CH 11 Concept

CH-11

Company Accounts [15-20 Marks]

(V.V.V.V.V.V. Easy)

- Introduction Unit 1
- Issue of Shares Unit 2
- Issue of Debentures Unit 3
- Bonus shares & Right issue Unit 4
- Redemption of preference shares Unit 5
- Redemption of Debentures Unit 6

पैसा

public

S D

पैसा

वापस

UNIT-1 Introduction

COM PANY

together — Latin words — Bread

Features of Company

a) Incorporated association – Created by law

b) Separate (Legal) Entity –

कानून

Reliance अलग अलग Mukesh & Nita

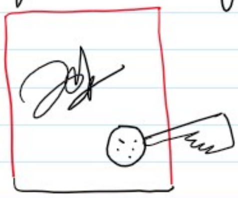
Company is different from owners.

c) Perpetual succession – Company चलती रहती

Dhiru Bhai Ambani ✗

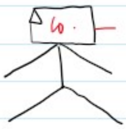
d) Common Seal – Company का Signature

d) Common seal - company ki signature



e) Limited liability - Every shareholder has "limited" liability

f) Not a citizen -



artificial Body

g) Transferability of shares - possible ✓

h) Books of Accounts as per law

Types of Companies

1. Holding Company
2. Subsidiary Company

H → purchase of shares of S Co. > 50% → S

liability

3. Company limited by shares
4. Company limited by guarantee

Co.

1 share = ₹10 (F.V)

₹3 Application	₹4 allotment	₹3 First Call
✓	✓	

SH

Liability

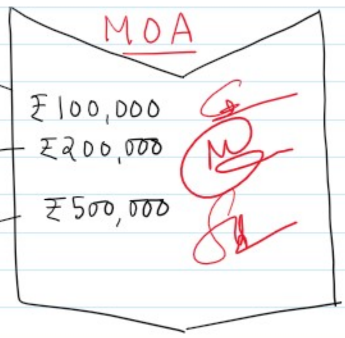
Hangout — Co.

Gopal

Monu

Sonu

winding up



Liability (Remaining) towards Company = ₹3

winding up

5. "One Person" Company (OPC) — Co. → 1 shareholder (1 मालिक)

6. Private Company (Section 2(68) of Companies Act, 2013)
- Restrictions on transfer of shares
- Minimum members (owners) — 2 (मालिक)
- Minimum Directors — 2 (नौकर)

7. Public Company (Section 2(71) of Companies Act, 2013)
- which is not a private company

8. Small Company (Section 2(85) of Companies Act, 2013)

paid up Capital ≯ 4,00,00,000 (4 crore)

AND

turnover (Last year) ≯ 40,00,00,000 (40 crore)

9. Listed Company (Section 2(52))
- company listed on "recognised" stock exchange

10. Unlisted Company
- company not listed on recognised stock exchange

Public company — May → be listed (✓)

OR

Public company —May→ be listed (✓)
OR
—May→ be unlisted (✓)

(11) Unlimited Company (Section 2(92))

- Company not having any limit on liability of its members.

(12) Government Company

सरकार — ~~4~~ 51% (Not less than 51%) → किसी Co. shares (खरीद लेती है)

Central, State, Body, etc

(13) Foreign Company

incorporated in foreign country

Section 128 of Companies Act, 2013
↓
$\boxed{\text{BOOKS of ACCOUNTS}}$
↓
Section 129 of Companies Act, 2013
↓
$\boxed{\text{financial statements}}$ shall give true & fair view

Balance Sheet

Balance Sheet

Part I of Schedule III, of Companies Act, 2013

Statement of P+L

Part II of Schedule III of Companies Act, 2013

Balance Sheet

Particulars	Note No.	Current year (₹)	Previous year (₹)
EQUITY & LIABILITIES			
1. Shareholders fund			
a) Share Capital – Eq. share Capital (+) Pref share Capital			
b) Reserve & Surplus – All reserves (+) Profits*			
c) Money received against share warrant			
2. Share Application Money Pending allotment			
3. Non Current liabilities ≥ 1yr			
a) Long term Borrowing — Debentures, Public Deposit			
b) Deferred Tax liability (AS-22) – Accounting Income > Taxable income			
c) Other $\boxed{\text{Long term}}$ liabilities — Trade payables (>1yr), premium on redemption			
d) Long term provisions – Provision for Gratuity / PF			
4. Current liabilities < 1yr			
a) Short term borrowings			
b) Trade payables — Creditors (+) B/P			
c) other $\boxed{\text{Current liabilities}}$ — O/S expense, Income rec'd in advance			
d) Short term provisions — provision for tax, P.D.D			
TOTAL		xxxx	xxxx
ASSETS			
1. Non Current assets ≥ 1yr			
a) (i) Property, Plant & Equipment – Tangible assets			
(ii) Intangible Asset – Goodwill, Software, Brand titles, Rights			
(iii) Capital Work in Progress — कार्य प्रगति है			
(iv) Intangible asset under development			

[illegible] Intangible Asset
(iii) Capital Work in Progress — कार्य प्रगति है
(iv) Intangible asset under development

b) Non Current Investments — निवेश (≥ 1yr)
c) Deferred Tax Asset (AI < TI)
d) Long term loans & advance (security deposit ≥ 1yr)
e) Other Non Current assets

2. Current Assets — Converted in Cash (< 1yr)

a) Current Investments — निवेश < 1yr
b) Inventories - R.M, W-I-P, F.G, S-I-T, Loose tools, Stores Spares, Goods in transit
c) Trade Receivables - Debtors (+) B/R
d) Cash & Cash equivalents — Cash in hand, Cash at Bank
e) Short term loans & advance (security deposit < 1yr)
f) Other Current assets - Accrued Income, Prepaid expense

Total		xxx	xxx

Statement of Profit & loss

Particulars	Note No.	C.Y	P.Y
I. Revenue from Operations —— Net Sales			
II. Other Income - (Interest received, Rent rec'd, Gain on sale of asset)			
III. Total Revenue		xxx	xxx
IV. Expenses			
a) Cost of Material Consumed = opening R.M (+) Purchase of R.M (−) closing R.M			
b) Purchase in Stock - in trade		xx	xx
c) $\boxed{\text{Change}}$ in Inventory of F.G, W-I-P & Stock in trade = Opening (−) Closing			
d) Employees Benefit expenses - Wages, Salaries			

d) Employees Benefit expenses	- Wages, Salaries		
e) Finance Cost - Interest paid			
f) Depreciation & Amortization		xx	xx
g) Other Expenses		xx	xx
Total expenses		xxx	xxx
V. Profit before tax (III - IV)		✓✓	✓✓
Less :- Tax		xx	xx
Profit after tax (Profit for the year)		✓✓✓✓	✓✓✓✓

Reserve & Surplus

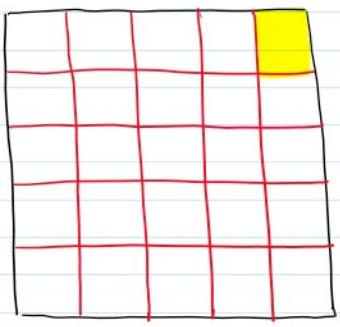
X ———— X ———— X ———— X ———— X

CH 11
Unit 2

Issue, Forfeiture and Reissue of Shares

(easier than class 12)

① Share - Total Capital of a company is divided into small indivisible units of a fixed amount and each unit is called share



Capital = ₹ 10,00,00,000

1 share = ₹ 10

No. of shares = 1,00,00,000

② Types of Shares

(2) Types of Shares

- Equity shares : voting Rights (✓)
- Preference shares : NO voting Rights
  - पहले dividend मिलेगा (FIXED)

Types (of Preference shares):

- Cumulative | Non Cumulative
- Participating | Non Participating
- Redeemable | IRRedeemable
- Convertible | Non Convertible

(i) **Cumulative**

Loss	Loss	Loss	profits
dividend X	dividend X	dividend X	(✓)

"arrear of dividend"

(ii) **Non Cumulative** - जो cumulative नहीं है

(iii) **Participating** - they can participate in "Surplus profits".

(iv) **Non Participating** - जो participating नहीं है

(v) **Redeemable** - Amount is to be repayable

to repay (वापस करना)

(Redemption of preference shares)

(vi) **Irredeemable** - जो Redeemable नहीं है

(जिसको Repay नहीं करना)

(vi) Irredeemable – जो Redeemable नहीं है
(जिनको Repay नहीं करना)
"Impractical in India"

Perpetual

(vii) Convertible – which can be converted into equity shares

(viii) Non Convertible – जो Convertible नहीं है

Company

ESH PSH — मालिक (Members) (owners)

ESH → आप

PSH → आपके के Cousin

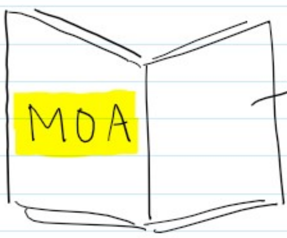
Debenture holder — पड़ोसी (Liability) उधार ले रखा है

Director → नौकर

③ Imp.

Aao Idhar Sab Coffee Piyein

- A → Authorised Share Capital
- I → Issued share Capital
- S → Subscribed Share Capital
- C → Calledup share Capital
- P → Paidup share Capital



$\boxed{₹\ 10\ \text{crore}}$ Maximum Capital
(1 crore shares of ₹10 each)

Authorised share Capital
(Nominal Share Capital)
(Registered Share Capital)

(Registered Share Capital)

"Offer" to the Public
(issued 80 lakhs shares of ₹ 10 each)

₹ 8,00,00,000
Issued Share Capital

Over Subscription
Under Subscription
Full Subscription

Public Subscribed 75 lakhs shares of ₹ 10 each

₹ 7,50,00,000
Subscribed share Capital

Co. ने माँगे

₹ 3 माँगे

₹ 4 माँगे

₹ 3 नहीं माँगे

Called up share Capital
(₹ 5,25,00,000)

Uncalled Capital

ONLY winding up के Time पर माँगेगी

बदमाश (100,000 shares)

✓ ✗

Calls in Arrear ₹400,000

Reserve Capital
(₹ 2,25,00,000)

NOT shown anywhere
(NOT recorded in Books)

Paid up share Capital = 5,21,00,000

$*$ Authorized share Capital = Issued share Capital (+) Unissued share Capital

₹ 10 crores = ₹ 8 crore (+) ₹ 2 crore

$*$ Called up Capital = Paid up Capital (+) Calls in arrear (−) Calls in advance (if any)

₹ 5,25,00,000 = ₹ 5,21,00,000 (+) ₹ 4,00,000 (−) 0

* Dividend is paid by the company on Paid up share Capital.

Assume dividend 20%

हमारे eg में dividend $= \frac{20}{100} \times 5,21,00,000$

= ₹ 1,04,20,000

Q- illus1 X Ltd has authorized share Capital of ₹ 10,00,000 divided into 1,00,000 shares of ₹ 10 each. It Issued 60,000 shares to public. (Public subscribed for 70,000 shares Company rejected 10,000 shares application.) X Ltd has called only ₹ 9 per share and one Share holder with 5,000 shares did not pay ₹ 2 per share. Prepare "Balance Sheet" (5 Marks)

Sol:-

Balance Sheet

Particulars	Note No.	₹
EQUITY & LIABILITIES		
1. Shareholder's fund		
a) Share Capital	1	5,30,000
Total		5,30,000
ASSETS		
1. Current assets		
a) Cash & Cash equivalents	2	5,30,000
Total		5,30,000

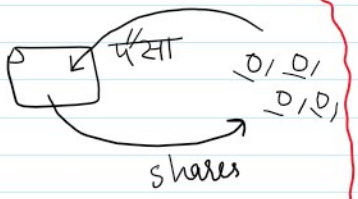
B|S

पैसा

For own understanding

B|S

Share Capital	100	Bank	100

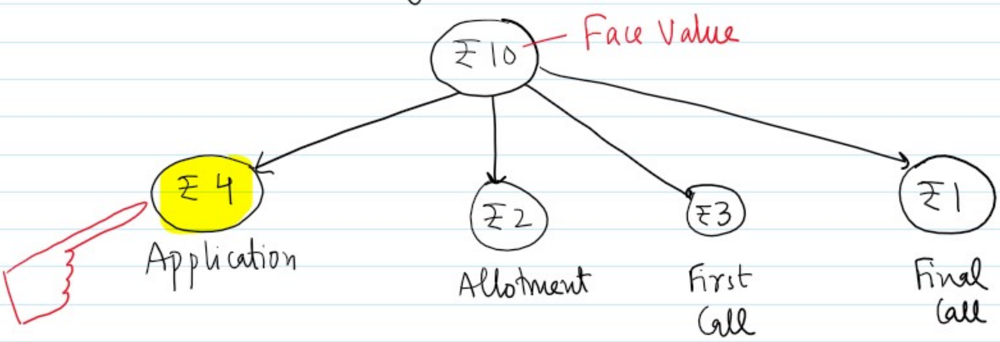


Notes to Accounts

1. Share Capital	
Authorised Share Capital 100,000 shares of ₹10 each	10,00,000
Issued Share Capital 60,000 shares of ₹10 each	6,00,000
Subscribed share Capital 60,000 shares of ₹10 each	600,000
Called up share Capital (माँगे) 60,000 shares of ₹10 each ; ₹9 called up.	5,40,000
Less :- Calls in arrear (5000 x 2)	(10 000)
Paid up share Capital (पैसे कितने मिले)	530,000
2. Cash & Cash equivalents	
Cash at Bank	5,30,000

---

(4) Issue of shares for Cash



MINIMUM

Call   Call

MINIMUM

* Companies Act → 5% of Face Value
* SEBI → 25% of Issue Price

(Face Value + Premium)

eg :- X Ltd issued shares of ₹25 each at 40% premium. Find Minimum application money as per the rules.

Sol:-

Face Value	25
(+) 40% premium	10
Issue Price	35

Co. Act

$$\frac{5}{100} \times 25 = \boxed{1.25}$$

SEBI

$$\frac{25}{100} \times 35 = \boxed{8.75}$$

(✓)

5 **Subscription of Shares**

Co. issued 10000 shares

- Public applied for 10000 shares → Full Subscribtion (✓)
- Public applied for 15000 shares → Over Subscription
- Public applied for 9000 shares → Under Subscription → As per SEBI, Minimum 90%

Reject excess application

5,000 → Reject
10,000 → 10,000
Applications : Allot

PRO-RATA allotment

15000 → 10000
Applications Allot
3 : 2
हर 3 Applications के बदले — 2 shares मिलेंगे

Combination of (i) & (ii)

3000 → Reject
12000 → 10,000
Application allot
6 : 5

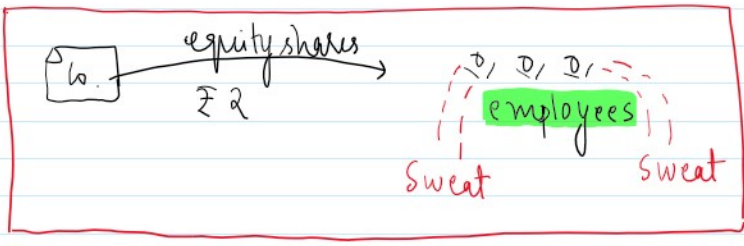
As per SEBI, Minimum 90% Subscribtion should be received, otherwise Amount tobe refunded

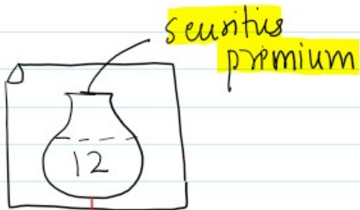
6 Issue of shares at Par, Premium and discount

F.V ₹10
Issue price ₹10

F.V ₹10
Issue price ₹22
→ Securities Premium ~~Reserve~~ = ₹12

F.V ₹10
Issue price ₹6
→ PROHIBITION by Companies Act, 2013 (Section 53)
"Exception"
Sweat Equity shares





utilise

Section 52 of Companies Act, 2013

To issue | To write | To write off | To write | To Buy

- To issue **Bonus shares** → (✓)
- To **write off** preliminary expenses
  - expenses incurred during formation of company.
  - Preliminary expense A/c Dr. xx
    - To Bank A/c —— xx
  - **Securities Premium A/c** Dr. xx
    - To Preliminary expense — xx
    - (written off)
- To **write off** expenses or discount on issue of securities or debentures → (✓)
- To **write off** premium on redemption of preference shares or debentures → (✓)
- To **Buy Back** of securities → (CA Inter CH 12)
  - Co. → पैसा → shares → Co.
  - Co. अपने shares खुद purchase कर लेती है

---

⑦ Issue of shares to $\boxed{\text{Vendor}}$

a) Asset A/c Dr. xxx
    To Vendor —— xxx
(being asset purchased)

b) Vendor Dr. xxx
    To Share Capital A/c —— Face Value
    To Securities Premium (if any) — xx
(being shares issued to vendor)

* No. of shares issued = $\dfrac{\text{Amount Payable}}{\text{Issue Price per share}}$

eg ① X Ltd purchased machine of ₹ 240,000 from Gopal. X Ltd paid ₹ 40,000 by cheque and balance by issue of shares of ₹ 20 each at 20% premium. Journalise

20% premium. Journalise

Sol:-

	Particulars		Dr. (₹)	Cr. (₹)
(a)	Machine A/c	Dr.	240000	
	To Gopal			240000
	(being - - - - - - - -)			
(b)	Gopal	Dr.	40000	
	To Bank A/c			40000
	(being - - - - - - - -)			
(c)	Gopal	Dr.	200,000	
	To share Capital A/c (8333 × 20)			166,660
	To Securities Premium A/c (8333 × 4)			33,332
	To CASH A/c (bal..)			8
	$(0.\overline{33} \times 24)$			

WN No. of shares = $\frac{₹ 200,000}{₹ 24}$ = $\boxed{8333}\boxed{.\overline{33}\text{ shares}}$

8333 → shares (✓)

$.\overline{33}$ → Fractional shares → CASH (✓)

shares F.V = ₹ 20

(+) premium 20% = ₹ 4

issue price ₹ 24

---

⑧ Interest on calls in arrear and Calls in Advance

① Co.

10 → 4 Application, 2 allotment, 3 I call, 1 Final call

Raju (200 shares): Application ✓, allotment ✓, I call ✗ — 2 months — ✓, Final call ✓

₹600 Delay

राजू ने I call के पैसे 2 months बाद दिए

राजू ने I call के पैसे 2 months बाद दिए

Co. Interest on Calls in arrear लेगी Raju

10% p.a (Table F)

$= ₹\,600 \times \frac{10}{100} \times \frac{2}{12}$

$= \boxed{₹\,10}$

मांगा (a) Shareholder (Raju) Dr. 10 — Creating a debtor (Asset)

To Interest on Calls in arrear — 10 — income

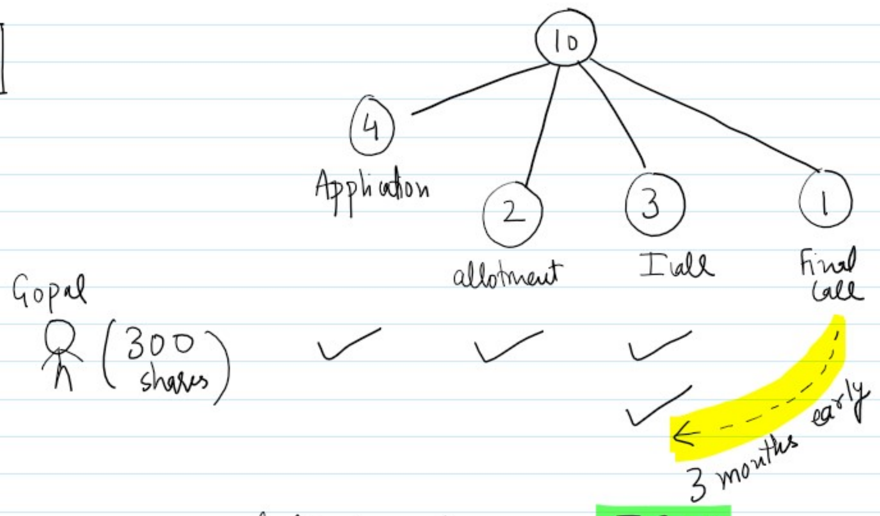
(being Interest due)

मिले (b) Bank A/c Dr. 10

To Shareholder (Raju) — 10

(being Interest received)

(2) Co.



Calls in advance = ₹ 300

Co. → Gopal

Interest on Calls in advance

@ 12% pa (Table F)

Interest $= ₹\,300 \times \frac{12}{100} \times \frac{3}{12}$

$$= \text{₹}\,9$$

(a) Interest on Calls in advance A/c Dr. 9 — expense

To Shareholder (Gopal) 9 — liability (creditor)

(being Interest due)

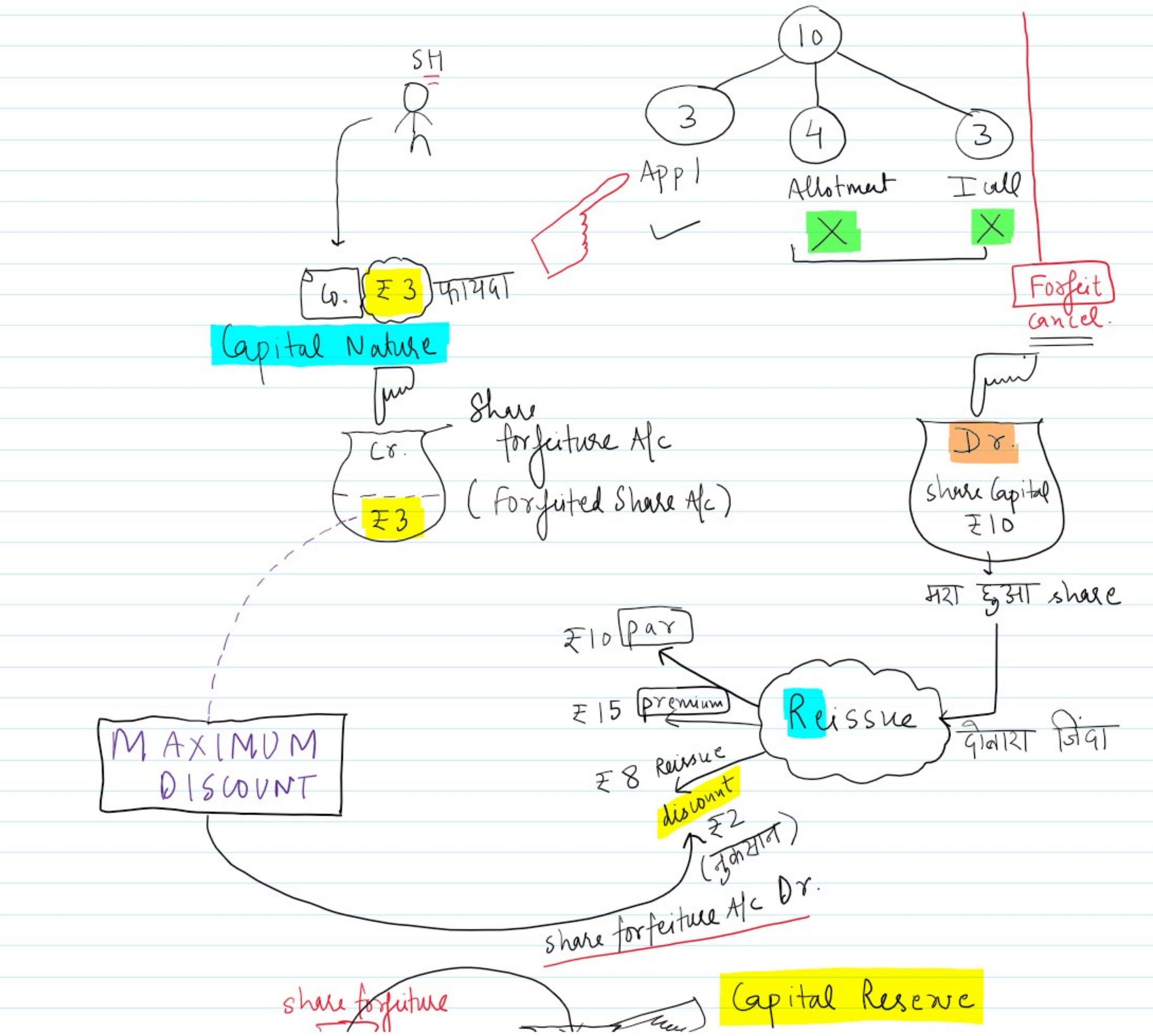
(b) Shareholder (Gopal) Dr. 9

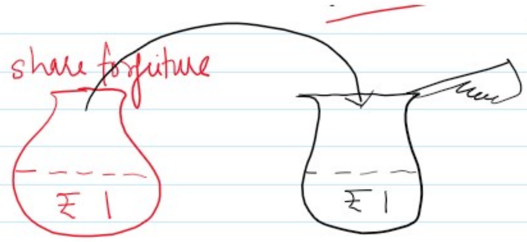
To Bank A/c 9

(being Interest Paid)

---

9 Forfeiture & Reissue of Shares





Capital Reserve

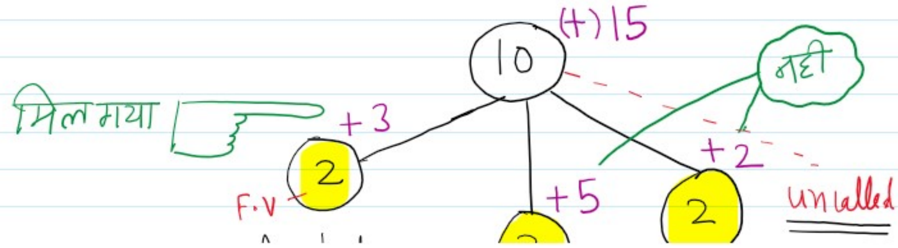
(i) Share Capital A/c Dr. [called up F.V]
Securities Premium A/c Dr. [premium NOT received]
To Share forfeiture A/c —— [F.V received] 1
To Calls in arrear A/c —— [Amount (including premium) Not received]
OR
To share allotment A/c
To share I call A/c
To share Final call A/c
(being shares forfeited)

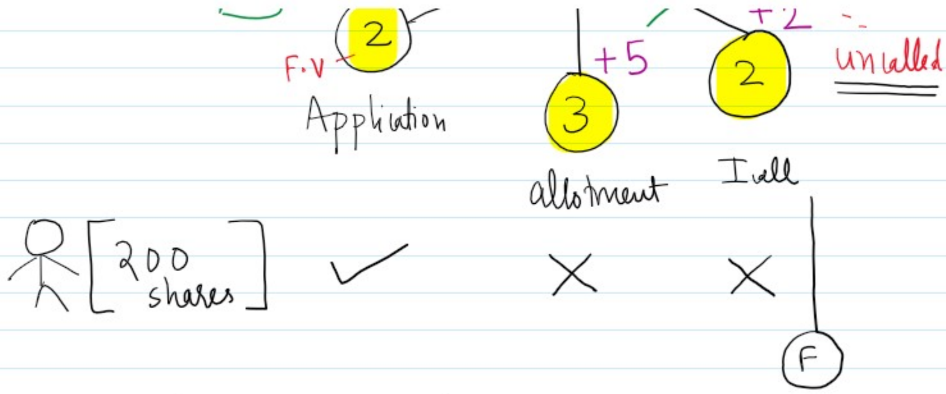
(2) Bank A/c Dr. [Reissue price]
Share forfeiture A/c Dr. [Discount on Reissue] 2
To share Capital A/c —— paid up / called up
To Securities Premium —— if any
(being shares reissued)

(3) Share forfeiture A/c Dr XX
To Capital Reserve A/c —— XX
(being Amount transferred to Capital Reserve)

$$\left\{ 1 \times \frac{\text{No. of shares Reissued}}{\text{No. of shares forfeited}} (-) 2 \right\}$$

eg 1





Company reissued 135 shares for ₹6 ; ₹7 paid up.
Journalise.

Sol:-

Share Capital A/c (200 × 7) Dr. 1400
Securities Premium A/c (200 × 7) Dr. 1400
To share forfeiture (200 × 2) — 400 (1)
To Calls in arrear (200 × 12) — 2400

OR

To share allotment 200 × 8 — 1600
To share I call 200 × 4 — 800

(b) Bank A/c (135 × 6) Dr. 810
Share forfeiture A/c (135 × 1) Dr. 135 (2)
To share Capital A/c (135 × 7) — 945

(c) Share forfeiture A/c Dr. 135
To Capital Reserve A/c — 135

$$\left[400 \times \frac{135}{200} \; (-) \; 135 \right]$$

Dr. Share forfeiture A/c Cr.

आ रहा है   आ रहा है

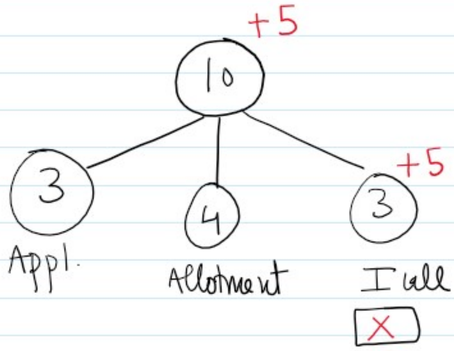
To share Capital A/c	135	By share Capital A/c (फालतू)	400
To Capital Reserve A/c	135		
To balance c/d	130		
	400		400

400	400

It is shown as
Addition in share Capital
in Notes.

x ———— x ———— x ———— x ———— x

Q1 :- X Ltd issued 50,000 shares



Total applications received was 80,000 ; out of which 10,000 applications were rejected , 10,000 applications were alloted full shares and remaining applicants were alloted on Pro-Rata basis . Raju hold 3000 shares did not pay first call & his shares were forfeited . Later on 2000 shares were reissued for ₹ 6 per share . Journalise .

Sol :-

(i) Bank A/c (Total appl × Appl money) Dr. 80000 × 3
    To share Application A/c = 240,000
(being appl money received)

(ii) Share Application A/c Dr. 240000
    To share Capital A/c (issued shares × Appl F.V) — 150,000
    (50,000 × 3)
    To Bank A/c (Reject app × App. money) — 30,000
    (10,000 × 3)
    To Share allotment A/c (excess) Adjust ---> 60,000
(being appl money transferred)

(iii) Share allotment A/c Dr. 5000 × 4
    To share Capital A/c = 200,000
(being allotment money due)

(iv) Bank A/c Dr. 140,000
    To share allotment A/c

मिले (iv) Bank A/c Rs. 140,000
To share allotment A/c (*) —— 140000
(being allotment money received)

मांगा (v) Share I call A/c (50000 × 8) Rs. 400,000
To Share Capital A/c (50000 × 3) — 150000
To Securities Premium A/c (5000 × 5) — 250000
(being I call due)

मिले (vi) Bank A/c Rs. 376,000
Calls in arrear A/c Rs. 24000
To share I call — 400000

3000 × 8

open

share I call A/c is over now

| Bank A/c Rs. 376,000
| To share I call —— 376000

share I call A/c Rs. 24000 बचा है

(vii) Share Capital A/c Rs. 30000
Securities Prem A/c Rs. 15,000
To share forfeiture — 21000 (1)
To Calls in arrear — 24000
(being shares forfeited)

close

| share Capital A/c Rs. 30,000
| securities Premium A/c Rs. 15,000
| To share forfeiture — 21000 (1)
| To share I call A/c — 24000

(viii) Bank A/c (2000 × 6) Rs. 12000
share forfeiture A/c (2000 × 4) Rs. 8000 (2)
To share Capital A/c (2000 × 10) - 20,000
(being shares reissued)

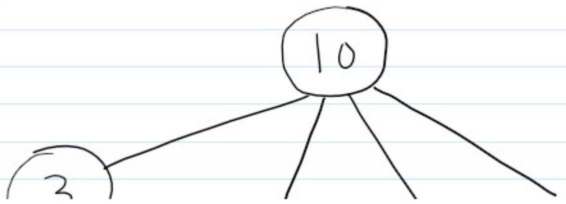
15 Marks.

(ix) Share forfeiture A/c Rs 6000
To Capital Reserve A/c —— 6000

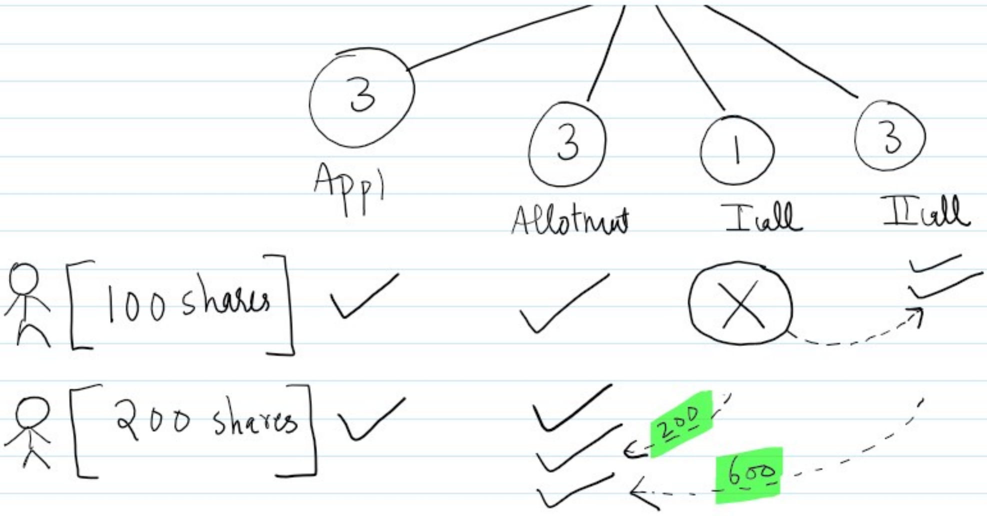
$$\left[21000 \times \frac{2000}{3000} \ (-)\ 8000 \right]$$

Q2. X Ltd issued 10,000 shares

"Journalise"



Journalise



(i) Bank A/c Dr 30000
To sh appl A/c —— 30000

(ii) sh. appl A/c Dr 30000
To share Capital A/c —— 30000

(iii) sh allotment A/c Dr 30000
To share Capital A/c 30000

** (iv) Bank A/c Dr. 30,800
To share allotment A/c —— 30000
LIABILITY To Calls in advance A/c —— (200 + 600) 800

(v) share I call A/c Dr 10000
To Share Capital A/c —— 10000

** (vi) Bank A/c Dr. 9700 (bal..)
open Calls in arrear A/c Dr. $\boxed{100}$
liability close Calls in advance A/c Dr 200
To share I call A/c —— 10,000

(vii) Share II call A/c Dr 30000
To share Capital A/c —— 30,000

** (viii) Bank A/c Dr 29,500 (bal..)
Calls in advance A/c Dr 600
liability close
To share II call A/c —— 30000
$\boxed{\text{close}}$ To Calls in arrear A/c —— 100

liability close

Calls in advance A/c Dr 600

To share II call A/c ——— 30000

close → To Calls in arrear A/c ——— 100

Q3- X Ltd issued 10,000 shares

Application received = 25,000

12,000 → Reject

13,000 applicants → 10,000 allot

P/R

10 +15

3 +6 Appl=9

4 +8 Allot=12

3 +1 I call

← 4 months →

[100 shares] ✓ ✗ ✓

[200 shares] ✓ ✓ ✗ F

Journalise including interest.

WN:-

Applied shares = 130 → 130 × 9 = ₹ 1170

Alloted shares = 100 → 100 × 9 = ₹ 900

"extra" ₹ 270

allotment पे Adjust.

Table F

Int on Calls in arrear

$= 930 \times \frac{10}{100} \times \frac{4}{12}$

= 31

Allotment (100 × 12) ₹ 1200

excess adjust (270)

Not paid on allotment ₹ 930

(i) Bank A/c (25000 × 9) Dr 225000

To sh appl 225000

(ii) Sh. appl Dr 225000

To sh Capital (10000 × 3) ——— 30,000

To Sec. Prem (10000 × 6) ——— 60,000

To Bank A/c (12000 × 9) ——— 108,000

To share allotment A/c (excess) 27000

To share allotment A/c (excess) 27000

(iii) sh. allt Dr. 120000
To sec prem ———— 80000
To sh Capital ———— 40000

(iv) Bank A/c Dr 92,070
Calls in arrear A/c Dr. 930 *
To sh allotment (120000 − 27000) ———— 93,000

(v) sh. I call A/c Dr 40000
To S. Cap ———— 30000
To Sec Prem ———— 10000

(vi) Bank A/c Dr. 40,130 (bal..)
Calls in arrear A/c (200 × 4) Dr. 800
To share I call A/c ———— 40000
close → To Calls in arrear A/c ———— 930

(vii) Shareholder A/c Dr 31
To Int on Calls in arrear ———— 31

(viii) Bank A/c Dr 31
To Shareholder ———— 31

(ix) Share Capital (200 × 10) Dr 2000
Sec Prem (200 × 1) Dr 200
To sh forfeiture (200 × 7) ———— 1400
→ To Calls in arrear A/c ———— 800

Unit 3 — Issue of Debentures — (5 Marks)

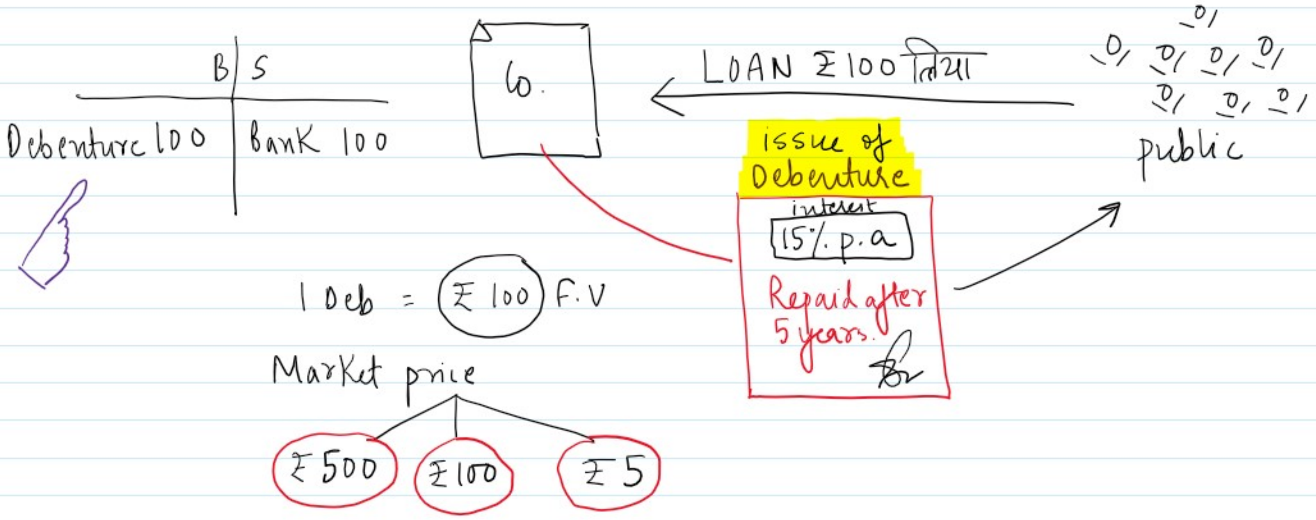
→ Debenture is a "document" which evidences a loan made to the company

→ Debenture is a "fixed Interest" bearing security whose interest falls on specific dates.

→ Debenture is a fixed interest bearing security where interest falls on specific dates.

→ Debenture is generally bought & sold through stock exchange at a price lower or higher than face value

→ The original sum is "repaid at specified future date" or it is converted into shares or other Debentures



→

	SHARES	DEBENTURES
1.	Shareholder is the owner of company	Debentureholder is creditor of company
2.	Shareholder has voting Rights	DH do not have voting rights
3.	Shareholder gets dividend (which is an appropriation of profit)	DH gets fixed Interest (which is a charge against profit)
4.	Shares can not be issued at discount	Debentures can be issued at discount.
5.	Share Capital is shown under Shareholder's fund	Debentures are shown as "Long term Borrowing" under Non current liabilities
6.	Shares can be forfeited.	Debentures cannot be forfeited
7.	Shares cannot be converted into debentures	Debentures can be converted into shares
8.	At the time of liquidation, SH are paid at last	At the time of liquidation, DH are paid off before SH.

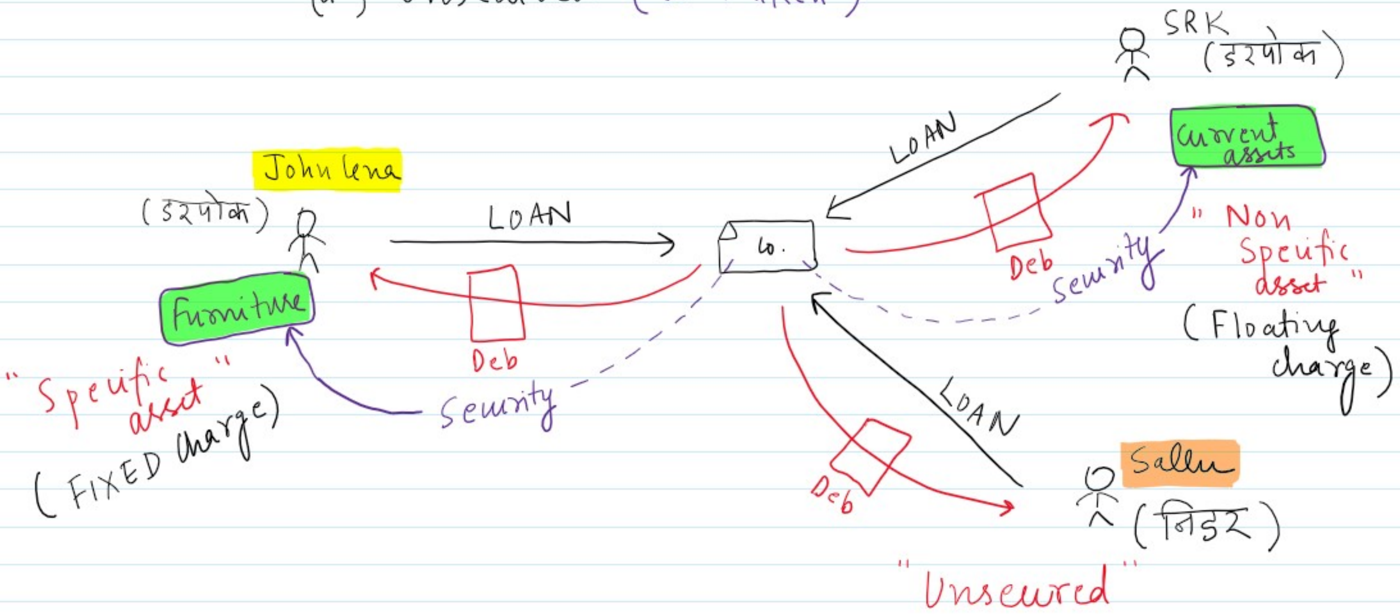
are paid at last	DH are paid off before SH.

→ Types of Debentures

Ⓐ On the basis of Security

(i) Secured - Fixed charge or Floating charge

(ii) Unsecured (or Naked)



(B) On the basis of Convertibility

a) Convertible

b) Non Convertible

(c) On the basis of Permanence

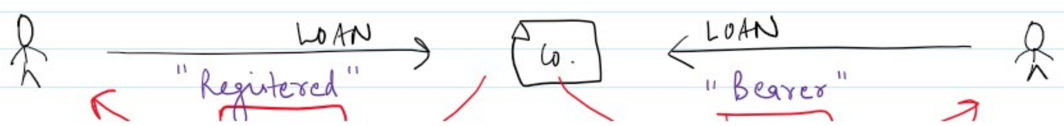
a) Redeemable - Repayable after specified period

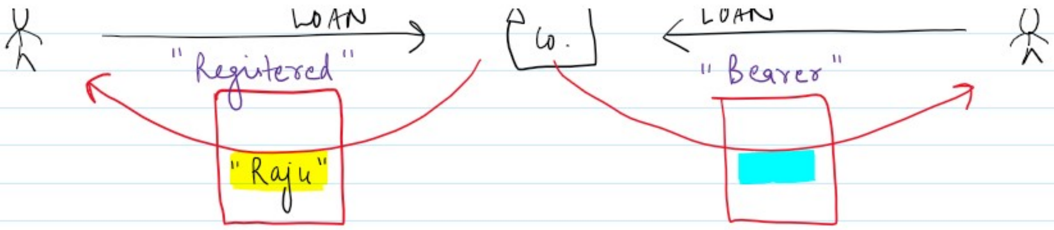
b) Irredeemable (or Perpetual) - Repayable only at time of winding up.

(d) On the basis of Negotiability

a) Registered debentures

b) Bearer debentures

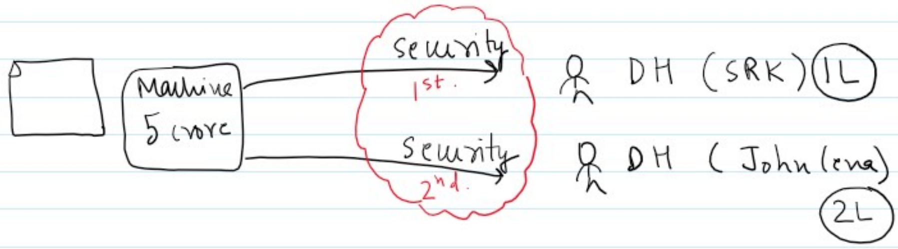




(e) **On the basis of Priority**

a) First debentures - These debentures are payable first out of property charged.

b) Second debentures - these debentures are payable after satisfying first debentures.



✳ ACCOUNTING ✳

① Issue of Debentures for CASH (LUMPSUM)

(a) Bank A/c Dr. xx
To debenture application & allotment A/c — xx
(being app. money received)

(b) Debenture application & allotment A/c Dr. xx
To % Debenture A/c ———— Face Value
(being appl money transferred)

Discount on Issue of Debenture A/c (Dr.) or Securities Premium A/c (Cr) is used if mentioned in Question.

② Issue of Debentures for Cash (in Installment)

(i) Bank A/c Dr. xx
To debenture application A/c ——— xx

(ii) Debenture application A/c Dr. xx
To % Debenture A/c ———— Face Value

(iii) Debenture allotment A/c Dr. xx

(iii) Debenture allotment A/c Dr. XX
To % Debenture A/c —— Face Value

(iv) Bank A/c Dr XX
To Debenture allotment A/c —— XX

(v) Debenture first call A/c Dr XX
To % Debenture A/c —— Face Value

(vi) Bank A/c Dr XX
To debenture first call A/c —— XX

* Discount on Issue of debenture A/c (Dr) or Securities Premium A/c (Cr) is used if any.

(3) Issue of debentures to Vendor.

a) Asset A/c Dr. XX
To Vendor —— XX
(being asset purchased)

OR

Sundry Assets A/c Dr.
Goodwill (bal.) Dr.
To Sundry liabilities A/c —— XX
To Vendor —— (Purchase Consideration) - XX
To Capital Reserve (bal.) —— XX
(being business purchased)

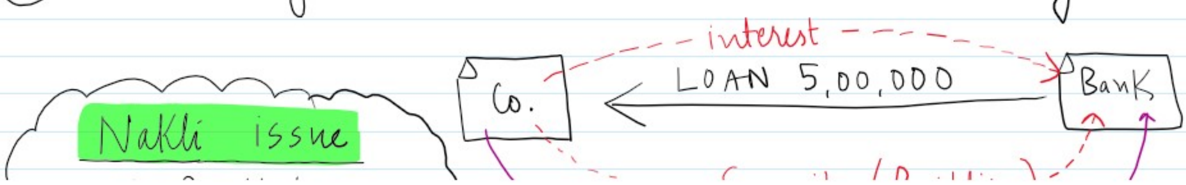
b) Vendor A/c Dr. XX

To % Debenture A/c —— Face Value

* Discount on Issue of debenture A/c (Dr.) or Securities Premium A/c (Cr) may be used.

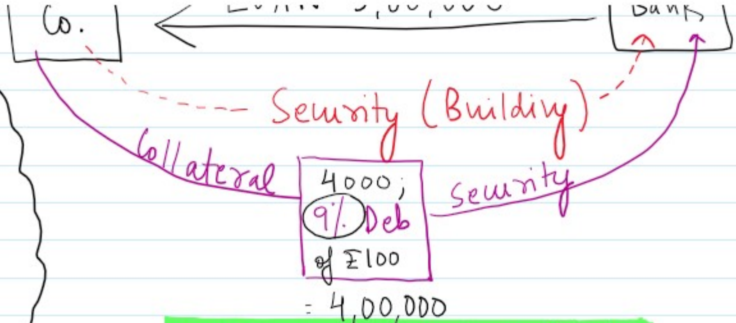
* No. of debentures = $\frac{\text{Amount payable to Vendor}}{\text{Issue price per debenture}}$

(4) Issue of debentures as collateral Security



Nakli issue

अगर Bank Loan 5L का, default करा तो Bank debentures को असली बना लेगा



NO Interest to be Paid on these debentures

Method 1	Method 2
a) Bank A/c Dr. 500000 To Bank Loan A/c — 500000 (being Loan taken)	a) Bank A/c Dr. 500000 To Bank Loan A/c — 500000 (being Loan taken)

Method 1 — B/S

Loan	500,000	Bank	500,000

Method 2 — B/S

Loan	5,00,000	Bank	500000

Method 1

b) Nakli Issue — ICAI

NO ENTRY

B/S

Loan	500000	Bank	500000

Method 2

b) Nakli Issue

Debenture Suspense A/c Dr. 400000
To 9% Debenture A/c — 400000
(being debentures issued as collateral security)

B/S

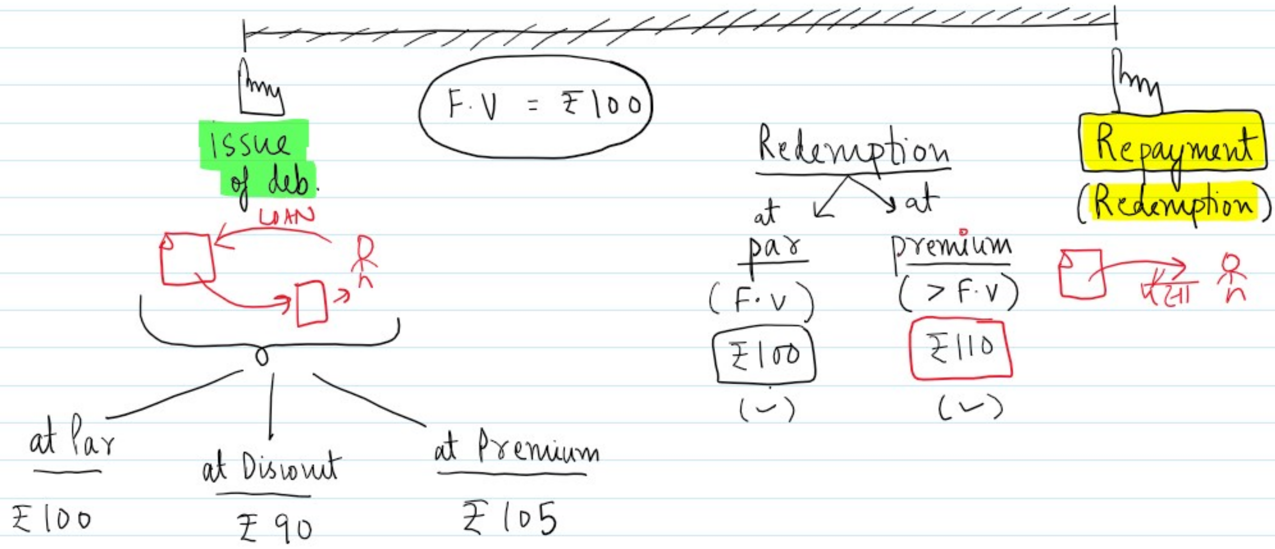
Loan	500000	Bank	500000
9% Deb 4L (−) Deb Susp (4L)	Nil		

YOU NEED ABILITY TO REACH ON THE TOP
BUT YOU NEED CHARACTER TO STAY THERE

BUT YOU NEED CHARACTER TO STAY THERE

(5) Issue of Debentures from Redemption point of View

6 cases



(i) Issue at Par (₹100) & Redemption at Par (₹100)

		Dr.	Cr.
Bank A/c	Dr.	100	
To deb appl & allotment A/c			100
Deb appl & allotment A/c	Dr.	100	
To % Debenture A/c			100

(ii) Issue at Premium (₹105) & Redemption at Par (₹100)

		Dr.	Cr.
Bank A/c	Dr.	issue price = 105	
To deb appl & allotment A/c			
Deb appl & allotment A/c	Dr.	105	
To % Debenture A/c (F.V)			100
To Securities Premium A/c			5

(iii) Issued at Discount (₹90) & Redemption at Par (₹100)

		Dr.	Cr.
Bank A/c	Dr.	90	
To deb appl & allotment A/c			90
Deb appl & allotment A/c	Dr.	90	
Discount on Issue of debenture A/c	Dr.	10	
To % Debenture A/c			100

(iv) Issued at Par (₹100) & Redemption at Premium (₹110)

(iv) Issued at Par (₹100) & Redemption at Premium (₹110)

Bank A/c Dr. 100
To deb appl & allotment A/c — 100

Deb appl & allotment A/c Dr 100
expense (Loss) → Loss on Issue of Debenture A/c Dr. 10
To % Debenture A/c — 100
To Premium on Redemption A/c — 10

Non current liability

ooo → 5 saal बाद

Dr. ₹10 extra
Cr.

Case (v) Issued at Premium (₹105) and redemption at premium (₹110)

Bank A/c Dr. 105
To deb appl & allotment A/c — 105

Deb appl & allotment A/c Dr 105
Loss on Issue of Debenture A/c Dr 10
To % Debenture A/c — 100
To Securities Premium — 5
To Premium on Redemption — 10

extra ₹10

Case (vi) "Issued at discount (₹90)" and Redemption at Premium (₹110)

Bank A/c Dr. 90
To deb appl & allotment A/c — 90

Deb appl & allotment A/c Dr 90
छोटा ← Discount on Issue of debenture A/c Dr 10
बड़ा ← Loss on Issue of debenture A/c Dr 10
Merge
To % Debenture A/c — 100
To premium on Red'm A/c — 10

extra ₹10

OR

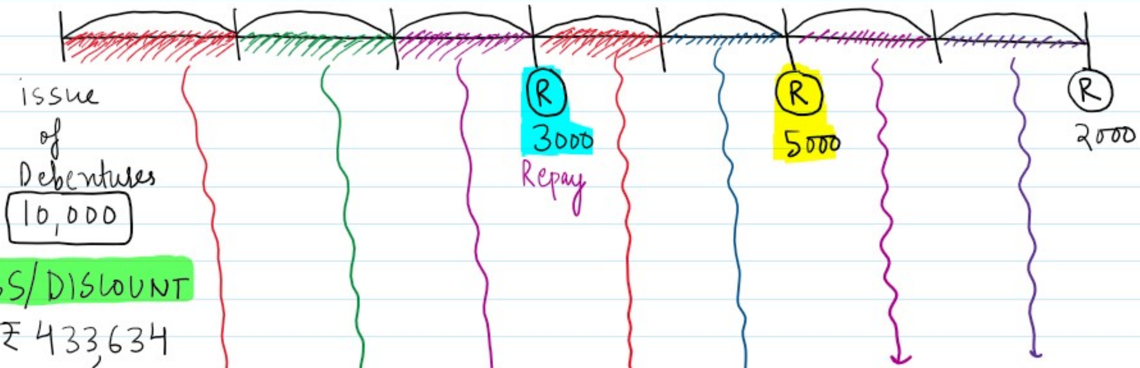
Deb appl & allotment A/c Dr 90
Loss on Issue of debenture A/c Dr 20
To % debenture A/c — 100
To Premium on Redemption — 10

To Premium on Redemption — 10

⑥ **How to write off "Loss/Discount on Issue of Debenture"**

Loss / Discount on Issue of debenture is written off over the period of debentures in the ratio of Benefit derived from debentures

eg ①



LOSS/DISCOUNT
₹ 433,634

10,000 : 10,000 : 10000 : 7000 : 7000 : 2000 : 2000

10 : 10 : 10 : 7 : 7 : 2 : 2

90,340 | 90,340 | 90,340 | 63,238 | 63,238 | 18,068 | 18,068 |

Statement of P&L Dr. xxx
To Loss/ Discount on Issue of debenture — xx
(being Loss/Discount written off)

⑦ **Interest on Debentures**

→ Interest on Debentures is a charge against profit

[Company has to pay even in case of losses.]

→ Interest on Debentures is always calculated on Face Value

"पहले"

Co. → Debenture Interest ₹100 → income → 20 Tax → Govt

expense

Net = 80

"अब"

"मुंशी"

Co. Debenture Interest 100 → 80 DH

→ 20 Govt

"Tax Deducted at Source"

(i) Debenture Interest A/c Dr. 100 (expense)
To debenture holder A/c —— 100 (liability)
(being Interest due)

(ii) Debenture holder A/c (liability is over) Dr. 100
To Bank A/c —— 80 → payment
To TDS payable A/c —— 20 (liability)
(being interest paid)

(iii) TDS payable A/c (liability is over) Dr. 20
To Bank A/c —— 20 – payment
(being TDS paid)

(iv) P&L A/c Dr. 100
To Debenture Interest A/c —— 100
(being Interest transferred to P&L)

P&L A/c Dr. 100
To Bank A/c —— 100

x —— x —— x —— x —— x —— x

eg (1) X Ltd issued 10,000 ; 9% Debentures of ₹ 200 each at discount of 20% on 1st April 2022 [Redeemable at premium of 30%]. TDS is 25%. Pass journal entries for the year 2022-23.

[ignore writing off of loss]

Sol:-

F.V = ₹ 200 ⟶ premium on Redemption ₹ 60

Discount = ₹ 40 — छोटा ⟶ Loss a/c ⟵ ₹ 60

Issue price ₹ 160

1 April 2022 (i) Bank A/c Dr } 160 × 10,000 = 16,00,000
To deb appl & allt A/c

1 April 2022 (ii) Deb appl & allt A/c Dr. 16,00,000
Loss on issue of deb A/c (₹ 100) Dr. 10,00,000
To 9% Debenture (₹ 200) —— 20,00,000
To Premium on Redemption (₹ 60) — 6,00,000

Interest = $(10{,}000 \times \underbrace{200}_{F.V}) \times 9\% = \boxed{180{,}000}$

TDS 25% ⟶ 45000

135,000

eg (2) X Ltd issued 20,000 ; 12% Debentures of ₹ 300 each at discount of 40% [redeemable at premium of 250%] on 1st April 2022. TDS is 80%.

The company redeemed the debentures as follows:-

On 31.3.2025 — 6,000 debentures
On 31.3.2027 — 11,000 debentures

On 31. 3. 2025 — 6,000 debentures
On 31. 3. 2027 — 11,000 debentures
On 31. 3. 2031 — Balance.

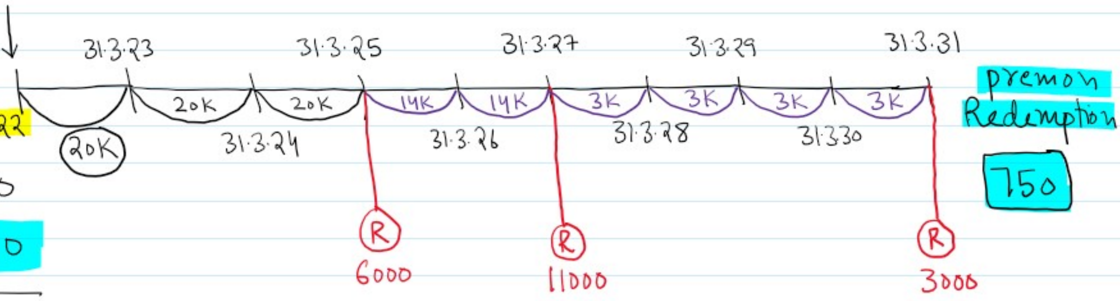
Pass journal entries for the year 2022-23

Issue 1.4.22

F.V 300

Discount 120

issue 180



Bank A/c Dr } 180 × 20000
To deb appl & allt A/c } = 36,00,000

Deb appl & alt A/c Dr 36,00,000
Loss on Issue of deb A/c (870) Dr 1,74,00,000
To 12% Deb A/c (300) —— 60,00,000
To prem on red'm (750) —— 1,50,00,000

Interest = (20,000 × 300) × 12% = 72000

F.V

3 entries

80% TDS 57600

DH 14400

31.3.23 P&L A/c Dr.
To debenture Interest —— 72000
To Loss on Issue of deb A/c —— "34,80,000"

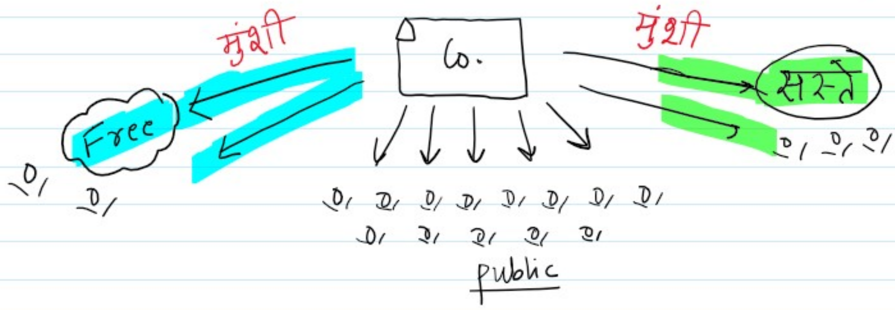
1 74 00 000 × 20

$1,74,00,000 \times \frac{20}{100}$

CH 11
Unit 4

Accounting for Bonus shares and Right Shares

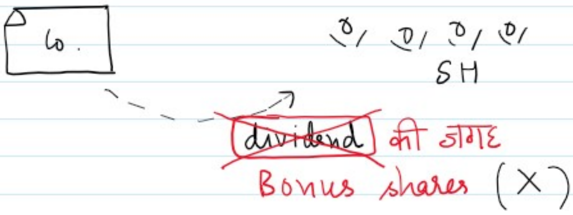
(5 - 8 Marks)



ACCOUNTING FOR BONUS SHARES

* **Rules relating to Bonus** (SEBI & Companies Act)

① Bonus shares shall **not** be issued in lieu of dividend



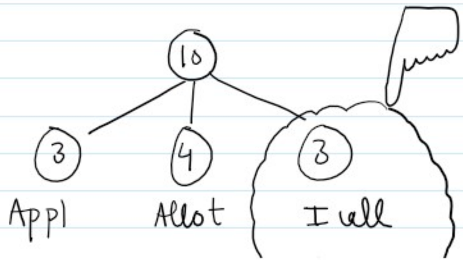
② Bonus shares can be issued out of :-

a) Free Reserves (P&L A/c, General Reserve etc)

b) Securities Premium A/c

c) Capital Redemption Reserve A/c (CRR) (Refer Unit 5)

③ Bonus shares can only be issued to **FULLY PAID shares**



Appl Allot I call

✓ ✓ ×

✓ ✓ ✓ | Bonus (✓)

④ Company is authorised by AOA (Articles of Associations)

⑤ Company has not defaulted in payment of Interest or principal

⑥ Company has not defaulted in payment of statutory dues like Provident fund

* ACCOUNTING (Journal Entries)

① For making final Call due (if required)

share final call A/c	Dr.	XXX		
To share Capital A/c			XXX	due
Bank A/c	Dr.	XXX		received
Calls in arrear A/c (if any)	Dr	XXX		
To share final call A/c			XXX	

② Sanction of issue of Bonus shares

CRR A/c	Dr.	Rank 1	
Securities Premium A/c	Dr.	Rank 2	
Free Reserve / P&L A/c	Dr.	Rank 3	
To Bonus to Shareholder A/c			XXX

③ Issue of Bonus Shares

Bonus to shareholder A/c	Dr.	XX	
To share Capital A/c			XXX

B/S Co. ~~₹100~~ नुकसान FREE

B/S	
Share Capital 100	~~Bank 100~~
Reserves (–)100	

Co.

[illegible]

~~₹100~~

FREE

shares

Reserve A/c Dr. 100
To Share Capital —— 100

* Securities Premium

Listed Companies – Securities Premium must be "realised in cash"

Unlisted Companies – May / May not be realised in cash.

1 share (F.V ₹10) Cash 12 public	1 share (F.V ₹10) Machine 12 vendor
Bank A/c Dr. 12 To Share Capital — 10 To Securities Premium — 2 2 Bonus shares में use (✓)	Machine A/c Dr. 12 To Vendor —— 12 Vendor A/c Dr. 12 To Share Capital —— 10 To Securities Premium – 2 2 Bonus shares में use (X)

* Revaluation Reserve

B/S	
Capital 100	Machine 100

Now company revalued machine for 12000

Now company revalued machine for 12000

B|S

Capital	100	Machine	12000
$\boxed{\text{Revaluation Reserve } 11,900}$			

~~Baloon~~ ---

Q- Can this be used for Bonus shares ??

Ans - NO

X ———— X ———— X ———— X

* RIGHT SHARES *

Cum-Right Price

MP = ₹25

Ex-Right Price

MP = ₹24

Sonu

(100 shares)

Right issue

(10 : 1)

for every (10) shares

(1) right will be given

(Right price ₹14)

सस्ता

Right shares = 10 shares

100 × 25	=	2500
10 × 14	=	140
110 shares		2640

(i) Rights can be renounced --- transfer (Fully or partially)

10 Rights $\xrightarrow{\text{Sale } (\checkmark)}$

(ii) $$\text{Ex Right Price} = \frac{\left(\text{No. of shares} \times \text{Cum Right price}\right) + \left(\text{Right shares} \times \text{Right price}\right)}{\text{No. of Shares} + \text{Right shares}}$$

$$₹24 = \frac{₹2640}{110} = \frac{₹2500 + ₹140}{100 + 10}$$

$$= \frac{(100 \times 25) + (10 \times 14)}{100 + 10}$$

(iii) Value of Right = Cum Right price (−) Ex Right price

(iv) <u>Journal entry</u>

Bank A/c (10 × 14) Dr. 140

To share Capital A/c (10 × 10) — 100

F.V

To Securities Premium (10 × 4) — 40

(being right shares issued)

eg - A company offers new shares at ₹125 to existing shareholders on ONE for FOUR Basis. Cum Right price is ₹150. Find Value of Right.

4 : 1

4 shares

1 Right share

Sol:-

4 share — 1 share

Cum Right price 150/-

Right price ₹125

Ex Right price ??

$$\frac{4 \times 150 \ (+) \ 1 \times 125}{4 \ (+) \ 1} = \frac{600 + 125}{5} = \frac{725}{5}$$

$$= \boxed{145}$$

∴ Value of Right 150 − 145 = ₹5 per share

Q1:- What are the effects of Bonus issue ?

<u>Ans</u> :- (i) Increase in share Capital

(ii) Decrease in Reserves

Ans :- (i) Increase in share capital

(ii) Decrease in Reserves

(iii) $\boxed{\text{Reduction}}$ in EPS i.e Earning Per Share $\boxed{\text{AS-20}}$

$$= \frac{\text{profit}}{\text{No. of shares}} \rightarrow \frac{₹100{,}000}{1000} = ₹100$$

Now No. of share ↑ $= \frac{₹100{,}000}{2000} = ₹50$

(iv) "Favourable act" considered in Market.

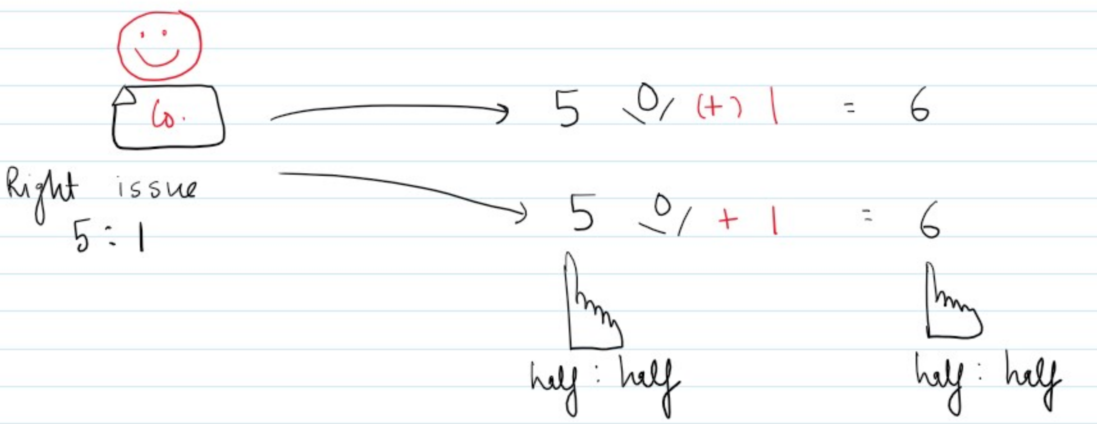
Q2- What are the advantages of Rights issue ?

Ans:- (i) Right shares enables "existing shareholders" to maintain their proportional holding in the company.

(ii) The right issue leads to the dilution in the value of share

(iii) "Cost effective" as compared to IPO (Initial Public Offer)

(iv) It has an image enhancement effect



MRF 1 share = ₹1,00,000 liquid नहीं

Right issue dilution.

Right issue → dilution. ₹ 40,000 liquidity

Q3- What are the disadvantages of right issue ?

Ans (i) It leads to dilution of market value of share

(ii) The attractive price of the right should be objectively assessed against its true worth.

MP ₹ 25 सस्ते ?? ₹ 14

challenge.

× —— × —— × —— × —— × —— ×

Unit 5 Redemption of Preference Shares (Imp)

(5 - 10 Marks)

Co. $\xrightarrow{\text{Preference shares issue}}$ public

पैसा 100

Bank A/c Dr. 100
 To pref. share Capital - 100

B|S

pref sh Cap	100	Bank 100

Repay / Redemption

pref sh Capital A/c Dr. 100
 To Bank —— 100

liability is over

B|S

~~pref sh Cap~~	~~100~~	Bank	~~100~~

→ Preference Shares are of two types :-

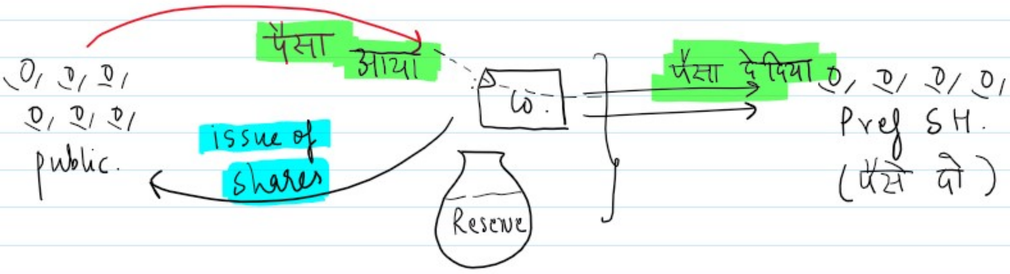
a) Redeemable preference shares - जिसने पैसे वापस करने पड़ेगे

b) Irredeemable preference shares - Not allowed

Not allowed
Max 20 years

→ Preference shares can be redeemed out of :-

- By capitalisation of undistributed profits (Free Reserves)
- By fresh issue of shares — NOT Debentures
- Combination of (i) & (ii)



→ **Accounting (Journal Entries)**

(i) Bank A/c .... Dr. (Sale Value) — पैसा आया
P&L A/c (LOSS) .... Dr. (if any)
To Investment A/c .... Book Value
To P&L A/c (Gain) .... if any
(being Investment Sold)

(ii) Bank A/c .... Dr. XX — पैसा आया
To Share Capital A/c .... F.V (2)
To Securities Premium A/c .... if any
(being fresh shares issued)

(2) = CRR (1)

(iii) % Redeemable Preference Share Capital A/c .... Dr. (F.V) (1) 100
Premium on Redemption A/c (extra) .... Dr. (if any) 10 — नुकसान
To Preference Share holder A/c 110
(being amount due)

PSH को office Bulaya
10:30am

(iv) Preference Share holder A/c .... Dr. 110
To Bank A/c 110
(being amount paid)

11:00 cheque दे दिया

cheque आ ... To Bank A/c ——— ...
(being amount paid)

(v) P&L A/c Dr. 10 ← कम

To Premium on Redemption A/c ——— 10

(being premium on Redemption t/f to P&L A/c)

C Always (vi) Free Reserve A/c Dr. XX

To Capital Redemption Reserve A/c ——— XX (CRR) कितना ??

(being amount t/f to CRR)

[CRR = F.V of preference shares to be Redeemed (1) (−) F.V of fresh issue of shares (if any) (2)]

* CRR can be used to issue "Bonus shares" (Refer Unit 4)

a) CRR A/c Dr. XXX
S. Premium A/c Dr. XXX
Free Reserve A/c Dr. XXX
To Bonus to SH ——— XX

b) Bonus to SH A/c Dr. XXX
To Share Capital A/c ——— XXX

(1) Invt बेची	(2) New shares issue	(3) C office Bulaya	(4) C cheque देना	(5) P&L Dr. To Premium	(6) C F.R Dr. To C.R.R
if Q says				if any	

→ "Minimum fresh issue of shares" (Sec 55)

Step 1:- Check free reserves available after adjusting premium on redemption.

Free Reserve

"Minimum fresh issue of shares" "to provide funds" for redemption (illus 5)

Amount payable on redemption XXX

(F.V of pref shares to be redeemed (+) premium on Redemption)

U on redemption.

Free Reserve

GR = 70
P&L A/c = 30

premium on Redemption = 20

$\underbrace{\qquad\qquad\qquad\qquad}$

(100 − 20) 80 Step 1 (✓)

Step 2:- Minimum proceeds (कितने रुपये चाहिए shares issue करके)

= Face Value of Pref shares to be redeemed
(−) Available free Reserve (Step 1)

₹200 Pref shares को देने है
(−) 80 (Step 1)
= $\boxed{₹120}$

Step 3:- No. of shares to be issued

$= \dfrac{\text{Minimum Proceeds}}{\text{Face Value of share}}$

₹10

(F.V of pref shares to be redeemed (+) premium on Redemption) 220
200 20

(−) Sale of Investment (45)

(−) Bank balance available (25)

Funds Required 150

Now,

No. of shares to issued

$= \dfrac{\text{Funds Required}}{\text{Issue Price per share}}$

₹15

1 share = 10 + 5 premium

$\underbrace{\qquad}_{\text{issue price} = 15}$

---

* Section 52 Utilisation of Securities Premium

(a) To issue Bonous shares

(b) To write off preliminary expenses

(c) To write off expenses/ loss/ discount on Issue of securities

(d) To provide for premium on Redemption

(Ref entry 5)

~~Securities Premium A/c Dr. 10~~
~~To Premium on Redemption A/c − 10~~

(e) For Buy Back securities

~~To Premium on Redemption A/c - 10~~

Co. Section 133 (✓) & AS (✓) --- Not allowed

* All the Questions are solved as per ICAI assumption that we cannot use Securities premium.

X ———— X ———— X ———— X ———— X

CH 11 (Unit 6) Redemption of Debentures

Co. ← BORROW (LOAN)

Debenture → issue, 5 yrs repay

After 5 years

Co. ← Debenture

Repay (Redemption) →

Redemption of Debenture

- Lumpsum
- Installments (Draw of Lots)
- Open Market — Out of Syllabus
- Conversion (into shares)

I. Lumpsum

Co. → (DH)

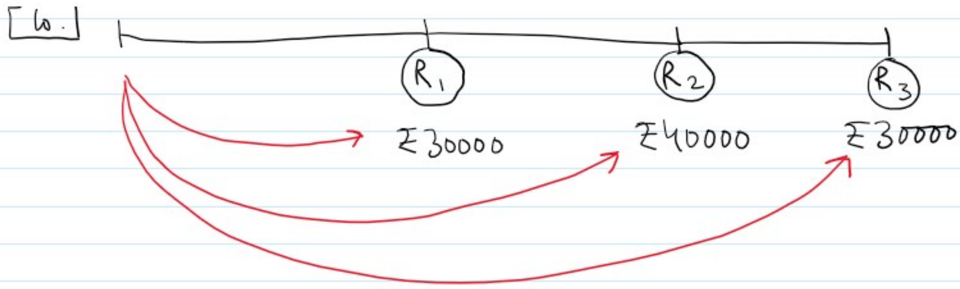
₹ 100,000

(Repayment in single shot)

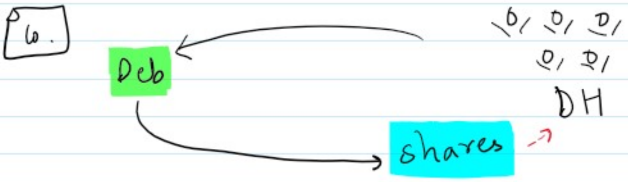
(एक साथ)

II Installments

Co. —— R_1 —— R_2 —— R_3



III. Conversion



** Rules to be followed according to Companies Act

1. Debenture Redemption Reserve (DRR)

   shall be 10% of value of outstanding debentures issued

   "Face Value"

2. Debenture Redemption Reserve Investment (DRRI)

   shall not fall below 15% of the amount of debentures maturing during the 31st March of that year.

   Face Value

EXCEPTIONS (NO DRR and NO DRRI)

→ All India Financial Institutions (AIFIs)

→ Listed Companies

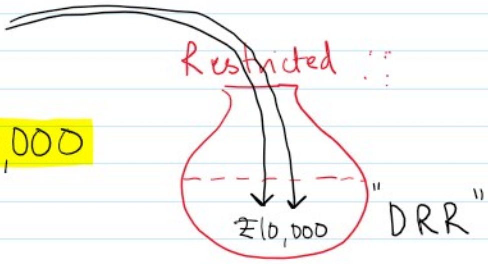
→ Unlisted NBFCs and Unlisted HFCs

→ Convertible debentures

Co.

1,000 debentures issue of F.V ₹100

10% of ₹100,000



निवेश (Invest)

15% of ₹100,000

= $\boxed{₹15,000}$

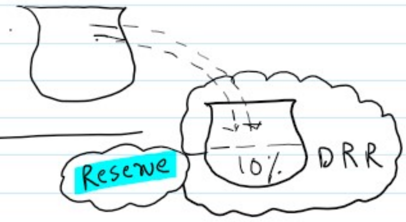
DRRI

"ACCOUNTING"

(i) P&L A/c Dr. xxx

  To DRR A/c ——

(being DRR created)



(ii) DRRI A/c Dr. xxx

Asset

  To Bank A/c —— xxx

(being DRRI purchased)

invest - - - - - - - interest received

(iii) Bank A/c Dr. xxx

  To Interest on DRRI A/c —— xxx

income

(being Interest received)

(iv) Interest on DRRI A/c Dr. XXX

  To P&L A/c —— XXX

(being Interest transferred)

At the time of redemption

5:00 am. Bank A/c Dr. xx

  To DRRI A/c —— xx

(being DRRI sold)

Profit or Loss also to be recognised in P&L A/c

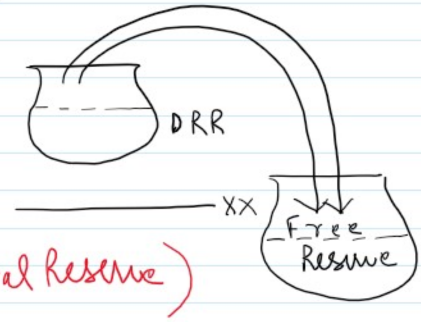
...m: ?/ Debentures A/c Dr. (Face Value)

10:30am. % Debenture A/c Dr. (Face Value)
Premium on Redemption A/c Dr. (if any)
To Debenture holder A/c ———— xxx
(being amount due)

11:00am. Debenture holder A/c Dr. xxx
To Bank A/c ———— xxx
(being amount paid)

5:00pm. P&L A/c Dr. xx
To premium on Redemption A/c ———— xx
(being premium written off)

6:00pm. DRR A/c Dr.
To General Reserve A/c ———— xx
(being DRR transferred to General Reserve)



B/S

		Machine	200
Share Capital	100		
G.R	100		
	200		200

① GR Dr. 10
To DRR ———— 10

② DRRI Dr. 15
To Cash ———— 15

③ ✓ ④ ✓

⑤ Deb Dr. 100
To DH ———— 100

⑥ DH Dr.
To Cash ———— 100

④ Cash Dr. 15
To DRRI ———— 15

⑦ ✓ DRR Dr. 10
To GR ———— 10

* CONVERSION

→ NO DRR

→ NO DRRI

$$\boxed{\begin{array}{l} \text{\% Debenture A/c} \quad \text{Dr. (F.V)} \\ \text{premium on redemption A/c Dr. (if any)} \\ \quad \text{To Share Capital A/c} \text{ ——— F.V} \\ \quad \text{To Securities premium (if any) — xx} \\ \text{(being debentures converted)} \end{array}}$$

× ——— × ——— × ——— ×