

Practical Questions**Shares issued at par and lumpsum payment**

Q No 1: Harsh Ltd. was registered with the authorized capital of Rs. 25,00,000 divided into shares of Rs. 10 each. It incurred preliminary expenses of Rs. 50,000. It issued 1,00,000 equity share for public subscription at par after incurring share issue expenses of Rs. 25,000. All money was payable in lumpsum on application. Applications were received for 2,50,000 shares and directors made the allotment. Show necessary Journal Entry in the books of Harsh Ltd.

(Similar Question PQ1: Do it yourself)

Shares issued at premium and lumpsum payment

Q No 2: Rishi Limited issued 12,000 equity shares of 100 each at a premium of 20% payable in lumpsum along with application. 12,000 shares were applied for and allotted. All money due was received.

Give necessary journal entries to record above transaction in the books of Rishi Ltd.

(Similar Question PQ2: Do it yourself)

Shares issued at par and installment payment

Q No 3: Rohan Limited issued 20,000 equity shares of Rs. 10 each payable as:

Rs. 2 per share on application

Rs. 3 per share on allotment

Rs. 4 per share on first call

Rs. 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received.

Pass the necessary Journal Entries to record the above transactions in the books of Roahn Limited.

(Similar Question PQ3 & PQ4: Do it yourself)

Q No 4: ABC Limited offered to public for subscription 10,000 shares of Rs. 10 each at par.

Details of the sum payable is as follows:

Installment	Rs. Per Share	Due Date	Date of Receipt
Application	4		15.07.2022
Allotment	3	04.08.2022	31.08.2022
1 st Call	2	10.10.2022	31.10.2022
Final Call	1	02.12.2022	29.12.2022

Make journal entries to record the above issued shares if:

- (i) Application Received for 10,000 Shares
- (ii) Application received for 9,000 Shares

(Similar Question PQ5: Do it yourself)

Shares issued at premium and installment payment

Q No 5: Jupiter Company Limited issued 35,000 equity shares of Rs. 10 each at a premium of Rs.2 payable as follows:

On Application Rs. 3

On Allotment Rs. 5 (including premium)

Balance on First and Final Call

The issue was fully subscribed. All the money was duly received. Record journal entries in the books of the Company.

(Similar Question PQ6: Do it yourself)

Q No 6: X Ltd. was registered with a capital of Rs. 10,00,000 in shares of Rs. 10 each. It issued a prospectus inviting applications for 10,000 shares at 40% premium payable as follows:

On Application Rs. 5 (including Rs. 1 Premium),

On Allotment Rs. 4 (including Rs. 1 Premium)

On First Call Rs. 3 (including Rs. 1 Premium),

On Second Call Balance.

Applications were received for 10,000 shares. All money was duly received. Pass the necessary Journal entries.

(Similar Question PQ7: Do it yourself)

Calls in Arrear and Interest thereon

Q No 7: The Kalyan cotton Mills Ltd. was registered on 1st January, 2011 with a capital of Rs 10,00,000 divided into 1,00,000 shares of Rs 10 each. The company issued 60,000 shares of which 40,000 shares were taken up by the public and Rs 1 per share was received with application. On 1st February, these shares were allotted and Rs 2 per share was duly received on 28th February as allotment money. A first call of Rs 3 per share was made on 1st March which was received by 15th March the exception of 100 shares. The final call of Rs 4 per share was made on 1st June and the amount due, with the exception of 400 shares, was received by 30th June.

All arrear on calls received on 31st August along with interest. Pass the necessary Journal entries. (Company adopt **Table F** for interest on calls in advance and calls in arrear, if any)

(Similar Question PQ8: Do it yourself)

Calls in Advance and Interest thereon

Q No 8: Bala Limited issued at par 1,00,000 Equity shares of Rs.10 each payable Rs.2.50 on application; Rs.3 on allotment; Rs. 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Sharma who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Sharma. Give journal entries to record these transactions.

(Similar Question PQ9: Do it yourself)

Shares issued at par and Oversubscription

Q No 9: Mona Earth Mover Limited decided to issue 12,000 shares of Rs.100 each payable at Rs. 30 on application, Rs.40 on allotment, Rs. 20 on first call and balance on second and final call. Applications were received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money was duly received on all the shares, and all sums due on calls are received. Record the transactions in the books of Mona Earth Movers Limited.

(Similar Question PQ10: Do it yourself)

Shares issued at premium and Oversubscription with Pro-rata allotment

Q No 10: Mohi Ltd issued a prospectus inviting applications for 20,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

on Application Rs. 2, on Allotment Rs. 5 (including premium), on First Call Rs. 3, on Second & Final Call Rs. 2.

Applications were received for 30,000 shares and pro rata allotment was made to all applicants. It was decided to utilise excess Application Money towards the amount due on allotment.

Required: Pass the necessary journal entries.

(Similar Question PQ11: Do it yourself)

Q No 11: Sajal Ltd. issued Rs. 10,00,000 new capital divided into Rs. 100 shares at a premium of Rs. 20 per share payable, as under:

On Application Rs. 10 per share

On Allotment Rs. 40 per share (Including Rs. 20 premium)

On First and Final Call Balance

Overpayments on application were to be applied towards sums due on allotment. Where no allotment was made, money was to be returned in full. The issue was over-subscribed to the extent of 13,000 shares. Applicants for 12,000 shares were allotted only 2,000 shares and applicants for 3,000 shares were sent letters of regret and application deposits were returned to them. All the money due on allotment and final call was duly received.

Required: Make the necessary entries in the Company's books to record the above transactions.

Q No 12: Piyush Limited is a company with an authorized share capital of Rs. 2,00,00,000 in equity shares of Rs. 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of Rs. 10 each at a price of Rs. 12 each, the arrangements for payment being:

- (i) Rs. 2 per share payable on application, to be received by 1st July, 2017;
- (ii) Allotment to be made on 10th July, 2017 and a further Rs. 5 per share (including the premium) to be payable;
- (iii) The final call for the balance to be made, and the money received by 30th April, 2018.

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

- (1) Applicants for 20,000 shares received allotment in full;
- (2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
- (3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date. You are required to record these transactions (including cash items) in the journal of Piyush limited.

(Similar Question PQ12: Do it yourself)

Pro-rata allotment with calls in arrear and calls in advance

Q No 13: X Ltd. issued to the public for subscription 40,000 shares of Rs. 10 each at par payable as Rs. 2 each on Application, Allotment and First Call and the balance on the Final Call. Applications were received for 60,000 Shares and allotment was made pro rata to 80% of applicants. R to whom 1,600 shares were allotted paid only the Application Money and S

who had applied for 2,400 shares paid the entire call money due along with the allotment. Pass the necessary Journal entries to record the above transactions assuming that Calls-in-arrears Account and Calls in advance account is maintained.

(Similar Question PQ13: Do it yourself)

Q No 14: Joravar Ltd. issued 50,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as Rs. 3 on application, Rs. 5 including premium on allotment and the balance in equal instalments over two calls. Applications were received for 92,000 shares and the allotment was done as under:

- A. Applicants of 40,000 shares – Allotted 30,000 Shares
- B. Applicants of 40,000 shares – Allotted 20,000 Shares
- C. Applicants of 12,000 shares – Nil

Suresh, who had applied for 2,000 shares (Category A) did not pay any money other than Application Money.

Chander, who was allotted 800 shares (Category B) paid the calls money due along with allotment. All other allottees paid their dues as per schedule.

Required: Pass the necessary Journal entries in the books of Joravar Ltd. to record the above assuming that Calls-in-arrears Account is maintained.

Forfeiture of Shares

Q No 15: Ganga Limited issued 10,000 equity shares of 100 each payable as follows:

Rs. 20 on application,

Rs. 30 on allotment,

Rs. 20 on first call and

Rs. 30 on second and final calls

10,000 shares were applied for and allotted.

All money due was received with the exception of both calls on 300 shares held by Supriya.

These shares were forfeited. Give necessary journal entries relating to Forfeiture of Shares.

(Similar Question PQ14: Do it yourself)

Q No 16: X Ltd. issued 2,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share payable as under:

On application Rs. 3 per share, on allotment Rs. 5 per share (including premium), on first call Rs. 4 per share and balance on second call. Mr. Y was allotted 40 shares. Mr. Y failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Pass the necessary journal entry relating to the forfeiture of shares.

Q No 17: Avika Ltd. with a share capital of Rs. 1,00,000 divided into 2,000 shares of Rs. 50 each offers the shares to the public as under:

Rs. 10 per share payable on application; Rs. 10 per share payable on allotment; Rs. 15 per share payable on 1st call; and Rs. 15 per share payable on second call.

Shareholder 'A' who holds 30 shares has paid only the Application Money.

Shareholder 'B' who holds 20 shares has paid Application Money on 20 shares and allotment money on only 10 shares. He has not paid only other calls.

Shareholder 'C' who holds 18 shares has paid only the application and allotment money.

Shareholder 'D' who holds 5 shares has paid application, allotment and first call money.

Shareholder 'E' who holds 3 shares has paid application, allotment and first call money in full and second call money on only 2 shares.

The company forfeits the shares of the above shareholders who have not paid the arrears.

Required: Journalise the above transactions for forfeiture in the books of Avika Ltd.

(Similar Question PQ15: Do it yourself)

Q No 18: BLUE Ltd. offered 40,000 shares of Rs. 10 each at 20% premium payable as follows: On application Rs. 6 (including Rs. 1 premium) and balance on allotment. Public has applied for 65,000 shares. Shares were allotted on pro rata to the applicants of 50,000 shares. Money overpaid on applications was employed on account of sum due on allotment. All the shareholders have paid the amount up to allotment except Mohan, the allottee of 8,000 shares and his shares were forfeited. Pass the necessary journal entries relating to forfeiture of shares.

Q No 19: M/s Herbal Tea Plantations Ltd. was registered with a capital of Rs 1 crore divided into equity shares of Rs 100 each. The company offered to public 50000 shares at a premium of Rs 20 per share. The amount on shares was payable as:

Rs 25 on application

Rs 50 (including Rs 20 premium) on allotment

Rs 20 on first call and Rs 25 on final call.

Applications were received for 75000 shares. Shares were allotted to the applicants on pro-rata basis. Kanti Bhai who was allotted 500 shares did not pay the allotment money. He also failed to pay the first call. His shares were forfeited. Sheetal was holding 200 shares did not pay the first call. Final call was not made.

Make journal entries in the books of the company.

Forfeiture and Reissue of Shares

Q No 20: X Ltd. issued 2,000 shares of Rs. 10 each at par payable as under:

- On application Rs. 2 per share,
- On allotment Rs. 3 per share
- On first call Rs. 3 per share,
- On second call Rs. 2 per share.

Mr. X was allotted 40 shares. Mr. X failed to pay allotment money and on his subsequent failure to pay the first call and final call money, his shares were forfeited. Forfeited shares were reissued at 12 per share as full paid up. Pass the necessary journal entry relating to the forfeiture and reissue of shares.

(Similar Question PQ16: Do it yourself)

Q No 21: The board of director of Poly Plastic Limited resolved that 200 equity shares of Rs.100 each be forfeited for non-payment of the second and final call of Rs.30 per share. Out of these, 150 shares were re-issued at Rs.60 per share to Mohit. Show the necessary journal entries.

(Similar Question PQ17 & Q18: Do it yourself)

Q No 22: Arjun & Co. Ltd. issued a prospectus offering 2,00,000 shares of Rs.10 each on the following terms:

- On Application Rs. 1 per share
- On Allotment Rs.3 per share (including premium of Rs. 2)
- On First Call (three months after allotment) Rs.4 per share
- On Second Call (three months after first call) Rs.4 per share

Subscriptions were received for 3,17,000 shares on 3rd April and the allotment was made on 30th April as under:

	Shares Allotted
Allotment in full (two applicants paid in full on allotment in respect of 4,000 shares each)	38,000
Allotment of two-thirds of shares applied for	1,60,000
Allotment of one-fourth of shares applied for	2,000

Cash amounting to Rs. 31,000 (being application money received with applications for 31,000 shares upon which no allotments were made) was returned to the applicants on 5th May. The amounts due were received on the due dates with the exception of the final call on 100 shares. These Shares were forfeited on 15th November and re-issued to Aayan on the

16th November for payment of Rs.9 per share. The company paid the interest due on calls-in-Advance on 31st October in cash.

Show the Journal and Cash Book Entries and draw a balance sheet of the Company giving effect to the above transactions.

Q No 23: White Ltd. invited applications for issuing 2,00,000 equity shares of Rs.10 each. The amount was payable as follows:

On Application	Rs. 3 per share
On Allotment	Rs. 5 per share
On First and Final call	Rs. 2 per share

Application for 3,00,000 shares were received and pro-rata allotment was made to all the applicants on the following basis:

Applications for 2,00,000 shares were allotted 1,50,000 shares on pro rata basis.

Applications for 1,00,000 shares were allotted 50,000 shares on pro rata basis.

Bajaj, who was allotted 3,000 shares out of the group applying for 2,00,000 shares, failed to pay the allotment money. His shares were forfeited immediately after allotment.

Sharma who had applied for 2,000 shares out of the group applying for 1,00,000 shares failed to pay the first and final call. His shares were also forfeited.

Out of the forfeited shares 3,500 shares were re-issued as fully paid up @ Rs. 8 per share.

The reissued shares included all the forfeited shares of Bajaj.

Required: Pass the necessary journal entries to record the above transactions.

Shares issued for consideration other than cash

Q No 24: Anushree Ltd. purchased land and building worth Rs. 50,00,000 and issued sufficient number equity shares at par to discharge purchase consideration. Give necessary journal entry.

Q No 25: Divya Ltd. bought furniture for Rs. 2,00,000. It paid Rs. 40,000 by cheque and issued sufficient number of equity shares at a premium of 10%. Calculate no. of equity shares to be issued and show necessary journal entry.

Q No 26: Mandip Ltd. acquired vehicle worth Rs. 10,00,000. It paid Rs. 1,25,000 by cheques and issued equity shares of Rs. 100 each at a premium of 10%. Calculate no. of equity shares to be issued and show necessary journal entry in the books of Mandip Ltd.

Q No 27: X Ltd. issued 2,000 shares of Rs. 10 each credited as fully paid to the promoters for their services and issued 1,000 shares of Rs. 10 each credited as fully paid to the underwriters for their underwriting services. Journalise these transactions.

Q No 28: On April,1,2018, X Ltd. took over the Assets of Rs. 6,80,000 and Creditors of Rs. 80,000 of Y Ltd. payable 10% by a cheque and the balance by the issue of fully paid Equity Shares of Rs. 100 each. Pass the necessary Journal Entries in the books of the company on April,1,2018 if such Shares are issued at par.

Q No 29: Jyoti Ltd. acquired a running business of Prakash Ltd. for purchase consideration of 9,00,000. It took over the Assets of Rs. 12,00,000 and Creditors of Rs. 2,50,000 of Prakash Ltd. payable 10% by a cheque and the balance by the issue of fully paid Equity Shares of Rs. 100 each. Pass the necessary Journal Entries in the books of the company if such Shares are issued at par.

Q No 30: DSP Ltd. acquired a running business of Yogi Ltd. for purchase consideration of 16,00,000. It took over the land and building of Rs. 5,00,000, Plant worth Rs. 3,00,000, Debtors of Rs. 4,00,000. It also took over the Creditors of Rs. 1,00,000 of Yogi Ltd. payable 25% by a cheque and the balance by the issue of fully paid Equity Shares of Rs. 100 each. Pass the necessary Journal Entries in the books of the company if such Shares are issued at premium of 20%.

Practice Questions

PQ No 1: Monisha Ltd. paid preliminary expenses of Rs. 50,000 and registered with the authorized capital of Rs. 50,00,000 divided into shares of Rs. 25 each. It issued 10,000 equity share for public subscription at par with share issue expenses of Rs. 45,000. All money was payable in lumpsum on application. Applications were received for and directors made the allotment. Show necessary Journal Entry in the books of Monisha Ltd.

PQ No 2: Anchal Limited issued 25,000 equity shares of 100 each at a premium of 50% payable in lumpsum on application. 25,000 shares were applied for and allotted. Give necessary journal entries to record above transaction in the books of Anchal Ltd.

PQ No 3: Aditi Ltd. offered to public for subscription 15,000 shares of Rs. 20 each at par. The sum was payable Rs. 5 per share each on application, allotment, 1st Call and Final Call. Make journal entries to record the above issued shares.

PQ No 4: Rohit Ltd. was registered with a capital of Rs. 10,00,000 in shares of Rs. 10 each. It issued a prospectus inviting applications for 10,000 shares payable as follows:

On Application	Rs. 4
On Allotment	Rs. 3
On First Call	Rs. 2
On Second Call	Balance

Applications were received for 10,000 shares. All money was duly received. Pass the necessary Journal entries.

Solution:

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr (Rs.)
1.	Bank A/c Dr. To Share Application A/c (Being the Application Money received on 10,000 @ Rs. 4 per share)		40,000	40,000
2.	Share Application A/c Dr. To Share Capital A/c (Being the Application Money adjusted)		40,000	40,000

3.	Share Allotment A/c To Share Capital A/c (Being the allotment money due on 10,000 shares @ Rs. 3 per share)	Dr.		30,000	30,000
4.	Bank A/c To Share Allotment A/c (Being the allotment money received)	Dr.		30,000	30,000
5.	Share First Call A/c To Share Capital A/c (Being the 1st Call money due on 10,000 shares @ Rs. 2 per share)	Dr.		20,000	20,000
6.	Bank A/c To Share 1st Call A/c (Being the share 1st call money received on 10,000 shares @ Rs. 2 per share)	Dr.		20,000	20,000
7.	Share Second & Final Call A/c (Being the share second & final call money due on 10,000 shares @ Rs. 1 per share)	Dr.		10,000	10,000
8.	Bank A/c To Share Second & Final Call A/c (Being the share second & final call money received on 10,000 @ Rs. 1 per share)	Dr.		10,000	10,000

PQ No 5: On 1st April, 2020, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2020; and

Rs. 25 on 1st February, 2021.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th June; those on 1st call were received on 20th October and final call money received on 16th February 2021. Journalise the transactions when accounts were closed on 31st March, 2021.

Solution: (Here in this question No. of shares offered for subscription is less than No. of shares subscribed by the public, therefore all calculation will be on 40,000 shares)

Journal

Date	Particulars	Dr. (Rs.)	Cr (Rs.)
2020	Bank A/c Dr.	8,00,000	
20.05	To Share Application A/c (Being the Application Money received on 40,000 @ Rs. 20 per share)		8,00,000
01.06	Share Application A/c Dr. To Share Capital A/c (Being the Application Money adjusted)	8,00,000	8,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being the allotment money due on 40,000 shares @ Rs. 30 per share)	12,00,000	12,00,000
15.07	Bank A/c Dr. To Share Allotment A/c (Being the allotment money received)	12,00,000	12,00,000
01.10	Share First Call A/c Dr. To Share Capital A/c (Being the 1st Call money due on 40,000 shares @ Rs. 25 per share)	10,00,000	10,00,000
20.10	Bank A/c Dr. To Share 1st Call A/c (Being the share 1st call money received on 40,000 shares @ Rs. 25 per share)	10,00,000	10,00,000
2021	Share Second & Final Call A/c Dr.	10,00,000	
01.02	(Being the share second & final call money due on 40,000 shares @ Rs. 25 per share)		10,00,000
31.03	Bank A/c Dr. To Share Second & Final Call A/c (Being the share second & final call money received on 40,000 shares @ Rs. 25 per share)	10,00,000	10,00,000

PQ No 6: On 1st October, 2020 Ginger Limited received applications for 2,50,000 Equity

Shares of Rs. 100 each to be issued at a premium of 25 per cent payable as:

On Application	Rs. 25
On Allotment	Rs. 75 (including premium)
Balance Amount on Shares	as and when required

The shares were allotted by the Company on October 20, 2020 and the allotment money was duly received on October 31, 2020.

Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

Solution

Ginger Limited

Journal

Date 2020	Particulars	L.F.	Debit (Rs.000)	Credit (Rs.000)
Oct. 1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 2,50,000 shares @ Rs. 25 per share)		6,250	6,250
Oct. 20	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment to share capital)		6,250	6,250
Oct. 20	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on allotment of 2,50,000 shares @ Rs. 75 per share including premium)		18,750	12,500 6,250
Oct. 31	Bank A/c Dr. To, Equity Share Allotment A/c		18,750	18,750

Note: Bifurcation of Allotment amount

Security premium per share = 25% x Rs.100 = Rs.25

	Money received on allotment per share = Rs.75	
	Premium Per Share	Capital Per Share
	Rs.25	Rs.50
No. of Shares (in '000)	250	250
Total Amount (In '000)	Rs. 6,250	Rs.12,500

PQ No 7: X Ltd. issued 2,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share payable as under:

On application Rs. 3 per share (including Rs. 1 premium),

On allotment Rs. 4 per share (including Rs. 1 premium),

On first call Rs. 4 per share (including Rs. 1 premium),

On second call Balance.

Pass the necessary journal entry.

PQ No 8: Raj Limited issued 4,000 shares of Rs. 10 each at par. Money was payable as

Rs. 2 per share on application;

Rs. 2 per share on allotment,

Rs. 4 per share on first call (after two months of allotment) and

the balance on final call (after three months of 1st call).

All money payable was duly received except from Xao who holds 50 shares did not paid 1st call and Final Call money.

Show necessary journal entry assuming Xao paid its calls in arrear after one month of final call and Raj Ltd. charge/ allowed interest as per "TABLE F" on calls in arrear/ calls in advance.

PQ No 9: Copper Mines Ltd. Invited applications for issuing 2,00,000 shares of Rs 100 each at a premium of Rs 10 per share. The amount was payable as follows:

On Application Rs 25 (on 1st January, 2012)

On allotment Rs 45 (on 1st February 2012)

Balance on First and Final call (on 1st March. 2012)

The issue was fully subscribed. All calls were duly received except the final call money on 1,000 shares. The unpaid amount on these shares was received on 31st March, 2012 along with interest. The company has adopted Table F of the Companies Act 2013 for charging interest on calls-in-Arrear. Calculate the interest on calls-in-Arrear and Pass the necessary Journal entries on the books of the company.

PQ No 10: Bandhan Ltd. invited applications for 50,000 equity shares at Rs.50 each, which are payable as on application Rs.20, on allotment Rs.10 and on first and final call Rs. 20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants.

PQ No 11: ABC Ltd. was floated with a capital of Rs 3,00,000 divided into shares of Rs 10 each. It offered 4,000 shares on the following terms:

Rs 2 per shares on application, Rs 5 per share (including Rs 2 premium) on allotment, Rs 3 per share on first call and Rs 2 per share on final call. Applications were received for 6,000 shares. Director made pro rata allotment to all applicants adjusting excess application money with allotment. All the money due on shares was received.

Give the necessary Journal entries.

PQ No 12: Red Ltd. invited applications for issuing 1,00,000 Equity shares of Rs. 10 each.

The amount was payable as follows:

- (i) On Application Rs. 3 per share
- (ii) On Allotment Rs. 2 per share
- (iii) On First and Final Call Rs.5 per share

Applications were received for 2,20,000 shares. Applications for 20,000 shares were rejected and their application money was refunded. Shares were allotted to the remaining applicants as follows:

Allotted 50% shares to Raman who had applied for 40,000 shares.

Allotted in full to Akbar who had applied for 20,000 shares.

Allotted balance of the shares on pro rata basis to the other application.

Excess application money was utilised in payment of allotment and final call. All calls were made and were duly received. Pass the necessary Journal entries in the books of Red Ltd.

Solution

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c Dr. To Share Application A/c (Being the application money received)		6,60,000	6,60,000
2.	Share Application A/c Dr.		6,60,000	

	To Share Capital A/c (1,00,000 x Rs. 3)			3,00,000
	To Share Allotment A/c (80,000 x Rs. 2)			1,60,000
	To Bank a/c (20,000 x Rs. 3)			60,000
	To Calls-in Advance A/c			1,40,000
	(Being the Application Money adjusted & Surplus refunded)			
3.	Share Allotment A/c	Dr.	2,00,000	
	To Share Capital A/c			2,00,000
	(Being the Allotment Money due)			
4.	Bank A/c [Rs. 2,00,000 - Rs.1,60,000]	Dr.	40,000	
	To Share Allotment A/c			40,000
	(Being the Allotment Money received)			
5.	Share First & Final Call A/c	Dr.	5,00,000	
	To Share Capital A/c			5,00,000
	(Being the First & Final Call Money due)			
6.	Bank A/c	Dr.	3.60,000	
	Calls-in-advance A/c	Dr.	1.40,000	
	To Share First & Final Call A/c			5,00,000
	(Being the First and Final Call Money received and Calls in advance adjusted)			

Working Note:**STATEMENT SHOWING THE ADJUSTMENT OF APPLICATION MONEY RECEIVED**

Category	Shares Applied	Shares Allotted	Application Money Received	Adjustment of Application Money Received			
				Share Capital	Share Allotment	Calls-in Advance	Refund
—	20,000	0	60,000	0	0	0	60,000
I	40,000	20,000	1,20,000	60,000	40,000	20,000	—
II	20,000	20,000	60,000	60,000	—	—	—
III	1,40,000	60,000	4,20,000	1,80,000	1,20,000	1,20,000	—
Total	2,20,000	1,00,000	6,60,000	3,00,000	1,60,000	1,40,000	60,000

PQ No 13: Jyoti Ltd. issued 2,00,000 shares of Rs. 10 each term of payments being.
Rs. 3 on Application

Rs. 2 on Allotment

Rs. 4 on First and Final call.

The company received application for 2,80,000 shares. Pro-rata allotment was made on the applications for 2,50,000 shares.

Give journal entries assuming that an application who was allotted 100 shares did not pay allotment, first and final call moneys.

PQ No 14: Refill Limited issued 5,000 shares of Rs. 100 each at par. Money was payable Rs. 30 per share on application; Rs. 50 per share on allotment and the balance on final call. All money payable was duly received except from Gogo who holds 100 shares did not paid allotment and final Call money and his shares were forfeited after final call. Show necessary journal entry for forfeiture of shares.

PQ No 15: Photoprint Ltd. invited applications for 20,000 Equity shares of Rs. 10 each payable as under:

On applications Rs. 2 per share, on Allotment Rs. 2 per share, on First call Rs. 3 per share, on Final call Rs. 3 per share

The entire issue was subscribed for and paid with the following exceptions:

- (i) P, who was allotted 200 shares, failed to pay the money due on allotment and calls.
- (ii) Q, who held 150 shares, did not pay the first call and second call.
- (iii) R, who held 50 shares, did not pay the amount on second call.

The Board of Directors passed a Resolution forfeiting all the shares of P, Q and R.

Required: Pass Journal entries to record forfeiture in books of Photoprint Ltd.

PQ No 16: X Ltd. forfeited 300 shares of Rs. 10 each fully called up, held by Ramesh for non- payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were re-issued to Suresh for Rs. 8 per share. Give necessary journal entries for the forfeiture and re-issue of shares:

PQ No 17: X Ltd. forfeited 200 shares of Rs. 10 each (Rs. 7 called up) on which Naresh had paid application and allotment money of Rs. 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for Rs. 6 per share. Give necessary journal entries for the forfeiture and re-issue of shares:

PQ No 18: X Ltd. forfeited 100 shares of Rs. 10 each (Rs. 6 called up) issued at par to

Dimple on which she paid Rs. 2 per share. Out of these, 80 shares were re-issued to Simple at Rs. 8 per share and called up for Rs. 6 per share. Give necessary journal entries for the forfeiture and re-issue of shares:

PQ No 19: Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of Rs. 10 each. The amounts were payable as follows:

On application - Rs. 3 per share

On allotment - Rs. 5 per share

On first and final call - Rs. 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 6 per share.

Pass necessary Journal entries to record forfeiture and Reissue in the books of Bhagwati Ltd.

PQ No 20: Rohit Ltd. was registered with a capital of Rs. 10,00,000 in shares of Rs. 10 each. It issued a prospectus inviting applications for 10,000 shares payable as follows:

On Application	Rs. 4
On Allotment	Rs. 3
On First Call	Rs. 2
On Second Call	Balance

Applications were received for 10,000 shares. All money was duly received except Priyansh who was allotted 200 shares. Priyansh did not paid allotment money and his subsequent failure to pay 1st and final call money his shares were forfeited. 180 shares of Priyansh reissued at Rs 9 per share. Pass the necessary Journal entries for forfeiture and Reissue.

PQ No 21: Band Ltd. invited applications for 50,000 equity shares at Rs.50 each, which are payable as on application Rs.20, on allotment Rs.10 and on first and final call Rs. 20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. All money except final call money on 800 shares were received on due time. Out of 800 shares 600 shares were reissued at Rs. 55 per share as fully paid up. Show Journal entries for forfeiture and Reissue.

PQ No 22: On 1st October, 2020 Om Limited received applications for 2,50,000 Equity

Shares of Rs. 100 each to be issued at a premium of 25 per cent payable as:

On Application Rs. 25

On Allotment Rs.75 (including premium)

Balance Amount: On final Call

The shares were allotted by the Company on October 20, 2020 and the allotment money was duly received on October 31, 2020.

Rajni to whom 1000 shares were allotted did not paid final call money and his shares were forfeited.

Out of Forfeited shares 600 shares were reissued at Rs. 170 per share.

Record journal entries in the books of the company to record the transactions in connection with the forfeited and reissue of shares.

PQ No 23: Dhaval Ltd issued a prospectus inviting applications for 20,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

on Application Rs. 2, on Allotment Rs. 5 (including premium), on First Call Rs. 3, on Second & Final Call Rs. 2.

Applications were received for 30,000 shares and pro rata allotment was made on the applications for 24,000 shares. It was decided to utilise excess Application Money towards the amount due on allotment.

Ramesh to whom 400 shares were allotted and Mohan, the holder of 600 shares failed to pay the two calls. These shares were forfeited and Reissued at Rs. 5 per shares.

Required: Pass the necessary journal entries related to issue, forfeiture and Reissue of shares.

JOURNAL ENTRIES

(a) For “Equity share final call DUE”	Equity share final call A/c Dr. To Equity share capital A/c
(b) When such Bonus is declared:	Reserves A/c** Dr. To, Bonus to shareholders A/c
(c) For final call given away as BONUS	Bonus to shareholders A/c Dr. To Equity share final call A/c

****Capital Redemption Reserve and Securities Premium Cannot be used for bonus dividend**

Practical Question

Q No 1: Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022

1. 40,000 Equity Shares of Rs. 10 each	Rs. 4,00,000
2. Capital Redemption Reserve	Rs. 30,000
3. Plant Revaluation Reserve	Rs. 10,000
4. Securities Premium Account	Rs. 35,000
5. General Reserve	Rs. 1,00,000
6. Profit & Loss Account	Rs. 50,000
7. Capital Reserve (including Rs. 25,000 being Profit on Sale of Machinery)	Rs. 75,000

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

Q No 2: Pass Journal Entries in the following circumstances:

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

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

Q No 4: The following was the Balance Sheet of Ac Ltd. as on 31st December 2019.

Particulars	₹
EQUITIES & LIABILITIES	
Shareholders' Funds	
40,000 Equity Shares of ₹ 10 each.	4,00,000
Securities Premium	1,40,000
General Reserve	70,000
Profit & Loss Account	1,20,000
Non - Current Liabilities	
Current Liabilities	-
Sundry Creditors	90,000
	8,20,000
Assets	
Non - Current Assets	
Plant & Machinery	3,00,000
Building	2,00,000
Current Assets	
Stock	2,20,000
Cash & Bank Balance	1,00,000
	8,20,000

Additional Information

The company issued 3 bonus shares for every 4 fully paid-up shares.

Securities premium account will be utilized first.

Show journal entries and balance sheet after bonus issue.

Q No 5: Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2021.

Particulars	Rs.
Authorised Capital	
10,000 12% Preference shares of Rs. 10 each	1,00,000
1,00,000 Equity shares of Rs. 10 each	10,00,000
	11,00,000
Issued and Subscribed Capital:	
8,000 12% Preference shares of Rs. 10 each fully paid	80,000
90,000 Equity shares of Rs. 10 each, Rs. 8 paid up	7,20,000

Reserves and Surplus:	
Capital Redemption Reserve	20,000
General Reserve	1,20,000
Capital Reserve	75,000
Securities Premium	25,000
Profit and Loss Account	1,80,000
Secured Loans:	
12% Partly Convertible Debentures @ Rs. 100 each	5,00,000

On 1st April, 2021 the Company has made final call @ 2 each on 90,000 equity shares. The call money was received by 20th April, 2021. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Securities premium of Rs. 25,000 includes a premium of Rs. 5,000 for shares issued to vendors pursuant to a scheme of amalgamation. Capital reserves include Rs. 40,0000, being profit on sales of plant and machinery.

Required: Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

Practice Questions [PQ]

PQ No 1: Following was the Balance Sheet of BCC Ltd. as on 31st December 2019.

Equity Shares of ₹ 10 each	₹ 8,00,000
Securities Premium	₹ 2,80,000
General Reserve	₹ 1,40,000
Profit & Loss Account	₹ 2,40,000
Sundry Creditors	₹ 1,80,000

Company issued 3 bonus shares for every 4 fully paid-up shares. Securities premium account will be utilized first and then General Reserve. Show necessary Journal Entries for Bonus issue.

PQ No 2: Following are the extracts from the draft Balance Sheet of IPL Ltd.:

Particular	₹
Authorized share capital:	
1,50,000 Equity Shares (₹ 10 each)	15,00,000
Issued & paid - up capital:	

₹ 7.50 each called-up & paid up	6,00,000
Reserves:	
Capital Redemption Reserve	1,50,000
Plant Revaluation Reserve	20,000
Securities Premium	1,50,000
Development Rebate Reserve	2,30,000
Investment Allowance Reserve	2,50,000
General Reserve	3,00,000

The company wanted to issue bonus shares to its shareholders @ one share for every two shares held. All the shareholders paid the call due on their shares. Use general reserve minimum. Show necessary Journal Entries for Bonus issue.

PQ No 3: Adarsh Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2014:

Liabilities	Amount (Rs.000)	Amount (Rs.000)
Share capital:		
Authorised capital		3,000
Issued and Subscribed capital:		
2,00,000 Equity shares of Rs. 10 each	2,000	
2,000, 10% Preference shares of Rs.100 each (Issued two months back for the purpose of buy-back)	200	2,200
Reserves and surplus:		
Capital Reserve	1,000	
Revenue Reserve	3,000	
Securities Premium	2,200	
Profit and Loss account	4,000	10,200
Current liabilities and provisions		1,400
Total		13,800
Assets		
Fixed assets	9,300	
Investments	3,000	
Current assets, loans and advances (including cash and bank balance)	1,500	13,800
Total		13,800

The company passed a resolution to issue one bonus shares for every one share held to its equity shareholder. You are required to pass necessary journal entries.

PQ No 4: Following notes pertain to the Balance Sheet of Rahul Ltd. as at 31st March, 2022:

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

On 1st April, 2022, the Company has made final call @ Rs. 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

Solution

Journal Entries in the books of Rahul Ltd.

Date	Particular	Dr. (Rs.)	Cr. (Rs.)
1-4-2022	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of Rs. 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)	2,70,000	2,70,000
20-4-2022	Bank A/c Dr. To Equity share final call A/c (For final call money on 1,35,000 equity shares received)	2,70,000	2,70,000
	Securities Premium A/c Dr. Capital Redemption Reserve A/c Dr. General Reserve A/c Dr.	37,500 60,000 1,80,000	

Profit and Loss A/c Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	60,000	3,37,500
Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares)	3,37,500	3,37,500

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

	Rs.
Authorised Capital	
15,000 12% Preference shares of Rs.10 each	1,50,000
1,68,750 Equity shares of Rs.10 each (refer working note below)	16,87,500
Issued and subscribed capital	
12,000 12% Preference shares of Rs.10 each, fully paid	1,20,000
1,68,750 Equity shares of Rs.10 each, fully paid	16,87,500
(Out of above, 33,750 equity shares @ Rs.10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

Working Notes:

- Number of Bonus shares to be issued-** $(1,35,000 \text{ shares} / 4) \times 1 = 33,750 \text{ shares}$
- The authorised capital should be increased as per details given below:**

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

To Preference Shareholders Account

5. When payment is made to preference shareholders

Preference Shareholders Account Dr.

To Bank Account

6. For adjustment of premium on redemption

Security Premium Ac / Profit and Loss Account Dr.

To Premium on Redemption of Preference Shares Account

Practical Questions

Q No. 1: N Ltd. had 9,000 8% preference shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of at par by the issue of sufficient number of equity shares. Show the necessary Journal Entry.

Q No. 2: Hello Ltd. had an issue of 2,000, 10% Redeemable Preference Shares of Rs 100 each, repayable at a premium of 10%. These shares are to be redeemed out of the accumulated reserves, which are more than the necessary sum required for redemption. Show the necessary entries in the books of the company, assuming that the premium on redemption of shares has to be written off against the company's Securities Premium Reserves.

Q No. 3: Preference shares amounting to ₹ 2,00,000 are redeemed at a premium of 5%, by issue of equity shares amounting to ₹ 1,00,000 at a premium of 10%. Show the necessary Journal Entry.

Q No. 4: The following was the balance sheet of A Ltd. at March 31, 2023.

Particulars		(₹)
<u>Equity and Liabilities:</u>		
Share capital		
Authorized and issued		
10,000 Equity shares of the ₹ 10 each		1,00,000
10,000 14% Preference Shares of ₹ 10 each		1,00,000
Revenue Reserve		
Profit & Loss Account	45,000	
General Reserve	80,000	
Taxation Reserve	30,000	1,55,000

Current liabilities		85,000
Total		4,40,000
<u>Assets</u>		
Fixed Assets		
Plant etc. at cost	1,10,000	
Less Depreciation	(50,000)	60,000
Current Assets:		
Cash at Bank	1,00,000	
Debtors	1,40,000	
Stock	1,40,000	3,80,000
Total		4,40,000

It was decided to issue further 3,000 equity shares at a premium of ₹ 5 per share and to redeem at par the redeemable preference shares. Show necessary Journal Entry.

Q No. 5: On 30.6.2019 X Ltd. has 6,750, 11% Preference shares of ₹ 100 each, fully paid-up. Under the terms of the issue, the preference shares are redeemable on 30.9.2019. To redeem preference shares it was decided to issue equity shares at ₹ 11 per share payable as follows:

1. ₹ 2 on applications.
2. ₹ 3.50 (including premium) on allotment and the balance as call money on 1.1.2020.

Issue of equity shares was fully subscribed and allotment was made on 1.9.2019. Amount due on allotment were received by 25.9.2019. Company does not have any free reserve. Show the necessary Journal Entry.

Q No. 6: The Balance Sheet of XYZ Ltd. as at 31st December, 2022, inter alia includes the following information:

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

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹

35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013. You are asked to pass the necessary Journal Entries.

Q No. 7: The books of B Ltd. showed the following balance on 31st December, 2022:

30,000 Equity Shares of ₹10 each fully paid;

18,000 12% Redeemable Preference Shares of ₹10 each fully paid;

4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2012).

Undistributed Reserve and Surplus stood as:

Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.

For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2023 at a premium of ₹ 2 per share.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions.

Q No. 8: The Balance sheet of Shashi LTD., as on 31st March, 2022 is as follows:

Particular	₹	₹
Equity and Liability		
Share Capital:		
Issued & fully paid shares		
4,000 11% Redeemable Preference Shares of ₹ 100 each	4,00,000	
2,000 12% Redeemable Preference of ₹ 100 each ₹ 50 paid up	1,00,000	
9,000 equity shares of ₹10 each	9,00,000	14,00,000
Reserves and Surplus:		
Capital redemption reserve	50,000	
Securities Premium	50,000	
General Reserve	2,00,000	
P & L A/c	2,00,000	
Dividend Equalization reserve	50,000	5,50,000
Current Liabilities		3,00,000

		22,50,000
Assets		
Fixed Assets:		
Land & Bldg.	10,00,000	
Plant	3,00,000	
Furniture	20,000	13,20,000
Current Assets:		
Stocks	3,00,000	
Debtors	1,50,000	
Investment	2,80,000	7,30,000
Bank		2,00,000
		22,50,000

The company decided to redeem its preference shares at a premium of 5% on 1st April, 2022. A fresh issue of 10,000 equity shares of ₹10 each was made at ₹ 12 per share payable in full. These were fully subscribed and all moneys were duly collected. All the investments were sold realising ₹ 2,70,000. You are required to give the journal entries, including those relating to cash, to record the above transactions and draw up the balance sheet as would appear after redemption of preference shares.

Q No. 9: The balance sheet of A Ltd. has 20,000 9% preference share of ₹ 10 each. The company redeemed preference shares at a premium of ₹ 2 per share. For redemption it realized investments at a value of ₹ 1,60,000 (Book value ₹ 2,00,000). At the time of redemption balance in profit & loss account was ₹ 1,60,000.

A Ltd. Issued at a premium of ₹ 40 per share, such a number of equity share of ₹ 100 each for the purpose of redemption as to ensure that after the compliance with the requirements of the Companies Act, 2013, the credit balance in profit and loss account would be ₹ 25,000. Show the necessary Journal Entry for redemption of preference shares.

Practice Questions

PQ No. 1: Hira Ltd. has part of its share capital consisting of 20000, 12% Redeemable Preference Shares of Rs 100 each, repayable at a premium of 10%. The shares have now become ready for redemption. It is decided that the whole amount will be redeemed out of a fresh issue of 20,000 equity shares of Rs 10 each at Rs 15 each. The whole amount is received in cash and the 12% preference shares are redeemed for the relevant portion. Show the necessary journal entries in the books of the company.

Solution:**Journal**

Particulars	Dr. (Rs)	Cr. (Rs)
Bank Dr. To, Equity Share Application and Allotment A/c (Application money on 20,000 equity shares @ Rs 15 per share including a premium of Rs 5 per share)	3,00,000	3,00,000
Equity Share Application and Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium Reserves A/c (Allotment of 20,000 equity shares Rs 10 each issued at a premium of 5 per share as per Board's Resolution dated.)	3,00,000	200,000 100,000
12% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Share A/c Dr. To 12% Preference Shareholders A/c (Amount due to 12% preference shareholders on redemption of 8% preference shares at a premium of 5%)	2,00,000 10,000	2,10,000
Securities Premium Reserves A/c Dr. To Premium on Redemption of Preference Shares A/c (Application of Securities Premium Account to write off Premium on Redemption of Preference Shares)	10,000	10,000
12% Preference Shareholders A/c Dr. To Bank A/c (Amount due to 12% preference shareholders on redemption paid)	2,10,000	2,10,000

PQ No. 2: S Ltd. had 9,000 8% preference shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares at ₹ 12 for a premium including ₹ 2. Show the necessary Journal Entry.

PQ No. 3: S Ltd. issued 2,000, 10% Preference shares of ₹ 100 each at par, which are redeemable at a premium of 10%. For the purpose of redemption, the company issued 1,500 Equity Shares of ₹ 100 each at a premium of 20% per share. Show the necessary Journal Entry.

PQ No. 4: Board of directors of a company decided to issue minimum number of equity shares of ₹ 10 each at par to redeem 4,500 preference shares of ₹ 100 each. Maximum amount of divisible profit is ₹ 2,50,558.

PQ No. 5: Ledger Accounts of MN Ltd. Show the following balances:

	₹
1. 14% Preference Shares (₹100)	5,00,000
2. Capital Reserve	1,00,000
3. Securities Premium Account	1,00,000
4. General Reserve	2,00,000
5. Profit & Loss Account	1,00,000

Preference shares are to be redeemed at 10% premium. Minimum fresh issue of equity shares of ₹ 100 each is to be made to for the purpose of this redemption. Show the necessary Journal Entry.

PQ No. 6: Ajay Ltd. decided to redeem 10,000 Preference shares of ₹ 10 each at 10% premium. Balance in profit & loss account is ₹ 60,000 and in Securities Premium A/c is ₹ 10,000. Show the necessary Journal Entry for redemption of preference shares.

PQ No. 7: A Ltd. had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company issued 25,000 equity shares of ₹ 10 each at par and 1,000, 14% Debentures of ₹ 100 each. Show the necessary Journal Entry for redemption of preference shares.

PQ No. 8: Extract of ledger balances o Kalpana Ltd. includes the following:

	₹
1. 12% Preference shares capital	2,00,000
2. Surplus	40,000
3. Securities premium	12,000

Under the terms of issue, the preference shares are redeemable at a premium of 10%. The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at premium of 5% for redemption purpose.

Show the necessary Journal Entry for redemption of preference shares.

PQ No. 9: During the year 2005-2006, T Ltd. issued 20,000 12% Preference shares of ₹ 10 each at a premium of 5%, which are redeemable after 4 years at par. During the year 2010 - 2011, as the company did not have sufficient cash resources to redeem the preference

shares, it issued 10,000, 14% debentures of ₹ 10 each at a premium of 10%. Show the necessary Journal Entry at the time of redemption of 12% preference shares.

PQ No. 10:**Jumpers Ltd****Balance Sheet as at 31st March, 2022**

I. EQUITY AND LIABILITIES		
1. Shareholders' funds		
(a) Share Capital	1	350,000
(b) Reserve & Surplus	2	64,000
2. Current Liabilities		
Trade Payable		23,700
Short-term provisions		38,500
TOTAL		4,76,200
II. ASSETS		
1. Non-current assets		
(a) Fixed Assets		
I. Tangible fixed assets		2,25,000
(b) Non-Current Investments		60,000
2. Current Assets		
Inventories		1,30,500
Trade receivable		49,550
Cash and cash equivalents		9,950
Other current assets		1,200
TOTAL		4,76,200

Notes

1. Share capital		
Authorized Share Capital		
40,000 equity shares of Rs 10 each fully paid up	4,00,000	
1000, 8% preference shares of Rs 100 each	1,00,000	5,00,000
Issued, Subscribed Called Up And Paid up Share Capital		
1000, 10% Preference shares of Rs 100 each fully paid up	1,00,000	
25,000 equity shares of Rs 10 each fully paid up	2,50,000	3,50,000
2. Reserve and Surplus		
Securities Premium Reserves	9,000	

Surplus Account	55,000	64,000
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In order to redeem its preference shares, the company issued 5,000 equity shares of Rs.10 each at a Premium of 10% and sold its investment of Rs. 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

Solution:

Journal Entries

Particulars	Dr. (Rs)	Cr. (Rs)
Bank A/c Dr. To Equity Share Application and Allotment A/c (Application money received on 5,000 equity shares of Rs. 10 at a premium of 10%).	55,000	55,000
Equity Share Application and Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium Reserves A/c (Allotment of 5000 equity shares of Rs. 10 each issued at a premium of 10% as per Board's resolution dated.)	55,000	50,000 5,000
Surplus A/c Dr. To Capital Redemption Reserve A/c (Transfer of the balance amount of the nominal value preference shares to be redeemed not covered by fresh issue, to Capital Redemption Reserve A/c)	50,000	50,000
Bank A/c Dr. To Investments A/c To Surplus A/c (Sale on Investments at a profit and transfer of profit on sale to Profit and Loss A/c)	70,800	60,000 10,800
10% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c To 10% Preference Shareholders A/c (Amount due to 8% preference shareholders on redemption)	1,00,000 10,000	1,10,000
Securities Premium Reserves A/c Dr. To Premium on Redemption of Preference Shares A/c (Application of securities premium to write off premium on redemption of preference shares)	10,000	10,000
10% Preference Shareholders A/c Dr.	1,10,000	

To Bank A/c (Amount due to 10% Preference Shareholders on redemption paid)	1,10,000
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PQ No. 11: XYZ Ltd. has 1,000 Preference Shares (₹ 100 each). Calls -in-Arrear on 100 preference shares is ₹ 2,000. Securities Premium Account, Profit and Loss Account and General Reserve has a balance of ₹ 12,000; ₹ 29,600 & ₹ 10,000. It was decided to redeem preference shares at a premium of 20%, by issue of sufficient number of equity shares of ₹ 10 each subject leaving balance of ₹ 10,000 in reserve fund. Fixed assets costing ₹ 20,000 were sold for ₹ 18,000. All payments were made except to holders of 50 shares who cannot be traced. Show the necessary Journal Entry for redemption of preference shares.

PQ No. 12: Following are details of Y Ltd.:

	₹
a) 9% Preference Shares	1,00,00,000
b) Call - in - Arrears (on above Preference Shares)	2,00,000
c) General Reserve	60,00,000
d) Securities Premium	18,00,000
e) Development Rebate Reserve	40,00,000

It is ascertained that call - in - arrears are on account of final call on 10,000 shares held by 4 members whose where about not be known. ₹ 10,00,000 of the Development Rebate Reserve is free for distribution as dividend. Balance of General Reserve & Securities Premium are to be utilized for the purpose of redemption of and shortfall, if any, is to be made good by issue of equity shares of ₹ 10 each at a premium of 25% The redemption of preference shares was duly carried out.

Show the necessary Journal Entry for redemption of preference shares.

PQ No. 13: Following are details of PQR Ltd:

	₹
12% Preference shares capital	65,000
Surplus	10,000
Bank balance	31,000

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

A. To sell the investments of ₹ 18,500 for ₹ 15,000

- B. To finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.
- C. To issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

Show the necessary Journal Entry for redemption of preference shares.

To Capital Reserves A/c	(with the amount of discount on buy-back)
6. For transfer of nominal value of shares purchased out of free reserves/securities premium to Capital Redemption Reserves Account:	
Free Reserves A/c Dr.	(with the amount transferred)
Securities Premium A/c Dr.	(with the amount transferred)
To Capital Redemption Reserves A/c	(with the nominal value of shares bought back)
7. For expenses incurred in buy-back of shares:	
Buy-back Expenses A/c Dr.	(with the amount of expense)
To Bank A/c	
8. For transfer of buy-back expenses:	
Profit and Loss A/c Dr.	(with the amount of expense)
To buy-back Expenses A/c	

Practical Questions

Q No. 1: Directors of Antra Ltd. decided to buy back Equity shares amounting to ₹ 2,00,000 at a premium of 5%, by issue of preference shares amounting to ₹ 1,00,000 at a premium of 10%. Show necessary Journal Entries in the books of Antra Ltd.

Q No. 2: During the year 2018-2019, Chhavi Ltd. buy back 20,000 equity shares of ₹ 100 each at a premium of 5%. During the year 2018-2019, as the company did not have sufficient cash resources to buy back equity shares, it issued 1,00,000, 12% Preference shares of ₹ 10 each at a premium of 15%. The company has sufficient balance in general reserve. Show necessary Journal Entries in the books of Chhavi Ltd.

Q No. 3: The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd. as on 31st March, 2022:

Equity & Liabilities	Amount ₹
1. Shareholders Fund	
(a) Share Capital: 1,00,000 Equity Shares of ₹10 each fully paid up	1,00,000
(b) Reserve & Surplus	
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account Surplus	1,50,000
2 Non-Current Liabilities	

Long Term Borrowings:	
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
3 Current Liability & Provisions: Trade Payables	1,20,000
Total	46,20,000
Assets	
1. Non-Current Assets	
(a) Fixed (Tangible) Assets:	
Land & Building	21,50,000
Plant & Machinery	15,00,000
(b) Non-Current Investments	2,00,000
2. Current Assets	
(a) Trade Receivables	5,50,000
(b) Inventories	1,80,000
(c) Cash and Cash Equivalent	40,000
Total	46,20,000

On 21st April, 2022 the Company announced the buyback of 25,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 4.50 lakhs. On 25th April, 2022, the company achieved the target of buy back.

You are requested to pass necessary Journal Entries for the above transactions. All necessary workings should form part of your answer.

Q No. 4: Following is the balance sheet of Harshita Ltd., as on 31.3.2018:

Particular	₹ in lakhs
I. Equity and Liability	
Shareholder's Fund:	
Equity Shares of ₹ 10 each	10.00
General Reserve	2.40
Profit & Loss Account	7.50
Securities Premium	2.80
Secured Loans	
Debentures	16.00
Current Liabilities	
Sundry Creditors	4.30
	43.00

II. Assets	₹ in lakhs
Non-Current Assets	
Fixed Assets	20.40
Non - Trading Investments	4.20
Current Assets:	
Stock	4.30
Sunday Debtors	9.10
Cash & Bank Balance	5.00
	43.00

The Company bought back 15,000 shares at ₹ 40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non - trade investment for ₹ 5.90 lakhs. Show important accounting entries in the books of the Company to record buy-back and also show the balance sheet after buy-back.

Q No. 5: Following are the extract of balance sheet of Tube Ltd.

	₹
Equity Shares of ₹ 10 each	20,00,000
Securities Premium	4,80,000
Reserve	15,00,000
Profit & Loss Account	5,60,000
Bank	18,20,000
Non -Trading Investments	8,40,000

Company brought back 30,000 shares at ₹ 40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non-trade investments for ₹ 11,80,000. Show necessary Journal Entries in the books of Tube Ltd.

Calculation of Maximum Permissible Buy Back

Q No. 6: SMM Ltd. has the following capital structure as on 31st March, 2017:

₹ in crore

Particulars	Situation A	Situation B
(i) Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii) Reserves:		
General Reserves	1,080	1,080
Securities Premium	400	400

Profit & Loss	200	200
Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii) Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

Q No. 7: Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

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

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2018 at ₹ 30 per share. Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets. Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

Q No. 8: X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018.

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

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

- (1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹ 30 per share.
- (2) To finance the buyback of share company:
 - (a) Issue 3000, 14 % debenture of 100 each at a premium of 20 %
 - (b) Issue 2500, 10 % preference share of ₹ 100 each
- (3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.
- (4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.
- (5) Later the company issue three fully paid-up equity share of ₹ 20 each by way of bonus share for every 15 equity shares held by the equity shareholder.

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

Practice Questions [PQ]

PQ No. 1: Romiyo Ltd. had 90,000 equity shares of ₹ 100 each, fully paid up. The company decided to buy-back 10% shares at par by the issue of sufficient number of preference shares. Company do not have any reserves. Show necessary Journal Entries.

PQ No. 2: Dipti Ltd. decided to buy-back 2,000 equity shares of ₹ 100 each at a premium of 10%. For the purposes of redemption, the company issued 15,000, 10% Preference shares of ₹ 10 each at a premium of 20% per share. The company has sufficient balance in profit & loss account. Show necessary Journal Entries at the time of buy back shares.

PQ No. 3: M Ltd. furnishes the following Balance Sheet as at 31st March, 2022:

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

Notes to accounts

No.	Particulars	₹ in ('000)
1	Share Capital	
	Authorized, Issued and Subscribed Capital:	

	3,00,000 Equity shares of ₹ 10 each fully paid up	3,000
	20,000 9% Preference Shares of 100 each	2,000
	Total	5,000
2	Reserves and Surplus	
	Capital reserve	10
	Revenue reserve	4,000
	Securities premium	500
	Profit and Loss account	1,800
	Total	6,310
3	Long term borrowings	
	10% Debentures	400
4	Property, Plant and Equipment (PPE)	
	PPE: Cost	3,000
	Less: Provision for depreciation	(250)
	Net carrying value	2,750

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

Solution**Journal Entries in the books of M Ltd.****Rs. in '000**

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

PQ 4: Following are the extract of balance sheet of Light Co. Ltd.

	₹
Equity Shares of ₹ 10 each	10,00,000
Securities Premium	2,40,000
Reserve	7,50,000
Profit & Loss Account	2,80,000
Bank	9,10,000
Non -Trading Investments	4,20,000

Company brought back 15,000 shares at ₹ 40 each. The transaction in respect of buy-back was financed by sale of 2/3rd of non-trade investments for ₹ 5,90,000.

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

PQ No. 5:

ALLUWALIA Ltd.

Balance Sheet as at 31st March, 2023

Particular	Note No.	Amount (Rs.)
I. EQUITIES AND LIABILITIES		
1. Shareholders' funds		
(a) Share Capital	1	10,00,000
(b) Reserve & Surplus	2	7,05,000
2. Non-Current Liability		
Long-term borrowings		4,00,000
3. Current Liability		
Trade payables	3	60,000
TOTAL		21,65,000
II. ASSETS		
1. Non-current assets		
(a) Fixed Assets		
(i) Tangible fixed assets	4	13,30,000
(b) Non-Current Investment		1,50,000
2. Current Assets		
Inventories		1,00,000
Trade receivables		1,00,000
Cash and cash equivalents Balance		4,85,000

TOTAL		21,65,000
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Notes

1. Share Capital		
Authorized Share Capital		
Issued, Subscribed Called-Up and Paid-Up Share Capital:		
1,00,000 shares of Rs. 10 each fully paid-up		10,00,000
2. Reserve and Surplus		
Securities Premium	2,00,000	
General Reserve	5,05,000	7,05,000
3. Long-term borrowings		
14% Debentures		4,00,000
4. Tangible Fixed assets		
Land-building		9,30,000
Plant and machinery	3,50,000	
Furniture and fitting	50,000	13,30,000

On 1st April, 2023 the shareholders of the company have approved the scheme of buy-back of equity shares as under:

- (i) 5% of the equity shares would be bought back at Rs 15.
- (ii) 12% Debentures to be issued for Rs 10,000 to finance for the buy-back, and balance from the General reserve may be utilized for this purpose.
- (iii) Premium paid on buy-back of shares should be met from securities premium account.
- (iv) Investments would be sold for Rs 275,000.

Pass journal entries to record the above transactions and prepare the balance sheet of the company immediately after the buy-back of shares.

Solution:

Alluwalia Ltd.
Journal Entries

Particulars	Dr. (Rs)	Cr. (Rs)
Bank A/c Dr.	275,000	
To Investments A/c		150,000
To Profit and Loss A/c		125,000
(Sale of investments, the profit being transferred to profit and loss account as per shareholders special resolution)		
Shareholders A/c Dr.	75,000	
To Bank A/c		75,000

(Purchase of 5,000 of own shares @ Rs 15 each)		
Equity Share Capital A/c Dr.	50,000	
Securities Premium A/c Dr.	25,000	
To Shareholders A/c		75,000
(Cancellation of 5,000 equity shares bought back, and securities premium utilized as per shareholders' special resolution)		
General Reserve A/c Dr.	40,000	
To Capital Redemption Reserve A/c		40,000
(Transfer of general reserve utilized to the extent of nominal value of shares bought back)		
Bank A/c Dr.	10,000	
To 12% Debentures A/c		10,000
(Issue of 12% Debentures to partly finance the buy-back)		

Alluwalia Ltd.

Balance Sheet (After Buy-back) as at 1st April, 2023

Particular	Note No.	Amount (Rs.)
I. EQUITIES AND LIABILITIES		
1. Shareholders' funds		
(a) Share Capital	1	950,000
(b) Reserve & Surplus	2	805,000
2. Non-Current Liability (Long-term borrowings)	3	410,000
3. Current Liability (Trade payables)		60,000
TOTAL		22,25,000
II. Assets		
1. Non-current assets		
(a) Fixed assets		
(i) Tangible fixed assets		13,30,000
2. Current Assets		
Stock		1,00,000
Sundry debtors		1,00,000
Cash and Cash equivalents		6,95,000
TOTAL		22,25,000

Notes

1. Share Capital		
Authorized Share Capital		

Issued, Subscribed Called Up and Paid-up Share Capital		
95,000 shares of Rs. 10 each fully paid up		9,50,000
2. Reserve and Surplus		
Securities Premium	1,75,000	
General Reserve	4,65,000	
Capital Redemption Reserve	40,000	
Profit and Loss Account	1,25,000	8,05,000
3. Long-term borrowings		
14% Debentures -	400,000	
12% Debentures-	10,000	4,10,000

Note: The debt-equity ratio of the company after buy-back of shares:

$$\begin{aligned} \text{Debt-equity ratio} &= \text{Debt} / \text{Equity (Capital and free reserves)} \\ &= (410000 + 60000) / (950,000 + 175,000 + 465,000 + 125,000) \\ &= 0.274 : 1 \end{aligned}$$

The debt equity ratio is within the limit.

PQ 6: The following is the balance sheet of ABC Ltd. as on 31.3.2019:

Particular	₹
Equities & Liabilities	
Shareholder's Fund:	
Equity Shares of ₹ 10 each	50,00,000
General Reserve	15,00,000
Profit & Loss Account	1,00,000
Securities Premium	1,00,000
Secured Loans	
10% Debentures	4,00,000
Current Liabilities	
Sundry Creditors	7,00,000
Bills Payable	3,00,000
	81,00,000
Assets	₹
Non-Current Assets	
Fixed Assets	50,00,000
Investments	5,00,000
Current Assets:	

Cash & Bank Balance	6,00,000
Stock	5,00,000
Debtors	15,00,000
	81,00,000

The company decided to buy back 1,00,000 equity shares of ₹ 10 each at 25% premium.

For this purpose, the company:

- (a) Sold the entire investment at ₹ 6,00,000
- (b) Made a fresh issue of 10% preference shares of ₹ 100 each to the extent minimum after utilizing the securities premium account had half of general reserve.

You are required to:

1. Pass journal entries relating to above transactions in the books of the company.
2. Prepare balance sheet after buy back.
3. Calculate post buy back debt equity ratio.

PQ 7: X Ltd. proposes to buy-back ₹ 6,00,000 equity capital at 50% premium by issuing 2,000 14% preference shares of ₹ 100 each at 20% premium.

It has balance in Securities Premium, General Reserve and P&L A/c of ₹ 3,50,000; ₹ 9,30,000 & ₹ 48,000 respectively.

For this purpose, it sold all of its investments of ₹ 1,48,000 for ₹ 1,50,000.

The company wants to keep balance of 6,00,000 in general reserve. Show necessary Journal Entries in the books of X Ltd.

PQ 8: ABC Ltd. had paid-up equity capital of 10,00,000 equity shares of ₹ 10 each fully paid-up. Position of reserve is as follows:

General Reserve = ₹ 30,00,000

Profit and Loss Account = ₹ 2,00,000

Securities Premium = ₹ 2,00,000

Company decided to buy-back 2,00,000 equity shares of ₹ 10 each at 25% premium. For this purpose, the company sold the entire investment at ₹ 12,00,000 (book value ₹ 10,00,000) and made a fresh issue of 10% preference shares of ₹ 100 each to the extent minimum after utilizing the securities premium account and half of general reserve. Show necessary Journal Entries in the books of ABC Ltd. so that provisions of the Companies Act, 2013 get complied.

PQ 9: Board of directors of G Ltd. decided to buy back ₹ 4,50,000 equity share capital at a premium of 10%. Balance of General Reserve & Securities Premium are ₹ 1,00,000 & ₹

5,000. It was decided to issue 12% redeemable preference shares of ₹ 10 each for the purpose of buy-back of equity shares as minimum as possible. Show necessary journal entries in the books of company.

PQ 10: Paid-up equity shares capital of ABC Ltd. is ₹ 50,00,000 having face value of ₹ 10 each fully paid -up. Other details:

General Reserve = ₹ 15,00,000

Capital Redemption Reserve = ₹ 4,00,000

Profit & Loss Account = ₹ 1,00,000

Statutory reserve = ₹ 6,40,000

Securities Premium = ₹ 1,00,000

The board of directors passed resolution in board meeting to buy-back maximum number of shares as allowed by law. Calculate no. of shares to be bought back and pass journal entries relating to above transactions in the books of the company.

PQ 11: A Ltd. has equity share capital of ₹ 4,95,000 (₹ 10 each fully paid-up). Details of its reserve & loan funds are given below:

	₹
General Reserve	3,60,000
Securities Premium Account	1,35,000
Profit & Loss Account	1,35,000
Export Profit Reserve	2,70,000
Loan Funds	18,00,000

Market price is ₹ 25 per share. The company wants to buy back maximum number of shares that are allowed under the Companies Act, 2013 at price 20% higher than its market price. Export Profit Reserve is created to satisfy provisions of the Income Tax Act, 1961 requirements.

You are required to compute the maximum number of shares that can be brought back in the light of the above information.

PQ 12: BABA Ltd. has equity share capital of ₹ 6,60,000 (₹ 10 each fully paid-up). Details of its reserve & loan funds are given below:

	₹
General Reserve	4,80,000
Securities Premium Account	2,00,000
Profit & Loss Account	1,60,000

Loan Funds	30,00,000
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Market price is ₹ 25 per share. The company wants to buy-back maximum number of shares that are allowed under the Companies Act, 2013 at price 20% higher than its market price. You are required to compute the maximum number of shares that can be brought back in the light of the above information.

PQ 13: ZPA Ltd. has equity share capital of ₹ 13,20,000 (₹ 10 each fully paid-up). Details of its reserves & loan funds are given below:

	₹
General Reserve	9,60,000
Securities Premium Account	4,00,000
Profit & Loss Account	3,20,000
Loan Funds	12,00,000

The company wants to buy back maximum number of shares that are allowed under the Companies Act, 2013 at price of ₹ 25.

You are required to compute the maximum number of shares that can be brought back in the light of the above information.

PQ 14: NSZ Ltd. (a non-listed company) has the following capital structure as on 31.3.2019:

Particular	(₹ in Crore)
(1) Equity Share Capital (Shares of ₹ 10 each fully paid)	330
(2) Reserve & Surplus	
General Reserve	240
Securities Premium Account	90
Profit & Loss Account	90
Infrastructure Development Reserve	180
(3) Loan Funds	1,800

The shareholders of NSZ Ltd., on the recommendation of their Board of Directors, have approved on 12.9.2019 a proposal to buy back the maximum permissible number of equity shares considering the large surplus funds available at the disposal of the company:

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

You are also informed that the Infrastructure Development Reserve is created to satisfy Income Tax Act, 1961 requirements.

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

Rule 12(11) specifically provides that, where the equity shares of the company are listed on a recognized stock exchange, the Employees Stock Option Scheme shall be issued in accordance with the regulations made by Securities and Exchange Board of India.

Practical Question

Vesting Period is less than 1 year

Q No. 1: Aarshi Ltd. has its share capital divided into shares of ₹ 10 each. On 1st April, 2021 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 15th March, 2022 and 31st March, 2022. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries.

Q No. 2: On 1st April, 2021, Eally Ltd. offered 100 shares to each of its 500 employees at ₹ 50 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹ 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share. On 31st March, 2022, 400 employees accepted the offer and paid ₹ 50 per share purchased. Nominal value of each share is ₹ 10. Record the issue of share in the books of the company under the aforesaid plan.

Vesting Period is more than 1 year

Q No. 3: ABC Ltd. grants 1,000 employees stock options on 1.4.2019 at ₹ 40, when the market price is ₹ 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapses on 1.5.2021. 600 options are exercised on 30.6.2022. 100 vested options lapses at the end of the exercise period. Pass Journal Entries giving suitable narrations.

Q No. 4: Ajanta grants 120 share options to each of its 460 employees. Each grant is conditional on the employee working for Ajanta over the next three years. Ajanta has estimated that the fair value of each share option is ₹ 12. Ajanta estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options. Everything turns out exactly as expected.

Required: Calculate the amounts to be recognized as expense during the vesting period and show necessary journal Entry.

Practice Question

PQ No. 1: X Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.1.2020 it granted 20,000 employees stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 15.3.2020 & 31.3.2020. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Give journal entries related to issue of shares under the plan.

PQ No. 2: A company has its share capital divided into shares of ₹ 10 each. On 1.1.2016, it granted 5,000 employees stock option at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1.3.2017 to 31.3.2017. The employees exercised their options for 4,800 shares only; remaining options lapsed. Record necessary journal entries in the books of company.

PQ No. 3: X Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.1.2020 it granted 20,000 employees stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 15th March, 2020 and 31st March, 2020. The employees exercised their options for 16,000 shares only said and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal entries with narration as would appear in the books of the company up to 31st March, 2020.

PQ No. 4: On 1st April, 2019, a company offered 100 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock -in to transfer for 3 years from the grant. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

Up to 31st March, 2020, 70% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

PQ No. 5: On 1.4.2019, a company offered 300 shares to each its 1,200 employees at ₹ 75 per share. The employees are given a month to accept the shares. The shares issued under

the plan shall be subject to lock-in to transfer for 3 years from the grant date i.e. 01.4.2019. Market price of shares on the grant date is ₹ 90 per share. Due to post-vesting restrictions, fair value of shares issued under the plan is estimated at ₹ 84 per share. Up to 30.4.2019, 50% of employees accepted the offer and paid ₹ 75 per share. Face value of share is ₹ 10. Show necessary Journal Entries in the books of company.

PQ No. 6: S Ltd. grants 1,000 options to its employees on 1.4.2010 at ₹ 60. The vesting period is 2.5 years. The maximum exercise period is 1 year. Market price on that date is ₹ 90. All the options were exercised on 31.7.2014. Journalize, if the face value of equity share is ₹ 10 per share.

PQ No. 7: Arhant Limited has its share capital divided into equity shares of ₹ 10 each. On 01-10-2021, it granted 20,000 employees' stock options at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 10th December, 2021 and 31st March, 2022. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries (with narration) as would appear in the books of the company upto 31st March, 2022.

Answer:

Journal Entries in the books of Arhant Ltd.

Date	Particular	L.F.	₹	₹
10.12.21	Bank A/c (16,000 x 50) Dr.		8,00,000	
to	Employee compensation expense A/c Dr.		11,20,000	
31.3.22	(16,000 x 70)			
	To Equity share capital A/c (16,000 x 10)			1,60,000
	To Securities premium A/c (16,000 x 110)			17,60,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.22	Profit and Loss A/c Dr.		11,20,000	
	To Employee compensation expense A/c			11,20,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

PQ No 8: Raman Ltd. granted 1000 options on April 01, 2018 at Rs. 40 (nominal value Rs. 10 each) when the market price was Rs. 120, and the vesting period was 2.5 years. The

maximum exercise period was one year. On Oct 1, 2020, 200 unvested options lapsed and 600 options were exercised. On 30th Oct, 2021 remaining 200 options lapsed at the end of exercise period. Pass necessary journal entries.

Solution:**In the Books of Raman Ltd.****Journal Entries**

Date	Particulars	Amount (Rs.)	Amount (Rs.)
2018 April 1	Deferred Employee Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being grant of 1,000 options at a discount of Rs. 80, i.e., Rs. 120 - Rs.40)	80,000	80,000
2019 March 31	Employee Compensation Expense A/c To Deferred Employee Compensation Expense A/c (Being amortization of Deferred Compensation, i.e., Rs. 80,000 / 2.5)	32,000	32,000
2020 March 31	Employee Compensation Expense A/c To Deferred Employee Compensation Expense A/c (Being amortization of Deferred Compensation, i.e., Rs. 80,000 / 2.5)	32,000	32,000
2020 Oct 1	Employee Stock Options Outstanding A/c To Employee Compensation Expense A/c [(200 * Rs.80) * 2/2.5] To Deferred Employee Compensation Expense A/c [(200 * Rs.80) * 0.5/2.5] (Being reversal of compensation accounting on lapse of 200 unvested options)	16,000	12,800 3,200
2020 Oct 1	Employee Compensation Expense A/c To Deferred Employee Compensation Expense A/c (Being amortization of Deferred Compensation) (800*80*0.5/2.5)	12,800	12,800
2020 Oct 1	Bank A/c (600 *40) Employee Stock Options Outstanding A/c Dr. [Rs. 600 * (Rs. 120 - Rs. 40)] To Equity Share Capital A/c (600 * 10) To Securities Premium A/c	24,000 48,000	6,000 66,000

	[Rs.600 *(Rs. 120 - Rs. 10)] (Being excise of 600 options at an excise price of Rs. 20 each and an accounting value of Rs. 60 each)		
2021 Oct. 30	Employee Stock Options Outstanding A/c Dr. To Employee Compensation Expense A/c (Being reversal of compensation accounting on lapse of 200 vested options at the end of the excise period i.e., Rs.200 * 80)	16,000	16,000

PQ No. 9: Reliance Ltd. grants 1,000 employees stock options on 1.4.2012 at ₹ 40, when market price is ₹ 160. The vesting period is 2.5 years and maximum exercise period is 1 year. 300 unvested options lapsed on 31.3.2014. 600 options are exercised on 30.6.2015. 100 vested options lapsed at the end of the exercise period.

PQ No. 10: On 1.4.2019, GP Ltd. offered 100 shares to each of its 500 employees at ₹ 25 per share. Employees are given a year to accept the offer. Shares issued under the plan shall be subject to lock-in on transfer for 3 years from the grant date. Market price of shares on the grant date is ₹ 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share. The vesting period is 3 years and maximum exercise period is 1/2 year. 500 unvested options lapsed on 31.3.2020, 1000 unvested options lapsed on 31.3.2021. On 30.9.2022, 300 employees accepted the offer and paid ₹ 50 per share. Remaining vested options lapsed at the end of the exercise period. Show necessary Journal Entries for aforesaid plan.

Practical Question

Q No. 1: Cybertech Ltd. issued 1,00,000 shares for public subscription and these were underwritten by A, B and C in the ratio of 25%, 30% and 45% respectively. Applications were received for 80,000 shares and of these applications for 16,000 shares had the stamp of A, those for 20,000 shares had the stamp of B and those of 24,000 shares had the stamp of C. The remaining applications did not bear any stamp. Calculate Net liability of underwriters.

Q No. 2: Lillies Ltd. issued 1,00,000 equity shares, where the issue was underwritten by 3 underwriters as follows:

A 40%;

B 30%;

C 30%.

Applications for 60,000 shares were received in all, out of which applications for 20,000 shares had the stamp of A; those for 10,000 shares that of B and those for 20,000 shares that of C. The remaining applications for 10,000 shares did not bear any stamp.

Determine the liability of the underwriters.

Q No. 3: Sunflow Ltd. issued 50,000 equity shares. The whole of the issue was underwritten as follows: Red 40%; White 30%; Blue 30%

Applications for 40,000 shares were received in all, out of which applications for 10,000 shares had the stamp of Red; those for 5,000 shares that of White and those for 10,000 shares that of Blue. The remaining applications for 15,000 shares did not bear any stamp.

Determine the liability of the underwriters.

Q No. 4: Emess Ltd. issued 40,000 shares which were underwritten as:

P: 24,000 shares

Q: 10,000 shares and

R: 6,000 shares.

The underwriters made applications for firm underwriting as under:

P: 3,200 shares;

Q: 1,200 shares; and

R: 4,000 shares.

The total subscriptions excluding firm underwriting (including marked applications) were 20,000 shares.

The marked applications were -

P: 4,000 shares;

Q: 8,000 shares; and

R: 2,000 shares.

Prepare a statement showing the net liability of underwriters.

Q No. 5: Meenu Ltd. has authorized capital of ₹ 50,00,000 divided into 1,00,000 equity shares of ₹ 50 each. The company issued for subscription 50,000 shares at a premium of ₹ 10 each. The entire issue was underwritten as follows:

- A. - 30,000 shares (firm underwriting - 5,000 shares)
 B. - 15,000 shares (firm underwriting - 2,000 shares)
 C. - 5,000 shares (firm underwriting - 500 shares)

Out of the total issue, 45,000 shares including firm underwriting were subscribed. The following were the marked forms:

- A. - 16,000 shares
 B. - 10,000 shares
 C. - 4,000 shares

Calculate the liability of each underwriter:

Q No. 6: LPG Ltd. issued 32,000 shares which were underwritten as follows:

A: 19,200 shares; B: 8,000 shares C:4,800 shares.

The underwriters made applications for firm underwriting as -

A: 2,560 shares; B: 960 shares C: 3,200 shares.

Details of marked applications are -

A: 3,200 shares; B: 6,400 shares C: 1,600 shares.

Unmarked applications are for 11,520 shares.

Find out the net liability of individual underwriters.

Q No. 7: S Ltd. issued 1,50,000 equity shares of ₹ 100 each at per. This issue was underwritten equally by A, B and C. Applications for 1,40,000 shares were received as per details given below:

Underwriter	Applications	
	Firm	Marked
A	5,000	40,000
B	5,000	46,000
C	3,000	34,000

Unmarked applications are of 7,000 shares. It was agreed to credit the unmarked applications to A and C.

Determine net liability of each underwriter

- (i) If firm underwriting shares are treated as unmarked applications
 (ii) If firm underwriting shares are treated as marked application

Q No. 8: K Ltd. issued for subscription 25,000 shares at a premium of ₹ 10 each. The issue was underwritten as follows:

A: 15,000 shares; B: 7,500 shares C:2,500 shares.

Firm applications are as follows:

A: 2,500 shares; B: 1,000 shares C: 500 shares.

Out of the total issue, 22,500 shares including firm underwriting were subscribed.

Marked forms details:

A: 8,000 shares; B: 5,000 shares C: 2,500 shares.

Determine the net liability of each underwriter in shares if:

- (i) If firm underwriting shares are treated as unmarked applications
- (ii) firm underwriting shares are treated as marked applications

Q No. 9: Sam Limited invited applications from public for 1,00,000 equity shares of Rs 10 each on a premium of X 5 per share. The entire issue was underwritten by the underwriters Anita, Babita, Chavi and David to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively.

The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares from public out of which applications for 19,000, 10,000; 21,000 and 8,000 shares were marked in favour of Anita, Babita, Chavi and David respectively.

Calculate the liability of each one of the underwriters. Also ascertain the underwriting commission @ 2.5% payable to the different underwriters and also give necessary journal entry related to underwriter.

Q No. 10: Ramona Ltd., issued 50,000 equity shares of which only 60% was underwritten by Green. Applications for 45,000 shares were received in all out of which application for 26,000 were marked.

Determine the liability of Green.

Q No. 11: NZ Ltd issued 34,000 shares of ₹ 100 at a premium of ₹ 15 each. 90% of the issue was underwritten by M/S Broker & Co. Applications were received for 27,200 shares and allotment was fully made. Calculate the Net liability of underwriter.

Q No. 12: X Ltd. entered into an underwriting agreement with Y Ltd. for commission of 2.5% for 60% of the issue of ₹ 50,00,000, 15% Debentures with a firm underwriting of ₹ 5,00,000. Marked applications were for ₹ 35,000 debenture. Calculate Net liability of underwriter.

Practice Question

PQ No. 1: Sampada Ltd. was formed with a capital of 2,00,000 equity shares of ₹ 10 each.

All shares were issued to public for subscription. Issue was underwritten as follows:

Ajay: 80,000 shares, Bijo: 60,000 shares Rajat: 60,000 shares.

Marked applications were received in favour of Ajay for 32,000 shares, Bijo for 58,000 shares and Rajat for 42,000 shares. Applications for 30,000 shares were not marked.

Calculate Net liability of underwriters.

PQ No. 2: Sun Ltd. issued 1,00,000 equity shares. Whole of the issue was underwritten as follows:

M: 35%; L: 25%, T: 30%; P: 10%

Application for 80,000 shares were received in all; out of which applications for 20,000 shares had the stamp of M: 15,000 that of L; 22,000 that of T and 8,000 of P. Remaining 15,000 applications did not any bear stamp.

Determine the liability of each underwriter.

PQ No. 3: Airlinks Ltd. made a public issue of 2,50,000 equity shares of ₹ 10 each, the entire amount payable on application. The entire issue was underwritten as follows:

Red - 30%, Yellow - 25%, Green - 25%, and White - 20% of public issue respectively.

Red, Yellow, Green and White had also agreed on firm underwriting 8,000, 12,000, Nil and 30,000 shares respectively.

The total subscriptions excluding firm underwriting, including marked application were 1,80,000 shares. The marked application received were as under:

Underwriter	No. of shares
Yellow	48,000
Green	40,000
White	48,000

Ascertain the net liability of each underwriter:

PQ No. 4: NS Ltd. issued 20,000 shares were underwritten as follows:

A - 12,000 shares, B - 5,000 shares C - 3,000 shares.

The underwriters made applications for firm underwriting as:

A - 1,600 shares, B - 600 shares, C - 2,000 shares.

The total subscriptions excluding firm underwriting but including marked application were for 10,000 shares.

Marked Applications from each of underwriter is as follows

A- 2,000 shares, B - 4,000 shares, C - 1000 shares.

You are required to find out the liability of individual underwriters on the assumption that:

- (i) Firm under writing shares are treated as unmarked applications.
- (ii) Firm under writing shares are treated as marked applications.

PQ No. 5: Binsar Ltd. issued 12% 10,000 Preference Shares of Rs 10 each. The issue was underwritten as follows:

Apple 30%, Mango 30%, Orange 20%.

Application for 8,000 shares were received by the company in all.

Determine the liability of the respective underwriters.

Solution:

Particulars	Total	Ratio	Apple (30%)	Mango (30%)	Orange (20%)
Gross liability (in the agreed ratio)	8,000	3:3:2	3,000	3,000	2,000
Less: Un-Marked application	(8,000)	3:3:2	2,400	2,400	1,600
Net liability			600	600	400

PQ No. 6: MMW Ltd. made an issue of 47,000, 10% mortgage debentures of ₹ 100 each at par. The whole of the issue was underwritten by Y & Co. 39,950 debentures were applied for and allotted to the public. Calculate Net liability of underwriter to take number of debentures.

PQ No. 9: ABC Ltd. issued 30,000, 6% debentures of Rs. 100 each. 60% of the issue was underwritten by Delton.

Applications for 28,000 (out of which 60% is marked) debentures were received by the company. Determine the liability of Delton.

Solution:

Gross liability of Delton being 60% of 30,000 debentures =	= 18,000 debentures
Less: Marked applications (60/100 x 28,000)	= 16,800 debentures
Net liability of Delton	= 1,200 debentures

Alternatively, Delton's liability can be determined in the following way:

Number of debentures not subscribed for by the public = (30,000 - 28,000) = 2,000 debentures

Delton's liability = 60% of 2,000 debentures = 1,200 debentures

(iii) On payment of income-tax to the Government	
Income-tax Payable A/c Dr.	<i>(with the amount of TDS)</i>
To Bank A/c	
(iv) On transfer of Debenture Interest to Profit and Loss Account at the end of the year	
Profit and Loss A/c Dr.	<i>(with the gross amount of interest on debentures)</i>
To Debenture Interest A/c	

Practical Question

Q No. 1: Yash Ltd. issued 10,000, 12% Debentures of ₹ 100 each at per payable in full on application by 1st April, 2019. Application were received for 11,000 Debenture. Debenture were allotted on 7th April, 2019. Excess money was refunded. You are required to pass necessary journal entries in the books of the company.

Q No. 2: Priya Ltd. issued 10,000, 12% Debentures of ₹ 100 each at a premium of 10% payable in full on application by 1st March, 2019. The issue was fully subscribed and debentures were allotted on 9th March, 2019. You are required to pass necessary journal entries in the books of the company.

Q No. 3: Nikhil Ltd. issued 10,000, 12% Debentures of ₹ 100 each at a discount of 10% payable in full on application by 31st May, 2019. Application were received for 12,000 debentures. Debentures were allotted on 9th June 2019. Excess monies were refunded on the same date. You are required to pass necessary journal entries (including cash transactions) in the books of the company.

Q No. 4: Z Ltd. issued 5,000, 14% debentures of Rs 100 each at a discount of 5%, the discount being adjustable on allotment. The debentures were payable as follows:

On Application - Rs. 20

On Allotment - Rs. 25

On First and Final Call - Rs. 50

The debentures were fully subscribed and the money was duly received.

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

Q No. 5: Kakloo Ltd issues Rs 1000, 15%, 5,000 debentures on which amount payable is Rs 200 on application, Rs 300 on allotment and balance on first call. In addition, the company

offers 1,000 – 12% second mortgage debentures of Rs 1000 each. In case of 15% debentures, the company received applications for 6200 debentures and the directors made pro-rata allotment and excess money was refunded. Journalise.

Q No. 6: Give Journal entries for the following:

1. Issue of Rs. 1,00,000, 9% debentures of Rs. 100 each at par and redeemable at par.
2. Issue of Rs. 1,00,000, 9% debentures of Rs. 100 each at premium of 5% but redeemable at par.
3. Issue of Rs. 1,00,000, 9% debentures of Rs. 100 each at discount of 5% repayable at par.
4. Issue of Rs. 1,00,000, 9% debentures of Rs. 100 each at par but repayable at a premium of 5%.
5. Issue of Rs. 1,00,000, 9% debentures of Rs. 100 each at discount of 5% but redeemable at premium of 5%.
6. Issue of Rs. 1,00,000, 9% debentures of Rs. 100 each at premium of 5% and redeemable at premium of 5%.

Q No. 7: You are required to pass the journal entries relating to the issue of the debentures in the books of X Ltd., under the following cases:

- (a) 120, 8% debentures of Rs. 1,000 each are issued at 5% discount and repayable at par. Balance in Securities Premium Reserve is Rs. 10,000.
- (b) 150, 7% debentures of Rs. 1,000 each are issued at 5% discount and repayable at premium of 10%. Balance in Securities Premium Reserve is Rs. 20,000.
- (c) 80, 9% debentures of Rs. 1,000 each are issued at 5% premium.
- (d) Another 400, 8% debentures of Rs. 100 each are issued as collateral security against a loan of Rs. 40,000

Q No. 8: A company issued 15,000 10% Debentures of Rs 100 each on 1 April, 2018 at a discount of 6% redeemable at par by drawings method as follows:

Date of redemption Amt of Redemption (FV)

31 March 2020	5,00,000
31 March 2021	5,00,000
31 March, 2022	5,00,000

Calculate amount of discount on issue of debentures to be written of each year.

Q No. 9: Rajkumar Ltd, purchased a building from Alok Ltd. for Rs 65,00,000. The payment was made as to 25% by accepting a bill of exchange, and for the balance debentures are allotted at 25% premium. Journalise in the books of purchaser.

Q No. 10: On April 1,2018, Ha Ltd. purchased a running business from Hu Ltd. for Rs. 10,40,000 payable as to 25% by a cheque and the balance by an issue of 12% Debentures of Rs. 500 each at a premium of 4 %. The assets and liabilities consisted of the following:
Building Rs. 6,00,000, Plant and Machinery Rs. 1,00,000, Inventories Rs. 2,00,000, Trade Receivables Rs. 1,80,000, Trade Payables Rs. 80,000.

Pass the necessary journal entries in the books of Ha Ltd on April, 1,2018.

Q No. 11: B Ltd. secured an overdraft of Rs. 80,000 from the bank by issuing 900, 12% Debentures of Rs.100 each as collateral security. Prepare the Balance Sheet of the Company.

Q No. 12: Babli Ltd has 10,00,000 12% Debentures on which the interest is payable on 30th September and 31st March. Show the entries related to debenture interest. Tax deducted at source is 10%.

Q No. 13: A company issued 12% debentures of the face value of Rs.10,00,000 at 10% discount on 01-04-2022. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five-year period at 5% premium.

Pass journal entries for the accounting year 2022-2023.

Practice Question

PQ No. 1: ABC Ltd. made an issue of 50,000 12% Debentures of Rs 100 each, payable as follows:

Rs. 25 on Application

Rs. 50 on Allotment

Rs. 25 on First and Final Call.

Applications were received for 52,000 debentures and the directors allotted 50,000 debentures rejecting applications for 2,000 debentures. The application money received for 2,000 rejected debentures was duly refunded. All the calls were made and the moneys duly received.

Show the Journal Entries to record the above transactions and prepare the Balance Sheet of the company.

Solution:

ABC Ltd.
Journal Entries

S.No.	Particulars	Debit (Rs.)	Credit (Rs.)
(i)	Bank A/c Dr To 12% Debenture Application A/c (Being application money of Rs 25 each on 52,000 debentures received)	13,00,000	13,00,000
(ii)	12% Debenture Application A/c Dr To 12% Debentures A/c To Bank A/c (Being allotment of 50,000 debentures as per boards resolution dated and 2,000 debentures rejected and refunded)	13,00,000	12,50,000 50,000
(iii)	12% Debenture Allotment A/c Dr To 12% Debentures A/c (Being allotment money due on 50,000 debentures @ Rs 50 each)	25,00,000	25,00,000
(iv)	Bank A/c Dr To 12% Debenture Allotment A/c (Being allotment money received)	25,00,000	25,00,000
(v)	12% Debenture First and Final call A/c Dr To 12% Debentures A/c (Being call money due on 50,000 debentures @ Rs 25 each)	12,50,000	12,50,000
(vi)	Bank A/c To 12% Debenture First and Final call A/c (Being the call money received)	12,50,000	12,50,000

ABC Ltd.

Balance Sheet (Extract) as on

Particulars	Note	Rs.
EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long Term Borrowings	1	50,00,000
ASSETS		
Cash and cash equivalent		50,00,000

Notes to Account

Particulars	Rs.
1. Long Term Borrowings	
12% Debentures	50,00,000

PQ No. 2: Z Ltd. issued 2,500, 10% Debentures of Rs.100 each, a premium of 10% payable as Rs. 20 on application, Rs. 50 on allotment (including the premium) and the balance on first & final call.

The public applied for 3,500 debentures. Applications for 2,250 debentures were accepted in full, applicants for 500 were allotted 250 debentures, and remaining applications were rejected. All money was duly received.

Journalize these transactions and balance sheet of company.

Solution:

Z Ltd.
Journal Entries

	Particulars	Dr. (Rs.)	Cr. (Rs.)
(i)	Bank A/c Dr. To Debenture Application A/c (Being application money received on 3,500 debentures)	70,000	70,000
(ii)	Debentures Application A/c Dr. To 10% Debentures A/c To Debentures Allotment A/c To Bank A/c (Being the application money adjusted and the surplus refunded)	70,000	50,000 5,000 15,000
(iii)	Debenture Allotment A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Being the Amount due on allotment @ Rs. 50 on 2,500 debentures)	1,25,000	1,00,000 25,000
(iv)	Bank A/c Dr. To Debentures Allotment A/c (Being the Balance of the amount due on allotment received)	1,20,000	1,20,000
(v)	Debentures Call A/c Dr. To 10% Debentures A/c (Being the Amount due on Call @ Rs. 40 on 2,500 debentures)	1,00,000	1,00,000
(vi)	Bank A/c Dr. To Debentures Call A/c (Being the Amount due on call received)	1,00,000	1,00,000

PQ No. 3: Aakanksha Ltd. made an issue of 10,000 12% debentures of ₹ 100 each as follows:
₹ 25 on Application
₹ 25 on Allotment
₹ 50 on First & Final Call

Application were received for 12,000 shares and the directors allotted 10,000 debentures rejecting an application for 2,000 debentures. The money received on application for 2,000

debentures rejected was duly refunded. All the calls were made and duly received. Show the necessary Journal Entries and Cash Book to record the above transactions.

Issue of Debentures under different conditions of redemption

PQ No. 4: Journalize the following transactions.

Issue of 12%, 1,00,000 debentures of Rs. 100 each

1. at par and redeemable at par.
2. at 10% discount and redeemable at par.
3. at 10% premium and redeemable at par.
4. at 10% premium and redeemable at a premium of 5%.
5. at par and redeemable at a premium of 5%.
6. at 10% discount and redeemable at a premium of 5%.

Solution:

Journal Entries (in '000)

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
(i)	Bank Account Dr. To 12% Debentures Account (Being 12% Debentures issued at par)	10,000	10,000
(ii)	Bank Account Dr. Discount on Issue of Debentures Account Dr. To 12% Debentures Account (Being 12% debentures issued at 10% discount)	9,000 1,000	10,000
(iii)	Bank Account Dr. To 12% Debentures Account To Securities Premium Account (Being 12% debentures issued at 10% premium)	11,000	10,000 1,000
(iv)	Bank Account Dr. Loss on Issue of Debenture Account Dr. To 12% Debentures Account To Securities Premium Account To Premium on redemption of Debentures (Being 12% debentures issued at 10% premium and redeemed at 5% premium)	11,000 500	10,000 1,000 500
(v)	Bank Account Dr. Loss on issue of Debentures Account Dr. To 12% Debentures Account To Premium on Redemption of Debentures Account (Being 12% debentures issued at par and redeemed at 5% premium)	10,000 500	10,000 500

(vi)	Bank Account Dr.	9,000	
	Loss on Issue of Debentures Account (1000+500) Dr.	1,500	
	To 12% Debentures Account		10,000
	To Premium on redemption of Debentures Account		500
	(Being 12% debentures issued at 10% discount and redeemed at 5% premium)		

PQ No. 5: Radhika Ltd. issues 13% Debentures of ₹ 100 at a premium of 5%, redeemable at the end of 5 years at a premium of 10%. Show necessary journal entry and also give balance sheet.

PQ No. 6: Parul Ltd. issued 15% Debenture of ₹ 100 each at a discount of 5%, but redeemable at a premium of 5%, at the end of 4 years. Show necessary journal entry and also give balance sheet.

PQ No. 7: Tanvi Ltd. issued 11% debenture at ₹ 95, redeemable at the end of 10 years at 98%. Which of the following entry is correct?

PQ No. 8: Priyanshi Ltd. issued ₹ 70,000, 12% debentures of ₹ 100 each at a premium of 5% redeemable at 110%. Show necessary journal entry and also give balance sheet.

PQ No. 9: Akshita Ltd. issue 12% Debenture of ₹ 100 at a discount of 5%, redeemable at the end of 5 years at a premium of 10%. Show necessary journal entry.

PQ No. 10: Souryya Ltd. issued 10,000, 12% debentures of ₹ 100 each at a discount of 5%. These debentures are redeemable at a premium of 10% after 5 years. Calculate the Balance at the end of third year of "Loss on Issue of Debentures A/c".

PQ No. 11: Show journal entries for the following issues.

1) P Ltd. issues 5,000 10% Debentures of ₹ 100 each at a discount of 5%, redeemable at the end of 5 years at par.

2) Q Ltd. issues 5,000, 11% Debentures of ₹ 100 each at par; redeemable at the end of 5 years at a premium of 5%.

3) R Ltd. issues 5,000, 12% Debentures of ₹ 100 each at a discount of 5%, redeemable at the end of 5 years at premium of 10%.

4) S Ltd. issues 5,000, 13% Debentures of ₹ 100 each at a premium of 5%, redeemable at the end of 5 years at a premium of 10%.

Discount / Loss to be written off

PQ No. 12: Bee Ltd. issued 2,000, 12% Debentures of Rs.100 each at a discount of 6% on 01.04.2018 repayable by equal annual drawings in four years. You are required to show the discount on Issue of Debentures Account over the period.

Solution:

Total amount of discount on issue of debentures:

$$= \text{Rs. } 2,00,000 \times 6/100 = \text{Rs. } 12,000$$

This total discount of Rs. 12,000 has to be written off in proportion to the debentures outstanding at the beginning of each year. Thus, outstanding balance ratio will be as follows:

$$1.4.2018 = \text{Rs. } 2,00,000$$

$$1.4.2019 = \text{Rs. } (2,00,000 - 50,000) = \text{Rs. } 1,50,000$$

$$1.4.2020 = \text{Rs. } (1,50,000 - 50,000) = \text{Rs. } 1,00,000$$

$$1.4.2021 = \text{Rs. } (1,00,000 - 50,000) = \text{Rs. } 50,000$$

$$\text{Outstanding balance ratio} = 2,00,000 : 1,50,000 : 1,00,000 : 50,000 = 4 : 3 : 2 : 1$$

Therefore, amount of discount to be written off every year will be as follows:

	Rs.
31.3.2019 = 12,000 × 4/10	= 4,800
31.3.2020 = 12,000 × 3/10	= 3,600
31.3.2021 = 12,000 × 2/10	= 2,400
31.3.2022 = 12,000 × 1/10	= 1,200
Total	Rs. 12,000

PQ No. 13: Jayesh Ltd. issued ₹ 1,00,000 debentures at a discount of 6% on 1.1.2019 repayable in 5 equal instalments. Calculate Discount to be written off in each 5-calendar year and show Discount on issue of Debenture Account.

PQ No. 14: Shubham Ltd. issued 20,000, 8% debenture of ₹ 10 each at par, which are redeemable after 5 years at a premium of 20%. Calculate the amount of loss on redemption of debentures to be written off every.

PQ No. 15: Tanya Ltd. issued 5,000, 12% debentures of ₹ 100 each at a premium of 10%, which are redemption after 10 years at a premium of 20%. Calculate the amount of loss on issue of debentures to be written off every year and also show loss on issue of debenture Account.

PQ No. 16: Tripti Ltd. issued 40,000, 8% debentures of ₹ 10 each which are redeemable after 5 years at a premium of 20%. Calculate the amount of loss on issue of Debentures to be written off every year will be.

PQ No. 17: Prashant Ltd. issued 10,000, 12% Debentures of ₹ 100 each at ₹ 94 on 1st January, 2014. Under the terms of issue, the debentures are redeemable at the end of 8 years from the date of the issue. Calculate the amount of discount to be written -off in each of the 8 years.

PQ No. 18: On 1st July, 2017 Shy Ltd. issued 2,500, 9% debentures of ₹ 100 each at a discount of 10%. The debentures were redeemable by five annual drawings of ₹ 50,000 on 31st March each year. Calculate the amount of discount on debenture to be written off at the end of each year on 31st March.

PQ No. 19: Khushi Ltd. issues 8% Debenture of ₹ 100 at a discount of 5%, redeemable at the end of 5 years at par. Calculate the amount of discount on debenture to be written off at the end of each year.

PQ No. 20: Dikshita Ltd. issued 10,000, 12% Debentures of ₹ 100 at ₹ 94 on 1st January 2014. Under the term of issue, 1/5th of the debentures are annually redeemable by drawing, the first redemption occurring on 31st December 2014. Calculate the amount of discount to be written off in 2014 to 2018.

PQ No. 21: On 1st July, 2017 Neha Ltd. issued 50,000, 9% debentures of ₹ 100 each at a discount of 10%. The debentures were redeemable by five annual drawings of ₹ 10,00,000 on 31st March each year. Calculate the amount of discount on debentures to be written off at the end of each year on 31st March.

PQ No. 22: Rai Ltd. issued 5,000 debentures of ₹ 100 each at a discount of 10%. The expenses on issue amounted to ₹ 20,000. The company wants to redeem the debentures at the rate of ₹ 1,00,000 each year commencing with the end of 5th year:
How much discount and expenses should be written off in each year?

PQ No. 23: Ram Ltd. issued 40,00,000, 15% Debentures at 8% discount. Debentures are to be redeemed as per scheduled given below:

End of the year	Face value of Debentures (₹)
2	4,00,000
3	8,00,000
4	12,00,000

5

16,00,000

Calculate the Amount of discount to be written off in each the 5 calendar years-

Debenture Interest

PQ No. 23: M Ltd. had issued Rs. 5,00,000, 10% debentures on which interest was payable half-yearly on 30th September and 31st March. Show the necessary journal entries relating to debenture interest for the year ended 31st March, 2022 assuming that all moneys were duly paid by the company. Tax deducted at source is 10%.

Solution:

M Ltd. Journal Entries

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2021 Sep, 30	Debenture Interest A/c Dr. To Income-tax Payable A/c To Debenture-holders A/c (Interest due on Rs 5,00,000, 10% debentures for 6 months and income-tax deducted at source thereon @ 10%)	25,000	2,500 22,500
Sep,30	Debenture-holders' A/c Dr. To Bank A/c (Payment of interest to debenture-holders)	22,500	22,500
Sep,30	Income-tax Payable A/c Dr. To Bank A/c (Deposit of income-tax deducted at source from Debenture Interest with the Government)	2,500	2,500
March, 31	Debenture Interest A/c Dr. To Income-tax Payable A/c To Debenture-holders A/c (Interest due on Rs 5,00,000, 10% debentures for 6 months and income-tax deducted at source thereon @ 10%)	25,000	2,500 22,500
2022 March,31	Debenture-holders' A/c Dr. To Bank A/c (Payment of interest to debenture-holders)	22,500	22,500
March,31	Income-tax Payable A/c Dr. To Bank A/c (Deposit of income-tax deducted at source from Debenture Interest with the Government)	2,500	2,500
March,31	Profit and Loss A/c Dr. To Debenture Interest A/c	50,000	50,000

	(Transfer of Debenture Interest to Profit and Loss A/c)		
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PQ No. 24: Reet Ltd. has issued 14% Debentures of ₹ 20,00,000 at a discount of 10% on April 1, 2017 and the company pays interest half-yearly on June 30, and December 31 every year: Give necessary journal entry for the year ended 31.03.2018. (Assuming rate of Tax Deducted at Source is 10%)

PQ No. 25: On May 1, 2018, Zoya Ltd. issued 7% 10,000 convertible debentures of ₹ 100 each at a premium of 20%. Interest is payable on September 30 and March 31 every year. Assuming that the interest runs from the date of issue and accounting year ends on 31st March each year, give necessary journal entry for the year ended 31.03.2019. (Assuming rate of Tax Deducted at Source is 12%)

Debentures issued for purchase of Assets

PQ No. 26: Radha Ltd. purchased machinery worth Rs.1,20,000 and building worth Rs. 2,00,000 from Deepa Ltd. For an agreed purchase consideration of Rs. 3,00,000 to be satisfied by the issue of 3,000, 12% debentures of Rs. 100 each. Show the necessary journal entries in the books of Radha Ltd.

Solution:

Radha Ltd. Journal Entries

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Building A/c Dr. Plant and Machinery A/c Dr. To Deepa Ltd. To Capital Reserve A/c (Purchase of sundry assets and transfer of capital profits as per agreement with the vendor dated.)	2,00,000 1,20,000	3,00,000 20,000
2.	Deepa Ltd. Dr. To 12% Debentures A/c (Being 3,000, 12% Debentures of Rs 100 each allotted to vendors for consideration other than cash as per Board's resolution dated.)	3,00,000	3,00,000

PQ No. 27: Rai Company purchased assets of the book value of Rs. 2,20,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs. 100 each at a premium of 10%.

Record necessary journal entries.

Solution:

**Books of Rai Company Limited
Journal Entries**

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Sundry Assets A/c Dr. To Vendors (Assets purchased from vendors)	2,20,000	2,20,000
2	Vendors Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Allotment of 2,000 debentures of Rs. 100 each at a premium of 10% as purchase consideration)	2,20,000	2,00,000 20,000

Debentures issued as collateral security

PQ No. 28: Abheet Ltd. borrowed 25,00,000 from a scheduled bank at an annual interest rate of 12% and deposited 14% debentures of the face value of ₹ 40,00,000 as collateral security. Pass the journal entries regarding the issue of debentures as collateral security and also show the above items in the company's balance sheet.

PQ No. 29: Adarsh Ltd. obtained loan from IDBI of ₹ 10,00,000, giving as collateral security of ₹ 15,00,000, 14% Debenture on 1st April 2019. Show the accounting treatment to issue debentures as collateral security?

PQ No. 30: Aditi Ltd. obtained loan from IDBI of ₹ 10,00,000, given as collateral security of ₹ 15,00,000, 14% Debentures on 1st April 2019. Show necessary journal entry for issue of debenture as collateral security along with Balance Sheet.

PQ No. 31: Adrija Ltd. borrowed ₹ 25,00,000 from a scheduled bank at an annual interest rate of 12% and deposited 14% debentures of the face value of ₹ 40,00,000 as collateral security. Give balance sheet.

PQ No. 32: Ajinkya Ltd. obtained loan of ₹ 5,00,000 on 31st March, 2016 from a bank by issuing and securing 6,000, 12% debentures of ₹ 100 each as collateral security. Give balance sheet.

PQ No. 33: Aliya Ltd. issued 10% Debentures as follows:

a) To public for cash at 95% having face value ₹ 10,00,000.

b) To a vendor having face value ₹ 2,50,000 for purchase of fixed assets of ₹ 2,00,000.

c) To bank as collateral security having face value ₹ 2,50,000 for a loan of ₹ 1,00,000.

Pass necessary journal entries.

To Bank A/c (with cum interest price)

When own debentures are subsequently cancelled -

Debentures A/c Dr. (nominal value of the debentures cancelled)

Loss on Redemption of Debentures A/c Dr. (Loss on Cancellation)

To Own Debentures A/c (book value of the Own Debentures cancelled)

To Profit on Redemption of Debentures A/c (Profit on Cancellation)

Note: If there is any profit or loss on sale of investments the same has to be transferred to *Debenture Redemption Fund Account*.

Practical Question

Q No. 1: Amritsar Ltd. issued Rs 5 Crores, 10% debentures of Rs. 1000 each at Rs. 940. The debentures are redeemable in five annual instalments. Pass appropriate entries in year 1 and 2.

Q No. 2: A company issued 100,000 debentures of Rs. 100 each redeemable at the end of 10th year, but reserves the right to redeem earlier from the end of the 5th year. The company decides at the end of the 5th year to redeem 20,000 debentures out of the profits it has made.

Pass necessary journal entries relating to redemption.

Q No. 3: JK Ltd., a listed company, issued 6,000, 12% Debentures of 50 each at a premium of 5% on April 1, 2016. Interest on these debentures is payable annually on 31st March each year. The debentures are redeemable at par in four equal installments at the end of third, fourth, fifth and sixth year at a premium of 10%. The company invested in specified securities as investment for the redemption of debentures.

You are required to pass journal entries at the time of issue and redemption of debentures in the books of the company.

Q No. 4: Bima Ltd. had issued 11% 5,00,000 debentures of Rs. 100 each redeemable on 31st March 2019 at a premium of 5%. The company offered three options to debenture holders as under:

- (i) 13% Preference shares of Rs.10 each at Rs.10.50
- (ii) 14% debentures of Rs. 100 at par.
- (iii) Redemption in cash.

The options were accepted as under:

Option (i) by holders of 1,00,000 debentures.

Option (ii) by holders of 1,00,000 debentures.

Option (iii) by holders of 3,00,000 debentures.

The company carried out the redemption. Pass the necessary journal entries.

Q No. 5: XYZ Ltd. has 5000, 10% debentures of Rs.100 each. The interest on these debentures is paid half yearly on June 30, December 31 every year. The company is not maintaining any sinking fund. On 01-04-2022, the company purchased 500 debentures at Rs. 95 each cum – interest for immediate cancellation. On 01-10-2022, the company purchased 600 debentures at Rs. 90 each ex-interest for immediate cancellation.

Journalize.

Q No. 6: On 1st April, 2018 A Ltd. made an issue of 10,00,000 14% debentures of Rs. 100 each at Rs. 98 per debenture. According to the terms of issue, the company should redeem 10000 debentures either by purchasing them from the open market or by drawing lots at par at the company's option. Profit, if any, on redemption is to be transferred to capital reserve. The company's accounting year ends on 31st March. Interest is payable on 30th September and 31st March.

During 2018-19 the company wrote off 20% of Debenture Discount Account.

During 2021-22, the company purchased and cancelled the debentures as given below:

Rs. 200,00,000 at Rs. 95 per debenture on 30th September, and

Rs. 300,00,000 at Rs. 97 per debenture on 31st March.

Give the journal entries in the books of A Ltd. for both the years

Q No. 7: Sugandha Ltd. issued 10,000 12% Debentures of Rs. 100 each on 1st April, 2021. Interest is payable on 30th September and 31st March every year. On 1st July, 2022, the company purchased 1,000 of its Own Debentures at Rs. 96 ex-interest as investments. On 1st January, 2023, the company purchased 2000 of its Own Debentures at Rs. 96 cum interest as investment. On 31st March 2023, the company cancelled all of its Own Debentures and books closes on 31st March every year. Journalize.

Q No. 8: On 30th June 2022 following balances stood in the books of a company:

	Rs.
8% First Mortgage Debentures Stock	2,00,000
Debenture Redemption Fund	2,13,080
Debenture Redemption Fund Investments:	

Rs 70,000 6% Punjab Electricity Board Bonds	71,260
Rs 80,000 5% UP Water Board Bonds	64,068
Rs 60,000 8% Government of India Loan	61,710
Rs 16,000 7% Cooperative Bank Loan	16,042

On the same day the investments were sold:

Electricity bonds at par, 5% loan at Rs 91, 8% loan at Rs 109 and 7% loan at Rs 103.

On 1st July the debentures were redeemed at a premium of 5%.

Write up the accounts concerned:

Q No. 9: MM Ltd. had the following among their ledger opening balances on January 1, 2019:

11% Debentures A/c (2000 issue)	50,00,000
Debenture Redemption Reserve A/c	45,00,000
13.5% Debentures in XX Ltd. A/c (Face Value Rs. 20,00,000)	19,50,000
Own Debentures A/c (Face value Rs. 20,00,000)	18,50,000

As 31st December 2019 was the date for redemption of the 2000 debentures, the company started buying Own Debentures and made the following purchases in the open market:

1-2-2019 2,000 debentures at Rs. 98 cum-interest.

1-6-2019 2,000 debentures at Rs. 99 ex-interest.

Half yearly interest is due on the debentures on the 30th June and 31st December in the case of both the companies.

On 31st December 2019 the debentures in XX Ltd. were sold for Rs. 95 each ex-interest. On that date, the outstanding debentures of MM Ltd. were redeemed by payment and by cancellation. Show the entries in the following ledger accounts of MM Ltd. during 2019:

(a) Debenture Redemption Reserve A/c

(b) Own Debentures A/c

The face value of a debenture was Rs. 100 (Round off calculations to the nearest rupee.).

Practice Questions

Redemption of Debentures (In Cash)

PQ No. 15.1: ABC Ltd. issued 11% debenture at ₹ 95, redeemable at the end of 10 years at par. Show necessary journal entry for issue and redemption of Debentures.

PQ No. 15.2: A company issued 15,000 10% Debentures of Rs 100 each on 1 April, 2018 at a discount of 6% redeemable at par by drawings method as follows:

Date of redemption	Amt of Redemption (FV)
--------------------	------------------------

31 March 2020	5,00,000
31 March 2021	5,00,000
31 March, 2022	5,00,000

Show necessary journal entry for above transactions.

Redemption of Debentures (By Conversion)

PQ No. 15.3: On 1st April, 2020 Rosy Ltd. issued 20,000, 13% debentures of ₹ 100 each at 5% discount. Debentures holders have an option to convert their holdings in 14% preference shares of ₹ 100 each at a premium of ₹ 25 per share. On 31st March, 2021, one year's interest has accrued on these debentures and has remained unpaid. A holder of 100 debentures notified his intention to convert his holdings in 14% preference shares.

Journalize the above transactions. Also show workings for number of preference shares to be issued in exchange.

PQ No. 15.4: On 1.1.2015 X Ltd. issued 10,000 fifteen years 10% debentures of ₹ 100 each. On 1.4.2020 the company gave notice to the debentures holders of its intention to redeem the debentures on 1.10.2020 either by payment in cash or by allotment of 11% preference shares of ₹ 100 each at ₹ 130 per share or 11% second debenture of ₹ 100 at ₹ 96 per debenture. Holders of 4,000 debentures accepted the offer of the preference shares. Give necessary journal entries for redemption, if debentures are redeemed at 4% premium?

PQ No. 15.5: Zenith Ltd. gave notice of its intention to redeem its outstanding ₹ 6,00,000, 9% debentures at 102% and offered the holders the following options for the redemption to subscribe for:

- 1) 6% Cumulative preference shares of ₹ 20 each at ₹ 22.50 per share and
- 2) 10% Debentures of ₹ 100 each at ₹ 96.

Holders of ₹ 2,40,000 debentures accepted the proposal (i) and ₹ 3,60,000 debentures holders accepted the proposal (ii) above.

Give necessary journal entries for redemption, if debentures are redeemed at 4% premium?

PQ No. 15.6: On 1st January; 2015 X Ltd. issued 10,000 fifteen years 10% debentures of ₹ 100 each. One of the conditions of issue was that the company could redeem the debentures by giving six months' notice at any time after 5 years, at a premium of 4%, either in cash or by allotment of preference shares and / or other debentures at the option of debentures holders.

On 1st April, 2020 the company gave notice to the debenture holders of its intention to redeem the debenture on 1st October, 2020 either by payment in cash or by allotment of 11% preference shares of ₹ 100 each at a ₹ 130 per share or 11% second debentures of ₹ 100 at ₹ 96 per debenture.

Holders of 4,000 debentures accepted the offer of the preference share, holders of 4,800 debentures accepted the offer of the 11% second debentures and rest demanded cash on 1st October; 2020.

Give the journal entries to give effect to the above as of 1st October; 2020.

PQ No. 15.7: On 10.4.2019, Zenith Ltd. issued 12,500, 12% debentures of ₹ 100 each at ₹ 98. Holders of these debentures have an option to convert their holdings into 14% preference shares of ₹ 100 each at a premium of ₹ 25 per share at any time within 3 years. On 31.3.2020, holders of 2,500 debentures notified their intention to exercise the option.

Give Journal entries for issue and conversion of debentures. Also show workings for number of preference shares to be issued in exchange.

Redemption of Debentures (immediate Cancellation)

PQ No. 15.8: Z Ltd. had issued 1,000, 6% Debentures of ₹ 100 each. The company on 1.3.2018 purchased 50 of its debentures at ₹ 96 cum-interest for immediate cancellation. Interest payable on 30th June and 31st December, 2018. You are required to show the journal entries to record the above transactions.

PQ No. 15.9: On 1.1.2019, Mumtaz Ltd. had outstanding in its books 1,000, 12% Debentures of ₹ 100 each. The interest is payable on 30th June & 31st December: On 1st Nov, 2019 the directors acquired in the open market Debentures of ₹ 5,000 @ ₹ 98.50 (ex-interest) for immediate cancellation. You are required to show the journal entries to record the above transactions.

PQ No. 15.10: A Company purchased 200, 12% debentures of ₹ 100 each at ₹ 97 on cum interest basis on 1st July, 2019 for immediate cancellation. Interest is payable on 30th September and 31st March each year. You are required to show the journal entries to record the above transactions.

PQ No. 15.11: On 1st April, 2016 Kapil Ltd. had made an issue of 2,000, 6% debentures of ₹ 100 each. The Company during the year 2017-2018 purchased for cancellation 500 of these debentures. Company paid ₹ 95 per debenture for the same. The expenses on purchase

amounted to ₹ 200. You are required to show the journal entries to record the above transactions.

PQ No. 15.12: ABC Ltd had ₹ 10,00,000, 6% Debentures of ₹ 100 each as on 31st March, 2018. Company purchased in the open market following debentures for immediate cancellation:
On 1.7.2019: 1,000 Debentures @ ₹ 97 cum-interest.
On 28.2.2019: 1,800 Debentures @ ₹ 99 ex-interest.
Debentures interest due dates are 30th September and 31st March.
Pass necessary journal entries in the books of the company, ignoring income tax.

PQ No. 15.13: On 1.1.2019, NSZ Ltd had outstanding in its books 1,000, 12% Debentures of ₹ 100 each. The interest is payable on 30th June & 31st December: In accordance with the power in the deed, the directors acquired in the open market Debentures for immediate cancellation as follows:

2019 1 st March	₹ 10,000	@ ₹ 98.00 (cum-interest)
2019 1 st March	₹ 20,000	@ ₹ 100.25 (cum-interest)
2019 1 st Nov.	₹ 5,000	@ ₹ 98.50 (ex.-interest)

Pass necessary journal entries in the books of the company, ignoring income tax.

Sinking Fund

PQ No. 15.14: The following balance appeared in the books of Royco Ltd. on 1.4.2017:

Debentures Redemption Fund ₹ 60,000 represented by investments of an equal amount
(nominal value of ₹ 75,000).

The 12% debentures stood at ₹ 90,000

The company sold the investments of ₹ 32,000 at ₹ 36,000.

Debentures of ₹ 30,000 were redeemed at a premium of 20%.

Show the necessary ledger accounts.

PQ No. 15.15: Following balance appeared in the books of R Ltd. on 1.4.2019:

Debentures Redemption Fund ₹ 90,000 represented by investments of an equal
amount (nominal value ₹ 1,12,500).

12% Debentures stood at ₹ 1,35,000.

Company sold investments of ₹ 48,000 at ₹ 54,000.

Debentures of ₹ 45,000 were redeemed at a premium of 20%.

Show the necessary ledger accounts.

PQ No. 15.16: Following balances appeared in the books of Bright Ltd:

Sinking fund account	₹ 50,000
Sinking fund investments account	₹ 48,000 (10% Govt. securities, nominal value ₹ 45,000)
12% Debentures account	₹ 1,00,000.

Company sold ₹ 30,000 Govt. securities at 110% and redeemed part of the debentures at a premium of 10%. Closing balance of Sinking Fund A/c will be-

PQ No. 15.17: The following balances appeared in the books of P Ltd. on 1.1.2018:

12% Debentures	₹ 4,00,000
Sinking fund investment (Represented by 10% ₹ 3,60,000 secured bonds of Government of India)	₹ 3,00,000

Annual contribution to the sinking fund was ₹ 64,000 made on 31 December each year: On 31.12.2018 balances at bank was ₹ 1,64,000. The company sold the investments at 80% of its face value and debentures were paid off.

You are required to prepare the necessary ledger accounts for the year 2018-19.

PQ No. 15.18: On 31.03.2018, B Ltd. showed in their accounts debentures redemption fund of ₹ 1,50,000 which was represented by ₹ 1,51,000, 5% municipal bonds purchased for ₹ 1,50,000. On 28.2.2019, the company had a balance of ₹ 28,000 at their bank and they paid into the bank account, the proceeds of sale of foregoing investments for ₹ 1,50,500. On 1st March, 2019, the debentures of the value of ₹ 1,50,000 were paid.

You are required to prepare the necessary ledger accounts for the year 2018-19.

PQ No. 15.19: Following balances appeared in the books of N Ltd.

12% Debentures	₹ 8,00,000
12% Debentures Sinking Fund	₹ 6,00,000
Sinking Fund Investments	₹ 6,00,000 (10% Govt. Bonds of ₹ 7,20,000)

Balance at bank was ₹ 3,28,000 before receipt of interest. Company sold the investments at 80% and debentures were redeemed.

Show necessary ledger accounts in the books of company.

PQ No. 15.20: Following balances appeared in the books of R Ltd:

12% Debentures	₹ 8,00,000
Sinking fund	₹ 7,00,000
Sinking fund investment	₹ 7,00,000 (Represented by 10% ₹ 7,50,000 secured bonds of Government of India).

Annual contribution to the sinking fund was ₹ 1,20,000 made on 31st March each year: On 31.3.2018, balance at bank was ₹ 3,50,000 before receipt of interest. Company sold the investments at 90% for redemption of debenture at a premium of 10% on above date.

Show necessary ledger accounts in the books of company.

PQ No. 15.21: Following balances stood in books X Ltd.

3,50,000, 6% Delhi Govt. Bond	3,56,300
4,00,000, 5% Punjab Water Loan	3,20,340
3,00,000, 8% Goa Govt. Loan	3,08,550
80,000, 7% Gurgaon Gramin	80,210

Investments were sold as follows:

6% Delhi Govt. Bond	at par
5% Punjab Water Loan	at ₹ 91
8% Goa Govt. Loan	at ₹ 109
7% Gurgaon Gramin Loan	at ₹ 103

Show necessary journal entry to sale of investment.

PQ No. 15.22: Following balances appeared in the books of JKJ Ltd.:

- Sinking fund account ₹ 62,500
- Sinking fund investments account ₹ 60,000 (10% Govt. securities, nominal value ₹ 56,250)
- 12% Debentures account ₹ 1,25,000.

Company sold ₹ 37,500 Govt. securities at 110% and redeemed part of the debentures at a premium of 10%.

Show necessary ledger accounts in the books of company.

Practical Questions

Q No. 1: From the following Balance Sheet of H Ltd. (holding) and S Ltd. (subsidiary), prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd.

Particulars	H Ltd Rs.	S Ltd Rs.
Equity & Liabilities		
Share capital:		
Shares of Rs. 10 each	5,00,000	2,00,000
Sundry Liabilities	1,00,000	25,000
Total	6,00,000	2,25,000
Assets:		
Sundry Assets	400000	225000
Investment:		
20,000 shares of Rs.10 each of S Ltd	200000	
Total	6,00,000	2,25,000

Q No. 2: From the following balance sheets of A Ltd. and its subsidiary B Ltd. as on 31st December 2022, prepare consolidated balance sheet.

Particulars	A Ltd. (Rs.)	B Ltd. (Rs.)
Equities & Liabilities		
Share Capital: Shares of Rs. 50 each	5,00,000	2,00,000
Creditors	1,00,000	20,000
Reserves	--	10,000
Profit & Loss A/c	50,000	30,000
Total	6,50,000	2,60,000
Assets		
Sundry Assets:	3,50,000	2,60,000
Investment in the shares of B Ltd 4,000 shares (at cost)	3,00,000	
Total	6,50,000	2,60,000

A Ltd. purchase shares in B Ltd. on the balance sheet date.

Q No. 3: From the following balance sheets of P Ltd. and its subsidiary Q Ltd. as on 31st December 2022, prepare a consolidated balance sheet.

Equity and Liabilities	P Ltd. Rs.	Q Ltd. Rs.
Share Capital: (Shares of Rs.100 each)	6,00,000	4,00,000
Creditors	2,00,000	50,000
Reserve	40,000	20,000
Profit & Loss A/c	70,000	15,000
Total	9,10,000	4,85,000
Assets		
Sundry Assets	5,00,000	4,85,000
Investment in 4,000 Shares of Q Ltd. (on 31st December 2010)	4,10,000	
Total	9,10,000	4,85,000

Q No. 4: From the following, prepare consolidated balance sheet of X Ltd. and its subsidiary Y Ltd.

Particulars	X Ltd. Rs.	Y Ltd. Rs.
Equities & Liabilities		
Share capital: Shares of Rs.10 each	5,00,000	3,00,000
Other Liabilities	1,40,000	20,000
Total	6,40,000	3,20,000
Assets:		
Sundry Assets	4,00,000	3,20,000
Investment in Shares of Y Ltd. 24,000 shares of Rs.10 each	2,40,000	
Total	6,40,000	3,20,000

Q No. 5: From the following information, prepare a consolidated balance sheet Balance sheet as on 31 December 2022

Particulars	Sun Ltd. (Rs.)	Moon Ltd. (Rs.)
I. Equities & Liabilities		
Share Capital: Shares of Rs.10 each	2,00,000	1,00,000
Reserves	50,000	20,000
Profit & Loss A/c	20,000	10,000
Creditors	30,000	20,000
Total	3,00,000	1,50,000
II. Assets		
Sundry Assets	220000	1,50,000
Investments 6,000 Shares of Moon Ltd	80000	

Total	3,00,000	1,50,000
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Sun Ltd. Acquired its shares in Moon Ltd. on 1 January 2022 when reserves of Moon Ltd. stood at Rs.4,000 and its profit and loss account (Cr.) was Rs.5,000

Q No. 6: The following are the balance sheet of Big Ltd., and its subsidiary Small Ltd., as at 31 March 2023:

I. Equity and Liabilities	Big Ltd. Rs.	Small Ltd. Rs.
Equity shares of Rs.100 Each	16,00,000	4,00,000
Profit & Loss A/c	2,00,000	80,000
External Liabilities	30,00,000	19,20,000
Total	48,00,000	24,00,000
II. Assets	Big Ltd. Rs.	Small Ltd. Rs.
Equipment	10,00,000	3,80,000
Investment: 3,600 Eq. shares in Small Ltd. on 1 April 2010	5,60,000	---
Other Assets	32,40,000	20,20,000
Total	48,00,000	24,00,000

On 1 April 2022 P&L A/c of Small Ltd. showed a credit balance of Rs.32,000 and equipment of Small Ltd., was revalued by Big Ltd., 20% above its book value of Rs.4,00,000 (but no such adjustment effected in the books of Small Ltd.) prepare the consolidated balance sheet as at 31 March 2023.

Q No. 7: The summarized balance sheet of H Ltd. and S Ltd. as on 31 December 2022 are as follows:

Equity and Liabilities	H Ltd. Rs.	S Ltd. Rs.
Share capital: Share of Rs.10 each	15,00,000	3,00,000
Reserves	2,40,000	90,000
Profit & Loss A/c	1,80,000	1,20,000
Total	19,20,000	5,10,000
Assets		
Sundry Assets	15,00,000	5,10,000
24,000 shares in S Ltd.	4,20,000	
Total	19,20,000	5,10,000

S Ltd. had reserves of Rs.90,000 when H Ltd. acquired the shares in S Ltd. but the P&L A/c balance of S Ltd. was fully earned after the purchase of shares.

S Ltd. decided to issue bonus shares out of the post-acquisition profit in the ratio of 2 shares for every 5 shares held.

Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares.

Q No. 8: From the following Balance Sheets of a holding company and its subsidiary on 31st March 2022, prepare consolidated balance sheet.

Particulars	Eally Ltd. Rs.	Appy Ltd. Rs.
Equities & Liabilities		
Share capital: Shares of Rs. 10 each	15,00,000	6,00,000
General reserve	2,40,000	1,80,000
P&L Account	2,70,000	2,10,000
Sundry Creditors	1,50,000	1,20,000
Outstanding expenses	60,000	30,000
Total	22,20,000	11,40,000
Assets:		
Goodwill	90,000	30,000
Machinery	9,00,000	4,50,000
Stock	2,40,000	1,50,000
Debtors	3,60,000	4,80,000
Cash and Bank	60,000	30,000
Investments: 48,000 shares in Appy Ltd	5,70,000	
Total	22,20,000	11,40,000

When control was acquired Appy Ltd. had Rs.1,20,000 in general reserve and Rs.90,000 in profit and loss account. Immediately on purchase of shares, Eally Ltd. received Rs.48,000 as dividend from Appy Ltd. which was credited to profit and loss account. Debtors of Eally Ltd, include Rs.60,000 due from Appy Ltd. whereas creditors of Appy Ltd. include Rs.45,000 due to Eally Ltd., the difference being accounted for by a cheque-in-transfer.

Q No. 9: Following is the extract of Jai ltd and Veeru ltd as on 31.3.2022.

Particulars	Jai Ltd.(Rs.)	Veeru Ltd.(Rs.)
Equity and Liabilities:		
Share capital: Shares of Rs.10 each	5,00,000	2,00,000
Security Premium	50,000	10,000
General reserve	1,00,000	50,000

Surplus	75,000	20,000
Creditors	80,000	40,000
Total	8,05,000	3,20,000
Assets:		
Sundry assets	5,10,000	3,20,000
Investment: 15,000 shares in Veeru ltd	2,95,000	
Total	8,05,000	3,20,000

You are required to compute Minority Interest and Cost of control assuming Jai Ltd acquired shares in Veeru Ltd on 31.3.2022.

Q No. 10: From the following balance sheets of Exe Ltd. and Wye Ltd. as on 31st March, 2022, Workout: (a) Net amount due to minority interest and (b) Cost of control.

Particulars	Exe Ltd.(Rs.)	Wye Ltd.(Rs.)
Equity and Liabilities:		
Share capital: Shares of Rs.100 each	15,00,000	5,00,000
General reserve	1,50,000	1,00,000
Profit and loss account	2,00,000	75,000
Creditors	1,87,500	1,20,000
Total	20,37,500	7,95,000
Assets:		
Sundry assets	14,77,500	7,95,000
Investment: 4,000 shares of Rs.100 each	5,60,000	
Total	20,37,500	7,95,000

The assets of Wye Ltd. included the equipment worth Rs.1,50,000 which was revalued at Rs.1,25,000. The investment of Exe Ltd. were in the shares of Wye Ltd. and the same were acquired on 1st July, 2021. There is no opening of General Reserve and P&L of Wye Ltd.

Q No. 11: Following are the balance sheet of Hari Ltd. and its subsidiary Shyam Ltd. as on 31st March, 2022.

Particulars	Hari Ltd. (Rs.)	Shyam Ltd. (Rs.)
1) Equities and liabilities:		
Fully paid-up equity shares of Rs.10 each	6,00,000	2,00,000
General reserve	3,40,000	80,000
Profit and loss (surplus)	1,00,000	60,000
Trade payable	70,000	35,000

Total	11,10,000	3,75,000
2) Assets:		
Machinery	3,90,000	1,35,000
Furniture	80,000	40,000
Investment (80% shares in Shyam Ltd. at cost)	3,40,000	
Stock	1,80,000	1,20,000
Trade receivable	50,000	30,000
Cash and bank	70,000	50,000
Total	11,10,000	3,75,000

Additional information:

1. Surplus in the profit and loss statement of Shyam Ltd. stood at Rs.30,000 on 1st April, 2021 whereas general reserve has remained unchanged since that date.
2. Hari Ltd. acquired 80% shares in S Ltd. on 1st October, 2021 for Rs.3,40,000 as mentioned above.
3. Shyam Ltd.'s plant and Machinery which stood at Rs.1,50,000 on 1st April, 2021 was considered worth Rs.1,80,000 as on 1st October, 2021, this figure is to be considered while consolidating the balance sheet.

You are required to prepare consolidated balance sheet.

Q No. 12: Balance sheet of H Ltd. and S Ltd. as at 31st March, 2022 are given below.

Particulars	Heera Ltd. (Rs.)	Sona Ltd.(Rs.)
Equity & Liabilities:		
Share capital of Rs.10 each, fully paid	5,00,000	2,00,000
General reserve	1,00,000	50,000
Profit and loss account	60,000	35,000
Creditors	80,000	60,000
Total	7,40,000	3,45,000
Assets:		
Fixed assets	3,00,000	1,00,000
60% shares in Sona Ltd. at cost	1,62,400	-
Current assets	2,77,600	2,39,000
Preliminary expenses	-	6,000
Total	7,40,000	3,45,000

Heera Ltd. acquired the shares on 1st April, 2021 and on that date general reserve and profit and loss account of Sona Ltd. showed the balance of Rs.40,000 and Rs.8,000 respectively.

No part of preliminary expenses has been written off during the year ended on 31st March, 2022. Prepare the consolidated balance sheet of Heera Ltd. and its subsidiary Sona Ltd. as on March, 2022.

Q No. 13: On 31st March, 2022, the balance sheet of Major ltd and its subsidiary Minor ltd.

Particulars	Major Ltd.	Minor Ltd.
Liabilities:		
Equity share capital	800000	200000
General reserve	150000	70000
Profit and loss account	90000	55000
Creditors	120000	80000
	1160000	405000
Assets:		
Fixed assets	550000	100000
75% shares in Minor ltd at cost	280000	177000
stock	105000	
Other current assets	225000	128000
	1160000	405000

Draw consolidated balance sheet as at 31st March 2022, after taking into following adjustments.

1. Major ltd acquired the shares on 31st July.
2. Minor ltd earned a profit of Rs.45000 for the year ended 31st March, 2022.
3. In January, 2022, Minor ltd sold to Major ltd goods costing Rs.15000 for Rs.20000. On 31st March, 2022, the half of the goods were lying as unsold in the godowns of Major ltd.

Q No. 14: On 1st October, 2021, X ltd acquired 12,000 equity shares of B ltd of the face value of Rs.10 each at price of Rs.1,70,000. Following are the balance sheet of companies.

Particulars	X Ltd.	B Ltd.
Liabilities:		
Equity share capital of Rs.10 each	1000000	200000
General reserve (1.4.21)	420000	100000
P&L a/c (1.4.2021)	90000	40000
Profit for the year	170000	45000
Creditors	240000	92000
Bills payable	80000	60000

Total	20,00,000	5,37,000
Assets:		
Goodwill	300000	70000
Land and building	400000	100000
Plant and machine	500000	100000
Stock	200000	40500
Debtors	300000	134500
Investments	200000	
Bills receivables	20000	30000
Bank	60000	50000
Cash	20000	12000
Total	20,00,000	5,37,000

1. Out of debtors and bills receivable of X ltd Rs.50000 and Rs.16000 respectively represented those due from B ltd.

2. The stock in hands of B ltd includes goods purchased from X ltd at Rs.20000 which includes profit charged by latter company at 25% at cost.

Draw consolidated balance sheet as on 31.3.2022 with necessary working notes.

Practice Questions

PQ No 16.1: Balance Sheet of Anjali ltd. and its subsidiary Anushree Ltd. as on 31.03.2023 is as follow:

Particular	Anjali Ltd. ₹	Anu Ltd. ₹
Equity and Liabilities		
Shareholder's Funds:		
Equity Shares (₹ 10 each)	2,00,000	1,00,000
General Reserve	70,000	35,000
Profit & Loss Account	55,000	27,500
Current Liabilities:		
Creditors	50,000	25,000
Bills Payable	30,000	15,000
	4,05,000	2,02,500
Assets		
Non - Current Assets:		

Land & Buildings	80,000	40,000
Machinery	20,000	10,000
Preliminary Expense	---	2,000
Investment in Shares of Anu Ltd. (80% shares of Anu Ltd.)	1,20,000	
Current Assets:		
Stock	1,11,000	85,500
Debtors	30,000	45,000
Bills Receivable	30,000	15,000
Cash & Bank	10,000	5,000
	4,05,000	2,02,500

Draw a consolidated balance sheet as on 31.03.2023

Calculation of Pre and Post Acquisition Profit

PQ No 16.2: Balance of Apurva Ltd. on 31.3.2019 are:

General Reserve	₹ 70,000
Profit & Loss Account	₹ 1,40,000

Divya Ltd. acquired 80% shares on 01st April, 2018. Balance of general reserve and profit and loss account on 1.4.2018 of Apurva Ltd. were ₹ 10,000 and ₹ 50,000 respectively, Calculate the Share of Divya Ltd. in Pre-Acquisition Profit and Post-acquisition profit.

PQ No 16.3: Following are the balances of Mandip Ltd. on 31.3.2019:

General Reserve	₹ 1,75,000
Profit & Loss Account	₹ 3,50,000

Manish Ltd. acquired 60% shares on 30th June, 2018. Balance of general reserve and profit and loss account on 1.4.2018 of Mandip Ltd. were ₹ 25,000 and ₹ 1,25,000 respectively. Calculate the Share of Manish Ltd. in Pre-Acquisition Profit and Post-acquisition profit.

Calculation of Cost of Control and Minority Interest

PQ No 16.4: A Ltd. holds 7,500 shares of B Ltd. Total shares of B Ltd. are 10,000 of ₹ 10 each. General Reserve and Profit & Loss balance of B Ltd. are ₹ 35,000 & ₹ 27,500 respectively out of which 40% relate to post - acquisition period. Calculate cost of control and minority interest.

PQ No 16.5: Following are the balances of Y Ltd. on 31.3.2019:

Equity Share Capital	₹ 10,00,000
General Reserve	₹ 3,50,000
Profit & Loss Account	₹ 7,00,000

X Ltd. acquire 80% shares on 31st July, 2018. Balance of general reserve and profit and loss account on 1.4.2018 of Y Ltd. were ₹ 50,000 and ₹ 2,50,000 respectively.

Calculate cost of control and minority interest.

PQ No 16.6: Following are the balances of Q Ltd. on 31.3.2019:

Equity Share Capital	₹ 20, 00,000
General Reserve	₹ 7,00,000
Profit & Loss Account	₹ 14,00,000

P Ltd. acquired 70% shares on 1.1.2019. Balances of general reserve and profit and loss account on 1.4.2018 of Q Ltd. were ₹ 1,00,000 and ₹ 5,00,000 respectively.

Calculate cost of control and minority interest.

PQ No 16.7: N Ltd. acquired as investments 15,000 shares in M Ltd. for ₹ 1,55,000 on 1.7.2018. Details of M Ltd. on 31.3.2019 are given below:

Particulars	Rs.
Share Capital (₹ 10 each)	2,50,000
General Reserve	40,000
Profit & Loss Account	25,000

General reserve of M Ltd. has remained unchanged since 31.3.2018. Profit earned by M Ltd. for the year ended 31.3.2019 amounted to ₹ 20,000.

Calculate the cost of control and minority interest that will appear in consolidated balance sheet prepared for the year ended 31.3.2019.

PQ No 16.8: Total of assets side of subsidiary's balance sheet is ₹ 8,10,000 which includes preliminary expense ₹ 8,000. Outsider's liability in balance sheet was ₹ 1,60,000. Holdings company holds 75% shares of subsidiary.

Calculate the cost of control and minority interest that will appear in consolidated balance sheet.

PQ No 16.9: E Ltd. acquired 80% equity shares in F Ltd. on 1st July, 2019 at cost price of ₹ 4,48,000. Total equity share capital of F Ltd. was ₹ 2,00,000. Share of E Ltd. in pre - acquisition profits of F Ltd. was ₹ 1,27,000.

Calculate the cost of control and minority interest that will appear in consolidated balance sheet.

Revaluation of Assets and Liabilities of Subsidiary Co.

PQ No 16.10: The parent paid ₹ 48,000 to acquire 75% of 3,000 ordinary shares of ₹ 10.00 and reserves of the subsidiary were reported as ₹ 35,000 and fair valuation of its assets identified a gain of ₹ 5,000.

Calculate the cost of control and minority interest that will appear in consolidated balance sheet.

PQ No 16.11: Following are the details of Om Ltd. on 31.3.2017:

Share Capital (₹ 10 each)	₹ 2,00,000
Plant & Machinery	₹ 1,35,000

Hari Ltd. acquired 80% shares in Om Ltd. on 1.10.2016. Om Ltd. plant and machinery which stood at ₹ 1,50,000 on 1.4.2016 was considered worth ₹ 1,80,000 as on 1.10.2016, this figure is to be considered while consolidating the balance sheets.

Calculate:

- Revaluation Profit / Loss on Plant and Machinery
- Additional Depreciation / Savings in Depreciation on Plant and Machinery
- Cost of control and Minority interest for consolidation of balance sheet.

PQ No 16.12: Black Ltd. acquired 70% of the equity shares of White Ltd. on 1.1.2019. On the date, paid-up capital of White Ltd. was 10,000 equity shares of ₹ 10 each; accumulated reserve balance was ₹ 1,00,000. Black Ltd. paid ₹ 1,60,000 to acquire 70% interest in the White Ltd. Assets of White Ltd. were revalued on 1.1.2019 and a revaluation loss ₹ 20,000 was ascertained.

Calculate cost of control and minority interest.

PQ No 16.13: P Ltd. acquired 12,000 shares of ₹ 10 each in S Ltd. at ₹ 1,70,000 on 31st March, 2020. Details of S Ltd. on 31.3.2020 are given below:

Particulars	Rs.
Share Capital (₹ 10 each)	1,50,000
Capital Reserve	5,000
General Reserve	1,05,000
Profit & Loss Account	18,000

Fixed assets	2,44,700
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Interest receivable for the year ended 31.3.2020 amounting to ₹ 100 in respect of a loan due by P Ltd. has not been credited in the accounts of S Ltd. The directors decided to value fixed assets of S Ltd. at ₹ 2,39,700.

Calculate the cost of control and minority interest for consolidated balance sheet prepared for the year ended 31.3.2020.

Adjustment for Stock Reserve

PQ No 16.14: What is the amount of the unrealized profit to be eliminated if the parent's year-end inventory includes at ₹ 5,40,000 goods invoiced to it by its 60% owned subsidiary at cost plus 25%.

PQ No 16.15: Subsidiary's inventory at the yearend included ₹ 1,80,000 purchased from its parent. Further goods invoiced by the parent at ₹ 45,000 were in transit. The parent invoices the subsidiary at cost plus 20%. Calculate the amount of unrealized profit that needs to be eliminated from the parent's retained earnings.

PQ No 16.16: A parent owns two third of the subsidiary's equity. As at a year end the subsidiary's inventory including goods sent to it by the parent invoiced at ₹ 3,60,000. Parent has purchased these goods for ₹ 3,00,000. Show the effect of above transaction in consolidated financial statements of parent co Nikita Ltd. & subsidiary Renuka Ltd.?

PQ No 16.17: H Ltd. holds 75% Shares in S Ltd. In January, 2019. S Ltd. sold to its parent company H Ltd. goods costing ₹ 15,000 for ₹ 20,000. On 31st March, 2019 half of these goods were lying as unsold in godowns of H Ltd.

Show the effect of above transaction in consolidated financial statements of H Ltd. & S Ltd.?

PQ No 16.18: S Ltd. had purchased goods of ₹ 80,000 from its holding company H Ltd. out of which goods invoiced at ₹ 50,000 were in stock on 31st March, 2020. H Ltd. added 25% to cost to arrive at invoice price. Calculate Stock reserve to be eliminated from the consolidated balance sheet.

Adjustment for Inter Co. Debts

PQ No 16.19: As at the year end the parent's statement of financial position report rent receivables as an asset at ₹ 60,000 and this includes ₹ 15,000 due from the subsidiary. Subsidiary reports rent payable as ₹ 15,000. Which of the following will be included in the consolidated statement of financial position?

PQ No 16.20: Following are the balances of H Ltd. & S Ltd. on 31.3.2019:

Particulars	H Ltd.	S Ltd.
Debtors	3,40,000	2,05,000
Creditors	1,95,000	1,10,000
Bills Receivable	50,000	-
Bills Payable	-	80,000

Bills accepted by S Ltd. were all shown by H Ltd. and H Ltd. had got bills amounting to ₹ 30,000 discounted with bank. On 31.3.2019, S Ltd. owed ₹ 30,000 to H Ltd. for goods purchased from it.

Show the effect of above transaction in consolidated financial statements of H Ltd. & S Ltd.?

Adjustment for Cash in Transit

PQ No 16.21: Any amount owed by one member of a group to another need to be cancelled when preparing the consolidated statements of financial position. As at the year end the parent's receivable includes ₹ 90,000 due from the subsidiary; whereas the subsidiary reports that it owes only ₹ 60,000 to the parent. Difference has arisen because of cash in transit. Which is the correct way of dealing with the situation when preparing the consolidated statement of financial position?

PQ No 16.22: S Ltd. is subsidiary of H Ltd. S Ltd. remitted a cheque for ₹ 5,000 to H Ltd. on 30th March, 2018, which was received by H Ltd. on 1st April, 2019. Accounting year of both companies closed on 31st March 2019.

Show the effect of above transaction in consolidated financial statements of H Ltd. & S Ltd.?

PQ No 16.23: Following are the balance sheets of H. Ltd. and its subsidiary S. Ltd. as at 31st March, 2007:

Particular	H. Ltd (₹)	S. Ltd (₹)
Equities & Liabilities		
Shareholder's Funds:		
Share Capital ₹ 10 each fully paid	6,00,000	2,00,000

General Reserves	3,40,000	80,000
Profit & Loss Account	1,00,000	60,000
Current Liabilities:		
Creditors	70,000	35,000
	11,10,000	3,75,000
Assets		
Non - Current Assets:		
Plant & Machinery	3,90,000	1,35,000
Furniture	80,000	40,000
80% Shares in S Ltd. (at cost)	3,40,000	-
Current Assets		
Stock	1,80,000	1,20,000
Debtors	50,000	30,000
Cash at Bank	70,000	50,000
	11,10,000	3,75,000

Additional Information

1. Profit & loss account of S Ltd. stood at ₹ 30,000 On 1st April, 2006 whereas general reserve stood at ₹ 80,000 even on this date.
2. H Ltd. acquired 80% shares in S Ltd. on 1st October, 2006.
3. S Ltd.'s plant and machinery which stood at ₹ 1,50,000 on 1st April, 2006 was considered worth ₹ 1,80,000 as on 1st October, 2006, this figure is to be considered while consolidating the balance sheets.

You are required to prepare consolidated balance sheet as at 31st March, 2007.

PQ No 16.24: On 31.3.2014 the balance sheet of H Ltd. and its subsidiary S Ltd. are as follows:

Particular	H Ltd	S Ltd
Equities & Liabilities		
Shareholder's Funds:		
Equity Share Capital of ₹ 10 each	4,00,000	1,00,000
General Reserve	75,000	5,000
Profit & Loss Account	45,000	27,500
Current Liabilities:		
Creditors	35,000	25,000
Bills Payable	25,000	15,000

	5,80,000	2,02,500
Assets		
Non - Current Assets:		
Land & Buildings	1,20,000	40,000
Machinery	1,50,000	10,000
Investments in S Ltd. (7,500 Shares at Cost	1,40,000	-
Preliminary Expenses	5,000	2,000
Current Assets:		
Stock	52,500	85,500
Debentures	80,000	45,000
Bills Receivable	22,500	15,000
Cash & Bank	10,000	5,000
	5,80,000	2,02,500

Draw a consolidated balance sheet as at 31.3.2014 after consideration following information.

- H Ltd. acquired the shares on 31st July, 2013.
- The balance of general reserve and profit and loss account on 1st April 2013 of S Ltd. were ₹ 10,000 and ₹ 7,500 respectively.
- In January, 2014 H Ltd. sold to S Ltd. goods costings ₹ 7,500 for ₹ 10,000. On 31st March, 2014, 50% of these goods were lying as unsold in godown of S Ltd.
- Bills receivable of ₹ 12,500 of H Ltd. are received from S Ltd.
- Creditors of S Ltd. include ₹ 6,000 due to H Ltd.
- S Ltd. remitted a cheque for ₹ 1,500 to H Ltd. on 30th March, 2014, which was received by H Ltd. on 1st April, 2014.

PQ No 16.25:

Particular	P Ltd (₹)	S Ltd (₹)
Equities & liabilities		
Shareholder's Funds:		
3,000 Shares of ₹ 100 each	3,00,000	-
10,000 Shares of ₹ 10 each	-	1,00,000
Capital Reserve	-	55,000
General Reserve	30,000	1,05,000
Profit & Loss Account	38,200	18,000
Non - Current Liabilities:		-

Loan from S Ltd.	2,100	
Current Liabilities		
Bills Payable (including ₹ 500 To P Ltd.)	-	1,700
Creditors	17,900	7,000
	3,88,200	2,86,700
Assets		
Non - Current Assets		
Fixed Assets	1,50,000	2,44,700
Investments in S Ltd., at Cost	1,70,000	
Current Assets:		
Stock	40,000	20,000
Loan to P Ltd.	-	2,000
Bills Receivable (including ₹200 form S Ltd.)	1,200	-
Debtors	20,000	15,000
Cash	<u>7,000</u>	<u>5,000</u>
	<u>3,88,200</u>	<u>2,86,700</u>

There is a contingent liability of ₹ 1,000 for bills discounted appearing in the balance sheet of P Ltd.

P Ltd. acquired 8,000 shares of ₹ 10 each in S Ltd. on 31st March, 2005.

You are given the following additional information:

1. S Ltd. made a bonus issue on 31st March, 2005 of one share for every two shares held, reducing capital reserve by an equivalent amount, but the transaction is not shown in the balance sheet.
2. Interest receivable amounting to ₹ 100 in respect of a loan due by P Ltd. has not been credited in the accounts of S Ltd.
3. The directors decided that the fixed assets of S Ltd. were overvalued and should be written down by ₹ 5,000.

Prepare a consolidated balance sheet of the two companies as at 31st March, 2005 giving all the workings.

PQ No 16.26: Following are the abridged balance sheet of Hary Ltd. and Say Ltd. as on 31st March, 2009:

Particular	Hary Ltd. (₹)	Say Ltd. (₹)
Equities & Liabilities		
Shareholders' Funds:		

Equity Share Capital (₹ 100 each)	10,00,000	5,00,000
General Reserve	1,00,000	1,70,000
Profit & Loss Account	1,60,000	1,30,000
Current Liabilities	4,40,000	2,00,000
	17,00,000	10,00,000
Assets		
Fixed Assets	4,80,000	2,50,000
Investments in Shares of Say Ltd.	5,00,000	-
Current Assets	7,20,000	7,50,000
	17,00,000	10,00,000

Additional Information:

- On 1st July, 2008, Hary Ltd. acquired 3,000 shares of in Say Ltd. The reserves and surplus position of Say Ltd. as on 1st April, 2008 was as under:
 General Reserve ₹ 2,50,000
 Profit & Loss A/c (Cr.) ₹ 1,20,000
- On 1st October; 2008, Say Ltd. issued one equity share for every four shares held as bonus shares out of general reserve. No entry has been made in the books of Hary Ltd. for issue of bonus shares.
- On 30th September, 2008, Say Ltd. declared a dividend out of pre-acquisition profits @ 25% on ₹ 4,00,000, its capital on that date. Hary Ltd. credited the dividend to its Profit and loss account.
- Say Ltd. owed Hary Ltd. ₹ 50,000 for purchase of stock from Hary Ltd. The entire stock is held by Say Ltd. on 31st March, 2009. Hary Ltd. made a profit of 25% on cost.
 Prepare a consolidated balance sheet of Hary Ltd. and its subsidiary Say Ltd. as on 31st March, 2009.

PQ No 16.27`: On 1st August, 2002, Honey Ltd. purchased 8,000 shares in Sonly Ltd. at ₹ 175 per share. The balance sheet of Soney Ltd. as at 31st March, 2003 is as follows:

Particular	₹
Equities & Liabilities	
Shareholder's Funds:	
Share Capital (₹ 100 each)	10,00,000
Reserves on 1.4.2002	4,00,000
Profit & Loss Account	3,00,000
Non-Current Liabilities:	

10% Debentures of ₹ 100 each	2,00,000
Current Liabilities:	
Sundry Creditors	4,00,000
	23,00,000
Assets	₹
Goodwill	1,00,000
Fixed Assets (cost ₹ 20,00,000)	16,00,000
Current Assets	6,00,000
	23,00,000

Additional information:

1. The opening balance in the profit and loss account was ₹ 1,60,000 out of which dividend amounting to ₹ 1,00,000 was paid in September, 2002.
2. Honey Ltd. held 50% of the debentures in Soney Ltd
3. Sundry creditors include ₹ 40,000 payable to Honey Ltd.

Calculate Cost of Capital and Minority Interest.

5. Acquisition and Disposals of Subsidiaries and other Business Units

The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as **investing activities**.

6. Non-cash Transactions

Investing and financing transactions that do not require the use of cash or cash equivalents should be **excluded from a cash flow statement**.

Examples: Acquisition of machinery by issue of equity shares or redemption of debentures by issue of equity shares.

Q No. 5: State the meaning of the terms: (i) Cash (ii) Cash Equivalents, (ii) Cash flows.

Answer:

(i) **Cash:** Cash comprised cash in hand and demand deposits with bank.

(ii) **Cash Equivalent:** Cash Equivalents are short term highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

Example: Treasury Bills, Commercial Papers etc.

(iii) **Cash Flow:** Cash flows are inflows and outflows of cash and cash equivalents. It means the movement of cash into organization and movement of cash out of the organization. The difference between cash inflow and cash outflow is known as net cash flow which can either be net cash inflow or net cash outflow.

Cash flows excludes movement between items that constitute cash and cash equivalent because these components are part of cash management of an enterprise rather than part of operating, investing and financing activity.

Cash management includes the investment of excess cash in cash equivalent.

Practical Question

Q No. 1: Calculate Cash Flow from operating Activities from the following details:

Particulars	31 st March, 2014	31 st March, 2013
Surplus, i.e., Balance in statement of profit and Loss	80,000	60,000
Trade Receivables	25,000	31,000
Provision for Depreciation	40,000	30,000
Inventories	80,000	60,000
Outstanding Rent	12,000	21,000

Goodwill	30,000	38,000
Prepaid insurance	1,000	2,000
Trade Payables (creditors)	13,000	19,000

Q No. 2: From the following information, calculate cash flow from investing Activities:

	Rs
Purchase of Machine	2,50,000
Purchase of Goodwill	1,00,000
Sale of Machine	35,000
Sale of investment	50,000
Purchase of investment	1,50,000
Sale of patents	40,000
Interest and Dividend Received	10,000

Q No. 3: From the following information, calculate cash Flow from financing Activities:

Particulars	31st March, 2014 (Rs)	31st March, 2013 (Rs)
Equity share capital	10,00,000	9,00,000
Securities premium Reserve	2,60,000	2,50,000
12% Debentures	1,00,000	1,50,000

Q No. 4: From the Following extracts of Balance sheets of Exe Ltd., Calculate Cash flow from Financing Activities:

Particulars	31st March, 2014 (Rs)	31st March, 2013 (Rs)
Equity share capital	5,25,000	4,00,000
10% Preference share capital	4,00,000	5,50,000
Securities premium Reserve	2,25,000	1,00,000
12% Debentures	4,00,000	3,00,000

Q No. 5: The Balance Sheets of a Prem Limited Company at 31.3.2021 and 31.3.2022 were as follows:

I. Equity and Liabilities	31.3.2021(Rs.)	31.3.2022 (Rs.)
Equity Share Capital	4500	6500
General Reserve	500	750
Profit and Loss Account	1000	1500
Debentures	1000	2000

Sundry	870	1100
Creditors	7870	11850
Total	7870	11850
Assets	Rs.	Rs.
Fixed Assets	4600	8300
Stock	1100	1300
Debtors	1870	1950
Cash	200	2500
Preliminary Expenses	100	50
Total	7870	11850

Additional information:

Depreciation on fixed assets for the year 2021-22 was Rs. 1170. Prepare a Cash Flow Statement.

Q No. 6: The following Balance Sheets are given:

I. Equity and Liabilities	2021 (Rs.)	2022 (Rs.)
Equity Share Capital	30000	40,000
Redeemable Pref. Capital	15000	10,000
General Reserve	4000	7000
Profit and Loss Account	3000	4800
Proposed Dividend	4200	5000
Creditors	5500	8300
Bills Payable	2000	1600
Provision for Taxation	4000	5000
Total	67700	81700
II. Assets		
Goodwill	11500	9000
Land and Building	20000	17000
Plant	8000	20000
Debtors	16000	20000
Stock	7700	10900
Bills Receivable	2000	3000
Cash in Hand	1500	1000
Cash at Bank	1000	800
Total	67700	81700

It is also given that:

(a) Depreciation of Rs. 2000 on land and building and Rs.1000 on plant has been charged in 2022.

(b) Interim dividend of Rs. 2000 has been paid in 2022.

(c) Income tax Rs.3500 has been paid during 2022.

Prepare Cash Flow Statement for the year 2022.

Q No. 7: From the following information, prepare Cash Flow Statement for Pioneer Ltd.

Balance Sheet of Pioneer Ltd. as on March 31, 2014

Particulars	Notes	31/3/14	31/3/13
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	7,00,000	5,00,000
b) Reserve and surplus	2	3,50,000	2,00,000
2. Non-current Liabilities			
a) Long-term borrowings: Bank Loan		50,000	1,00,000
3. Current Liabilities			
a) Trade payables		45,000	50,000
b) Other current liabilities: outstanding rent		7,000	5,000
c) Short-term provisions	3	1,20,000	80,000
Total		12,72,000	9,35,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
(i) Tangible assets	4	5,00,000	5,00,000
(ii) Intangible assets	5	95,000	1,00,000
b) Non-current investments		1,00,000	-
2. Current assets			
a) Inventories		1,30,000	50,000
b) Trade receivables		1,20,000	80,000
c) Cash and cash equivalents	6	3,27,000	2,05,000
Total		12,72,000	9,35,000

Notes to Accounts:

Particulars	31/3/14	31/3/13
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1. Equity Share Capital	7,00,000	5,00,000
2. Reserve and Surplus		
Surplus: i.e. Balance in Statement of Profit and Loss	3,50,000	2,00,000
3. Short-term Provision:		
Proposed Dividend	70,000	50,000
Provision for Taxation	50,000	30,000
	1,20,000	80,000
4. Fixed Assets		
i) Tangible assets		
Equipment's	2,30,000	2,00,000
Furniture	2,70,000	3,00,000
	5,00,000	5,00,000
5. Intangible Assets		
Patents	95,000	1,00,000
6. Cash and cash equivalents		
i) Cash	27,000	5,000
ii) Bank balance	3,00,000	2,00,000
	3,27,000	2,05,000

During the year, equipment costing Rs. 80,000 was purchased. Loss on Sale of equipment amounted to Rs. 5,000. Depreciation of Rs. 15,000 and Rs. 3,000 charged on equipment's and furniture respectively.

Q No. 8: From the following condensed comparative Balance Sheets of Hotel Hills Ltd., and additional information, prepare a Cash Flow Statement for the year 2022.

I. Equity and Liabilities	2021 (Rs.)	2022 (Rs.)
Share Capital	7000	8000
Share Premium	900	1100
Retained earnings	2382	3082
7% Mortgage loan	--	2000
Creditors	690	600
Outstanding salaries	200	140
Provision for taxation	100	140
Total	11272	15062
II. Assets		
Plant & Machinery	6200	6600

Accumulation Dep. on plant and mach	(3700)	(2620)
Building	9500	11600
Accumulation depreciation on Building	(4300)	(4500)
Land	1000	1200
Stock	1022	962
Debtors	860	760
Prepaid expenses	72	80
Cash	618	980
Total	11272	15062

Additional information:

1. Plant costing Rs. 1600 (accumulated depreciation Rs. 1480) was sold during the year for Rs. 120.
2. Building was acquired during the year at a cost of Rs. 2100. In addition to cash payment of Rs. 100, 7% mortgage loan was raised for the balance.
3. Dividend of Rs. 800 was paid during the year.
4. A sum of Rs. 1390 was transferred to provision for taxation account in 2022.

Q No. 9: J Ltd. presents you the following information for the year ended 31.03.2007:

Particular	Rs. '000
Net profit before tax provision	36,000
Dividends paid	10,202
Income Tax paid	5,100
Book value of assets sold	222
Loss on sale of assets	48
Depreciation debited to P& L A/c	24,000
Capital Grant received - Amortized in P&L A/c	10
Book value of investment sold	33,318
Profit on sale of investment	120
Interest income from investment credited to P&L A/c	3,000
Interest Expenses debited to P&L A/c	12,000
Interest actually paid	13,042
Increase in Working capital (Excluding cash and bank balance)	67,290
Purchase of fixed Assets	22,092
Expenditure on Construction Work	41,688
Grant received for capital project	18

Long term borrowings from banks	55,866
Provision for Income Tax debited in P&L A/c	6,000
Cash and bank balance on 01.04.2006	6,000
Cash and bank balance on 31.03.2007	8,000

You are required to prepare a Cash Flow Statement as per AS-3 (Revised).

Q No. 10: Balance Sheet of M/s Hero ltd. as on 31st March, 2010 and 2011 are as follows:

Rs in '000

	31.03.10	31.03.11
Equity share capital	1,000	1,150
Capital Reserve	-	10
General reserve	250	300
Profit and loss A/c	150	180
Long term loan	500	400
Sundry Creditors	500	400
Provision for tax	50	60
Proposed Dividend	100	125
Total	2,550	2,625
Assets	31.03.10	31.03.11
Land and Building	500	480
Machinery	750	820
Investments	100	50
Stock	300	280
Sundry Debtors	400	420
Cash in hand	200	165
Cash at bank	300	410
	2,550	2,625

Additional information:

- Dividend of Rs. 1,00,000 was paid during the year ended 31st March, 2011.
- Machinery purchased during the year for Rs. 1,25,000.
- Company sold some investment at profit of Rs. 10,000 which was credited to capital reserve.
- Depreciation written off on land and building Rs. 20,000.
- Income tax provided during the year Rs. 55,000.

From the above particulars, prepare cash flow statement for the year ended 31st March, 2011 as per AS 3 using Indirect Method.

Practice Questions

PQ 1: From the following balances calculate cash from operations:

Profit made during the year	31st December	
	2021	2022
Bills receivable	5,000	4700
Debtors	1000	1250
Bills payable	2000	2500
Creditors	800	600
Outstanding Expenses	100	120
Prepaid Expenses	80	70
Accrued Income	60	75
Income received in advanced	80	25
Profit made during the year	-	7,000

Solution:

Cash Flow Statement

Calculation of cash from Operating Activities

Particulars	Amount (Rs.)	Amount (Rs.)
Profit made during the year		7,000
Add: Decrease in current assets and increases in current liabilities:		
Decrease in bills receivable (C.A.)	300	
Increase in bills payable (C.L.)	500	
Increase in outstanding expenses (C.L.)	20	
Decrease in prepaid expenses (C.A.)	10	830
Total		7,830
Less: Increase in current assets and decrease in current liabilities:		
Increase in debtors (C.A.)	250	
Decrease in creditors (C.L.)	200	
Increase in accrued income (C.A.)	15	
Decrease in income received in advance (C.L.)	55	520

Cash from Operating Activities		7,310
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PQ 2: Following is the Balance Sheet of ABC Co. Ltd., on at 01st January, 2022 and 31st December 2022.

(Amount In Rs.)

Particulars	01-01-2022	31-12-2022
I. Equity and Liabilities:		
Equity share capital	30,000	35000
Share premium	--	3000
General Reserve	4500	6500
Profit and Loss	3000	8080
6% Debentures	--	7000
Sundry creditors	8500	9070
Provision for taxation	2250	4050
Proposed Divided	3000	3500
Total	51250	76200
II. Assets:		
Land and building	23,000	39000
Plant and machinery	8540	14000
Furniture	550	650
Stock	8240	9570
Sundry debtors	7500	8550
Bank balance	3420	4430
Total	51250	76200

Additional Information:

Depreciation written off during the year

Land and building	6000
Plant and machinery	5000
Furniture	120

You are required to prepare a cash flow statement Flow Statement for the year ended 31-12-2022

Solution:

Cash Flow Statement (for the year ending on 31-03-2022)

Particulars		Rs.	Rs.
(i) Cash Flow from Operating Activities			

Profit during the year (8080-3000)		5080	
Add: Appropriation			
General reserve (6,500 - 4,500)	2000		
Proposed dividend	3500	5,500	
Profit after tax		10,580	
Add: Taxation provision		4050	
Profit before ax			14,630
Add: Non-Cash, Non-Operating Expense			
Depreciation on:			
Land and building	6000		
Plant and machinery	5000		
Furniture	120		11,120
Add: Increase in CL and Decrease in CA			
Increase in creditors (9070 - 8500)	570		
Less : Increase in stock (9570 - 8240)	(-)1330		
Increase in debtors (8550 - 7500)	(-)1050		(-)1610
Operating Profit before tax paid			24,140
Less : Income tax paid (-)			(-)2250
Cash inflow from operating activities			21690
(ii) Cash Flow from Investing Activities			
Less : Purchase of land and building		(-) 22000	
Purchase of plant and machinery		(-)10460	
Purchase of furniture		(-) 220	
Cash outflow from investing activities			(-)32680
(iii) Cash Flow from Financing Activities			
Add : Issue of equity shares		5000	
Share premium		3000	
Issue of debentures		7000	
Less : Payment of dividend		(-) 3000	
Cash inflow from financing activities			12000
Net increase in cash			1010
Add : Cash balance in the beginning			3420
Cash balance at the end			4430

Working Note:

Land and Building Account

Particulars	Amt	Particulars	Amt
To Balance b/d	23000	By Depreciation	6000
To Bank (purchase)	22000	By Balance c/d	39000
	45000		45000

Plant and Machinery Account

Particulars	Amt	Particulars	Amt
To Balance b/d	8540	By Depreciation	5000
To Bank (purchase)	10460	By Balance c/d	14000
	19000		19000

Furniture Account

Particulars	Amt	Particulars	Amt
To Balance b/d	550	By Depreciation 120	
To Bank (purchase)	220	By Balance c/d 650	
	770		770

Provision for Taxation Account

Particulars	Amt	Particulars	Amt
To Bank (tax paid)	2250	By Balance b/d	2250
To Balance c/d	4050	By P & L A/c	4050
	6300		6300

PQ 3: Following is the Financial Statement of Garima Ltd., prepare cash flow statement.

Particulars	Note No.	31/03/2014 (Rs.)	31/03/2013 (Rs.)
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital	1	4,40,000	2,80,000
b) Reserve and surplus-Surplus	2	40,000	28,000
2. Current Liabilities			
a) Trade payables		1,56,000	56,000
b) Short-term provisions (Provision for taxation)		12,000	4,000
Total		6,48,000	3,68,000
II. Assets			
1. Non-current assets			
a) Fixed assets			

i) Tangible		3,64,000	2,00,000
2. Current assets			
a) Inventories		1,60,000	60,000
b) Trade receivables		80,000	20,000
c) Cash and cash equivalents		28,000	80,000
d) Other current assets		16,000	8,000
Total		6,48,000	3.68,000

Notes to Accounts

Particulars	31/03/2014 (Rs.)	31/03/2013 (Rs.)
1. Share capital		
a) Equity share capital	3,00,000	2,00,000
b) Preference share capital	1,40,000	80,000
	4,40,000	2,80,000
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	28,000	
Add: Profit of the year	16,000	
Less: Dividend	4,000	
Profit at the end of the year	40,000	

Interest paid on Debenture Rs. 600 Rs.

Solution:**Cash Flow Statement of Garima Ltd.**

For the year ended 31st March, 2014

Particular		Rs.	Rs.
Profit After Tax	16,000		
Add: Provision for Tax during the year	12,000		
Profit before tax		28,000	
Add: Non cash or non operation expenses			
Finance Cost[Interest Paid]		600	
Less: Non Cash or Non Operating Income		nil	
Profit Before change in Working Capital		28,600	
Add: Inc. in CL and Dec. in CA			
Trade Payable	1,00,000	1,00,000	
Less: Dec. in CL and Inc. in CA			

Trade Receivable	(60,000)		
Inventory	(1,00,000)		
Other current assets	(8,000)	(1,68,000)	
Cash Operating Profit before tax			(39,400)
less: Tax Paid		(4,000)	(43,400)
Cash flow from Operating Activity			
(B) Investing Activity			
Purchase of Fixed Asset		(1,64,000)	
Cash Used in Investing Activity			(1,64,000)
(C) Financing Activity			
Interest paid	(600)		
Issue of Pref. Shares	60,000		
Issue of Equity Shares	1,00,000		
Dividend Paid during the year	(4,000)		
Cash flow (Used) from financing Activity			1,55,400
Net Cash Flow (Used) [A + B+ C]			(52,000)
Add: Op. Bal. of cash and cash equ.			80,000
Cl. Bal. of Cash and Cash equ.			28,000

Working Note			
1. Provision for Taxation A/c			
To, Cash/ bank A/c [Tax paid]	4,000	By, balance b/d	4,000
To, balance c/d	12,000	By, P&L A/c [bal. fig.]	12,000
	16,000		16,000

PQ 4: From the following Balance Sheet of Yogita Ltd., prepare cash flow statement:

Particulars	Note	31/03	31/03
I. Equity and Liabilities		2014 (Rs.)	2013 (Rs.)
1. Shareholders' Funds			
a) Share capital	1	4,00,000	2,00,000
b) Reserve and surplus-Surplus		2,00,000	1,00,000
2. Non-current Liabilities			
a) Long-term borrowings	2	1,50,000	2,20,000
3. Current Liabilities			
a) Short-term borrowings		1,00,000	-

(Bank overdraft)			
b) Trade payables		70,000	50,000
c) Short-term provision		50,000	30,000
(Provision for taxation)			
Total		9,70,000	6,00,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
i) Tangible		7,00,000	4,00,000
2. Current assets			
a) Inventories		1,70,000	1,00,000
b) Trade Receivables		1,00,000	50,000
c) Cash and cash equivalents		-	50,000
Total		9,70,000	6,00,000

Notes to Accounts

Particulars	31/03/2014 (Rs.)	31/03/2013 (Rs.)
1. Share capital		
a) Equity share capital	3,00,000	2,00,000
b) Preference share capital	1,00,000	-
	4,00,000	2,00,000
2. Long term borrowings		
Long-term loan	-	2,00,000
Long-term Rahul	1,50,000	20,000
	1,50,000	2,20,000

Additional Information:

Net Profit for the year after charging Rs. 50,000 as Depreciation was Rs. 1,50,000.

Dividend paid on Share was Rs. 50,000, Tax Provision created during the year amounted to Rs. 60,000.

Solution:**Cash Flow Statement of Yogita Ltd. (for the year ended 31st March 2014)**

Particular	Rs.	Rs.
(A) Operating Activity		
Profit after tax	1,50,000	
Add: Provision for tax created during the year	60,000	
Profit before tax	2,10,000	

Add: non cash non-operating Expenses			
Depreciation	50,000	50,000	
Less: non Cash Non-operating Income		Nil	
Operating Profit before change in working Capital		2,60,000	
Add: Increase in current liability and decrease in current Assets			
Trade Payable	20,000	20,000	
Less: Increase in Current Assets and Decrease in current Liability			
Inventory	(70,000)		
Trade Receivable	(50,000)	(1,20,000)	
Cash Operating Profit before tax		1,60,000	
Less: tax Paid during the year		(40,000)	
Cash flow from operating activity			1,20,000
(B) Investing activity			
Purchase of Fixed Assets		(3,50,000)	
Cash Used in Investing activity			(3,50,000)
(C) Financing Activity			
Issue of Equity Share Capital		1,00,000	
Issue of preference Share Capital		1,00,000	
Repayment of Bank Loan		(2,00,000)	
Loan from Rahul		1,30,000	
Dividend Paid during the year		(50,000)	
Cash flow from financing Activity			80,000
Net Cash Flow (A+B+C)			(1,50,000)
Add: Op. Bal. of cash and Cash Eq.			50,000
Cash	50,000		
Bank	Nil		
Cl. Bal. of Cash and Cash Eq.			(1,00,000)
Cash	Nil		
Bank (OD)	(1,00,000)		

Working note

Particular	Rs.	Particular	Rs.
Provision for Tax A/c			

To, Cash/ Bank A/c [Tax Paid]	40,000	By, Bal b/d	30,000
To, Bal c/d	50,000	By, P&L A/c	60,000
	90,000		90,000
2. Fixed Assets A/c			
To, Bal b/d	4,00,000	By, Depreciation	50,000
To, cash/ Bank A/c [Purchase] [Bal. fig.]	3,50,000	By, Bal c/d	7,00,000
	7,50,000		7,50,000

Closing bal of P&L a/c	2,00,000
Less: Opening Bal. of P&L A/c	(1,00,000)
Surplus During the year	1,00,000
Add: Appropriation	
Dividend Paid	50,000
Profit after Tax	1,50,000
Add: Provision for tax	60,000
Profit before Tax	2,10,000

- 1. Use ratios to get clues to ask the right questions:** By themselves ratios rarely provide answers, but they definitely help to raise the right questions.
- 2. Be selective in the choice of ratios:** Compute scores of different ratios and easily drown into confusion. For most purposes a small set of ratios-three to seven-would suffice. Few ratios, aptly chosen, would capture most of the information that can derive from financial statements.
- 3. Employ proper benchmarks:** It is a common practice to compare the ratios (calculated from a set of financial statements) against some benchmarks. These benchmarks may be the average ratios of the industry or the ratios of the industry leaders or the historic ratios of the firm itself.
- 4. Know the tricks used by accountants:** Since firms tend to manipulate the reported income, should learn about the devices employed by them.
- 5. Read the footnotes:** Footnotes sometimes contain valuable information. They may reveal things that management may try to hide. The more difficult it is to read a footnote, the more information-laden it may be.
- 6. Remember that financial statement analysis is an odd mixture of art and science:** Financial statement analysis cannot be regarded as a simple, structured exercise. It is a process requiring care, thought, common sense, and business judgment-a process for which there are no mechanical substitutes.

Practical Question

Q No. 1: Current Ratio is 3.5:1; Working Capital is Rs. 90,000.

Calculate the amount of Current Assets and Current Liabilities.

Q No. 2: Shine Limited has a current ratio 4.5 : 1 and quick ratio 3 : 1; if the inventory is 36,000, calculate Current Liabilities and Current Assets.

Q No. 3: Current Liabilities of a company are Rs. 75,000. If current ratio is 4:1 and Liquid Ratio is 1 : 1, calculate value of Current Assets, Liquid Assets and Inventory.

Q No. 4: Handa Ltd. has inventory of Rs. 20,000. Total liquid assets are Rs. 1,00,000 and quick ratio is 2 : 1. Calculate current ratio.

Q No. 5: Calculate Current Ratio if: Inventory is Rs. 6,00,000; Liquid Assets Rs. 24,00,000; Quick Ratio 2 : 1.

Q No. 6: Calculate debt-equity ratio from the following information:

Total Assets	Rs. 15,00,000
Current Liabilities	Rs. 6,00,000
Total Debts	Rs. 12,00,000

Q No. 7: Calculate Current Ratio and Quick Ratio from the following information:

Particulars	(Rs.)
Inventories	50,000
Trade receivables	50,000
Advance tax	4,000
Cash and cash equivalents	30,000
Trade payables	1,00,000
Short-term borrowings (bank overdraft)	4,000

Q No. 8: From the following balance sheet of a company, calculate Debt-Equity Ratio:

I. Equity and Liabilities	2022 (Rs.)
Share Capital	8000
Share Premium	1100
Retained earnings	3082
7% Mortgage loan	2000
Creditors	600
Outstanding salaries	140
Provision for taxation	140
Total	15062
II. Assets	
Plant & Machinery	6600
Accumulation Dep. on plant and mach	(2620)
Building	11600
Accumulation depreciation on Building	(4500)
Land	1200
Stock	962
Debtors	760
Prepaid expenses	80
Cash	980
Total	15062

Q No. 9: Company A lists Rs. 40,00,000 in short-term liabilities and Rs. 70,00,000 in long-term liabilities on their balance sheet. They have also issued Rs. 20,00,000 in preferred stock, Rs. 5,00,000 in minority interest, and have around 8,00,000 outstanding shares trading at Rs. 10 per share. Using all that information, calculate the debt-to-capital ratio.

Q No. 10: From the following details, calculate interest coverage ratio: Net Profit after tax Rs. 60,000; 15% Long term debt 10,00,000; and Tax rate 40%.

Q No. 11: Company A records EBIT of Rs. 300,000, operating lease payments of Rs. 200,000, and Rs. 50,000 in interest expense. Calculate Fixed Charges Coverage Ratio.

Q No. 12: From the following information, calculate inventory turnover ratio :

	Rs.
Inventory in the beginning	= 18,000
Inventory at the end	= 22,000
Net purchases	= 46,000
Wages	= 14,000
Revenue from operations	= 80,000
Carriage inwards	= 4,000

Q No. 13: From the following information, calculate inventory turnover ratio:

	Rs.
Revenue from operations	= 4,00,000
Average Inventory	= 55,000
Gross Profit Ratio	= 10%

Q No. 14: Calculate the Trade receivables turnover ratio from the following information:

Total Revenue from operations	Rs. 4,00,000
Cash Revenue from operations	20% of Total Revenue from operations
Trade receivables as at 1.4.2021	Rs. 40,000
Trade receivables as at 31.3.2022	Rs. 1,20,000

Q No. 15: Following information is available for the year 2022-23, calculate gross profit margin ratio:

Revenue from Operations:	Cash	25,000
	Credit	75,000

Purchases:	Cash	15,000
	Credit	60,000
Carriage Inwards		2,000
Salaries		25,000
Decrease in Inventory		10,000
Return Outwards		2,000
Wages		5,000

Q No. 16: Given the following information:

Revenue from Operations	3,40,000
Cost of Revenue from Operations	1,20,000
Selling expenses	80,000
Administrative Expenses	40,000

Calculate Gross profit ratio and EBITDA margin

Q No. 17: Gross profit ratio of a company was 25%. Its credit revenue from operations was Rs. 20,00,000 and its cash revenue from operations was 10% of the total revenue from operations. If the indirect expenses of the company were Rs. 50,000, calculate its net profit ratio.

Q No. 18: From the following information calculate Gross Profit Ratio, Inventory Turnover Ratio and Trade Receivable Turnover Ratio.

Revenue from Operations	Rs. 3,00,000
Cost of Revenue from Operations	Rs. 2,40,000
Inventory at the end	Rs. 62,000
Gross Profit	Rs. 60,000
Inventory in the beginning	Rs. 58,000
Trade Receivables	Rs. 32,000

Q No. 19: Calculate Inventory Turnover Ratio from the data given below:

Inventory in the beginning of the year	Rs. 10,000
Inventory at the end of the year	Rs. 5,000
Carriage	Rs. 2,500
Revenue from Operations	Rs. 50,000
Purchases	Rs. 25,000

Q No. 20: Calculate Inventory Turnover Ratio if: Inventory in the beginning is Rs. 76,250, Inventory at the end is Rs. 98,500, Sales is Rs. 5,20,000, Sales Return is Rs. 20,000, Purchases is Rs. 3,22,250.

Practice Questions

PQ 1: Ltd., has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current assets and current liabilities.

Solution:

Current Ratio = 3.5:1

Quick Ratio = 2:1

Let Current liabilities = x

Current assets = 3.5x

and Quick assets = 2x

Inventories = Current assets - Quick assets

24,000 = 3.5x - 2x

24,000 = 1.5x

x = Rs.16,000

Current Liabilities = Rs.16,000

Current Assets = 3.5x = 3.5 × Rs. 16,000 = Rs. 56,000.