilities***		
	A	*Trade Payables*		*1,400*
		Total		*13,800*
		Assets		
1		***Non-current assets***		
	A	*Property, plant and Equipment*		*9,300*
	B	*Non-Current Investments*		*3,000*
2		***Current assets***		
	A	*Inventories*		*500*
	B	*Trade receivables*		*200*
	C	*Cash and Cash equivalents*		*800*
		Total		*13,800*

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	2,50,000 Equity shares of ₹ 10 each fully paid up		2,500
	2,000, 10% Preference shares of ₹ 100 each		200
	(*Issued two months back for the purpose of buy-back*)		
	Total		2,700
2	**Reserves and Surplus**		
	Capital reserve		1,000
	Revenue reserve		3,000
	Securities premium		2,200
	Profit and loss account		3,500
	Total		9,700

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

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

(*Source: Illustration 3, Study Material*)

Solution

Journal Entries in the books of Dee Limited

(in thousand ₹)

	Particulars		*Dr.*	*Cr.*
(i)	Bank Account	Dr.	2,200	
	Profit and Loss Account	Dr.	800	
	To Investment Account			3,000
	(Being the investments sold at loss for the purpose of buy-back)			
(ii)	Equity Share buy-back Account	Dr.	2,500	
	To Bank Account			2,500
	(Being the payment made on buy-back)			
(iii)	Equity Share Capital Account	Dr.	500	
	Premium Payable on Buy-Back Account	Dr.	2,000	
	To Equity Shares Buy-Back Account			2,500
	(Being the buy-back amount allocated to equity share capital)			
(iv)	Securities premium Account	Dr.	2,000	
	To Premium payable on buy-back Account			2,000
	(Being the premium payable on buy-back adjusted against securities premium account)			
(v)	Revenue reserve Account	Dr.	300	
	To Capital Redemption Reserve Account			300
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			

Balance Sheet of Dee Limited as at 1st April, 20X1
(After buy-back of shares)

(in thousand ₹)

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	2,200
	B	Reserves and Surplus	2	6,900
2		**Current liabilities**		
	A	Trade Payables		1,400
		Total		10,500
		Assets		
1		**Non-current assets**		
	A	Property, plant and Equipment		9,300
2		**Current assets**		
	A	Inventories		500
	B	Trade receivables		200
	C	Cash and Cash equivalents		500
		Total		10,500

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	2,50,000 Equity shares of ₹ 10 each fully paid up		2,000
	2,000, 10% Preference shares of ₹ 100 each		200
	(Issued two months back for the purpose of buy- back)		
	Total		2,200
2	**Reserves and Surplus**		
	Capital reserve		1,000
	Capital redemption reserve		300
	Securities Premium	2,200	
	Less: Premium payable on buy-back of shares	(2,000)	200
	Revenue reserve	3,000	
	Less: Transfer to Capital redemption reserve	(300)	2,700
	Profit and loss A/c	3,500	
	Less: Loss on investment	(800)	2,700
	Total		6,900

Question 4

Extra Ltd. (*a non-listed company*) *furnishes you with the following Balance Sheet as at 31st March, 20X1:*

(in lakhs ₹)

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*120*
	B	*Reserves and Surplus*	*2*	*118*
2		***Non-current liabilities***		
		Long term borrowings	*3*	*4*
3		***Current liabilities***		
	A	*Trade Payables*		*70*
		Total		*312*
		Assets		
1		***Non-current assets***		
	A	*Property, plant and Equipment*		*50*
	B	*Non-current Investments*		*120*
2		***Current assets***		
	A	*Cash and Cash equivalents*		*142*
		Total		*312*

Notes to accounts

No.	***Particulars***		***₹***
1	***Share Capital***		
	Authorized, issued and subscribed capital:		
	Equity shares of ₹ 10 each fully paid		*100*
	9% Redeemable preference shares of ₹ 100 each fully paid		*20*
	Total		*120*

No.	Particulars		₹
2	***Reserves and Surplus***		
	Capital reserves		*8*
	Revenue reserves		*50*
	Securities premium		*60*
	Total		*118*
3	***Long term borrowings***		
	10% Debentures		*4*

(i) The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.

(ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share. The payment for the above was made out of huge bank balances.

(iii) Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.

(iv) The company had 1,00,000 equity stock options outstanding on the above- mentioned date, to the employees at ₹ 20 when the market price was ₹30 (This was included under current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.

(v) Pass the journal entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.20X1.

(*Source: Illustration 4, Study Material*)

Solution

(₹ *in lakhs*)

Date	Particulars		Debit	Credit
20X1 1st April	9% Redeemable preference share capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
	Equity shares buy-back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy-back A/c			90.00
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
	10% Debentures A/c	Dr.	2.20	
	To Investment (own debentures) A/c			2.00
	To Profit on cancellation of own debentures A/c			0.20
	(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)			

Date	Particulars		Debit	Credit
	Bank A/c	Dr.	10.00	
	Employees stock option outstanding (Current liabilities) A/c	Dr.	5.00	
	To Equity share capital A/c			5.00
	To Securities premium A/c			10.00
	(Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)			
	Securities premium A/c	Dr.	2.00	
	To Premium on redemption of preference shares A/c			2.00
	(Being premium on redemption of preference shares adjusted through securities premium)			

Balance Sheet of Extra Ltd. as at 01.04.20X1

(in lakhs ₹)

		Particulars		Notes	₹
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	75.00
	B	Reserves and Surplus		2	66.20
2		**Non-current liabilities**			
		Long term borrowings		3	1.80
3		**Current liabilities**			
	A	Other Current Liabilities		4	65.00
			Total		208
		Assets			
1		**Non-current assets**			
	A	Property, plant and Equipment			50.00
	B	Non-current Investments		5	118.00
2		**Current assets**			
	A	Cash and Cash equivalents		6	40.00
			Total		208

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Equity shares of ₹ 10 each fully paid		100
	Less: Cancellation of bought back shares		(30)
	Add: Shares issued against ESOP		5
	Total		75
2	**Reserves and Surplus**		
	Capital Reserve		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	0.20	8.20
	Revenue reserves		
	Opening balance	50.00	
	Less: Creation of Capital Redemption Reserve	(50.00)	-
	Securities Premium		

No.	Particulars		₹
	Opening balance	60.00	
	Less: Adjustment for cancellation of equity shares	(60.00)	
	Less: Adjustment for premium on redemption of preference shares	(2.00)	
	Add: Shares issued against ESOP at premium	10.00	8.00
	Capital Redemption Reserve		50.00
	Total		66.20
3	**Long term borrowings**		
	10% Debentures		4.00
	Less: Cancellation of own debentures		(2.20)
	Total		1.80
4.	**Other Current liabilities**		
	Opening balance		70.00
	Less: Adjustment for ESOP outstanding		(5.00)
	Total		65.00
5.	**Non-current investments**		
	Opening balance		120.00
	Less: Investment in own debentures		(2.00)
	Total		118.00
6.	**Cash and Cash Equivalents**		
	Opening balance		142.00
	Less: Payment to preference shareholders		(22.00)
	Less: Payment to equity shareholders		(90.00)
	Add: Share price received against ESOP		10.00
	Total		40.00

Question 5

Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 20X1:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid		*30,00,000*
Reserves & Surplus		
General Reserve	*32,50,000*	
Security Premium Account	*6,00,000*	
Profit & Loss Account	*4,30,000*	
Revaluation Reserve	*6,20,000*	*49,00,000*
Loan Funds		*42,00,000*

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

(*Source: Illustration 5, Study Material*)

Solution

Debt Equity Ratio Test

	Particulars	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000

	Particulars	₹
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

   (72,80,000 –x)-21,00,000 = y (1)

   Since 51,80,000 – x = y

   $$\text{Equation 2}: \left(\frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value}\right)$$

   = Nominal value of the shares bought –back to be transferred to CRR

   $$= \left(\frac{y}{30} \times 10\right) = x$$

   3x = y (2)

   x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

Question 6

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.20X1:

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

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.20X1 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 20% over market.

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

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

Assuming that the entire buy-back is completed by 09.12.20X1, show the accounting entries in the company's books in each situation.

(*Source: Illustration 6, Study Material*)

Solution

Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	***When loan fund is***		
	₹ 1,800 crores	***₹ 1,200 crores***	***₹ 1,500 crores***
Shares Outstanding Test (W.N.1)	8.25	8.25	8.25
Resources Test (W.N.2)	6.25	6.25	6.25
Debt Equity Ratio Test (W.N.3)	Nil	3.75	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	3.75	Nil

Journal Entries for the Buy-Back
(applicable only when loan fund is ₹ 1,200 crores)

₹ in crores

	Particulars	***Debit***	***Credit***
(a)	Equity share buy-back account Dr.	112.5	
	To Bank account		112.5
	(Being buy-back of 3.75 crores equity shares of ₹ 10 each @ ₹ 30 per share)		
(b)	Equity share capital account Dr.	37.5	
	Securities premium account Dr.	75	
	To Equity share buy-back account		112.5
	(Being cancellation of shares bought back)		
(c)	General reserve account Dr.	37.5	
	To Capital redemption reserve account		37.5
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)		

Working Notes:

1. Shares Outstanding Test

Particulars	**(*Shares in crores*)**
Number of shares outstanding	33
25% of the shares outstanding	8.25

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	330
Free reserves (₹ in crores)	<u>420</u>
Shareholders' funds (₹ in crores)	<u>750</u>
25% of Shareholders fund (₹ in crores)	₹ 187.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	6.25 crores shares

3. Debt Equity Ratio Test

	Particulars	***When loan fund is***		
		₹ 1,800 crores	***₹ 1,200 crores***	***₹ 1,500 crores***
(a)	Loan funds (₹ in crores)	1,800	1,200	1,500
(b)	Minimum equity to be maintained **after** buy-back in the ratio of 2:1 (₹ in crores)	900	600	750

	Particulars	When loan fund is		
		₹ 1,800 crores	**₹ 1,200 crores**	**₹ 1,500 crores**
(c)	Present equity shareholders fund (₹ in crores)	750	750	750
(d)	Future equity shareholder fund (₹ in crores) **(See Note 2)**	N.A.	712.5 (750-37.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] **(See Note 2)**	Nil	112.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (**See Note 2)**	Nil	3.75 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
2. As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back. In the question, it is stated that the company has surplus funds to dispose of therefore, it is presumed that buy- back is out of free reserves or securities premium and hence a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). Utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from present equity.

   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Then

   Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained= Maximum permissible buy-back of equity

   $(750 - x) - 600 = y \qquad (1)$

   Since $150 - x = y$

   $$\text{Equation 2}: \left(\frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value}\right)$$

   = Nominal value of the shares bought –back to be transferred to CRR

   $$= \left(\frac{y}{30} \times 10\right) = x$$

   [here (30 = 25% x 120]

   Or $3x = y \qquad (2)$

   by solving the above two equations we get

   x = ₹ 37.5 crores

   y = ₹ 112.5 crores

Question 7

What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain in brief.

(*Source: Question 7, Study Material*)

Answer

Section 68 to 70 of the Companies Act, 2013 lays down the provisions for a company to buy-back its own equity shares. For details, refer Para 1.1 and 1.2 of the chapter.

Question 8

SMM Ltd. has the following capital structure as on 31st March, 20X1: ₹ in crore

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

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

(*Source: Question 8, Study Material*)

Answer

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹3,200 crores)

₹ in crores

	Particulars		Debit	Credit
(a)	Equity shares buy-back account	Dr.	720	
	To Bank account			720
	(Being payment for buy-back of 24 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buy-back account	Dr.	480	
	To Equity share buy-back account			720
	(Being cancellation of shares bought back)			
	Securities Premium account General Reserve/Profit & Loss A/c	Dr.	400	
	To Premium Payable on buy-back account	Dr.	80	
	(Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			480
(c)	General Reserve/Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	**(*Shares in crores*)**
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹ 720 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	**When loan fund is**	
		₹ 3,200 crores	₹ 6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880 320)	N.A.
(e)	Maximum permitted buy- back of Equity (₹) [(d) – (b)]	960	Nil
(f)	Maximum number of shares	32 crore shares	
	that can be bought back @ ₹ 30 per share		Nil
	As per the provisions of the		
	Companies Act, 2013, company	Qualifies	Does not Qualify

4. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted

buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (2,880 – x) – 1,600 = y

= 1280 – x =y (1)

Equation 2: Maximum Permitted Buy-Back *X* Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x

or

3x = y (2)

by solving the above two equations we get

x= ₹ 320

y = ₹ 960

Question 9

KG Limited furnishes the following Balance Sheet as at 31st March, 20X1:

		Particulars	***Notes***	**₹**
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,200
	B	Reserves and Surplus	2	810
2		**Non-current liabilities**		
		Long term borrowings	3	750
3		**Current liabilities**		
	A	Trade Payables		745
	B	Other Current Liabilities		195
		Total		3,700
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	2,026
	B	Non-current Investments		74
2		**Current assets**		
	A	Inventories		600
	B	Trade receivables		260
	C	Cash and Cash equivalents		740
		Total		3,700

Notes to accounts

No.	**Particulars**		**₹**
1	**Share Capital**		
	Authorized, issued and subscribed capital		
	Equity share capital (fully paid up shares of ₹ 10 each)		1,200
2	**Reserves and Surplus**		
	Securities premium		175
	General reserve		265
	Capital redemption reserve		200
	Profit & loss A/c		170
	Total		810
3	**Long term borrowings**		
	12% Debentures		750
4	**Property, plant and equipment**		
	Land and Building		1,800
	Plant and machinery		226
	Net carrying value		2,026

On 1st April, 20X1, the company announced the buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 20X1, the company achieved the target of buy-back. On 30th April, 20X1 the company issued one fully paid up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

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

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

(*Source: Question 9, Study Material*)

Answer

In the books of KG Limited
Journal Entries

Date 20X1	***Particulars***		***Dr.*** (***₹ in lakhs***)	***Cr.***
April 1	Bank A/c	Dr.	75	
	To Investment A/c			74
	To Profit on sale of investment (Being investment sold on profit)			1
April 5	Equity share capital A/c	Dr.	300	
	Securities premium A/c	Dr.	150	
	To Equity shares buy-back A/c			450
	(Being the amount due to equity shareholders on buy-back)			
	Equity shares buy-back A/c	Dr.	450	
	To Bank A/c			450
	(Being the payment made on account of buy-back of 30 Lakh Equity Shares)			
April 5	General reserve A/c	Dr.	265	
	Profit and Loss A/c	Dr.	35	
	To Capital redemption reserve A/c			300
	(Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)			
April 30	Capital redemption reserve A/c	Dr.	225	
	To Bonus shares A/c (W.N.1)			225
	(Being the utilization of capital redemption reserve to issue bonus shares)			
	Bonus shares A/c	Dr.	225	
	To Equity share capital A/c			225
	(Being issue of one bonus equity share for every four equity shares held)			

Balance Sheet (After buy-back and issue of bonus shares)

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,125
	B	Reserves and Surplus	2	436
2		**Non-current liabilities**		
		Long term borrowings	3	750
3		**Current liabilities**		
	A	Trade Payables		745
	B	Other Current Liabilities		195
		Total		3,251
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	2,026
2		**Current assets**		
	A	Inventories		600
	B	Trade receivables		260
	C	Cash and Cash equivalents		365
		Total		3,251

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		1,125
2	**Reserves and Surplus**		
	General Reserve	265	
	Less: Transfer to CR	(265)	-
	Capital Redemption Reserve	200	
	Add: Transfer due to buy-back of shares from P/L	35	
	Add; Transfer due to buy-back of shares from General Reserve	265	
	Less: Utilisation for issue of bonus shares	(225)	275
	Securities premium	175	
	Less: Adjustment for premium paid on buy-back	(150)	25
	Profit & Loss A/c	170	
	Add: Profit on sale of investment	1	
	Less: Transfer to CRR	(35)	136
	Total		436
3	**Long term borrowings**		
	12% Debentures		750
4	**Property, Plant and Equipment**		
	Land and Building		1,800
	Plant and machinery		226
	Net carrying value		2,026

Working Notes:

1. Amount of bonus shares = 25% of (1,200 – 300) lakhs = ₹ 225 lakhs
2. Cash at bank after issue of bonus shares

Particulars	₹ in lakhs
Cash balance as on 1st April, 20X1	740
Add: Sale of investments	75
	815
Less: Payment for buy-back of shares	(450)
	365

Note: In the given Answer, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

Question 10

Following is the Balance Sheet of Competent Limited as at 31st March, 20X1:

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	12,50,000
	B	Reserves and Surplus	2	18,75,000
2		**Non-current liabilities**		
		Long term borrowings	3	28,75,000

		Particulars	*Notes*	₹
3		**Current liabilities**		
	A	Other Current Liabilities		16,50,000
		Total		76,50,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and Equipment	4	46,50,000
2		**Current assets**		
	A	Other Current Assets		30,00,000
		Total		76,50,000

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		12,50,000
2	**Reserves and Surplus**		
	Securities premium		2,50,000
	Profit and loss account		1,25.000
	Revenue reserve		15,00,000
	Total		18,75,000
3	**Long term borrowings**		
	14% Debentures		18,75,000
	Unsecured Loans		10,00,000
	Total		28,75,000
4	**Property, plant and equipment**		
	Land and Building		19,30,000
	Plant and machinery		18,00,000
	Furniture and fitting		9,20,000
	Net carrying value		46,50,000

The company wants to buy-back 25,000 equity shares of ₹ 10 each, on 1st April, 20X1 at ₹ 20 per share. Buy-back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy-back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy-back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy-back of shares and prepare the Balance Sheet after buy-back of shares. (*Source: Question 10, Study Material*)

Answer

Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(*Shares*)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	₹
Paid up capital (₹)	12,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy-back	25,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	*₹*
(a)	Loan funds (₹) (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	22,62,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (31,25,000 – 2,87,500)	28,37,500*
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ ₹ 20 per share	28,750 shares
(g)	Actual Buy-Back Proposed	25,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.

However, company wants to buy-back only 25,000 equity shares @ ₹ 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

	Particulars		*Debit (₹)*	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy-back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of M/s. Competent Ltd.
as at 31st March, 20X1

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	10,00,000
	B	Reserves and Surplus	2	16,25,000

* *As per Section 68(2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69(1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69(2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.*

		Particulars	*Notes*	₹
2		**Non-current liabilities**		
		Long term borrowings	3	28,75,000
3		**Current liabilities**		
	A	Other Current Liabilities		16,50,000
		Total		71,50,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	46,50,000
2		**Current assets**		
	A	Other Current Assets (30,00,000 – 5,00,000)		25,00,000
		Total		71,50,000

Notes to accounts

No.	Particulars		₹
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	Equity share capital (fully paid up shares of ₹ 10 each)		10,00,000
2	**Reserves and Surplus**		
	Profit and Loss A/c		1,25,000
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	(2,50,000)	12,50,000
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	(2,50,000)	-
	Capital Redemption Reserves		2,50,000
	Total		16,25,000
3	**Long term borrowings**		
	14% Debentures		18,75,000
	Unsecured Loans		10,00,000
	Total		28,75,000
4	**Property, plant and equipment**		
	Land and Building		19,30,000
	Plant and machinery		18,00,000
	Furniture and fitting		9,20,000
	Net carrying value		46,50,000

Working Note

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$(31{,}25{,}000 - x) - 22{,}62{,}500 = y$ (1)

$\left(\frac{y}{20} \times 10\right) = x$ or $2x = y$ (2)

by solving the above equation, we get

x = ₹2,87,500

y = ₹ 5,75,000

QUESTION BANK

Question 11

Dee Limited furnishes the following Balance Sheet as at 31st March, 2008:

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

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

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

(*November, 2009, 8 Marks*)

Answer

In the books of Dee Limited
Journal Entries

	Particulars		*Dr.*	*Cr.*
			(*₹ in '000*)	
(i)	Bank Account	Dr.	22,00	
	Profit and Loss Account	Dr.	8,00	
	To Investment Account			30,00
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share Capital Account	Dr.	5,00	
	Premium payable on buy back Account	Dr.	20,00	
	To Equity shares buy back Account			25,00
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	20,00	
	To Premium payable on buy back Account			20,00
	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue Reserve Account*	Dr.	3,00	
	To Capital Redemption Reserve Account			3,00
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			
(v)	Equity shares buy-back Account	Dr.	25,00	
	To Bank Account			25,00
	(Being the payment made on buy back)			

* Alternatively, 'Securities Premium' account may also be used for transfer to 'Capital Redemption Reserve Account.'

Balance Sheet of Dee Limited as on 1st April, 2008
(*After buy back of shares*)

	Particulars	*Note No.*	*₹ 000*
	Equity and Liabilities		
1.	Shareholders' funds		
	Share capital	1	2,200
	Reserves and surplus	2	6,900
2.	Current liabilities		1,400
	Total		10,500
	Assets:		
1.	Non- current assets		
	Fixed Assets		
2.	Current assets		9,300
	Cash and Cash equivalents (15,00+22,00+25,00)		1,200
	Total		10,500

Notes to Accounts

	Particulars	*₹000*
1.	***Share capital***	
	Authorised capital:	30,00
	Issued and subscribed capital:	
	2,00,000 Equity shares of ₹10 each fully paid up	20,00
	2,000 10% Preference shares of ₹100 each fully paid up	2,00
	Total	22,00
2.	***Reserves and Surplus***	
	Capital reserve	10,00
	Capital redemption reserve	3,00
	Revenue reserve	29,00
	Profit and loss A/c (35,00 – 8,00)	27,00
	Total	69,00

Question 12

Extra Ltd. furnishes you with the following Balance Sheet as on 31st March, 2010:

(₹in lakhs)

Liabilities	**Amount**	**Assets**	**Amount**
Equity shares of ₹10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference		Investments at cost	120
shares of ₹100 each fully paid	20	Current assets	142
Capital reserves	8		
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	312		312

(i) The company redeemed the preference shares at a premium of 10% on 1st April, 2010.

(ii) It also bought back 3 lakhs equity shares of ₹10 each at ₹30 per share. The payment for the above were made out of huge bank balances, which appeared as a part of the current assets.

(iii) Included in its investment were "investments in own debentures" costing ₹2 lakhs (face value ₹2.20 lakhs). These debentures were cancelled on 1st April, 2010.

(iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹20 when the market price was ₹30. (This was included under current liabilities). On 1.04.2010 employees exercised their options for 50,000 shares.

(v) Pass the journal entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.2010.

(*November, 2010, 16 Marks*)

Answer

₹ in lakhs

Date	*Particulars*		*Debit* ₹	*Credit* ₹
01.04.2010	9% Redeemable preference Share Capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
01.04.2010	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
01.04.2010	Equity shares buy back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of ₹10 each bought back @ ₹30 per share)			
01.04.2010	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy back A/c			90.00
	(Being cancellation of shares bought back)			
01.04.2010	Revenue reserve A/c (20 + 30)	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
01.04.2010	10% Debentures A/c	Dr.	2.20	
	To Investment (own debentures) A/c			2.00
	To Profit on cancellation of own debentures A/c			0.20
	(Being cancellation of own debentures costing ₹2 lakhs, face value being ₹2.20 lakhs and the balance being profit on cancellation of debentures)			
1.04.2010	Profit on cancellation of debentures A/c	Dr.	0.20	
	To Capital reserve A/c			0.20
	(Being profit on cancellation of debentures transferred to capital reserve account)			
01.04.2010	Bank A/c	Dr.	10.00	
	Employees stock option outstanding (Current liabilities) A/c	Dr.	5.00	
	To Equity share capital A/c			5.00
	To Securities premium A/c			10.00
	(Being the allotment to employees, of 50,000 shares* of ₹10 each at a premium of 20 per share in exercise of stock options by employees)			
01.04.2010	Securities premium A/c	Dr.	2.00	
	To Premium on redemption of preference shares A/c			2.00
	(Being premium on redemption of preference shares adjusted through securities premium)			

* Allotment of equity shares against ESOP may also result in the violation of section 77A of the Companies Act (*i.e.,* not to issue same category/class of shares within 6 months of buy-back). Therefore, the company is subject to penalty under sub-section (11) of Section 77A

Balance Sheet as on 01.04.2010

	Notes No.	*₹000*
Equity and Liabilities:		
1 Shareholders' funds		
Share capital	1	75.00
Reserves and Surplus	2	66.20
2 Non-current liabilities		
Long-term borrowings	3	1.80
3 Current liabilities	4	65
Total		208.00
Assets:		
1 Non-Current assets		
Fixed assets	5	50.00
Tangible assets	6	118.00
Non-current investments	7	40
2 Current assets		
Total		208.00

Notes to Accounts

		₹000	*₹000*
1	Share Capital		
	Equity share capital		75.00
	(out of shares ₹75.00 lakhs, bought back shares of ₹30.00 lakhs is cancelled during the year)		
2.	Reserves and surplus		
	Capital Reserve:		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	0.20	8.20
	Securities Premium Reserves:		
	Opening balance		
	Less: Adjustment for cancellation of equity shares	60.00	
	Less: Adjustment for premium on redemption of preference shares	(60.00)	
	Add: Shares issued against ESOP at premium		
	Capital Redemption Reserves	2.00	8.00
	Revenue reserves:	10.00	50.00
	Opening balance		
	Less: Creation of Capital Redemption Reserve		
		50.00	—
	Total	(50.00)	
			66.20
3	Long-term borrowings		
	Secured		
	10% Debentures (Opening balance)	4.00	
	Less: Cancellation of own debentures	(2.20)	
	Total		1.80
4	Current liabilities		
	Opening balance	70.00	
	Less: Adjustment for ESOP outstanding	(5.00)	
	Total		65.00
5	Tangible assets		
	Fixed assets less depreciation		50.00
	Total		
6	Non-current investments		
	Investment at cost (Opening balance)	120.00	
	Less: investment in own debentures	(2.00)	118.00
	Total		

		₹000	₹000
7	Other Current assets		
	Opening balance	142.00	
	Less: Payment to preference shareholders	(22.00)	
	Less: Payment to equity shareholders	(90.00)	
	Add: Share price received against ESOP	10.00	
	Total		40.00

Question 13

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

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

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

Comment with your calculations, whether buy back of shares by company is within the provisions of the Companies Act, 1956. If yes, pass necessary journal entries towards buy back of shares and prepare e Balance Sheet after buy back of shares.

(*May 2012, 8 Marks*)

Answer

Calculation of maximum amounts of Buy-back

(i)	25% of total paid up capital and free reserve	
	25% (28,75,000)	7,18,750
(ii)	25% of total paid up value of equity	
	25% × 12,50,000	3,12,500
(iii)	The debt equity ratio should not be more than 2 : 1 after buy back	
	Debt = 18,75,000 + 10,00,000 + 16,50,000	28,75,000
	Equity after buy back shall not be less than	14,37,500

Journal of M/s Component Ltd.

Date	*Particulars*	*L.F.*	*Dr.*	*Cr.*
	Equity Share Capital A/c Dr.		2,50,000	
	Securities Premium A/c Dr.		2,50,000	
	To Equity Shareholder			5,00,000
	(Being the amount due of buy back)			
	Revenue Reserve A/c Dr.		2,50,000	
	To Capital redemption reserve			2,50,000
	(Being the amount transferred from free reserve to CRR)			
	Equity shareholder A/c Dr.		5,00,000	
	To Bank			5,00,000
	(Being the amount paid to equity share holder)			

Balance Sheet of M/s Component Ltd. as on 31st March 2012

Liabilities	*Amount*	*Assets*	*Amount*
Equity Share of ₹10 Each Fully Paid 10,00,000	10,00,000	Fixed Assets	46, 50,000
Revenue Reserve	12,50,000	Current Assets	25, 00,000
Profit & Loss	1,25,000		
Capital Redemption Reserve	2,50,000		

Liabilities	Amount	Assets	Amount
Secured Loan:			
12 % Debentures	18,75,000		
Unsecured Loan	10,00.000		
Total	71,50,000	**Total**	71, 50,000

Question 14

M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2012:

	₹ in '000	**₹ in '000**
Equity & Liabilities		
Share Capital		
Authorised Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity shares of ₹10 each fully paid up		
20,000 9% Preference Shares of ₹100 each	3,000	
(issued two months back for the purpose of buy back)	2,000	5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities – 10% Debentures		400
Current liabilities and provisions		40
		11,750
Assets		
Fixed Assets: Cost	3,000	
Less Provisions for depreciation	250	2,750
Non-current investments at cost		5,000
Current assets, loans and advances (including cash and bank balances)		4,000
		11,750

(1) The company passed a resolution to buy back 20%of its equity capital @ ₹15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹25 lakhs.

(2) The company redeemed the preference shares at a premium of 10% on 1st April, 2012.

(3) Included in its investments were 'Investments in own debentures' costing ₹3 lakhs (face value ₹3.30 lakhs). These debentures were cancelled on 1st April, 2012.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 1.4.2012.

(*November 2012, 12 Marks*)

Answer

Calculation of maximum amounts of Buy-back

(i)	25% of total paid up capital and free reserve	
	25% (28,75,000)	7,18,750
(ii)	25% of total paid up value of equity	
	25% × 12,50,000	3,12,500
(iii)	The debt equity ratio should not be more than 2 : 1 after buy back	
	Debt = 18,75,000 + 10,00,000 + 16,50,000	28,75,000
	Equity after buy back shall not be less than	14,37,500

Journal of M/s Component Ltd.

Date	Particulars		L.F.	Dr.	Cr.
	Equity Share Capital A/c	Dr.		2,50,000	
	Securities Premium A/c	Dr.		2,50,000	
	To Equity Shareholder				5,00,000
	(Being the amount due of buy back)				
	Revenue Reserve A/c	Dr.		2,50,000	
	To Capital redemption reserve				2,50,000
	(Being the amount transferred from free reserve to CRR)				
	Equity shareholder A/c	Dr.		5,00,000	
	To Bank				5,00,000
	(Being the amount paid to equity share holder)				

Balance Sheet of M/s Component Ltd. as on 31st March 2012

Liabilities	*Amount*	*Assets*	*Amount*
Equity Share of ₹10 Each Fully Paid 10,00,000	10,00,000	Fixed Assets	46, 50,000
Revenue Reserve	12,50,000	Current Assets	25, 00,000
Profit & Loss	1,25,000		
Capital Redemption Reserve	2,50,000		
Secured Loan:			
12 % Debentures	18,75,000		
Unsecured Loan	10,00.000		
Total	71,50,000	**Total**	71, 50,000

Question 15

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

Liabilities	**Amount (₹)**
Equity shares of ₹ 10 each fully paid up	12,50,000
Bonus shares	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	1,00,000
Revaluation Reserve	1,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Assets	**Amount (₹)**
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

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

Comment with your calculations, whether buy back of shares by the Company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares. (*May 2016, 12 Marks*)

Answer

Determination of Buy back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	*(Shares)*
Number of shares outstanding (₹12,50,000 + ₹1,00,000)/ ₹ 10	1,35,000
25% of the shares outstanding	33,750

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	₹ 13,50,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	₹ 18,75,000
Shareholders' funds (₹)	₹ 32,25,000
25% of Shareholders fund (₹)	₹ 8,06,250
Buy back price per share	₹ 20
Number of shares that can be bought back (shares)	40,312
Actual Number of shares for buy back	25,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

Particulars	₹
(a) Loan funds (₹) (18,75,000+10,00,000+16,50,000 + 1,00,000 + 2,00,000)	48,25,000
(b) Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	24,12,500
(c) Present equity/shareholders fund (₹)	32,25,000
(d) Future equity/shareholders fund (₹) (see W.N.) (32,25,000 – 2,70,833)	29,54,167*
(e) Maximum permitted buy back of Equity (₹) [(d) – (b)]	5,41,667
(f) Maximum number of shares that can be bought back @ ₹ 20 per share	27,083 Shares
(g) Actual Buy Back Proposed Shares	25,000

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	33,750
Resources Test	40,312
Debt Equity Ratio Test	27,083
Maximum number of shares that can be bought back [least of the above]	27,083

Company qualifies all tests for buy-back of shares and conclusion is that it can buy maximum 27,083 shares on 1st April, 2016.

However, company wants to buy-back only 25,000 equity shares @ ₹ 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd. as on 1st April, 2016

Particulars	*Note No*	*Amount* ₹
EQUITY AND LIABILITIES		
1 **Shareholders' funds**		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 **Non-current liabilities**		
(a) Long-term borrowings	3	28,75,000
3 **Current liabilities**		
(a) Other current liabilities	4	19,50,000
Total		81,50,000
ASSETS		
1 **Non-current assets**		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

			₹	₹
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of ₹10 each			11,00,000
2.	Reserves and Surplus			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		1,00,000	
	Revaluation Reserve		1,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(₹\ 32{,}25{,}000 - x) - ₹\ 24{,}12{,}500 = y \qquad (1)$$

$$\left(\frac{y}{20} \times 10\right) = x$$

$$\text{Or} \quad 2x = y \qquad (2)$$

by solving the above equation we get x = ₹ 2,70,833 and y = ₹ 5,41,667

Question 16

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

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
1. Shareholders Fund		1. Non-Current Assets	
(a) Share Capital:		(a) Fixed (Tangible) Assets:	
1,00,000 Equity		Land & Building	21,50,000
Shares of ₹ 10 each fully paid up	10,00,000	Plant & Machinery	15,00,000
(b) Reserve & Surplus:		(b) Non-Current Investments	2,00,000
Securities Premium	3,00,000	2. Current Assets	
General Reserve	2,50,000	(a) Trade Receivables	5,50,000
Profit & Loss		(b) Inventories	1,80,000
Account Surplus	1,50,000	(c) Cash and Cash Equivalents	40,000
2. Non-Current Liabilities			
Long Term Borrowings:			
10% Debentures (Secured by floating charge on all assets)	20,00,000		
Unsecured Loans	8,00,000		
3. Current Liability & Provisions			
Trade Payables	1,20,000		
Total	**46,20,000**	**Total**	**46,20,000**

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

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

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

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

All necessary workings should form part of your answer.

(*November, 2016, 6 Marks*)

Answer

In the books of Vriddhi Infra Ltd.
Journal Entries

Date 2016	*Particulars*	*Dr.*	*Cr.*
		₹	₹
April 21	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	2,50,000	 2,00,000 50,000
April 25	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	2,50,000 1,25,000	 3,75,000
	Equity shares buy back A/c Dr. To Bank A/c∗ (Being the payment made on account of buy back of 25,000 Equity Shares)	3,75,000	 3,75,000
	General Reserve A/c / P&L A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)	2,50,000	 2,50,000
1st May	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	1,50,000	 1,50,000
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every five equity shares held)	1,50,000	 1,50,000

Working Note:

Amount of bonus shares = $\left[(1,00,000 - 25,000) \times \frac{1}{5}\right] \times 10$

= 15,000 x ₹ 10 = ₹ 1,50,000

Question 17

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

Liabilities	**Amount (₹)**
Equity shares of ₹10 each, fully paid up	12,50,000
Bonus shares of ₹10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

∗ It is assumed that there is bank overdraft amounting ₹ 85,000 [(40,000 + 2,50,000) less ₹ 3,75,000]

The Company wants to buy back 25,000 equity shares of ₹10 each, on 1st April, 2016 at ₹20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares. (*RTP May 2018*)

Answer:

As per the information given in the question, buy-back of 25,000 shares @ ₹20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of ₹10 each @ ₹20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd. as on 1st April, 2016

Particulars	Note No	Amount
EQUITY AND LIABILITIES		
1 Shareholders' funds		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
(a) Long-term borrowings	3	28,75,000
3 Current liabilities		
(a) Other current liabilities	4	19,50,000
Total		81,50.000
ASSETS		
1 Non-current assets		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000 - 5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

			₹	₹
1.	**Share Capital**			
	Equity share capital			
	1,10,000 Equity shares of ₹10 each			11,00,000
2.	**Reserves and Surplus**			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	—	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	**Long-term borrowings**			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	**Other Current Liabilities**			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

→→→

Question 18

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

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

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

(*MTP March 2018*) (*12 Marks*)

→ → →

Answer: Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹3,200 crores	**₹6,000 crores**
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

			₹ in crores	
			Debit	**Credit**
(a)	Equity share buyback account	Dr.	720	
	To bank account			720
	(Being payment for buy back of 24 crores equity shares of ₹10 each @ ₹30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium payable on buyback account	Dr.	480	
	To equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities premium account	Dr.	400	
	General reserve/Profit & Loss A/c	Dr.	80	
	To premium payable on buyback account			480
	(Being premium payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve/Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in crores)**
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	**₹**
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 + 200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹720 crores
Buy back price per share	₹30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

	Particulars	**When loan fund is**	
		₹3,200 crores	₹6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹)(a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880

	Particulars	When loan fund is	
(d)	Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880 - 320)	N.A.
(e)	Maximum permitted buy back of Equity (₹) [(d)-(b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4. Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity - Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy Back

= (2,880 - x) - 1,600 = y

= 1280 - x = y (1)

Equation 2: Maximum Permitted Buy Back X Nominal Value Per Share/Offer Price Per Share

= [y/30 × 10] = x or 3x = y (2)

by solving the above two equations we get

x = ₹320

y = ₹960

Question 19

The following was the Balance Sheet of Omega Ltd. as on 31st March,2016.

Equity & Liabilities	₹Lakhs	Assets	₹Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹10 each Fully Paid Up	8,000	Investments	3,000
		Cash at Bank	1,650
10% Redeemable Pref. Shares of ₹10 each Fully Paid Up	2,500	Other Current Assets	8,250
Reserves & Surplus			
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2016 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 15% of its Equity Shares at ₹20 per Share. In order to make cash available, the Company sold all the Investments for ₹3,150 lakhs and raised a Bank Loan amounting to ₹400 lakh on the Security of the Company's Plant.

You are required to prepare:

(i) Journal entries for the above and

(ii) Company's Balance sheet immediately thereafter.

(*MTP April 2018*) (*15 Marks*)

Answer: (i) Journal Entries in the books of Omega Ltd. (₹ in lakhs)

	Particulars		₹	₹
1	Bank A/c	Dr.	3,150	
	To Investments A/c			3,000
	To Profit and Loss A/c			150
	(Being investment sold on profit for the purpose of buy-back)			
2	10% Redeemable Preference Share Capital A/c	Dr.	2,500	
	Premium on Redemption of Preference Shares A/c	Dr.	250	
	To Preference Shareholders A/c			2,750
	(Being redemption of preference share capital at premium of 10%)			
3	Securities Premium A/c	Dr.	250	
	To Premium on Redemption of Preference Shares A/c			250
	(Being premium on redemption of preference shares adjusted through securities premium)			

	Particulars		₹	₹
4	Equity Share Capital A/c	Dr.	1,200	
	Premium on buyback	Dr.	1,200	
	To Equity buy-back A/c			2,400
	(Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)			
5	Securities Premium A/c (800-250)	Dr.	550	
	General Reserve A/c		650	
	To Premium on Buyback A/c			1,200
	(Being premium on buyback provided first out of securities premium and the balance out of general reserves.)			
6	Bank A/c		400	
	To Bank Loan A/c			400
	(Being loan taken from bank to finance buyback and redemption of shares)			
7	Preference Shareholders A/c		2,750	
	Equity buy-back A/c		2,400	
	To Bank A/c			5,150
	(Being payment made to preference shareholders and equity shareholders)			
8	General Reserve Account		3,700	
	To Capital Redemption Reserve Account			3,700
	(Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)			

* The difference between this figure and guaranteed residual value (₹50,000) is due to rounding off.

(ii) Balance Sheet of Omega Ltd. (after Redemption and Buyback) (₹Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	**Shareholders' Funds:**		
	(a) Share Capital	1	6,800
	(b) Reserves and Surplus	2	6,800
(2)	**Non-Current Liabilities:**		
	(a) Long Term Borrowings	3	5,400
(3)	**Current Liabilities:**		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,300
(II)	**ASSETS**		
(1)	**Non-Current Assets**		
	Fixed Assets		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		50
	(b) Other Current Assets		8,250
			22,300

Notes to Accounts

				₹ in Lakhs
1.	**Share Capital**			6,800
	680 lakh Equity Shares of ₹10 each Fully Paid up (120 lakh Equity Shares bought back)			
2.	**Reserves and Surplus**	6,000		
	General Reserve	(650)		
	Less: Adjustment for premium paid on buy back			
	Less: Transfer to CRR	(3,700)	1,650	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,700	4,700	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		

		₹ in Lakhs		
	Less: Adjustment for premium paid on buy back	(550)	—	
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	6,800
3.	**Long-term borrowings**		5,000	
	Secured			
	9 % Debentures			
	Term Loans - From Banks		400	5,400

Working Note

Bank Account

Receipts	**Amount (₹Lakhs)**	**Payments**	**Amount (₹Lakhs)**
To balance b/d	1,650	By Preference Sharesholders A/c	2,750
To Investment A/c (sale Proceeds)	3,150	By Equity Shareholders A/c	2,400
To Bank Loan A/c (Loan received)	400	By Balance c/d (Balancing figure)	50
	5,200		5,200

Income tax on the above will not be included in Revenue A/c of an insurance company.

Question 20

The following summarized Balance Sheet Pee Limited (a non-listed company) furnishes as at 31st March, 2017:

	₹	₹
Equity & Liabilities		
Share capital:		
Authorised capital		
2,50,000 Equity shares of ₹10 each fully paid up	25,00,000	
5,000,10% Preference shares of ₹100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹10 each fully paid up	24,00,000	
3,000,10% Preference shares of ₹100 each	3,00,000	27,00,000
(Issued two months back for the purpose of buy back)		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3.00,000	16,00,000
		1,40,00,000
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
furniture	20,00,000	76,00,000
Non-current Investments		30,00,000
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ ₹60 per share. For this purpose, it sold all of its investment for ₹25,00,000.

The company achieved its target of buy-back. You are required to:

(a) Give necessary journal entries and

(b) Give the Balance Sheet of the company after buy back of shares.

(*RTP November 2018*)

Answer:

Journal Entries in the books of Pee Limited

	Particulars	Dr.	Cr.	
(i)	Bank Account	Dr.	25,00,000	
	Profit and Loss Account	Dr.	5,00,000	
	To Investment Account			30,00,000
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share capital account	Dr.	4,80,000	
	Premium payable on buy back Account	Dr.	24,00,000	
	To Equity shares buy back Account			28,80,000
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	24,00,000	
	To Premium payable on buy back Account			24,00,000
	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue Reserve Account	Dr.	1,80,000	
	To Capital Redemption Reserve Account			1,80,000
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000)			
(v)	Equity shares buy-back Account	Dr.	28,80,000	
	To Bank Account			28,80,000
	(Being the payment made on buy back)			

Balance Sheet of Pee Limited as on 1st April, 2017
(After buy back of shares)

Particulars	Note No	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		76,00,000
(2) Current assets		30,20,000
Total		1,06,20,000

Notes to Accounts

			₹	₹
1	**Share Capital**			
	Authorised capital:			30,00,000
	Issued and subscribed capital:			
	1,92,000 Equity shares of ₹10 each fully paid up		1,92,0000	
	3,000 10% Preference shares of ₹100 each fully paid up		3,00,000	22,20,000
	Reconciliation of share capital			
	Opening no. of shares		2,40,000	
	Buy back of shares during the year		48,000	1,92,000
	During the year the company has buy back of 48,000 shares			
2	**Reserves and Surplus**			
	Capital reserve		10,00,000	
	Capital redemption reserve		1,80,000	
	Securities Premium	27,00,000		
	Less: Premium payable on buy back of shares	24,00,000	3,00,000	
	Revenue reserve	25,00,000		
	Less: Transfer to Capital redemption reserve	1,80,000	23,20,000	
	Profit and loss A/c	35,00,000		
	Less: Loss on investment	5,00,000	30,00.000	68,00,000

Question 21

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

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

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

(*MTP August 2018*) (*12 Marks*)

Answer: Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹3,200 crores	₹6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

			₹ in crores	
			Debit	Credit
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of ₹10 each @ ₹30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	400	
	General Reserve/Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve/Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	*(Shares in crores)*
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹720 crores
Buy back price per share	₹30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

	Particulars	When loan fund is	
(a)	Loan funds (₹)	₹3,200 crores	₹6,000 crores
(b)	Minimum equity to be maintained after buy back in the ratio of	3,200	6,000
	2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹)	2,560 (2,880-320)	N.A.
	(see W.N.4)	960	Nil
(e)	Maximum permitted buy back of Equity		
	(₹) [(d) – (b)]	32 crore shares	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share	Qualifies	Does not
	As per the provisions of the Companies Act, 2013, company		Qualify

Question 22

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

Liabilities	**Amount (₹)**
Equity shares of ₹10 each, fully paid up	12,50,000
Bonus shares of ₹10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of ₹10 each, on 1st April, 2016 at ₹20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy -back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

(*MTP October 2018*) (*15 Marks*)

Answer:

As per the information given in the question, buy-back of 25,000 shares @ ₹20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of ₹10 each @ ₹20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd. as on 1st April, 2016

Particulars	*Note No*	*Amount* ₹
EQUITY AND LIABILITIES		
1 **Shareholders' funds**		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 **Non-current liabilities**		
(a) Long-term borrowings	3	28,75,000
3 **Current liabilities**		
(a) Other current liabilities	4	19,50,000
Total		81,50,000
ASSETS		
1 **Non-current assets**		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

			₹	₹
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of ₹10 each			11,00,000
2.	Reserves and Surplus			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

Question 23

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

Liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7.398		7.398

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

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

(*RTP May, 2019*)

Answer

In the books of Alpha Limited
Journal Entries

Date 2017	*Particulars*		*Dr.*	*Cr. (₹ in lakhs)*
April 1	Bank A/c	Dr.	150	
	To Investment A/c			148
	To Profit on sale of investment			2
	(Being investment sold on profit)			
April 5	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	900	
	To Bank A/c			900
	(Being the payment made on account of buy back of 60 Lakh Equity Shares)			
April 5	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve A/c			600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)			

Balance Sheet (After buy back)

Particulars	*Note No*	*Amount (₹ in lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1.800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings -12% Debentures		1,500
(3) Current liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		6,500
II. Assets		
(1) Non-current assets		
(a) Property, Plants Equipment		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

				(₹ in lakhs)
1.	**Share Capital**			
	Equity share capital (Fully paid up shares of ₹10 each)			1800
2.	**Reserves and Surplus**			
	General Reserve	530		
	Less: Transfer to CRR	(530)	-	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Transfer due to buy-back of shares from Gen. res.	530	1,000	
	Securities premium	350		
	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	1,322
3.	**Tangible assets**			
	Machinery		3,600	
	Furniture		450	4,050

Working Note:

Cash at bank after buy-back

	₹ in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

Question 24

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

₹ in crore

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

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

(MTP-March 2019) (12 Marks)

Answer:

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	**When loan fund is**	
	₹3,200 crores	**₹6,000 crores**
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

			₹ in crores	
			Debit	**Credit**
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of ₹10 each @ ₹30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	400	
	General Reserve/Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve/Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in crores)**
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹720 crores
Buy back price per share	₹30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

	Particulars	**When loan fund is**	
		₹3,200 crores	₹6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880-320)	NA
(e)	Maximum permitted buy back of Equity (₹) [(d)-(b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share	32crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4 Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is Y Then

Equation 1: (Present Equity- Transfer to CRR) – Minimum Equity to be maintained = Maximum Permitted Buy Back

= (2,880-x) – 1,600 = y

= 1280-x =y (1)

Equation 2: Maximum Permitted Buy Back/Nominal Value Per Share/Offer Price Per Share

$= \left(\frac{y}{30} \times 10\right) = x$ Or $3x = y$ (2)

by solving the above two equations we get

$x = ₹320$

$y = ₹960$

Question 25

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

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

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

(*MTP-April 2019*) (*10 Marks*)

Answer*:*

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	₹3,200 crores	**₹6,000 crores**
Shares Outstanding Test **(**W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back

(applicable only when loan fund is ₹3,200 crores)

			₹ in crores	
			Debit	**Credit**
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of ₹10 each @ ₹30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	400	
	General Reserve/Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve/Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in crores)**
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹720 crores
Buy back price per share	₹30
Number of shares that can be bought back	24 crores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

	Particulars	**When loan fund is**	
		₹3,200 crores	**₹6,000 crores**
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹) (see W.N .4)	2,560 (2,880-320)	NA
(e)	Maximum permitted buy back of Equity (₹) [(d)-(b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ ₹30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

Question 26

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

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

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

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

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

(*May 2019*) (*10 Marks*)

Answer:

Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

1. **Shares Outstanding Test**

Particulars	*(Shares)*
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

2. **Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

Particulars	
Paid up capital (₹)	17,00,000
Free reserves (₹) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (₹)	45,00,000
25% of Shareholders fund (₹)	11,25,000
Buy back price per share	₹30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Shareholder's Funds post Buy Back**

	Particulars	₹
(a)	Loan funds (₹) (22,50,000+8,50,000+15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	23,25,000
(c)	Present equity/shareholders fund (₹)	45,00,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (45,00,000 – 5,43,750)	39,56,250*
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ ₹30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

* *As per Section 68(2)(d) of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69(1), on buy -back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.*

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2018.

However, company wants to buy-back only 35,000 equity shares @ ₹30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(45{,}00{,}000 - x) - 23{,}25{,}000 = y \qquad (1)$$

$$\left(\frac{y}{30}\times 10\right) = x \qquad \text{Or } 3x = y \qquad (2)$$

by solving the above equation, we get

x = ₹5,43,750

y = ₹16,31,250

Question 27

Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹10 each at ₹22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11% preference shares of ₹10 each at par, the entire amount being payable with applications. The company uses ₹16 lakhs of its balance in Securities

Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

(*RTP November 2019*)

Answer:

Journal Entries in the books of Umesh Ltd.

			₹	₹
1.	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money on preference shares)			
2.	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			
3.	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4.	Equity share capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5.	Equity shareholders/Equity shares buy back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back of shares)			
6.	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c		32,00,000	
	To Premium payable on buyback A/c			48,00,000
	(Being premium on buyback charged from securities premium and general reserve)			

Working Notes:

1. Calculation of amount used from General Reserve Account

		₹
Amount paid for buy back of shares (4,00,000 shares x ₹22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,00	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	
Amount transferred to Capital Redemption Reserve Account	(10,00,000)
	30,00,000

Question 28

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

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

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

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

(2) To finance the buy back of share company:

  (a) Issue 3000, 14% debenture of ₹100 each at a premium of 20%.

  (b) Issue 2500, 10% preference share of ₹100 each

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

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

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

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

(*November 2019, New Course, 15 Marks*)

Answer

In the books of X Limited
Journal Entries

	Particulars	Dr. ₹	Cr. ₹
1.	Bank A/c Dr.	3,60,000	
	To 14 % Debenture A/c		3,00,000
	To Securities Premium A/c		60,000
	(Being 14 % debentures issued to finance buy back)		
2.	Bank A/c Dr.	2,50,000	
	To 10% preference share capital A/c		2,50,000
	(Being 10% preference share issued to finance buy back)		
3.	Bank A/c Dr.	1,50,000	
	To Investment A/c		1,00,000
	To Profit on sale of investment (Being investment sold on profit)		50,000

	Particulars		Dr. ₹	Cr. ₹
4.	Equity share capital A/c (62,500 x ₹20)	Dr.	12,50,000	
	Securities premium A/c (62,500 x ₹16)	Dr.	10,00,000	
	To Equity shares buy back A/c (62,500 x ₹36)			22,50,000
	(Being the amount due to equity shareholders on buy back)			
5.	Equity shares buy back A/c	Dr.	22,50,000	
	To Bank A/c			22,50,000
	(Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)			
6.	Revenue reserve	Dr.	3,00,000	
	Securities premium	Dr.	2,60,000	
	Profit and Loss A/c	Dr.	4,40,000	
	To Capital redemption reserve A/c *			10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]			
7.	Capital redemption reserve A/c	Dr.	7,50,000	
	To Bonus shares A/c (W.N.1)			7,50,000
	(Being the utilization of capital redemption reserve to issue 37,500 bonus shares)			
8.	Bonus shares A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(Being issue of 3 bonus equity share for every 15equity shares held)			

*****_Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may bē passed for transferring the required amount to CRR._

<u>Note</u>: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other **specified securities**. Issue of debentures has been excluded for the purpose of "**specified securities**" and the entire amount of ₹10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

Balance Sheet (After buy back and issue of bonus shares)

Particulars	***Note No***	***Amount ₹***
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
Total		1,05,60,000
II. Assets		
(1) Non-current assets		
(a) *Property, Plant and Equipment*		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000
(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
Total		1,05,60,000

Notes to Accounts

				₹
1.	Share Capital			
	Equity share capital (Fully paid up shares of ₹ 20 each)			
	(2,50,000-62,500+37,500 shares)		45,00,000	
	10% preference shares @ ₹ 100 each			
	(10,00,000 + 2,50,000)		12,50,000	57,50,000
2.	Reserves and Surplus			
	Capital Reserve		1,00,000	
	Revenue reserve		2,00,000	
	Securities premium	12,00,000		
	Add: Premium on debenture	60,000		
	Less: Adjustment for premium paid on buy back	(10,00,000)		
	Less: Transfer to CRR	(2,60,000)	Nil	
	Capital Redemption Reserve			
	Transfer due to buy-back of shares from P&L			
	10,00,000			
	Less: Utilisation for issue of bonus shares	(7,50,000)	2,50,000	
	Profit & Loss A/c	20,00,000		
	Add: Profit on sale of investment	50,000		
	Less: Transfer to CRR	(4,40,000)	16,10,000	
	Dividend equalization reserve	(5,50,000)	5,50,000	27,10,000
3	Long-term borrowings - 12% Debentures	12,50,000		
	- 14% Debentures	3,00,000		15,50,000

Working Notes:

1. Amount of bonus shares = [(2,50,000 -25%)3/15] x 20 = 37,500 x 20=7,50,000
2. Cash at bank after issue of bonus shares

	₹
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	1,50,000
	23,35,000
Less: Payment for buy back of shares	(22,50,000)
	85,000

Question 29

The following was the summarized balance sheet of Mukta Ltd. as on 31st March, 2019:

Equity & liability	**₹(in lakhs)**	**Assets**	**₹(in lakhs)**
Authorised Capital:		Fixed Assets	1,12,000
Equity shares of ₹10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of ₹10 each Fully Paid Up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make Cash available, the Company sold all the Investments for ₹25,200 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extents allowed by law.

[*MTP October, 2019, 12 Marks*]

Answer

Journal entries
In the books of Mukta Ltd.

			Dr.	Cr.
				₹ in iakhs
1	Bank A/c	Dr.	25,200	
	To Investments A/c			24,000
	To Profit and Loss A/c			1,200
	(Being Investments sold and, profit being credited to Profit and Loss Account)			
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000	
	To Preference Shareholders A/c			
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)			22,000
3	Securities Premium A/c	Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c			2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	16,000	
	Premium payable on Buyback A/c	Dr.	16,000	
	To Equity Share buy back A/c			32,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (6,400 -2,000)	Dr.	4,400	
	General Reserve A/c (balancing figure)	Dr.	11,600	
	To Premium payable on Buyback A/c			16,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			
6	Bank A/c	Dr.	16,000	
	To Bank Loan A/c			16,000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	22,000	
	Equity Shares buy back A/c	Dr.	32,000	
	To Bank A/c			54,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account	Dr.	36,000	
	To Capital Redemption Reserve Account			36,000
	(Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)			

Question 30

The following was the Balance Sheet of C Ltd. as on 31st March, 2019:

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	2,300

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 2,500 lakhs. You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

(*May 2020*)

Answer

(i) Journal Entries in the books of C Ltd. **(₹ in lakhs)**

	Particulars			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy-back)	Dr.	2,500	 2,350 150
2	10% Redeemable Preference Share Capital A/c	Dr.	2,500	
	Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr.	250	 2,750
3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	250	 250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	800 800	 1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr.	550 250	 800
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		2,750 1,600	 4,350
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		3,300	 3,300

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback)

(₹ Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	Shareholders' Funds:		
	(a) Share Capital	1	7,200
	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,700
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		8,250
			22,700

Notes to Accounts

		₹ in Lakhs		
1.	**Share Capital**			
	720 lakh Equity Shares of ₹ 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2.	**Reserves and Surplus**			
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	(3,300)	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,300		
			4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)		
	Profit & Loss A/c	300	-	
	Add: Profit on sale of investment	150	450	7,200
3.	**Long-term borrowings**			
	Secured			
	9 % Debentures			5,000

Working Note:

Bank Account

Receipts	Amount	Payments	Amount
	(₹ Lakhs)		**(₹ Lakhs)**
To balance b/d	2,300	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	450
	4,800		4,800

Question 31

Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2020:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

(*RTP, November, 2020*)

Answer

Debt Equity Ratio Test

	Particulars	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

(72,80,000 – x) - 21,00,000 = y (1)

Since 51,80,000 – x = y

$$\text{Equation 2}: \left(\frac{\text{Max imum buy - back}}{\text{Offer price for buy - back}} \times \text{Nominal Value}\right)$$

= Nominal value of the shares bought –back to be transferred to CRR

$$= \left(\frac{Y}{30} \times 10\right) = X$$

3x = y (2)

x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

Question 32

The following was the summarized balance sheet of Bhoomi Ltd. as on 31st March, 2020:

Equity & liability	₹ (in lakhs)	Assets	₹ (in lakhs)
Authorised Capital:		Property, plant and equipment	1,12,000
Equity shares of ₹ 10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of ₹10 each Fully Paid up	64,000	Trade Receivables	66,000

Equity & liability	₹ (in lakhs)	Assets	₹ (in lakhs)
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April, 2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make Cash available, the Company sold all the Investments for ₹25,000 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

(*MTP, October, 2020*) (*8 marks*)

Answer

Journal entries
In the books of Bhoomi Ltd.

			Dr.	Cr.
			₹ in lakhs	
1	Bank A/c	Dr.	25,000	
	To Investments A/c			24,000
	To Profit and Loss A/c			1,000
	(Being Investments sold and, profit being credited to Profit and Loss Account)			
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000	
	To Preference Shareholders A/c			22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)			
3	Securities Premium A/c	Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c			2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	16,000	
	Premium payable on Buyback A/c	Dr.	16,000	
	To Equity Share buy back A/c			32,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (6,400 – 2,000)	Dr.	4,400	
	General Reserve A/c (balancing figure)	Dr.	11,600	
	To Premium payable on Buyback A/c			16,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			
6	Bank A/c	Dr.	16,000	
	To Bank Loan A/c			16,000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	22,000	
	Equity Shares buy back A/c	Dr.	32,000	
	To Bank A/c			54,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account	Dr.	36,000	
	To Capital Redemption Reserve Account			36,000
	(Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)			

Question 33

M/s. Vriddhi Infra Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(₹)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital:1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Trade Payables	1,20,000

On 21st April, 2020 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2020, the company achieved the target of buy back. On 1st May, 2020 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders.

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

(*RTP, May, 2021*)

Answer

In the books of Vriddhi Infra Ltd.
Journal Entries

Date	***Particulars***		***Dr.***	***Cr.***
2020			***₹***	***₹***
April 21	Bank A/c	Dr.	2,50,000	
	To Investment A/c			2,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
April 25	Equity share capital A/c	Dr.	1,50,000	
	Securities premium A/c	Dr.	75,000	
	To Equity shares buy back A/c			2,25,000
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares)			
	General Reserve A/c OR P&L A/c	Dr.	1,50,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares transferred from free reserves to capital redemption reserve account as per the law)			
May 1	Capital redemption reserve A/c	Dr.	1,06,250	
	To Bonus shares A/c (W.N.1)			1,06,250
	(Being the utilization of capital redemption reserve to issue bonus shares)			
	Bonus shares A/c	Dr.	1,06,250	
	To Equity share capital A/c			1,06,250
	(Being issue of one bonus equity share for every ten equity shares held)			

Working Note:

$$\text{Amount of bonus shares} = (1{,}00{,}000 - 15{,}000) \times \frac{1}{8} \times 10 = ₹\ 1{,}06{,}250$$

Question 34

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

For this purpose, the company

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

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

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

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

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

(*Suggested, January, 2021*) (*5 marks*)

Answer

Journal Entries in the books of Umang Ltd.

			Dr. **₹**	***Cr.*** **₹**
1.	Bank A/c	Dr.	25,00,000	
	Profit and Loss A/c	Dr.	5,00,000	
	To Investment A/c			30,00,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2.	Bank A/c	Dr.	20,00,000	
	To 12% Pref. Share capital A/c			20,00,000
	(Being 12% Pref. Shares issued for ₹ 20,00,000)			
3.	Equity share capital A/c Premium payable on buy-back	Dr.	50,00,000	
	To Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	25,00,000	
	(Being the amount due on buy-back of equity shares)			75,00,000
4.	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	75,00,000	
	To Bank A/c			75,00,000
	(Being payment made for buy-back of equity shares)			
5.	Securities Premium A/c General Reserve A/c	Dr.	15,00,000	
	To Premium payable on buy-back	Dr.	10,00,000	
	(Being premium payable on buy-back charged from Securities premium)			25,00,000
6.	General Reserve A/c	Dr.	30,00,000	
	To Capital Redemption Reserve A/c			30,00,000
	(Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)			

Question 35

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

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

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

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

(*July, 2021 Suggested*) (*15 Marks*)

Answer

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	**When loan fund is**	
	₹ 25,00,000	**₹ 1,20,00,000**
Shares Outstanding Test (W.N.1)	75,000	75,000
Resources Test (W.N.2)	41,750	41,750
Debt Equity Ratio Test (W.N.3)	94,000	Nil
Maximum number of shares that can be bought back [least of the above]	41,750	Nil

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 25,00,000)

	Particulars		**Debit**	**Credit**
				₹
(a)	Equity shares buy-back account	Dr.	12,52,500	
	To Bank account			12,52,500
	(Being payment for buy-back of 41,750 equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	4,17,500	
	Premium Payable on buy-back account	Dr.	8,35,000	
	To Equity share buy-back account			12,52,500
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	6,00,000	
	General Reserve/Profit & Loss A/c	Dr.	2,35,000	
	To Premium Payable on buy-back account			8,35,000
	(Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve*	Dr.	4,17,500	
	To Capital redemption reserve account			4,17,500
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

***Profit and Loss account balance amounting ₹ 2,10,000 may also be used and General Reserve may be debited for the balance amount.**

Working Notes:

1. Shares Outstanding Test

Particulars	**(*Shares in crores*)**
Number of shares outstanding	3,00,000
25% of the shares outstanding	75,000

2. Resources Test

Particulars	
Paid up capital (₹)	30,00,000
Free reserves (₹) (12,00,000+6,00,000+2,10,000)	20,10,000
Shareholders' funds (₹)	50,10,000
25% of Shareholders fund (₹)	₹ 12,52,500
Buy-back price per share	₹ 30
Number of shares that can be bought back	41,750 shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	**When loan fund is**	
(a)	Loan funds (₹)	₹ 25,00,000	₹ 1,20,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	12,50,000	60,00,000
(c)	Present equity shareholders fund (₹)	50,10,000	50,10,000

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back
= (50,10,000 – x) – 12,50,000 = y
= 37,60,000 – x =y (1)
Equation 2: Maximum Permitted Buy-Back *X* Nominal Value Per Share/Offer Price Per Share
y/30 x 10 = x or
3x = y (2)
by solving the above two equations we get
x = ₹9,40,000 and y = ₹28,20,000
In situation 2, first equation will be negative. Buy back not possible in this situation.

Question 36

The following details are provided by Bhoomi Ltd. as on 31st March, 2020:

	₹ (in lakhs)
Issued Capital:	
Equity Shares of ₹10 each Fully Paid up	64,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000
Capital Redemption Reserve	8,000
Securities Premium	6,400
General Reserve	48,000
Profit & Loss Account	2,400
9% Debentures	40,000
Trade Payables	26,400
Property, plant and equipment	1,12,000
Investments	24,000
Cash at Bank	13,200
Trade Receivables	66,000

On 1st April,2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make cash available, Bhoomi Ltd. sold all the Investments for ₹25,000 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law.

(*MTP*, *October 2021*) (*8 Marks*)

Answer

Journal entries
In the books of Bhoomi Ltd.

			Dr.	***Cr.***
				₹ in lakhs
1	Bank A/c	Dr.	25,000	
	To Investments A/c			24,000
	To Profit and Loss A/c			1,000
	(Being Investments sold and, profit being credited to Profit and Loss Account)			
2	10% Redeemable Preference Share Capital A/c	Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	2,000	
	To Preference Shareholders A/c			22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)			
3	Securities Premium A/c	Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c			2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
4	Equity Share Capital A/c	Dr.	16,000	
	Premium payable on Buyback A/c	Dr.	16,000	
	To Equity Share buy back A/c			32,000
	(Being the amount due on buy-back)			

			Dr.	Cr.
				₹ in lakhs
5	Securities Premium A/c (6,400 – 2,000)	Dr.	4,400	
	General Reserve A/c (balancing figure)	Dr.	11,600	
	To Premium payable on Buyback A/c			16,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			
6	Bank A/c	Dr.	16,000	
	To Bank Loan A/c			16,000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	22,000	
	Equity Shares buy back A/c	Dr.	32,000	
	To Bank A/c			54,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			
8	General Reserve Account	Dr.	36,000	
	To Capital Redemption Reserve Account			36,000
	(Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)			

Question 37

SM Limited gives the following information as on 31st March, 2020:

		₹
Share capital		
(60,000 Equity Shares of ₹ 10 Each)		6,00,000
Reserve & Surplus:		
Security premium	₹ 70,000	
General reserve	₹ 63,000	
Profit and Loss	₹ 1,40,000	2,73,000
Non-current liability:		
9% debentures (secured)		3,00,000
Current Liabilities:		
Term loan		40,000
Creditors		65,000
Provision for taxation		15,000
Property plant and equipment		6,00,000
Non-current investment		1,50,000
Current assets:		
Stock	₹ 2,00,000	
Debtors	₹ 2,60,000	
Bank	₹ 83,000	5,43,000

The shareholders adopted the resolution on 31st March, 2020 to:

(i) Buy back 25% of the paid up capital @ ₹ 15 each.

(ii) Issue 10% debentures of ₹ 60,000 at a premium of 10% to finance the buyback of shares.

(iii) Maintain a balance of ₹ 20,000 in General Reserve.

(iv) Sell investments worth ₹ 1,00,000 for ₹ 80,000.

(v) Buy back expenses were ₹ 2,000.

You are required to pass necessary journal entries to record the above transactions and prepare Ledger account of Bank.

(*MTP, November, 2021*) (*8 Marks*)

Answer

In the books of SM Limited
Journal Entries

	Particulars		**Dr. ₹**	**Cr. ₹**
1.	Equity share capital A/c(15,000 x ₹10)	Dr.	1,50,000	
	Premium on buyback A/c (15,000 x ₹5)	Dr.	75,000	
	To Equity shares buy back or Equity shareholders A/c (15,000 x ₹15)			2,25,000
	(Being the amount due to equity shareholders on buy back)			
2.	Equity shares buy back/Equity shareholders A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)			
3.	Bank A/c	Dr.	66,000	
	To 10 % Debentures A/c			60,000
	To Securities Premium A/c			6,000
	(Being 14 % debentures issued to finance buy back)			
4.	Buyback Expenses A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Buyback expenses paid)			
5.	Bank A/c	Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment)	Dr.	20,000	
	To Investment A/c			1,00,000
	(Being investment sold at loss)			
6.	General reserve	Dr.	43,000	
	Profit and Loss A/c	Dr.	1,07,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
7.	Securities Premium	Dr.	75,000	
	Profit and Loss A/c	Dr.	2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c			2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			

Bank Account

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000
To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of ₹ 1,50,000 has been credited to CRR while solving the question.

Question 38

Rohan Ltd. furnishes the following information as at 31-03-2021.

	(in ₹)	**(in ₹)**
Share Capital:		
Equity Share Capital of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of ₹ 100 each fully paid up	10,00,000	60,00,000
Reserves & Surplus:		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	25,50,000	43,50,000

	(in ₹)	(in ₹)
12% Debentures		12,50,000
Current Liabilities and Provisions		5,50,000
Property, Plant and Equipment		1,00,75,000
Current Assets:		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000

The shareholders adopted the following resolution on 31st March, 2021:

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

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

   (a) Issues 3,000, 14% debentures of ₹ 100 each at a premium of 20%.

   (b) Issues 2,500, 10% preference shares of ₹ 100 each.

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

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

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

You are required to pass the necessary journal entries to record the above transactions.

(*RTP November 2021*)

Answer

In the books of Rohan Limited
Journal Entries

	Particulars	Dr. ₹	Cr. ₹
1.	Bank A/c Dr.	3,60,000	
	To 14 % Debenture A/c		3,00,000
	To Securities Premium A/c		60,000
	(Being 14 % debentures issued to finance buy back)		
2.	Bank A/c Dr.	2,50,000	
	To 10% preference share capital A/c		2,50,000
	(Being 10% preference share issued to finance buy back)		
3.	Bank A/c Dr.	1,50,000	
	To Investment A/c		1,00,000
	To Profit on sale of investment		50,000
	(Being investment sold on profit)		
4.	Equity share capital A/c (62,500 x ₹20) Dr.	12,50,000	
	Premium on buyback or Securities premium A/c Dr. (62,500 x ₹16)	10,00,000	
	To Equity shares buy back A/c (62,500 x ₹36)		22,50,000
	(Being the amount due to equity shareholders on buy back)		
5.	Equity shares buy back A/c Dr.	22,50,000	
	To Bank A/c		22,50,000
	(Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)		
6.	Revenue reserve Dr.	3,00,000	
	Securities premium Dr.	2,60,000	
	Profit and Loss A/c Dr.	4,40,000	
	To Capital redemption reserve A/c		10,00,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]		
7.	Capital redemption reserve A/c Dr.	7,50,000	
	To Bonus shares A/c		7,50,000
	(Being the utilization of capital redemption reserve to issue 37,500 bonus shares)		

	Particulars	Dr. ₹	Cr. ₹
8.	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of 3 bonus equity share for every 15equity shares held)	7,50,000	 7,50,000

Question 39

Complicated Ltd. (an unlisted company) gives the following information as on 31.3.2021:

Particulars	Amount (₹)
Equity shares of ₹ 10 each, fully paid up	13,50,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Long term - Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
Property, plant and equipment	46,50,000
Current assets	40,00,000

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2021 at ₹ 15 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company for this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares was made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet of the company after buy back of shares.

(*RTP May, 2022*)

Answer

As per the information given in the question, buy-back of 25,000 shares @ ₹ 15, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	3,75,000	
	To Bank account			3,75,000
	(Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 15 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Premium payable on buyback account	Dr.	1,25,000	
	To Equity shares buy-back account			3,75,000
	(Being cancellation of shares bought back)			
(c)	Securities premium account	Dr.	1,25,000	
	To Premium payable on buyback account			1,25,000
	(Being Premium payable on buyback adjusted against securities premium account)			
(d)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd. as at 1st April, 2021

Particulars	*Note No*	*Amount ₹*
EQUITY AND LIABILITIES		
1 **Shareholders' funds**		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	23,50,000

2 **Non-current liabilities**		
(a) Long-term borrowings	3	28,75,000
3 **Current liabilities**		
(a) Short-term borrowings	4	16,50,000
(b) Other current liabilities	5	3,00,000
Total		82,75,000
ASSETS		
1 **Non-current assets**		
(a) Property, Plant and Equipment		46,50,000
2 Current assets (₹ 40,00,000 – ₹ 3,75,000)		36,25,000
Total		82,75,000

Notes to Accounts

			₹	₹
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of ₹10 each			11,00,000
2.	Reserves and Surplus			
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(1,25,000)	1,25,000	
	Share Option Outstanding Account		4,00,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Surplus i.e. Profit and Loss A/c		1,25,000	23,50,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Short-term borrowings			
	Current maturities of long-term borrowings			16,50,000
5.	Other Current Liabilities			
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	3,00,000

Question 40

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

(₹ in Lakhs)

	Amount
Equity and Liabilities:	
Shareholder's fund	
Share Capital	
Equity Shares of ₹ 10 each fully paid up	780
6% Redeemable Preference shares of ₹ 50 each fully paid up	240
Reserves and Surplus	
Capital Reserves	58
General Reserve	625
Security Premium	52
Profit & Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non-current liabilities	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
	2652

	Amount
Assets:	
Non-current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1207
	2652

Other information:

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

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

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

(4) The company had investment in own debentures costing ₹ 60 lakhs (face value ₹ 75 lakhs). These debentures were cancelled on 2nd April, 2021. of ₹ 10 each by way of bonus for every five equity shares held by the shareholders.

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

You are required to:

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

(b) Record the Journal Entries for the above mentioned information.

(*Question Paper of December 2021*) *(10 Marks)*

Answer

(i) Statement determining the maximum number of shares to be bought back

Number of shares (in lakhs)

Particulars	**When loan fund is ₹ 304 lakhs•**
Shares Outstanding Test (W.N.1)	19.5
Resources Test (W.N.2)	11.175
Debt Equity Ratio Test (W.N.3)	29.725
Maximum number of shares that can be bought back [least of the above]	11.175

Thus, the company can buy 11,17,500 Equity shares at ₹ 30 each.

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in lakh)**
Number of shares outstanding	78
25% of the shares outstanding	19.5

2. Resources Test

Particulars	
Paid up capital (₹ in lakh)	780
Free reserves (₹ in lakh) (625+52+148-24-240*)	561
Shareholders' funds (₹ in lakh)	1341
25% of Shareholders fund (₹ in lakh)	335.25
Buy-back price per share	30
Number of shares that can be bought back	11.175
**Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.*	

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

	Particulars	**₹ In lakh**
(a)	Loan funds (₹)	304
(b)	Minimum equity to be maintained after buy- back in the ratio of 2:1 (₹) (a/2)	152
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1043.75 (1341-297.25)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	891.75
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	29.725
	As per the provisions of the Companies Act, 2013, company	Qualifies

• *Loan funds have been taken without considering current liabilities. Alternatively, If current liabilities are considered, then the maximum number of shares that can be bought back as per debt equity ratio test will be 24.7875 lakhs.*

Alternatively, when current liabilities are considered as part of loan funds, in that case Debt Equity Ratio Test will be done as follows:

	Particulars	₹ in lakh
(a)	Loan funds (₹)	699
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	349.5
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1093.125 (1341 - 247.875)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	743.625
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	24.7875
	As per the provisions of the Companies Act, 2013, company	Qualifies

4. **Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method**

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1341 – x) – 152 = y

= 1189 – x =y (1)

Equation 2: Maximum Permitted Buy-Back x Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get

x = ₹ 297.25 and y = ₹ 891.75

Alternatively, when current liabilities are considered as part of loan funds, in that case

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1341 – x) – 349.5 = y

= 991.5 – x =y (1)

Equation 2: Maximum Permitted Buy-Back *X* Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get x = 247.875 and y = 743.625

(ii) Journal Entries for Buy Back ***(₹ in lakhs)***

Date	Particulars		Debit	Credit
2021				
1st April	6% Redeemable preference share capital A/c	Dr.	240	
	Premium on redemption of preference shares A/c	Dr.	24	
	To Preference shareholders A/c			264
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	264	
	To Bank A/c			264
	(Being payment made to shareholders)			
	General Reserve or P&L A/c*	Dr.	24	
	To Premium on redemption of preference shares A/c			24
	(Being premium on redemption of preference shares adjusted through securities premium)			
2nd April	Equity shares buy-back A/c	Dr.	335.25	
	To Bank A/c			335.25
	(Being 11.175 lakhs equity shares of ₹10 each bought back @ ₹30 per share)			
	Equity share capital A/c	Dr.	111.75	
	Securities Premium A/c	Dr.	52	
	General Reserve or P&L A/c	Dr.	171.50	
	To Equity Shares buy-back A/c			335.25
	(Being cancellation of shares bought back)			
	General reserve A/c	Dr.	351.75	
	To Capital redemption reserve A/c			351.75
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law ie. 240+ 111.75 lakhs)			

Date	Particulars		Debit	Credit
2nd April	7% Debentures A/c	Dr.	75	
	To Investment (own debentures) A/c			60
	To Profit on cancellation of own debentures A/c			15
	(Being cancellation of own debentures costing ₹ 60 lakhs, face value being ₹ 75 lakhs and the balance being profit on cancellation of debentures)			
4th April	Capital Redemption Reserve	Dr.	133.65	
	To Bonus Shares A/c			133.65
	(Being issue of one bonus equity share for every five equity shares held)			
	Bonus shares A/c	Dr.	133.65	
	To Equity share capital A/c			133.65
	(Being bonus shares issued)			

Working Note: Bonus Share to be issued =66.825 (78 - 11.175) lakh shares divided by 5 = 13.365 lakh shares.

Note: *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 complies with the Accounting Standards prescribed for them. Alternative entry considering otherwise is also possible by utilizing securities premium amount.

Question 41

Buy Back of Securities

Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

(*RTP November, 2022*)

Answer

Journal Entries in the books of Umesh Ltd.

			₹	₹
1.	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money on preference shares)			
2.	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			
3.	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4.	Equity share capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5.	Equity shareholders/ Equity shares buy back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back of shares)			
6.	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c		32,00,000	
	To Premium payable on buyback A/c			48,00,000
	(Being premium on buyback charged from securities premium and general reserve)			

Working Notes:

1. Calculation of amount used from General Reserve Account

		₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

Question 42

VIJ Ltd. has the following capital structure as on 31st March, 2022 :

		(₹ In Lakhs)
Equity share capital (Shares of ₹10 each fully paid)		990
Reserve and Surplus:		
General Reserve	720	
Securities Premium Account	270	
Profit & Loss Account	270	
Infrastructure development Reserve	540	1800
Loan Funds		5400

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September 2022 a proposal to buy- back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy- back, it was decided to offer a price of 20% over market value.

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

You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 3600 1akh or ₹ 4500 lakh.

The entire buy-back is completed by 09/12/2022, show the accounting entries withfull narrations in the company's books in each situation.

(*G-II, May, 2023*) (*10 Marks*)

Question Arrangement

Buy Back

Topic	Question Numbers
Simple Questions: Buyback Price Given	1, 3, 11, 17, 20, 22, 23, 27, 34, 37, 39, 41
Buyback with Bonus	9, 16, 28, 33, 38
Buyback with Redemption of Preferences	2, 19, 30, 29, 32, 36
Buyback: Redemption of Preferences with One Dimension	14, 4, 12
Limit Calculations	5, 6, 8, 18, 21, 24, 25, 31, 35, 42
Full Question with Limits	10, 13, 15, 26, 40
Theory	7

Amalgamation of Companies

Question 1

S. Ltd. is absorbed by P. Ltd. S Ltd. gives the following information on the date of absorption:

	₹
Sundry Assets	*13,00,000*
Share capital:	
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	*2,00,000*
5,000 Equity shares of ₹ 100 each (fully paid-up)	*5,00,000*
Reserves	*3,00,000*
6% Debentures	*2,00,000*
Trade payables	*1,00,000*

Additional information:

P. Ltd. has agreed:

(i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(ii) to issue to the debenture-holders in S Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;

(iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each issued at the market value ₹ 125 in lieu of every five shares held in S. Ltd.; and

(iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

(*Source: Illustration 1, Study Material*)

Answer:

The purchase consideration will be

	₹	*Form*
Preference shareholders: 2,000 ×3/4 ×100	1,50,000	9% Pref. shares
Equity shareholders: 5,000 ×20	1,00,000	Cash
5,000 × 6/5× 125	7,50,000	Equity shares
	10,00,000	

Note

1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of S Ltd. will be taken by P Ltd., which will then be settled by issuing new 8% debentures.
2. The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

Question 2

Following is the balance sheet of A Ltd. as on 31st March, 20X1

		Particulars	Notes	₹ (000)
		Equity and Liabilities		
1		***Shareholders' funds***		
		Share capital	*1*	*22,50*
	A	*Reserves and Surplus*	*2*	*9,00*
2	*B*	***Non-current liabilities***		
		Long-term borrowings	*3*	*7,00*
3	*A*	***Current liabilities***		
	A	*Trade Payables*		*5,00*
	A	*Total*		*43,50*
	B	***Assets***		
1		***Non-current assets***		
	A	*Property, Plant and Equipment*	*4*	*32,50*
	B	***Non-current investments***	*5*	*6,00*
2	*c*	***Current assets***		
		Inventories		*2,00*
		Trade receivables		*2,00*
		Cash and Cash equivalents		*1,00*
		Total		*43,50*

Notes to accounts

1	**Share Capital**		**₹ in ('000)**
	Equity share capital		
	1,50,000 Equity Shares of ₹ 10 each		*15,00*
	7,500 14% Preference Shares of ₹ 100 each		*7,50*
			22,50
2	***Reserves and Surplus***		
	General reserve		*9,00*
3	***Long-term borrowings***		
	Secured		
	15% Debentures		*7,00*
4	***Property, plant and Equipment***		
	Land and Building		*32,50*
5	***Non-current investments***		
	Investments at cost		*6,00*

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

(a) Discharge 15% debentures at a premium of 10% by issuing 15% debentures of X Ltd.

(b) PPE at 10% above the book value and investments at par value.

(c) Current assets at a discount of 10% and Current liabilities at book value.

(d) Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each.

(e) Issue 3 equity shares of ₹ 10 each for every 2 equity shares in B Ltd. and pay the balance in cash.

Calculate Purchase consideration.

(*Source: Illustration 2, Study Material*)

Answer:

Calculation of Purchase Consideration (Net Asset value Method)

Particulars	***(₹ in '000's)***
Value of assets taken over:	
Property, Plant and Equipment	35,75
Non-Current Investments	6,00
Current Assets	4,50
Total Assets (A)	46,25
Less: **Liabilities taken over:**	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	33,55
Mode of Purchase Consideration	
In the form of 15% Preference shares	8,25
In the form of Equity shares	22,50
In the form of Cash (Balance)	2,80
Total	33,55

Question 3

Let us consider the Balance Sheet of X Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹ (000)***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*100,00*
	B	*Reserves and Surplus*	*2*	*12,50*
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*40,00*
3		***Current liabilities***		
	A	*Trade Payables*		*20,00*
		Total		*172,50*
		Assets		
1		***Non-current assets***		
	A	*Property, Plant and Equipment*	*4*	*105,50*
	B	***Non-current investments***	*5*	*5,00*
2		***Current assets***		
	(a)	*Inventories*		*23,00*
	(b)	*Trade receivables*		*24,00*
	(c)	*Cash and Cash equivalents*		*15,00*
		Total		*172,50*

Notes to accounts

1	***Share Capital***		***₹ in (‘000)***
	Equity share capital		
	7,50,000 Equity Shares of ₹ 10 each		*75,00*
	25,000 14% Preference Shares of ₹ 100 each		*25,00*
			100,00
2	***Reserves and Surplus***		
	General reserve		*12,50*
			12,50
3	***Long-term borrowings***		
	Secured		
	14% Debentures		*40,00*
			40,00
4	***Property, plant and Equipment***		
	Land and Building		*50,00*
	Plant and machinery		*45,00*
	Furniture		*10,50*
			105,50
5	***Non-current investments***		
	Investments at cost		*5,00*
			5,00

Other Information:

(i) Y Ltd. takes over X Ltd. on 10th April, 20X1.

(ii) Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.

(iii) 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).

(iv) Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10.

Compute the purchase consideration.

(*Source: Illustration 3, Study Material*)

Answer:

Computation of Purchase consideration	*(₹ in ’000)*	*Form*
For Preference Shareholders of X Ltd.	3,000	30,000 15% Preference shares in Y Ltd.
For equity shareholders of X Ltd. (20/30 × 7,50,000) × ₹ 10 of ₹ 10 each	5,000	5,00,000 Equity shares of Y Ltd.
Total Purchase consideration	8,000	

Note: According to AS 14, amount paid to the debenture holders should not be included in the purchase consideration calculation. Such debentures will be taken over by Y Ltd. and then discharged by them later.

Question 4

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04. 20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3. 20X1:

		Particulars	Notes	Neel	Gagan
		Equity and Liabilities			
1		**Shareholders' funds**			
	A			7,75,000	8,55,000
		Share capital			
2				6,23,500	5,57,600
				13,98,500	14,12,600
		Current liabilities			
		Total			
1					
		Assets			
	A	**Non-current assets**	1	12,35,000	12,54,000
2		Property, Plant and Equipment		1,63,500	1,58,600
				13,98,500	14,12,600
		Current assets			
		Total			

Notes to accounts:

1	**Property, plant and Equipment**			
	Land and Building		7,50,000	6,40,000
	Plant and machinery		4,85,000	6,14,000
			12,35,000	12,54,000

Following is the additional information:

(i) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	₹	₹
Ist year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.20X1 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

(*Source: Illustration 4, Study Material*)

Answer:

(i) Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	***Neel***	***Gagan***
	₹	₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	4,75,000	5,25,000

The total profits- ₹ 4,75,000+ ₹ 5,25,000= ₹ 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profits.

	Neel	***Gagan***
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel	***Gagan***
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$\left[67,200 \times \frac{100}{12}\right] = 5,60,000₹ @ 10 \text{ each}$		
$\left[73,920 \times \frac{100}{12}\right] = 6,16,000₹ @ 10 \text{ each}$		61,600 shares

(ii) Total Purchase Consideration

	Neel	***Gagan***
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	8,45,000	9,31,000

Working Note:

Calculation of Net assets as on 31.3.20X1

	Neel	***Gagan***
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	(6,23,500)	(5,57,600)
	8,40,000	9,24,000

Note: Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

Question 5

Wye Ltd. acquires the business of Zed Ltd. whose balance sheet as at 31st March, 20X1 is as under:

		Particulars	Notes	₹
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	1	12,00,000
	B	*Reserves and Surplus*	2	1,58,000
2		***Non-current liabilities***		
	A	*Long-term borrowings*	3	2,00,000
3		***Current liabilities***		
	A	*Trade Payables*		1,20,000
	B	*Other current liabilities (Interest payable on debentures)*		12,000
		Total		16,90,000
		Assets		
1		***Non-current assets***		
	A	*Property, Plant and Equipment*	4	10,00,000
	B	*Intangible assets*	5	2,90,000
2		***Current assets***		
	A	*Inventories*		1,50,000
	B	*Trade receivables*		1,80,000
	C	*Cash and Cash equivalents*		70,000
		Total		16,90,000

Notes to accounts:

		₹
1	***Share Capital***	
	Equity Share capital (₹ 100 each)	8,00,000
	6% Preference Share capital (₹ 100 each)	4,00,000
		12,00,000
2	***Reserves and Surplus***	
	Capital reserve	1,00,000
	Profit and loss A/c	50,000
	Workmen compensation reserve (Expected liability ₹ 5,000)	8,000
		1,58,000
3	***Long-term borrowings***	
	6% Debentures	2,00,000
		2,00,000
4	***Property, Plant and Equipment***	
	Land and Building	4,00,000
	Plant and machinery	6,00,000
		10,00,000
5	***Intangible assets***	
	Goodwill	2,40,000
	Patents	50,000
		2,90,000

Wye Ltd. was to take over all assets (except cash) and liabilities (except for interest due on debentures) and to pay following amounts:

(i) ₹ 2,00,000 7% Debentures (₹ 100 each) in Wye Ltd. for the existing debentures in Zed Ltd.; for the purpose, each debenture of Wye Ltd. is to be treated as worth ₹ 105.

(ii) For each preference share in Zed Ltd. ₹ 10 in cash and one 9% preference share of ₹ 100 each in Wye Ltd.

(iii) For each equity share in Zed Ltd. ₹ 20 in cash and one equity share in Wye Ltd. of ₹ 100 each having the market value of ₹ 140.

(iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000 of Zed Ltd for the purpose of amalgamation.

(*Source: Illustration 5, Study Material*)

Answer:

Purchase Consideration:

			₹	***Form***
(i)	Preference Shares: ₹ 10 per share 40,000			Cash
	Preference shares	4,00,000	4,40,000	Preference shares
(ii)	Equity shares: ₹ 20 per share	1,60,000		Cash
	8,000 equity shares in			
	Wye Ltd. @ ₹ 140	11,20,000	12,80,000	Equity shares
			17,20,000	

Steps to close the Books of the Vendor Company

1. Open Realization Account and transfer all assets at book value.

   Exception: If cash is not taken over by the purchasing company, it should not be transferred.

   Note: Profit and Loss Account (Dr.) and expenses not written off are not assets and should not be transferred to the Realization Account.

   The journal entry in the above case is:

		₹	₹
Realization A/c	Dr.	16,20,000	
To Sundries —			
Goodwill			2,40,000
Land & Building			4,00,000
Plant & Machinery			6,00,000
Patents			50,000
Inventory			1,50,000
Trade receivables			1,80,000
(Transfer of assets to Realization Account on sale of business to Wye Ltd.)			

2. Transfer to the Realization Account the liabilities which the purchasing company is to take over. In case of the provisions, the portion which represents liability expected to arise in future should be so transferred and the portion which is not required (*i.e.,* the reserve portion) should be treated as profit. Accordingly, the following entry will be recorded:

		₹	₹
6% Debentures in Wye Ltd.	Dr.	2,00,000	
Workmen's Compensation Reserve	Dr.	5,000	
Trade payables	Dr.	1,20,000	
To Realization A/c			3,25,000
(Transfer of liabilities taken over by Wye Ltd. to Realization A/c)			

   For liabilities not take over by the purchasing company, the profit or loss on discharge of such liabilities shall be transferred to Realization Account.

3. Debit purchasing company and credit Realization Account with the purchase consideration.

Wye Ltd.-	Dr.		17,20,000
To Realization A/c			17,20,000
(Amount receivable from Wye Ltd. for sale of business)			

4. On receipt of the purchase consideration debit what is received (cash, debentures, shares etc.) and credit the purchasing company. Thus —

Cash	Dr.	2,00,000	
9% Preference shares in Wye Ltd.	Dr.	4,00,000	
Equity shares in Wye Ltd.	Dr.	11,20,000	
To Wye Ltd.			17,20,000
(Receipt of purchase consideration from the purchase company)			

5. Expenses of liquidation have to be dealt with according to the circumstances of each case.
   (a) If the vendor company has to bear and pay them:
   Realization Account should be debited and Cash Account credited.
   (b) If the expenses are to be borne by the purchasing company, the question may be dealt within one of the two ways mentioned below:
      (i) It may be ignored in the books of the vendor company.
      (ii) If the expenses are to be paid first by the vendor company and afterwards reimbursed by the purchasing company, the following two entries will be passed:
   (a) Debit Purchasing company and credit Cash Account when expenses are paid by the vendor company; and
   (b) Debit Cash Account and credit purchasing company (on the expenses being reimbursed).

   In the above mentioned case Wye Ltd. has to pay maximum of ₹ 10,000 only whereas, the amount spent is ₹ 12,500. Hence ₹ 2,500 is to be borne by Zed Ltd.; the entries required will be :

		₹	₹
Wye Ltd.	Dr.		10,000
Realization A/c	Dr.		2,500
To Cash A/c		12,500	
(Liquidation expenses out of which ₹ 10,000 is payable by Wye Ltd.)			
Cash A/c	Dr.		10,000
To Wye Ltd.		10,000	
(Account reimbursed by Wye Ltd. for expense)			

6. Liabilities not assumed by the purchasing company, have to be paid off. On payment, debit the liability concerned and credit cash. Any difference between the amount actually paid and the book figure must be transferred to the Realization Account. Zed Ltd. shall pass the following entries in this respect:

		₹	₹
Interest Outstanding	Dr.	12,000	
To Debentureholders A/c			12,000
(Amount due to debenture holders for debentures interest)			
Debentureholders	Dr.	12,000	
To Cash A/c			12,000
(Debentureholders paid cash ₹ 12,000 for outstanding interest)			

7. Credit the preference shareholders with the amount payable to them, debiting Preference Share Capital with the amount shown in the books, transferring the difference between the two, if any, to the Realization Account. Thus —

6% Pref. Share Capital A/c	Dr.	4,00,000	
Realization A/c	Dr.	40,000	
To Preference Shareholders A/c			4,40,000

(The amount due to preference shareholders for capital and the extra amount payable under the scheme of absorption)

Note: In the absence of any indication to the contrary, preference shareholders will be entitled only to the capital contributed by them. But if funds available after paying off creditors are not sufficient to satisfy the claim of preference shareholders fully, they will have to suffer a loss to the extent of the deficit.

8. Pay off preference shareholders by debiting them and crediting whatever is given to them. The entry in the above case is :

		₹	₹
Preference shareholders A/c	Dr.	4,40,000	
To Cash A/c 40,000			
To 9% Preference shares in Wye Ltd.			4,00,000
(Cash and preference shares in Wye Ltd. given to preference shareholders)			

9. Transfer equity share capital and account representing profit or loss (including the balance in Realization Account) to Equity Shareholders Account. This will determine the amount receivable by the equity shareholders. Zed Ltd. shall pass the following entries in this regard :

		₹	₹
Equity Share Capital A/c	Dr.	8,00,000	
Capital Reserve A/c	Dr.	1,00,000	
Profit and Loss A/c	Dr.	50,000	
Workmen's Compensation Reserve A/c	Dr.	3,000	
Realization A/c	Dr.	3,82,500	
To Equity Shareholders A/c			13,35,500
(Various accounts representing capital and profit transferred to Equity Shareholders Account)			

10. On satisfaction of the claims of the equity shareholders, debit their account and credit whatever is given to them. Hence:

Equity Shareholders A/c	Dr.	13,35,500	
To Equity Shares in Wye Ltd.			11,20,000
To Cash A/c (W.N.2)			2,15,500

Working Notes

1. Realization Account

	₹		₹
To Sundry Assets	16,20,000	By Sundry Liabilities	3,25,000
To Cash (excess expenses of liquidation)	2,500	By Wye Ltd.	17,20,000
To Preference Shareholders	40,000		
To Equity Shareholders A/c - profit transferred	3,82,500		
	20,45,000		20,45,000

2. Cash Account

	₹		₹
To Balance b/d	70,000	By Realization	2,500
To Wye Ltd. (consideration for amalgamation)	2,00,000	By Wye Ltd.	10,000
To Wye Ltd. (liquidation expenses reimbursed)	10,000	By Debenture-holders	12000
		By Preference shareholder	40000
		By Equity Shareholder (B/F)	215500
	280000		280000

Question 6

The following Balance Sheets are given as at 31st March, 20X1:

		Particulars	₹ Best Ltd. (in lakhs)	₹ Better Ltd. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital (shares of ₹ 100 each, fully pad)	20	10
	B	Reserves and Surplus	10	8
2		**Current liabilities**	20	2
		Total	50	20
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	25	15
	B	Non-current investments	5	-
2		**Current assets**	20	5
		Total	50	20

The following further information is given —

(a) *Better Limited issued bonus shares on 1st April, 20X1, in the ratio of one share for every two held, out of Reserves and Surplus.*

(b) *It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.*

(c) *The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.*

(d) *Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.*

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 20X1 after the takeover.

(*Source: Illustration 6, Study Material*)

Answer:

LEDGER OF BETTER LIMITED

Property, Plant and Equipment (PPE) Account

	₹		₹
To Balance b/d	15,00,000	By Realization A/c (transfer)	15,00,000

Current Assets Account

	₹		₹
To Balance b/d	5,00,000	By Realization A/c (transfer)	5,00,000

Liabilities Account

	₹		₹
To Realization A/c	2,00,000	By Balance b/d	2,00,000

Realization Account

	₹		₹
To PPE A/c	15,00,000	By Liabilities A/c	2,00,000
”Current Assets A/c	5,00,000	”Best Limited	15,00,000
		(Purchase Consideration)	
		”Shareholders’ A/c	3,00,000
		(Loss on Realization)	
	20,00,000		20,00,000

Share Capital Account

	₹		₹
To Sundry shareholders		By Balance b/d	10,00,000
A/c - (transfer)	15,00,000	”Reserves & Surplus A/c	
		(Bonus issue)	5,00,000
	15,00,000		15,00,000

Reserves & Surplus Account

	₹		₹
To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
” Sundry Shareholders	3,00,000		
	8,00,000		8,00,000

Best Ltd.

	₹		₹
To Realization A/c - Purchase		By Shares in Best Ltd	15,00,000
Consideration	15,00,000		
	15,00,000		15,00,000

Shares in Best Ltd.

	₹		₹
To Best Ltd.	15,00,000	By Sundry Shareholders A/c	15,00,000

Sundry Shareholders Account

	₹		
To Realization A/c (Loss)	3,00,000	By Share Capital A/c	15,00,000
		” Reserves & Surplus A/c	3,00,000
”Share in Best Ltd.	15,00,000		
	18,00,000		18,00,000

Journal of Best Ltd.

20X1		Dr. ₹	Cr. ₹
Apr. 1 Property, Plant and Equipment A/c	Dr.	15,00,000	
Current Assets A/c	Dr.	5,00,000	
To Liabilities A/c			2,00,000
To Liquidator of Better Ltd.			15,00,000
To Capital Reserve A/c			3,00,000
(Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of ₹ 15,00,000			

as per agreement dated ....)			
Liquidator of Better Ltd.	Dr.	15,00,000	
To Share Capital A/c			10,00,000
To Securities Premium A/c			5,00,000
(Discharge of Purchase consideration by the issue of equity shares of ₹ 10,00,000 at a premium of ₹ 50 per share as per agreement)			
Trade payables A/c	Dr.	1,00,000	
To Trade receivables A/c			1,00,000
(Amount due from Better Ltd., and included in its creditors taken over, cancelled against own Trade receivables)			
Capital Reserve A/c	Dr.	10,000	
To Current Asset (Stock) A/c			10,000
(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account. 20% on sale value of ₹50,000 shall be eliminated as unrealized profit)			

Working Note :

Calculation of Purchase consideration:

Issued Capital of Better Ltd. (after bonus issue) at ₹ 100 per share ₹ 15,00,000 Purchase consideration has been discharged by Best Ltd. by the issue of shares for ₹ 10,00,000 at a premium of ₹ 5,00,000. This gives the value of ₹ 150 per share.

Balance Sheet of Best Ltd. (After absorption)

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)		1	30,00,000
	(b)	Share capital	2	17,90,000
2		Reserves and Surplus		21,00,000
		Current liabilities		
		Total		68,90,000
		Assets		
1		**Non-current assets**		
	(a)	Property, Plant and Equipment	3	40,00,000
	(b)	Non-current investments		5,00,000
2		**Current assets**		23,90,000
		Total		68,90,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & Subscribed		
30,000 shares of ₹ 100 (of the above 10,000 shares have been issued for consideration other than cash)		30,00,000
Total		30,00,000

2	**Reserves and Surplus**			2,90,000
	Capital Reserve (3,00,000 – 10,000)			5,00,000
	Securities Premium	Total		10,00,000
	Other reserves and surplus			17,90,000
3	**Property, Plant and Equipment**			
	PPE	Total	25,00,000	
	Acquired during the year		15,00,000	40,00,000
				40,00,000

Question 7

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies as at the date of amalgamation was as under:

		Particulars	***Notes***	***₹ K Ltd.***	***₹ L Ltd.***
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	*1*	*12,00,000*	*6,00,000*
	B	*Reserves and Surplus*	*2*	*3,71,375*	*1,97,175*
2		***Non-current liabilities***			
	A	*Long-term borrowings*	*3*	*2,00,000*	*2,00,000*
3		***Current liabilities***			
	A	*Trade Payables*		*1,00,000*	*2,10,000*
		Total		*18,71,375*	*12,07,175*
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	*4*	*11,30,000*	*8,20,000*
	B	*Intangible assets*	*5*	*80,000*	*-*
2		***Current assets***			
	A	*Inventories*		*2,25,000*	*1,40,000*
	B	*Trade receivables*		*2,75,000*	*1,75,000*
	C	*Cash and Cash equivalents*	*6*	*1,61,375*	*72,175*
		Total		*18,71,375*	*12,07,175*

Notes to accounts

	Share Capital		***K Ltd.***	***L Ltd.***
1	*Equity shares of ₹ 100 each*		*8,00,000*	*3,00,000*
	7% Preference Shares of ₹ 100 each		*4,00,000*	*3,00,000*
			12,00,000	*6,00,000*
2	***Reserves and Surplus***			
	General reserve		*-*	*1,00,000*
	Profit and loss account		*3,71,175*	*97,175*
			3,71,175	*1,97,175*

	Share Capital		*K Ltd.*	*L Ltd.*
3	***Long-term borrowings***			
	5% Debentures		*2,00,000*	*-*
	Secured loan		*-*	*2,00,000*
			2,00,000	*2,00,000*
4	***Property, plant and Equipment***			
	Land and Building		*4,50,000*	*3,00,000*
	Plant and machinery		*6,20,000*	*5,00,000*
	Furniture and fittings		*60,000*	*20,000*
			11,30,000	*8,20,000*
5	***Intangible assets***			
	Goodwill		*80,000*	*-*
			80,000	*-*
6	***Cash and Cash Equivalents***			
	Cash at Bank		*1,20,000*	*55,000*
	Cash in hand		*41,375*	*17,175*
			1,61,375	*72,175*

The terms of amalgamation are as under:

(A) (1) The assumption of liabilities of both the Companies.

(2) Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.

(3) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.

(4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd.

(B) (1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.

(2) The trade receivables of K Ltd. include ₹ 20,000 due from L Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each, ₹ 18 paid up at premium of ₹ 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

(*Source: Illustration 7, Study Material*)

Answer:

Books of K Ltd.

Realization Account

		₹			₹
To	Goodwill	80,000	By	5% Debentures	2,00,000
To	Land & Building	4,50,000	By	Trade payables	1,00,000
To	Plant & Machinery	6,20,000	By	LK Ltd.	15,60,000
To	Furniture & Fitting	60,000		(Purchase consideration)	
To	Trade receivables	2,75,000	By	Equity shareholders A/c (loss)	51,375
To	Stores & inventory	2,25,000			
To	Cash at Bank	1,20,000			
To	Cash in hand	41,375			
To	Preference shareholders (excess payment)	40,000			
		19,11,375			19,11,375

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	51,375	By	Share capital	8,00,000
To	Equity Shares in LK Ltd.	10,56,000	By	Profit & Loss A/c	3,71,375
To	Cash	64,000			
		11,71,375			11,71,375

7% Preference Shareholders Account

		₹		₹
To	Preference Shares in LK Ltd.	4,40,000	By Share capital	4,00,000
			By Realization A/c	40,000
		4,40,000		4,40,000

LK Ltd. Account

	₹			₹
To Realization A/c	15,60,000	By Equity Shares in LK Ltd.		
		For Equity	10,56,000	
		Pref.	4,40,000	14,96,000
		By Cash		64,000
	15,60,000			15,60,000

Books of L Ltd.

Realization Account

		₹			₹
To	Land & Building	3,00,000	By	Trade payables	2,10,000
To	Plant & Machinery	5,00,000	By	Secured loan	2,00,000
To	Furniture & Fittings	20,000	By	LK Ltd. (Purchase	
To	Trade receivables	1,75,000		consideration)	7,90,000
To	Inventory of stores	1,40,000	By	Equity shareholders	A/c—
To	Cash at bank	55,000		Loss	37,175
To	Cash in hand	17,175			
To	Pref. shareholders	30,000			
		12,37,175			12,37,175

Equity Shareholders Account

		₹			₹
To	Equity shares in LK Ltd.	3,96,000	By	Share Capital	3,00,000
To	Realization	37,175	By	Profit & Loss A/c	97,175
To	Cash	64,000	By	Reserve	1,00,000
		4,97,175			4,97,175

7% Preference Shareholders Account

	₹		₹
To Preference Shares in LK Ltd.	3,30,000	By Share capital	3,00,000
		By Realization A/c	30,000
	3,30,000		3,30,000

LK Ltd. Account

		₹				₹
To	Realization A/c	7,90,000	By	Equity shares in LK Ltd.		
				For Equity	3,96,000	
				Preference	3,30,000	7,26,000
			By	Cash		64,000
		7,90,000				7,90,000

Working Notes:

(i) Purchase consideration

	K Ltd. ₹	***L Ltd.*** ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,40,000	3,30,000
Equity Shares at ₹ 22 per share	10,56,000	3,96,000
Cash [See W.N. (*ii*)]	64,000	64,000
	15,60,000	7,90,000

(ii) Value of Net Assets

		K Ltd. ₹		***L Ltd.*** ₹
Goodwill		80,000		
Land & Building		4,50,000		3,00,000
Plant & Machinery		6,20,000		5,00,000
Furniture & Fittings		60,000		20,000
Trade receivables less 2.5%		2,68,125		1,70,625
Inventory less 2%		2,20,500		1,37,200
Cash at Bank		1,20,000		55,000
Cash in hand		41,375		17,175
Less : Debentures	2,00,000	18,60,000	–	12,00,000
Trade payables	1,00,000		2,10,000	
Secured Loans	–	(3,00,000)	2,00,000	(4,10,000)
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		64,000		64,000

Question 8

Consider the following balance sheets of X Ltd. and Y Ltd. as at 31st March, 20X1:

		Particulars	**Notes**	**₹ X Ltd (‘000)**	**₹ Y Ltd. (‘000)**
		Equity and Liabilities			
1		***Shareholders’ funds***			
	A	*Share capital*	1	72,00	47,00
	B		2	15,50	10,50
2		*Reserves and Surplus*			
	A		3	5,00	3,50
		Non-current liabilities			
3					
	A	*Long-term borrowings*		4,50	3,50
	B			2,00	1,50
		Current liabilities		99,00	66,00
		Trade Payables			
1					
	A	*Other current liabilities*	4	63,25	36,00
	B	*Total*	5	7,00	5,00
		Assets			
2		***Non-current assets***			
	A	*Property, Plant and Equipment*		12,50	9,50
	B	*Non-current investments*		9,00	10,30
	C	***Current assets***		7,25	5,20
		Inventories		99,00	66,00
		Trade receivables			
		Cash and Cash equivalents			
		Total			

Notes to accounts

			X Ltd (‘000)	***Y Ltd (‘000)***
1	***Share Capital***			
	Equity share capital (₹ 10 each)		50,00	30,00
	14% Preference Shares capital ₹ 100 each		22,00	17,00
			72,00	47,00
2	***Reserves and Surplus***			
	General reserve		5,00	2,50
	Export profit reserve		3,00	2,00
	Investment allowance reserve		-	1,00
	Profit and loss account		7,50	5,00
			15,50	10,50
3	***Long-term borrowings***			
	13% Debentures of ₹ 100 each		5,00	3,50
4	***Property, Plant and Equipment***			
	Land and Building		25,00	15,50
	Plant and machinery		32,50	17,00
	Furniture		5,75	3,50
			63,25	36,00
5	***Non-current investments***			
	Investments at cost		7,00	5,00
			7.00	5,00

X Ltd. takes over Y Ltd. on 1st April, 20X1. X Ltd. discharges the purchase consideration as below:

(i) Issued 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of Y Ltd.

(ii) Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd. The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

(a) the amalgamation is in the nature of merger.

(b) the amalgamation is in the nature of purchase.

(*Source: Illustration 8, Study Material*)

Answer:

(a) Amalgamation in the nature of merger:

(i) Journal Entries in the Books of X Ltd.

		Dr. ₹	***Cr.*** ₹
Business Purchase	Dr.	53,70,000	
To Liquidator of Y Ltd.			53,70,000
(Consideration payable for business taken over from Y Ltd)			
Sundry Assets of Y Ltd	Dr.	66,00,000	
General Reserve (Related to X Ltd)		4,20,000	
To Sundry Liabilities of Y Ltd			8,50,000
To Export profit Reserve			2,00,000
To Investment allowance Reserve			1,00,000
To Profit & Loss			5,00,000
To Business Purchase			53,70,000
(Incorporation of various assets and liabilities taken over from Y Ltd. at book values and difference of share capital and purchase consideration being adjusted with free Reserves)			
Liquidator of Y Ltd.	Dr.	53,70,000	
To Equity Share Capital			35,00,000
To 15% Preference Share Capital			18,70,000
(Discharge of consideration for Y Ltd.'s business)			
Sundry Liabilities in Y Ltd (13% Debentures in Y Ltd.)	Dr.	3,50,000	
To 13% Debentures			3,50,000
(Allotment of 13% Debentures to debenture holders of Y Ltd. at Par)			

(ii) Balance Sheet of X Ltd.

		Particulars	***Notes***	***₹ in '000***
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850

		Particulars	Notes	₹ in '000
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		16,500
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		16,500

Notes to accounts

				₹ in '000
1	**Share Capital**			
	Equity share capital			
	8,50,000 Equity Shares of ₹ 10 each			8,500
	Preference share capital			
	18,700, 15% Preference Shares of ₹ 100 each			1,870
	22,000, 14% Preference Shares of ₹ 100 each			2,200
	Total			12,570
2	**Reserves and Surplus**			
	General Reserve of X Ltd.	500		
	Add: General reserve of Y Ltd.	250	750	
	Less: Adjustment for amalgamation*		(670)	80
	Export Profit Reserve of X Ltd.		300	
	Add: Export Profit Reserve of Y Ltd.		200	500
	Investment Allowance Reserve			100
	Profit & Loss A/c of X Ltd.		750	
	Add: Profit & Loss A/c of Y Ltd.		500	1,250
	Total			1,930
3	**Long-term borrowings**			
	Secured			
	8,500 13% Debentures of ₹ 100 each			850
	Total			850
4	**Property, Plant and Equipment**			
	Land & Buildings			4,050
	Plant & Machinery			4,950
	Furniture & Fittings			925
	Total			9,925

*The difference between the amount recorded as share capital issued and the amount of share capital of transferor-company should be adjusted in reserves. Thus, Adjustment for amalgamation = ₹ '000 (53,70 – 47,00) = ₹ ('000) 670

(b) ***Amalgamation in the nature of purchase:***

(i) Journal Entries in the Books of X Ltd.

		Dr. ₹	Cr. ₹
Business Purchase	Dr.	53,70,000	
To Liquidator of Y Ltd.			53,70,000
(Consideration payable for business taken over from Y Ltd)			
Sundry Assets of Y Ltd	Dr.	66,00,000	
To Sundry Liabilities of Y Ltd			8,50,000
To Capital Reserve			3,80,000
To Business Purchase			53,70,000
(Incorporation of various assets and liabilities taken over from Y Ltd. at book values and difference of Net assets and purchase consideration being credited to Capital reserve)			
Liquidator of Y Ltd.	Dr.	53,70,000	
To Equity Share Capital			35,00,000
To 15% Preference Share Capital			18,70,000
(Discharge of consideration for Y Ltd.'s business)			
13% Debentures in Y Ltd.	Dr.	3,50,000	
To 13% Debentures			3,50,000
(Allotment of 13% Debentures to debenture holders of Y Ltd. at Par)			

Balance Sheet of X Ltd.

		Particulars	Notes	₹ in'000
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	12,570
	(b)	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	(a)	Long-term borrowings	3	850
3		**Current liabilities**		
	(a)	Trade Payables		800
	(b)	Other current liabilities		350
		Total		16,500
		Assets		
1		**Non-current assets**		
	(a)	Property, Plant and Equipment	4	9,925
	(b)	Non-current investments		1,200
2		**Current assets**		
	(a)	Inventories		2,200
	(b)	Trade receivables		1,930
	(c)	Cash and cash equivalents		1,245
		Total		16,500

Notes to accounts

			₹ in'000
1	**Share Capital**		
	Equity share capital		
	8,50,000 Equity Shares of ₹ 10 each		8,500
	Preference share capital		
	18,700, 15% Preference Shares of ₹ 100 each		1,870
	22,000, 14% Preference Shares of ₹ 100 each		2,200
	Total		12,570
2	**Reserves and Surplus**		
	Capital Reserve		380
	General Reserve		500
	Amalgamation adjustment reserve		(300)
	Export Profit Reserve		500
	Investment Allowance Reserve		100
	Surplus (Profit & Loss A/c)		750
	Total		1,930
3	**Long-term borrowings**		
	Secured		
	8,500 13% Debentures of ₹ 100 each		850
	Total		850
4	**Property, Plant and Equipment**		
	Land & Buildings		4,050
	Plant & Machinery		4,950
	Furniture & Fittings		925
	Total		9,925

Workings Notes: Capital Reserve arising on Amalgamation:

		₹ ('000)	₹ ('000)
(A)	Net Assets taken over:		
	Sundry Assets		66,00
	Less: 13% Debentures	3,50	
	Trade payables	3,50	
	Other current liabilities	1,50	(8,50)
			57,50
(B)	Purchase consideration:		
	To Equity Shareholders of Y Ltd.		35,00
	To Preference Shareholders of Y Ltd.		18,70
			53,70
(C)	Capital Reserve (A – B)		3,80

Question 9

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹ P Ltd***	***₹ Q Ltd***
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	*1*	*8,00,000*	*4,00,000*
	B	*Reserves and Surplus*		*3,00,000*	*2,00,000*

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
2		***Non-current liabilities***			
	A		2	2,00,000	1,50,000
		Long-term borrowings			
3					
	A	***Current liabilities***		2,50,000	1,50,000
		Trade Payables		15,50,000	9,00,000
		Total			
1					
	A	***Assets***		7,00,000	2,50,000
	B	***Non-current assets***		80,000	80,000
2					
		Property, Plant and Equipment			
	A	*Non-current investments*		2,40,000	3,20,000
	B			4,20,000	2,10,000
	C	***Current assets***		1,10,000	40,000
		Inventories		15,50,000	9,00,000
		Trade receivables			
		Cash and Cash equivalents			
		Total			

Notes to accounts

			P Ltd.	Q Ltd.
1	***Share Capital***			
	Equity shares of ₹ 10 each		6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each		2,00,000	1,00,000
			8,00,000	4,00,000
2	***Long term borrowings***			
	12% Debentures		2,00,000	1,50,000
			2,00,000	1,50,000

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

(v) Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

(*Source: Illustration 9, Study Material*)

Answer:

(a) Journal Entries in the Books of P Ltd.

		Dr. ₹	***Cr.*** ₹
Property, Plant and Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	60,000	
To Equity Dividend			60,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	60,000	
To Bank Account (Payment of equity dividend)			60,000
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken over from Q Ltd.)			
Property, Plant and Equipment (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank	Dr.	10,000	
(₹ 40,000 –₹ 30,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.'s business)			
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)			

		Dr. ₹	Cr. ₹
Sundry Creditors of Q Ltd.	Dr.	10,000	
To Sundry Debtors of P Ltd. (Cancellation of mutual owing)			10,000
Goodwill	Dr.	30,000	
To Bank			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve To Goodwill	Dr.	30,000	
(Being goodwill set off)			30,000

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8 = 40,000$ shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e. ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹$\frac{1,00,000 \times 90}{100}$ ₹90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 4,90,000

Question 10

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 20X1 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	1	11,00,000	4,00,000
	B	*Reserves and Surplus*	2	70,000	70,000
2		***Non-current liabilities***			
	A	*Long term provisions*	3	50,000	20,000
3		***Current liabilities***			
	A	*Trade Payables*		1,30,000	80,000
		Total		13,50,000	5,70,000
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	4	8,00,000	2,50,000
	B	*Intangible assets*	5	50,000	25,000
2		***Current assets***			
	A	*Inventories*		2,50,000	1,75,000
	B	*Trade receivables*		2,00,000	1,00,000
	C	*Cash and Cash equivalents*		50,000	20,000
		Total		13,50,000	5,70,000

Notes to accounts

			Hari Ltd.	Vayu Ltd.
1	***Share Capital***			
	Equity shares of ₹ 10 each		10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each		1,00,000	--
	10% Preference Shares of ₹ 100 each		--	1,00,000
			11,00,000	4,00,000

			Hari Ltd.	Vayu Ltd.
2	***Reserves and Surplus***			
	General reserve		*70,000*	*70,000*
			70,000	*70,000*
3	***Long term Provisions***			
	Retirement gratuity fund		*50,000*	*20,000*
			50,000	*20,000*
4	***Property, plant and Equipment***			
	Land and Building		*3,00,000*	*1,00,000*
	Plant and machinery		*5,00,000*	*1,50,000*
			8,00,000	*2,50,000*
5	***Intangible assets***			
	Goodwill		*50,000*	*25,000*
			50,000	*25,000*

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 20X1.

(*Source: Illustration 10, Study Material*)

Answer:

In the Books of Vayu Ltd.

Realization Account

		₹			₹
To	Sundry Assets	5,70,000	By	Retirement Gratuity Fund	20,000
To	Preference Shareholders (Premium on Redemption)	10,000	By	Trade payables Hari Ltd.	80,000
To	Equity Shareholders (Profit on Realization)	50,000	By	(Purchase Consideration)	5,30,000
		6,30,000			6,30,000

Equity Shareholders Account

		₹			₹
To	Equity Shares of Hari Ltd.	4,20,000	By	Share Capital	3,00,000
			By	General Reserve	70,000
			By	Realization Account (Profit on realization)	50,000
		4,20,000			4,20,000

Preference Shareholders Account

		₹			₹
To	9% Preference Shares of Hari Ltd.	1,10,000	By	Preference Capital Share	1,00,000
			By	Realization Account (Premium Redemption on of Preference Shares)	10,000
		1,10,000			1,10,000

Hari Ltd. Account

	₹		₹
To Realization Account	5,30,000	By 9% Preference Shares	1,10,000
		By Equity Shares	4,20,000
	5,30,000		5,30,000

In the Books of Hari Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**	3	70,000
	A	Long-term provisions		2,10,000
3		**Current liabilities**		7,500
	A	Trade Payables		19,87,500
	B	Short term provision		
		Total		
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	11,10,000
	B	Intangible assets	5	1,00,000
2		**Current assets**		4,07,500
	A	Inventories	6	3,00,000
	B	Trade receivables		70,000
	C	Cash and cash equivalents		
		Total		19,87,500

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000
	Preference share capital		2,10,000
	2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		
	Total		16,10,000
2	**Reserves and Surplus**		
	Securities Premium		20,000
	General Reserve		70,000
	Total		90,000
3	**Long-term provisions**		70,000
	Retirement Gratuity fund		
	Total		70,000
4	**Short term Provisions**		
	Provision for Doubtful Debts		7,500
5	**Property, Plant and Equipment**		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		11,10,000
6	**Intangible assets**		1,00,000
	Goodwill		
7	**Trade receivables**		3,00,000

Working Notes:

Purchase Consideration:	₹
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
Retirement Gratuity Fund	(20,000)
Trade payables	(80,000)
Net Assets/Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

Question 11

The following are the Balance Sheets of A Ltd. and B Ltd. as at 31.3.20X1:

		Particulars	Notes	₹ A Ltd (in'000)	₹ B Ltd (in'000)
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	1	2,000	1,000
	B	*Reserves and Surplus*	2	1,000	(800)
2		***Non-current liabilities***			
	A	*Long-term borrowings*	3	750	450
3		***Current liabilities***			
	A	*Trade Payables*		300	300
	B	*Short term Borrowings – Bank overdraft*		--	50
		Total		4,050	1,000
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*		2,700	850
	B	*Non-current investments*		700	--
2		***Current assets***			
	A	*Trade receivables*		400	150
	B	*Cash and Cash equivalents (cash at bank)*		250	--
		Total		4050	1000

Notes to accounts

1	Share capital	A Ltd. ('000)	B Ltd. ('000)
	Equity shares of ₹ 100 each	2000	1000
		2000	1000
2	***Reserves and Surplus***		
	General reserve	1000	--
	Profit and loss A/c (debit balance)	--	(800)
		1000	(800)
3	***Long term borrowings***		
	10% debentures	500	--
	Loan from banks	250	450
		750	450

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) *Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.*

(ii) *B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).*

(iii) *Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.*

(iv) *Trade payables of B Ltd. includes ₹ 100 thousands payable to A Ltd.*

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

(*Source: Illustration 11, Study Material*)

Answer:

Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd. will be issued against 20,000 equity shares of A Ltd.)	20,000 shares

Journal Entries in the books of B Ltd.

Date			(₹ in thousands)	
20X1			Dr.	Cr.
March,31	Loan from bank A/c	Dr.	60	
	To Capital reduction A/c			60
	(Being loan from bank waived off to the extent of ₹ 60 thousand)			
	Equity share capital A/c (₹ 100)	Dr.	1,000	
	To Equity share capital A/c (₹ 10)			100
	To Capital reduction A/c			900
	(Being equity shares of ₹ 100 each reduced to ₹ 10 each)			
	Equity share capital A/c (₹ 10)	Dr.	100	
	To Equity share capital A/c (₹ 100 each)			100
	(Being 10 equity shares of ₹ 10 each consolidated to one share of ₹ 100 each)			
	Capital reduction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Property, plant and equipment A/c	Dr.	2,700	
	Investment A/c	Dr.	700	
	Trade receivables A/c Cash at bank A/c	Dr.	400	
	To Trade payables A/c	Dr.	250	
	To Loans from bank A/c			300
	To 10% Debentures A/c			250
	To Liquidator of A Ltd. A/c			500
	To Reserves A/c			2,000
	(Being assets, liabilities and reserves taken over under pooling of interest method and amount due to Liquidator)			1,000
	Liquidator of A Ltd. A/c	Dr.	2,000	
	To Equity share capital A/c			2,000
	(Being payment made to liquidators of A Ltd. by allotment of 20,000 new equity shares)			
	Trade payables A/c	Dr.	100	
	To Trade receivables A/c (Being mutual owing cancelled)			100

Balance Sheet of B Ltd. after merger as at 31.3.20X1

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	2,100
	b	Reserves and Surplus	2	1,160

		Particulars	Notes	₹ in '000
2		**Non-current liabilities**		
	a	Long term borrowings	3	1,140
3		**Current liabilities**		
	a	Trade payables		500
	b	Short term borrowings	4	50
		Total		4,950
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment		3,550
	b	Non-current investments		700
2		**Current assets**		
	a	Trade receivables		450
	b	Cash and cash equivalents		250
		Total		4,950

Notes to accounts

			₹ in '000
1	**Share Capital**		
	21,000, Equity shares of ₹ 100 each fully paid		2,100
	(Out of the above, 20,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	Capital reserve	160	
	General reserve	1,000	
	Total		1,160
3	**Long Term Borrowings**		
	10% Debentures	500	
	Loan from Bank (250+450-60)	640	1,140
4	**Short term borrowings**		
	Bank overdraft		50

Question 12

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

(*Source: Question 7, Study Material*)

Answer

Refer Class notes

Question 13

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

(*Source: Question 8, Study Material*)

Answer

Refer Class notes.

Question 14

The following are the Balance Sheets of Yes Ltd. and No Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹ Yes Ltd (in crores)***	***₹ No Ltd (in crores)***
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	12	5
	B	Reserves and Surplus		88	10
2		**Non-current liabilities**			
	A	Long term borrowings	2	--	10
3		**Current liabilities**		33	15
		Total		133	40
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	3	20	6
	B	Non-current investments	4	13	--
2		**Current assets**		100	34
		Total		133	40

Notes of accounts

			Yes Ltd.	**No Ltd.**
1	**Share Capital**			
	Equity share capital			
	Authorized share capital		25	5
	Issued and subscribed:			
	Equity shares of ₹ 10 each fully paid		12	5
			12	5
2	**Long term borrowings**			
	Unsecured loan from Yes Ltd.		--	10
			--	10
	Property, Plant and Equipment			
	Gross value		70	30
	Depreciation		(50)	(24)
			20	6
4	**Non-current investments**			
	30 lakhs equity shares of ₹ 10 each		3	--
	Long term loan to No Ltd.		10	--
			13	--

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of ₹ 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above.

(*Source: Question 9, Study Material*)

Answer

Journal Entries in the books of No Ltd.

(Rupees in crores)

		Dr.	*Cr.*
Realization Account	Dr.	64.00	
To Property, plant and equipment Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realization Account)			
Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realization Account			49.00
(Being the transfer of liabilities and provision to Realization Account)			
Yes Ltd.	Dr.	1.2	
To Realization Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realization Account)			
Equity Shareholders Account	Dr.	13.80	
To Realization Account			13.80
(Being the loss on Realization transferred to equity shareholders account)			
Equity Share Capital Account	Dr.	5.00	
Reserves and Surplus Account	Dr.	10.00	
To Equity Shareholders Account			15.00
(Being the amount of share capital, reserves and surplus credited to equity shareholders account)			
Equity shares of Yes Ltd.	Dr.	1.20	
To Yes Ltd.			1.20
(Being the receipt of 10 lakhs equity shares of ₹ 10 each at ₹ 12 per share for allotment to shareholders)			
Equity shareholders Account	Dr.	1.20	
To Equity shares of Yes Ltd.			1.20
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the books of Yes Ltd.

(Rupees in crores)

		Dr.	*Cr.*
Business Purchase Account	Dr.	1.2	
To Liquidator of No Ltd. Account			1.2
(Being the amount of purchase consideration agreed under approved scheme of amalgamation- W.N. 1)			
Property, plant and equipment	Dr.	6.00	
Current Assets	Dr.	34.00	
To Current Liabilities			15.00
To Unsecured Loan (from Yes Ltd.)			10.00

To Business Purchase Account			1.20
To Reserve & Surplus A/c			10.00
To Profit & loss A/c*			3.80
(Being the assets and liabilities taken over and the surplus transferred to Profit and loss account)			
Liquidator of No Ltd.	Dr.	1.20	
To Equity Share Capital Account			1.00
To Securities Premium Account			0.20
(Being the allotment to shareholders of No Ltd. 10 lakhs equity shares of ₹ 10 each at a premium of ₹ 2 per share)			
Unsecured Loan (from Yes Ltd.)	Dr.	10.00	
To Loan to No. Ltd.			10.00
(Being the cancellation of unsecured loan given to No Ltd.)			

Working Note:

Purchase Consideration *₹ in crores*

$\frac{50\text{ lakhs}}{5} \times ₹\,12$ i.e., 10 lakhs equity shares at `12 per share 1.20

Number of equity shares of ₹ 10 each to be issued $\left[\frac{1.20\text{ crores}}{12}\right] = 10\text{ lakhs.}$

Question 15

The following are the Balance Sheets of X Ltd. and Y Ltd :

		Particulars	***Notes***	***₹ X Ltd.***	***₹ Y Ltd.***
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	1,00,000	50,000
	B	Reserves and Surplus	2	10,000	(10,000)
2		**Non-current liabilities**			
	A	Long term borrowings	3	--	15,000
3		**Current liabilities**			
	A	Trade Payables		25,000	5,000
		Total		135,000	60,000
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		1,20,000	60,000
	B	Non-current investments	4	15,000	--
		Total		135,000	60,000

* As amalgamation in the nature of merger so balancing figure will be transferred to Profit & Loss account.

Notes to accounts

1	**Share Capital**		**X Ltd.**	**Y Ltd.**
	Equity share capital		1,00,000	50,000
			1,00,000	50,000
2	**Reserves and Surplus**			
	Profit and loss A/c		10,000	--
	Profit and loss A/c (debit balance)		--	(10,000)
			10,000	(10,000)
3	**Long term borrowings**			
	Loan from X Ltd.		--	15,000
4	**Non-current investments**			
	Loan to Y Ltd.		15,000	--
			15,000	--

A new company XY Ltd. is formed to acquire the sundry assets and trade payables of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at ₹ 1,00,000. The debt due to X Ltd. is also to be discharged in shares of XY Ltd. Show the Ledger Accounts to close the books of X Ltd.

(*Source: Question 10, Study Material*)

Answer

Books of X Ltd.

Realization Account

	₹		₹
To Sundry Assets	1,20,000	By Trade payables	25,000
		By XY Ltd. (Purchase consideration)	75,000
		By Shareholders (Loss on realization)	20,000
	1,20,000		1,20,000

Shareholders Account

	₹		₹
To Realization Account (Loss)	20,000	By Equity Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		1,10,000

Loan Y Ltd.

	₹		₹
To Balance b/d	15,000	By Shares in XY Ltd.	15,000

Shares in XY Ltd.

	₹		₹
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		90,000

XY Ltd.

	₹		₹
To Realization Account	75,000	By Shares in XY Ltd.	75,000

Question 16

Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The balance sheets of both the companies were as under:

		Particulars	*Notes*	*Super Express Ltd.* ₹	*Fast Express Ltd.* ₹
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	20,00,000	10,00,000
	B	Reserves and Surplus	2	1,00,000	2,60,000
2		**Non-current liabilities**			
	A	Long term provisions	3	1,00,000	--
3		**Current liabilities**			
	A	Trade Payables		60,000	40,000
		Total		22,60,000	13,00,000
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	14,00,000	11,00,000
	B	Intangible assets	5	--	1,00,000
2		**Current assets**			
	A	Inventories		3,00,000	40,000
	B	Trade receivables		2,40,000	40,000
	C	Cash and Cash equivalents	6	3,20,000	20,000
		Total		22,60,000	13,00,000

Notes to accounts

		Super Express Ltd. ₹	*Fast Express Ltd.* ₹
1	**Share Capital**		
	Equity shares of ₹ 100 each	20,00,000	10,00,000
2	**Reserves and Surplus**		
	Insurance reserve	1,00,000	--
	Employee profit sharing reserve	--	60,000
	Reserve account	--	1,00,000
	Surplus	--	1,00,000
		1,00,000	2,60,000
3	**Long term provisions**		
	Provident fund	1,00,000	--
	Total	1,00,000	--
4	**Property, Plant and Equipment**		
	Land and Building	10,00,000	6,00,000
	Plant and machinery	4,00,000	5,00,000
		14,00,000	11,00,000

		Super Express Ltd. ₹	*Fast Express Ltd.*₹
5	**Intangible assets**		
	Goodwill	--	1,00,000
		--	1,00,000
6.	**Cash and Cash Equivalents**		
	Cash at Bank	2,20,000	10,000
	Cash in hand	1,00,000	10,000
		3,20,000	20,000

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration amounting to 30,000 (20,000 for Super-Fast Express Ltd and 10,000 for Fast Express Ltd.).

Prepare opening balance sheet of Super Fast Express Ltd. considering pooling method.

(*Source: Question 11, Study Material*)

Answer

Balance Sheet of Super Fast Express Ltd

Particulars		Notes	₹
	Equity and Liabilities		
1	**Shareholders' funds**		
	(a) Share capital	1	30,00,000
	(b) Reserves and Surplus	2	3,60,000
2	**Non-current liabilities**		
	(a) Long-term provisions	3	1,00,000
3	**Current liabilities**		
	(a) Trade Payables		1,00,000
	Total		35,60,000
	Assets		
1	Non-current assets		
	(a) Property, Plant and Equipment	4	25,00,000
	(b) Intangible assets	5	1,00,000
2	**Current assets**		
	Inventories		3,40,000
	Trade receivables		2,80,000
	Cash and cash equivalents	6	3,40,000
	Total		35,60,000

Notes to Accounts

		₹
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of ₹ 100 each	30,00,000
	Total	30,00,000
2	**Reserves and Surplus**	
	Reserve account	1,00,000
	Surplus	1,00,000

		₹
	Insurance reserve	1,00,000
	Employees profit sharing account	60,000
	Total	3,60,000
3	**Long-term provisions**	
	Provident fund	1,00,000
	Total	1,00,000
4	**Property, Plant and Equipment**	
	Buildings	16,00,000
	Machinery	9,00,000
	Total	25,00,000
5	**Intangible assets**	
	Goodwill	1,00,000
	Total	1,00,000
6	**Cash and cash equivalents**	
	Balances with banks	2,30,000
	Cash on hand	1,10,000
	Total	3,40,000

Question 17

The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹ P Ltd (₹ in Lakhs)***	***₹ V Ltd (₹ in Lakhs)***
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	15,000	6,000
	B		2	15,370	4,335
2		Reserves and Surplus			
			3	--	1,000
		Non-current liabilities			
3		Long term borrowings			
	A			1,200	463
	B	**Current liabilities**		1,830	702
		Trade Payables		33,400	12,500
		Short term provisions			
		Total			
1		**Assets**			
	A		4	22,304	6,750
		Non-current assets			
		Property, Plant and Equipment			
2		**Current assets**			
	A	Inventories		7,862	4,041
	B	Trade receivables		2,120	1,100
	C	Cash and Cash equivalents		1,114	609
		Total		33,400	12,500

Notes to accounts

			₹ P Ltd (₹ in Lakhs)	***₹ V Ltd (₹ in Lakhs)***
1	**Share Capital**		15,000	6,000
2	**Reserves and Surplus**			
	Securities premium		3,000	--
	Foreign project reserve		--	310
	General reserve		9,500	3,200
	Profit and loss account		2,870	825
			15,370	4,335
3	**Long term borrowings**			
	12% debentures		--	1,000
			--	1,000
4	**Property, Plant and Equipment**			
	Land and Building		6,000	--
	Plant and machinery		14,000	5,000
	Furniture and fixtures		2,304	1,750
			22,304	6,750

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

	P Ltd. (₹ in lakhs)	**V Ltd. (₹ in lakhs)**
Trade payables		
Bills Payable	120	-
Trade Creditors	1,080	463
	1,200	463
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	—	80
	2,120	1,100

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd. You are required to :

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger.

(*Source: Question 12, Study Material*)

Answer

Books of P Ltd. Journal Entries

		Dr. (₹ in Lacs)	*Cr. (₹ in Lacs)*
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for Consideration settled as per agreement)			

Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1750	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825)			825
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Goodwill A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd debited to Goodwill Ac)			
Profit and loss A/c Dr		1	
To Goodwill A/c			1
(being the Goodwill charged to Profit and loss account)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

		Particulars	***Notes***	***₹ (in lakhs)***
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		45,769
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		45,769

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid up	
24 crores equity shares of ₹ 10 each	24,000
(Of the above shares, 9 crores shares have been issued for consideration other than cash)	
Total	24,000
2. Reserves and Surplus	
General Reserve	9,700
Securities Premium	3,000
Foreign Project Reserve	310
Profit and Loss Account	3,644
Total	16,654
3. Long-term borrowings	
Secured	
13% Debentures	1,000
4. Property, Plant and Equipment	
Land & Buildings	6,000
Plant & Machinery	19,000
Furniture & Fittings	4,004
Total	29,004

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

***Purchase consideration*=** $₹6{,}000 \text{ lacs} \times \frac{3}{2} = ₹9{,}000 \text{ lacs}$

Question 18

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 20X3 the respective information of Sun and Neptune were as follows:

	Sun (₹)	Neptune (₹)
Share capital	3,65,000	3,52,500
Current liabilities	5,97,000	1,80,250
Property, Plant and Equipment	6,35,000	3,65,000
Current assets	3,27,000	1,67,750

Additional Information:

(a) Revalued figures of non-current and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Property, Plant and Equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
20X1 Profit	4,49,576	2,73,900
20X2 (Loss)/Profit	(2,500)	3,42,100
20X3 Profit	3,77,924	3,59,000

(ii) 15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 20X3 after revaluation of assets.

You are required to:

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

(*Source: Question 13, Study Material*)

Answer

(1) Computation of Amount of Debentures and Shares to be issued:

		Sun	*Neptune*
(i)	*Average Net Profit*		
	₹ (4,49,576-2,500+3,77,924)/3	= 2,75,000	
	₹ (2,73,900+,3,42,100+3,59,000)/3		= 3,25,000

(ii) *Equity Shares Issued*

(a) Ratio of distribution

Sun: Neptune

275 325

(b) Number

Sun : 27,500

Neptune: 32,500

60,000

(c) Amount

27,500 shares of ₹ 5 each	=	1,37,500
32,500 shares of ₹ 5 each	=	1,62,500

		₹	₹
(iii)	*Capital Employed (after revaluation of assets)*		
	Property, plant and equipment	7,10,000	3,90,000
	Current Assets	2,99,500	1,57,750
		10,09,500	5,47,750
	Less: Current Liabilities	(5,97,000)	(1,80,250)
		4,12,500	3,67,500
(iv)	*Debentures Issued*		
	8% Return on capital employed	33,000	29,400

15% Debentures to be issued to provide equivalent income:

$$\text{Sun} : 33,000 \times \frac{100}{15}. = 2,20,000$$

$$\text{Neptune} : 29,400 \times \frac{100}{15}. = 1,96,000$$

(2) ***Balance Sheet of Jupiter Ltd.***

As at 31st March 20X3 (after amalgamation)

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	64,000
	3	4,16,000

(2) Non-Current Liabilities		
(a) Long-term borrowings		7,33,900
(3) Current Liabilities Total		15,13,900
(a) Other current liabilities		
II. Assets		
(1) Non-current assets		
(a) PPE		11,00,000
(2) Current assets		
(a) Other current assets		4,13,900
Total		15,13,900

Notes to Accounts

		₹
1	Share Capital	
	Authorized	
	80,000 Equity Shares of ₹ 5 each	4,00,000
	Issued and Subscribed	
	60,000 Equity Shares of ₹ 5 each	3,00,000
	(all the above shares are allotted as fully paid-up	
	pursuant to a contract without payment being received in cash)	
2	Reserve and Surplus	
	Capital Reserve	64,000
3	Long-term borrowings	
	Secured Loans	
	15% Debentures	4,16,000

Working Notes:

	Sun ₹	***Neptune*** ₹	***Total*** ₹
(1) *Purchase Consideration*			
Equity Shares Issued	1,37,500	1,62,500	3,00,000
15% Debentures Issued	2,20,000	1,96,000	4,16,000
	3,57,500	3,58,500	7,16,000
(2) *Capital Reserve*			
(a) Net Assets taken over Property, plant & equipment	7,10,000	3,90,000	11,00,000
Current Assets	2,99,500	1,14,400*	4,13,900
	10,09,500	5,04,400	15,13,900
Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
	4,55,850	3,24,150	7,80,000
(b) Purchase Consideration	3,57,500	3,58,500	7,16,000
(c) Capital Reserve [(a) - (b)]	98,350		
(d) Goodwill [(b) - (a)]		34,350	
(e) Capital Reserve [Final Figure(c) -(d)]			64,000

* 1,57,750–43,350= 1,14,400

** 5,97,000–43,350= 5,53,650

QUESTION BANK

Question 19

The Balance Sheet of Mars Limited as on 31st March, 2011 was as follows:

Liabilities	₹	Assets		₹
Share Capital:		**Fixed Assets**		
1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000	Land and building		7,64,000
Reserve and Surplus		**Current Assets**		
Capital Reserve	42,000	Stock		7,75,000
Contingency Reserve	2,70,000	Sundry Debtors	1,60,000	
Profit and Loss A/c	2,52,000	Less: Provision for Doubtful debts	8,000	1,52,000
Current Liabilities & Provisions		Bills receivable		30,000
Bills payable	40,000	Cash at Bank		3,29,000
Sundry Creditors	2,26,000			
Provision for Income-tax	2,20,000			
	20,50,000			20,50,000

On 1st April, 2011 Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

(1) Jupiter Limited will takeover the assets at the following values:

Land and building ₹ 10,80,000

Stock ₹ 7,70,000

Bills receivable ₹ 30,000

(2) Purchase consideration will be settled by Jupiter Ltd. as under:

4,100 fully paid 10% preference share of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.

(3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000

(4) Sundry debtors realised ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income-tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.

(5) Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration.

(ii) Prepare the Realisation A/c, Bank Account, Equity Shareholders Account and Jupiter Limited's Account in the books of Mars Ltd.

(*Group I-May 2011, 16 Marks*)

Answer

(i) Calculation of number of shares to be allotted

Particulars	*Amount (₹)*
Land and building	10,80,000
Inventory	7,70,000
Bills receivable	30,000
Total	18,80,000
Amount discharged by issue of preference shares	4,10,000
Number of preference shares to be issued (4,10,000/100)	4,100 shares
Amount discharged by issue of equity shares (₹ 18,80,000 - ₹ 4,10,000)	14,70,000
Number of equity shares to be issued (₹ 14,70,000/8)	1,83,750 Shares

(ii) Ledger Accounts in the books of Mars Limited

Realization Account

Particulars	*₹*	*Particulars*	*₹*
To Land and building	7,64,000	By Provision for doubtful debts	8,000
To Inventory	7,75,000	By Bills payable	40,000
To debtors	1,60,000	By creditors	2,26,000
To Bills receivable	30,000	By Provision for taxation	2,20,000

Particulars	₹	*Particulars*	₹
To Bank A/c -liquidation expenses	3,000	By Jupiter Ltd. (purchase consideration)	18,80,000
To Bank A/c- bills payable	38,000	By Bank A/c- debtors	1,50,000
To Bank A/c -income tax	2,22,000		
To Bank A/c - creditors	2,16,000		
To Profit transferred to equity shareholders A/c	3,16,000		
	25,24,000		25,24,000

Bank Account

Particulars	₹	*Particulars*	₹
To Balance b/d	3,29,000	By Realisation A/c	3,000
To Realisation A/c (payment received		(liquidation expenses)	
from debtors)	1,50,000	By Jupiter Ltd.	5,000
To Jupiter Ltd. (liquidation expenses)	5,000	By Bills payable	38,000
		By Income tax	2,22,000
		By creditors	
		(Bal.fig.)	2,16,000
	4,84,000		4,84,000

Equity Shareholders Account

Particulars	₹	*Particulars*	₹
To 10% Preference shares in		By Equity share capital A/c	10,00,000
Jupiter Limited	4,10,000	By Capital reserve	42,000
To Equity shares in Jupiter		By Contingency reserve	2,70,000
Limited	14,70,000	By Profit and loss A/c	2,52,000
		By Realisation A/c (profit)	3,16,000
	18,80,000		18,80,000

Jupiter Limited Account

Particulars	₹	*Particulars*	₹
To Realisation A/c To Bank A/c (Reimbursement exp.)	18,80,000 5,000	By 10% Preference shares in Jupiter Limited By Bank A/c (Liquidation exp.) By Equity shares in Jupiter Limited	4,10,000 5,000 14,70,000
	18,85,000		18,85,000

Question 20

The following was the Balance Sheet of V Ltd. as on 31st March, 2012:

Particulars	**Note No.**	**Amount ₹ (in lakhs)**
Equity and Liabilities		
(1) Shareholder's funds		
(a) Share Capital	1	1,150
(b) Reserves and Surplus	2	(87)
(2) Non-current Liabilities		
(a) Long-term Borrowings	3	630
(3) Current Liabilities		
Trade Payables		170
Total		1,863
Assets		
(1) Non-current Assets		
Tangible Assets	4	1,152
(2) Current Assets		
Inventories		380
Trade Receivables		256
Cash and Cash equivalents	5	75
Total		1,863

Notes:

(1)	Share Capital	
	Authorised:	?
	Issued, Subscribed and Paid up:	
	80 lakh, Equity Shares of ₹10 each, Fully paid up	800
	35 lakh 12% Cumulative Preference Shares	
	Of ₹10 each, fully paid up	350
	Total	**1,150**
(2)	Reserves and Surplus	
	Debit Balance of Profit & Loss Account	(87)
	Total	**(87)**
(3)	Long-Term Borrowings	
	10% Secured Cumulative Debentures of ₹100 each, fully paid up	600
	Outstanding Debenture Interest	30
	Total	**630**
(4)	Tangible Assets	
	Land and Buildings	445
	Plant and Machinery	593
	Furniture, Fixtures and Fittings	114
	Total	**1,152**
(5)	Cash and Cash Equivalents	
	Balance at Bank	69
	Cash in hand	6
	Total	**75**

On 1st April, 2012 P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹10 each issued at a premium of ₹2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakh 13% Cumulative Preference Shares of ₹10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹100 each, fully paid up after the takeover by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹2 lakh P Ltd. discovered that its creditors included ₹7 lakh due to V Ltd. for goods purchased.

Also P Ltd.'s stock included goods of the invoice price of ₹5 lakh earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to:

(i) Prepare Realisation A/c in the books of V Ltd.

(ii) Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

(*Group I-November 2012, 16 Marks*)

Answer

(i) In the books of V Ltd.

Realisation Account

	₹ in lakhs		*₹ in lakhs*
To Land and Buildings A/c	445	By 10% Secured Cumulative Debentures A/c	600
To Plant and Machinery A/c	593	By Outstanding Debenture interest A/c	30
To Furniture, Fixtures & Fittings A/c	114	By Trade payables A/c	170
To Inventories A/c	380	By P Ltd. A/c	1,150
To Trade Receivables A/c	256	(purchase consideration - Refer working note)	
To Bank A/c	69		
To Cash in Hand A/c	6		
To Equity Shareholders' A/c (Profit on Realisation)	87		
	1,950		1,950

(ii) In the books of P Ltd.

Journal Entries

			Dr. *₹ in lakhs*	*Cr* *₹ in lakhs*
1.	Business Purchase A/c	Dr.	1,150	1,150
	To Liquidator of V Ltd. A/c			
	(Being purchase consideration due)			
2.	Land and Buildings A/c	Dr.	445	
	Plant and Machinery A/c	Dr.	593	
	Furniture, Fixtures & Fittings A/c	Dr.	114	
	Inventories A/c	Dr.	380	
	Trade Receivables A/c	Dr.	256	
	Bank A/c	Dr.	69	
	Cash in Hand A/c	Dr.	6	
	Profit and Loss A/c	Dr.	87	
	To 10% Debentures A/c			600
	To Outstanding Debenture interest A/c			30
	To Trade payables A/c			170
	To Business Purchase A/c			1,150
	(Being assets and liabilities taken over from V Ltd. under the scheme of amalgamation in the nature of merger)			
3.	Liquidators of V Ltd. A/c	Dr.	1,150	640 350
	To Equity Share Capital A/c			160
	To 13% Cumulative Preference Shares A/c			
	To Securities Premium A/c			
	(Being discharge of consideration, by allotment of 64 lakhs equity shares of ₹ 10 each at a premium of ₹ 2.50 per share and 35 lakhs 13% cumulative preference shares of ₹ 10 each at par)			
4.	10% Secured Cumulative Debentures A/c	Dr.	600	600
	To 10.5% Secured Cumulative Debentures A/c			
	(Being 10% Secured Cumulative Debentures of V Ltd. converted into 10.5% Secured Cumulative Debentures of P Ltd.)			
5.	Outstanding Debenture interest A/c	Dr.	30	30
	To Bank A/c			
	(Being outstanding debenture interest paid in cash by P Ltd.)			
6.	Profit and Loss A/c	Dr.	2	2
	To Bank A/c			
	(Being amalgamation expenses met by P Ltd.)			
7.	Trade Payables A/c	Dr.	7	7
	To Trade Receivables A/c			
	(Being settlement of mutual liability)			
8.	Profit and Loss A/c	Dr.	1	1
	To Inventories A/c (5 x 20%)			
	(Being unrealized profit on Inventory eliminated from the inventories of P Ltd.)			

Working Note:

Calculation of Purchase Consideration payable by P Ltd.

	₹ in lakhs	
Payment to preference shareholders:		
13% Cumulative Preference Shares of ₹ 10 each (35 lakhs shares ´ ₹ 10)	350	
Payment to equity shareholders:		
(80 lakhs shares x 4/5) = 64 lakhs equity shares @ ₹ 10		640
Securities Premium (64 lakhs equity shares @ ₹ 2.5)		160
Total purchase consideration		1,150

Question 21

Given below are the Balance Sheet of two companies as on 31st December, 2015.

A Limited

Liabilities	₹	Assets	₹
Share Capital:		Patent	1,00,000
Issued and fully paid up		Building	5,40,000
50,000 8% Cumulative Preference Shares of ₹ 10 each	5,00,000	Plant and Machinery	15,10,000
1,50,000 Equity shares of ₹ 10 each	15,00,000	Furniture	75,000
		Investment	1,55,000
General Reserve	7,65,000	Stock	3,58,000
Profit and Loss account	1,25,000	Sundry Debtors	72,000
Sundry Creditors	60,000	Cash and Bank	1,40,000
	29,50,000		**29,50,000**

B Limited

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	62,000
Issued and fully paid		Motor Car	1,26,000
50,000 Shares of ₹ 10 each	5,00,000	Furniture	58,000
Profit and Loss Account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash at Bank	20,000
	5,76,000		**5,76,000**

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions:

(i) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.

(ii) AB Ltd. is to purchase the whole of the assets of A Ltd. (except cash and Bank Balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

(iii) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and Bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

(iv) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.

(v) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.

(vi) AB Ltd. is to make a public issue of 60,000, 5% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value. (*Group-I, May 2016, 16 Marks*)

Answer

Balance Sheet of AB Ltd.

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital	1	30,80,000
(b) Reserves and Surplus	2	6,17,100
2 Current liabilities		
(a) Other liabilities		38,900
Total		37,36,000

Assets		
1 Non-current assets	3	23,09,000
(a) Fixed assets	4	1,12,000
Tangible assets		1,55,000
Intangible assets		
(b) Non-current investments		
2 Current assets		5,98,000
(a) Inventories (3,58,000 + 2,40,000)		1,42,000
(b) Trade receivables (72,000 +70,000)		4,20,000
(c) Cash and cash equivalents		
Total		37,36,000

Notes to accounts

		₹
1 Share Capital		
Authorized share capital		
3,00,000 equity shares of ₹ 10 each	30,00,000	
60,000, 8% cumulative Preference Shares of ₹10 each	6,00,000	36,00,000
Equity share capital		
2,48,000 equity shares of ₹ 10 each (Of the above shares, 2,18,000 shares have been issued for consideration other than cash)		24,80,000
Preference share capital		6,00,000
60,000, 8% cumulative Preference Shares of ₹10 each		30,80,000
Total		
2 Reserves and Surplus		
Debit balance of Profit and Loss Account		
Underwriting commission	38,900	
Preliminary expenses	24,000	(62,900)
Securities Premium A/c		
(2,48,000 equity shares x 2.50)	6,20,000	
(60,000 Preference shares x ₹ 1)	60,000	6,80,000
		6,17,100
3 Tangible assets		
Building	5,40,000	
Motor car	1,26,000	
Plant & machinery	15,10,000	
Furniture	1,33,000	23,09,000
4 Intangible assets		
Goodwill (W.N. 4) (15,000 +62,000-65,000)	12,000	
Patents	1,00,000	1,12,000

Working Notes:

1. Mode of discharge of Purchase Consideration of A Ltd.

	₹
Cash payment	5,75,000
Equity shares (1,80,000 Shares x ₹ 12.5)	22,50,000
Total Purchase consideration	28,25,000

2. Mode of discharge of Purchase Consideration of B Ltd.

	₹
Cash payment	16,000
Equity shares (38,000 shares x ₹ 12.5)	4,75,000
Total Purchase consideration	4,91,000

3. Cash at bank balance in the initial balance sheet of AB Ltd.

Cash and Bank Account

	₹		₹
To Issue of preference shares		By Payment to A ltd.	5,75,000
(60,000 x 11)	6,60,000	By Payment to B ltd.	16,000
To Equity shares		By Preliminary expenses	24,000
(30,000 x 12.50)	3,75,000	By Balance c/d	4,20,000
	10,35,000		10,35,000

4. Calculation of goodwill/ capital reserve of A Ltd. & B Ltd.

Particulars		A Ltd.		B Ltd.
Business Purchase A/c		28,25,000		4,91,000
Less: Goodwill			62,000	
Patent A/c	1,00,000		-	
Building A/c	5,40,000		-	
Plant & Mach. A/c	15,10,000		-	
Motor car A/c	-		1,26,000	
Furniture A/c	75,000		58,000	
Investment A/c	1,55,000		-	
Stocks A/c	3,58,000		2,40,000	
Debtors A/c	72,000	(28,10,000)	70,000	(5,56,000)
Goodwill / Capital reserve (Bal. fig.)		15,000		(65,000)
Net goodwill (15,000 +62,000 -65,000) = 12,000				

Note:

1. As per the information given in the question, only the assets of A Ltd. and B Ltd. are taken over by AB Ltd. Thus the creditors are considered to be paid by the liquidators of the respective companies and hence being not taken over by AB Ltd.
2. As per the information given in the second last para of the question, it is stated that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue. It has been assumed that ₹ 24,000 has been paid and underwriting commission is still payable in the balance sheet of the amalgamated company. Alternatively, any other reasonable assumption about this may be considered.
3. Preliminary expenses and underwriting commission have been written off as per the provisions of Accounting standards.

Question 22

Anjana Ltd. is absorbed by Sanjana Ltd., the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000) the payment of the 9% debentures of ₹ 50,000 at a premium of 20% in 8% debentures issued at a premium of 25% at face value and the payment of ₹ 15 per share in cash and allotment of three 11% preference share of ₹ 10 each at a discount of 10% and four equity share of ₹ 10 each at a premium of 20% fully paid for every five shares in Anjana Ltd.. The number of share of the vendor company are 1,50,000 of ₹ 10 each fully paid.

Calculate purchase consideration as per Accounting Standard-14.

(*Group-I, May 2016, 4 Marks*)

Answer

As per AS 14 on Accounting for Amalgamations, the term 'consideration' has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company

The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration

Computation of Purchase Consideration

	₹
Cash payment [₹15 x 1,50,000]	22,50,000
11% Preference Shares of ₹ 10 each @ 10% discount	8,10,000
[(1,50,000 x 3/5) x ₹ 9]	
Equity shares of ₹ 10 each @ 20% premium	
[(1,50,000 x 4/5) x ₹ 12]	14,40,000
Total Purchase consideration	45,00,000

For every 5 shares Anjana Ltd. will receive (i) 4 equity shares @ ₹ 12 per share and (ii) 3 11% Preference Shares shares @ ₹ 9 per share.

Question 23

Exe Limited was wound up on 31.3.2004 and its Balance Sheet as on that date was given below:

Equity and Liabilities		₹
Shareholders Funds		
Share Capital: 1,20,000 Equity		
Share of ₹10 each		12,00,000
Reserves and Surplus		
Profit prior to Incorporation		42,000
Contingency Reserve		2,70,000
Profit and Loss Accounts		2,52,000
Current Liabilities		
Bills payable		40,000
Sundry creditors		2,26,000
Provisions:		
Provision for Income tax		2,20,000
		22,50,000
Non Current Assets		₹
Fixed assets		9,64,000
Current Assets		
Stock	7,75,000	
Sundry Debtors	1,60,000	
Less: Provision for bad and doubtful debts	8,000	
Bills Receivable	30,000	
Cash at bank	3,29,000	12,86,000
		22,50,000

Wye Limited took over the following assets at values shown as under:

Fixed assets ₹12,80,000, Stock ₹7,70,000 and Bills Receivable ₹30,000.

Purchase consideration was settled by Wye Limited as under:

₹5,10,000 of the consideration was satisfied by the allotment of fully paid 10 % preference shares of ₹100 each. The balance was settled by issuing equity shares of ₹10 each at ₹8 per share paid up.

Sundry debtors realized ₹1,50,000. Bills payable was settled for ₹38000. Income tax authorities fixed the taxation liability at ₹2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹8,000.

You are required to:

(1) Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.

(2) Prepare the Realizations account, Cash/bank account, Equity Shareholders account and Wye Limited account in the books of Exe Limited.

(3) Pass journal entries in the books of Wye Limited.

(*Group II-November 2004, 16 Marks*)

Answer

(i) Purchase consideration

	₹
Fixed assets	12,80,000
Stock	7,70,000
Bills receivable	30,000
Purchase consideration	20,80,000

Amount discharged by issue of preference shares	= ₹ 5,10,000
No. of preference shares to be allotted	= 5,10,000 × 100 = 5,100 shares
Amount discharged by allotment of equity shares	= ₹ 20,80,000 – ₹ 5,10,000
	= ₹ 15,70,000
Paid up value of equity share	= ₹ 8
Hence, number of equity shares to be issued	= 15,70,000/8 = 1,96,250 shares

(ii) **Realisation Account**

In the books of Exe Ltd.

	₹		₹
To Fixed assets	9,64,000	By Provision for bad and doubtful debts	8,000
To Stock		By Bills payable	40,000
To Sundry debtors	7,75,000	By Sundry creditors	2,26,000
To Bills receivable	1,60,000	By Provision for taxation	2,20,000
To Bank account:	30,000	By Wye Ltd. account	
Liquidation expenses	8,000	(Purchase consideration)	20,80,000
Bills payable Tax liability	38,000	By Bank account: Sundry debtors	1,50,000
Sundry creditors	2,22,000		
To Equity shareholders	2,11,000		
(profit transferred)			
	3,16,000		
	27,24,000		27,24,000

Cash/Bank Account

	₹		₹
To Balance b/d	3,29,000	By Realisation account:	
To Realisation account:		Liquidation expenses	8,000
Sundry debtors	1,50,000	Bills payable	38,000
		Tax liability	2,22,000
		Sundry creditors (Bal.fig.)	2,11,000
			4,79,000
	4,79,000		

Equity Shareholders Account

		₹		₹
To	10% Preference shares in Wye Ltd.	5,10,000	By Equity share capital account	12,00,000
To	Equity shares in Wye Ltd.	15,70,000	By Profit prior to incorporation By Contingency reserve	42,000
				2,70,000
			By Profit and loss account	2,52,000
			By Realisation account (Profit)	3,16,000
		20,80,000		20,80,000

Wye Limited Account

	₹		₹
To Realisation account	20,80,000	By 10% Preference shares in Wye Ltd. By Equity shares in Wye Ltd.	5,10,000
			15,70,000
	20,80,000		20,80,000

(iii) **Journal Entries**

in the books of Wye Ltd.

Particulars		*Dr.* *Amount* ₹	*Cr.* *Amount* ₹
Business purchase account	Dr.	20,80,000	
To Liquidator of Exe Ltd. account			20,80,000
(Being the amount of purchase consideration payable to liquidator of Exe Ltd. for assets taken over)			
Fixed assets account	Dr.	12,80,000	
Stock account	Dr.	7,70,000	
Bills receivable account	Dr.	30,000	
To Business purchase account			20,80,000
(Being assets taken over)			
Liquidator of the Exe Ltd. account	Dr.	20,80,000	
To 10% Preference share capital account			5,10,000
To Equity share capital account			15,70,000
(Being the allotment of 10% fully paid up preference shares and equity shares of ₹ 10 each, ₹ 8 each paid up as per agreement for discharge of purchase consideration)			

Question 24

Exe Limited was wound up on 31.3.2013 and its summarized Balance Sheet as on that date was given below:

Balance Sheet of Exe Limited as on 31.3. 2013

Liabilities	₹	Assets		₹
Share capital:		Fixed assets		9,64,000
1,20,000 Equity shares of ₹10 each	12,00,000	Current assets:		
Reserves and surplus:		Inventory	7,75,000	
Profit prior to incorporation	42,000	Trade receivables	1,82,000	
Contingency reserve	2,70,000	Cash at bank	3,29,000	12,86,000
Profit and loss A/c	2,52,000			
Current liabilities:				
Trade payables	2,66,000			
Provisions:				
Provision for income tax	2,20,000			
	22,50,000			22,50,000

The details of Trade receivables and trade payables are as under:

Trade receivables		
Sundry debtors	1,60,000	
Less: Provision for bad and doubtful debts	(8,000)	1,52,000
Bills receivable		30,000
		1,82,000
Trade payables		
Bills payable		40,000
Sundry creditors		2,26,000
		2,66,000

Wye Limited took over the following assets at values shown as under:

Fixed assets ₹12,80,000, Inventory ₹7,70,000 and Bills Receivable ₹30,000.

Purchase consideration was settled by Wye Limited as under:

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹100 each. The balance was settled by issuing equity shares of ₹10 each at ₹ 8 per share paid up.

Trade receivables realised ₹ 1,50,000. Bills payable was settled for ₹38,000. Income tax authorities fixed the taxation liability at ₹2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.

(ii) Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Wye Limited account in the books of Exe Limited.

(iii) Pass journal entries in the books of Wye Limited.

(*Group II-May 2005, 16 Marks*)

Answer

(i) Purchase consideration

	₹
Fixed assets	12,80,000
Stock	7,70,000
Bills receivable	30,000
Purchase consideration	20,80,000

Amount discharged by issue of preference shares	= ₹ 5,10,000
No. of preference shares to be allotted	= 5,10,000 × 100 = 5,100 shares
Amount discharged by allotment of equity shares	= ₹ 20,80,000 – ₹ 5,10,000
	= ₹ 15,70,000
Paid up value of equity share	= ₹ 8
Hence, number of equity shares to be issued	= 15,70,000/8 = 1,96,250 shares

(ii) **Realisation Account**

In the books of Exe Ltd.

	₹		₹
To Fixed assets	9,64,000	By Provision for bad and doubtful debts	8,000
To Stock		By Bills payable	40,000
To Sundry debtors	7,75,000	By Sundry creditors	2,26,000
To Bills receivable	1,60,000	By Provision for taxation	2,20,000
To Bank account:	30,000	By Wye Ltd. account	
Liquidation expenses	8,000	(Purchase consideration)	20,80,000
Bills payable Tax liability	38,000	By Bank account: Sundry debtors	1,50,000
Sundry creditors	2,22,000		
To Equity shareholders	2,11,000		
(profit transferred)			
	3,16,000		
	27,24,000		27,24,000

Cash/Bank Account

	₹		₹
To Balance b/d	3,29,000	By Realisation account:	
To Realisation account:		Liquidation expenses	8,000
Sundry debtors	1,50,000	Bills payable	38,000
		Tax liability	2,22,000
		Sundry creditors (Bal.fig.)	2,11,000
	4,79,000		4,79,000

Equity Shareholders Account

		₹			₹
To	10% Preference shares in Wye Ltd.	5,10,000	By	Equity share capital account	12,00,000
To	Equity shares in Wye Ltd.	15,70,000	By	Profit prior to incorporation	42,000
			By	Contingency reserve	2,70,000
			By	Profit and loss account	2,52,000
			By	Realisation account (Profit)	3,16,000
		20,80,000			20,80,000

Wye Limited Account

	₹		₹
To Realisation account	20,80,000	By 10% Preference shares in Wye Ltd.	5,10,000
		By Equity shares in Wye Ltd.	15,70,000
	20,80,000		20,80,000

(iii) **Journal Entries**

in the books of Wye Ltd.

Particulars		*Dr.* *Amount* ₹	*Cr.* *Amount* ₹
Business purchase account	Dr.	20,80,000	
To Liquidator of Exe Ltd. account			20,80,000
(Being the amount of purchase consideration payable to liquidator of Exe Ltd. for assets taken over)			
Fixed assets account	Dr.	12,80,000	
Stock account	Dr.	7,70,000	
Bills receivable account	Dr.	30,000	
To Business purchase account			20,80,000
(Being assets taken over)			
Liquidator of the Exe Ltd. account	Dr.	20,80,000	
To 10% Preference share capital account			5,10,000
To Equity share capital account			15,70,000
(Being the allotment of 10% fully paid up preference shares and equity shares of ₹ 10 each, ₹ 8 each paid up as per agreement for discharge of purchase consideration)			

Question 25

P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the summarized Balance Sheet of P and Q as at 31.3.2007:

Liabilities	P ₹	Q ₹	Assets	P ₹	Q ₹
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

(i) The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.

(ii) Liabilities of P includes ₹ 50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.

(iii) P has goods purchased from Q, cost to him ₹ 10,000. This is included in the Current asset of P as at 31st March, 2007.

(iv) The assets of P and Q are to be revalued as under:

	P ₹	Q ₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	P ₹	Q ₹
1st year	2,62,800	2,75,125
IInd year	2, 12,200	2, 49,875
Total	4, 75,000	5, 25,000

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.

You are required to:

(i) Compute the amount of equity and preference shares issued to P and Q.

(ii) Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

(*Group II-May 2007, 16 Marks*)

Answer

(i) Calculation of equity shares to be issued to P Ltd. and Q Ltd.

Profits of	*P*	*Q*
	₹	₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	4,75,000	5,25,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	N	*G*
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to N Ltd. and G Ltd.

	Neel	*Gagan*
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$\left[67,200 \times \frac{100}{12}\right] = 5,60,000 @ ₹ 10 \text{ each}$		

	Neel	*Gagan*
	₹	₹
$\left[73,920 \times \frac{100}{12}\right] = 61,16,000 @ ₹ 10 \text{ each}$		61,600 shares

(ii) Total Purchase Consideration

	N	*G*
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	8,45,000	9,31,000

Working Note:

Calculation of Net assets as on 31.3.20X1

	N	*G*
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500 (6,23,500)	1,58,600
Less: Current liabilities	8,40,000	(5,57,600)
		9,24,000

Question 26

Following is the Balance Sheet of Y Ltd., as at 31st March 2010:

Liabilities	₹	**Assets**	₹
Share Capital		Fixed Assets	
Issued & paid up:		Goodwill	8,00,000
2,50,000 equity share of ₹ 10 each, ₹ 8 per share paid up	20,00,000	Building Plant and machinery	7,00,000 13,00,000
1,00,000 (10%) pref. shares of ₹ 10 each fully paid up	10,00,000	Current Assets Stock	 7,00,000
Reserves & Surplus		Sundry debtors	9,00,000
General reserve	6,00,000	Bank Balance	6,60,000
Profit & Loss A/c	8,00,000		
Current Liabilities		Misc. Exp.	
Creditors	4,00,000	Preliminary Expense	40,000
Workmen's profit sharing fund	3,00,000		
	51,00,000		**51,00,000**

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except Building which was valued at ₹ 12,00,000 and Plant & Machinery at ₹ 10,00,000.

The purchase consideration was payable as follows:

(i) Payment of liquidation expenses ₹ 5,000 and workmen's profit sharing fund at 10% premium;

(ii) Issue of equity share of ₹ 10 each fully paid at ₹ 11 per share for every pref. share and every equity share of Y Ltd., and a payment of ₹ 4 per equity share in cash.

Calculate the purchase consideration, show the necessary ledger accounts in the books of Y Ltd., and opening Journal Entries in the books of X Ltd.

(*Wrong Answer*) (*Group II-November 2010, 16 Marks*)

Answer

	₹ in lakhs	*₹ in lakhs*
(i) Calculation of purchase consideration		
Cash payment for:		
Workmen's profit sharing fund at a prem of 10%	3,30,000	
Cash to equity shareholders (2,50,000 x ₹ 4)	10,00,000	13,30,000
Payment by Equity shares to :		
Preference shareholders (1,00,000 x 11)	11,00,000	
Equity shareholders (2,50,000 x 11)	27,50,000	38,50,000
Purchase consideration		51,80,000

(ii) **In the books of Y Ltd.**

Realisation A/c

	₹		₹
To Goodwill	8,00,000	By Creditors	4,00,000
To Building	7,00,000	By X Ltd.	51,80,000
To Plant & machinery	13,00,000		
To Stock	7,00,000		
To Sundry debtors	9,00,000		
To Bank	6,60,000		
To Workmen's profit sharing fund – Premium paid	30,000		
To Preference shareholders	1,00,000		
To Profit	3,90,000		
	55,80,000		55,80,000

X Ltd.'s A/c

	₹		₹
To Realisation A/c	51,80,000	By Bank	13,30,000
		By Equity shares in X Ltd.	38,50,000
	51,80,000		51,80,000

Bank A/c

	₹		₹
To X Ltd.	13,35,000	By Workmen's profit sharing fund	3,30,000
		By Equity shareholders	10,00,000
	13,30,000		13,30,000

Preference Shareholders A/c

	₹		₹
To Equity Shares in X Ltd.	11,00,000	By Preference share capital	10,00,000
		By Realisation A/c (Bal. fig.)	1,00,000
	11,00,000		11,00,000

Equity Shareholders A/c

	₹		₹
To Preliminary expenses	40,000	By Equity share capital	20,00,000
To Bank	10,00,000	By General reserve	6,00,000
To Equity shares in Y Ltd.	27,50,000	By Profit & Loss A/c	8,00,000
		By Profit on realisation (Bal.fig.)	3,90,000
	37,90,000		37,90,000

Equity Shares in X Ltd. A/c

	₹		₹
To X Ltd.	38,50,000	By Preference shareholders	11,00,000
		By Equity shareholders	27,50,000
	38,50,000		38,50,000

Workmen's Profit Sharing Fund A/c

	₹		₹
To Bank	3,30,000	By Balance b/d	3,00,000
		By Realisation (Bal. Fig.)	30,000
	3,30,000		3,30,000

(iii) **In the books of X Ltd.**

Journal Entries

			Dr. (₹)	Cr. (₹)
1.	Business purchase A/c	Dr.	51,80,000	
	To Liquidators of Y Ltd.			51,80,000
	(Being business of Y Ltd purchased)			
2.	Building A/c	Dr.	12,00,000	
	Plant & machinery A/c	Dr.	10,00,000	

	Stock A/c	Dr.	7,00,000	
	Debtors A/c	Dr.	9,00,000	
	Bank A/c	Dr.	6,60,000	
	Goodwill A/c (Bal. fig.)	Dr.	11,20,000	
	To Creditors			4,00,000
	To Business purchase A/c			51,80,000
	(Being assets and liabilities of Y Ltd taken over and the excess of purchase consideration over net assets purchased booked as Goodwill)			
2.	Liquidators of Y Ltd.	Dr.	51,80,000	
	To Bank A/c			13,30,000
	To Equity share capital A/c			35,00,000
	To Securities premium A/c			3,50,000
	(Being the payment of purchase consideration)			
3.	Goodwill A/c	Dr.	5,000	
	To Bank A/c			5,000
	(Being liquidation expenses of Y Ltd paid)			

Question 27

Given below balance sheet of Vasudha Ltd and Vaishali Ltd as at 31st March, 2012.

Liabilities	Vasudha Ltd.	Vaishali Ltd.	Assets	Vasudha Ltd.	Vaishali Ltd.
Issued Share Capital:			Factory Building	2,10,000	1,60,000
Equity Shares of ₹10 each	5,40,000	4,03,300	Debtors Stock	2,86,900 91,500	1,72,900 82,500
General Reserves	1,01,000	65,000	Goodwill	50,000	35,000
Profit & Loss A/c	66,000	43,500	Cash at Bank	98,000	1,09,590
Sundry Creditors	44,400	58,200	Preliminary Expenses	15,000	10,010
Total	**7,51,400**	**5,70,000**	**Total**	**7,51,400**	**5,70,000**

Goodwill of the Companies Vasudha Ltd. and Vaishali Ltd. is to be valued at ₹75,000 and ₹50,000 respectively. Factory Building of Vasudha Ltd is worth ₹1,95,000 and of Vaishali Ltd. ₹1,75,000. Stock of Vaishali Ltd. has been shown at 10% above of its cost.

It is decided that Vasudha Ltd. will absorb Vaishali Ltd. by taking over its entire business by issue of shares at the Intrinsic Value.

You are required to draft the balance sheet of the new company after putting through the schemes.

(*Group II-May 2012, 16 Marks*)

Answer

Balance Sheet of Vasudha Ltd. as on 31st March, 2012 (After absorption)

		Particulars	*Note No*	*Amount*
				₹
		EQUITY AND LIABILITIES		
1		**Shareholders' funds**		
	(a)	Share capital	1	9,43,300
	(b)	Reserves and Surplus	2	2,72,990
2		**Current liabilities**		
	(a)	Trade payables (44,400+58,200)		1,02,600
		Total		13,18,890
		ASSETS		
1		**Non-current assets**		
	(a)	Fixed assets		
	(i)	Tangible assets	3	3,85,000
	(ii)	Intangible assets	4	1,00,000
2		**Current assets**		
	(a)	Inventories(91,500 + 75,000)		1,66,500
	(b)	Trade receivables(2,86,900 + 1,72,900)		4,59,800
	(c)	Cash and cash equivalents(98,000 + 1,09,590)		2,07,590
		Total		13,18,890

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	(54,000 + 40,330) Equity shares of ₹10 each		9,43,300
2.	**Reserves and Surplus**		
	Profit and Loss A/c	66,000	
	General reserves	1,01,000	
	Less: Preliminary expenses*	(15,000)	
	Securities Premium A/c (Refer W.N.)	1,20,990	2,72,990
3	**Tangible assets**		
	Factory building (2,10,000 + 1,75,000)		3,85,000
4.	**Intangible assets**		
	Goodwill (50,000+50,000)		1,00,000

NOTE: As the assets of Vasudha Ltd are shown in the Books after absorption at carrying value only, no adjustment for revaluation of the same has been done in the Balance Sheet. However, assets of Vaishali Ltd have been taken at the fair value as indicated.

Working Note:

1. Computation of shares issued on the basis of intrinsic values

	Vasudha Ltd.	Vaishali Ltd.
	₹	₹
Goodwill	75,000	50,000
Factory building	1,95,000	1,75,000
Debtors	2,86,900	1,72,900
Stock	91,500	(82,500/110%)= 75,000
Cash at Bank	98,000	1,09,590
	7,46,400	5,82,490
Less: Sundry Creditors	(44,400)	(58,200)
Net assets	7,02,000	5,24,290
Number of shares	54,000	40,330
Intrinsic value	₹ 13	₹ 13

Hence, Vasudha Ltd. will give its 40,330 shares of ₹ 10 each @ ₹ 13 each to Vaishali Ltd.

Discharge of Purchase consideration by Vasudha Ltd to the Liquidators of Vaishali Ltd.

	Share Capital	Securities Premium
	₹	₹
40,330 Shares @ ₹ 10 each	4,03,300	
40,330 shares @ ₹ 3 each		1,20,990

Note: If Vaishali Ltd. Company is not liquidated then above question will be solved on the basis of business acquisition.

Question 28

P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹10,00,000 divided into ₹1,00,000 equity shares of ₹ 10.each. The Balance Sheet of the companies as on 31.03.2014 were as under:

P Limited

Balance Sheet as at 31.03.2014

Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	
(b) Reserve & Surplus	1,40,000
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8% Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total Liabilities	**3,34,000**

Particulars	Amount ₹
II. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,00,000
Plant & Machinery at cost less Depreciation.	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at Bank	30,000
Total Assets	3,34,000

Q Limited
Balance Sheet as at 31.03.2014

Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserve & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payable	1,40,000
Total	**5,45,000**
II. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,90,000
Plant & Machinery at cost less Depreciation.	80,000
Furniture & Fixture at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at Bank	58,000
Total	**5,45,000**

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,

(iii) Write up journal entries including bank entries for closing the books of P Ltd.

(G*roup II-May 2014, 16 Marks*)

Answer

Calculation of Purchase Consideration

	P Ltd. (₹)	*Q Ltd. (₹)*
Assets taken over:		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000
	3,10,000	7,05,000
Less :Liabilities taken over		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
Net Assets taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited
Balance Sheet as at 1st April, 2014

Particulars	*Note No.*	*Amount (₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus	2	11,000
(2) Non-current Liabilities		
(a) Long term borrowings	3	1,10,000
(3) Current Liabilities		
(a) Trade Payables		1,40,000
Total		10,15,000
II. Assets		
(1) Non-current assets		
(a) Fixed Assets		
Tangible	4	4,30,000
Intangible	5	2,00,000
(2) Current Assets		
(a) Inventories		1,85,000
(b) Trade Receivables		1,42,000
(c) Cash at Bank		58,000
Total		10,15,000

Notes to Accounts:

		₹
1	**Share Capital**	
	Authorized	
	1,00,000 shares of ₹ 10 each	10,00,000
	Issued, Subscribed and Paid up	
	75,400 shares of ₹ 10 each	7,54,000
	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)	
2	**Reserve & Surplus**	
	Securities Premium Account	11,000
3	**Long term borrowings -**	
	8 % Debentures	1,10,000
4	**Tangible Fixed Assets**	
	Building	

	P Ltd.	1,00,000	
	Q Ltd.	1,90,000	2,90,000
	Plant & Machinery		
	P Ltd.	25,000	
	Q Ltd.	80,000	1,05,000
	Furniture & Fixture		
	Q Ltd.		35,000
			4,30,000
5			
	Intangible Asset		
	Goodwill		
	P Ltd.	50,000	
	Q. Ltd.	1,50,000	2,00,000

Working Note:

Computation of Securities Premium

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium. Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

In the books of P Ltd. (Journal Entries)

			₹	₹
1	Realization Account	Dr.	3,04,000	
	To Building			1,00,000
	To Plant & Machinery			25,000
	To Inventories			1,35,000
	To Trade Receivables			44,000
	(Being all assets except cash transferred to Realization Account)			
2	8% Debentures Account	Dr.	1,10,000	
	Trade Payables	Dr.	54,000	
	To Realization Account			1,64,000
	(Being all liabilities transferred to Realization Account)			
3	Equity Share Capital	Dr.	1,40,000	
	Profit & Loss Account	Dr.	30,000	
	To Equity Shareholder's Account			1,70,000
	(Being Equity transferred to Equity Shareholders' Account)			
4	PQ Ltd	Dr.	1,89,000	
	To Realization Account			1,89,000
	(Being Purchase consideration due)			
5	Bank Account	Dr.	44,000	
	To Realization Account			44,000
	(Being Cash received from trade receivables in full)			
6	Realization Account	Dr.	54,000	
	To Bank Account			54,000
	(Being payment made to Trade Payables)			
7	Shares in PQ Ltd.	Dr.	1,89,000	
	To PQ Ltd.			1,89,000
	(Being purchase consideration received in the form of Equity Shares of PQ Ltd.)			
8	Realization Account (balancing figure) To Equity Shareholders' Account	Dr.	39,000	39,000
	(Being profit on realization transferred to Equity Shareholders' Account)			
9	Equity Shareholders' Account	Dr.	2,09,000	
	To Shares in PQ Ltd.			1,89,000
	To Bank Account			20,000
	(Being final payment made to shareholders)			

Question 29

Distinguish between Amalgamation Absorption and External Reconstruction of Company.

(*May 2019*) (*5 Marks*)

Answer:

Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.
Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Question 30

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. (₹)	**Y Ltd. (₹)**
Equity and Liabilities		
Equity Shares of ₹10 each	30,00,000	9,00,000
9% Preference Shares of ₹100 each	3,00,000	-
10% Preference Shares of ₹100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	40,50,000	17,10,000
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	40,50,000	17,10,000

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17: ₹90,000; 2015-16: ₹78,000 and 2014-15: ₹72,000). The profits of 2014 -15 included credit of an insurance claim of ₹25,000 (fire occurred in 2013-14 and loss by fire ₹30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to ₹10,000.

(iii) Land & Buildings are valued at ₹5,00,000 and the Plant & Machinery at ₹4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

(May 2018) (20 Marks)

Answer:

In the Books of Y Ltd.
Realisation Account

	₹			₹
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase Consideration)	15,90,000
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		1,50,000		
		18,90,000		18,90,000

In the Books of X Ltd.
Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c			60,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018

Particulars			Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000

Particulars			Notes	₹
2		**Non-current liabilities**		
	A	Long-term provisions	3	2,10,000
3		**Current liabilities**		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		**Current assets**		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
4,20,000 Equity Shares of ₹10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
Preference share capital	
6,300 9% Preference Shares of ₹100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
Total	48,30,000
2. Reserves and Surplus	
Securities Premium	60,000
General Reserve	2,10,000
Total	2,70,000
3. Long-term provisions	
Retirement Gratuity fund	2,10,000
4. Trade payables	
(3,90,000 + 2,40,000-20,000*)	6,10,000
* Mutual Owings eliminated.	
5. Short term Provisions	
Provision for Doubtful Debts	7,500
6. Tangible assets	
Land & Buildings	14,00,000
Plant & Machinery	19,00,000
Total	33,00,000
7. Intangible assets	
Goodwill (1,50,000 + 1,50,000)	3,00,000
8. Inventories (7,50,000 + 4,72,500)	12,22,500
9. Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10. Other current Assets	15,000
11. Cash and cash equivalents (1,50,000 + 60,000)	2,10,000

Working Notes:

1. Computation of goodwill

	₹
Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (₹72,000 - 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹75,000 x 2 = ₹1,50,000

2.

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000		
equity Shares of X Ltd. at 5% Premium		12,60,000
Total		15,90,000

Question 31

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity & liabilities:			*Assets:*		
Shareholders Fund			*Non-current Assets:*		
(a) Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
(b) Reserves	10,20,000	6,00,000	*Current Assets*		
Current Liabilities			(a) Inventories	3,60,000	6,60,000
Bank Overdraft	—	5,40,000	(b) Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	(c) Cash at Bank	3,00,000	—
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹3,00,000; 2015-16 ₹5,25,000 and 2016-17 ₹6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of ₹10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare required journal entries in the books of PQ Ltd.; and

(iii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

(*RTP May 2018*)

Answer:

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	₹
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd.	= ₹14,40,000 x [21,60,000/(21,60,000 + 14,40,000)]
	= ₹8,64,000 or 86,400 shares
Securities premium	= ₹21,60,000 - ₹8,64,000 = ₹12,96,000
Premium per share	= ₹12,96,000/₹86,400 = ₹15
Issued 86,400 shares	@ ₹10 each at a premium of ₹15 per share
Share of Q Ltd.	= ₹14,40,000 x [14,40,000/(21,60,000 + 14,40,000)]
	= ₹5,76,000 or 57,600 shares
Securities premium	= ₹14,40,000 - ₹5,76,000 = ₹8,64,000
Premium per share	= ₹8,64,000/₹57,600 = ₹15
Issued 57,600 shares	@ ₹10 each at a premium of ₹15 per share

(ii) Journal Entries in the books of PQ Ltd.

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹10)			8,64,000
To Securities premium (86,400 x ₹15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹10)			5,76,000
To Securities premium (57,600 x ₹15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c	Dr.	18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000
(Equity share capital issued to raise working capital)			

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	21,60,000
	(b)	Reserves and Surplus	2	32,40,000
2		Current liabilities		
	(a)	Trade payables (2,40,000 + 5,40,000)		7,80,000
		Total		61,80,000
		Assets		
1	(a)	Non-current assets Fixed assets		
		Tangible assets (7,20,000 + 10,80,000)		18,00,000
		Intangible assets (goodwill)	4	5,40,000
2		Current assets		
	(a)	Inventories (3,60,000 + 6,60,000)		10,20,000
	(b)	Trade receivables (4,80,000 +7,80,000)		12,60,000
	c	Cash and cash equivalents	3	15,60,000
		Total		61,80,000

Notes to accounts

		₹
1	**Share Capital**	
	Issued, subscribed and paid up share capital	
	2,16,000 Equity shares of ₹10 each	21,60,000
	(Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	
2	**Reserves and Surplus**	
	Securities premium (@ ₹15 for 2,16,000 shares)	32,40,000
3	**Cash and cash equivalents**	
	Cash at Bank	15,60,000
4	**Intangible Assets**	
	Goodwill	5,40,000

Working Notes:

1. Calculation of goodwill of P Ltd.

Particulars	Amount ₹	Weight	Weighted amount ₹
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a + b + c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/Total of weight]			
[₹32,40,000/6]			
Goodwill			5,40,000

2. Calculation of Net assets

	P Ltd. ₹	Q Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000

3. New authorized capital

= ₹14,40,000 + ₹12,00 000 = ₹26,40,000

4. Cash and Cash equivalents

P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X ₹25)	18,00,000
Less: Bank Overdraft	21,00,000
	5,40,000
	15,60,000*

* The balance of cash and cash equivalents has been shown after setting off overdraft amount.

Question 32

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2017:

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹100 each, fully paid up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		
Trade payables	1,40,000		
Bank overdraft	50,000		
	18,00,000		18,00,000

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: Market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹25,000.

(*MTP April 2018*) (*4 Marks*)

Answer:

Calculation of Purchase Consideration under Net Assets Method

	₹	₹
Sundry assets		
$18{,}00{,}000 \times \frac{75}{100} \times \frac{112}{100}] =$	15,12,000	
$18{,}00{,}000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Trade payables	1,40,000	
Bank overdraft	50,000	
Unrecorded liability	25,000	(4,15,000)
Purchase consideration		15,11,000

Question 33

On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

(i) Issued 50,000 fully paid Equity shares of ₹10 each at a premium of ₹5 per share to the equity shareholders of Rina Ltd.

(ii) Cash payment of ₹50,000 was made to equity shareholders of Rina Ltd.

(iii) Issued 2,000 fully paid 12% Preference shares of ₹100 each at par to discharge the preference shareholders of Rina Ltd.

(iv) Debentures of Rina Ltd. 20,000) will he converted into equal number and amount of 10% debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

(November 2018) (5 marks)

Answer:

Particulars	**₹**
Equity Shares (50,000x 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	2,00,000
Purchase Consideration	10,00,000

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

Journal entry relating to discharge of consideration in the books of Tina Ltd.

	₹	₹
Liquidation of Rina Ltd. A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Discharge of purchase consideration)		

Question 34

The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Assets	**A/ex Ltd. (₹)**	**Beta Ltd. (₹)**
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40.000	56,000
	37,80,000	15,96,000
Liabilities	**Alex Ltd.(₹)**	**Beta Ltd.(₹)**
Share Capital:		
Equity Shares of ₹10 each	28,00,000	8,40,000
8% Preference Shares of ₹100 each	2,80,000	-
10% Preference Shares of ₹100 each	-	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	37,80,000	15,96,000

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at ₹1,40,000, Buildings are valued at ₹4,20,000 and the Machinery at ₹4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(a) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(b) Prepare the acquisition entries in the books of Alex Ltd.

(c) Also prepare the Balance Sheet after absorption as at 31st March, 2017.

(*RTP November 2018*)

Answer:

(a) In the Books of Beta Ltd.

Realisation Account

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64.000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Share Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

(b) In the Books of Alex Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000
To Securities Premium A/c			56,000
(Being Purchase Consideration satisfied as above).			

(c) Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2017

Particulars			Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	3	31,08,000
		Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

Notes to accounts:

	₹
1 Share Capital	
Equity share capital	
3,92,000 Equity Shares of ₹10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000
Preference share capital	5,88,000
5,880 8% Preference Shares of ₹100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	
Total	45,08,000
2 Reserves and Surplus	
Securities Premium	56,000
General Reserve	1,96,000
Total	2,52,000
3 Tangible assets	
Buildings	12,60,000
Machinery	18,48,000
Total	31,08,000

Working Notes:

Purchase Consideration:	₹
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000

Purchase Consideration:	₹
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

Question 35

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
Equity Share Capital (Fully paid shares of ₹10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	12,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	**P Ltd. (₹ in lakhs)**	**V Ltd. (₹ in lakhs)**
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	463
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	—	80
	2,120	1,100

Expenses of amalgamation amounting to ₹1 lakh were borne by P Ltd.

You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(*MTP August 2018*) (*15 Marks*)

Answer: Books of P Ltd.

Journal Entries

		Dr. (₹ in Lacs)	*Cr. (₹ in Lacs)*
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			

Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profit & loss A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

		Particulars	Notes	₹(in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

		₹
1.	**Share Capital**	
	Equity share capital	
	Authorised, issued, subscribed and paid up	
	24 crores equity shares of ₹10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
	Total	**24,000**

		₹
2.	**Reserves and Surplus**	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,644
	Total	**16,654**
3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,000
4.	**Tangible assets**	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = ₹6,000 lacs × $\frac{3}{2}$ = ₹9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

Question 36

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2016. Their summarized Balance Sheets as on 31.03.2016 were as follows:

(₹ in '000)

Particulars	P Ltd.	Q Ltd.
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	70	60
Profit and Loss Account	8	12
10% Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2016 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50% Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10% of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

(*MTP October 2018*) (*15 Marks*)

Answer:

M/s R Ltd.
Balance Sheet as at 1.4.2016

		Particulars	Notes	₹ in'000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	6,55,980
	b	Reserves and Surplus	2	2,77,990
2		**Non-current liabilities**		
	a	Long-term borrowings	3	80,000
3		**Current liabilities**		
	a	Trade Payables	4	80,000
	b	Short term provision	5	22,000
		Total		11,15,970
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	6	5,60,000
	b	Non-current investments	7	1,30,000
2		**Current assets**		
	a	Inventory	8	1,52,000
	b	Trade receivables	9	1,44,000
	c	Cash and cash equivalents	10	1,29,970
		Total		11,15,970

Notes to accounts

		₹ in'000
1.	**Share Capital**	
	Equity share capital	
	55,598 Equity shares of ₹10 each, fully paid up (W.N.2)	5,55,980
	Preference share capital	
	9% Preference share capital (Share of ₹100 each) (W.N.2)	1,00,000
		6,55,980
2.	**Reserves and Surplus**	
	Securities premium (W.N.2)	2,77,990
	Investment allowance reserve (₹70,000+ ₹60,000)	1,30,000
	Amalgamation adjustment reserve	(1,30,000)
		2,77,990
3.	**Long-term borrowings**	
	Secured	
	10% Debentures (50% of ₹1,60,000)	80,000
4.	**Trade Payables** (₹50,000+ ₹30,000)	80,000
5.	**Short term provisions**	
	Provision for tax (₹14,000+ ₹8,000)	22,000
6.	**Tangible assets**	
	Building (₹1,32,000+₹1,05,000)	2,37,000
	Plant and machinery (₹1,76,000+₹1,47,000)	3,23,000
		5,60,000
7.	Non-current Investments (₹80,000+ ₹50,000)	1,30,000
8.	**Inventory**	
	Stock (₹72,000+ ₹80,000)	1,52,000
9.	**Trade receivables**	
	Trade receivables (90% of (₹90,000+ ₹70,000)	1,44,000
10.	**Cash and cash equivalents**	
	Cash and Bank (₹80,000+ ₹50,000 – ₹30)	1,29,970

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

		P Ltd.		Q Ltd.
		(₹)		(₹)
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000
Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	P Ltd.	Q Ltd.	Total
Equity shares issued @ ₹15 per share (including ₹5 premium)			
₹3,97,000/15	26,466 shares[1]		
₹3,57,000/15		23,800shares	50,266 shares
Equity share capital @ ₹10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	₹1,32,330	₹1,19,000	₹2,51,330
	₹3,96,990	₹3,57,000	₹7,53,990
50% of Debentures are converted into equity shares @ ₹15 per share			
1,00,000/2 = 50,000/15	3,332 shares[2]		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	₹33,320	₹20,000	₹53,320
Security premium@ ₹5	₹16,660	₹10,000	₹26,660
	₹49,980	₹30,000	₹79,980
9% Preference share capital issued	₹60,000	₹40,000	₹1,00,000

Question 37

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018. Their summarized Balance Sheets as on 31.03.2018 were as follows:

(₹ in '000)

Particulars	*P Ltd.*	*Q Ltd.*
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10% Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490

1 Cash paid for fraction of shares = ₹3,97,000 less ₹3,96,990 = ₹10

2 Cash paid for fraction of shares = ₹50,000 less ₹49,980 = ₹20

Particulars	*P Ltd.*	*Q Ltd.*
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50% Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non-current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10% of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase. (*RTP May, 2019*)

Answer

M/s R Ltd.
Balance Sheet as at 1.4.2018

		Particulars	Notes	₹ in'000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	**1**	6,55,980
	b	Reserves and Surplus	2	2,77,990
2		**Non-current liabilities**		
	a	Long-term borrowings	3	80,000
3		**Current liabilities**		
	a	Trade Payables	4	80,000
	b	Short term provision	5	22,000
		Total		11,15,970
		Assets		
1		**Non-current assets**		
	a	Property, Plants Equipment		
		Tangible assets	6	5,60,000
	b	Non-current investments	7	1,30,000
2		**Current assets**		
	a	Inventory	8	1,52,000
	b	Trade receivables	9	1,44,000
	c	Cash and cash equivalents	10	1,29,970
		Total		11,15,970

Notes to accounts

		₹ in '000
1.	**Share Capital**	
	Equity share capital	
	55,598 Equity shares of ₹10 each, fully paid up (W.N.2)	5,55,980
	Preference share capital	
	9% Preference share capital (Share of ₹100 each) (W.N.2)	1,00,000
		6,55,980
2.	**Reserves and Surplus**	
	Securities premium (W.N.2)	2,77,990
	Investment allowance reserve	14,000
	(₹10,000+ ₹4,000)	
	Amalgamation adjustment reserve	(14,000)
		2,77,990

		₹ in '000
3.	**Long-term borrowings**	
	Secured	
	10% Debentures (50% of ₹1,60,000)	80,000
4.	**Trade Payables** (₹50,000 + ₹30,000)	80,000
5.	**Short term provisions**	
	Provision for tax (₹14,000 + ₹8,000)	22,000
6.	**Tangible assets**	
	Building (₹1,32,000 + ₹1,05,000)	2,37,000
	Plant and machinery (₹1,76,000 + ₹1,47,000)	3,23,000
		5,60,000
7.	**Non-current Investments** (₹80,000 + ₹50,000)	1,30,000
8.	**Inventory**	
	Stock (₹72,000 + ₹80,000)	1,52,000
9.	**Trade receivables**	
	Trade receivables (90% of (₹90,000 + ₹70,000)	1,44,000
10.	**Cash and cash equivalents**	
	Cash and Bank (₹80,000 + ₹50,000 - ₹30)	1,29,970

Working Notes:

1. **Calculation of value of equity shares issued to transferor companies**

		P Ltd. (₹)		*Q Ltd.* (₹)
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000
Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	P Ltd.	*Q Ltd.*	*Total*
Equity shares issued @ ₹15 per share (including ₹5 premium)			
₹3,97,000/15	26,466 shares[1]		
₹3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ ₹10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	₹1,32,330	₹1,19,000	₹2,51,330
	₹3,96,990	₹3,57,000	₹7,53,990
50% of Debentures are converted into equity shares@ ₹15 per share			
1,00,000/2 =50,000/15	3,332 shares[2]		
60,000/2 =30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	733,320	720,000	753,320
Security premium @ ₹5	716,660	710,000	726,660
	749,980	730,000	7 79,980
9% Preference share capital issued	760,000	₹40,000	71,00,000

1 Cash paid for fraction of shares = ₹3,97,000 less ₹3,96,990 = 710.

2 Cash paid for fraction of shares = ₹50,000 less ₹49,980 = 720.

Question 38

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹10 each)	15,000	6,000
Securities Premium	3,000	-
Foreign Project Reserve	-	310
General Reserve	9,500	3.200
Profit and Loss Account	2,870	825
12% Debentures	-	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Land and Buildings	6,000	-
Plant and Machinery	14,000	5.000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	12,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	463
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	–	80
	2,120	1,100

Expenses of amalgamation amounting to ₹1 lakh were borne by P Ltd. You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(*MTP-April 2019*) (*15 Marks*)

Answer*:*

Books of P Ltd.
Journal Entries

		Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	

		Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 - 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profits loss A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
Liabilityfor12% Debentures A/c	Dr.	1,000	
To 13% Debentures At			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

Particulars			Notes	₹(in lakhs)
Equity and Liabilities				
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543+ 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1	A	**Non-current assets**		
		Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Authorised, issued, subscribed and paid up	
24 crores equity shares of ₹10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
Total	**24,000**

	₹
2. Reserves and Surplus	
General Reserve	9,700
Securities Premium	3.000
Foreign Project Reserve	310
Profit and Loss Account	3,644
Total	**16,654**
3. Long-term borrowings	
Secured	
13% Debentures	1,000
4. Tangible assets	
Land & Buildings	6,000
Plant & Machinery	19,000
Furnitures Fittings	4,004
Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = ₹6,000 lacs 3/2 - = ₹9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

Question 39

The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹10 each	12,00,000	6,00,000
10% pref. Shares of ₹100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	**31,00,000**	**18,00,000**
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,,20,000
Cash at Bank	2,20,000	80,000
Total	**31,00,000**	**18,00,000**

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	**4,20,000**
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bill Payable	60,000	50,000
	5,00,000	**3,00,000**

- Fixed Assets of both the companies are to be revalued at 15% above book value.
- Inventory in Trade and Debtors are taken over 5% lesser than their book value.
- Both the companies are to pay 10% equity dividend, Preference divided having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹100 each at par in VT Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium by 12% Debentures in VT Ltd. issued at a discount of 10%.

(iv) ₹60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹20,000 due from VT Ltd.

You are required to prepare:

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

(*May 2019*) (*10 Marks*)

Answer:

(i) Journal Entries in the Books of VT Ltd.

		Dr. ₹	*Cr.* ₹
Fixed Assets	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
Fixed Assets (115% of ₹5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹80,000 –₹60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures	Dr.	36,000	
To 12% Debentures			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000
(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			

		Dr. ₹	*Cr.* ₹
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 × 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ₹10 each i.e. ₹8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹2,00,000x 90/100 ₹1,80,000(ii)

Consideration amount [(i) + (ii)] ₹9,80,000

Question 40

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	₹	**Assets**	₹
8,000 Equity shares of ₹100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹6,00,000 and the balance in fully paid equity shares of ₹100 each at ₹125 per share.

The average profit is ₹1,24,400. The liquidation expenses amounted to ₹16,000. B Ltd. sold prior to 31st March, 2018 goods costing ₹1,20,000 to A Ltd. for ₹1,60,000.

₹1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2019. Trade payables of A Ltd. include ₹40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

(*RTP November 2019*)

Answer:

Books of A Limited Realization Account

		₹			₹
To	Building	3,40,000	By	Trade payables	3,20,000
To	Machinery	6,40,000	By	B Ltd.	12,10,000
To	Inventory	2,20,000	By	Equity Shareholders (Loss)	76,000
To	Trade receivables	2,60,000			
To	Patent	1,30,000			
To	Bank (Exp.)	16,000			
		16,06,000			16,06,000

Bank Account

To	Balance b/d	1,36,000	By	Realization (Exp.)	16,000
To	B Ltd.	6,00,000	By	10% Debentures	4,00,000
			By	Loan	1,60,000
			By	Equity shareholders	1,60,000
		7,36,000			7,36,000

10% Debentures Account

To	Bank	4,00,000	By	Balance b/d	4,00,000
		4,00,000			4,00,000

Loan Account

To	Bank	1,60,000	By	Balance b/d	1,60,000
		1,60,000			1,60,000

Share Issue Expenses Account

To	Balance b/d	34,000	By	Equity shareholders	34,000
		34,000			34,000

General Reserve Account

To	Equity shareholders	80,000	By	Balance b/d	80,000
		80,000			80,000

B Ltd. Account

To	Realisation A/c	12,10,000	By	Bank	6,00,000
			By	Equity share in B Ltd. (4,880 shares at ₹125 each)	6,10,000
		12,10,000			12,10,000

Equity Shares in B Ltd. Account

To	B Ltd.	6,10,000	By	Equity shareholders	6,10,000
		6,10,000			6,10,000

Equity Share Holders Account

To	Realization Account	76,000	By	Equity share capital	8,00,000
To	Share issue Expenses	34,000	By	General reserve	80,000
To	Equity shares in B Ltd.	6,10,000			
To	Bank	1,60,000			
		8,80,000			8,80,000

B Ltd

Balance Sheet as on 1st April, 2019 (An extract)*

	Particulars	Notes	₹
	Equity and Liabilities		
1	**Shareholders' funds**		
(a)	Share capital	1	4,88,000
(b)	Reserves and Surplus	2	1,07,000
2	**Current liabilities**		
(a)	Trade Payables	3	2,80,000
(b)	Bank overdraft		6,00,000
	Total		14,75,000
	Assets		
1	**Non-current assets**		
(a)	Property, Plant and Equipment		
	Tangible assets	4	8,82,000
	Intangible assets	5	2,16,000
2	**Current assets**		
(a)	Inventories	6	1,83,000
(b)	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

			₹
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of ₹100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000

---

* *In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.*

			₹
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account	…..	
	Less: Unrealized profit	(15,000)	(15,000)
	Total		1,07,000
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
7	**Trade receivables**		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	1,24,400
Less: 8% of ₹8,80,000	(70,400)
Super profit	54,000
Value of Goodwill = 54,000 x 4	2,16,000
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	2,34,000
Total Assets	15,30,000
Less: Trade payables	(3,20,000)
Net Assets	12,10,000

Out of this ₹6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹6,10,000 in shares of ₹125. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealized Profit on Inventory	₹
The Inventory of A Ltd. includes goods worth ₹1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹1,00,000.	(10,000)
Amount of unrealized profit	15,000

Question 41

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2019:

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹100 each, fully paid up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		

Liabilities	**₹**	**Assets**	**₹**
Trade payables	1,40,000		
Bank overdraft	50,000		
	18,00,000		18,00,000

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: Market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹25,000.

[*MTP October, 2019, 5 Marks*]

Answer

Calculation of Purchase Consideration under Net Assets Method

		₹	₹
Sundry assets			
	$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
	$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000
Less:	Liabilities:		
	10% Debentures	2,00,000	
	Trade payables	1,40,000	
	Bank overdraft	50,000	
	Unrecorded liability	25,000	(4,15,000)
Purchase consideration			15,11,000

Question 42

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Preference shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

(*May 2020*)

Answer

In the Books of P Ltd.
Realization Account

		₹			₹
To	Land & Building	4,50,000	By	8% Debentures	2,00,000
To	Plant & Machinery	6,20,000	By	Trade Payables	88,000
To	Furniture & Fitting	1,00,000	By	PQ Ltd.	16,02,100
To	Trade receivables	3,25,000		(Purchase consideration)	
To	Inventory/Stock	2,33,000	By	Equity Shareholders A/c	1,37,900
To	Cash at Bank	2,08,000		(loss)	
To	Cash in Hand	54,000			
To	Preference shareholders (excess payment)	38,000			
		20,28,000			20,28,000

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	1,37,900	By	Share capital	8,20,000
To	Equity Shares in PQ Ltd.	10,82,400	By	Profit & Loss A/c	3,52,000
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

9% Preference Shareholders Account

To	Preference Shares in PQ Ltd.	4,18,000	By	Pref. Share capital	3,80,000
			By	Realization A/c	38,000
		4,18,000			4,18,000

PQ Ltd. Account

To	Realization A/c	16,02,100	By Shares in PQ Ltd.		
			For Equity	10,82,400	15,00,400
			For Pref.	4,18,000	
			By Cash		1,01,700
		16,02,100			16,02,100

8% Debentures holders Account

	₹		₹
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.
Realization Account

		₹			₹
To	Land & Building	3,40,000	By	8% Debentures	1,00,000
To	Plant & Machinery	4,50,000	By	Trade payables	1,60,000
To	Furniture & Fittings	50,000	By	Unsecured loan	1,75,000
To	Trade receivables	1,50,000	By	PQ Ltd. (Purchase	
To	Inventory	1,05,000		consideration)	7,92,250
To	Cash at bank	1,75,000	By	Equity Shareholders A/c	90,750
To	Cash in hand	20,000		Loss	
To	Pref. shareholders	28,000			
		13,18,000			13,18,000

Equity Shareholders Account

		₹		₹
To	Equity shares in PQ Ltd.	4,22,400	By Share Capital	3,20,000
To	Realization	90,750	By Profit & Loss A/c	2,05,000
To	Cash	61,850	By General Reserve	50,000
		5,75,000		5,75,000

9% Preference Shareholders Account

	₹			₹
To Preference Shares in PQ Ltd.	3,08,000	By	Share capital	2,80,000
		By	Realization A/c	28,000
	3,08,000			3,08,000

PQ Ltd. Account

	₹			₹
To Realization A/c	7,92,250	By Equity shares in PQ Ltd.		
		For Equity	4,22,400	
		Preference	3,08,000	7,30,400
		By Cash		61,850
	7,92,250			7,92,250

8% Debentures holders Account

	₹		₹
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. ₹	***P Ltd.*** ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,18,000	3,08,000
Equity Shares at ₹ 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

		P Ltd. ₹		***P Ltd.*** ₹
Land & Building		4,50,000		3,40,000
Plant & Machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		2,08,000		1,75,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans		(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash*		1,01,700		(61,850)

(iii)

	P	**Q**
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

**This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies*

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Question 43

X Ltd. and Y Ltd. give the following information of assets, equity and liabilities as on 31st March, 2018:

	X Ltd. (₹)	Y Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17 : ₹ 90,000; 2015-16 : ₹ 78,000 and 2014-15: ₹ 72,000). The profits of 2014 -15 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2013-14 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to:

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

(*RTP, November, 2020*)

Answer

In the Books of Y Ltd.
Realisation Account

			₹			₹
To	Sundry Assets:			By	Retirement Gratuity Fund	60,000
	Goodwill	75,000				
	Land & Building	3,00,000		By	Trade payables	2,40,000
	Plant & Machinery	4,50,000		By	X Ltd. (Purchase Consideration)	15,90,000
	Inventory	5,25,000				
	Trade receivables	3,00,000				
	Bank	60,000	17,10,000			
To	Preference Shareholders (Premium on Redemption)		30,000			
To	Equity Shareholders (Profit on Realisation)		1,50,000			
			18,90,000			18,90,000

In the Books of X Ltd.
Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c			60,000
(Being Purchase Consideration satisfied as above)			

Balance Sheet of X Ltd. (after absorption) as at 31st March, 2018

Particulars			Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000
2		Non-current liabilities		
	A	Long-term provisions	3	2,10,000
3		Current liabilities		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		Non-current assets		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		Current assets		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000

		₹
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables (3,90,000 + 2,40,000 - 20,000*)	6,10,000
	***** Mutual Owings eliminated.	
5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Tangible assets	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill

	₹
Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹ 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		**₹**
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
Less: Liabilities:		18,97,500
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
Total		15,90,000

Question 44

Two companies named Alex Ltd. and Beta Ltd. provide you the following summary of ledger balances as on 31st March, 2020:

	Alex Ltd. (₹)	*Beta Ltd. (₹)*
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–
10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(i) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(ii) Show the acquisition entries in the books of Alex Ltd.

(iii) Also draft the Balance Sheet after absorption as at 31st March, 2020.

(*MTP, October, 2020*) (*16 marks*)

Answer

(i) In the Books of Beta Ltd. Realisation Account

		₹			₹
To	Sundry Assets	15,96,000	By	Retirement Gratuity Fund	56,000
To	Preference Shareholders (Premium on Redemption)	28,000	By	Trade payables (Purchase Consideration)	2,24,000
To	Equity Shareholders (Profit on Realisation)	1,40,000	By	Alex Ltd.	14,84,000
		17,64,000			17,64,000

Equity Shareholders Account

		₹			₹
To	Equity Shares of Alex Ltd.	11,76,000	By	Share Capital	8,40,000
			By	General Reserve	1,96,000
			By	Realisation Account (Profit on Realisation)	1,40,000
		11,76,000			11,76,000

Preference Shareholders Account

		₹			₹
To	8% Preference Shares of Alex Ltd.	3,08,000	By	Preference Share Capital	2,80,000
			By	Realisation Account (Premium on Redemption of Preference Shares)	28,000
		3,08,000			3,08,000

Alex Ltd. Account

		₹			₹
To	Realisation Account	14,84,000	By	8% Preference Shares	3,08,000
			By	Equity Shares	11,76,000
		14,84,000			14,84,000

(ii) In the Books of Alex Ltd. Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000
To Securities Premium A/c			56,000
(Being Purchase Consideration satisfied as above).			

(iii) Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2020

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment (PPE)	3	31,08,000
	B	Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

Notes to accounts:

		₹
1	**Share Capital**	
	Equity share capital	
	3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000
	Preference share capital	
	5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000

		₹
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**PPE**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

Purchase Consideration:	**₹**
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

Question 45

Explain the difference between pooling of interest and purchase method of accounting for amalgamations.

(*MTP, October, 2020*) (*4 marks*)

Answer

Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other than statutory reserves, of the transferor company should be incorporated in the financial statements of transferee company.

Question 46

The following were summarized Balance sheets of Robert Ltd. and Diamond Ltd. as at 31.03.2020

	Robert Ltd. (₹ in lakhs)	**Diamond Ltd. (₹ in lakhs)**
Liabilities		
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,237.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
	50,100	18,750

	Robert Ltd. (₹ in lakhs)	Diamond Ltd. (₹ in lakhs)
Assets		
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5
Cost of Issue of Debentures	-	75
.	50,100	18,750

All the bills receivable held by Diamond Ltd. were Robert Ltd.'s acceptances.

On 1st April 2020, Robert Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Robert Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Robert Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Robert Ltd.	Diamond Ltd.
	(₹ in lakhs)	
Trade Payables		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Robert Ltd. You are required to:

(i) Pass journal entries in the books of Robert Ltd. and

(ii) Prepare Robert Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of Diamond Ltd. is not transferred to Robert Ltd

(*MTP, May, 2020*) (*20 marks*)

Answer:

Books of Robert Ltd.
Journal Entries

		(₹ *in Lacs*)	(₹ *in Lacs*)
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. Taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	
Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465
To General Reserve ₹ (4,800 - 4,500)			300
To Profit and Loss A/c ₹ (1,237.5 – 75*)			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			

* Cost of issue of debentures adjusted against P & L A/c of Diamond Ltd.

		(₹ *in Lacs*)	(₹ *in Lacs*)
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P& L A/c)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Robert Ltd. as at 1st April, 2020 (after merger)

		Particulars	Notes	₹ (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	36,000
	B	Reserves and Surplus	2	24,981
2		Non-current liabilities		
	A	Long-term borrowings	3	1,500
3		Current liabilities		
	A	Trade Payables (1,800+694.5-120)		2,374.5
	B	Short-term provisions (2,745+1,053)		3,798
		Total		68,653.5
		Assets		
1		Non-current assets		
	A	Property, Plant & Equipment	4	43,506
2		Current assets		
	A	Inventories (11,793+6,061.5)		17,854.5
	B	Trade receivables (3,180+1,650-120)		4,710
	C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
		Total		68,653.5

Notes to Accounts

		₹
1.	Share Capital	
	Equity share capital	
	Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	Reserves and Surplus	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	5,466
	Total	24,981
3.	Long-term borrowings	
	Secured	
	13% Debentures	1,500
4.	PPE	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert* Ltd. for every two equity shares held in *Diamond* Ltd.

Purchase consideration = ₹ 9,000 lacs $\times \frac{3}{2} = \text{Rs.}13,500\,\text{lacs}$

Question 47

The Paid-up capital of S Limited amounted to ₹ 5,00,000 Equity Shares of ₹ 10 each. Due to continuous loss incurred by the company, the following scheme of Reconstruction has been approved for S Limited on 1st April, 2020.

(i) In lieu of present holding the Equity Shareholders are to receive:
   (a) Fully Paid Equity Shares equal to 3/5th of their holding.
   (b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.
   (c) 10% Second Debentures of ₹ 40,000.

(ii) An issue of 8% Debentures First Debentures of ₹ 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows:-
   (a) Building from ₹ 2,00,000 to ₹ 1,50,000
   (b) Plant & Machinery from ₹ 1,50,000 to ₹ 1,30,000
   (c) Goodwill from ₹ 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction.

(*MTP, May, 2020*) (*5 marks*)

Answer:

Journal Entries in the books of S Ltd.

2020			**Dr. ₹**	**Cr. ₹**
April 1	Equity Share Capital A/c (₹ 10)	Dr.	5,00,000	
	To Equity Share Capital A/c			3,00,000
	To 8% Preference Equity Share Capital A/c			60,000
	To 10% Second Debentures A/c			40,000
	To Capital Reduction /Reconstruction A/c			1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)			
	Capital Reduction/Reconstruction A/c	Dr.	1,00,000	
	To Building A/c			50,000
	To Plant and Machinery A/c			20,000
	To Goodwill A/c			30,000
	(Being value of building and plant and machinery reduced and goodwill written off completely.)			
	Bank A/c	Dr.	1,00,000	
	To 8% First Debentures A/c			1,00,000
	(Being ₹ 1,00,000 debentures issued)			

Question 48

Robert Ltd. and Diamond Ltd. give the following information as at 31.03.2020:

	Robert Ltd. (₹ in lakhs)	**Diamond Ltd. (₹ in lakhs)**
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Robert Ltd.'s acceptances.

On 1st April 2020, Robert Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Robert Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Robert Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	Robert Ltd.	Diamond Ltd.
	(₹ in lakhs)	
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
Trade receivables:	1,800	694.5
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Robert Ltd. You are required to:

(i) Pass journal entries in the books of Robert Ltd. and

(ii) Prepare Robert Ltd.'s Balance Sheet immediately after the merger.

(*MTP, March, 2021*) (*20 marks*)

Answer

Books of Robert Ltd.

Journal Entries

		(₹ *in Lacs*)	(₹ *in Lacs*)
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	
Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465
To General Reserve ₹ (4,800 - 4,500)			300
To Profit and Loss A/c			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P& L A/c)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Robert Ltd. as at 1st April, 2020 (after merger)

Particulars			Notes	₹ (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	36,000
	B	Reserves and Surplus	2	24,981
2		Non-current liabilities		
	A	Long-term borrowings	3	1,500
3		Current liabilities		
	A	Trade Payables (1,800+694.5-120)		2,374.5
	B	Short-term provisions (2,745+1,053)		3,798
		Total		68,653.5
		Assets		
1		Non-current assets		
	A	Property, Plant & Equipment	4	43,506
2		Current assets		
	A	Inventories (11,793+6,061.5)		17,854.5
	B	Trade receivables (3,180+1,650-120)		4,710
	C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
		Total		68,653.5

Notes to Accounts

		₹
1.	Share Capital	
	Equity share capital	
	Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	Reserves and Surplus	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	5,466
	Total	24,981
3.	Long-term borrowings	
	Secured	
	13% Debentures	1,500
4.	PPE	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert* Ltd. for every two equity shares held in *Diamond* Ltd.

Purchase consideration = ₹ 9,000 lacs $\times \frac{3}{2}$ = ₹ 13,500 lacs

Question 49

List the conditions to be fulfilled as per AS 14 (Revised) for an amalgamation to be in the nature of merger, in the case of companies. (*MTP, April, 2021*) (*4 marks*)

Answer

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions.

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company and the business of the transfer or company is intended to be carried on, after the amalgamation, by the transferee company

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Question 50

On 1st April, 2021, Bimal Ltd. take over the business of Vimal Ltd. and discharged purchase consideration as follows:

(i) Issued 50,000 fully paid Equity shares of ₹ 10 each at a premium of ₹ 5 per share to the equity shareholders of Vimal Ltd.

(ii) Cash payment of ₹ 50,000 was made to equity shareholders of Vimal Ltd.

(iii) Issued 2,000 fully paid 12% Preference shares of ₹ 100 each at par to discharge the preference shareholders of Vimal Ltd.

(iv) Debentures of Vimal Ltd. (₹1,20,000) will be converted into equal number and amount of 10% debentures of Bimal Ltd.

Calculate the amount of Purchase consideration as per AS 14 and pass Journal Entry relating to discharge of purchase consideration in the books of Bimal Ltd.

(*MTP, April, 2021*) (*5 marks*)

Answer

Particulars	***₹***
Equity Shares (50,000 x 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	2,00,000
Purchase Consideration	10,00,000

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

Journal entry relating to discharge of consideration
in the books of Bimal Ltd.

Liquidation of Vimal Ltd.A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Discharge of purchase consideration)		

Question 51

Mohan Ltd. gives you the following information as on 31st March, 2020:

	₹
Share capital:	
Equity shares of ₹ 10 each	3,00,000
6,000, 9% cumulative preference shares of ₹ 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of ₹ 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of ₹ 4,00,000 divided into 40,000 Equity Shares of ₹ 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i) (a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

(ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at ₹ 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of ₹ 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

(*RTP, May, 2021*)

Answer

In the books of Mohan Ltd.

(i) Realisation Account

		₹			₹
To	Goodwill	10,000	By	10% Debentures	2,00,000
To	Property, plant and equipment	3,40,000	By	Interest accrued on debentures	20,000
To	Inventory	80,000	By	Trade payables	1,50,000
To	Trade receivables	1,10,000	By	Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To	Bank (20,000 - 5,000)	15,000	By	Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To	Preference share holders A/c (W.N.2)	5,400			
		5,60,400			5,60,400

(ii) Equity shareholders' Account

		₹			₹
To	Profit & loss A/c	1,70,000	By	Equity Share capital	3,00,000
To	Expenses*	5,000			
To	Equity shares in Ravi Ltd.	1,00,000			
To	Realization A/c	25,000			
		3,00,000			3,00,000

*****Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

(i) Bank Account

		₹			₹
To	Business Purchase	15,000	By	Balance c/d (Bal. fig.)	1,09,600
To	Equity shares application & allotment A/c (W.N. 3)	94,600			
		1,09,600			1,09,600

(ii) Balance Sheet as at 31st March, 2020

Particulars	***Note No.***	**₹**
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital		
(2) Non-Current Liabilities	1	4,00,000
Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400

Particulars	***Note No.***	***₹***
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		6,00,000

Notes to Accounts

		₹
1.	Share Capital	
	Authorised share capital	
	40,000 equity shares of ₹ 10 each	4,00,000
	Issued and Subscribed	
	40,000 shares of ₹ 10 each fully paid up	4,00,000
	(out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Long Term Borrowings**	
	10% Debentures	2,00,000

Working Notes:

1. **Calculation of Purchase consideration**

	₹
Payment to preference shareholders	
6,000 equity shares @ ₹ 10	60,000
For arrears of dividend: (6,000 x ₹ 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ ₹ 10	1,00,000
Total purchase consideration	1,65,400

2. **Preference shareholders' Account in books of Mohan Ltd.**

	₹		₹
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		65,400

3. **Calculation of number of Equity shares issued to public**

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

Question 52

High Ltd. and Low Ltd. were amalgamated on and from, 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The summarized Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:

(₹ in Lakhs)

Liabilities	***High Ltd.***	***Low Ltd.***	***Assets***	***High Ltd.***	***Low Ltd.***
Share Capital:			*Property, Plant and Equipment:*		
Equity Shares of ₹ 100 each	*1000*	*850*	*Land & Building*	*670*	*385*
14% Pref Shares of ₹ 100 each	*320*	*175*	*Plant & Machinery*	*475*	*355*
Reserves & Surplus:			*Investments*	*95*	*80*

Liabilities	***High Ltd.***	***Low Ltd.***	***Assets***	***High Ltd.***	***Low Ltd.***
Revaluation Reserve	*225*	*110*	*Current Assets:*		
General Reserve	*360*	*240*	*Stock*	*415*	*389*
Investment Allowance Reserve	*80*	*40*	*Sundry Debtors*	*322*	*213*
P & L Account	*85*	*82*	*Bills Receivables*	*35*	*-*
Non-Current Liabilities:			*Cash & Bank*	*303*	*166*
Secured Loans:					
13% Debentures (₹ 100 each)	*100*	*56*			
Unsecured Loans (Public Deposits)	*50*	*-*			
Current Liabilities & Provisions:		*-*			
Sundry Creditors	*65*	*35*			
Bills Payable	*30*	*-*			
TOTAL	*2315*	*1588*	*TOTAL*	*2315*	*1588*

Other Information:

(1) *13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.*

(2) *Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)*

(3) *Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.*

(4) *Investment Allowance Reserve is to be maintained for two more years.*

Prepare the Balance sheet of Little Ltd. as on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.

(*Suggested, November, 2020) (15 marks*)

Answer

Balance Sheet of Little Ltd. as at 1st April, 2020

Particulars	**Note No.**	**(₹ in lakhs)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,150.0
(b) Reserves and Surplus	2	2,437.8
(2) Non-Current Liabilities		
Long-term borrowings	3	135.2
Other Borrowings- Unsecured Loans		50
(3) Current Liabilities		
Trade payables	4	130.0
Total		3,903
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	1,885
(b) Non-current investment (95 + 80)		175
(2) Current assets		
(a) Inventory (415+389)		804
(b) Trade receivables	6	570
(c) Cash and bank balances (303 + 166)		469
Total		3,903

Notes to Accounts

		(₹ in lakhs)	**(₹ in lakhs)**
1.	Share Capital		
	Equity share capital (W.N.1)		
	65,50,000[1] Equity shares of 10 each	655	
	4,95,000[2] Preference shares of ₹ 100 each	495	

1 40,00,000 + 25,50,000
2 3,20,000 + 1,75,000

		(₹ in lakhs)	(₹ in lakhs)
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		1,150
2.	Reserves and surplus		
	Securities Premium Account (W.N.3) (1080+ 681.25)	1,761.25	
	Capital Reserve (W.N. 2)(283.33 + 393.22)	676.55	
	Investment Allowance Reserve (80 + 40)	120	
	Amalgamation Adjustment Reserve (80 + 40)	(120)	2,437.8
3.	Long-term borrowings		
	15% Debentures		135.2
4.	Trade payables		
	Sundry Creditors: High Ltd.	65	
	Low Ltd.	35	
	Bills Payable: High Ltd.	30	130
5.	Property, Plant and Equipment		
	Land and Building : High Ltd 670		
	Low Ltd 385	1055	
	Plant and Machinery: High Ltd. 475		
	Low Ltd. 355	830	1,885
6.	Trade receivables		
	Sundry Debtors: High Ltd.	322	
	Low Ltd.	213	
	Bills Receivables: High Ltd.	35	570

Working Notes:

		(₹ in lakhs)	
		High Ltd.	**Low Ltd.**
(1)	Computation of Purchase consideration		
	(a) Preference shareholders:		
	$\left(\frac{3,20,00,000}{100} \text{ i.e. } 3,20,000 \text{ shares}\right) \times ₹\,125 \text{ each}$	400	
			218.75
	$\left(\frac{1,75,00,000}{100} \text{ i.e. } 1,75,000 \text{ shares}\right) \times ₹125 \text{ each}$	1,400	
	(b) Equity shareholders:		892.50
	$\left(\frac{10,00,00,000 \times 4}{100} \text{ i.e. } 40,00,000 \text{ shares}\right) \times ₹\,35 \text{ each}$		
	$\left(\frac{8,50,00,000 \times 3}{100} \text{ i.e. } 25,50,000 \text{ shares}\right) \times ₹35 \text{ each}$	1,800	1,111.25
(2)	Amount of Purchase Consideration	670	385
	Computation of Capital Reserve	475	355
	Assets taken over:	95	80
	Land and Building	415	389
	Plant and Machinery	322	213
	Investments	35	
	Inventory		
	Trade receivables		
	Bills Receivables		
	Cash and bank	303	166
	Less: Liabilities taken over:	2,315	1,588
	Debentures 86.67		48.53
	Unsecured Loan 50		
	Creditors Bills Payable 65		35
	30		
		231.67	83.53

		(₹ in lakhs)	
		High Ltd.	**Low Ltd.**
(3)	Net assets taken over	2083.33	1,504.47
	Purchase consideration	1,800	1,111.25
	Capital reserve	283.33	393.22
	Computation of securities premium		
	On preference share capital		
	High Ltd.- 3,20,000 x 25	80	
	Low Ltd.- 1,75,000 x 25		43.75
	On equity share capital	1000	
	High Ltd.- 40,00,000 x 25		637.5
	Low Ltd.- 25,50,000 x 25		
	Total	1080	681.25

(4) Issue of Debentures (₹ In Lakhs)
High Ltd.- 15% fresh issue of debenture for 13% old debentures = 100 X 13% /15% = 86.67 (rounded off)
Low Ltd.- 15% fresh issue of debenture for 13% old debentures = 56 X 13% /15% = 48.53 (rounded off)
Total number of debentures issued = 86.67 + 48.53 = 135.20 Lakhs

Question 53

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

				Galaxy Ltd.	***Glory Ltd.***
				₹	*₹*
(*I*)		***Equity & Liabilities***			
	(*1*)	***Shareholders' fund***			
		Share Capital			
		Equity shares of ₹ 10 each		*8,40,000*	*4,55,000*
	(*2*)	***Reserves & Surplus***	.		
		General Reserve		*4,48,000*	*40,000*
		Profit & Loss A/c		*1,12,000*	*72,000*
	(*3*)	***Non-current Liabilities***			
		Secured Loan			
		6% Debentures		-	*3,30,000*
		Current Liabilities			
		Trade Payables		*4,20,000*	*1,83,000*
			Total	*18,20,000*	*10,80,000*
(*ii*)		***Assets***			
	(*1*)	***Non-current assets***			
		Property, Plant & Equipment			
		Freehold property, at cost		*5,88,000*	*3,36,000*
		Plant & Machinery, at cost less depreciation		*1,40,000*	*84,000*
		Motor vehicles, at cost less depreciation		*56,000*	-
		Current Assets			
	(*2*)	*Inventories*		*3,36,000*	*4,38,000*
		Trade Receivables		*4,62,000*	*1,18,000*
		Cash at Bank		*2,38,000*	*1,04,000*
			Total	*18,20,000*	*10,80,000*

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) *The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.*

(ii) *Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.*

(iii) *Goodwill is to be valued at : Galaxy Ltd. ₹ 4,48,000 Glory Ltd. ₹ 1,68,000*

(iv) *Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid* ₹ 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to:

(1) *Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ₹10.*

(2) *Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.* (*Suggested, January, 2021*) (*20 marks*)

Answer

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.

	Galaxy Ltd.	***Glory Ltd.***
Purchase Consideration:	₹	₹
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	10,50,000
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)		(3,30,000)
Trade payables	- (4,20,000)	
Net Assets taken over	19,60,000	7,20,000
To be satisfied by issue of shares of Glorious. Ltd. @ ₹ 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

			Particulars	***Note No***	***Amount***
					₹
			EQUITY AND LIABILITIES		
1			Shareholders' funds		
	(a)		Share capital	1	26,80,000
	(b)		Reserves and surplus	2	30,000
2			Non-current liabilities		
	(a)		Long-term borrowings	3	3,00,000
3			Current liabilities		
	(a)		Trade payables		4,20,000
			Total		34,30,000
			ASSETS		
1			Non-current assets		
	(a)	(i)	Property, plant and equipment	4	13,16,000
		(ii)	Intangible assets	5	6,16,000
2			Current assets		
	(a)		Inventories	6	7,74,000
	(b)		Trade receivables		4,62,000
	(c)		Cash and cash equivalents	7	2,62,000
			Total		34,30,000

Notes to accounts:

		₹	₹
1.	Share Capital		
	Equity share capital		26,80,000
	2,68,000 shares of ₹ 10 each		
	(All the above shares are issued for consideration other than cash)		
2.	Reserves and surplus		
	Securities Premium		
	(10% premium on debentures of ₹3,00,000)		30,000
3.	Long-term borrowings		
	Secured		
	8% 3,000 Debentures of ₹100 each		3,00,000

		₹	₹
4.	Property Plant and Equipment		
	Freehold property		
	Galaxy Ltd.	5,88,000	
	Glory Ltd.	3,36,000	9,24,000
	Plant and Machinery		
	Galaxy Ltd.	2,52,000	
	Glory Ltd.	84,000	3,36,000
	Motor vehicles -Galaxy Ltd.		56,000
			13,16,000
5	Intangible assets		
	Goodwill		
	Galaxy Ltd.	4,48,000	
	Glory Ltd.	1,68,000	6,16,000
6	Inventories		
	Galaxy Ltd.	3,36,000	
	Glory Ltd.	4,38,000	7,74,000
7	Cash and cash equivalents		
	Galaxy Ltd.	2,38,000	
	Glory Ltd.(As per working note)	24,000	2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

		₹
Cash balance as at 31st March,2020		1,04,000
Add: Received from debtors		1,10,000
		2,14,000
Less: paid to creditors		(1,80,000)
		34,000
Less: Commission to liquidators		
On Debtors @ 5%	5,500	
On Creditors @ 2.5%	4,500	
		(10,000)
		24,000

Note:

1. It is assumed that the nominal value of debentures of Glory Ltd. is ₹ 100 each.
2. As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of ₹ 10 for discharge of debentures of ₹ 3,30,000. Alternative answer considering other reasonable assumption is also possible.

Question 54

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		7,680	4,620
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Note No.	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital	6,000	3,600
	Equity Shares of ₹ 100 each		
	Reserves and Surplus		
2.	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	1,080	660

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate deprecation @ 10% p.a. on Property Plant and Equipment

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

(*July, 2021 Suggested*) (*10 Marks*)

Answer

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.		₹	₹
Goodwill			2,40,000
Property, plant and equipment		24,00,000	
Less: Depreciation [24,00,000 × 10 % × 3/12]		(60,000)	
		23,40,000	
Add: Appreciation		1,20,000	24,60,000
Inventory			7,20,000
Trade receivables			10,80,000
Cash and Bank balances		4,20,000	
Add: Profit after depreciation	2,40,000		
Add: Depreciation (non-cash)	60,000	3,00,000	
Less: Dividend [36,00,000 × 10%]		(3,60,000)	3,60,000
			48,60,000
Less: Trade payables			(3,60,000)
Purchase Consideration			45,00,000
Number of shares to be issued by Black Ltd. @ ₹ 100 each			45,000 shares

(ii) Calculation of Net Current Assets as on 01.07.2020

	₹	Black Ltd. ₹		White Ltd. ₹
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	

	₹	Black Ltd. ₹		White Ltd. ₹
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		18,00,000

(iii) Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	₹
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

(iv) Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	35,10,000
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		59,70,000

Question 55

Sun and Neptune (both companies) had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 2021 Sun and Neptune provide the following information:

	Sun (₹)	Neptune (₹)
Fixed Assets	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750
	9,62,000	5,32,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

Additional Information:

(a) Revalued figures of Fixed and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
2019 Profit	4,49,576	2,73,900
2020 (Loss)/Profit	(2,500)	3,42,100
2021 Profit	3,77,924	3,59,000

(ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 2021 after revaluation of assets.

You are required to:

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

(*MTP, October 2021*) (*16 Marks*)

Answer

(1) Computation of Amount of Debentures and Shares to be issued:

	Sun ₹	Neptune ₹
(i) Average Net Profit ₹ (4,49,576-2,500+3,77,924)/3 ₹ (2,73,900+,3,42,100+3,59,000)/3	= 2,75,000	= 3,25,000

(ii) Equity Shares Issued

(a) Ratio of distribution

Sun	:	Neptune
275	:	325

(b) Number

Sun	:	27,500
Neptune	:	32,500
		60,000

(c) Amount

	Sun ₹	Neptune ₹
27,500 shares of ₹ 5 each	1,37,500	
32,500 shares of ₹ 5 each		1,62,500
(iii) Capital Employed (after revaluation of assets)	₹	₹
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750
	10,09,500	5,47,750
Less: Current Liabilities	-5,97,000	-1,80,250
	4,12,500	3,67,500
(iv) Debentures Issued		
8% Return on capital employed	33,000	29,400
15% Debentures to be issued to provide equivalent income:		
Sun: 33,000 × 100/15	2,20,000	
Neptune: 29,400 × 100/15		1,96,000

(2) Balance Sheet of Jupiter Ltd.

As at 31st March 2021 (after amalgamation)

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	64,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	4,16,000
(3) Current Liabilities		
(a) Other current liabilities		7,33,900
Total		15,13,900
II. Assets		
(1) Non-current assets		
(a) Fixed assets		11,00,000
(2) Current assets		
(a) Other current assets		4,13,900
Total		15,13,900

Notes to Accounts

		₹
1	Share Capital	
	Authorized	
	80,000 Equity Shares of ₹ 5 each	4,00,000
	Issued and Subscribed	
	60,000 Equity Shares of ₹ 5 each	3,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	
2	Reserve and Surplus	
	Capital Reserve	64,000
3	Long-term borrowings	
	Secured Loans	
	15% Debentures	4,16,000

Working Notes:

		Sun ₹	Neptune ₹	Total ₹
(1)	Purchase Consideration			
	Equity Shares Issued	1,37,500	1,62,500	3,00,000
	15% Debentures Issued	2,20,000	1,96,000	4,16,000
		3,57,500	3,58,500	7,16,000
(2)	Capital Reserve			
(a)	Net Assets taken over			
	Fixed Assets	7,10,000	3,90,000	11,00,000
	Current Assets	2,99,500	1,14,400*	4,13,900
		10,09,500	5,04,400	15,13,900
	Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
		4,55,850	3,24,150	7,80,000
(b)	Purchase Consideration	3,57,500	3,58,500	7,16,000
(c)	Capital Reserve [(a) - (b)]	98,350		
(d)	Goodwill [(b) - (a)]		34,350	
(e)	Capital Reserve [Final Figure(c) -(d)]			64,000

* 1,57,750–43,350= 1,14,400

** 5,97,000–43,350= 5,53,650

Question 56

Explain the difference between pooling of interest and purchase method of accounting for amalgamations.

(*MTP, October 2021*) (*4 Marks*)

Answer

Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other th an statutory reserves, of the transferor company should be incorporated in the financial statements of transferee company.

Question 57

A Ltd. gives the following information on 31st March, 2021:

	₹
8,000 Equity shares of ₹ 100 each	8,00,000
10% Debentures	4,00,000
Loans	1,60,000
Trade payables	3,20,000

	₹
General Reserve	80,000
Building	3,40,000
Machinery	6,40,000
Inventory	2,20,000
Trade receivables	2,60,000
Bank	1,36,000
Patent	1,30,000
Profit & Loss account (Dr. balance)	34,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31st March, 2021 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2021. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the Realisation A/c, Bank A/c, B Ltd. A/c and Equity shareholders A/c to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2021 after the takeover from the available information.

(*MTP, November, 2021*) (16 Marks)

Answer

Books of A Limited

Realization Account

	₹		₹
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	16,000		
	16,06,000		16,06,000

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loans	1,60,000
		By Equity shareholders	1,60,000
	7,36,000		7,36,000

B Ltd. Account

To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at ₹ 125 each)	6,10,000
	12,10,000		12,10,000

Equity Share Holders Account

To Realization Account	76,000	By Equity share capital	8,00,000
To Profit & Loss A/c (Dr.)	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	8,80,000		8,80,000

B Ltd
Balance Sheet as on 1st April, 2021 (An extract)1

	Particulars	Notes	₹
	Equity and Liabilities		
1	**Shareholders' funds**		
(a)	Share capital	1	4,88,000
(b)	Reserves and Surplus	2	1,07,000
2	**Current liabilities**		
(a)	Trade Payables	3	2,80,000
(b)	Bank overdraft		6,00,000
	Total		14,75,000
	Assets		
1	**Non-current assets**		
	Property, Plant and Equipment	4	8,82,000
	Intangible assets	5	2,16,000
2	**Current assets**		
(a)	Inventories	6	1,83,000
(b)	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

			₹
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account	…..	
	Less: Unrealized profit	(15,000)	(15,000)
	Total		1,07,000
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Property, Plant and Equipment**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
7	**Trade receivables**		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1.	**Valuation of Goodwill**	₹
	Average profit	1,24,400
	Less: 8% of ₹ 8,80,000	(70,400)
	Super profit	54,000
	Value of Goodwill = 54,000 x 4	2,16,000

1 In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

2.	**Net Assets for purchase consideration**	
	Goodwill as valued in W.N.1	2,16,000
	Building	3,06,000
	Machinery	5,76,000
	Inventory	1,98,000
	Trade receivables	2,34,000
	Total Assets	15,30,000
	Less: Trade payables	(3,20,000)
	Net Assets	12,10,000

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealized Profit on Inventory	₹
The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be	
$\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd. purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.	(10,000)
Amount of unrealized profit	15,000

Question 58

Heera Ltd. and Rita Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of Heera Ltd. and Rita Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in HR Ltd.

Heera Ltd. and Rita Ltd. make available the following information as on 31st March, 2021 (the date of amalgamation):

	Heera Ltd. ₹	Rita Ltd. ₹
Property, plant and Equipment	7,20,000	10,80,000
Inventories	3,60,000	6,60,000
Trade receivables	4,80,000	7,80,000
Cash at Bank	3,00,000	-
Share Capital	6,00,000	8,40,000
Reserves	10,20,000	6,00,000
Bank Overdraft	-	5,40,000
Trade payables	2,40,000	5,40,000

The consideration was to be based on the net assets of the companies as shown above but subject to an additional payment to Heera Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2021. The weights for this purpose for the years 2018-19, 2019-20 and 2020-21 were agreed as 1, 2 and 3 respectively.

The profit had been:

2018-19 ₹ 3,00,000; 2019-20 ₹ 5,25,000 and 2020-21 ₹ 6,30,000.

The shares of HR Ltd. were to be issued to Heera Ltd. and Rita Ltd.at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, HR Ltd. proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to Heera Ltd. and Rita Ltd.

You are required to calculate the number of shares issued to Heera Ltd. and Rita Ltd. and prepare necessary journal entries in the books of HR Ltd.

(*RTP November 2021*)

Answer

Calculation of number of shares issued to Heera Ltd. and Rita Ltd.

Amount of Share Capital as per balance sheet		₹
Heera Ltd.		6,00,000
Rita Ltd.		8,40,000
		14,40,000
Share of Heera Ltd.	= ₹ 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]	
	= ₹ 8,64,000 or 86,400 shares	

Securities premium	= ₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000	
Premium per share	= ₹ 12,96,000 / ₹ 86,400 = ₹ 15	
Issued 86,400 shares	@ ₹ 10 each at a premium of ₹ 15 per share	
Share of Rita Ltd.	= ₹ 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]	
	= ₹ 5,76,000 or 57,600 shares	
Securities premium	=	₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000
Premium per share	=	₹ 8,64,000 / ₹ 57,600 = ₹ 15
Issued 57,600 shares		@ ₹ 10 each at a premium of ₹ 15 per share

Journal Entries in the books of HR Ltd.

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Business purchase account	Dr.	36,00,000	
To Liquidator of Heera Ltd. account			21,60,000
To Liquidator of Rita Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of Heera Ltd. and Rita ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
PPE account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of Heera Ltd. taken over)			
PPE account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Rita Ltd. taken over)			
Liquidator of Heera Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹ 10)			8,64,000
To Securities premium (86,400 x ₹ 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Rita Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹ 10)			5,76,000
To Securities premium (57,600 x ₹ 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account (72,000 x ₹10)			7,20,000
To Securities premium (72,000 x ₹ 15)			10,80,000
(Equity share capital issued to raise working capital)			

Working Notes:

1. Calculation of goodwill of Heera Ltd.

Particulars	Amount ₹	Weight	Weighted amount ₹
2018-19	3,00,000	1	3,00,000
2019-20	5,25,000	2	10,50,000
2020-21	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000
Weighted Average = [Total weighted amount/Total of weight] [₹ 32,40,000/6] Goodwill			5,40,000

2. Calculation of Net assets

	Heera Ltd. ₹	Rita Ltd. ₹
Assets		
Goodwill	5,40,000	
PPE	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000

Question 59

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (₹)	Ganga Limited (₹)
I. Equity and Liabilities:			
(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		5,08,00,000	3,28,00,000
II. Assets:			
(1) Non-Current Assets:			1,36,00,000
Property, Plant & Equipment		68,00,000	
(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		5,08,00,000	3,28,00,000

Notes to Accounts:

		Aakash Limited (₹)	Ganga Limited (₹)
1.	Share Capital		
	Authorized, Issued, Subscribed & Paid up :		
	6,00,000 Equity Shares of ₹10 each	60,00,000	-
	20,000 Preference Shares of ₹ 100 each	20,00,000	-
	2,00,000 Equity Shares of ₹ 10 each	-	20,00,000
		80,00,000	20,00,000
2.	Reserves and Surplus		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	56,00,000
3.	Secured Loans (Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	Unsecured Loans	1,72,00,000	-
5.	Other Current Liabilities		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	56,00,000

Both the companies go into liquidation and a new company 'Aakash Ganga Limited' is formed to take over their business. The following information is given:

(i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.

(ii) Property, Plant and Equipment of both the companies are taken over at book value by Aakash Ganga Limited.

(iii) Secured Loans include ₹ 32,00,000 accrued interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of ₹ 10 each are allotted by Aakash Ganga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in Aakash Ganga Ltd. worth ₹ 4,00,000 in lieu of their present holdings.

(vi) Secured Loan agree to continue the balance amount of their loans to Aakash Ganga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.

(vii) Unsecured Loans are taken over by Aakash Ganga Limited at 25% of loan amounts.

(viii) Employees are issued fully paid Equity Shares in Aakash Ganga Limited in full settlement of their dues.

(ix) Statutory Liabilities are taken over by Aakash Ganga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of Aakash Ganga Limited as at 1.4.2021.

(*RTP May, 2022*)

Answer

Balance sheet of Aakash Ganga Ltd. as at 1st April, 2021

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) **Shareholders' Funds**		
(a) Share Capital	1	1,40,00,000
(2) **Non-Current Liabilities**		
(a) Long term borrowings	2	2,12,60,000
(3) **Current Liabilities**		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
Total		5,90,20,000
II. Assets		
(1) **Non-current assets**		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
(2) **Current assets**		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
Total		5,90,20,000

Notes to Accounts

				(₹)
1.	Share Capital			
	Issued, subscribed & Paid up:			
	14,00,000 equity shares of ₹ 10 each, fully paid up (W.N.4)			1,40,00,000
	(of the above 10,00,000 shares have been issued for consideration other than cash)			
2.	Long Term borrowings			
	Secured Loans			
	Aakash Limited	25,60,000		
	Ganga Limited	1,44,00,000	1,69,60,000	
	Unsecured Loans		43,00,000	2,12,60,000
3.	Trade Payables (W.N.1)			
	Aakash Limited		44,80,000	
	Ganga Limited		28,80,000	73,60,000
4.	Other current liabilities			
	Statutory Liabilities			

			(₹)
	Aakash Limited	1,44,00,000	
	Ganga Limited	20,00,000	1,64,00,000
5.	Property, Plant & Equipment		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6.	Intangible assets		
	Goodwill (W.N.3)		1,54,20,000
7.	Other Current Assets		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:

1. Value of total liabilities taken over by Aakash Ganga Ltd. **(₹)**

	Aakash Limited		Ganga Limited	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of ₹ 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of ₹1,72,00,000)		43,00,000		-
		3,17,40,000		2,28,80,000

2. Assets taken over by Aakash Ganga Ltd. (₹)

	Aakash Limited	Ganga Limited
	₹	₹
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets		
(80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	2,70,40,000

3. Goodwill/Capital Reserve on amalgamation (₹)

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
Net Goodwill (1,95,80,000- 41,60,000)		1,54,20,000	

4. Equity shares issued by Aakash Ganga Ltd.

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000
			1,40,00,000
	No. of shares @ ₹ 10		14,00,000

Question 60

Moon Limited is absorbed by Sun Limited; the consideration, being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000); the payment of 9% Debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹ 18 per share in cash; allotment of two 11% preference shares of ₹ 10/- each and one equity share of ₹ 10/- each at a premium of 30% fully paid for every three shares in Moon Limited respectively.

The number of shares of the vendor company is 1,50,000 of ₹ 10/- each fully paid. Calculate purchase consideration as per AS-14. (*Question Paper of December 2021*) (*5 Marks*)

Answer

As per AS 14 "Accounting for Amalgamations", the term consideration has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Purchase consideration will be:

	₹	Form
Equity shareholders:		
1,50,000 × ₹ 18	27,00,000	Cash
1,50,000 × 2/3 × ₹ 10	10,00,000	11% Pref. shares
1,50,000 × 1/3 × ₹ 13	6,50,000	Equity shares
	43,50,000	

Note:

1. According to AS 14, 'consideration' excludes the any amount payable to debenture- holders. The liability in respect of debentures of vendor company will be taken by transferee company, which will then be settled by issuing new debentures.
2. Liquidation expenses will also not form part of purchase consideration.

Question 61

Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below:

(₹ In Lakhs)

	Particulars	Note No.	Dark Ltd.	Fair Ltd.
I	Equity and Liabilities			
	(1) Shareholders' Funds			
	(a) Share Capital	1	1,650	1,425
	(b) Reserves and Surplus	2	630	495
	(2) Non-Current Liabilities Long Term Borrowings 10% Debentures of 1100 each		90	45
	(3) Current Liabilities Trade Payables		630	285
	Total		**3,000**	**2,250**
II	Assets			
	(1) Non Current Assets			
	(a) Property, Plant and Equipment		1,350	975
	(b) Non Current Investments		225	75
	(2) Current Assets			
	(a) Inventories		525	375
	(b) Trade Receivables		450	525
	(c) Cash and Cash Equivalents		450	300
	Total		**3,000**	**2.250**

Notes to Accounts

		Dark Ltd. (₹ in lakhs)	**Fair Ltd (₹ in lakhs)**
1	Share Capital		
	Equity Shares of ₹ 100 each	1,200	1,125
	14% Preference Shares of ₹ 100 each	450	300
		1,650	1,425
2	Reserves and Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit and Loss Account		45
		630	495

Additional Information:

(i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.

(ii) Preference Shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ₹ 160 per share (face value ₹ 100).

(iii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Investment allowance reserve is to be maintained for 4 more years.

(v) Liquidation expenses are for Dark Limited ₹ 6,00,000 and for Fair Limited ₹ 3,00,000. It is decided that these expenses would be borne by Bright Limited.

(vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorised equity share capital of Bright Limited is ₹ 15,00,00,000 divided into equity shares of ₹ 10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

(*Question Paper of December 2021*) (*15 Marks*)

Answer:

Balance Sheet of Bright Ltd. as at 1st April, 2021

Particulars	*Note No.*	*(₹ in lakhs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	4,200
(2) **Non-Current Liabilities**		
Long-term borrowings	3	84.375
(3) **Current Liabilities**		
Trade payables	4	915
Total		7449.375
II. **Assets**		
(1) **Non-current assets**		
(a) (i) Property, plant and equipment	5	2,325
(ii) Intangible assets	6	633.375
(b) Non-current investments	7	300
(2) **Current assets**		
(a) Inventories	8	900
(b) Trade receivables	9	975
(c) Cash and cash equivalents	10	2316
Total		7449.375

Notes to Accounts

			(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital			
	Authorized Share Capital			
	1,50,00,000 Equity shares of ₹10 each		1500	
	7,50,000 16% Preference Share of 100 each		750	
	Issued: 1,50,00,000 Equity shares of ₹ 10 each (Out of which 1,05,00,000 Shares were Issued for consideration other than cash)		1500	
	7,50,000 16% Preference Shares of 100 each (Issued for consideration other than cash)		750	2,250
2.	Reserves and surplus			
	Securities Premium Account			
	(1,50,00,000 shares ×₹ 25)	3750		
	(7,50,000 shares × ₹ 60)	450	4,200	
	Investment Allowance Reserve		150	
	Amalgamation Adjustment Reserve		(150)	4,200
3.	Long-term borrowings			
	16% Debentures (56,25,000+28,12,500) (W.N. 3)			84.375

			(₹ in lakhs)	(₹ in lakhs)
4.	Trade payables			
	Dark Ltd.		630	
	Fair Ltd.		285	915
5.	Property, plant & equipment			
	Land and Building		1350	
	Plant and Machinery		975	2,325
6.	Intangible assets			
	Goodwill [W.N. 2]	624.375		
	Add: liquidation exp. (6+3)	9.00		633.375
7.	Non-current Investments			
	Investments (225+75)			300
8.	Inventories			
	Dark Ltd.		525	
	Fair Ltd.		375	900
9	Trade receivables			
	Dark Ltd.		450	
	Fair Ltd.		525	975
10	Cash & cash equivalents			
	Dark Ltd.		450	
	Fair Ltd.		300	
	Liquidation Expenses (6+3)		(9)	
	Shares issued for cash (45 lakh shares x ₹35)		1575	2316

Working Notes:

		(₹ in lakhs)	
		Dark Ltd.	**Fair Ltd.**
(1)	Computation of Purchase consideration		
	(a) Preference shareholders:		
	$\left(\frac{4,50,00,000}{100}\right)$	720	
	i.e. 4,50,000 shares × ₹ 160 each		
	$\left(\frac{3,00,00,000}{100}\right)$		480
	i.e. 3,00,000 shares × ₹ 160 each		
	(b) Equity shareholders:		
	$\left(\frac{12,00,00,000 \times 5}{100}\right)$	2,100	
	i.e. 60,00,000 shares x ₹ 35 each		
	$\left(\frac{11,25,00,000 \times 4}{100}\right)$		
	i.e. 45,00,000 shares × ₹ 35 each		1,575
	Amount of Purchase Consideration	2,820	2,055
(2)	Net Assets Taken Over		
	Assets taken over:		
	Property Plant & Equity	1,350	975
	Non-Current Investments	225	75
	Inventory	525	375
	Trade receivables	450	525
	Cash and bank	450	300
		3,000	2,250

			(₹ in lakhs)			
			Dark Ltd.	Fair Ltd.	
	Less: Liabilities taken over:				
	10% Debentures	56.25		28.125	
	Trade payables	630	(686.25)	285	(313.125)
	Net assets taken over		2,313.75		1936.875
	Purchase consideration		2,820		2055.00
	Goodwill		506.25		118.125
	Total goodwill				624.375

(3) Issue of Debentures

Debentures	₹ 90,00,000	₹ 45,00,000
Interest 10%	₹ 9,00,000	₹ 4,50,000
	$\left(\frac{9,00,000 \times 100}{16}\right) = 56,25,000$	$\left(\frac{4,50,000 \times 100}{16}\right) = 28,12,500$

NOTE: In the above solution ₹ 35 has been considered as the issue price of Equity shares for public issue also. Alternative considering this as ₹ 10 also possible. In that case, the balance of cash and cash equivalents will be ₹ 1,191 lakhs and securities premium will be ₹ 3,075 lakhs in place of the balances given in the balance sheet in the above solution.

Question 62

Amalgamation of Companies

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars	Note No.	Truth Ltd. (₹)	Myth Ltd. (₹)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		22,75,000	11,45,000
(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		22,75,000	11,45,000

Note No.	Particulars	Truth Limited (₹)	Myth Limited (₹)
1	Share Capital		
	Equity shares of ₹ 10 each	10,00,000	4,00,000
2	Reserves & Surplus		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
		11,35,000	4,13,000
3	Non-Current Liabilities		
	14% Debentures	---	1,50,000
4	Current Liabilities		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		1,40,000	1,82,000
5	Current Assets		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	3,65,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

(*RTP November, 2022*)

Balance Sheet of Truth Ltd. (after amalgamated with Myth Ltd.) as at 1.4.2021

Particulars	***Note No.***	***(₹)***
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		38,87,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000
(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total		38,87,000

Notes to Accounts

			(₹)	(₹)
1.	Share Capital			
	1,31,375 Equity Shares of ₹ 10 each [1,00,000 + 31,375]			13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)			
2.	Reserves and surplus			
	General Reserve		5,05,000	
	Profit and Loss A/c		4,45,000	
	Securities Premium [31,375 x 30]		9,41,250	
	Export profit reserve	1,85,000		
	Add: Balance of Myth Ltd.	25,000	2,10,000	
	Amalgamation Adjustment Reserve		(25,000)	20,76,250
3.	Long Term Borrowings			
	12% Debentures issued to Myth Ltd.			1,75,000
4.	Trade payables			
	Trade payables		90,000	
	Add: Taken over		1,42,000	2,32,000
5	Other Current Liabilities			
	Truth Ltd.		50,000	
	Myth Ltd.		40,000	90,000

		(₹)	(₹)
6.	Property, Plant & Equipment		
	Truth Ltd.	15,75,000	
	Myth Ltd.	6,80,000	22,55,000
7.	Investment		
	Truth Ltd.	1,87,500	
	Myth Ltd.	1,00,000	2,87,500

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd.		Myth Ltd.	
	₹	₹	₹	₹
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
		21,25,000		10,65,000
Less: Liabilities:				
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		19,85,000		7,33,000

(ii) Average Profit before Tax

	Truth Ltd.		Myth Ltd.	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
		6,93,000		2,16,000
(iii) Goodwill				
Capitalised value of average profit	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		18,65,000		4,67,000

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and
Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

	Truth Ltd.		Myth Ltd.	
		₹		₹
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000 = ₹ 40		12,55,000 / 40,000 = ₹ 31.375

$$**1,50,000 \times \frac{14\%}{12\%} = 1,75,000$$

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	₹ 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	₹ 12,55,000
Intrinsic Value of Truth Ltd. [d]	₹ 40 per share
No. of shares to be issued [c / d]	31,375 shares

Question 63

Amalgamation of Companies

The following information is being provided by VT Ltd. and MG Ltd. as on 31st March, 2022:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

(*RTP May, 2023*)

Answer

(i) Journal Entries in the Books of VT Ltd.

		Dr. ₹	Cr. ₹
Fixed Assets	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Declaration of equity dividend @ 10%)			

		Dr. ₹	Cr. ₹
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
Fixed Assets (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 –₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures	Dr.	36,000	
To 12% Debentures			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000
(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method) Shares to be allotted 60,000/12 × 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ₹ 10 each i.e.	₹ 8,00,000	(i)
For 10% preference shares, to be paid at 10% discount		
₹ 2,00,000x 90/100	₹ 1,80,000	(ii)
Consideration amount [(i) + (ii)]	₹ 9,80,000	

Question 64

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ₹40,00,000 divided into. ₹8,00,000 equity shares of ₹5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

		X Ltd. (₹)	Y Ltd. (₹)
Share Capital		34,25,000	36,10,000
Trade Payable		59,70,000	18,02,500
Property, Plant and Equipment		58,25,000	37,40,000
Current Assets		31,45,000	15,99,500

Additional Information:

The following revalued figures of non-current and current assets are :

	X Ltd. (₹)	Y Ltd. (₹)
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include ₹1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares, and debentures.

6,20,000 equity shares of XY Ltd. to X Ltd and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows :

	X Ltd. (₹)	Y Ltd. (₹)
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,d0,000
2022 (Loss)/Profit	(75,000)	34,00,000
2023 Profit	37,79,240	35,90,000

7.5% debenture in XY Ltd. at par to provide en income equivalent to 4% refund business as on capital employed in their respective bus@ as on 31st March, 2023 after revaluation of assets.

You are required to :

(1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.

(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

(*G-II, May, 2023*) (*20 Marks*)

Question Arrangement

Amalgmation of Companies

Topic	Question Numbers
Books of Vendor and Buyer Company, Calculation of PC	2, 32, 41, 10, 19, 21, 23, 24, 28, 30, 34, 36, 37, 40, 43, 44, 53, 57, 15, 1, 22, 33, 50, 60, 5, 9, 26, 39, 52, 59, 61, 63
IV Value Based Question	3, 27, 62, 7, 42
Updation of Accounts	54
Mergers	6, 14, 16, 17, 20, 35, 38, 46, 48
Special Question	4, 18, 25, 55, 64
Theory	12, 13, 45, 49, 56, 29
Others	11, 47, 51

Accounting for Reconstruction of Companies

<u>Question 1</u>

On 31-12-20X1, B Ltd. had 20,000, ₹ 10 Equity Shares as authorized capital and the shares were all issued on which ₹ 8 was paid up. In June, 20X2 the company in general meeting decided to *sub-divide* each share into two shares of ₹ 5 with ₹ 4 paid up. In June, 20X3 the company in general meeting resolved to *consolidate* 20 shares of ₹ 5, ₹ 4 per share paid up into one share of ₹ 100 each, ₹ 80 paid up.

Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

(*Source: Illustration 1, Study Material*)

Solution

Journal Entries

20X2			₹	₹
June	Equity Share Capital (₹ 10) A/c	Dr.	1,60,000	
	To Equity Share Capital (₹ 5) A/c			1,60,000
	(Being the sub-division of 20,000 shares of ₹ 10 each with ₹ 8 paid up into 40,000 shares ₹ 5 each with ₹ 4 paid up by resolution in general meeting dated)			
20X3	Equity Share Capital (₹ 5) A/c	Dr.	1,60,000	
June	To Equity Share Capital (₹ 100) A/c			1,60,000
	(Being consolidation of 40,000 shares of ₹ 5 with ₹ 4 paid up into 2,000 ₹ 100 shares with ₹ 80 paid up)			

Notes to Balance Sheet

Liabilities:	₹
As on 31-12-20X1	
1. Share Capital	
Authorized:	
20,000 Equity Shares of ₹ 10 each	<u>2,00,000</u>
Issued, Subscribed and Paid up:	
20,000 Equity Shares of ₹ 10 each ₹ 8 per share paid up	1,60,000
As on 31-12-20X2	
1. Share Capital	
Authorized:	
40,000 Equity Shares of ₹ 5 each	<u>2,00,000</u>
Issued, Subscribed and Paid up:	
40,000 Equity Shares of ₹ 5 each ₹ 4 per share paid up	1,60,000

Liabilities:	₹
As on 31-12-20X3	₹
1. Share Capital	
Authorized:	
2,000 Equity Shares of ₹ 100 each	2,00,000
Issued, Subscribed and Paid up:	
2,000 Equity Shares of ₹ 100 each ₹ 80 per share paid up	1,60,000

Note: Some accountants prefer not to make any entry as the amount remains same. Even when an entry is passed it applies only to the called-up portion, and not to uncalled or unissued portion of share capital.

Question 2

C Ltd. had ₹ 5,00,000 authorized capital on 31-12-20X1 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 20X2 the Company decided to convert the issued shares into stock. But in June, 20X3 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

(*Source: Illustration 2, Study Material*)

Solution

Journal Entries

			₹	₹
20X2				
June	Equity Share Capital A/c	Dr.	4,00,000	
	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated…)			
20X3				
June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

Notes to Balance Sheet

	₹
As on 31-12-20X1	
Share Capital	
Authorized	
5,000 Equity Shares of ₹ 100 each	5,00,000
Issued and Subscribed	
4,000 Equity Shares of ₹ 100 each fully called up	4,00,000
As on 31-12-20X2	₹
Share Capital	
Authorized	
5,000 Equity Shares of ₹ 100 each	5,00,000
Issued and Subscribed	
Equity Stock- 4,000 Equity Shares of ₹ 100 converted into Stock	4,00,000

	₹
As on 31-12-20X3	₹
Share Capital	
Authorized	
50,000 Equity Shares of ₹ 10 each	5,00,000
Issued and Subscribed	
40,000 Equity Shares of ₹ 10 each fully called up	4,00,000

Question 3

The Balance Sheet of A & Co. Ltd. as at 31-12-20X1 is as follows:

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*11,50,000*
	B	*Reserves and Surplus*	*2*	*(5,35,000)*
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*3,75,000*
3		***Current liabilities***		
	A	*Trade Payables*		*3,00,000*
	B	*Short term borrowings - Bank Overdraft*		*1,95,000*
	C	*Other current liabilities*	*4*	*1,22,500*
		Total		*16,07,500*
		Assets		
1		***Non-current assets***		
	A	*Property, plant and equipment*	*5*	*4,75,000*
	B	*Intangible assets*	*6*	*1,67,500*
	C	*Non-current investments*	*7*	*55,000*
2		***Current assets***		
	A	*Inventories*		*4,25,000*
	B	*Trade receivables*		*4,85,000*
		Total		*16,07,500*

Notes to accounts

		₹
1	***Share Capital***	
	Equity share capital:	
	75,000 Equity Shares of ₹ 10 each	*7,50,000*
	Preference share capital:	
	4,000 6% Cumulative Preference Shares of ₹ 100 each	*4,00,000*
		11,50,000
2	***Reserves and Surplus***	
	Debit balance of Profit and loss Account	*(5,35,000)*
		(5,35,000)
3	***Long-term borrowings***	
	Secured	
	6% Debentures (secured on the freehold property)	*3,75,000*
		3,75,000
4	***Other current liabilities***	
	Loan from directors	*1,00,000*
	Interest payable on 6% debentures	*22,500*

		₹
		1,22,500
5	***Property plant and Equipment***	
	Freehold property	*4,25,000*
	Plant	*50,000*
		4,75,000
6	***Intangible assets***	
	Goodwill	*1,30,000*
	Patents	*37,500*
		1,67,500
7	***Non-current investments***	
	Investments at cost	*55,000*
		55,000

The Court approved a Scheme of re-organization to take effect on 1-1-20X2, whereby:

(i) *The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.*

(ii) *Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.*

(iii) *Interest payable on debentures to be paid in cash.*

(iv) *Debenture-holders agreed to take over freehold property, book value ₹ 1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.*

(v) *Patents and Goodwill to be written off.*

(vi) *Inventory to be written off by ₹ 65,000.*

(vii) *Amount of ₹ 68,500 to be provided for bad debts.*

(viii) *Remaining freehold property after giving to debenture holders, to be re-valued at ₹ 3,87,500.*

(ix) *Investments be sold for ₹ 1,40,000.*

(x) *Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.*

(xi) *There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.*

(xii) *Ignore taxation and cost of the scheme.*

You are requested to show Journal entries reflecting the above transactions (*including cash transactions*) *and prepare the Balance Sheet of the company after completion of the Scheme.*

(*Source: Illustration 3, Study Material*)

Solution

Journal of A & Co. Ltd.

			Dr. ₹	***Cr.*** ₹
20X2	Equity Share Capital A/c (₹ 10)	Dr.	7,50,000	
Jan. 1	To Capital Reduction A/c			6,00,000
	To Equity Share Capital A/c (₹ 2)			1,50,000
	(Reduction of equity shares of ₹ 10 each to shares of ₹ 2 each as per Reconstruction Scheme dated...)			
	6% Cum. Preference Share Capital A/c (₹ 100)	Dr.	4,00,000	
	To Capital Reduction A/c			1,00,000
	To Pref. Share Capital A/c (₹ 75)			3,00,000
	(Reduction of preference shares of ₹ 100 each to shares of ₹ 75 each as per reconstruction scheme)			

			Dr. ₹	Cr. ₹
Jan. 1	Capital Reduction Account	Dr.	24,000	
	To Equity Share Capital Account			24,000
	(Arrears of preference dividends satisfied by the issue of equity shares, 25% of the amount due, ₹ 96,000)			
20X2	Freehold Property A/c	Dr.	82,500	
Jan. 1	To Capital Reduction A/c			82,500
	(Appreciation in the value of property:			
	Book value — Revalued Figure			
	₹ 1,00,000 — ₹ 1,20,000			
	₹ 3,25,000 — ₹ 3,87,500			
	Total ₹ 4,25,000 — ₹ 5,07,500			
	Profit on revaluation: ₹ 82,500)			
”	6% Debentures A/c	Dr.	1,20,000	
	To Freehold Property A/c			1,20,000
	(Claims of debenture-holders, in part, in respect of principal discharged by transfer of freehold property vide Scheme of Reconstruction)			
	Interest payable A/c	Dr.	22,500	
	To Bank A/c			22,500
	(Debenture interest paid)			
”	Bank A/c	Dr.	1,30,000	
	To 8% Debentures A/c			1,30,000
	(8% Debentures issued for cash)			
”	Bank A/c	Dr.	1,40,000	
	To Investment A/c			55,000
	To Capital Reduction A/c			85,000
	(Sale of Investment for ₹ 1,40,000 cost being ₹ 55,000; profit credited to Capital Reduction Account)			
”	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			90,000
	To Bank A/c			5,000
	To Capital Reduction A/c			5,000
	(Directors' loan discharged by issue of equity shares of ₹ 90,000, cash payments of ₹ 5,000 and surrender of ₹ 5,000, vide Scheme of Reconstruction)			
”	Capital Reduction A/c	Dr.	8,48,500	
	To Patents			37,500
	To Goodwill			1,30,000
	To Inventory			65,000
	To Provision for Doubtful Debts			68,500
	To Bank			12,500
	To Profit & Loss Account			5,35,000

		Dr. ₹	Cr. ₹
	(Writing off patents, goodwill, profit and loss account and reducing the value of stock, making the required provision for doubtful debts and payment for cancellation of capital commitments)		

Note: Penalty charges for cancellation of the contract amounts to ₹ 12,500 (2,50,000X5%) being paid in cash.

Balance Sheet of A & Co. Ltd. (And Reduced) as at 1st January, 20X2

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	5,64,000
2		**Non-current liabilities**		
	A	Long-term borrowings	2	3,85,000
3		**Current liabilities**		
	A	Trade Payables		3,00,000
		Total		12,49,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	3	4,37,500
	B	Intangible assets	4	-
2		**Current assets**		
	A	Inventories		3,60,000
	B	Trade receivables	5	4,16,500
	C	Cash and cash equivalents		35,000
		Total		12,49,000

Notes to accounts

1	**Share Capital**		
	Equity share capital		
	1,32,000 Equity shares of ₹ 2 each (of the above 57,000 shares have been issued for consideration other than cash)		2,64,000
	Preference share capital		
	4,000 6% Preference shares of ₹ 75 each		3,00,000
	Total		5,64,000
	Long-term borrowings		
2	Secured		
	6% Debentures		2,55,000
	8% Debentures		1,30,000
	Total		3,85,000
3	**Property, plant and equipment**		
	Freehold property	4,25,000	
	Add: Appreciation under scheme of Reconstruction	82,500	
	Less: Disposed of	(1,20,000)	3,87,500
	Plant		50,000
	Net carrying value		4,37,500

4	**Intangible assets**		
	Goodwill	1,30,000	
	Less: Written off under scheme of Reconstruction	(1,30,000)	
	Net carrying value		NIL
	Patents	37,500	
	Less: Written off under scheme of Reconstruction	(37,500)	-
	Net carrying value	-	NIL
5	**Trade Receivables**	4,85,000	
	Less: Provision for doubtful debts	68,500	
			4,16,500

Question 4

Given below is the Balance sheet of Rebuilt Ltd. as at 31.3.20X1:

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*13,50,000*
	B	*Reserves and Surplus*	*2*	*(4,51,000)*
2		***Non-current liabilities***		
	A	*Long-term borrowings (Loan)*	*3*	*5,73,000*
3		***Current liabilities***		
	A	*Trade Payables*		*2,07,000*
	B	*Other current liabilities*		*35,000*
		Total		*17,14,000*
		Assets		
1		***Non-current assets***		
	A	*Property, plant and equipment*	*4*	*6,68,000*
	B	*Intangible assets*	*5*	*3,18,000*
2		***Current assets***		
	A	*Inventories*		*4,00,000*
	B	*Trade receivables*		*3,28,000*
		Total		*17,14,000*

Notes to accounts

		₹
1	***Share Capital***	
	Equity share capital	*7,50,000*
	15,000 Equity Shares of ₹ 50 each	
	Preference share capital	
	12,000, 7% Cumulative Preference Shares of ₹ 50 each	
	(Preference dividend is in arrears for five years)	*6,00,000*
	Total	*13,50,000*
2	***Reserves and Surplus***	
	Debit balance of Profit and loss Account	*(4,51,000)*
		(4,51,000)

		₹
3	***Long-term borrowings***	
	Loan	*5,73,000*
		5,73,000
4	***Property, plant and Equipment***	
	Building at cost less depreciation	*4,00,000*
	Plant at cost less depreciation	*2,68,000*
		6,68,000
5	***Intangible assets***	
	Trademarks and Goodwill at cost	*3,18,000*
		3,18,000

The Company is not earning profits, short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

(a) *The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.*

(b) *The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.*

(c) *Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.*

(d) *The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.*

(e) *Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.*

(f) *The equity share capital cancelled is to be applied:*

(i) to write off the debit balance in the profit and loss A/c; and

(ii) to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

(*Source: Illustration 4, Study Material*)

Solution

In the books of Rebuilt Ltd.

Journal Entries

	Particulars		***Debit (₹)***	***Credit (₹)***
1.	Equity share capital A/c (₹ 50)	Dr.	7,50,000	
	To Equity share capital A/c (₹ 2.50)			37,500
	To Capital reduction A/c			7,12,500
	(Being equity capital reduced to nominal value of ₹ 2.50 each)			
2.	Bank A/c	Dr.	1,12,500	
	To Equity share capital			1,12,500
	(Being 3 right shares against each share was issued and subscribed)			

	Particulars		**Debit (₹)**	**Credit (₹)**
3.	7% Preference share capital A/c (₹ 50)	Dr.	6,00,000	
	Capital reduction A/c	Dr.	60,000	
	To 5% Preference share capital (₹ 10)			4,80,000
	To equity share capital (₹ 50)			1,80,000
	(Being 7% preference shares of ₹ 50 each converted to 5% preference shares of ₹ 10 each and also given to them 6 equity shares for every share held)			
4.	Loan A/c	Dr.	1,50,000	
	To 5% Preference share capital A/c			1,20,000
	To Equity share capital A/c			30,000
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c	Dr.	1,00,000	
	To Equity share application money A/c			1,00,000
	(Being shares subscribed by the directors)			
6.	Equity share application money A/c	Dr.	1,00,000	
	To Equity share capital A/c			1,00,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	6,52,500	
	To Profit and loss A/c			4,51,000
	To Plant A/c			35,000
	To Trademarks and Goodwill A/c (Bal.fig.)			1,66,500
	(Being losses and assets written off to the extent required)			

Balance sheet of Rebuilt Ltd. (and reduced) as at 31.3.20X1

		Particulars	**Notes**	**₹**
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	10,60,000
2		**Non-current liabilities**		
	(a)	Long-term borrowings		2,23,000
3		**Current liabilities**		
	(a)	Trade Payables		2,07,000
	(b)	Other current liabilities		35,000
		Total		15,25,000
		Assets		
1		**Non-current assets**		
	(a)	Property, plant and equipment	2	6,33,000
	(b)	Intangible assets	3	1,51,500
2		**Current assets**		
	(a)	Inventories		4,00,000
	(b)	Trade receivables		3,28,000
	(c)	Cash and cash equivalents	4	12,500
		Total		15,25,000

Notes to accounts

			₹
1.	**Share Capital**		
	Authorized capital:		
	65,000 Preference shares of ₹ 10 each	6,50,000	
	3,00,000 Equity shares of ₹ 2.50 each	7,50,000	<u>14,00,000</u>
	Issued, subscribed and paid up:		
	1,80,000 equity shares of ₹ 2.5 each	4,60,000	
	60,000, 5% Preference shares of ₹ 10 each	<u>6,00,000</u>	10,60,000
2.	**Property plant and equipment**		
	Building at cost less depreciation	4,00,000	
	Plant at cost less depreciation	<u>2,33,000</u>	6,33,000
3.	**Intangible assets**		
	Trademarks and goodwill		1,51,500
4.	**Cash and cash equivalents**		
	Bank (1,12,500+1,00,000-2,00,000)		12,500

<u>Question 5</u>

Vaibhav Ltd. gives the following ledger balances as at 31st March 20X1:

	₹
Property, Plant and Equipment	*2,50,00,000*
Investments (*Market-value ₹ 19,00,000*)	*20,00,000*
Current Assets	*2,00,00,000*
P & L A/c (*Dr. balance*)	*12,00,000*
Share Capital: Equity Shares of ₹ 100 each	*2,00,00,000*
6%, Cumulative Preference Shares of ₹ 100 each	*1,00,00,000*
5% Debentures of ₹ 100 each	*80,00,000*
Creditors	*1,00,00,000*
Provision for taxation	*2,00,000*

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Property, Plant and Equipment is to be written down by 20%.

(v) Current assets are to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

(*Source: Illustration 5, Study Material*)

Solution

Journal Entries in the books of Vaibhav Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	2,00,00,000	
	To Equity Share Capital (₹ 40) A/c		80,00,000
	To Capital Reduction A/c		1,20,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)		
(ii)	6% Cumulative Preference Share capital (₹ 100) A/c Dr.	1,00,00,000	
	To 6% Cumulative Preference Share Capital (₹ 60)A/c		60,00,000
	To Capital Reduction A/c		40,00,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	5% Debentures (₹ 100) A/c Dr.	80,00,000	
	To 6% Debentures (₹ 70) A/c		56,00,000
	To Capital Reduction A/c		24,00,000
	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	40,00,000	
	To Equity Share Capital (₹ 40) A/c		24,00,000
	To Capital Reduction A/c		16,00,000
	(Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	2,00,000	
	Capital Reduction A/c Dr.	1,00,000	
	To Liability for Taxation A/c		3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Capital Reduction A/c Dr.	199,00,000	
	To P & L A/c		12,00,000
	To Property, Plant and Equipment A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, PPE, Current Assets, Investments and the Balance transferred to Capital Reserve)		
(vii)	Liability for Taxation A/c Dr.	3,00,000	
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

Balance Sheet of Vaibhav Ltd. (and reduced) as at 31st March, 20X1

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	164,00,000
	(b)	Reserves and Surplus	2	26,00,000
2		**Non-current liabilities**		
		Long-term borrowings	3	56,00,000
3		**Current liabilities**		
		Trade Payables (1,00,00,000 less 40,00,000)		60,00,000
		Total		3,06,00,000
		Assets		
1		**Non-current assets**		
	(a)	Property, plant and equipment	4	2,00,00,000
	(b)	Investments	5	19,00,000
2		**Current assets**	6	87,00,000
		Total		3,06,00,000

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	2,60,000 equity shares of ₹ 40 each (of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
	Total		1,64,00,000
2.	**Reserves and Surplus**		
	Capital Reserve		26,00,000
3.	**Long-term borrowings**		
	Secured		
	6% Debentures		56,00,000
4.	**Property, Plant and Equipment**		
	Carrying value	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5.	**Investments**		
		20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6.	**Current assets**		
	Adjustment under scheme of reconstruction	2,00,00,000 (1,10,00,000)	
	Taxation liability paid	90,00,000 (3,00,000)	87,00,000

Working Note:

Capital Reduction Account

To	Liability for taxation A/c	1,00,000	By	Equity share capital	1,20,00,000
To	P & L A/c	12,00,000	By	6% Cumulative preferences	
To	Property, and plant equipment	50,00,000			
To	Current assets	1,10,00,000	Share capital		40,00,000
To	Investment	1,00,000	By	5% Debentures	24,00,000
To	Capital Reserve (Bal. fig.)	26,00,000	By	Sundry creditors	16,00,000
		2,00,00,000			2,00,00,000

Question 6

Following is the Balance Sheet of ABC Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*26,00,000*
	B	*Reserves and Surplus*	*2*	*(4,05,000)*
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*12,00,000*
3		***Current liabilities***		
	A	*Trade Payables*		*5,92,000*
	B	*Short term borrowings - Bank overdraft*		*1,50,000*
		Total		*41,37,000*
		Assets		
1		***Non-current assets***		
	A	*Property, plant and equipment*	*4*	*11,50,000*
	B	*Intangible assets*	*5*	*70,000*
	C	*Non-current investment*	*6*	*68,000*
2		***Current assets***		
	A	*Inventory*		*14,00,000*
	B	*Trade receivables*		*14,39,000*
	C	*Cash and cash equivalents*		*10,000*
		Total		*41,37,000*

Notes to accounts:

		₹
1	***Share Capital***	
	Equity share capital:	
	2,00,000 Equity Shares of ₹ 10 each	*20,00,000*
	6,000, 8% Preference shares of ₹ 100 each	*6,00,000*
		26,00,000
2	***Reserves and Surplus***	
	Debit balance of Profit and loss A/c	*(4,05,000)*
		(4,05,000)
3	***Long-term borrowings***	
	9% debentures	*12,00,000*
		12,00,000

		₹
4	***Property, Plant and Equipment***	
	Plant and machinery	*9,00,000*
	Furniture and fixtures	*2,50,000*
		11,50,000
5	***Intangible assets***	
	Patents and copyrights	*70,000*
		70,000
6	***Non-current investments***	
	Investments (market value of ₹ 55,000)	*68,000*
		68,000

The following scheme of reconstruction was finalized:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

(*Source: Illustration 6, Study Material*)

Solution

In the Books of ABC Ltd.

Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To 11% Debentures A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital and issue of 11% debentures]			
9% Debentures A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			

Particulars		**₹**	**₹**
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

		₹			**₹**
To	Investments A/c	13,000	By	Preference share capital A/c	1,80,000
To	Profit and loss A/c	4,05,000	By	9% Debenture holders A/c	3,00,000
To	Capital reserve A/c	1,54,000	By	Trade payables A/c	92,000
		5,72,000			5,72,000

Balance Sheet of ABC Ltd. (And Reduced) As at 31st March 20X1

Particulars	***Note No***	**₹**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,20,000
Total		28,74,000
II. Assets		
(1) Non-current assets		
(a) *Property, plant and equipment*	4	2,50,000
(b) Intangible assets	5	70,000
(c) Non-current investments	6	55,000
(2) Current assets		
(a) Inventories (₹ 14,00,000 – ₹ 5,00,000)		9,00,000
(b) Trade receivables		14,39,000
(c) Cash and cash equivalents		
Cash at Bank (W. N.)		1,60,000
Total		28,74,000

Notes to Accounts

			₹
1.	**Share Capital** 2,00,000 Equity shares of ₹ 10 each fully paid-up		20,00,000
2.	**Reserve and Surplus** Capital Reserve		1,54,000
3.	**Long Term Borrowings** 11% Debentures (₹ 4,20,000 + ₹ 3,00,000)		7,20,000
4.	**Property, Plant and Equipment**	9,00,000	-

			₹
	Plant & machinery	9,00,000	2,50,000
	Less: Adjustment on scheme of reconstruction		
5			
	Furniture & fixtures		
	Intangible assets		70,000
	Patents & copyrights		3,20,000
6.	**Non-Current Investments**		
	Investments (₹ 68,000 – ₹ 13,000)		55,000

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid

= ₹ 10,000 + ₹ 3,00,000 – ₹ 1,50,000 = ₹ 1,60,000

Question 7

The Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows :

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*10,00,000*
	B		*2*	*(6,00,000)*
		Reserves and surplus		
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*2,00,000*
3				
	A	***Current liabilities***		*72,000*
	B		*4*	*24,000*
		Trade Payables		
	C		*5*	*24,000*
		Other current liabilities *Total*		
				7,20,000
		Short term provisions		
1				
	A	***Assets***	*6*	*1,00,000*
2		***Non-current assets***		
		Property, Plant and Equipment		
	A	***Current assets***		*3,20,000*
	B			*2,70,000*
	C	*Inventory*		*30,000*
		Trade receivables *Total*		*7,20,000*
		Cash and cash equivalents		

Notes to accounts

			₹
1	***Share Capital***		
	Equity share capital		
	10,000 Equity Shares of ₹ 100 each		*10,00,000*
			10,00,000
2	***Reserves and Surplus***		
	Debit balance of Profit and loss Account		*(6,00,000)*
			(6,00,000)
3	***Long-term borrowings***		
	12% debentures		*2,00,000*
			2,00,000

			₹
4	***Other current liabilities***		
	Interest payable on debentures		*24,000*
			24,000
5	***Short term provisions***		
	Provision for taxation		*24,000*
			24,000
6	***Property, Plant and Equipment***		
	Machinery		*1,00,000*
			1,00,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

(a) Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.

(b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.

(c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.

(d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.

(e) Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(f) Balance of profit and loss account to be written off.

(g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet

(*Source: Illustration 7, Study Material*)

Solution

		Dr. ₹	***Cr.*** ₹
Equity Share Capital (₹ 100) A/c	Dr.	10,00,000	
To Share Surrender A/c			5,00,000
To Equity Share Capital (₹ 10) A/c			5,00,000
(Subdivision of 10,000 equity shares of ₹ 100 each into 1,00,000 equity shares of ₹ 10 each and surrender of 50,000 of such subdivided shares as per capital reduction scheme)			
12% Debentures A/c	Dr.	1,50,000	
Interest payable A/c	Dr.	18,000	
To Reconstruction A/c			1,68,000
(Transferred 75% of the claims of the debenture holders to reconstruction account in consideration of which 12% preference shares are being issued out of share surrender account as per capital reduction scheme)			
Trade payables A/c	Dr.	72,000	
To Reconstruction A/c			72,000
(Transferred claims of the trade payables to reconstruction account, 50% of which is being clear reduction and equity shares are being issued in consideration of the balance)			
Share Surrender A/c	Dr.	5,00,000	
To 12% Preference Share Capital A/c			1,00,000
To Equity Share Capital A/c			36,000
To Reconstruction A/c			3,64,000

	Dr. ₹	Cr. ₹
(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account)		
Reconstruction A/c Dr.	6,04,000	
To Profit and Loss A/c		6,00,000
To Capital Reserve A/c		4,000
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)		

Balance Sheet of Revise Limited (and reduced) as at...

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	6,36,000
(b) Reserves and Surplus	2	4,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	50,000
(3) Current Liabilities		
(a) Other current liabilities	4	6,000
(b) Short-term provisions	5	24,000
Total		7,20,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	1,00,000
(2) Current assets		
(a) Inventories		3,20,000
(b) Trade receivables		2,70,000
(c) Cash and cash equivalents		30,000
Total		7,20,000

Notes to Accounts

		₹
1.	**Share Capital**	
	Equity Share Capital	
	Issued Capital: 53,600 Equity Shares of ₹ 10 each	5,36,000
	Preference Share Capital	
	Preference Shares	1,00,000
	(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	
		6,36,000
2.	**Reserve and Surplus**	
	Capital Reserve	4,000
3.	**Long-term borrowings**	
	Unsecured Loans	
	12% Debentures	50,000

		₹
4.	**Other current liabilities**	
	Interest payable on debentures	6,000
5.	**Short-term provisions**	
	Provision for Income-tax	24,000
6.	**Property, plant and Equipment**	
	Machinery	1,00,000

Question 8

Recover Ltd. decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 20X1 is as follows-

		Particulars	***Notes***	₹
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	Share capital	*1*	*3,50,000*
	B	Reserves and surplus	*2*	*(70,000)*
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*50,000*
3		***Current liabilities***		
	A	Trade Payables		*80,000*
	B	*Short term Borrowings – Bank overdraft*		*90,000*
	C	*Other Current Liabilities (Interest payable on Debentures)*		*5,000*
				5,05,000
		Assets		
1		***Non-current assets***		
	A	Property, Plant Equipment	*4*	*3,35,000*
	B	*Intangible assets*	*5*	*50,000*
	C	*Non-current investments*	*6*	*40,000*
2		***Current assets***		
	A	*Inventories*		*30,000*
	B	*Trade receivables*		*50,000*
				5,05,000

Notes to accounts:

			₹
1	***Share Capital***		
	Equity share capital:		
	20,000 Equity Shares of ₹ 10 each		*2,00,000*
	Preference share capital:		
	15,000 8% Cumulative Preference Shares of ₹ 10 each (preference dividend has been in arrears for 4 years)		*1,50,000*
			3,50,000
2	***Reserves and surplus***		
	Profit and loss account (debit balance)		*(70,000)*
			(70,000)
3	***Long-term borrowings***		
	Secured		
	10% Debentures (secured on the free hold property)		*50,000*
			50,000

4	***Property, Plant and Equipment***		
	Freehold property		*1,20,000*
	Leasehold property		*85,000*
	Plant and machinery		*1,30,000*
			3,35,000
5	***Intangible assets***		
	Goodwill		*50,000*
			50,000
6	***Non-current investments***		
	Non-Trade investments at cost		*40,000*
			40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

(i) The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.

(ii) One new equity share of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.

(iii) The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.

(iv) Plant and Machinery was written down to ₹ 1,00,000.

(v) Non-trade Investments were sold for ₹ 32,000.

(vi) Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.

(vii) A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

(*Source: Illustration 8, Study Material*)

Solution

Journal entries in the books of Recover Ltd

Particulars		**Dr.** ₹	**Cr.** ₹
8% Cumulative Preference share capital (₹ 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (₹2.5) A/c			37,500
To Reconstruction (₹ 7.5) A/c			1,12,500
(Preference shares being reduced to shares of ₹ 2.5 per share and remaining transferred to reconstruction account as per internal reconstruction scheme)			
Equity share capital A/c (₹10)	Dr.	2,00,000	
To Equity Share capital A/c (₹ 1)			20,000
To Reconstruction A/c (₹ 9)			1,80,000
(Equity shares reduced to ₹ 1 per share with the remaining amount transferred to reconstruction account as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of ₹ 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
10% Debentures A/c	Dr.	50,000	
Interest payable on debentures A/c	Dr.	5,000	

Particulars		**Dr.** ₹	**Cr.** ₹
Bank A/c	Dr.	20,000	
Reconstruction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the reconstruction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000
To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Reconstruction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to reconstruction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000
(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Reconstruction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Accumulated losses written off to reconstruction account as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	30,800	
To Capital reserve A/c			30,800
(The balance in reconstruction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance sheet of Recover Ltd. as at 31st March 20X1 (and reduced)

		Particulars	***Notes***	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-

		Particulars	*Notes*	₹
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Short term borrowings - Bank Overdraft		90,000
		Total		**3,06,300**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	3	1,85,000
2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		**3,06,300**

Notes to accounts:

1	**Share Capital**	₹
	Equity share capital	
	68,000 Equity Shares of ₹ 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of ₹ 2.5 each	37,500
		1,05,500
2	**Reserves and surplus**	
	Capital reserve	30,800
3	**Property, Plant and Equipment**	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	**Cash and cash equivalents**	
	Bank A/c (20,000+32,000-7000+6,300)	51,300

Question 9

What are the methods of internal reconstruction generally followed by companies?

(*Source: Question 7, Study Material*)

Answer

Methods of Internal reconstruction:

- Sub-division or consolidation of shares into smaller or higher Denomination and Conversion of share into stock or vice-versa
- Variation of shareholders' rights
- Reduction of share capital
- Compromise, arrangements etc.
- Surrender of Shares.

Question 10

Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court-

1. Furniture and Fixtures which stood at the books at ₹ 1,50,000 to be written down to ₹ 95,000. The freehold premises which was valued at ₹ 7,00,000 showed an appreciation of ₹ 55,000.
2. Plant and machinery showed fall in value of ₹ 89,000, to be recorded in the books. Investment at ₹2,00,000 was brought down to the existing market value at ₹ 1,05,000.

3. Debenture holders accepted to receive the following in lieu of their present 9% debentures of ₹ 2,50,000-
   (a) 1/5th of the total to be paid in cash to them.
   (b) To take over the land and buildings of value ₹ 72,000.
   (c) To forgo the remaining unpaid portion as a policy of reconstruction.

Write off the profit and loss A/c debit balance at ₹ 70,000 which had been accumulated over the years. In case of any shortfall, the balance of the General reserve of ₹ 1,50,000 can be utilized to write off the losses under reconstruction scheme.

Show the necessary journal entries as part of the reconstruction process considering that balance in general reserve utilized to write off the losses as per reconstruction scheme.

(*Source: Question 8, Study Material*)

Answer

Journal entries in the books of Parth Ltd.

		Dr.	Cr.
		₹	₹
Reconstruction A/c	Dr.	2,39,000	
To Furniture and Fixtures A/c			55,000
To Plant and machinery A/c			89,000
To Investment A/c			95,000
(Writing off overvalued assets as per Reconstruction Scheme dated.)			
Freehold premises A/c	Dr.	55,000	
To Reconstruction A/c			55,000
(Being the increase in the premises credited to reconstruction account as per reconstruction scheme)			
9% Debentures A/c	Dr.	2,50,000	
To Bank A/c			50,000
To Land and building A/c To Reconstruction A/c			72,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			1,28,000
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Being the loss written off as per reconstruction scheme)			
General reserve A/c	Dr.	1,26,000	
To Reconstruction A/c			1,26,000
(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

Question 11

The following scheme of reconstruction has been approved for Win Limited:

(i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, the following:
   (a) New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.
   (b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
   (c) ₹ 40,000, 8% Debentures.

(ii) An issue of ₹ 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at ₹ 1,40,000 was completely written off.

(iv) Plant and machinery which stood at ₹ 2,00,000 was written down to ₹ 1,50,000.

(v) Freehold property which stood at ₹ 1,50,000 was written down by ₹ 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

(*Source: Question 8, Study Material*)

Answer

Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (₹ 10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Capital Reduction A/c			2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures A/c			1,00,000
(Being allotment of 10% first Debentures)			
Capital Reduction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

Question 12

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company as at 31.3.20X1 before reconstruction:

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	65,00,000
	B	Reserves and Surplus	2	(20,00,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	15,00,000
3		**Current liabilities**		
	A	Trade Payables		5,00,000
		Total		65,00,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	45,00,000
	B	Intangible assets	5	20,00,000
2		**Current assets**		Nil
		Total		65,00,000

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	Authorized share capital	
	1,50,000 Equity shares of ₹ 50 each	75,00,000
	Issued, subscribed and paid up capital	
	50,000 Equity Shares of ₹ 50 each	25,00,000
	1,00,000 Equity shares of ₹ 50 each, ₹ 40 paid up	40,00,000
		65,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss Account	(20,00,000)
		(20,00,000)
3	**Long-term borrowings**	
	Secured: 12% First debentures	5,00,000
	12% Second debentures	10,00,000
		15,00,000
4	**Property, Plant and Equipment**	
	Building	10,00,000
	Plant	10,00,000
	Computers	25,00,000
		45,00,000
5	**Intangible assets**	
	Goodwill	20,00,000
		20,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X ₹	***Mr. Y*** ₹
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Partly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

(a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.

(b) Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.

(c) Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.

(d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

(*Source: Question 10, Study Material*)

Answer

Journal Entries in books of Green Limited

		Dr. ₹	Cr. ₹
Bank Account	Dr.	10,00,000	
To Equity Share Capital Account			10,00,000
(Balance of ₹ 10 per share on 1,00,000 equity shares called up as per reconstruction scheme)			
Equity Share Capital Account (₹ 50)	Dr.	75,00,000	
To Equity Share Capital Account (₹ 20)			30,00,000
To Capital Reduction Account			45,00,000
(Reduction of equity shares of ₹ 50 each to shares of ₹ 20 each as per reconstruction scheme)			
12% First Debentures Account	Dr.	3,00,000	
12% Second Debentures Account	Dr.	7,00,000	
Trade payables Account	Dr.	2,00,000	
To X			12,00,000
(The total amount due to X, transferred to his account)			
Bank Account	Dr.	2,00,000	
To X			2,00,000
(The amount paid by X under the reconstruction scheme)			
12% First Debentures Account	Dr.	2,00,000	
12% Second Debentures Account	Dr.	3,00,000	
Trade payables Account	Dr.	1,00,000	
To Y			6,00,000
(The total amount due to Y, transferred to his account)			
Y	Dr.	6,00,000	
To 14% First Debentures Account			3,00,000
To Capital Reduction Account			3,00,000
(The amount due to Y discharged by issue of 14% first debentures)			
X	Dr.	14,00,000	
To 14% First Debentures Account			7,00,000
To Capital Reduction Account			7,00,000
(The cancellation of ₹ 7,00,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)			
Capital Reduction Account	Dr.	55,00,000	
To Goodwill Account			20,00,000
To Profit and Loss Account			20,00,000
To Computers Account			15,00,000

(The balance amount of capital reduction account utilised in writing off goodwill, profit and loss account, and computers—

Working Note:

Balance Sheet of Green Limited (and reduced) as at 31st March, 20X1

		Particulars	***Notes***	**₹**
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	30,00,000
2		**Non-current liabilities**		
	(a)	Long-term borrowings	2	10,00,000
3		**Current liabilities**		
	(a)	Trade Payables		2,00,000
		Total		42,00,000
		Assets		
1		**Non-current assets**		
	(a)	Property, plant and equipment	3	30,00,000
2		**Current assets**		
		Cash and cash equivalents		12,00,000
		Total		42,00,000

Notes to accounts

		₹
1.	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	1,50,000 equity shares of ₹ 20 each	30,00,000
	Total	30,00,000
2.	**Long-term borrowings**	
	Secured	
	14% First Debentures	10,00,000
	Total	10,00,000
3.	**Property, Plant and Equipment**	
	Building	10,00,000
	Plant	10,00,000
	Computers	10,00,000
	Total	30,00,000

Working Note:

Capital Reduction Account

	₹		**₹**
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	45,00,000
To P & L A/c	20,00,000	By X	7,00,000
To Computers (Bal. Fig.)	15,00,000	By Y	3,00,000
	55,00,000		55,00,000

Question 13

The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,50,00,000
	B	Reserves and Surplus	2	(6,00,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	40,00,000
3		**Current liabilities**		
	A	Trade Payables		50,00,000
	B	Short term provisions	4	1,00,000
		Total		2,35,00,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment		1,25,00,000
	B	Non-current investment	5	10,00,000
2		**Current assets**		1,00,00,000
		Total		2,35,00,000

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	1,00,000 Equity Shares of ₹ 100 each	1,00,00,000
	50,000, 12% Cumulative Preference shares of ₹ 100 each	50,00,000
		1,50,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss Account	(6,00,000)
		(6,00,000)
3	**Long-term borrowings**	
	40,000, 10% debentures of ₹100 each	40,00,000
		40,00,000
4	**Short term provisions**	
	Provision for taxation	1,00,000
		1,00,000
5	**Non-current investments**	
	Investments (market value of ₹ 9,50,000)	10,00,000
		10,00,000

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.

(v) Property, plant and equipment are to be written down by 30%.

(vi) Current assets are to be revalued at ₹ 45,00,000.

(vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments to be brought to their market value.

(ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

(*Source: Question 11, Study Material*)

Answer

Journal Entries in the books of Weak Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	1,00,00,000	
	To Equity Share Capital (₹ 40) A/c		40,00,000
	To Capital Reduction A/c		60,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹ 40 each as per reconstruction scheme)		
(ii)	12% Cumulative Preference Share capital (₹ 100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (₹ 60) A/c		30,00,000
	To Capital Reduction A/c		20,00,000
	(Being conversion of 12% cumulative preference share capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	10% Debentures A/c Dr.	40,00,000	
	To 12% Debentures A/c		28,00,000
	To Capital Reduction A/c		12,00,000
	(Being 12% debentures issued to 10% debenture- holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Trade payables A/c Dr.	20,00,000	
	To Equity Share Capital A/c		12,00,000
	To Capital Reduction A/c		8,00,000
	(Being a creditor of ₹ 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	1,00,000	
	Capital Reduction A/c Dr.	50,000	
	To current assets(bank A/c) A/c		1,50,000
	(Being liability for taxation settled)		
(vi)	Capital Reduction A/c Dr.	99,00,000	
	To P & L A/c		6,00,000
	To Property, plant and equipment A/c		37,50,000
	To Current Assets A/c		55,00,000
	To Investments A/c		50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Property, plant and equipment, Current Assets, Investments through capital reduction account)		

		₹	₹
(vii)	Capital Reduction A/c Dr	50,000	
	To capital Reserve A/c		50,000
	(Being balance in capital reduction account transferred to capital reserve account)		

Balance Sheet of Weak Ltd. (and reduced) as at 31.3.20X1

		Particulars	***Notes***	**₹**
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	82,00,000
	(b)	Reserves and Surplus	2	50,000
2		**Non-current liabilities**		
	(a)	Long-term borrowings	3	28,00,000
3		**Current liabilities**		
	(a)	Trade Payables		30,00,000
		Total		1,40,50,000
		Assets		
1		**Non-current assets**		
	(a)	Property, plant and equipment	4	87,50,000
	(b)	Investments	5	9,50,000
2		**Current assets**	6	43,50,000
		Total		1,40,50,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	1,30,000 equity shares of ₹ 40 each		52,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	50,000 12% Cumulative Preference shares of ₹ 60 each		30,00,000
	Total		82,00,000
2.	**Reserves and Surplus**		
	Capital Reserve		50,000
3.	**Long-term borrowings**		
	Secured		
	12% Debentures		28,00,000
4.	**Property, plant and Equipment**		
	Total PPE	1,25,00,000	
	Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5.	**Investments**	10,00,000	
	Adjustment under scheme of reconstruction	(50,000)	9,50,000
6.	**Current assets**	45,00,000	
	Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	₹		₹
To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative preference share capital	20,00,000
To Property, plant and equipment	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	1,00,00,000		1,00,00,000

Question 14

The following is the Balance Sheet of X Ltd. as at 31st March, 20X1:

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	36,00,000
	B	Reserves and Surplus	2	(14,40,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	6,00,000
3		**Current liabilities**		
	A	Trade Payables		3,00,000
	B	Short term borrowings - Bank overdraft		6,00,000
		Total		36,60,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	30,00,000
	B	Intangible assets	5	90,000
2		**Current assets**		
	(a)	Inventories		2,60,000
	(b)	Trade receivables		2,80,000
	(c)	Cash and cash equivalents		30,000
		Total		36,60,000

Notes to accounts

		₹
1	**Share capital**	
	24,000 Equity Shares of ₹ 100 each	24,00,000
	12,000, 10% Preference Shares of ₹ 100 each	12,00,000
	Total	36,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss Account	(14,40,000)
		(14,40,000)

		₹
3	**Long-term borrowings**	
	10% debentures	6,00,000
		6,00,000
4.	**Property, plant and Equipment**	
	Land and Building	12,00,000
	Plant and Machinery	18,00,000
		30,00,000
5	**Intangible assets**	
	Goodwill	90,000
		90,000

On the above date, the company adopted the following scheme of reconstruction:

(i) The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.

(ii) The debenture holders took over Inventories and Trade receivables in full satisfaction of their claims.

(iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.

(iv) The debit balance of profit and loss account and intangible assets are to be eliminated.

(v) Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet

(*Source: Question 12, Study Material*)

Answer

In the books of X Ltd.

Journal Entries

31st March, 20X1			₹	₹
(i)	Equity Share Capital A/c (₹ 100)	Dr.	24,00,000	
	To Equity Share Capital A/c (₹ 40)			9,60,000
	To Capital Reduction A/c			14,40,000
	(Being 24,000 equity shares of ₹ 100 each reduced to ₹ 40 each fully paid up)			
(ii)	10% Preference Share Capital A/c (₹ 100)	Dr.	12,00,000	
	To 10% Preference Share Capital A/c (₹ 75)			9,00,000
	To Capital Reduction A/c			3,00,000
	(Being 12,000 Preference shares of ₹ 100 each reduced to ₹ 75 each fully paid up)			
(iii)	10% Debentures A/c	Dr.	6,00,000	
	To Inventories A/c			2,60,000
	To Trade receivables A/c			2,80,000
	To Capital Reduction A/c			60,000
	(Being debenture holders given Inventories and Trade receivables in full settlement of their claims)			
(iv)	Land & Building A/c	Dr.	3,60,000	
	To Capital Reduction A/c			3,60,000
	(Being Land & Building appreciated by 30%)			

31st March, 20X1			₹	₹
(v)	Capital reduction A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Being expenses of reconstruction paid)			
(vi)	Capital Reduction A/c	Dr.	20,70,000	
	To Goodwill A/c			90,000
	To Profit and Loss A/c			14,40,000
	To Plant & Machinery A/c			5,40,000
	(Being various losses written off, assets written down through Capital Reserve A/c)			
(vii)	Capital Reduction	Dr.	85,000	
	To Capital Reserve A/c (Bal. Fig.)			85,000
	(Being balance in Capital Reduction A/c transferred to Capital Reserve A/c)			

Balance Sheet (And Reduced) of X Ltd. as at 31st March, 20X1

		Particulars	Notes No.	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	18,60,000
	(b)	Reserves and Surplus	2	85,000
2		**Current liabilities**		
	(a)	Trade Payables		3,00,000
	(b)	Short term borrowings		6,00,000
		Total		28,45,000
		Assets		
1		**Non-current assets**		
	(a)	Property, plant and equipment	3	28,20,000
2		**Current assets**		
		Cash and cash equivalents (30,000 -5,000)		25,000
		Total		28,45,000

Notes to accounts

1.	**Share Capital**		₹
	Equity share capital		
	24,000 equity shares of ₹ 40 each fully paid up		9,60,000
	Preference share capital		
	12,000, 10% Preference shares of ₹ 75 each fully paid up		9,00,000
	Total		18,60,000
2.	**Reserves and Surplus**		
	Capital Reserve		85,000
3.	**Property, plant and Equipment**		
	Land and Building	15,60,000	
	Plant and Machinery	12,60,000	
	Total		28,20,000

QUESTION BANK

Question 15

The Balance Sheet of M/s. Ice Ltd. as on 31-3-2011 is given below:

Liabilities		₹	Assets	₹
1,00,000 equity shares of ₹ 10 each fully paid up		10,00,000	Freehold Property	5,50,000
			Plant and Machinery	2,00,000
4,000, 8% preference shares of ₹ 100 each fully paid		4,00,000	Trade investment (at cost)	2,00,000
			Sundry Debtors	4,50,000
6% Debentures 4,00,000			Stock-in-Trade	3,00,000
(secured by freehold property)			Deferred Advertisement Expenses	50,000
Arrear interest	24,000	4,24,000		
Sundry Creditors		1,01,000	Profit and Loss Account	4,75,000
Director's Loan		3,00,000		
		22,25,000		**22,25,000**

The Board of Directors of the Company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.

(iii) Debenture holders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity share of ₹ 2 each to be allotted.

(viii) 40% of sundry debtor, 80% of stock and 100% of deferred advertisement expenses to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

(*Group I-November, 2011, 16 Marks*)

Answer

In the books of Ice Ltd. Journal Entries

	Particulars		*Debit ₹*	*Credit ₹*
(i)	8% Preference share capital A/c (₹ 100 each)	Dr.	4,00,000	
	To 8% Preference share capital A/c (₹ 80 each)			3,20,000
	To Capital reduction A/c			80,000
	(Being the preference shares of ₹ 100 each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹ 10 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 2 each)			2,00,000
	To Capital reduction A/c			8,00,000
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
(iii)	Capital reduction A/c	Dr.	32,000	
	To Equity share capital A/c (₹ 2 each)			32,000
	(Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity shares of ₹ 2 each)			
(iv)	6% Debentures A/c	Dr.	3,00,000	
	To Freehold property A/c			3,00,000
	(Being claim settled in part by transfer of freehold property)			

	Particulars		***Debit ₹***	***Credit ₹***
(v)	Accrued debenture interest A/c	Dr.	24,000	24,000
	To Bank A/c			
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	1,50,000	
	To Capital reduction A/c			1,50,000
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	2,50,000	
	To Trade investment A/c			2,00,000
	To Capital reduction A/c			50,000
	(Being trade investment sold on profit)			
(viii)	Director's loan A/c	Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)			75,000
	To Capital reduction A/c			2,25,000
	(Being director's loan waived by 75% and balance being discharged by issue of 37,500 equity shares of ₹ 2 each)			
(ix)	Capital Reduction A/c	Dr.	9,75,000	
	To Profit and loss A/c			5,25,000
	To Trade receivables A/c			1,80,000
	To Inventories-in-trade A/c			2,40,000
	To Bank A/c			30,000
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
(x)	Capital Reduction A/c	Dr.	2,98,000	
	To Capital reserve A/c			2,98,000
	(Being balance transferred to capital reserve account as per the scheme)			

Balance Sheet of Ice Ltd. (As reduced)

		Particulars	***Notes No.***	***₹***
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	6,27,000
	(b)	Reserves and Surplus	2	2,98,000
2		**Non-current liabilities**		
		Long-term borrowings	3	1,00,000
3		**Current liabilities**		
	(a)	Trade Payables		1,01,000
		Total		11,26,000
		Assets		
1		**Non-current assets**		
	(a)	Fixed assets		
		Tangible assets	4	6,00,000
2		**Current assets**		
	(a)	Inventories		60,000
	(b)	Trade receivables		2,70,000
	(c)	Cash and cash equivalents	5	1,96,000
		Total		11,26,000

Note to Accounts

		₹
1.	**Share Capital**	
	1,53,500 Equity shares of ₹ 2 each	3,07,000
	(out of which 53,500 shares have been issued for consideration other than cash)	
	4,000, 8% Preference shares of ₹ 80 each fully paid up	3,20,000
	Total	6,27,000
2.	**Reserves and Surplus**	
	Capital Reserve	2,98,000
3.	**Long-term borrowings**	
	Secured	
	6% Debentures	1,00,000
4.	**Tangible assets**	
	Freehold property	4,00,000
	Plant and machinery	2,00,000
	Total	6,00,000
5.	**Cash and cash equivalents**	
	Cash at bank (2,50,000 - 24,000 - 30,000)	1,96,000

Question 16

The Balance Sheet of M/s. Cube Limited as on 31-03-2013 is given below:

Particulars	**Note No.**	**Amount (₹ in lakh)**
Equity and Liabilities		
Shareholders' Funds		
Share Capital	1	700
Reserves and Surplus	2	(261)
Non-Current Liabilities		
Long term Borrowings	3	350
Current Liabilities		
Trade Payables	4	51
Other Liabilities	5	12
Total		**852**
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	375
Current Assets		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash and Cash Equivalents	10	2
Total		**852**

Notes:

		Amount (₹ in Lakh)
1.	Share Capital	
	Authorised	
	100 lakh Equity Shares of ₹ 10 each	1,000
	4 lakh 8% Preference Shares of ₹ 100 each	400
		1,400
	Issued, Subscribed and Paid-up	
	50 lakh Equity Shares of ₹ 10 each, fully paid up	500
	2 lakh 8% Preference Shares of ₹ 100 each, fully paid-up	200
		700

		Amount (₹ in Lakh)
2.	Reserves and Surplus	
	Debit balance of profit and loss A/c.	(261)
3.	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	200
	Directors' Loan	150
		350
4.	Trade Payables	
	Sundry Creditors for Goods	51
5.	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	12
6.	Tangible Assets	
	Freehold Property	275
	Plant and Machinery	100
		375
7.	Current Investment	
	Investment in Equity Instruments	100
8.	Inventories	
	Finished Goods	150
9.	Trade Receivables	
	Sundry Debtors for Goods	225
10.	Cash and Cash Equivalents	
	Balance with Bank	2

The Board of directors of the company decided upon the Following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.

(2) Preference Shares Dividend on arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture Holders agreed of take one Freehold Property at its book value of ₹150 lakh in part payment of their holding. Balance debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 200 lakh.

(6) All investments sold out for ₹ 125 lakh.

(7) 70% of Directors' loan to be waived and for the balance, equity Shares of ₹ 2 each to be allowed.

(8) 40% of Sundry Debtors and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass journal Entries for all the transactions related to internal reconstruction.

(b) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of scheme of internal reconstruction.

(*Group I-May 2013, 16 Marks*)

Answer

(a) Journal Entries in the books of M/s. Cube Ltd.

	Particulars		***Debit (₹ in lakhs)***	***Credit (₹ in lakhs)***
(i)	8% Preference share capital A/c (₹ 100 each)	Dr.	200	
	To 8% Preference share capital A/c (₹ 80 each)			160
	To Capital Reduction A/c			40
	(Being the preference shares of ₹ 100 each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹ 10 each)	Dr.	500	
	To Equity share capital A/c (₹ 2 each)			100
	To Capital Reduction A/c			400
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			

	Particulars		***Debit (₹ in lakhs)***	***Credit (₹ in lakhs)***
(iii)	Capital Reduction A/c	Dr.	16	
	To Equity share capital A/c (₹ 2 each)			16
	(Being 1/3rd arrears of preference share dividend of 3years to be satisfied by issue of 8 lakhs equity shares of ₹ 2 each)			
(iv)	6% Debentures A/c	Dr.	150	
	To Freehold property A/c			150
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c		12	
	To Bank A/c			12
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	75	
	To Capital Reduction A/c			75
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	125	
	To Investments A/c			100
	To Capital Reduction A/c			25
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	150	
	To Equity share capital A/c (₹ 2 each)			45
	To Capital Reduction A/c			105
	(Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of ₹ 2 each)			
(ix)	Capital Reduction A/c	Dr.	483	
	To Profit and loss A/c			261
	To Trade receivables A/c (225 x 40%)			90
	To Inventories-in-trade A/c (150 x 80%)			120
	To Bank A/c (300 x 5%)			15
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c	Dr.	143	
	To Capital reserve A/c			143
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

	Dr. (₹ in lakhs)		*Cr. (₹ in lakhs)*
To Equity Share Capital	16	By Preference Share Capital	40
To Trade receivables	90	By Equity Share Capital	400
To Finished Goods	120	By Freehold Property	75
To Profit & Loss A/c	261	By Bank	25
To Bank A/c	15	By Director's Loan	105
To Capital Reserve	143		
	645		645

(c) Notes to Balance Sheet

		₹	₹
1.	**Share Capital**		
	Authorised:		
	100 lakhs Equity shares of ₹ 2 each		200
	4 lakhs 8% Preference shares of ₹ 80 each		320
			520
	Issued:		
	80.5 lakhs equity shares of ₹ 2 each		161
	2 lakhs Preference Shares of ₹ 80 each		160
			321
2.	**Tangible Assets**		
	Freehold Property	275	
	Less: Utilized to pay Debenture holders	(150)	
		125	
	Add: Appreciation	75	200
	Plant and Machinery		100
			300

Question 17

Pass journal entries for the following transactions:

(i) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.

(ii) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of 10 each.

(iii) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.

(iv) Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.

(*Group I-November 2013, 4 Marks*)

Answer

Journal Entries

			₹	₹
(i)	Equity share Capital A/c.	Dr.	20,00,000	
	To Equity Stock			1,00,000
	To 12% Fully Convertible Debentures			19,00,000
	(Being conversion of 2 lakh equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance as fully convertible debentures as per resolution)			
(ii)	Equity Share Capital A/c (₹ 2.50)	Dr.	100,00,000	
	To Equity Share Capital A/c (₹ 10)			100,00,000
	(Being consolidation of 40 lakh shares of ₹ 2.50 each into 10 lakh shares of ₹ 10 each as per resolution)			
(iii)	11% Preference Shares Capital A/c (₹ 50)	Dr.	500,00,000	
	To 11% Preference Share Capital A/c (₹ 10)			500,00,000
	(Being subdivision of 10 lakh preference shares of ₹ 50 each into 50 lakh shares of ₹ 10 each as per resolution)			
(iv)	12% Preference Share Capital A/c	Dr.	5,00,000	
	To 14% Preference Share Capital			3,00,000
	To 12% Non-cumulative Preference Share Capital			2,00,000
	(Being conversion of preference shares as per resolution)			

Question 18

The Balance sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:		Land & Building	75,00,000
Equity Shares of ₹ 50 each		Plant & Machinery	22,00,000
Fully paid up	60,00,000	Trade Investment	16,50,000
9% Preference Shares of ₹ 10 each fully paid up	40,00,000	Inventories	9,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Trade Receivables	18,00,000
8% Debentures	17,00,000	Cash and Bank	
Trade Payables	6,00,000	Balances	3,60,000
Provision for Tax	75,000	Profit & Loss Account	2,15,000
	1,46,75,000		**1,46,75,000**

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

(1) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under:

- (a) New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.
- (b) 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.
- (c) ₹ 2,80,000, 10% debentures of ₹ 80 each.

(2) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.

(3) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.

(4) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.

(5) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

(6) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.

(7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.

(8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debenture of ₹ 80 each for every two debentures held by them.

(9) The land and building to be depreciated by 5%.

(10) The debit balance of profit and loss account is to be eliminated.

(11) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

(*Group I-November 2015, 16 Marks*)

Answer

(i) Journal Entries

		₹	₹
(i)	Equity share capital (₹ 50) A/c Dr.	60,00,000	8,00,000
	To Equity share capital (₹ 10)∗ A/c		2,00,000
	To 9% Preference share capital A/c (25,000 x ₹ 8)		2,80,000
	To 10% Debentures A/c (3,500 x ₹ 80)		47,20,000
	To Capital Reduction A/c		
	(Being payment made in lieu of equity share capital of ₹ 50 each by issue of equity shares of ₹ 10 each, 9% Preference share capital and 10% Debentures as per reconstruction scheme)		

		₹	₹
(ii)	9% Preference Share capital (₹ 10) A/c	40,00,000	
	To 9% Preference Share Capital (₹ 8) A/c		32,00,000
	To Capital Reduction A/c		8,00,000
	(Being 9% preference share capital of ₹ 10 each reduced to ₹ 8 each as per reconstruction scheme) Dr.		
(iii)	Bank A/c Dr.	16,00,000	
	To Equity Share Capital (₹ 10) A/c		16,00,000
	(Being preference share holders subscribed for 2 new equity shares of 10 each against every 5 shares)		
(iv)	(a) Provision for Taxation A/c Dr.	75,000	
	To Capital Reduction A/c		9,000
	To Taxation Liability A/c		66,000
	(Being liability for taxation settled)		
	(b) Taxation Liability A/c Dr.	66,000	
	To Bank A/c		66,000
	(Being liability for taxation paid)		
(v)	Trade payables A/c Dr.	1,00,000	
	To Equity share capital A/c (7,000 x ₹ 10)		70,000
	To Capital Reduction A/c		30,000
(vi)	Trade Payables A/c Dr.	5,00,000	
	To 9% Preference share capital A/c (43,750 x ₹ 8)		3,50,000
	To Bank A/c		1,20,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares and cash as per reconstruction scheme)		
(vii)	Capital Reduction A/c Dr.	26,000	
	To Bank A/c		26,000
	(Being contractual commitment settled by payment of 4% penalty)		
(viii)	7% Debentures A/c Dr.	23,00,000	
	To Plant & Machinery A/c		22,00,000
	To Capital Reduction A/c		1,00,000
	(Being 7% debentures holders settled through charge of plant & machinery as per reconstruction scheme)		
(ix)	8% Debentures A/c (34,000 x ₹ 50) Dr.	17,00,000	
	To 10% Debentures A/c (17,000 x ₹ 80)		13,60,000
	To Capital Reduction A/c		3,40,000
	(Being conversion of 8% debentures to 10% debentures at one for every two debentures held by them as per reconstruction scheme)		
(x)	Capital Reduction A/c Dr.	12,30,000	
	To Land & building A/c		3,75,000
	To Profit and Loss A/c		2,15,000
	To Trade receivables A/c		4,50,000
	To Inventories A/c		1,90,000
	(Being amount of Capital Reduction utilized in writing off Profit & loss Dr. bal., Land & building, Current Assets, Inventories through capital reduction account)		
(xi)	Capital Reduction A/c Dr.	47,73,000	
	To Capital Reserve A/c		47,73,000
	(Being balance in capital reduction account transferred to capital reserve account)		

∗ Holding interpreted as number of shares i.e. number of newly issued shares computed as 2/3rd of 1,20,000 = 80,000

(ii) Balance Sheet of M/s Clean Ltd. (as reduced) as on 31.3.2015

Particulars	*Notes*	₹
Equity and Liabilities		
1 Shareholders' funds		
(a) Share Capital	1	62,20,000
(b) Reserves and Surplus	2	47,73,000
2 Non-current liabilities		
(a) Long-term Borrowings	3	16,40,000
Total		**1,26,33,000**
Assets		
1 Non-current assets		
(a) Fixed Assets		
Tangible Assets	4	71,25,000
(b) Investments		16,50,000
2 Current assets		
(a) Inventories	5	7,60,000
(b) Trade Receivables	6	13,50,000
(c) Cash and Cash equivalents		17,48,000
Total		**1,26,33,000**

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	2,47,000 equity shares of ₹ 10 each		24,70,000
	(out of which 7,000 equity shares have been issued for consideration for other that cash)		
	Preference share capital		
	Issued, subscribed and paid up		
	4,68,750 Preference shares of ₹ 8 each		37,50,000
	(out of which 43,750 equity shares have been issued for consideration for other that cash)		62,20,000
2.	**Reserves and Surplus**		47,73,000
	Capital Reserve		
3.	**Long-term borrowings**		
	Secured		
	20,500 10% Debentures of ₹ 80 each		16,40,000
4.	**Tangible assets**	75,00,000	
	Land & building	(3,75,000)	71,25,000
	Adjustment under scheme of reconstruction	9,50,000	
5.	**Inventories**	(1,90,000)	7,60,000
	Adjustment under scheme of reconstruction	18,00,000	
6.	**Trade receivables**	(4,50,000)	13,50,000
	Adjustment under scheme of reconstruction		

Working Notes:

1. Cash at Bank Account

Particulars	₹	*Particulars*	₹
To Balance b/d	3,60,000	By Taxation liability	66,000
To Equity Share capital A/c	16,00,000	By Trade Payables A/c	1,20,000
		By Penalty A/c	26,000
		By Balance c/d (bal. fig.)	17,48,000
	19,60,000		19,60,000

2. **Capital Reduction Account**

Particulars	₹	*Particulars*	₹
To Land & building A/c	3,75,000	By Equity Share Capital A/c	47,20,000
To Machinery A/c	2,15,000	By 9% Preference share capital	8,00,000
To Trade receivables A/c	4,50,000	By 7% Debentures	1,00,000
To Inventories A/c	1,90,000	By Provision for tax	9,000
To Bank	26,000	By Trade Payables (30,000 + 30,000)	60,000
To Capital Reserve (bal. fig.)	47,73,000	By 8% Debentures	3,40,000
	60,29,000		60,29,000

Question 19

Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	₹	Assets	₹
Share Capital:		Plant and Machinery	9,00,000
2,00,000 Equity Shares of		Furniture and Fixtures	2,50,000
₹ 10 each fully paid up	20,00,000	Patents and Copyrights	70,000
6,000 8% preference shares of ₹ 100 each	6,00,000	Investments (at cost) (Market value ₹ 55,000)	68,000
9% Debentures	12,00,000	Stock	14,00,000
Bank overdraft	1,50,000	Sundry Debtors	14,39,000
Sundry Creditors	5,92,000	Cash and Bank Balance	10,000
		Profit and Loss A/c	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalised:

(i) Preference shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.

(ii) Debenture holders having charge on Plant and Machinery would accept Plant and Machinery in full settlement of their dues.

(iii) Stock equal to ₹5,00,000 in book value will be taken over by Sundry Creditors in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The Company would' issue 11% Debentures for ₹3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital reduction account and Balance Sheet of the company after internal reconstruction.

(*Group II-November, 2007, 16 Marks*)

Answer

In the Books of ABC Ltd.
Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c	Dr.	4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c	Dr.	12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventors]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000
To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		5,72,000

Balance Sheet of ABC Ltd. (And Reduced) As on 31st March 2012

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,20,000
Total		28,74,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets	4	2,50,000
Tangible assets		70,000
Intangible assets		55,000
(b) Non-current investments	5	
(2) Current assets		
(a) Current investments		
(b) Inventories (₹ 14,00,000 – ₹ 5,00,000)		9,00,000
(c) Trade receivables		14,39,000
(d) Cash and cash equivalents		
Cash at Bank (W. N.)		1,60,000
Total		28,74,000

Notes to Accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹ 10 each fully paid-up		20,00,000
2.	**Reserve and Surplus**		
	Capital Reserve		1,54,000
3.	**Long Term Borrowings**		
	11% Debentures (₹ 4,20,000 + ₹ 3,00,000)		7,20,000
4.	**Fixed Assets**		
	(i) Tangible assets		
	Plant & machinery	9,00,000	
	Less: Adjustment on scheme of reconstruction dated…	9,00,000	
	Furniture & fixtures		2,50,000
	(ii) Intangible assets		
	Patents & copyrights		70,000
			3,20,000
5.	**Non Current Investments**		
	Investments (₹ 68,000 – ₹ 13,000)		55,000

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid

= ₹ 10,000 + ₹ 3,00,000 – ₹ 1,50,000 = ₹ 1,60,000

Question 20

Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010:

Liabilities	₹	Assets	₹
8000 - 7½% Preference shares @ ₹ 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
1,80,000 Equity shares @ ₹ 10 each fully paid	18,00,000	Furniture and Fittings	1,60,000
		Patents and Copy right	60,000
		Goodwill	35,000
		Investments (at cost)	65,000
11% Debentures	10,00,000	Sundry debtors	12,00,000
Bank overdraft	1,65,000	Stock	13,00,000
Loan from director	15,000	Cash in hand	12,000
Trade creditors	6,20,000	Profit & Loss A/c	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalised:

(i) Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.

(iii) Trade creditors accepted to take over the stock upto the value of ₹ 6,20,000.

(iv) Equity shareholders are to accept reduction of ₹ 4 per share.

(v) Investment is to be valued at market price i.e. ₹ 60,000.

(vi) Sundry debtors and remaining stock is to be valued at 90% of their book value.

(vii) Directors have to forgo their loan in full.

(viii) Patents and Copyright and Goodwill have no more value.

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

(*Group II-May 2010, 16 Marks*)

Answer

In the books of XYZ Ltd.
Journal Entries

			₹	₹
(i)	7½% Preference share capital A/c	Dr.	8,00,000	
	To 9% Preference share capital A/c			6,40,000
	To Capital reduction A/c			1,60,000
	(Being surrender of 20% shares by 7.5% Preference shareholders and issuance of 9% preference shares for the balance as per the scheme of reconstruction)			
(ii)	11% Debentures A/c	Dr.	10,00,000	
	To Debenture holders A/c			10,00,000
	(Being 11% debentures transferred to debenture holders account)			
(iii)	Debenture holders A/c	Dr.	10,00,000	
	To Plant & machinery A/c			8,50,000
	To Capital reduction A/c			1,50,000
	(Being plant and machinery given to debenture holders in full settlement as per the scheme of reconstruction)			
(iv)	Trade creditors A/c	Dr.	6,20,000	
	To Stock A/c			6,20,000
	(Being stock given to trade creditors against their dues as per the scheme of reconstruction)			
(v)	Equity share capital A/c (₹ 10)	Dr.	18,00,000	
	To Equity share capital A/c (₹ 6)			10,80,000
	To Capital reduction A/c			7,20,000
	(Being reduction of ₹ 4 per equity share as per the scheme of reconstruction)			
	Capital reduction A/c	Dr.	10,06,000	

			₹	₹
(vi)	To Debtors A/c			1,20,000
	To Investment A/c			5,000
	To Stock A/c			68,000
	To Patents and copyright			60,000
	To Goodwill			35,000
	To Profit and Loss A/c			7,18,000
	(Being writing off of losses and reduction in the values of assets as per the scheme of reconstruction)			
(vii)	Director's loan A/c	Dr.	15,000	
	To Capital reduction A/c			15,000
	(Being the loan forgone by directors as per the scheme of reconstruction)			
(viii)	Capital reduction A/c	Dr.	39,000	
	To Capital reserve A/c			39,000
	(Being balance of capital reduction account transferred to capital reserve account)			

Capital Reduction Account

	₹		₹
To Provision for doubtful debts A/c	1,20,000	By 7½% Preference share capital A/c	1,60,000
To Investment A/c	5,000	By 11% Debentures A/c	1,50,000
To Stock A/c	68,000	By Equity share capital A/c	7,20,000
To Patents and copyright A/c	60,000	By Director's loan A/c	15,000
To Goodwill A/c	35,000		
To Profit and loss A/c	7,18,000		
To Capital reserve A/c (Bal Fig)	39,000		
	10,45,000		10,45,000

Balance Sheet (and reduced) of M/s XYZ Ltd.

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
1 Shareholders' funds		
(a) Share capital	1	17,20,000
(b) Reserves and Surplus	2	39,000
2 Current liabilities		
Other current liabilities	3	1,65,000
Total		19,24,000
ASSETS		
1 Non-current assets		
(a) Fixed assets		
(i) Tangible assets	4	1,60,000
(b) Non-current investments	5	60,000
2 Current assets		
(a) Inventories		
(b) Trade receivables	6	6,12,000
(c) Cash and cash equivalents	7	10,80,000
		12,000
Total		19,24,000

Notes to Accounts

	₹
1. Share Capital	
Issued and subscribed:	
6,400, 9% Preference shares of ₹ 100 each	6,40,000
1,80,000, Equity shares of ₹ 6 each	10,80,000
Total	17,20,000

		₹
2.	**Reserves and Surplus**	
	Capital reserve	39,000
3.	**Other current liabilities**	
	Bank overdraft	1,65,000
4.	**Tangible assets**	
	Furniture and fittings	1,60,000
5.	**Non-current investments**	
	Investments	60,000
6.	**Trade receivables**	
	Sundry debtors	10,80,000
	Total	10,80,000
7	**Cash and cash equivalents**	
	Cash in hand	12,000

Note: As debtors have been written off in Capital Reduction A/c to the extent of 10% of their value, no provision for doubtful debts should be maintained for the amount reduced, i.e. for ₹ 1,20,000/-

Question 21

The summarised Balance Sheet of X Limited as on 31st March 2012, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorised and subscribed capital:	10,00,000	Fixed Assets:	
10,000 Equity shares of ₹ 100 each fully paid		Machineries	3,50,000
Unsecured loans:		Current Assets:	
15% Debentures		Inventory	2,53,000
Accrued interest	3,00,000	Trade receivables	2,30,000
Current Liabilities:	45,000	Bank	20,000
Trade payables		Profit & loss A/c	5,80,000
Provision for income tax	52,000		
	36,000		
	14,33,000		14,33,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

(i) Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 10,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.

(v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.

(vi) Balance of Profit and Loss account to be written off.

(vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

(*Group II-May 2011, 16 Marks*)

Answer

In the books of X Limited
Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	10,00,000	
	To Share Surrender A/c			
	To Equity Share Capital (₹ 10) A/c			5,00,000
	(Sub-division of 10,000 equity shares of ₹ 100 each into			5,00,000
	1,00,000 equity shares of ₹ 10 each and surrender of			
	50,000 of such sub-divided shares as per capital reduction			
(ii)	scheme)	Dr.	1,50,000	
	15% Debentures A/c	Dr.	22,500	
	Accrued Interest A/c (proportionate 50%)			1,72,500
	To Reconstruction A/c			

			₹	₹
(iii)	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
	Trade payables A/c	Dr.	52,000	
	To Reconstruction A/c			52,000
	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c	Dr.	5,00,000	
	To 10% Preference Share Capital A/c			1,00,000
	To Equity Share Capital A/c			39,000
	To Reconstruction A/c			3,61,000
	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			
(v)	Reconstruction A/c	Dr.	5,85,500	
	To Profit & Loss A/c			5,80,000
	To Capital Reserve A/c			5,500
	(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)			

X Limited (and reduced) Balance Sheet as on …

Particulars	**Notes No.**	**₹ '000**
Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital		
(b) Reserves and Surplus	1	6,39,000
3 Non-current liabilities	2	5,500
Long-term borrowings		
4 Current liabilities	3	1,50,000
(a) Other current liabilities		
(b) Short-term provisions	4	22,500
Total	5	36,000
		8,53,000
Assets		
1 Non-current assets		
(a) Fixed assets		
(i) Tangible assets	6	3,50,000
2 Current assets		
Inventories		2,53,000
Trade receivables		2,30,000
Cash and cash equivalents	7	20,000
Total		8,53,000

Notes to Accounts

		₹
1.	Share Capital	
	53,900 Equity shares of ₹ 10 each	5,39,000
	10,000, 10% Preference share of ₹ 10 each	1,00,000
		6,39,000
	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment received in cash)	
	Reserves and Surplus	
2.	Capital Reserves	5,500
	Long-term borrowings	

		₹
3.	Unsecured	
	15% Debentures	1,50,000
	Other current liabilities	
4.	Accrued Interest on 15% Debentures	22,500
	Short-term provisions	
5.	Provision for income tax	36,000
	Tangible assets	
6.	Machineries	3,50,000
	Cash and cash equivalents	
7.	Balances with banks	20,000

Question 22

The summarized Balance Sheet of Bad Luck Ltd. as on 31st March, 2013 was as follows:

	Note	Amount ₹	Amount ₹
A. Equity and Liabilities			
1. Shareholder's Fund			
(a) Share Capital	1	7,50,000	
(b) Reserves and Surplus	2	(10,00,000)	(2,50,000)
2. Non-current Liabilities			
(a) Long Term borrowings	3		5,00,000
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		2,50,000	7,50,000
	Total		**10,00,000**
B. Assets			
1. Non-current assets			
(a) Fixed assets			
(i) Tangible assets	5	5,50,000	
(ii) Intangible assets	6	1,50,000	7,00,000
2. Current Assets			
(a) Inventories		1,50,000	
(b) Trade Receivables		1,25,000	
(c) Deferred revenue expenditure		25,000	3,00,00
	Total		**10,00,000**

Notes to Accounts	**Amount ₹**	**Amount ₹**
1. Share Capital		
Authorised, issued & fully paid		
5,000 equity shares of ₹ 100 each	5,00,000	
2,500 8% preference shares of ₹ 100 each	2,50,000	7,50,000
2. Reserves and Surplus		
Profit and Loss Account		(10,00,000)
3. Long Term borrowings		
8% Debentures		5,00,000
4. Short Term Borrowings		
Loan from Directors	3,00,000	
Bank overdraft	2,00,000	5,00,000
5. Tangible Assets		
Freehold property	4,00,000	
Plant	1,50,000	5,50,000
6. Intangible Assets		
Goodwill	1,00,000	
Trademark	50,000	1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

(i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.

(ii) The debenture holders to the takeover freehold property (book value ₹ 2,00,000) at a valuation of ₹2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹6,00,000.

(iii) Loan from directors to be waived off in full.

(iv) Stock of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.

(v) Profit and Loss account balance, Trademark, goodwill and deferred revenue Pass Journal Entries for all the above mentioned transactions. Also, Prepare Capital Reduction account and company's Balance Sheet immediately after reconstruction.

(*Group II-May 2013, 16 Marks*)

Answer

Journal entries in the books of Bad Luck Ltd.

	Particulars		**Debit(₹)**	**Credit(₹)**
(i)	8% Preference Share Capital A/c (₹ 100 each)	Dr.	2,50,000	
	To 8% Preference Share Capital A/c (₹ 25 each)			62,500
	To Capital Reduction A/c			1,87,500
	(Being the preference shares of ₹ 100 each reduced to ₹ 25 each as per the approved scheme)			
(ii)	Equity Share Capital A/c (₹ 100 each)	Dr.	5,00,000	
	To Equity Share Capital A/c (₹ 20 each)			1,00,000
	To Capital Reduction A/c			4,00,000
	(Being the equity shares of ₹ 100 each reduced to ₹ 20 each)			
(iii)	Preference Share Capital A/c (₹ 25)	Dr.	62,500	
	To Preference Share Capital A/c (₹ 100)			62,500
	(Being conversion of 2500 shares of ₹ 25 each to 625 shares of ₹ 100 each)			
(iv)	Equity Share Capital A/c (₹ 20)	Dr.	1,00,000	
	To Equity Share Capital A/c (₹100)			1,00,000
	(Being conversion of 5,000 shares of ₹ 20 each to 1000 shares of ₹ 100 each)			
(v)	Freehold Property	Dr.	50,000	
	To Capital Reduction A/c			50,000
	(Being value of freehold property appreciated)			
(vi)	8% Debentures A/c	Dr.	2,50,000	
	To Freehold Property			2,50,000
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(vii)	Freehold Property	Dr.	4,00,000	
	To Capital Reduction A/c			4,00,000
	(Being appreciation in the value of freehold property)			
(viii)	Director's Loan A/c	Dr.	3,00,000	
	To Capital Reduction A/c			3,00,000
	(Being director's loan waived in full)			
(ix)	Capital Reduction A/c	Dr.	13,37,500	
	To Deferred Revenue Expenditure			25,000
	To Profit and Loss A/c			10,00,000
	To Provision of Doubtful Debts A/c			12,500
	To Inventories			50,000
	To Goodwill A/c			1,00,000
	To Trademark			50,000
	To Capital Reserve A/c			1,00,000
	(Being certain value of various assets (tangible & intangible), profit and loss account debit balance written off and balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account

	(₹)		(₹)
To Provision for Doubtful Debts	12,500	By Preference Share Capital	1,87,500
To Inventories	50,000	By Equity Share Capital	4,00,000
To Profit & Loss A/c	10,00,000	By Freehold Property	4,50,000
To Trademark	50,000	(50,000 + 4,00,000)	
To Goodwill	1,00,000	By Director's Loan	3,00,000
To deferred Revenue Expenditure	25,000		
To Capital Reserve	1,00,000		
	13,37,500		13,37,500

Balance Sheet of Bad Luck Ltd. (And Reduced) As on 31st March 2013

Particulars	Note No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,62,500
(b) Reserves and Surplus	2	1,00,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	2,50,000
(3) Current Liabilities		
(a) Short Term borrowings	4	2,00,000
(b) Trade payable		2,50,000
		9,62,500
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	5	7,50,000
(2) Current assets		
(a) Inventories		1,00,000
(b) Trade receivables	6	1,12,500
Total		9,62,500

Notes to Accounts

		₹
1.	Share Capital	
	Authorised, issued and fully paid up	1,00,000
	1,000 Equity shares of ₹100 each fully paid-up	62,500
	625, 8% Preference Share of ₹ 100 each	1,62,500
2.	Reserve and Surplus	
	Capital Reserve	1,00,000
3.	Long Term Borrowings	
	8% Debentures ₹ (5,00,000-2,50,000)	2,50,000
4.	Short-Terms Borrowings	
	Bank Overdraft	2,00,000
5.	Tangible assets	
	Freehold Property	6,00,000
	Plant	1,50,000
		7,50,000
6.	Trade Receivables	
	Trade Receivables	1,25,000
	Less: Provision for doubtful debts	(12,500)
		1,12,500

Question 23

The Balance Sheet of X Ltd. as on 31st March 2014 was as follows:

X Limited

Balance Sheet as at 31.03.2014

	Particulars		Amount (₹)
I	**Equity and Liabilities**		
1	Shareholder's Fund		
	Share Capital		
	(a) 40,000 equity shares of ₹ 100 each fully paid		40,00,000
	(b) 20,000 10% preference shares of ₹ 100 each fully paid		20,00,000
	Reserve & Surplus		
	(a) Securities Premium Account		1,50,000
	(b) Profit & Loss Account		(23,00,000)
2	Non-Current Liabilities		
	Long Term Borrowings		
	7% Debentures of ₹ 100 each		4,00,000
3	Current Liabilities		
	Other Current Liabilities		
	(a) Creditors		10,00,000
	(b) Loan from Director		2,00,000
	Total Liabilities		**54,50,000**
II	**Assets**		
	Non Current Assets		
	Fixed Assets		
	(a) Land & Building	20,00,000	
	(b) Plant & Machinery	12,00,000	32,00,000
	Intangible Assets		
	Goodwill		4,00,000
2	Current Assets		
	(a) Debtors	12,00,000	
	(b) Stock	5,00,000	
	(c) Cash at Bank	1,50,000	18,50,000
	Total Assets		**54,50,000**

No Dividend on Preference Shares has been paid for last 5 years.

The following scheme of reorganisation was duly approved by the Court:

(i) Each equity share to be reduced to ₹ 25.

(ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.

(iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.

(iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.

(v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.

(vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.

(viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal Entries to record the above transaction.

(*Group II-November 2014, 16 Marks*)

Answer

In the books of X Ltd.
Journal Entries

Particulars		**Amount (₹)**	**Amount (₹)**
Equity Share Capital (₹ 100) A/c To Equity Share Capital (₹ 25) A/c To Capital Reduction A/c (Being Equity Shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)	Dr.	40,00,000	 10,00,000 30,00,000
10% Preference Share Capital (₹ 100) A/c To 10% Preference Share Capital (₹ 75) A/c To Capital Reduction A/c (Being Preference Shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c)	Dr.	20,00,000	 15,00,000 5,00,000
10% Preference Share Capital (₹ 75) A/c To 13% Preference Share Capital (₹ 50) A/c To Equity Share Capital A/c (Being one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each)	Dr.	15,00,000	 10,00,000 5,00,000
Capital Reduction A/c To Preference Share Dividend Payable A/c (Being arrear of Preference Share Dividend payable for one year)	Dr.	2,00,000	 2,00,000
Preference Share Dividend Payable A/c To Equity Share Capital A/c (₹ 25) (Being Equity Shares of ₹ 25 each issued for arrears of Preference Share Dividend)	Dr.	2,00,000	 2,00,000
7% Debenture A/c To Debenture Holders A/c (Being balance of 7% Debentures transferred to Debenture Holders A/c)	Dr.	4,00,000	 4,00,000
Debenture Holders A/c To 13% Preference Share Capital A/c To Bank A/c To Capital Reduction A/c (Being 25% of Debenture Holders opted to take 13% Preference Shares at par and remaining took 90% cash payment for their claims)	Dr. Dr.	4,00,000	 1,00,000 2,70,000 30,000
Loan from Director To Provision for Contingent Liability A/c (Being contingent liability of ₹ 2,00,000 is payable and adjusted against loan from Director A/c)	Dr.	2,00,000	 2,00,000
Bank A/c To Equity Share Application & Allotment A/c (Being application money received on 50,000 Equity Shares @ ₹ 25 each)	Dr.	12,50,000	 12,50,000
Equity Share Application & Allotment A/c To Equity Share Capital A/c (Being application money transferred to Capital A/c on allotment)	Dr.	12,50,000	 12,50,000
Underwriting Commission A/c To Bank A/c (Being underwriting commission paid)	Dr.	50,000	 50,000
Land & Building A/c To Capital Reduction A/c (Being value of land & Building appreciated)	Dr.	5,00,000	 5,00,000

Particulars		**Amount (₹)**	**Amount (₹)**
Expenses on Reconstruction A/c	Dr.	20,000	
To Bank A/c			20,000
(Being payment of expenses on reconstruction)			
Capital Reduction A/c	Dr.	38,30,000	
To Goodwill A/c			4,00,000
To Plant & Machinery A/c			3,00,000
To Stock A/c			1,00,000
To Debtors A/c			2,00,000
To Profit & Loss A/c			23,00,000
To Expenses on Reconstruction A/c			20,000
To Underwriting Commission A/c			50,000
To Capital Reserve A/c			4,60,000
(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)			

Question 24

The following is the Balance Sheet of Star Ltd. as on 31st March, 2015:

A. Equity & Liabilities:	**₹**
1. Shareholder's Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of ₹100 each fully paid	9,00,000
10,000 Equity Shares of ₹100 each fully paid	10,00,000
(b) Reserve & Surplus:	
Profit & Loss Account	(2,00,000)
2. Non-current liabilities:	
"A" 6% Debentures (Secured on Bombay Works)	3,00,000
"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3. Current Liabilities and Provisions:	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	1,25,000
Total	**24,90,000**
B. Assets	**₹**
1. Non-current Assets:	
Tangible Assets:	
Bombay Works	9,50,000
Chennai Works	7,75,000
2. Investment:	
Investments for Workman's Compensation Fund	15,000
3. Current Assets:	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	50,000
Total	**24,90,000**

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to ₹80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹10.

(iii) The directors to refund ₹50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹26,000 which is included among the Sundry Creditors.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹4,25,000 and to accept an allotment of 1,500 equity shares of ₹10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹10 each fully paid at par to Star Ltd.

(vii) The Chennai Workmen's compensation fund disclosed that there were actual liabilities of ₹1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Stock was to be written off by ₹1,90,000 and a provision for doubtful debts is to be made to the extent of ₹20,000.

(ix) Chennai Works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-thirds to write off the value to Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

(*Group II-November 2015, 16 Marks*)

Answer

In the books of Star Ltd.
Journal Entries

	Particulars		Amount ₹	Amount ₹
(i)	7% Preference share capital (₹ 100)	Dr.	9,00,000	
	To 9% Preference share capital (₹ 80) To Capital reduction A/c			7,20,000 1,80,000
	(Being preference shares reduced to ₹ 80 and also rate of dividend raised from 7% to 9%)			
(ii)	Equity share capital A/c (₹ 100 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 10 each)			1,00,000
	To Capital reduction A/c			9,00,000
	(Being reduction of nominal value of one share of ₹ 100 each to ₹ 10 each)			
(iii)	Bank A/c	Dr.	50,000	
	To Capital reduction A/c			50,000
	(Being directors refunded the fee amount)			
(iv)	Trade payables A/c (Interest on debentures)	Dr.	26,000	
	To Capital reduction A/c			26,000
	(Being interest forgone by the debenture holders)			
(v)	No entry required			
(vi) (a)	'B' 6% Debentures A/c	Dr.	3,50,000	
	To Debentures holders A/c			3,50,000
	(Being amount due to Debentures holders)			
(b)	Debentures holders A/c	Dr.	4,40,000	
	To Chennai Works A/c			4,25,000
	To Equity share capital A/c			15,000
	(Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)			
(c)	Equity share of Zia ltd. A/c	Dr.	90,000	
	To Debentures holders A/c			90,000
	(Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)			
(vii) (a)	Chennai Works – Workmen Compensation Fund	Dr.	4,000	
	To Capital reduction A/c			4,000
	(Being difference due to reduced amount of actual liability transferred to capital reduction account)			
(b)	Bank A/c	Dr.	15,400	
	To Investment for Workmen Compensation Fund			14,000
	To Capital reduction A/c			1,400
	(Being investment for Workmen Compensation Fund sold @ 10% profit)			
(c)	Trade Payables A/c	Dr.	15,400	
	To Bank A/c			15,400
	(Being part payment made to trade payables)			

	Particulars		Amount ₹	Amount ₹
(viii)	Capital reduction A/c To Provision for Doubtful Debts A/c To Inventory A/c (Being assets revalued)	Dr.	2,10,000	 20,000 1,90,000
(ix)	Capital reduction A/c To Profit & Loss A/c To Tangible Assets – Chennai Works (Being assets revalued and losses written off)	Dr	5,50,000	 2,00,000 3,50,000*
(x)	Capital reduction A/c To Tangible Assets – Bombay Works To Capital reserve A/c (Being assets revalued and remaining amount transferred to capital reserve account)	Dr	4,01,400	 2,67,600 1,33,800

* ₹ 7,75,000 less ₹ 4,25,000

Question 25

Proficient Infosoft Ltd. is in the hands of a Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2016:

Liabilities	₹	Assets	₹
8000 shares of ₹ 100 each ₹ 60 paid up	-	Property (cost is ₹ 3,80,800) estimated at	1,08,000
First Debentures	3,60,000	Plant & Machinery	
Second Debentures	7,80,000	(Cost is ₹ 2,87,200)	
Unsecured trade payables	5,40,000	estimated at	72,000
		Cash in hand of the receiver	3,24,000
			5,04,000
		Uncalled Capital	3,20,000
			8,24,000
		Deficiency	8,56,000
	16,80,000		**16,80,000**

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000.

The following scheme of reconstruction is proposed.

(i) A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.

(ii) B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.

(iii) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹ 25 each, fully paid against their claim for each ₹ 100.

The balance of 40% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

(iv) Uncalled capital is to be called up in full and ₹ 75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

(*Group I, November 2016, 16 Marks*)

Answer

Journal Entries

Particulars		***Debit (₹)***	***Credit (₹)***
First debentures A/c	Dr.	3,60,000	
Second debentures A/c	Dr.	3,60,000	
Unsecured trade payables A/c	Dr.	1,08,000	
To A			8,28,000
(Being A's total liability ascertained)			
A	Dr.	2,52,000	
To Capital reduction A/c			2,52,000
(Being cancellation of debt up to ₹2,52,000)			
Bank A/c	Dr.		

Particulars		***Debit (₹)***	***Credit (₹)***
To A		36,000	
(Being cash received in course of settlement)			36,000
A	Dr.		
To First debentures A/c		6,12,000	
(Being liability of A, discharged against first debentures)			6,12,000
Second debentures A/c	Dr.	3,60,000	
Unsecured trade payables A/c	Dr.	72,000	
To B			4,32,000
(Being B's liability ascertained)			
B	Dr.	4,32,000	
To Bank A/c			1,08,000
To Capital reduction A/c			3,24,000
(Being B's liability discharged in satisfaction of all claims)			
Unsecured trade payables A/c	Dr.		
To Equity share capital A/c		3,60,000	
To Loan (Unsecured) A/c			1,62,000
To Capital reduction A/c			1,44,000
(Being settlement of unsecured Trade payables)			54,000
Share call A/c	Dr.		
To Share capital A/c		3,20,000	
(Being final call money due)			3,20,000
Bank A/c	Dr.		
To Share call A/c			
(Being final call money received)		3,20,000	3,20,000
Share capital A/c (Face value ₹100)	Dr.		
To Share capital (Face value ₹25)			2,00,000
To Capital reduction A/c		8,00,000	6,00,000
(Being share capital reduced to ₹25 each)			
Capital reduction A/c	Dr.		
To Profit and loss A/c			11,68,000
(Being reconstruction surplus used to write off losses – W.N. 2)		11,68,000	
Capital Reduction A/c	Dr.		
To Capital Reserve A/c			
(Being balance in capital reduction account transferred to capital reserve account)			62,000
		62,000	

Working Notes:

1.	**Settlement of claim of remaining unsecured Trade payables**	₹
	60% of ₹3,60,000	2,16,000
	Considering their claim for share of ₹100 each	
	2,16,000/100 =2,160 shares	
	Less: Number of shares to be issued	
	2,160 x 3= 6,480 shares of ₹25 each	
		(1,62,000)
	Transferred to Capital reduction A/c	54,000

2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.

	₹	₹
Assets		
Fixed assets (3,80,800 + 2,87,200)	6,68,000	
Cash	3,24,000	9,92,000
Less: Capital & Liabilities:		
Share capital		
1st Debentures	4,80,000	
2nd Debentures	3,60,000	
Unsecured trade payables	7,80,000	
Profit and loss A/c (Debit balance)	5,40,000	(21,60,000)
		(11,68,000)

Question 26

M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2017 before reconstruction:

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Share Capital		Land & Building	42,70,000
50,000 shares of ₹50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹50		Inventories	3,20,000
each ₹40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹100 each	6,00,000		
Trade creditors	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		1,03,00,000

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	**Mr. B**
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.

(3) Trade creditors are given option of either to accept fully paid equity shares of ₹40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. A agrees to cancel debentures amounting to ₹2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹1,00,000.

(5) Mr. B agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹51,84,000, Machinery at ₹7,20,000, Computers at ₹4,00,000, Inventories at ₹3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to prepare necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

(*RTP May 2018*)

Answer:

Journal Entries

		₹	₹
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹50) A/c	Dr.	75,00,000	
To Equity share capital (₹40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000

		₹	₹
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	7,00,000	
To 15% Debentures A/c			5,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To 15% Debentures A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building (51,84,000 - 42,70,000)	Dr.	9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)			
Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2017

Particulars	**Notes**	**₹**
Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital	1	80,00,000
2 Non-current liabilities		
(a) Long-term borrowings	2	8,50,000
Total		88,50,000
Assets		
1 Non-current assets		
(a) Fixed assets		
Tangible assets	3	63,04,000

Particulars	**Notes**	**₹**
2 Current assets		
(a) Inventories		3,50,000
(b) Trade receivables		9,81,000
(c) Cash and cash equivalents		12,15,000
Total		88,50,000

Notes to accounts

		₹	₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. Cash at Bank Account

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To 15% Debentures A/c	1,00,000		
	26,18,000		26,18,000

Capital Reduction Account

Particulars	**₹**	**Particulars**	**₹**
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade payables A/c	1,47,000
To Trade receivables A/c	1,09,000	By A A/c	2,00,000
To Profit and Loss A/c	29,82,000	By BA/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		33,41,000

Question 27

The Balance Sheet of Lion Limited as on 31-03-2016 is given below:

Particulars	**Note No.**	**Amount (₹ in lakh)**
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1.400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200

Particulars	Note No.	Amount (₹ in lakh)
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		₹ in Lakhs
(1)	Share Capital	
	Authorised:	
	200 lakh shares of ₹10 each	2,000
	8 lakh, 8% Preference Shares of ₹100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of ₹10 each, full paid up	1,000
	4 lakh 8% Preference Shares of ₹100 each, fully paid up	400
	Total	1400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	
	Trade receivables for Goods	450
(10)	Cash and Cash Equivalents	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹80 each and Equity Shares to ₹2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹400 lakh.

(6) All investments sold out for ₹250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(*MTP March 2018*) (*15 Marks*)

Answer

(a) Journal Entries in the books of Lion Ltd.

	Particulars		Debit (₹ in lakhs)	Credit (₹ in lakhs)
(i)	8% Preference share capital A/c (₹100 each)	Dr.	400	
	To 8% Preference share capital A/c (₹80 each)			320
	To Capital Reduction A/c			80
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹10 each)	Dr.	1,000	
	To Equity share capital A/c (₹2 each)			200
	To Capital Reduction A/c			800
	(Being the equity shares of ₹10 each reduced to ₹2each)			
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (₹2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and Loss A/c			522
	To Trade receivables A/c (450 x 40%)			180
	To Inventories-in-trade A/c (300 x 80%)			240
	To Bank A/c (600 x 5%)			30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account

Dr. **Cr.**

	(₹ in lakhs)		(₹ in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290

Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	*Share Capital*		
	Authorised:		
	200 lakhs Equity shares of ₹2 each		400
	8 lakhs 8% Preference shares of ₹80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of ₹2 each		322
	4 lakhs Preference Shares of ₹80 each		320
			642
2.	**Tangible Assets**		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

Question 28

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities		₹	Assets		₹
Share Capital			*Fixed Assets*		
30,000 Equity shares of ₹10 each		3,00,000	Trademarks and Patents		1,10,000
40,000 8% Cumulative Preference			Goodwill at cost		36,100
shares ₹10 each		4,00,000	Freehold Land		1,20,000
			Freehold Premises		2,44,000
Reserves and Surplus			Plant and Equipment		3,20,000
Securities Premium Account		10,000	*Investment*		
			(marked to market)		
Profit and Loss Account		(1,38,400)			
Secured Borrowings					64,000
9% Debentures (₹100)	1,20,000		*Current Assets*		
Accrued Interest	5,400	1,25,400	Inventories:		
Current liabilities			Raw materials and packing		
Trade payables		1,20,000	materials	60,000	
Tax payable		50,000	Finished goods	16,000	76,000
Temporary bank overdraft		2,23,100	Trade receivables		1,20,000
		10,90,100			10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at ₹10 lakhs (preference capital of ₹3 lakhs and equity capital of ₹7 lakhs). Both classes of shares are of ₹10 each.

(2) The preference shares are to be reduced to ₹5 each and equity shares reduced by ₹3 per share. Post reduction, both classes of shares to be re-consolidated into ₹10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of ₹10 to be issued for every ₹40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were ₹10,000.

(6) The debenture holders took over freehold land at ₹2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at ₹54,000 and a pending insurance claim receivable settled at ₹12,500.

(8) The intangible assets were all to be written off along with ₹10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

(*MTP April 2018*) (*16 Marks*)

Answer:

In the books of Lili Ltd.
Journal Entries

				Dr.	Cr.
	2017			₹	₹
1	March 31	Equity Share Capital A/c (₹10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000
		To Equity Share Capital A/c (₹7)			2,10,000
		(Being reduction of equity shares of ₹10 each to shares of ₹7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (₹10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (₹5)			2,00,000
		(Being reduction of preference shares of ₹10 each to shares of ₹5 each as per reconstruction scheme)			
3.		Equity Share Capital A/c (30,000 x ₹7)	Dr.	2,10,000	
		Preference Share Capital Ac (40,000 x ₹5)	Dr.	2,00,000	
		To Equity Share Capital A/c (21,000 x ₹10)			2,10,000
		To Preference Share Capital A/c (20,000 x ₹10)			2,00,000
		(Being post reduction, both classes of shares reconsolidated into ₹10 each)			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital Account			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of ₹10 each)			
6.		Capital Reduction Account	Dr.	10,000	
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	
		To Debenture holders Account			1,25,400
		(Being amount due to debenture holders)			
8.		Debenture holders Account	Dr.	1,25,400	
		Cash Account (2,10,000 - 1,25,400)	Dr.	84,600	
		To Freehold Land			1,20,000
		To Capital Reduction Account (2,10,000 - 1,20,000)			90,000
		(Being Debenture holders took over freehold land at ₹2,10,000 and settled the balance)			
9.		Capital Reduction Account	Dr.	54,000	
		To Cash Account			54,000
		(Being contingent liability of ₹54,000 paid)			
10.		Cash Account	Dr.	12,500	
		To Capital Reduction Account			12,500
		(Being pending insurance claim received)			
11.		Capital Reduction Account	Dr.	1,68,100	
		To Trademarks and Patents			1,10,000
		To Goodwill			36,100

			Dr.	Cr.
	2017		₹	₹
		To Raw materials & Packing materials		10,000
		To Trade receivables		12,000
		(Being intangible assets written off along with raw materials and packing materials worth ₹10,000 and 10% of trade receivables)		
12.		Cash Account Dr.	1,26,000	
		To Equity Share Capital Account		1,26,000
		(Being 12,600 shares issued to existing shareholders)		
13.		Bank Overdraft Account Dr.	2,23,100	
		To Cash Account		2,23,100
		(Being cash balance utilized to pay off bank overdraft)		
14.		Capital Reduction Account Dr.	1,28,400	
		To Capital reserve Account		1,28,400
		(Being balance of capital reduction account transferred to capital reserve account)		

(ii) Capital Reduction Account

Particulars	₹	Particulars	₹
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		3,92,500

(iii) Cash Account

Particulars	₹	Particulars		₹
To Investment	64,000	By Capital reduction (Contingent liability)		54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses		10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft - From available cash (64,000 + 84,600 + 12,500 - 54,000 - 10,000)	97,100	
To Equity share capital 12,600 shares @ ₹10 each	1,26,000	- From proceeds of equity share capital (2,23,100-97,100)	1,26,000	2,23,100
	2,87,100			2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = ₹2,23,100 - ₹97,100 = ₹1,26,000

Question 29

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

	(₹ in 000)
	Amount
Liabilities	
Equity Shares of ₹10 each	35,000
8%, Cumulative Preference Shares of ₹100 each	17,500
6% Debentures of ₹100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
Assets	
Fixed Assets	43,750

	(₹ in 000)
	Amount
Investments (Market value ₹3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.

(ii) The Taxation Liability is settled at ₹5,25,000 out of current Assets.

(iii) The balance of Profit and Loss Account to be written off.

(iv) All the existing equity shares are reduced to ₹4 each.

(v) Ail preference shares are reduced to ₹60 each.

(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹100 each and exchange them for fresh debentures of ₹80 each. Each old debenture is exchanged for one new debenture.

(vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.

(viii) Fixed Assets are written down to 80%.

(ix) One of the creditors of the Company for ₹70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

(November 2018) (10 marks)

Answer*:*

Journal Entries in the books of SK Ltd.

			₹'000	₹'000
(i)	Equity share capital (₹10) A/c	Dr.	35,000	
	To Equity Share Capital (₹4) A/c			14,000
	To Capital Reduction A/c			21,000
	(Being conversion of equity share capital of ₹10 each into ₹4 each as per reconstruction scheme)			
(ii)	8% Cumulative Preference Share capital (₹100) A/c	Dr.	17,500	
	To 8% Cumulative Preference Share Capital (₹60) A/c			10,500
	To Capital Reduction A/c			7,000
	(Being conversion of 6% cumulative preference shares capital of ₹100 each into ₹60 each as per reconstruction scheme)			
(iii)	6% Debentures (₹100) A/c	Dr.	14,000	
	To 9% Debentures (₹80) A/c			11,200
	To Capital Reduction A/c			2,800
	(Being 9% debentures of ₹80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)			
(iv)	Sundry Creditors A/c	Dr.	7,000	
	To Equity Share Capital (₹4) A/c			3,500
	To Capital Reduction A/c			3,500
	(Being a creditor of ₹70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹4 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c	Dr.	350	
	Capital Reduction A/c	Dr.	175	
	To Liability for Taxation A/c			525
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Liability for Taxation A/c	Dr.	525	
	To Current Assets (Bank A/c)			525
	(Being the payment of tax liability)			
(vii)	Capital Reduction A/c	Dr.	34,125	
	To P & L A/c			2,100
	To Fixed Assets A/c			8,750

		₹'000	₹'000
	To Current Assets A/c		18,725
	To Investments A/c		175
	To Capital Reserve A/c (Bal. fig.)		4,375
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		

Working Note:

Capital Reduction Account

To Liability for taxation A/c	175	By Equity share capital	21,000
To P&LA/c	2,100	By 8% Cumulative preferences	7,000
To Fixed Assets	8,750	Share capital	
To Current assets	18,725	By 6% Debentures	2,800
To Investment	175	By Sundry creditors	3,500
To Capital Reserve (Bal. fig.)	4,375		
	34,300		34,300

Question 30

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1.00,000
Total	81,00,000
Assets:	
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plants Machinery	12,50,000
Furnitures Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	81,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹1,00,000 and ₹60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹5.00 each.

(ii) The Preference shares be reduced to ₹50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹1,00,000 and ₹60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹3.00 lacs were cancelled on payment of ₹15,000 as penalty.

(vii) Directors refunded ₹1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹15,000.

(ix) The taxation liability of the company was settled for ₹75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

(*RTP November 2018*)

Answer:

Journal Entries in the Books of Z Ltd.

			Dr.	Cr.
			₹	₹
(i)	Equity Share Capital (₹10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹10 each fully paid into same number of fully paid equity shares of ₹5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹100 each into same number of 10% preference share of ₹50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures outstanding A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being ₹7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			

			Dr.	Cr.
			₹	₹
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c To Bank A/c	Dr.	15,000	15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	1,00,000
	To Reconstruction A/c			
	(Being refund of fees by directors credited to reconstruction A/c)			
(ix)	Reconstruction A/c	Dr.	15,000	15,000
	To Bank A/c			
	(Being payment of reconstruction expenses)			
(x)	Provision for Tax A/c	Dr.	1,00,000	75,000
	To Bank A/c			25,000
	To Reconstruction A/c			
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	2,00,000
	To Reconstruction A/c			
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			10,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Discount on issue of Debentures A/c			1,00,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

		₹			₹
To	Reconstruction (Y)	1,00,000	By	Balance b/d	1,00,000
To	Reconstruction (Z)	60,000	By	Reconstruction A/c	15,000
To	Reconstruction A/c (refund of earlier fees by directors)	1,00,000		(capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	15,000
			By	Provision for tax A/c (tax paid)	75,000
			By	Balance c/d	55,000
		2,60,000			2,60,000

Reconstruction Account

		₹			₹
To	Bank (penalty)	15,000	By	Equity Share	
To	Bank (reconstruction expenses)	15,000		Capital A/c	25,00,000
To	Goodwill	10,00,000	By	9% Pref. Share	
To	Patent	5,00,000		Capital A/c	10,00,000
To	P&LA/c	14,60,000	By	Mr. Y (Settlement)	5,78,000
To	Discount on issue of debentures	1,00,000	By	Mr. Z (Settlement)	3,82,000
To	P&M	6,50,000	By	Trade Payables A/c	1,70,000
To	Furniture and Fixtures	1,00,000	By	Director's loan	60,000
To	Trade investment	50,000	By	Bank	1,00,000
To	Inventory	2,50,000	By	Provision for tax	25,000
To	Trade Receivables	1,00,000	By	Land and Building	2,00,000
To	Capital Reserve (bal. fig.)	7,75,000			
		50,15,000			50,15,000

Question 31

The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (₹ in lakh)
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1,704
Assets		
Non-Current Assets		
Property, Plants Equipment		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1,704

Notes to Accounts:

		₹ in Lakhs
(1)	Share Capital Authorised:	
	200 lakh shares of ₹10 each	2,000
	8 lakh, 8% Preference Shares of ₹100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of ₹10 each, full paid up	1,000
	4 lakh 8% Preference Shares of ₹100 each, fully paid up	400
	Total	1,400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700

		₹ in Lakhs
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	
	Trade receivables for Goods	450
(10)	Cash and Cash Equivalents	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹80 each and Equity Shares to ₹2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹400 lakh.

(6) All investments sold out for ₹250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Reconstruction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(*RTP May, 2019*)

Answer

(a) Journal Entries in the books of Lion Ltd.

	Particulars		**Debit (₹ in lakhs)**	**Credit (₹ in lakhs)**
(i)	8% Preference share capital A/c (7100 each)	Dr.	400	
	To 8% Preference share capital A/c (780 each)			320
	To Capital Reduction A/c			80
	(Being the preference shares of ₹100each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹10 each)	Dr.	1,000	
	To Equity share capital A/c (₹2 each)			200
	To Capital Reduction A/c			800
	(Being the equity shares of ₹10 each reduced to ₹2 each)			
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (₹2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of ₹2 each)			

	Particulars		Debit (₹ in lakhs)	Credit (₹ in lakhs)
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			250
	To Capital Reduction A/c			
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹2 each)			300
	To Capital Reduction A/c			
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			972
	To Trade receivables A/c (450 x 40%)			
	To Inventories-in-trade A/c (300x 80%)			
	To Bank At (600 x5%)			
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c	Dr.	286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

Dr. **Cr.**

	(₹ in lakhs)		*(₹ in lakhs)*
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290

(c) Notes to Balance Sheet

		(₹ in lakhs)	*(₹ in lakhs)*
1.	Share Capital		
	Authorised:		
	200 lakhs Equity shares of ₹2 each		400
	8 lakhs 8% Preference shares of ₹80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of 72 each		322
	4 lakhs Preference Shares of 780 each		320
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

Question 32

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities		**₹**	**Assets**		**₹**
Share Capital			**Fixed Assets**		
30,000 Equity shares of ₹10 each		3,00,000	Trade marks and Patents		1,10,000
40,000 8% Cumulative Preference			Goodwill at cost		36,100
shares ₹10 each		4,00,000			
			Freehold Land		1,20,000
Reserves and Surplus			Freehold Premises		2,44,000
Securities Premium Account		10,000	Plant and Equipment		3,20,000
Profit and Loss Account		(1,38,400)	*Investment* (marked to market)		
Secured Borrowings					64,000
9% Debentures (₹100)	1,20,000		*Current Assets*		
Accrued Interest	5,400	1,25,400	Inventories:		
Current liabilities			Raw materials and packing		
Trade payables		1,20,000	materials	60,000	
Tax payable		50,000	Finished goods	16,000	76,000
Temporary bank overdraft		2,23,100	Trade receivables		1,20,000
		10,90,100			10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at ₹10 lakhs (preference capital of ₹3 lakhs and equity capital of ₹7 lakhs). Both classes of shares are of ₹10 each.

(2) The preference shares are to be reduced to ₹5 each and equity shares reduced by ₹3 per share. Post reduction, both classes of shares to be re-consolidated into ₹10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of ₹10 to be issued for every ₹40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were ₹10,000.

(6) The debenture holders took over freehold land at ₹2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at ₹54,000 and a pending insurance claim receivable settled at ₹12,500.

(8) The intangible assets were all to be written off along with ₹10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to payoff the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

(MTP-March 2019) (15 Marks)

Answer*:*

(i) In the books of Lili Ltd.

Journal Entries

				Dr.	**Cr.**
	2017			**₹**	**₹**
1.	March 31	Equity Share Capital A/c (₹10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000
		To Equity Share Capital A/c (₹7)			2,10,000
		(Being reduction of equity shares of ₹10 each to shares of ₹7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (₹10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (₹5)			2,00,000
		ing reduction of preference shares of ₹10 each to shares of ₹5 each as per reconstruction scheme)			

				Dr.	Cr.
	2017			₹	₹
3.		Equity Share Capital A/c (30,000 x ₹7) Preference Share Capital A/c (40,000 x ₹5) To Equity Share Capital A/c (21,000 x ₹10) To Preference Share Capital A/c (20,000 x ₹10) (Being post reduction, both classes of shares reconsolidated into ₹10 each)		2,10,000 2,00,000	 2,10,000 2,00,000
4.		Cash Account To Trade Investments (Being trade investments liquidated in the open market)		64,000	 64,000
5.		Capital Reduction Account To Equity Share Capital Account (Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of ₹10 each)		32,000	 32,000
6.		Capital Reduction Account To Cash Account (Being expenses of reconstruction scheme paid in cash)		10,000	 10,000
7.		9% Debentures Account Accrued Interest Account To Debenture holders Account (Being amount due to debenture holders)		1,20,000 5,400	1,25,400
8.		Debenture holders Account Cash Account (2,10,000 - 1,25,400) To Freehold Land To Capital Reduction Account (2,10,000 -1,20,000) (Being Debenture holders took over freehold land at ₹2,10,000 and settled the balance)		1,25,400 84,600	 1,20,000 90,000
9.		Capital Reduction Account To Cash Account (Being contingent liability of ₹54,000 paid)		54,000	 54,000
10.		Cash Account To Capital Reduction Account (Being pending insurance claim received)		12,500	 12,500
11.		Capital Reduction Account To Trade marks and Patents To Goodwill To Raw materials & Packing materials To Trade receivables (Being intangible assets written off along with raw materials and packing materials worth ₹10,000 and 10% of trade receivables)		1,68,100	 1,10,000 36,100 10,000 12,000
12.		Cash Account To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)		1,26,000	 1,26,000
13.		Bank Overdraft Account To Cash Account (Being cash balance utilized to pay off bank overdraft)	Dr.	2,23,100	 2,23,100
14.		Capital Reduction Account To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)	Dr.	1,28,400	 1,28,400

(ii) Capital Reduction Account

Particulars	₹	Particulars	₹
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28.400		
	3,92,500		3,92,500

(iii) Cash Account

Particulars	₹	*Particulars*		₹
To Investment	64,000	By Capital reduction (Contingent liability)		54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses		10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft		
		- From available cash (64,000+84,600+12,500 -54,000-10,000)	97,100	
To Equity share capital 12,600 shares @ ₹10 each		- From proceeds of equity share capital (2,23,100-97.100)	<u>1,26,000</u>	2,23,100
	1,26,000			
	2,87,100			2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = ₹2,23,100 - ₹97,100 = ₹1,26,000

Question 33

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital			
50,000 shares of ₹50		Goodwill	
each fully paid up	25,00,000	Land & Building	22,00,000
1,00,000 shares of ₹50		Machinery	42,70,000
each ₹40 paid up	40,00,000	Computers	8,50,000
Capital Reserve	5,00,000	Inventories	5,20,000
8% Debentures of ₹100 each	4,00,000	Trade receivables	3,20,000
12% Debentures of ₹100 each	6,00,000	Cash at Bank	10,90,000
Trade payables	12,40,000	Profit & Loss Account	2,68,000
Outstanding Expenses	<u>10,60,000</u>		<u>7,82,000</u>
Total	<u>1,03,00,000</u>	Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of ₹40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to ₹2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to ₹1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹51,84,000, Machinery at ₹7,20,000, Computers at ₹4,00,000, Inventories at ₹3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

(*RTP November 2019*)

Answer:

Journal Entries in the books of Platinum Ltd.

			₹	₹
	Bank A/c (1,00,000 x ₹10)	Dr.	10,00,000	
	To Equity share capital A/c			10,00,000
	(Being money on final call received)			
	Equity share capital (₹50) A/c	Dr.	75,00,000	
	To Equity share capital (₹40) A/c			60,00,000
	To Capital Reduction A/c			15,00,000
	(Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)			
	Bank A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being new shares allotted at ₹40 each)			
	Trade payables A/c	Dr.	12,40,000	
	To Equity share capital A/c			7,50,000
	To Bank A/c (4,90,000 x 70%)			3,43,000
	To Capital Reduction A/c			1,47,000
	(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
	8% Debentures A/c	Dr.	3,00,000	
	12% Debentures A/c	Dr.	4,00,000	
	To Shiv A/c			7,00,000
	(Being cancellation of 8% and 12% debentures of Shiv)			
	Bank A/c	Dr.	1,00,000	
	To Shiv A/c			1,00,000
	(Being new debentures subscribed by Shiv)			
	Shiv A/c	Dr.	8,00,000	
	To 15% Debentures A/c			6,00,000
	To Capital Reduction A/c			2,00,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	8% Debentures A/c	Dr.	1,00,000	
	12% Debentures A/c	Dr.	2,00,000	
	To Ganesh A/c			3,00,000
	(Being cancellation of 8% and 12% debentures of Ganesh)			
	Ganesh A/c	Dr.	3,00,000	
	To 15% Debentures A/c			2,50,000
	To Capital Reduction A/c			50,000
	(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
	Land and Building (51,84,000 – 42,70,000)	Dr.	9,14,000	
	Inventories	Dr.	30,000	
	To Capital Reduction A/c			9,44,000

		₹	₹
	(Being value of assets appreciated)		
	Outstanding expenses A/c Dr.	10,60,000	
	To Bank A/c		10,60,000
	(Being outstanding expenses paid in cash)		
	Capital Reduction A/c Dr.	33,41,000	
	To Machinery A/c		1,30,000
	To Computers A/c		1,20,000
	To Trade receivables A/c		1,09,000
	To Goodwill A/c		22,00,000
	To Profit and Loss A/c		7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c		5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet (as reduced) as on 31.3.2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	80,00,000
2		**Non-current liabilities**		
	(a)	Long-term borrowings	2	8,50,000
		Total		**88,50,000**
		Assets		
1		**Non-current assets**		
	(a)	Property, Plant and Equipment		
		Tangible assets	3	63,04,000
2		**Current assets**		
	(a)	Inventories		3,50,000
	(b)	Trade receivables		9,81,000
	(c)	Cash and cash equivalents		12,15,000
		Total		**88,50,000**

Notes to accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures(assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. Cash at Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	1,00,000		
	26,18,000		26,18,000

2. Capital Reduction Account

Particulars		₹	Particulars		₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	Shiv A/c	2,00,000
To	Goodwill A/c	22,00,000	By	Ganesh A/c	50,000
To	Profit and Loss A/c	7,82,000	By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

Question 34

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2019.

Particulars	Amount
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹50 each	7,50,000
(b) 18,750 Equity shares of ₹50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹50 shares should be reduced to ₹5 by cancellation of ₹45.00 per share. They have also agreed to subscribe for three new equity shares of ₹5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹50 preference share, 4 new 6% preference shares of ₹10 each, plus 3 new equity shares of ₹5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹10 each and 7,500 new equity shares of ₹5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied :

  (a) To write off the debit balance in the Profit and Loss A/c, and

  (b) To write off ₹43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital as reduced is to be increased to ₹8,12,500 for preference share capital and ₹9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

(*November 2019, New Course, 15 Marks*)

Answer

In the books of Fortunate Ltd.
Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital (₹ 50)			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced) as on 31.3.2019

		Particulars	***Notes***	**₹**
		Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	15,12,500
2		Non-current liabilities		
	(a)	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3		Current liabilities		
	(a)	Trade Payables		2,58,750
	(b)	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment	2	7,91,250
	(b)	Intangible assets	3	2,36,250
2		Current assets		
	(a)	Inventories		5,00,000
	(b)	Trade receivables		4,10,000
	(c)	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

			₹
1	**Share Capital**		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2	**Property, Plant and Equipment**		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	**Intangible assets**		
	Trademarks and goodwill		2,36,250
4	**Cash and cash equivalents**		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note: **In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.*

Question 35

M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Land & Building	42,70,000
50,000 shares of ₹50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹50		Inventories	3,20,000
each ₹40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹100 each	6,00,000		
Trade payables	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		1,03,00,000

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of ₹40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. A agrees to cancel debentures amounting to ₹2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹1,00,000.

(5) Mr. B agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹51,84,000, Machinery at ₹7,20,000, Computers at ₹4,00,000, Inventories at ₹3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

[*MTP October, 2019, 15 Marks*]

Answer

Journal Entries

		₹	₹
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹50) A/c	Dr.	75,00,000	
To Equity share capital (₹40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To A A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building	Dr.		
(51,84,000-42,70,000)		9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000

	₹	₹
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)		
Capital Reserve A/c Dr.	5,00,000	
To Capital Reduction A/c		5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2019

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital	1	80,00,000
2 Non-current liabilities		
(a) Long-term borrowings	2	8,50,000
Total		**88,50,000**
Assets		
1 Non-current assets		
(a) Property, Plant and Equipment		
Tangible assets	3	63,04,000
2 Current assets		
(a) Inventories		3,50,000
(b) Trade receivables		9,81,000
(c) Cash and cash equivalents		12,15,000
Total		**88,50,000**

Notes to accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. Cash at Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade payables A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To A A/c	1,00,000		
	26,18,000		26,18.000

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade payables A/c	1,47,000
To Trade receivables A/c	1,09,000	By A A/c	2,00,000
To Profit and Loss A/c	29,82,000	By BA/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		33,41,000

Question 36

The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

	₹
A. Equity & Liabilities	
1. Shareholders' Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
10,000 Equity Shares of ₹ 100 each fully paid	10,00,000
(b) Reserve & Surplus:	
Profit & Loss Account	(2,00,000)
2. Non-current liabilities:	
"A" 6% Debentures (Secured on Bombay Works)	3,00,000
"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3. Current Liabilities and Provisions:	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	1,25,000
Total	24,90,000
B. Assets:	
Non- current Assets:	
1. PPE:	
Bombay Works	9,50,000
Chennai Works	7,75,000
2. Investment:	
Investments for Workman's Compensation Fund	15,000
3. Current Assets:	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	50,000
	24,90,000

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the trade payables.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Inventory was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

(*May 2020*)

Answer

In the books of Star Ltd.
Journal Entries

	Particulars		***Amount*** ₹	***Amount*** ₹
(i)	7% Preference share capital (₹ 100)	Dr.	9,00,000	
	To 9% Preference share capital (₹ 80)			7,20,000
	To Capital reduction A/c			1,80,000
	(Being preference shares reduced to ₹ 80 and also rate of dividend raised from 7% to 9%)			
(ii)	Equity share capital A/c (₹ 100 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 10 each)			1,00,000
	To Capital reduction A/c			9,00,000
	(Being reduction of nominal value of one share of ₹ 100 each to ₹ 10 each)			
(iii)	Bank A/c	Dr.	50,000	
	To Capital reduction A/c			50,000
	(Being directors refunded the fee amount)			
(iv)	Trade payables A/c (Interest on debentures)	Dr.	26,000	
	To Capital reduction A/c			26,000
	(Being interest forgone by the debenture holders)			
(v)	No entry required			
(vi) (a)	'B' 6% Debentures A/c	Dr.	3,50,000	
	To Debentures holders A/c			3,50,000
	(Being amount due to Debentures holders)			
(b)	Debentures holders A/c	Dr.	4,40,000	
	To Chennai Works A/c			4,25,000
	To Equity share capital A/c			15,000
	(Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)			
(c)	Equity share of Zia ltd. A/c	Dr.	90,000	
	To Debentures holders A/c			90,000
	(Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)			
(vii) (a)	Chennai Works – Workmen Compensation Fund	Dr.	4,000	
	To Capital reduction A/c			4,000
	(Being difference due to reduced amount of actual liability transferred to capital reduction account)			
(b)	Bank A/c	Dr.	15,400	
	To Investment for Workmen Compensation Fund			14,000
	To Capital reduction A/c			1,400
	(Being investment for Workmen Compensation Fund sold @ 10% profit)			
(C)	Trade Payables A/c	Dr.	15,400	
	To Bank A/c			15,400
	(Being part payment made to trade payables)			
(viii)	Capital reduction A/c	Dr.	2,10,000	
	To Provision for Doubtful Debts A/c			20,000
	To Inventory A/c			1,90,000
	(Being assets revalued)			
(ix)	Capital reduction A/c	Dr.	5,50,000	
	To Profit & Loss A/c			2,00,000
	To PPE – Chennai Works			3,50,000
	(Being assets revalued and losses written off)			

	Particulars		***Amount*** ₹	***Amount*** ₹
(x)	Capital reduction A/c	Dr.	4,01,400	
	To PPE – Bombay Works			2,67,600
	To Capital reserve A/c			1,33,800
	(Being assets revalued and remaining amount transferred to capital reserve account)			

Question 37

The following information pertains to Z Limited as on 31st March, 2019:

	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

Note: Preference dividend is in arrears for last 2 years. Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above-mentioned transactions including amounts of Goodwill, Patents, Loss in Profit and Loss account to be written off. Also prepare Bank Account and Reconstruction A/c.

(*RTP, November, 2020*)

Answer

Journal Entries in the Books of Z Ltd.

			Dr.	Cr.
			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹ 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables		60,000	
	Interest on debentures outstanding A/c		64,000	
	Bank A/c		60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			

			Dr.	Cr.
			₹	₹
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c (capital commitment penalty paid)	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share	
To Bank (reconstruction expenses)	15,000	Capital A/c	25,00,000
To Goodwill	11,00,000	By 9% Pref. Share	
To Patent	5,00,000	Capital A/c	10,00,000
To P & L A/c	14,60,000	By Mr. Y (Settlement)	5,78,000
		By Mr. Z (Settlement)	3,82,000
To P & M	6,50,000	By Trade Payables A/c	1,70,000
To Furniture and Fixtures	1,00,000	By Director's loan	60,000
To Trade investment	50,000	By Bank	1,00,000
To Inventory	2,50,000	By Provision for tax	25,000
To Trade Receivables	1,00,000	By Land and Building	2,00,000
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

Question 38

The summarised Balance Sheet of Preeti Limited as on 31st March 2019, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorized and subscribed capital:		Property, plant and equipment:	
20,000 Equity shares of ₹ 100 each fully paid	20,00,000	Machineries	7,00,000
Unsecured loans:		Current Assets:	
15% Debentures	6,00,000	Inventory	5,06,000
Interest payable thereon	90,000	Trade receivables	4,60,000
Current Liabilities:		Bank	40,000
Trade payables	1,04,000	Profit & loss A/c	11,60,000
Provision for income tax	72,000		
	28,66,000		28,66,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

(i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.

(v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(vi) Balance of Profit and Loss account to be written off.

(vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above

(*MTP, October, 2020*) (*8 Marks*)

Answer

In the books of Preeti Limited Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	15% Debentures A/c	Dr.	3,00,000	
	Interest payable A/c (proportionate 50%)	Dr.	45,000	
	To Reconstruction A/c			3,45,000
	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c	Dr.	1,04,000	
	To Reconstruction A/c			1,04,000
	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c	Dr.	10,00,000	
	To 10% Preference Share Capital A/c			2,00,000
	To Equity Share Capital A/c			78,000
	To Reconstruction A/c			7,22,000
	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			

		₹	₹
(v)	Reconstruction A/c Dr. To Profit & Loss A/c To Capital Reserve A/c (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	11,71,000	 11,60,000 11,000

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

Question 39

Meghna Limited gives the following information as on 31-03-2021:

Particulars	***Amount (₹ in lakh)***
Share capital	
Issued, subscribed and paid up:	
100 lakh Equity Shares of ₹ 10 each, full paid up	1,000
4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	400
Debit balance of Profit & Loss A/c	522
6% Debentures (secured by Freehold Property)	400
Directors' Loan	300
Trade Payables	102
Interest accrued and outstanding on 6% Debentures	24
Freehold Property	550
Plant & Machinery	200
Current Investments (Investment in Equity Instruments)	200
Inventories (Finished goods)	300
Trade Receivables	450
Bank balance	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 400 lakh.

(6) All investments sold out for ₹ 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account.

(*MTP, April, 2021*) (*16 marks*)

Answer

Journal Entries in the books of Meghna Ltd.

	Particulars	***Debit (₹ in lakhs)***	***Credit (₹ in lakhs)***
(i)	8% Preference share capital A/c (₹ 100 each) Dr. To 8% Preference share capital A/c (₹ 80 each)	400	 320
	To Capital Reduction A/c (Being the preference shares of ₹ 100 each reduced to₹ 80 each as per the approved scheme)		80
(ii)	Equity share capital A/c (₹ 10 each) To Equity share capital A/c (₹ 2 each) Dr. To Capital Reduction A/c (Being the equity shares of ₹ 10 each reduced to ₹ 2 each)	1,000	200 800

	Particulars		Debit (₹ in lakhs)	Credit (₹ in lakhs)
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (₹ 2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹ 2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c To Bank A/c	Dr.	24	
	(Being accrued debenture interest paid)			24
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c (Being investment sold at profit)			50
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹ 2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹ 2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			522
	To Trade receivables A/c (450x 40%) To Inventories-in-trade A/c (300x 80%) To Bank A/c (600 x 5%)			180 240 30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account

		(₹ in lakhs)			(₹ in lakhs)
To	Equity Share Capital	32	By	Preference Share Capital	80
To	Trade receivables	180	By	Equity Share Capital	800
To	Finished Goods	240	By	Freehold Property	150
To	Profit & Loss A/c	522	By	Bank	50
To	Bank A/c	30	By	Director's Loan	210
To	Capital Reserve	286			
		1,290			1,290

Question 40

Recover Ltd decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March, 2020 is as follows—

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	55,000
3		**Current liabilities**		

		Particulars	***Notes***	***₹***
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
		Assets		5,05,000
1		**Non-current assets**		
	A	Property, Plant Equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		**Current assets**		
	A	Inventories		30,000
	B	Trade receivables		50,000
				5,05,000

Notes to accounts:

1	**Share Capital**		₹
	Equity share capital:		
	20,000 Equity Shares of ₹ 10 each		2,00,000
	Preference share capital:		
	15,000 8% Cumulative Preference Shares of ₹ 10 each (preference dividend has been in arrears for 4 years)		1,50,000
2	**Reserves and surplus**		3,50,000
	Securities premium		10,000
	Profit and loss account (debit balance)		(80,000)
3	**Long-term borrowings**		(70,000)
	Secured		
	9% Debentures (secured on the freehold property		50,000
	Accrued interest on 9% debentures		5,000
4	**Property, Plant and Equipment**		55,000
	Freehold property		1,20,000
	Leasehold property		85,000
	Plant and machinery		1,30,000
			3,35,000
5	**Intangible assets**		50,000
	Goodwill		
6	**Non-current investments**		50,000
	Non-Trade investments at cost		40,000
			40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

(i) The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.

(ii) One new equity share of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.

(iii) The balance on Securities Premium Account was utilized and was transferred to capital reduction account.

(iv) The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.

(v) Plant and Machinery was written down to ₹ 1,00,000.

(vi) Non-trade Investments were sold for ₹ 32,000.

(vii) Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.

(viii) A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

(*RTP, May, 2021*)

Answer

In the books of Recover Ltd
Journal entries

Particulars		**Dr.** ₹	**Cr.** ₹
8% Cumulative Preference share capital (₹ 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (₹2.5) A/c			37,500
To Capital reduction (₹ 7.5) A/c			1,12,500
(Preference shares being reduced to shares of ₹ 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)			
Equity share capital A/c (₹10)	Dr.	2,00,000	
To Equity Share capital A/c (₹ 1)			20,000
To Capital reduction A/c (₹ 9)			1,80,000
(Equity shares reduced to ₹ 1 per share with the remaining amount transferred to capital reduction A/c as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of ₹ 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
Securities Premium A/c	Dr.	10,000	
To Capital reduction A/c			10,000
(Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)			
9% Debentures A/c	Dr.	50,000	
Accrued interest on debentures A/c	Dr	5,000	
Bank A/c	Dr.	20,000	
Capital reduction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000
To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Capital reduction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000
(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Capital reduction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Capital reduction A/c	Dr.	80,000	
To Profit and loss A/c			80,000
(Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).			
Capital reduction A/c	Dr.	30,800	
To Capital reserve A/c			30,800
(The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance sheet of Recover Ltd. as at 31st March 2020 (and reduced)

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Bank Overdraft		90,000
				3,06,300
		Total		
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	3	1,85,000
2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		**3,06,300**

Notes to accounts:

1	**Share Capital**	₹
	Equity share capital	
	68,000 Equity Shares of ₹ 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of ₹ 2.5 each	37,500
		1,05,500
2	**Reserves and surplus**	
	Capital reserve	30,800
3	**Property, Plant and Equipment**	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	**Cash and cash equivalents**	51,300
	Bank A/c (20,000+32,000-7000+6,300)	

Question 41

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following:

- New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.
- Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
- 7% Debentures of ₹ 250,000.

(ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.

(iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.

(iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.

(v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.

(*July, 2021 Suggested)* (*5 Marks*)

Answer

Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (₹ 10) A/c			45,00,000
To 6% Preference Share Capital (₹ 10) A/c			18,00,000
To 7% Debentures A/c			2,50,000
To Capital Reduction A/c			9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Building A/c	Dr.	1,50,000	
Capital Reduction A/c	Dr.	9,53,000	
To Goodwill Account			2,70,000
To Plant and Machinery Account			1,00,000
To Furniture Account			88,000
To Investment A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit & Loss as per the scheme)			
General reserve A/c	Dr.	3,000	
To Capital Reduction A/c			3,000
(Being general reserve utilized to write off the balance in Capital reduction A/c)			

Note: In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.

Question 42

Shine Ltd. provides the following information as on 31st March, 2021:

(₹in '000)

	Amount
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Property, Plant and Equipment	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account (Dr. balance)	2,100

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2021.

(i) All the existing equity shares are reduced to ₹ 4 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.

(iv) Investments are to be brought to their market value.

(v) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.

(vi) The balance of Profit and Loss Account to be written off and balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.

(vii) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

(viii) Property, plant and equipment to be written down to 80%.

You are required to give journal entries for the above transactions and prepare capital reduction account.

(*RTP November 2021*)

Answer

Journal Entries in the books of Shine Ltd.

		₹ '000	₹ '000
(i)	Equity share capital (₹ 10) A/c Dr.	35,000	
	To Equity Share Capital (₹ 4) A/c		14,000
	To Capital Reduction A/c		21,000
	(Being conversion of equity share capital of ₹ 10 each into ₹ 4 each as per reconstruction scheme)		
(ii)	8% Cumulative Preference Share capital (₹ 100) A/c Dr.	17,500	
	To 8% Cumulative Preference Share Capital (₹ 60) A/c		10,500
	To Capital Reduction A/c		7,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	6% Debentures (₹ 100) A/c Dr.	14,000	
	To 9% Debentures (₹ 80) A/c		11,200
	To Capital Reduction A/c		2,800
	(Being 9% debentures of ₹ 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	7,000	
	To Equity Share Capital (₹ 4) A/c		3,500
	To Capital Reduction A/c		3,500
	(Being a creditor of ₹ 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹ 4 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	350	
	Capital Reduction A/c Dr.	175	
	To Liability for Taxation A/c		525
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Liability for Taxation A/c Dr.	525	
	To Current Assets (Bank A/c)		525
	(Being the payment of tax liability)		
(vii)	Capital Reduction A/c Dr.	34,125	
	To P & L A/c		2,100
	To PPE A/c		8,750
	To Current Assets A/c		18,725
	To Investments A/c		175
	To Capital Reserve A/c (Bal. fig.)		4,375
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		

Capital Reduction Account

To	Liability for taxation A/c	175	By	Equity share capital	21,000
To	P & L A/c	2,100	By	8% Cumulative preferences	7,000
To	Fixed Assets	8,750	Share capital		
To	Current assets	18,725	By	6% Debentures	2,800
To	Investment	175	By	Sundry creditors	3,500
To	Capital Reserve (Bal. fig.)	4,375			
		34,300			34,300

Question 43

Z Limited provides the following information as on 31st March, 2021:

Particulars	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account (Dr. balance)	14,60,000
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above-mentioned transactions including amounts to be written off for Goodwill, Patents and Loss in Profit and Loss account. Also prepare Bank Account and Reconstruction A/c.

(*RTP May, 2022*)

Answer

Journal Entries in the Books of Z Ltd.

			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹ 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables		60,000	
	Interest on debentures payable A/c		64,000	
	Bank A/c		60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			

			₹	₹
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

		₹			₹
To	Reconstruction (Y)	1,00,000	By	Balance b/d (overdraft)	1,00,000
To	Reconstruction (Z)	60,000	By	Reconstruction A/c (capital commitment penalty paid)	15,000
To	Reconstruction A/c (refund of earlier fees by directors)	1,00,000			
			By	Reconstruction A/c (reconstruction expenses paid)	15,000
			By	Provision for tax A/c (tax paid)	75,000
			By	Balance c/d	55,000
		2,60,000			2,60,000

Reconstruction Account

		₹			₹
To	Bank (penalty)	15,000	By	Equity Share Capital A/c	25,00,000
To	Bank (reconstruction expenses)	15,000			
To	Goodwill	11,00,000	By	9% Pref. Share Capital A/c	10,00,000
To	Patent	5,00,000			
To	P & L A/c	14,60,000	By	Mr. Y (Settlement)	5,78,000
To	P & M	6,50,000	By	Mr. Z (Settlement)	3,82,000
To	Furniture and Fixtures	1,00,000	By	Trade Payables A/c	1,70,000
To	Trade investment	50,000	By	Director's loan	60,000
To	Inventory	2,50,000	By	Bank	1,00,000
To	Trade Receivables	1,00,000	By	Provision for tax	25,000
To	Capital Reserve (bal. fig.)	7,75,000	By	Land and Building	2,00,000
		50,15,000			50,15,000

Question 44

The following is the Balance Sheet of Purple Limited as at 31st March, 2022:

Particulars	*Notes*	*Amount in ₹*
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	*1*	*15,00,000*
(b) Reserves & Surplus	*2*	*(3,00,000)*
(2) Current Liabilities		
(a) Trade Payables		*2,20,000*
(b) Short Term Borrowings – Bank Overdraft		*2,00,000*
Total		*16,20,000*

	Particulars	**Notes**	**Amount in ₹**
II.	*Assets*		
	(1) Non-Current Assets		
	(a) Property, Plant and Equipment	*3*	*10,20,000*
	(b) Intangible Assets	*4*	*1,20,600*
	(2) Current Assets		
	(a) Inventories		*1,70,000*
	(b) Trade Receivables		*3,01,800*
	(c) Cash and cash equivalents		*7,600*
	Total		*16,20,000*

Notes to Accounts

		₹	₹
(1)	*Share Capital*		
	90,000 Equity Shares of ₹ 10 each fully paid	*9,00,000*	
	6% Preference Share Capital	*6,00,000*	*15,00,000*
(2)	*Reserves & Surplus*		
	Profit & Loss account		*(3,00,000)*
(3)	*Property, Plant and Equipment*		
	Land and Building	*5,40,000*	
	Plant and Machinery	*4,80,000*	*10,20,000*
(4)	*Intangible Assets*		
Goodwill		*84,600*	
Patents		*36,000*	*1,20,600*

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

(i) *The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.*

(ii) *The value of equity shares is brought down to ₹ 8 per share.*

(iii) *The arrears of dividend on preference shares are cancelled.*

(iv) *The debit balance of Goodwill account is written off entirely.*

(v) *Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.*

(vi) *Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.*

(vii) *The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.*

(viii) *The balance of total capital reduction is to be utilized in writing down Patents.*

(ix) *A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.*

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet. (20 Marks)

Answer

Journal Entries In the books of Purple Ltd.

	Particulars		***Debit* (₹)**	***Credit* (₹)**
1.	6% Preference share capital A/c	Dr.	6,00,000	
	To 8% Preference share capital A/c			4,50,000
	To Capital reduction A/c			1,50,000
	(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)			
2.	Equity share capital A/c (₹ 10)	Dr.	9,00,000	
	To Equity share capital A/c (₹ 8)			7,20,000
	To Capital reduction A/c			1,80,000
	(Being equity capital reduced to nominal value of ₹ 8 each)			
3.	Capital Reduction A/c	Dr.	3,30,000	
	To Goodwill A/c			84,600
	To Land and Building A/c			81,000

	Particulars		*Debit (₹)*	*Credit (₹)*
	To Plant and Machinery A/c			96,000
	To Trade Receivables A/c (Book debts)			14,400
	To Patents A/c (Bal. fig.)			24,000
	To Profit and loss A/c			30,000
	(Being losses and assets written off to the extent required)			
4.	Bank A/c	Dr.	4,80,000	
	To Bank Loan A/c			4,80,000
	(Being Loan taken)			
5.	Bank overdraft A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being Bank overdraft repaid)			

Capital Reduction Account

	Particulars	₹		Particulars	₹
To	Goodwill A/c	84,600	By	Equity Share Capital A/c	1,80,000
To	Land & Building A/c	81,000	By	6% Preference Share Capital A/c	1,50,000
To	Plant and Machinery A/c	96,000			
To	Trade receivables (Book Debts) A/c	14,400			
To	Profit & Loss A/c	30,000			
To	Patents A/c (Bal. fig.)	24,000			
		3,30,000			3,30,000

Balance Sheet of Purple Ltd. (and reduced) as at 31.3.2022

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		**Shareholders' funds**		
	(a)	Share capital	1	11,70,000
	(b)	Reserves and surplus	2	(2,70,000)
2		**Current liabilities**		
	(a)	Short term borrowings (Secured Bank Loan)		4,80,000
	(b)	Trade Payables		2,20,000
		Total		16,00,000
		Assets		
1		**Non-current assets**		
	(a)	Property, plant and equipment	3	8,43,000
	(b)	Intangible assets	4	12,000
2		**Current Assets**		
	(a)	Inventory		1,70,000
	(b)	Trade receivables	5	2,87,400
	(c)	Cash and cash equivalents (7,600+4,80,000-2,00,000)		2,87,600
		Total		16,00,000

Notes to Accounts:

			₹
1.	Share Capital		
	Authorized		
	Issued, subscribed and paid up:		
	90,000 equity shares of ₹ 8 each fully paid	7,20,000	
	8% Preference share capital*	4,50,000	11,70,000
2.	Reserves and Surplus		
	Profit and Loss Account (Dr. balance)		(2,70,000)
3.	Property plant and equipment		
	Land and Building	4,59,000	
	Plant and Machinery	3,84,000	8,43,000

			₹
4.	Intangible assets		
	Patent ₹(36,000 - 24,000)		12,000
5.	Trade Receivables		
	Sundry Debtors	3,01,800	
	Less: Bad debts	(14,400)	2,87,400

**Note: ***Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. Calculation of new Preference Shares

Rate of return : 6% on Preference Shares

Dividend	:	(6/100) x ₹ 6,00,000	= ₹ 36,000
Rate of return	:	8% on Preference Shares	
Dividend	:	(8/100) x X =	₹ 36,000
		X = (36,000/8) x 100 =	₹ 4,50,000

New Preference Share Capital	=	₹ 4,50,000
Old Preference Share Capital	=	₹ 6,00,000
(6,00,000 – 4,50,000)	=	₹ 1,50,000 Amount taken to Capital Reduction A/c.

2. Since the company expects to earn a profit of ₹ 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence ₹ 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and ₹ 30,000 shall be written-off from Capital Reduction A/c.

3. Calculation of Amount written off on Land & Building and Plant & Machinery

Land & Building	= (85/100) x 5,40,000	= ₹ 4,59,000
Plant & Machinery Reduced by:	= (80/100) x 4,80,000	= ₹ 3,84,000
Land & Building	= (5,40,000 - 4,59,000)	= ₹ 81,000
Plant & Machinery	= (4,80,000 - 3,84,000)	= ₹ 96,000

Question 45

Internal Reconstruction of a Company

Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2022 before reconstruction:

Particulars	Note No.	Amount (₹ In lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		**2,556**
Assets		
Non-Current Assets:		
PPE	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		**2,556**

Notes to Accounts:

		₹ In lakh
(1)	Share capital	
	Authorised:	
	300 lakh Equity shares of ₹ 10 each	3,000
	12 lakh, 8% preference Shares of ₹ 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of ₹ 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings	
	6% Debentures (Secured by freehold property)	600
	Director's Loan	450
		1,050
(4)	Trade payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	PPE	
	Freehold Property	825
	Plant & machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash equivalents	
	Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 550 lakh.

(6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be alloted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying penalty of ₹ 72 lakhs.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and PPE, immediately after the implementation of internal reconstruction.

(*RTP November, 2022*)

Answer

Journal Entries related to internal reconstruction in the books of Planet Ltd.

(₹ in lakhs)

	Particulars		Debit ₹	Credit ₹
(i)	8% Preference share capital A/c (₹ 100 each)	Dr.	600	
	To 8% Preference share capital A/c (₹ 75 each)			450
	To Capital reduction A/c			150
	(Being the preference shares of ₹ 100 each reduced t ₹ 75 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹ 10 each)	Dr.	1,500	
	To Equity share capital A/c (₹ 2 each)			300
	To Capital reduction A/c			1,200
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
(iii)	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (₹ 2 each)			48
	(Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of ₹ 2 each)			
(iv)	6% Debentures A/c	Dr.	450	
	To Freehold property A/c			450
	(Being claim settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c			36
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	175	
	To Capital reduction A/c			175
	(Being appreciation (550-375) in the value of freehold property)			
(vii)	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c			125
	(Being investment sold on profit)			
(viii)	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (₹ 2 each)			135
	To Capital reduction A/c			315
	(Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of ₹ 2 each)			
(ix)	Capital Reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c			72
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
(x)	Capital Reduction A/c	Dr.	432	
	To Capital reserve A/c			432
	(Being balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account **(₹ in lakhs)**

To	Equity Share Capital	48	By	8% Pref. Share Capital	150
To	P & L A/c	783	By	Equity Share Capital	1,200
To	Trade Receivables	270	By	Freehold property	175
To	Inventories	360	By	Bank (profit on sale of investment)	125
To	Bank	72	By	Director's loan	315
To	Capital Reserve	432			
		1,965			1,965

Bank Account **(₹ in lakhs)**

To	Balance b/d	6	By	Accrued debenture interest	36
To	Investments	300	By	Capital Reduction Account (Penalty on cancellation of contract)	72
To	Capital reduction	125	By	Balance c/d	323
		431			431

Note to Accounts on Share Capital and PPE after implementation of internal reconstruction

Share Capital		***(₹ in lakhs)***
Authorised:		
300 lakh shares of ₹ 2 each		600
12 lakh, 8% Preference shares of ₹ 75 each		900
		1,500
Issued, subscribed and paid up:		
241.5 lakh Equity shares of ₹ 2 each		483
(out of which 91.5 lakh shares have been issued for consideration other than cash)		
6 lakh, 8% Preference shares of ₹75 each fully paid up		
		450
Total		933
PPE		
Freehold property	825	
Less: Utilised to pay Debenture holders	(450)	
Add: Appreciation	175	550
Plant and machinery		300
Total		850

Working Note:

Calculation of number of equity shares issued

To equity shareholders	150 Lakh
To Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
To Directors	67.5 Lakh
	241.5 Lakh

Question 46

Internal Reconstruction of a Company

The following information is being provided by Fortunate Ltd. as on 31st March, 2022.

Particulars	Amount (₹)
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account (Dr. balance)	5,63,750
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

(*RTP May, 2023*)

Answer

In the books of Fortunate Ltd.

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital (₹ 50)			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹ 5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced) as on 31.3.2022

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1.		Shareholders' funds		
	a	Share capital	1	15,12,500
2.		Non-current liabilities		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3.		Current liabilities		

		Particulars	*Notes*	₹
	(a)	Trade Payables		2,58,750
	(b)	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1.		Non-current assets		
	(a)	Property, Plant and Equipment	2	7,91,250
	(b)	Intangible assets	3	2,36,250
2.		Current assets		
	(a)	Inventories		5,00,000
	(b)	Trade receivables		4,10,000
	(c)	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

			₹
1.	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2.	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4.	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

**Note: ***In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

Question 47

X Ltd. had ₹ 1,00,000 equity share capital divided. into ₹1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible. assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800. Preference dividends are in arrears of ₹ 33,000.

You are required to show the entries (Ignore dates) under each of the following conditions:

(i) If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹10 each of which ₹8 per share is called up and paid up.

(ii) If X Ltd. resolves-to convert its 1,000 equity shares of ₹100 each
(assume fully- paid) into ₹1,00,000 worth of stock.

(iii) The preference shares are to be converted into 11% unsecured debentures of ₹100 each (including arrears of dividends) -.

(iv) Patents and Goodwill to be written-off.

(*G-II, May, 2023*) (*5 Marks*)

Question Arrangement

Internal Reconstruction

Topic	Question Numbers
Subdivision and Consolidation of Shares	1, 2, 17, 47
Reduction Scheme	3, 4, 5, 6, 8, 13, 14, 15, 16, 18, 19, 20, 22, 23, 27, 28, 29, 31, 32, 34, 39, 40, 42, 44, 45, 46
Two Parties	12, 25, 26, 30, 33, 35, 37
Small Question	10, 11, 41, 24, 36
Surrender Scheme	7, 21, 38
Theory	9

Accounting for Branches including Foreign Branches

<u>Question 1</u>

XP Ltd opened a branch at Delhi and sent goods costing ₹50,000 to Delhi branch. Delhi Branch sold entire goods on credit at ₹ 62,000. No other transaction occurred at the branch. Prepare branch account in Head Office Books and find out the profit.

(*Source: Example 1, Study Material*)

Solution

We know that branch earned net profit of ₹12,000, now see how same can be find out by branch account.

Branch Account

Particulars	Amount ₹	Particulars		Amount ₹
To Opening branch assets	Nil	By Closing branch assets		
To Goods sent to branch	50,000	Stock	Nil	
To Net Profit	12,000	Debtor	<u>62,000</u>	62,000
	62,000			62,000

<u>Question 2</u>

XP Ltd opened a new branch at Delhi. XP Ltd sent goods costing ₹ 50,000 to Delhi branch. Delhi branch sold entire goods in cash at ₹ 70,000. Branch paid expenses of ₹ 8,000. No other transaction occurred at the branch. Prepare branch account in HO Books and find out the profit.

(*Source: Example 2, Study Material*)

Solution

We know that branch earned net profit of ₹12,000 (i.e. Gross Profit ₹ 20,000 less expenses of ₹ 8,000), Let's see how same can be find out by branch account:

Branch Account

Particulars	Amount	Particulars		Amount
To Opening branch assets	Nil	By Closing branch assets		
		Stock	Nil	
To Goods sent to branch	50,000	Debtor	Nil	
To Net Profit transferred General to P&L A/c	12,000	Cash (70,000 - 8,000)	<u>62,000</u>	62,000
	62,000			62,000

Question 3

Prepare branch account and find out profit earned by branch if transactions are as under:

Goods sent to branch	*₹ 50,000*
Furniture sent to branch	*₹ 10,000* (*at the beginning of year*)
Credit sales at branch	*₹ 62,000*
Bad Debts	*₹ 1,000*
Other information:	
Closing stock at branch	*₹10,000*
Closing Debtor	*₹61,000*
Furniture (*after depreciation@20%*)	*₹ 8,000*

(*Source: Example 3, Study Material*)

Solution

Branch Account

Particulars	Amount	Particulars		Amount
To Opening branch assets-				
(Furniture)	10,000	By Closing branch assets-		
To Goods sent to branch	50,000	Stock	10,000	
To Net Profit transferred to General P&L A/c	19,000	Debtor	61,000	
		Furniture	8,000	79,000
	79,000			79,000

Question 4

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office.

From the following, prepare Nagpur branch account in the books of head office by Debtors method:

	₹		₹
Opening balance (*1-1-20X1*)		*Bad Debts*	*1,000*
Imprest Cash	*2,000*		
Sundry Debtors	*25,000*	*Discount to Customers*	*2,000*
Stock: Transferred from H.O.	*24,000*	*Remittances to H.O.*	
Stock: Direct Purchases	*16,000*	(*received by H.O.*)	*1,65,000*
Cash Sales	*45,000*	*Remittances to H.O.*	
Credit Sales	*1,30,000*	(*not received by H.O. so far*)	*5,000*
Direct Purchases	*45,000*	*Branch Exp. directly paid by H.O.*	*30,000*
Returns from Customers	*3,000*	*Closing Balance* (*31-12- 20X1*)	
Goods sent to branch from H.O.	*60,000*	*Stock: Direct Purchase*	*10,000*
Transfer from H.O. for Petty	*4,000*	*Stock: Transfer from H.O.*	*15,000*
Cash expenses		*Debtors*	*?*
		Imprest Cash	*?*
		Petty Cash expenses	*4,000*

(*Source: Illustration 1(a), Study Material*)

Solution

In the Books of Buckingham Bros, Bombay Nagpur Branch Account

Particulars	₹	***Particulars***		₹
To Opening Branch Assets-		By Bank –		
		Remittances received		
		from branch		
Stock (24,000+16,000)	40,000	Cash Sales	45,000	
Debtors	25,000	Cash from Debtors *	1,20,000	
		Cash in transit *	5,000	1,70,000
Imprest Cash	2,000	By Closing Branch Assets		
To Goods sent to Branch A/c	60,000	Stock (15,000 +10,000)		25,000
To Creditors (Direct Purchases)	45,000	Debtors (W.N. 1)		24,000
		Impresst Cash (W.N. 2)		2,000
To Bank (Sundry exp.)	30,000			
To Bank (Petty cash exp.)	4,000			
To Net Profit transferred to General Profit & Loss A/c	15,000			
	2,21,000			2,21,000

Working Notes:

1. Memorandum Debtors A/c

Particulars	₹	Particulars	₹
To To Bal b/d	25,000	By By Sales Return	3,000
To To Sales	130,000	By By Bad Debts	1,000
		By By Discount	2,000
		By By Cash *	125,000
		By By Bal c/d	24,000
	155,000		155,000

2. Memorandum Petty Cash

Particulars	₹	Particulars	₹
To Bal b/d	2,000	By Expenses (met by Branch)	4,000
To Transfer from H.O.	4,000	By Bal c/d	2,000
	6,000		6,000

***** Collection from Debtors = Total Remittances (1,65,000+5,000) – Cash Sales (45,000) = ₹ 1,25,000

Question 5

From the information given in the question, prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

(*Source: Illustration 1(b), Study Material*)

Solution

Buckingham Bros. Bombay

Nagpur Branch-Trading and Profit and Loss Account for the year ending 31st December, 20X1

Particulars	₹	***Particulars***	₹	₹
To Opening Stock	40,000	By Sales		
To Goods transferred from Head Office	60,000	Cash	45,000	
		Credit sales	1,30,000	
To Purchases	45,000		1,75,000	

Particulars	₹	***Particulars***	₹	₹
To Gross Profit c/d	52,000	*Less:* Returns	(3,000)	1,72,000
		By Closing Stock		25,000
	1,97,000			1,97,000
To Expenses	30,000	By Gross Profit b/d		52,000
To Discounts	2,000			
To Bad Debts	1,000			
To Petty Cash Expenses	4,000			
To Net Profit transferred to General P&L A/c	15,000			
	52,000			52,000

Question 6

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 20X1.

	₹		₹
Balances as on 1.1.20X1:			
Stock	*7,000*	*Bad Debts*	*600*
Debtors	*12,600*	*Goods returned by customers*	*500*
Petty Cash,	*200*	*Salaries & Wages*	*6,200*
Goods sent from H.O.	*26,000*	*Rent & Rates*	*1,200*
Goods returned to H.O.	*1,000*	*Sundry Expenses*	*800*
Cash Sales	*17,500*	*Cash received from Sundry*	
Credit Sales	*28,400*	*Debtors*	*28,500*
Allowances to customers	*200*	*Balances as on 31.12.20X1:*	
Discount to customers	*1,400*	*Stock*	*6,500*
		Debtors	*9,800*
		Petty Cash	*100*

Prepare: (*a*) *Branch Account* (*Debtors Method*), (*b*) *Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method and* (*c*) *Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account.*

(*Source: Illustration 2, Study Material*)

Solution

(a) Debtors Method

Delhi Branch Account

20X1		₹	₹	***20X1***		₹	₹
Jan. 1	To Opening branch assets:			Dec 31	24 Bank		
	Stock	7,000			Cash Sales	17,500	
	Debtors	12,600			Cash from sundry Debtors	28,500	46,000
	Petty cash	200	19,800				
Dec. 31	To Goods sent to Branch A/c		26,000		By Goods sent to Branch A/c –		

20X1		₹	₹	20X1		₹	₹
	To Bank:				Returns to H.O.		1,000
	Salaries & Wages	6,200			By Closing branch assets		
	Rent & Rates	1,200			Stock	6,500	
	Sundry Exp.	800	8,200		Debtors	9,800	
					Petty Cash	100	16,400
	To Net profit ts/f to General P&L A/c		9,400				
			63,400				63,400
Jan. 1, 20X2	To Balance b/d		16,400				

(b) Stock and Debtors Method

Branch Stock Account

20X1		₹	20X1			₹
Jan. 1	To Balance b/d - Opening Stock	7,000	Dec. 31	By Sales:		
Dec. 31	To Goods Sent to Branch A/c	26,000		Cash	17,500	
				Credit	28,400	
	To Branch P&L A/c	19,900		Less: Return	(500)	45,400
				By Goods sent to Branch A/c - Return		1,000
				By Balance c/d-Closing Stock		6,500
		52,900				52,900
20X2 Jan. 1	To Balance b/d - Opening Stock	6,500				

Delhi Branch Debtors Account

20X1		₹	20X1		₹
Jan. 1	To Balance b/d	12,600	Dec. 31	By Cash	28,500
Dec. 31	To Sales	28,400		By Returns	500
				By Allowances	200
				By Discounts	1,400
				By Bad debts	600
				By Balance c/d	9,800
		41,000			41,000
20X2 Jan. 1	To Balance b/d	9,800			

Delhi Branch Expenses Account

20X1		₹	20X1		₹
Dec. 31	To Salaries & Wages	6,200	Dec. 31	By Branch P&L A/c	10,500
	To Rent & Rates	1,200			
	To Sundry Expenses	800			
	To Petty Cash expenses (200-100)	100			

20X1		₹	20X1		₹
	To Allowance to customers	200			
	To Discount	1,400			
	To Bad Debts	600			
		10,500			10,500

Delhi Branch Profit & Loss Account

20X1		₹	20X1		₹
Dec. 31	To Branch Exp. A/c	10,500	Dec. 31	By Gross Profit b/d	19,900
	To Net Profit ts/f to General P & L A/c	9,400			
		19,900			19,900

(c) Branch Trading and Profit and Loss Account

	₹	₹			₹	₹
To Stock		7,000	By Sales:			
To Goods sent			Cash		17,500	
from H.O.	26,000		Credit	28,400		
Less: Returns to H.O.	(1,000)	25,000	Less:			
			returns	(500)	27,900	45,400
To Gross profit c/d		19,900	By Closing Stock			6,500
		51,900				51,900
To Salaries & Wages		6,200	By Gross Profit b/d			19,900
To Rent & Rates		1,200				
To Sundry Exp.		800				
To Petty Cash Exp.		100				
To Allowances to Customers		200				
To Discounts		1,400				
To Bad Debts		600				
To Net Profit		9,400				
		19,900				19,900

Question 7

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

	₹
Cost of goods sent to Branch at cost	*2,00,000*
Goods received by Branch till 31-12-20X1 at invoice price	*2,20,000*
Credit Sales for the year @ invoice price	*1,65,000*
Cash Sales for the year @ invoice price	*59,000*
Cash Remitted to head office	*2,22,500*
Expenses paid by H.O.	*12,000*

		₹
Bad Debts written off		*750*
Balances as on	*1-1-20X1*	*31-12-20X1*
	₹	₹
Stock	*25,000 (Cost)*	*28,000 (invoice price)*
Debtors	*32,750*	*26,000*
Cash in Hand	*5,000*	*2,500*

Show necessary ledger accounts in the books of the head office and determine the Profit or Loss of the Branch for the year ended 31st December, 20X1.

(*Source: Illustration 3(a), Study Material*)

Solution

Books of Harrison Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Cash	59,000
To Branch Adjustment A/c	2,000	By Balance c/d	
(Balancing Figure – Excess of Sale over Invoice Price)		Goods in Transit (₹ 2,40,000 – ₹ 2,20,000)	20,000
		Closing Stock at Branch	28,000
	2,72,000		2,72,000

Branch Debtors Account

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock A/c (Sales)	1,65,000	By Branch Cash (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750

Branch Cash Account

	₹		₹
To Balance b/d	5,000	By Bank Remittance to H.O.	2,22,500
To Branch Stock	59,000	By Branch Expenses	10,000
To Branch Debtors	1,71,000	[met by Branch (Bal. fig.)]	
		By Balance c/d	2,500
	2,35,000		2,35,000

Branch Adjustment Account

	₹		₹
		By Stock Reserve opening (25,000 × 20%)	5,000
To Branch P &L - Gross Profit (Bal. fig.)	39,000	By Goods sent to Branch A/c	40,000
To Stock Reserve (on closing stock (48,000 × 1/6)	8,000	By Branch Stock A/c	2,000
	47,000		47,000

Branch Expenses

	₹		₹
To Cash (H.O)	12,000		
To Branch Cash	10,000	By Branch P&L A/c	22,000
	22,000		22,000

Branch Profit and Loss Account

	₹		₹
To Branch Expenses	22,000	By Gross Profit (from Branch Adjustment A/c)	39,000
To Branch Debtors (bad debts)	750		
To Net Profit	16,250		
	39,000		39,000

Goods Sent to Branch Account

	₹		₹
To Branch Adjustment A/c	40,000	By Branch to Stock A/c	2,40,000
To Purchase A/c - Transfer	2,00,000		
	2,40,000		2,40,000

Question 8

Take figures from Question 7 and prepare branch account following debtors' method.

(*Source: Illustration 3(b), Study Material*)

Solution

Books of Harrison New Delhi Branch Account

	₹			₹
To Balance B/d				
Stock	30,000	By Stock Reserve		5,000
Debtors	32,750			
Cash	5,000			
To Goods Sent to Branch A/c (2,00,000 + 20%)	2,40,000	By Goods Sent to Branch A/c		40,000
To Cash (Exp. paid by H.O.)	12,000	By Cash – Remittance from branch :		
To Net Profit ts/f to H.O.	16,250	Cash Sales	59,000	
Profit & Loss A/c (Balancing Figure)		Debtors (W.N.1)	1,63,500	2,22,500
		By Balance c/d Debtors		26,000
To Stock reserve	8,000	Stock (including Transit– W.N 2)		48,000
(48,000X20/120)		Cash		2,500
	3,44,000			3,44,000

Working Note:

1. Closing Stock = Stock at branch + Stock in Transit (Goods sent by HO – Goods Received by Branch) = ₹ 28,000 + (₹ 2,40,000 - ₹ 2,20,000) = ₹ 48,000.

Question 9

Sell Well who carried on a retail business opened a branch X on January 1st, 20X1 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost.

The following were the transactions:

	Jan. 20X1	Feb. 20X1	March 20X1
	₹	₹	₹
Goods sent to Branch (Purchase Price)	*40,000*	*50,000*	*60,000*
Sales as shown by the branch monthly report	*38,000*	*42,000*	*55,000*
Cash received from Debtors and remitted to H.O.	*20,000*	*51,000*	*35,000*
Returns to H.O. (Invoice price to Branch)	*1,200*	*600*	*2,400*

The stock of goods held by the branch on March 31, 20X1 amounted to ₹ 53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 20X1 and the branch gross profit for the three months ended on that date.

All workings should form part of your solution.

(*Source: Illustration 4, Study Material*)

Solution

Books of Sell Well Branch Account

	₹			₹
To Goods sent to Branch A/c (1,50,000+10%)	1,65,000	By Goods sent to Branch-Loading		15,000
To Goods sent to Branch A/c (4,200 X 10/110)	382	By Goods sent to Branch-returns		4,200
		By Bank		1,06,000
		By Balance c/d - Closing Branch Assets		
To Stock Reserve (53,400 × 10/110)	4,855	Stock	53,400	
To Net Profit (Bal fig) ts/f to General P&L A/c	37,363	Debtors (Sales- Collection)	29,000	82,400
	2,07,600			2,07,600

Working Note:

Memorandum Branch Debtors Account

	₹		₹
To Balance b/d	---	By Cash/Bank	1,06,000
To Sales	1,35,000	By Balance c/d	29,000
	1,35,000		1,35,000

Goods Sent to Branch Account

	₹		₹
To Branch A/c – Loading	15,000	By Branch A/c	1,65,000
To Branch A/c – Returns	4,200	By Branch A/c – Loading on returns	382
To Purchases A/c	1,46,182		
	1,65,382		1,65,382

Question 10

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 20X2 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other information:

	₹
Stock as on 01.04.20X1(invoice price)	*2,20,000*
Goods sent during the year (invoice price)	*11,00,000*
Sales during the year	*12,00,000*
Expenses incurred at the branch	*45,000*

Ascertain

(i) the profit earned by the branch during the year.

(ii) branch stock reserve in respect of unrealized profit.

(*Source: Illustration 5, Study Material*)

Solution

(i) Calculation of profit earned by the branch In the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	***Amount***	***Particulars***	***Amount***
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		15,60,000

(ii) Stock reserve in respect of unrealised profit = ₹ 3,60,000 x (20/120) = ₹ 60,000

Working Note:

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	**₹**	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	
Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

Question 11

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	₹
Goods received from Head Office at invoice price	*6,00,000*
Returns to Head Office at invoice price	*12,000*
Stock at Cochin as on 1st Jan., 20X1	*60,000*
Sales in the year - Cash	*2,00,000*
Credit	*3,60,000*
Sundry Debtors at Cochin as on 1st Jan. 20X1	*72,000*
Cash received from Debtors	*3,20,000*

	₹
Discount allowed to Debtors	*6,000*
Bad debts in the year	*4,000*
Sales returns at Cochin Branch	*8,000*
Rent, Rates, Taxes at Branch	*18,000*
Salaries, Wages, Bonus at Branch	*60,000*
Office Expenses	*6,000*
Stock at Branch on 31st Dec. 20X1 at invoice price	*1,20,000*

Prepare Branch accounts in books of head office by Stock and debtors method.

(*Source: Illustration 6, Study Material*)

Solution

Books of Hindustan Industries, Mumbai Cochin Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	60,000	By Bank A/c – Cash Sales	2,00,000
To Branch Debtors A/c – Sales Return	8,000	By Branch Debtors A/c - Credit Sales	3,60,000
To Goods sent to Branch A/c	6,00,000	By Goods sent to Branch (Returns to H.O.)	12,000
To Branch Adjustment A/c (Excess of Selling Price over Invoice Price)	24,000	By Balance c/d - Closing stock	1,20,000
	6,92,000		6,92,000

Cochin Branch Stock Adjustment Account

	₹		₹
To Goods sent to Branch A/c (1/5 of ₹ 12,000) (on returns)	2,400	By Balance b/d (1/5 of ₹ 60,000)	12,000
To Branch P & L A/c (Profit on sale) – Bal fig	1,29,600	By Goods sent to Branch A/c (1/5 of ₹ 6,00,000)	1,20,000
To Balance c/d (1/5 of ₹ 1,20,000)	24,000	By Branch Stock	24,000
	1,56,000		1,56,000

Goods Sent to Branch Account

	₹		₹
To Cochin Branch Stock Adjustment A/c	1,20,000	By Cochin Branch Stock A/c	6,00,000
To Cochin Branch Stock A/c (Returns)	12,000	By Cochin Branch Stock Adj. A/c	2,400
To Purchases A/c	4,70,400		
	6,02,400		6,02,400

Branch Debtors Account

	₹		₹
To Balance b/d	72,000	By Bank	3,20,000
To Branch Stock A/c	3,60,000	By Branch P&L A/c Discount	6,000
		By Branch P&L A/c - Bad Debts	4,000
		By Branch Stock - Sales Returns	8,000
		By Balance c/d	94,000
	4,32,000		4,32,000

Branch Expenses Account

	₹		₹
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss A/c (Transfer)	84,000
To Bank A/c (Salaries & Wages)	60,000		
To Bank A/c (office exp.)	6,000		
	84,000		84,000

Branch Profit & Loss Account for the year ending 31st Dec. 20X1

	₹		₹
To Branch Expenses A/c	84,000	By Branch Stock Adj. A/c	1,29,600
To Branch Debtors A/c	6,000		
To Branch Debtors A/c	4,000		
To Net Profit transferred to Profit & Loss A/c	35,600		
	1,29,600		1,29,600

Question 12

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ ₹ 1,000 per tin and 15 tins of Ghee @ ₹ 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		Delhi	***Lucknow***
		₹	₹
Purchases	*Ghee*	*14,75,000*	-
	Oil	*29,32,000*	-
Direct expenses		*3,83,275*	-
Expenses paid by H.O.		-	*14,250*
Sales	*Ghee*	*18,46,350*	*3,42,750*
	Oil	*27,41,250*	*3,15,730*
Collection during the year (including Cash Sales)		-	*6,47,330*
Remittance by Branch to Head Office		-	*6,13,250*

	(Delhi)	
Balance as on:	*1-1-20X1*	*31-12-20X1*
Stock: Ghee	*1,50,000*	*3,12,500*
Oil	*3,50,000*	*4,17,250*
Debtors	*7,32,750*	-
Cash on Hand	*70,520*	*55,250*
Furniture & Fittings	*21,500*	*19,350*
Plant/Machinery	*3,07,250*	*7,73,500*

	(Lucknow)	
Balance as on:	*1-1-20X1*	*31-12-20X1*
Stock: Ghee	*17,000*	*13,250*
Oil	*27,000*	*44,750*
Debtors	*75,750*	?

	(Lucknow)	
Cash on Hand	*7,540*	*12,350*
Furniture & Fittings	*6,250*	*5,625*
Plant/Machinery	-	

Addition to Plant/Machinery on 1-1-20X1 ₹ 6,02,750.

Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (*already adjusted in the above figures*).

The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of ₹ 2,000 p.m. General expenses incurred by H.O. ₹ 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (*excluding branch transactions*).

(*Source: Illustration 7, Study Material*)

Solution

In the books of Arnold Lucknow Branch Account

		₹		₹
To	Balance b/d		By Bank (Remittance)	6,13,250
	-Opening Branch Assets		By Closing Branch Assets	
	Opening stock:		Closing stock:	
	Ghee	17,000	Ghee	13,250
	Oil	27,000	Oil	44,750
	Debtors	75,750	Debtors (W.N. 1)	86,900
	Cash on hand	7,540	Cash on hand (W.N. 2)	12,350
	Furniture & fittings	6,250	Furniture & fittings	5,625
To	Goods sent to Branch A/c			
	Ghee (15 x 1500 x 12)	2,70,000		
	Oil (25 x 1000 x 12)	3,00,000		
To	Bank (Expenses paid)	14,250		
To	Branch Manager commission			
	(₹ 58,335 × 1/11)	5,303		
To	Net Profit transferred			
	to General P & L A/c	53,032		
		7,76,125		7,76,125

Arnold

Trading and Profit and Loss account for the year ended 31st December, 20X1
(Excluding branch transactions)

			₹		₹
To	Opening Stock:			By Sales:	
	Ghee		1,50,000	Ghee	18,46,350
	Oil		3,50,000	Oil	27,41,250
To	Purchases:			By Closing Stock:	
	Ghee	14,75,000		Ghee	3,12,500
	Less: Goods sent			Oil	4,17,250
	to Branch	(2,70,000)	12,05,000		
	Oil	29,32,000			
	Less: Goods sent				
	to Branch	(3,00,000)	26,32,000		

	₹		₹
To Direct Expenses	3,83,275		
To Gross Profit c/d	5,97,075		
	53,17,350		53,17,350
To Manager's Salary	24,000	By Gross Profit b/d	5,97,075
To General Expenses	24,000	By Branch Profit transferred	53,032
To Depreciation:			
Furniture @10% 2,150			
Plant & Machinery @ 15% (W.N.3) 1,36,500	1,38,650		
To General Manager's Commission @ 10% (i.e., 4,63,457 × 1/11)	42,132		
To Net profit	4,21,325		
	6,50,107		6,50,107

Working Notes:

(1) Memorandum Branch Debtors Account

	₹		₹
To Balance b/d	75,750	By Cash Collections (including Cash Sales)	6,47,330
To Sales (including Cash Sales)		By Balance c/d	86,900
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		7,34,230

(2) Memorandum Branch Cash Account

	₹		₹
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp. (Balance fig.)	29,270
		By Balance c/d	12,350
	6,54,870		6,54,870

(3) Depreciation on Plant & Machinery

3,07,250 x 15% + 6,02,750 x 15% = ₹1,36,500

Question 13

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.20X2:

	₹
Stock at the outlet 1.4.20X1	*30,000*
Goods invoiced to the outlet during the year	*3,24,000*
Gross profit made by the outlet	*60,000*
Goods lost by fire	*?*
Expenses of the outlet for the year	*20,000*
Stock at the outlet 31.3.20X2	*36,000*

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.20X2:

(a) Outlet Stock Account.

(b) Outlet Profit & Loss Account.

(c) Stock Reserve Account.

(*Source: Illustration 8, Study Material*)

Solution

Outlet Stock Account

	₹		₹
To Balance b/d	30,000	By Sales (Working Note 1)	3,60,000
To Goods sent to outlet	3,24,000	By Goods lost by fire (b.f.)	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		4,14,000

Outlet Profit & Loss Account

	₹		₹
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (W.N.2)	18,000		
To Profit transferred	22,000		
	60,000		60,000

Stock Reserve Account

	₹		₹
To HO P & L A/c – Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res. required)	7,200	By HO P&L A/c (W.N. 3)	7,200
	13,200		13,200

Working Notes:

			₹
(1)	Wholesale Price	100+25	= 125
	Retail Price	125 + 20%	= 150
	Gross Profit at the outlet		
	Wholesale Price – Retail Price	(150 – 125)	25

$$\text{Retail sales value} = \frac{150}{25} = ₹3,60,000$$

(2) Goods lost by fire

Opening Stock + Goods Sent + Gross Profit – Sales – Closing Stock 30,000 + 3,24,000 + 60,000 – 3,60,000 – 36,000 = ₹ 18,000

(3) Stock Reserve

$$\text{Opening Stock} = 30,000 \times \frac{25}{125} = ₹\,6,000$$

$$\text{Closing Stock} = 30,000 \times \frac{25}{125} = ₹7,200$$

Question 14

Give Journal Entries in the books of an independent Branch to rectify or adjust the following:

(i) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(ii) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.

(iii) A remittance of ₹8,000 sent by the branch has not been received by H.O.

(iv) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(v) Remittance of funds by H.O to branch ₹ 5,000 not entered in branch books.

(*Source: Illustration 9, Study Material*)

Solution

Journal Entries in Books of Branch

	Particulars	***Dr. Amount ₹***	***Cr. Amount ₹***
(i)	Head office account Dr.	5,000	
	To Salaries account		5,000
	(Being the rectification of salary paid on behalf of H.O.)		
(ii)	Head office account Dr.	25,000	
	To Bank / Liability A/c		25,000
	(Being Asset purchased by branch but Asset account retained at head office books)		
(iii)	No Entry in Branch Books		
(iv)	Head office account Dr.	25,000	
	To Debtors account		25,000
	(Being the amount of branch debtors collected by H.O.)		
(v)	Bank A/c Dr.	5,000	
	To Head Office		5,000
	(Remittance of Funds by H.O. to Branch)		

Question 15

The following Trial balances as at 31st December, 20X1 have been extracted from the books of Major Ltd. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole are to be done.

	Head Office		***Branch***	
	Dr. ₹	***Cr. ₹***	***Dr. ₹***	***Cr. ₹***
Share Capital		*1,50,000*		
Fixed Assets	*75,125*		*18,901*	
Current Assets	*1,21,809*		*23,715*	(*Note 3*)
Current Liabilities		*34,567*		*9,721*
Stock Reserve, 1st Jan., 20X1 (Note 2)		*693*		
Revenue Account		*43,210*		*10,250*
Branch Account	*31,536*			
Head Office Account				*22,645*
	2,28,470	*2,28,470*	*42,616*	*42,616*

You are required to record the following in the appropriate ledger accounts in both sets of books.

Note:

1. *Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.*
2. *Relating to the Head Office goods held by the Branch on 1st January, 20X1.*
3. *Includes goods received from Head Office at invoice price ₹ 4,565.*
4. *Goods invoiced by Head Office to Branch at ₹ 3,641 were in transit at 31st December, 20X1, as was also a remittance of ₹ 3,500 from the Branch.*
5. *At 31st December, 20X1, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.*

The purchase price of lorry, ₹ 2,500, which reached the Branch on December 25th; a sum received on December 30, 20X1 from one of the Branch debtors, ₹ 750.

(*Source: Illustration 10, Study Material*)

Solution

H.O. Books

Branch Account

20X1		₹	20X1		₹
Dec. 31	To Balance b/d	31,536	Dec. 31	By Cash in transit	3,500
				By Balance c/d	28,036
		31,536			31,536

Cash in transit Account

20X1		₹	20X1		₹
Dec. 31	To Branch A/c	3,500	Dec. 31	By Balance c/d	3,500

Stock Reserve Account

20X1		₹	20X1		₹
Dec. 31	To Balance c/d	746	Jan. 1	By Balance b/d	693
	(4,565+3,641) x 10/110			By Revenue A/c (b.f.)	53
		746			746

Revenue Account

20X1		₹	20X1		₹
Dec. 31	To Stock Reserve	53	Dec. 31	By Balance b/d	43,210
	To Balance c/d	43,157			
		43,210			43,210

Branch Books

Head Office Account

20X1		₹	20X1		₹
Dec. 31	To Current Assets	750	Dec. 31	By Balance b/d	22,645
				By Goods in transit	3,641
	To Balance c/d	28,036		By Motor Vehicle	2,500
		28,786			28,786

Goods in Transit Account

20X1		₹	20X1		₹
Dec. 31	To Head Office	3,641	Dec. 31	By Balance c/d	3,641

Motor Vehicle Account

20X1		₹	20X1		₹
Dec. 31	To Head Office	2,500	Dec. 31	By Balance c/d	2,500

Sundry Current Assets A/c

20X1		₹	20X1		₹
Dec. 31	To Balance b/d	23,715	Dec. 31	By H.O. (Remittance by Debtor)	750
				By Balance c/d	22,965
		23,715			23,715

Question 16

KP manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

KP operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31st Dec., 20X1 in columnar form.

(a) A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.

(b) Balance Sheet as on 31st Dec., 20X1 for the entire business.

	H.O.		Branch	
	₹	₹	₹	₹
Raw materials purchased	*35,000*			
Direct wages	*1,08,500*			
Factory overheads	*39,000*			
Stock on 1-1-20X1				
Raw materials	*1,800*			
Finished goods	*13,000*		*9,200*	
Debtors	*37,000*			
Cash	*22,000*		*1,000*	
Administrative Salaries	*13,900*		*4,000*	
Salesmen Salaries	*22,500*		*6,200*	
Other administrative &				
selling overheads	*12,500*		*2,300*	
Inter-unit accounts	*5,000*			*2,000*
Capital		*50,000*		
Sundry Creditors		*13,000*		
Provision for unrealized profit in stock		*1,200*		
Sales		*2,00,000*		*65,200*
Goods sent to Branch		*46,000*		
Goods received from H.O.			*44,500*	
	3,10,200	*3,10,200*	*67,200*	*67,200*

Note:

(1) On 28th Dec., 20X1 the branch remitted ₹ 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also, on the same date, the H.O. dispatched goods to the branch invoiced at ₹ 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

(2) The stock of raw materials held at the H.O. on 31st Dec., 20X1 was valued at ₹ 2,300.

(3) You are advised that:

- *there were no stock losses incurred at the H.O. or at the branch.*
- *it is KP's practice to value finished goods stock at the H.O. at factory cost.*
- *there were no opening or closing stock of work-in-progress.*

(4) Branch employees are entitled to a bonus of ₹ 156 under a bilateral agreement.

(*Source: Illustration 11, Study Material*)

Solution

In the books of KP

Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

	H.O. ₹	***Branch*** ₹	***Total*** ₹		***H.O.*** ₹	***Branch*** ₹	***Total*** ₹
To Opening stock of finished goods	13,000	9,200	22,200	By Sales	2,00,000	65,200	2,65,200
To Material consumed (W.N.1)	34,500	-	34,500				
To Wages	1,08,500	-	1,08,500	By Goods Sent to Branch	46,000	-	-
To Factory Overheads	39,000	-	39,000				
To Goods from H.O.		46,000		By Closing stock including transit (W.N.2)	15,000	9,560 (Bal Fig)	24,560
To Gross Profit c/d (W.N.3)	66,000 (Bal Fig)	19,560	85,560				
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,760
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & selling Overheads	12,500	2,300	14,800				
To Stock Reserve (W.N.4)	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	17,053	6,904	23,957				
	66,000	19,560	85,560		66,000	19,560	85,560

Balance Sheet as on 31st Dec., 20X1

		₹	**H.O.** ₹	**Branch** ₹	**Total** ₹		**H.O.** ₹	**Branch** ₹	**Total** ₹
Capital			50,000	-	50,000	Fixed Assets	-	-	-
Profit:	H.O.	17,053				Current Assets:			
	Branch	<u>6,904</u>	23,957		23,957	Raw material	2,300		2,300
Trade Creditors			13,000		13,000	Finished Goods	15,000	9,560	23,313*
Bonus Payable				156	156	(Less Stock Res.)			
H.O. Account*				10,404		Debtors	37,000	-	37,000
Stock Reserve (W.N.4)			1,247			Cash (including transit item)	23,500	1,000	24,500
						Branch A/c	10,404**		
			88,204	10,560	87,113		88,204	10,560	87,113

*9,560 × 100/115 *i.e.,* (8,313 + 15,000) = ₹ 23,313 or (15,000 + 9,560) – 1,247 (Stock reserve)

** (5,000 + 6,904) – 1500 = ₹ 10,404.

Working Notes:

(1) Material consumed

Opening raw material + Raw Material Purchased – Closing raw material

= 1,800 + 35,000 - 2,300 = 34,500

(2) Closing stock at head office

(a) Calculation of total factor cost = Material consumed + Wages + Factory overhead

= 34,500 + 1,08,500 + 39,000 = 1,82,000

(b) Cost (factory cost) of goods sold = Sales – Gross profit

= 2,00,000 – 2,00,000 x 30% = 1,40,000

(c) Stock transferred to branch = 46,000 x 100/115 = 40,000

(d) Closing stock = 13,000 (Opening Stock) + 1,82,000 – 1,40,000 – 40,000 = 15,000

(3) Gross profit of Branch = Sales x Gross profit ratio = 65,200 x 30% = 19,560

(4) Closing stock reserve = 9,560 x 15/115 = 1,247

Charge to profit and loss = 1,247 – 1,200 (existing) = 47

Question 17

AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but the cost thereof is not recorded in the Head Office books.

On 31st March, 20X1 the Branch Balance Sheet was as follows:

Liabilities	**₹**	***Assets***	**₹**
Creditors Balance	*40,000*	*Debtors Balance*	*2,00,000*
Head Office	*1,68,000*	*Building Extension A/c closed by transfer to H.O. A/c*	*—*
		Cash at Bank	*8,000*
	2,08,000		*2,08,000*

During the six months ending on 30-9-20X1, the following transactions took place at Delhi.

	₹		₹
Sales	*2,40,000*	*Manager's Salary*	*4,800*
Purchases	*48,000*	*Collections from Debtors*	*1,60,000*
Wages paid	*20,000*	*Discounts allowed*	*8,000*
Salaries (inclusive of advance		*Discount earned*	*1,200*
of ₹ 2,000)	*6,400*	*Cash paid to Creditors*	*60,000*
General Expenses	*1,600*	*Building Account (further payment)*	*4,000*
Fire Insurance (paid for one year)	*3,200*	*Cash in Hand*	*1,600*
Remittance to H.O.	*38,400*	*Cash at Bank*	*28,000*

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-20X1. Also give journal entries in the Delhi books.

(*Source: Illustration 12, Study Material*)

Solution

Journal Entries

20X1 30 Sept.		**Dr. ₹**	**Cr. ₹**
Salary Advance A/c	Dr.	2,000	
To Salaries A/c			2,000
(The amount paid as advance adjusted by debit to Salary Advance Account)			
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600	
To Fire Insurance A/c			1,600

20X1 30 Sept.		Dr. ₹	Cr. ₹
(Six months premium transferred to the Prepaid Insurance A/c)			
Head Office Account	Dr.	88,400	
To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 – 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)			
Sales Accounts	Dr.	2,40,000	
Discount Earned A/c	Dr.	1,200	
To Head Office A/c			2,41,200
[Revenue accounts (Cr.) transferred to H.O.]			
Head Office Account	Dr.	4,000	
To Building Account			4,000
(Transfer of amounts spent on building extension to H.O. A/c)			

Head Office Account

20X1		₹	20X1		₹
Sep. 30	To Cash-remittance	38,400	April 1	By Balance b/d	1,68,000
	To Sundries (Revenue A/cs)	88,400	Sep. 30	By Sundries (Revenue A/cs)	2,41,200
	To Building A/c	4,000			
	To Balanced c/d	2,78,400			
		4,09,200			4,09,200

Balance Sheet of Delhi Branch as on Sept. 30, 20X1

Liabilities	₹	*Assets*	₹
Creditors Balances	26,800	Debtors Balances	2,72,000
Head Office Account	2,78,400	Salary Advance	2,000
		Prepaid Insurance	1,600
		Building Extension A/c transferred to H.O.	—
		Cash in Hand	1,600
		Cash at Bank	28,000
	3,05,200		3,05,200

Cash and Bank Account

	₹			₹
To Balance b/d	8,000	By Wages		20,000
To Collection from Debtors	1,60,000	By Salaries		6,400
		By Insurance		3,200
		By General Exp.		1,600
		By H.O. A/c		38,400
		By Manager's Salary		4,800
		By Creditors		60,000
		By Building A/c		4,000
		By Balance c/d		
		By Cash in Hand	1,600	
		By Cash at Bank	28,000	29,600
	1,68,000			1,68,000

Debtors Account

	₹		₹
To Balance b/d	2,00,000	By Cash Collection	1,60,000
To Sales	2,40,000	By Discount (allowed)	8,000
		By Balance c/d	2,72,000
	4,40,000		4,40,000
To Balance b/d	2,72,000		

Creditors Account

	₹		₹
To Cash	60,000	By Balance b/d	40,000
To Discount (earned)	1,200	By Purchases	48,000
To Balance c/d	26,800		
	88,000		88,000
		By Balance b/d	26,800

Question 18

Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 20X1.

Head Office Trial Balance

	₹	₹
Share Capital (Authorised: 10,000 Equity Shares of ₹ 100 each):		
Issued: 8,000 Equity Shares		*8,00,000*
Profit & Loss Account - 1-1-20X1		*25,310*
General Reserve		*1,00,000*
Fixed Assets	*5,30,000*	
Stock	*2,22,470*	
Debtors and Creditors	*50,500*	*21,900*
Profit for 20X1		*52,200*
Cash Balance	*62,730*	
Branch Current Account	*1,33,710*	
	9,99,410	*9,99,410*

Branch Trial Balance

	₹	₹
Fixed Assets	*95,000*	
Profit for 20X1		*31,700*
Stock	*50,460*	
Debtors and Creditors	*19,100*	*10,400*
Cash Balance	*6,550*	
Head Office Current Account		*1,29,010*
	1,71,110	*1,71,110*

The difference between the balances of the Current Account in the two sets of books is accounted for as follows:

(a) Cash remitted by the Branch on 31st December, 20X1, but received by the Head Office on 1st January 20X2 - ₹ 3,000.

(b) Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (*not covered by insurance*) *- ₹ 1,700.*

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal.

(*Source: Illustration 13, Study Material*)

Solution

The Branch Current Account in the Head Office Books and Head Office Current Account in the Branch Books do not show the same balances. Therefore, in order to reconcile them, the following journal entries will be passed in the Head Office books:

Journal Entries

			Dr.	Cr.
20X1			₹	₹
Dec., 31	Cash in Transit A/c	Dr.	3,000	
	To Branch Current A/c			3,000
	(Cash sent by the Branch on 31st Dec., 20X1 but received at H.O. on 1st Jan., 20X2)			
	Loss by theft A/c	Dr.	1,700	
	To Branch Current A/c			1,700
	(Stock lost in transit from H.O. to Branch)			

In order to incorporate, in the H.O. books, the given Branch trial balance which has been drawn up after preparing the Branch Profit & Loss Account, the following journal entries will be necessary:

Journal Entries

20X1			₹	₹
Dec. 31	Branch Current Account	Dr.	31,700	
	To Profit & Loss Account			31,700
	(Branch Profit for the year)			
	Branch Fixed Assets	Dr.	95,000	
	Branch Stock	Dr.	50,460	
	Branch Debtors	Dr.	19,100	
	Branch Cash	Dr.	6,550	
	To Branch Current Account			1,71,110
	(Branch assets brought into H.O. Books)			
	Branch Current A/c	Dr.	10,400	
	To Branch Creditors			10,400
	(Branch creditors brought into H.O. Books)			

Branch Current Account

	₹		₹
To Balance b/d	1,33,710	By Cash in transit	3,000
To Profit & Loss A/c	31,700	By Loss of theft	1,700
To Branch Creditors	10,400	By Sundry Branch Assets	1,71,110
	1,75,810		1,75,810

Profit and Loss Account for 20X1

	₹		₹
To Loss by Theft	1,700	By Balance b/d	25,310
To Balance c/d	1,07,510	By Year's Profit: H.O.	52,200
		Branch	31,700
	1,09,210		1,09,210

Question 19

M/s. Ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit & Loss Account and Branch fixed Assets Account in the Head Office Books.

Trial Balance of the Delhi Branch as on 31-12-20X1

Debit	₹	*Credit*	₹
Head office opening balance on 1-1-20X1	*15,000*	*Sales*	*1,00,000*
Goods from H.O.	*50,000*	*Goods to H.O.*	*3,000*
Purchases	*20,000*	*Head Office Current A/c*	*15,000*
Opening Stock		*Sundry Creditors*	*3,000*
(*H.O. supplies goods at invoice prices*)	*4,000*		
Opening Stock of other goods	*500*		
Salaries	*7,000*		
Rent	*3,000*		
Office expenditure	*2,000*		
Cash on Hand	*500*		
Cash at Bank	*4,000*		
Sundry Debtors	*15,000*		
	1,21,000		*1,21,000*

The Branch balances as on 1st January, 20X1, were as under: Furniture ₹ 5,000; Sundry Debtors ₹ 9,500; Cash ₹ 1,000, Creditors ₹ 30,000. The closing stock at branch of the head office goods at invoice price is ₹ 3,000 and that of purchased goods at cost is ₹ 1,000. Depreciation is to be provided at 10 per cent on branch assets.

(*Source: Illustration 14, Study Material*)

Solution

Delhi Branch Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

			₹				₹
To	Opening Stock:			By	Sales		1,00,000
	Head office Goods (4,000 x 80%)	3,200		By	Goods from Branch		3,000
				By	Closing Stock:		
	Others	500	3,700		Head Office goods (3,000 x 80%)	2,400	
To	Goods to Branch (50,000 x 80%)		40,000		Others	1,000	3,400
To	Purchases		20,000				
To	Gross Profit c/d		42,700				
			1,06,400				1,06,400
To	Salaries		7,000	By	Gross profit b/d		42,700
To	Rent		3,000				
To	Office Expenses		2,000				
To	Dep. on furniture @ 10%		500				
To	Net profit		30,200				
			42,700				42,700

Branch (Fixed) Assets Account (In Head Office Books)

20X1			₹	20X1			₹
Jan. 1	To	Balance b/d	5,000	Dec. 31	By	Delhi Branch A/c (Depreciation)	500
					By	Balance c/d	4,500
			5,000				5,000
20X2 Jan. 1	To	Balance b/d	4,500				

Note: Furniture A/c is maintained in Head office books; it is not a part of either opening or closing balance.

Question 20

On 31st December, 20X2 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in ₹	*Amount in ₹*
Stock on 1st Jan., 20X2	*2,34,000*	
Purchases and Sales	*15,62,500*	*23,43,750*
Debtors and Creditors	*7,65,000*	*5,10,000*
Bills Receivable and Payable	*2,04,000*	*1,78,500*
Salaries and Wages	*1,00,000*	*-*
Rent, Rates and Taxes	*1,06,250*	*-*
Furniture	*91,000*	*-*
Bank A/c	*5,68,650*	
New York Account	*-*	*5,99,150*
	36,31,400	*36,31,400*

Stock on 31st December, 20X2 was ₹ 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 20X2 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange for 1 $ on 31st December, 20X1 was ₹ 52 and on 31st December, 20X2 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch assuming integral foreign operation.

(*Source: Illustration 15, Study Material*)

Solution

In the books of English Firm (Head Office in New York)

Chennai Branch Profit and Loss Account for the year ended 31st December, 20X2

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Chennai Branch as on 31st December, 20X2

Liabilities	$	$	Assets	$
Head Office A/c	13,400		Furniture	1,750
Add: Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Calculation of Exchange Translation Loss

Chennai Branch Trial Balance (converted in $) as on 31st December, 20X2

	Dr. ₹	*Cr.* ₹	*Conversion Rate*	*Dr.* ($)	*Cr.* ($)
Stock on 1st Jan., 20X2	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

Question 21

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd.

At the end of 31st March, 20X2, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

	Bombay (₹ thousands)		**Sydney (Austr dollars thousands)**	
	Debit	*Credit*	*Debit*	*Credit*
Share Capital	–	*2,000*	–	–
Reserves & Surplus	–	*1,000*	–	–
Land	*500*	–	–	–
Buildings (Cost)	*1,000*	–	–	–
Buildings Dep. Reserve	–	*200*	–	–
Plant & Machinery (Cost)	*2,500*	–	*200*	–
Plant & Machinery Dep. Reserve	–	*600*	–	*130*
Debtors/Creditors	*280*	*200*	*60*	*30*
Stock (1.4.20X1)	*100*	–	*20*	–
Branch Stock Reserve	–	*4*	–	–
Cash & Bank Balances	*10*	–	*10*	–
Purchases/Sales	*240*	*520*	*20*	*123*
Goods sent to Branch	–	*100*	*5*	–
Managing Director's salary	*30*	–	–	–
Wages & Salaries	*75*	–	*45*	–
Rent	–	–	*12*	–
Office Expenses	*25*	–	*18*	–
Commission Receipts	–	*256*	–	*100*
Branch / H.O. Current A/c	*120*	–	–	*7*
	4,880	*4,880*	*390*	*390*

The following information is also available:

(1) Stock as at 31.3.20X2:

Bombay ₹ 1,50,000

Sydney A $ 3,125

You are required to convert the Sydney Branch Trial Balance into rupees; (use the following rates of exchange :

Opening rate	*A $ = ₹ 20*
Closing rate	*A $ = ₹ 24*
Average rate	*A $ = ₹ 22*
For Fixed Assets	*A $ = ₹ 18*

(Source: Illustration 16, Study Material)

Solution

Sydney Branch Trial Balance (in Rupees)
As on 31st March, 20X2

(₹ '000)

Conversion	***Rate per A$***	***Dr.***	***Cr.***
Plant & Machinery (cost)	₹ 18	36,00	
Plant & Machinery Dep. Reserve	₹ 18		23,40
Debtors/Creditors	₹ 24	14,40	7,20
Stock (1.4.20X1)	₹ 20	4,00	
Cash & Bank Balances	₹ 24	2,40	

Conversion	**Rate per A$**	**Dr.**	**Cr.**
Purchase/Sales	₹ 22	4,40	27,06
Goods received from H.O.	–	1,00	
Wages & Salaries	₹ 22	9,90	
Rent	₹ 22	2,64	
Office expenses	₹ 22	3,96	
Commission Receipts	₹ 22		22,00
H.O. Current A/c			1,20
		78,70	80,86
Exchange loss (balancing figure)		2,16	
		80,86	80,86

Question 22

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co.

Mumbai branch furnishes you with its trial balance as on 31st March, 20X2 and the additional information given thereafter:

	Dr.	**Cr.**
	Rupees in thousands	
Stock on 1st April, 20X1	*300*	*–*
Purchases and sales	*800*	*1,200*
Sundry Debtors and creditors	*400*	*300*
Bills of exchange	*120*	*240*
Wages and salaries	*560*	*–*
Rent, rates and taxes	*360*	*–*
Sundry charges	*160*	*–*
Computers	*240*	
Bank balance	*420*	*–*
New York office a/c	*–*	*1,620*
	3,360	*3,360*

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Mumbai branch was worth ₹ 4,20,000 on 31st March, 20X2.

(c) The rates of exchange may be taken as follows:

- *on 1.4.20X1 @ ₹ 40 per US $*
- *on 31.3.20X2 @ ₹ 42 per US $*
- *average exchange rate for the year @ ₹ 41 per US $*
- *conversion in $ shall be made upto two decimal accuracy.*

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US $ 39609.18 on 31.3.20X2 in New York books and there were no items pending reconciliation.

(*Source: Illustration 17, Study Material*)

Solution

M/s Carlin

Mumbai Branch Trial Balance in (US $) as on 31st March, 20X2

	Conversion	***Dr.***	***Cr.***
	rate per US $ (₹)	US $	US $
Stock on 1.4.X1	40	7,500.00	–
Purchases and sales	41	19,512.20	29,268.29
Sundry debtors and creditors	42	9,523.81	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages and salaries	41	13,658.54	–
Rent, rates and taxes	41	8,780.49	–
Sundry charges	41	3,902.44	–
Computers	–	6,000.00	–
Bank balance	42	10,000.00	–
New York office A/c	–	–	39,609.18
		81,734.62	81,734.62

Trading and Profit & Loss Account for the year ended 31st March, 20X2

	US $		***US $***
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing stock (4,20,000/42)	10,000.00
To Wages and salaries	13,658.54	By Gross Loss c/d	1,402.45
	40,670.74		40,670.74
To Gross Loss b/d	1,402.45	By Net Loss	17,685.38
To Rent, rates and taxes	8,780.49		
To Sundry charges	3,902.44		
To Depreciation on computers (US $ 6,000 × 0.6)	3,600.00		
	17,685.38		17,685.38

Balance Sheet of Mumbai Branch as on 31st March, 20X2

Liabilities		***US $***	***Assets***	***US $***	***US $***
New York Office A/c	39,609.18		Computers	6,000.00	
Less: Net Loss	(17,685.38)	21,923.80	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		7,142.86	Closing stock		10,000.00
Bills payable		5,714.29	Sundry debtors		9,523.81
			Bank balance		10,000.00
			Bills receivable		2,857.14
		34,780.95			34,780.95

Question 23

Why goods are marked on invoice price by the head office while sending goods to the branch?

(*Source: Question 6, Study Material*)

Answer

Goods are marked on invoice price to achieve the following objectives:

(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

Question 24

Differentiate Branch Accounts with Departmental accounts.

(*Source: Question 7, Study Material*)

Answer

Branch accounts may be maintained either at branch or at head office and no allocation problem arises since the expenses in respect of each branch can be identified However, Departmental accounts are maintained at one place only.

Common expenses are distributed among the departments concerned on some equitable basis considered suitable in the case.

Question 25

Goods worth ₹ 50,000 sent by head office but the branch has received till the closing date goods for worth ₹ 40,000 only. Give journal entry in the books of H.O. and branch for goods in transit.

(*Source: Question 8, Study Material*)

Answer

Journal entry in the books of Head Office No entry

Journal entry in the books of Branch

		₹	₹
Goods-in-transit account	Dr.	10,000	
To Head Office account			10,000
(Being goods sent by head office is still in transit)			

Question 26

Alphs having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.20X1, it was found that the goods dispatched by head office for ₹ 2,00,000 was received by the branch only to the extent of ₹ 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

(*Source: Question 9, Study Material*)

Answer

Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000	
To Head office A/c			50,000

[Being Goods sent by Head office is still in transit on the closing date]

Question 27

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter-branch transactions assuming that only head office maintains different branch accounts in its books.

A. Delhi branch:

(1) Received goods from Mumbai – ₹ 35,000 and ₹ 15,000 from Kolkata.

(2) Sent goods to Chennai – ₹ 25,000, Kolkata – ₹ 20,000.

(3) Bill Receivable received – ₹ 20,000 from Chennai.

(4) Acceptances sent to Mumbai – ₹ 25,000, Kolkata – ₹ 10,000.

B. Mumbai Branch (apart from the above) :

(5) Received goods from Kolkata – ₹ 15,000, Delhi – ₹ 20,000.

(6) Cash sent to Delhi – ₹ 15,000, Kolkata – ₹ 7,000.

C. Chennai Branch (apart from the above) :

(7) Received goods from Kolkata – ₹ 30,000.

(8) Acceptances and Cash sent to Kolkata – ₹ 20,000 and ₹10,000 respectively.

D. Kolkata Branch (apart from the above) :

(9) Sent goods to Chennai – ₹ 35,000.

(10) Paid cash to Chennai – ₹15,000.

(11) Acceptances sent to Chennai – ₹15,000.

(*Source: Question 10, Study Material*)

Answer

(a) Journal entry in the books of Head Office

Date	***Particulars***	***Dr.***	***Cr.***
		₹	**₹**
30th April, 20X1		Dr.	
	Mumbai Branch Account	3,000	
	Chennai Branch Account Dr.	70,000	
	To Delhi Branch Account		15,000
	To Kolkata Branch Account		58,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 20X1)		

Working Note:

Inter – Branch transactions

		Delhi	***Mumbai***	***Chennai***	***Kolkata***
		₹	**₹**	**₹**	**₹**
A.	Delhi Branch				
(1)	Received goods	50,000 (Dr.)	35,000 (Cr.)		15,000 (Cr.)
(2)	Sent goods	45,000 (Cr.)		25,000 (Dr.)	20,000 (Dr.)
(3)	Received Bills receivable	20,000 (Dr.)		20,000 (Cr.)	
(4)	Sent acceptance	35,000 (Cr.)	25,000 (Dr.)		10,000 (Dr.)
B.	Mumbai Branch				
(5)	Received goods	20,000 (Cr.)	35,000 (Dr.)		15,000 (Cr.)
(6)	Sent cash	15,000 (Dr.)	22,000 (Cr.)		7,000 (Dr.)
C.	Chennai Branch				
(7)	Received goods			30,000 (Dr.)	30,000 (Cr.)
(8)	Sent cash and acceptances			30,000 (Cr.)	30,000 (Dr.)
D.	Kolkata Branch				
(9)	Sent goods			35,000 (Dr.)	35,000 (Cr.)
(10)	Sent cash			15,000 (Dr.)	15,000 (Cr.)
(11)	Sent acceptances			15,000 (Dr.)	15,000 (Cr.)
		15,000 (Cr.)	3,000 (Dr.)	70,000 (Dr.)	58,000 (Cr.)

Question 28

Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

(*Source: Question 11, Study Material*)

Answer

Books of Branch A Journal Entries

	Particulars		***Dr.* Amount ₹**	***Cr.* Amount ₹**
(i)	Expenses account	Dr.	3,500	
	To Head office account			3,500
	(Being the allocated expenditure by the head office recorded in branch books)			
(ii)	Depreciation account	Dr.	1,500	
	To Head office account			1,500
	(Being the depreciation provided)			
(iii)	Head office account	Dr.	2,000	
	To Salaries account			2,000
	(Being the rectification of salary paid on behalf of H.O.)			
(iv)	Head office account	Dr.	10,000	
	To Debtors account			10,000
	(Being the adjustment of collection from branch debtors)			
(v)	No entry in branch books			
(vi)	Head Office account	Dr.	3,000	
	To Cash account			3,000
	(Being the expenditure on account of Branch B, recorded in books)			

Note: Entry (vi) Inter branch transactions are routed through Head Office.

Question 29

Widespread invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 10,000 necessary for meeting immediate requirements of cash. On 31st March, 20X1 the assets at the branch were as follows:

	₹ ('000)
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 20X2 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 72,000. Other transactions at the branch during the year were as follows:

	(₹ '000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 20X2 the branch purchased new furniture for ₹ 1 lakh for which payment was made by head office through a cheque.

On 31st March, 20X2 branch expenses amounting to ₹ 6,000 were outstanding and cash in hand was again ₹ 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 20X2.

(*Source: Question 12, Study Material*)

Answer

In the Head Office Books Branch Account
for the year ended 31st March, 20X2

	₹ '000		***₹'000***
To Balance b/d		By Balance b/d	
Cash in hand	10	Stockreserve $₹1,080 \times \frac{1}{6}$	180
Trade debtors	384		
Stock	1,080	By Goods sent to branch A/c (Returns to H.O.)	72
Furniture and fittings	500		
To Goods sent to branch A/c	13,200	By Goods sent to branch A/c (Loading on net goods sent to branch – $\left(13{,}128 \times \frac{1}{6}\right)$	2,188
To Bank A/c (Payment for furniture)	100		
To Balance c/d Stock reserve $\left(1{,}470 \times \frac{1}{6}\right)$	245		
		By Bank A/c (Remittance from branch to H.O.) (W.N.5)	11,700
To Net profit transferred to General P/L account	1,096	By Balance c/d	
		Cash in hand	10
To Balance c/d-Outstanding expenses	6	Trade debtors (W.N.3)	485
		Stock (W.N.1)	1,470
		Furniture and fittings (W.N.4)	516
	16,621		16,621

Working Notes:

1. Invoice price and cost

Let cost be	100
So, invoice price	120
Loading	20
Loading: Invoice price = 20 : 120 = 1 : 6	

2. Memorandum Branch Stock Account

	₹ '000		**₹ '000**
To Balance b/d	1,080	By Goods sent to branch	72
To Goods sent to branch	13,200	By Branch Cash	9,700
To Branch debtors	102	By Branch debtors	3,140
		By Balance c/d	1,470
	14,382		14,382

3. Memorandum Branch Debtors Account

	₹ '000		**₹ '000**
To Balance b/d	384	By Branch cash	2,842
To Branch stock	3,140	By Branch expenses discount	58
		By Branch stock (Returns)	102
		By Branch expenses	
		(Bad debts)	37
		By Balance b/d	485
	3,524		3,524

4. Memorandum Branch Furniture and Fittings Account

	₹ '000		**₹ '000**
To Balance b/d	500	By Depreciation [(500x16%) + (100x16%x3/12)]	84
To Bank	100	By Balance c/d	516
	600		600

Note: Since the new furniture was purchased on 1st Jan 20X2 depreciation will be for 3 months.

5. Memorandum Branch Cash Account

	₹ '000		**₹ '000**
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O. (b.f)	11,700
To Branch debtors	2,842	By Balance b/d	10
	12,552		12,552

Question 30

On 31st March, 20X2 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow :

Credit Balances	**₹ in lacs**
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 20X1	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448

Credit Balances	₹ in lacs
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 20X2 was valued at ₹ 62 lacs. On 29th March, 20X2 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 20X2. Hence, the figure of goods received from Head Office does not include these goods. Also, the head office has charged the branch ₹ 1 lac for centralized services for which the branch has not passed the entry. You are required to:

(i) Pass Journal Entries in the books of the Branch to make the necessary adjustments

(ii) Prepare Final Accounts of the Branch including Balance Sheet, and

(iii) Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance.

(*Source: Question 13, Study Material*)

Answer

(i) **Books of Branch**

Journal Entries

			(₹ *in lacs*)
		Dr.	***Cr.***
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 20X2)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and Profit & Loss Account of the Branch for the year ended 31st March, 20X2

	₹ *in lacs*		₹ *in lacs*
To Opening Stock	60	By Sales	360
To Goods received from		By Closing Stock including transit	72
Head Office 288 +10			
Less: Returns (5)	293		
To Carriage Inwards	7		
To Gross Profit c/d	72		
	432		432
To Salaries	25	By Gross Profit b/d	72
To Depreciation on Furniture	2		
To Rent	10		
To Advertising	6		
To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses (centralised services)	1		
To Net Profit Transferred to Head Office A/c	24		
	72		72

Balance Sheet as on 31st March, 20X2

Liabilities	***₹ in lacs***		***Assets***	***₹ in lacs***	
Head Office	80		Furniture & Equipment	20	
Add: Goods in transit	10		*Less:* Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24		Goods in Transit		10
		115	Debtors		20
Outstanding Expenses		3	Cash at bank and in hand		8
		118			118

(iii)

Books of Head Office

Journal Entries

		₹ *Dr.*	₹ *Dr.*
Branch Trading Account	Dr.	365	
To Branch Account			365
(The total of the following items in branch trial balance debited to branch trading account:			
₹ in lacs			
Opening Stock 60			
Goods received from Head Office 288			
Goods purchased but not received 10			
Carriage Inwards 7)			
Branch Account	Dr.	437	
To Branch Trading Account			437
(Total sales, closing stock and goods returned to Head Office credited to branch trading account, individual amount being as follows:			
₹ in lacs			
Sales 360			
Closing Stock 62			
Goods in transit 10			
Goods returned to Head Office 5)			
Branch Trading Account	Dr.	72	
To Branch Profit and Loss Account			72
(Gross profit earned by branch credited to Branch Profit and Loss Account)			
Branch Profit and Loss Account	Dr.	48	
To Branch Account			48
(Total of the following branch expenses debited to Branch Profit & Loss Account:			
₹ in lacs			
Salaries 25			
Rent 10			
Advertising 6			

		₹ Dr.	₹ Dr.
Telephone, Postage & Stationery 3			
Sundry Office Expenses 1			
Head Office Expenses 1			
Depreciation on furniture 2)			
Branch Profit & Loss Account	Dr.	24	
To Profit and Loss Account			24
(Net profit at branch credited to general Profit & Loss A/c)			
Branch Furniture & Equipment	Dr.	18	
Branch Stock	Dr.	62	
Branch Debtors	Dr.	20	
Branch Cash at Bank and in Hand	Dr.	8	
Goods in Transit	Dr.	10	
To Branch			118
(Incorporation of different assets at the branch in H.O. books)			
Branch	Dr.	3	
To Branch Outstanding Expenses			3
(Incorporation of Branch Outstanding Expenses in H.O. books)			

Question 31

M/s Marena, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit under Stock and Debtors Method'.

Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	₹
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1st January, 20X1	4,50,000
Sales during the year - Cash	15,00,000
- Credit	27,00,000
Sundry Debtors at Bangalore as on 1st January, 20X1	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31st December, 20X1 at invoice price	9,00,000

(*Source: Question 14, Study Material*)

Answer

Bangalore Branch Stock Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d Goods sent to branch A/c	4,50,000 45,00,000	By Goods sent to branch A/c (Returns)	90,000
		By Bank A/c (Cash sales)	15,00,000
To Branch debtors A/c (Returns)	60,000	By Branch debtors A/c (credit sales)	27,00,000
To Branch adjustment A/c (Surplus over invoice price)*	1,80,000	By Balance c/d	9,00,000
	51,90,000		51,90,000

**Alternatively, this may directly be transferred to Branch P&L A/c without routing it through Branch Adjustment Account.*

Bangalore Branch Adjustment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock reserve - 20% of ₹ 9,00,000 (closing stock)	1,80,000	By Stock reserve - 20% of ₹ 4,50,000 (Opening stock)	90,000
To Branch profit & loss A/c (Gross profit)	9,72,000	By Goods sent to branch A/c – 20% of ₹ 44,10,000 (45,00,000 – 90,000)	8,82,000
		By Branch stock A/c	1,80,000
	11,52,000		11,52,000

Branch Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch expenses A/c	6,30,000	By Branch adjustment A/c (Gross Profit)	9,72,000
To Branch debtors A/c (Discount)	45,000		
To Branch Debtors A/c (Bad debts)	30,000		
To Net profit (transferred to Profit & Loss A/c)	2,67,000		
	9,72,000		9,72,000

Branch Expenses Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c (Rent, rates & taxes)	1,35,000	By Branch profit and loss A/c (Transfer)	6,30,000
To Bank A/c (Salaries, wages & bonus)	4,50,000		
To Bank A/c (Office expenses)	45,000		
	6,30,000		6,30,000

Branch Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	5,40,000	By Bank A/c	24,00,000
To Branch stock A/c	27,00,000	By Branch profit and loss A/c (Bad debts and discount)	75,000
		By Branch stock A/c (Sales returns)	60,000
		By Balance c/d (bal. fig.)	7,05,000
	32,40,000		32,40,000

Goods sent to Branch Account

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
To Branch stock A/c	90,000	By Branch stock A/c	45,00,000
To Branch adjustment A/c	8,82,000		
To Purchases A/c	35,28,000		
	45,00,000		45,00,000

Question 32

Beta, having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 20X1:

	Head Office (₹)	Branch (₹)
Opening stock	2,25,000	
Purchases	25,50,000	
Goods sent to branch (Cost to H.0. plus 80%)	9,54,000	
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 20X1.

(*Source: Question 15, Study Material*)

Answer

Trading and Profit and Loss A/c For the year ended 31st March 20X1

	Head office ₹	Branch ₹		Head office ₹	Branch ₹
To Opening stock	2,25,000	-	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	-	By Goods sent to branch	9,54,000	_
To Goods received from head office	-	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	16,60,000	95,000			
	44,35,000	10,49,000		44,35,000	10,49,000
To Office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To Selling expenses	72,000	6,300			
To Staff salaries	65,000	12,000			
To Branch Stock Reserve (W.N.3)	44,000	_			
To Net Profit	13,89,000	68,200			
	16,60,000	95,000		16,60,000	95,000

Working Notes:

(1)	Calculation of closing stock of head office:	₹
	Opening Stock of head office	2,25,000
	Goods purchased by head office	25,50,000
		27,75,000
	Less: Cost of goods sold [37,35,000 x 100/180]	(20,75,000)
		7,00,000
(2)	Calculation of closing stock of branch:	₹
	Goods received from head office [At invoice value]	9,54,000
	Less: Invoice value of goods sold [9,50,000 x 180/200]	(8,55,000)
		99,000
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock ₹ 99,000	
	Profit included 80% of cost	
	Hence, unrealized profit would be = ₹ 99,000 x 80/180	₹ 44,000

Question 33

Pass necessary Journal entries in the books of an independent Branch of a business entity to rectify or adjust the following:

(i) Income of ₹ 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.

(ii) Branch paid ₹3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(iii) Branch incurred travelling expenses of ₹5,000 on behalf of other Branches, this was not recorded in the books of Branch.

(iv) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(v) Head Office allocates ₹75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.

(vi) Head Office collected ₹30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now, not recorded till now.

(vii) Goods dispatched by the Head office amounting to ₹10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(*Source: Question 16, Study Material*)

Answer

Books of Branch Journal Entries

			Amount in ₹
Sr. No	**Particulars**	**Dr.**	**Cr.**
(i)	Head Office Account Dr.	2,800	
	To Income Account		2,800
	(Being the income allocated by the Head office not recorded earlier, now recorded)		
(ii)	Head Office Account Dr.	3,000	
	To Salaries Account		3,000
	(Being rectification of salary paid on behalf of Head Office)		
(iii)	Head Office Account Dr.	5,000	
	To Cash Account		5,000
	(Being expenditure incurred on account of other branch, now recorded in books)		

Sr. No	Particulars		Dr.	Cr.
				Amount in ₹
(iv)	No entry in Branch Books is required.			
(v)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(vi)	Head Office Account	Dr.	30,000	
	To Debtors Account			30,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(vii)	Goods -in- transit Account	Dr.	10,000	
	To Head Office Account			10,000
	(Being goods sent by Head Office still in-transit)			

Question 34

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 20X1:

	$	$
Head office A/c	_	22,800
Sales	_	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	_
Cash at bank	1,200	_
Stock, 1 January, 20X1	11,200	_
Goods from H.O.	64,000	_
Expenses	5,000	_
	1,10,200	1,10,200

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

		₹			₹
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	29,26,000	By	Balance c/d	8,60,000
		37,36,000			37,36,000

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired in past, when $ 1.00 = ₹ 40.

Rates of exchange were:

1st January, 20X1	$ 1.00	=	₹ 46
31st December, 20X1	$ 1.00	=	₹48
Average	$ 1.00	=	₹ 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

(i) Prepare the Branch Trading & Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

(*Source: Question 17, Study Material*)

Answer

(i) **In the Books of Head Office**

Branch Trading and Profit & Loss A/c (in Dollars) for the year ended 31st December, 20X1

Particulars	***$***	***Particulars***	***$***
To Opening stock	11,200	By Sales	84,000
To Goods from H.O.	64,000	By Closing stock (W.N.2)	8,000
To Gross profit c/d	16,800		
	92,000		92,000
To Expenses	5,000	By Gross profit b/d	16,800
To Depreciation (24,000 x 10%)	2,400		
To Manager's commission (W.N.1)	470		
To Net profit c/d	8,930		
	16,800		16,800

(ii) (a) Converted Branch Trial Balance (into Indian Currency)

Particulars	***Rate per $***	***Dr. (₹)***	***Cr. (₹)***
Machinery	40	9,60,000	_
Stock January 1, 20X1	46	5,15,200	_
Goods from head office	Actual	29,26,000	_
Sales	47	_	39,48,000
Expenses	47	2,35,000	_
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	_
Head office A/c	Actual	_	8,60,000
Difference in exchange rate (b.f.)		47,000	_
		49,71,200	49,71,200
Closing stock $ 8,000 (W.N. 2)	48		₹ 3,84,000

(b) Branch Trading and Profit & Loss A/c for the year ended 31st December, 20X1

	₹		₹
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	8,90,800		
	43,32,000		43,32,000
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on ₹ 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	4,90,240		
	8,90,800		8,90,800

(c) Branch Account

	₹			₹
To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	*Less:* Depreciation	(96,000)	
To Creditors	1,63,200			8,64,000
To Outstanding		By Closing stock		3,84,000
commission	22,560	By Debtors		2,30,400
		By Cash at bank		57,600
	15,36,000			15,36,000

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e. 5% of $[16,800 – (5,000 + 2,400)]

Or 5% × $9,400 = $ 470

Manager's commission in Rupees = $ 470 $ ₹ 48 = ₹ 22,560

2. Calculation of closing stock

	$
Opening stock	11,200
Add: Goods from head office	64,000
Less: Cost of goods sold (at invoice price)	75,200
i.e. $\frac{100}{125} \times 84,000$	(67,200)
Closing stock	8,000

Closing stock in Rupees = $8,000 x ₹ 48 = ₹ 3,84,000.

Note: Manager is entitled to commission on profits earned at the end of the year.

QUESTION BANK

Question 35

M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co., Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter.

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Officer a/c	-	3,040
Total	**6,520**	**6,520**

Additional information:

(a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the supplie ₹ Depreciate Computers at the rate of 40% for the year.

(b) Closing Stock of Delhi branch was ₹ 15,60,000 on 31st March, 2019.

(c) The Rates of Exchange may be taken as follows:

(i) on 1.4.2018 @ ₹ 50 per Singapore Dollar

(ii) on 31.3.2019 @ ₹ 52 per Singapore Dollar

(iii) average Exchange Rate for the year @ ₹ 51 per Singapore Dollar

(iv) conversion in Singapore Dollar shall be made upto two decimal accuracy.

(d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.

In the books of Head office, you are required to prepare:

(1) Revenue statement for the year ended 31st March, 2019. (in Singapore Dollar)

(2) Balance Sheet as on that date. (in Singapore Dollar)

(*May 2019*) (*8 Marks*)

Answer

Revenue Statement
for the year ended 31st March, 2019

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	77,058.82		77,058.82
To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers			
(Singapore dollar 12,000 × 0.4)	4,800.00		
	25,192.16		25,192.16

Balance Sheet of Delhi Branch as on 31st March, 2019

Liabilities		Singapore dollar	*Assets*	Singapore dollar	Singapore dollar
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	*Less:* Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00

Liabilities		**Singapore dollar**	***Assets***	**Singapore dollar**	**Singapore dollar**
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills receivable		4,615.38
		67,199.99			67,199.99

Working Note:

M/s Rani & Co.
Delhi Branch Trial Balance in (Singapore $) as on 31st March, 2019

			Conversion	***Dr.***	***Cr.***
			rate per Singapore dollar	**Singapore dollar**	**Singapore dollar**
			(₹)		
Stock on 1.4.18	6,00,000.00		50	12,000.00	–
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	–
Rent, rates and taxes	7,20,000.00		51	14,117.65	–
Sundry Expenses	3,20,000.00		51	6,274.51	–
Computers	6,00,000.00		–	12,000.00	–
Bank balance	5,20,000.00		52	10,000.00	–
Singapore office A/c			–		59,897.43
				1,27,725.48	1,27,725.48

Question 36

Ayan Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}$%*. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	₹
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at ₹ 48,000 to Branch on 31.03.2018 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018.

(*May 2018*) (*10 Marks*)

Answer

In the books of Head Office
Branch Stock Account

Particulars		₹	**Particulars**		₹
To	Balance bid	3,60,000	By	Bank A/c (cash Sales)	21,60,000
To	Goods sent to Branch A/c	24,00,000	By	Branch Debtors A/c (Credit Sales)	1,20,000
To	Branch Adjustment A/c - balancing fig. (Surplus)***	36,000	By	Goods sent to Branch A/c (Returns to H.O.)	1,20,000
			By	Branch Adjustment A/c* (*24,000 × 25/100)	6,000

Particulars		₹	Particulars		₹
			By	Branch P&L A/c* (Cost of Abnormal Loss)	18,000
			By	Branch Adjustment A/c** (Invoice price of normal loss)	36,000
			By	Balance c/d:	
				In hand	2,88,000
				In transit	48,000
		27,96,000			27,96,000

* Alternatively, combined posting for the amount of ₹ 24,000 may be passed through Goods pilfered account.

** Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

*** It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

Branch Stock Adjustment Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (₹ 3,60,000 × 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (₹ 24,00,000 - ₹ 1,20,000) × 25/100	5,70,000
To Stock Reserve A/c (₹3,36,000 × 25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P & L A/c	5,70,000		
	6,96,000		6,96,000

Branch Profit and Loss Account

Particulars	₹	Particulars	₹
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
To Net Profit t/f to General P&LA/c	5,52,000		
	5,70,000		5,70,000

Question 37

M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2017		
Purchases and Sales	300	
Sundry Debtors & Creditors	800	1,200
Bills of Exchange	400	300
Wages & Salaries	120	240
Rent, Rates & T axes	560	-
Sundry Charges	360	-
Computers	160	-
Bank Balance	240	-
New York Office A/c	420	-
	-	1,620
	3,360	3,360

Additional Information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @ ₹ 55 per US $
- On 31.03.2018 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US $ 29845.35 on 31.3.2018 in New York books and there were no items pending reconciliation.

(*RTP May 2019*)

Answer:

M/s ABC & Co.
Bangalore Branch Trial Balance in (US $)
as on 31st March, 2018

	Conversion rate per US $ (₹)	Dr. US $	Cr. US $
Stock on 1.4.17	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	–
Rent, rates and taxes	58	6,206.90	–
Sundry charges	58	2,758.62	–
Computers	–	6,000.00	–
Bank balance	60	7,000.00	–
New York office A/c	–	–	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account
for the year ended 31st March, 2018

	US $		US $
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock (₹ 4,20,000/60)	7,000.00
To Wages and salaries	9,655.17		
		By Gross Loss c /d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on computers (US $ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

Balance Sheet of Bangalore Branch as on 31st March, 2018

Liabilities		US $	Assets	US $	US $
New York Office A/c	29,845.35		Computers	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			25,066.67

Question 38

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	₹		₹
Stock on 1st April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	800	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery S Printing	800
Goods returned to Head Office	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch furniture at 10% p.a.	
Cash received from debtors	60,000	Stock on31st March, 2018	
Cash Sales	1,00,000	(at invoice price)	28,000
Credit sales	60,000		

(*MTP March 2018*) (*10 Marks*)

Answer:

In the books of Head Office - XYZ
Kolkata Branch Account (at invoice)

		₹			₹
To Balance b/d			By Stock reserve (opening)		6,000
Stock		30,000	By Remittances:		
Debtors		18,000	Cash Sales	1,00,000	
Cash in hand		800	Cash from Debtors	60,000	1,60,000
Furniture		3,000	By Goods sent to branch (loading)		32,000
To Goods sent to branch		1,60,000	By Goods returned by branch (Return to H.O.)		2,000
To Goods returned by branch (loading)		400	By Balance c/d		
To Bank (expenses paid by H.O.)			Stock		28,000
			Debtors		16,880
			Cash (800-600)		200
Rent	1,800		Furniture (3,000-300)		2,700
Salary	3,200				
Stationary & printing	800	5,800			
To Stock reserve (closing)		5,600			
To Profit transferred to General Profit & Loss A/c		24,180			
		2,47,780			2,47,780

Working Note:

Debtors Account

	₹		₹
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		78,000

Note: It is assumed that goods returned by branch are at invoice price.

Question 39

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid ₹ 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office, depreciation charged for the year ₹15,000 not recorded by Branch.

(iv) Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected ₹ 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to ₹ 50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded in the books of Branch.

(viii) Head office made payment of ₹ 16,000 for purchase of goods by branch, but not recorded in branch books.

(*RTP November 2018*)

Answer:

Books of Branch
Journal Entries

			Amounts ₹	
			Dr.	**Cr.**
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000
	(Being rectification of salary paid on behalf of Head Office)			
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(v)	Head Office Account	Dr.	60,000	
	To Debtors Account			60,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(vi)	Goods in-transit Account	Dr.	50,000	
	To Head Office Account			50,000
	(Being goods sent by Head Office still in-transit)			
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account			10,000
	(Being expenditure incurred, wrongly recorded in books)			
(vii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account			16,000
	(Being purchases booked)			

Question 40

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2017.

(*RTP May 2018*)

Answer:

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	**₹**	**Particulars**	**₹**
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
		By Closing Stock	1,23,328
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	**₹**	**Particulars**	**₹**
To Opening [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Stock Reserve A/c	24,912
To Expenses	49,120	By goods sent to Branch A/c	96,560
To Stock Reserve A/c (₹1,23,328x25/100)	30,832		
To Net Profit - subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: Calculation of Commission still due to manager

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	(240)
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	(2,400)
E	Balance due (C-D)	1,384

Question 41

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	(₹)		**(₹)**
Stock on 1st April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	-	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office (invoice price)	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch	
Cash received from debtors	60,000	furniture at 10% p.a.	
Cash Sales	1,00,000	Stock on 31st March, 2018	
Credit sales	60,000	(at invoice price)	28,000

(*MTP March 2019*) (*8 Marks*)

Answer:

In the books of Head Office – XYZ
Kolkata Branch Account (at invoice)

	₹		₹
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales 1,00,000	
Furniture	3,000	Cash from Debtors 60,000	
To Goods sent to		*Less:* Petty expenses (600)	1,59,400
branch	1,60,000	By Goods sent to branch (loading)	32,000
To Goods returned by	400	By Goods returned by	
branch (loading)		branch (Return to H.O.)	2,000
To Bank (expenses		By Balance c /d	
paid by H.O.)		Stock	28,000
Rent 1,800		Debtors	16,880
Salary 3,200		Furniture (3,000-300)	2,700
Stationary &			
printing 800	5,800		
To Stock reserve (c losing)	5,600		
To Profit transferred to			
General Profit & Loss A/c	24,180		
	2,46,980		2,46,980

Working Note:

Debtors Account

	₹		₹
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed ac count	160
		By Balance c /d	16,880
	78,000		78,000

Note: In the absence of opening c ash balance, remittance to Head Office has been made after payment of petty expenses.

Question 42

On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its HO office in New York:

	Amount in ₹	Amount in ₹
Stock on 1st Jan., 2016	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and T axes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2016 was ₹ 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2015 was ₹ 52 and on 31st December, 2016 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch

(*MTP April 2019*) (*10 Marks*)

Answer:

In the books of English Firm (Head Office in New York)
Kolkata Branch Profit and Loss Account
for the year ended 31st December, 2016

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c /d	23,625	(6,37,500/51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c /d	17,500		
	23,625		23,625

Balance Sheet of Kolkata Branch as on 31st December, 2016

Liabilities	$	$	Assets	$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Require for calculation of Exchange Translation Loss
Kolkata Branch Trial Balance (converted in $) as on 31st December, 2016

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	₹	*₹*	*rate*	*($)*	*($)*
Stock on 1st Jan., 2016	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and T axes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

Question 43

M/s Heera & Co. has head office at U.S.A. and branch in Patna (India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	3,360

Information:

(a) Plant was acquired from a remittance of US $ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth ₹ 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @ ₹ 55 per US $
- On 31.03.2018 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US $ 29845.35 on 31.3.2018 in USA books and there were no items pending reconciliation.

(*MTP August, 2018*) (*12 Marks*)

Answer:

M/s Heera & Co.
Patna Branch Trial Balance in (US $)
as on 31st March, 2018

	Conversion rate per US $ (₹)	***Dr. US $***	***Cr. US $***
Stock on 1.4.15	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry charges	58	2,758.62	-
Plant	–	6,000.00	-
Bank balance	60	7,000.00	-
USA office A/c	–	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account
for the year ended 31st March, 2018

	US $		***US $***
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock	7,000.00
To Wages and salaries	9,655.17	(₹ 4,20,000/60)	
		By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on Plant	3,600.00		
(US $ 6,000 × 0.6)			
	13,778.68		13,778.68

Balance Sheet of Patna Branch
as on 31st March, 2018

Liabilities		***US $***	***Assets***	***US $***	***US $***
USA Office A/c	29,845.35		Plant	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable		2,000.00
			Bank balance		7,000.00
		25,066.67			25,066.67

Question 44

On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its Head office in New York:

	Amount in ₹	Amount in ₹
Stock on 1st Jan., 2016	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2016 was ₹6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2015 was ₹ 52 and on 31st December, 2016 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head Office books the Profit and Loss A/c and the Balance Sheet of the Branch assuming branch to be an integral foreign operation of H.O.

(*MTP October, 2018*) (*10 Marks*)

Answer:

In the books of English Firm (Head Office in New York)
Kolkata Branch Profit and Loss Account
for the year ended 31st December, 2016

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Kolkata Branch as on 31st December, 2016

Liabilities	$	$	***Assets***	$
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Calculation of Exchange Translation Loss
Kolkata Branch Trial Balance (converted in $)
as on 31st December, 2016

	Dr. ₹	Cr. ₹	Conversion rate	Dr. ($)	Cr. ($)
Stock on 1st Jan., 2016	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	

	Dr.	Cr.	Conversion	Dr.	Cr.
	₹	₹	rate	($)	($)
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

Question 45

From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

(*RTP November 2019*)

Answer

Pune Branch Account

Particulars		₹	Particulars	₹	₹
To Opening Balance			By Opening Balance:		
Stock		10,000	Salaries outstanding		100
Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash Paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	1,000	1,68,000
To Bank (expenses)			By Goods sent to branch		1,000
Rent	2,000		(return of goods by		
Salaries	2,400		the branch to H.O.)		
Petty Cash	1,000		By Closing Balances:		
Insurance	600	6,000	Stock		5,000

Particulars		₹	Particulars	₹	₹
To Net Profit		78,950	Petty Cash		650
			Debtors		4,900
			Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	850
Closing balance	650

Question 46

M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

		Lucknow office	Canberra Branch	
		(₹ In thousand)	(Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1-4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2019
Lucknow ₹1,50,000
Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1A$ = ₹50
Closing rate	1A$ = ₹53
Average rate	1A$ = ₹51.00
For Fixed Assets	1A$ = ₹46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

[*MTP October, 2019, 12 marks*]

Answer

M & S Co. Ltd.
Canberra, Australia Branch Trial Balance
As on 31st March 2019

	($ 'thousands)				(₹ thousands)
	Dr.	**Cr.**	**Conversion rate per $**	**Dr.**	**Cr.**
Plant & Machinery (cost)	200		₹ 46	9,200	
Plants Machinery Dep. Reserve		130	₹ 46		5,980
Trade receivable/payable	60	30	₹ 53	3;180	1,590
Stock (1.4.2018)	20		₹ 50	1,000	
Cash & Bank Balances	10		₹ 53	530	
Purchase/Sales	20	123	₹ 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		₹ 51	2,295	
Rent	12		₹ 51	612	
Office expenses	18		₹ 51	918	
Commission Receipts		100	₹ 51		5,100
H.O. Current Ale		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063
Closing stock	3.125		53	165.625	

Trading and Profit & Loss Account for the year ended 31st March, 2019

								(₹ '000)
	H.O.	**Branch**	**Total**			**H.O.**	**Branch**	**Total**
To Opening Stock	100	1,000.000	1,100.000	By	Sales	520	6,273.000	6,793.000
To Purchases	240	1,020.000	1,260.000	By	Goods sent to Branch	100	-	100.000
To Goods received from Head Office	-	100.000	100.000	By	Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000					
To Gross profit c/d	355	2,023.625	2,378.625					
	770	6,438.625	7,208.625			770	6,438.625	7,208.625
To Rent	-	612.000	612.000	By	Gross profit bid	355	2,023.625	2,378.625
To Office expenses To Provision for	25	918.000	943.000	By	Commission receipts	256	5,100.000	5,356.000
doubtful debts @ 5%	14	159.000	173.000					
To Depreciation	460	644.000	1,104.000					
(W. N.)								
To Balance c/d	112	4,790.625	4,902.625					
	611	7,123.625	7,734.625			611	7,123.625	7,734.625
To Managing Partner's Salary			30.000	By	Balance bid			4,902.625
To Exchange Loss			208.000	By	Branch stock reserve			4.000
To Balance c/d			4,668.625					
			4,906.625					4,906.625

Working Note:

Calculation of Depreciation

	H.O ₹ 000	Branch ₹ 000
Building - Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Note: As the closing stock of Branch does not consist any stock transferred from MS S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

Question 47

On 31st March, 2019 Chennai Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	**₹ in lacs**
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2018	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
Credit Balances	448
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2019 was valued at ₹ 62 lacs. On 29th March, 2019 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2019. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralized services for which the branch has not passed the entry.

You are required to: (i) pass Journal Entries in the books of the Branch to make the necessary adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet.

[*RTP May 2020*]

Answer

(i) Books of Branch

Journal Entries

			(₹ in lacs)
		Dr.	***Cr.***
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 2019)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and Profit & Loss Account of the Branch for the year ended 31st March, 2019

		₹ *in lacs*		**₹ *in lacs***
To Opening Stock		60	By Sales	360
To Goods received from			By Closing Stock	62
Head Office	288			
Less: Returns	(5)	283		
To Carriage Inwards		7		
To Gross Profit c/d		72		
		422		422
To Salaries		25	By Gross Profit b/d	72
To Depreciation on Furniture		2		
To Rent		10		
To Advertising		6		
To Telephone, Postage & Stationery		3		
To Sundry Office Expenses		1		
To Head Office Expenses		1		
To Net Profit Transferred to Head Office A/c		24		
		72		72

Balance Sheet as on 31st March, 2019

Liabilities	**₹ *in lacs***		***Assets***	**₹ *in lacs***	
Head Office	80		Furniture & Equipment	20	
Add: Goods in transit	10		*Less:* Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24	115	Goods in Transit		10
Outstanding Expenses		3	Debtors		20
			Cash at bank and in hand		8
		118			118

Question 48

Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville. USA. Following is the trial balance of Branch as at 31-3-2019:

Particulars	**Amount ($) Dr.**	**Amount (S) Cr.**
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received form Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st April, 2015.

(ii) Depreciation at 10% is to be charged on fixed assets on straight line method.

(iii) Closing inventory at branch is $ 700 as on 31-3-2019.

(iv) Goods received form Head Office (HO) were recorded at ₹1,85,500 in HO books.

(v) Remittances to HO were recorded at ₹1,62,000 in HO books.

(vi) HO account is recorded in HO books at ₹2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as:

1-4-2015 ₹63;
1-4-2018 ₹65 and
31-3-2019 ₹67.

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

(*November 2019*) (*5 Marks*)

Answer

Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2019

Particulars	$ (Dr.)	$ (Cr.)	Conversion Basis	Rate	₹ (Dr.)	₹ (Cr.)
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

Question 49

M & S Co. of Lucknow has an integral foreign branch in Canberra, Australia. At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (₹ In thousand)		***Canberra Branch (Aust. Dollars in thousand)***	
	Dr.	*Cr.*	*Dr.*	*Cr.*
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2019	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salaries	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

You are required to convert the Branch Trial Balance given above into rupees by using the following exchange rates:

Opening rate	1 A $ = ₹ 50
Closing rate	1 A $ = ₹ 53
Average rate	1 A $ = ₹ 51.00
for Fixed Assets	1 A $ = ₹ 46.00

[*RTP, November 2020*]

Answer

M & S Co. Ltd.
Canberra, Australia Branch Trial Balance As on 31st March 2020

	($ 'thousands)				(₹ 'thousands)
	Dr.	**Cr.**	**Conversion rate per $**	**Dr.**	**Cr.**
Plant & Machinery (cost)	200		₹ 46	9,200	
Plant & Machinery Dep. Reserve		130	₹ 46		5,980
Trade receivable/payable	60	30	₹ 53	3,180	1,590
Stock (1.4.2019)	20		₹ 50	1,000	
Cash & Bank Balances	10		₹ 53	530	
Purchase / Sales	20	123	₹ 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		₹ 51	2,295	
Rent	12		₹ 51	612	
Office expenses	18		₹ 51	918	
Commission Receipts		100	₹ 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063

Question 50

From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(4 Marks) (MTP, May 2020)

Answer:

Branch Stock Reserve in respect of unrealized profit

on opening stock = ₹ 3,45,000 x (15/115) = ₹ 45,000

on closing stock = ₹ 2,30,000 x (15/115) = ₹ 30,000

Working Note: ₹

Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	₹
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	16,10,000
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	(17,25,000)
Closing stock	2,30,000

Question 51

L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. Pune branch makes a profit of one third on cost and Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of Pune branch and find out the profit or loss made by it considering the reserve for unrealised profits:

Particulars	Pune Branch ₹	Goa Branch ₹
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Administration Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

(i) Opening stock at Pune Branch includes goods of ₹ 10,000 (invoice price) taken from Goa Branch,

(ii) Opening stock at Goa Branch includes goods of invoice price ₹ 17,000 taken from Pune Branch,

(iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000

(iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000.

(v) Closing stock at Pune Branch includes goods received from Goa Branch (invoice price ₹ 5,000).

(vi) Closing stock at Goa Branch includes goods of ₹ 4,000 (invoice price).

(MTP, October, 2020) (MTP March, 2022) (*6 marks*)

Answer

Pune Branch Trading and Profit and Loss Account

	Particulars	₹		Particulars	₹
To	Opening Stock (including ₹10,000 from Goa Branch)	40,000	By	Sales (including ₹20,000 to Goa Branch)	2,80,000
To	Purchases	2,00,000	By	Closing Stock (including ₹5,000 from Goa Branch)	30,000
To	Chargeable Expenses	15,000			
To	Gross Profit c/d (before making adjustment for unrealised profit)	55,000			
		3,10,000			3,10,000
To	Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch) (₹4,000 x 25/100)	1,000	By	Gross Profit b/d	55,000
To	Office & Adm. Expenses	13,250	By	Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To	Selling & Distribution Expenses	15,000			
	To Net Profit	30,000			
		59,250			59,250

Question 52

Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr. ($)	Cr. ($)
Stock on 1st April, 2019	300	–
5Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2019 @ ₹40 per US $
- on 31.3.2020 @ ₹42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2020 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

(MTP, October, 2020) (MTP March, 2022) (*4 marks*)

Answer

In the books of Ganesh Ltd. New York Branch Trial Balance in (₹) as on 31st March, 2020

	Conversion rate per US $ (₹)	***Dr. ₹***	***Cr. ₹***
Stock on 1.4.19	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

Question 53

Give Journal Entries in the books of Branch to rectify or adjust the following:

(1) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

(2) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.

(3) A remittance of ₹8,000 sent by the branch has not been received by H.O.

(4) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.

(5) Remittance of funds by H.O to branch ₹5,000 not entered in branch books.

(*Suggested January 2021*)

Answer

Journal Entries in Books of Branch A

	Particulars	***Dr. Amount ₹***	***Cr. Amount ₹***
(i)	Head office account Dr.	5,000	
	To Salaries account		5,000
	(Being the rectification of salary paid on behalf of H.O.)		
(ii)	Head office account Dr.	25,000	
	To Bank /Liability A/c		25,000
	(Being Asset purchased by branch but Asset account retained at head office books)		
(iii)	No Entry in Branch Books		
(iv)	Head office account Dr.	25,000	
	To Debtors account		25,000
	(Being the amount of branch debtors collected by H.O.)		
(v)	Bank A/c Dr.	5,000	
	To Head Office		5,000
	(Remittance of Funds by H.O. to Branch)		

Question 54

Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2020 is as follows:

Particulars	**US $**	
	Dr.	**Cr.**
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2019)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	

Particulars	US $	
	Dr.	Cr.
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

The following further information is given:

(1) Salaries outstanding $ 400.

(2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.

(3) The Head Office sent goods to Branch for ₹15,80,000.

(4) The Head Office shows an amount of ₹ 20,50,000 due from Branch.

(5) Stock on 31st March, 2020 -$21,500.

(6) There were no transit items either at the start or at the end of the year.

(7) On April 1, 2018 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 1, 2019, the rate was 47 per $. On March 31, 2020 the rate was ₹ 50 per $. Average rate during the year was ₹ 45 to one $.

Prepare Trial balance incorporating adjustments given converting dollars into rupees and Trading, Profit and Loss Account for the year ended 31st March, 2020 of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet.

(*MTP, March 2021*) (*8 Marks*)

Answer

In the books of Moon Star

Trial Balance (in Rupees) of Virginia (USA) Branch as on 31st March, 2020

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	US $	*US $*	*rate*	*₹*	*₹*
Office Equipment	43,200		50	21,60,000	
Depreciation on Office Equipment	4,800		50	2,40,000	
Furniture and fixtures	2,880		50	1,44,000	
Depreciation on furniture and fixtures	320		50	16,000	
Stock (1st April, 2019)	22,400		47	10,52,800	
Purchases	96,000		45	43,20,000	
Sales		1,66,400	45		74,88,000
Goods sent from H.O.	32,000			15,80,000	
Carriage inward	400		45	18,000	
Salaries (3,200+400)	3,600		45	1,62,000	
Outstanding salaries		400	50		20,000
Rent, rates and taxes	800		45	36,000	
Insurance	400		45	18,000	
Trade expenses	400		45	18,000	
Head Office A/c		45,600			20,50,000
Trade debtors	9,600		50	4,80,000	
Trade creditors		6,800	50		3,40,000
Cash at bank	2,000		50	1,00,000	
Cash in hand	400		50	20,000	
Exchange gain (bal. fig.)					4,66,800
	2,19,200	2,19,200		1,03,64,800	1,03,64,800

Question 55

DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2021, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£	£
	Dr.	Cr.
Fixed assets (Acquired on 1st April, 2017)	24,000	
Stock as on 1st April, 2020	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information is given:

(a) Fixed assets are to be depreciated @ 10% p.a. on WDV.

(b) On 31st March, 2021:

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1st April, 2017	-	₹ 70 to £ 1
1st April, 2020	-	₹ 76 to £ 1
31st March, 2021	-	₹ 77 to £ 1
Average	-	₹ 75 to £ 1

You are required to prepare: (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees; and (2) Trading and profit and loss account for the year ended 31st March, 2021 of London branch as would appear in the books of Delhi head office of DM.

(*MTP April, 2021*) (*MTP April, 2022*) (*8 Marks*)

Answer

Trial Balance of London Branch as on 31st March, 2021

Particulars	*U.K. Pound*	*Rate Per U.K. Pound*	*Dr. (₹)*	*Cr. (₹)*
Fixed Assets	24,000	70	16,80,000	
Stock (as on 1st April, 2020)	11,200	76	8,51,200	
Goods from Head Office	64,000	-	49,26,000	
Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 – 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding Expenses	400	77		30,800
Prepaid expenses	200	77	15,400	
Cash at Bank	1,200	77	92,400	
Head office Account		-		17,20,000
Difference in Exchange				12,400
			92,09,600	92,09,600

Closing stock will be (8,000 × 77) = ₹ 6,16,000

Trading and Profit & Loss A/c for the year ended 31st March, 2021

Particulars	***Amount (₹)***	***Particulars***	***Amount (₹)***
To Opening Stock	8,51,200	By Sales	72,00,000
To Purchases	9,00,000	By Closing Stock	6,16,000
To Goods from H.O.	49,26,000		
To Gross Profit	11,38,800		
	78,16,000		78,16,000
To Expenses	3,75,000	By Gross Profit	11,38,800
To Depreciation	1,68,000	By Profit due to Exchange difference	12,400
To Net Profit	6,08,200		
	11,51,200		11,51,200

Working Note:

Since London Branch is an integral foreign operation. Hence, (1) Fixed assets (cost and depreciation) are translated using the exchange rate at the date of purchase of the assets. (2) Exchange difference arising on translation of the financial statement is charged to Profit and Loss Account.

Question 56

Manohar of Mohali has a branch at Noida to which the goods are supplied from Mohali but the cost thereof is not recorded in the Head Office books. On 31st March, 2020 the Branch Balance Sheet was as follows:

Liabilities	**₹**	**Assets**	**₹**
Creditors Balance	62,000	Debtors Balance	2,24,000
Head Office	1,88,000	Building Extension A/c.	
		Closed by transfer to H.O. A/c.	—
		Cash at Bank	26,000
	2,50,000		**2,50,000**

During the Six months ending on 30-09-2020, the following transactions took place at Noida:

	₹		₹
Sales	2,78,000	Manager's salary	16,400
Purchases	64,500	Collections from debtors	2,57,000
Wages Paid	24,000	Discounts allowed	16,000
Salaries (inclusive of advance of 5,000)	15,600	Discount earned	4,600
		Cash paid to creditors	88,500
General Expenses	7,800	Building Account :	14,000
Fire Insurance (Paid for one year)	11,200	(further payment) Cash in Hand	5,600
Remittance to H;O.	52,900	Cash at Bank	47,000

Set out -the Head Office Account in Noida Books and the Branch Balance Sheet as on 30.09.2020. Also give journal entries in the Noida books. (*Suggested July 2021*) (*10 Marks*)

Answer

Journal Entries in the Books of Noida Branch

Particulars		**Debit (₹)**	**Credit (₹)**
Salary Advance A/c	Dr.	5,000	
To Salaries A/c			5,000
(Being the amount paid as advance adjusted by debit to Salary Advance A/c)			
Prepaid Insurance A/c (11,200 X 6/12)	Dr.	5,600	
To Fire Insurance A/c			5,600
(Being the six months premium transferred to the Prepaid Insurance A/c)			
Head Office A/c	Dr.	1,44,900	
To Purchases A/c			64,500
To Wages A/c			24,000
To Salaries A/c (15,600 - 5000)			10,600
To General Expenses A/c			7,800
To Fire Insurance A/c (11,200 X 6/12)			5,600
To Manager's Salary A/c			16,400
To Discount Allowed A/c			16,000

Particulars		Debit (₹)	Credit (₹)
(Being the transfer of various revenue accounts to the HO A/c for closing the accounts)			
Sales A/c	Dr.	2,78,000	
Discount Earned A/c	Dr.	4,600	
To Head Office A/c			2,82,600
(Being the transfer of various revenue accounts to HO)			
Head Office A/c	Dr.	14,000	
To Building A/c			14,000
(Being the transfer of amounts spent on building extension to HO A/c)			

Head Office Account

2020	Particulars	Amount (₹)	2020	Particulars	Amount (₹)
Sept 30	To Cash Remittance	52,900	April 1	By Balance b/d	1,88,000
	To Sundries* (Revenue)	1,44,900		By Sundries* (Revenue)	2,82,600
	To Building A/c	14,000			
	To Balance c/d	2,58,800			
	Total	4,70,600		Total	4,70,600

* Instead of using Sundries *(*Revenue*)* A/c, the concerned revenue accounts can be posted in the ledger.

Balance Sheet of Noida Branch

As at 30th Sept 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	33,400	Debtors	2,29,000
Head Office A/c	2,58,800	Salary Advance	5,000
		Prepaid Insurance	5,600
		Building Extension A/c transferred to HO	
		Cash in Hand	5,600
		Cash at Bank	47,000
Total	2,92,200	Total	2,92,200

Working Notes

Cash and Bank Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	26,000	By Wages	24,000
To Collection from debtors	2,57,000	By Salaries	15,600
		By Insurance	11,200
		By General Expenses	7,800
		By HO A/c	52,900
		By Manager's Salary	16,400
		By Creditors	88,500
		By Building A/c	14,000
		By Balance c/d	
		- Cash in Hand	5,600
		- Cash at bank	47,000
Total	2,83,000	Total	2,83,000

Debtors Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	2,24,000	By Cash Collection	2,57,000
To Sales A/c	2,78,000	By Discount (Allowed)	16,000
		By Balance c/d	2,29,000
Total	5,02,000	Total	5,02,000

Creditors Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Cash A/c	88,500	By Balance b/d	62,000
To Discount (Earned)	4,600	By Purchases	64,500
To Balance c/d	33,400		
Total	1,26,500	Total	1,26,500

Note:

Since the date of payment of fire insurance has not been mentioned in the question, it is assumed that it was paid on 01 April 2020. Alternative answer considering otherwise also possible.

Question 57

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office.

The following details for the year ended 31st March, 2020 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2020. (*RTP, May 2021*)

Answer

In the books of Alpha Ltd.

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	**₹**	***Particulars***	**₹**
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	**₹**	***Particulars***	**₹**
To Opening Stock [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve [₹ 1,23,328 x 25/100] A/c	30,832	By Goods Branch A/c sent to	96,560
To Net Profit–subject manager's commission to	40,240		
	6,06,080		6,06,080

Step 3: **Calculation of Commission still due to manager**

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	*Less:* 25% of cost of deficiency in stock [25% of (75% of ₹ 1,280)]	(240)
C	Commission for the year [A-B]	3,784
D	*Less:* Paid on account	(2,400)
E	Balance due (C-D)	1,384

Question 58

Vijay & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts, but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	8,40,000
Goods returned to Head office at Invoice Price	60,000
Cash sales for the year 2019-20	1,85,000
Credit Sales for the year 2019-20	6,25,000
Stock at Branch as on 01-04-2019 at Invoice price	72,000
Sundry Debtors at Patna branch as on 01-04-2019	96,000
Cash received from Debtors	4,38,000
Discount allowed to Debtors	7,500
Goods returned by customer at Patna Branch	14,000
Bad debts written off	5,500
Amount recovered from Bad debts previously written off as Bad	1,000
Rent, Rates & taxes at Branch	24,000
Salaries & wages at Branch	72,000
Office Expenses (at Branch)	9,200
Stock at Branch as on 31-03-2020 at cost price	1,25,000

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

(*10 Marks*) (*November 2020*)

Answer

Branch Stock Account

			₹				₹	₹	₹
1.4.19	To	Balance b/d (opening stock)	72,000	31.3.20	By	Sales:			
31.3.20	To	Goods Sent to Branch A/c	8,40,000			Cash		1,85,000	
						Credit	6,25,000		
	To	Branch P&L	94,000			Less:			
						Return	(14,000)	6,11,000	7,96,000
					By	Goods sent to branch - returns			60,000
					By	Balance c/d (closing stock)			1,50,000
1.4.20	To	Balance b/d	10,06,000						10,06,000
			1,50,000						

Branch Debtors Account

			₹				₹
1.4.19	To	Balance b/d	96,000	31.3.20	By	Cash	4,38,000
31.3.20	To	Sales	6,25,000		By	Returns	14,000
					By	Discounts	7,500
					By	Bad debts	5,500
					By	Balance c/d	2,56,000
			7,21,000				7,21,000
1.4.20	To	Balance b/d	2,56,000				

Branch Expenses Account

			₹				₹
31.3.20	To	Salaries & Wages	72,000	31.3.20	By	Branch P&L A/c	1,18,200
	To	Rent, Rates & Taxes	24,000				
	To	Office Expenses	9,200				
	To	Discounts	7,500				
	To	Bad Debts	5,500				
			1,18,200				1,18,200

Branch Profit & Loss Account for year ended 31.3.20

			₹				₹
31.3.20	To	Branch Expenses A/c	1,18,200	31.3.20	By	Branch stock	94,000
	To	Net Profit transferred to			By	Branch Stock Adjustment account	1,17,000
		General P & L A/c	93,800		By	Bad debts recovered	1,000
			2,12,000				2,12,000

Branch Stock Adjustment Account for year ended 31.3.20

			₹				₹
31.3.20	To	Goods sent to branch (60,000x1/6) - returns	10,000	31.3.20	By	Balance b/d (72,000x1/6)	12,000
	To	Branch P & L A/c	1,17,000		By	Goods sent to branch (8,40,000x1/6)	1,40,000
	To	Balance c/d (1,50,000 x 1/6)	25,000				
			1,52,000				1,52,000

Question 59

From the following details of Western Branch Office of M/s. Alpha for the year ending 31st March, 2020, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock:

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch:

Opening Stock as on 01-04-2019	3,45,000
Goods sent during the year by Head Office to Branch	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

(MTP, October 2021) (4 Marks)

Answer

Branch Stock Reserve in respect of unrealized profit

on opening stock = ₹ 3,45,000 x (15/115) = ₹ 45,000

on closing stock = ₹ 2,30,000 x (15/115) = ₹ 30,000

Working Note: ₹

Cost Price	100
Invoice Price	115
Sale Price	140
Calculation of closing stock at invoice price	₹
Opening stock at invoice price	3,45,000
Goods received during the year at invoice price	16,10,000
	19,55,000
Less: Cost of goods sold at invoice price [21,00,000 X (115/140)]	(17,25,000)
Closing stock	2,30,000

Question 60

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.

(ii) Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.

(iv) Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account. (*MTP, November, 2021*) (*4 Marks*)

Answer

Journal Entries in Books of Branch

			Amount in ₹	
			Dr.	***Cr.***
(i)	Head Office Account	Dr.	4,000	
	To Cash Account			4,000
	(Being expenditure incurred on account of other branch, now recorded in books)			
(ii)	Goods-in-transit Account	Dr.	8,000	
	To Head Office Account			8,000
	(Being goods sent by Head Office still in-transit)			
(iii)	Profit and Loss Account	Dr.	2,000	
	To Head Office Account			2,000
	(Being the provision for doubtful debts not provided earlier, now provided for)			
(iv)	Head Office Account	Dr.	2,000	
	To Salaries Account			2,000
	(Being rectification of salary paid on behalf of Head Office)			

Question 61

Lal & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts but sends monthly returns to the head office.

Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000
Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500
Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

(RTP, November 2021)

Answer

Branch Stock Account

			₹				₹	₹	₹
1.4.19	To	Balance b/d (opening stock)	36,000	31.3.20	By	Sales:			
31.3.20	To	Goods Sent to Branch A/c	4,20,000			Cash		92,500	
						Credit	3,12,500		
	To	Branch P&L	47,000			Less: Return	(7,000)	3,05,500	3,98,000
					By	Goods sent to branch - returns			30,000
					By	Balance c/d (closing stock)			75,000
			5,03,000						5,03,000
1.4.20	To	Balance b/d	75,000						

Branch Debtors Account

			₹				₹
1.4.19	To	Balance b/d	48,000	31.3.20	By	Cash	2,19,000
31.3.20	To	Sales	3,12,500		By	Returns	7,000
					By	Discounts	3,750
					By	Bad debts	2,750
					By	Balance c/d	1,28,000
			3,60,500				3,60,500
1.4.20	To	Balance b/d	1,28,000				

Branch Expenses Account

			₹				₹
31.3.20	To	Salaries & Wages	36,000	31.3.20	By	Branch P&L A/c	59,100
	To	Rent, Rates & Taxes	12,000				
	To	Office Expenses	4,600				
	To	Discounts	3,750				
	To	Bad Debts	2,750				
			59,100				59,100

Branch Profit & Loss Account for year ended 31.3.20

			₹				₹
31.3.20	To	Branch Expenses A/c	59,100	31.3.20	By	Branch stock	47,000
	To	Net Profit transferred to General P & L A/c	46,900		By	Branch Stock Adjustment account	58,500
					By	Bad debts recovered	500
			1,06,000				106,000

Branch Stock Adjustment Account for year ended 31.3.20

			₹				₹
31.3.20	To	Goods sent to branch (30,000x1/6)-returns	5,000	31.3.20	By	Balance b/d (36,000x1/6)	6,000
	To	Branch P & L A/c	58,500		By	Goods sent to branch (4,20,000x1/6)	70,000
	To	Balance c/d (75,000x1/6)	12,500				
			76,000				76,000

Question 62

Delta Ltd. has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office.

Prepare necessary Ledger accounts in the books of Delta Ltd under Stock and Debtors system to show profit earned at the branch for the year ending 31st March, 2021

Following information related to Branch is given (₹)

Stock on 1st April, 2020 (Invoice price)	31,200	Goods returned by Debtors	3,000
		Surplus in stock (Invoice price)	600
Debtors on 1st April, 2020	17,400	Expenses at Branch	13,400
Goods invoiced at cost	72,000	Discount allowed to Debtors	700
Sales at Branch: Cash sales	20,000	Debtors on 31st March, 2021	14,300
Credit sales	68,200		

(*Suggested December 2021*) *(10 Marks)*

Answer

Books of Delta Ltd.

Kanpur Branch Stock Account

	₹		₹
To Balance b/d – Opening Stock	31,200	By Bank A/c – Cash Sales	20,000
To Branch Debtors A/c – Sales Return	3,000	By Branch Debtors A/c - Credit Sales	68,200
To Goods sent to Branch A/c (72,000 +50% of 72,000)	1,08,000	By Balance c/d - Closing stock	54,600
To Surplus in stock	600		
	1,42,800		1,42,800

Kanpur Branch Stock Adjustment Account

	₹		₹
To Branch Profit and Loss Account	28,400	By Balance b/d (1/3 of ₹ 31,200)	10,400
To Balance c/d (1/3 of 54,600)	18,200	By Goods sent to Branch A/c (1/3 of ₹ 1,08,000)	36,000
		By Surplus in stock	200
	46,600		46,600

Goods Sent to Branch Account

	₹		₹
To Kanpur Branch Stock Adjustment A/c	36,000	By Kanpur Branch Stock A/c	1,08,000
To Purchases A/c	72,000		
	1,08,000		1,08,000

Branch Debtors Account

	₹		₹
To Balance b/d	17,400	By Bank (Bal fig.)	67,600
To Branch Stock A/c	68,200	By Branch Expenses A/c (Discount allowed)	700
		By Branch Stock - Sales Returns	3,000
		By Balance c/d	14,300
	85,600		85,600

Branch Expenses Account

	₹		₹
To Bank A/c (expenses)	13,400	By Branch Profit & Loss A/c (Transfer)	14,100
To Branch Debtors A/c (Discount allowed)*	700		
	14,100		14,100

Branch Profit & Loss Account for the year ending 31st March 2021

	₹		₹
To Branch Expenses A/c	14,100	By Branch Adjustment A/c	28,400
To Net Profit	14,700	By surplus in stock (Cost)	400
	28,800		28,800

Note: * Discount allowed to debtors may be shown in Branch Profit and Loss account directly instead of transferring it through Branch Expenses account.

Question 63

Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).

The following information was available at the branch for the year ended 31st March, 2022.

(Figures in ₹)

Stock on 1st April, 2021 (invoice price)	12,000
Debtors on 1st April, 2021	10,000
Goods received from head office (invoice price)	1,32,000
Sales: Cash 46,000 Credit 1,00,000	1,46,000
Cash received from debtors	85,000
Expenses at branch	17,500
Debtors on 31st March, 2022	25,000
Stock on 31st March, 2022 (invoice price)	17,600
Remittances to head office	1,20,000

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtor Account for the year ended 31st March, 2022.

(*Question Paper, May 2022*) (*10 Marks*)

Question 64

Modern Stores of Delhi operates a branch at Nagpur. The Head office affects all purchases and the branch is charged at cost plus 60%. All the cash received by Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Imprest Account which is reimbursed by the Delhi Head Office every month. The Branch maintains a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.

The following branch transactions took place during the year ended 31st March, 2022:

	₹
Goods received from Delhi at Selling Price	*1,50,000*
Cash Sales	*69,000*
Goods returned to Delhi at Selling Price	*3,000*
Credit Sales (*Net of returns*)	*63,000*
Authorized Reduction in Selling Price of Goods Sold	*1,500*
Cash Received from Debtors	*48,000*
Debtors written off as irrecoverable	*2,000*
Cash Discount allowed to Debtors	*1,500*

- *On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to ₹ 60,000 and the Debtors were ₹ 40,000.*
- *A consignment of goods sent to the Branch on27thMarch,2022 with a Selling Price of ₹ 1,800 was not received until 5th April,2022 and had not been accounted for in stock.*
- *The Closing Stock at Selling Price was ₹ 72,900.*
- *The expenses relating to the Branch for the year ended 31stMarch,2022 amounted to ₹ 18,000.*

You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage.

(*10 Marks*)

Answer

Books of Modern Store Delhi Nagpur Branch Stock A/c

Particulars	₹	Particulars	₹
To Opening stock	60,000	By Bank A/c (Cash Sales)	69,000
To Goods sent to branch A/c	1,50,000	By Branch Debtors A/c (Credit sales)	63,000
To Goods sent to branch A/c	1,800	By Goods sent to branch A/c (Return)	3,000
		By Branch adjustment A/c (Reduction in selling price)	1,500
		By Branch adjustment A/c (Normal Loss)	600
		By Closing stock(including stock in transit of ₹ 1,800)	74,700
	2,11,800		2,11,800

Branch Debtors A/c

Particulars	₹	Particulars	₹
To Bal. b/d	40,000	By Cash/Bank A/c	48,000
To Branch Stock (Sales)	63,000	By Branch P&L A/c (Bad debts)	2,000
		By Branch P&L A/c (Discount)	1,500
		By Bal. c/d	51,500
	103,000		103,000

Branch Adjustment A/c

Particulars	₹	Particulars	₹
To Branch Stock Account (Reduction in selling price)	1,500	By Stock reserve A/c (60,000 X 60/160)	22,500
To Branch Stock Account (Normal loss*)	600	By Goods sent to branch A/c (Loading) (1,51,800 X 60/160)	56,925
To Goods sent to branch A/c (loading on returns)(3,000 X 60/160)	1,125		
To Branch P&L A/c	48,187		
To Stock reserve A/c (74,700 X 60/160)	28,013**		
	79,425		79,425

Note: * Alternatively, the loading of ₹ 225 on normal loss may be charged to Branch Adjustment A/c and cost ₹375 thereof may be charged to Branch P&L A/c.

** rounded off. Alternatively may be rounded off as ₹ 28,012.

Branch P&L A/c

Particulars	₹	Particulars	₹
To Branch expenses A/c	18,000	By Branch Adjustment A/c	48,187
To Bad debts A/c	2,000		
To Discount A/c	1,500		
To Net Profit	26,687		
	48,187		48,187

Question 65

Accounting for Branches

PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2022 is as follows:

	US$	
Particulars	**Debit**	**Credit**
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2021	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	

Particulars	US$ Debit	US$ Credit
Carriage inward	256	
Rent, Rates & Taxes	956	
Trade receivables	12,560	
Trade payables		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account		37,322
Total	2,34,462	2,34,462

Following further information are given:

(i) Salaries outstanding as on 31st March, 2022 is US$ 600.

(ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.

(iii) Closing stock as on 31st March, 2022 is US $, 24,650.

(iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2022. No transaction in respect of the Branch is pending in Head office.

(v) Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 1/04/2021.

(vi) One furniture of carrying value of US $ 450 as on 01/04/2021 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2022 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

(vii) The rate of exchange on different dates *are:*

Date	1 US $ is equivalent to
1st April, 2021	₹ 64
31st December, 2021	₹ 70
31st March, 2022	₹ 75
Average for the year	₹ 72

You are required to prepare the trial Balance after incorporating adjustments given and converting US $ into rupees.

(RTP May, 2023)

Answer

In the books of PQR
Trial Balance (in Rupees) of Houston (USA) Branch – Non Integral foreign operation as on 31st March, 2022

	Dr.	***Cr.***	***Conversion***	***Dr.***	***Cr.***
	US $	***US $***	***rate***	***₹***	***₹***
Office Equipment	56,400		75	42,30,000	
Depreciation on Office Equipment (Accumulated) (5,400+5,100)		10,500	75		7,87,500
Depreciation	8,016		75	6,01,200	
Furniture and fixtures (36,000-500)	35,500		75	26,62,500	
Depreciation on furniture and fixtures (Accumulated) (6,840-50-45 +2,916)		9,661	75		7,24,575
Stock (1st April, 2021)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	
Sales		1,76,250	72		126,90,000
Carriage inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates and taxes	956		72	68,832	
Salaries payable		600	75		45,000
Head Office A/c		37,322			23,75,614 (given)
Trade receivables	12,560		75	9,42,000	
Trade payables		8,650	75		6,48,750
Cash at bank	2,540		75	1,90,500	
Cash in hand	500		75	37,500	
Mr. M (Receivable for sale of furniture)	405		75	30,375	
Exchange gain (bal. fig.)					3,75,100
	2,42,983	2,42,983		176,46,539	176,46,539

Closing stock 24,650 US$ x ₹ 75 = ₹18,48,750.

Question 66

Art is Limited has a branch at Seattle USA. Its Trial Balance as on 31st December, 2022 is as follows:

	Dr. in US $	**Cr. in US $**
Stock as on 01.01.2022	22,000	**-**
Purchases	1,00,000	**-**
Sales	**-**	1,30,500
Goods from H.O.	30,000	**-**
Salaries	4,000	**-**
Head Office A/c.	**-**	27,000
Sundry Debtors	2,200	-
Sundry Creditors	-	1,500
Cash at Bank & Hand	800	-
Total	**1,59,000**	**1,59,000**

The following information is given:

(i) Salaries outstanding are $ 500.

(ii) The Head Office sent goods to Branch for ₹24,00,000.

(iii) The Head Office shows an amount of ₹21,90,000 due from Branch.

The exchange rates were as below:

- On 1st January 2022 - ₹79 to 1$
- On 31st December 2022 - ₹83 to 1 $
- Average rate during the year was ₹79.50 to 1 $

You are required to prepare the Seattle Branch Trial Balance incorporating adjustments given above, converting dollars into rupees.

(*G-I, May, 2023*) (*5 Marks*)

Question Arrangement

Branch

Topic	Question Numbers
Debtors Method	1, 2, 3, 4, 8, 9, 29, 38, 40, 41, 57, 12, 45
Stock and Debtors Method	7, 11, 31, 36, 58, 61, 62, 64, 63
Final Accounts Method	5, 51
Mix	6
Wholesale	10, 13, 32, 50, 59
Reconciliation	14, 25, 26, 28, 33, 39, 53, 60
Consolidating	15, 16, 18, 30, 47, 19
Foreign Head Office	20, 22, 35, 37, 42, 43, 44
Foreign Branches	21, 34, 46, 48, 49, 52, 54, 55, 65, 66
Transactions	27
Others	17, 56, 23, 24