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DEPRECIATION & AMORTISATION

ASSIGNMENT -1

QUESTION 1:

Jain Bros. acquired a machine on 1st July, 2021 at a cost of Rs. 14,00,000 and spent Rs. 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.

Required
Show the Machinery Account and Depreciation Account for the year 2021 and 2022.

SOLUTION:

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2021			2021		
July 1	To Bank A/c	14,00,000	Dec. 31	By Depreciation A/c 10% on Rs. 15,00,000 for 6 months	75,000
July 1	To Bank A/c - Installation Expenses	1,00,000	Dec. 31	By Balance c/d	14,25,000
		15,00,000			15,00,000
2022			2022		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c 10% on Rs. 15,00,000	1,50,000
			Dec. 31	By Balance c/d	12,75,000
		14,25,000			**14,25,000**

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2021			2021		
Dec. 31	To Machinery A/c	75,000	Dec. 31	By Profit & Loss A/c	75,000
2022			2022		
Dec. 31	To Machinery A/c	**1,50,000**	Dec. 31	By Profit & Loss A/c	**1,50,000**

QUESTION 2:

Jain Bros. acquired a machine on 1st July, 2021 at a cost of Rs. 14,00,000 and spent Rs. 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.

Required
Show the Machinery Account on diminishing balance method for the year 2021 and 2022.

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SOLUTION:

As per Reducing Balance Method

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2021			2021		
July 1	To Bank A/c	14,00,000	Dec. 31	By Depreciation A/c (Rs. 15,00,000 x 10% x 6/12) for 6 months	75,000
July 1	To Bank A/c -	1,00,000			
			Dec. 31	By Balance c/d	14,25,000
		15,00,000			**15,00,000**
2022			2022		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c (Rs. 14,25,000 x 10%)	1,42,500
			Dec. 31	By Balance c/d	12,82,500
		14,25,000			**14,25,000**

QUESTION 3:

M/s Akash & Co. purchased a machine for Rs. 10,00,000. Estimated useful life and scrap value were 10 years and Rs. 1,20,000 respectively. The machine was put to use on 1.1.2017.

Required

Show Machinery Account and Depreciation Account in their books for 2022 by using sum of years digits method.

SOLUTION:

In the books of M/s Raj & Co.

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2022			2022		
Jan. 1	To Balance b/d (w.n.2)	3,60,000	Dec. 31	By Depreciation A/c (w.n.3)	80,000
			Dec. 31	By Balance c/d	2,80,000
		3,60,000			**3,60,000**
2023					
Jan.1	To Balance b/d	2,80,000			

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2022 Dec. 31	To Machinery A/c	80,000	2022 Dec. 31	By Profit and Loss A/c	80,000
		80,000			80,000

Working Notes:

1. Total of sum of digit of depreciation for 2017-21

$$= (\text{Rs. } 10,00,000 - \text{Rs.}1,20,000) \times \frac{10+9+8+7+6}{\frac{10(10+1)}{2}}$$

$$= \text{Rs.}8,80,000 \times \frac{40}{55} = \text{Rs. } 6,40,000$$

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(2) Written down value as on 1-1-2022

Rs. 10,00,000 – Rs.6,40,000 = Rs.3,60,000

(3) Depreciation for 2022

Rs.10,00,000 – Rs.1,20,000 x $\frac{5}{55}$ = Rs.80,000

QUESTION 4:

A machine was purchased for Rs. 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be Rs. 2,00,000 and anticipated pattern of distribution of effective hours is as follows :

Year	
1 – 3	3,000 hours per year
4 - 6	2,600 hours per year
7 - 10	1,800 hours per year

Required

Determine Annual Depreciation under Machine Hour Rate Method.

SOLUTION:

Statement of Annual Depreciation under Machine Hours Rate Method

Year	Annual Depreciation
1 - 3	$\frac{3,000}{24,000}$ × (Rs. 30,00,000 - Rs. 2,00,000) = Rs. 3,50,000
4 - 6	$\frac{2,600}{24,000}$ × (Rs. 30,00,000 - Rs. 2,00,000) = Rs. 3,03,333
7 - 10	$\frac{1,800}{24,000}$ × (Rs. 30,00,000 - Rs. 2,00,000) = Rs. 2,10,000

QUESTION 5:

A machine is purchased for Rs. 20,00,000. Its estimated useful life is 10 years with a residual value of Rs. 2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year	**Production**
1-3	20,000 units per year
4-7	15,000 units per year
8-10	10,000 units per year

Required

Determine the value of depreciation for each year using production units method.

SOLUTION:

Statement showing Depreciation under Production Units Method

Year	Annual Depreciation
1-3	$\frac{20,000}{1,50,000}$ × (Rs. 20,00,000 - Rs. 2,00,000) = Rs. 2,40,000

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4-7	$\frac{15,000}{1,50,000}$ × (Rs. 20,00,000 - Rs. 2,00,000) = Rs. 1,80,000
8-10	$\frac{10,000}{1,50,000}$ × (Rs. 20,00,000 - Rs. 2,00,000) = Rs. 1,20,000

QUESTION 6:

M/s Surya & Co. took lease of a quarry on 1-1-2019 for Rs. 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	**Quantity of Mineral extracted**
2019	2,000 tonnes
2020	10,000 tonnes
2021	15,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

SOLUTION:

Quarry Lease Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2019			2019		
Jan.	To Bank A/c	1,00,00,000	Dec. 31	By Depreciation A/c	1,00,000
				[(2,000/2,00,000) × Rs. 1,00,00,000]	
			Dec. 31	By Balance c/d	99,00,000
		1,00,00,000			1,00,00,000
2020			2020		
Jan. 1	To Balance b/d	99,00,000	Dec. 31	By Depreciation A/c	5,00,000
			Dec. 31	By Balance c/d	94,00,000
		99,00,000			99,00,000
2021			2021		
Jan. 1	To Balance b/d	94,00,000	Dec. 31	By Depreciation A/c	7,50,000
			Dec. 31	By Balance c/d	86,50,000
		94,00,000			94,00,000

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2019			2019		
Dec. 31	To Quarry lease A/c	1,00,000	Dec. 31	By Profit & Loss A/c	1,00,000
		1,00,000			1,00,000
2020			2020		
Dec. 31	To Quarry lease A/c	5,00,000	Dec. 31	By Profit & Loss A/c	5,00,000
2021			2021		
Dec. 31	To Quarry lease A/c	5,00,000	Dec. 31	By Profit & Loss A/c	5,00,000
		7,50,000			7,50,000
		7,50,000			**7,50,000**

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QUESTION 7:

A firm purchased on 1st January, 2020 certain machinery for Rs. 5,82,000 and spent Rs. 18,000 on its erection. On July 1, 2020 another machinery for Rs. 2,00,000 was acquired. On 1st July, 2021 the machinery purchased on 1st January, 2020 having become obsolete was auctioned for Rs. 3,86,000 and on the same date fresh machinery was purchased at a cost of Rs. 4,00,000.
Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required
Prepare machinery account.

SOLUTION:

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2020			**2020**		
Jan. 1	To Bank A/c	5,82,000	Dec. 31	By Depreciation A/c	70,000
Jan. 1	To Bank A/c –erection charges	18,000		By Balance c/d	7,30,000
July 1	To Bank A/c	2,00,000			
		8,00,000			**8,00,000**
2021			**2021**		
Jan. 1	To Balance b/d	7,30,000	July 1	By Depreciation on sold machine	27,000
July 1	To Bank A/c	4,00,000		By Bank A/c	3,86,000
				By Profit and Loss A/c	1,27,000
			Dec. 31	By Depreciation A/c	39,000
				By Balance c/d	5,51,000
		11,30,000			**11,30,000**

Working Note:

Book Value of Machines

	Machine I Rs.	Machine II Rs.	Machine III Rs.
Cost	6,00,000	2,00,000	4,00,000
Depreciation for 2020	(60,000)	(10,000)	
Written down value	5,40,000	1,90,000	
Depreciation for 2021	(27,000)	(19,000)	(20,000)
Written down value	5,13,000	1,71,000	3,80,000
Sale Proceeds	(3,86,000)		
Loss on Sale	1,27,000		

QUESTION 8:

On April 1, 2019 Shubra Ltd. purchased a machinery for Rs. 12,00,000. On Oct 1, 2021, a part of the machinery purchased on April 1, 2019 for Rs. 80,000 was sold for Rs. 45,000 and a new machinery at a cost of Rs. 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.

Required:
Show the necessary ledger accounts for the years ended 31st March 2020 to 2022 assuming that (a)

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‘Provision for Depreciation Account’ is not maintained (b) Provision for Depreciation Account is maintained.

SOLUTION:

(a) When ‘Provision for Depreciation Account’ is not maintained.

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019	To Bank A/c	12,00,000	31.03.2020	By Depreciation A/c By Balance c/d	1,20,000 10,80,000
		12,00,000			**12,00,000**
01.04.2020		10,80,000	31.03.2021	By Depreciation A/c By Balance c/d	1,08,000 9,72,000
		10,80,000			**10,80,000**
01.04.2021	To Balance b/d	9,72,000	01.10.2021	By bank A/c	45,000
01.10.2021	To Bank A/c	1,58,000		By Profit & Loss A/c	16,560
				By Depreciation A/c	3,240
			31.03.2021	By Depreciation A/c (7,900+ 90,720)	98,620
				By Balance c/d (8,16,480 + 1,50,100)	9,66,580
		11,30,000			**11,30,000**

(b) When ‘Provision for Depreciation Account’ is maintained

Dr. Machinery Account (at original cost) Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019	To Bank A/c	12,00,000	31.03.2020	By Balance c/d	12,00,000
01.04.2020	To Balance b/d	12,00,000	31.03.2021	By Balance c/d	12,00,000
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Machinery Disposal A/c	80,000
01.10.2021	To Bank A/c	1,58,000	31.03.2022	By Balance c/d	12,78,000
		13,58,000			13,58,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To Balance c/d	1,20,000	31.03.2020	By Depreciation A/c	1,20,000
31.03.2021	To Balance c/d	2,28,000	1.04.2020	By Balance b/d	1,20,000
			31.03.2021	By Depreciation A/c	1,08,000
		2,28,000			**2,28,000**
01.10.2021	To Machinery Disposal A/c	18,440	01.04.2021	By Balance b/d	2,28,000
31.03.2022	To Balance c/d	3,11,420	01.10.2021	By Depreciation A/c	3,240
			31.03.2022	By Depreciation A/c	98,620
		3,29,860			**3,29,860**

Dr. **Machinery Disposal Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.10.2021	To Machinery Disposal	80,000	01.10.2021	By Provision for	18,440

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	A/c			Depreciation A/c	
				By Bank A/c	45,000
				By Profit and Loss A/c	16,560
		80,000			**80,000**

Working Notes:

1. Calculation of Profit/Loss on Sale of Machinery

Particulars	Rs.
A. Original Cost	80,000
B. Less : Depreciation @ 10% WDV p.a. for 2 ½ years	18,440
C. Book Value as on date of Sale (A – B)	61,560
D. Less : Sale proceeds	45,000
E. Loss on Sale (C – D)	**16,560**

2. Calculation of Depreciation for Current Year on Machines (other than sold)

Particulars	Rs.
A. On Old Machines of Rs. 9,07,200 for 1 year (10% WDV)	90,720
B. On New Machine of Rs. 1,58,000 for ½ year	7,900
	98,620

QUESTION 9:

A firm purchased second hand machinery on 1st January, 2019 for Rs. 3,00,000, subsequent to which Rs. 60,000 and Rs. 40,000 were spent on its repairs and installation, respectively. On 1st July, 2020 another machinery was purchased for Rs. 2,60,000. On 1st July, 2021, the first machinery having become outdated was auctioned for Rs. 3,20,000 and on the same date, another machinery was purchased for Rs. 2,50,000. On 1st July, 2022, the second machinery was also sold off and it fetched Rs. 2,30,000.
Depreciation was provided on machinery @ 10% on the original cost annually on 31st December, under the straight line method.

Required
Prepare the following accounts in the books of the company: (i) Machinery Account for the years ending Dec. 31, 2019 to 2022 and (ii) Machinery Disposal Account.

SOLUTION

Dr. **Machinery Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.2019	To Bank A/c (A) – Cost - Repairs - Installation	3,00,000 60,000 40,000	31.12.2019	By Depreciation (A) By Balance c/d (A)	40,000 3,60,000
		4,00,000			**4,00,000**
01.01.2020	To Balance b/d	3,60,000	31.12.2020	By Depreciation (A) 40,000 (B) 13,000	53,000
01.07.2020	To Bank A/c (B)	2,60,000		By Balance b/d (A) 3,20,000 (B) 2,47,000	5,67,000
		6,20,000			6,20,000
01.01.2021	To Balance b/d	5,67,000	01.07.2021	By Machinery Disposal A/c (A)	3,00,000

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01.07.2021	To Bank A/c (C)	2,50,000		By Depreciation A/c (A) 20,000 (B) 26,000 (C) 12,500 By Balance c/d (B) 2,21,000 (C) 2,37,500	58,500 4,58,500
		8,17,000			8,17,000
01.01.2022	To Balance b/d	4,58,500	01.07.2022	By Machinery Disposal A/c (B) By Depreciation A/c (B) 13,000 (C) 25,000 By Balance c/d	2,08,000 38,000 2,12,500
		4,58,500			4,58,500

Machinery Disposal Account

Date	Particulars	Rs.	Date	Particulars	Rs.
01.07.2021	To Machinery A/c (A) To Profit Loss A/c (Profit)	3,00,000 20,000	01.07.2021	By Bank A/c	3,20,000
		3,20,000			3,20,000
01.07.2022	To Machinery A/c (B) To P & L A/c (Profit)	2,08,000 22,000	01.07.2022	By Bank A/c	2,30,000
		2,30,000			2,30,000

QUESTION 10

M/s Anshul & Co. commenced business on 1st January 2017, when they purchased plant and equipment for Rs.7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and over the years, their purchases of plant have been:

Date	Amount Rs.
01-01-2018	1,50,000
01-01-2021	2,00,000

On 1-1-2021 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2021 with no scrap value and 10 years for the asset purchased on 1.1.2021.

Required

Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2021.

SOLUTION:

Depreciation on written down value basis

		Purchased on Jan. 1, 2017 Rs.	Purchased on Jan. 1, 2018 Rs.	Total Depreciation Rs.
2017	Cost	7,00,000		
	Depreciation	(1,05,000)		1,05,000
	Written Down Value (WDV)	5,95,000		
2018	Cost	-	1,50,000	
	Depreciation	(89,250)	(22,500)	1,11,750

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2019	W.D.V.	5,05,750	1,27,500	
	Depreciation	(75,863)	(19,125)	94,988
2020	W.D.V.	4,29,887	1,08,375	
	Depreciation	(64,483)	(16,256)	80,739
2021	W.D.V.	3,65,404	92,119	
	Depreciation	(60,900)	(15,353)	76,253
		3,04,504	76,766	

Plant and Equipment Account

		Rs.			Rs.
2021 Jan. 1	To Balance b/d	4,57,523	2021 Dec. 31	By Depreciation (60,900+15,353+20,000)	96,253
				By Balance c/d	5,61,270
	To Bank	2,00,000			
		6,57,523			**6,57,523**
2022 Jan. 1	To Balance b/d	5,61,270			

QUESTION 11:

A Machine costing Rs. 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years.

Required
Calculate depreciation for the fourth year.

SOLUTION:

Depreciation per year = Rs. 6,00,000 / 10 = Rs. 60,000
Depreciation on SLM charged for three years = Rs. 60,000 x 3 years = Rs. 1,80,000
Book value of the computer at the end of third year = Rs. 6,00,000 – Rs. 1,80,000 = Rs. 4,20,000.
Remaining useful life as per previous estimate = 7 years
Remaining useful life as per revised estimate = 5 years
Depreciation from the fourth year onwards = Rs. 4,20,000 / 5 = Rs. 84,000 per annum

QUESTION 12:

A machine of cost Rs. 12,00,000 is depreciated straight-line assuming 10 year working life and zero residual value for three years. At the end of third year, the machine was revalued upwards by Rs. 60,000 the remaining useful life was reassessed at 9 years.

Required
Calculate depreciation for the fourth year.

SOLUTION:

Depreciation per year charged for three years = Rs. 12,00,000 / 10 = Rs. 1,20,000
WDV of the machine at the end of third year = Rs. 12,00,000 – Rs. 1,20,000 × 3 = Rs. 8,40,000.
Depreciable amount after revaluation = Rs. 8,40,000 + Rs. 60,000 = Rs. 9,00,000
Remaining useful life as per previous estimate = 7 years
Remaining useful life as per revised estimate = 9 years
Depreciation for the fourth year onwards = Rs. 9,00,000 / 9 = Rs.1,00,000.

QUESTION 13:

Kumar R & D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July,

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2021 developed at a cost of Rs. 28,00,000 and spent Rs. 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year.

Required

Show the Patent Account and Amortisation Account for the year 2021 and 2022.

SOLUTION:

Useful Life: 10 years from 1 July, 2021
Residual Value: NIL
Value of patent = Rs. 30,00,000 (Rs. 28,00,000 cost + Rs. 2,00,000 legal expenses and registration fees)
Therefore, annual depreciation: Rs. 30,00,000 ÷ 10 years = Rs. 3,00,000

Patent Account

		Rs.			Rs.
2021			2021		
July 1	To Bank A/c	28,00,000	Dec. 31	By Amortisation A/c:	
July 1	To Bank A/c - Legal & Reg. Exp.	2,00,000		Rs.3,00,000 x 6/12	1,50,000
			Dec. 31	By Balance c/d	28,50,000
		30,00,000			30,00,000
2022			2022		
Jan. 1	To Balance b/d	28,50,000	Dec. 31	By Amortisation A/c	3,00,000
			Dec. 31	By Balance c/d	25,50,000
		28,50,000			28,50,000

Amortisation Account

		Rs.			Rs.
2021			2021		
Dec. 31	To Patent A/c	1,50,000	Dec. 31	By Profit & Loss A/c	1,50,000
2022			2022		
Dec. 31	To Patent A/c	3,00,000	Dec. 31	By Profit & Loss A/c	3,00,000

QUESTION 14:

Prime Streaming Co. acquired the streaming rights of a movie for Rs. 18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years.

Required

Calculate amortisation for the fourth year.

SOLUTION:

Amortisation per year = Rs. 18,00,000 / 10 = Rs. 1,80,000
Amortisation on SLM charged for three years = Rs. 1,80,000 x 3 years = Rs. 5,40,000
Carrying Amount of the Streaming Rights at the end of third year = Rs. 18,00,000 – Rs. 5,40,000 = Rs. 12,60,000.
Remaining useful life as per previous estimate = 7 years
Remaining useful life as per revised estimate = 5 years
Amortisation from the fourth year onwards = Rs. 12,60,000 / 5 = Rs. 2,52,000 per annum

ASSIGNMENT -2

Question 1:

A firm's plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost Rs.	Depreciation Provision Rs.
2005	2,00,000	2,00,000
2011	3,00,000	3,00,000
2012	10,00,000	9,50,000
2013	7,00,000	5,95,000
2020	5,00,000	75,000
2021	3,00,000	15,000
	30,00,000	**21,35,000**

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

During 2022 the following transactions took place:

1. Purchase of plant and machinery amounted to Rs. 15,00,000
2. Plant that had been bought in 2011 for Rs. 1,70,000 was scrapped.
3. Plant that had been bought in 2012 for Rs. 90,000 was sold for Rs. 5,000.
4. Plant that had been bought in 2013 for Rs. 2,40,000 was sold for Rs. 15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2022. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2022.

(i) Plant and machinery at cost;
(ii) Depreciation provision;
(iii) Sales or disposal of plant and machinery.

Answer:

Calculation of provision for depreciation of plant and machinery for the year ended 31st December, 2022.

Plant purchased in:		Rs.	Rs.
2005		nil	
2011		nil	
2012			50,000
2013	1/2 year at 10% on Rs. 2,40,000	12,000	
	1 year at 10% on Rs. 4,60,000	46,000	58,000
2020	10% on Rs. 5,00,000		50,000
2021	10% on Rs. 3,00,000		30,000
2022	1/2 year at 10% on Rs. 15,00,000		75,000
			2,63,000

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Plant and Machinery Account (for 2022) at Cost

	Rs.		Rs.
To Balance b/d	30,00,000	By Disposals account:	
To Bank A/c	15,00,000	Scrapped	1,70,000
		Sold	3,30,000
		By Balance c/d	40,00,000
	45,00,000		**45,00,000**

Depreciation Provision Account (for 2022)

		Rs.		Rs.
To Disposal Account :			By Balance b/d	21,35,000
Scrapped - 2011 assets	1,70,000		By Profit and Loss Account	2,63,000
Sold - 2012 assets	90,000			
Sold - 2013 assets	2,16,000	4,76,000		
To Balance c/d		19,22,000		
		23,98,000		**23,98,000**

Sale or disposal of Plant and Machinery Account (for 2022)

		Rs.		Rs.
To Plant and Machinery :			By Provision for Depreciation	4,76,000
Scrapped		1,70,000	By Cash-Sales Proceeds	20,000
Sold		3,30,000	By Loss on sales	4,000
		5,00,000		**5,00,000**

Question 2:

The Machinery Account of a Factory showed a balance of Rs. 19,00,000 on 1st January, 2022. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2022, a new machinery was acquired at a cost of Rs. 2,80,000 and installation charges incurred in erecting the machine works out to Rs. 8,920 on the same date. On 1st June, 2022 a machine which had cost Rs.4,37,400 on 1st January 2020 was sold for Rs. 75,000. Another machine which had cost Rs. 4,37,000 on 1st January, 2021 was scrapped on the same date and it realised nothing.

Write a plant and machinery account for the year 2022, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

Answer:

Plant and Machinery Account

		Rs.			Rs.
2022			2022		
Jan. 1	To Balance b/d	19,00,000	June. 1	By Bank (Sales)	75,000
June. 1	To Bank (2,80,000 + 8,920)	2,88,920		By Depreciation (on sold machine)	14,762
				By Loss on sale	2,64,532
				By Loss on scrapping the machine	3,76,912

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				By Depreciation (on scrapped machinery)	16,388
				By Depreciation (Note iii)	1,32,094
				By Balance c/d	13,09,232
		21,88,920			**21,88,920**

Working Note:

(i)	**Calculation of loss on sale of machine on 1-6-2022**		
			Rs.
	Cost on 1-1-2020		4,37,400
	Less : Depreciation @ 10% on Rs. 4,37,400		(43,740)
	W.D.V. on 31-12-2020		3,93,660
	Less : Depreciation @ 10% on Rs. 3,93,660		(39,366)
	W.D.V. on 31-12-2021		3,54,294
	Less : Depreciation @ 10% on Rs. 3,54,294 for 5 months		(14,762)
			3,39,532
	Less : Sale proceeds on 1-6-2022		(75,000)
	Loss		2,64,532
(ii)	**Calculation of loss on scrapped machine**		
			Rs.
	Cost on 1-1-2021		4,37,000
	Less : Depreciation @ 10% on Rs. 4,37,000		(43,700)
	W.D.V. on 1-1-2022		3,93,300
	Less : Depreciation @ 10% on Rs. 3,93,300 for 5 months		(16,388)
	Loss		3,76,912
(iii)	**Depreciation**		
	Balance of machinery account on 1-1-2022		19,00,000
	Less : W.D.V of machinery sold	3,54,294	
	W.D.V. of machinery scrapped	3,93,300	(7,47,594)
	W.D.V. of other machinery on 1-1-2022		11,52,406
	Depreciation @ 10% on Rs. 11,52,406 for 12 months		1,15,240
	Depreciation @ 10% on Rs. 2,88,920 for 7 months		16,854
			1,32,094

<u>**Question 3:**</u>

The LG Transport company purchased 10 trucks at Rs. 45,00,000 each on 1st April 2019. On October 1st, 2021, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date another truck is purchased by the company for the sum of Rs.50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

Give the motor truck account for two year ending 31 Dec, 2022.

Answer:

Date	Particulars	Amount	Date	Particulars	Amount
2021			2021		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000

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Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2022			2022		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. Profit on settlement of truck

	Rs.
Original cost as on 1.4.2019	45,00,000
Less: Depreciation for 2019	(6,75,000)
	38,25,000
Less: Depreciation for 2020	(9,00,000)
	29,25,000
Less: Depreciation for 2021 (9 months)	(6,75,000)
	22,50,000
Less: Amount received from Insurance company	(27,00,000)
	4,50,000

<u>Question 4:</u>

A Machinery costing Rs. 20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

Answer:

Depreciation per year for first 4 years = Rs. 20,00,000 / 10 = Rs. 2,00,000.
Thus, WDV of the Machinery at end of the 4th year = Rs. 20,00,000 – (Rs. 2,00,000 x 4) = Rs. 12,00,000
Revalued Amount i.e. New Depreciable Amount shall be = Rs. 12,00,000 + Rs. 80,000 = Rs. 12,80,000
Original remaining useful life is (10-4) = 6 Years whereas it is reassessed as 8 Years.
Hence, depreciation for 5th Year = Rs. 12,80,000 / 8 = Rs. 1,60,000

<u>Question 5:</u>

Amazing group had Property, Plant & Equipment (PP&E) with a book value of Rs. 35,00,000 on 31st December 2022. The balance in Revaluation Surplus on that date was Rs. 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December 2022. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 2022 was (a) Rs. 37,00,000 (b) Rs. 33,00,000 and (c) Rs. 31,00,000. Also, give the journal entries.

Answer:

(a) Fair Value : Rs. 37,00,000

Since this is an upward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in an additional credit of Rs. 2,00,000 to Revaluation Surplus and hence the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall increase to Rs. 5,00,000. The Accounting journal entry shall be:

Property, Plant & Equipment A/c	Dr	2,00,000	
To Revaluation Surplus A/c			2,00,000

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(b) Fair Value : Rs. 33,00,000

Since this is a downward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of Rs. 2,00,000 (35,00,000 – 33,00,000) and hence the entire amount shall be debited to Revaluation Surplus. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall decrease to Rs. 1,00,000. The Accounting journal entry shall be:

Revaluation Surplus A/c	Dr	2,00,000	
To Property, Plant & Equipment A/c			2,00,000

(c) Fair Value : Rs. 31,00,000

Since this is also a downward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of Rs. 4,00,000 (35,00,000 – 31,00,000) and hence the Revaluation Surplus A/c shall be debited by Rs. 3,00,000 and the balance Rs. 1,00,000 shall be debited to Profit & Loss A/c. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall become Nil. The Accounting journal entry shall be:

Revaluation Surplus A/c	Dr	3,00,000	
Profit & Loss A/c	Dr	1,00,000	
To Property, Plant & Equipment A/c			4,00,000

Question 6:

On April 1, 2019 a firm purchased a machinery for Rs. 2,00,000. On 1st October in the same accounting year, additional machinery costing Rs. 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for Rs. 90,000. On October 1, 2021, new machinery was purchased for Rs. 2,50,000 while the machinery purchased on 1st October 2019 was sold for Rs. 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March 31, 2022.

Answer:

Dr. **Machinery Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019	To Bank A/c	2,00,000	31.03.2020	By Balance c/d	3,00,000
01.10.2019	To Bank A/c	1,00,000			
		3,00,000			3,00,000
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Bank A/c	90,000
				By Provision for Depreciation A/c	30,000
				By Profit and Loss A/c	80,000
			31.3.2021	By Balance c/d	1,00,000
		3,00,000			3,00,000
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Bank A/c	85,000
01.10.2021	To Bank A/c	2,50,000		By Provision for Depreciation A/c	20,000
	To Profit and Loss A/c	5,000	31.3.2022	By Balance c/d	2,50,000
		3,55,000			3,55,000

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Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To provision for Depreciation A/c	25,000	31.03.2020	By Profit and Loss A/c	25,000
		25,000			25,000
01.10.2021	To Provision for Depreciation A/c	10,000	31.03.2021	By Profit and Loss A/c	20,000
31.03.2021	To Provision for Depreciation A/c	10,000			
		20,000			20,000
01.10.2021	To Provision for Depreciation A/c	5,000	31.03.2022	By Profit and Loss A/c	17,500
31.03.2022	To Provision for Depreciation A/c	12,500			
		17,500			17,500

Dr. **Provision for Depreciation Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (Rs. 20,000 + Rs. 5,000)	25,000
		25,000			**25,000**
01.12.2020	To Machinery A/c (Rs. 20,000 + Rs. 10,000)	30,000	01.04.2020	By Balance b/d	25,000
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000
			31.03.2021	By Depreciation A/c	10,000
		45,000			**45,000**
01.10.2021	To Machinery A/c (Rs. 5,000 + Rs. 10,000+ Rs. 5,000)	20,000	01.04.2021	By Balance b/d	15,000
31.03.2022	To Balance c/d	12,500	01.10.2021	By Depreciation A/c	5,000
			31.03.2022	By Depreciation A/c	12,500
		32,500			**32,500**

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INCOMPLETE RECORDS

QUESTION 1:

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

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

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

Solution:

Computation of Profit or Loss during the year

	Rs.
Closing Capital	12,500
Add: Drawings during the year	3,000
	15,500
Less: Additional capital during the year	(3,750)
Less: Opening Capital	(10,000)
Net Profit for the year	1,750

ALTERNATIVELY

Profit/Loss can also be ascertained as balancing figure by preparing capital account as follows:

Particulars	Rs.	Particulars	Rs.
To drawings	3,000	By Balance b/d	10,000
To Balance c/d	12,500	By additional capital	3,750
		By Net Profit (Bal. Fig.)	1,750
	15,500		**15,500**

It is clear from the above discussion that to follow the capital comparison method, one should know the opening capital and closing capital. This should be determined by preparing statement of affairs at the two respective points of time.

Capital = Assets (-) liabilities.

Thus, the preparation of statement of affairs will require listing of assets and liabilities and their amount. The accountant utilizes the following sources for the purpose of finding out the assets and liabilities of a business enterprise:

(i) Cash book for cash balance.

(ii) Bank pass book for bank balance.

(iii) Personal ledger for debtors and creditors.

(iv) Inventory by actual counting and valuation.

(v) As regards fixed assets, he prepares a list of them. The proprietor would help him by disclosing the original cost and date of purchase. After deducting reasonable amount of depreciation, the written down value would be included in the Statement of Affairs.

After obtaining all necessary information about assets and liabilities, the next task of the accountant is to prepare statement of affairs at two different points in time.

The design of the statement of affairs is just like balance sheet as given below:

Statement of affairs as on …………

Liabilities	Rs.	Assets	Rs.
Capital (Bal. Fig.)	xx	Building	xx
Loans, Bank overdraft	xx	Machinery	xx
Sundry creditors	xx	Furniture	xx
Bills payable	xx	Inventory	xx
Outstanding expenses		Sundry debtors	xx
		Bills receivable	xx
		Loans and advances	xx
		Cash and bank	xx
		Prepaid expenses	xx
	15,500		**15,500**

Now from the statement of affairs prepared at two different dates, the opening and closing capital balances can be obtained.

QUESTION 2:

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

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

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

Solution:

Statement of Affairs as on 31st March, 2022

Liabilities	Amount	Assets	Amount
Sundry Creditors	12,000	Cash balance	3,200
Loan from bank	10,000	Inventory	34,800
Capital (Bal. fig.)	1,32,000	Sundry Debtors	31,000
		Machine	85,000
	1,54,000		**1,54,000**

Statement of profit or loss for the year ended 31st March, 2022

Capital as at 31st March 2022	1,32,000
Add: Drawings made during the year	24,000
Total	1,56,000
Less: Opening Capital as at 1st April 2021	(1,00,000)
Profit for the year ended 31st March 2022	56,000

QUESTION 3:

Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021 Rs.	31-03-2022 Rs.
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount Rs. 40,000 is retained in the business. Proprietor took @ 2,000 p.m. for meeting family expenses.
Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022.

Solution:

Mr. X
Statement of Affairs
as on 31-03-2021 & 31-03-2022

Liabilities	31.03.2021 Rs.	31.03.2022 Rs.	Assets	31.03.2021 Rs.	31.03.2022 Rs.
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
Loans	1,00,000	80,000	Furniture	50,000	45,000
Sundry creditors	40,000	70,000	Inventory	1,20,000	2,70,000
			Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	**5,90,700**		**3,81,200**	**5,90,700**

QUESTION 4:

Take figures given in Illustration 4. Find out profit of Mr. X for the year ended 31-03-2022.

Solution:

Determination of Profit by applying the method of the capital comparison

	Rs.
Capital Balance as on 31.03.2022	4,40,700
Less: Fresh capital introduced	(40,000)
	4,00,700
Add: Drawings (Rs. 2000 × 12)	24,000
	4,24,700
Less: Capital Balance as on 31.03.2021	(2,41,200)
Profit	1,83,500

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

ALTERNATIVELY

Capital account can be prepared as follows:

Particulars	Rs.	Particulars	Rs.
To drawings	24,000	By Balance b/d	2,41,200
To Balance c/d	4,40,700	By additional capital	40,000
		By Net Profit (Bal. Fig.)	1,83,500
	4,64,700		**4,64,700**

QUESTION 5:

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

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

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

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

Solution:

Calculation of Capital of Shri Moti

	Rs.	1-4-2020 Rs.	Rs.	1-4-2022 Rs.
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		–		1,25,000
Loan to Moti's Brother		–		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		–	
Sundry creditors	35,000	75,000	55,000	55,000

Capital		3,13,000	5,65,000
Income during the two years:			
Capital as on 1-4-2022			5,65,000
Add: Drawings – Domestic Expenses for the two years (Rs. 4,000 × 24 months)			96,000
			6,61,000
Less: Capital as on 1-4-2020			(3,13,000)
Income earned in 2020-2021 and 2021-2022			3,48,000
Income declared (Rs. 1,05,000 + 1,23,000)			2,28,000
Suppressed Income			1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by Rs. 1,20,000 based on the information available.

QUESTION 6:

Calculate the bad debts from the below information:

Opening balance of Debtors	Rs. 5,00,000
Closing balance of Debtors	Rs. 7,00,000
Amount received in Cash	Rs. 6,00,000
Discount allowed	Rs. 10,000
Credit Sales	Rs. 11,40,000
Bills Receivable	Rs. 3,00,000
Bad Debts	???

Solution:

Debtors Account

Particulars	Amount	Particulars	Amount
Balance b/f	5,00,000	Cash A/c	6,00,000
Credit Sales	11,40,000	Discount allowed	10,000
		Bills Receivable	3,00,000
		Bad Debts (Bal. Fig.)	30,000
		Balance c/f	7,00,000
	16,40,000		**16,40,000**

QUESTION 7:

Calculate the credit purchases from the below information:

Opening balance of creditors	Rs. 4,00,000
Closing balance of creditors	Rs. 5,00,000
Payments made in Cash	Rs. 8,50,000
Discount received	Rs. 20,000

Solution:

Total Creditors Account

Particulars	Amount	Particulars	Amount
Cash paid	8,50,000	Balance b/d	4,00,000
Discount received	20,000	Credit Purchases (Bal. fig)	9,70,000
Balance c/d	5,00,000		
	13,70,000		**13,70,000**

QUESTION 8:

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

Receipts	Amount	Payments	Amount
Bank Balance as on 1st April, 2021	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st March, 2022	6,400
		Cash in hand on 31st March, 2022	500
	68,000		**65,000**

Particulars of other assets and liabilities are as follows:

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

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

Solution:

A. Adamjee

Trading Account for the year ended 31st March 2022

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

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

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

Balance Sheet as on 31st March 2022

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

Working Note:

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

Liabilities	Rs.	Assets	Rs.
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital (balancing figure)	29,100	Furniture	1,200
		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank Balance (from cash statement)	2,800
	34,900		**34,900**

2. Ledger Account

A. Adamjee's Capital Account

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

Sales Account

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

Total Debtors Account

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

Purchases Account

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

Total Creditors Account

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

QUESTION 9:

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

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

Solution:

In the books of Mr. Manoj
Trading Account for the year ending 31st March, 2022

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

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

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

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

Liabilities	Rs.	Rs.	Assets	Rs.
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			
Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		**49,110**

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

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

(ii) **Total Debtors Account**

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

(iii) **Total Creditors Account**

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

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

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

(v)

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

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

QUESTION 10:

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

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

Summary of cash transactions during the year 2021-2022:

(i) Deposited to bank after payment of shop expenses @ Rs. 600 p.m., salary @ 9,200 p.m. and personal expenses @ Rs. 1,400 p.m. Rs. 7,62,750.
(ii) Cash Withdrawn from bank Rs. 1,21,000.
(iii) Cash payment to suppliers Rs. 77,200 for supplies and Rs. 25,000 for furniture.
(iv) Cheques collected from customers but dishonoured Rs. 5,700.
(v) Bills accepted by customers Rs. 40,000.
(vi) Bills endorsed Rs. 10,000.
(vii) Bills discounted Rs. 20,000, discount Rs. 750.
(viii) Bills matured and duly collected Rs. 16,000.
(ix) Bills accepted Rs. 24,000.
(x) Paid suppliers by cheque Rs. 3,20,000.
(xi) Received Rs. 20,000 on maturity of one LIC policy of the proprietor by cheque.
(xii) Rent received Rs. 14,000 by cheque for the premises owned by proprietor.
(xiii) A building was purchased on 31-11-2021 for opening a branch for Rs. 3,50,000 and some expenses were incurred on this building, details of which are not maintained.
(xiv) Electricity and telephone bills paid by cash Rs. 18,700, due Rs. 2,200.

Other transactions:

(i) Claim against the firm for damage Rs. 1,55,000 is under legal dispute. Legal expenses Rs. 17,000. The firm anticipates defeat in the suit.
(ii) Goods returned to suppliers Rs. 4,200.
(iii) Goods returned by customers Rs. 1,200.
(iv) Discount offered by suppliers Rs. 2,700.
(v) Discount offered to the customers Rs. 2,400.
(vi) The business is carried on at the rented premises for an annual rent of Rs. 20,000 which is outstanding at the year end.

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

Solution:

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

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

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

	Rs.		Rs.
To salary (9,200 × 12)	1,10,400	By Gross Profit	5,88,650
To Electricity & Tel. Charges (18,700 + 2,200)	20,900	By Discount	2,700
To Legal expenses	17,000		
To Discount (2,400 + 750)	3,150		
To Shop Exp. (600 × 12)	7,200		
To Provision for claims for damages	1,55,000		
To Shop Rent	20,000		
To Net Profit (b.f.)	2,57,700		
	5,91,350		**5,91,350**

Balance Sheet as on 31st March 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Capital A/c (W.N. vi)	2,38,200		Building (from summary cash and bank (A/c)	3,72,000
Add: Fresh capital introduced				
Maturity value from LIC	20,000		Furniture	25,000
Rent	14,000		Inventory	1,90,000
Add: Net Profit	2,57,700		Sundry debtors	92,000
	5,29,900		Bils receivable	6,000
Less: Drawing (1400 × 12)	(16,800)	5,13,100	Cash at Bank	87,000
Rent outstanding		20,000	Cash in Hand	5,300
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity & Telephone Charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		**7,77,300**

Working Notes:

(i) Sundry Debtors Account

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

(ii) Bills Receivable Account

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

(iii) **Sundry Creditors Account**

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

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

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

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

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

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

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

ASSIGNMENT 2

QUESTION 1:

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2021 is Rs. 1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sale of the company for the year ended 31.03.2022.

SOLUTION:

1. Calculation of Credit Sales and Total Sales

Credit Sales for the year ended 2021-22 = Debtors × $\frac{12 \text{ months}}{1.5 \text{ months}}$

= Rs. 1,25,000 × $\frac{12 \text{ months}}{1.5 \text{ months}}$

= Rs. 10,00,000

Total sales for the year ended 2021-22 = Credit sales × $\frac{100\%}{80\%}$

= Rs. 10,00,000 × $\frac{100\%}{80\%}$

= Rs. 12,50,000

QUESTION 2:

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	Rs.		Rs.
A's capital A/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash at hand	28,000
		Cash at Bank	38,000
	4,86,000		**4,86,000**

You are furnished with the following information:

(1) His sales, for the year ended 31st March 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total sales during the year 2020-21were Rs. 5,00,000.
(2) Payment for all the purchases were made by cheques only.
(3) Goods were sold for cash and credit both. Credit customers pay be cheques only.
(4) Depreciation on furniture is to be charged 10% p.a.
(5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of Rs.2,000 to the clerk, office expenses Rs. 1,200 and personal expenses Rs. 500.

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

	Rs.
Payment to creditors	3,00,000
Payment of rent up to 31st March, 2022	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2022:

	Rs.
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2022, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

SOLUTION:

In the books of Mr. A

Trading Account for the year ending 31st March, 2022

Particulars	Rs.	Particulars		Rs.
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			**7,60,000**

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

Particulars	Rs.	Particulars	Rs.
To Salary (2,000 × 12)	24,000	By Gross profit	1,16,000
To Rent	16,000		
To Office expenses (1,200 × 12)	14,400		
To Loss of cash (W.N. 6)	23,600		
To Depreciation on furniture	4,000		
To Net Profit (b.f.)	34,000		
	1,16,000		**1,16,000**

Balance Sheet as on 31st March, 2002

Liabilities			Rs.	Assets		Rs.
A's Capital	4,04,000			Furniture	40,000	
Add: Net Profit		34,000		Less: Depreciatio	(4,000)	36,000
Less: Drawings				Stock		1,60,000
(500 × 12)	(6,000)		4,32,000	Debtors		1,20,000
Creditors			1,46,000	Cash at bank		2,62,000
			5,78,000			**5,78,000**

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		**4,46,000**

(2) Calculation of total sales

	Rs.
Sales for the year 2020-21	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 2021-22	**6,00,000**

(3) Calculation of credit sales

	Rs.
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		**5,80,000**

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		**5,78,000**

(6) Calculation of the amount of cash defalcated by the cashier

		Rs.
Cash balance as on 1st April 2021		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (Rs. 2,000 × 12)	24,000	
Office expenses (Rs. 1,200 × 12)	14,400	
Drawings of A (Rs. 500 × 12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 2022 (defalcated by the cashier)		**23,600**

<u>QUESTION 3:</u>

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2021	As on 31.3.2022
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 7,00,000.
(b) Payment for business expenses Rs. 1,20,000.
(c) Receipts from debtors Rs. 7,50,000.

(d) Loan Rs. 1,00,000 taken on 1.10.2021 at 10% per annum.
(e) Cash deposited in the bank Rs. 1,00,000.

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as on 31st March, 2022.

SOLUTION:

Trading Account of Ram
for the year ended 31st March, 2022

	Rs.			Rs.
To Opening stock	2,80,000	By Sales		
To Purchases	7,70,000	Cash	2,40,000	
To Gross Profit @ 25%	3,10,000	Credit	10,00,000	12,40,000
		By Closing Stock (bal. fig.)		1,20,000
	13,60,000			**13,60,000**

Profit and Loss Account of Ram for the year ended 31st March, 2022

	Rs.		Rs.
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan	5,000		
(10% of 1,00,000 × 6/12)			
To Net Profit	1,45,000		
	3,10,000		**3,10,000**

Balance Sheet of Ram as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		**5,60,000**

Working Notes:

1. Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig.)	10,00,000	By Balance c/d	3,50,000
	11,00,000		**11,00,000**

2. Sundry Creditors Account

	Rs.		Rs.
To Bank A/c	7,00,000	By Balance c/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**

3. Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig.)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	**9,50,000**		**2,50,000**	**9,50,000**

PARTNERSHIP ACCOUNTS

UNIT 6: DISSOLUTION OF PARTNERSHIP FIRM & LLPs

ASSIGNMENT 1

QUESTION 1:

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3:2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	Rs.	Assets	Rs.
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date.
Fixed assets realized Rs. 5,20,000 and book debts Rs. 4,40,000.
Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.
Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000.
You are required to prepare:

(i) Realization account;
(ii) Partners capital account; and
(iii) Cash account.

SOLUTION:

(i) Realization Account

	Particulars	Rs.		Particulars	Rs.
To	Fixed assets	5,00,000	By	Creditors	3,20,000
To	Stock in trade	3,00,000	By	Cash (5,20,000+4,40,000)	9,60,000
To	Debtors	5,00,000	By	Y (Stock taken over)	2,50,000
To	Cash – Expenses	6,000	By	Loss transferred to partners' capital accounts	
To	Cash -Creditors			X	35,555
	(3,20,000 x 95%)	3,04,000		Y	26,667
				Z	17,778
		16,10,000			16,10,000

(ii) **Partners' Capital Accounts**

Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
To Realization Account	35,555	26,667	17,778	By Balance b/d	4,00,000	3,00,000	2,00,000
To Realization Account	-	2,50,000	-	By General reserve	40,000	30,000	20,000
To Cash	4,04,445	53,333	2,02,222				
	4,40,000	3,30,000	2,20,000		4,40,000	3,30,000	2,20,000

(iii) **Cash Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Realization A/c (Expenses)	6,000
To Realization A/c (Fixed assets and book debts realized)	9,60,000	By Realization A/c (Creditors)	3,04,000
		By X	4,04,445
		By Y	53,333
		By Z	2,02,222
	9,70,000		9,70,000

QUESTION 2:

P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		Rs.	Assets		Rs.
Fixed Capital			Fixed Assets:		
P	20,000		Trademark		40,000
Q	20,000		Freehold Property		8,000
R	10,000	50,000	Plant and Equipment		12,800
Current Accounts :			Motor Vehicle		700
P	500		Current Assets:		
Q	9,000	9,500	Stock		3,900
Loan from P		8,000	Trade Debtors	2,000	
Trade Creditors		12,400	Less: Provision	(100)	1,900
			Cash at Bank		200
			Miscellaneous losses:		
			R's Current Account		400
			Profit and Loss Account		12,000
		79,900			79,900

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of Rs. 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	Rs.
Trademark	Nil
Freehold Property	7,000

Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid Rs. 11,700 in full settlement of their debts. The costs of dissolution amounted to Rs. 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

Required

(a) Cash and Bank Account,
(b) Realization Account, and
(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

SOLUTION:

Cash / Bank Account

Particulars		Rs.	Particulars	Rs.
To Balance b/d		200	By Realization A/c- Creditors	11,700
To Realization A/c-			By Realization A/c- Expenses	1,500
Freehold property		7,000	By P's Loan A/c	8,000
Plant and Equipment		5,000	By P's Capital A/c	14,200
Stock		3,000	By Q's Capital A/c	24,200
Trade Debtors		1,600		
To Capital Accounts:				
P	25,500			
Q	17,000			
R	300	42,800		
		59,600		**59,600**

Realization Account

Particulars	Rs.	Particulars		Rs.
To Trademark	40,000	By Trade Creditors		12,400
To Freehold Property	8,000	By Provision for Bad Debts		100
To Plant and Equipment	12,800	By Bank:		
To Motor Vehicle	700	Freehold Property	7,000	
To Stock	3,900	Plant and Equip.	5,000	
To Sundry Debtors	2,000	Stock	3,000	
To Bank (Creditors)	11,700	Debtors	1,600	16,600
To Bank (Expenses)	1,500	By Q (Car)		500
		By Capital Accounts: (Loss)		
		P	25,500	
		Q	17,000	
		R	8,500	51,000
	80,600			**80,600**

Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	R Rs.	Particulars	P Rs.	Q Rs.	R Rs.
To Current A/c (Transfer) (WN)	5,500	—	2,400	By Balance b/d	20,000	20,000	10,000
To Realization A/c (Loss)	25,500	17,000	8,500	By Current A/c (Transfer) (WN)	—	5,000	—
To Realization A/c (Car)	—	500	—	By Bank	—	—	300
				By Bank (realization loss)	25,500	17,000	—
To R's Capital A/c (Deficiency)	300	300	—	By P & Q (Deficiency)	—	—	600
To Bank	14,200	24,200	—				
	45,500	42,000	10,900		45,500	42,000	10,900

Working Note

Particulars	P	Q	R
Current Account Balance Less: share of Profit & Loss A/c (debit balance)	500 (Cr) 6000 (Dr)	9000 (Cr) 4000 (Dr)	400 (Dr) 2000 (Dr)
Adjusted Current Account Balance	5500 (Dr)	5000 (Cr)	2400 (Dr)

Note:

1. P, Q, and R will bring cash to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.
2. On following Garner Vs. Murray rule, solvent partners P and Q have to bear the loss due to insolvency of a partner R in their fixed capital ratio.

<u>QUESTION 3</u>

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	Rs.	Assets	Rs.
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		**5,550**

The assets realized as under:

Particulars	Rs.
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realization amounted to Rs. 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of Rs. 200 only.
Show necessary ledger accounts to close the books of the firm.

SOLUTION:

In the books of M/s Amal and Bimal Realization Account

Realization Account

Particulars	Rs.	Particulars		Rs.
To Sundry Assets:		By Cash A/c:		
Plant & Machinery	2,500	Plant & Machinery	1,250	
Furniture	500	Furniture	150	
Debtors	1,000	Debtors	400	
Stock	800	Stock	500	2,300
Cash A/c-expenses	175	By Partners' Capital A/c		
		Loss on realization (Bal. fig.)		
		Amal	1,337	
		Bimal	1,338	2,675
	4,975			4,975

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	200	By Realization A/c- expenses	175
To Realization A/c		By Sundry Creditors A/c (Bal. fig.)	2,525
- Sale of sundry assets	2,300		
To Bimal's Capital A/c	200		
	2,700		2,700

Sundry Creditors Account

Particulars	Rs.	Particulars	Rs.
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c-transfer (bal. fig.)	2,275		
	4,800		4,800

Partners' Capital Accounts

Particulars	Amal (Rs.)	Bimal (Rs.)	Particulars	Amal (Rs.)	Bimal (Rs.)
To Balance b/f	—	550	By Balance b/f	750	—
To Realization A/c- loss	1,337	1,338	By Cash A/c	—	200
			By Deficiency A/c- transfer (bal. fig.)	587	1,688
	1,337	1,888		1,337	1,888

Deficiency Account

Particulars	Rs.	Particulars	Rs.
To Partners' Capital A/c		By Sundry Creditors A/c	2,275
Amal	587		
Bimal	1,688		
	2,275		2,275

QUESTION 4:

A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities		Rs.	Assets	Rs.
Creditors		15,700	Bank	535
Employees Provident Fund		6,300	Debtors	15,850
Capital Accounts:			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		82,000

Following information is given to you: -

1. One of the creditors took some of the patents whose book value was Rs. 5,000 at a valuation of Rs. 3,200. Balance of the creditors were paid at a discount of Rs. 400.
2. There was a joint life policy of Rs. 20,000 (not mentioned in the balance sheet) and this was surrendered for Rs. 4,500.
3. The remaining assets were realized at the following values: - Debtors Rs. 10,800; Stock Rs. 15,600; Plant and Machinery Rs. 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to Rs. 1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

SOLUTION:

Realization Account

Particulars		Rs.	Particulars		Rs.
To Sundry Assets: -			By Creditors		15,700
Debtors	15,850		By Employee's Provident Fund		6,300
Stock	25,200		By Bank A/c:		
Prepaid Expenses	800		Joint Life Policy	4,500	
Plant & Machinery	20,000		Debtors	10,800	
Patents	8,000	69,850	Stock	15,600	
To Bank-Creditors: (Rs. 15,700 –Rs. 3,200 - Rs. 400)		12,100	Plant and Machinery	12,000	
			Patents 60% of (Rs. 8,000 – Rs. 5,000)	1,800	44,700
To Bank A/c Employee's (P.F)		6,300	By Loss transferred to:		

To Bank A/c (expenses)		1,500	A's Capital A/c	9,220	
			B's Capital A/c	6,915	
			C's Capital A/c	4,610	
			D's Capital A/c	2,305	23,050
		89,750			**89,750**

Capital Accounts

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)
To Bal. b/d	—	—	3,200	8,415	By Bal. b/d	40,000	20,000	—	—
To Realization A/c	9,220	6,915	4,610	2,305	By Bank (Realization loss)	9,220	6,915	4,610	—
To D's Capital (Deficiency)	5,360	2,680	—	—	By Bank (Recovery)	—	—	—	2,680
To Bank	34,640	17,320	—	—	By A's Capital (2/3)	—	—	—	5,360
					By B's Capital (1/3)	—	—	—	2,680
					By Bank A/c		—	3,200	—
	49,220	26,915	7,810	10,720		49,220	26,915	7,810	10,720

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	535	By Realization A/c	12,100
To Realization A/c	44,700	By Realization A/c	6,300
To A's Capital A/c	9,220	By Realization A/c	1,500
To B's Capital A/c	6,915	By A's Capital A/c	34,640
To D's Capital A/c	2,680	By B's Capital A/c	17,320
To C's Capital A/c (4,610 + 3,200)	7,810		
	71,860		**71,860**

Working Note

D's loss will be borne by A and B only because only solvent partners having credit balance has to bear the loss on account of insolvency. C will bring his share of loss in cash.

<u>QUESTION 5:</u>

M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital:			Fixed Assets		40,000
X	29,200		Stock		25,000
Y	10,800		Book Debts	25,000	
Z	10,000	50,000	Less: Provision	(5,000)	20,000
Z's Loan		5,000	Cash		1,000
Loan from Mrs. X		10,000	Advance to Y		4,000
Sundry Trade Creditors		25,000			
		90,000			**90,000**

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to Rs. 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.
Fixed assets realized Rs. 20,000; Stock Rs. 21,000 and Book Debt Rs. 20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to Rs. 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.
Give accounts to close the books; work according to the decision in Garner vs. Murray.

SOLUTION:

Realization Account

Particulars	Rs.	Particulars		Rs.
To Sundry		By Provision for Doubtful Debts		5,000
Fixed Assets (transfer)	40,000	By Cash (20,000+21,000+20,500)		61,500
Stock	25,000	By Sundry Trade Creditors		
Book Debts	25,000	(Discount)		29,000
To Cash—Expenses	1,080	By Loss: X (2/5)	9,600	
- Creditors	28,420	Y (2/5)	9,600	
		Z (1/5)	4,800	24,000
	1,19,500			1,19,500

Sundry Trade Creditors

Particulars	Rs.	Particulars	Rs.
To Realization A/c	29,000	By Balance b/d	25,000
		By Partners Capital Accounts (Purchase omitted)	4,000
	29,000		29,000

Z's Loan Account

Particulars	Rs.	Particulars	Rs.
To Cash Account	5,000	By Balance b/d	5,000

Mrs. X's Loan Account

Particulars	Rs.	Particulars	Rs.
To X's Capital A/c – transfer	10,000	By Balance b/d	10,000

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By Sundry Trade Creditors (after deducting discount of 2%)	28,420
To Realization A/c-		By Realization A/c – expenses	1,080
assets realized	61,500	By Z's Loan	5,000
To X's Capital A/c*	9,600	By X's Capital A/c	34,300
To Z's Capital A/c*	4,800	By Z's Capital A/c	8,100
	76,900		76, 900

*X and Z bring these amounts to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.

Capital Accounts

Particulars	X(Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
To Sundry Trade Creditors- omission	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000
To Balance c/d	27,600	9,200	9,200				
	29,200	**10,800**	**10,000**		**29,200**	**10,800**	**10,000**
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200
To Realization A/c-loss	9,600	9,600	4,800	By Mrs. X's Loan	10,000	-	-
To Y's Capital A/c	3,300	-	1,100	By Cash (Realization loss)	9,600	-	4,800
				By X's Capital A/c		3,300	
To Cash	34,300	-	8,100	By Z's Capital A/c	-	1,100	-
	47,200	**13,600**	**14,000**		**47,200**	**13,600**	**14,000**

Note: Y's deficiency comes to Rs. 4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600: 9,200 i.e., capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2022.

QUESTION 6:

A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were Rs.9,600, Rs. 6,000 and Rs. 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	Rs.	Assets	Rs.
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent.
You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

SOLUTION:

Statement of Distribution of Cash

Realization		Interest on loans from partner's spouses	Interest on loans from partners	Partners Capitals			Total
				A	B	C	
Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balances due (1)		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of Investments	1,000	(1,000)					
		1,000	1,000				
(ii) Sale of furniture	2,000	(1,000)	(1,000)				

(iii) Sale of machinery	1,200						
Maximum possible loss Rs. 22,800 (total of capitals Rs. 24,000 less Cash available Rs. 1,200) allocated to partners in the profit sharing ratio i.e. 5:3: 2				(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3,840	1,200
Deficiency of A and B written off against C				1,800	840	(2,640)	
Amount paid (2)				-	-	1,200	1,200
Balances in capital accounts (1-2) = (3)				9,600	6,000	7,200	22,800
(iv) Sale of stock 4,000							
Max. possible loss 22,800-4,000= 18,800							
allocated to partner's in the ratio 5:3:2				(9,400)	(5,640)	(3,760)	(18,800)
Amounts at credit and cash paid (4)				200	360	3,440	4,000
Balances in capital accounts left unpaid - Loss (3-4) = (5)				9,400	5,640	3,760	18,800

QUESTION 7:

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	Rs.	Assets	Rs.
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realized the following sums in installments:

I	1,000	
II	3,000	
III	3,900	
IV	6,000	
V	20,100	[includes saving in expenses i.e. Rs.100 (Rs.500-Rs.400)]
	34,000	

The expenses of realization were expected to be Rs. 500 but ultimately amounted to Rs. 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

SOLUTION:

First of all, the following table will be constructed to show the amounts available for distribution among the various interests:

Statement showing Realization and Distribution of Cash Payments

Particulars	Realization Rs.	Creditors Rs.	Partners' Loan Rs.	Partners' Capitals Rs.
1. After taking into account cash balance and amount set aside for expenses	1,000	1,000	-	-
2.	3,000	1,000	2,000	-
3.	3,900	-	3,000	900
4.	6,000	-	-	6,000
Including saving in expenses	20,100	-	-	20,100
	34,000	**2,000**	**5,000**	**27,000**

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

(1) Calculation to determine the mode of distribution of Rs. 900

Particulars	Total (Rs.)	A (Rs.)	B (Rs.)	C (Rs.)
Balance	42,000	15,000	18,000	9,000
Less: Possible loss, should remaining assets prove to be worthless (in their profit-sharing ratio)	(41,100)	(16,440)	(16,440)	(8,220)
	+ 900	– 1,440	+ 1,560	+ 780
Deficiency of A's capital written off against those of B and C in the ratio of their capital, 18,000:9,000 (Garner vs. Murray)			(960)	(480)
Manner in which the first Rs. 900 should be distributed			+ 600	+ 300

(2) Distribution of Rs. 6,000

Balance after making payment of amount shown in step (1)	41,100	15,000	17,400	8,700
Less: Possible Loss assuming remaining asset to be valueless (in their profit sharing ratio)	(35,100)	(14,040)	(14,040)	(7,020)
Balance available and to be distributed	**6,000**	**960**	**3,360**	**1,680**

(3) Distribution of Rs. 20,100

Balance after making payment of amount shown in step (2)	35,100	14,040	14,040	7,020
Less: Possible loss, assuming remaining assets to be valueless (in their profit sharing ratio)	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of Rs. 20,100	**20,100**	**8,040**	**8,040**	**4,020**
Summary:				
Balance	42,000	15,000	18,000	9,000
Total amounts paid	27,000	9,000	12,000	6,000
Loss	**15,000**	**6,000**	**6,000**	**3,000**

QUESTION 8:

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		**2,00,000**

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs. 29,000 in full settlement of their account. Expenses of realization were estimated to be Rs. 5,400 but actual amount spent was Rs. 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	Rs.
On 5th July, 2022	25,200
On 30th August, 2022	60,000
On 15th September, 2022	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

SOLUTION:

Statement showing distribution of cash amongst the partners

2022	Creditors Rs.	B's Loan Rs.	A Rs.	B Rs.	C Rs.
June 30					
Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (Rs. 10,800 – Rs. 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1st Instalment of Rs. 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realisation A/c	1,000				
	Nil				
August 30					
2nd instalment of Rs. 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised Rs. 80,000					
Add: Balance out of the Provision for Expenses A/c 1,400					
81,400			32,560	32,560	16,280
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1			10,800	10,800	5,400

Working Notes:

1. Highest relative capital basis

		A Rs.	B Rs.	C Rs.
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5- 8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			

	First Rs. 4,000 (2 : 0 : 0)	4,000	-	-
	Next Rs. 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over Rs. 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

			Creditors	A	B	C
First	Rs. 8,400		8,400	-	-	-
Next	Rs. 4,000	(2 : 0 : 0)		4,000	-	-
Next	Rs. 36,000	(2 : 0 : 1)		24,000	-	12,000
Balance	Rs. 11,600	(2 : 2 : 1)		4,640	4,640	2,320
	60,000		8,400	32,640	4,640	14,320

QUESTION 9:

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities		Rs.	Assets	Rs.
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		**2,00,000**

The firm was dissolved on the above date:
P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for Rs. 30,000 and Rs. 50,000 respectively; There was an unrecorded investment which was sold for Rs. 25,000; Debtors realized 90% only and Rs. 1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for Rs. 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

SOLUTION:

Books of P & Q LLP.
Realization Account

Particulars		Rs.	Particulars		Rs.
To Debtors	25,000		By Creditors		20,000
To Stock	35,000		By Bank overdraft		5,000
To Furniture	40,000		By Bank:		
To Machinery	60,000	1,60,000	Investment	25,000	
To Bank:			Furniture	30,000	

Creditors	20,000		Machinery	50,000	
Bank overdraft	5,000		Debtors (90%)	22,500	
Outstanding bill	2,000	27,000	Stock	20,125	
To Profit transferred to:			Bad debts Recovered	1,245	1,48,870
P's capital	1,310		By P's capital (stock taken over)		15,750
Q's capital	1,310	2,620			
		1,89,620			**1,89,620**

Partners' Capital Accounts

	P	Q		P	Q
To P's current Account	16,940		By Balance b/d	1,00,000	50,000
To Bank	83,060	68,810	By Q's current Account		18,810
	1,00,000	68,810		1,00,000	68,810

Bank Account

	Rs.		Rs.
To Balance b/d	30,000	By Realization	27,000
To Realization	1,48,870	By P's capital	83,060
		By Q's capital	68,810
	1,78,870		1,78,870

Working Note:

Partners' Current Accounts

	P	Q		P	Q
To Balance b/d	10,000		By Balance b/d		10,000
To Realization	15,750		By Reserves	7,500	7,500
To Q's capital		18,810	By Realization (profit)	1,310	1,310
			By P's Capital	16,940	
	25,750	18,810		25,750	18,810

ASSIGNMENT 2

QUESTION 1:

P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		**3,00,000**

They decided to dissolve the business. The following are the amounts realized:

Particulars	Rs.
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs. 1,500. There was an unrecorded asset of Rs. 6,000 which was taken over by Q at Rs. 4,800. An amount of Rs. 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

(i) Realization account.
(ii) Partners' capital accounts.
(iii) Cash account.

SOLUTION:

Realization Account

Particulars		Rs.	Particulars		Rs.
To Debtors		48,000	By Creditors		48,000
To Stock		60,000	By Cash A/c (Assets realized):		
To Fixtures		24,000	Plant and Machinery	1,02,000	
To Plant and machinery		1,08,000	Fixture	18,000	
			Stock	84,000	
To Cash A/c (Creditors)		45,600	Sundry Debtors	44,400	2,48,400
To Cash A/c (GST)		4,200	By Q (Unrecorded asset)*		4,800
To Cash A/c (Realization expenses)		1,500			
To Profit on Realization					
P	3,960				
Q	3,960				
R	1,980	9,900			
		3,01,200			3,01,200

Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	R Rs.	Particulars	P Rs.	Q Rs.	R Rs.
To Realization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund	24,000	24,000	12,000
				By Realization A/c (Profit)	3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600
To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		3,08,400

*An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

QUESTION 2:

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2022 their Balance Sheet was as follows:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		3,05,480

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for Rs. 60,000 and the plant for Rs. 1,07,500. The fixtures realize Rs. 20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize Rs. 45,900. Realization expenses amount to Rs. 4,500.
The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realization Account;
(ii) Partners' Current Accounts;
(iii) Partners' Capital Accounts showing the closing of the firm's books.

SOLUTION:

Realization Account

Particulars	Rs.	Particulars		Rs.
To Premises	50,000	By Sundry Creditors		84,650
To Plant	1,25,000	By Bank:		
To Fixtures	32,500	Premises	60,000	
To Stock	43,200	Plant	1,07,500	
To Debtors	54,780	Fixtures	20,000	
To Bank (Creditors)	84,650	Stock	41,040	
To Bank (Expenses)	4,500	Debtors	45,900	2,74,440
		By Loss on Realization transferred to Partners' Current A/cs		
		Thin	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			**3,94,630**

Partners' Current Accounts

Particulars	Thin Rs.	Short Rs.	Fat Rs.	Particulars	Thin Rs.	Short Rs.	Fat Rs.
To Balance b/d	–	–	14,500	By Balance b/d	29,700	11,300	–
To Realization	14,216	14,216	7,108	By Capital A/c Transfer	–	2,916	21,608
To Capital A/c transfer	15,484	–	–				
	29,700	**14,216**	**21,608**		**29,700**	**14,216**	**21,608**

Partners' Capital Accounts

Particulars	Thin Rs.	Short Rs.	Fat Rs.	Particulars	Thin Rs.	Short Rs.	Fat Rs.
To Current A/c	–	2,916	21,608	By Balance b/d	80,000	50,000	20,000
				By Current A/c (transfer)	15,484	–	–

To Fat's Capital A/c Deficiency in the ratio of 8:5	990	618	–	By Bank (Realization loss)	14,216	14,216	
To Bank	1,08,710	60,682	–	By Thin & Short Capital A/cs			1,608
	1,09,700	**64,216**	**21,608**		**1,09,700**	**64,216**	**21,608**

Working Notes:

(i) **Bank Account**

Particulars	Rs.	Particulars	Rs.
To Realization A/c	2,74,440	By Balance b/d	44,330
To Thin's Capital A/c	14,216	By Realization A/c (Creditors)	84,650
To Short's Capital A/c	14,216	By Realization A/c (Expenses)	4,500
		By Thin's Capital A/c	1,08,710
		By Short's Capital A/c	60,682
	3,02,872		3,02,872

(ii) Fat's deficiency has been by borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in Garner vs. Murray.

QUESTION 3:

Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	Amount	Assets		Amount
Capital Accounts:		Land & Building		1,35,000
Amit	55,200	Plant & Machinery		45,000
Sumit	55,200	Furniture		25,500
General Reserve	61,500	Investments		15,000
Kumar's Loan A/c	15,000	Book Debts	60,000	
Loan from D	1,20,000	Less: Prov. for bad debts	(6,000)	54,000
Trade Creditors	30,000	Stock		36,000
Bills Payable	12,000	Bank		13,500
Outstanding Salary	7,500	Capital Withdrawn:		
		Kumar		32,400
	3,56,400			**3,56,400**

The following information is given to you:

a. Realization expenses amounted to Rs. 18,000 out of which Rs. 3,000 was borne by Amit.

b. A creditor agreed to takeover furniture of book value Rs. 12,000 at Rs. 10,800. The rest of the creditors were paid off at a discount of 6.25%.

c. The other assets realized as follows:

Furniture	- Remaining taken over by Kumar at 90% of book value
Stock	- Realized 120% of book value
Book Debts	- Rs. 12,000 of debts proved bad, remaining were fully realized
Land & Building	- Realized Rs. 1,65,000
Investments	-Taken over by Amit at 15% discount

d. For half of his loan, D accepted Plant & Machinery and Rs. 7,500 cash. The remaining amount was paid at a discount of 10%.
e. Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

SOLUTION:

Realization Account

	Particulars	Rs.		Particulars	Rs.
To	Land and Building	1,35,000	By	Provision for bad debts	6,000
To	Plant and Machinery	45,000	By	Loan from D	1,20,000
To	Furniture	25,500	By	Trade creditors	30,000
To	Investments	15,000	By	Bills payable	12,000
To	Book debts	60,000	By	Outstanding salary	7,500
To	Stock	36,000	By	Kumar - Furniture taken over	
To	Bank (Realization expenses)	15,000		(13,500 x 0.9)	12,150
To	Amit– Realization expenses	3,000	By	Bank A/c -	
To	Bank A/c -			Stock Realized 43,200	
	Bill payable	11,940		Land & Building 1,65,000	
	D's Loan	61,500		Debtors <u>48,000</u>	2,56,200
	Creditors	18,000			
	Salary	7,500	By	Amit (Investment taken over)	12,750
To	Profit transferred to partners' capital Accounts				
	Amit 9,264				
	Sumit 9,264				
	Kumar <u>4,632</u>	23,160			
		4,56,600			4,56,600

Bank Account

	Particulars	Rs.		Particulars	Rs.
To	Balance b/d	13,500	By	Realization A/c (payment of liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To	Realization A/c (assets realized)	2,56,200	By	Amit	79,314
To	Kumar	12,618	By	Sumit	89,064
		2,82,318			2,82,318

Partners' Capital Accounts

Particulars	Amit Rs.	Sumit Rs.	Kumar Rs.	Particulars	Amit Rs.	Sumit Rs.	Kumar Rs.
To Balance b/d			32,400	By Balance b/d	55,200	55,200	
				By Kumar's Loan			15,000
To Realization A/c	12,750			By General Reserve	24,600	24,600	12,300

(Investment taken over)				By Realization A/c (expense)	3,000		
To Realization A/c (Furniture taken over)			12,150	By Realization A/c (profit)	9,264	9,264	4,632
To Bank A/c	79,314	89,064		By Bank A/c			12,618
	92,064	**89,064**	**44,550**		**92,064**	**89,064**	**44,550**

Working Notes:

1. Payment for Bills Payable

Particulars	Amount (Rs.)
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. Payment to D's Loan

Particulars	Amount (Rs.)
D's Loan as per Balance Sheet	120,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (Rs. 45,000) and Rs. 7,500 in cash.	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. Rs. 60,000 – Rs. 6,000 = Rs. 54,000.	54,000

3. Payment to Trade Creditors

Particulars	Amount (Rs.)
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value Rs. 12,000 accepted at value Rs. 10,800	10,800
	19,200
Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. Furniture taken over by Kumar

Particulars	Amount (Rs.)
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value Rs. 12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

ACCOUNTING FOR BONUS SHARES

ASSIGNMENT 1

QUESTION 1:

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

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

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

Solution :

Journal Entries in the books of Bharat Ltd.

		Dr. Rs.	Cr. Rs.
Capital Redemption Reserve A/c Securities Premium A/c General Reserve A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated…….)	Dr. Dr. Dr.	55,000 30,000 15,000	 1,00,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	1,00,000	 1,00,000

Working Note-

Number of Bonus shares to be issued- (40,000 shares / 4) X 1 = 10,000 shares

Value of Bonus shares- 10,000 shares of Rs.10 each = Rs.1,00,000

QUESTION 2:

Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs.10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of Rs. 50,00,000 consisting of Equity shares of Rs. 10 each, had General Reserve of Rs. 9,00,000. It was resolved to capitalize Rs. 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Solution :

Journal Entries

			Rs.	Rs.
(i)	General Reserve A/c To Bonus to shareholders A/c (For making provision of bonus issue)	Dr.	1,25,000	1,25,000
	Share Final Call A/c To Equity share capital A/c (For final calls of Rs.2.5 per share on 50,000 equity shares due as per Board's Resolution dated)	Dr	1,25,000	1,25,000
	Bonus to shareholders A/c To Share Final Call A/c (For bonus money applied for call)	Dr.	1,25,000	1,25,000
(ii)	General Reserve A/c To Bonus to shareholders A/c (For making provision of bonus issue)	Dr.	5,00,000	5,00,000
	Bonus to shareholders A/c To Equity share capital A/c (For issue of 50,000 bonus shares at Rs.10)	Dr.	5,00,000	5,00,000

QUESTION 3:

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

	Rs.
Authorised capital:	
10,000 12% Preference shares of Rs. 10 each	1,00,000
1,00,000 Equity shares of Rs. 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of Rs. 10 each fully paid	80,000
90,000 Equity shares of Rs. 10 each, Rs. 8 paid up	7,20,000
Reserves and Surplus:	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ Rs. 100 each	5,00,000

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

Solution :

Journal Entries in books of Solid Ltd.

2022			Dr. Rs.	Cr. Rs.
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of Rs.2 per share on 90,000 equity shares due as per Board's Resolution dated)	Dr.	1,80,000	 1,80,000
April 20	Bank A/c To Equity Share Final Call A/c (Final Call money on 90,000 equity shares received)	Dr.	1,80,000	 1,80,000
	Securities Premium A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...)	Dr. Dr. Dr.	20,000 1,60,000 45,000	 2,25,000
April 20	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	2,25,000	 2,25,000

Balance Sheet (Extract) as at 30th April, 2022 (after bonus issue)

		Particulars	Notes	Amount (Rs.)
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,05,000
	b	Reserves and Surplus	2	1,95,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	5,00,000
		Total		**19,00,000**

Notes to Accounts:-

1	**Share Capital**		
	Equity share capital		
	Authorised share capital		
	10,000 12% Preferenec shares of Rs. 10 each		1,00,000
	1,12,500 Equity shares of Rs. 10 each		11,25,000
	Issued, subscribed and fully paid share capital		
	8,000 12% preference shares of Rs. 10 each		80,000
	1,12,500 Equity shares of Rs. 10 each, fully paid (Out of above, 22,500 equity shares @ Rs. 10 each were issued by way of bonus)	(A)	11,25,000
		Total	**12,05,000**
2	**Reserves and Surplus**		
	Revaluation Reserve		35,000
	Securities Premium	20,000	

	Less: Utilised for bonus issue	(20,000)	Nil
	General reserve	1,60,000	
	Less: Utilised for bonus issue	(1,60,000)	Nil
	Profit & Loss Account	2,05,000	
	Less: Utilised for bonus issue	(45,000)	1,60,000
		Total	**1,95,000**
3	**Long-term borrowings**		
	Secured		
	12% Debentures @ Rs. 100 each		5,00,000

The authorised capital has been increased by sufficient number of shares. (11,25,000 – 10,00,000)

Working Note-

Number of Bonus shares to be issued (90,000 shares / 4) X 1 = 22,500 shares.

Note: It has to be ensured that the authorized capital after bonus issue should not be less than the issued share capital (including bonus issue) in all the practical problems. The authorized capital may either be increased by the amount of bonus issue or the value of additional shares [value of bonus shares issued less unused authorized capital (excess of authorized capital in comparison to the issued shares before bonus issue)

QUESTION 4:

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

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

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

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

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Solution :

Journal Entries in the books of Preet Ltd.

			Rs.	Rs.
1-4-2022	Equity share final call A/c To Equity share capital A/c (For final calls of Rs. 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)	Dr.	2,70,000	 2,70,000
20-4-2022	Bank A/c To Equity share final call A/c (For final call money on 1,35,000equity shares received)	Dr.	2,70,000	 2,70,000
	Securities Premium A/c Capital Redemption Reserve A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr.	37,500 60,000 1,80,000 60,000	 3,37,500
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	3,37,500	 3,37,500

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

		Rs.
Share capital:		
Authorised Capital		
15,000 12% Preference shares of Rs.10 each		1,50,000
1,68,750 Equity shares of Rs.10 each (refer working note below)		16,87,500
Issued and subscribed capital		
12,000 12% Preference shares of Rs.10 each, fully paid		1,20,000
1,68,750 Equity shares of Rs.10 each, fully paid		16,87,500
(Out of above, 33,750 equity shares @ Rs.10 each were issued by way of bonus)		
Reserves and surplus		
Securities Premium	37,500	
Less: Utilised for bonus issue	(37,500)	NIL
Capital Redemption Reserve	60,000	
Less: Utilised for bonus issue	(60,000)	NIL
General Reserve	1,80,000	
Less: Utilised for bonus issue	(1,80,000)	NIL
Profit and Loss Account	3,00,000	
Less: Utilised for bonus issue	(60,000)	2,40,000

Working Notes:

1. Number of Bonus shares to be issued- **Rs.**
   (1,35,000 shares / 4) X 1 = 33,750 shares
2. The authorised capital should be increased as per details given below:

	Rs.
Existing issued Equity share capital	13,50,000
Add: Issue of bonus shares to equity shareholders	3,37,500
	16,87,500

ASSIGNMENT 2

QUESTION 1:

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

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

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

Solution :

Journal Entries in the books of Saral Ltd.

2022			Dr.	Cr.
	Capital Redemption Reserve A/c	Dr.	70,000	
	Securities Premium A/c	Dr.	40,000	
	General Reserve A/c (b.f.)	Dr.	40,000	
	To Bonus to Shareholders A/c			1,50,000
	(Bonus issue of one shares for every three shares held, by utilising various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Capitalisation of profit)			

Working Note- Number of bonus shares to be issued- 4500 / 3 X1= 1500 shares

QUESTION 2:

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

Notes	Rs. In Lakhs
(1) **Share Capital**	
Authorised :	
20 crore shares of Rs. 10 each	20,000
Issued and Subscribed :	
10 crore Equity Shares of Rs. 10 each	10,000
2 crore 11% Cumulative Preference Shares of Rs. 10 each	2,000
Total	**12,000**
Called and paid up:	
10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of Rs. 10 each, fully called and paid up	2,000
Total	**10,000**

(2) **Reserves and Surplus :**	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	**4,798**

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

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

Solution :

Journal Entries in the books of Brite Ltd.

2022			Dr. Rs. in lakhs	Cr. Rs. in lakhs
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of Rs.2 per share on 10 crore equity shares made due)			
	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Final call money on 10 crore equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	1,485	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c (b.f.)	Dr.	515	
	To Bonus to Shareholders A/c			4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated….)			
	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Capitalisation of profit)			

Notes to Accounts

			Rs. in lakhs
1.	Share Capital		
	Authorised share capital:		
	20 crore shares of Rs.10 each		20,000
	Issued, subscribed and fully paid up share capital:		
	14 crore Equity shares of Rs.10 each, fully paid up		14,000

	(Out of the above, 4 crore equity shares @ Rs. 10 each were issued by way of bonus) 2 crore, 11% Cumulative Preference share capital of Rs. 10 each, fully paid up		2,000
			16,000
2.	Reserves and Surplus: Capital Redemption reserve Less: Utilised for bonus issue Securities Premium Less: Utilised for bonus issue General Reserve Less: Utilised for bonus issue Surplus (Profit and Loss Account)	 1,485 (1,485) 2,000 (2,000) 1,040 (515)	 525 273
	Total		**798**

QUESTION 3:

Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

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

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

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

Solution:

Journal Entries in the books of Manoj Ltd.

			Rs.	Rs.
1-4-2022	Equity share final call A/c To Equity share capital A/c (For final calls of Rs.2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)	Dr.	5,40,000	 5,40,000
20-4-2022	Bank A/c To Equity share final call A/c (For final call money on 2,70,000equity shares received)	Dr.	5,40,000	 5,40,000

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	Securities Premium A/c Capital redemption Reserve A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr.	75,000 1,20,000 3,60,000 1,20,000	 6,75,000
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	6,75,000	 6,75,000

Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

		Rs.
Authorised Capital		
30,000 12% Preference shares of Rs.10 each		3,00,000
3,37,500 Equity shares of Rs.10 each (refer W.N.)		33,75,000
Issued and subscribed capital		
24,000 12% Preference shares of Rs.10 each, fully paid		2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid		33,75,000
(Out of the above, 67,500 equity shares @ Rs.10 each were issued by way of bonus shares)		
Reserves and surplus		
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	(1,20,000)	NIL
Securities premium	75,000	
Less: Utilised for bonus issue	(75,000)	NIL
General Reserve	3,60,000	
Less: Utilised for bonus issue	(3,60,000)	NIL
Profit and Loss Account	6,00,000	
Less: Utilised for bonus issue	(1,20,000)	4,80,000

Working Note:

1. Number of bonus shares to be issued- 2,70,000/4 X1= 67,500 shares
2. The authorised capital should be increased as per details given below:

	Rs.
Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	6,75,000
	33,75,000

ACCOUNTING FOR RIGHT ISSUE

ASSIGNMENT 1

QUESTION 1:

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

Solution:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + No. of right shares)

= (Rs. 150 X 4 Shares + Rs. 125 X 1 Share) / (4 + 1) Shares

= Rs. 725 / 5 shares = Rs. 145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 150 – Rs. 145 = Rs. 5 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 125 will have to pay Rs. 20 (4 shares X Rs. 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

QUESTION 2:

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

Solution:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price)/ (Existing Number of shares + No. of right shares)

= (Rs. 240 x 2 Shares + Rs. 120 x 1 Share) / (2 + 1) Shares

= Rs. 600 / 3 shares = Rs. 200 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= Rs. 240 – Rs. 200 = Rs. 40 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 120 will have to pay Rs. 80 (2 shares x Rs. 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

QUESTION 3:

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

Solution:

Journal Entry in the books of A Ltd.

			Rs.	Rs.
	Bank A/c To Equity share capital A/c (For rights share issued at par value in the ratio of 1:4 equity shares due as per Board's Resolution dated….)	Dr.	62,500	 62,500

Working Note:

Number of Rights shares to be issued- 25,000/4x1= 6,250 shares

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QUESTION 4:

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022:

	Rs.
Authorised capital: 50,000 12% Preference shares of Rs. 10 each 5,00,000 Equity shares of Rs. 10 each	 5,00,000 50,00,000
	55.00.000
Issued and Subscribed capital: 50,000 12% Preference shares of Rs. 10 each fully paid 4,00,000 Equity shares of Rs. 10 each, Rs. 8 paid up	 5,00,000 32,00,000
Reserves and surplus: General Reserve Capital Redemption Reserve Securities premium (collected in cash) Revaluation Reserve Profit and Loss Account	 1,60,000 2,40,000 2,75,000 1,00,000 16,00,000

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

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

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

Solution:

Journal Entries in the books of Mars Ltd.

20X1			**Dr. Rs.**	**Cr. Rs.**
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of Rs. 2 per share on 4,00,000 equity shares made due)	Dr.	8,00,000	 8,00,000
April 25	Bank A/c To Equity Share Final Call A/c (Final call money on equity shares received)	Dr.	8,00,000	 8,00,000
May 1	Capital Redemption Reserve A/c Securities Premium A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated…….)	Dr. Dr. Dr. Dr.	2,40,000 2,75,000 1,60,000 3,25,000	 10,00,000

	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	10,00,000	 10,00,000
June 20	Bank A/c To Securities Premium A/c To Equity Share Capital A/c (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated…)	Dr.	24,00,000	 4,00,000 20,00,000

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REDEMPTION OF PREFERENCE SHARES

ASSIGNMENT 1

QUESTION 1:

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of Hinduja Company Ltd.
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 50,000 Equity Shares of ₹10 each at par for the purpose of redemption of preference shares, as per Board Resolution No…dated)	Dr.	5,00,000	 5,00,000
	8% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)	Dr.	5,00,000	 5,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	5,00,000	 5,00,000

QUESTION 2:

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

Solution:

In the books of C Ltd.
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being the issue of 1,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share as per Board's Resolution No…..dated)	Dr.	12,00,000	 10,00,000 2,00,000

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	10% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c	Dr.	10,00,000	10,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	10,00,000	10,00,000

Note: Amount required for redemption is ₹10,00,000. Therefore, face value of equity shares to be issued for this purpose must be equal to ₹10,00,000. Premium received on new issue cannot be used to finance the redemption.

QUESTION 3:

G India Ltd. had 9,000, 10% redeemable Preference Shares of ₹10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of G India Limited
Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 10,000 Equity Shares of ₹9 each at par, as per Board's Resolution No…….Dated…..)	Dr.	90,000	90,000
	10% Redeemable Preference Shares Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)	Dr.	90,000	90,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	90,000	90,000

QUESTION 4:

The Board of Directors of a Company decide to issue minimum number of equity shares of ₹ 9 to redeem ₹ 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹ 3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decided to issue shares in multiples of ₹ 50 only.

Solution:

Nominal value of preference shares	Rs. 5,00,000
Maximum possible redemption out of profits	Rs.3,00,000
Minimum proceeds of fresh issue	Rs.5,00,000 - 3,00,000 = Rs.2,00,000
Proceed of one share	= Rs 9
Minimum number of shares	=2,00,000/9 = 22,222.22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.
If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

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QUESTION 5:

X Ltd. gives you the following information as at 31st March, 20X3 :

	Particulars	₹
	EQUITY AND LIABILITIES	
1.	**Shareholders' funds**	
	a) Share capital	2,90,000
	b) Reserves and Surplus	48,000
2.	**Current liabilities**	
	Trade Payables	56,500
	ASSETS	
1.	**Property, Plant and Equipment**	3,45,000
2.	**Non-current investments**	18,500
3.	**Current Assets**	
	Cash and cash equivalents (bank)	31,000

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹ 65,000 (issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.

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

(a) to sell all the investments for ₹ 15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.

(c) to issue minimum equity share of ₹ 50 each share to raise the balance of funds required.

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

Solution

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Share Application A/c (For application money received on 750 shares @ ₹ 50 per share)	Dr.	37,500	 37,500
	Share Application A/c To Equity Share Capital A/c (For disposition of application money received)	Dr.	37,500	 37,500
	Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable on redemption of preference shares)	Dr. Dr.	65,000 6,500	 71,500
	Bank A/c Profit and Loss A/c (loss on sale) A/c To Investment A/c (For sale of investments at a loss of ₹ 3,500)	Dr. Dr.	15,000 3,500	 18,500
	Profit and Loss A/c To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ₹ 65,000 - ₹ 37,500)	Dr.	27,500	 27,500

	Preference Shareholders A/c To Bank A/c (For payment of preference shareholders)	Dr.	71,500	71,500
	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	Dr.	6,500	6,500

Working Note:

Calculation of Number of Shares:	₹
Amount payable on redemption (65,000 + 10% of Rs.65,000)	71,500
Less: Sale price of investment	(15,000)
	56,500
Less: Available bank balance (31,000 - 12,000)	(19,000)
Funds from fresh issue	37,500
No. of shares = 37,500/50=750 shares	

QUESTION 6:

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemablepreference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st January 2023, the Board of Directors decided to redeem the preference shares at par byutilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of ABC Limited
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
Jan 1 2023	10% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	1,00,000	1,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,00,000	1,00,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	75,000 25,000	1,00,000

Note: Securities premium and capital reserve (not being distributable profits) cannot be utilised for transfer to Capital Redemption Reserve.

QUESTION 7:

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

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It was decided by the company to issue the following:
(i) 25,000 Equity Shares of ₹ 10 each at par,
(ii) 1,000 14% Debentures of ₹ 100 each.

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

Solution

In the books of C Limited
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 25,000 equity shares of ₹ 10 each at par as per Board's Resolution No……dated…..)	Dr.	2,50,000	 2,50,000
	Bank A/c To 14% Debenture A/c (Being the issue of 1,000 Debentures of ₹ 100 each as per Board's Resolution No…..dated……)	Dr.	1,00,000	 1,00,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	50,000	 50,000
	12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr. Dr.	3,00,000 30,000	 3,30,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	3,30,000	 3,30,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	30,000	 30,000

Working Note:
Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	₹ 3,00,000
Less: Proceeds from new issue	(₹ 2,50,000)
Total Balance	**₹ 50,000**

QUESTION 8:
The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2021).
Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed

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at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements.

<u>Solution:</u>

In the books of ……….
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 2,500 Equity Shares of ₹ 10 each at a premium of Rs .1 per share as per Board's Resolution No…dated..)	Dr.	25,000	 25,000
	General Reserve A/c Profit & Loss A/c Investment Allowance Reserve A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr. Dr.	60,000 10,000 5,000	 75,000
	8% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	Dr. Dr.	1,00,000 10,000	 1,10,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,10,000	 1,10,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	Dr.	10,000	 10,000

Working Note:

No. of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹1,00,000
Less: Profit available for distribution as dividend:		
General Reserve : ₹ (80,000-20,000)	₹60,000	
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000	
Investment Allowance Reserve: (₹ 10,000-5,000)	₹ 5,000	(₹ 75,000)
		₹ 25,000

Therefore, No. of shares to be issued = Rs.25,000/₹10 = 2,500 shares.

<u>QUESTION 9:</u>

The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

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

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Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022.
The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.
You are asked to pass the necessary Journal Entries. (Ignore date Column)

Solution:

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
8% Preference Share Final Call A/c To 8% Preference Share Capital A/c (For final call made on preference shares @ ₹ 30 each to make them fullypaid up)	Dr.	15,00,000	 15,00,000
Bank A/c To 8% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	15,00,000	 15,00,000
Bank A/c To Equity Share Application A/c (For receipt of application money on 50,000 equity shares @ ₹ 20 pershare)	Dr.	10,00,000	 10,00,000
Equity Share Application A/c To Equity Share Capital A/c (For capitalisation of application money received)	Dr.	10,00,000	 10,00,000
Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)	Dr.	17,50,000	 12,50,000 5,00,000
Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	17,50,000	 17,50,000
General Reserve A/c To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 - 10,00,000 - 12,50,000)	Dr.	27,50,000	 27,50,000
8% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5%premium)	Dr. Dr.	50,00,000 2,50,000	 52,50,000

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Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	52,50,000	52,50,000
General Reserve A/c To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	Dr.	2,50,000	2,50,000

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares ₹ 22,50,000 (₹10,00,000 application money plus ₹ 12,50,000 received on allotment towards share capital) will be considered.

QUESTION 10:

With the help of the details in question 9 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices.

Solution:

Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
	8% Preference Share Final Call A/c To 8% Preference Share Capital A/c (For final call made on preference shares @ ₹ 30 each to make them fully paid up)	Dr.	15,00,000	15,00,000
	Bank A/c (48,000 × Rs. 30) Calls in arrears A/c (2,000× Rs. 30) To 8% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	14,40,000 60,000	15,00,000
	Preference Share Capital A/c (2000 × Rs. 100) To Calls in Arrears A/c (2000 × Rs. 30) To Shares Forfeited A/c (2000 × Rs. 70) (For Shares Forfeited after shareholders fail to pay the Final Call)	Dr.	2,00,000	60,000 1,40,000
	Bank A/c To Equity Share Application A/c (For receipt of application money on 50,000 equity shares @ ₹ 20 per share)	Dr.	10,00,000	10,00,000
	Equity Share Application A/c To Equity Share Capital A/c (For capitalisation of application money received)	Dr.	10,00,000	10,00,000

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	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)	Dr.	17,50,000	 12,50,000 5,00,000
	Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	17,50,000	 17,50,000
	General Reserve A/c To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 48,00,000 - 10,00,000 - 12,50,000)	Dr.	25,50,000	 25,50,000
	8% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5%premium)	Dr. Dr.	48,00,000 2,40,000	 50,40,000
	Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	50,40,000	 50,40,000
	General Reserve A/c To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	Dr.	2,40,000	 2,40,000
	Shares Forfeited A/c To Capital Reserve A/c (For transferring balance to Capital Reserve A/c after redemption of preference shares)	Dr.	1,40,000	 1,40,000

Note: Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares ₹ 22,50,000 (₹10,00,000 application money plus ₹ 12,50,000 received on allotment towards share capital) will be considered.

CA PRINCE KATHURIA CLASSES

ASSIGNMENT 2

Question 1:

The books of B Ltd. showed the following balance on 31st December, 2023:
30,000 Equity Shares of Rs.10 each fully paid; 18,000 12% Redeemable Preference Shares of Rs.10 each fully paid; 4,000 10% Redeemable Preference Shares of Rs. 10 each, Rs. 8 paid up (all shares issued on 1st April, 2022).
Undistributed Reserve and Surplus stood as: Profit and Loss Account Rs. 80,000; General Reserve Rs. 1,20,000; Securities Premium Account Rs. 15,000 and Capital Reserve Rs. 21,000.
For redemption, 3,000 equity shares of Rs.10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2024 at a premium of Rs.2 per share. The where abouts of the holders of 100 shares of Rs.10 each fully paid are not known.
A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.
Show the necessary Journal Entries to record the transactions. (Ignore date column)

Solution:

In the books of B Limited
Journal Entries

Particulars		Dr. (Rs.)	Cr. (Rs.)
12% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)	Dr. Dr.	1,80,000 36,000	 2,16,000
Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of 17,900 preference shares)	Dr.	2,14,800	 2,14,800
Bank A/c To Equity Shares Capital A/c To Securities Premium A/c (Being the issue of 3,000 Equity Shares of Rs. 10 each at a premium of 10% as per Board's Resolution No.. Dated……)	Dr.	33,000	 30,000 3,000
General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)	Dr. Dr.	1,20,000 30,000	 1,50,000
Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No……dated…)	Dr.	1,20,000	 1,20,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Being the utilisation of bonus dividend for issue of 12,000 equity shares of Rs. 10 each fully paid)	Dr.	1,20,000	 1,20,000

Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)	Dr.	36,000	36,000

Working Note:

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	Rs.1,80,000
Less: Proceeds from fresh issue (excluding premium)	(Rs. 30,000)
	Rs.1,50,000

(3) No bonus shares on 3,000 equity shares issued for redemption.

Note: Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

CA PRINCE KATHURIA CLASSES

REDEMPTION OF DEBENTURES

ASSIGNMENT 1

QUESTION 1:

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.

The Interest on debentures had been paid up to December 31, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

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

SOLUTION:

6% Mortgage Debentures Account

2022			Rs.	2022			Rs.
Feb. 28	To	Debenture-holders A/c	10,00,000	Jan. 1	By	Balance b/d	10,00,000

Premium on Redemption of Debentures Account

2022			Rs.	2022			Rs.
Feb. 28	To	Debenture-holders A/c	10,000	Feb. 28	By	Profit and loss A/c	10,000

Debentures Redemption Reserve Investment Account

2022			Rs.	2022			Rs.
Jan. 1	To	Balance b/d	1,50,000	Feb. 28	By	Bank	1,50,000

Debenture Interest Account

2022			Rs.	2022			Rs.
Feb. 28	To	Bank (10,000 x 100 x 6% x 2/12)	10,000	Feb. 28	By	Profit & Loss A/c	10,000

Bank A/c

2022			Rs.	2022			Rs.
Jan 01	To	Balance b/d	9,00,000	Feb. 28	By	Debenture-holders (10,000 x 101)	10,10,000
Feb 28	To	Interest on Debentures Redemption Investments (1,50,000 x 4% x 2/12)	1,000		By	Debenture Interest A/c	10,000
					By	Balance c/d	31,000
	To	Debentures Redemption Reserve investment A/c	1,50,000				
			10,51,000				**10,51,000**

Debenture Redemption Reserve Account

2022			Rs.	2022			Rs.
Feb 28	To	General Reserve-note	1,00,000	Jan.1	By	Balance b/d	50,000
				Jan.1	By	Profit & Loss (b/f)	50,000
			1,00,000				1,00,000

Note:- Amount to be transferred to DRR before the Redemption:- Rs. 1,00,000 [i.e. 10% of (10,000x100)]

QUESTION 2:

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:

(i) 12 % Debentures ₹ 7,50,000
(ii) Balance of DRR ₹ 25,000
(iii) DRR Investment 1,12,500 represented by 10% ₹1,125 Secured Bonds of the Government of India of ₹100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.

SOLUTION:

1. 12% Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 2022	To Debenture holders A/c	7,50,000	1st April, 2021	By Balance b/d	7,50,000
		7,50,000			**7,50,000**

2. DRR Account

Date	Particulars	Rs.	Date	Particulars	Rs.
			1st April, 2021	By Balance b/d	25,000
31st March, 2022	To General reserve A/c (Refer Note)	75,000	1st April, 2021	By Profit and Loss A/c (Refer Note)	50,000
		75,000			**75,000**

3. 10% Secured Bonds of Govt. (DRR Investment) A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1st April, 2021	To Balance b/d	1,12,500	31st March, 2022	By Bank A/c	1,12,500
		1,12,500			**1,12,500**

4. **Bank A/c**

		Rs.			Rs.
31st March, 2022	To Balance b/d	7,50,000	31st March, 2022	By Debenture holders A/c	8,25,000
	To Interest on DRR Investment (1,12,500×10%)	11,250			
	To DRR Investment A/c	1,12,500		By Balance c/d	48,750
		8,73,750			**8,73,750**

5. **Debenture holders A/c**

		Rs.			Rs.
31st March, 2022	To Bank A/c	8,25,000	31st March, 2022	By 12% Debentures	7,50,000
				By Premium on redemption of debentures (7,50,000 × 10%)	75,000
		8,25,000			**8,25,000**

Note–
Calculation of DRR before redemption = 10% of Rs. 7,50,000 = 75,000
Available balance = Rs. 25,000
DRR required = 75,000 – 25,000 = Rs. 50,000

QUESTION 3:

XYZ Ltd. has issued 1,000, 12% convertible debentures 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs.10 each at a price of 20 per share and balance in cash. Debenture holders amounting Rs.20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of Rs.20,000 debenture holders.

SOLUTION:

	Number of debentures
Debenture holders opted for conversion (20,000/100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 × (100 + 5)]	Rs. 4,200
Equity shares of Rs. 10 each issued on conversion [Rs. 4,200 / Rs. 20]	210 shares

Calculation of cash to be paid:	**Rs.**
Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

Redemption value of 160 debentures (160 × Rs. 105) i.e. Rs. 16,800.

QUESTION 4:

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2021 is as under:

I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000
(b) Reserves and Surplus	2	1,20,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,20,000
(3) Current Liabilities		
(a) Trade payables		1,15,000
Total		**5,55,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	1,15,000
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables		75,000
(c) Cash and bank balances	5	2,30,000
Total		**5,55,000**

Notes to Accounts

1.	**Share Capital**		
	Authorised share capital		
	30,000 shares of ₹ 10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of ₹ 10 each fully paid		2,00,000
2.	**Reserve and Surplus**		
	Profit & Loss Account		1,20,000
3.	**Long term borrowings**		
	12% Debentures		1,20,000
4.	**Property, Plant and Equipment**		
	Freehold property		1,15,000
5.	**Cash and bank balances**		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:-

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

SOLUTION:

Journal of BEE Co. LTD.

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	75,000	
To Equity Shareholders A/c			75,000
(Application money received on 5,000 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4.			
Equity Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			25,000
(Share application money on 5,000 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated…..)			
Securities Premium A/c	Dr.	25,000	
Profit & Loss A/c	Dr.	25,000	
To Bonus to Shareholders A/c			50,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated…..)			
Bonus to Shareholders A/c	Dr.	50,000	
To Equity Share Capital A/c			50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated…)			
Profit and Loss A/c	Dr.	12,000	
To Debentures Redemption Reserve			12,000
(for DRR created 10% × 1,20,000)			
Debenture Redemption Reserve Investment A/c	Dr.	18,000	
To Bank A/c			18,000
(for DRR Investment created 15% × 1,20,000)			
12% Debentures A/c	Dr.	1,20,000	
Premium Payable on Redemption A/c @ 3%	Dr.	3,600	
To Debenture holders A/c			1,23,600
(Amount payable to debentures holders)			
Profit and Loss A/c	Dr.	3,600	
To Premium Payable on Redemption A/c			3,600
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	12,000	
To General Reserve			12,000
(for DRR transferred to general reserve)			
Bank A/c	Dr.	18,000	
To Debenture Redemption Reserve Investment			18,000
(for DRR Investment realized)			
Debenture holders A/c	Dr.	1,23,600	
To Bank A/c			1,23,600
(Amount paid to debenture holders on redemption)			

ASSIGNMENT 2

QUESTION 1:

A company had issued 20,000, 13% debentures of Rs. 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

SOLUTION:

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 × (100 + 5)]	Rs. 3,67,500
Equity shares of Rs. 10 each issued on conversion [Rs. 3,67,500/Rs. 15]	24,500 shares

QUESTION 2:

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

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price-Rs. 100 per debenture.
(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
(c) Date of closure of subscription lists- 1.5.2021, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).
(d) No. of debentures applied for- 2,00,000.
(e) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

SOLUTION:

Journal Entries in the books of Libra Ltd.
Journal Entries

Date	Particulars		Amount Rs. Dr.	Amount Rs. Cr.
1.5.2021	Bank A/c To Debenture Application A/c (Application money received on 1,50,000 debentures @ Rs. 100 each)	Dr.	2,00,00,000	2,00,00,000
1.6.2021	Debenture Application A/c To 15% Debentures A/c	Dr.	2,00,00,000	2,00,00,000

	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)		
1.6.2021	Debentures Redemption Investment A/c Dr. To Bank A/c (2,00,000 x 100 x 15% x 40%) (Being Investments made for redemption purpose)	12,00,000	 12,00,000
30.9.2021	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)	10,00,000	 10,00,000
31.10.2021	15% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)	1,20,00,000	 20,00,000 1,00,00,000
31.3.2022	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year) **(Refer Working Note)**	7,50,000	 7,50,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2022.

On Rs. 80,00,000 for 6months @ 15% = Rs. 6,00,000

On Rs. 1,20,00,000 for 1 months @ 15% = Rs. 1,50,000

Rs. 7,50,000

QUESTION 3:

Case Ltd. (unlisted company other than AIFI, Banking Company, NBFC and HFC) provides the following information as at 31st March, 2022:

Particulars		Rs.
Shareholder's Funds		
(a)	Share Capital	
	Authorized share capital:	
	45,000 equity shares of Rs. 10 each fully paid	4,50,000
	Issued and subscribed share capital:	
	30,000 equity shares of Rs. 10 each fully paid	3,00,000
(b)	Reserves and Surplus	
	Profit & Loss Account	1,62,000
	Debenture Redemption Reserve	18,000
Non-current liabilities		
(a)	Long term borrowings	
	12% Debentures	1,80,000
Current Liabilities		
(a)	Trade payables	1,72,500
Non-current assets		
(a)	Property, Plant and Equipment (Freehold property)	1,72,500
(b)	Non-current Investment: DRR Investment	27,000
Current assets		
(a)	Inventories	2,02,500
(b)	Trade receivables	1,12,500
(c)	Cash and bank balances:	
	Cash at bank	2,73,000
	Cash in hand	45,000

At the Annual General Meeting on 1.4.2022, it was resolved:

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

Give the necessary journal entries for these transactions.

SOLUTION:

Journal Entries in the Books of Case Ltd.

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	1,12,500	
To Equity Shareholders A/c			1,12,500
(Application money received on 7,500 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)			
Equity Shareholders A/c	Dr.	1,12,500	
To Equity Share Capital A/c			75,000
To Securities Premium A/c			37,500
(Share application money on 7,500 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated.....)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			75,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....)			
12% Debentures A/c	Dr.	1,80,000	
Premium Payable on Redemption A/c (@ 3%)	Dr.	5,400	
To Debenture holders A/c			1,85,400
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	
To General Reserve			18,000
(For DRR transferred to general reserve)			
Bank A/c	Dr.	27,000	
To Debenture Redemption Reserve Investment			27,000
(for DRR Investment realized)			
Debenture holders A/c	Dr.	1,85,400	
To Bank A/c			1,85,400
(Amount paid to debenture holders on redemption)			