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ISSUE OF SHARE

1. Katrina Acting School issued 1,00,000 shares of Rs.10 each at premium of Rs.5 per share payable as follows:

On Application - Rs.2+1

On Allotment - Rs.3+2

On First Call - Rs.4+1

On Second & Final Call - Rs.1+1

Application were received for 1,50,000 shares and Allotment was made as under:

(a) Applicants of 10,000 shares were rejected

(b) Applicants of 20,000 shares were alloted in Full

(c) Balance on Pro-rata

Pass necessary journal entries.

Solution:

	Applied	Alloted
1)	10,000	0
2)	20,000	20000
3)	1,20000	80000
	1,50,000	1,00,000

1,00,000 Shares Offer
1,50,000 Shares Applied } Lower Allot

Rs 10+5 = 15

FV →	2	3	4	1
PREM →	+1	+2	+1	+1
	3	5	5	2

JOURNAL ENTRIES

	Particulars	Calculation	Debit Amount	Credit Amount
1	Bank a/c Dr	NOS Applied X App. Call	1,50,000 X 3	
	To Share Application a/c	" "		1,50,000 X 3
2	Share Application a/c Dr	NOS Applied X App. Call	1,50,000 X 3	
	To Share Capital a/c	Nos Alloted X App. Call [FV]		1,00,000 X 2
	To Securities Premium a/c	NOS Alloted X PREM		1,00,000 X 1
	To Bank a/c	NOS Fully Rejected X App. Call		10,000 X 3
	To Share Allotment a/c	NOS Partly Rejected X App. Call		40,000 X 3
3	Share Allotment a/c Dr	Nos Alloted X Allot.	1,00,000 X 5	
	To Share Capital a/c	Nos Alloted X Allot. [FV]		1,00,000 X 3
	To Securities Premium a/c	Nos Alloted X PREM		1,00,000 X 2
4	Bank a/c Dr	3^{rd} Dr – 2^{nd} Cr	3,80,000	
	To Share Allotment a/c	(–) CIA		3,80,000

CALCULATION OF CALL'S IN ARRERS

NORMAL CASE [Moong Dal Halwa]	SPECIAL CASE [Badam Ka Halwa]
NOS Alloted X Call Money ✓	Pro-Rata ✓ Allot ✗
	NOS Alloted X Call Money ✓
	(–) NOS Partly Rejected X App. Call (x)
	✓

CALCULATION OF SHARE FORFIETURE AMOUNT & CAPITAL RESERVE

Only Application is Paid	Any Call After Application is Also Paid
NOS Applied X App. Call [Incl. Prem.] ✓	NOS Alloted X [All Call's Paid Excluding PREM]
(–) PREM X NOS Alloted (x)	
✓	

JOURNAL ENTRY FOR FORFIETURE OF SHARES

	Particulars	Calculation	Debit Amount	Credit Amount
1	Share Capital a/c Dr	NOS Alloted x [FV of Installment Called]		
	Securities Premium a/c Dr	NOS Alloted x Only if Called But Not Paid		
	To Share Allotment a/c	Call's In Arrear		
	To Share First Call a/c			
	To Share Second & Final Call			
	To Share Forfeiture a/c			

JOURNAL ENTRY FOR REISSUE OF SHARES & CAPITAL RESERVE

	Particular's	Calculation	Debit Amount	Credit Amount
1	Bank a/c Dr	NOS Reissued X Reissue Price		
	Share Forfeiture a/c Dr	NOS Reissued X Loss on Reissue		
	To Share Capital a/c	NOS Reissued X FV OR Called-Up/Paid-up.		
2	Share Forfeiture a/c Dr			
	To Capital Reserve a/c			

CALCULATION OF CAPITAL RESERVE

$$\text{Capital Reserve} = \left[\frac{\text{Amount Forfeited}}{\text{NOS Forfeited}} - \text{Loss on Reissue Per Share}\right] \times \text{NOS Reissued}$$

NOTE → Capital Reserve will be Calculated Separately for Each Share Holder.

COMPREHENSIVE QUESTION

	Applied	Alloted
1)	1,00,000	0
2)	2,00000	2,00000
3)	12,00,000	800,000
	15,00,000	10,00,000

10,00,000 Shares Offered }
15,00,000 Shares Applied } LOWER

Rs 10+5 = Rs. 15

					Re-Issue
	2 $+2$ 4	4 $+1$ 5	3 $+1$ 4	1 $+1$ 2	
P 5000 shares (I) 5000 Shares	✓	X (F) 5000 X 5 25000	NA	NA	3000 Shares @ Rs 8

$$SF = (5000 \times 4) - (2 \times 5000) = Rs.\ 10{,}000$$

Q 8000 Shares (II) 12,000 shares	✓	X (F) 8000 X 5 = 40,000 4000 X 4 = (16,000) 24,000	NA	NA	5000 Shares @ Rs 8

$$SF = (12000 \times 4) - (2 \times 8000) = Rs.\ 32{,}000$$

R 16,000 Shares (III) 24,000 Shares	✓	✓	X (F) 16,000 X 4 64,000	NA	10,000 Shares @ Rs 11

$$SF = 16{,}000 \times [4+5-2-1] = Rs.\ 96000$$

S 24000 Shares (IV) 36,000 Shares	✓	✓	✓	X (F) 24000 X 2 48000	15000 Shares @ Rs 12

$$SF = 24{,}000 \times [4+5+4-2-1-1] \Rightarrow 2{,}16{,}000$$

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr 1500,000 X 4		60,00,000	
	To Share Application a/c			60,00,000
2)	Share Application a/c Dr		60,00,000	
	To Share Capital a/c 10,00,000 X 2			20,00,000
	To Securities Premium a/c 10,00,000 X 2			20,00,000
	To Bank a/c 1,00,000 X 4			4,00,000
	To Share Allotment a/c 4,00,000 X 4			16,00,000
3)	Share Allotment a/c Dr 10,00,000 X 5		50,00,000	
	To Share Capital a/c 10,00,000 X 4			40,00,000
	To Securities Premium a/c 10,00,000 X 1			10,00,000
4)	Bank a/c Dr [3rd Dr - 2nd Cr - CIA]		33,51,000	
	Call in Arrear a/c Dr		49,000	
	To Share Allotment a/c			33,51,000 +49,000
5)	Share Capital a/c Dr [5000 X 6]		30,000	
	Securities Premium a/c Dr [5000 X 1]		5,000	
P	To Share Allotment / Call's In Arrear			25,000
	To Share Forfieture a/c			10,000
6)	Share Capital a/c Dr 8000 X 6		48,000	
	Securities Premium a/c Dr 8000 X 1		8000	
Q	To Share Allotment / Call's In Arrear			24,000
	To Share Forfieture a/c			32,000
7)	Share First Call a/c Dr 9,87,000 X 4		39,48,000	
	To Share Capital a/c 9,87,000 X 3			29,61,000
	To Securities Premium a/c 9,87,000 X 1			9,87,000

(-) CIA 64,000

8)	Bank a/c Dr		3884,000	
	Call's In Arrear a/c		64,000	
	To Share First Call a/c			3884,000 +64,000
9)	Share Capital a/c Dr 16,000 X 9		1,44,000	
	Securities Premium a/c Dr 16,000 X 1		16000	
(R)	To Share First Call / Call's In Arrear			64000
	To Share Forfieture a/c			96000
10)	Share Second & Final Call a/c Dr 9,71,000 X 2		1942,000	
	To Share Capital a/c 9,71,000 X 1			9,71,000
	To Securities Premium a/c 9,71,000 X 1		(-) CIA 48000	9,71,000
11)	Bank a/c Dr		1894,000	
	Call's In Arrear a/c		48,000	
	To Share Second & Final Call			1894000 +48000
12)	Share Capital a/c Dr 24,000 X 10		2,40,000	
	Securities Premium a/c Dr 24,000 X 1		24,000	
(S)	To Share Second Call / Call's In Arrear			48000
	To Share Forfieture a/c			2,16000
13)	Bank a/c Dr 3000 X 8		24000	
(P)	Share Forfeiture a/c Dr 3000 X 2			6000
	To Share Capital a/c 3000 X 10			30,000
14)	Bank a/c Dr 5000 X 8		40,000	
(Q)	Share Forfeiture a/c Dr 5000 X 2		10,000	
	To Share Capital a/c 5000 X 10			50000
15)	Bank a/c Dr 10,000 X 11		1,10000	
(R)	To Share Capital a/c 10000 X 10			1,00000
	To Securities Premium a/c 10,000 X 1			10,000

16)	Bank a/c Dr 15,000 x 12		1,80,000	
	To Share Capital a/c 15,000 x 10			1,50,000
S	To Securities Premium a/c 15,000 x 2			30,000
17)	Share Forfeiture a/c Dr		2,05,000	
	To Capital Reserve a/c			2,05,000

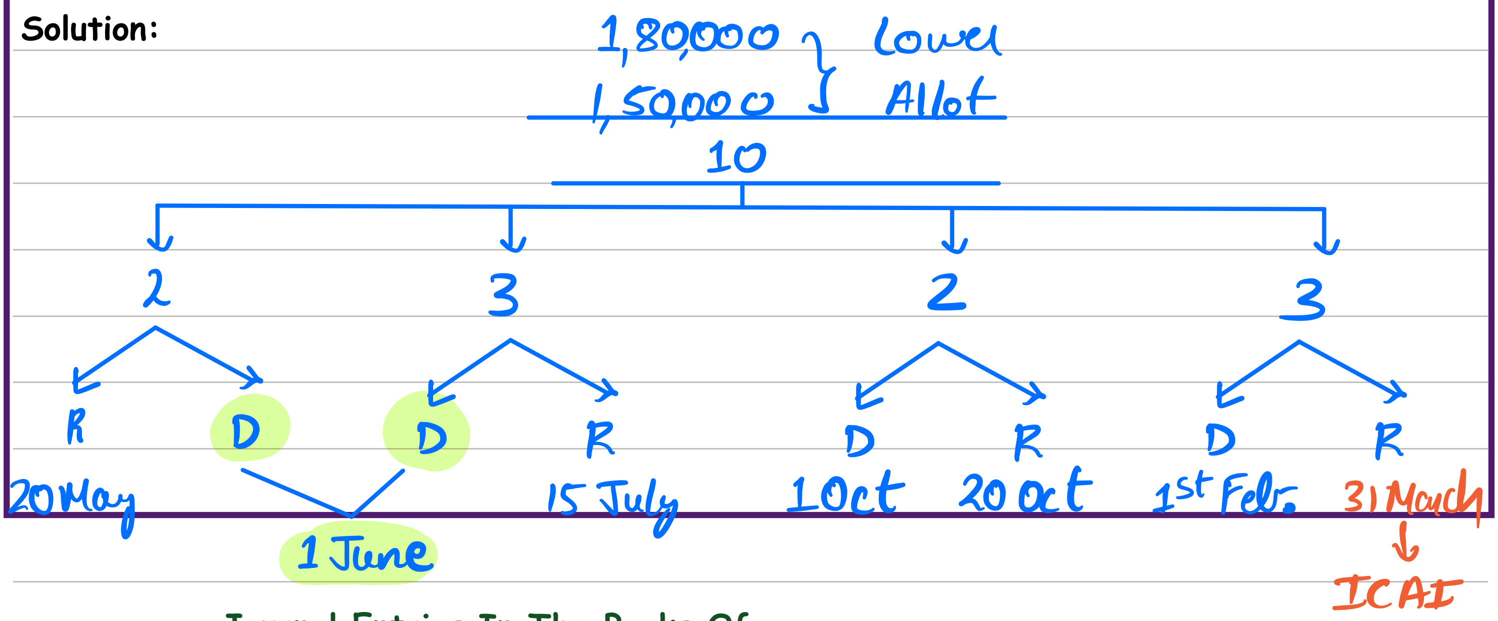
Working Note – Calculation of Capital Reserve

P: $\left[\frac{10000}{5,000} - 2\right] \times 3000 \Rightarrow$ Nil	Q: $\left[\frac{32,000}{8,000} - 2\right] \times 5000$ = Rs. 10,000
R: $\left[\frac{96,000}{16,000} - \text{Nil}\right] \times 10,000$ = Rs 60,000	S: $\left[\frac{2,16,000}{24,000} - \text{Nil}\right] \times 15000$ = Rs 1,35,000

MUST DO QUESTION BEFORE EXAMS

1. On ~~1st April~~, 2020, States Ltd. issued 1,80,000 shares of Rs.10 each payable as follows: Rs.2 on application, Rs.3 on allotment, Rs.2 on First call 1st October, 2020; and Rs.3 on Final call 1st February, 2021. By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31 st March, 2021.

Solution:



Journal Entries In The Books Of ____________________________

Date	Particular's	L/F	Debit	Credit

2. ~~Piyush Limited is a company with an authorized share capital of Rs.2,00,00,000~~ in equity ~~shares of Rs.10 each, of which 15,00,000 shares had been issued and fully paid on 30th June~~, 2018. The company proposed to make a further issue of 1,30,000 shares of Rs.10 each at a price of Rs.12 each, the arrangements for payment being:

(i) Rs.2 per share payable on application, to be received by 1st July, 2018;

(ii) Allotment to be made on 10th July, 2018 and a further Rs.5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 30th April, 2019.

Applications were received for 4,20,000 shares and were dealt with as follows:

1. Applicants for 20,000 shares received allotment in full;
2. Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
3. Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
4. The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited.

Solution :

Journal Entries In The Books Of ________________________________

Date	Particular's	L/F	Debit	Credit

3. B Limited issued 50,000 equity shares of Rs.10 each payable as Rs.3 per share on application, Rs.5 per share (including Rs.2 as premium) on allotment and Rs.4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of Rs.2 per share. Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

Solution:

50,000 offer

50,000 Apply

Rs 10+2 = Rs12

3 | 3 +2 = 5 | 4

X 1000 Shares ✓ × 5000 × 4000 F

SF = 1000 X 3 = 3000

Y 2000 Shares ✓ ✓ × 8000 F

SF = 2000 X [3+5-2] = 12000

Reissue

1000 Shares @ 8

1500 Shares @ 8

Journal Entries In The Books Of ________________________________

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr		1,50,000	
	To Equity Share Application a/c			1,50,000
2)	Equity Share Application a/c Dr		1,50,000	
	To Equity Share Capital a/c			1,50,000
3)	Equity Share Allotment a/c Dr		2,50,000	
	To Equity Share Capital a/c			1,50,000
	To Securities Premium a/c			1,00,000
			(-) CIA 5000	

4)	Bank a/c Dr		2,45,000	
	To Equity Share Allotment a/c			2,45,000
5)	Equity Share First Call a/c Dr		2,00,000	
	To Equity Share Capital a/c	⇐ CIA 12,000		2,00,000
6)	Bank a/c Dr		1,88,000	
	To Equity Share First Call a/c			1,88,000
			X	Y
7)	Equity Share Capital a/c Dr		10,000	20,000
	Securities Premium a/c Dr		2,000	–
	To Equity Share Allotment a/c		5000	–
	To Equity Share First Call a/c		4000	8000
	To Share Forfeiture a/c		3000	12,000
8)	Bank a/c Dr		20,000	
	Share Forfeiture a/c Dr		5000	
	To Equity Share Capital			25,000
9)	Share Forfeiture a/c Dr		7000	
	To Capital Reserve a/c			7000

X: $\left[\frac{3000}{1000} - 2\right] \times 1000 = 1000$

Y: $\left[\frac{12000}{2000} - 2\right] \times 1500 = 6000$

4. Alankit Limited issued at par 2,00,000 Equity shares of Rs.100 each payable Rs.25 on application; Rs.30 on allotment; Rs.20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan. You are required to prepare journal entries to record these transactions.

Solution:

2,00000 offered
200,000 Applied
Rs 100

25	30	20	25

Dhawan 40000 Shares ✓ ✓ ✓ ⊢3m⊣ ✓

10,00,000

Call's In Advance

X 4000 Shares ✓ ✓ ✓ X

1lac ✓

Call's In Arrear (2 months)

Journal Entries In The Books Of ____________________

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr		5000,000	
	To Equity Share Application a/c			5000,000
2)	Equity Share Application a/c Dr		5000,000	
	To Equity Share Capital a/c			5000,000
3)	Equity Share Allotment a/c Dr		6000,000	
	To Equity Share Capital a/c			6000,000
4)	Bank a/c Dr		6000,000	
	To Equity Share Allotment a/c			6000,000
5)	Equity share First Call a/c Dr		4000,000	
	To Equity share Capital			4000,000
	+ Call's In Advance			Rs.10lac
6)	Bank a/c Dr		5000,000	
	To Equity Share First Call a/c			4000,000
	To Call's In Advance a/c			10,00,000

7)	Equity Share Second & Final Call		5000000	
	To Equity Share Capital a/c			5000000
8)	Bank a/c Dr [50lac (−) 10lac (−) 1lac] (Advance, Arrears)		3900000	
	Call's In Advance a/c Dr		1000000	
	Call's In Arrear's a/c Dr		100000	
	To Equity Share Second & Final Call			5000000
9)	Interest on Call's In Advance a/c Dr		30000	
	To Share Holder a/c			30000
10)	Share Holder a/c		30000	
	To Bank a/c			30000
11)	Share Holder a/c Dr		1667	
	To Interest on Call's In Arrear a/c			1667
12)	Bank a/c Dr		101667	
	To Share Holder			1667
	To Call's In Arrear			100000

5. Samuel who was the holder of 12,000 preference shares of Rs.100 each, on which Rs.75 per share has been called up could not pay his dues on Allotment and First call each at Rs.25 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Robort at Rs.65 per share paid-up as Rs.75 per share. You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Rs.65 → Bank

Rs.75 → SC

Solution:

Rs 100

25	25	25	25
✓	X	X	NA

Journal Entries In The Books Of ____________________________

Date	Particular's	L/F	Debit	Credit
1)	Preference Share Capital a/c Dr 12000x75		9,00,000	
	To Call's In Arrear a/c 12000x50			6,00,000
	To Share Forfeiture a/c 12000x25			3,00,000
2)	Bank a/c Dr 10,000x65		6,50,000	
	Share Forfeiture a/c Dr 10,000 x10		1,00,000	
	To Preference Share Capital a/c 10,000x75			7,50,000
3)	Share Forfeiture a/c Dr		1,50,000	
	To Capital Reserve a/c			1,50,000
	WN Calculation of Capital Reserve			
	C.R =			
	$C.R = \left[\frac{300000}{12,000} - 10\right] \times 10,000 \Rightarrow 1,50,000$			

ISSUE OF DEBENTURES

ISSUE OF DEBENTURES WITH DIFFERENT TERMS OF ISSUE

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Face Value (FV)	100	100	100	100	100	100
Issue Price (IP)	100	110	95	100	110	95
Redemption Price (RP)	100	100	100	103	103	103

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
IP Bank a/c Dr	100	110	95	100	110	95
IP To Debenture App. & Allot. a/c	100	110	95	100	110	95
IP Debenture App. & Allot a/c Dr	100	110	95	100	110	95
Disc Disc. on Issu of Deb. a/c Dr			5			5
Loss on Issue of Deb. a/c Dr				3	3	3
FV To X% Debenture a/c	100	100	100	100	100	100
PREM To Securities Premium a/c		10			10	
To Premium on Redemption of Debenture a/c [Liability]				3	3	3

Issue of Debentures as Collateral Security

* Interest is not Paid on	Additional
1) Bank a/c Dr To Bank Loan a/c	1) Bank a/c Dr To Bank Loan a/c
NOTE →	2) Debenture Suspense a/c Dr To X% Debenture a/c

Treatment of Loss/Discount on Issue of Debentures

Case 1 - Debentures Redeemed in Lumpsum	Case 1 - Debentures Redeemed in Installments			
Discount / loss To be Written off Every Year ⇓	Year	O/S Debentures	Ratio	Discount / Loss to be Written Off
	1	10,00,000	5	Assume 60,000 x 5/15 = 20,000
	2	8,00,000	4	60,000 x 4/15 = 16,000
	3	6,00,000	3	60,000 x 3/15 = 12,000
	4	4,00,000	2	60,000 x 2/15 = 8,000
$\frac{\text{Total Disc. / loss}}{\text{Life of Debenture}}$	5	2,00,000	1	60,000 x 1/15 = 4,000
		0		

Journal Entry

Securities Premium a/c Dr [1st Priority]
Profit & Loss a/c Dr
To Discount / Loss on Issue of Debenture

Treatment for Payment of Interest on Debentures

Date	Particulars	L/F	Debit Amount	Credit Amount
1)	Debenture Interest a/c Dr To TDS Payable a/c To Debenture Holder a/c		Yearly ↓ Once for 12 Months	Half-Yearly ↓ Twice for 6-6 Month
2)	TDS Payable a/c Dr Debenture Holder a/c Dr To Bank a/c			
3)	Profit & Loss a/c Dr To Debenture Interest a/c	→	Only	Once

NOTE

Step 1 : Calculate Interest on FV of Debenture

Step 2 : Calculate TDS on Interest Amount

SHARES / DEBENTURES ISSUED FOR CONSIDERATION OTHER THAN CASH

ASSET PURCHASE

1) Asset a/c Dr 10Lac
To Vendor a/c [Seller] 10Lac

BUSINESS PURCHASE

1) Sundry Asset a/c	12	12	12
Goodwill a/c [PC > NA]		5	
To Sundry Liability a/c	2	2	2
To Vendor a/c	10	15	9
To Capital Reserve [PC < NA]			

2) Vendor a/c Dr 10,000
To Bank a/c 10,000

WN Calculation of NOS / NOD

$$\text{NOS / NOD} = \frac{\text{Net Amount Payable [PC – Part Payment]}}{\text{Issue Price}}$$

AT PAR	AT PREMIUM @10%	AT DISCOUNT @10%
FV- 100, IP- 100	FV - 100, IP - 110	FV - 100, IP - 90
NOD = $\frac{9,90000}{Rs\ 100}$	NOD = $\frac{9,90000}{Rs\ 110}$	NOD = $\frac{9,90000}{Rs\ 90}$
= 9900 Debenture	= 9000 Debenture	= 11,000 Debenture

		AT PAR	AT PREMIUM @10%	AT DISCOUNT @10%
Vendor a/c Dr	NAP	9,90,000	9,90,000	9,90,000
Disc. on Issue of Deb a/c Dr	Nos NOD X Disc			11,000 X10
To X% Debenture/Share Capital	Nos NOD X FV	9900X100	9000 X100	11,000 X100
To Securities Premium a/c	Nos NOD X Prem.		9000X10	

MUST DO QUESTION BEFORE EXAMS

1. On 1st January 2018 Ankit Ltd. issued 10% debentures of the face value of Rs.20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass necessary journal entries for the accounting year 2018.

100

FV – 100 , IP – 90 , RP – 105 NOD - 20,000

Solution:

Journal Entries In The Books Of ________________________

Date	Particular's	L/F	Debit	Credit
2018	Bank a/c Dr [20,000 x 90]		18,00,000	
1 Jan	To Debenture App. & Allot a/c			18,00,000
1 Jan	Debenture App. & Allot a/c		18,00,000	
	Disc. on Issue of Deb a/c		2,00,000	@ Rs 10
	Loss on Issue of Deb a/c		1,00,000	@ Rs 5
	To 10% Debenture a/c			20,00,000
	To Premium on Redemption of Debenture a/c	@ 5		1,00,000
30 June	Debenture Interest a/c Dr		1,00,000	
	To TDS Payable a/c		@10%	10,000
	To Debenture Holder a/c			90,000
30 June	TDS Payable a/c Dr		10,000	
	Debenture Holder a/c Dr		90,000	
	To Bank a/c			1,00,000

31 Dec	Debenture Interest a/c Dr		1,00,000	
	To TDS Payable a/c		@10%	10,000
	To Debenture Holder a/c			90,000
31 Dec	TDS Payable a/c Dr		10,000	
	Debenture Holder a/c Dr		90,000	
	To Bank a/c			1,00,000
31 Dec	Profit & loss a/c Dr		2,00,000	
	To Debenture Interest a/c			2,00,000
31 Dec	Profit & loss a/c Dr		60,000	
	To Discount / Loss on Issue of Deb. a/c			60,000

2. On 1st April 2020 Sheru Ltd. issued 1,00,000 12% debentures of Rs.100 each at a discount of 5%, redeemable on 31 March 2025. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:

a) Journal Entries at the time of issue of debentures.

b) Discount on issue of Debenture Account

c) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

Solution:

Journal Entries In The Books Of ________________________

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr (1,20,000 × 95)		1,14,00,000	
	To Debenture App. & Allot a/c			1,14,00,000
2)	Debenture App. & Allot a/c Dr		1,14,00,000	
	Disc. on Issue of Deb a/c Dr		5,00,000 [1lac × 5]	
	To 12% Debenture a/c [1,00,000 × 100]			1,00,00,000
	To Bank a/c [20,000 × 95]			19,00,000

Discount on issue of Debenture Account

Date	Particular's		Amount	Date	Particular's		Amount
2020				2021			
01/04	To 12% Debenture a/c		5,00,000	31/03	By Profit & Loss a/c		1,00,000
				31/03	By Balance c/d		4,00,000
2021				2022			
01/04	To Balance b/d		4,00,000	31/03	By Profit & Loss a/c		1,00,000
				31/03	By Balance c/d		3,00,000

Interest account

Date	Particular's		Amount	Date	Particular's		Amount
2021				2021			
31/03	To TDS Payable		1,20,000	31/03	By Profit & loss a/c		12,00,000
31/03	To Debenture Holder		10,80,000				
2022				2022			
31/03	To TDS Payable		1,20,000	31/03	By Profit & loss a/c		12,00,000
31/03	To Debenture Holder		10,80,000				

Debenture Holder Account

Date	Particular's		Amount	Date	Particular's		Amount
2021				2021			
31/03	To Bank a/c		10,80,000	31/03	By Debenture Interest		10,80,000
2022				2022			
31/03	To Bank a/c		10,80,000	31/03	By Debenture Interest		10,80,000

3. On 1st April 2020, XY Ltd. took over assets of Rs.4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of Rs. 4,40,000. It paid the purchase consideration by issuing 8% debenture of Rs.100 each at 10% premium on same date. XY Ltd. issued another 3000, 8% debenture of Rs.100 at discount of 10% redeemable at premium of 5% after 5 years. According to the terms of the issue Rs.30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself. You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

Solution: FV - 100, IP - 90, RP - 105 NOD - 3000

Journal Entries In The Books Of ______________________

Date	Particular's	L/F	Debit	Credit
1)	Sundry Assets a/c Dr		4,50,000	
	Goodwill a/c Dr		50,000	
	To Sundry Liability a/c			60,000
	To Himalayan Ltd.			4,40,000
2)	Himalayan Ltd a/c		4,40,000	
	To 8% Debenture a/c			4000 X 100
	To Securities Premium a/c			4000 X 10

Date	Particular's	L/F	Debit	Credit
	$\frac{4,40,000}{110} = 4000$ Deb			

4. Agrotech Ltd. issued 150 lakh 9% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: Rs.50 on application and Rs.44 on allotment. Record necessary Journal entries for issue of debentures.

Rs 100 − 6 = 94

FV 50 | FV 50 − 6 = 44

Solution:

Journal Entries In The Books Of ________________________

Date	Particular's	L/F	Debit	Credit
			[Figures In Lakhs]	
1)	Bank a/c Dr [150 x 50]		7500	
	To Debenture Application a/c			7500
2)	Debenture Application a/c Dr		7500	
	To 9% Debenture a/c			7500
3)	Debenture Allotment a/c Dr		6600 → 150 x 44	
	Discount on Issue of Deb. a/c Dr		900	
	Loss on Issue of Deb. a/c Dr		750	
	To 9% Debenture [150 x 50]			7500
	To Premium on Redemption of Debenture			750

4)	Bank a/c Dr		6600	
	To Debenture Allotment a/c			6600

5. Pure Ltd. issues 1,00,000 12% Debentures of Rs.10 each at Rs.9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written-off in each of the 5 years.

Solution:

Journal Entries In The Books Of ________________________

Year	O/S Debentures	Ratio	Discount to be W/O
1	10,00,000	1	60,000 X 1/5 = 12,000
2	10,00,000	1	60,000 X 1/5 = 12,000
3	10,00,000	1	60,000 X 1/5 = 12,000
4	10,00,000	1	60,000 X 1/5 = 12,000
5	10,00,000	1	60,000 X 1/5 = 12,000
		5	

6. Riya Limited issued 20,000 14% Debentures of the nominal value of Rs.1,00,00,000 as follows:
   a. To sundry persons for cash at 90% of nominal value of Rs.50,00,000.
   b. To a vendor for purchase of fixed assets worth Rs.20,00,000 – Rs.25,00,000 nominal value.
   c. To the banker as collateral security for a loan of Rs.20,00,000 – Rs.25,00,000 nominal value.

   You are required to prepare necessary journal entries Journal Entries.

Solution:

Journal Entries In The Books Of ________________________

Date	Particular's	L/F	Debit	Credit

ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

BONUS SHARES - PROVISIONS OF THE COMPANIES ACT, 2013

- Bonus issue means an issue of additional shares to existing shareholders free of cost in proportion to their existing holding.
- A company may issue fully paid-up bonus shares to its shareholders out of —
  (i) its free reserves; Last Priority
  (ii) securities premium account; or 2nd Priority
  (iii) capital redemption reserve account: 1st Priority
- Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).
- Sub-section (3) of the Section also provides that the bonus shares shall not be issued in lieu of dividend.
- As per Section 63(2) of the Companies Act, 2013, bonus shares cannot be issued unless party paid-up shares are made fully paid-up. Para 39(ii) of Table F under Schedule I to the Companies Act, 2013

RIGHT ISSUE

Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price. Rights are often transferable, allowing the holder to sell them in the open market. The difference between the cum-right and ex-right value of the share is the value of the right.

Journal Entries

Date	Particular's	L/F	Debit	Credit
1.	Due Entry For Bonus Issue			
	Capital Redemption Reserve a/c Dr			
	Securities Premium a/c Dr			
	P/L a/c Dr		Free Reserve	
	General Reserve a/c Dr			
	To Bonus to Share Holder a/c			
2.	Issue of Bonus Issue			
	Bonus to Share Holder a/c Dr			
	To Share Capital a/c			
	CONVERTING PARTY PAID INTO FULLY PAID BY BONUS			
1.	Due Entry for Bonus			
	P/L a/c Dr			
	General Reserve a/c Dr			
	To Bonus to Share Holder a/c			
2.	Making Final Call Due			
	Share Final Call a/c Dr			
	To Share Capital a/c			
3.	Adjustment of Final Call			
	Bonus to Share Holder a/c Dr			
	To Share Final Call a/c			

IMPORTANT FORMULA

Ex-Right Value of Share = $\dfrac{[\text{Cum-Right Value of Existing Shares} + (\text{Right Shares} \times \text{Issue Price})]}{\text{Existing Number of Shares} + \text{Number of Right Share}}$

Value of Right = Cum Right Value of Share − Ex-Right Value of Share

MUST DO QUESTION BEFORE EXAMS

1. Pass Journal Entries in the following circumstances:

   a) 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.

   b) 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:

a) **Journal Entries**

Date	Particular's	L/F	Debit	Credit
1)	General Reserve a/c Dr		1,25,000	
	To Bonus to Share Holder a/c			1,25,000
2)	Share Final Call a/c Dr		1,25,000	
	To Equity Share Capital a/c			1,25,000
3)	Bonus to Share Holder a/c		1,25,000	
	To Share Final Call a/c			1,25,000

b) **Journal Entries**

Date	Particular's	L/F	Debit	Credit
1)	General Reserve a/c Dr		500000	
	To Bonus to Share Holder a/c			5,00,000
2)	Bonus to Share Holder a/c Dr		5,00000	
	To Equity Share Capital a/c			5,00,000

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

	₹
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 3rd	1,80,000
~~Capital Redemption Reserve~~ 1st	60,000
~~Securities premium (collected in cash)~~ 2nd	37,500
Profit and Loss Account 3rd	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.

Solution:

In the book of ______________________________

Date	Particular's	L/F	Debit	Credit
1)	Share Final Call a/c Dr		2,70,000	
	To Equity Share Capital a/c			2,70,000
2)	Bank a/c Dr		2,70,000	
	To Share Final Call a/c			2,70,000
3)	Capital Redemption Reserve a/c Dr		60,000	
	Securities Premium a/c Dr		37,500	
	P/L a/c Dr		2,40,000	
	To Bonus to Share Holder a/c			3,37,500
4)	Bonus to Share Holder a/c Dr		3,37,500	
	To Equity Share Capital a/c			3,37,500

Extract of Balance Sheet

as at _____________

		₹
Authorised Capital		
15,000 12% Preference Share of Rs 10 Each		1,50,000
1,68,750 Equity Shares of Rs 10 Each		1687500
Issued Capital		
12,000 12% Preference Share of Rs 10 Each		1,20,000
1,68,750 Equity Shares of Rs 10 Each		1687500
		1807500

Reserves & Surplus		
General Reserve		1,80,000
Profit & Loss A/c		60,000

3. 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:

$$\text{Ex-Right Value of Share} = \frac{[\text{Cum-Right Value of Existing Shares} + (\text{Right Shares} \times \text{Issue Price})]}{\text{Existing Number of Shares} + \text{Number of Right Share}}$$

$$= \frac{(\text{Rs } 150 \times 4 \text{ Shares}) + (\text{Rs } 125 \times 1 \text{ Share})}{4 \text{ Share} + 1 \text{ Share}}$$

$$= \text{Rs. } 145 \text{ Per Share}$$

$$\text{Value of Right} = \text{Cum Right Value of Share} - \text{Ex-Right Value of Share}$$

$$= \text{Rs } 150 - \text{Rs } 145 \Rightarrow \text{Rs } 5 \text{ Per Share}$$

Hence, any one willing to buy Right issue Share will have to pay Rs 20 [Rs 5 x 4 Share] to Existing Share Holder to Re-nounce his Right.

REDEMPTION OF PREFERENCE SHARES

METHOD OF REDEMPTION OF FULL PAID-UP SHARES

According to the Companies Act, 2013, preference shares issued by a company must be redeemed within the maximum period (normally 20 years) allowed under the Act. Thus, a company cannot issue irredeemable preference shares.

Redemption of redeemable preference shares must be filled in by:

a) the proceeds of a fresh issue of shares; or

b) the capitalisation of undistributed profits (by creating Capital Redemption Reserve); or

c) a combination of (a) and (b) above.

Note: The proceeds from issue of debentures CANNOT be utilised for the purpose.

Note: All the questions in this chapter have been solved on the basis that the companies referred in the questions are governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Accordingly the balance in securities premium account has not been utilized for the purpose of premium payable on redemption of preference shares.

Journal Entries

Date	Particular's	L/F	Debit	Credit
1.	Creation of CRR			
	General Reserve a/c Dr			
	Profit & Loss a/c Dr			
	To Capital Redemption Reserve a/c			
2.	Issue of New Shares			
	Bank a/c Dr			
	To Share Capital a/c			
	To Securities Premium a/c			

3.	Due Entry for Redemption of Preference Shares			
	Reedemable Preference Share Capital a/c	Dr		
	Premium on Redemption of Preference Share a/c Dr			
	To Preference Share Holder a/c			
4.	Payment Entry			
	Preference Share Holder a/c	Dr		
	To Bank a/c			
5.	Adjustment of Premium on Redemption			
	Profit & Loss a/c	Dr		
	To Premium on Redemption of Preference Share a/c			

MUST DO QUESTION BEFORE EXAMS

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

Solution:

	5,00,000
(-) Profit	3,00,000
Fresh Issue	2,00,000
÷ Issue Price	÷ Rs 9
	22,222.22 shares

↓

22,2$\boxed{23}$

↓

22,2$\boxed{50}$

2. X Ltd. gives you the following information as at 31st March, 2023 :

Particulars	₹
EQUITY AND LIABILITIES	
1. Shareholders' funds	
a. Share capital	2,90,000
b. Reserves and Surplus P/L A/c	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 equivalent (bank)	31,000

The share capital of the company consists of Rs.50 each equity shares of Rs.2,25,000 and Rs.100 each Preference shares of Rs.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:

FV + PREM = Total

65,000 + 6500 = 71,500

− 19000

− 15,000

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

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

c) to issue minimum equity share of Rs.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: 71,500 − 48,000 = 23,500 37,500

Journal Entries

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr		37,500	
	To Share Application a/c			37,500
2)	Share Application a/c Dr		37,500	
	To Equity Share Capital a/c			37,500

3)	Bank a/c Dr		15,000	
	Profit & Loss a/c Dr		3,500	
	To Investment			18,500
4)	Profit & Loss a/c Dr		27,500	
	To Capital Redemption Reserve a/c			27,500
5)	Redeemable Preference Share Capital a/c Dr		65,000	
	Premium on Redemption of Preference Share a/c Dr		6500	
	To Preference Share Holder a/c			71,500
6)	Preference Share Holder a/c Dr		71,500	
	To Bank a/c			71,500
7)	Profit & Loss a/c Dr		6500	
	To Premium on Redemption of Preference Share			6500

Working Note :

FV of Preference Share To be Redeemed	65,000
(–) Proceeds of Fresh Issue	(37,500)
Amount to be Redeemed out of Profit [CRR]	27,500

FV PREM Total Cash – Existing Bank – Sale of Investment

65,000 6500 ⇒ 71,500 (–) 19,000 – 15000

37,500 = 37,500 Fresh Issue

27,500 Profit

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

It was decided by the company to issue the following:

a) 25,000 Equity Shares of Rs.10 each at par,

b) 1,000 14% Debentures of Rs.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 book of ____________________

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr		2,50,000	
	To Equity Share Capital			2,50,000
2)	Bank a/c Dr		1,00,000	
	To 14% Debenture a/c			1,00,000
3)	Redeemable Preference Share Capital a/c Dr		3,00,000	
	Premium on Redemption of Pref. Share		30,000	
	To Preference Share Holder a/c			3,30,000
4)	Preference Share Holder a/c Dr		3,30,000	
	To Bank a/c			3,30,000
5)	Profit & Loss a/c Dr		50,000	
	To Capital Redemption Reserve			50,000
6)	Profit & Loss a/c Dr		30,000	
	To Prem. on Red. of Pref Share			30,000

Working Note :

FV	300,000
(-) Fresh Issue	(250,000)
Profit → CRR	50,000

4. The capital structure of a company consists of 20,000 Equity Shares of Rs.10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs.100 each fully paid up (issued on 1.4.2021). Undistributed reserve and surplus stood as: General Reserve Rs.80,000; Profit and Loss Account Rs.20,000; Investment Allowance Reserve out of which Rs.5,000, (not free for distribution as dividend) Rs.10,000; Securities Premium Rs.2,000, Cash at bank amounted to Rs.98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of Rs.20,000 shall be retained in general reserve and which should not be utilised. Pass Journal Entries to give effect to the above arrangements.

Solution:

In the book of ____________________

Journal Entries

Date	Particular's	L/F	Debit	Credit

Working Note :

FV	PREM	G.R	P/L	IAR
1,00,000	10,000	80,000	20,000	10,000
– 60,000	– 10,000	– 20,000	– 10,000	– 5000 NOT FREE
– 10,000	0	60,000	10,000	5000 Free
– 5000		– 60,000	– 10,000	– 5000
25,000 Fresh Issue		0	0	0

CRR

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

Particulars	₹
50,000, 8% Preference Shares of Rs. 100 each, Rs. 70 paid up +15,00,000	35,00,000
1,00,000 Equity Shares of Rs. 100 each fully paid up 50 lac	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank 100 + 10	15,00,000

20 25 55

x +10 / 35   x

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 Rs.100 each at Rs.110 per share, Rs.20 being payable on application, Rs.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:

In the book of ____________________

Journal Entries

Date	Particular's	L/F	Debit	Credit
1)	Preference Share Final Call a/c Dr		15,00,000	
	To 8% Preference Share Capital a/c			15,00,000
2)	Bank a/c Dr		15,00,000 ⇒ 14,40,000	
	To Preference Share Final Call a/c			15,00,000
3)	Bank a/c Dr [50,000 x 20]		10,00,000	
	To Equity Share Application a/c			10,00,000
4)	Equity Share Application a/c Dr		10,00,000	
	To Equity Share Capital a/c			10,00,000
5)	Equity Share Allotment a/c Dr		17,50,000	
	To Equity Share Capital a/c			12,50,000
	To Securities Premium a/c			5,00,000
6)	Bank a/c Dr		17,50,000	
	To Equity Share Allotment a/c			17,50,000

7)	General Reserve a/c Dr		27,50,000	
	To Capital Redemption Reserve a/c			27,50,000
8)	8% Preference Share Capital a/c Dr		50,00,000	
	Premium on Redemption of Pref. Share		2,50,000	
	To Preference Share Holder a/c			52,50,000
9)	Preference Share Holder a/c Dr		52,50,000	
	To Bank a/c			52,50,000
10)	General Reserve a/c Dr		2,50,000	
	To Premium on Redemption of Preference Share a/c			2,50,000

6. With the help of the details in Illustration 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. (Ignore date column)

Solution:

In the book of ____________________

Journal Entries

Date	Particular's	L/F	Debit	Credit

FV ~~50,00,000~~ 48,00,000

(–) Fresh Issue (22,50,000)
50,000 x [20+25]

CRR 27,50,000
25,50,000

REDEMPTION OF DEBENTURES

ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

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

S. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1.	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking	No DRR is required
2.	Companies for both public as well as privately placed debentures	
	Other Financial Institutions (FIs) within the meaning of clause(72) of section 2 of the Companies Act,2 013	DRR will be as applicable to NBFCs registered with RBI (as per(3) below)
3.	For listed companies (other than AIFIs and Banking Companies as specified in Sr.No.1 above):	
	a. All listed NBFCs (registered with RBI under No DRR is required section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	
	b. Other listed companies for both public as No DRR is required well as privately placed debentures	
4.	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No 1 above	
	a. All unlisted NBFCs (registered with RBI under section 45-IA of the	No DRR is required

	RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	
	b. Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

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

a) All listed NBFCs

b) All listed HFCs

c) All other listed companies (other than AIFIs, Banking Companies and Other FIs); and

d) All unlisted companies which are not NBFCs and HFCs

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

a) in deposits with any scheduled bank, free from charge or lien;

b) in unencumbered securities of the Central Government or of any State Government;

c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;

d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

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

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

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue.

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

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

Journal Entries

Date	Particular's	L/F	Debit	Credit
	AFTER ALLOTMENT OF DEBENTURES			
1.	Creation of DRR			
	Profit & Loss a/c Dr			
	General Reserve a/c Dr			
	To Debenture Redemption Reserve a/c			
2.	Purchase of DRRI			
	Debenture Redemption Reserve Investment a/c Dr			
	To Bank a/c			
3.	Receipt of Interest on DRRI			
	Bank a/c Dr			
	To Interest on Deb. Redemption Reserve Investment a/c			
4.	Transfer of Interest on DRRI			
	Interest on Deb. Redemption Reserve Investment a/c Dr			
	To Profit & Loss a/c			

	AT TIME OF REDEMPTION			
1.	Sale of DRRI			
	Bank a/c Dr			
	To Debenture Redemption Reserve Investment a/c			
2.	Due Entry for Redemption of Debentures			
	X% Debenture a/c Dr			
	Premium on Redemption of Debenture a/c Dr			
	To Debenture Holder a/c			
3.	Payment Entry			
	Debenture Holder a/c			
	To Bank a/c			
4.	Transfer of DRR			
	Debenture Redemption Reserve a/c Dr			
	To General Reserve a/c			

MUST DO QUESTION BEFORE EXAMS

1. 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 Rs.7,50,000 → Liability → B/D → CR

II. Balance of DRR Rs.25,000 → Liability → B/D → CR

III. DRR Investment 1,12,500 represented by 10% Rs.1,125 Secured Bonds of the Government of Indiaof Rs.100 each. → Asset → B/D → Dr

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at Asset → B/D → Dr bank was Rs.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:

12% Debentures A/c

Date	Particular	Amount	Date	Particular	Amount
31/03/22	To Debenture Holder	7,50,000	01/04/21	By Balance b/d	7,50,000

DRR A/c

Date	Particular	Amount	Date	Particular	Amount
31/03/22	To General Reserve	75,000	01/04/21	By Balance b/d	25,000
			01/04/21	By Profit & loss a/c	50,000

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

Date	Particular	Amount	Date	Particular	Amount
01/04/21	To Balance b/d	1,12,500	31/03/22	By Bank a/c	1,12,500

Bank A/c

Date	Particular	Amount	Date	Particular	Amount
01/04/21	To Balance b/d	7,50,000	31/03/22	By Debenture Holder	8,25,000
31/03/22	To Interest on DRR (I)	11,250			
31/03/22	To DRR (I)	1,12,500			
				By Balance c/d	48,750

Debenture holders A/c

Date	Particular	Amount	Date	Particular	Amount
31/03/22	To Bank a/c	8,25,000	31/03/22	By 12% Debenture	7,50,000
			31/03/22	By Premium on Redemption	75,000

Working Note:

2. XYZ Ltd. has issued 1,000, 12% convertible debentures Rs.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 Rs.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:

Particular	No. of Debentures
$\frac{Rs\ 20000}{Rs\ 100}$ = 200 Debenture	
× 20%	80% Cash
40 Debenture	160 Deb
× 105	× 105
Rs 4200	16,800 Cash
÷ Rs 20	
210 Shares	

Working Note:

3. 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:

	Particulars	Note No.	₹
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
			5,55,000
	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 Rs.10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of Rs.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		

	Free hold 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 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. 5 → 1

c) To repay the debentures at a premium of 3%. 20,000 + 5000 → x

Give the necessary journal entries for these transactions.

Solution:

Journal Entries

Date	Particular's	L/F	Debit	Credit
1)	Bank a/c Dr 5000 × 15		75,000	
	To Equity Share Holder a/c			75,000
2)	Equity Share Holder a/c Dr		75,000	
	To Equity Share Capital a/c			50,000
	To Securities Premium a/c			25,000
3)	Securities Premium a/c Dr		25,000	
	Profit & loss a/c Dr		25,000	
	To Bonus to Share Holder a/c			50,000
4)	Bonus to Share Holder a/c Dr		50,000	
	To Equity Share Capital a/c			50,000
5)	Profit & loss a/c Dr		12,000	
	To Debenture Redemption Reserve a/c			12,000

6)	Debenture Redemption Reserve Investment a/c Dr		18000	
	To Bank a/c			18,000
7)	Bank a/c Dr		18,000	
	To Debenture Redemption Reserve Investment a/c			18,000
8)	12% Debenture a/c Dr		1,20,000	
	Premium on Redemption a/c Dr		3600	
	To Debenture Holder a/c			1,23,600
9)	Debenture Holder a/c Dr		1,23,600	
	To Bank a/c			1,23,600
10)	Debenture Redemption Reserve a/c Dr		12,000	
	To General Reserve a/c			12,000
11)	Profit & Loss a/c Dr		3600	
	To Premium on Redemption a/c			3600

DRR	Vs	DRR (I)
↓		↓
10%		15%
↓		↓
FV		FV
↓		↓
Issue [31 March]		Redeem in CY [30 April]

FINAL ACCOUNTS WITH ADJUSTMENT

Let's Discuss All Adjustments

ADJUSTMENT	GIVEN	JOURNAL	TRADING	B/S
One month rent for gowdown is outstanding.	55,000 ÷11 Months	Rent a/c Dr 5000 To o/s Rent 5000	P/L → Dr Rent – Add	Liab. o/s Rent
Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017	60,000 X10% × 9/12 → 4500 4,400	Interest a/c Dr 100 To O/s Interest 100	P/L → Dr Interest Add Rs 100	Liab. o/s Interest Rs 100
Insurance premium includes Rs.42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.	48,000 – 42000 6000 ÷15 Month 400 per Month X3 Month		P/L → Dr Insurance (–) 42000 P/L → Dr Insurance (–) Prepaid 1200	Liability Capital (–) 42000 Asset Prepaid Insurance 1200
Included amongst the debtors is Rs.6,000 due from Rahul and included among the creditors Rs.2,000 due to him.	D - 48,000 C - 29,600		Mutual Debt	Debtor (–) 2000 Creditor (–) 2000
Personal purchases of Manan amounting to Rs.1200 had been recorded in the purchases day book.	28,800		Trading A/c Purchase (–) 1200	Liab Capital (–) 1200
A quarter of the amount of printing and stationary			P/L Printing	Asset Prepaid

expenses is to be carried			(-) Prepaid	Printing
forward to the next year.			1/4	1/4
Credit purchase invoice	6,43,400		Trading	Liab
amounting to Rs.800 had			Purchase	Creditor
been omitted from the books.			+ 800	+800
Purchases include sales	P - 1,60,000		Purchase	Sales
return of Rs.2,575 and	S - 2,15,300		(-) 2575	(-) 2575
sales include purchases			Sales	Purchase
return of Rs.1,725.			(-) 1725	(-) 1725
Goods withdrawn by			Trading	Liab
Mr. XYZ for own			Purchase	Capital
consumption Rs.3,500			(-) 3500	(-) 3500
included in purchases.				
Wages paid in the month of			Trading	Asset
April for installation of			Wages	Machinery
plant and machinery			(-) 450	+450
amounting to Rs.450 were				
included in wages account.				
Free samples distributed		Trading A/C	P/L - Dr	
for publicity costing Rs.825.		Purchase (-) 825	Free Sample 825	
Bank overdraft is secured	O/D -			
against hypothecation of	80,000			
stock. Bank overdraft		Bank OD = Stock		
outstanding as on 31.3.2017				
has been considered as		Bank OD = Q × P		
80% of real value of (Qnt)				
stock (deducting 20% as		80,000 = 80% × 80% × Stock		
margin) and after				
adjusting the marginal (Price)		80,000 ÷ 80% ÷ 80 % = Stock		
value 80% of the same		1,25,000 = Stock		

has been allowed to draw				
as an overdraft.				
Rs.20,000 drawn from bank	D - 70,000		P/L-Dr	Liab
was debited to Drawings			Expense	Drawings
account, but out of this			+ 12000	(-)12000
amount withdrawn				
Rs.12,000 was used in the				
business for day-to-day				
expenses.				
Purchase of goods worth			Trading	Liab
Rs.16,000 was not recorded			Purchase	Creditor
in the books of account			+ 16000	+16,000
upto 31.03.2019, but the				
goods were included in stock.				
Purchase returns of	TB		① Purchase Return ↑	
Rs.1,000 was recorded in	Suspense	Suspense a/c Dr 2000	Rs 1000	
Sales Return Journal and	CR	To Purchase Return a/c 1000	② Sales Return ↓	
the amount was correctly	2000	To Sales Return a/c 1000	Rs 1000	
posted to the Party's A/c			③ Suspense a/c ↓	
on the correct side.			Rs 2000	
Expenses include Rs.6,000			P/L → Dr	Asset
in respect of the period			Expense	Prepaid
after 31st March, 2019.			(-) Prepaid	Expense
The loan account from Dena				
bank in the books of				
Ganguli appears as follows:	Dena Loan A/C			

		Rs.			Rs.
31.3.2020	To Balance c/d	1,00,000	1.4.2019	By Balance b/d	50,000
			31.3.2020	By Bank	50,000
		1,00,000			1,00,000

Interest received represents Rs.1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.	IR - 7,250 I@5% - 25,000	P/L → Cr Interest Recd + 10,000	Asset Accrued Interest Rs 10,000	
Interest paid include Rs.3,000 paid to Dena bank.	L @12% - 1,00,000	P/L → Dr Interest +3000	Liab o/s Interest 3000	
Machinery worth Rs. 45,000 purchases on 1.10.99 was shown as purchases.		Dep → Gm	Trading A/c Purchase (−) 45000	Asset Machinery +45000
Commissions is payable at 2% on Sales.	S - 23,10,000		P/L → Dr Commission +	Liab o/s Comm.
• Office premises occupy 1/4 of total area. • Lighting is to be charged as to 2/3 to factory and 1/3 to office.		Rent 1/4 office P/L 3/4 Factory Mnfg.	Lighting 1/3 office P/L	2/3 Factory Mnfg.
Mr R's manager is entitled to a commission of 10% on the net profit after charging his commission	Before = Profit × $\frac{R}{100}$ After = Profit × $\frac{R}{100+R}$		P/L → Dr Manager Comm.	Liab o/s Manager Comm.
Following transaction had taken place during the period from 1-4-1997 to 7th April, 1997. • Sales Rs. 2, 50,000, • Purchases 1,50,000, • Stock on 7th April, 1997 was Rs. 1,80,0000 and • Gross profit on sales	Inventory	7th April → 1,80,000 Add: Sales 2,50,000 − 20% Profit → +2,00,000 less: Purchase → (−) 1,50,000 Closing Stock →		

was 20%				
Insurance premium mentioned in the trial balance was in respect of building and machineries.				
Goods costing Rs.1,000 were sent to customer for Rs.1,200 on 30th March, 1998 on sale or return basis. This was recorded as actual sales.	S.P ⇒ C.P ⇒	① Sales ↓ 1200 ① Trading A/c → Cr Stock with Customer Rs 1000	② Debtor ↓ 1200 ② Asset Stock with Customer Rs 1000	
Rs.240 paid as rent of the office were debited to Landlord account and were included in the list of debtors.		① P/L → Dr Rent + 240 ② Asset Debtor − 240		
• General (G) Manager is to be given commission at 10% of net profit after charging the commission of the works manager and his own. • Works manager (W) is to be given commission at 12% of net profit before charging the commission of General Manager and his own.		$W = N.P \times \frac{12}{100}$ $G = (N.P - W) \times \frac{10}{110}$		
Bill receivable include a dishonored bill of Rs.8,000.		① Asset B/S (−) 8000	② Asset Debtor + 8000	
Goods costing Rs.2,000 were given away as free		① P/L → Dr Free Sample 2000	② Trading A/c Purchase (−) 2000	

sample for publicity.				
On 1.4.2004, machinery of the value of Rs.10,000 was destroyed by fire and the insurance claim settled at Rs.8,000 was credited to Machinery account.	① P/L → Dr Loss By Fire 2000		② Asset Machine (–) 2000	
Reserve for bad debts is to be kept at Rs.1,000				
Prepaid Expense		① P/L → Dr → (–)	② Asset	
Outstanding Expense		① P/L → Dr → +	② Liability	
Accrued Income		① P/L → Cr → +	② Asset	
Advance Income		① P/L → Cr → (–)	② Liability	

BAD-DEBT, PROVISION FOR DOUBTFUL DEBT, PROVISION FOR DISCOUNT ON DEBTORS

Profit & Loss Account

Particulars	Amount	Particulars	Amount
To Bad-Debt (TB)	✓	By P.D.D (TB)	✓
To Bad-Debt (Adj)	✓		
To P.D.D. (Adj)	✓		

Balance Sheet

		Debtor (TB)	✓	
		(–) Bad-Debt	(x)	
		calculate	✓	
		(–) P.D.D	(x)	✓

Closing Stock (Cost Or NRV Whichever is ____________)

FORMAT OF MANUFACTURING ACCOUNT

Manufacturing Account of .... for the year ended.........

Particulars	Rs.	Particulars	Rs.
To Materials Consumed:		By Net Factory Cost of production,	
Opening Stock of Raw Materials	OS	transferred to Trading A/c	
Add: Purchases of Raw Materials Sub-Total	+NP	(bal. fig)	
Less: Closing Stock of Raw Materials	(-) CS	By NRV / Sale Value of By-Products,	
Net balance = Materials Consumed To	DM	if any.	
Direct Manufacturing Wages	DL		
To Direct Expenses, if any	DE		
Sub-Total **Prime Cost**	PC		
To Production Overheads FOH / MOH /	POH		
Sub-Total **Gross Factory Cost**	GFC		
Add: Opening Stock of WIP	+ Op WIP		
Less: Closing Stock of WIP	− Cl. WIP		
Total		**Total**	

Trading Account is prepared as under in this case:

TRADING ACCOUNT OF FOR THE YEAR ENDED

Particulars	Rs.	Particulars	Rs.
To Opening Stock of Finished Goods To		By Sales	
Manufacturing Account, i.e. Cost of		By Closing Stock of Finished Goods	
Production To Gross Profit c/d to P&L			

Account			
Total		**Total**	

MUST DO QUESTION BEFORE EXAMS

1. Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.

Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ Rs.0.70 per unit manufactured Hire charges of factory	2,60,000
Direct wages-contracted@ Rs. 0.80 per unit manufactured and @ Rs.0.40 per unit of closing W.I.P.	
Repairs and maintenance Units produced - 5,00,000 units	1,80,000

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

Solution:

Manufacturing Account in Books of Mr.Shyamlal for the Year Ended 31st March,2019

Particulars	Units	Amount	Particulars	Units	Amount
To Direct Material			By Transfer of Cost of Production to Trading A/c	5lac	1933,600
Op. Stk of RM		260000			
+ Purchase of RM		820000			

(-) Cl. Stk of RM		(3,20,000)			
		7,60,000			
To Direct Labour		4,05,600	→ (5 lac × 0.80) + (14,000 × 0.40)		
To Direct Expense		3,50,000	→ (5 lac × 0.70)		
PC		15,15,600			
To POH		4,40,000	→ 2,60,000 + 1,80,000		
GFC		19,55,600			
+ Op WIP	9000	26,000			
− Cl. WIP	14000	(48,000)			

2. Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about Rs.~~10,00,000~~. She invested Rs.3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for Rs.5,00,000 and further spent Rs.1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020 - Rs.15,000 principal+ Rs.9,000 interest
30th September, 2020 - Rs.15,000 principal+ Rs.8,550 interest
31st December, 2020 - Rs.15,000 principal+ Rs.8,100 interest
31st March, 2021 - Rs.15,000 principal+ Rs.7,650 interest.

Loan Principal	+ Interest
60000	33,300
① Bank CR	① P/L → Dr
② Loan ↓	② Bank CR

In view of further capital requirement, she transferred Rs.2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of Rs.7,000 for telephone connection. Furniture of Rs.10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales Bank-Dr	20,00,000	Total Purchases → Bank Cr	17,00,000
Add → Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards Bank Cr	60,000	Travelling Expenses Bank Cr P/L Dr	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses P/L Dr	15,000	Electricity Expenses Payable P/L Dr B/s-Liab / o/s	20,000

Other Information:

(i) She withdrew Rs.5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: Rs.5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

Solution:

Trading & Profit and Loss Account in the Books of M/S Designer Wear For The Year Ended 31st March 2021

Particular's	Amount	Particular's	Amount
To Purchase	17,00,000	By Sales	20,00,000
To Gross Profit	8,50,000	By Closing Stock	5,50,000
To Interest	33,300	By Gross Profit	8,50,000
To Telephone Charges	50,000		
To Traveling Expense	45,000		
To Maintenence Expense	25,000		
To Entertainment Exp.	5,000		
To Electricity 40,000			
+ o/s Electricity 20,000	60,000		
To Carriage Outward	60,000		
To Depreciation			
→ Building 30,000			
→ Furniture 1,000	31,000		
To Misc. Exp.	15,000		

To Net Profit 525,700

Balance Sheet as at 31st March, 2021

Liabilities	Amount	Assets	Amount
Capital 3,00,000		Building 6,00,000	
+ Ad. Cap 2,00,000		(–) Dep 30,000	5,70,000
(–) Drawings (60,000)			
+ Net Profit 5,25,700	9,65,700	Furniture 10,000	
		(–) Dep (1000)	9000
o/s Electricity Charges	20,000	Closing Stock	5,50,000
Bank loan 3,00,000		Security Deposit	7000
(–) Repayment (60,000)	2,40,000	Bank	89,700
	12,25,700		12,25,700

Working Note

Bank Account

Particular's	Amount	Particular's	Amount
To Capital	3,00,000	By Building	6,00,000
To Capital	2,00,000	By Furniture	10,000
To Bank loan	3,00,000	By Bank loan	60,000
To Sales	20,00,000	By Interest on loan	33,300

		By Security Deposit	7,000
		By Drawings	60,000
		By Purchase	17,00,000
		By Telephone Charges	50,000
		By Traveling Expenses	45,000
		By Maintenence Exp	25,000
		By Entertainment Exp	5,000
		By Electricity Expense	40,000
		By Carriage Outward	60,000
		By Misc. Expense	15,000
		By Balance c/d [Bank Balance]	89,700

3. The balance sheet of Mittal on 1st January, 2018 was as follows:

Liabilities	Amount	Assets	Amount
Trade payables } ~~CL~~	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables } ~~CA~~	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		69,50,000

During 2018, his profit and loss account revealed a net profit of Rs.15,10,000. This was after allowing for the following:

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

(b) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a. } 1 Effect

(c) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for

Cl. B/s

(1) outstanding expenses totaling Rs.1,85,000 and
(2) prepaid insurance to the extent of Rs.25,000. } 2 Effect • P/L • Cl. B/s

His current assets and liabilities on 31st December, 2018 were: Trade receivables Rs.21,00,000; Cash at bank Rs.5,20,000 and Trade payables Rs.13,84,000. During the year he withdrew Rs.6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year- end. You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year.

Solution:

Profit & Loss Account (Revised) For the Year Ended 31st December 2018

Particular's	Amount	Particular's	Amount
To O/s Expense	1,85,000	By Balance b/d	15,10,000
To Net Profit (Revised)	13,50,000	By Prepaid Expense	25,000

Balance Sheet As On 31/12/18

Liabilities	Amount	Assets	Amount
Capital 51,00,000		Plant & Machinery 31,00,000	
+ IOC 3,06,000		(-) Dep (3,10,000)	27,90,000
+ NP 13,50,000			
- Drawings (6,20,000)	61,36,000	Furniture 4,00,000	
		(-) Dep (20,000)	3,80,000
Trade Payable	13,84,000	Trade Recv. 21,00,000	
		(-) P.D.D @ 5% (1,05,000)	19,95,000
O/s Expense	1,85,000		
		Cash at Bank	5,20,000
		Closing Stock	19,95,000

		Prepaid expense	25000

4. Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing in these accounts.

Raw Material A/c

Particular's	Amount (Rs.)	Particular's	Amount (Rs.)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	915000
To Creditors A/c	14,40,000	By Closing Stock	652000

Creditors A/c

Particular's	Amount (Rs.)	Particular's	Amount (Rs.)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Purchase [Credit]	14,40,000

Manufacturing A/c

Particular's	Amount (Rs.)	Particular's	Amount (Rs.)
To Raw Material A/c	9,15,000	By Trading A/c	17,44,000
To Wages	3,65,000	−50,000	+1,80000 −50,000
To Depreciation	2,15,000	+1,80000	−20,000
To Direct Expenses	2,49,000	−20,000 −22,000	−22,000
			18,32,000

Additional Information:

a. Purchase of machinery worth Rs.12,00,000 on 1st April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

b. Wages include the following:

Paid to factory workers - Rs.3,15,000

Paid to labour at office - Rs.50,000

c. Direct expenses included the following:

Electricity charges - Rs.80,000 of which 25% pertained to office

Fuel charges - Rs.25,000

Freight inwards - Rs.32,000

Delivery charges to customers - Rs.22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c.

Solution:

Manufacturing A/c

Particular's	Amount	Particular's	Amount
To RM a/c Balancing Figure	9,15,000	By Transfer to Trading a/c WN3	18,32,000
To Direct Wages	3,15,000		
To Depreciation WN1	3,95,000		
To Direct Exp WN2	2,07,000		

Raw Material Account

Particular's	Amount	Particular's	Amount
To Opening Stock Given	1,27,000	By RM Consumed [Mnf]	9,15,000
To Creditor [Purchase]	14,40,000	By Closing Stock	6,52,000 Balancing Figure

Working Note

1. Creditor Account

Particular's	Amount	Particular's	Amount
To Bank Given	23,50,000	By Balance b/d Given	15,70,000
		By RM a/c [Purchase]	14,40,000
To Balance c/d Given	6,60,000		

2. Revised Balance to be Transferred to Trading Account

Particular's	Amount
Balance transferred to Trading a/c as per Question	17,44,000
(−) Wages (office)	(50,000)
(−) Direct Expense (20,000 + 22,000)	(42,000)
+ Dep.	+ 1,80,000
	18,32,000

3. Expenses to Excluded from Direct Expenses

Particular's	Amount
Direct Expense given in Question	2,49,000
(−) Electricity Charges of offices	(20,000)
(−) Delivery charges to Customer	(22,000)
	2,07,000

4. Correct Depreciation

Depreciation given in Question	2,15,000
+ Dep. on New Machine 12 lac X 15%	1,80,000
	3,95,000

5. Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2020

Particular's	Rs.	Particular's	Rs.
To Cost of Goods Sold	45,00,000	By Sales	C 1 Crore
To Gross Profit c/d	D 55 lacs		
	E		E

To Rent A/c	26,00,000	By Gross Profit b/d	55 lac D
To Office Expenses	13,00,000	By Miscellaneous Income	E 5lac
To Selling Expenses	1,00,000 B		
To Commission to Manager (on	2,00,000		
Net Profit before charging such			
commission)			
To Net Profit	18,00,000 A		
	60,00,000 C		60,00,000

Commission is charged at the rate of 10%. Selling Expenses amount to 1% of total sales. You are required to compute the missing figures.

Solution:

Trading and P&L A/c for the year ended 31st March, 2020

Particular's	Rs.	Particular's	Rs.
To Cost of Goods Sold	45,00,000	By Sales	
To Gross Profit c/d			
To Rent A/c	26,00,000	By Gross Profit b/d	
To Office Expenses	13,00,000	By Miscellaneous Income	
To Selling Expenses			
To Commission to Manager (on	2,00,000		
Net Profit before charging such			
commission)			
To Net Profit			
			60,00,000

Working Note

1. Computation of Net Profit

2. Computation of Selling Expenses

3. Computation of Sales

4. Computation of Gross Profit

Trading Account

Particular's	Amount	Particular's	Amount

5. Miscellaneous Income

6. Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2020 has been given below:

On 1.4.2019 he had a balance of Rs.2,00,000 advance from customers of which Rs.1,50,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of Rs.5,00,000. You are required to compute:

(i) Total income for the year 2019-20.

(ii) Total money received during the year if the closing balance in advance from customers account is Rs.1,70,000.

Solution:

1. Computation of Income for the year 2019-20

Particular's	Amount
Cash Sales	5,00,000
+ Opening Advance for 2019-20	1,50,000
	6,50,000

2. Advance from Customer Account

Particular's	Amount	Particular's	Amount
To Sales	1,50,000	By Balance b/d	2,00,000
To Balance c/d	1,70,000	By Bank	1,20,000

Total Money Received During Year

Particular's	Amount
Cash Sales	5,00,000
+ New Advance from Customer	1,20,000
	6,20,000

7. Sengupta & Co. employs a team of eight workers who were paid Rs.30,000 per month each in the year ending 31st March, 2019. At the start of financial year 2019-2020, the company raised salaries by 10% to Rs.33,000 per month each.

March → April   April → May

On October 1, 2019 the company hired two trainees at salary of Rs.21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

(a) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2020.

(b) Amount actually paid as salaries during 2019-20

Outstanding Salaries as on 31st March, 2020.

Solution:

1. Salaries to be Charged to Profit & Loss account for the year ended 31st March, 2020

Particular's	Amount
Salary of 8 Employee for 12 Months @ Rs.33,000 each p.m	31,68,000
Salary of 2 Trainees for 6 Month @ Rs 21,000 each pm	2,52,000
	34,20,000

2. Salaries Actually Paid in 2019-20

Particular's	Amount
Salary of 8 Employee of March 2019 Paid in April 2019 @Rs 30,000	2,40,000
Salary of 8 Employee from April 2019 to Feb 19 Paid from May 2019 to March 2020 @ 33,000 p.m	29,04,000
Salary of 2 Trainee from Oct 2019 to Feb 19 paid till March 2020 @ 21,000 pm [SM]	2,10,000
	33,54,000

3. Outstanding Salary as at 31st March, 2020

Particular's	Amount
8 Employee — March 2020 @ 33,000	2,64,000
2 Trainee — March 2020 @ 21,000	42,000
	3,06,000

8. Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2020.

08 DO IT IN 10 MINS.

Particular's	Amount	Particular's	Amount
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By-product at			
selling price			20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2020.

Solution:

Manufacturing Account in Books of Mr.Pankaj for the Year Ended 31st March,2020

Particular's		Amount	Particular's		Amount

9. Mr. Mohan gives you the following trial balance and some other information:

Particular's	₹	₹
Capital L		6,50,000
Sales TR – Cr		9,70,000
Purchases TR – Dr	4,30,000	
Opening Inventory TR – Dr	1,10,000	
Freights Inward TR – Dr	40,000	
Salaries P/L → Dr	2,10,000	
Other Administration Expenses P/L → Dr	1,50,000	
Furniture A	3,50,000	
Trade receivables (A) and Trade payables (L)	2,10,000	1,90,000
Returns	S.R 20,000	P.R 12,000
Discounts	D.A 19,000	D.R 9,000
Bad Debts TB → P/L → Dr	5,000	
Investments in Government Securities A	1,00,000	
Cash in Hand and Cash at Bank A	1,89,000	
Input CGST 2000 ⇐ Output CGST 8000 ←	10,000	
Input SGST 2000 ⇐ Output SGST 8000 ←	10,000	
Output CGST		~~8,000~~
Output SGST		~~8,000~~

Pay in Cash 2000 ⇐ Input SGST 2000 — Input CGST 2000 ←

Output IGST		6,000
	18,53,000	18,53,000

Other Information:

Closing Inventory was ₹ 1,80,000;

Depreciate Furniture @ 10% p.a.

Required

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2022 and Balance Sheet of Mr. Mohan as on that date.

Solution:

In the book of ______________

Trading Account for the year ended ___________

Particular's		Amount	Particular's		Amount

Profit and Loss Account for the year ended __________

Particular's	Amount	Particular's	Amount

Balance Sheet as at ___________

Particular's		Amount	Particular's		Amount

Working Note:

	OUTPUT GST (₹)	INPUT GST (₹)

Output liability (Tax head)	Tax Payable	Paid through ITC			Tax paid in cash
		IGST	CGST	SGST	

SELF PRACTICE QUESTION

1. The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

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

Additional Information:

(a) Purchases include sales return of Rs.2,575 and sales include purchases return of Rs.1,725.

(b) Goods withdrawn by Mr. XYZ for own consumption Rs.3,500 included in purchases.

(c) Wages paid in the month of April for installation of plant and machinery amounting to Rs.450 were included in wages account.

(d) Free samples distributed for publicity costing Rs.825.

(e) Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.

(f) Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

(g) Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a

Balance Sheet as on that date. Also show the rectification entries.

Solution:

Trading & Profit and Loss Account in the Books of Mr. XYZ

For The Year Ended 31st March 2017

Particular's	Amount	Particular's	Amount

Balance Sheet as at 31st March, 2017

Liabilities	Amount	Assets	Amount

INVENTORY

Physical Stock vs Book Stock

Wherever required, the following adjustments are carried out in respect of value of Physical Stock, to arrive at the Value of Inventory as per the Balance Sheet –

	Value of **Physical Stocks** on the Closing Date	XXX
Add	Goods in Transit, i.e. goods in respect of which the Firm has the title and ownership, but lying with the Transporter / Carrier, pending delivery.	XXX
Add	Goods held by Other Entities on our behalf (e.g. Our Stock held by Agent, Sub-Contractor, Job Worker, etc.) Goods sent on approval for which confirmation not received from Customer.	XXX
Less	Any goods sold in respect of title has been transferred to the Buyer, but delivery pending at Buyer's request.	XXX
Less	Goods held by us on behalf of Other Entities (e.g. As Agent, as Sub-Contractor, as Job Worker, etc.)	XXX
Less	Adjustments required to mark-down defectives / obsolete items, etc. to their NRV, if any.	XXX
	Value of Stocks as per Balance Sheet	

Verification of Stock on other than Balance Sheet date

Generally, Physical Stock Verification and Valuation is done at the end of the last day of the accounting year. Sometimes, in big organizations, it may not be possible to verify the stocks exactly on the last date of the accounting period. In such cases, stock is taken either few days earlier or later, according to the situation. The following adjustments are carried out in order to arrive at the Stock Value on the Balance Sheet date -

1. Stock Taking after Balance Sheet date	2. Stock Taking before Balance Sheet date
Value of Stocks on verification date (e.g. 6th April)	Value of Stocks on verification date (e.g. 25th March)
(+)Cost of Sales made during the interim period	(+) Purchases made during the interim period
(+)Purchase Returns during the interim period	(+)Sales Returns (at Cost Price) during the period
(-)Purchases made during the interim period	(-)Cost of Sales made during the interim period
(-)Sales Returns (at Cost Price) during the period	(-)Purchase Returns during the interim period
Value of Stocks on Balance Sheet date,	Value of Stocks on Balance Sheet date,
i.e. 31st March	i.e. 31st March

MUST DO QUESTIONS BEFORE EXAMS

1. Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

   a) The cost of stock on 31st December, 2017 as shown by the inventory sheet was 80,000. M+

   b) On 31st December, stock sheet showed the following discrepancies:

      (i) A page total of Rs.5,000 had been carried to summary sheet as Rs.6,000. 1000 M−

      (ii) The total of a page had been under cast by Rs.200. 200 M+

   c) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totaled Rs.70,000. Out of this Rs.3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totaled Rs.4,000. 67,000 M+, 4000 M+

   d) Sales invoiced to customers totaled Rs.90,000 from January to March, 2018. Of this Rs.5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totaled Rs.4,000.

   e) During the final quarter, credit notes at invoiced value of Rs.1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by

85,000 Less 20% Profit = M−

4000 Less 20% Profit = M—

1000 Less 20% Profit = M+

the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. Transfer of ownership takes place at the time of delivery of goods.

Solution:

Valuation of Physical Stock as at 31st March, 2018

Particular's	Amount

2. Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of Rs.5,02,500 (M+) at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for Rs.20,625 (Less 25% M+) profit margin being 33.33 percent on cost (25% on Sale). Purchases for the next year included in the stock amounted to Rs.27,000 (less 10% TD M—) at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of Rs.900 (Less 25% M—) in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing Rs.3,375 which should be taken at Rs.1,575 to ensure disposal to an interested customer. (M— 1800) Due to heavy floods, certain goods costing Rs.4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs.3,750 on 31st March, 2020. (M— 900)

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020

Solution:

Valuation of Stock as at 31st March, 2020

Particular's	Amount

3. Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was M+ Rs.28,00,000. The following transactions took place from 23rd February to 29th February, 2020:

a) Out of the goods sent on consignment, goods at cost worth M+ Rs.2,30,000 were unsold.

b) Purchases of Rs.3,00,000 were made out of which goods worth Rs.1,20,000 were delivered on 5th March, 2020. 1,80,000 M+ , 1,20,000 M+

c) Sales were Rs.13,60,000 which include goods worth Rs.3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.

d) Goods are sold at cost plus 25%. However goods costing Rs.2,40,000 had been sold for Rs.1,50,000.

Determine the value of stock on 29th February, 2020.

Solution:

Valuation of Stock as at 29th February, 2020

Particular's	Amount

4. From the following particulars ascertain the value of inventories as on 31st March, 2020:

		Rs.
Inventory as on 1.4.2019	OS + P + ME	1,42, 500
Purchases	10,55000	7,62, 500
Manufacturing Expenses		1,50,000
Selling Expenses ~~X~~	Sales 12,45000 Cl. Stk	60,500
Administrative Expenses ~~X~~	62,500	30,000
Financial Charges ~~X~~	Abnormal Normal	21,500
Sales	Sales 45,000 12,00,000 Less 20% Profit Cost 32,500 9,60,000	12,45,000

At the time of valuing inventory as on 31st March, 2019, a sum of Rs.17,500 was written off on a particular item, which was originally purchased for Rs.50,000 and was sold during the year for Rs.45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

Solution:

Statement of Inventory as at 31st March, 2020

Particular's	Amount

5. The following are the details of a spare part of Sriram mills:

1-1-2020	Opening Inventory	Nil
1-1-2020	Purchases	100 unites @ Rs.30 per unit
15-1-2020	Issued for consumption	50 units
1-2-2020	Purchases	200 units @ Rs.40 per unit
15-2-2020	Issued for consumption	100 units
20-2-2020	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2020 if the company follows First in first out basis.

Solution:

Date	Receipts			Issues			Balance		
	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
01/01/20							–	–	–
01/01/20	100	30	3000				100	30	3000
15/01/20				50	30	1500	50	30	1500
01/02/20	200	40	8000				250	38	9500
15/02/20				100	38	3800			

6. Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at Rs.1,25,000. It has been found that;

M+

a) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

b) Purchases are entered in the Purchase Book on the day the Invoices are received.

c) Sales between 1st April 2019 to 9th April 2019 amounting to Rs.20,000 as per Sales Day Book. 20,000 less 20% = 16,000 M+

d) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to Rs.4,000 at cost. 4000 M+

e) Purchases during 1st April 2019 to 9th April 2019 amounting to Rs.10,000 but goods amounts to Rs.2,000 not received till the date of stock taking. J ✗ D ✓ 8000 M−

f) Invoices for goods purchased amounting to Rs.20,000 were entered on 28th March 2019 but the goods were not included in stock. J ✓ D ✗ 20,000 M+

Rate of Gross Profit is 25% on cost.

As certain the value of Stock as on 31st March 2019.

Solution:

Valuation of Physical Stock as at 31st March, 2019

Particular's	Amount