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ADVANCED ACCOUNTING

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**COMPANY FINAL
ACCOUNTS**

PART A : THEORY SECTION

Schedule III of the Companies Act, 2013

PART I – BALANCE SHEET

Name of the Company.....

Balance Sheet as at.....

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	EQUITY AND LIABILITIES			
1.	Shareholder's funds			
a	Share capital			
b	Reserves and surplus			
c	Money received against share warrants			
2.	Share application money pending allotment			
3.	Non-Current Liabilities			
a	Long-term borrowings			
b	Deferred tax liabilities (Net)			
c	Other long term liabilities			
d	Long-term provisions			
4.	Current Liabilities			
a	Short-term borrowings			
b	Trade payables			
c	Other current liabilities			
d	Short-term provisions			
	TOTAL			

B.	ASSETS			
1.	Non-Current Assets			
a	Property, Plant & Equipment & Intangible Assets			
i.	Property, Plant & Equipment			
ii.	Intangible assets			
iii.	Capital work-in-Progress			
iv.	Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	Current Assets			
a	Current investments			
b	Inventories			
c	Trade receivables			
d	Cash and cash equivalents			
e	Short-term loans and advances			
f	Other current assets			
	TOTAL			

Important Disclosures in Notes to Accounts

1) **Share Capital:** For each class of share capital (different classes of preference shares to be treated separately):

Shareholding of Promoter's

Shares held by Promoter at the end of the year				% change during the year
S.No.	Promoter Name	No. of Shares	% of total Shares	
Total				

2) Current maturities of Long term borrowings shall be disclosed separately under Short term borrowings & not under Other Current Liabilities

3) **Trade Payables ageing Schedule:**

Particulars	O/s for following periods from due date of payment				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
MSME					
Others					
Disputed dues-MSME					
Disputed dues-Others					

4) **PPE & Intangible Assets:** A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment/ Intangible Assets) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.]

5) **Trade Receivables ageing Schedule:**

Particulars	O/s for following periods from due date of payment					Total
	Less than 6 months	6 months – 1 year	1-2 years	2-3 years	More than 3 years	
Undisputed - considered good						
Undisputed - considered doubtful						
Disputed - considered good						
Disputed - considered doubtful						

6) Additional Disclosures

- (1) Title deeds of Immovable Property not held in name of the Company.
- (2) Capital WIP/ Intangible Assets under development Ageing schedule.
- (3) Following ratios to be disclosed: (Change >25% as compared to previous year to be explained)
 - (a) Current Ratio, (b) Debt-Equity Ratio, (c) Debt Service Coverage Ratio, (d) Return on Equity Ratio, (e) Inventory turnover ratio, (f) Trade Receivables turnover ratio, (g) Trade payables turnover ratio, (h) Net capital T/o ratio, (i) Net profit ratio, (j) Return on Capital employed, (k) Return on investment

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and loss statement for the year ended[®]

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
I.	Revenue from operations			
II.	Other income			
III.	Total Income (I + II)			
IV.	Expenses:			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, work-in- progress and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total Expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
VII.	Profit before extraordinary items and tax (V - VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			

X.	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
	(3) (Excess) / Short Income Tax Provision of earlier year			
XI.	Profit / (Loss) for the period from Continuing operations			
XII.	Profit / (Loss) from discounting operations (Before tax)			
XIII.	Tax expense of discounting Operations			
XIV.	Profit / (Loss) from discounting Operations (After tax)			
XV.	Profit / (Loss) for the period			

Additional Disclosures:

Corporate Social Responsibility (CSR): Expenditure to be spent, actually incurred, shortfall, reason of shortfall, nature of activities.

Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:

- profit or loss on transactions involving Crypto currency or Virtual Currency.
- amount of currency held as at the reporting date,
- deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.

Depending upon the **Total Income** of the company, the figures appearing in the Financial Statements **shall** be rounded off as given below:

Total Income	Rounding Off
(a) Less than 100 crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(b) 100 crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

Notes to Accounts

Note 1: Share Capital AuthorisedPreference Shares of ₹.. each Equity Shares of ₹.. each Issued, Subscribed and paid upPreference Shares of ₹.. each, fully paid / called Equity Shares of ₹.. each fully paid / called up Less : Call in Arrears (including due from directors / officers) Share Forfeiture A/c Notes : (i) Shares issued for consideration other than cash (ii) Shares issued as Bonus (iii) No. of shares bought back			
	xx		
	xx	xx	
	xx		
	xx		
	xx	xx	
		xx	
		xx	

Notes to Accounts

Note 2: Reserves and Surplus (a) Capital Reserves (b) Capital Redemption Reserve (c) Securities Premium Reserve (d) Debenture Redemption Reserve (e) Revaluation Reserve (f) General Reserve (g) Employee Stock option Outstanding (h) Surplus (Profit & Loss A/c) Surplus as at the beginning of the year Add : Profit / (Loss) for the period Less : Interim Dividend Less : Transfer to Reserves Add : Transfer from Reserves			
		xx	
		xx	
		xx	
		xx	
		xx	
		xx	
		xx	
	xx		
	xx		
	(xx)		
	(xx)	xx	
	Xx		
	xx		

Note: Addition & deduction should shown under each of the specific heads

<p>Note 3: Long term borrowings</p> <p>(A) Secured: Debentures, Bank Loan, loan from financial institutions, etc. (Security information also needs to be disclosed)</p> <p>(B) Unsecured: Directors loan, loan from related parties / subsidiaries, public deposits taken, etc.</p> <p>(C) Deferred Payment Liabilities</p>		
<p>Note 4: Long term Provisions</p> <p>Provision for Gratuity/ Provident fund/ pension.</p>		
<p>Note 5: Short term borrowings</p> <p>Bank O/D, Cash credit, Loans payable on demand (Security information also needs to be disclosed)</p> <p>Current maturity of long team borrowing</p>		
<p>Note 6: Trade Payables</p> <p>Creditors, Bills Payable</p>		
<p>Note 7: Other Current Liabilities</p> <p>O/s expenses, calls in advance, Advance from customers, unclaimed dividend, TDS on expense, Income Tax payable, dividend payable etc.</p> <p>Interest accrued but not due on borrowings</p> <p>Interest accrued & due on borrowings</p>		
<p>Note 8: Short term provision</p> <p>Provisions for Tax, etc.</p>		
<p>Note 9: Property Plant & Equipment</p> <p>Land & Building, Furniture, machinery, motor vehicle, office equipment, etc. (information of cost & Accumulated Depreciation to be disclosed)</p>		

<p>Note10: Intangible Assets Goodwill, Patents, Trade-marks, copyrights, Computer software etc. (information of cost & Amortisation to be disclosed)</p>																		
<p>Note11: Non - Current Investments Investments in Shares, Bonds, Govt. securities, Property, Gold, etc. (market value of Investment must be disclosed)</p>																		
<p>Note12: Long term Loan and Advances Loan to subsidiaries/ related parties, housing loan to employees, security deposit given, Deposit with Government Authorities, Telephone deposit, Capital Advances etc.</p>																		
<p>Note13: Inventories Closing stock of RM/ WIP/FG Stock in Trade. Loose Tools, Stores & spares, Goods in transit etc. (Mode of valuation shall be stated)</p>																		
<p>Note14: Trade Receivables</p> <table border="0" data-bbox="245 1429 1139 1632"> <tr> <td>(i) Bills receivables</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(ii) Sundry Debtors</td> <td></td> <td></td> <td></td> </tr> <tr> <td>- O/s for more than 6 months</td> <td>x</td> <td></td> <td></td> </tr> <tr> <td>- Other debts.</td> <td>x</td> <td>x</td> <td></td> </tr> </table>	(i) Bills receivables				(ii) Sundry Debtors				- O/s for more than 6 months	x			- Other debts.	x	x		<p>x</p> <p>x</p>	
(i) Bills receivables																		
(ii) Sundry Debtors																		
- O/s for more than 6 months	x																	
- Other debts.	x	x																
<p>Note 15: Cash & Cash Equivalents Cash in hand, <u>Cash at Bank</u> With scheduled banks [If information given in With other banks adjustment]</p>																		

Note 16: Short term Loans and Advances

Advance to staff, prepaid expenses, Advance Tax,
TDS on Income, Income Tax refund receivable, etc.

Note 17: Other Current Assets

Income Receivables

Note18: Contingent Liabilities and Commitments

- Claims against Co. not acknowledged as debts
- Bills discounted but not matured .
- Guarantee given by co.
- Uncalled amount on partly paid shares held as investments.
- Capital expenditure commitments
- Arrears of cumulative preference share Dividend.

Note 19: Other Incomes

Rent / Interest / Dividend / Commission Received

Note20: Change in Inventory of FG, WIP & Stock in Trade

Opening Stock	x		
Less: Closing Stock	(x)	x	

Note21: Employee Benefit Cost

Salary, Wages, Bonus allowance to staff, Staff welfare expenses

Note22: Finance Cost

Interest on all borrowings

Note23: Other Expenses

- All Administration expenses
- All selling and distribution expenses
- Bad debts
- Auditors, Remuneration for Audit fees, Tax work, co. law matter, consultancy fee, other matters etc.
- Reimbursement of employee expenses

Note24: Exception Items

Profit / Loss on Sale of FA / Investments

Note : Alternately it can be shown under the head "Other Incomes"

Note25: Extra Ordinary Items

Loss due to earthquake and other natural calamities

Adjustment in Final Accounts:

(1) Provision for Tax :

(a) Profit and loss a/c (Current Tax)

(b) Balance Sheet (Short term Provisions)

(The Provision for tax should be calculated as a specific percentage of PBT)

(2) Transfer to Reserves :

(a) Profit and Loss a/c in Reserves & Surplus (Less from Profit)

(b) Balance sheet (Add to concerned Reserves).

(3) Transfer from Reserves :

(a) Profit and Loss a/c in Reserves & Surplus (Add to Profit)

(b) Balance Sheet (Less from Concerned Reserve)

(4) Outstanding Debenture Interest :

(a) Profit and Loss A/c - (Finance Cost)

(b) Balance Sheet - (Other Current Liabilities)

ADJUSTMENTS IN FINAL ACCOUNTS

Adjustments	Profit & Loss Account	Balance Sheet
A. Errors		
1. Sales Not Recorded	Add to Sales as per T.B	Add to Trade Receivable as per T.B.
2. Purchases Not Recorded	Add to Purchases as per T.B.	Add to Trade Payable as per T.B.
3. Goods on Sale or Return	(a) Sold: Deduct Sale Value from Sales	(a) Sold: Deduct Sale Value from Debtors

	(b) Unsold: Add Cost to Closing Stock under 'Change in Inventory'	(b) Unsold: Add Cost to Closing Stock under 'Inventory'
4. Revenue Expenses Treated as Capital Expenses	Add to Expense A/c	Deduct from Non-Current Asset A/c
5. B/R Endorsed	-	Deduct from B/R Deduct from Creditors (Endorsee)
6. B/R (Endorsed) Dishonoured	-	Add to Debtors Add to Creditors (Endorsee)
7. B/R (Retained) Dishonoured	-	Add to Debtors Deduct from B/R
8. B/R (Discounted) Dishonoured	-	Add to Debtors Deduct from Bank
9. Bills Payable Dishonoured	-	Add to S/Creditors and Deduct from B/P, both on Liabilities side
10. Capital Expenses Treated as Revenue Expenses	Deduct from Expense A/c	Add to Non-Current Asset A/c
B. Current Expenses		
11. Prepaid Expenses	Deduct from Expense A/c	Show on Assets side under 'Short-term Loans and Advances'
12. Outstanding Expenses	Add to Expense A/c	Show on Liability side under 'Trade Payable'
13. Depreciation	Show on Debit Side under 'Depreciation and Amortisation'	Deduct from Gross Cost of Each Asset
14. Closing Stock	Show on Credit Side under 'Increase/(Decrease) in Stocks'	Show on Asset Side under 'Inventories'
15. Deferred Revenue Exp. Written Off	Show Amount written off on Debit Side under Expenses	Show Remaining Balance on Assets side
C. Current Income		
16. Income Due Not Received	Add to Income A/c	Show on Assets side under 'Other Current Assets'
17. Income Received in Advance	Deduct from Income A/c	Show on Liability side under 'Other Current Liabilities'

D. Provisions/Reserves		
18. Reserve for Doubtful Debts	Bad Debts (T.B. + New) Add: New Reserve Less: Old Reserve Final Figure [Note]	Deduct New Reserve from Trade Receivable
19. Reserve for Discount on Debtors	Discount Add: NEW Reserve Less: Old Reserve Final Figure [Note]	Deduct New Reserve from Trade Receivable
E. Losses/Gains		
20. Goods Given Away as Samples	(a) Deduct Cost from Purchases (b) Show Cost on Dr. of P & L A/c as 'Other Expenses'	-
21. Goods Entirely Lost	(a) Deduct Cost from Purchases (b) Show Cost on Dr. of P & L A/c as 'Other Expenses'	-
22. Goods Lost; Insurance Claim Due	(a) Deduct Cost from Purchases (b) Show Loss (Cost Less Claim) on Dr. of P & L A/c as 'Other Expenses'	-
23. Profit on Sale of Asset	Show Profit on Cr. of P&L A/c under 'Other Income'	Deduct W.D.V. from Asset A/c
24. Loss on Sale of Assets	Show Loss on Dr. of P&L A/c UNDER 'Other Expenses'	Deduct W.D.V. from Asset A/c
F. Other Corporate Adjustments		
25. Remuneration/ Commission to Managing Director at certain Percentage of Net Profit Before Tax and Dividend	Employee Benefit Expenses	Other Current Liability
26. Debentures Interest: Accrued and Due or Accrued and Not Due	Financial Cost	Other Current Liabilities
27. Issue of Bonus Shares	-	(a) Deduct from Surplus / Reserve (b) Add to Share Capital
28. Forfeiture of Shares not Recorded	Make the following entry Debit: Share Capital A/c Credit: Calls in Arrears A/c Credit: Forfeited Shares A/c	In Balance Sheet Add to Paid up Capital

29. Unclaimed Dividend	-	Show in Other Current Liabilities
30. Calls-in-Arrears	-	Deduct from Subscribed Capital
31. Transfer Fees	Show in Other Income	-
32. Interest on Sinking Fund Investments	-	It is added to Sinking Fund appearing under Reserves and Surplus in the Balance Sheet.

ADJUSTMENTS ALREADY MADE IN TRIAL BALANCE

Sometimes, the adjustments for prepaid, outstanding, closing stock, depreciation are already made. In this case, the Trial Balance shows balances such as Prepaid Expenses A/c, etc. These balances are to be adjusted only once as shown below:

Adjustments	Profit & Loss Account	Balance Sheet
1. Prepaid Expenses A/c in T.B.	-	
2. Outstanding Expenses A/c in T.B.	-	
3. Income Received in Advance A/c in T.B.	-	
4. Income Due not Received A/c in T.B.	-	
5. Depreciation A/c in T.B.	Show on Dr. Side under 'Depreciation & Amortisations'	
6. Closing Stock A/c in T.B.	-	
7. Prov. for Depreciation A/c in T.B.	-	

Rules for payment of dividend

Normally, Dividend is paid out of current year profits. But if the Current year's Profits are insufficient then it can be paid out of Divisible Profits lying with the company provided following 3 conditions are satisfied:

- (1) Dividend Rate cannot exceed average rate of Dividend of last 3 years.
- (2) Divisible profits utilised should not exceed 10% of paid up share capital and divisible Profits.
- (3) Divisible profits left over after such utilisation should not fall below 15% of paid up capital.

PART B : CLASSWORK SECTION

Question 1

The following is the Trial Balance of Subhash Limited as on 31.3.2023:

(Figures in ₹ '000)

Debit	₹	Credit	₹
Land at Cost	110	Equity Capital (Shares of ₹10 each)	150
Plant & Machinery	385	10% Debentures	100
Debtors	48	General Reserve	65
Capital W.I.P	43	Profit & Loss A/c	36
Bank	10	Share Premium	20
Purchases	160	Sales	350
Factory Expenses	30	Creditors	26
Administration Expenses	15	Provision for Depreciation	86
Selling Expenses	15	Suspense Account	2
Opening Stock	10		
Interim Dividend Paid	9		
	835		835

Additional Information:

- During the year, the company issued bonus shares to the shareholders on 1 : 3 basis. No entry relating to this has yet been made.
- The authorised share capital of the company is 25,000 shares of ₹ 10 each.
- The company on the advice of independent valuer wish to revalue the land at ₹ 1,80,000.
- Declared dividend 10% after providing for tax at 40%.
- Suspense account of ₹ 2,000 represents cash received for the sale of some of the machinery on 1.4.2022. The cost of the machinery was ₹ 5,000 and the accumulated depreciation thereon being ₹ 4,000.
- Depreciation is to be provided on plant and machinery at 10% on cost.
- Closing stock ₹30,000.

You are required to prepare Subhash Limited's profit and loss account for the year ended 31.3.2023 and a balance sheet on that date as per the provisions of Schedule III of the Companies Act, 2013.

Question 2

The Articles of Association of S Ltd. provide the following:

- (i) That 20% of the net profit of each year shall be transferred to reserve fund.
- (ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.
- (iii) That the balance available for distribution shall be applied:
 - (a) In paying 14% on cumulative preference shares
 - (b) In paying 20% dividend on equity shares.
 - (c) One-third of the balance available as additional dividend on preference shares and two third as additional equity dividend.

A further condition was imposed by the article viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of ₹ 100 each fully paid 70,000 equity shares of ₹ 10 each fully paid.

The profit for the year 2022 was ₹10,00,000 and balance brought from previous year ₹ 80,000 provide ₹ 31,000 for depreciation and ₹ 80,000 for taxation before making other appropriations.

Calculate Additional Dividend on preference shares and Equity Shares.

Question 3

Due to inadequacy of profits during the year ended 31st march 2023, XYZ Ltd proposes to declare 10% dividend out of general reserves. From the following particulars ascertain the amount that can be utilized from general reserves according to the companies (declaration of dividend out of reserves) Rules 2014-

	₹
17,500 9% preference shares of ₹ 100 each fully paid up	17,50,000
8,00,000 equity shares of ₹ 10 each fully paid up	80,00,000
General Reserves as on 1.4.2022	25,00,000
Capital Reserves as on 1.4.2022	3,00,000
Revaluation reserves as on 1.4.2022	3,50,000
Net profit for year ended 31.3.2023	3,00,000
Average rate of dividend during last 3 years	12%

Question 4

The following balances are extracted from the books of Travesse Limited as on 31st March 2023:

Particulars	Debit ₹	Credit ₹
7% Debentures		48,45,000
Plant & Machinery (as cost)	37,43,400	
Trade Receivable	35,70,000	
Land	97,37,000	
Debenture Interest	3,39,150	
Bank Interest	13,260	
Sales		47,22,600
Transfer Fees		38,250
Discount received		66,300
Purchases	28,86,600	
Inventories 1.04.2022	4,97,250	
Factory Expenses	2,58,060	
Rates, Taxes and Insurance	65,025	
Repairs	1,49,685	
Sundry Expenses	1,27,500	
Selling Expenses	26,520	
Directors Fees	38,250	
Interest on Investment for the year 2022-2023		55,000
Provision for depreciation		5,96,700
Miscellaneous receipt		1,42,800

Additional Information:

- (i) Closing inventory on 31.03.2023 is ₹ 4,76,850
- (ii) Miscellaneous receipts represent cash received from the sale of the Plant on 01.04.2022. The cost of the Plant was ₹ 1,65,750 and the accumulated depreciation thereon is ₹ 24,865.
- (iii) The Land is re-valued at ₹ 1,08,63,000.
- (iv) Depreciation is to be provide on Plant & Machinery at 10% p.a. on cost.
- (v) Make a provision for income tax @ 25%.
- (vi) The Board of Directors declared a dividend of 10% on Equity shares on 4th April, 2023.

You are required to prepare a Statement of Profit and Loss as per Schedule III of the Companies Act, 2013 for the year ended 31.03.2023. (Ignore previous year figures)

2

BUY BACK OF SHARES

PART A : THEORY SECTION

The preference shares are those shares where the shareholders have following two preferences

1. At the time of dividend, they are paid first
2. At the time of liquidation, their capital is repaid first

The preference share capital is a periodical capital (maximum 20 years) and on expiry of stipulated period, their capital should be repaid which is called as 'Redemption'.

Legal Provisions (section 55)

1. As per companies Act, only fully paid preference shares can be redeemed. But if it is specifically mentioned in the question to redeem partly paid shares then, it should be assumed that first the call is made on these shares to make them fully paid and then they are redeemed
2. All those preference shares where there are calls-in-arrears cannot be redeemed.
3. When the preference shares are redeemed at a premium, the premium on redemption should be met out of divisible profits (Divisible Profits means profits available for dividend and it includes General Reserve or Reserve Fund, Profit & Loss A/c, dividend equalisation reserve, Revenue reserve, etc.).

4. **Creation of CRR:**

The Preference Shares can be redeemed either out of fresh issue or profits available for dividend. When the preference share capital is redeemed, the company's capital base goes down which is required to be re-instated by either the proceeds of fresh issue of shares or out of divisible profits.

Note:

- (1) If the proceeds of fresh issue is less than the nominal value of preference shares redeemed, then CRR Should be created for difference amount.

F.V. of preference shares redeemed	xx
(-) Proceeds of fresh issue of shares	xx
CRR Required	xx

- (2) The term 'proceeds of fresh issue of shares' means either nominal value of shares issued or called up value whichever is less.

Journal Entries

1	Entry for fresh issue Bank a/c To Share Capital a/c To Securities Premium a/c	Dr.
2	Entry for Redemption (money payable to PSH) Preference share capital a/c Premium on redemption a/c To Preference shareholders a/c	Dr. Dr.
3	Entry for writing off the premium Divisible Profit a/c To Premium on redemption a/c Note: If nothing is specified it is assumed that the company is governed by section 133 of the companies Act, 2013 which does not allow use of securities premium to write off premium on Redemption.	Dr.
4	Entry for creation of CRR Divisible Profit a/c To CRR a/c	Dr.
5	Entry for pay off Preference shareholders a/c To Bank a/c	Dr.

Redemption of Preference Shares

<p>(I) <u>Make arrangement of money</u> (A) <u>From Assess</u></p> <ul style="list-style-type: none"> • Sale of Investment • Recovery from Debtors • Sale of Stock <p>C/B a/c Dr P/L (If Loss) Dr Or To Asset To P/L (If Profit)</p> <p>(B) <u>From issue of Securities</u> C/B a/c Dr To Eq / Pref Sh./ Deb. To Sec. Prem</p>	<p>Case C: In Q. Co. has CIA Eg. B/s of A Ltd. (Lib.) 10000, 10% Preference Share of ₹ 10 each 1 10,000 Less CIA (on 1000 shares@2) (2000) ₹8,000</p> <p>Ans. Solve Problem of CIA (1) If C/A Recd. C/B Dr. To CIA</p> <p>(2) If CIA not Received then forfeiture - % Preference Share Cap Dr To C/A To Share forfeiture</p> <p>(3) If Q. Says then Reissue C/B Dr Share forfeiture To - % Preference Share Cap</p> <p>(4) Transfer share forfeiture A/c To Capital Reserve Dr Share forfeiture a/c To Capital Reserve</p>	<p>Ans. (1) Fresh issue C/B a/c Dr To Esc/- P.S.C To Securities Premium</p> <p>(2) Create CRR Divisible Profits (GRRDP) To CRR Dr</p> <p><u>Divisible Profits</u> G – General Reserve R – Revenue Reserve R – Reserve fund D – Dividend equalisation Reserve P – P/L</p>
<p>(II) <u>Satisfy 1st Legal Condition</u> Co. Can Redeem Fully Paid Preference shares only Case A: In Q Co. has Fully Paid Preference Shares Eg.: B/s of A Ltd. (Liab only) 10000, 10% pref. Share of ₹ 10 each 100000 Ans. 1st Condition is satisfied.</p>	<p>(III) <u>Satisfy 2nd Legal Condition</u> To AVOID REDUCTION of share capital. Co. Can either use proceeds of fresh issue of Eq./ preference shares and or Transfer Divisible profits to Capital Redemption Reserve. Note 1: Proceeds means FV or IP whichever is less. Therefore, always FV Note 2: CRR A/c can be used for issue of New fully paid up bonus shares only.</p>	<p>(IV) <u>Redemption of Preference Share</u> (1) Redemption Due - % Preference Share Cap Dr (POR) Premium on Redemption Dr To Preference shareholders (2) Payment - Preference Share / holders a/c Dr To C/B</p>
<p>Case B: In Q. Co. has partly Paid Pref. Shares Eg. B/s of A Ltd (liab only) 10000, 10% Pref. Shares of ₹ 10 each ₹ 7 paid up 70000 Ans. Solve problems of partly paid shares (1) Demand Final Call Share final call Dr To - % Preference Share Caps</p> <p>(2) Receipt of final call. C/B a/c Dr To Share Final Call</p>	<p>(V) <u>W/Off (POR Premium on Redemption (3rd Legal condition)</u> POR can be W/Off by using (1) Securities premium (If specified in question) (2) Divisible profits (GRRDP) Ans. (1) Securities premium (if Q. says) Dr Divisible profit Dr To Premium on Redemption</p>	<p>(1) Securities premium (if Q. says) Dr Divisible profit Dr To Premium on Redemption</p>

(I) Types of Reserves

All Reserves of a Joint stock company can be classified into 3 parts.

1. Capital type of reserves (Non Divisible Profits)

They are created out of capital events and they are not available for dividend purpose. They are normally used for Bonus purpose.

Examples:

- a. Capital Redemption Reserve
- b. Capital Reserve
- c. Securities Premium
- d. Revaluation Reserve

2. Statutory Types of Reserves

They are created as per some statute or law and they are neither available for dividend nor for bonus.

Examples:

- (a) Investment Allowance Reserve
- (b) Development Rebate Reserve
- (c) Development Reserve
- (d) Export profit reserves

3. Revenue type of reserves: (also called as free reserves or divisible profits)

They are created out of revenue events and they are available for dividend purpose

Examples:

- (a) General Reserve/Reserve Fund
- (b) Profit and Loss A/c
- (c) Dividend equalisation reserve
- (d) Subsidy Reserve

(II) Issue of Bonus Shares (Sec. 63):

(a) Conversion of partly paid shares into fully paid by way of bonus

Demand Final Call

(i) Share final call A/c Dr.

To equity shares capital A/c

Declaration of Bonus

(ii) Divisible profits A/c GRRDP Dr.
To Bonus to shareholders A/c

Adjustments of Bonus & Final Call

(iii) Bonus to share holder A/c Dr.
To Share final call A/c

(b) Issue of fully paid bonus shares

Declaration of Bonus

(i) Capital Redemption Reserve A/c Dr.
Capital Reserve (earned in cash) A/c Dr.
Securities Premium (earned in cash) A/c Dr.
Divisible Profit (if required) A/c Dr.
To Bonus to shareholders A/c

Issue of Bonus Shares

(ii) Bonus to shareholders A/c Dr.
To Equity share capital A/c

Notes:

As per bonus guidelines given in the companies Act, no company can issue fully paid bonus shares until all partly paid shares are converted into fully paid shares by way of bonus.

BUY - BACK OF SHARES

Legal Provisions: (As per Sec. 68, 69 & 70 Companies Act, 2013):

1. The Nominal Value of Buy Back in a particular financial year cannot exceed 25% of paid equity share capital of the company.
2. Maximum expenditure on buy - back in a particular financial year cannot exceed 25% of total equity base of the company.
(Equity Base = Preference Share Capital + Equity Share Capital + Divisible Profits Including Securities Premium - Miscellaneous Expenditure)
3. The Debt Equity Ratio after buy - back should not exceed 2 : 1.

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity (After Buy Back)}} = \frac{\text{Long - term Borrowings} + \text{Short term Borrowing}}{\text{Equity Base (Before Buy Back)} - \frac{\text{Total FV of Buy Back}}{\text{Total Exp. on Buy Back}}}$$

Journal Entries

1. For Fresh Issue

Bank A/c Dr.
 To Preference Share Capital A/c

2. For Buy Back

Equity Share Capital A/c Dr.
Premium on Buy Back A/c Dr.
 To Bank A/c

3. For writing off the premium

Divisible profits incl. securities premium A/c Dr.
 To Premium on Buy Back A/c

4. For Creation of C.R.R.

Divisible Profit Incl. Securities Premium A/c Dr.
 To C.R.R. A/c

Note:

If the fresh issue is less than the buy - back amount, C.R.R. will have to be created for the difference amount.

PART B : CLASSWORK SECTION

Question 1

The Balance Sheet of A Ltd. as at 31.3.2023 is as follow:

Balance Sheet as at 31.3.2023

Liabilities	₹	Assets	₹
Authorised Share Capital		Sundry Assets	17,00,000
1,50,000 Equity Shares of ₹10 each	15,00,000		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of ₹ 10 each	6,00,000		
₹7.50 each paid-up			
Reserves:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Account	20,000		
Securities Premium A/c	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	3,00,000		
	17,00,000		17,00,000

The company wanted to issue bonus shares to its shareholders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were compiled with:

You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

Question 2

Shruti Ltd., resolved to buy - back 3,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 12 per share. For the purpose, it issued 10,000 13% preference shares of ₹ 100 each at par, the total sum being payable with applications. The company uses ₹ 9,00,000 of its balance in securities premium Account apart from its adequate balance in General Reserve Account to fulfil the legal requirements regarding buy - back.

Pass journal entries for all the transactions involved in the buy - back.

Question .3

Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2023:

Liabilities	₹	Assets	₹
Eq. Shares of ₹10 Each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans: 12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of long-term Borrowings	16,50,000		
Total	76,50,000	Total	76,50,000

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2023 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution 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 Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

3

INVESTMENT ACCOUNTS

PART A : THEORY SECTION

(I) Investment in fixed interest securities

Accounting Procedure

1. When the given transaction is at ex-interest price, the price itself is cost and additionally, the interest should be recorded in interest column.
2. When the transaction is given at cum-interest price, the given price should be bifurcated into cost and interest for accounting purpose.
3. Record the entry for receiving half yearly interest on all the securities in hand on each interest date (**hidden adjustment**).
4. When the investments are sold, the profit or loss on sale should be calculated immediately (taking weighted average) and should be transferred to profit and loss Account.
5. If no specification is given, the price should be concluded as Ex-Interest Price.
6. At the time of recording closing balance accrued interest on closing balance should be credited to interest column and at the time of recording opening balance, accrued should be debited to interest column (**hidden adjustment**).

(II) Treatment of Convertible Debentures:

When a company converts its debenture into shares, for a debenture holder, it is a sort of barter exchange where he surrenders debentures and receives equity shares in return.

Entry :

Investment in equity shares of _____ Ltd. A/c	Dr.	
To Investment in Debentures of _____ Ltd. A/c		xx
		xx

Note: 1. The cost of debentures surrendered will be considered as cost of equity shares acquired and there will be no profit or loss on conversion. The profit or loss will arise in future when these equity shares will be sold.

2. At the time of surrender of debentures, the debentureholder will receive interest on debentures surrendered upto the date of surrender because now a fixed interest security is getting converted into variable interest security (**hidden adjustment**).

(III) Investment Account of Equity Shares: When the equity shares are purchased the payment itself is considered as cost because this is a variable interest security and accrued dividend therein cannot be estimated.

Important Adjustments:

1. **Treatment of Bonus Shares:** When bonus shares are received it is technically not a financial transaction because the cost involved is NIL but still in investment a/c, the entry should be passed in quantity column as bonus shares received will reduce average cost of investment.
2. **Treatment of Right Issue:** When the right shares are offered the shareholders has following two options :
 - (a) Subscribe for shares: this is like a normal purchase of investment
 - (b) Renounce the right: the consideration received on transfer of right in favour of some other person is considered as a sundry income to be credited to profit / loss account.
3. **Treatment of Final Dividend:** When the dividend is received, it is to be bifurcated into two parts :
 - (a) pre-acquisition period dividend - it is to be considered as a capital receipt which should be credited to cost column so as to reduce the cost of investment.

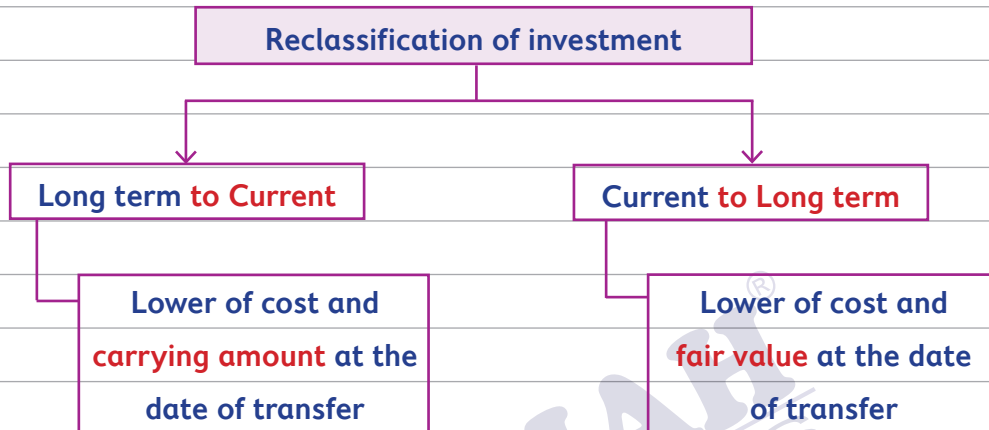
Bank A/c	Dr.	xx
To Investment A/c		xx
 - (b) post-acquisition period dividend - it is a routine revenue income to be credited in dividend column.

Bank A/c	Dr.	xx
To Dividend A/c		xx
4. **Treatment of Interim Dividend:** To be treated as revenue income and should be credited to Dividend column
5. **Sale of Investment:** Calculate profit / loss on sale on weighted average cost basis.

RECLASSIFICATION OF INVESTMENTS

Where long-term investments are reclassified as current investments, transfer are made the lower of cost and carrying amount at the date of transfer.

Where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date for transfer.



PART B : CLASSWORK SECTION

Question 1

A purchased on 1st March, 2022 ₹ 24,000 5% Bharat Debenture Stock at ₹ 90 cum-interest, interest being payable on 31st March and 30th September each year. Stamp and expenses on purchase amounted to ₹ 20 and brokerage at 2% was charged. Interest for the half year was received on the due date. On 1st September, ₹ 10,000 of the stock was sold at 92 ex-interest less brokerage at 2%. On 30th September, ₹ 8,000 stock was purchased at 91 ex-interest plus brokerage at 2% and charges ₹ 10. On 1st December, ₹ 6,000 stock was sold at ₹ 94 cum interest less brokerage 2%. The market price of stock on 31st December was ₹ 92. Show the Investment Account for the year ended 31st December, 2022.

Question 2

Smart Investments made the following investments in the year 2022-23:

12% State Government Bonds having face value ₹ 100

Date	Particulars
01/04/2022	Opening Balance (1200 bonds) book value of ₹ 1,26,000
02/05/2022	Purchased 2,000 bonds @ ₹ 100 cum interest
30/09/2022	Sold 1,500 bonds at ₹ 105 ex interest

Interest on the bonds is received on 30th June and 31st December each year.

Equity shares of X Ltd.

Date	Particulars
15/04/2022	Purchased 5,000 equity shares @ ₹ 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)
03/06/2022	The company announced a bonus issue of 2 shares for every 5 shares held.
16/08/2022	The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share The entire money was payable by 31/08/2022
22/08/2022	A right to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.

02/09/2022	Dividend @ 15% for the year ended 31-03-2022 was received on 16.09.2022
15/12/2022	Sold 3,000 shares @ ₹ 300. Brokerage of 1 % was incurred extra
15/01/2023	Received interim dividend @ 10% for the year 2022-23
31/03/2023	The shares were quoted in the stock exchange @ ₹ 220

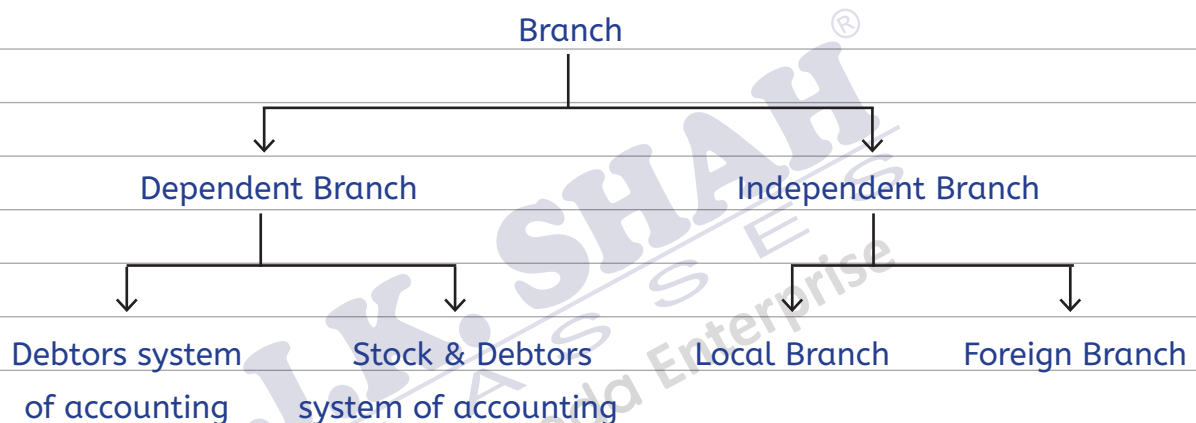
Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

4

BRANCH ACCOUNTS

PART A : THEORY SECTION

- **Head office:** Main place of business.
- **Branch:** Business unit situated away from Head Office.



FEATURES / CHARACTERISTICS OF DEPENDENT BRANCH:

1. Branch is fully controlled by H.O..
2. Normally Branch can sell only those goods which it gets from H.O.
3. Branch can sell goods only at a selling price fixed by H.O.
4. To hide the real profit from the branch, H.O. sends the goods to the branch at Invoice Price (Selling Price).
Cost + Loading = Invoice Price.
5. H.O. will maintain the books of accounts for the branch.

DEBTORS METHOD

Under this method, Head Office will maintain only one Account that is Branch Account. Only those transactions shall be recorded which takes place between:

- a) Head Office & Branch

STOCK AND DEBTORS METHOD

The following accounts shall be prepared normally in the books of Head Office :-

- 1) Branch Stock Accounts (At Invoice Price)
- 2) Branch Stock Adjustment Accounts (For Loading Element)
- 3) Branch Profit & Loss Accounts
- 4) Branch Debtors Accounts
- 5) Goods sent to Branch Accounts

Accounting Entries :-

1) **For Goods sent to Branch**

- a) Branch Stock A/c Dr.
To Goods sent to branch A/c. (At Invoice Price)
- b) Goods sent to Branch A/c Dr.
To Branch Stock Adjustment A/c. (For Loading)

2) **For Goods returned by the Branch**

Reversal of 1(a) & 1 (b)

3) **For Sales made by the branch**

- a) **For cash sales**
Cash /bank A/c Dr.
To Branch Stock A/c.
- b) **For Credit Sales**
Branch Debtors A/c Dr.
To Branch Stock A/c.

4) **For Sales Returns**

- Branch Stock A/c Dr.
To Cash / Bank A/c. (For Cash Sales returns)
To branch Debtors A/c. (For Credit Sales returns)

Note : No reversal of loading in case of Sales or Sales Returns.

5) **Collection from Debtors**

- Cash/Bank a/c Dr.
To Branch Debtors a/c

6) For discount allowed and Bad Debts

a) **Discount Allowed A/c** Dr.

Bad Debts A/c Dr.

To Branch Debtors A/c.

b) **Branch Profit & Loss A/c** Dr.

To Discount Allowed A/c.

To Bad Debts A/c.

7) For expenses incurred and paid by the Branch

a) **Branch Exps. A/c** Dr.

To Cash / Bank A/c.

b) **Branch Profit & Loss A/c** Dr.

To Branch Exps. A/c.

8) For remittance made by Branch to head Office

Cash / bank A/c Dr.

To Branch Cash / Bank A/c.

9) For remittance made by head Office to branch

Branch Cash / Bank A/c Dr.

To cash / Bank Ac/.

10) For Stock Reserve on Closing Stock

Branch Stock Adjustment A/c Dr.

To stock Reserve A/c.

Note : In the beginning of next year, the above entry shall be reversed.

11) For balance in goods sent to Branch A/c

Goods sent to Branch A/c Dr.

To trading A/c

12) For balance in branch Stock Adjustment A/c

Branch Stock Adjustment A/c Dr.

To branch Profit & Loss A/c.

(This is gross profit realized)

Notes:

1. **Abnormal Loss:** Unexpected Loss

Abnormal loss should not reduce Gross Profit but it should reduce Net Profit. Hence Abnormal Loss is recorded in trading A/c – Credit side & P&L A/c – Debit side. Hence Abnormal Loss is a charge on NET PROFIT.

2. **Normal Loss:** Expected Loss

Normal Loss should reduce Gross Profit. hence it is not recorded in Trading A/c – Credit side. Hence Normal Loss is a charge on GROSS PROFIT.

Loading of every item will be recorded in Branch Stock Adjustment A/c except the following three items:

1. Cash Sales
2. Credit Sales
3. Sales Return

NOTE:

BRANCH STOCK ACCOUNTS

➤ **Credit Side short**

1. Closing stock (By balance c/d);
2. Shortage of stock;
3. Apparent Loss:
(Actual selling price < Normal selling price)

➤ **Debit Side Short**

1. Apparent Profit
(Actual Selling Price > Normal Selling price)
2. Surplus of stock

NOTE:

Apparent Profit – 1. Branch stock – Dr.
2. Branch stock adjustment – Cr.
With full amount

(1) Integral Foreign Operations:

	Particulars	Basis
(i)	Opening Stock	Opening Rate i.e. rate prevailing at the Commencement of the accounting year
(ii)	Closing Stock	Closing Rate i.e. rate prevailing at the end of the accounting year.
(iii)	Purchases & Sales	Average Rate
(iv)	Expenses & Income	Average Rate
(v)	Fixed Assets / Investments	Original Rate (i.e. rate prevailing on date of purchase)
(vi)	Depreciation	Original Rate
(vii)	Provision for depreciation	Original Rate
(viii)	Secured / Unsecured Loans	Closing Rate
(ix)	Goods received from head office	Equivalent amount at which goods sent to branch appears in head office books.
(x)	Head Office	Equivalent amount at which branch account appears in head office books.
(xi)	All current Assets & Current Liabilities	Closing rate

The difference in the converted trial balance represents either an exchange gain or loss which is reflected in the profit & loss account.

(2) Non Integral Foreign Operations (NFOs):

Here even Fixed Asset, Investments & Depreciation will be converted at closing rate and the exchange difference is transferred to "Foreign Currency Translation Reserve".

PART B : CLASSWORK SECTION

Question 1

Widespread Ltd. invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 10,000 necessary for meeting immediate requirements for cash. On 31st March, 2010 the assets at the branch were as follows:

	₹ ('000')
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 2011 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 1 crore 32 lakh. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 72,000. Other transactions at the branch during the year were as follows:

	₹ ('000')
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 2011 the branch purchased new furniture for ₹ 11 lakh for which payment was made by head office through a cheque.

On 31st March, 2011 branch expenses amounting to ₹ 6,000 were outstanding and cash in hand was again ₹10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balances method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2011.

Question 2

MADRAS Ltd. invoices goods to its branch at cost plus 33 & 1/3%. From the following particulars prepare the Branch Stock Account and the Branch Stock Adjustment Account as they would appear in the books of the Head Office.

	₹
Stock at commencement of Branch at invoice price	1,50,000
Stock at close of Branch at invoice price	1,20,000
Goods sent to branch during the year at invoice price (including goods invoiced at ₹ 20,000 to branch on 31.3.2011 but not received by branch before close of the year)	10,00,000
Return of goods to Head Office (invoice price)	50,000
Cash Sales at Branch	9,00,000
Credit Sales at Branch	50,000
Invoice value of Goods pilfered	10,000
Normal loss at branch due to wastage & deterioration of Stock (at invoice price)	15,000

MADRAS LTD. closes its books on 31st March 2011.

Question 3

Webb and Co. is retail organisation with a number of branch shops. All accounts are kept at the head office and goods sent to branches are recorded at cost plus the expected mark up of 33 & 1/3%. The accounting system is designed to give the head office as much control as possible over the branch stocks.

At the Hull branch at 1st April 2010, goods costing ₹ 1,200 in stock, but some of these, costing ₹ 150, had been reduced in selling price to ₹ 160. The balances of the Hull debtors accounts totalled ₹ 920 at the same date.

The following information relates to the Hull branch for the year to 31st March 2011 or at the end of that year:

	₹
Goods sent to branch (cost)	18,600
Cash sales (including all the goods marked down at the beginning of the year and others costing ₹1,800 sold for half of the normal selling price)	16,060
Cash received from debtors	6,280
Goods returned by branch debtors direct to head Office (Selling Price)	80
Bad debts written off	30
Closing Stock of goods at Invoice price	2,400
Closing total of debtors balances	830

Prepare the relevant accounts for the Hull branch, and calculate the branch profit for the year.

Question 4

You are required to prepare the trading and profit and loss accounts and consolidated balance sheet of Eve Ltd in Calcutta and its branch at Delhi. Give journal entries for incorporation of Delhi branch accounts in the head office and branch also prepare Branch A/C in the books of H.O.

Trial Balance on 31-3-2011

Particulars	H.O.	Branch	H.O.	Branch
	Dr.	Dr.	Cr.	Cr.
Manufacturing Expenses	30,000	10,000	----	----
Salaries	30,000	10,000	----	----
Wages	1,00,000	40,000	----	----
Cash in hand	10,000	2,000	----	----
Purchases	1,50,000	80,000	----	----
Capital	----	----	2,00,000	
Goods received from H.O.	----	15,000	----	----
Rent	8,000	4,000	----	----
General Expenses	20,000	5,000	----	----
Sales	----	----	4,50,000	1,50,000
Goods sent to branch	----	----	15,000	----
Purchases returns	----	----	5,000	1,000
Opening Stock	50,000	30,000	----	----
Discount earned	----	----	2,000	1,000
Machinery (H.O.)	1,50,000	----	----	----
Machinery (Branch)	50,000	----	----	----
Furniture (H.O.)	7,000	----	----	----
Furniture (Branch)	3,000	----	----	----
Debtors	40,000	15,000	----	----
Creditors	----	----	30,000	5,000
H.O. Account	----	----	----	54,000
Branch Account	54,000	----	----	----
	7,02,000	2,11,000	7,02,000	2,11,000

Closing stock at head office was ₹ 40,000 and at branch ₹ 30,000. Depreciation is to be provided on machinery @ 20% and furniture @ 15%. Rent outstanding is ₹ 500 (for branch). General Expense of Branch includes ₹ 1,000 paid for H.O.

Question 5

The head office of a business and its branch keep their own books and prepare own profit and loss account. The following are the balance appearing in the two sets of the books as on 31st March, 2011 after ascertainment of profits.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
	₹	₹	₹	₹
Capital	----	1,00,000	----	----
Fixed Assets	36,000	----	16,000	----
Stock	34,200	----	10,740	----
Debtors & Creditors	7,820	3,960	4,840	1,920
Cash	10,740	----	1,420	----
Profit & Loss	----	14,660	----	3,060
Branch Account	29,860	----	----	----
Head Office A/c	----	----	----	28,020
	1,18,620	1,18,620	33,000	33,000

Set out the Balance Sheet of the business as on 31st March, 2011 after considering following adjustments.

- On 31st March, the branch had sent a cheque for ₹ 1,000 to the head office, not received by them nor credited to the branch till next month.
- Goods valued at ₹ 440 had been forwarded by the head office to the branch and invoiced on 30th March, but were not received by the branch nor dealt with in their books till next month.
- Branch paid salary to H.O. inspector 5,000 debited to salary a/c.
- It was agreed that the branch should be charged with ₹ 300 for administration service, rendered by the head office during the year.
- Stock stolen from the head office meant for the branch and charged to the branch by the head office but not credited to the head office in the branch books as the branch manager declined to admit any liability ₹ 400 (not covered by insurance).
- Depreciation of branch assets of which accounts are maintained by the head office not provided for ₹ 250.

Incorporate branch Trial balance in the H.O. Books and also pass entries in the books of the branch.

Question 6

DM Ltd. Delhi has a branch in London. London branch is an integral foreign operation of DM Ltd. At the end of the year 31st March, 2009, the branch furnishes the following trial balance in U. K. Pound:

Particulars	£	£
	Dr.	Cr.
Fixed assets (Acquired on 1st April, 2005)	24,000	----
Stock as on 1st April, 2008	11,200	----
Goods from head office	64,000	----
Expenses	4,800	----
Debtors	4,800	----
Creditors	----	3,200
Cash at Bank	1,200	----
Head office account	----	22,800
Purchases	12,000	----
Sales	-----	96,000
	1,22,000	1,22,000

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	49,26,000	By Balance c/d	17,20,000
	69,36,000		69,36,000

The following further information are given:

(a) Fixed assets are to be depreciated @ 10% p.a. on straight line basis.

(b) On 31st March, 2009 :

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchange:

1st April, 2005	-	₹ 70 to £ 1
1st April, 2008	-	₹ 76 to £ 1
31st March, 2009	-	₹ 77 to £ 1
Average	-	₹ 75 to £ 1

You are required to prepare:

- (i) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.
- (ii) Trading and Profit and Loss Account for the year ended 31st March, 2009 and the Balance Sheet as on that date of London Branch as would appear in the books of Delhi head office of DM Ltd.

Question 7

Omega has a branch at Washington. Its Trial Balance as at 30th September, 2012 is as follows: (The Branch is non-integral foreign operations)

	Dr.	Cr.
	US \$	US \$
Plant and Machinery	1,20,000	----
Furniture and Fixtures	8,000	----
Stock, Oct. 1, 2011	56,000	----
Purchases	2,40,000	----
Sales	----	4,16,000
Goods from Omega (H.O.)	80,000	----
Wages	2,000	----
Carriage inward	1,000	----
Salaries	6,000	----
Rent, rates and taxes	2,000	----
Insurance	1,000	----
Trade expenses	1,000	----
Head Office A/c	----	1,14,000
Trade debtors	24,000	----
Trade creditors	----	17,000
Cash at bank	5,000	----
Cash in hand	1,000	----
	5,47,000	5,47,000

The following further information is given:

- (1) Wages outstanding – \$ 1,000.
- (2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.
- (3) The Head Office sent goods to Branch for ₹ 39,40,000.
- (4) The Head Office shows an amount of ₹ 43,00,000 due from Branch.

- (5) Stock on 30th September, 2012 – \$ 52,000.
- (6) There were no in transit items either at the start or at the end of the year.
- (7) On September 1, 2010, when the fixed assets were purchased, the rate of exchange was ₹ 38 to one \$.
- On October 1, 2011, the rate was ₹ 39 to one \$.
- On September 30, 2012, the rate was ₹ 41 to one \$.
- Average rate during the year was ₹ 40 to one \$.

You are asked to prepare:

- (a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.
- (b) Trading and Profit and Loss Account for the year ended 30th September, 2012 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

5

INTERNAL RECONSTRUCTION

PART A : THEORY SECTION

Internal Reconstruction means reconstructing the balance sheet position of the company without liquidating the company. The main purpose of the reconstruction scheme is to write off all fictitious assets and goodwill. For this purpose the company, creates an "artificial surplus" by the adoption of the following course :

- (a) By utilising existing reserves
- (b) By revaluation of existing assets
- (c) By claims fully / partially waived by creditors or Debenture holders
- (d) By reduction of share capital

The scheme is required to be approved by a special resolution of shareholders and by the High Court. In order to implement the scheme a special account called "Capital Reduction Account" is used and when the balance sheet is presented after implementing the scheme the words "And Reduced" should be added with the name of the company if ordered by the court.

Journal Entries

1. For utilisation of the existing reserves (if specified)

Reserves A/c	Dr.
To Capital Reduction A/c	

2. For revaluation of assets

Assets A/c	Dr.
To Capital Reduction A/c	

3. For claims waived by creditors / debentureholders

Creditors / Debentures A/c	Dr.
To Capital Reduction A/c	

4. For contingent liability cancelled

No Entry

(Because the balance sheet value of such liability is already nil)

Note: Examples of Contingent Liability (Uncertain liabilities)

1. Liability on Bills discounted
2. Capital Expenditure Commitment
3. Arrears of Dividend on Preference Shares

5. For contingent liability settled

Capital reduction A/c

Dr.

To Cash / Bank A/c

(Since the book value of contingent liability is already nil, the entire settlement amount is treated as loss)

6. For reconstruction expenses

Capital Reduction A/c

Dr.

To Cash / Bank A/c

7. For reduction of share capital

(a) When face value of the shares is reduced

Share Capital (Old) A/c

Dr.

To Share Capital (New) A/c

To Capital Reduction A/c

(Replacement Entry)

(b) When only paid up value is reduced

Share Capital A/c

Dr.

To Capital reduction A/c

(Reduction Entry)

Note: If in the question, no specification is given, it should be assumed that the face value is reduced and replacement entry should be passed.

8. For writing off fictitious assets, goodwill & Accumulated losses

Capital reduction A/c Dr.
 To Fictitious Assets A/c
 To Goodwill A/c
 To Profit & Loss A/c

(These should be written off even if it is not specified in the question)

9. For credit Balance in Capital Reduction A/c, if any

Capital Reduction A/c Dr.
 To Capital Reserve A/c

(Always to be done)

Surrender of shares

Under this scheme, the shareholders are expected to return a part of their holdings back to the company, which the company can reissue to the creditors and / or debenture holders to settle their dues. (It is technically a transfer of ownership by shareholders in favour of creditors / Debenture holders).

Journal Entries

(1) Entry for Surrender of shares :

Equity Share Capital A/c Dr.
 To Share Surrender A/c

(2) Entry for Reissue of surrendered shares to creditors or debentures

(a) As Equity Shares

Share Surrender A/c Dr.
 To Equity Share Capital A/c

(b) As Preference Shares

Share Surrender A/c Dr.
 To Preference Share Capital A/c

(No special Entry is required to convert surrendered Equity shares into preference shares)

PART B : CLASSWORK SECTION

Question 1

The Balance Sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital:		Land & Building	75,00,000
Equity Shares of ₹ 50 each		Plant & Machinery	22,00,000
fully paid up	60,00,000	Trade Investment	16,50,000
9% Preference Shares of		Inventories	9,50,000
₹ 10 each fully paid up	40,00,000	Trade Receivables	18,00,000
7% Debentures (secured by		Cash and Bank Balances	3,60,000
plant & machinery)	23,00,000	Profit & loss Account	2,15,000
8% Debentures	17,00,000		
Trade Payables	6,00,000		
Provision for Tax	75,000		
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following schema of reconstruction duly approved by all concerned parties:

- (1) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under :
 - (a) New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.
 - (b) 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.
 - (c) ₹ 2,80,000, 10% debentures of ₹ 80 each.
- (2) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.
- (3) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.
- (4) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.
- (5) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

- (6) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.
- (7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.
- (8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debenture of ₹ 80 each for every two debentures held by them.
- (9) The land and building to be depreciated by 5%.
- (10) The debit balance of profit and loss account is to be eliminated.
- (11) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

(Nov. 2015 – Group 1)

Question 2

Fair-weather Limited ran into a patch of bad financial management and its affairs were handed over to a Receiver appointed by the debenture-holders. Its statement of affairs was as given below:

	Book Value Assets ₹	Realisable Value ₹
Land & Building	8,00,000	10,00,000
Plant & Machinery	12,00,000	7,00,000
Stock in Trade	8,00,000	5,50,000
Trade Debtors	9,50,000	4,75,000
Cash	1,50,000	1,50,000
	39,00,000	28,75,000
Deduct : 7% First Mortgage Debenture		12,50,000
		16,25,000
Deduct: 8% Second Mortgage Debenture		20,00,000
Deficiency Regarding Second Debenture		3,75,000
Unsecured Creditors		4,50,000
Deficiency regarding unsecured creditors		8,25,000
Contributories :		
40,000 Equity Shares of ₹ 10 each fully paid up	4,00,000	
60,000 Equity Shares of ₹ 10, ₹ 5 per share paid up	3,00,000	7,00,000
Deficiency regarding contributories		15,25,000

All the mortgage debentures are held between two groups of individuals X and Y as indicated below:

	X and his Friends ₹	Y and his Friends ₹
First Mortgage Debentures	7,50,000	5,00,000
Second Mortgage Debentures	12,50,000	7,50,000

In addition, X and Y rank as unsecured creditors to the extent of ₹ 1,50,000 and ₹ 1,00,000 respectively. X also hold 10,000 fully paid equity shares and 4,000 partly paid equity shares in the company.

The following scheme of reconstruction was agreed upon:

- (i) the partly paid up equity shares would be fully paid up by making a call; after the shares are fully paid, all equity shares other than shares of Mr. X would be reduced to shares of Re.1 each fully paid up.
- (ii) X will give up all his claims regarding debentures and other credits, cancel all his equity shares and would receive in return 10% mortgage debentures of ₹ 18 lakhs and cash of ₹ 89,000.
- (iii) Y will give up all his claims on debentures and credits he will bring in cash of ₹ 75,000 and in consideration would be issued with 10% mortgage debentures of ₹ 10 lakhs.
- (iv) the rest of the sundry creditors agree to give up 12 1/2% of their claims get equity share of Re.1. each fully paid up allowed to them for 50% of their net claims and await discharge of the balance in due course.

Pass journal entries (narrations need not be given) to give effect to the above proposal and prepare the Balance Sheet after reconstruction.

Working should form part of your answer.

Question 3

The Summarised Balance Sheet of Revise Limited as at 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹
Authorised and subscribed capital:		Fixed Assets:	
10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Machineries:	1,00,000
Unsecured Loans :		Current Assets:	
12% Debentures	2,00,000	Inventory	3,20,000

Accrued interest	24,000	Trade receivables	2,70,000
Current liabilities		Bank	30,000
Trade payables-	72,000	Profit and loss account	6,00,000
Provision for income tax	24,000		
	13,20,000		13,20,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

- (a) Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.
- (b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- (c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.
- (d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
- (e) Trade payables claim shall be reduced to 50 percent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (f) Balance of profit and loss account to be written off.
- (g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

6

**AMALGAMATION,
ABSORPTION AND EXTERNAL
RECONSTRUCTION**

PART A : THEORY SECTION

There are two methods to calculate purchase consideration amount.

1) **Net Assets Methods** : Under this method purchase consideration will be

Revised value of Real Assets Takeover	x
Less : Revised value of outside liabilities Takeover	-x
Net Asset Takeover or Purchase Consideration	x

Purchase consideration will be discharged in the form of shares, debentures and cash by purchasing company. (Take Equity Shares if nothing is Prescribed)

2) **Net Payment Methods** : Under this method purchase consideration will be sum total of all payment made by purchasing company to shareholders of Selling company. (Always Calculate purchase consideration at net payment first).

As per Accounting Standard 14 issued by ICAI dealing with Accounting for Amalgamation. Purchase consideration consists of shares, debentures and cash given by purchasing company to shareholders of selling company. It means any payment made by purchasing company to selling company's debenture holders or creditors cannot be included in the purchase consideration, even liquidation expenses of selling company paid by purchasing company cannot be included in the purchasing consideration.

Accounting in the books of Selling Company (S Ltd.)

Following Accounts are to be opened in books of selling company.

- 1) Realisation A/c
- 2) Equity shareholders A/c
- 3) Preference shareholders A/c
- 4) Cash/ Bank A/c
- 5) Purchasing Company A/c (P Ltd.)
- 6) Share/ Debentures in P Ltd. A/c

Case B: Seller pays but buyer reimburse

1. Seller Pays Dr.
 Realization A/c
 To Cash / Bank A/c
2. Buyer reimburses Dr.
 Cash / bank A/c
 To realization A/c

Case C : Buyer pays & Bears

No Transactions for seller

Step 7: Payment to PSH

- PSH Dr.
 To ES in buying Co. A/c
Or To PS in buying Co. A/c
Or To Deb. in buying Co. A/c
Or To Cash / Bank A/c

Note: Close PSH A/c and transfer difference if any to realization A/c

Step 8: Close Realization A/c and transfer the difference if any to ESH A/c.

1. If Profit Dr.
 Realization A/c
 To ESH A/c
2. If Loss Dr.
 ESH A/c
 To Realization A/c

Step 9: Payment to ESH or close all remaining A/c's and transfer difference to ESH A/c

- ESH A/c Dr.
 To Eq. Sh. in Buying Co. A/c
 To Pref. Sh. in Buying Co. A/c
 To Deb. in Buying Co. A/c
 To cash / Book A/c

At the end ESH A/c must Tally

Accounting for Buying Company

I Purchase Method			II. Merger		
Step 1: Record PC →					
Business Purchase A/c Dr.	PC	-	Same		
To liquidator of selling co. A/c	-	PC			
Step 2: Discharge of PC →			Same		
Liquidator of Selling Co. A/c Dr.	PC	-			
Discount on new issue A/c Dr.		-			
To Eq. Sh. CAPITAL A/c	-	FV			
To ___% P. Sh. CAPITAL A/c	-	FV			
To ___% Debentures A/c	-	FV			
To Cash / Bank A/c					
To securities Premium A/c	-				
Step 3: Record Assets & Liabilities T/O at revised figures (RF)			Step 3 Record All Assets & Liab. except share capital at Book values		
Individual assets T/O A/c Dr.	RF	-	All Individual Assets	B.	
→ Goodwill A/c Dr.	(Loss)	-	Dr.	V.	
To individual liability T/O	-	RF	To All Reserves & surplus	-	
OR To business Purchase A/c	-	PC	To Individual liabilities	-	B.V.
→ To Capital Reserve	-	(Profit)	To Business Purchase	-	P.C.
			* Diff. in Journal entry to be adjusted in R & S.		
Step 4: Payment of Debentures →			Same		
Holder of Seller					
Old debentures A/c Dr.					
To New debentures A/c					
Or To Cash / Bank A/c					
Statutory Reserves : -					
E.g.: Investment Allowance reserve, Development Reserve, Development rebate reserve, Housing project reserve, foreign project reserve, export profit reserve.					

<p>Step 5: carry forward of unexpired statutory reserve</p> <p>Amalgamation Adj. Rese A/c Dr. To Statutory Reserve A/c</p>			> Not required		
<p>Step 6: Payment / reimbursement of selling co. exp. Case : b & c</p> <p>Capital Reserve or Goodwill A/c Dr. To Cash / Book A/c</p>			> Step 6 _____ Reserve Dr. To Cash / Bank		
<p>Step 7: Extra Transactions : Fresh issue</p> <p>Cash / Bank A/c Dr. To ESC / PSC / Deb. A/c To Securities Premium A/c</p>			> Same		
<p>Step 8: Pay underwriting commission</p> <p>Underwriting commission A/c Dr. To Cash / Bank A/c</p>			> Same		
<p>Step 9: Pay preliminary Exp.</p> <p>Preliminary Exp. A/c Dr. To Cash / Bank A/c</p>			> Same		
<p>Step 10: Cancel common debts.</p> <p>Crs / BP / loan taken Dr. To Drs / BR / loan given A/c</p>			> Same		
<p>Step 11: Cancel unrealized profit on stock</p> <p>Capital Reserve / Goodwill A/c Dr. To Stock A/c</p>			> Step 11 _____ Reserve Dr. To Stock		

Merger Method (Pooling of interest method) :

According to accounting standard 14 the following conditions should be satisfied if amalgamation is in the nature of merger :

1. All assets (including fictitious assets) & all liabilities (except equity share capital) should be taken over.
2. All above assets and liabilities are taken over at book value except to maintain uniform A/c policies.

3. Payment to equity shareholders of selling co. should be in form of equity share of purchasing Co. except for fractional shares.
4. Atleast 90% of equity shareholders of selling Co. in terms of face value should become share holders of purchasing co.
5. Business of selling co. should be continued by purchasing Co.

J.K. SHAH[®]
CLASSES
a Veranda Enterprise

PART B: CLASSWORK SECTION

Question 1

Following is the Balance Sheet of Govind Limited as on 31st March, 2017

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	4,00,000
20,000 Equity Shares of ₹ 100 each fully paid	20,00,000	Land and Building	15,60,000
Reserve Fund	5,00,000	Plant & Machinery	14,00,000
Sinking Fund	1,00,000	Patent Rights	3,50,000
Workmen's Accident Compensation Fund		Stock	2,00,000
(Estimated Liability ₹ 9,000)	50,000	Sundry Debtors	4,00,000
Development Reserve	1,00,000	Investment	1,00,000
Staff Provident Fund	1,50,000	Cash at Bank	1,30,000
Sundry Creditors	1,40,000		
'A' Debentures	4,00,000		
'B' Debentures	10,00,000		
Loan from Ramkrishna Ltd.	1,00,000		
	45,40,000		45,40,000

Ramakrishna Limited absorbed Govind Ltd. on the date of its above Balance Sheet. The terms being :

- The payment of cost of absorption not exceeding ₹ 8000/-.
- The repayment of the 'B' Debentures at a premium of 5% in cash.
- The discharge of 'A' Debentures at a premium of 10% by the issue of 6% debentures in Ramakrishna Limited at 20% Discount.
- A payment of ₹ 15 per share in cash.
- Allotment of one 7% preference share of ₹ 100 each fully paid and five equity shares of ₹ 10 each fully paid for every four equity shares in Govind Ltd.
- The actual expenses of absorption came to ₹ 10,000/-.
- Stock of Govind Limited includes goods valued at ₹ 56,000/- purchased from Ramakrishna Limited which company invoices goods at cost plus 16²/₃%.
- The directors of Ramakrishna Limited decided to create a provision of 5% on sundry debtors against doubtful debts.
- Contingent liability ₹ 1,00,000 of Govind Ltd. settled by Ramakrishna Ltd. At ₹20,000.
- Debtors of Govind Limited includes ₹50,000 due from Ramakrishna Ltd.

Pass Journal Entries in the books of Ramakrishna Limited.

Question 2

The All India Company Limited agrees to acquire, as a going concern, the business of the Presidency Company Limited on the basis of the Vendor's balance sheet at 31st March, 2017, which is follows:

Liabilities	₹	Assets	₹
Authorised Capital		Freehold property	2,50,000
25,000 shares of ₹ 50 each	12,50,000	Plant and Machinery	50,000
Issued Capital		Stock	3,00,000
20,000 Shares of ₹ 50 each	10,00,000	6% Government paper	10,000
Called -up Capital		Debtors	2,30,000
20,000 Shares ₹ 30 each		Less: Reserve	<u>10,000</u>
called up	6,00,000	Bank	30,000
Reserve fund	1,25,000		
Creditors	75,000		
Profit and Loss Account	60,000		
	8,60,000		8,60,000

The All India Company Limited took over all the assets and liabilities of the vendor company, subject to the retention out of such assets of ₹ 13,500 to provide for cost of liquidation, Income tax, etc., and to satisfy dissenting shareholders.

The consideration for the sale is the allotment to the shareholders in the vendor company of one share of ₹ 100 (₹ 50 paid-up) in the All India Company for every three shares in the Presidency Company Limited.

The market value of the All India Company's shares, which are ₹ 50 paid-up, at the date of sale is ₹ 60 each. The liquidator of the vendor company has paid out of ₹ 13,500 retained, costs of liquidation amounting to ₹ 2,500 ; income-tax ₹ 7,500 and dissenting shareholders of 100 shares @ ₹ 35 per share.

The sale and purchase were carried through in terms of the agreement.

Prepare ledger accounts to close the books of selling company.

Question 3

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2011 was as under:

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000

Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Total	13,50,000	5,70,000

Liabilities	Hari Ltd. (₹)	Vayu Ltd. (₹)
Share Capital:		
Equity Shares of ₹ 10 each	10,00,000	3,00,000
9% Preference Shares of ₹ 100 each	1,00,000	--
10% Preference Shares of ₹ 100 each	--	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
Total	13,50,000	5,70,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
- Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.
- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2011.

Question 4

Following is the Balance Sheet of Backward Ltd. as on 31st March, 2017:

Liabilities	₹	Assets	₹
40,000 7% preference shares of ₹ 10 each fully paid	4,00,000	Land and Buildings	3,18,000
60,000 Equity shares of ₹ 10 each	6,00,000	Plant & Machinery	1,65,000
Capital Reserve	12,100	Motor Lorries	6,200
Loans	5,000	Trade Debtors	1,34,000
		Less: Provision	<u>3,000</u>
		Stock in trade	83,500

Trade Creditors	86,100	Cash in hand and at Bank	13,100
Bills Payable	4,200	Profit & Loss A/c	4,00,000
Bank overdraft	9,400		
	11,16,800		11,16,800

Note: There is a contingent liability in respect of a claim for royalties amounting to 15,000. It was arranged that a new company Progressive Ltd. should be formed to acquire the under mentioned assets at the values stated :

Land & Building	₹ 2,00,000
Plant & Machinery	₹ 1,20,000
Motor Lorries	₹10,000
Stock	₹ 70,000

The total of ₹ 4,00,000 payable was satisfied by the allotment of 20,000 6% preference shares of ₹ 10 each, fully paid and 20,000 equity shares of ₹10 each, fully paid. The new company also satisfied the contingent liability in respect of the claim for royalties by allotting to the claimant 400 Equity shares fully paid.

The book debts realised ₹ 1,30,000 and the amount of trade creditors proved to be ₹ 81,000. Loans and other liabilities were discharged and the costs of winding up amounted to ₹ 1,400.

The preference shareholders in the old company accepted the preference shares in the new company in full satisfaction whereas the equity shareholders took the equity shares in the new company and the balance in cash as final settlement.

Close the books of Selling Co.

Question 5

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under:

Liabilities	K Ltd.	L. Ltd.	Assets	K Ltd.	L. Ltd.
Share Capital			Goodwill	80,000	–
Equity shares of ₹100 each	8,00,000	3,00,000	Land & Building	4,50,000	3,00,000
7% Preference shares of ₹ 100 each	4,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
5% Debentures	2,00,000		Furniture & Fittings	60,000	20,000
General Reserve	–	1,00,000	Sundry Debtors	2,75,000	1,75,000
Profit & Loss A/c	3,71,375	97,175	Stores & Stock	2,25,000	1,40,000
Sundry Creditors	1,00,000	2,10,000	Cash at Bank	1,20,000	55,000
Secured Loan	–	2,00,000	Cash in hand	41,375	17,175
	18,71,375	12,07,175		18,71,375	12,07,175

(A) The terms of amalgamation were as under :

1. The assumption of liabilities of both the Companies.
2. Issue of 5 equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each preference share held in both the Companies.
3. (a) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies.
(b) In addition, necessary cash should be paid to the Equity shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.
4. Issue of such an amount of fully paid 6% debenture in LK Ltd. as is sufficient to discharge the 5% debentures in K. Ltd.

(B) You are further informed that :

1. The assets and liabilities are to be taken at Book values except stock and debtors for which a provision at 2% and 21/2% respectively to be raised.
2. The sundry debtors of K Ltd. include ₹ 20,000 due from 'L' Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each. ₹ 18 paid at premium of ₹ 4 per share so as to have sufficient working capital.

You are required to :

- (1) Calculate Intrinsic value of both the companies shares.
- (2) Calculate purchase consideration.
- (3) Give opening entries in the Books of New Company.

Question 6

Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorised share capital of ₹ 2,00,000 divided into 40,000 equity shares of ₹ 5 each.

On 31st March, 2008 the respective Balance Sheet of Star and Moon were as follows:

	Star ₹	Moon ₹
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less : Current Liabilities	2,98,500	90,125
Representing Capital	1,82,500	1,76,250

Additional Information:

(a) Re-valued figures of Fixed and Current Assets were As follows:

	₹	₹
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

(b) The debtors and creditors include ₹ 21,675 owed by Star to Moon. The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 30,000 equity shares of Neptune Ltd. to Star & Moon in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	₹	₹
2006 Profit	2,24,788	1,36,950
2007 (Loss) / Profit	(1,250)	1,71,050
2008 Profit	1,88,962	1,79,500

(ii) 15% debentures in Neptune Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st March, 2008 after revaluation of assets.

Compute the amount of debentures and shares to be issued to Star & Moon.

Question 7

The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2017:

Liabilities	(₹ in Lakhs)	
	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference Shares of ₹ 10 each fully paid up	1,200	----
Capital Reserve	600	----
General Reserve	2,100	----
Profit and Loss Account	780	----
8% Redeemable debentures of ₹ 1,000 each	----	300
Trade Creditors	2,421	369
Provisions	870	93
	11,571	1,662

Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	----	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	----	33
Discount on Issue of Debentures	----	6
	11,571	1,662

A new Company MN Ltd was got incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each for the purpose of amalgamation in the nature of merger. M Ltd and N Ltd were merged into MN Ltd on the following terms:

- (i) Purchase consideration for M Ltd's business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd to the preference and equity shareholders of M Ltd in full satisfaction of their claims.
- (ii) To discharge purchase consideration for N Ltd's business, MN Ltd to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd in full satisfaction of their claims.
- (iii) Expenses on the liquidation of M Ltd and N Ltd amounting to ₹ 6 lakhs are to be borne by MN Ltd
- (iv) 8% redeemable debentures of N Ltd to be converted into 8.5% redeemable debentures of MN Ltd
- (v) Expenses on incorporation of MN Ltd were ₹ 15 lakhs.

You are requested to :

- (a) Pass necessary Journal entries in the books of MN Ltd to record above transactions, and
- (b) Prepare Balance Sheet of MN Ltd after merger.

7

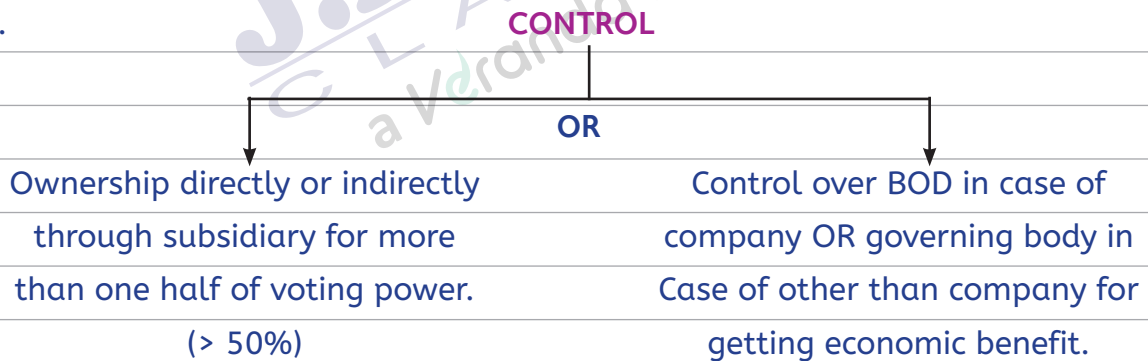
CONSOLIDATED FINANCIAL STATEMENT

PART A : THEORY SECTION

AS 21

I Meaning

1. **C.F.S** → Financial statement of “GROUP” viewed as single economic entity
2. **Group** → Group means Parent Company and all its subsidiary.
3. **Parent Company (Holding Company)** → Enterprise having one or more subsidiary.
4. **Subsidiary Company** → Enterprise controlled by Parent Company.
- 5.



II Why Consolidated Financial Statement?

H Ltd.

NP 30

S Ltd.

NP 20

60%

H Ltd. → S Ltd.

$$\begin{aligned}
 \text{Logical NP of H Ltd.} &= 30 + (20 \times 60\%) \\
 &= 30 + 12 \\
 &= 42
 \end{aligned}$$

To show true and fair view of GROUP

III Who will prepare Consolidated Financial Statement?

→ Holding Company

IV What does Consolidated Financial Statement consist?

- Consolidated B/S
- Consolidated P/L
- Consolidated Cash Flow Statement
- Notes to Accounts

➤ Important terms to be used in Consolidated Financial Statements regard to B/S

1. **Cost of control:** In order to find cost of control (Goodwill / Capital reserve) comparisons should be made between Shareholders funds of S Ltd. on the date of acquisition with the cost of investment made by H Ltd.
2. **Pre & Post acquisition:** The entire share capital & reserves & losses of S Ltd. upto the date of acquisition are pre acquisition items. Whatever profits and losses arise after the date of acquisition will be post period items.
3. **Minority interest:** If the holding Company has more than 50% but less than 100% shares of S Ltd., then it means apart from H, S Ltd. has other shareholders also who are called as minority interest. These will be shown on liability side of consolidated B/S.
4. **Mutual Owings:** It means amount due to / receivable by H & S Ltd. while preparing consolidated B/S, all the Mutual Owings must be cancelled.
5. **Unrealised profit on stock:**
 - i. One Company sold goods to another at profit.
 - ii. Receiver has such goods in closing stock.

CASE I	CASE II
H Ltd. sells good to S Ltd. (Downstream transaction) cancel the profit included in stock from:	S Ltd. sells goods to H Ltd. (Upstream transaction) cancel the profit included in the stock from:
a. P/L A/c of H Ltd.	a. P/L of S Ltd. (Post period)
b. Stock of S Ltd.	b. Stock of H Ltd.

PART B : CLASSWORK SECTION

Question 1

The balance sheet of Big Limited and Small Limited as at 31st March, 2012 were as under:

	Big Ltd. ₹	Small Ltd. ₹		Big Ltd. ₹	Small Ltd. ₹
Equity Capital (Shares of ₹ 10 each)	9,00,000	3,00,000	Fixed Assets	9,00,000	4,00,000
General Reserve	5,00,000	30,000	Investments	6,00,000	--
Profit & Loss A/c	6,00,000	2,00,000	Sundry Debtors	1,60,000	90,000
Sundry Creditors	1,00,000	1,70,000	Inventory	2,10,000	1,20,000
	21,00,000	7,00,000	Cash & Bank	2,30,000	90,000
				21,00,000	7,00,000

Big Ltd. has acquired 75 per cent of Small Ltd.'s shares at ₹ 6,00,000 on 1st July, 2011. Small Ltd. had an opening balance of ₹ 1,00,000 in Profit and Loss Account from which it paid dividend for 2010-2011 at 20 per cent on 30th September, 2011. The dividend received by Big Ltd. is included in its Profit & Loss Account.

Inventory of Big Ltd. included ₹ 20,000 out of purchases of ₹ 50,000 made from Small Ltd. in January 2012. Credit period is 100 days. Small Ltd. had sold these items at a margin of 25 per cent on cost. There had been no change in the General Reserve Account of Small Ltd. during 2011-2012.

Prepare a consolidated balance sheet as at 31st March, 2012.

Question 2

The following are the Balance Sheets of H Ltd. and S Ltd. as on 31st March, 2012 :

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share Capital Shares of ₹ 100/- each	10,00,000	5,00,000	Fixed Assets	4,80,000	2,50,000
Reserve & Surplus			in S Ltd.	5,00,000	--
General Reserve	1,00,000	1,50,000	Current Assets	7,20,000	7,50,000
Profit & Loss A/c	1,60,000	1,50,000			
Current Liabilities	4,40,000	2,00,000			
	17,00,000	10,00,000		17,00,000	10,00,000

The following further information is furnished :

- (1) H Limited acquired 3000 shares in S Limited on 1.7.2011. The Reserves and Surplus position of S Limited as on 1.4.2011 was as under :
 - (a) General Reserve ₹ 2,50,000
 - (b) P & L A/c. Bal. ₹ 1,20,000
- (2) On 1.10.2011 S Limited issued 1 share for every 4 shares held as Bonus Share at a face value of ₹ 100 per share. No entry has been made in the books of H Limited for the receipt of these bonus shares.
- (3) On 30.9.2011, S Limited declared a dividend out of its pre-acquisition profits of 25% on its then share capital. H Limited credited the dividend to its Profit and Loss Account.
- (4) H Limited owed S Limited ₹ 50,000 for purchase of stock from S Limited. The entire stock is held by H Limited on 31.3.2012. S Limited made a profit of 25% on cost.
- (5) H Limited transferred a machinery to S Limited for ₹ 1,00,000. The book value of the machinery to H Ltd. was ₹ 80,000.

Prepare a consolidated Balance Sheet as on 31.3.2012.

Question 3

Following are the Balance Sheets of H. Ltd. and S. Ltd. as at 31st March 2011.

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share capital share of ₹ 10 each	5,00,000	2,00,000	Goodwill	40,000	30,000
General Reserve as on 1.4.10	1,00,000	60,000	Land & Building	2,00,000	1,30,000
Profit & Loss	1,40,000	90,000	Debtors	20,000	75,000
Bills Payable	----	40,000	Plan & Mach.	1,60,000	90,000
			Stock in Trade	1,00,000	90,000
Creditors	80,000	50,000	Shares in S. Ltd. (1500 Shares)	2,40,000	----
	8,20,000	4,40,000	Cash at Bank	60,000	25,000
				8,20,000	4,40,000

The Profit and Loss Account of S Ltd. showed a credit balance of ₹ 50,000 on 1st April 2010. A dividend of 15% was paid in December 2010 for the year 2009-10. This dividend was credited to profit and loss account by H Ltd.

H Ltd. acquired the shares in S. Ltd. on 1st October, 2010.

The Bills Payable of S Ltd. were all issued in favour of H Ltd. which company got the bills discounted.

Included in the Creditors of S Ltd. is ₹ 20,000 for goods supplied by H Ltd. Included in the stock of S Ltd. are goods to the value of ₹ 8,000 which were supplied by H. Ltd. at a profit of 33 1/3% on cost.

In arriving at the value of S. Ltd. shares, the plant and machinery which then stood in the books at ₹ 1,00,000 on 1.4.2010 was revalued at ₹ 1,50,000 on 01.10.10. The new value was not incorporated in the books. No changes in these have been made since then in books of S. Ltd.

Prepare the consolidated balance sheet as on that date.

Question 4

The following are the Profit & Loss A/c of H. Ltd. & S. Ltd. for the year ended March 31st, 2011

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
To Opening Stock	2,00,000	1,00,000	By Sales	19,80,000	14,00,000
To Purchases	12,00,000	7,50,000	By Closing Stock	2,10,000	60,000
To Carriage	20,000	10,000			
To Wages	2,10,000	80,000			
To Gross Profit c/d	5,60,000	5,20,000			
	21,90,000	14,60,000		21,90,000	14,60,000
To Salaries	95,000	45,000	By Gross Profit b/d	5,60,000	5,20,000
To Rent	40,000	25,000	By Commission	1,00,000	----
To Commission	----	50,000	By Debenture Interest S Ltd.	10,000	----
To Sundry Expenses	65,000	25,000	By Rent	40,000	----
To Debentures Interest	-	25,000			
To Provision for Taxation	1,90,000	1,10,000			
To Net Profit c/d	3,20,000	2,40,000			
	7,10,000	5,20,000		7,10,000	5,20,000
To Preference Dividend	----	40,000	By Balance B/d	1,00,000	40,000
To Transfer to Reserve	1,05,021	76,690	By Net Profit B/d	3,20,000	2,40,000
To Balance carried to Balance sheet	3,14,979	1,63,310			
	4,20,000	2,80,000		4,20,000	2,80,000

You are given following additional information :

1. H. Ltd. acquired 3000 Equity shares in S. Ltd. on 1st April 2010, out of 4000 Equity shares of S. Ltd. However Debentures were acquired on 1st April 2009.
2. During the year H. Ltd. sold goods to S Ltd. costing ₹ 60,000 for ₹ 80,000. One fourth of the goods remained unsold on March 31st 2011. It is included in closing stock at cost to S. Ltd.
3. Commission, Rent credited to profit & Loss A/c of H. Ltd. include ₹ 40,000, ₹ 10,000 received from S. Ltd.

Prepare a consolidated profit and Loss A/c for the year ended March 31st 2011.

Question 5

A Ltd. acquired 70% of equity shares of B Ltd. as on 1st January, 2010 at a cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. Both the companies follow calendar year as the accounting year. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2014, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015 and 2016, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively.

Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

8

ASSOCIATE AND JOINT VENTURE

CLASSWORK SECTION

Question 1

A Ltd. acquire 45% of B Ltd. shares on April 01, 20X1, the price paid was ₹ 15,00,000.

Following are the extracts of balance sheet of B Ltd. as of 1 April 20X 1:

Paid up Equity Share Capital	₹ 10,00,000
Securities Premium	₹ 1,00,000
Reserve & Surplus	₹ 5,00,000

B Ltd. has reported net profits of ₹ 3,00,000 and paid dividends of ₹ 1,00,000 for the year ended 31 March 20X2. Calculate the amount at which the investment in B Ltd. should be shown in the consolidated balance sheet of A Ltd. as on March 31, 20X2.

Question 2

A Ltd. acquired 40% share in B Ltd. on April 01, 20X1 for ₹ 10 lacs. On that date B Ltd. had 1,00,000 equity shares of ₹ 10 each fully paid and accumulated profits of ₹ 2,00,000. During the year 20X7-20X2, B Ltd. suffered a loss of ₹ 10,00,000; during 20X2-20X3 loss of ₹ 12,50,000 and during 20X3-20X4 again a loss of ₹ 5,00,000. Show the extract of consolidated balance sheet of A Ltd. on all the four dates recording the above events.

Question 3

Bright Ltd. acquired 30% of East India Ltd. shares for ₹ 2,00,000 on 01-06-20X1. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-20X1 East India earned profits ₹ 80,000 and declared a dividend of ₹ 50,000 on 12-08-20X1. East India reported earnings of ₹ 3,00,000 for the financial year ending on 31-03-20X2 (assume profits to accrue evenly) and declared dividends of ₹ 60,000 on 12-06-20X2.

Calculate the carrying amount of investment in:

- (i) Separate financial statements of Bright Ltd. as on 31-03-20X2;
- (ii) Consolidated financial statements of Bright Ltd.; as on 31-03-20X2;
- (iii) What will be the carrying amount as on 30-06-20X2 in consolidated financial statements?

Question 4

A Ltd. acquired 25% of shares in B Ltd. as on 31.3.20X1 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.20X1 is given below:

	₹
Share Capital	5,00,000
Reserves and Surplus	<u>5,00,000</u>
	<u>10,00,000</u>
Fixed Assets	5,00,000
Investments	2,00,000
II. Current Assets	<u>3,00,000</u>
	<u>10,00,000</u>

During the year ended 31.3.20X2 the following are the additional information available:

- (i) A Ltd. received dividend from B Ltd., for the year ended 31.3.20X1 at 40% from the Reserves.
- (ii) B Ltd., made a profit after tax ₹ 7 lakhs for the year ended 31.3.20X2.
- (iii) B Ltd., declared a dividend @ 50% for the year ended 31.3.20X2 on 30.4.20X2.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 27 for its various subsidiaries, Calculate:

- (i) Goodwill if any on acquisition of B Ltd.'s shares.
- (ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?
- (iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements?

Question 5

Mr. A, Mr. B and Mr. C entered into a joint venture to purchase a land, construct and sell flats. Mr. A purchased a land for ₹ 60,00,000 on 01.07.20X7 and for the purpose he took loan from a bank for ₹ 50,00,000 @ 8% interest p.a. He also paid registering fees 60,000 on the same day. Mr. B supplied the materials for ₹ 4,50,000 from his godown

and further he purchased the materials for ₹ 5,00,000 for the joint venture. Mr. C met all other expenses of advertising, labour and other incidental expenses which turnout to be ₹ 9,00,000. On 30.06.20X7 each of the venturer agreed to take away one flat each to be valued at ₹ 10,00,000 each flat and rest were sold by them as follow: Mr. A for ₹ 40,00,000; Mr. B for ₹ 20,00,000 and Mr. C for ₹ 10,00,000. Loan was repaid on the same day by Mr. A along with the interest and net proceeds were shared by the partners equally.

You are required to prepare the draft Consolidated Profit & Loss Account and Joint Venture Account in the books of each venturer.

Question 6

A Ltd., B Ltd. and C Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them, for the purpose following expenditure was incurred by them: Buildings ₹ 12,00,000 to be depreciated @ 5% p.a., Pipeline for ₹ 60,00,000 to be depreciated @ 15% p.a., computers and other electronics for 3,00,000 to be depreciated @ 40% p.a. and various vehicles of ₹ 9,00,000 to be depreciated @ 20% p.a.

They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to ₹ 6,00,000 each year.

You are required to show the consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer.

Question 7

A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (₹)	Cr. (₹)
Purchases	9,00,000	
Other Expenses	<u>3,06,000</u>	
Sales		13,05,000
Properly, Plant and Equipment	<u>6,00,000</u>	

Current Assets	<u>2,00,000</u>	
Unsecured Loans		<u>2,00,000</u>
Current Liabilities		<u>7,00,000</u>
Capital		<u>401,000</u>

Closing inventory was valued at ₹ 1,00,000.

You are required to prepare the Consolidated Financial Statement.

Question 8

A Ltd. entered into a joint venture with B Ltd. on 1:1 basis and a new company C Ltd. was formed for the same purpose and following is the balance sheet of all the three companies:

Particulars	A Ltd.	B Ltd.	C Ltd.
Share Capital	10,00,000	7,50,000	5,00,000
Reserve & Surplus	18,00,000	76,00,000	12,00,000
Loans	3,00,000	4,00,000	2,00,000
Current Liabilities	4,00,000	2,50,000	1,00,000
Property, Plant and Equipment	30,50,000	26,25,000	1940,000
Investment in IV	2,50,000	2,50,000	
Current Assets	2,00,000	1,25,000	50,000

Prepare the balance sheet of A Ltd. and B Ltd. under proportionate consolidation method.