# COMMERCE UG 3RD SEM – CC-V

**Courses of Studies:**

## UNIT – I

**Meaning of Company**: Maintenance of Books of Accounts; Statutory Books; Annual Return Company - Issue of Shares – Issue, Reissue, Issue other than Cash Consideration and Issue to the Promoters; Pro-rata issue of Shares; Issue of Right and Bonus Shares – Rules

**Accounting for Debentures**: Issue of Debentures; Underwriting of Shares and Debentures; Determination of Underwriters Liability – With Marked, Unmarked and Firm Underwriting; Accounting of Employee Stock Option Plan – Meaning; Rules; Vesting Period; Exercise Period; Accounting for ESOP and Accounting of ESPS.

## UNIT – II

**Redemption of Preference Shares and Debentures**

Buy Back of Securities: Meaning, Rules and Accounting, Redemption of Preference Shares – Rules and Accounting (with and without Bonus Shares); Redemption of Debentures – Important Provisions; Redemption of Debentures.

Accounting for Redemption: By Conversion, By Lot, By Purchase in the Open Market (Cum and Ex-interest), held as Investment and use of Sinking Fund.

## UNIT - III

**Company's Final Accounts**

Introduction to Schedule III of Companies Act, 2013; Treatment of Tax; Transfer to Reserve; Dividend and Applicable Tax (Out of Current Profit, Out of Past Reserve); Preparation of Statement of Profit and Loss and Balance Sheet (Tax on Net Profit without recognizing deferred tax)

**Valuation of Goodwill and Shares:**

**Goodwill:** Valuation using Different Method; i.e. Average Profit, Super Profit, Capitalisation and Annuity.

**Shares:** Valuation using Different Methods: Asset Approach, Earning Approach, Dividend Yield, Earnings – Price, Cum-Div and Ex-Div, Majority and Minority View and Fair value.

## UNIT – IV

**Liquidation:**

Meaning of liquidation, modes of winding up, consequences of winding up, statement of affairs, liquidator's final statement of account, list 'B' contributories.

## UNIT – I

**LONG QUESTIONS OF 7 MARKS EACH:**

1. What is a company? Discuss the essential features of a company.
2. Distinguish between a Private Company and a Public Company.
3. Discuss the steps followed by the promoters for formation of a company.
4. Distinguish between Equity Shares and Preference Shares.
5. Distinguish between Shares and Stocks.
6. Discuss about different types of Share Capital.
7. Distinguish between Debentures and Shares.
8. Discuss the provisions of Companies Act, 2013 relating to issue of bonus shares.
9. Give the journal entries for issue of debentures for consideration of cash when the debentures are issued for consideration of cash.
10. What do you mean by right shares? What are the provisions of Companies Act, 2013 relating to issue of right shares?

## Practical Problems:

**ISSSUE OF SHARES**

1. Calcutta Traders Ltd., whose registered capital is 80,000 equity shares of Rs 10 each, offered 50,000 shares for public subscription, payable Rs 3 on application, Rs 3 on allotment and Rs 4 on first and final call. All the shares were applied for, duly allotted and the call was made. The cash was duly received.

   Give the necessary journal entries for the above transactions (including cash) and show how the capital would appear in the company's balance sheet.

2. A limited company issued 10,000 shares of Rs 100 each payable as follows:

   Rs 20 on application, Rs 30 on allotment, Rs 50 on first and final call

   The public applied for 9,000 shares which were allotted. All the money due on shares was received except the first and final call on 400 shares.

   Give journal entries (including cash items) to record these transactions.

3. Jyoti Ltd. registered with a capital of Rs 1,00,000 in equity shares of Rs 10 each offer for public subscription 8,000 shares on 1st March payable Rs 2.50 a share on application, Rs 4 a share on allotment and Rs 3.50 a share on 1st May.

   All the shares offered were subscribed for and allotted on 15th March, and the allotment money received except on 100 shares allotted to A. Saha. B Guha and C. Naha who subscribed for 400 shares and 600 shares respectively, paid the final instalment of Rs 3.50 a share with their allotment instalment.

   Make the entries in the company's books and show how the capital of the company would then appear in its Balance Sheet as at 31st March.

4. P.N.B. Ltd. was registered with a capital of Rs 5,00,000 divided into 50,000 shares of Rs 10 each, 40,000 shares were issued to and taken by the public at a premium of Rs 2 per share: payable as Rs 2.50 on application, Rs 4.50 on allotment (including premium) and the balance in two calls of Rs 2.50 each. All money were received excepting (i) first and final calls on 100 shares and (ii) final call on 150 shares.

   Show the journal, cash book, ledger and balance sheet of the company after completion of the transactions.

5. Bimson Ltd. whose nominal capital is 10,000 equity shares of Rs 10 each, of which 8,000 shares were issued and fully paid up, decide to offer the unissued capital for subscription at a discount of 10%, payable as to Rs 2.50 a share on application, Rs 2.50 a share on allotment and Rs 4 a share two months after allotment.

   All the shares were subscribed and were allotted on 5th July, 2019. The allotment money was paid on 8th July, 2019, and the final instalment on 8th September, 2019.

   Show the entries for the issue in the company's books and how the capital would appear in the company's balance sheet.

6. LG Ltd. with an authorised capital of Rs 3,00,000 in equity shares of Rs 10 each had issued 20,000 share on which Rs 7.50 per share have so far been called up. On the total shares subscribed, all the shareholders paid the calls made on them with exception of the following whose instalments as stated hereunder were in arrears and whose shares were, therefore, forfeited.

   Mr. A holding 300 shares: (allotment Rs 2 per share, first call Rs 2 per share and second call Rs 2.50 per share)

   Mr. B holding 300 shares: (first call and second calls)

   Mr. C holding 400 shares: (second calls)

   Pass the entries recording the forfeiture and show how the share capital will appear in the balance sheet.

7. A limited company has a nominal capital of Rs 2,50,000 in 25,000 equity shares of Rs 10 each. Of these, 6,000 shares were issued to vendors as fully paid against the purchase of their business. 8,000 shares were subscribed for by the public, and during the first year, Rs 5 per share was called up.

   Of the 8,000 shares subscribed by the public, the following amounts were paid up to the end of the first year:

On 6,000 shares the full amount called up
On 1,250 shares Rs 4 per share (application, allotment and first call money)
On 500 shares Rs 3 per share (application and allotment money)
On 250 shares Rs 2 per share (application money only)
The directors forfeited 750 shares on which less than Rs 4 per share had been paid.
Give the journal and cash book entries to record the above transactions, and set out the capital as it would appear in the company's balance sheet at the end of the first year.

**[Ans: Amount credited to Share Forfeiture A/c Rs 2,000]**

8. Banerjee Bros. Ltd. has an issued capital of Rs 88,000 in shares of Rs 10 each, Rs 8 per share called up. A shareholder failed to pay his fist and second calls of Rs 2 each on his 200 shares. These shares were eventually forfeited by the directors and were finally issued as Rs 8 per share paid to a new party on receipt of the arrear call moneys in respect of the shares.
You are asked to give the journal and cash book entries in respect of forfeited and re-issue of shares.

9. The issued share capital of a company consisted of 10,000 equity shares of Rs 100 each, fully called up. The board of directors decided, after the completion of necessary legal formalities, to forfeit 200 of these shares for non-payment of the last call of Rs 30 per share. These are subsequently re-issued as fully paid at a premium of Rs 10 per share.
Draw up the necessary journal entries to give the effect to the above transactions.

**[Ans: Transfer to Capital Reserve A/c Rs 14,000]**

10. X Co. Ltd. invited application for 10,000 shares of Rs 10 each payable as follows:

| | Rs | | Rs |
|---|---|---|---|
| With application | 2 | On first call | 3 |
| On allotment | 3 | On final call | 2 |

Applications were received for all the shares and all of these were accepted. All money due were received except the final call money on 100 shares which were forfeited. All the forfeited shares were re-issued to Mr. A @ Rs 9 each as fully paid up.
Show the journal and cash book entries in the books of X Co. Ld.

**[Ans: Transfer to Capital Reserve A/c Rs 700]**

11. Record journal entries to enter the following transactions in the books of Reforms Ltd.
400 shares of Rs 10 each, Rs 7.50 called up, and on which Rs 2.50 per share had been paid were forfeited and subsequently re-issued to Dongali for Rs 2,600, credited with Rs 7.50 per share paid up.

**[Ans: Transfer to Capital Reserve A/c Rs 600]**

12. A company has a subscribed capital of 2,00,000 equity shares of Rs 25 each, Rs 20 per share called up. The director forfeited 200 equity shares held by a shareholder who had failed to pay the first call made @ Rs 10 per share. Latter, the directors re-issued these forfeited shares as Rs 20 per share paid up at Rs 15 per shares.
Pass the journal entries for forfeiture and re-issue of shares.

**(ICSI, Inter Dec. 1999)**
**[Ans: Transfer to Capital Reserve A/c Rs 1,000]**

13. The directors of a company forfeited 1,000 equity shares of Rs 10 each for non-payment of the first call of Rs 2 per share and the final call of Rs 2 per share. The shares were re-issued to one of the directors upon payment of Rs 8 per share. No entries were made on forfeiture but when the shares were re-issued, the cash received was credited to the shares capital account.
Give the required journal entries.

**[Ans: Transfer to Capital Reserve A/c Rs 4,000]**

14. Computers India Ltd. had call up Rs 100 share.
X held 100 shares on which he had paid Rs 60 per share. (Rs 10 on application, Rs 20 on allotment and Rs 30 on first call)
Y held 200 shares on which he had paid Rs 30 per share. (Rs 10 on application and Rs 20 on allotment)

Z held 300 shares on which he had paid Rs 10 per share as application money only. X, Y, Z having failed to pay the final call of Rs 40, the director forfeited their shares and re-issued all these shares to A at a discount of 10 per cent.
Pass the necessary journal entries in the books of the company.

**[Ans: Transfer to Capital Reserve A/c Rs 9,000]**

15. NEBC Ltd. invited application for 40,000 shares of Rs 10 each payable as under:

| | Rs | | Rs |
|---|---|---|---|
| With application | 1 per share | On first call | 3 per share |
| On allotment | 3 per share | On final call | 2 per share |

The entire issue was subscribed and paid for with the following exceptions:
(i) P, who was allotted 200 shares, failed to pay the money due on allotment and two calls.
(ii) Q, who held 150 shares, failed to pay the first call and the final call.
(iii) R, who held 50 shares, failed to pay the amount due on final call.
The board of directors passed a resolution forfeiting the shares of P, Q and R. These shares were subsequently re-issued as fully paid at a discount of 10%.
Give journal entries to record these transactions in the books of NEBC Ltd.

**[Ans: Transfer to Capital Reserve A/c Rs 550]**

16. On 1st January, 2018 a company issued 12,000 equity shares of Rs 10 each at par to the public payable as follows: on application Rs 2 per share, on allotment Rs 3 per share, on first call Rs 2.50 per share, on final call Rs 2.50 per share. All the shares were fully subscribed, duly allotted and called up. The amounts received in respect of these shares up to 31st December, 2018 were as follows:

| | |
|---|---|
| On 8,000 shares | Full amount |
| On 2,000 shares | Rs 7.50 per share |
| On 1,500 shares | Rs 5.00 per share |
| On 500 shares | Rs 2.00 per share |

On 31st December, 2018 the directors forfeited the shares on which less than Rs 7.50 per share had been paid. On the same date other calls-in-arrear were collected and all the forfeited shares were re-issued to Mr. X on the same date on payment of Rs 9 per share as fully paid.
Give journal entries, cash book and balance sheet of the company immediately after the re-issue.

**[Ans: Transfer to Capital Reserve A/c Rs 6,500]**

17. Sukruti Ltd. forfeited 100 shares of Rs 10 each for non-payment of final call of Rs 2 per share. Of these 60 shares were re-issued @ Rs 9 per share as fully paid up.
Pass journal entries in the books of Sukruti Ltd. clearly showing how much amount was credited to share forfeited account and what amount was transferred to capital reserve account.

**(ICSI, Inter June 2004)**
**[Ans: Transfer to Capital Reserve A/c Rs 420]**

18. The directors of M Ltd. resolved on 1st May, 2019, that 2,000 equity shares of Rs 10 each, Rs 7.50 per share called up, be forfeited for non-payment of the call of Rs 2.50. On 10th June 2019, 1,800 of the forfeited shares were re-issued as Rs 7.50 per share paid up at Rs 6 per share.
Show the journal entries required to give effect to the foregoing, and state what the resultant balance on forfeited shares account represents.

**[Ans: Transfer to Capital Reserve A/c Rs 6,300; Balance of Share forfeiture A/c Rs 1,000]**

19. A company has an authorised capital of Rs 1,00,000 divided into equity shares of Rs 10 each. 9,000 of these shares were offered to the public, but only 8,000 were subscribed for. The shares were issued at a premium of Rs 2 per share, Rs 3 per share was payable on application and Rs 4 per share on allotment (including premium). The balance was payable in two equal instalments as and when called. Only the first call was made. The application and allotment money on 8,000 shares were received in full. Members holding 1,000 shares failed to pay the first call money and, in consequence, these shares were forfeited in accordance with the provisions of the articles of association of

the company. Members holding 500 shares paid them up in full when the first call was made.

Show the journal entries, cash book entries for the above transactions and the balance sheet of the company.

**[Ans: Calls in advance Rs 1,250; Balance of Share forfeiture A/c Rs 5,000]**

20. B Ltd. issued 20,000 equity shares of Rs 10 each at a premium of Rs 2 per share payable as follows:

| | |
|---|---|
| On application | Rs 5 |
| On allotment | Rs 5 (including premium) |
| On call | Rs 2 |

Applications were received for 24,000 shares. Letter of regret were issued to applicants for 4,000 shares. The shares were allotted to all the other applicants.

A, the holder of 150 shares failed to pay the allotment money. On his subsequent failure to pay the call money, the shares were forfeited.

Show the journal and cash books entries in the books of B Ltd.

**[Ans: Amount credited to Share forfeiture A/c Rs 750]**

21. Jhindal Ltd. Invited application for 15,000 equity shares of Rs 100 each at a premium of 10% payable as follows:

| | ***Rs (per share)*** |
|---|---|
| On application | 25 |
| On allotment (including premium) | 50 |
| On first and final call | 35 |

Applications were received for 15,500 shares. Application money for 500 shares was refunded. Allotment was made in full to all the other applicants. All money due was received except the first and final call on 200 shares which were forfeited after compliance of all legal formalities. Of these, 150 shares were re-issued at Rs 105 as fully paid up.

Pass entries in the cash book and journal of Jhindal Ltd.

**[Ans: Transfer to Capital Reserve A/c Rs 9,750; Balance of Share forfeiture A/c Rs 3,250]**

22. A company forfeited 100 equity shares of Rs 100 each issued at a premium of 50% (to be paid at the time of allotment) on which first call money of Rs 30 per shares was not received; final call of Rs 20 is yet to be made. These shares were subsequently re-issued at Rs 70 per share as Rs 80 per share paid up.

Give necessary journal entries recording forfeiture and re-issue of shares.

**[Ans: Transfer to Capital Reserve A/c Rs 4,000]**

23. PK Ltd. issued 50,000 equity shares of Rs 10 each issued at a premium of 10% payable as under:

| | | | |
|---|---|---|---|
| On application | Rs 2 | On first call | Rs 3 |
| On allotment | Rs 3 | On final call | Rs 3 |

The entire amount of the issue was called up by the company and all the money were duly received, except the first call on 300 shares and the final call on 500 shares (including the 300 shares on which the first call was not paid). These shares were, therefore, forfeited and later re-issued at Rs 9 per share as fully paid up.

Pass necessary journal and cash book entries to record the above transactions.

**[Ans: Transfer to Capital Reserve A/c Rs 2,100]**

24. Metro Ltd. issued 3,000 equity shares of Rs 10 each payable as Rs 3 per share on application, Rs 5 per share (including premium Rs 2) on allotment and Rs 4 on call. All the shares were subscribed for and fully called up. Money due on the shares were received in full subject to the exception that Ram, a holder of 50 shares, failed to pay the allotment and call money, and Shyam, a holder of 100 shares, failed to pay the call money. All these shares were forfeited and subsequently re-issued @ Rs 8 per share.

Pass journal entries recording the above transactions in the books of the company. Also show how the relevant items would appear on the balance sheet of the company prepared after the re-issue of the forfeited shares.

**[Ans: Transfer to Capital Reserve on re-issue Rs 450]**

25. PKB Ltd. authorised with Rs 3,00,000 share capital divided into 30,000 equity shares of Rs 10 each, issued 20,000 equity shares payable Rs 3 on application, Rs 5 on allotment (including Rs 2 premium) and Rs 2 on each of the two calls.

All the 20,000 shares were subscribed. Holders of 1,000 shares failed to pay allotment money and further, on 500 shares there was arrear of first call. All these shares were forfeited. Then the second call was made. This was not paid on 200 shares. All the shares on which only application money was paid and half of the shares on which there was default in payment of first call money were re-issued at Rs 8 as fully paid shares.

Pass journal entries in respect of forfeiture and re-issue and show how these will appear in the balance sheet.

**[Ans: Transfer to Capital Reserve A/c Rs 2,000; Balance of Share forfeiture A/c Rs 1,500]**

26. Nivasit Ltd. has its issued capital comprising of 20,000 equity shares of Rs 10 each payable as:

| | |
|---|---|
| Rs 2 on application | Rs 3 on first call |
| Rs 3 on allotment (including premium) | Rs 3 on final call |

The shares were called up, up to first call. All the share money was received except from A, holding 300 shares, who paid only application money, and except from B, holding 200 shares, who paid up to allotment. All these shares were forfeited. Out of these forfeited shares, 400 shares (whole of A's holding and balance of B's holding) were re-issued to C on payment of Rs 6 per share as paid up the same extent as other shares.

Journalise the entries for forfeiture and re-issue only.

**[Ans: Transfer to Capital Reserve A/c Rs 600; Balance of Share forfeiture A/c Rs 400]**

27. Brisk Ltd. issued 4,00,000 equity shares of Rs 10 each at a premium of Rs 20 per shares. The amounts were receivable as follows:

| | Capital Rs | Premium Rs | Total Rs |
|---|---|---|---|
| On application | 1 | 9 | 10 |
| On allotment | 2 | 8 | 10 |
| On final call | 7 | 3 | 10 |
| | 10 | 20 | 30 |

All members except Mr. Sikidar paid the amounts due on allotment and call. Mr. Sikidar who was allotted 300 shares failed to pay call money. His shares were forfeited after the due compliance with law.

These shares were re-issued to Mr. Rathore at a price of Rs 25 per share.

You are asked to pass the journal entries on (a) forfeiture and (b) re-issue

Also show the presentation in balance sheet before and after forfeiture and after re-issue.

**[ICWA, Inter, June 2000]**

**[Ans: Transfer to Capital Reserve Rs 900]**

28. The issued share capital of Kuber Ltd. consists of 2,00,000 equity shares of Rs 10 each full paid up. The company offers new equity shares to its existing shareholder on right basis of 1:1, the equity shares of Rs 10 each being offered at a premium of Rs 10 each which are payable as follows:

| | On Application Rs | On Allotment Rs |
|---|---|---|

| | | |
|---|---|---|
| Share capital | 5 | 5 |
| Security premium | 5 | 5 |
| | 10 | 10 |

All the shareholders accepted the offer. One shareholder holding 600 shares paid the full offer price with application. Another shareholder holding 400 shares failed to pay the allotment money and his shares were subsequently forfeited. The forfeited shares were re-issued as fully paid up for Rs 8,000 in cash.

Journalise the above mentioned transactions.

**[ICSI, Inter, June, 2002]**

**[Ans: Transfer to Capital Reserve A/c Rs 2,000]**

29. RATC Ltd. invited applications for 20,000 shares of Rs 100 each at a discount of Rs 5 per share (to be adjusted at the time of allotment).

The amount was payable as under:

On application Rs 25

On allotment Rs 50

Balance on call

The public applied for 18,000 shares and these were allotted. All money due was received with the exception of allotment and call money on 300 shares. These shares were forfeited afterwards. 200 of these shares were re-issued as fully paid on payment of Rs 75 per share.

Journalise the transactions in the books of the company.

**[Ans: Transfer to Capital Reserve A/c Rs 1,000; Balance of Share forfeiture A/c Rs 2,500]**

30. A Ltd. issued 2,00,000 equity shares of Rs 10 each at a premium of Rs 2 per share. The amount of each share was payable as Rs 3 on application, Rs 5 on allotment (including premium of Rs 2) and Rs 4 on first and final call. Applications for 2,50,000 shares were received and shares were allotted at the rate of 4 shares for every 5 shares applied for. The application money for excess shares was refunded. All money due were received with the exception of final call on 10,000 shares. These shares were forfeited and then re-issued as fully paid up, at the price of Rs 9 per share.

Show the cash book, the journal entries and prepare the balance sheet of the company.

**[Ans: Transfer to Capital Reserve A/c Rs 50,000]**

31. Levin Ltd. was registered with a nominal capital of Rs 20,00,000 in equity shares of Rs 100 each. 10,000 of these shares were issued to the public at a premium of Rs 20 per share, payable as to Rs 20 on application, Rs 45 on allotment (including premium), Rs 25 on first call and the balance on final call.

Applications were received for 13,000 shares and allotment was made pro rata to the applicants for 12,000 shares. Money overpaid on application was employed on account of sums due on allotment.

Rakesh holding 200 shares paid the whole of the amount due on first call along with allotment but failed to pay the final call. Mustak holding 300 shares failed to pay the two calls and David holding 400 shares failed to pay the final call. All these shares were forfeited after the final call.

Of the shares forfeited, 200 shares belonging to Mustak and 300 shares belonging to David were re-issued to Rohshan as fully paid for Rs 90 per share.

Show the journal entries including cash in the books of Levin Ltd.

**[Ans: Transfer to Capital Reserve A/c Rs 25,000]**

32. Pipson & Co. Ltd. desires to raise additional capital. It offers 10,000 equity shares of Rs 10 each payable as Rs 5 on application, Rs 2.50 on allotment and Rs 2.50 on call. The

prospectus making the offer states that existing shareholders will have their applications accepted in full provided, the number of shares applied for by each shareholder does not exceed one-tenth of the number of shares already held by him. Applications and cash due on the applications are received for 15,000 shares. On these, 6,000 shares have been applied for by existing shareholder, representing one-tenth of the shares already held by those shareholders. The directors decide to allot, in addition to allotment in full to the existing shareholder, the 4,000 remaining shares offered, by reducing in the right proportion the applications from all other applicants, and applying the surplus received on application to the amount due on allotment and call and refunding the excess, if any.

Show the entries in the books of the company to record this issue, assuming the all moneys due on allotment and call are received.

33. A company offered 1,00,000 equity shares of Rs 10 each to the public on the following terms:

Rs 3 payable on application, Rs 4 on allotment, the balance as and when required.

Applications were received for 1,40,000 shares. Allotment was made as under:

Applicants for 80,000 shares were given full allotment

Applicants for 50,000 shares were given 20,000 shares.

Applicants for 10,000 shares were given no allotment.

Surplus application money is to be applied towards amount due on allotment and balance beyond that is to be returned.

A shareholder who applied for 1,000 shares and was given 1,000 shares failed to pay the allotment money. His shares were forfeited.

Pass the entries to record the above transactions.

34. Alfa Trading Co. Ltd. offered 10,000 equity shares of Rs 10 each for subscription at a premium of Rs 2 per share payable as follows:

On application Rs 3, on allotment Rs 4 (including premium), on first and final call Rs 5.

The company received applications for 10,250 shares. 10,000 shares were allotted pro rata in due course and excess money is to be adjusted with allotment. Money due on allotment was received in full and in time.

The company made the first and final call and received money in due time, excepting on 100 shares. Subsequently the company forfeited those 100 shares for non-payment of call and re-issued to Sri Ram at Rs 7 per share as fully paid up.

Journalise the above transactions and show the cash book.

**[Ans: Transfer to Capital Reserve A/c Rs 200]**

35. Bijon Trading Co. Ltd. was registered on 2$^{nd}$ January, 2018, with 10,000 equity shares of Rs 10 each. The company offered 8,000 shares for subscription to public. The condition was that Rs 3 per share is payable on application, Rs 5 per share (including Rs 2 premium) is payable on allotment, Rs 2 per share on first call and Rs 2 per share on second and final call.

The company received applications for 9,000 shares on 15$^{th}$ January, of which applications for 500 shares were cancelled and money in this respect was refunded. Application money on another 500 shares was transferred to allotment account. 8,000 shares were allotted in due course. Money due on allotment was received in full and in time.

The company made the first call on 30$^{th}$ January, and received money in due time, excepting on 600 share. Subsequently the company forfeited these 600 shares for non-payment of first call.

Record the above transactions in journal and show the balances as they would appear on the balance sheet.

**[Ans: Amount credited to Share forfeiture A/c Rs 3,600]**

36. Sabina Ltd. decided to issue 20,000 equity shares of Rs 10 each at a premium of Re 1 per share payable as follows:

(a) Rs 2.50 per share on application.

(b) Rs 3.50 per share (including premium) on allotment.

(c) Balance three months after allotment.

On 1st April, 2018, applications were received for 24,000 shares. On 8th April, applications for 16,800 shares were accepted in full, and applicants for 6,400 shares were allotted 50% of the number for which they had applied, excess application money being used to reduce the amount due on allotment. On the same date deposit were returned to applicants for 800 shares to whom no allotment was made. On 20th April all money due on allotment was received.

The amount due from the shareholder for the balance price of the share issue was received on 31st July, with the exceptions of the amount due form P. Som, the holder of 30 shares.

Show the entries necessary to record the above matters in the company's bank account and ledger, balancing off at the end of October, 2018.

**[Ans: Surplus application money adjusted against allotment Rs 8,000]**

37. Enjoy Ltd. has allotted 10,000 shares to applicants for 14,000 shares on a pro rata basis. The amount payable was Rs 2 on application, Rs 5 on allotment (including premium of Rs 2 each), Rs 3 on first call and Rs 2 on final call. Vikash failed to pay the first and final call on his 300 shares. All the shares were forfeited and out of them 200 shares were re-issued @ Rs 9 per share.

Give the accounting treatment and also state the amount to be credited to capital reserve.

**[ICSI, Inter, Dec' 1997]**

**[Ans: Transfer to Capital Reserve A/c Rs 800]**

38. Dale Ltd. has authorized capital of Rs 8,00,000. The company issues 20,000 equity shares of Rs 10 each at a premium of Rs 5 per share payable as:

On application Rs 6 (including premium Rs 3)

On allotment Rs 5 (including balance of premium)

Balance in two call of equal amount.

Applications were received for 35,000 shares. The applicants were divided in the following groups:

Group A – Applying for 5,000 shares allotted fully.

Group B – Applying for 20,000 share are made pro rata allotment for 15,000 shares.

Group C – Applying for total 10,000 shares are refunded.

Directors while making allotment adjusted the excess amount received on application against allotment money due. When first and final calls were made, shareholders holding 500 shares failed to pay the final call money. The directors forfeited these shares. All the forfeited shares were re-issued at Rs 9 per shares.

It is agreed that brokerage @ 3% and underwriting commission @ 3% will be paid on this issue. Claims of brokers and underwriters are satisfied by issuing them additional equity shares of Rs 10 each at a premium of Rs 5 per share (without any cash payment).

Show the journal entries in the books of the company and prepare its balance sheet immediately after the issue. **[ICWA, Inter, June, 2002]**

**[Ans: Transfer to Capital Reserve A/c Rs 3,500. Balance sheet total Rs 3,15,000 (without writing off brokerage or commission on issue of shares]**

39. TCS Ltd. offered at par 10,000 shares of Rs 10 each for public subscription payable as follows:

| | |
|---|---|
| On application | Rs 3 |
| On allotment | Rs 2 |
| On first call | Rs 3 |
| On final call | Rs 2 |

Public applied for 13,000 shares. Allotment was made pro rata to the applicants for 12,000 shares, application money on 1,000 shares being refunded. All the shareholders paid the amount due on allotment except Rakesh, the allottee of 200 shares. His shares were forfeited. First call was then made. Forfeited shares were re-issued @ Rs 9 per share treated as Rs 8 per share paid up.

You are required to show entries in the cash book and journal.

**[Ans: Transfer to Capital Reserve A/c Rs 720]**

40. A limited company offered 50,000 equity shares of Rs 10 each at Rs 11.50 per share payable as Rs 7.50 per share (including premium) on application on 1st March, 2018, and Rs 4 on per share on allotment a month later.

Applications were received for 60,000 equity shares. On 1st March, 2018, application money was returned to persons who had applied for 5,000 shares and to whom no shares were allotted, while the other applicants had their application scaled down by a total of 5,000 shares.

All money payable on allotment was received, except that one shareholder, failed to pay the amount due on 300 shares allotted to him.

Record the above transactions in the company's cash book and ledger, and show the necessary journal entries.

***[Surplus application money adjusted against allotment Rs 37,500. Arrear on allotment Rs 975. Cash received on allotment Rs 1,61,525]***

41. The authorized and issued shares capital of Titon Ltd. was Rs 7,50,000, divided into 75,000 equity shares of Rs 10 each fully paid.

On 2nd January, 2019, the authorized capital was increased by a further 85,000 equity shares of Rs 10 each to Rs 16,00,000. On the same date 40,000 equity shares of Rs 10 each were offered to the public at Rs 12.50 per share payable as to Rs 6 on application (including premium), Rs 3.50 on allotment and Rs 3 on 6th April, 2019.

The list was closed on 10th January, 2019 and by that date applications for 65,000 shares had been received. Applicants for 5,000 shares received no allotment and the cash paid in respect of such shares were returned. All the shares were then allocated to the remaining applicants pro rata to their original application, the balance moneys received on application being applied to the amounts due on allotment.

The balances due on allotment were received on 31st January, 2019, with exception of the allottee of 500 shares and these were declared forfeited on 4th April, 2019.

These forfeited shares were re-issued as fully paid on 2nd May, 2019, at Rs 11 per share. The call due on 6th April, 2019, was duly paid by the other shareholders.

You are required to:

a) Record the above mentioned transactions in the appropriate ledger accounts; and
b) Show how the balances on such accounts should appear in the company's balance sheet as on 31st May, 2019.

**[Ans: Transfer to Capital Reserve A/c Rs 3,250]**

42. B Ltd. issued 10,000 equity shares of Rs 10 each at a premium of Rs 2 per share payable as follows:

| | |
|---|---|
| On application | Rs 3 |
| On allotment | Rs 5 (including premium) |
| On first call | Rs 3 |

The company received applications for 12,000 shares. 10,000 shares were allotted pro rata to all the applicants. Excess application money was adjusted with allotment. All the shareholders, except one holding 200 shares, paid the allotment money and call money. These 200 shares were duly forfeited and then re-issued to a new shareholder at Rs 9 per share as fully paid.

Pass the journal and cash book entries in the books of B Ltd.

**[Ans: Transfer to Capital Reserve A/c Rs 520]**

43. A Ltd. invited applications for 10,000 equity shares of Rs 10 each at a premium of Rs 2 per share payable as follows:

| | |
|---|---|
| On application | Rs 5 |
| On allotment | Rs 5 (including premium) |
| On first and final call | Rs 2 |

Applications were received for 16,000 shares. Directors allotted 10,000 shares pro rata to applicants of 11,000 shares. Letters of regret were issued to applicants of 5,000 shares with refund of money. They kept the applications money received on the balance of 1,000 shares to be adjusted against allotment money. All the shareholders paid the allotment and call money with the exception of one shareholder holding 500 shares who failed to pay the allotment money. On his subsequent failure to pay the call money the shares were forfeited. Subsequently these shares were re-issued to a new shareholder at Rs 8 per share as full paid.

Show the journal and cash book entries in the books of A Ltd.

**[Ans: Transfer to Capital Reserve A/c Rs 1,750]**

44. On 1.1.19 when Jyoti Ltd. offered 1,00,000 equity shares of Rs 10 each for public subscription, Rs 2,40,000 were received along with the applications at the rate of Rs 2 per share. On 1.7.19 the company allotted the shares proportionately among all the applicants simultaneously making an allotment call of Rs 2 per share.

By 10.7.09 all shareholders, except an allottee of 500 shares, had paid the balance due on allotment. These 500 shares were forfeited on 10.9.19.

The company made another call of Rs 2 per share on 30.6.19 and by 10.10.19 the amounts were received.

Pass journal entries (including cash or bank transactions) to record the above in the books of the Jyoti Ltd.

45. The following particulars are given from the books and records of Standard Products Ltd. relating to issue and forfeiture of equity shares during January to April, 2019:

The amount per share was payable as under:

Rs 3 on application

Rs 5 on allotment (including Rs 2 as premium)

Rs 4 on first and final call

| | No. of shares allotted | No. of shares applied for |
|---|---|---|
| Category – I | 20,000 | 30,000 |
| Category – II | 10,000 | 10,000 |
| | 5,000 (application money refunded) | |

Allotments were made pro rata in Category I

Mr. Giri who applied for 450 shares on Category I failed to pay allotment and call money and his shares were forfeited by directors. Subsequently 200 forfeited shares were re-issued to Mr. Puri as full paid for Rs 9 per share.

Show the journal and cash book entries to record the above transactions.

**[ICWA, Inter]**

**[Ans: Transfer to Capital Reserve A/c Rs 700]**

46. Ganesh Trading Co. Ltd. invited applications for 4,00,000 equity shares of Rs 10 each on the following terms:

Payable on application on 31.1.19 – Rs 5 per share

Payable on allotment on 28.2.19 – Rs per 3 share (including Re 1 per share as premium)

Payable on final call on 30.6.19 – Rs 3 per share

Applications for 5,00,000 shares were received. It was decided to:

(i) refuse allotment to the applicants for 20,000 shares;

(ii) allot in full to applicants for 80,000 shares;

(iii) allot the balance of the available shares pro rata among other applicants;

(iv) utilize the excess application money in part payment of allotment money.

One share holder to whom shares had been allotted on pro rata basis failed to pay the amount due on allotment and on call and his 400 shares were forfeited. 300 of these shares were re-issued on 31.10.19 at Rs 9 per share.

Show the journal entries in the books of the company, prepare cash book and present the balance sheet.

**[Ans: Transfer to Capital Reserve A/c Rs 1,575]**

47. N. G. Ltd. issued 1,00,0000 equity shares of Rs 10 each payable as Rs 3 on application, Rs 4 on allotment and Rs 3 on call. Applications were received for 1,50,000 shares out of which letters of regret were issued to those applying for 30,000 shares. Full allotment was made to applicants for 40,000 shares and pro rata allotment was made on the balance.

A shareholder holding 200 shares to whom full allotment was made failed to pay the allotment money. Another shareholder holding 300 shares to whom pro rata allotment was made also failed to pay the allotment money. On call there was a further default on 500 shares.

All these shares were forfeited. The first lot of 500 (200 + 300) shares were re-issued as fully paid up at Rs 8 per share.

Pass journal entries in the books of the company to record the above transactions.

**[Ans: Transfer to Capital Reserve A/c Rs 800]**

48. Bharat Electronics Ltd. issued 50,000 equity shares of Rs 10 each payable as follows:

| | | | |
|---|---|---|---|
| On application | Rs 3 | On first call | Rs 2 |
| On allotment | Rs 4 | On final call | Rs 1 |

Applications were received for 60,000 shares and allotment was made as follows:

(a) To applicants for 10,000 shares : in full

(b) To applicants for 20,000 shares : 15,000 shares

(c) To applicants for 30,000 shares : 25,000 shares

All excess amounts paid on application to be adjusted against amount due on allotment.

The shares were fully called and paid up except that, amounts of allotment, first and second calls not paid by those who applied for 2,000 shares out of the group applying for 20,000 shares.

All these shares on which calls were not paid were forfeited by the board of directors. 1,000 forfeited shares were re-issued as fully paid on receipt of Rs 8 per share.

Show the journal entries including those relating to cash and show how shares capita, capital reserve and forfeited shares account will appear in the resultant balance sheet.

**[Ans: Transfer to Capital Reserve A/c Rs 2,000]**

**Issue of Debentures:**

1. A Company Ltd. offered for public subscription 2,000 of its 8% Debentures of Rs 100 each payable as Rs 20 on application, Rs 25 on allotment, Rs 30 on First Call and Rs 25 on Final Call. The debentures were fully called up. All sums due thereon were received in full.

   Pass necessary Journal entries and draw a Balance Sheet.

2. X Co. Ltd. issued 5,000 6% Debentures of Rs 100 each at a premium of Rs 20, payable as Rs 25 on application, Rs 65 (including premium) on allotment and Rs 30 on First and Final Call. All the calls were duly made and money due thereon realised in full.

   Show the Cash Book, the Journal, the Ledger Accounts and also draw a Balance Sheet.

3. Y Co. Ltd. issued 10,000 6% debentures of Rs 100 each at a discount of 5%, payable as Rs 25 on application, Rs 20 on allotment and the balance in two equal instalments. Applications were received for 8,500 debentures and these were issued. All the calls were duly made and money due thereon realised in full.

   Show the Journal entries on the issue of debentures and also the Balance Sheet.

4. Happy Ltd. issued 15,000, 7 ½ % Debentures of Rs 100 each at a premium of 5%, payable as Rs 25 on application, Rs 30 on allotment (including premium) and the balance in two equal instalments.

   Applications were received for 20,000 Debentures. All allotments were made proportionately, over subscriptions being applied to the amount due on allotment.

   The debentures were fully called up. All sums due were received by the company in due course.

   Journalise the above transactions.

5. Show the Journal entries for the following issues and also show how they will appear in their respective Balance Sheets:

   (i) X Ltd. issued 6,000, 10% Debentures of Rs 100 each repayable at par after 5 years.

   (ii) Y Ltd. issued 5,000, 5% Debentures of Rs 100 each at a premium of 10% to be repaid at par at the end of 6 years.

   (iii) Z Ltd. issued 10,000, 6% Debentures of Rs 100 each at a discount of 5% to be repaid at par at the end of 5 years.

   (iv) A Ltd. issued Rs 1,00,000, 7% Debentures at a discount of 5% repayable after 10 years at a premium of 5%.

6. On January 1, 2016, A Ltd. issued Rs 3,00,000, 10% Debentures at a discount of 8% repayable as follows:

   On 31st December, 2017 Rs 80,000

   On 31st December, 2018 Rs 1,00,000

   On 31st December, 2019 Rs 1,20,000

   Show the amount of discount to be written off in each of the three years.

7. XYZ Company Ltd. issued 10,000, 10% Debentures of Rs 100 each at a premium of Rs 5 payable as follows:

   | | |
   |---|---|
   | On Application | Rs 40 (including premium) |
   | On Allotment | Rs 65 |

All the Debentures were subscribed for and the money was duly received.

Pass necessary Journal entries to record the above issue of debentures.

8. A company issued 10% Debentures of the face value of Rs 1,50,000 at a discount of 5% on 1st January, 2015. The Debentures are repayable by annual drawings of Rs 50,000 commencing from the end of 3rd year. How will you deal with discount on debentures?
   Show the Discount on Debentures Account in the company's ledger till the Debentures are fully repaid. Assume accounts are closed on 31st December.
9. A company issued in the 1st year 10% Debentures of Rs 10,00,000 at 5% discount redeemable at par.
   Assume further that debentures are to be redeemed by drawings method in the following manner:

| Year-end | Amount (Face value) |
|---|---|
| 2 | Rs 1,00,000 |
| 3 | Rs 2,00,000 |
| 4 | Rs 3,00,000 |
| 5 | Rs 4,00,000 |

   Pass Journal entry for issue of debentures and ledger account of Discount on Debentures for 5 years.
10. A Limited Company bought a building for Rs 9,00,000 and the consideration was paid issued debentures at a discount of 10%.
    Give Journal entries.
11. A company purchased assets of the book value of Rs 99,000 from another firm. It was agreed that the purchase consideration will be paid by issuing 10% Debentures of Rs 100 each. Assume debentures have been issued: (i) at par, (ii) at a discount of 10% and (iii) at a premium of 10%.
    Give Journal entries in all the three cases.
12. Ranga Ltd. issued 10,000 Debentures of Rs 100 each for public subscription, at a discount of Rs 5 per debenture.
    Application money payable was Rs 25 and the balance was payable as follows:
    On Allotment Rs 40 (after adjustment of discount amount of Rs 5)
    On First Call Rs 15
    On Final Call Rs 15
    Applications were received for 9,500 debentures which were issued and the amounts were received when due except in the following instances:
    (i) Mr. A who held 100 Debentures did not pay the first call and final call and
    (ii) Mr. B who held 200 Debentures paid the full balance due with first call.
    Give the Journal entries in the books of the company including the Journal entries of cash transactions.
13. On 1st January, 2016, Green Ltd. issued 250, 5% Debentures of Rs 1,000 each at Rs 950. The Debentures-holders have an option to convert at par their holdings into 7% Preference Shares of Rs 100 each at a premium of Rs 25 per share at any time after three years. Interest is payable half-yearly. Ignore Income Tax.
    On 1st January, 2019, holders of 50 debentures exercised their option.
    Show Journal entries relating to issue and conversion of debentures. Also show company's Balance Sheet as at 1.1.2019 (relevant items only) assuming no other transactions during the period. Ignore interest.
14. A Limited company made an issue of 10,000, 14% Debentures of Rs 100 each at par, which were fully subscribed. The Debentures were allotted on 31st July, 2018,

subscriptions being payable as 10% on application, 40% on allotment, 25% on 30th September, 2018 and the balance on 30th November, 2018.

Under the terms of the issue, payment could be made in full on 31st July, 2018. Interest on such advance payment is allowed at the rate of 12% per annum. Such interest is not deductible from the subscriber's obligation on debentures, but is payable by the company on 30th November, 2018.

The allottee of 500 debentures took advantage of the pre-payment terms, while others paid on the respective due dates.

Pass necessary Journal entries.

15. A Limited company issued 1,000 Debentures of Rs 100 each at par, payable as Rs 10 on application, Rs 30 on allotment, Rs 20 on First Call and Rs 40 on Second Call. One of the conditions of the issue of debentures was that, whole of the amount of debentures can be paid at the time of allotment of debentures and in this case interest @ 5% per annum will be paid by the company on advance payment and this interest will be paid on the date of payment of the second call. Holders of 300 debentures paid whole of the amount on allotment. Date of issue and allotment 1st January, 2019, date of 1st Call 1st April, 2019 and date of Second Call 30th June, 2019.

    Pass necessary Journal entries in the books of the company.

16. A Ltd. issued 6% Debentures of Rs 100 each at Rs 105. The Debenture-holders have the option of converting, within one year, debentures into 8% Preference Shares of Rs 100 each at Rs 125. At the end of first year, the interest on debentures was outstanding. Holders of 200 debentures decided to take the advantage of the option.

    Give journal entries and show these items in the Balance Sheet of the company.

17. On 1st January, 2015, a Limited company issued Debentures of the face value of Rs 2,00,000 at a discount of 6%. The Debentures were repayable by annual drawings of Rs 40,000 made on 31st December, each year. The Directors decided to write off the discount on issue over the period of the debentures in such a way as to charge each year with an amount proportionate to debentures outstanding in that year.

    Show the Discount Account in the company's ledger for the duration of the Debentures.

18. A Ltd. issued Debentures at 94% for Rs 2,00,000 on 1st April, 2015 repayable by equal annual drawings of Rs 40,000 each. The company closes its account on calendar year basis.

    Indicate the amount of discount to be written off every accounting year assuming that the company decides to write off the Debentures Discount during the life of the debentures.

## UNIT – II

1. What do you mean by Buy Back of shares? Discuss the provisions of Companies Act relating to buy back of shares by a company.
2. What do you mean by Redemption of Preference Shares? Discuss the provisions of Companies Act relating to Redemption of Preference Shares.
3. What do you mean by redemption of preference shares? Give the journal entries recording the redemption of preference shares.
4. Discuss the Sinking Fund Method of redemption of debenture?
5. What do you mean by redemption of Debentures? What are the provisions of Companies Act, 2013 regarding the redemption of Debentures?
6. Distinguish between ex-interest and cum-interest price for quotations of debentures.

PRACTICAL PROBLEMS:

Redemption of Preference Shares:

1. The issued and paid up capital of XY Ltd. included 1,000 8% preference shares of Rs 100 each. The company decided to redeem the preference shares at par.
   You are required to given journal entries separately in the following cases:
   (a) When the shares are redeemed out of profits.
   (b) When the shares are redeemed out of proceeds of new issue of equity shares of Rs 10 each at par

**[(a) Transfer to Capital Redemption Reserve A/c Rs 2,00,000**
**(b) No transfer to Capital Redemption Reserve A/c]**

2. (a) A company having free reserves of Rs 30,000 wants to redeem Rs 1,00,000 preference shares at par.

Calculate the face value of fresh issue of shares of Rs 10 each to be made at a premium of 10%.

(b) A company having free reserves of Rs 65,000 wants to redeem Rs 2,00,000 preference shares at par.

Calculate the face value of fresh issue of shares of Rs 10 each to be made at a discount of 10%.

**[(a) Face value of fresh issue of shares Rs 70,000 (i.e. 7,000 shares of Rs 10 each**
**(b) Face value of fresh issue of shares Rs 1,50,000 (i.e.15,000 shares of Rs 10 each]**

3. Chatterjee Co. Ltd. has part of its share capital in 1,000 preference shares of Rs 100 each fully paid up and these have become due for redemption. 50 per cent of preference share capital was to be redeemed out of a fresh issue of equity shares at par made particularly for the purpose and the balance out of the general reserve of the company which stood in the books at Rs 75,000.
   You are required to journalise the transactions in the books of the company and show the important ledger account.

**[Transfer to Capital Redemption Reserve A/c Rs 50,000]**

4. A company issued 18,000 redeemable preference shares of Rs 10 each at par on 1st January, 2010 redeemable at the option of the company on or after 31st December 2012 in whole or in part. The following redemptions were made out of profit: On 30th June 2013, 6,000 shares; on 30th June 2014, 4,000 shares. In December, 2014, the company issued 6,000 equity shares of Rs 10 each at a premium of 20% and on 31st December, in the same year, it redeemed the balance of preference shares.
   You are required to journal entries to record these transactions assuming that on each redemption there was sufficient amount in the profit and loss account of the company.

**[(a) Transfer to Capital Redemption Reserve A/c: on 30.6.13 Rs 60,000; on 30.6.14 Rs 40,000; on 31.12.14 Rs 20,000]**

5. 15,000 9% redeemable preference shares of Rs 100 each of Global Customer Care Ltd. repayable at a premium of 12% are now due for redemption. The company has accumulated reserves the amount of which is much excess of the sum required for redemption. In addition, there is a large balance lying in securities premium account which is available for payment of premium on redemption.
   Show the journal entries in the books of the company to give effect to the above.

**(ICSI Int. 2003)**

**[Transfer to Capital Redemption Reserve A/c Rs 15,00,000]**

6. Following was the balance sheet of MN Ltd. as on 31st March, 2015

**Balance Sheet**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 5,000 equity shares of Rs 100 | | Land and building | 2,00,000 |
| each | 5,00,000 | Plant and machinery | 2,30,000 |
| 1,000 8% redeemable preference | | Furniture and fixtures | 1,00,000 |
| shares of Rs 100 each | | Debtors | 80,000 |
| Capital reserve | 1,00,000 | Stock | 30,000 |
| Securities premium | 30,000 | Cash at bank | 1,40,000 |
| General reserve | 10,000 | | |
| Profit and loss account | 50,000 | | |
| Creditors | 50,000 | | |
| | 40,000 | | |

| | 7,80,000 | | 7,80,000 |
|---|---|---|---|

The directors decided to redeem the preference shares at a premium of 10% out of profits. Assuming that the preference shares were duly redeemed, give journal entries and prepare the resultant balance sheet.

**[Premium on redemption Rs 10,000 (to be provided out of Securities Premium A/c), Transfer to Capital Redemption Reserve A/c Rs 1,00,000 (Rs 50,000 from general reserve and Rs 50,000 from Profit and Loss A/c). balance sheet total Rs 6,70,000]**

**Redemption at a premium out of fresh issue at a premium**

7. Futuristic India Ltd. has a part of its share capital in the form of 10,000, 9% redeemable preference shares of Rs 100 each repayable at a premium of 10%. Now the shares are fully ready for redemption. It has been decided that the whole amount would be redeemed by way of a fresh issue of 1,00,000 equity shares of Rs 10 each at a premium of Rs 15 each.
Show necessary journal entries assuming that the whole amount is received in cash and 9% preference shares are redeemed.

**Redemption at a premium partly out of fresh issue at par and partly out of profits**

8. A company had issued 10,000, 12% preference shares of Rs 10 each which were due for redemption on 1st January, 2018, at a premium of Re 1 per share. The directors decided to use for the redemption Rs 50,000 from general reserve account, Rs 30,000 from the credit balance of profit and loss account and to provide the balance required by the issue of equity shares of Rs 10 each at par, payable in full on application.
Show by means of journal entries how the necessary records would be made in the books in respect of the above.
**[3,000 equity shares to be issued]**
**Note: Rs 10,000 of general reserve or Profit and Loss A/c will be used for payment of premium on redemption. Hence, amount available for transfer to capital redemption reserve Rs 70,000 (i.e. Rs 50,000 + Rs 30,000 – Rs 10,000)]**

9. The following is the summarised balance sheet of ARP Ltd. as on 31st March, 2015

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 6,400 12% preference shares of Rs 100 each fully paid | 6,40,000 | Sundry assets | 18,00,000 |
| 10,000 8% equity shares of Rs 100 each fully paid | 10,00,000 | Cash at bank | 6,60,000 |
| Securities premium account | 50,000 | | |
| Revenue reserve | 5,00,000 | | |
| Current liabilities | 2,70,000 | | |
| | 24,60,000 | | 24,60,000 |

It was decided to redeem the preference shares on 30th June 2015 at a premium of 10 per cent. The company issued for cash so many equity shares of Rs 100 each as were necessary to provide for redemption of preference shares. The issue was fully subscribed and all the money were received.
You are required to given the journal entries in the books of ARP Ltd.
**[Premium on redemption Rs 64,000 (to be provided Rs 50,000 out of Securities Premium A/c and Rs 14,000 out of Revenue Reserve). Transfer to Capital Redemption Reserve A/c (from Revenue Reserve A/c) Rs 4,86,000. Fresh issue of equity shares Rs 1,54,000 (i.e. 1,540 shares of Rs 100 each)]**

**Redemption at a premium partly out of fresh issue at a premium and partly out of profits**

10. A company's share capital consists of 40,000 equity shares of Rs 25 each fully paid and 20,000 8% preference shares of Rs 25 each fully paid, redeemable at a premium of Rs 2.50 per share. The company had a credit balance of Rs 4,00,000 on profit and loss account and Rs 5,00,000 in general reserve.
The company resolved:
(i) To make a bonus issue of one fully paid share for every two shares held by the existing equity shareholders from the general reserve.
(ii) To redeem the preference shares.
(iii) To issue 12,000 equity shares of Rs 25 each at Rs 30 per share in order to provide part of the funds for the redemption of preference shares.

The resolutions were carried into effect.

You are required to given journal entries to record the above transactions. Also show the share capital and reserve section of the balance sheet after the completion of the transactions.

**[Premium on redemption Rs 50,000 to be provided out of Securities Premium A/c of Rs 60,000. Transfer to Capital Redemption Reserve A/c (from Profit and Loss A/c) Rs 2,00,000]**

11. Summarised balance of IPC Ltd. as at 31st December, 2018 was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Net assets | 8,90,000 |
| Redeemable preference shares of | | Bank | 70,000 |
| Rs 10 each fully paid | 1,00,000 | | |
| Equity shares of Rs 10 each fully | | | |
| paid | 7,00,000 | | |
| Revenue reserve | 1,60,000 | | |
| | 9,60,000 | | 9,60,000 |

Give journal entries recording the redemption of the preference shares and the balance sheet as it would appear after the redemption in cash of the following independent circumstances:

a) The whole of the preference shares were redeemed at par, financed as to Rs 60,000 by the issue of 6,000 equity shares at par.

b) The whole of the preference shares were redeemed at a premium of 10%, the redemption was made partly out of the proceeds of an issue of 5,000 equity shares at Rs 12.50 each.

c) Only half the preference shares were redeemed. The redemption price being Rs 11 per share, the redemption was partly financed out of the proceeds of 2,000 equity shares issued at Rs 12 each.

**[(a) Transfer to Capital Redemption Reserve A/c Rs 40,000. Balance sheet total Rs 9,20,000.**
**(b) Transfer to Capital Redemption Reserve A/c Rs 50,000. Balance sheet total Rs 9,12,500.**
**(c) Transfer to Capital Redemption Reserve A/c Rs 30,000. Balance sheet total Rs 9,29,000.]**

12. Payout Ltd. had following balances in its balance sheet as on 31.12.2018:

| | Rs |
|---|---|
| 5,000 equity shares of Rs 100 each, fully paid | 5,00,000 |
| 3,000, 9% preference shares of Rs 100 each, fully paid | 3,00,000 |
| Security premium account | 50,000 |
| General reserve | 1,20,000 |
| Profit and loss account | 2,00,000 |

On 1.1.2019 the preference shares are redeemed at 10% premium. For the purpose of redemption, 1,000 equity shares of Rs 100 each are issued at 15% premium and investments costing Rs 50,000 are sold at Rs 40,000. Profit and loss account balance should be utilised first.

Give the necessary journal entries to complete the transactions and show the share capital and reserve sections of the balance sheet immediately after the redemption.

**[Premium on redemption Rs 30,000 to be provided out of Securities Premium A/c. Transfer to Capital Redemption Reserve A/c Rs 2,00,000 (Rs 1,90,000 from Profit and Loss A/c and Rs 10,000 from general reserve)]**

13. 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. Undistributed reserves and surplus were as under:

| | Rs |
|---|---|
| General reserve | 80,000 |
| Profit and loss account | 10,000 |
| Investment allowance reserve (out of which Rs 5,000 not free for distribution of dividend) | 10,000 |
| Security premium account | 12,000 |

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 reserves and surplus, subject to the condition that a sum of Rs 20,000 shall be retained in general reserve.

Pass journal entries to give the effect to the above arrangements and also show the relevant items will appear in the balance sheet of the company after the redemption is carried out.

**(ICWA, Inter)**

**[Fresh issue of equity shares Rs 25,000 (i.e. 2,500 shares of Rs 10 each). Balance of share capital Rs 2,25,000. General reserve Rs 20,000. Securities premium Rs 2,000. Capital redemption reserve Rs 75,000. Cash at bank Rs 13,000]**

14. The balance of Bansal Ltd. shows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| *Share capital:* | | *Fixed assets:* | |
| 8% preference shares of Rs 10 each fully paid (redeemable at a premium of 5%) | 1,50,000 | Plant and machinery | 8,90,000 |
| Equity shares of Rs 10 each fully paid | 3,00,000 | Investments (quoted) | 70,000 |
| *Reserves:* | | *Current assets:* | |
| Profit and loss account | 1,60,000 | Debtors | 80,000 |
| *Current liabilities:* | | Balance at bank | 90,000 |
| Creditors | 40,000 | | |
| | 6,20,000 | | 6,20,000 |

The directors decided to redeem Rs 1,00,000 of the preference shares.

You are required to:

(a) State the conditions which must be complied with in order that the shares may be redeemed.

(b) Write up a pro forma balance sheet on the assumption that Bansal Ltd. redeems Rs 50,000 of the shares out of profit and Rs 50,000 of the shares out of the proceeds of a new issue of 9% preference shares of Rs 10 each (at par)

(c) State the purpose for which the capital redemption reserve may be used.

**[Balance sheet total Rs 5,65,000; Bank balance Rs 35,000; Profit and Loss A/c balance Rs 75,000]**

15. The following is the summarised balance sheet of DD Ltd. as at 31st March, 2018:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| *Share capital:* | | Fixed assets: | 12,00,000 |
| *Issued, subscribed and paid up:* | | Current assets: | 5,00,000 |
| 10% preference shares of Rs 100 each | 80,000 | | |
| Equity shares of Rs 10 each | 8,00,000 | | |
| Security premium | 40,000 | | |
| Revenue reserve | 6,00,000 | | |
| Current liabilities | 1,80,000 | | |
| | 17,00,000 | | 17,00,000 |

The preference shares were redeemed on 1st April, 2018, at a premium of Rs 10 per share. For the purpose of financing the redemption partly, 6,000 equity shares of Rs 10 each were issued at a premium of 5 per cent, and these were fully subscribed and paid for.

You are required to show:

(a) The journal entries (including those for cash transactions) for giving effect to the redemption and issue of shares.

(b) Balance sheet after giving effect to the above transactions.

**[Balance of equity share capital Rs 8,60,000, Securities Premium A/c Rs 35,000, Revenue Reserve A/c Rs 5,80,000, Capital Redemption Reserve A/c Rs 20,000, Current liabilities Rs 1,80,000, Fixed assets Rs 12,00,000, Current assets Rs 4,75,000; Balance sheet total Rs 16,75,000]**

16. On 30th June, 2019, the balance sheet of Salao Ltd. was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| *Share capital:* | | Sundry assets: | 2,95,000 |
| Equity shares of Rs 10 each, | | Current assets: | 36,000 |
| fully paid | 2,00,000 | | |
| 12% redeemable preference | | | |
| shares of Rs 100 each, fully paid | | | |
| Profit and loss account | 75,000 | | |
| Current liabilities | 40,000 | | |
| | 16,000 | | |
| | 3,31,000 | | 3,31,000 |

The preference shares are redeemable on 1st July, 2018, at a premium of 4%.

In order to finance the redemption, the company decided to issue at par, on the same date 5,000 15% preference shares of Rs 10 each, fully payable on application. The issue was fully subscribed and the redemption was effected, profit being used, as necessary, to supplement the proceeds of the new issue.

You are required to enter the redemption and the new issue in the ledger account of the company (including the cash account) and to show the company's revised balance sheet after conclusion of these transactions. (Ignore costs)

**[Transfer to Capital Redemption Reserve A/c Rs 25,000. Balance of Profit and Loss A/c Rs 12,000. Bank Rs 8,000. Balance sheet total Rs 3,03,000]**

17. The following is the summarised balance sheet of HB Ltd. as on 31st March, 2019:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| *Share capital:* | | Goodwill | 50,000 |
| *Issued:* | | Fixed assets | 3,40,500 |
| 2,000 equity shares of Rs 100 | | Investments at cost | 1,20,000 |
| each | 2,00,000 | Current assets | |
| 2,000 12% preference shares of | | *less* current liabilities | 89,500 |
| Rs 100 each | 2,00,000 | | |
| *Reserve and surplus:* | | | |
| Capital reserve | 50,000 | | |
| General reserve | 80,000 | | |
| Profit and loss account | 70,000 | | |
| | 6,00,000 | | 6,00,000 |

The preference shares were redeemable on 1st April, 2019, at a premium of 5 per cent. For this purpose, the company sold off the investments for Rs 1,32,000 and issued 1,000 13% preference shares of Rs 100 each at par which were fully subscribed in cash.

You are required to:

a) Show journal entries booking the above transactions.
b) State any provisions of the Companies Act, 1956, relating to the application of any balances arising, and
c) Prepare the balance sheet immediately after redemption.

**[Profit on sale of investments to be credited to Profit and Loss A/c Rs 12,000. Transfer to Capital Redemption Reserve A/c (from general reserve and Profit and Loss A/c) Rs 1,00,000. Premium on redemption Rs 10,000 to be provided out of Profit and Loss A/c or general reserve]**

18. The following is the summarised balance sheet of a company as on 31st March, 2019:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 4,000 8% preference shares of Rs | | Sundry assets | 18,00,000 |
| 100 each fully paid | 4,00,000 | Cash at bank | 6,60,000 |
| 3,000 9% preference shares of Rs | | | |
| 100 each, Rs 80 paid up | 2,40,000 | | |
| 1,00,000 equity shares of Rs 10 | | | |
| each fully paid | 10,00,000 | | |
| Securities premium account | 50,000 | | |
| Revenue reserve | 5,00,000 | | |

| | | | |
|---|---|---|---|
| Current liabilities | 2,70,000 | | |
| | 24,60,000 | | 24,60,000 |

It was decided to redeem both the classes of preference shares at a premium of 5%. The company issued for cash so many equity shares of Rs 10 each as were necessary to provide for redemption of both the classes of shares which could not otherwise be redeemed. The issue was fully subscribed and all the moneys were received.

You are required to give the journal entries in the books of the company and draw up the balance sheet after redemption.

**[Fresh issue of equity shares Rs 2,00,000 (i.e. 20,000 shares of Rs 10 each). Premium on redemption Rs 35,000 to be provided out of Securities Premium A/c. Transfer to Capital Redemption Reserve A/c (from revenue reserve) Rs 5,00,000. Balance Sheet total Rs 19,85,000. Cash at bank Rs 1,85,000]**

19. The balance of Raman Ltd. as at December 31, 2018 *inter alia* includes the following:

| | Rs |
|---|---|
| 50,000 8% preference shares of Rs 100 each, Rs 70 paid up | 35,00,000 |
| 1,00,000 equity shares of Rs 100 each fully paid up | 1,00,00,000 |
| Securities premium | 5,00,000 |
| Capital redemption reserve | 20,00,000 |
| General reserve | 50,00,000 |

Under the terms of their issue, the preference shares are redeemable on March 31, 2019 at a premium of 5%. In order to finance the redemption, the company makes a right 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 January 1, 2019. The issue was fully subscribed and allotment was made on March 1, 2019. The moneys due on allotment were received by March 30, 2019.

The preference shares were redeemed after fulfilling the necessary conditions of Section 80 of the Companies Act, 1956. The company decided to make the minimum utilisation of general reserve.

You are asked to pass necessary journal entries and show the relevant extracts from the balance sheet as on March 31, 2019 with the corresponding figures as on December 31, 2018.

**(ICWA, Inter, Dec 2002)**

**[Transfer to Capital Redemption Reserve A/c Rs 27,50,000 as calculated below:**

| | Rs |
|---|---|
| **Nominal value of shares redeemed (Rs 100 × 50,000)** | **50,00,000** |
| **Less: Proceeds from fresh issue of equity shares:** | |
| **Application money Rs (20 × 50,000)** | **10,00,000** |
| **Allotment money (excluding premium) Rs (25 × 50,000)** | **12,50,000** |
| | **22,50,000** |
| **Transfer to capital redemption reserve** | **27,50,000** |

**(Call money should be considered as it becomes due after the redemption of preference shares)**

**Note: Since preference shares cannot be redeemed unless they are fully paid, a call of Rs 30 per share will be made making the shares fully paid.**

20. Premier Ltd. issued 10,000 11% preference shares of Rs 100 each at Rs 105 on 31st December, 2016,

The terms of issue provided for:

(a) The conversion of Rs 3,00,000 preference shares into equity shares of Rs 100 each at par on 31st December, 2018.

(b) Redemption of the remaining preference shares at Rs 103 on 31st December, 2019.

The company accordingly converted and redeemed the preference shares.

Just before the redemption, the company's reserves and surplus comprise:

Capital redemption reserve Rs 5,00,0000; Security premium Rs 50,000; General reserve Rs 1,00,000 and Profit and loss (appropriation) account Rs 21,000.

Journalise since 31st December, 2019.

Assume that:

(i) The company raised minimum amount from fresh issue of equity shares at par for the aforesaid redemption; and

(ii) One per cent of the redeemed preference shares remain unpaid. Ignore preference dividend.

**[Transfer to Capital Redemption Reserve A/c Rs 1,21,000 (Rs 1,00,000 from general reserve and Rs 21,000 from Profit and Loss Appropriation A/c). New issue Rs 5,79,000]**

**Note: Premium on redemption will be provided out of Securities Premium A/c.**

21. PQR Ltd. had 10,000 15% preference shares of Rs 100 each redeemable at 10% premium on 1st January, 2018. The balances of profit and loss account and the security premium account were Rs 7,00,000 and Rs 10,000 respectively. In order to finance redemption, the company (i) sold some of the investments at Rs 3,50,000 (book value Rs 5,00,000) (ii) issue 12% debentures of Rs 2,00,000 at par, and (iii) issued 50,000 12% preference shares of Rs 10 each at 10% premium. The 15% preference shares were redeemed at 10% premium as per the conditions laid down in Section 80 of the Companies Act, 1956.

    Record the above transactions in the books of the company.

    **[Premium on redemption Rs 1,00,000 to be provided out of Securities Premium A/c Rs 60,000. Transfer to Capital Redemption Reserve A/c (from Profit and Loss A/c) Rs 5,00,000]**

22. A company has 8,000 16% redeemable preference shares of Rs 100 each full paid. The company decide to redeem the shares at a premium of 5%. The company makes the following issues:

    (i) 3,000 equity shares of Rs 100 each at a premium of 10%, and

    (ii) 3,000 16% debentures of Rs 100 each at a discount of 2%.

    The issues were fully subscribed and all the amounts were received.

    The company also sold off its investments (book value Rs 50,000) for Rs 60,000 for liquid cash. The redemption was duly carried out. The company had sufficient profit.

    Give journal entries.

    **[Premium on redemption Rs 40,000 (to be provided Rs 30,000 from Securities Premium A/c and blance of Rs 10,000 from Profit and Loss A/c). Transfer to Capital Redemption Reserve A/c Rs 5,00,000]**

    **Note: The whole amount of premium on redemption (i.e. Rs 40,000) could alternatively be provided out of Profit and Loss A/c and the securities premium of Rs 30,000 could be utilised for writing off discount on issue of debentures.**

    **No redemption of preference shares is possible out of proceeds from issue of debentures.**

23. The issued share capital of Bluefox Ltd. included preference shares which were redeemable at a premium of 7 ½ per cent on 1st April, 2019. The shares had originally been issued at Rs 11 each.

    The company proposed to issue Rs 3,00,000 12% convertible loan stock at 98 to finance the redemption.

    A summarised balance sheet showed the following position on 31st March, 2019

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Issued share capital: | | Sundry assets | 8,88,500 |
| 20,000 8% preference shares of Rs 10 each fully paid | 2,00,000 | | |
| 25,000 equity shares of Rs 10 each fully paid | 2,50,000 | | |
| Securities premium account | 12,500 | | |
| Profit and loss account | 3,96,700 | | |
| Current liabilities | 27,900 | | |
| Bank overdraft | 1,400 | | |
| | 8,88,500 | | 8,88,500 |

The issue of the convertible loan stock was fully subscribed and the preference shares were redeemed on the due date.

You are required to prepare:

(a) The journal entries (including cash) necessary to record the above transactions; and

(b) A balance sheet showing the position after the redemption.

**[Transfer to CRR Rs 2,00,000; Balance sheet total Rs 9,66,000 (after writing off discount on debentures to P/L A/c); Premium on redemption to be provided Rs 12,500 from Securities Premium A/c and Rs 2,500 from P/L A/c; P/L A/c balance Rs 1,88,200; Bank balance Rs 77,000 (Dr)]**

**Note: Since the redemption has been financed by issuing debentures, it is assumed that the redemption is from profit but not from fresh issue. So total face value of preference shares Rs 2,00,000 will be transferred to CRR.**

24. After the trading and profit and loss accounts had been drawn up for Novelty Ltd. for the year ended 31st March, 2016 the following balances remained in the accounts:

| | Dr. (Rs) | Cr. (Rs) |
|---|---|---|
| Equity share capital (Rs 10 shares) | | 1,70,000 |
| 10% redeemable preference share capital (Rs 10 shares) | | 50,000 |
| Debtors and creditors | 96,800 | 65,302 |
| Goodwill | 20,000 | |
| Fixed assets | 1,87,600 | |
| Stock | 40,580 | |
| Bank balance | 94,200 | |
| Profit and loss account | | 1,17,378 |
| Securities premium account | | 36,500 |
| | 4,39,180 | 4,39,180 |

The directors took the following decisions after the above trial balance was extracted:

(i) To convert the existing Rs 10 equity shares into shares with a nominal value of Rs 5.

(ii) To redeem the 10% redeemable preference shares at a premium of 5% (the shares had been issued originally at a premium of 10%)

(iii) To issue bonus shares by utilising the amount remaining in the securities premium account after allowing for the premium payable on the redemption of the preference shares.

(iv) To write off the goodwill account.

(v) To propose a dividend of Re 1 per share on all equity shares of Rs 5 each, including those issued by way of bonus.

You are required to:

(a) Show journal entries assuming the above decisions have been implemented.

(b) Prepare the balance sheet as at 31st March, 2019 after the implementation of all the directors' decisions and assuming no other transactions.

**[Balance sheet total Rs 3,66,680; Bank balance Rs 41,700; Balance of P/L A/c Rs 6,578. No. of bonus shares issued 6,800. Proposed dividend Rs 40,800]**

25. The summarised balance sheet of Bright Ltd. on 30th June, 2019, was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 10,000 8% preference shares of Rs 100 each | 10,00,000 | Fixed assets | 25,00,000 |
| 3,00,000 equity shares of Rs 10 each | 30,00,000 | Current assets | 34,00,000 |
| Profit and loss account | 6,50,000 | | |
| Current liabilities | 12,50,000 | | |
| | 59,00,000 | | 59,00,000 |

The conditions for issue of the preference shares provided for their being redeemed on 15th July, 2019, at a premium of 5 per cent. The profits available being not sufficient to redeem the whole issue, the company issued 50,000 9% preference shares of Rs 10 each at par on 1st July, 2019, which were taken up and paid for. The 8 per cent preference shares were redeemed on that due date.

On 1st September, 2019, the company decided to utilize the capital redemption reserve account to pay up an issue of Rs 10 equity shares as bonus to the existing equity shareholder.

Show journal entries to record the above transactions.

**[Transfer to CRR Rs 5,00,000. Number of bonus shares issued 50,000]**

**Note: Redeemed Rs 5,00,000 out of profit and Rs 5,00,000 out of fresh issue.**

## Redemption of Debentures:

1. Show the journal entries to record the following issues on 1st January, 2010 and redemption after 6 years on 31st December, 2015:

(i) A Ltd. issues 20,000 13% debentures of Rs 100 each at a discount of 3% to be redeemed at par at the end of the sixth year.

(ii) B Ltd. issues 10,000 13% debentures of Rs 100 each at a discount of 3% to be redeemed at a premium of 3% at the end of sixth year.

(iii) C Ltd. issues 15,000 14% debentures of Rs 100 each at par to be redeemed at a premium of 4% at the end of sixth year.

(iv) D Ltd. issues 12,000 15% debentures of Rs 100 each at a premium of 3% to be redeemed at par at the end of sixth year.

Also show how the items will appear in the respective balance sheet as on 1st January, 2010.

2. Pontex Ltd. issued 5,000 12% debentures of Rs 100 each at a discount of 5% repayable after 5 years at a premium of 5%.

You are required to show:

(i) Journal entries both at the time of issue and at the time of redemption of debentures.

(ii) The loss of issue of debentures account over the period.

**[Loss on issue to be written off to Profit and Loss A/c every year Rs 10,000]**

3. On 1st January, 2010, Sabana Ltd. issued 2,000 10% debentures of Rs 100 each at a discount of 5%.

The terms of issue provided that:

(a) Interest shall be payable on 30th June and 31st December every year.

(b) on the 31st December every year one-fourth of the debentures shall be redeemed.

You are required to:

(i) Give journal entries on the date of issue.

(ii) Show the debenture account, discount on debenture account and debenture interest account till the date of final redemption.

**[Discount on debentures to be written off to Profit and Loss A/c: 1st year Rs 4,000, 2nd year Rs 3,000, 3rd year Rs 2,000, 4th year Rs 1,000; Interest payable: 1st year Rs 20,000, 2nd year Rs 15,000, 3rd year Rs 10,000, 4th year Rs 5,000]**

4. RD Ltd. issues 5,000 12% debentures of Rs 100 each at 98 on 1st January, 2010. Under the terms of issue:

(a) Debenture interest is payable annually on 31st December every year.

(b) One-fifth of the Debentures are redeemable annually by drawing lots, the first redemption occurring on 31st December 2011.

Show the debentures account, debenture interest account, and discount on issue of debentures account up to 31st December, 2012 assuming that:

(i) The company's account closing date is 31st December.

(ii) All the terms of the debenture issue are duly complied with.

**[Discount on debentures to be written off to Profit and Loss A/c: 2010 Rs 2,500, 2011 Rs 2,500, 2012 Rs 2,000; Interest payable: 2010 Rs 60,000, 2011 Rs 60,000, 2010 Rs 48,000]**

5. A company having outstanding a 10% redeemable debenture issue of Rs 10,00,000, offered to redeem them and called for tenders from the holders. The debentures had been issued originally at a discount of 2% and this till appeared as an item in the company's balance sheet.

On being opened the tenders were found to be as follows:

Rs 3,00,000 at 98
Rs 6,00,000 at 99
Rs 1,00,000 at 101

It was decided to accept the offers at 98 per cent and 99 per cent and those debentures were paid off on 30th September, 2017, together with the quarterly interest due that day.

You are required to write up:

(a) The 10% debentures account.

(b) The interest account.

(c) The cash book, in so far as the above items are concerned.

(d) The debenture discount account.

**[Profit on redemption of debentures Rs 12,000 utilised to write down the Debenture Discount A/c and further Rs 6,000 discount written off against Profit and Loss A/c leaving a balance of Rs 2,000 in Debenture Discount A/c. balance of 10% Debentures A/c Rs 1,00,000, Quarterly interest paid Rs 22,500]**

6. A limited company has power under its article of association to apply its profits in the purchase of its debenture stock in the open market and to cancel it.

The amount standing to the credit of Profit and Loss Account is Rs 90,000 and that of debenture stock account Rs 4,00,000.

The company's bank balance is Rs 1,50,000. The directors decide to utilise Rs 90,000 in purchasing and cancelling debenture stock, the market price of which inclusive of all charges is 90%.

Show the ledger accounts affected.

**[Face value of debentures purchased and cancelled Rs 1,00,000. Profit on cancellation transferred to general reserve Rs 10,000. A further sum of Rs 90,000 will be transferred from Profit and Loss A/c to general reserve. Balance left in the Debenture Stock A/c Rs 3,00,000 and in the Bank A/c Rs 60,000]**

7. On 31st December, 2017, Prema Ltd. gave notice of their intention to redeem the outstanding Rs 10,00,000, 12% debentures on 31st December, 2017, at a premium of 5%. On 31st December, 2017, the company has a balance of Rs 10,50,000 at the credit of their profit and loss account. Instead of declaring a dividend they decide to utilise the profits to redeem the above debentures.

   What journal entries will the company pass to record the redemption of debentures?

   **[Premium on redemption Rs 50,000 will be provided out of Profit and Loss A/c. A further sum of Rs 10,00,000 will be transferred from Profit and Loss A/c to general reserve]**

8. On 1st January, 2016, Nihan Construction Ltd. made an issue of Rs 5,00,000 12% debentures at a discount of 5%. As per terms of issue the company has the right to redeem debentures at par by drawing lots subject to a maximum of Rs 50,000 in any year. Interest is payable annually on 31st December. Rs 40,000 debentures were redeemed on 31st December, 2016 and a further Rs 50,000 on 31st December, 2017.

   Show the journal entries in the books of the company up to 31st December, 2017, assuming that the first redemption was out of capital and the second out of profits.

   **[On the first redemption no transfer to general reserve. On the second redemption transfer to general reserve from Profit and Loss A/c is Rs 50,000]**

9. The following is the summarized balance sheet of Krishna Ltd. as at 31st December, 2017:

| | Rs | | Rs |
|---|---|---|---|
| Authorised capital:<br>4,00,000 shares of Rs 10 each | 40,00,000 | Fixed assets<br>Current assets | 55,00,000<br>69,00,000 |
| Issued capital:<br>2,00,000 shares of Rs 10 each, fully paid<br>General reserve<br>10% debentures<br>Current liabilities | 20,00,000<br>10,00,000<br>4,00,000<br>90,00,000 | | |
| | 1,24,00,000 | | 1,24,00,000 |

With a view to consolidating the capital position and reducing the deficiency of working capital, the directors decided to adopt the following scheme which took place on 1st April, 2018:

a. A bonus issue was made to the existing shareholders, of two fully paid equity shares of Rs 10 each for every five shares held.
b. The authorised capital was increased to Rs 5,00,000 shares of Rs 10 each.
c. 2,00,000 shares of Rs 10 each were issued at a premium of 10 per cent, 40 per cent of the total amount due being payable in cash on application and the balance on allotment, which was due on 1st May, 2018.
d. Applications were received for 3,00,000 shares which were scaled down accordingly, the excess money being set against the amount due on allotment.
e. The debentures were redeemed in cash at a premium of 5 per cent.

You are required to:

i. Pass the journal entries necessary, including cash, to record the foregoing transactions, and
ii. Prepare a balance sheet after the conclusion of the above transactions, showing as clearly as possible, the working capital of the company.

**[Balance sheet total Rs 141,80,000. Current assets balance Rs 17,80,000. Premium on redemption of debentures Rs 20,000 to be provided out of Security Premium A/c]**

10. The balance sheet of a limited company on 31st January, 2017 read as under:

| | Rs | | Rs |
|---|---|---|---|
| Authorised capital:<br>30,000 shares of Rs 10 each | 3,00,000 | Freehold property<br>Stock<br>Debtors | 1,15,000<br>1,35,000<br>75,000 |
| Issued capital:<br>20,000 shares of Rs 10 each, fully paid<br>Profit and loss account<br>12% debentures<br>Creditors<br>Proposed dividend | <br>2,00,000<br>1,20,000<br>1,20,000<br>1,15,000<br>20,000 | Cash<br>Balance at bank | 30,000<br>2,20,000 |
| | 5,75,000 | | 5,75,000 |

At the annual general meeting, it was resolved:

a. To pay the proposed divided of 10% in cash.
b. To issue one bonus share for every four shares held.
c. To give existing shareholders the option to purchase on Rs 10 share at Rs 15 per share for every four shares held prior to the bonus distribution, this option being exercised by all the shareholders.
d. To repay the debentures at a premium of 3 per cent.

Give the necessary journal entries and the company's balance sheet after these transactions are completed.

**[Balance sheet total Rs 5,06,400. No. of bonus shares issued 5,000. Premium on redemption of debentures Rs 3,600 may be provided out of Security Premium A/c or Profit and Loss A/c. Cash at bank Rs 1,51,400. Security premium may be utilised for bonus issue also]**

11. The balance sheet of Peeps Ltd. as on 31st December, 2016 contained the following items:

(i) Authorised capital 10,000 shares of Rs 100 each.
(ii) Issued and subscribed capital 5,000 shares of Rs 100 each, fully paid.
(iii) 1,000 5% mortgage debentures of Rs 100 each, redeemable on 1st October, 2017.
(iv) Profit and loss account (Cr) Rs 1,17,350.

Given below are some of the company's transactions for the year 2017:

a. On the recommendation of the board of directors, the company at its annual general meeting held on 15th June, 2017, decided to distribute Rs 1,00,000 in the form of fully paid bonus shares to be issued on 30th June, 2017 which were to rank for proportionate dividend out of the profits of the company for the year 2017.
b. With a view to raising funds for the redemption of debentures, the remaining unissued shares were issued on a right basis at a premium of Rs 30 per share payable Rs 80 on application and the balance on allotment which took place on 1st September, 2017. The amount due on allotment was all receive by 20th September, 2017. These right shares were to qualify for dividend from 1st October, 2017.
c. The debentures were redeemed on due date at a premium of 5 per cent, but the payment on ten debentures remained unclaimed up to the end of the year. The premium on redemption of debentures was met out of the share premium account.
d. The net profit of the company for the year ended 31st December, 2017, after providing for taxation and depreciation amounted to Rs 1,50,000 out of which the directors transferred Rs 50,000 to general reserve and recommended an equity dividend of 10 per cent for the year 2017.

You are required to:

(i) Record the foregoing transactions in the company's journal and cash book, and
(ii) Show the relevant balances in the balance sheet on 31st December, 2017.

**[Cash dividend declared: On Rs 5,00,000 for 1 year; On Rs 1,00,000 for 6 months (bonus issue); On Rs 4,00,000 for 3 months (right issue) Rs65,000; Balance of A/cs in the balance sheet: (i) Share capital Rs 10,00,000; (ii) Profit and Loss A/c Rs 52,350; (iii) General reserve Rs**

**50,000; (iv) 5% Debenture A/c (unpaid amount) Rs 10,500; (v) Security premium Rs 1,15,000; (vi) Dividend payable Rs 65,000]**

12. In 2010, Gem Ltd. issued 10% Rs 20,00,000 debentures at a discount of 10%, the debentures were redeemable in 2017. In 2017, the company gave the debenture holders the option of converting the debentures into equity shares of face value of Rs 10 each at a premium of 25%. One debenture holder holding Rs 4,00,000 debentures wants to exercise the option.

What is the face value of the shares that he will get?

**[ICSI, Inter, Dec. 2004]**

**[Face value of equity shares to be issued to be debenture holder Rs 3,20,000 (i.e. 32,000 shares of Rs 10 each]**

13. On 1st January, 2017, Nishar Sugar Ltd. issued 2,500 10% debentures of Rs 100 each at Rs 95. Holders of these debentures have an option to convert their holding into 14% preference shares of Rs 100 each at a premium of Rs 25 per share at any time within three years.

On 31st December, 2017, holders of 500 debentures notified their intention to exercise the option.

Show the journal entries relating to the issue and conversion of Debentures in the books of the company. **[ICSI, Inter, June. 1993 – adapted]**

**[Nominal value of preference shares Rs 40,000, Security premium Rs 10,000, Discount on debentures to be written off Rs 2,500 to P/L A/c]**

14. On 1st January, 2017, a company issued 1,000 12% debentures of Rs 500 each at Rs 450. Debentures are redeemable after 7 years. However, the company gave an option to debenture holders to get their debentures converted into equity shares of Rs 100 each at a premium of Rs 50 per share at any time after the expiry of one year.

Rajesh, a holder of 120 debentures, informed on 1st January, 2018, that he wanted to exercise the option for conversion of debentures into equity shares. The company accepted his request and converted the debentures into equity shares.

Pass the necessary journal entries to record the above transactions in the books of the company. (Give workings also. Ignore tax)

**[Nominal value of preference shares Rs 40,000, Security premium Rs 20,000, Discount on debentures to be written off Rs 6,000 to P/L A/c, A further debenture discount of Rs 20,000 may be written off to Security Premium A/c]**

15. On 1st July, 2001, Chandrani Ltd. gave a notice of its intention to redeem its outstanding Rs 4,00,000 6% debenture stock on 1st January, 2002 at 102% and offered the holders the following options:

(i) To subscribe for:

(a) 10% preference shares of Rs 20 each at Rs 22.50 per share: the offer was accepted by holders of Rs 1,71,000 stock.

Or

(b) 12% debenture stock at 96%: the offer was accepted by the holders of 1,44,000 stock.

Or

(ii) To have their holdings redeemed for cash, if options under (i) were not accepted.

You are required to pass the journal entries necessary to record the redemption and allotment under (i) (a) (i) (b) and to state the amount of cash required to satisfy option (ii).

**[(i) No. of preference shares to be issued 7,752; Face value of debentures to be issued Rs 1,53,000; (ii) Cash required Rs 86,700]**

16. On 1st January, 2001. Radiant Ltd. issues 10,000 13 ½ % debentures of Rs 100 each at Rs 99. The terms of issue include:

(i) Payment of half-yearly interest on 30th June and 31st December.

(ii) Automatic conversion of three-fifths of the debentures into fully paid-up 40,000 equity shares of Rs 10 each on 1st January, 2002.

(iii) Redemption of the remaining debentures in two equal instalments on 31st December, 2002 and 1st January, 2005 by drawing and , or open market purchase of own debentures.

On 1st January, 2002, Rs 2,00,000 Government Bonds are acquired at 80% and are sold at 95% on 1st July to immediately purchase own debentures at Rs 95 each for cancellation at 2002 end.

Show with workings the amount of discount (on issue of debentures) that should be written off in 2001; and journalise for the year 2001 and 2002. Assume that the accounting date is 31st December, and the terms of issue of debentures are being duly complied with.

**[Debenture discount to be written off in 2001 Rs 5,000 and in 2002 Rs 2,000]**

17. The summarized balance sheet of Sabari Ltd. as on 31st March, 2002 showed the following position:

| | Rs |
|---|---|
| Authorised share capital | 15,00,000 |
| Issued share capital and reserves: | |
| 14,00,000 equity shares of Rs 50 paise each fully paid | 7,00,000 |
| 35,000 8% redeemable preference shares of Rs 10 each, fully paid | 3,50,000 |
| Profit and loss account | 3,00,000 |
| | 13,50,000 |
| 9% unsecured convertible loan stock | 4,00,000 |
| | 17,50,000 |
| Sundry assets | 17,33,000 |
| Investments | 1,00,000 |
| Balance at bank | 1,12,000 |
| | 19,45,000 |
| Less: Sundry creditors | 1,95,000 |
| | 17,50,000 |

The preference shares are redeemable at a premium of Re 1 per share on 1st April, 2002.

The unsecured loan stock was issued on 1st April, 1999, and under the terms of issue, holders have the right on 1st April in each year to convert their stock into equity shares on a sliding scale. At the end of the first year each Rs 100 loan stock was convertible into 160 equity shares of 50 paise each, and this figure was reduced by 5 equity shares in each subsequent year. On 1st April, 2002 holders of Rs 1,00,000 loan stock exercise their right to convert into equity shares.

In order to facilitate the redemption of the preference shares it was decided to:

(i) Realise the investment for Rs 90,000.

(ii) Finance part of the redemption out of company funds, and subject to leaving a balance available on the profit and loss account Rs 1,00,000.

(iii) Issue sufficient equity shares at a premium of 20 paise per share to raise the balance of shareholders' funds required.

You are required to :

(a) Show the necessary journal entries (including cash) to record the above transactions; and

(ii) Prepare the balance sheet as on completion.

**[Balance sheet toal Rs 17,74,000. Transfer to capital redemption reserve Rs 1,00,000. 1,50,000 shares of Rs 50 paise each to be issued on conversion of loan stock. 3,20,000 shares to be issued for cash. Securities Premium A/c Rs 54,000 (Rs 25,000 on conversion of loan stock + Rs 64,000 on new issue of equity shares – Rs 35,000 premium on redemption). Bank balance Rs 41,000]**

18. A limited company had issued debenture stock of Rs 1,00,000. The directors decide to apply profit of Rs 27,000 in purchase of sock in the open market and to cancel the stock so purchased. The market price at which the stock was purchased was 90% including charges.
Show journal entries necessary to record the transactions.

**[Transfer to general reserve: Rs 3,000 from Debenture Stock A/c (being profit on cancellation) and Rs 17,000 from Profit and Loss Appropriation A/c]**

19. Under its articles of association a company has power to apply profits in the purchase of its debenture stock. On 1st January, 2019, the credit balance of profit and loss account was Rs 27,000, the debenture stock issued and outstanding amounted to Rs 43,000 and the cash balance was Rs 22,000. The directors decided to purchase and cancel some debenture stock, and on 1st January, 2019, expended Rs 16,100 for that purpose. The purchase price, inclusive of all charges, was 92 per 100 nominal.
Write up the accounts affected by these transactions.

**[Transfer to general reserve: Rs 1,400 from Debenture Stock A/c (being profit on cancellation) and Rs 16,100 from Profit and Loss Appropriation A/c]**

20. A company took power in its articles of association to purchase, out of profits, its own debentures in the open market for cancellation.

On 31st December, 2018, the debentures outstanding amounted to Rs 50,000, and there stood to the credit or debenture redemption reserve account a sum of Rs 12,000, which has been provided out of profits of past years.

In January following, the directors decided to utilise this reserve (the cash being available) in the purchase of its own debentures, and they bought these at 96 per cent.

Show how these transactions should be recorded in the company's books.

**[Nominal value of debentures cancelled Rs 12,500. Profit on cancellation (Rs 5,000) will be transferred to Debenture Redemption Reserve A/c and balance of this A/c (Rs 12,500) will be transferred to general reserve)**

21. Kankan Ltd. has the following balances included in its books at 31st December, 2018 year ended:

| | | |
|---|---|---|
| | | ***Rs*** |
| Equity shares capital in Rs 10 fully paid shares (authorised capital is Rs 25,00,000) | | 15,00,000 |
| Security premium account | | 90,000 |
| Unappropriated profits | 28,30,000 | |
| 12% redeemable loan stock 2019/2024 (interest payable on 30th June and 31st December) | | 5,20,000 |

The following transactions took place at 30th June, 2019, the necessary authorization having been made at the annual general meeting:

(i) Part of the reserves were capitalized by a one-for-four bonus issue of fully paid shares.

(ii) Additional fund were raised by one-for-four rights issue at Rs 22 per share (based on the number held after the bonus issue). Members holding 90% of the shares accepted the right offer before the specific date. The remainder of the shares were sold by the company, on behalf of the shareholders renouncing their rights, at a price of Rs 25 per share. The under writing and other expenses amounted to Rs 53,000.

(iii) In accordance with its power in the trust deed, the company bought Rs 60,000 (nominal) of its loan stock for cancellation at a price of Rs 51,220.

You are required to:

(a) Show all the journal entries resulting from these transactions, assuming that they were all completed (including cash items) on 30th June.

(b) Briefly explain your treatment of the difference between Rs 22 and Rs 25 in (ii) and what this represents.

**[Bonus issue 50,000 shares of Rs 10 each. Right issue 50,000 shares of Rs 10 each at a premium of Rs 12. The difference of Rs 3 per share (Rs 25 – Rs 22) on 5,000 shares (sold on behalf of the shareholders renouncing their rights) represents profit of the shareholders on sale of their rights. The amount should therefore be credited to Sundry Shareholders A/c and paid to them]**

22. The following is the extract from the balance sheet of Bruno Ltd. as on 31st March, 2018:

| | | |
|---|---|---|
| | | ***Rs*** |
| Share capital: | | |
| Authorised: | | |
| 1,00,000 equity shares of Rs 10 each | | 10,00,000 |
| 25,000 9% cumulative preference shares of Rs 10 each | 2,50,000 | |
| | | 12,50,000 |
| Issued: | | |
| 50,000 equity shares of Rs 10 each | | 5,00,000 |
| Reserve and surplus: | | |
| Securities premium account | | 50,000 |
| General reserve | | 50,000 |
| Profit and loss account | 2,50,000 | |
| Secured loans: | | |
| 8% debentures | | 1,00,000 |
| Unsecured loans: | | |
| 6% cumulative loan stock | | 2,50,000 |

During the year ended 31st March, 2019, the following relevant transactions took place:

(1) The holder of convertible stock had the right either to convert their holding into equity shares at 8 equity shares of Rs 10 each, fully paid for each Rs 100 stock held or to be repaid at a premium of 10%. The rights had to be exercised on 1st October, 2018. The holders of Rs 2,00,000 stock exercised the right to convert into equity share capital. The market value of the share on conversion was Rs 35 per share.

(2) On 1st April, 2018, the company offered the whole of the 9% cumulative preference shares for public subscription at par, Rs 5 per share being payable on application, and the balance payable two months thereafter. Applications were received for 20,000 shares on 4th April, 2018, and all moneys were received other than those in respect of 200 shares. These shares were forfeited and re-issued on 15th July, 2018, for Rs 9 per shares.

(3) On 1st February, 2019, the company purchased Rs 20,000 of its 8% debentures for Rs 19,000 and cancelled them.

(4) An interim dividend of 10% was paid on 1st October, 2018, on the equity shares in issue on 31st March, 2018.

(5) The company's net profit for the year amounted to Rs 3,80,000 and the board of directors proposed that dividend be paid as follows:

(a) The preference dividend; and

(b) A final dividend on the equity share capital of 10%.

Show the journal entries (including cash) required to record the above transactions. Also show the share capital, reserves and loan capital sections of the company's balance sheet prepared as on 31st March, 2019.

**[On conversion of Rs 2,00,000 loan stock 16,000 equity shares to be issued at a premium of Rs 2.50 per share. Premium (Rs 5,000) on redemption of remaining Rs 50,000 loan stock to be provided out of Security Premium A/c. Profit on re-issue of forfeited preference shares Rs 800 to be transferred to capital reserve. Profit on purchase and cancellation of 8% debentures Rs 1,000 to be transferred to general reserve. Interim equity dividend paid Rs 1,00,000. Proposed final dividend: Equity Rs 1,16,000, Preference Rs 18,000. Balance of Profit and Loss A/c on 31.3.19 Rs 3,96,000]**

23. On 1st January, the Asiatic Trading Co. Ltd. issued 6% debentures of Rs 5,00,000 redeemable at par at the end of 5th year. It was decided to establish a sinking fund for the purpose of redemption.

    Show the ledger accounts for 5 years, assuming that the annually invested amount to earn 5% interest and that the amount annually set aside for the purpose is Rs 90,487.50.

24. A company issued 1,000 8% debentures of Rs 100 each, payable after 5 years with a premium of 5%. They were issued at a discount of 4%.

    You are required to show the relevant ledger accounts assuming that a sinking fund had been raised to earn interest at the rate of 5% per annum. It is given that Re 1 per annum would accumulate to Rs 5.5256 in 5 years at 5% compound interest.

    **[Annual contribution Rs 19,002.46]**

25. Joy & Co. Ltd. is required to accumulate a sinking fund to provide Rs 1,00,000. Assuming that the annual contribution to be Rs 9,000 which is invested out side the business at the end of each year at 5% per annum interest.

    Show the following ledger accounts for first three years:

    a) Sinking fund account

    b) Sinking fund investment account and state how the sinking fund would be dealt with when it reaches maturity, if it is created for:

    a) Replacement of an asset

    b) Replacement of a liability

    **[Balance of Sinking Fund A/c and Sinking Fund Investment A/c Rs 28,372.50]**

26. 2Kaveri Ltd. decides to issue on 1st January, 2008 Rs 1,00,000 11% debenture stock at 98 redeemable at par after 10 years. A redemption fund is to be created by the annual investment of Rs 6,300, the first instalment being paid on 31st December, 2008. The rate of interest on investment is 10% per annum. (Ignore tax)

    You are required to answer each of the following questions relating to the above circumstances or to the redemption of debentures generally.

a) Indicate briefly why debentures might be issued at a discount. What does the discount represent, and how would it be treated in the accounts? (actual accounts not required)

b) Show the debenture redemption fund and debenture redemption fund investment account from 2008 to 2011 inclusive, indicating by your entries which other accounts would be involved. Show how the relevant balances would appear in the balance sheet as at 31st December, 2011.

c) Show in journal book entries upon completion of the redemption, assuming that the investment yields exactly the amount required.

d) If the sale of the investments produced a greater or lesser amount then that required for the redemption, how would be balance be treated.

***[(a) In order to make the issue more attractive to investors debentures might be issued at a discount. The discount represents the difference between the nominal value of the debentures and the price at which they were issued. The amount of discounts should be debited to Discount on Debentures A/c and shown on the assets side of balance sheet. Section 78 of the Companies Act, 1956, allows it to be written off against the Securities Premium A/c, if desired. Alternatively, the discount may be written off in the Profit and Loss A/c over the life of the debentures.***

***(b) Debenture redemption fund and the corresponding investment on 31.12.11 Rs 29,238.***

***(d) Any excess would be credited to general reserve while a shortfall would be debited to Profit and Loss Appropriation A/c for the year in which the redemption took place.]***

27. On 1st January, 2010, Bengal Iron Ltd. issued 1,000 12% debentures of Rs 100 each at par repayable at the end of 3 years at a premium of 6%. The company decides to provide for repayment of the debentures by creating a debenture redemption fund @ 4% p.a. compound interest.

    Show the ledger accounts for the three years assuming that the investment realised Rs 69,200 only and the debenture holders were paid off at the end of the period. Annual investment required to provide Re 1 at the end of three years at 4% compound interest is Re 0.320348.

28. Rainbow Ltd. issued 10% debentures of Rs 9,00,000 with a condition that they should be redeemed by setting aside at the end of every year Rs 75,000 out of profit and investing the amount in 7% tax free Government Securities. The interest received at the end of every year should also be invested in the same securities.

    Show the debenture redemption fund account and debenture redemption fund investment account for the 4 years after the issue of debentures. The investments are made in multiples of Rs 100 only.

***[Investment: 1st year Rs 75,000, 2nd year Rs 80,200, 3rd year Rs 85,900, 4th year Rs 91,800.***
***Interest received: 2nd year Rs 5,250, 3rd year 10,864, 4th year Rs 16,877.***
***At the end of 4th year the balance of Debenture Redemption Fund A/c Rs3,32,991 and that of Debenture Redemption Fund Investment A/c Rs 3,32,900]***

29. Ceetee Ltd. issued 2,000 12% debentures of Rs 100 each at par on April 1, 2010. These debentures were redeemable at the end of the 5th year at 10% premium. It was resolved that a sinking fund should be formed and invested in 10% Development Bonds of Rs 100 each. Interest on bonds is payable on 31st March every year.

    Reference to sinking fund table shows that Re 0.1638 invested at the end of every year at 10% compound interest will produce Re 1 at the end of the 5th year.

    10% development bonds of the required amount were purchased on different dates at the following prices:

    | | |
    |---|---|
    | On March 31, 2011 | Rs 80 |
    | On March 31, 2012 | Rs 90 |
    | On March 31, 2013 | Rs 100 |

You are required to show debenture redemption fund account and debenture redemption fund investment account for the first three years in the books of Ceetee Ltd. Accounting year of this company ends on 31st March.

***[Annual apportionment Rs 36,036. Investment: 1st year Rs 36,000 (450 bonds @ Rs 80), 2nd year Rs 40,500 (450 bonds @ Rs 90), 3rd year Rs 45,000 (451 bonds @ Rs 1000. Interest received: 2nd year Rs 4,500, 3rd year Rs 9,000. Balance on 31st March, 2013: Debenture Redemption Fund A/c Rs 1,21,608 (Cr), Debenture Redemption Fund Investment A/c Rs 1,21,600 (Dr)]***

30. On 1st January, 2011, Jokai Co. Ltd. issued 4,000 5% debentures of Rs 50 each repayable at the end of four years at a premium of 5%. It was decided to create a sinking fund for the purpose. The investment realised 4% interest. sinking fund table shows that Re 0.235490 amount to Re 1 @ 4% in 4 year. Investments were made in multiple of Rs 100 only.

    On 31st December, 2014 cash at bank was Rs60,000 and the investment realised 1,57,000. The debentures were paid off.

    Show in the books of Jokai Co. Ltd. the following accounts:

    (i) 5% debentures account
    (ii) Sinking fund account

(iii) Sinking fund investment account and

(iv) Debenture holders account.

***[Annual apportionment Rs 49,453. Investment: 1st year Rs 49,400 ), 2nd year Rs 51,400 ), 3rd year Rs 53,500. Interest received: 2nd year Rs 1,976, 3rd year Rs 4,032, 3rd year Rs 6,172. Profit on sale of investment transferred to sinking fund Rs 2,700. Balance of sinking fund transferred to general reserve Rs 2,02,792]***

31. On 1st January,2010,Bengal Potteries Ltd. issued debentures of Rs.1,00,000 redeemable at par at the end of 5 years and it was resolved that a sinking fund should be formed and invested in tax free securities.

    Show the ledger accounts for 5 years, assuming that the interest received on the investments was at the rate of 5% on cost, that the interest was received yearly and immediately invested and that the investments were realised at a loss of Rs 300 at the end of the five years.

    Reference to the table shows that, Re 0.180975 invested at the end of each year, at 5% compound interest will produce Re 1 at the end of 5 years.

    ***[Annual contribution Rs 18,097.50]***

32. Bengal Tubes Ltd. had Rs 3,00,000 5% debentures outstanding on 1st April, 2010. On that date, the debenture redemption fund stood at Rs 2,50,000 represented by Rs 2,95,000 (nominal value) 3% Government Bond. The annual contribution added to debenture redemption fund was Rs 41,150.

    On 31st March, 2011, the balance at bank was Rs 70,000. On that date the interest on investments was received. The investments were sold at 83% net and the debentures were redeemed.

    Show 5% debenture account, debenture redemption fund account and debenture redemption fund investment account.

***[Profit on sale of investment transferred to Debenture Redemption Fund A/c Rs 5,150. Balance of debenture redemption fund transferred to general reserve Rs 2,94,850. (Since this amount is less than the nominal value of debentures redeemed viz. Rs 3,00,000, it is prudent to transfer a further sum of Rs 5,150 to general reserve from Profit and Loss Appropriation A/c, so as to assure that working capital is not depleted as a consequence of redemption)]***

33. On 1st April, 2012, the books of RPC Ltd. showed the following balances:

| | **Rs** | |
|---|---|---|
| Debenture account | | 4,00,000 |
| Debenture sinking fund account | 3,40,000 | |
| Debenture sinking fund investment account | | 3,40,000 |

    The company realised the investment at Rs 3,50,000 and redeem the debentures, having sufficient bank balance for the purpose.

    Pass the necessary journal entries to record the above transactions.

***[Profit on sale of investments transferred to sinking fund Rs 10,000. Balance of sinking fund transferred to general reserve Rs 3,50,000]***

34. On 31st March, 2015, the following balances were extracted from the books of P Ltd.:

| | **Rs** | |
|---|---|---|
| 12% first mortgage debenture | 50,00,000 | |
| Debenture redemption fund | | 50,00,300 |
| Debenture redemption fund investment | 42,00,000 | |

    On 1st April, 2015, all the investments were sold for Rs 41,16,000 and the debentures were redeemed at par. The company had sufficient bank balance.

    You are required to prepare:

    i) 12% first mortgage debenture
    ii) Debenture redemption fund; and
    iii) Debenture redemption fund investment

**[ICSI, Inter, Dec, 2000]**

***[Loss on sale of investment transferred to Debenture Redemption Fund A/c Rs 84,000. Balance of Debenture Redemption Fund A/c transferred to general reserve Rs 49,16,300]***

35. On 31st December, 2014, Brightlight Industries Ltd. showed in their account debenture redemption fund of Rs 1,50,000 which was represented by Rs 1,51,000 5% municipal bonds purchased for Rs 1,50,000.

On 28th February, 2015, the company had a balance of Rs 28,000 at their bank and they paid into bank account, the proceeds of sale of foregoing investments for Rs 1,50,500. On 1st March, 2015, the debentures of the value of Rs 1,50,000 were paid.

You are required to prepare debenture redemption fund account and debenture redemption fund investment account in the books of the company. Calculation are to be made to the nearest of rupee.

**[ICSI, Inter, June, 2004]**

***[Profit on sale of investments transferred to sinking fund Rs 500. Balance of sinking fund transferred to general reserve Rs 1,50,500]***

36. Boa Ltd. have outstanding Rs 1,50,000 10% debentures which are redeemable at the company's option on or after 1st January, 2015, at a premium of 5%. Interest is payable half-yearly on 30th June and 31st December. An annual appropriation of profit has been made and an equal amount of cash has been invested in gilt-edged securities to form a redemption fund. On 31st December, 2016 the following balances were extracted from the company's Ledger:

| Credit: | **Rs** |
|---|---|
| Share capital (Rs 10 equity shares) | 1,00,000 |
| Securities premium | 75,000 |
| Debenture redemption reserve fund | 1,40,000 |
| General reserve | 35,000 |
| Profit and loss account | 25,000 |
| 10% debentures | 1,50,000 |
| Debit: | **Rs** |
| Investment of debenture redemption reserve fund (at cost) | 1,40,000 |
| Balance at bank | 55,000 |

The directors decide to exercise their option to redeem the debentures on 1st January. 2017 and on that date they realise the investments for a sum of Rs 1,25,000.

You are required to write up the appropriate ledger accounts to give effect to the redemption.

***[Balance of A/cs: Securities Premium A/c Rs 67,500. General Reserve Rs 1,60,000. Cash at bank Rs 22,500. Balance in debenture redemption reserve fund transferred to general reserve Rs 1,25,000]***

37. The following balances appeared in the books of a company on 1st April, 2018:

| | **Rs** |
|---|---|
| 12% debenture account | 4,00,000 |
| Debenture sinking fund account | 3,00,000 |
| Debenture sinking fund investment account | 3,00,000 represented by |

10% Rs 3,60,000 Secured Bonds of Government

Annual contribution to the sinking fund was Rs 64,000 made on 31st March each year. On 31st March, 2019 balance at bank was Rs 1,60,000. On the same date interest on investment was received, investments were sold at 80% and the debentures were paid off.

You are required to prepare the following accounts for the year ended 31st March, 2019:

(i) 12% debentures account;
(ii) Debenture sinking fund account;
(iii) Debenture sinking fund investment account; and
(iv) Bank account

**[ICWA, Inter, June, 1993]**

***[Interest received on investment Rs 36,000 (10% of Rs 3,60,000). Sale proceeds of investments Rs 2,88,000 (90% of Rs 3,60,000). Loss on sale of investments Rs 12,000. Balance of Sinking Fund A/c transferred to general reserve Rs 3,88,000. Balance at Bank A/c after redemption Rs 84,000]***

38. The following balances stood in the books of P Ltd. as on 31st March, 2019:

| | **Rs** |
|---|---|
| 12% debenture | 2,50,000 |
| Debenture redemption fund | 2,82,500 |

The above fund was invested in the following securities and shares:

| | **Rs** |
|---|---|
| Rs 80,000 3½% Government loan | 85,000 |
| Rs 90,000 4% Government loan | 86,000 |
| Rs 30,000 6% debentures | 28,000 |

835 preference shares of Rs 100 each 83,500

The above investments were sold on the same day as under:

3½% Government loan at par
4% Government loan at Rs 96
6% debentures at Rs 90
Preference shares at Rs 105

On 1st April, 2019 the company redeemed the debentures at a premium of 10%.

You are required to show 12% debenture account, debenture redemption fund account and debenture redemption fund investment account and the debenture holders account.

**[ICWA, Inter]**

***[Loss on sale of investments Rs 1,425 transferred to Debenture Redemption Fund A/c. premium on redemption of debentures provided out of Debenture Redemption Fund A/c Rs 25,000. Balance of Sinking Fund A/c transferred to general reserve Rs 2,56,075]***

39. On 1st January, 2018, the balance on the sinking fund of a company was Rs 1,65,000 represented by investment at cost amounting to a similar figure. It also had outstanding Rs 1,80,000 7% debentures.

During the year to 31st December, 2018, the under mentioned transactions took place:

Half-yearly debenture interest was paid on 30th June; sinking fund investments were sold on 15th December and realised Rs 1,87,000.

Income from investment received during the year amounted to Rs 15,000 and this was not reinvested. The debentures were redeemed on 31st December, 2018, together with a half-yearly interest.

You are required to give the appropriate accounts.

***[Profit on sale of investments Rs 22,000 transferred to Debenture Redemption Fund A/c. Balance of Sinking Fund A/c transferred to general reserve Rs 2,02,000]***

40. Harington Ltd. issued Rs 50,000 5% debentures at 97 on 1st January, 2013, redeemable at par on 31st December, 2018. No redemption took place in the intervening five years.

The company maintained a sinking fund for redemption of the debentures, and on 1st January, 2018, the balance of this fund was Rs 42,800. There was an equal amount invested in gilt-edged securities show in the books at cost. No further securities were purchased in 2018.

On 31st December, 2018, the sinking fund investments were sold for Rs 43,300. On the same day, a final appropriation of Rs 4,300 was made to the sinking fund from profits. Interest of Rs 2,900 was received on sinking fund investments and the debentures were redeemed.

Show the relevant accounts from the transactions in 2018 (ignore interest paid on debentures).

***[Profit on sale of investments Rs 500 transferred to Debenture Redemption Fund A/c. Balance of Sinking Fund A/c transferred to general reserve Rs 50,500]***

41. Rashmi Ltd. had Rs 1,00,000 8% debentures outstanding on 1st January, 2018. On that date debenture redemption fund stood at Rs 80,000 represented by Rs 86,000 4% treasury bonds. The interest on investment is receivable on 30th June and 31st December. The annual instalment added to the debenture redemption fund is Rs 16,820.

On 31st December, 2018 the balance at bank was Rs 15,000. On that date the investments were sold at 102 per cent and debentures were paid off.

Pass the necessary entries in the books of the company.

***[Interest on investment received during the year Rs 3,440 (i.e. @ 4% on Rs 86,000). Profit on sale of investments transferred to debenture redemption fund Rs 7,720. Balance of debenture redemption fund transferred to general reserve Rs 1,07,980]***

42. The following balances appeared in the books of Roy Co. Ltd. on 1.4.2019:

(i) Debenture redemption fund account: Rs 40,000 represented by Investments at cost of an equal amount (nominal value Rs 50,000)

(ii) The 12% debentures stood at Rs 90,000

The company sold investments of the nominal value of Rs 30,000 @ Rs 90 for the purpose of redemption of Rs 26,000 debentures at a premium of 2 per cent.

Show the:

(i) 12% debenture account

(ii) Debenture redemption fund account

(iii) Debenture redemption fund investment account (Ignore interest, brokerage etc.)

***[Profit on sale of investments Rs 3,000 transferred to Debenture Redemption Fund A/c. premium on redemption of debentures to be provided out of Debenture Redemption Fund A/c Rs 520.***

***Debenture Redemption Fund A/c transferred to general reserve Rs 26,000. Balance of Debenture Redemption Fund A/c Rs 16,480 and that of Investment A/c Rs 16,000]***

43. Lafsi Ltd. issued Rs 1,00,000 12% debentures on 1st January, 2003, to be redeemed on or before 31st January, 2018. A sinking fund was created to provide the necessary funds for redemption and as at 1st January, 2015, the balance of sinking fund was Rs 62,000, which was represented by investments at cost of the same amount.

On 30th June, 2015, Rs 30,000 debentures were redeemed at 95, the money being provided from the proceeds of the sale of investments which originally cost Rs 29,500.

On 31st December, 2015, interest on the investments amounting to Rs 4,100 was received and re-invested together with the annual appropriation of Rs 5,950.

You are required to show the journal entries and ledger accounts to record the above-noted transactions during 2015.

***[Loss on sale of investments Rs 1,000 transferred to Sinking Fund A/c. Profit on redemption of debentures Rs 1,500 transferred to Sinking Fund A/c. Balance of Sinking Fund A/c and its corresponding investment A/c Rs 42,550. Balance in Debenture A/c Rs 70,000]***

44. The debenture redemption fund account of X Ltd. stood at Rs 80,000 represented by Rs 1,00,000 (nominal) investments. The debentures stood at Rs 3,00,000 and X Ltd. sold Rs 60,000 (nominal) investments at 84 for the purpose of redeeming Rs 50,000 debentures at 100½.

Show the ledger accounts (Ignoring interest and brokerage)

***[Profit on sale of investments transferred to Debenture Redemption Fund A/c Rs 2,400. Premium on redemption of debentures to be provided out of Debenture Redemption Fund A/c Rs 250. Debenture Redemption Fund A/c transferred o general reserve Rs 50,000. Balance of Debenture Redemption Fund A/c Rs 32,150 and of investment A/c Rs 32,000.]***

45. Some years ago, Spark Ltd. had issued 5,000 5% debentures of Rs 100 each. The terms of issue provided, *inter-alia*, that the company should appropriate Rs 10,000 annually to a sinking fund so long as any debentures remained in issue, and that on or after 31st December, 2017, the company should have the right to apply the available balance of this fund, or any part of it, in repaying debentures at 102.

Spark Ltd. prepare accounts annually to 31st December and on 31st December, 2017, the sinking fund (including appropriation for 2017) amounted to Rs 2,81,900 and the sinking fund investments has a book value of Rs 2,71,900. Rs 6,100 dividends from these investments were received on 15th January, 2018 and Rs 6,400 on 15th July, 2018. Rs 16,100 was further invested on 24th January, 2018, but the dividend received in July was not reinvested.

On 10th December, 2018, investments having a book value of Rs 2,64,000 were sold realizing Rs 2,57,800 and on 31st December, 2018, the company, having given due notice, redeemed 2,500 of the debentures at 102.

Prepare ledger account recording these matters in the company's books, bringing down balances as on 31st December, 2018. Ignore debenture interest payable.

Note: No cash book is required.

***[Loss on sale of investments Rs 6,200 transferred to Sinking Fund A/c. Premium on redemption of debentures to be provided out of Debenture Redemption Fund A/c Rs 5,000. Sinking Fund A/c transferred to general reserve Rs 2,50,000. Balance of Sinking Fund A/c Rs 43,200and of investment A/c Rs 24,000]***

46. X Co. Ltd. had Rs 8,00,000 6% debentures outstanding on 1st January, 2018, redeemable at a premium of 2½% on 31st December, 2018. On 30th June, 2018, the company purchased their own debentures of the face value of Rs 2,00,000 at 99% and immediately cancelled them. On 1st January, 2019, the sinking fund for redemption of debentures as well as the fund investment showed a balance of Rs 7,00,000 each. The investments were realised at a discount of 10% and the debentures were redeemed.

Prepare sinking fund account, sinking fund investment account, 6% debenture account and debenture holders' account for 2018. (Ignore income-tax)

**[Sinking Fund A/c transferred to general reserve Rs 6,35,000]**

47. The following was the balance sheet of Cagney Ltd. as on 31st March, 2018

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 7,500 equity shares of Rs 100 each | 7,50,000 | Fixed assets | 7,80,000 |
| 2,000 15% preference shares of Rs 100 each | 2,00,000 | Debenture redemption Fund investments | 88,500 |
| General reserve | 6,30,000 | Stock | 6,00,000 |
| Profit and loss account | 50,000 | Debtors | 2,60,700 |
| Debenture redemption fund | 88,480 | Cash at bank | 3,00,000 |
| 12% debentures | 1,00,000 | | |
| Sundry creditors | 2,11,520 | | |
| | 20,30,000 | | 20,30,000 |

On this date, the company redeemed at a premium of 5%, all its preference shares and debentures. For this purpose, it sold all the investments for Rs 90,000 and allotted for cash to its existing equity shareholders 1,500 equity shares of Rs 100 each at par, the entire amount being received forthwith.

After the redemption of preference shares and debentures, the company issued one fully paid bonus shares of Rs 100 each for every three shares held.

Show the journal entries for all the above mentioned transactions including cash transactions and prepare the balance sheet thereafter.

***[Balance Sheet total Rs 18,66,500. Equity share capital Rs 12,00,000. General reserve Rs 4,04,980. Profit and Loss A/c Rs 50,000. Creditors Rs 2,11,520. Fixed assets Rs 7,80,000. Stock Rs 6,00,800. Debtors Rs 2,60,700. Cash at bank Rs 2,25,000]***

***Note: Only general reserve has been used for premium on redemption of preference shares and transfer to capital redemption reserve. As an alternative Rs 50,000 from Profit and Loss A/c and balance from general reserve could be used.***

48. Some years ago, Cable Manufacturing Co. Ltd. had issued 6 per cent debentures, redeemable at the company's option at 105 per cent on any interest date (30th June or 31st December) on giving there months' notice. The company had subsequently built up a debenture redemption fund partly represented by investments.

On 31st December, 2011, Rs 3,00,000 of the debentures were outstanding, the debentures redemption fund stood at Rs 1,21,000 and the investments appeared in the books at cost Rs 1,18,000.

On 30th September, 2012, the directors of the company gave notice of their intention to repay the whole of the debentures three months after date, at the same time offering holders the right to subscribe for new 6½ per cent debentures at the issue price of Rs 98, up to the nominal amount of Rs 2,00,000. The whole of these were taken up. The balance of cash required to pay off the old debentures was provided as to Rs 95,000 by the sale of investments having a book value of Rs 90,000 and as to the remainder out of current funds.

You are required to show the relevant ledger accounts in the books of Cable Manufacturing Co. Ltd. Entries relating to interest are not required to be shown.

***[Amount paid in cash on redemption Rs 1,19,000. Balance of Debenture Redemption Fund A/c transferred to general reserve Rs 1,11,000. Balance of Debenture Redemption Fund Investment A/c transferred to General Investment A/c Rs 28,000]***

49. A limited company has an authorised capital of Rs 10,00,000 in shares of Rs 10 each of which 60,000 shares have been issued and are fully paid. A summary of its balance sheet on 31st March, 2019 is as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital | 6,00,000 | Fixed assets (net) | 11,00,000 |
| Debenture redemption fund | 4,80,000 | Debenture redemption Fund investments (cost) | |
| Profit and loss account | 1,90,000 | (market value Rs 4,08,000) | 4,80,000 |
| 9% debentures (redeemable at 102%) | 5,00,000 | Current assets | 3,00,000 |
| Current liabilities | 1,10,000 | | |
| | 18,80,000 | | 18,80,000 |

Interest on the debentures had been paid up to 31st March, 2019. On 1st April, 2019, the directors gave notice to redeem the 9% debentures on 1st July, 2019, giving the holders the option to be repaid either wholly in cash or by issue of four shares of Rs 10 each (fully paid) for every Rs 100 debentures.

Sixty per cent of the holders exercised the option to take shares, and the cash for the remainder was obtained by realizing a sufficient amount of the investments at their market value on 31st March, 2019.

Draft journal entries to record these transaction and any consequential transfers which you consider necessary.

**[ICSI, Inter, Dec, 1994]**

[***Balance of Debenture Redemption Fund A/c transferred to general reserve Rs 4,34,000. Balance of Debenture Redemption Fund Investment A/c transferred to General Investment A/c Rs 2,40,000]***

50. The summarised balance sheet of Cicico Ltd. as on 30th June, 2019 stood as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| *Share capital:* | | Fixed assets | |
| 50,000 equity shares of Rs 10 | | (at cost less depreciation) | 16,00,000 |
| each fully paid | 5,00,000 | Debenture redemption Fund | |
| General reserve | 7,50,000 | investments | 4,00,000 |
| Debenture redemption fund | 5,00,000 | Cash and bank balances | 5,00,000 |
| 13.5%convertibledebentures | | Other current assets | 20,00,000 |
| of Rs 100 each | 10,00,000 | | |
| Other loans | 5,00,000 | | |
| Current liabilities and | | | |
| provisions | 12,50,000 | | |
| | 45,00,000 | | 45,00,000 |

The debentures are due for redemption on 1st July, 2019. The terms of issue of debentures provided that, they were redeemable at a premium of 5% and the terms also conferred option to the debenture holders to convert 20% of their holding into equity shares at a pre-determined price of Rs 15.75 per share and to receive payment in cash.

Assuming that:

(i) Excepting 10 debenture holders holding a total of 2,500 debentures, the debenture holders exercised the option for maximum conversion.

(ii) The investments realised Rs 4,40,000 on sale; and

(iii) All the transactions are put through, without any lag, on 1st July, 2019

Re-draft the balance sheet of the company as on 1st July, 2019 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payments necessary.

[***Balance Sheet total Rs 36,47,500.equity shares to be allotted on conversion 10,000 shares of Rs 10 each. Cash to be paid Rs 8,92,500. Cash and bank balance Rs 47,500. General reserve balance Rs 12,90,000 (adjusting premium on redemption of debentures against Securities Premium A/c) or Rs 12,40,000 (adjusting the premium on redemption against general reserve]***

51. The following is the balance sheet of Cork Ltd. as on 31st March, 2019:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Freehold premises | 9,41,000 |
| 1,00,000 equity shares of | | Fixture and fittings | 58,000 |
| Rs 10 each | 10,00,000 | Stock | 81,000 |
| 7½% debentures of Rs 100 | | Sundry debtors | 40,000 |
| Each | 1,00,000 | Debenture discount account | 2,500 |
| Debenture redemption fund | 21,500 | Debenture redemption Fund | |
| Sundry creditors | 42,500 | investments | 21,500 |
| Profit and loss account | 10,000 | Cash and bank balances | 30,000 |
| | 11,74,000 | | 11,74,000 |

On 1st April, 2019, two hundred debentures were due for repayment at 105 by drawings, the necessary provision having been made as shown by the above balance sheet. The directors decided to purchase at the same time one hundred on the company's debentures in the open market under power contained in the debenture trust deed. These were bought at 102 ½ (including brokerage etc.)

Assuming the investment realised Rs 21,500 net, give (1) the journal entries necessary to record the above transactions in the books; and (2) the balance sheet of the company immediately after they had been carried out. (cash transactions may be shown in the form of journal entries)

***[Transfer to general reserve from debenture redemption fund (after providing premium on redemption/loss on purchase of own debentures Rs 1,250 and writing off debenture discount Rs 2,500) Rs 17,75. Balance sheet total Rs 11,40,250. Bank balance Rs 20,250]***

52. On 1.1.2011 a company had a balance of Rs 5,00,000 in its 10% debenture account, Rs 3,60,000 in debenture redemption fund account and Rs 3,60,000 in debenture redemption fund investment account, represented by Government securities purchased at Rs 90.

The company purchased from open market Rs 1,00,000 debentures @ Rs 98 on 30.4.2011 and cancelled them. On the same date, the company sold investments of the face value of Rs 1,00,000 at Rs 95.

Show the debenture account, debenture redemption fund account and debenture redemption fund investment account for the whole year, 2011.

***[Profit on cancellation of debentures Rs 2,000. Profit on sale of investments Rs 5,000. Closing balance of Debenture A/c Rs 4,00,000. Debenture Redemption Fund A/c and Redemption Fund Investment A/c Rs 2,70,000]***

***Note:(98,000 – 95,000) or Rs 3,000 debentures have been redeemed out of the general cash. Hence, (1,00,000 – 3,000) or Rs 97,000 will be transferred from debenture redemption fund to general reserve.***

53. A company had Rs 8,00,000 5% debentures outstanding as on 1st January, 2011, redeemable on 31st December, 2011. On that day, the sinking fund was Rs 7,49,000 represented by Rs 1,00,000 own debentures purchased at the average price of Rs 99 and Rs 6,60,000, 3% stock. The annual instalment was Rs 28,400.

On 31st December m 2011, the investments realised at Rs 98 and the debentures were redeemed.

You are required to write the accounts for the year 2011.

**[Interest on sinking fund investment Rs 24,800 (Rs 19,800 on 3% stock and Rs 5,000 on own debenture investment). Profit on cancellation of own debentures transferred to sinking fund Rs 1,000. Loss on sale of 3% stock transferred to sinking fund Rs 3,200. Balance of Sinking Fund A/c transferred to general reserve Rs 8,00,000]**

54. In 2001, A Ltd. issued Rs 2,00,000 6% debentures at par which were redeemable at 10% premium on 30th June, 2012. Annual appropriation had been made out of profit to a sinking fund set up under the terms of the debenture trust deed. The appropriations were invested annually on 30th June, together with the sinking fund investment income received in the year ended on that date. The trustees have power to purchase, for immediate cancellation, any debenture available at a market price below par, and to realise investments of the sinking fund for this purpose. The following balances appeared in the company's books on 1st July, 2011:

(a) Sinking fund account Rs 1,17,490 represented by investments at a cost of an equal amount.

(b) 6% debentures Rs 1,20,000

The under mentioned transactions took place during the year ended 30th June, 2012:

(i) Half-year's debenture interest to 31st December, 2011, was paid on that date.

(ii) Investment costing Rs 9,750 were sold, and realised Rs 10,050 on 1st January, 2012 in order to provide funds for purchase of debentures. On the same date, Rs 10,000 debentures were purchased at 98 (inclusive of expenses) on the market and cancelled.

(iii) The remaining investments of the fund were sold, and the proceeds amounted to Rs 1,10,200 were received on 29th June, 2012.

(iv) Income amounting to Rs 6,950 received in the year from the sinking fund investments was not invested in view of the impending debenture redemption.

(v) On 30th June, 2012, the debentures were repaid together with half-year's interest thereon.

You are required to write up the following ledger accounts for the year ended 30th June, 2012:

(a) 6% debentures, showing capital and interest entries.

(b) Sinking fund investments.

(c) Sinking fund; and

(d) Debenture redemption.

**[On 1st January: Profit on sale of investments Rs 300 and Profit on cancellation Rs 200 (both will be transferred to sinking fund); Transfer to general reserve from sinking fund Rs 10,000. On 29th June: Profit on sale of investments Rs 2,460 (will be transferred to sinking fund); On 30th June: Premium on redemption Rs 11,000 (will be provided out of sinking fund). Ultimate balance of sinking fund Rs 1,06,400 will be transferred to general reserve]**

55. Penarin Ltd. issued Rs 2,00,000 8% debentures at Rs 99 on July 1, 2009. The debentures are to be redeemed at par on July 1, 2009 but the trustees have power for immediate cancellation debentures in the open market, should they be below par.

Provision has been made for a sinking fund to be established with an annual contribution of Rs 4,000 to be made on June 30, beginning in 2010. This amount together with the interest from investments received in the preceding year is to be invested annually on July, 1.

On December 31, 2011 investments which had cost Rs 3,040 were sold realizing the sum of Rs 3,100 and the proceeds used to purchase and cancel debentures of Rs 3,200 nominal value at 96 (including expenses)

The income received from sinking fund investments for the year ended June 30, 2011 and 2012 was Rs 210 and Rs 380 respectively.

You are required to write up the ledger accounts (including the sinking funds cash account) for the years to June 30, 2012. (Ignore debenture interest)

***[Balance on 30th June 2012: 8% debenture A/c Rs 1,96,800; Sinking Fund A/c Rs 9,578; Sinking Fund Investment Rs 5,170; Sinking Fund Cash A/c Rs 4,408; Profit on sale of investments Rs 60 and profit on redemption Rs 128]***

56. Under a debenture trust deed a company issued a number of debentures of Rs 100 each. The Deed gave the company power to purchase its debentures in the open market.

Acting under the power, on 1st May, 2012, the company purchased 5 debentures from A and 10 debentures from B, the former at 102 plus expenses Rs 2.50 and the latter at 102.50 plus expenses Rs 4.

The sinking fund created for the redemption of debentures stood at Rs 34,328 at this date and was represented by an investment in Government Securities of which nominal value was Rs 61,300.

The fund necessary to provide for the above purchases were obtained by selling an appropriate amount of Government Securities at 55 net.

You are required to give the journal entries necessary to record these transactions and to show the sinking fund investment account in the ledger.

***[Amount required for purchasing own debentures Rs 1,542.50. Nominal value of investments sold Rs 2,900 (assuming investments cal be sold in multiple of Rs 100 only). Sale proceeds of investments Rs 1,595. Loss on sale Rs 29 (to be transferred to sinking fund). Loss on cancellation of own debentures Rs 41.50 (to be transferred to sinking fund). Balance of Sinking Fund Investment A/c Rs 32,704 (nominal value Rs 58,4000]***

57. A company had made an issue of 10,000 debentures of Rs 100 each at Rs 98. A debenture redemption fund was created to provide for repayment. The terms of issue provided for the purchase of debentures in the open market or for repayment by drawings at par at the company's option.

On 1st January, 2014, 8,000 of the debentures were outstanding, the debenture redemption fund stood at Rs 4,00,000 and the investments in respect thereof consisted of 4% gross profit notes of the face value of Rs 3,00,000, costing Rs 2,91,000.

In December, 2014, the company purchased for cancellation 1,000 debentures at the average cost of Rs 95 and sold off gross profit notes of the face value of Rs 1,00,000 at 98 to raise necessary funds. By the end of 2014, debenture discount account was written off to the extent of Rs 6,000.

Prepare the necessary ledger accounts in the company's books recording the above transactions and dealing with the profit on redemption, if any. Show also how these figures would appear in the company's published accounts as on 31st December, 2014

***[Balance on 31st December, 2014: Debenture A/c Rs 7,00,000; Debenture Redemption Fund A/c Rs 3,06,000; Debenture Redemption Fund Investment A/c Rs 1,94,000. Profit on sale of investment Rs 1,000; Profit on Cancellation Rs ]***

58. On 1st March, 2015, a company purchased 1,000 of its own 12% debentures in the open market @ Rs 97 ex-interest for immediate cancellation. Interest on debentures is payable on 31st December every year.

Show journal entries in the books of the company.

***[Accrued interest included in cum-interest purchase Rs 2,000 (on Rs 1,00,000 for 2 months). Profit on cancellation Rs 4,000]***

59. On 15th June, 2015, R Ltd. purchased Rs 30,000 of its own 10% debentures in the open market @ Rs 97 ex-interest and cancels them immediately. Interest on debentures being payable on 30th September and 31st March each year.

Show journal entries to record the above mentioned transactions in the books of R Ltd.

***[Accrued interest payable in addition to the purchase price Rs 500( on Rs 24,000 for $2\frac{1}{2}$ months). Profit on cancellation Rs 960]***

60. Journalise the following transactions:

    (i) 12% debentures Rs 1,00,000 are repaid at a premium of 17% by issuing 15% new debentures at a discount of 10%.

    ***[ Face value of new debentures to be issued Rs 1,30,000. Discount on new issue Rs 13,000]***

    (ii) On 1.3.2015, PQR Ltd. purchases its own 6% debentures Rs 10,000 @ Rs 96 cum-interest and cancels immediately, interest on debentures being payable on June 30 and December 31, each year.

    ***[Interest included in cum-interest purchase Rs 100 (on Rs 10,000 for 2 months); Profit on cancellation Rs 500]***

61. On 1st January, 2014, X Ltd. issued Rs 20,00,000 9% debentures at a discount of 5% repayable in 5 years at par. The company reserved the right to redeem to the extent of Rs 2,00,000 in any year by purchase in the open market. The interest was payable half yearly on 30th June and 31st December and it was duly paid. On 30th September, 2014, the company purchased Rs 2,00,000 debentures at a cost of Rs 1,91,000 cum-interest.

    Pass the necessary journal entries in the books of the company up to 31st December, 2014 including closing entries for the balance the balance sheet on that date.

***[Accrued interest included in cum-interest purchase Rs 3,500 (for 3 months). Profit on redemption Rs 12,500. Debenture interest for the year to be debited to P/L A/c Rs 1,36,500]***

***Note: The debentures are to be redeemed in 5 years. It is prudent to write off $\frac{1}{5}$th of the discount on debentures against profit and loss account. Profit on redemption may also be applied to for the purose.***

62. X Ltd. has 5,000 10% debentures of Rs 100 each outstanding. The interest on these debentures is pad half yearly on 30th June and 31st December every year. The company is not maintaining any sinking fund for redemption of debentures. On 1st April, 2014, the company purchased 500 debentures @ Rs 95 each cum-interest for immediate cancellation. On 1st October, 2014, the company purchased 600 debentures @ Rs 90 each ex-interest for immediate cancellation.

    You are required to record:

    (i) The payment of interest on 30th June and 31st December, 2014.

    (ii) Purchase and cancellation of debentures on 1st April, 2014 and 1st October, 2014.

    ***[Entries:***

| | |
|---|---|
| ***1.4.2014*** | ***Dr. Debenture A/c Rs 50,000. Dr. Debenture Interest A/c Rs 1,250; Cr. General reserve Rs 3,750*** |
| ***30.6.2014*** | ***Dr. Debenture Interest A/c; Cr. Bank A/c Rs 22,500*** |
| ***1.10.2014*** | ***Dr. Debenture A/c Rs 60,000; Dr. Debenture Interest A/c Rs 1,500; Cr. Bank A/c Rs 55,500; Cr. General reserve Rs 6,000*** |
| ***31.12.2014*** | ***Dr. Debenture Interest A/c; Cr. Bank A/c Rs 19,500***<br>***Dr. Profit and Loss A/c Rs 44,750; Cr. Debenture Interest A/c Rs 44,750***<br>***Dr. Profit and Loss Appropriation A/c; Cr. General reserve Rs 1,10,000*** |

63. Waldrof Ltd. issued 2,000 12% debentures of Rs 100 each @ 95 on 1st April, 2011. The expenses of the issue were Rs 8,000. The company wrote off the expenses in 2011 and the discount in 2012.

    The terms of the issue provide that beginning with 2013, 500 debentures will be redeemed p.a. either by purchasing in the market or by drawing by lots in par.

    On 31st October, 2013, 100 debentures were purchased @ 96 cum-interest and on 29th February, 2004, the company purchased another 400 debentures @ 94 ex-interest.

    On 31st December debentures necessarily to be redeemed were paid off at par by drawing lots.

    Debenture interest is payable half-yearly on 30th June and 31st December.

    Pass necessary journal entries in the books of Waldrof Ltd. up to 31st December, 2014. Accounts are closed on 31st December every year.

    ***[Interest included in cum-interest purchase Rs 400 (on Rs 10,000 for 4 months). Profit on cancellation Rs 800. On ex-interest purchase accrued interest payable in addition to the purchase price Rs 800 (on Rs 40,000 for 2 months). Profit on cancellation Rs 2,400. Redemption by drawing lots: 31.12.13 Rs 40,000; 31.12.14 Rs 10,000***

***Payment of interest:***

***30.6.11 Rs 6,000 31.12.11 Rs 12,000 30.6.12 Rs 12,000***
***31.12.12 Rs 12,000 30.6.13 Rs 12,000 31.12.13 Rs 11,400***
***30.6.14 Rs 10,860 31.12.14 Rs 10,860***

64. PKG Ltd. has 12% Rs 2,00,000 debentures outstanding in its books on 1.4.2014. It also has Rs 1,20,000 balance in sinking fund account represented by 8% investments (face value Rs 1,50,000)

On 30.12.2014, it sold investments of face value of Rs 20,000 @ Rs 90 and purchased own debentures of the face value of Rs 20,000 out of the proceeds, for immediate cancellation.

The interest date for both debentures and investments are 30th September and 31st March.

All the transactions are made on cum-interest basis.

Show debentures account, sinking fund account and sinking fund investment account.

***[Profit on sale of investment Rs 2,000 and profit on cancellation of debentures Rs 2,600 (both to be transferred to sinking fund). Balances on 31.12.14: Debenture A/c Rs 1,80,000; Sinking Fund A/c Rs 1,15,800; Sinking Fund Investment A/c Rs 1,04,000 (face value Rs 1,30,000)]***

65. S. B. Traders Ltd's balance sheet as at 31st December, 2013 showed outstanding 3,000 8% debentures of Rs 100 each. There was also a sinking fund amounting to Rs 75,000 represented by 5% Municipal debentures of the face value of Rs 90,000. Interest on both the debentures are payable on 30th June and 31st December each year.

On 15th March, 2014, S. B. Traders Ltd. purchased for cancellation 200 debentures in the open market at Rs 96 cum-interest and for this purpose sold Municipal Debentures of the face value of Rs 21,400 also cum-interest.

On 31st December, 2014 a further sum of Rs 15,000 was accumulated into the sinking fund and immediately invested (together with interest received on existing investments) in Municipal Debentures of the face value of Rs 21,000.

Show the relevant accounts in the 2014 books of S. B. Traders Ltd. recording the above noted transactions and state how their balances will be dealt with in the final accounts.

***[Balances on 31st December, 2014: 8% Debentures A/c Rs 2,80,000; Sinking Fund A/c Rs 75,930; Sinking Fund Investment A/c Rs 75,930 (nominal value Rs 89,600)***
***Accrued interest included in cum-interest purchase of won debentures (for 2 ½ months on Rs 20,000) Rs 333. Profit on cancellation Rs 1,133; Profit on sale of investments Rs1,367. Interest received on investments Rs 1,715 (i.e. on Rs 90,000 – Rs 21,400) on each interest date. Amount invested on 31st December, 2014: Rs 18.763 (Amount contribution Rs 15,000 + Interest on investments Rs 3,430 +Re-investment of interest included in cum-interest purchase Rs 333). Debenture interest for the year transferred to Profit and Loss A/c Rs 22,733]***

***Note: No attempt need be made for segregating accrued interest from the sale proceeds of investments, because both interest and profit or loss on sale are transferred to sinking fund.***

66. Red Tape Ltd. had made an issue of 5,000 debentures of Rs 100 each at par, a sinking fund having been created to provide for repayment.

Under the terms of issue, the company might, under certain conditions, purchase the debentures in the open market for cancellation.

On 1st January, 2014, 3,800 of the debentures were outstanding and the sinking fund then amounted to Rs 2,50,000. The sinking fund investment on that date consisted of Rs 1,24,000 5% loan (2025), standing in the books at Rs 1,20,000.

On 1st January, 2014, the directors purchased for immediate cancellation Rs 20,000 of the debentures at Rs 19,300 realising 5% loan (2025) at 96.5 per cent to raise the necessary funds.

Interest on 5% loan (2025) was received on 30th June and 31st December and was invested in 5% loan (2025), Rs 19,850 of which was purchased.

You are required to pass journal entries to record these transactions in the books of the company and prepare necessary ledger accounts.

***[Loss on sale of investment Rs 55. Profit on cancellation of debentures Rs 700. Balance on 31.12.14: Debenture A/c Rs 3,60,000; Sinking Fund A/c Rs 2,55,910; Sinking Fund Investment A/c (face value Rs 1,29,115) Rs 1,25,910]***

67. On 1.1.2010, F. Industries Co/ Ltd. issued 20,000 10% debentures of Rs 100 each at par. On 7.1.2010 application money Rs 50 per debenture and after one month the balance money were received.

On 1.1.2012 the company purchased from open market 5,000 own debentures at Rs 102 and cancelled them immediately.

On 1.1.2013 the company redeemed 2,000 debentures by drawing at par.

On 1.1.2014 the company purchased 8,000 own debentures from open market @ Rs 98 and held them as investment.

On 1.1.2015 the company cancelled its own debentures and on the same day redeemed the remaining debentures at a premium of 5%. The balance on profit and loss account on that day was Rs 1,00,000.

Show all the journal entries from issue to redemption.

***[Loss on cancellation on 1.1.11 Rs 10,000 to be written off to Profit and Loss A/c. Profit on cancellation on 1.1.12 Rs 16,000 to be used for providing premium on redemption of remaining 5,000 debentures. The balance of premium on redemption Rs (25,000 – 16,000) or Rs 9,000 to be provided out of Profit and Loss A/c]***

***Note: Entries for interest payment may be ignored as the date of payment of interest has not been mention in the problem.***

68. A company purchases from the market its own 400 12% debentures of Rs 100 each at Rs 90 on 31st December, 2014.

Calculate the price paid exclusively for the debentures in the quotations are (i) cum-interest and (ii) ex-interest. Debenture interest is paid on 31st March and 30th September each year. Also show journal entries in both the cases assuming the debentures are not to be cancelled immediately.

***[(i) Dr. Own Debentures A/c Rs 34,800; Dr. Interest on Own Debentures Rs 1,200; Cr. Bank A/c Rs 36,000.***

***(ii) Dr. Own Debentures A/c Rs 36,000; Dr. Interest on Own Debentures Rs 1,200; Cr. Bank A/c Rs 37,200.]***

69. On 31st March, 2014, Prakash Ltd's balance sheet showed 10,000 12% debentures of Rs 100 each outstanding. Interest on debentures is payable on 30th September and 31st March every year. On 1st August, 2014, the company purchased 500 of its own debentures as investments at Rs 97 ex-interest.

Pass journal entries for purchase and disposal of debentures in each one of the following cases:

(i) The company cancels all its own debentures on 1st March, 2015.

(ii) The company re-sells all its own debentures at Rs 105 cum-interest on 1st March, 2015.

Also show journal entries relating to debenture interest and interest on own debentures as on 31st March, 20158 in case (i) and (ii) mentioned above.

***[On 1.8.14: interest payable in addition to purchase price Rs 2,000 (for 4 months)***

***1st alternative: Profit on cancellation Rs 1,500. Debenture interest for the year debited to Profit and Loss A/c Rs 1,19,500. Interest on own debentures credited to Profit and Loss A/c Rs 3,500.***

***2nd alternative: Accrued interest included in cum-interest sale Rs 2,500 (for 5 months). Profit on sale Rs 1,500]***

70. On 31st March, 2014, Zodiac Ltd's balance sheet showed 1,00,000 12% fully paid debentures of Rs 100 each outstanding. Interest on debentures is payable on 30th September and 31st March every year. On 1st August, 2014, the company purchased 20,000 of its own debentures as investment at Rs 98 ex-interest. However, on 31st March, 2015, the company cancelled all of these debentures. The company had a balance of Rs 6,00,000 in debenture redemption reserve account on that date.

Pass journal entries for all the transactions, including cash transactions during the year ended 31st March, 2015.

**[ICSI, Inter, June, 2001]**

***[Interest payable in addition to purchase price for ex-interest purchase Rs 80,000 (for 4 months). Profit on cancellation of own debentures Rs 40,000 to be transferred to General/Capital Reserve A/c. Debenture interest for the year debited to Profit and Loss A/c Rs 12,00,000. Interest on own debentures credited to Profit and Loss A/c Rs 1,60,000]***

71. X Ltd. has Rs 5,00,000 6% debentures on 1.1.2013. There is no sinking fund for redemption of debentures. Interest is payable on 31st December each year.

On 1.4.2013, Rs 20,000 own debentures are purchased at 94 by X Ltd. and immediately cancelled.

On 1.8.2013, Rs 30,000 own debentures are purchased at 95 and held as investment. On 1.10.2013, Rs 20,000 such debentures are purchased @ 96 and held as investment.

On 31.12.2013 own debentures in hand are cancelled.

Show ledger accounts in the books of X Ltd.

***[Entries:***

| | |
|---|---|
| ***1.4.2013*** | ***Dr. Debenture A/c Rs 20,000. Dr. Debenture Interest A/c Rs 300; Cr. Bank A/c Rs 18,800; Cr. General reserve Rs 1,500*** |
| ***1,.8,2013*** | ***Dr. Own Debenture A/c Rs 27,450. Dr. Interest on Own Debentures A/c Rs 1,050. Cr. Bank A/c Rs 28,500*** |
| ***1.10.2013*** | ***Dr. Own Debenture A/c Rs 18,300; Dr. Interest on Own Debenture A/c Rs 900; Cr. Bank A/c Rs 19,200*** |
| ***31.12.2014*** | ***Dr. Debenture Interest A/c Rs 28,800; Cr. Bank A/c Rs 25,80; Interest on Own Debentures Rs 3,000.Dr. Profit and Loss A/c Rs 29,100; Cr. Debenture Interest A/c Rs 29,100. Dr. Interest on Own Debentures A/c Rs 1,050; Cr. Profit and Loss A/c Rs 1,050. Dr. Debenture A/c Rs 50,000; Cr. Own Debentures A/c Rs 45,750; General reserve Rs 4,250.*** |

72. Excell Ltd. purchased its own 12% debentures of face value of Rs 100 each (interest payable on 30th September and 31st March) as sinking fund investment as shown below:

    1st August, 2014 Rs 6,00,000 @ Rs 94 ex-interest

    31st December, 2014 Rs 4,00,000 @ Rs 95 cum-interest

    The total amount of debenture outstanding on 1st April, 2014 was Rs 1,00,00,000.

    Calculate the amount to be credited to the sinking fund during the year ending 31st March, 2015 by way of interest resulting from the above mentioned transactions.

    **[ICSI, Inter, Dec, 2002]**

    ***[Rs 60,000]***

73. On 1st April, 2012, B. S. Ltd. had in issue 5% debentures amounting to Rs 3,00,000. Interest is payable half-yearly on 30th June and 31st December.

    During the year ended 31st March, 2015, the following purchases were made in the open market:

    June 15th Rs 50,000 nominal ex-interest; cost Rs 49,450

    November 1st Rs 40,000 nominal cum-interest; cost Rs 40,250

    The debentures thus purchased were not cancelled until 30th June, 2013.

    Draw up the own debenture investment account. Calculation to be made in months and to the nearest rupee.

| | |
|---|---|
| ***15.6.2012*** | ***Purchase ex-interest nominal Rs 50,000; Cost Rs 49,450; Accrued interest payable in addition for 5 ½ months Rs 1,446 to be debited to interest column*** |
| ***1.11.2012*** | ***Purchased cum-interest nominal Rs 40,000: Interest included in cost Rs 667(for 4 months); True cost Rs 39,583*** |
| ***30.6.12*** | ***Interest on own debentures transferred from Debenture Interest A/c Rs 1,250*** |
| ***31.12.12*** | ***Interest on own debentures transferred from Debenture Interest A/c Rs 2,250*** |
| ***31.3.13*** | ***Closing balance: Nominal Rs 90,000; Interest Rs 1,125; Cost Rs 89,033; Interest on own debentures transferred o Profit and Loss A/c Rs 2,812*** |
| ***30.6.13*** | ***Interest on own debentures transferred o Profit and Loss A/c Rs 2,250; Profit on cancellation transferred to general reserve Rs 907; Interest on own debentures transferred to Profit and Loss A/c Rs 1,125*** |

74. On 1st July, 2011, Crompton Ltd. issued 2,000 6% debentures of Rs 100 each. The interest is payable on 30th June and 31st December every year. The company is allowed to purchase its own debentures which may be cancelled or kept or reissued at the company's option. The company made the following purchased in the open market:

    On 31st May, 2012 200 debentures @ Rs 98 ex-interest

    On 30th September, 2013 100 debentures @ Rs 97 cum-interest

    The debentures which were purchased on 31st May, 2012, were cancelled on 31st December, 2013. All payments were made on due dates.

    Give journal entries to record the above transactions (including receipts and payments) and also show how the relevant items will appear in the balance sheet as on 31st December, 2013. Accounts are closed on 31st December every year.

    ***[Entries:***

| | |
|---|---|
| ***1.7.2011*** | ***Dr. Bank A/c Rs 2,00,000. Dr. Debenture A/c Rs 2,00,000*** |
| ***31.12.2011*** | ***Dr. Debenture Interest A/c Rs 6,000Cr. Bank A/c Rs 6,000. Dr. Profit and Loss A/c Rs 6,000. Cr. Debenture Interest A/c Rs 6,000*** |
| ***31.5.2012*** | ***Dr. Own Debenture A/c Rs 19,600; Dr. Interest on Own Debenture A/c Rs 500; Cr. Bank A/c Rs 20,100*** |
| ***31.12.2012*** | ***Dr. Debenture Interest A/c Rs 6,000; Cr. Bank A/c Rs 5,400; Cr. Interest on Own Debentures Rs 600.*** <br> ***Dr. Profit and Loss A/c; Cr. Debenture Interest A/c Rs12,000. Dr. Interest on Own Debentures A/c; Cr. Profit and Loss A/c Rs 700.*** |
| ***30.6.2013*** | ***Dr. Debenture Interest A/c Rs 6,000; Cr. Interest on Own Debentures Rs 600; Cr. Bank A/c Rs 5,400;*** |
| ***30.9.2013*** | ***Dr. Own Debenture A/c Rs 9,550; Dr. Interest on Own Debenture A/c Rs 150; Cr. Bank A/c Rs 9,700*** |
| ***31.12.2013*** | ***Dr. Debenture Interest A/c Rs 6,000; Cr. Bank A/c Rs 5,100; Cr. Interest on Own Debentures Rs 900.Dr. Debenture Rs 20,000; Cr. Own Debenture Rs 19,600. Cr. General reserve (or Capital reserve) Rs 400.*** <br> ***Dr. Profit and Loss A/c; Cr. Debenture Interest A/c Rs 12,000. Dr. Interest on Own Debentures A/c; Cr. Profit and Loss A/c Rs 1,350.*** |

75. A company has Rs 4,50,000 14% debentures outstanding on 1st April, 2014 (redeemable on 31st March, 2015). On that date the sinking fund stood at Rs 3,74,500 represented by Rs 50,000 own debentures purchased at an average price of Rs 99 per debenture and Rs 3,30,000 10% stock. The annual instalment of transfer to the fund was Rs 35,500. On 31st March, 2015, investments were realised at 98% and the debentures were redeemed.

    Pass journal entries and write up the account for the year ended 31st March, 2015, assuming interest is payable/receivable on 31st March each year.

    **[ICSI, Inter, Dec' 1997]**

    ***[Interest on debentures for the year Rs 63,000 (i.e. Rs 56,000 paid in cash + Rs 7,000 on own debentures). Interest on sinking fund investments Rs 40,000 (I.e. Rs 7,000 on own debentures + Rs 33,000 on outside investments). Loss on sale of outside investments Rs 1,600. Profit on cancellation of own debentures Rs 500. Balance of sinking fund transferred to general reserve Rs 4,48,400]***

76. Seaways Ltd. has Rs 18,00,000 14% debentures outstanding on 1st April, 2013, redeemable on 31st March, 2014. On 1st April, 2013, the debenture redemption fund stood at Rs 14,98,000 represented by own debentures of the face value of Rs 2,00,000 purchased at an average price of Rs 99 per debenture and 10% stock acquired at par for Rs 13,00,000. The annual instalment of transfer to the fund was Rs 1,42,000. On 31st March, 2014 investments were sold for Rs 12,93,000 and the debentures were redeemed.

    Show 14% debenture account, debenture redemption fund account and debenture redemption fund investment account for the year ended 31st March, 2014.

    **[ICSI, Inter, June 2002]**

***[Interest on debenture redemption fund investments Rs 1,58,000 (i.e. Rs 28,000 on own debentures + Rs 1,30,000 on outside investments). Profit on sale of outside investments Rs 6,400. Profit on cancellation of own debentures Rs 2,000. Balance of Debenture Redemption Fund A/c transferred to general reserve Rs 17,93,600]***

77. The following ledger balances are extracted from the books of FFR Ltd. as on 30.9.14:

| | Rs | Rs |
|---|---|---|
| 9% debentures issued @ Rs 95 | 9,50,000 | |
| Debenture redemption fund | | 9,37,000 |
| Discount on issue of debentures | 26,000 | |
| Investment against debenture redemption fund | 9,37,000 | |

    Following further information is given:

    (a) Investments include own debentures of the face value of Rs 2,00,000 purchased on 1.8.14 @ Rs 99.

    (b) Interest on debentures is payable on 30th June and 31st December.

    (c) All debentures are redeemable at par on 31st December.

    (d) Income from outside investments of redemption fund from 30.9.14 to 31.12.14 Rs 45,000.

Show ledger accounts assuming that the above transactions have been carried out and all outside investments were sold at a profit of 10% above cost.

**[ICWA, Inter, June 1999]**

***[Profit on sale of outside investments Rs 73,900. Profit on cancellation of own debentures investments Rs 2,000. Interest on debenture redemption fund investments Rs 52,500 (Rs 45,000 on outside investment + Rs 7,500 on own debenture investments). Balance of Debenture Redemption Fund A/c transferred to general reserve (after writing off discount on issue of debentures) Rs 10,39,400]***

***Note: It has been assumed that the purchase price of own debentures (Rs 99) is ex-interest.***

78. Limton Ltd. has an authorised capital of Rs 10,00,000 divided into equity shares of Rs 10 each. Its balance sheet as at 31st December, 2012 was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Fixed assets | 11,40,000 |
| Issued and fully paid up | | Current assets | 4,00,000 |
| equity shares | 4,00,000 | Investments in own | |
| Capital reserve | 1,00,000 | debentures (nominal value Rs | |
| General reserve | 1,50,000 | 1,00,000) | 85,000 |
| Profit and loss account | 4,00,000 | Balance at bank | 75,000 |
| 6% debentures | 4,00,000 | | |
| Sundry creditors | 2,50,000 | | |
| | 17,00,000 | | 17,00,000 |

The 6% debentures were due for payment on June 30, 2013 at a premium of 5%.

The company decided:

(1) To issue to the public 25,000 equity shares of Rs 10 each at Rs 15 per share. The issue was underwritten and the amounts due on shares were received on 1st July, 2013. The underwriting commission was 5%.

(2) To redeem out of profits the debentures on 30th June, 2013 together with interest for six months.

(3) To give the debenture-holders an option to receive either cash in repayment of amount due or new 8% debentures at par.

The holders of Rs 1,00,000 of the old debentures accepted new debentures. The debentures which the company held as an investment were cancelled.

You are required to redraft the company's balance sheet after the abovementioned arrangements have been put through, assuming that no other transactions took place in the meantime. Show necessary workings. **[C.A. Inter]**

[Balance sheet total Rs 17,71,000

Liability side: Share Capital Rs 6,50,000; Securities Premium Rs 1,10,000; Capital reserve Rs 1,00,000; General reserve Rs 4,50,000; Profit and Loss A/c Rs 1,06,000; 8% debentures Rs 1,05,000; Sundry creditors Rs 2,50,000

Asset side: Fixed assets Rs 11,40,000; Current assets Rs 4,00,000; Balance at bank Rs 2,12,250; Underwriting commission Rs 18,750]

Note: Premium on redemption of debentures has been provided out of Securities Premium A/c and profit on cancellation of own debenture has been transferred to general reserve.

## UNIT – III

1) What do you me different methods for valuation of goodwill of a business.
2) Discuss different methods for valuation of shares.
3) Prepare a statement of profit and loss of a limited company with imaginary figures.
4) Prepare a summarised Balance Sheet of a limited company with imaginary figures.

### Practical Problems:

### Final Accounts of Companies:

1) Prepare the Balance Sheet as at 31-3-2020 form the particulars furnished by M/s Pran Ltd. as per Schedule III of the Companies Act:

| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
|---|---|---|---|
| Share Capital | 7,50,000 | Capital Redemption Reserve | 20,000 |
| Calls in Arrear | 5,000 | Investment in 6% G.P. Notes | |
| Land | 2,20,000 | (Tax Free) | 3,00,000 |
| Building | 2,00,000 | Surplus Account | 65,000 |
| General Reserve | 50,000 | Cash in Hand | 25,000 |
| Loan from IDBI | 1,00,000 | Debtors | 10,000 |
| Sundry Creditors | 1,50,000 | Stock | 1,00,000 |
| Plant and Machinery | 2,50,000 | goodwill | 25,000 |

**Ans: Balance Sheet Total Rs 11,30,000**

2) A limited company was registered with an authorised capital of Rs 30,00,000 in equity shares of Rs 10 each. Following is the list of balances extracted from its books on 31-3-2020:

| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
|---|---|---|---|
| Purchases | 9,25,000 | General Expenses | 84,175 |
| Wages | 4,24,325 | Stock on 1-4-2019 | 3,75,000 |
| Manufacturing Expenses | 65,575 | Goodwill | 1,00,000 |
| Salaries | 70,000 | Cash in hand | 28,750 |
| Bad Debts | 10,550 | Cash at Bank | 2,22,000 |
| Director's Fees | 33,625 | Subscribed and fully paid capital | 20,00,000 |
| Debentures Interest paid | 45,000 | Surplus Account (Credit balance) | 72,500 |
| Calls in Arrear | 37,500 | 6% Debentures | 15,00,000 |
| Plant and Machinery | 15,00,000 | Sundry Creditors | 2,90,000 |
| Premises | 16,50,000 | Bills Payable | 1,67,500 |
| Interim Dividend paid | 1,87,500 | Sales | 20,75,000 |
| Furniture and Fixtures | 35,000 | General Reserve | 1,25,000 |
| Sundry Debtors | 4,36,000 | | |

You are required to prepare Statement of Profit and Loss for the year ended 31$^{st}$ March, 2020 and Balance Sheet as at that date after making the following adjustments:

Depreciate Plant and Machinery by 10%. Provide half year's interest on debentures. Make the provision for bad and doubtful debts Rs 4,250 on sundry debtors. Stock on 31$^{st}$ March, 2020 was Rs 4,55,000.

**Ans: Net Profit Rs 2,97,500; Balance Sheet Total Rs 42,72,500**

3) ABC Silver Ore Co. Ltd. was formed on April 1, 2019 with an authorised capital of Rs 6,00,0000 in shares of Rs 10 each. Of these 52,000 shares had been issued and subscribed but there were calls in arrears on 100 shares. From the following Trial Balance as on March 31, 2020 prepare Statement of Profit and Loss and Balance Sheet.

| | Rs | Rs |
|---|---|---|
| Cash at Bank | 1,05,500 | |
| Share Capital | ------ | 5,19,750 |
| Plant | 40,000 | |
| Sale of Silver | ------ | 1,79,500 |
| Mines | 2,20,000 | |
| Promotion Expenses | 6,000 | |
| Interest on F.D. up to Dec. 31 | ------ | 3,900 |
| Dividend on investment | ------ | 3,200 |
| Royalties paid | 10,000 | ------ |
| Railway Track and Wagons | 17,000 | ------ |
| Wages of Miners | 74,220 | ------ |
| Advertising | 5,000 | ------ |
| Carriage on Plant | 1,800 | ------ |
| Furniture and Buildings | 20,900 | ------ |

| | | |
|---|---|---|
| Administrative Expenses | 28,000 | ------ |
| Repairs to Factory Plant | 900 | ------ |
| Coal and Oil | 6,500 | ------ |
| Cash | 530 | ------ |
| Investment: Shares of Tin Mines | 80,000 | ------ |
| Brokerage on above | 1,000 | ------ |
| 6% F.D. in Syndicate Bank on 1-4-2019 | 89,000 | ------ |
| | 7,06,350 | 7,06,350 |

Depreciate Plant and Railway Track and Wagons by 10%, Furniture and Building by 5%. Write off one-third of the promotion expenses. Value of silver on March 31, 2020 was Rs 15,000. The directors forfeited on December 10, 2019, 100 shares on which only Rs 7.50 has been paid. Interest on F.D. in Syndicate Bank is due from 1-1-2020 @ 6%.

**Ans: Net Profit Rs 70,3900; Balance Sheet Total Rs 5,89,140**

4) K Ltd. was registered with a nominal capital of Rs 5,00,000 divided into shares of Rs 100 each. Following Trial Balance is extracted from the books on 31st March, 2020:

| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
|---|---|---|---|
| Buildings | 2,90,000 | Sales | 5,20,000 |
| Machinery | 1,00,000 | Salary Outstanding | 2,000 |
| Closing Stock | 90,000 | Provision for Bad Debts (1-4-2019) | 3,000 |
| Purchases (adjusted) | 2,10,000 | Share Capital | 2,00,000 |
| Salaries | 60,000 | General Reserve | 40,000 |
| Directors' Fees | 10,000 | Surplus Account | 25,000 |
| Rent | 26,000 | Creditors | 92,000 |
| Depreciation | 20,000 | Provision for depreciation: | |
| Bad Debts | 6,000 | On Building | 50,000 |
| Interest accrued on Investment | 2,000 | On Machinery | 55,000 |
| Investment: 12,000 shares of A | | 14% Debentures | 2,00,000 |
| Ltd. Rs 10 each, Rs 8 paid up | 1,20,000 | Interest on Debentures accrued but | |
| Debentures Interest | 28,000 | not due | 14,000 |
| Loose Tools | 23,000 | Interest on Investments | 12,000 |
| Advance Tax | 60,000 | Unclaimed Dividend | 5,000 |
| Sundry Expenses | 18,000 | | |
| Debtors | 1,25,000 | | |
| Bank | 30,000 | | |
| | 12,18,000 | | 12,18,000 |

Prepare Statement of Profit and Loss for the year ending 31st March, 2020 and Balance Sheet after considering the following:

(i) Closing stock is more than opening stock by Rs 30,000.

(ii) Provide for Bad Debts @ 4% on Debtors.

(iii) Make a Provision for Income Tax @ 25%.

(iv) Depreciation expense including depreciation of Rs 8,000 on Building and that of Rs 12,000 on Machinery.

(v) The directors recommended a dividend @ 25%.

(vi) Transfer 10% of profit for the current year to General Reserve.

**Ans: Net Profit Rs 91,200; Balance Sheet Total Rs 7,30,000**

5) Following is the Trial Balance of R Ltd. as on Dec. 31, 2019

| | Dr. Rs | Cr. Rs |
|---|---|---|
| Stock | 12,500 | |
| Sales | ------ | 40,000 |
| Purchases | 34,500 | |
| Wages | 5,000 | |
| Discount | 700 | 500 |

| | | |
|---|---|---|
| Salaries | 750 | ------ |
| Rent | 495 | ------ |
| General Expenses | 1,705 | ------ |
| Surplus Account as on 1-1-2019 | ------ | 1,503 |
| Dividend paid | 900 | ------ |
| Capital: 1,000 shares of Rs 10 each | ------ | 10,000 |
| Debtors and Creditors | 3,750 | 1,750 |
| Machinery | 2,900 | ------ |
| Cash | 1,620 | ------ |
| Reserve | ------ | 11,550 |
| Bad Debts | 483 | ------ |
| | 65,303 | 65,303 |

Prepare Statement of Profit and Loss and Balance Sheet after taking into account the following information:

(a) Stock Rs 30,000 (b) Purchases include Rs 500 machinery purchased on 1-7-2019 (c) On 31-12-2019 goods worth Rs 3,000 were sold to a customer. He has taken away the goods, but no entry is recorded. (d) Directors declare 10% of final dividend (e) Income Tax Rs 3,000 (f) Transfer to Reserve Fund Rs 2,000.

**Ans: Net Profit Rs 14,867; Balance Sheet Total Rs 41,770**

6) Following is the Trial Balance of Subhash Limited as on 31-3-2020: (Figures in Rs '000)

| Debit | Rs | Credit | Rs |
|---|---|---|---|
| Land at Cost | 110 | Equity Capital (Shares of Rs 10 each) | 150 |
| Plant & Machinery at Cost | 385 | 10% Debentures | 100 |
| Debtors | 48 | General Reserve | 65 |
| Stock (31-3-2020) | 43 | Surplus A/c | 36 |
| Bank | 10 | Securities Premium Account | 20 |
| Adjusted Purchases | 160 | Sales | 350 |
| Factory Expenses | 30 | Creditors | 26 |
| Administration Expenses | 15 | Provision for Depreciation | 86 |
| Selling Expenses | 15 | Suspense Account | 2 |
| Debenture Interest | 10 | | |
| Interim Dividend Paid | 9 | | |
| | 835 | | 835 |

***Additional Information:***

(a) On 31-3-2020, the company issued bonus shares to the shareholder on 1 : 3 basis. No entry relating to this has yet been made.

(b) The authorised share capital of the company is 25,000 shares of Rs 10 each.

(c) The company on the advice of independent valuer wish to revalue the land at Rs 1,80,000.

(d) Proposed final dividend 10%.

(e) Suspense account of Rs 2,000 represents cash received for the sale of some of the machinery on 1-4-2019. The cost of the machinery was Rs 5,000 and the accumulated depreciation thereon being Rs 4,000.

(f) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Subhash Limited's Statement of Profit and Loss for the year ended 31-3-2020 and a Balance Sheet on that date in vertical form as per the provisions of Schedule III of the Companies Act, 2013.

Ignore previous year's figures and taxation.

**Ans: Profit Rs 83,000; Balance Sheet Total Rs 5,41,000**

7) Following is the Trial Balance of Zee Ltd. as on 31st March, 2020:

| Debit Balances | Rs | Credit Balances | Rs |
|---|---|---|---|
| Stock on 1-4-2019 | 75,000 | Purchase Returns | 10,000 |
| Purchases | 2,45,000 | Sales | 3,40,000 |
| Wages | 30,000 | Discount Received | 3,000 |

| | | | |
|---|---|---|---|
| Carriage | 950 | Surplus A/c | 15,000 |
| Furniture | 17,000 | Share Capital | 1,00,000 |
| Salaries | 7,500 | Creditors | 17,500 |
| Rent | 4,000 | General Reserve | 15,500 |
| Sundry Trade Expenses | 16,950 | Bills Payable | 7,000 |
| Debtors | 27,500 | | |
| Plant and Machinery | 29,000 | | |
| Cash at Bank | 45,300 | | |
| Patents | 4,800 | | |
| Bills Receivable | 5,000 | | |
| | 5,08,000 | | 5,08,000 |

***Required:***

Prepare Statement of Profit and Loss for the year ending 31st March, 2020 and a Balance Sheet on that date after considering the following adjustments:

(a) Stock on 31-3-2020 was Rs 88,000.
(b) Provide for income tax @ 35%.
(c) Depreciate Plant and Machinery at 15%, Furniture 10% and Patents at 5%.
(d) Outstanding rent amounted to Rs 800 and outstanding salaries Rs 900.
(e) Provide Rs 510 for doubtful debts.
(f) The Board recommends payment of dividend @ 15% per annum.

**Ans: Provision for Taxation Rs 18,585; Net Profit Rs 34,515; Balance Sheet Total Rs 2,09,800**

8) Following is the Trial Balance of P. K. Ltd. as at 31st March, 2020:

| Debit Balances | Rs | Credit Balances | Rs |
|---|---|---|---|
| Opening Stock | 1,50,000 | Equity Share Capital | 5,00,000 |
| Purchases | 3,80,000 | Purchase Return | 10,000 |
| Wages | 60,000 | Sales | 11,50,000 |
| Carriage | 2,000 | Discount | 6,300 |
| Furniture | 25,000 | Surplus Account | 1,70,000 |
| Salaries | 12,000 | Sundry Creditors | 33,700 |
| Rent | 15,000 | General Reserve | 82,000 |
| Trade Expenses | 11,000 | Bills Payable | 13,000 |
| Sundry Debtors | 54,000 | Provision for Doubtful Debts | 3,000 |
| Plant and Machinery | 12,00,000 | | |
| Cash at Bank | 21,500 | | |
| Patents | 9,000 | | |
| Bills Receivable | 14,000 | | |
| Bad Debts | 6,500 | | |
| Discount Allowed | 8,000 | | |
| | 19,68,000 | | 19,68,000 |

***Additional Information:***

(a) Stock on 31st March, 2020 Rs 2,00,000.
(b) Depreciate plant and machinery at 12%, furniture at 10% and patents at 20%.
(c) Further bad debts amounted to Rs 4,000. Provide 5% on debtors for bad debts.
(d) Provide for income tax @ 35%.
(e) The Board of Directors recommended a dividend of 25%.

Prepare Statement of Profit and Loss for the year ended 31st March, 2020 and Balance Sheet as on that date.

**Ans: Net Profit Rs 3,70,500; Balance Sheet Total Rs 13,68,700**

9) From the following Trial Balance of Shanker Limited, prepare a Statement of Profit and Loss for the year ended March 31, 2020 and the Balance Sheet as on that date after making the necessary adjustments:

| Debit Balances | Rs | Credit Balances | Rs |
|---|---|---|---|
| Opening Stock | 1,35,000 | Share Capital (1,000 shares of | |

| | | | |
|---|---|---|---|
| Rent and Taxes | 6,000 | Rs 100 each) | 1,00,000 |
| Purchases | 60,900 | 5% Debentures | 25,000 |
| Wages | 55,200 | Sales | 1,85,000 |
| Discount | 1,500 | Creditors | 1,18,000 |
| Coal and Water | 2,570 | Bank Overdraft | 27,000 |
| Buildings | 80,000 | Discount | 2,200 |
| Carriage | 1,200 | Transfer Fess | 100 |
| Debtors | 25,000 | Returns Outwards | 2,125 |
| Plant and Machinery | 30,000 | | |
| Goodwill | 23,000 | | |
| Advertisement | 3,000 | | |
| Bad Debts | 1,030 | | |
| Debenture Interest (up to 30th Sept., 2019) | 625 | | |
| Loose Tools | 6,000 | | |
| General Expenses | 4,400 | | |
| Salaries | 20,000 | | |
| Insurance | 1,000 | | |
| Cash and Bank Balances | 3,000 | | |
| | 4,59,425 | | 4,59,425 |

***Adjustments:***

(i) Closing Stock was valued at Rs 1,35,000.

(ii) Plant and Machinery to be depreciated by 10%.

(iii) Loose tools to be revalued at Rs 4,400.

(iv) Provide for bad debts at 3% on debtors and 2% provision for discount on debtors.

(v) Provide for dividend on shares at 15%.

(vi) Transfer Rs 10,000 to Reserve Fund.

**Ans: Net Profit Rs 25,540; Balance Sheet Total Rs 2,96,165**

10) Following are the balances of M/s Modern Dress Bhandar Ltd. as on 31-3-2020:

| Debit Balances | Rs | Credit Balances | Rs |
|---|---|---|---|
| Premises | 30,72,000 | Share Capital | 40,00,000 |
| Plant | 33,00,000 | 12% Debentures | 30,00,000 |
| Stock | 7,50,000 | Surplus Account | 2,63,000 |
| Debtors | 8,70,000 | Bills Payable | 3,70,000 |
| Goodwill | 2,50,000 | Creditors | 4,00,000 |
| Bank | 4,52,000 | Sales | 41,50,000 |
| Calls in Arrears | 75,000 | General Reserve | 2,50,000 |
| Interim Dividend paid | 6,00,000 | Bad Debts Provision on 1-4-2019 | 35,000 |
| Purchases | 18,50,000 | | |
| Wages | 7,71,000 | | |
| General Expenses | 74,000 | | |
| Salaries | 2,03,000 | | |
| Bad Debts | 21,000 | | |
| Debenture Interest paid | 1,80,000 | | |
| | 1,24,68,000 | | 1,24,68,000 |

***Additional Information:***

(a) Stock on 31-3-2020 was Rs 9,50,000.

(b) Depreciate Plant by 10%.

(c) Interest on debentures is due for 6 months.

(d) Create 5% provision for doubtful debts.

(e) Provide for income tax @ 35%.

**Ans: Net Profit Rs 4,76,125; Balance Sheet Total Rs 85,20,500**

11) Following balances appeared in the books of X Ltd. as on 31st March, 2020:

| | Dr. | Cr. |
|---|---|---|

| | Rs | Rs |
|---|---|---|
| Equity Shares of Rs 10 each fully paid | ------ | 12,00,000 |
| General Reserve | ------ | 4,60,000 |
| Unclaimed Dividend | ------ | 1,052 |
| Trade Creditors | ------ | 85,716 |
| Building (at cost) | 3,00,000 | ------ |
| Purchases and Sales | 10,01,806 | 21,67,894 |
| Manufacturing Expenses | 7,00,000 | ------ |
| Establishment Charges | 53,628 | ------ |
| General Charges | 62,156 | ------ |
| Machinery (at cost) | 4,60,000 | ------ |
| Furniture (at cost) | 10,000 | ------ |
| Opening Stock | 3,44,116 | ------ |
| Book Debts | 1,64,760 | ------ |
| Investments | 5,77,900 | ------ |
| Provision for Depreciation on Fixed Assets | ------ | 1,82,000 |
| Advance Payment of Income Tax | 1,00,000 | ------ |
| Cash at Bank | 1,44,480 | ------ |
| Directors' Fess | 3,600 | ------ |
| Interest on Investments | ------ | 17,088 |
| Balance of Surplus Account (1-4-2019) | ------ | 33,696 |
| Staff Provident Fund | ------ | 75,000 |
| | 42,22,446 | 42,22,446 |

From the above mentioned balances and the following information, prepare company's Balance Sheet as at 31st March, 2020 and Statement of Profit and Loss for the year ended on that date:

(i) Stock on 31st March, 2020 was valued at Rs 2,97,360.

(ii) Provide Rs 38,000 for depreciation on fixed assets and Rs 16,000 for managing director's remuneration.

(iii) Interest accrued on investments amounts to Rs 3,500.

(iv) make a provision of Rs 50,000 for income tax

(v) The directors propose a dividend of 8% after transfer of Rs 70,000 to general reserve.

**Ans: Net Profit Rs 2,16,536; Balance Sheet Total Rs 21,38,000**

12) From the following Trial Balance and Bharat Brakes Limited, as at 31st March, 2020 prepare Statement of Profit and Loss for the year ended 31st March, 2020 and Balance Sheet as on that date:

| | Rs | | Rs |
|---|---|---|---|
| Stock (1-4-2019) | 60,000 | Sundry Creditors | 45,000 |
| Purchases | 3,20,000 | Surplus Account (1-1-2019) | 63,100 |
| Wages | 90,000 | General Reserve | 78,000 |
| Manufacturing Expenses | 50,000 | Share Capital (Fully paid | |
| Carriage Inward | 10,000 | Equity Shares of Rs 10 each) | 5,00,000 |
| Carriage Outward | 20,000 | 6% Debentures (secured against | |
| Salaries | 60,000 | fixed assets) | 2,00,000 |
| Insurance | 10,000 | Salaries Outstanding | 25,000 |
| Sundry Debtors | 90,000 | Sales | 7,70,000 |
| Bank Balance | 21,000 | Interest received on Sinking | |
| Sinking Fund Investments | | Fund Investment | 2,000 |
| (4% Government Securities | | Sinking Fund | 90,000 |
| of Rs 1,00,000) | 90,000 | | |
| Debenture Interest | 8,000 | | |
| Land and Building | 3,00,000 | | |
| Plant and Machinery | 4,50,000 | | |
| Director's Fees | 15,000 | | |

| | | | |
|---|---|---|---|
| Audit Fee | 6,000 | | |
| Interim Dividend on Equity Shares | 5,100 | | |
| Tax on Interim Dividend | 1,40,000 | | |
| | 17,73,100 | | 17,73,100 |

***Additional Information:***

(i) Closing stock on 31st March, 2020 was Rs 58,000.

(ii) Make a provision for tax Rs 25,000

(iii) Depreciation is to be provided @ 2% on Land and Building and @ 10 on Plant and Machinery.

(iv) The directors recommended that Rs 25,000 be transferred to General Reserve and final dividend @ 9% on equity shares (in addition to interim dividend) is to be provided.

(v) Rs 10,000 is to be appropriated to sinking fund.

(vi) Debentures were issued six years ago.

**Ans: Net Profit Rs 99,000; Balance Sheet Total Rs 11,00,000**

13) Following balances were extracted from the books of E. Chandra Ltd. for the year ended 31st March, 2020:

| | Rs |
|---|---|
| Building | 6,00,000 |
| Furniture | 60,000 |
| Motor Vehicle | 60,000 |
| Equity Shares of Companies | 4,00,000 |
| Stock-in-trade at cost | 4,00,000 |
| Sundry Debtors, unsecured considered good | 2,80,000 |
| Cash at Bank | 1,72,000 |
| Advance against construction of Building | 1,30,000 |
| Share Capital: | |
| 10,000 Equity Shares of Rs 100 each | 10,00,000 |
| Sundry Creditors | 3,50,000 |
| Surplus Account (Credit balance) | 20,000 |
| Gross Profit | 10,00,000 |
| Dividend received on investments | 10,000 |
| Salaries and Wages | 2,20,000 |
| Directors' fees | 8,000 |
| Electricity Charges | 25,000 |
| Rent, Taxes and Insurance | 10,000 |
| Auditor' Fees | 15,000 |

Prepare Statement of Profit and Loss of the company for the year ended 31st March, 2020 and Balance Sheet as at that date after the following adjustments:

a) Provide 10% depreciation p.a.

b) Stock has been revalued as Rs 3,60,000. This has not been considered as yet.

c) Debts more than 6 months are Rs 80,000.

d) Ignore tax provision.

**Ans: Net Profit for the year Rs 6,20,000; Balance Sheet Total Rs 19,90,000**

14) Big & Co. is a company with an authorised capital of Rs 5,00,000 divided into 5,000 Equity Shares of Rs 100 each. On 31-3-2020 2,500 shares were fully called up.

Followings are the balances extracted from the Ledger of the company as on 31-3-2020:

| | Rs | | Rs |
|---|---|---|---|
| Stock | 50,000 | Printing and Stationery | 2,400 |
| Sales | 4,25,000 | Advertising | 14,300 |
| Purchases | 3,00,000 | Debtors | 38,700 |
| Wages (Productive) | 70,000 | Creditors | 35,200 |
| Discount Allowed | 4,200 | Plant and Machinery | 80,500 |
| Discount Received | 3,150 | Furniture | 17,100 |

| | | | |
|---|---|---|---|
| Insurance up to 30-6-2020 | 6,720 | Cash and Bank | 1,34,700 |
| Salaries | 18,500 | Reserve | 25,000 |
| Rent | 6,000 | Loan from Managing Director | 15,700 |
| General Expenses | 8,950 | Bad Debts | 3,200 |
| Surplus Account | 6,220 | Calls in Arrears | 5,000 |

You are required to prepare Statement of Profit and Loss for the year ended 31-3-2020 and the Balance Sheet as on that date of the company. Following further information is given:

a) Closing Stock – Rs 91,500
b) Depreciation to be charged on Plant and Machinery and Furniture at 15% and 10% respectively
c) Outstanding Liabilities – Wages – Rs 5,200, Salary – Rs 1,200 and Rent – Rs 600.
d) Dividend @ 5% on paid up Share Capital is to be provided.

**Ans: Net Profit Rs 16,275; Balance Sheet Total Rs 3,50,395**

15) Following balances are extracted on 31st March, 2020 from the books of the Navjivan Ltd.:

| | Rs | | Rs |
|---|---|---|---|
| Factory Premises at cost | 2,25,000 | Share Capital: | |
| Plant and Machinery at cost | 1,74,850 | 7,500 5% Redeemable Preference Shares of Rs 10 each | 75,000 |
| Sundry Debtors | 60,890 | 15,000 7% Preference Shares of Rs 10 each | 1,50,000 |
| Bad debts written off | 1,425 | 25,000 Equity Shares of Rs 10 each | 2,50,000 |
| Rent, Rates and Taxes | 14,200 | Surplus Account | 8,120 |
| Advertising | 9,750 | Capital Redemption Reserve Fund | 32,500 |
| Cash in hand and at Bank (C/A) | 25,000 | Gross Profit for the year | 1,05,820 |
| Directors' Fees | 1,800 | Provision for Doubtful Debts | 4,500 |
| Audit Fees | 5,000 | Sundry Creditors | 39,820 |
| Stock on 31-3-2020 | 72,300 | Transfer Fees | 55 |
| Rent and Taxes paid in advance | 3,990 | Accrued Wages | 6,420 |
| Office Salaries | 16,000 | Staff Benevolent Fund | 8,950 |
| Motor Lorries – 1-4-2019 | 36,500 | | |
| Purchased during the year | 5,500 | | |
| Dividend paid on: | | | |
| Redeemable Preference Shares | 3,750 | | |
| Preference Shares | 10,500 | | |
| Equity (interim) | 7,500 | | |
| Discount on issue of Shares | 7,500 | | |
| | 6,81,185 | | 6,81,185 |

The provision for doubtful debts is to be made up to Rs 5,100. The factory premises and Plant and Machinery are to be depreciated by 2% and 10% respectively. The Authorised Capital of the Company is Rs 5,00,000 divided into 50,000 shares of Rs 10 each. You are required to prepare:

(1) A Statement of Profit and Loss for the year ended 31st March, 2020.

(2) A Balance Sheet as on 31st March, 2020 in the form prescribed under the Companies Act, 2013 with a note on debtors with imaginary figures. Previous year's figures are not required and also ignore taxation.

**Ans: Net Profit Rs 35,142; Balance Sheet Total Rs 5,84,202.**

16) An inexperienced accountant has prepared the Balance Sheet of ABC Ltd. as follows:

**Balance Sheet of ABC Limited**

| Liabilities | Rs | assets | Rs |
|---|---|---|---|
| Trade Creditors | 80,900 | Stock in hand | 3,60,480 |
| Advances from Customers | 42,260 | Stock with Agents | 24,300 |
| Share Capital | 8,00,000 | Cash in hand | 23,540 |
| Surplus A/c | 45,630 | Investments | 20,000 |
| Provision for Income Tax | 95,000 | Fixed Assets: Land | 4,10,000 |
| Proposed Dividend | 59,000 | Plant and Machinery | |
| Loan from Managing Director | 5,000 | (W. D. V.) | |
| General Reserve | 75,000 | Debtors 2,15,450 | |

| | | | |
|---|---|---|---|
| Development Rebate Reserve | 30,000 | Less: Prov. For B/D 9,300 | 2,06,150 |
| Provision for Contingencies | 23,000 | Bills Receivable | 5,000 |
| Securities Premium A/c | 22,000 | Amount due from Agents | 51,320 |
| Forfeited Shares A/c | 3,000 | | |
| | 12,80,790 | | 12,80,790 |

Redraft the above Balance Sheet in the form prescribed by the Companies Act, 2013 giving necessary details yourself.

**Ans: Balance Sheet Total Rs 12,80,790**

17) Following is the Trial Balance of SS Ltd. as on 31st March, 2020:

| | Dr. Rs | Cr. Rs |
|---|---|---|
| Equity Shares Capital (Rs 10 per share) | ------ | 5,00,000 |
| 10% Debentures | ------ | 2,00,000 |
| Opening Stock | 3,75,000 | ------ |
| Purchases and Sales | 9,25,000 | 14,00,000 |
| Carriage Inward | 4,750 | ------ |
| Wages | 1,50,000 | ------ |
| Salaries | 37,500 | ------ |
| Rent | 20,000 | ------ |
| Sundry Expenses | 16,750 | ------ |
| Discount | ------ | 15,000 |
| Debenture Interest paid | 10,000 | ------ |
| Interim dividend paid | 45,000 | ------ |
| Surplus A/c | ------ | 75,000 |
| Debenture Redemption Reserve | ------ | 78,500 |
| General Reserve | ------ | 59,000 |
| Plant and Machinery | 1,45,000 | ------ |
| Furniture and Fittings | 85,000 | ------ |
| Patents and Trade Marks | 24,000 | ------ |
| Debtors and Creditors | 1,37,500 | 87,500 |
| Bills Receivable and Bills Payable | 33,000 | 43,000 |
| Advance Payment of Income Tax | 39,500 | ------ |
| Cash at Bank | 4,30,000 | ------ |
| | **25,08,000** | **25,08,000** |

***Additional Information:***

a) Closing stock was valued at Rs 4,40,000.

b) On the closing date, outstanding rent amounted to Rs 4,000, while outstanding salaries totalled Rs 4,500.

c) Half year's debenture interest is due.

d) Make a provision for doubtful debts amounting to Rs 2,550.

e) Depreciate plant and machinery @ 15%, furniture and fitting @ 10% and patents and trade marks @ 5%.

f) The directors recommended:

   i. An equity dividend of 25% including interim dividend.

   ii. Transfer of Rs 11,525 to Debenture Redemption Reserve.

   iii. Provision for income tax @ 25%.

Prepare a Statement of profit and Loss for the year ended 31st March, 2020 and the Balance Sheet (as per Schedule III of the Companies Act, 2013) as on that date.

**Ans: Net Profit Rs 2,12,625; Balance Sheet Total Rs 13,00,000**

18) Following is the Trial Balance of R. S. Ltd. as on 31st March, 2020:

| Particulars | Dr. Rs | Cr. Rs |
|---|---|---|
| Stock (1-4-2019) | 1,20,000 | ------ |
| Purchases | 41,00,000 | ------ |

| | | |
|---|---|---|
| Sales | ------ | 58,40,000 |
| Returns | 24,000 | 30,000 |
| Manufacturing Expenses | 2,30,000 | ------ |
| 12% Bank Loan | ------ | 2,00,000 |
| Office Salaries and Expenses | 4,49,000 | ------ |
| Directors' Remuneration | 3,50,000 | ------ |
| Building (Cost) | 5,00,000 | ------ |
| Plant and Machinery (Cost) | 15,00,000 | ------ |
| Provision for Depreciation: | | |
| On Building | ------ | 80,000 |
| On Plant and Machinery | ------ | 2,90,000 |
| Sundry Debtors | 5,00,000 | ------ |
| Sundry Creditors | ------ | 1,60,000 |
| Advance tax | 35,000 | ------ |
| Auditor's Fees | 60,000 | ------ |
| Interim Dividend paid | 50,000 | ------ |
| Surplus Account | ------ | 3,60,000 |
| Cash at Bank | 57,000 | ------ |
| Bad Debts | 25,000 | ------ |
| Provision for Bad Debts | ------ | 40,000 |
| Share Capital | ------ | 10,00,000 |
| | **80,00,000** | **80,00,000** |

***Additional Information:***

i. Stock on 31-3-2020 was Rs 2,00,000.
ii. Depreciate building 5% and plant and machinery 10% on cost.
iii. Make a provision for tax at 25%.
iv. Provision for bad debts is to be created at 2% on debtors.
v. A machine purchased for Rs 50,000 wrongly debited to Purchase Account.
vi. Bank loan was raised on 1st October, 2019.
vii. The Board of Directors recommended a dividend@ 15% on paid up capital (excluding interim dividend).

Prepare final accounts of the company for the year ended 31st March, 2020.

**Ans: Net Profit Rs 4,50,000; Balance Sheet Total Rs 22,82,000**

## Problems: (Valuation of Goodwill)

1) The following particulars are available in respect of the business carried on by Bankay Ltd.

| | | Rs |
|---|---|---|
| (a) Profits earned: | 2012 | 50,000 |
| | 2013 | 48,000 |
| | 2014 | 52,000 |

(b) Profit for 2013 is reduced by Rs 5,000 due to stock destroyed by fire and profit of 2012 included a non-recurring income of Rs 4,000

(c) Profit for 2014 included Rs 2,000 income from investment.

(d) The stock is not insured and it is thought prudent to insure the stock in future. The insurance premium is estimated at Rs 500 p.a.

(e) Fair remuneration to the proprietor (not taken in the calculation of profits) is Rs 10,000 p.a.

You are required to compute the value of goodwill on the basis of 2 years' purchase of the average profit of the last three years.

**[Rs 85,000]**

2) M Ltd. proposed to purchase the business carried on by N Ltd. Goodwill for this purpose is agreed to be valued at three years' purchase of the weighted average profit of the past four year. The appropriate weights to be used and profit for the years are as under:

| *Year* | *Weight* | *Profit(Rs)* |
|---|---|---|
| 2011 – 12 | 1 | 1,01,000 |
| 2012 – 13 | 2 | 1,24,000 |
| 2013 – 14 | 3 | 1,00,000 |
| 2014 – 15 | 4 | 1,50,000 |

The books of account were closed every year on 31st March. On scrutiny of account, the following matters are revealed:

(i) On 1st December, 2013, major repairs were carried out in respect of the plant, spending Rs 30,000 which was charged to revenue. The said sum is agreed to be capitalized for goodwill calculation subject adjustment of depreciation @ 10% p.a. on reducing balance method.

(ii) The closing stock on 31st March, 2013 was overvalued by Rs 12,000.

(iii) To cover management cost an annual charge of Rs 24,000 should be made for the purpose of valuation of goodwill.

Compute the value of goodwill of the business.

**[Adjusted profits: 2011-12 Rs 77,000, 2012-13 Rs 88,000, 2013-14 Rs 1,17,000, 2014-15 Rs 1,23,100. Average profit (weighted) Rs 1,09,640. Value of goodwill Rs 3,28,920]**

3) Precision Ltd. proposed to purchase the business carried on by Fastuers Ltd. The goodwill for this purpose is agreed to be valued at five years' purchase of the weighted average profit for the past four years (use appropriate weights). Profit for the past four year are as follows:

| Year | Profit (Rs) |
|---|---|
| 2011 – 12 | 2,25,500 |
| 2012 – 13 | 3,10,000 |
| 2013 – 14 | 2,50,000 |
| 2014 – 15 | 3,50,000 |

On scrutiny of the books of account, the following matters were revealed:

(i) On 1st December, 2013, a major repair was made in respect of the plant incurring Rs 75,000 which was charged to revenue. The said sum is agreed to be capitalized for goodwill calculation subject to adjustment of depreciation @ 10% on reducing balance method.

(ii) The closing stock for the year 2012 – 13 was overvalued by Rs 30,000.

(iii) To cover management costs, an annual charge of Rs 60,000 should be made for the purpose of valuation of good will.

You are required to compute the value of goodwill.

**[Adjusted profits: 2011-12 Rs 1,92,500, 2012-13 Rs 2,20,000, 2013-14 Rs 2,92,500, 2014-15 Rs 2,82,750. Average profit (weighted) Rs 2,64,100. Value of goodwill Rs 13,20,500]**

4) From the following information, determine the value of goodwill on the basis of 3 years' purchase of average annual super profit:

(i) Profit for the last 4 years:

| Year | Profit (Rs) |
|---|---|
| 2011 | 40,000 |
| 2012 | 55,000 |
| 2013 | 45,000 |
| 2014 | 60,000 |

(ii) Average capital employed Rs 3,00,000

(iii) Normal rate of return 10%

**[Rs 60,000]**

5) Compute goodwill form the following information:

(a) Capital employed Rs 6,00,000

(b) Profit for the last three year: Rs 1,07,600, Rs 90,700, Rs 1,25,500

(c) Expected rate of return on capital 12%.

(d) Remuneration for the services of entrepreneur Rs 12,000 p.a.

(e) Goodwill is 3 years' purchase of super profits.

**[Rs 58,800]**

6) Following are the particulars of a trader:

(a) Capital employed Rs 40,000

(b) Trading results:

| | |
|---|---|
| 2011 | Rs 12,200 profit |
| 2012 | Rs 15,000 profit |
| 2013 | Rs 2,000 loss |
| 2014 | Rs 21,000 profit |

(c) General expected rate of return in the market is 10%.

(d) The remuneration of the trader is engaged in other activities instead of business Rs 1,000 per annum

Compute the value of goodwill taking 3 years' purchase of additional profit.

**[Rs 14,850]**

7) Find out the value of goodwill by capitalization method from the following information:

Normal rate of return 10%. Profits for the last three years are Rs 30,000, Rs 40,000 and Rs 50,000. Non-recurring income of Rs 3,000 is included in the above mentioned profit of Rs 30,000. Average capital employed is Rs 3,00,000.

**[Rs 70,000]**

8) Star Ltd. is to be absorbed by Union Ltd. In order to determine the purchase consideration, the two companies consider it necessary to value the goodwill attached to the business of Star Ltd. It is agreed that the basis of the calculation of the goodwill shall be three years' purchase of average annual super profit, the profit being averaged over five years.

The profits of Star Ltd. for the last five years before charging income tax at 50% are respectively Rs 4,00,000, Rs 4,96,000, Rs 3,52,000, Rs 5,60,000 and Rs 4,32,000 for each of the above five years.

Two of the directors of Star Ltd. will be appointed to the board of Union Ltd. on absorption and it is considered that their services have been worth Rs 48,000 each per annum. In the past, no charge was made against the profits of State Ltd. for the services of the directors concerned.

The average capital invested in the net tangible assets over the period is Rs 10,96,000. The normal return to be expected from the particular type of business carried on by Star Ltd. is 10 per cent.

Calculate the value of goodwill of Star Ltd. based on the above information.

**[Super profits Rs 66,400. Value of goodwill Rs 1,99,200]**

9) A company desirous of selling its business to another company has earned an average profit in the past of Rs 1,50,000 per annum. It is considered that such average profit fairly represent the profit likely to be earned in the future, except that:

(a) Directors' fees Rs 10,000 charged against such profits will not be payable by the purchasing company whose existing board can easily cope with the additional administrative work at the present fees payable to the directors.

(b) Rent of Rs 20,000 per annum which had been paid by the vendor company will not be a charge in future, since the purchasing company owns adequate accommodation.

The value of the net tangible assets of the vendor company at the proposed date of sale was Rs 20,00,000 and it was considered that a reasonable return on capital invested for the type of the company was 8%.

The profits of the vendor company would in no way be affected by the sale of its business to the purchasing company. Goodwill was to be paid for on the basis that the vendor company was a continuing enterprise.

Calculate the value of goodwill.

**[Value of goodwill Rs 2,50,000]**

10) Sri Ratnamani has invested a sum of Rs 2,00,000 in his own business which is a very profitable one. The annual profit earned from his business is Rs 45,000 which includes a sum of Rs 0,000 received as compensation for acquisition of a part of his business premises.

As an alternative to his engagement in his business, he could have invested the money in long term deposit with the bank earning a normal rate of interest of 10% and also could engage himself in employment thereby getting an annual salary income of Rs 7,200.

Considering 2% as fair compensation for the risk involved in the business, calculate the value of goodwill of his business on capitalization of super profits at the normal rate of interest. Ignore taxation.

**[Super profits Rs 3,800. Value of goodwill Rs 38,000]**

11) The average net profit (before making any adjustment for valuation of goodwill) of a firm was Rs 3,62,000 including Rs 2,000 as income from investment. The cost of investment (as also present value) was Rs 40,000. Probable future reduction in expenditure is Rs 5,000 p.a. Rate of income tax is 50 paise in the rupee. 10 per cent represents a fair commercial return. The average tangible capital employed was Rs 13,41,000, but upon valuations obtained, the capital employed was found to be Rs 14,40,000.

Assess the value of the business taking goodwill at 5 years' purchase of super profit.

**[Trading capital employed Rs 14,00,000. Future maintainable profit (after tax) Rs 1,52,500. Super profit Rs 12,500. Value of goodwill Rs 62,500. Value of the business Rs 15,02,500]**

12) From the following information, calculate the value of goodwill by:

(i) Three years' purchase of super profits; and (ii) Capitalisation method.

(1) Average capital employed Rs 6,00,000.

(2) Net profit for the last three year: Rs 1,48,000, Rs 1,47,600 and Rs 1,52,500.

(3) Rate of return expected 20%

(4) Partners' salary Rs 10,000 p.a.

(5) Net assets (excluding goodwill) Rs 7,50,000.

**[(a) Rs 57,000 (b) Rs 95,000]**

13) From the following information calculate the value of goodwill by capitalisation method:

(i) Average capital employed in the business Rs 7,00,000.

(ii) Net trading profit of the firm for the past three years: Rs 1,47,600, Rs 1,48,100 and Rs 1,52,500.

(iii) Rate of interest from capital having regard to the risk involved 18%.

(iv) Fair remuneration to the partners for their services Rs 12,000 per annum.

(v) Sundry assets (excluding goodwill of the firm) Rs 7,54,762, Sundry liabilities Rs 31,328.

**[ Rs 63,333 or say Rs 63,000]**

14) . The net profits of a business after providing for taxation, for the past five years are: Rs 40,000, Rs 42,500, Rs 46,000, Rs 52,000 and Rs 59,000. The capital employed in the business is Rs 4,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profits for the next 5 years. Calculate the value of goodwill on the basis of:

(i) Five years' purchase of super profits.

(ii) Annuity method, taking the present value of annuity of Re 1 for five years at 10% as 3.78; and

(iii) Capitalisation of super profits.

**[(i) Rs 40,000 (ii) Rs 30,240 (iii) Rs 80,000]**

15) The net profit of a company after providing for taxation for the past five years are Rs 78,000, Rs 82,000, Rs 88,000, Rs 93,000 and Rs 99,000. The capital employed in the business is Rs 8,00,000 on which a reasonable rate of return of 10% is expected. It is

expected that the company will be able to maintain the super profits for the next five years.

(i) Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking the present value of an annuity of one rupee for the five years at 10% interest as 3.78.

(ii) How would you answer differ if the goodwill is valued by capitalising the excess of the annual average profits over the reasonable return on capital employed on the basis of the same return of 10%?

**[(i) Rs 30,240 (ii) Rs 80,000]**

16) The following particulars are available in respect of the business carried on by a trader:

(1) Profits earned for the years:

| | Rs |
|---|---|
| 2012 - 13 | 50,000 |
| 2013 – 14 | 60,000 |
| 2014 – 15 | 55,000 |

(2) Normal rate of return 10%.

(3) Capital employed Rs 3,00,000

(4) Present value of an annuity of one rupee for 5 years at 10% is Rs 3.78.

(5) The profits including non-recurring profits on an average basis of Rs 3,000.

You are required to calculate the value of goodwill:

(i) As per five years' purchase of super profit.

(ii) As per capitalized of super profit method; and

(iii) As per annuity method.

**[(i) Rs 1,10,000 (ii) Rs 2,20,000 (iii) Rs 83,160]**

17) The following information is available:

(a) Average capital employed Rs 1,00,000.

(b) Present value of an annuity of Re 1 for 5 years at 10% is Rs 3.78.

(c) Normal rate of profits is 10%

(d) Net profits for five years are:

1$^{st}$ yare Rs 15,000, 2$^{nd}$ year Rs 16,000, 3$^{rd}$ year Rs 17,000, 4$^{th}$ year Rs 18,000 and 5$^{th}$ year Rs 20,000

Profits included non-recurring profits on an average basis of Rs 1,500 out of which Rs 300 has the recurring tendency. Remuneration of proprietor is Rs 800 p.a. which is not charged in the accounts.

Find out the value of goodwill:

(i) As per 5 years' purchase of super profit.

(ii) As per annuity method; and

(iii) As per capitalisation of super profit method.

**[(i) Rs 26,000 (ii) Rs 19,656(or say Rs 19,700) (iii) Rs 52,000]**

**This answer is based on the simple average profit. In view of the increasing trend in profits, weighted average method may be used. The highest weight will be given to the recent years.**

18) The following are the particulars about Gupta & Co., a partnership firm:

(a) Average capital employed in the business is Rs 7,00,000.

(b) Net profit of the firm for the last three year: Rs 1,07,600, Rs 90,700 and Rs 1,12,500.

(c) Market rate of interest on investment 8%.

(d) Rate of risk return on capital invested in business 2%.

(e) Fair remuneration to the partners for their services Rs 12,000 per annum.

(f) Profits included non-recurring profit on average basis of Rs 1,000 out of which it was considered that even non-recurring profits had a tendency to be recurring on an average of Rs 600 per year.

(g) Sundry assets of the firm amounted to Rs 7,50,000 and current liabilities Rs 30,000.

Ascertain the value of goodwill of the firm under the following methods:

(i) Three years' purchase of super profits method.

(ii) Capitalisation method.

**[(i) Rs 63,600; (ii) Rs 2,12,000]**

19) Calculate goodwill as per (a) annuity method (b) five years' purchase of super profit method and (c) capitalisation of average profit method from the following information:

| | |
|---|---|
| (i) Capital employed | Rs 6,30,000 |
| (ii) Normal rate of profit | 10% |
| (iii) Present value of an annuity of Re 1 for 5 years at 10% | 3.77545 |

(iv) Net profits before taxation (tax rate 50%)

1st year Rs 1,05,000 2nd year Rs 1,45,000, 3rd year Rs 1,75,000

4th year Rs 2,00,000, 5th year Rs 1,50,000

(v) Non-recurring income Rs 5,000 and debenture interest Rs 10,000 on an average included in the profit and loss account.

(vi) Fixed assets revalued by Rs 20,000 more than existing book value of the assets.

**[(a) Rs 56,632; (b) Rs 75,000; (c) Rs 1,50,000]**

**Average adjusted profits (after tax) Rs 80,000. Super profit Rs 15,000]**

20) The following is the balance sheet of Gariahat Variety Stores, a concern owned by Mr. Munsicharan, as at 30th April, 2015:

**Balance Sheet**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Creditors | 76,080 | Fixed assets | 1,80,000 |
| Capital | 3,28,000 | Current assets | 2,44,080 |
| Reserves | 80,000 | Investment in shares | 60,000 |
| | 4,84,080 | | 4,84,080 |

The following net profits were earned which included a fixed income from investment of Rs 4,000 p.a.:

Year ended 30th April, 2012 Rs 64,000 Year ended 30th April, 2014 Rs 86,000

Year ended 30th April, 2013 Rs 72,000 Year ended 30th April, 2015 Rs 90,000

Standard rate of return on capital employed in such type of business is 8%.

Compute the amount of goodwill of the business at three years' purchase of the average super profits for four year assuming that each year's profit was immediately withdrawn in full by the proprietor. Ignore income-tax.

**[Trading capital employed Rs 3,48,000; Super profit Rs 46,160. Value of goodwill Rs 1,38,480]**

21) The assets and liabilities of B Ltd. as on 31st March, 2015 are as under:

| | Rs | Rs | Rs |
|---|---|---|---|
| ***Current assets:*** | | | |
| Stock in hand | 30,000 | | |
| Sundry debtors less provision for doubtful debts | 40,000 | | |
| Cash and bank balance | 30,000 | 1,00,000 | |
| Fixed assets: | | | |
| Goodwill | 20,000 | | |
| Plant and machinery less depreciation | 40,000 | | |
| Land and building | 40,000 | 1,00,000 | 2,00,000 |
| ***Current liabilities:*** | | | |
| Sundry creditors for goods | | 60,000 | |
| Loans | | 40,000 | |
| | | 15,000 | |

| | | | |
|---|---|---|---|
| Liability of expenses | | 1,15,000 | |
| | | 85,000 | 2,00,000 |
| Share capital | | | |

K Ltd. is interested in buying the business. The average return from the particular line of business is estimated at 20%. The pre-tax profits of the latest five years are found to be:

| | | | |
|---|---|---|---|
| 31st March, 2011 | Rs 40,000 | 31st March, 2013 | Rs 32,000 |
| 31st March, 2012 | Rs 30,000 | 31st March, 2014 | Rs 30,000 |
| 31st March, 2015 | Rs 33,000 | | |

Profits for the year ended 31st March, 2011 include a capital profit of Rs 10,000 and for the year ended 31st March, 2015 are after adjustment of Rs 7,500 being loss by fire. An average rate of 40% is payable as income-tax.

Ascertain the value of goodwill, payable by K Ltd. for the business, by capitalising the future maintainable post tax profits on the basis of the past five years' average annual profits.

**[Capital employed Rs 65,000. Super profit Rs 6,500. Value of goodwill Rs 32,500]**

22) From the following you are required to calculate the amount of capital employed:

**Balance Sheet as on 30th June, 2015**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital | 3,00,000 | Goodwill | 20,000 |
| Reserves (including profit of current year Rs 40,000) | 60,000 | Land and building | 70,000 |
| | | Plant | 1,20,000 |
| Workmen's compensation fund | 85,000 | Current assets | 3,00,000 |
| | | Investment | 90,000 |
| Depreciation fund: Land and building 20,000; Plant 30,000 | 50,000 | Investment for replacement of Plant | 20,000 |
| | | Preliminary expenses | 5,000 |
| Debentures | 70,000 | | |
| Creditors | 60,000 | | |
| | 6,25,000 | | 6,25,000 |

**[Capital employed Rs 4,00,000]**

**Note: Ordinary investment being non-trading assets (i.e. assets acquired because of spare funds) will be excluded from capital employed. However, investment for replacement of plant will be included. Goodwill and preliminary expenses will also be excluded. Debentures being long-term liability will not be deducted.**

23) From the following information, prepare statements showing:

(i) Capital employed

(ii) Average capital employed

(iii) Goodwill on the basis of 5 years' purchase of the average super profit

**Balance Sheet as Z Ltd. as on 31.12.2014**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 20,000 equity shares of Rs 10 each | 2,00,000 | Goodwill | 30,000 |
| | | Fixed Assets | 3,50,000 |
| 1,000 9% preference shares of Rs 100 each | 1,00,000 | Investments: 4% Government loan | 45,000 |
| Reserve and provisions (provision for taxation Rs 20,000) | 2,00,000 | Current assets | 2,00,000 |
| | | Share-selling commission | 10,000 |
| | | Discount in issue of debentures | 15,000 |
| 10% debentures | 90,000 | | |
| Creditors | 60,000 | | |
| | 6,50,000 | | 6,50,000 |

The current market value of the plant included in fixed assets is Rs 15,000 more. The average profit of the company (after deduction for interest and government taxes) is Rs 68,000. Expected rate of return is 10%.

**[Closing capital employed Rs 4,85,000; Average capital employed Rs 4,51,675; value of goodwill Rs 1,26,160]**

24) The balance sheet of Manufacturing Co. Ltd. disclosed the following position as at 31st March, 2015:

| Liabilities | Rs | Assets | | Rs |
|---|---|---|---|---|
| Paid up capital: | | Goodwill at cost | | 30,000 |
| 30,000 shares of Rs 10 each | | Land and buildings at cost (less | | |
| fully paid | 3,00,000 | depreciation) | | 1,75,000 |
| Capital reserve | 20,000 | Plant and machinery at cost | | |
| Sundry creditors | 71,000 | (less depreciation) | | 90,000 |
| Provision for taxation | 55,000 | Stock at cost | | 1,15,000 |
| Profit and loss account | 66,000 | Book debts | 98,000 | |
| | | Less provision for | | |
| | | bad debts | 3,000 | 95,000 |
| | | Cash at bank | | 7,000 |
| | 5,12,000 | | | 5,12,000 |

You are asked to value the goodwill of the company on the basis of five years' purchase of super profits, for which purpose the following information is supplied:

(i) Adequate provision has been made in the accounts for income-tax and depreciation.

(ii) The rate of income tax may be taken at 50%.

(iii) The average of dividend declared by the company for the past five year was 15%.

(iv) The reasonable return on capital invested in the class of business done by the company is 12%.

**[Rs 43,400]**

25) Ascertain the value of goodwill of the Nice Ltd. carrying on business as retail traders from the following information supplied to you:

**Balance Sheet as at 30th June 2015**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Paid up capital: | | Goodwill | 25,000 |
| 2,500 shares of Rs 100 each | | Land and building | 1,10,000 |
| fully paid | 2,50,000 | Plant and machinery | 1,00,000 |
| Bank overdraft | 58,350 | Stock-in-trade | 1,50,000 |
| Sundry creditors | 90,500 | Book debts less provision | 90,000 |
| Provision for taxation | 19,500 | | |
| Profit and loss appropriation | | | |
| account | 56,650 | | |
| | 4,75,000 | | 4,75,000 |

The company commenced operations in 1985 with a paid up capital of Rs 2,50,000. Profits (after taxation) have been as follows for the recent years:

| ***Year ended 30th June*** | ***Rs*** |
|---|---|
| 2011 | 20,000 (loss) |
| 2012 | 44,000 |
| 2013 | 51,500 |
| 2014 | 58,000 |
| 2015 | 65,000 |

The loss in 2011 occurred due a prolonged strike. Income paid so far has been at the average rate of 40% but is likely to be 50% from now onwards. Dividends were distributed at the rate of 10% in 2012 and 2013 and at the rate of 15% on the paid up capital in 2014 and 2015. The market price of the shares is ruling at the end of the year ended 30th June, 2015 at Rs 125. Profits till 2015 have been ascertained after debited Rs 20,000 as remuneration to the managing director. The government has approved a remuneration of Rs 30,000 with effect from 1st July, 2015. The company has been able to secure a contract for supply of materials at advantageous price. The advantage has been value at Rs 20,000 per annum for the next five years.

**[Rs 2,23,560]**

26) The summarised balance sheet of Taj Ltd. as on 31st December, 2014 is as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital (in shares of Rs 100 each): | | Goodwill | 50,000 |
| | | Freehold property | 3,75,000 |
| 1,500 6% preference shares | 1,50,000 | Plant and machinery | |
| 6,500 equity shares | 6,50,000 | Less depreciation | 3,50,000 |
| Profit and loss account | 4,50,000 | Stock | 3,70,000 |
| 5% debentures | 3,00,000 | Debtors (net) | 3,99,250 |
| Sundry creditors | 2,39,250 | Bank balance | 2,45,000 |
| | 17,89,250 | | 17,89,250 |

Profit after tax for the three years 2012, 2013 and 2014 are after charging debenture interest were Rs 2,20,500, Rs 3,22,500 and Rs 2,40,000 respectively. Mr. Neo Rich is interested in buying all the equity shares and requests you to let him know the proper price.

You get the following information:

(1) The normal rate of return is 10% on capital employed.

(2) Goodwill may be calculated at 3 times adjusted average super profits of the three years referred to above (present value of Re 1 is 2.487)

(3) The value of freehold property is to be ascertained on the basis of 8%. The current rental value is Rs 50,400.

(4) Rate of tax applicable is 50%.

(5) 10% of profits for 2013 referred to above arose from a transaction of a non-recurring nature.

(6) A provision of Rs 15,750 on sundry debtors was made in 2014 which is no longer required; profit for the year 2014 is to be adjusted for this item.

(7) A claim of Rs 8,250 against the company is to be provided and adjusted against profit for 2010.

Ascertain the value of goodwill of the company (The capital employed may be taken as on 31st December, 2014)

**[Capital employed Rs 17,62,500. Average adjusted profits Rs 2,59,000. Super profit Rs 82,750. Value of goodwill Rs 2,05,800]**

## Practical Problems: (Valuation of shares)

### Asset backing method:

1) The following is the summarised balance sheet of a company:

**Balance Sheet**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 4,000 equity shares of Rs 100 each | 4,00,000 | Sundry assets | 10,00,000 |
| | | Preliminary expenses | 20,000 |
| Reserves | 1,00,000 | | |
| 10% debentures | 1,00,000 | | |
| Miscellaneous liabilities | 4,20,000 | | |
| | 10,20,000 | | 10,20,000 |

Sundry assets are expected to realise Rs 11,00,000.

Ascertain the value of shares as per net asset method.

**[Value per share Rs 145]**

2) Gem. Ltd. submits the following information as on 31st March, 2019

| | ***Rs*** |
|---|---|
| (i) Fixed assets (tangible) | 15,00,000 |
| (ii) Current assets | 6,00,000 |
| (iii) Patent right | 2,50,000 |
| (iv) Investments | 1,00,000 |

(v) Capital issue expenses 50,000
(vi) Liabilities 4,00,000

Capital comprises of 12,500 shares of Rs 100 each fully paid. It is ascertained that patent rights are valueless. Ascertain the value of shares on asset backing method.

**[Value per share Rs 144]**

3) Shyam & Co. Ltd. presents the following balance sheet on 31st December, 2018

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital (Rs 10 each) | 3,00,000 | Fixed assets | 4,50,000 |
| Reserves | 1,20,000 | Current assets | 30,000 |
| loans | 50,000 | | |
| Current liabilities | 10,000 | | |
| | 4,80,000 | | 4,80,000 |

It is observed that fixed assets are undervalued Rs 30,000. The current assets are overvalued by Rs 2,000. The assets are to be valued properly.

It is proposed to issue fully paid shares by capitalisation of general reserves in the ratio of one share for every three shares held.

Find the value of shares (i) before issue of bonus shares and (ii) after issue of bonus shares

**[Value per share (i) Rs 14.93 (approx); (ii) Rs 11.20]]**

4) Balance sheet of Mohan Engineering Ltd. as on 31.12.2018 is given below:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Sundry fixed assets | 2,20,000 |
| 15,000 equity shares of Rs | | Investments | 40,000 |
| 10 each fully paid | 1,50,000 | Stock-in-trade | 80,000 |
| 20,000 equity shares of Rs | | Sundry debtors | 40,000 |
| 10 each, Rs 6 paid up | 1,20,000 | Cash and bank | 40,000 |
| 9% cumulative preference | | Profit and loss account | 1,30,000 |
| shares | 60,000 | | |
| Long term loan | 1,40,000 | | |
| Sundry creditors | 80,000 | | |
| | 5,50,000 | | 5,50,000 |

Other information:

(a) Current cost of sundry fixed assets is Rs 3,70,000; and that of stock is Rs 1,00,000.
(b) Investments could fetch only Rs 10,000.
(c) 50% of the debtors are doubtful.
(d) Preference dividend is in arrears for the last five years

Find out the intrinsic value per share of Mohan Engineering Ltd. by the net asset method.

**[Value per fully paid shares Rs 8.94; value per partly paid shares Rs 4.94]**

5) From the following summarised balance sheet and additional information ascertain the intrinsic value of each equity share:

**Balance Sheet**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 10,000 equity shares of Rs | | Fixed assets | |
| 10 each | 1,00,000 | (less depreciation) | 1,30,000 |
| 3,000 preference shares of | | Stock | 24,000 |
| Rs 10 each | 30,000 | Accounts receivable | 44,000 |
| General reserve | 15,000 | Cash at bank | 26,000 |
| Provision for taxation | 5,000 | Preliminary expenses | 6,000 |
| Profit and loss account | 16,000 | | |
| Employees' provident | 15,000 | | |
| fund | 49,000 | | |
| Sundry creditors | | | |
| | 2,30,000 | | 2,30,000 |

An item of fixed asset standing in the books at Rs 75,000 is now value at Rs 95,000 and another item of fixed asset of the book value of Rs 45,000 is worth only Rs 34,000. Employer's contribution to the employees' provident fund Rs 2,500 has been due. Actual tax liability is 80% of the amount provided. A liability for damage Rs 1,000 has not been shown in the above balance sheet.

**[Value per equity share Rs 13.15]**

6) On the basis of the following information, calculate the value of equity shares:

| | Rs |
|---|---|
| 5,000 6% preference shares of Rs 100 each fully paid | 5,00,000 |
| 30,000 equity shares of Rs 10 each fully paid | 3,00,000 |
| Total tangible assets (other than goodwill) | 9,49,000 |
| Total outside liabilities | 95,000 |
| Average net profit after tax | 62,560 |

Expected normal yield for equity shares is 7% of capital employed. Goodwill is to be taken at 5 years' purchase of super profits, if any.

**[Value of goodwill Rs 13,900; Intrinsic value per equity share Rs 12.26]**
**Note: (i) Capital employed Rs 8,54,000; (ii) Normal profit Rs 59,780;**
**(iii) Super profit Rs 2,780**

**Yield method:**

7) From the following information, calculate the value of an equity share:

a. Paid-up capital of a company consists of 1,000 15% preference shares of Rs 100 each and 20,000 equity shares of Rs 10 each.
b. The average annual profits of the company after providing for depreciation and taxation amounted to Rs 75,000. It is considered necessary to transfer Rs 10,000 to general reserve before declaring any dividend.
c. The normal return expected by investors on equity shares from the type of business carried on by the company is 10%.

**[Value per equity share Rs 25]**

8) From the following information, calculate the value per equity share:

| | |
|---|---|
| 2,000 9% preference shares of Rs 100 each | Rs 2,00,000 |
| 50,000 equity shares of Rs 10 each, Rs 8 per share paid up | Rs 4,00,000 |
| Expected profit per year before tax | Rs 2,18,000 |
| Rate of tax | 50% |
| Transfer to general reserve every year 20% of the profit | |
| Normal earning rate | 15% |

**[Value per equity share Rs 9.23]**

9) Calculate the value of each equity share from the following information:
(i) 60,000 equity shares of Rs 10 each, Rs 7 paid up.
(ii) Rs 2,00,000 10% preference shares of Rs 100 each fully paid up.
(iii) Expected annual profits before tax Rs 4,00,000
(iv) Transfer to reserve 20%
(v) Tax rate 35%
(vi) Normal rate of return 20%

**[Value per equity share Rs 15.67]**

10. From the following figures, calculate the value of a fully paid equity share of Rs 10 each on (i) dividend basis and (ii) return on capital employed basis, assuming in each case the market expectation to be 12%.

| Year ended | Capital employed (Rs) | Profit earned | Dividend |
|---|---|---|---|
| 2015 | 50 crores | 8 crores | 12% |
| 2016 | 80 crores | 16 crores | 15% |
| 2017 | 100 crores | 22 crores | 18% |

| | | | |
|---|---|---|---|
| 2018 | 120 crores | 30 crores | 20% |

**[(i) Rs 14.67 (ii) Rs 18.50]**

**Note: Having regard to increasing trend in the profit earned and dividend rate, it is proper to take average dividend or average return on capital employed on a weightage basis (more weights being given to recent years).**

11. Prema Ltd.'s capital is Rs 11,00,000 divided in shares of Rs 10 each. Of these, 40,000 shares are 8% preference and remaining are equity shares. The profit average (after tax at 50%) earned during past 3 years is Rs 1,50,000. In future, expenses will increase by Rs 12,000 per annum. The expected yield for risk capital is 10% net of tax.

Find the value of equity shares.

**[Value per equity share Rs 16]**

12. On 31st March, 2019 the balance sheet of a joint stock company disclosed the following position:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 40,000 equity shares of Rs 10 each fully paid | 4,00,000 | Goodwill | 40,000 |
| | | Other fixed assets | 5,00,000 |
| General reserve | 90,000 | Current assets | 2,00,000 |
| Profit and loss account | 20,000 | | |
| 10% debentures | 1,00,000 | | |
| Current liabilities | 1,30,000 | | |
| | 7,40,000 | | 7,40,000 |

On 31st March, 2019 the goodwill of the company was valued at Rs 50,000 while other fixed assets were valued at Rs 3,50,000.

The net profit earned by the company amounted to Rs 51,600 for 2016-17, Rs 52,000 for 2017-18 and Rs 51,650 for 2018-19. Every year an amount equal to 20% of the net profit earned was transferred to general reserve; this being considered reasonable in the industry in which the company is engaged. A return of 10% on the investment is considered fair in the industry.

Compute the intrinsic value and yield value of the company's share.

**[Intrinsic value Rs 9.25; Yield value Rs 10.35 (ignoring depreciation in the value of fixed assets]**

13. From the following information of J. Adams Co. Ltd. compute the value of its equity shares by capitalisation of earning method:

**Balance Sheet as at 31.12.2019**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Fixed assets at cost less depreciation | 6,00,000 |
| Equity shares of Rs 10 each | 5,00,000 | | |
| Reserve and surplus | 1,50,000 | Current assets | 5,75,000 |
| 10% debentures (issued at par on 1.1.15 redeemable at par on or before 2024) | 3,00,000 | Preliminary expenses | 25,000 |
| Current liabilities | 2,50,000 | | |
| | 12,00,000 | | 12,00,000 |

| | ***31.12.15 (Rs)*** | ***31.12.16 (Rs)*** | ***31.12.17 (Rs)*** | ***31.12.18 (Rs)*** | ***31.12.19 (Rs)*** |
|---|---|---|---|---|---|
| Sales | 9,00,000 | 11,00,000 | 14,00,000 | 8,00,000 | 16,00,000 |
| Expenses | 3,50,000 | 5,80,000 | 6,00,000 | 3,10,000 | 8,00,000 |
| Interest on loan | 20,000 | 40,000 | 50,000 | 60,000 | 20,000 |
| Interest on debenture | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |

It is the usual practice of the company to transfer Rs 30,000 every year to general reserve. Assume rate of taxation at 50% and the rate of normal earning at 12.5%. Show the workings also.

**[Rs 40.32]**

16. From the following balance sheet and adjoining information, ascertain the value of shares as per:

(i) Net asset method

(ii) Earning capacity method

(iii) Mean method

**Balance Sheet**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital:<br>20,000 shares of Rs 100 each<br>Reserve<br>10% debentures<br>Other liabilities | <br>20,00,000<br>5,00,000<br>20,00,000<br>5,00,000 | Sundry assets | 50,00,000 |
| | 50,00,000 | | 50,00,000 |

Market value of the assets is Rs 52,00,000 and the average earnings of the company are Rs 13,00,000 per annum after charging interest on debentures but before tax which may be taken at 50%. Normal rate of return in similar companies is 10%.

**[(i) Rs 135; (ii) Rs 325; (iii) Rs 230]**

17. The following particulars are available in relation to a company:

(a) Share capital: 4,500 6% preference shares of Rs 10 each fully paid; 4,500 equity shares of Rs 10 each fully paid.

(b) External liabilities Rs 7,500.

(c) Reserve and surplus Rs 3,500.

(d) The average normal profit (after taxation) earning every year by the company Rs 8,505.

(e) The normal profit earned on the market value of equity shares, fully paid, of the same type of companies is 9%.

Calculate the value of equity shares by:

(i) The assets backing method assuming that the total assets worth Rs 350 are fictitious;

(ii) The earning capacity method

**[(i) Asset backing value Rs 10.70; (ii) Earning capacity value Rs 14.33 (assuming no transfer to reserve)]**

18. From the following particulars, calculate the fair value of an equity share assuming that out of the total assets, those amounting to Rs 41,00,000 are fictitious:

(i) Share capital:

5,50,000 10% preference shares of Rs 100 each fully paid up

55,00,000 equity shares of Rs 10 each fully paid up

(ii) Liabilities to outsiders Rs 75,00,000

(iii) Reserve and surplus Rs 45,00,000

(iv) The average normal profit after taxation earned every year by the company during the first five years Rs 85,05,000.

(v) The normal profit earned on the market value of fully paid equity shares of similar companies is 12%.

**[(i) Intrinsic value Rs 10.07; (ii) Earning capacity value Rs 4.55 (assuming no transfer to reserve); Fair value Rs 7.31]**

19. The accounts of Beegee Ltd. as on 31st March, 2019 revealed the following significant information:

(i) Share capital:

| | |
|---|---|
| Equity | 1,00,000 shares of Rs 10 each |
| 12% Preference | 20,000 shares of Rs 50 each |

(ii) Reserve and surplus Rs 1,50,000

(iii) Preliminary expenses Rs 30,000

(iv) The valuation of assets revealed that assets as per accounts are undervalued by Rs 2,50,000.

(v) The average pre-tax profits of past three years were Rs 5,00,000. Tax applicable to the company is 50%

(vi) It is anticipated that due to favourable market condition, pre-tax profit will increase by 20%.

(vii) Equity shareholders expect a return at 15%.

Find the fair value of shares.

**[Intrinsic value Rs 13.70; Earning capacity value Rs 12.00; Fair value Rs 12.85]**

20. Balance sheet of Diamond Ltd. as on 31st March, 2019 was as follows:

| Liabilities | Rs in lakhs | Assets | Rs in lakhs |
|---|---|---|---|
| Share capital: | | Land and building | 110 |
| Fully paid shares of Rs 100 | | Plant and machinery | 130 |
| each | 200 | Patent and trade marks | 20 |
| General reserve | 40 | Stock | 48 |
| Profit and loss account | 32 | Sundry debtors | 88 |
| Sundry creditors | 128 | Bank balance | 52 |
| Provision for income tax | 60 | Preliminary expenses | 12 |
| | 460 | | 460 |

The experts valuers valued the land and building at Rs 240 lakh, goodwill at Rs 160 lakh and plant and machinery at Rs 120 lakh. Out of the total debtors, it is found that debtors for Rs 8 lakh are bad. The profits of the company have been as follows:

| | | |
|---|---|---|
| For the year: | 2016 – 17 | Rs 92 lakh |
| | 2017 – 18 | Rs 88 lakh |
| | 2018 – 19 | Rs 96 lakh |

The company follows the practice of transferring 25% of profits to general reserve. Similar type of companies earn at 10% of the value of their shares. Plant and machinery and land and building have depreciated at 15% and 10% respectively.

Ascertain the value of shares of the company under:

(i) Intrinsic value method

(ii) Yield method; and

(iii) Fair value method.

**[(i) Intrinsic value Rs 266; (ii) Yield value Rs 291.85; (iii) Fair value Rs 278.93]**

**Note: Due to lack of information the questions of income-tax has been ignored for determining yield value.**

21. The following particulars relate to Titco Ltd.:

(i) Equity share capital:

10,000 equity shares of Rs 10 each, fully paid up

5,000 equity shares of Rs 10 each, Rs 7 paid up

(ii) Preference share capital:

1,000 10% preference shares of Rs 100 each fully paid up

(iii) Reserves Rs 45,000

(iv) Creditors Rs 20,000, Bills payable Rs 3,000

Besides the above extracts from the balance sheet of Titco Ltd. as on 31.12.2018, the following further information is given to you:

(a) Value of fixed assets to be raised by Rs 25,000 whereas stock value to be reduced by Rs 7,000.

(b) Liability for expenses Rs 6,000 is yet to be recorded in the books of account.

Calculate value per equity and preference share of Titco Ltd. when:

(A) Preference shares are non-participating.

(B) Preference shares are participating and ratio of participation in surplus assets between equity and preference is 3 : 2.

**[When the preference shares are non-participating:**
**Value per preference Share Rs 100; value of fully paid shares Rs 13.80 and partly paid shares Rs 10.80.**
**When the preference shares are participating:**
**Value per preference Share Rs 122.80; value of fully paid shares Rs 12.28 and partly paid shares Rs 9.28]**

22. The following is the summarised balance sheet of AB Ltd.

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Issued share capital: | | Goodwill | 4,000 |
| 10,000 equity shares of Re 1 | | Sundry assets | 45,000 |
| each | 10,000 | | |
| general reserve | 14,000 | | |
| profit and loss account | 6,000 | | |
| 5% debentures | 10,000 | | |
| Sundry creditors | 9,000 | | |
| | 49,000 | | 49,000 |

The assets are valued at their balance sheet figure but goodwill is revalued at Rs 5,000.
The average profit available for the equity shares each year is Rs 4,000. It is considered that a fair yield on equity shares would be 10 per cent per annum.
Calculate the value of shares by:

(i) The assets basis method; and

(ii) The yield basis method.

**[(i) Asset-backing value Rs 13.71; (ii) Earning capacity value Rs 16.45 (assuming no transfer to reserve)]**

23. The following particulars are available in relation to a company:

(a) Capital: 3,500 7% preference shares of Rs 100 each, fully paid; 83,000 equity shares of Rs 10 each, fully paid.

(b) External liabilities Rs 4,75,000

(c) Reserves and surplus Rs 3,35,000

(d) The average normal profit (after taxation) earned every year by the company Rs 1,54,250.

(e) The normal profit earned on the market value of equity shares, fully paid, of the same type of companies is 9.5%,

Calculate the value of equity shares by (i) asset-backing method assuming that out of the total assets, those worth Rs 27,000 are fictitious (ii) earning-capacity method.

**[(i) Asset-backing value Rs 3.10 (ii) Yield value Rs 4.00]**

24. Following is the balance sheet of A Ltd. on 31st March, 2019

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Fixed assets | 4,83,980 |
| 3,080 shares of Rs 100 each | 3,08,000 | Stock | 3,64,900 |
| Reserve fund | 53,130 | Investments | 2,84,000 |
| Employees' savings account | 31,780 | Cash | 31,760 |
| Employees' security deposit | 7,560 | Bank | 4,00,000 |
| Workmen's compensation | | Preliminary expenses | 3,500 |
| fund | 36,565 | | |

| | | | |
|---|---|---|---|
| Income tax<br>Creditors<br>Profit and loss account<br>Depreciation fund | 16,565<br>5,44,040<br>5,05,680<br>64,820 | | |
| | 15,68,140 | | 15,68,140 |

Depreciation fund is more by Rs 7,560 than actual depreciation.

Find out the intrinsic value of the shares.

**[Value per share Rs 294.62 (assume no liability towards workmen's compensation)]**

25. The following particulars are available in relation to X Ltd.

(i) Capital: 450 6% preference shares of Rs 100 each fully paid; and 4,500 equity shares of Rs 10 each fully paid.

(ii) External liabilities Rs 7,500.

(iii) Reserves and surplus Rs 3,500

(iv) The average expected profit (after taxation) earned by the company Rs 8,500.

(v) The normal profit earned on the market value of equity shares (fully paid) of the same type of companies is 9%.

(vi) 10% of the profit after tax each year is transferred to reserves.

Calculate the intrinsic value per equity share and value per equity share according to dividend yield basis. Assume that out of total assets, assets worth Rs 350 are fictitious.

**[Intrinsic value Rs 10.70; Yield value Rs 12.22]**

26. From the following particulars, calculate the value of an equity share:

| | |
|---|---|
| 2,000 9% preference shares of Rs 100 each | Rs 2,00,000 |
| 50,000 equity shares of Rs 10 each, Rs 8 paid up | Rs 4,00,000 |
| Expected profit per year before tax | Rs 2,18,000 |
| Rate of tax | 40% |
| Transfer to general reserve every year 20% of profit | |
| Normal rate of earning | 15% |

**[Rs 11.55]**

27. The profit of a company, limited by shares, for the year ended 31st March, 2019 were Rs 60,00,000. After setting apart amounts for interest on borrowings, taxation and other provisions, the net surplus available to shareholders is estimated at Rs 15,00,000. The company's capital base consisted of:

(i) 1,00,000 equity share of Rs 100 each, Rs 50 paid up; and

(ii) 25,000 12% cumulative redeemable preference shares of Rs 100 each, fully paid up.

Enquiries in the stock market reveal that shares of companies engaged in similar business and declaring a dividend of 15% on equity shares are quoted at a premium of 10%.

What do you expect the market value of the company's shares to be, basing your working on yield method?

**[Rs 88]**

28. The capital structure of a company is as follows:

| | **Rs** |
|---|---|
| 12% preference shares of Rs 10 each | 5,00,000 |
| Equity shares of Rs 10 each | 9,00,000 |
| Reserves and surplus | 3,50,000 |
| 10% debentures | 6,50,000 |
| 13% term-loan | 12,00,000 |

The average annual profit of the company before payment of interest and income tax is Rs 7,22,000. The income tax rate is 34%.

Calculate the value of equity shares of the company assuming that the price-earning ratio is 12.

**[Value per equity share Rs 27]**

29. The capital structure of Hearty Ltd. is as follows:

**Rs**

| | |
|---|---|
| 14% preference shares of Rs 10 each | 20,00,000 |
| Equity shares of Rs 10 each | 32,00,000 |
| Reserves and surplus | 16,00,000 |
| 10% debentures | 24,00,000 |
| 11% loan from banks/financial institutions | 28,00,000 |
| | 1,20,00,000 |

The average annual profit before payment of tax and interest is Rs 24,00,000. The income tax rate is assumed to be @ 40%.

Compute the value of equity shares of the company, if the applicable price earning ratio is 9.

**[Value per equity share Rs 23.40]**

30. From the following information relating to a company, calculate the value of its equity shares:

| | |
|---|---|
| Issued equity share capital | 10,000 shares of Rs 10 each |
| Paid up equity share capital | Rs 8 per share |
| 6% preference share capital | 1,00,000 shares of Rs 10 each fully paid |
| Annual transfer to general reserve | 20% |
| Rate of tax | 50% |
| Expected profit before tax | Rs 2,00,000 |
| Normal rate of dividend | 20% |

**[Value per equity share Rs 10]**

31. The summarised balance sheet of B Ltd. as at 31st March, 2019 is as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 30,000 equity shares of Rs 10 each fully paid up | 3,00,000 | Goodwill | 70,000 |
| | | Other fixed assets | 4,50,000 |
| 10,000 equity shares of Rs 10 each, Rs 8 paid up | 80,000 | Current assets | 2,20,000 |
| | | Preliminary expenses | 10,000 |
| Reserves | 1,80,000 | | |
| 11% debentures | 1,00,000 | | |
| Current liabilities | 90,000 | | |
| | 7,50,000 | | 7,50,000 |

The goodwill is independently valued at Rs 50,000 and other fixed assets at Rs 4,20,000. There was a contingent liability of Rs 20,000 which has become payable.

Determine the value of shares under net assets method.

**[(i) Value per fully paid share Rs 12.63; (ii) Value per partly paid share Rs 10.10]**

32. The following particulars relate to a company:

| | | **Rs** |
|---|---|---|
| Total assets | | 18,50,000 |
| External liabilities | | 2,50,000 |
| Share capital: | | |
| | 14% preference shares of Rs 10 each fully paid | 5,00,000 |
| | 40,000 equity shares of Rs 10 each fully paid | 4,00,000 |
| | 60,000 equity shares of Rs 10 each, Rs 7.50 paid | 4,50,000 |

Calculate the value of each category of equity shares of the company based on a deemed liquidation.

**[(i) Value per fully paid share Rs 12.50; (ii) Value per partly paid share Rs 10]**

33. The following is the balance sheet of Puneesh & Co. Ltd. as at 31st March, 2019:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Sundry assets | 5,48,000 |
| 10,000 12% preference shares of Rs 10 each fully paid | 1,00,000 | Preliminary expenses | 5,000 |
| | | Discount on debentures | 2,000 |
| 30,000 equity shares of Rs 10 each fully paid | 3,00,000 | Profit and loss account | 35,000 |
| General reserve | 10,000 | | |

| | | | |
|---|---|---|---|
| Debenture redemption fund | 20,000 | | |
| Depreciation fund | 15,000 | | |
| 10% debentures | 50,000 | | |
| Sundry creditors | 95,000 | | |
| | 5,90,000 | | 5,90,000 |

The debenture interest is owing for six months and dividends on preference shares are in arrears for one year.

Assuming the assets are worth their books values, show the approximate valuation of each equity share if:

(i) Preference shares are preferential as to capital and arrears are payable in a winding up; and

(ii) Preference shares are preferential as to capital but arrears of preference dividends are not payable.

**[(i) Rs 9.12 (ii) Rs 9.52]**

34. From the following particulars of N Ltd. find out the fair value of shares:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 20,000 shares of Rs 10 each fully paid | 2,00,000 | Goodwill | 20,000 |
| Reserves | 5,000 | Fixed assets | 1,60,000 |
| Staff welfare fund | 3,000 | Cash | 5,000 |
| Workmen's accident compensation fund | 2,000 | Other current assets | 83,000 |
| Creditors | 30,000 | Preliminary expenses | 2,000 |
| Provision for taxation | 30,000 | | |
| | 2,70,000 | | 2,70,000 |

Goodwill is worth Rs 25,000. Fixed assets are worth Rs 1,50,000. The profits of the company for the last three years were Rs 42,000, Rs 48,000 and Rs 45,000. Market yield of similar type of shares is 10%. Ignore income tax.

**[(i) Asset-backing value Rs 10 (ii) Yield value Rs 22.50 (iii) Fair value Rs 16.25]**

**Note (1) Staff welfare fund should be treated as a liability and workmen's compensation fund as undistributed profit.**

**(2) Assumed no transfer to reserve and depreciation on decrease in the value of fixed assets has been ignored.**

35. Balance sheet of Diamond Ltd. on 30.6.2019

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Land and buildings | 1,10,000 |
| 2,000 shares of Rs 100 each | | Plant and machinery | 1,30,000 |
| fully paid | 2,00,000 | Patent and trade marks | 20,000 |
| General reserve | 40,000 | Stock | 48,000 |
| Profit and loss account | 32,000 | Debtors | 88,000 |
| Sundry creditors | 1,28,000 | Bank balance | 52,000 |
| Income tax reserve | 60,000 | Preliminary expenses | 12,000 |
| | 4,60,000 | | 4,60,000 |

The expert valuer valued the land and building at Rs 2,40,000; Goodwill Rs 1,60,000; and plant and machinery at Rs 1,20,000. Out of total debtors, it is found that debtors of Rs 8,000 are bad. The profits of the company have been as follows:

| | **Rs** |
|---|---|
| 2016 – 17 | 80,000 |
| 2017 – 18 | 90,000 |
| 2018 – 19 | 1,06,000 |

The company follows the practice of transferring 25% of profit to general reserve. Similar type of companies earn at 10% of the value of their shares.

Ascertain the value of shares of the company under:

(i) Intrinsic value method;

(ii) Yield value method; and

(iii) Fair value method

Ignore taxation

**[(i) Intrinsic value Rs 296 (ii) Yield value Rs 335 (iii) Fair value Rs 315.50]**

**Note: (1) Income tax reserve has been treated as undistributed profits and not as provision for tax liability.**

**(2) While calculating yield value, profits have been adjusted for bad debts nut depreciation on increase or decrease in the value of fixed assets has been ignored. Trend in profit has been ignored for the purpose of calculation of average profit.**

36. The following is the balance sheet of Bharat Lamps Ltd. as at 31st December, 2018

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Land and buildings | 6,60,000 |
| 1,20,000 equity shares of Rs | | Trade debtors | 5,40,000 |
| 10 each | 12,00,000 | Cash at bank | 3,00,000 |
| General reserve | 2,40,000 | Patents | 1,20,000 |
| Workmen's savings account | 1,80,000 | Stock | 2,40,000 |
| Trade creditors | 5,40,000 | Plant and machinery | 7,80,000 |
| Profit and loss account | 2,40,000 | Preliminary expenses | 1,20,000 |
| Provision for Taxation | 3,60,000 | | |
| | 27,60,000 | | 27,60,000 |

(a) The land and building is valued at Rs 14,40,000 and plant and machinery at Rs 7,20,000.

(b) Out of the trade debtors, debtors worth Rs 36,000 are considered bad.

(c) The goodwill of the company is considered worth Rs 10,80,000. All other assets were taken at their book values.

Profits of the company were as follows:

| | **Rs** |
|---|---|
| 2016 | 4,80,000 |
| 2017 | 5,40,000 |
| 2018 | 6,36,000 |

You are to ascertain the value of the shares of the company on the 'net asset basis' and the 'yield basis' considering the following points:

(i) The company is in the practice of transferring 25% of the profits to the general reserve; and

(ii) Similar companies pay dividend @ 10% on the market value of their equity shares. Ignore taxation.

**[(i) Asset-backing value Rs 27.70 (ii) Yield value Rs 33.75]**

**Note: (1) Workmen's Savings A/c is a liability.**

**(2) While calculating yield value, profits have been adjusted for bad debts but depreciation on increase or decrease in the value of fixed assets has been ignored. Trend in profit has been ignored for the purpose of calculation of average profit. A more appropriate approach would have been to take the weighted average having regard to increasing trend in profit.**

37. From the following particulars calculate the value of shares of Z Ltd. on yield basis:

***Balance Sheet of Z Ltd. as on 31st December, 2018***

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 8,000 equity shares of Rs 100 | | Land and buildings | 5,00,000 |
| each | 8,00,000 | Plant and machinery | 6,00,000 |
| 4,000 9% preference shares of | | Patents | 2,00,000 |
| Rs 100 | 4,00,000 | Sundry debtors | 3,00,000 |
| each | 2,00,000 | Work-in-progress and stock | 5,00,000 |
| 8% debentures | 4,00,000 | Cash at bank | 1,00,000 |
| Reserve | 4,00,000 | | |
| Sundry creditors | | | |
| | 22,00,000 | | 22,00,000 |

Land and buildings to be valued at Rs 9,00,000. The company's earnings were as follows:

| Year | Profit before tax (Rs) | Tax (Rs) |
|---|---|---|
| 2014 | 3,00,000 | 80,000 |
| 2015 | 4,00,000 | 1,60,000 |
| 2016 | 1,00,000 | 40,000 (strike) |
| 2017 | 5,00,000 | 2,30,000 |
| 2018 | 5,50,000 | 3,00,000 |

The company paid managerial remuneration of Rs 60,000 per annum but it will become Rs 1,00,000 in future. Income-tax liability in future is likely to be 50%. There has been no change in capital employed. The company paid dividend of Rs 9 per share and it will maintain the same in future. The company proposes to build up a plant rehabilitation reserve by appropriating 10% of profits every year. Dividend rate in this type of company is fluctuating and the asset backing of an equity share is about 1½ times. The equity shares with an average dividend of 8% sale at par.

**[Rs 253.13]**

**Note: Having regard to the increasing trend in profits, it is proper to take weighted average profit. Profit for 2016 should not be taken into consideration for calculating the average profit as it is an abnormal year.**

38. The balance sheet of Deepa Ltd. as on 31.12.2018 was as under:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 10,000 equity shares of Rs 10 each | 1,00,000 | Fixed assets | 1,20,000 |
| 6,000 8% preference shares of Rs 10 each | 60,000 | 6% investment at cost (face value Rs 70,000) | 60,000 |
| 7% debentures | 40,000 | Stock | 70,000 |
| Reserve and surplus | 60,000 | Debtors | 50,000 |
| Creditors | 50,000 | Cash at bank | 10,000 |
| | 3,10,000 | | 3,10,000 |

The following addition information is given:

(a) Fixed assets include land and building shown in the balance sheet at Rs 50,000 but the present market value of this is Rs 80,000.

(b) Profits of the last three years (before tax) were Rs 90,000, Rs 1,08,000 and Rs 1,38,000 respectively.

(c) Dividend paid on equity shares for the last three years were 18%, 23% and 25% respectively.

(d) Normal return of similar equity shares is 12% p.a.

Calculate the value of an equity share on yield basis.

**[(i) On the basis of dividend Rs 19.13 (taking average divided on a weighted basis)**
**(ii) On the basis of return on capital Rs 19.93 (assuming 2% depreciation on building and 50% income tax.]**

39. Given below is the balance sheet of Modern Wools Ltd. as at 31$^{st}$ March, 2019

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Land and buildings | 2,70,000 |
| Authorised and issued: | | Plant and machinery | 1,00,000 |
| 6,000 shares of Rs 100 each | | Stock | 3,60,000 |
| fully paid | 6,00,000 | Sundry debtors | 1,60,000 |
| Profit and loss account | 40,000 | | |
| Bank overdraft | 10,000 | | |
| Creditors | 80,000 | | |
| Provision for Taxation | 1,00,000 | | |
| Proposed dividend | 60,000 | | |
| | 8,90,000 | | 8,90,000 |

The net profits of the company, after deducting usual working expenses but before providing for taxation, were as under:

| Year | Rs |
|---|---|
| 2018 – 19 | 2,00,000 |
| 2017 – 18 | 2,20,000 |
| 2016 – 17 | 1,80,000 |
| 2015 – 16 | 2,20,000 |
| 2014 – 15 | 1,70,000 |

On 31st March, 2019, land and buildings were valued at Rs 2,80,000 and plant and machinery at Rs 1,20,000. Sundry debtors on the same date included Rs 4,000 as irrecoverable.

Having regard to value the company's shares ex-dividend, your own valuation of goodwill may be based on five years purchase of the annual super profits. (The tax is to be assumed at 50%). Depreciation on increase in the value of fixed assets may be ignored for the purpose of your calculations.

**[Value per share Rs 136.92; Value of goodwill Rs 1,55,500. Closing capital employed Rs 7,26,000; Average capital employed Rs 3,75,000. Super profit Rs 31,100]**

40. The following particulars are available in relation to A Ltd.

(i) Equity share capital: 5,000 Equity shares of Rs 20 each.
(ii) Preference share capital: 1,000 8% preference shares of Rs 100 each
(iii) Reserves Rs 30,000
(iv) Current liabilities Rs 18,000
(v) Loss on revaluation of fixed assets Rs 12,000.
(vi) Average trading profit Rs 30,000 (after tax)
(vii) Normal rate of return on capital employed 101%.

Calculate intrinsic value per equity share (assuming goodwill is to be valued at 3 years' purchase of super profit)

**[Capital employed Rs 2,18,000. Super profit Rs 8,200. Value of goodwill Rs 24,600. Value per share Rs 376]**

41. The following is the balance sheet of Lee Ltd. as on 31st December, 2019:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 5,000 shares of Rs 100 each fully paid | 5,00,000 | Land and buildings | 10,00,000 |
| | | Machinery | 2,00,000 |
| Profit and loss account | 7,50,000 | Stock | 3,00,000 |
| Bank loan | 2,50,000 | Debtors | 1,80,000 |
| Creditors | 1,00,000 | Bank balance | 2,10,000 |
| Proposed dividend | 1,20,000 | Preliminary expenses | 30,000 |
| Income tax provision | 2,00,000 | | |
| | 19,20,000 | | 19,20,000 |

Net profit for the five years ending 31st December, 2019 were as follows:

Rs

2015 2,20,000

[Adjusted average profit Rs 2,19,0000. Capital employed Rs 14,70,000. Value of goodwill Rs 3,60,000. Value per share Rs 376]

**[Value of goodwill Rs 122 lakhs; Value per share Rs 162]**

Note: Super profit has been calculated on the basis of closing capital employed. Alternatively, average capital employed may be considered instead of closing capital employed. The question of depreciation on increase in the value of fixed assets has been ignored]

42. On 31st March, 2019, the balance sheet of Raghuvans ltd. disclosed the following position:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Subscribed share capital in shares of Rs 10 each, fully paid | 4,00,000 | Goodwill | 40,000 |
| | | Fixed assets (tangible) | 5,00,000 |
| | | Current assets | 4,00,000 |
| General reserve | 1,90,000 | | |

| | | | |
|---|---|---|---|
| Profit and loss account<br>14% debentures<br>Current liabilities | 1,20,000<br>1,00,000<br>1,30,000 | | |
| | 9,40,000 | | 9,40,000 |

On the above mentioned date, the tangible fixed assets were independently valued at Rs 3,50,000 and goodwill at Rs 50,000. The net profits for the three years were: 2016-17 Rs 1,03,200, 2017-18 Rs 1,04,000, and 2018-19 Rs 1,03,300 of which 20% was placed to general reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair return on investment may be taken at 18%.

Compute the value of the company's share by – (i) the net assets method and (ii) the yield method. Ignore taxation.

43. The following is the balance sheet of P Ltd. on 31.12.19

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 40,000 equity shares of Rs 10 each<br>Reserves<br>Profit and loss account<br>10% debentures<br>Current liabilities | 4,00,000<br>1,00,000<br>20,000<br>80,000<br>2,00,000 | Goodwill<br>Other fixed assets<br>Current assets | 1,60,000<br>4,50,000<br>1,90,000 |
| | 8,00,000 | | 8,00,000 |

On 31.12.19 the fixed assets were independently valued as: Goodwill Rs 2,00,000. Other fixed assets Rs 5,00,000. The net profits for three years were: 2017: Rs 60,000. 2018: Rs 64,000. 2019: Rs 61,000. The company follows the practice of transferring 10% of such profit to reserve. Fair return on investment of the industry in which the company operates is 10%.

Compute the fair value of the shares of the company.

## UNIT -IV

1. What do you mean by liquidation of a company? Discuss different modes by which a company can be liquidated.
2. What is a Statement of Affairs? Prepare a Statement of Affairs with some imaginary figures.
3. Give the details of lists prepared at the time of liquidation of a company.
4. What is a Deficiency A/c? Prepare a Deficiency A/c of a company with imaginary figures.

Practical Problems:

1) Mr. x is appointed liquidator of Alfa Agro Ltd. company on 1st July, 2022. Following balances are extracted from the books on that date:

**Balance Sheet**

| **Equities and Liabilities** | Rs |
|---|---|
| Capital: | |
| 36,000 shares of Rs 10 each | 3,60,000 |
| 7% Debentures | 2,25000 |
| Bank overdraft | 81,000 |
| Creditors for Purchase | 90,000 |
| | 7,56,000 |
| **Assets** | Rs |
| Investments | 27,000 |
| Leasehold Properties | 1,80,000 |
| Stock in trade | 4,500 |
| Machinery | 1,35,000 |

| | | |
|---|---|---|
| Debtors | 2,70,000 | |
| Less Provision for Bad Debts | 45,000 | 2,25,000 |
| Calls in Arrears | | 22,500 |
| Cash in hand | | 4,500 |
| Profit and Loss Account | | 1,57,500 |
| | | 7,56,000 |

The Realisable value of Assets:

| | Rs |
|---|---|
| Calls in arrears | 22,500 |
| Machinery | 2,70,000 |
| Leasehold Properties | 3,27,000 |
| Investments | 18,000 |
| Stock | 90,000 |

Bad debts are Rs 9,000 and the doubtful debts are Rs 18,000 which are estimated to realise Rs 9,000. The bank overdraft is secured by deposit on the title deeds of leasehold properties. Preferential creditors Rs 4,500. Telephone rent outstanding is Rs 360 to Reliance communication.

Prepare a statement of affairs and find out deficiency as regards to contributories.

[Ans; Surplus as regard to contributories Rs 1,42,140]

4. The balance sheet of Bubble Ltd. as on $31^{st}$ December, 2020 was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Land and building | 25,000 |
| 8,000 preference shares of | | Other fixed assets | 2,00,000 |
| Rs 10 each | 80,000 | Stock | 5,25,000 |
| 12,000 equity shares of Rs | | Debtors | 1,00,000 |
| 10 each | 1,20,000 | Profit and loss account | 58,000 |
| Bank loan | 4,00,000 | | |
| 8% debentures | 1,00,000 | | |
| Interest outstanding on | | | |
| debentures | 8,000 | | |
| Creditors | 2,00,000 | | |
| | 9,08,000 | | 9,08,000 |

The company went into liquidation on that date. Prepare the liquidator's statement of account after taking into account the following:

(1) Liquidation expenses and liquidator's remuneration amounted to Rs 3,000 and Rs 10,000 respectively.

(2) Bank loan was secured by pledge of stock.

(3) Debentures and interest thereon are secured by a floating charge on all assets.

(4) Fixed assets were realised at book value and current assets at 80% of book value.

**[C. A. Inter]**

**Ans: Amount paid to Preference Shareholders Rs 4,000.**

5. Nervili Ltd. went into liquidation. Its assets realised Rs 3,50,000 excluding the amount realised by sale of securities held by the secured creditors. The following was the position:

| | Rs |
|---|---|
| Share capital: 10,000 shares of Rs 10 each | 1,00,000 |
| Secured creditors (securities realised Rs 40,000) | 35,000 |
| Preferential creditors | 6,000 |
| Unsecured creditors | 1,40,000 |
| Debentures having a floating charge on the assets of the company | 2,50,000 |
| Liquidation expenses | 5,000 |
| Liquidator's remuneration | 7,500 |

Prepare the liquidator's final statement of account.

**Ans: Amount paid to unsecured creditors Rs 86,500**

6. A Ltd. went into voluntary liquidation. The following are the details:

Assets realised Rs 40,000

Liquidator's remuneration Rs 5,000

Unsecured creditors Rs 20,000

Preference share capital Rs 20,000 (2,000 shares of Rs 10 each)

Equity share capital consisted of 3,000 shares of Rs 10 each, Rs 5 called up and paid up

You are required to prepare the liquidator's statement of account.

**Ans: Call made on equity shares Rs 5,000 i.e. @ Rs 1.67 per share.**

7. The Senbo Builders Ltd. went into voluntary liquidation with liabilities amounting to Rs 3,00,000. The assets realised Rs 17,80,000. The capital of the company consisted of 1,00,000 preference shares of Rs 10 each, Rs 7 per share called up and paid up. The holders of 80,000 shares had however paid the full Rs 10 in advance of calls. There were also 1,00,000 equity shares of Rs 10 each on which Rs 9 per share had been called. Holders of 20,000 shares had, however paid only Rs 8 per share, while holders of 40,000 shares had paid the full Rs 10 in advance of calls. The preference shareholders enjoy prior rights as to return of capital. The cost of winding up amounted to Rs 20,000. The calls in arrear are fully collected.

Prepare the liquidator's final statement of account.

**Ans: Payment of preference shareholders: towards calls-in-advance Rs 2,40,000, towards share capital Rs 7,00,000. Payment to equity shareholders: towards calls-in-advance Rs 40,000, towards share capital Rs 5,00,000 i.e. Rs 5 per share.**

8. A liquidator is entitled to receive remuneration @ 2% on the assets realised and 3% of the amount distributed among the unsecured creditors. The assets realised Rs 25,00,000 against which payment was made as follows:

| | Rs |
|---|---|
| Liquidation expenses | 25,000 |
| Preferential creditors | 75,000 |
| Secured creditors | 10,00,000 |

Calculate the remuneration payable to the liquidator.

**[ICSI Inter]**

**Ans: Rs 91,505 (Rs 50,000 on assets realised + Rs 2,250 on payment to preferential creditors + Rs 39,255 on payment to unsecured creditors.**

9. The following particulars related to a company which has gone into voluntary liquidation. You are required to prepare the liquidator's final statement of account allowing for his remuneration at 2 ¼ % of the amount realised and 3% of the amount distributed to unsecured creditors.

| | Rs |
|---|---|
| Preferential creditors | 15,000 |
| Unsecured creditors | 41,000 |
| Debentures (having a floating charge on the assets) | 15,000 |
| Assets realised | 79,300 |
| Liquidation expenses | 2,000 |

**Ans: Liquidator's remuneration Rs 3,547 (Rs 1,784 on assets realised + Rs 450 on payment to preferential creditors + Rs 1,313 on payment to unsecured creditors). Amount paid to unsecured creditors Rs 43,753.**

10. The following particulars relate to a limited company which went into voluntary liquidation:

| | Rs |
|---|---|
| Preferential creditors | 25,000 |
| Unsecured creditors | 58,000 |
| 6% debentures | 30,000 |

The assets realised Rs 80,000. The expenses of liquidation amounted to Rs 1,500 and the liquidator's remuneration was agreed as 2 ½ % on the amount realised and 2% on the amount paid to unsecured creditors including preferential creditors.

Prepare liquidator's final statement of account.

**Ans: Liquidator's remuneration Rs 2,912 ( Rs 2,000 on assets realised + Rs 500 on payment to preferential creditors + Rs 412 on payment to unsecured creditors). Amount paid to unsecured creditors Rs 20,588.**

11. The following particulars related to Alpha Ltd. which has gone into voluntary liquidation:

| | Rs |
|---|---|
| Preferential creditors | 1,00,000 |
| Unsecured creditors | 3,20,000 |
| Debentures | 1,00,000 |
| The assets realised as under: | |
| Land and building | 2,00,000 |
| Plant and machinery | 1,86,500 |
| Furniture and fittings | 10,000 |
| Liquidation expenses | 10,000 |

You are required to prepare the liquidator's final statement of account, allowing for his remuneration at 2% on the amount realised and 2% on the amount distributed to unsecured creditors other than preferential creditors.

**Ans: Liquidator's remuneration Rs 11,431 ( Rs 7,930 on assets realised + Rs 3,501on payment to unsecured creditors). Amount paid to unsecured creditors Rs 1,75,069.**

12. AB Ltd. went into liquidation with the following liabilities:

| | Rs |
|---|---|
| Secured creditors (securities realised Rs 25,000) | 20,000 |
| Preferential creditors | 6,000 |
| Unsecured creditors | 30,500 |
| Liquidator's expenses | 252 |

Liquidator's remuneration – 3% on the amount realised and 2% pm the amount distributed in unsecured creditors. Rs 26,000 were realised from various assets and this amount does not include those securities which are with secured creditors.

**Ans: Liquidator's remuneration Rs 1,985 ( Rs 1,530 on assets realised + Rs 120 on payment to preferential creditors + Rs 335 on payment to unsecured creditors). Amount paid to unsecured creditors Rs 16,763.**

13. A company having a paid up shares capital of Rs 1,00,000 and a loss of Rs 1,11,500 standing in its balance sheet went into voluntary liquidation on 31st March, 2021. The following are the particulars with regard to its assets and liabilities on the above date: Machinery, stock and debtors (which realised their book values) Rs 79,000, cash Rs 1,000, creditors Rs 40,000, 6% debentures (which carry a floating charge) Rs 50,000 and interest accrued thereon for six month Rs 1,500.

The above debentures were paid off with interest upto 30th September, 2021. On this date a first and final dividend was also paid to the creditors. Rs 5,000 of the creditors were preferential and the rest are unsecured. The cost of liquidation amounted to Rs 500. The liquidator was entitled to a commission of 3% on the amount realised from sale of assets and 2% of the amount paid to unsecured creditors.

Prepare liquidator's final statement of account.

14. Praksh Ltd. went into liquidation on 31st December, 2021. Following information is available with liquidator:

Sundry creditors amounted to Rs 75,000 of which Rs 8,000 were preferential. 6% debentures carrying a floating charge on the assets amount to Rs 80,000. Interest on debentures was paid upto 30.6.21. The assets were realised as follows:

Stock-in-trade Rs 84,000 and plant and machinery Rs 60,000. Cash in hand stood at Rs 500. Debentures were paid off on 30th June of the following year with interest. liquidator's expenses amounted to Rs 1,900 and he was entitled to a remuneration at 3% on the amount realised (including cash) and 2% on the amount distributed to unsecured creditors.

Prepare liquidator's final statement of account.

15. KP Ltd. was liquidated on 31st December, 2021, when its balance sheet was as under:

Balance Sheet as on 31st December, 2021

| | Rs | | Rs |
|---|---|---|---|
| Share capital | 1,00,000 | Land and building | 60,000 |
| 8% debentures | 1,00,000 | Plant and machinery | 40,000 |
| Mortgage loan | 50,000 | Stock | 80,000 |
| (secured on land and building) | | Debtors | 70,000 |
| Sundry creditors | 80,000 | Cash in hand | 5,000 |
| | | Profit and loss account | 75,000 |
| | 3,30,000 | | 3,30,000 |

Assets realised as follows:

| | Rs |
|---|---|
| Land and building | 55,000 |
| Plant and machinery | 25,000 |
| Stock | 20,000 |

Half of the debtors were bad and the balance realised 60% of book value.

The liquidator was entitled to a commission of 3% on amount realised other than cash and 2% on the amount paid to unsecured creditors.

Preferential creditors amounted to Rs 10,000 (included in sundry creditors)

Liquidation expenses amount to Rs 970.

Prepare liquidator's final statement of account.

16. It was decided on 1st July, 2021 to liquidate Pratap Ltd. The balance sheet of the company on this date is as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 12,000 10% preference shares of Rs 10 each | 1,20,000 | Plant | 2,00,000 |
| 20,000 equity shares of Rs 10 each | 2,00,000 | Stock | 1,00,000 |
| 5% debentures | 70,000 | Debtors | 1,50,000 |
| Creditors | 1,05,000 | Cash in hand & at bank | 15,000 |
| | | Profit and loss account | 30,000 |
| | 4,95,000 | | 4,95,000 |

The dividend on preference shares has been paid upto 30th June, 2020. Plant and stock realised Rs 2,75,000 and all the debts were realised except one for Rs 25,000. The liquidator admitted the claim of all creditors. Creditors include Rs 5,000 as preferential creditors. Expenses of liquidation are Rs 1,600. Debentures were repaid on 31st December, 2021. The liquidator's remuneration is 2% on the amount realised and 2% on the amount distributed to equity shareholder. The dividend on preference shares is payable before payment is made to equity shareholders.

You are required to prepare the liquidator's final statement of account.

17. The balance sheet of Anamika Ltd. as on 31st December, 2021 was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Issued share capital: | | Freehold property | 40,000 |

| | | | |
|---|---|---|---|
| 5,000 5% cumulative preference shares of Rs 10 each | 50,000 | Plant and machinery | 60,000 |
| | | Furniture and equipment | 10,000 |
| 10,000 equity shares of Rs 10 each | 1,00,000 | Stock | 71,000 |
| | | Debtors | 39,000 |
| 5% debentures | 40,000 | Balance at bank | 9,000 |
| Creditors | 89,000 | Profit and loss account | 50,000 |
| | 2,79,000 | | 2,79,000 |

The company passed a resolution to wind up voluntarily and you are appointed liquidator. The preference dividends were two years in arrear on 31st December, 2021. The article of association contains the following clause:

The debentures are secured on the freehold property and interest is payable on 30th June and 31st December in each year. And the interest due on 31st December, 2021 was paid.

The amount shown as creditor includes Rs 2,100 on account of income tax due but not paid.

The freehold property realised Rs 60,000; the plant and machinery Rs 47,500; stock Rs 54,000; debtors Rs 23,000. Liquidation expenses amounted to Rs 6,000 and the liquidator's remuneration was fixed at 2 1/2 % on the amount realised plus Rs 2,000.

The debenture holders were paid off on 31st March, 2022.

Draw up the liquidator's statement of account showing the final distribution.

18. J.P. Industries Ltd. went into voluntary liquidation on 1st April, 2022 on which date the position of the company was as under:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital: | | Land, building and machinery | 80,000 |
| 4,000 equity shares of Rs 100 each fully paid | 4,00,000 | Other fixed assets | 2,60,000 |
| | | Stock | 1,05,000 |
| Loans (secured by mortgage of land, building and machinery) | 1,00,000 | Debtors | 1,00,000 |
| | | Loans | 40,000 |
| Unsecured loans and liabilities (including preferential dues Rs 10,000) | 2,00,000 | Cash | 5,000 |
| | | Profit and loss account | 1,10,000 |
| | 7,00,000 | | 7,00,000 |

Land, building and machinery were realised by the secured creditors for Rs 1,20,000. Other fixed assets fetched Rs 40,000, debtors Rs 20,000, stock Rs 10,000. Loans were wholly bad. The liquidator is entitled to a fixed remuneration of Rs 1,000 plus 2% on the amount paid to unsecured creditors. The liquidator's out-of-pocket expenses amounted to Rs 1,000.

Show liquidator's statement of account.

19. A company went into voluntary liquidation on 31st March, 2022, when the following balance sheet was prepared:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Nominal capital: | | Goodwill | 30,000 |
| 20,000 shares of Rs 10 each | 2,00,000 | Leasehold property | 25,000 |
| Issued capital: | | Machinery | 37,400 |
| 14,000 shares of Rs 10 each | | Stock | 58,550 |
| Creditors: | | Debtors | 46,220 |
| Unsecured | 1,40,000 | Cash | 500 |
| Preferential creditors | 4,050 | Profit and loss account | 59,080 |
| Partly secured creditors | 29,180 | | |
| Bank overdraft (unsecured) | 1,160 | | |
| | 2,79,000 | | 2,79,000 |

The liquidator realised the assets as follows:

Leasehold property which was used in the first instance to pay the partly secured creditors pro rata Rs 18,000; Machinery Rs 25,000; Stock Rs 31,000; Debtors Rs 43,500; Cash Rs 500.

The expenses of liquidation amount to Rs 2,500 and the liquidator's remuneration was agreed at 2.5% on the amount realised including cash and 2% on the amount paid to unsecured creditors.

Prepare the liquidator's final statement of account showing the distribution.

20. Malabar Ltd. went into voluntary liquidation on 31st December, 2022 and the following balance sheet was prepared:

| Liabilities | | Rs | Assets | Rs |
|---|---|---|---|---|
| Subscribed capital: | | | Goodwill | 40,000 |
| 19,500 equity shares of Rs 10 | | | Patents | 10,000 |
| each fully paid | | 1,95,000 | Freehold building | 48,000 |
| Sundry creditors: | | | Plant and machinery | 65,500 |
| Preferential | 24,200 | | Stock-in-trade | 56,800 |
| Partly secured | 55,310 | | Sundry debtors | 64,820 |
| (against freehold property) | | | Bills receivable | 2,500 |
| Unsecured | 99,790 | 1,79,300 | Profit and loss account | 98,680 |
| Bank overdraft (unsecured) | | 12,000 | | |
| | | 3,86,300 | | 3,86,300 |

The liquidator realised the assets as follows:

| | Rs |
|---|---|
| Freehold building (to pay pro rata to partly secured creditors) | 35,000 |
| Plant and machinery | 51,000 |
| Stock-in-trade | 39,000 |
| Sundry debtors | 59,000 |
| Bills receivable | 2,500 |

The expenses on liquidation amounted to Rs 1,000 and the liquidator's remuneration was agreed at 2 ½ % on the amount realised and 2% on the amount paid to unsecured creditors.

You are required to prepare liquidator's statement of account.

## Questions of 2 Marks and 3 Marks each

**Two Marks Questions will be answered within 3 sentences each and Three Marks Questions will be answered within 75 words each**

### UNIT – I

1. What is a share?
2. What do you mean by share capital?
3. What is preference share?
4. What are the preferential rights provided to preference shareholders?
5. What is cumulative preference share?
6. What do you mean by non-cumulative preference share?
7. What is redeemable preference share?
8. What is irredeemable preference share?
9. What is convertible preference share?
10. What do mean by equity share?
11. Give three differences between preference share and equity share.
12. What do you mean by issue at part?
13. What do you mean by issue at premium?
14. What do you mean by issue of shares at discount?
15. What do you mean by allotment of shares?
16. What do you mean by calls in arrear?
17. What do you mean by calls in advance?
18. What do you mean by Securities Premium?
19. What is forfeiture of shares?
20. What is the meaning of re-issue?
21. What is pro-rata allotment?
22. What is a company?
23. Give three features of a company form of business.
24. What do you mean by perpetual existence?
25. What is the meaning of Common Seal?
26. What is the private company?
27. What is a public company?
28. Give three differences between private company and public company.
29. What is a Government company?
30. Who is a promoter?
31. Give three functions of promoter.

32. What do you mean by Sweat Equity?
33. What is Employees Stock Option Plan? (ESOP)
34. What do you mean by bonus shares?
35. What do you mean by right issue?
36. What is a debenture?
37. What is bearer debenture?
38. What is registered debenture?
39. What is convertible debenture?
40. What is non-convertible debenture?
41. What do you mean by Redeemable debenture?
42. What is irredeemable debenture?
43. How can you deal with discount on issue of debentures in accounts?
44. What is the accounting treatment is debenture interest?
45. Give two differences between shares and debentures.
46. How can you classify issue of debentures from consideration point of view?
47. What do you mean by issue of debenture as collateral security?
48. Give three differences between Equity shares and Preference shares.

## UNIT –II

1. What do you mean by buy-back of shares?
2. Give three sources which can be used by the company for buy back of shares.
3. Give the guidelines issued by SEBI for buy back of shares by a company.
4. Give the advantages of buy-back of shares.
5. Give the limitations of buy-back of shares.
6. Give the journal entries when buy back of shares made at par, at premium and at discount.
7. What are the sources of Redemption of Preference Shares?
8. What do you mean by Capital Redemption Reserve?
9. Give two advantages of redemption of debentures by a company.
10. ABC Ltd. purchased for cancellation its own 5,000, 9% Debentures of Rs 100 each for Rs 96 per debenture. The brokerage charges Rs 15,000 were incurred. Calculate the amount of profit to be transferred to capital reserve.
11. State the provisions of Companies Act, 2013 for the creation of 'Debenture Redemption Reserve'.
12. What are the various sources for redemption of debentures?
13. Explain the term 'redemption of debentures out of profit'.
14. What do you mean by 'Debenture Redemption Reserve'?

15. How can you show balance of Debenture Redemption Reserve in the Balance Sheet of the company?
16. What do you mean by 'Own Debentures'?
17. How can you treat with the profit of cancellation of own debentures.
18. Explain redemption of debentures by drawing lots.
19. What do you mean by redemption of debentures by conversion?
20. What do you mean by redemption by purchased from open market?
21. What is Cum-interest price?
22. What is Ex-interest price?
23. Distinguish between cum-interest and ex-interest price.
24. What do you mean by Sinking Fund?
25. How can you deal with interest on own debentures?
26. Give the journal entries for redemption of Debentures by purchasing them in the open market.

## UNIT – III

1. State five items which are shown under the head 'Reserve and Surplus' in the Balance Sheet of a company.
2. Give five examples of assets which are shown on the assets side of Balance Sheet of a company under the head 'Current Assets'
3. Give five examples of assets which are shown on the assets side of Balance Sheet of a company under the head 'Non-current Assets'
4. Give five examples of assets which are shown on the assets side of Balance Sheet of a company under the head 'Current Liabilities'
5. Give five examples of assets which are shown on the assets side of Balance Sheet of a company under the head 'Non-current Liabilities'
6. What do you mean by Contingent Liabilities? How are they shown in the Balance Sheet of the company?
7. Name three items which are the appropriations of profit of a company.
8. What are the purposes served by Schedule III of the Companies Act 2013?
9. Name the sources from which the company can declare divided.
10. Give three examples of Contingent Liabilities.
11. What do you mean by Financial Cost in the Profit and Loss Account of a company?
12. Write short note on free reserves. Give some examples of it.
13. What do you mean by the term 'divisible profit'?
14. What do you mean by ploughing back of profits?
15. What are the statutory books of company?
16. Write a short note on Corporate Dividend Tax (CDT).

17. Distinguish between Statement of Profit and Loss and Profit and Loss Appropriation Account.
18. Distinguish between fixed assets and current assets.
19. Give three factors which determine the value of goodwill.
20. What is the nature of goodwill?
21. Why is goodwill treated as intangible asset but not fictitious asset?
22. Explain the meaning of goodwill.
23. Give the circumstances when goodwill is calculated.
24. Distinguish between average profit and super profit.
25. Explain the average profit method of valuation of goodwill.
26. Explain the super profit method of valuation of goodwill.
27. Explain the capitalisation method of valuation of goodwill.
28. What is the necessity of valuation of shares of a company?
29. Give different methods used for valuation of shares.
30. How can you calculate the net assets of a company?
31. What do you mean by Yield?
32. Write short note of Intrinsic value method of valuation of shares.
33. State the factors which influence the value of shares of a company.
34. Distinguish between intrinsic value and yield value of shares.

## UNIT –IV

1. What is a Statement of Affairs?
2. What is a Deficiency Account?
3. What items are shown in List A for preparation of Statement of Affairs?
4. What items are shown in List B for preparation of Statement of Affairs?
5. What items are shown in List C for preparation of Statement of Affairs?
6. What items are shown in List D for preparation of Statement of Affairs?
7. What items are shown in List E for preparation of Statement of Affairs?
8. What items are shown in List F for preparation of Statement of Affairs?
9. What items are shown in List G for preparation of Statement of Affairs?
10. Explain the meaning of 'Preferential Creditors'.
11. Differentiate between liquidation and insolvency.
12. Who are contributories in case of liquidation of a company?
13. Explain the meaning of List A Contributories.
14. Explain the meaning of List B Contributories.

## Questions of 1 Mark each

### Fill in the blanks

**UNIT – I**

### Issue of Shares:

1. Shares having preferential right as to dividend and repayment of capital are termed as ___________.
2. Shares which are not preference shares are called ___________.
3. A company can't issue shares at ___________.
4. A company can issue shares at discount only in case of ___________.
5. The amount of the shares premium received by the company is shown under the heading ___________ in the company's balance sheet.
6. When shares are forfeited, the unpaid calls account is ___________.
7. According to Section 52 of the Companies Act, 2013, the share premium collected ___________be cancelled at the time of forfeiture of shares.
8. The balance in share forfeited account before the re-issue of forfeited shares added in ___________ capital.
9. Profit on the re-issue of forfeited shares is transferred to ___________ account and this will appear on the ___________ portion of the balance sheet under the head ___________.
10. The shares which are issued to the existing shareholders without any consideration are known as ___________.
11. Equity shareholders are treated as the real ___________ of the company.
12. Preference shareholder are just like the ___________ of the company.
13. Preference shareholders have the preferential rights regarding ___________ and ___________.
14. As per Companies Act, 2013 public companies are not allowed to issue ___________ shares.
15. Preference shares the holders of which have the rights to participate in the surplus profits of the company after payment of equity dividend are known as ___________.
16. The maximum amount of capital that a company can issue to the public is known as ___________.
17. The portion of the capital which can be called up only at the time of liquidation of the company is called ___________.
18. The excess money received on application to be adjusted with allotment is credited to ___________ A/c.
19. Share application account is a ___________ A/c
20. As per the provisions of Companies Act, 2013 the minimum application money should be at least ___________ % of the nominal value of shares.
21. On an ordinary share of Rs 100 each, the minimum application money should be Rs ___________.
22. Money received in advance from shareholders before it is actually called by the directors will be credited to ___________ A/c.
23. Interest on calls in arrears is charged at ___________ % according to Table F.
24. If a company has adopted Table F, the company is required to pay interest on calls in advance at the rate of ___________ %.

25. Amount received on account of Securities Premium is credited to ___________ A/c.
26. Discount allowed on re-issue of forfeited shares is debited to ___________ A/c.
27. Premium on issue of shares is shown on the ___________ side of Balance Sheet.
28. For allotment of shares ___________ A/c is credited.
29. E-form MGT 14 is to be filled within ___________ days of issue of securities in case of right shares.
30. With the issue of right shares, there is no ___________ in the value of existing shares.
31. There is conversion of ___________ into shares capital in bonus issue.
32. Bonus shares can be issued when ___________ paid shares are converted into ___________ paid shares.
33. Right shares are those shares which are issued to ___________ shareholders.
34. The shares which are issued to the existing shareholders as a matter of right then it is known as ___________ shares.
35. When the shares are issued by capitalising the profit then it is known as ___________ shares.
36. The shares which are issued to the shareholders in lieu of payment of cash dividend are known as ___________.

Answers:

| | | | |
|---|---|---|---|
| 1. | Preference shares | 2. | Equity shares |
| 3. | Share at discount | 4. | Sweat equity shares |
| 5. | Reserve and Surplus | 6. | Credited |
| 7. | Cannot | 8. | Paid up Capital |
| 9. | Capital Reserve, Equity and liabilities, Reserve and Surplus. | 10. | Bonus |
| 11. | Owners | 12. | Creditors |
| 13. | Dividend and Refund of Capital | 14. | Deferred Shares |
| 15. | Non-participating | 16. | Authorised |
| 17. | Reserve Capital | 18. | Share Allotment |
| 19. | Personal | 20. | 5% |
| 21. | Rs 5 | 22. | Calls-in-advance |
| 23. | 10% | 24. | 12% |
| 25. | Securities Premium | 26. | Share Forfeited |
| 27. | Liability | 28. | Share capital |
| 29. | 30 days | 30. | Dilution |
| 31. | Profit | 32. | Partly, Fully |
| 33. | Existing | 34. | Right |
| 35. | Bonus | 36. | Bonus |

## Issue of Debentures

1. Debentures which cannot be transferred by mere delivery are called ___________ debentures.
2. Debentures which are issued without any mortgage of assets of the company are known as ___________ debentures.
3. ___________ debentures are those debentures which are secured either on a particular asset called fixed charge or on the general assets of the company called floating charge.
4. Sinking fund account after redemption of debentures is transferred to ___________ A/c.
5. Sinking fund created for repayment of loan is in the nature of ___________.
6. Own debenture account will appear on the ___________ side of balance sheet.
7. Premium on the redemption of debentures is in the nature of a ___________ Account.

8. When debentures are redeemed out of profits, an equal amount is transferred to __________ account.
9. Debenture is the written __________ of debt by a company.
10. Debenture holders are __________ of the company.
11. Debentures are long term __________.
12. Premium on redemption of debentures is a __________ A/c.
13. Debentures which can be transferred by mere delivery are __________debentures.
14. Debentures appear under the main heading __________.
15. Unsecured debentures have __________ security.
16. Debentures are defined under section __________ of the Companies Act, 2013.
17. Debentures have __________ number of charges on the assets of the company.
18. Debenture interest is a/an __________ of profit.
19. Discount on issue of debentures appears on __________ side of Balance Sheet.
20. Discount on issue of debentures is a/an __________ asset.
21. When debentures are issued as collateral security for a loan then it will be debited to __________ A/c.
22. Interest payable on debentures is debited to __________ .

Answers:

| | | | |
|---|---|---|---|
| 1. | Registered | 2. | Naked or Unsecured |
| 3. | Mortgage or Secured | 4. | General Reserve |
| 5. | Accumulated Profits | 6. | Assets |
| 7. | Personal | 8. | Debenture Redemption Reserve |
| 9. | Acknowledgement | 10. | Creditors |
| 11. | Loans or Borrowings | 12. | Personal |
| 13. | Bearer or Naked | 14. | Non-current liabilities |
| 15. | No | 16. | 2 |
| 17. | 2 | 18. | A Charge |
| 19. | Asset | 20. | Fictitious |
| 21. | Debenture Suspense | 22. | Statement of Profit and loss |

## UNIT –II

1. A company can purchase its own shares by using _______ reserve as a source.
2. The company can buy back its shares only when it is provided in the _______ of the company.
3. The post buy-back ratio of debt to equity capital and free reserves should not exceed _______.
4. Every buy-back shall be complete within _______ months from the date of passing of special resolution or board resolution.
5. Sources of buy back include the proceeds of the issue of any share and other specified _______
6. Sources of redemption of Preference Shares are divisible profits and __________.
7. CRR stands for __________.
8. The Capital Redemption Reserve Account can be utilised for the issue of fully paid __________.
9. Amount to be transferred to C.R.R. = __________ Less Amount of Fresh issue.
10. If preference shares are redeemed at premium, then such premium must be provided either out of profit of the company or out of the company's __________ A/c.

11. Preference Shares are to be redeemed after the expiry of ___________ years from the date of their issue.
12. The important provisions regarding the redemption of preference shares are given under Section ___________ of the Companies Act, 2013.
13. When the preference shares are to be redeemed out of profit then a sum equal to the nominal value of shares redeemed will be transferred to ___________ A/c.
14. Premium on redemption of debentures is in the nature of a ___________ A/c.
15. After all the debentures have been redeemed, the balance in the DRR A/c is transferred to ___________ A/c.
16. Debenture Redemption Reserve account always has ___________ balance.
17. Profit on cancellation of debentures is a ___________ profit.
18. When debentures are redeemed out of profit, an equal amount is transferred to ___________ A/c.
19. Debenture Redemption Investment account always shows a ___________ balance.
20. Debentures are redeemed without setting aside amount to debentures redemption reserve. It is redemption of ___________ Company.
21. Debentures redemption investment should be made ___________ 30th April of the current year in which debentures are redeemed.
22. Debenture redemption investment should be made of an amount at least equal to ___________ of the nominal value of the debentures to be redeemed during the year ending March 31 of the next year.
23. Own Debentures will be shown on ___________ side of Balance Sheet.
24. At the time of cancellation of own debentures, ___________A/c is created.
25. Debenture Redemption Reserve is shown in the Balance Sheet under the head ___________.
26. Interest on debentures is calculated on ___________ value of debentures.
27. As per Section 71 of the Companies Act, 2013 a company issuing debentures is required to create a Debenture ___________ Reserve account out of profits available for distribution of dividend until such debentures are redeemed.
28. Under ___________ method of redemption of debentures, a fund is created out of profits and invested in readily realizable securities for the purpose of providing a definite amount of money needed for redemption of debentures at a particular date.

Answers:

| | | | |
|---|---|---|---|
| 1. | Free | 2. | Articles of Association |
| 3. | 2 : 1 | 4. | 12 months |
| 5. | Securities | 6. | Proceeds of fresh issue of shares |
| 7. | Capital Redemption Reserve | 8. | Bonus shares |
| 9. | Nominal Value of preference shares redeemed | 10. | Securities premium Reserve |
| 11. | 20 years | 12. | 55 |
| 13. | Capital Redemption Reserve | 14. | Personal |
| 15. | General Reserve | 16 | Credit |
| 17. | Capital | 18. | Debenture Redemption Reserve |
| 19. | Debit | 20. | Listed |
| 21. | On or before | 22. | 15 |
| 23. | Asset | 24. | Profit on cancellation of own debentures |
| 25. | Reserve and Surplus | 26. | Nominal value |
| 27. | Redemption | 28. | Sinking fund |

UNIT – III

## FINAL ACCOUNTS OF COMPANIES

1. Assets are classified as non-current assets and ________.
2. Authorised capital is also called ________ capital.
3. The amount of issued capital cannot exceed ________ capital.
4. Creditors are shown under Trade ________.
5. Provision for Tax is a ________ provision.
6. Debenture Redemption Reserve is shown under the head ________.
7. Non-current assets are not held for ________.
8. Investment in Mutual Fund is a ________ investment.
9. Claims against the company not acknowledged as debt is classified as ________.
10. Statement relating to earning is also known as ________.
11. Profit prior to incorporation cannot be distributed as ________.
12. A dividend is a ________ distributed to the shareholders.
13. Un-claimed dividend is shown as ________ in the balance sheet.
14. Interim dividend enhances the ________ of the corporation.
15. Current liabilities are the liabilities that are payable within ________.
16. Debenture holders are the ________ of the company.
17. Dividend Equalisation Reserve is shown under the head ________.
18. Prepaid expenses are ________ from related expenses in Trading or Profit and Loss Account.
19. Income received in advance is shown on ________ side of Balance Sheet.
20. Profit and loss account is also known as ________.
21. Balance sheet is also known as ________.
22. The transactions left unrecorded or wrongly recorded in books of accounts are called as ________.
23. Outstanding salaries are to be shown as ________ liability.
24. At present the Act governing the companies in India is ________.
25. Balance Sheet of a company is prepared in ________ form.
26. Calls in arrear is shown on ________ side of Balance Sheet.
27. Interest paid on borrowings is shown in the Income Statement under the head ________.
28. Creditors are shown the Balance Sheet under the head ________.
29. Goodwill, Patents, Trade Marks etc. are shown as asset of a company under the head ________.
30. ________refers to share profit distributed by the company to its shareholders.
31. The term ROI stands for ________.
32. The business which need not prepare trading account is ________.
33. Change in inventory refers to the difference between ________ and ________.
34. Assets in the Balance Sheet of a company are arranged in the order of ________.
35. Dividend declare between two Annual General Meeting of the company is known as ________ dividend.
36. Dividends can be paid only out of ________.
37. The liabilities which are not shown in the Balance Sheet but shown by way of foot note are known as ________.
38. Deferred tax assets are shown under the head ________ in the balance sheet of a company

Answers:

| | | | |
|---|---|---|---|
| 1. | Current assets | 2. | Nominal or Registered |
| 3. | Authorised | 4. | Payables |
| 5. | Short-term | 6. | Reserve and Surplus |
| 7. | Sale | 8. | Non-current |
| 9. | Contingent liabilities | 10. | Profit and Loss Appropriation Account |
| 11. | Dividend | 12. | Profit |
| 13. | Current Liability | 14. | Goodwill |
| 15. | One year | 16. | Creditor |
| 17. | Reserve and Surplus | 18. | Deducted |
| 19. | Equities and Liabilities | 20. | Income Statement |
| 21. | Statement of position | 22. | Adjustments |
| 23. | Current | 24. | Companies Act, 2013 |
| 25. | Vertical | 26. | Asset |
| 27. | Financial Charges | 28. | Trade Payables |
| 29. | Intangible fixed assets | 30. | Dividend |
| 31. | Return on investment | 32. | Non-trading business |
| 33. | Opening stock and closing stock | 34. | Performance |
| 35. | Interim | 36. | Profits |
| 37. | Contingent Liabilities | 38. | Non-current assets |

## VALUATION OF GOODWILL AND SHARES

1. The excess of average profit over normal profit is ________.
2. The level of profit maintainable in the future is called ________.
3. Goodwill is a/an ________ asset.
4. Net capital employed = Fixed assets plus Current assets Less ________.
5. In ________ method the value of share depends on net assets.
6. The value of share which is calculated on the basis of net assets is known as ________ value.
7. Yield value depends on ________.
8. The value of share which is calculated on the basis of earning capacity of the company is known as ________.
9. Price Earning Ratio is the relationship between ________ and ________.
10. Earning Per Share depends on the net profit available to ________ shareholders.
11. The formula of yield value of a share = ________
12. Fair value is considered to be the best method of valuation of share because it is based on ________.
13. For determining the value of a share on the basis of price earning ratio, the required information are ________.

Answers:

| | | | |
|---|---|---|---|
| 1. | Super profit | 2. | Average profit |
| 3. | Intangible non-current asset | 4. | Current liabilities |
| 5. | Intrinsic value | 6. | Intrinsic value |
| 7. | Profit earning capacity | 8. | Yield value |
| 9. | Price per share and earning per share | 10. | Equity |
| 11. | $\frac{expected\ Rate\ of\ Return}{Normal\ Rate\ of\ Return} \times$ Paid up value per share | 12. | Both Intrinsic and Yield Value |
| 13. | Earning per share, Market Price per share | | |

# UNIT –IV

1. ________ is the legal procedure by which the company comes to an end.
2. Liquidation denotes the process of law where by a company wound up to terminate its ________ life.
3. Liquidation of a company can take place under both circumstances whether the company is ________ or ________.
4. Shareholders who transferred the asset in the period of 12 months preceding the date of winding up are known as ________ contributories.
5. The liquidator's remuneration usually consists of a ________ based as a percentage on assets realised and payment made to unsecured creditors.
6. Liquidation is governed under the provisions of ________ and ________.
7. Modes of winding up is described in ________ Section of the Companies Act, 2013.
8. Section 271 of Companies Act is related to the winding up by the ________.
9. Liability on the bills discount estimated to rank is a part of ________.
10. Preferential creditors are listed in ________.
11. Section ________ of insolvency and bankruptcy code, 2016 deals with voluntary liquidation.
12. For the purpose of winding up of a company by the Tribunal, the Tribunal appoints the ________.
13. Company liquidator shall make an application to the Tribunal for constitution of ________ to assist and monitor the progress of liquidation proceedings.
14. Company liquidator shall be the ________ of winding up committee.
15. Under the winding up by tribunal, the terms and conditions of appointment and ________ to liquidator shall be specified by the Tribunal.
16. In case of voluntary liquidation of a solvent company, interest on debentures is payable up to --------.
17. Liquidation means -------- of a company.
18. Past members are included in -------- contributories.
19. In case of liquidation, the company must submit a statement of affairs within -------- days of the passing of the winding up order.
20. Present shareholders or members are included in list -------- contributories.
21. The person who looks after the realisation of assets and discharge of liabilities of a company at the time of liquidation is known as --------.
22. While making payment, the liquidator must pay -------- first.
23. List H shows -------- Account.

Answers:

| | | | |
|---|---|---|---|
| 1. | Liquidation | 2. | Corporate |
| 3. | Solvent | 4. | List B |
| 5. | Commission | 6. | Companies Act, 2013; Insolvency and Bankruptcy Code, 2016 |
| 7. | 270 | 8. | Tribunal |
| 9. | List E | 10. | List C |
| 11. | 59 | 12. | Official Liquidator |
| 13. | Winding up Committee | 14. | Convener |
| 15. | Remuneration | 16. | Date of payment |
| 17. | Closing down | 18. | List B |
| 19. | 21 | 20. | A |
| 21. | Liquidator | 22. | Amount due to secured creditor |
| 23. | Deficiency | | |