CA-INTERMEDIATE

ADVANCED ACCOUNTING

GROUP-II

MODULE-1

New Course

BY:

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C.A. RANK HOLDER

(DIPLOMA IN IFRS:ACCA LONDON)

MEMBER OF ACCOUNTING STANDARD BOARD OF ICAI 2012-13

PUBLISHED BY:

PARVEEN JINDAL'S CLASSES PVT. LTD.

Dedicated to

BABA VISHAN PURI JI MAHARAJ

BABA LAKSHMAN PURI JI MAHARAJ

CONTENTS

BANKING COMPANIES

Balance sheet and Profit and Loss Account

The Committee under the Chairmanship of Shri A Ghosh, Deputy Governor, RBI, after due deliberation suggested suitable changes/ amendments in the forms of balance sheet and profit and loss account of banks, having regard to :

1. Need for better discloser
2. Expansion of banking operations both area-wise and sector-wise over the period
3. Need for improving the presentation of accounts.

The formats are given below as specified in banking Regulation Act in From A of Balance Sheet, Form B of Profit and Loss Account and eighteen other schedules of which the last two relates to notes and Accounting Policies.

New Revised Formats

The third Schedule

(See Section 29)

Form 'A'

Form of balance Sheet

Balance Sheet of		(here enter name of the Banking company	
Balance Sheet as on 31st March, (year)	Schedule	As on 31.3... (Current year)	As on 31.3... (Previous year)
Capital & Liabilities			
Capital	1		
Reserve & Surplus	2		
Deposit	3		
Borrowing	4		
Other liabilities and provision	5		
Total			

Assets			
Cash and balances with reserve bank of India	6		
Balance with banks and Money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total			
Contingent liabilities	12		
Bills for collection			

Form 'B'

Form of Profit & Loss Account for the year ended 31st March

I.	Income	Schedule	Year ended as on 31.3.... (Current year)	('000 omitted) year ended as on 31.3.. (Previous year)
	Interest earned	13		
	Other Income	14		
	Total			
II.	**Expenditure**			
	Interest expended	15		
	Opening expenses	16		
	Provisions and contingencies			
	Total			

III	Profit/ Loss			
	Net Profit / loss (-) for the year			
	Profit /Loss (-) brought forward			
	Total			
IV.	**Appropriations**			
	Transfer to Statutory reserves			
	Transfer to other reserves			
	Transfer to Government/ Proposed dividends			
	Balance carried over to balance sheet			
	Total			

Note: The Banking Regulations Act, 1949 prescribes Schedules 1 to 16 only. Any other schedule prepared by a Banking company besides what is specified in the Third schedule of the Banking Regulations Act, 1949, is only for better understanding of their financial statements. Accordingly, banks in addition to the above 16 schedules, may prepare Schedule 17 for Notes on Accounts and Schedule 18 for Disclosure of Accounting Policies.

Annexure I

Schedules forming part of Balances Sheet

Schedule 1- Capital

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**For Nationalised Banks** Capital (Fully owned by Central Government		

II.	**For Banks Incorporated outside India**		
	Capital		
(i)	(The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head)		
(ii)	Amount of deposit kept with the RBI under section 11 (2) of the Banking Regulation Act, 1949	___________ ___________	_________ _________
	Total		
III.	**For other Banks**		
	Authorised capital (____ Shares of Rs ___ each) Issued Capital (____ Shares of Rs ___ each) Subscribed Capital (____ Shares of Rs ___ each) Called-up Capital (____ Shares of Rs ___ each) Less: Calls unpaid Add: Forfeited shares **Total**	__________ __________	__________ __________

Schedule 2- Reserves and Surplus

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**Statutory Reserves** Opening Balance Additions during the year Deductions during the year		

II.	**Capital Reserves**		
	Opening balance		
	Additions during the year		
	Deductions during the year		
III.	**Share Premium**		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
IV.	**Revenue and other Reserves**		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
V.	**Balance in Profit and loss Account**		
	Total : (I,II,III,IV and V	________	________

Schedule 3 - Deposits

		As on 31.3... (Current year)	As on 31.3... (Previous year)
A.	**I. Demand Deposit**		
	(i) From banks		
	(ii) From others		
	II. Saving bank Deposit		
	III. Term Deposits		
	(i) From Banks		
	(ii) From other	________	________
	Total : (I,II and III)	________	________
B.	(i) Deposit of branches in India		
	(ii) Deposits of branches outside India	________	________
	Total	________	________

Schedule 4 - Borrowings

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**Borrowings in India**		
	(i) Reserve Bank of India		
	(ii) Other banks		
	(iii) Other institutions and agencies		
II.	**Borrowings outside India**		
	Total : (I and II)		

Secured borrowing included in I & II above - Rs

Schedule 5 - Other Liabilities and Provisions

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	Bills payable		
II.	Inter -office adjustment (net)		
III.	Interest accrued		
IV	Other (including provisions)		

Total

Schedule 6 - Cash and Balances with Reserve Bank of India

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**Cash in hand** (including foreign currency notes)		
II.	**Balance with Reserve Bank of India**		
	(i) In current Account		
	(ii) In Other Accounts		

Schedule 7 - Balance with Banks & Money at Call & Short Notice

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**In India**		
	(i) Balances with banks		
	(a) in current Accounts		
	(b) in other Deposit Accounts		
	(ii) Money at call and short notice		
	(a) with banks		
	(b) with other institutions		
	Total (i &ii)		
II.	**Outside India**		
	(i) In Current Accounts		
	(ii) in other Deposits Accounts		
	(iii) Money at call and short notice		
	Total		
	Grand Total (I&II):		

Schedule 8 - Investments

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**Investments in India in**		
	(i) Government securities		
	(ii) Other approved securities		
	(iii) Shares		
	(iv) Debentures and Bonds		
	(v) Subsidiaries and/ or joint ventures		

	(vi) Others (to be specified)		
	Total		
II.	**Investments outside India in**		
	(i) Government securities (Including local authorities)		
	(ii) Subsidiaries and/ or joint ventures abroad		
	(iii) Other investments (to be specified)		
	Total		
	Grand Total : (I&II)		

Schedule 9- Advances

		As on 31.3... (Current year)	As on 31.3... (Previous year)
A.	(i) Bills purchased and discounted		
	(ii) Cash credits, overdrafts and loans repayable on demand		
	(iii) Term loans		
	Total		
B.	(i) Secured by tangible assets		
	(ii) Covered by Bank/ Government Guarantee		
	(iii) Unsecured		
	Total		
C.	I. **Advances in India**		
	*(i) **Priority Sectors***		
	(ii) Public Sector		
	(iii) banks		
	(iv) Other		
	Total		

II.	**Advances outside India**		
	(i) Due from banks		
	(ii) due from others		
	(a) Bills purchased and discounted		
	(b) Syndicated loans		
	(c) Other		
	Total		
	Grand Total : (C.I.& II)		

Schedule 10- Fixed Assets

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	**Premises**		
	At Cost as on 31st March of the preceding year		
	Additions during the year		
	Deduction during the year		
	Depreciation to date		
II.	**Other Fixed Assets** (including Furniture and Fixtures)		
	At cost as on 31st March of the preceding year		
	Additions during the year		
	Deductions during the year		
	Depreciation to date		
	Total : (I&II		

Schedule 11- Other Assets

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	Inter office adjustments (net)		
II.	Interest accrued		
III.	Tax paid in advances/ tax deducted at source		
IV.	Stationery and stamps		
V.	Non-banking assets acquired in satisfaction of claims		
VI.	Others*		
	Total		

* In case there is any unadjusted balance of loss the same may be shown under this item with appropriate foot-note.

Schedule 12- Contingent Liabilities

		As on 31.3... (Current year)	As on 31.3... (Previous year)
I.	Claims against the bank not acknowledged as debts		
II.	Liability for partially paid investments		
III.	Liability on account of outstanding forward exchange contracts		
IV.	Guarantee given on behalf of constituent (a) In India (b) Outside India		
V.	Acceptances, endorsements and other obligations		
VI.	Other items for which the bank is contingently liable		
	Total		

Annexure II

Schedules forming part of Profit and Loss Account

Schedule 13 - Interest Earned

		Year ended 31.3... (Current year)	Year ended 31.3... (Previous year)
I	Interest/discount On advances/bills		
II	Income on investments		
III	Interest on balances with Reserve Bank of India and other inter-bank funds		
IV	Other		
	Total		

Schedule 14- Other Income

		Year ended 31.3... (Current year)	Year ended 31.3... (Previous year)
I.	Commission, exchange and brokerage		
II.	Profit on sale of investments		
	Less : Loss on sale of investments		
III.	Profit on revaluation of investments		
	Less: Loss on revaluation of investments		
IV.	Profit on sale of land, building and other assets		
	Less: Loss on sale of land, building and other assets		
V.	Profit on exchange transactions		
	Less: Loss on exchange transactions		
VI.	Income earned by way of dividends etc. from subsidiaries/companies and/or joint ventures abroad/in India		

VII.	Miscellaneous Income		
	Total		
	Note : Under items II to V loss figures may be shown in brackets.		

Schedule 15- Interest Expended

		Year ended 31.3... (Current year)	Year ended 31.3... (Previous year)
I.	Interest on deposits		
II.	Interest on Reserve Bank of India/inter-bank borrowings		
III.	Others		
	Total		

Schedule 16- Operating Expenes

		Year ended 31.3... (Current year)	Year ended 31.3... (Previous year)
I.	Payments to and provisions for employees		
II.	Rent, taxes and lighting		
III.	Printing and stationery		
IV.	Advertisement and publicity		
V.	Depreciation on Bank's property		
VI.	Director's fees, allowances and expenses		
VII.	Auditor's fees and expenses (including branch auditors fees and expenses)		
VIII.	Law Charges		
IX.	Postages, Telegrams, Telephones, etc.		
	Total		

Annexure IV
Risk Weights for Calculation of Credit Risk

The following table shows the weights to be assigned to the value of different assets and off- balance sheet items:

I. Domestic Operations

A. Funded Risk Assets

Sr. No.	Item of asset or liability	Risk Weight %
I	**Balances**	
1	Cash, balances with RBI	0
2.	i, Balances in current account with other banks	20
	ii. Claims on Bank	20
II	**Investments (Applicable to securities held in HTM)**	
1	Investments in Government Securities.	0
2	Investments in other approved securities guaranteed Central ? State Government. Note: If the repayment of principal *I* interest in respect of State Government Guaranteed securities included in item 2, 4 and 6 has remained in default, for a period of more than 90 days banks should assign 100% risk weight. However the banks need to assign 100% risk weight only on those State Government guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government	0
3.	Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (This will include investments in Indira/Kisan Vikas Pafra (IVP/KVP) and investments in Bonds and Debentures where payment of interest and principal is guaranteed by Central Govt.)	0
4.	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Governments.	0
5.	Investments in other approved securities where payment of interest 20 and repayment of principal are not guaranteed by Central/State Govt. Undertakings which do not form pa of the approved market borrowing programme.	20

6.	Investment in Government guaranteed securities of Government Undertaking which do not form part of the approved market borrowing programme.	20
7.	Claims on commercial banks — Note. The exposure of Indian branches of foreign banks, guaranteed counter-guaranteed by overseas Head Offices or the bank's, branch in other country, would amount to a claim on the parent foreign bank and the weight of such exposure would depend upon the rating (assigned by the international rating agencies) of the overseas parent of the Indian branch.	20
8.	Investments in bonds issued by other banks	20
9	Investment in securities which are guaranteed by as to payment of interest and repayment of principal.	20
10	Investments in subordinated debt instruments and bonds issued by other banks or Public Financial Institutions for their Tier Il capital.	100
11	Deposits placed with SIDBI/NABARD in lieu of shortfall in lending to priority sector	100
12	Investment in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are recognised and supervised by National Housing Bank	50
13	13 Investment in Mortgage Backed Securities (MBS) which are backed by housing loan uaIifying for 50% risk weight.	50
14	Investment in ecuritised paperpertaining to an infrastructure facility.	50
15	15 Investments fl debentures! bonds! security receipts! Pass Through Certificates issued by Securitisation Company / SPVs! Reconstruction Company and held by banks as investment	100
16	All other investments including investments in securities issued by PFIs.	100
	Note: Equity investments in subsidiaries, intangible assets and losses deducted from tax capital should be assigned zero weight	
17	Direct investment in equity shares, convertible bonds, debentures and units of equity oriented mutual funds	125
18	Investment in Mortgaged Backed Securities and àther securitised exposures to Commercial Real Estate	150
19	Investments in Venture Capital Funds	150

20	Investments in Securities issued by SPVs (in respect of securitisation of standard assets) underwritten and devolved on originator banks during the stipulated period of three months	100
21	Investments in Securities issued by SP Vs in respect of secuitisaion of standard asset underwritten and devolved on bank as third party service provider during the stipulated period of three months	100
22	NPA Investment purchased from other banks	100
23	Investments in instruments issued by NBFC-ND-SI	100
III	**Loans & Advances including bills purchased and discounted and other credit facilities**	
1.	Loans guaranted by Govt. of India Note: Theamountoutstandingintheaccountstyledas"Amountreceivable from Government of India under Agricultural debt Waiver Scheme 2008" shall be treated as a claim on the Government of India and would attract zero risk weight for the purpose of capital adequacy norms. However, the amount outstanding in the accounts covered by the Debt Relief Scheme shall be treated as a claim on the borrowers and risk weighted as per the extant norms.	0
2	Loan guaranteed by State Govts. Note. If the loans guaranteed by State Govts. have remained in default period of more than 90 days a risk weight of 100 percent should signed.	0
3.	Loans granted to public sector undertakings of Govt. of India	100
4	Loan granted to public sector undertakings of State Govt.	100
	(i) For the purpose of credit exposure, bills purchased/discounted	
5.	negotiated under LC (where payment to the beneficiary is not under reserve) is treated as an exposure on the LC issuing bank and assigned risk weight as is normally applicable to inter-bank exposures. (ii) Bills negotiated under LCs 'under reserve', bills Purchased/ discounted/negotiated without LCs, will be reckoned as exposure on the borrower constituent. Accordingly, the exposure will attract a risk weight appropriate to the borrower. (i) Govt. (ii) Banks (iii) Others	20 20 100

6.	Others including PFIs	100
7.	Leased Assets	100
8	Advances covered by DICGC/ECGC Note: The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstanding in excess of the amount guaranteed, wilt carry 100% risk weight.	50
9.	SSI Advances Guaranteed by Credit Guarantee Fund Trust for Small Industries (CGTSI) up to the guaranteed portion. Note: Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter- party	0
10	Insurance cover under Business Credit Shield, the product of New India Assurance Company Ltd. Note: The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstandings in excess of the amount guaranteed, will carry 100% risk weight.	50
11	advances against term deposits, Life policies, NSCs, lVPs and KVPs where adequate margin is available	0
12	Loans and Advances granted to staff of banks which are fully covered by superannuation benefits and mortgage of flat/house	20
13	Housing loans above 30 lakh sanctioned to individuals against the mortgage of residential housing properties having LIV ratio equal to or less than 75% note: If restructured	75
14	Housing loans upto 30 lakhs sanctioned to individuals against the mortgage of residential housing properties having LTV ratio equal to or less than 75%. Note: If restructured	50 75
15	housing loans of 75 lakhs and above sanctioned to individuals irrespective of LTV ratio)	125
16	Consumer credit including personal loans and credit cards	125
16 A	<u>Educational Loans</u>	100
17	Loans up to .1 lakh against gold and silver ornaments	50

18	Takeout Finance	
	(I) Unconditional takeover (in the books of lending institution)	20
	(a) Where full credit risk is assumed by the taking over institution	
	(b) Where only partial credit risk is assumed by taking over institution	
	i) the amount to be taken over	20
	ii) the amount not to be taken over	100
	(ii) Conditional take-over (in the books of lending and Taking over institution)	100
19	Advances against shares to invidious for investment in equity shares (including IPOs/ ESOPs), bonds and debentures units of equity oriented mutual funds, etc.	125
20	Secured and unsecured advances to stock brokers	125
21	Fund based exposures commercial real estate*	100
22	Funded liquidity facility for securitization of standard asset transactions	100
23	NPA purchased from other banks	100
24	Loans & Advances NBF C-NO-SI (other than Asset Finance Companies (AFCs)) &	100
25	All unrated claims on corporate, long term as well as short term, regardless of the amount of the claim	100
IV	**Other Assets**	
1	Premises, furniture and fixtures	100
2	Income tax deducted at source (net of provision)	0
	Advance tax paid (net of provision)	0
	Interest due on Government securities	0
	Accrued interest on CRR balances and claims on RBI on account of Government transactions (net of claims of	0

Tier-I and Tier-II Capital for Indian Banks

Tier I capital (also known are core capital provides the most permanent and readily available support to a bank against unexpected losses.

Tier capital

The elements of Tier I capital include

(I) Paid-up capital (ordinary shares), statutory reserves, and other disclosed free reserves, including share premium if any.

(ii) Perpetual Non-cumulative Preference Shares (PNCPS) eligible for inclusion as Tier capital – subject to laws in force from time to time.

(iii) Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier I capital, and

(iv) Capital reserves representing surplus arising out of sale proceeds of assets.

As reduced by:

- intangible assets.
- current and brought forward losses.
- Deferred Tax Asset (DTA)
- Creation of DTA results in an increase Tier I capital of a bank without any tangible asset being added to the banks' balance sheet. Therefore, DTA, which is an intangible asset, should be deducted from Tier I capital.

Tier II capital: comprises elements that are less permanent in nature or are less readily available than those comprising Tier I capital. The elements comprising Tier II capital are as follows :

(a) Undisclosed reserves

(b) Revaluation reserves

(c) General provisions and loss reserves

(d) Hybrid debt capital instruments

(e) Subordinated debt

(f) Investment Reserve Account

(a) Undisclosed reserves and cumulative perpetual preference assets - These elements have the capacity to absorb unexpected losses and can be included in the capital, if they represent accumulations of post-tax profits and not encumbered by any known liability and should not be routinely used for absorbing normal loan or operating losses.

Cumulative perpetual preference shares should be fully paid-up and should not contain clauses which permit redemption by the holder.

(b) Revaluation reserves - These reserves often serve as a cushion against unexpected losses but they are less permanent in nature and cannot be considered as core capital. Revaluation reserves arise from revaluation of assets that are under-valued in the bank's books. The extent to which the revaluation reserve can be relied upon as cushion for unexpected loss depends mainly upon the level of certainty that can be placed on estimates of ('Reserve Account in Schedule 2 "Reserves & Surplus" under the head Revenue and other Reserves" in the Balance Sheet and would be eligible for inclusion under Tier II capital within the overall ceiling of 1.25 per cent of total risk weighted assets prescribed for General Provisions/ Loss Reserves.

(c) General provisions and loss reserves - If these are not attributable to the actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, they can be included in Tier-Il capital. Adequate care must be taken to see that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering general provisions and loss reserves to be part of Tier-Il capital. However, general provisions and loss reserves (including general provision on standard assets) may be taken only up to a maximum of 1.25 per cent of weighted risk assets.

Floating Provisions' held by the banks, which is general in nature and not made against any identified assets, may be treated as a part of Tier II capital within the overall ceiling of 1 .25 percent of total risk weighted assets.

Excess provisions which arise on sale of NPAs would be eligible Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

(d) Hybrid Debt Capital instruments - Those instruments which have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, may be included in Tier II capital. At present the following instruments have been recognized and placed under this category:

i. Debt capital instruments eligible for inclusion as Upper Tier II capital and

ii. Perpetual Cumulative Preference Shares (PCPS) I Redeemable Non-Cumulative Preference Shares (RNCPS) I Redeemable Cumulative Preference Shares (RCPS) as part of Upper Tier II Capital.

(e) Subordinated Debt - To be eligible for inclusion in the Tier-li capital the instrument should be fully paid up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses and should not be redeemable at the initiative of the holder or without the consent of the banks' supervisory authorities. They often carry a fixed maturity and as they approach maturity, they should be subjected to progressive discount for inclusion in Tier-Il capital. Instrument with an initial maturity of less than five years or with a remaining maturity of one year should not be included as part of Tier-Il capital. Subordinated debt instrument will be limited to 50% of Tier-I capital.

(f) **Investment Reserve Account -** In the event of provisions created on account of depreciation in the 'Available for Sale' or 'Held for Trading' categories being found to be in excess of the required amount in any year, the excess should be credited to the Profit & Loss account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess provision) should be appropriated to an Investment

Reserve Account in Schedule 2-" Reserves & Surplus " under the head " Revenue and other Reserves" in the Balance Sheet and would be eligible for inclusion under Tier II capital within the overall ceiling of 1.25 per cent of total risk weighted assets prescribed for General Provision /Loss Reserves.

(g) Banks are allowed to include the 'General Provisions on Standard Assets' and 'provisions held for country exposures' in Tier II capital. However, the provisions on 'standard assets' together with other 'general provisions/ loss reserves' and 'provisions held for country exposures' will be admitted as Tier II capital up to a maximum of 1.25 per cent of the total risk- weighted assets.

Deductions from Tier I and Tier II Capital

a) **Equity/non equity investments in subsidiaries**

The investments of a bank in the equity as well as non-equity capital instruments issued by a subsidiary, which are reckoned towards its regulatory capital as per norms prescribed by the respective regulator, should be deducted at 50 per cent each, from Tier I and Tier II capital of the parent bank, while assessing the capital adequacy of the bank on 'solo' basis, under the Basel I Framework.

b) **Credit Enhancements pertaining to Securitization of Standard Assets**

i) **Treatment of First Loss Facility:** The first loss credit enhancement provided by the originator shall be reduced from capita! funds and the deduction shall be capped at the amount of capital that the bank would have been required to hold for the full value of the assets, had they not been securitized. The deduction shall be made at 50% from Tier I and 50% from Tier II capital .

ii) **Treatment of Second Loss Facility:** The second loss credit enhancement provided by the originator shall be reduced from capital funds to the full extent. The deduction shall be made 50% from Tier I and 50% from Tier II capital.

iii) **Treatment of credit enhancements provided by third party:** In case, the bank is acting as a third party service provider, the first loss credit enhancement provided by it shall be reduced from capital to the full extent as indicated at para (i) above.

iv) Underwriting by an originator Securities issued by the SPVs and devolved *I* held by the banks in excess of 10 per cent of the original amount of issue, including secondary market purchases, shall be deducted 50% from Tier I capital and 50% from Tier II capital.

v) **Underwriting by third party service providers:** If the bank has underwritten securities issued by SPVs devolved and held by banks which are below investment grade the same will be deducted from capital at 50% from Tier I and 50% from Tier

FINANCIAL STATEMENTS OF BANKING COMPANIES

Ratio of Tier II Capital to Tier I Capital

The quantum of Tier II capital is limited to a maximum of 100% of Tier I Capital. This seeks to ensure that the capital funds of a bank predominantly comprise of core capital rather than items of a less permanent nature. It may be clarified that the Tier II capital of a bank can exceed its Tier I capital; however, in such a case, the excess will be ignored for the purpose of computing the capital adequacy ratio.

Tier I and Tier Ii Capital for Foreign Banks

As in case of Indian banks, capital funds of foreign banks operating in India would also comprise of Tier I capital and Tier II capital.

Tier I capital of Foreign bank would comprise the following elements:

(i) Interest free funds from Head Office kept in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norms.

(ii) Innovative Instruments eligible for inclusion as Tier I capital.

(iii) Statutory reserves kept in Indian books.

(iv) Remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India.

Tier II Capital:

The elements of Tier II capital include the following elements.

a) Elements of Tier II capital as applicable to Indian banks.

b) Head Office (HO) borrowings raised in foreign currency (for inclusion in Upper Tier II Capital) subject to certain terms and conditions.

Risk-adjusted Assets

For CAR purposes the entire assets side of the Banks Balance Sheet is recalculated on the basis of assigning risk weights to each category of assets.

This follows the principle of conservatism by considering assets at their Risk Adjusted Values rather than at their face value in calculating the CAR. For example, cash balances are not susceptible to any risks whereas advances are susceptible to credit risks. Even within advances, the risk of loss arising from failure of the customer to settle his obligation fully is less in the case of loans guaranteed by DICGC/ECGC as compared to unguaranteed loans.

Similarly, different off-balance sheet items also involve varying degree of risk.

For example, the risk involved in guarantees given against counter-guarantees of other banks is much less compared to other guarantees. Similarly, guarantees related to particular transactions are less risky compared to general guarantees of indebtedness.

(Recognising the above, the Reserve Bank has assigned different risk weights to different categories of assets. For example, cash, balances with Reserve Bank of India is assigned a risk weight of zero (i.e. the asset will not be considered to be at risk at all), loan and advances have generally been assigned a risk weight of 100 per cent.

The risk adjusted value for any category of assets is determined by multiplying the value of the category of an asset as per the balance sheet with the risk weight assigned thereto.

For example, if a bank has DICGC/ECGC guaranteed advances of 100 crores outstanding on the balance sheet date, the risk-adjusted value of these advances would be 50 crores (loans guaranteed by DICGC/ECGC have been assigned a risk weight 0150).

So even though the Bank has extended a loan of 100 crores, alter Risk —Adjusted Assets, for CAR purposes it will be reckoned as only 50 Crores.

In brief the **important weights for the purpose of Ascertainment of CAR are as follows:**

Sr. No.	Item assets	Risk Weight %
1	Cash, balances with RBI	0
2	Balances in current account with other banks	20
3	Investments in Government Securities	0
4	Other Investments	100
5	Loans & Advances guaranteed by Government	0
6	Other Loans &Advances	100
7	Bank Premises, Furniture & Fittings etc.	100
8	All Off- Balance Sheet Items like LC's, LG's, Bills Accepted.	100
9	Non funded exposure to Real estate	150

For detailed Risk Weights as per RBJ guidelines for the purpose of CAR are given in Annexure-IV

CONCEPT 1: PROVISIONS AGAINST ASSETS

QUESTION NO 1

From the following information find-out the amount of provisions to be shown in the profit and loss account of a Commercial Bank.

Assets	Rs.(in lakhs)
Standard	4,000
Sub-standard	2,000
Doubtful upto one year	900
Doubtful upto three year	400
Doubtful more than three years	300
Loss assets	500

ANSWER:

Particulars	Total amount	% of provision	Amount
Standard			
Sub standard			
Doubtful :			
For one year			
For three years			
For more three years			
Loss assets			

QUESTION NO 2

Calculate the amount of provision to be made by the bank against the above mentioned advances:

Assets	Rs.(in 000)
Standard	14,94,000
Sub-standard	92,800
Doubtful upto one year	25,660
Doubtful upto three year	15,640
Doubtful more than three years	6,580
Loss assets	10,350

ANSWER:

Particulars	Total amount	% of provision	Amount
Standard			
Sub standard			
Doubtful :			
For one year			
For three years			
For more three years			
Loss assets			

QUESTION NO 3

From the following information, compute the amount of provisions to be made in the profit and loss account of a commercial bank:

Assets	Rs. in lakhs
Standard (value of security Rs.6000 lacs)	7,000
Sub standard	3,000
Doubtful:	
(i) Doubtful for less than one year (Resizable value of security of Rs.500 lacs)	1,000
(ii) Doubtful for more than one year but less than three years (realizable value of security of Rs.300 lakhs)	500
(iii) Doubtful for more than 3 years (no security)	300

QUESTION NO 4

From the following information of details of advances of X Bank Limited Calculate the amount of provisions to be made in profit and loss account for the year ended 31.3.2007:

Asset classification	Rs. In lakhs
Standard	6,000
Sub standard	4,400
Doubtful :	
For one year	1,800
For two years	1,200
For three years	800
For more than three years	600
Loss assets	1,600

CONCEPT 2: INCOME RECOGNITION

QUESTION NO 5

Following are the statements of interest on advances in respect of performing and non-performing assets of Madura Band ltd. Find out the income to be recognized for the year ended 31st March 1998.

		(Rs. in lakhs)
Performing assets:	**Interest earned**	**Interest received**
Cash credits and overdrafts	1800	1060
Term loan	480	320
Bills purchased and discounted	700	550
Non-performing assets:		
Cash credits and overdrafts	450	70
Term loan	300	40
Bills purchased and discounted	350	36

ANSWER:

Interest on performing assets should be recognized on Accrual basis, but interest on Non performing assets should be recognized on cash basis:

Interest on cash credits & overdrafts	(1,800+70)	= 1,870
Interest on term loans	(480+40)	= 520
Interest on bills discounted	(700+36)	= 736
		3,126

QUESTION NO 6

Given below is the advances of a commercial bank (Rs. In lakhs)

	Performing Assets		NP Assets	
	Interest earned	Interest received	Interest earned	Interest received
Terms loans	120	80	75	5
Cash credits and overdrafts	750	620	150	12
Bills purchased and discounted	150	150	100	20

Find out the income to be recognized for the year ended 31st March 1993.

QUESTION NO 7

Calculate the interest income to be recognized for the year ending 31.3.2002 from the following information:

Interest On	Total Earned	Earned on NPA	Collected on NPA
Cash credit	8700	1700	600
Overdraft	1200	400	150
Term loans	2500	1100	300

QUESTION NO 8

COMPUTE interest income from the following information:

Interest on	Total interest collected	Earned but not collected on PA	Earned but not collected on NPA
Cash credit	5000	350	650
Overdraft	1800	210	420
Term loans	4600	140	710

QUESTION NO 9

Find out the income to be recognized in the case of X Bank Ltd. For the year ended 31st March, 2009.

	Performing Assets		Non-performing	
	Interest accrued	Interest received	Interest accrued	Interest received
Terms Loans	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24

ANSWER:

Rs. 1774.

QUESTION NO 10

A bank had purchase a bill for Rs.1,00,000 and paid Rs. 95,000 on first June 2001, whose maturity date will be after 162 days. Bill was returned dishonored on due date and have remained due till March 31,2002.

State whether bank can recognize income of Rs.5000 in the year 2001-2002.

CONCEPT 3: ECGC COVER/DICGC COVER

QUESTION NO. 11

From the following information find out the amount of provisions required to be made in the P & L A/c of a commercial bank for the year ended 31st March 2000:

(i) Packing credit outstanding from Food Processors Rs.60 lakhs against which the bank holds securities worth Rs.15 lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than three years.

(ii) Other advances:

Assets classification	Rs. in lakhs
Standard	3000
Sub-standard	2200
Doubtful:	
For one year	900
For two year	600
For three year	400
For more than 3 years	300
Loss assets	600

ANSWER: (II)

Particulars	Total amount	% of provision	Amount
Standard			
Sub standard			
Doubtful :			
For one year			
For two years			
For three years			
For more three years			
Loss assets			

QUESTION NO. 12

Bidisha Bank ltd. had extended the following credit lines to a Small Scale Industry which had not paid any interest since March 1995:

	Term Loan	Export Credit
Balance outstanding on 31-3-2001	Rs.70 Lacs	Rs.60 Lacs
DICGC/ECGC Cover	50%	40%
Securities held	Rs.30 Lacs	Rs.25 Lacs
Realizable value of securities	Rs.20 Lacs	Rs.15 Lacs

Compute the necessary provisions to be made for the year ended 31st March 2001.

ANSWER:

	Term loans Rs. in Lacs	Export credit Rs. in Lacs
Amount outstanding		
Less: Realizable value of securities		
Less: ECGC/DICGC cover		
Balance amount outstanding		
Required Provision:		
a) Provision for unsecured portion (100%)		
b) Provision for secured portion		
Total provisions		

QUESTION NO 13 (MAY 2004)

Rajatapeeta bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any interest since March, 1997:

	Term loan	Export credit
Balance outstanding on 31.3.03	Rs35 lakhs	Rs30 lakhs
DICGE/ECGE over	40%	50%
Securities held	Rs.15 lakhs	Rs.10 lakhs
Realizable value of securities	Rs.10 lakhs	Rs.8 lakhs

Compute necessary provisions to be made for the year ended 31st March,2003.

ANSWER:

	Term loans Rs. in Lacs	Export credit Rs. in Lacs
Amount outstanding		
Less: Realizable value of securities		
Less: ECGC/DICGC cover		
Balance amount outstanding		
Required Provision:		
a) Provision for unsecured portion (100%)		
b) Provision for secured portion		
Total provisions		

QUESTION NO 14

Sound Bank Ltd. gives you the following information for the year 2001-2002

Term loan outstanding	80,00,000
Value of securities held (realizable value 30,00,000)	38,00,000
DICGC cover	40%
Period for which the loan has remained doubtful	2 years

Calculate the provision required on the outstanding term Loan. What will be the provision if the maximum limit of R.19,00,000 is given under DICGC cover.

QUESTION NO 15

Calculate provision required by Bank:

Asset classification status	Doubtful more than 3 years
CGTSI cover	75% of the amount outstanding or Rs.18.75 lakhs whichever is the least
Realizable value of security	10 lakhs
Balance outstanding	40lakhs

QUESTION NO 16

Calculate provision required by Bank:

Asset classification status	Doubtful more than 3 years
CGTSI cover	75% of the amount outstanding or Rs.18.75 lakhs whichever is the least
Realizable value of security	1.5lakhs
Balance outstanding	10lakhs

QUESTION 17

Outstanding Balance	Rs 4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on march 31, 2013)
Value of security held	Rs 1.50 lakhs

You are required to calculate provisions.

SOLUTION

Provision required to be made as on 31.03.2013

Outstanding balance	Rs 4.00 lakhs
Less: Value of security held (Secured Portion)	Rs 1.50 lakhs)
Unrealised balance	Rs 2.50
Less: ECGC cover (50% of unrealizable balance)	Rs 1.25lakhs)
Net unsecured balance	Rs 1.25 lakh
Provision for unsecured balance portion of advance	Rs 1.25 lakhs @ 100% of unsecured portion)
Provision for secured portion of advance	Rs 1.50 lakhs @ 100% of the secured portion as advance has remained doubtful for over 3 years)
Total provision to be made	**Rs 2.75 lakhs**

QUESTION 18

Outstanding Balance	Rs 4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on March 31, 2012)
Value of security held (realizable value only 80%)	Rs 1.50

You are required to calculate provision as per applicable rates.

SOLUTION

Provision required to be made as on 31.03.2012

Outstanding balance	Rs 4.00 lakhs
Less: Value of security held (80% of 1.5 lacs)	Rs 1.20 lakhs)
Unrealised balance	Rs 2.80 lakhs
Less: ECGC Cover (50% of unrealizable balance)	(Rs 1.40 lakhs
Net unsecured balance	Rs 1.40 lakhs

Provision for unsecured portion of advance	Rs 1.40 lakhs @ 100% of unsecured portion
Provision for secured portion of advance	Rs 1.20 lakhs @ 100% of the secured portion
Total provision to be made	Rs 2.60 lakhs

QUESTION 19

In KR Bank the doubtful assets (more than 3 years) as on 31.3.2012 is 1000 lakhs. The value of security (including DICGC 100% cover of 100 lakhs) is ascertained at 500 lakhs. How much provision must be made in (he books of the Bank towards doubtful assets?

SOLUTION

	(Rs in lakhs)
Doubtful Assets (more than 3 year)	1,000
Less: Value of security (excluding DICGC cover)	(400)
LESS: DICGC cover	600
Unsecured portion	(100)
Provision	500
For unsecured portion @ 100%	500 lakhs
For secured portion @ 100%	400 lakhs
Total provision to be made in the books of KR Bank	900 lakhs

QUESTION 20

A loan outstanding of Rs 50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50% what is the value of Risk-adjusted asset?

SOLUTION

Loan outstanding	Rs 50,00,000
Guaranteed by DICGC — Risk weight	50%
Value of risk adjusted asset Rs 50,00,000x 50%	= Rs 25,00,000

CONCEPT 4: REBATE ON BILLS DISCOUNTED

QUESTION NO. 21

On 31st March 1997 Uncertain Bank Ltd. had a balance of Rs.9 crores in " rebate on bills discounted" account. During the year ended 31st March 1998, Uncertain Bank ltd. discounted bills of exchange of Rs.4,000 crores charging interest at 18% per annum, the average period of discount being for 73 days. Of these bills of exchange of Rs.600 crores were due for realization from the acceptors/customers after 31st March 1998 the average period outstanding after 31st March 1998 being 36.5 days.

Uncertain Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to:

(i) Discounting of bills of exchange and

(ii) Rebate on bills discounted.

QUESTION NO 22

The following is an extract from the trial balance of a bank as at 31st March 2002:-

Bills discounted	5150000
Rebate on bills discounted not yet due, April 1,2001	30501
Discount received	145500

Date of bill	Amount (Rs.)	Term months	Discounted @ % p.a.
January 13	7,50,000	4	12
February 17	6,00,000	3	10
March 6	4,00,000	4	11
March 16	2,00,000	2	10

Find out the amount of discount received to be credited to Profit and Loss account.

QUESTION NO 23

The following particulars are extracted from the (Trial Balance) Books of the M/s Commercial Bank Ltd. for the year ending 31st March, 2003:

		Rs
(i)	Interest and discounts	1,96,62,400
(ii)	Rebate on bills discounted (balance on 1.4.2002)	65,040
(iii)	Bills discounted and purchased	67,45,400

It is ascertained that proportionate discount not yet earned on the Bills discounted which will mature during 2003-2004 amounted to Rs.92,760.

Pass the necessary journal entries with narration adjusting the above and show:

(a) Rebate on bill discounted account and

(b) Interest and discount account in the ledger of the bank.

ANSWER:

(a)

Date		**Debit Rs.**	**Credit Rs.**
2003 Mar 31	Rebate on bills discounted a/c Dr. To interest and discount account	65,040	65,040
2003 Mar 31	Interest and discount a/c Dr. To rebate on bills discounted a/c	92,760	92,760
2003 Mar 31	Interest and discount a/c Dr. To profit and loss a/c	1,96,34,680	1,96,34,680

(b) **Interest and discount account**

	Rs.		Rs.
To rebate on bills discounted a/c	92,760	By rebate on bills discounted a/c (opening balance)	65,040
To profit and loss a/c (transfer)	1,96,34,680	By cash and sundries	1,96,62,400
	-------------		-------------
	1,97,27,440		1,97,27,440

Rebate on bills discounted account

	Rs.		**Rs.**
To interest and discount a/c	65,040	By balance b/d	65,040
To balance c/d	92,760	By interest and discount a/c	92,760
	----------		------------
	1,57,800		1,57,800

QUESTION NO 24

On 31st March 1998, the UB Bank Ltd. held the following bills:

	The Amount	Term months	Discounted @ % p.a.
9 February 1998	50,000	4	18
17 February 1998	60,000	3	15
6th march	40,000	4	16.5

Calculate the Rebate on Bills discounted and give the necessary journal entry.

QUESTION NO 25

On 31st march 2002, the amount of bills discounted and purchased in the balance sheet of popular bank stood at Rs.50,00,000; on the average they matured on the 12 june and they were discounted @ 18% p.a. The opening balance in the rebate on bills discounted A/c was Rs.1,50,000 and during the year discount earned (Gross) was 8,73,000. what is the amount credited to discount account.

QUESTION NO 26

As on 31st December 1985, the books of the Hercules bank include among others the following balances:

	Amount
Rebate on bills discounted (1.1.85)	3,20,000
Discount received	46,00,000
Bills discounted and purchased	3,15,47,000
Bills for collection	12,00,000

Throughout 1985, the Bank's rate for discounting has been 18% and the rate of commission on bills for collection,4%.

On investigation and analysis, the average due date for bills discounted and purchased is calculated as 15th February 1986 and that bills for collection as 15th January 1986.

Show the calculation of the amount to be credited to the bank's profit and loss account under discount earned for the year 1985.

Show also the journal entries required to adjust the above mentioned accounts.

ANSWER:

CALCULATION OF UNEXPIRED DISCOUNT

Particulars	Rs
Bills discounted and purchased	3,15,47,000
Average due date	15.2.2005
No of days for due date i.e., 15.2.2005 from Balance Sheet date 31.12.2004	46 days
Rate of discount	18%
Unexpired discount (bill value Rs.31547000*discount rate18%*46/365)	7,15,642

Calculation of amount to be transferred to profit and loss account

Particulars	Rs
Balance in discount received account	46,00,000
Add: balance in rebate account as on 1.1.2004 relating to 2004	3,20,000
Less: Rebate on bills (31.12.2004)	7,15,642
Amount to be transferred to profit and loss account	42,04,358

Journal entries

	Debit Rs.	Credit Rs.
Rebate on bills discounted a/c Dr.	3,20,000	
To interest and discount account		3,20,000
Interest and discount a/c Dr.	7,15,642	
To rebate on bills discounted a/c		7,15,642
Interest and discount a/c Dr.	42,04,358	
To profit and loss a/c		42,04,358

QUESTION NO 27

Date of bill	Amount	Period including grace days	Discounted @ % p.a.
10.09.2003	4,00,000	6 months	9%
16.10.2003	7,00,000	4 months	11%
22.11.2003	5,00,000	5 months	8%
25.12.2003	8,00,000	3 months	7%

ANSWER:

Date of bill	Period	Due date	Value Rs.	Days after 31.12.2003	Rate	Discount amount
10.09.2003	6 months	10.03.2004	4,00,000	70	9%	6904
16.10.2003	4 months	16.02.2004	7,00,000	47	11%	9915
22.11.2003	5 months	22.04.2004	5,00,000	113	8%	12384
25.12.2003	3 months	25.03.2004	8,00,000	85	7%	13041

						42,244

Particulars	Debit	Credit
Interest and discount account	42,244	
To rebate on bills discounted		42,244

QUESTION NO 28

The following balances are extracted from the Trial balance as on 31.3.92:

	Dr.	Cr.
Interest and discounts		98,00,000
Rebate for bills discounted		20,000
Bills discounted and purchased	4,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 1992-93 amount to Rs.14,000. Prepare ledger accounts.

QUESTION NO 29

The following facts have been taken out from the records of Dee bank Ltd. As on 31st March, 2009:

	Rs.	Rs.
Rebate on bill discounted (not due on March 31st March 2008)		45,800
Discount received		2,02,500
Bill Discounted	12,25,000	

An analysis of the bills discounted is as follows:

Amount Rs.	Due date 2009	Rate of discount
3,75,000	April 8	12%
1,50,000	May 8	14%
2,20,000	June 12	14%
4,80,000	July 15	15%

You are reburied to:

(i) Calculate Rebate on Bill discounted as on 31st March, 2009.

(ii) The amount of discount to be credited to the profit and loss account .

(iii) Show necessary journal entries in the books of Dee bank Ltd. As on 31st March, 2009.

QUESTION NO 30

On 31st March, 1997, uncertain Bank Ltd. Had a balance of Rs. 9 crores in " rebateon bills discounted account During the year ended 31st March, 1998. Uncertain bank Ltd discounted bills of exchange of Rs. 4,000 crores charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of Rs. 600 crores were due for realization from the acceptors/ customers after 31st March, 1998, the average period outstanding after 31st March , 1998 being 36.5 days.

Uncertain bank Ltd asks you to pass journal entries and show the ledger accounts pertaining to:

(i) Discounting of bills of exchange and

(ii) Rebate on bills discounted.

ANSWER:

(i) Transfer to P & LA/c rs. 142.20 (crores) ;

(iii) Balance Rs. 10.80 (Crores).

Examiner Comment:

Banking Companies: Discounting of Bills: in spite of doing all workings, most of the candidates could not pass correct entries for discounting of bills of exchange due to which the required ledger accounts were not prepared, although some of them made correct calculations of the amount of income from discounting of bills of exchange attributable to the unexpired period.

QUESTION NO 31

The following is an extract from the Trial balance of Dram Bank Ltd. As at 31st March 2006:

Rebate on bills discounted as on 1-4-2005	68,259 (Cr)
Discount received	1,70,156 (Cr)
An analysis of the bills discounted reveals as follows:	
Amount (Rs)	**Due date**
2,80,000	June 1,2006
8,72,000	June 8,2006
5,64,000	June 21, 2006
8,12,000	July 1,2006
6,00,000	July 5,2006

You are required to find out the amount of discount to be credited to profit and loss account for the year ending 31st March, 2006 and pas journal Entries. The rate of discount may be taken at 10% per annum.

ANSWER:

Rs. 1,68,256 Discount Income

QUESTION NO 32

The following information is available in the books of X bank Limited as on 31st March, 2007.

	Rs.
Bills discounted	1,37,05,000
Rebate on Bills discounted (as on 1.4.2006)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill	Due date	Rate of Discount (Rs.)
18,25,000	05.06.2007	12%
50,00,000	12.06.2007	12%
28,20,000	25.06.2007	14%
40,60,000	06.07.2007	16%

Calculate the rebate on bills discounted as on 31.3.2007 and give necessary journal Entries.

ANSWER:

Statement showing rebate on bills discounted

Value of bill	Due date	Days after 31.3.2008	Rate of discount	Discount
18,25,000	5.6.2007	(30+ 31+5) = 66	12%	39,600
50,00,000	12.6.2007	(30+31+12) = 73	12%	1,20,000
28,20,000	25.6.2007	30+31+25) = 86	14%	93,021
40,60,000	6.7.2007	30+31+30+6) = 97	16%	1,72,633
				4,25,254

Journal

Particulars		Dr (Rs)	Cr. (Rs.
Rebate on bills discount a/c	Dr.	2,21,600	
To discount on bills a/c			2,21,600
(Being the opening balance of rebate on bills discounted account transferred to discount on bills account			
Discount on bills a/c	Dr.	4,25,254	
To Rebate on bills discounted a/c			4,25,254
(being the provision made on 31st March 2008)			
Discount on bill a/c	Dr.	8,52,996	
To Profit and Loss a/c			8,52,996
(being the transfer of discount on bills, of the year to profit and Loss Account)			

Note: Credit to profit and Loss a/c Rs. 10,56,650 + Rs. 2,21,600- Rs. 4,25,254 = Rs. 8,25,996.

QUESTION 33

The followed an extract from Trial Balance of overseas Bank as at 31st March, 2013

	Rs	Rs
Bills discounted	12,64,000	
Rebate on bills discounted not due on March 31st, 2012		22160
Discount received		105708

An analysis of the bills discounted is as follows:

	Amount (Rs)	Due date 2013	Rate of Discount %
(i)	1,40,000	June 5	14
(ii)	4,36,000	June 12	14
(iii)	282000	June 25	14
(iv)	4,06,000	July 6	16

Calculate Rebate on Bills Discounted as on 31-3-2013 and show necessary journal entries.

SOLUTION:

In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below:

(i) The bill is due on 5th June; hence the number of days after March 31st, is 66. The discount on 1,40,000 for 66 days @ 14% per annum will be 14/1 00 x 66/365 x 140,000 = Rs 3544/-

(ii) Number of days in the unexpired portion of the bill is 73: discount on 4,36,000 for 73 days @ 14% per annum will be 12,208.

(iii) Number of days in the unexpired portion of the period of the bill is 86: discount on Rs 2,82,000 for 86 days @ 14% per annum will be Rs 9,302.

(iv) Number of days in the unexpired portion of the period of the bill is 97: discount on 4,06,000 for 97 days @ 16 % p.a. will be 17,263.

The amount of discount to be credited to the Profit and Loss Account will be:

	Rs
Transfer from Rebate on bills discount as on 31-3-2012	22,160
Add: Discount received during the year ended 31-3-2013	1,05,708 127868
Less: Rebate on bills discounted as on 31 .3.2013 (3,544 + 12,208 + 9,302+ 17,263)	 (42,317) 85,551

The journal entries will be as follows

	Dr. Rs.	Cr. Rs
Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c 22,160 (Being the transfer of Rebate on Bills Discounted on 3 1-3-2011 to Discount on Bills Account)	22,160	 22,160
Discount on Bills A/c Dr. To Rebate on Bills Discounted A/c (Being the transfer of rebate on bills discounted required on 31-3-2011 from discount on Bills Account)	42,317	 42317
Discount on Bills A/c Dr. To Profit and Loss A/c (Being the amount of discount on Bills transferred to Profit and Loss Account)	85551	 85,551

Note: In the Profit and Loss Account, the discount on bills will not appear as a separate item but will be included in the heading Interest/Discount on advances/bills as per Form B of the new format.

QUESTION 34

The following information is available in the books of X Bank Limited as on 31st March, 2013:

	Rs
Bills discounted	1,37,05,000
Rebate on bills discounted (as on 1.4.2012)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill (Rs)	Due date	Rate of Discount
18,25,000	5.6.2013	12%
50,00,000	12.6.2013	12%
28,20,000	25.6.2013	14%
40,60,000	6.7.2013	16%

Calculate the rebate on bills discounted as on 31.3.2013 and give necessary journal entries.

SOLUTION

Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2013	Rate of discount	Discount Amount
18,25,000	5.6.2013	(30+ 31+5) = 66	12%	39,600
50,00,000	12.6.2013	(30+31+12) = 73	12%	1,20,000
28,20,000	25.6.2013	(30+31+25) = 86	14%	93,021
40,60,000	6.7.2013	(30+31+30+6) = 97	16%	1,72,633
1,37,05,000	Rebate on bills discounted on 31.3.2013			4,25,254

In the books of X Bank Ltd.

Journal Entries

(i) Rebate on bills discounted Account Dr. To Discount on bills Account (Being opening balance of rebate on bills discounted account transferred to discount on bills account]	2,21,600	 2,21,600
(ii) Discount on bills Account Dr. To Rebate on bills discounted Account (Being provision made on 31st March, 2013]	4,25,254	 4,25,254
(iii) Discount on bills Account Dr. To Profit and loss (Being transfer of discount on bills, of the year, to profit and loss account)	8,52,996	 8,52,996

Credit to profit and Loss A/c will be as follows : Rs (10,56,650+ 2,21,600- 4,25,254 = Rs 8,52,966

QUESTION 35

Calculate Rebate on Bills discounted as on 31 December, 2013 from the following data and show journal entries:

	Date of Bill	Rs	Period	Rate of Discount
(i)	15.10.13	25,000	5 months	8%
(ii)	10.11.13	15,000	4 months	7%
(iii)	25.11.13	20,000	4 months	7%
(iv)	20.12.13	30,000	3 months	9%

SOLUTION

(a) Calculation of Rebate of Bills Discounted

Rs	Due Date	Days after 31 December 2013	Discount Rate	Rs
25,000	18-03-2014	31+28+18= 77	8%	421.92
15,000	13-03-2014	31+28+13= 72	7%	207.12
20,000	28-03-2014	31+28+28=87	7%	333.69
30,000	23-03-2014	31+28+23 = 82	9%	606.57
		Total		1569.30

Journal Entry

Date	Particular	Debit	Credit
	Interest and Discount Account Dr.	1569.30	
	To Rebate on Bills Discounted		1569.30
	(Being the provision for unexpired discount required at the end of the year)		

CONCEPT 5: VALUATION OF INVESTMENTS

QUESTION NO 36

United commercial Bank Ltd. provides the following details of cost and market values of its investments as on 31st March 1997:

	Cost (in 000)	Market values (in 000)
Investment A	2000	2400
Investment B	1800	1980
Investment C	5500	3575
Investment D	1700	1530
Investment E	3000	2250
	14000	11735

Classify the investments into permanent investments and current investments in such a mnner that the bank may be able to make the least amount of provision for depreciation. The bank cannot keep more than 50% of its investment in the permanent category. What will be the classification if the above information is given as on 31.3.2002 keeping in view new RBI guidelines relating to the same.

CONCEPT 6: PROFIT & LOSS ACCOUNT

QUESTION NO 37

From the following information, prepare profit and loss account of south India Bank ltd. as on 31st march, 1992:

	('000) Rs.
Interest and discount	3045
Income from investments	115
Interest on balances with R.B.I	180
Commission, exchange and brokerage	820
Profit on sale of investments	110
Interest on deposits	1225
Interest to R.B.I	161
Payment to and provision for employees	1044
Rent , taxes and lighting	210
Printing and stationary	180
Advertisement and publicity	95
Depreciation	92
Director's fees	220
Auditor's fees	120
Law charges	230
Postage, telegrams and telephone	70
Insurance	56
Repairs and maintenance	48

Other information:

(i) Interest and discount mentioned above is after adjustment for the following:

	'000 (Rs)
Tax provision for the year	220
Provision during the year for doubtful debts	102
Loss on sale of investments	12
Rebate on bills discounted	58

(ii) 20% of profit is transferred to statutory reserves.

5% of profit is transferred to revenue reserve.

Profit brought forward from last year 16,000.

ANSWER:

FORM B

Profit and loss account for the year ended on 31st March..........

	Schedule	Amount
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		
Expenditure:		
Interest expended	15	
Operating expenses	16	
Provisions and contingencies	--	
Total (b)		
Net profit(loss) for the year (a-b)		
Profit/loss brought forward		
Total		
Appropriations:		
Transfer to statutory reserves		
Transfer to other reserve		
Transfer to proposed dividend		
Balance carried over to Balance Sheet		
Total		

QUESTION NO 38

From the following information calculate the amount of provisions and contingences and prepare profit and loss account of Zed bank Ltd. for the year ended 31.3.2004:

	(Rs. In '000)
Investment and discount	8860
(includes interest accrued on investments)	
Other income	220
Interest expended	2720
Operating expenses	2830
Interest accrued on investments	10

Additional information: **(Rs. In '000)**

(a) Rebate on bills discounted to be provided for 30

(b) Classification of advances:

- (i) Standard assets 4000
- (ii) Sub standard assets 2240
- (iii) Double assets (fully unsecured) 390
- (iv) Doubtful assets-covered fully by security
  - Less than 1 year 100
  - More than 1 year, but less than 3 years 600
  - More than 3 years 600
- (v) Loss assets 376

(c) Provide 35% of the profit towards provision for taxation.

(d) Transfer 20% of the profit by Statutory Reserve.

ANSWER:

FORM B

Profit and loss account for the year ended on 31st March..........

	Schedule	Amount
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		

Expenditure:		
Interest expended	15	
Operating expenses	16	
Provisions and contingencies	--	
Total (b)		
Net profit(loss) for the year (a-b)		
Profit/loss brought forward		
Total		
Appropriations:		
Transfer to statutory reserves		
Transfer to other reserve		
Transfer to proposed dividend		
Balance carried over to Balance Sheet		

QUESTION NO 39

From the following information, prepare the profit and loss account of Sharma Bank Ltd. as on 31.3.1992:

Particulars	'000
Interest and discount	2,045
Income from investment	112
Interest on balances with RBI	177
Commission, exchange and Brokerage	712
Profit on sale of investments	122
Interest on Deposits	822
Interest to RBI	147
Payment to and provision for employees	855
Rent, taxes and lighting	179
Printing and stationery	212
Advertisement and publicity	98
Depreciation	98
Director fees	212

Auditors fees	110
Law charges	152
Postage and telegrams	62
Insurance	52
Repairs and maintenance	66

Also give necessary schedules.

Other information:

(a) The following items are already adjusted with interest and discount (cr)

i. Tax provision ('000) 148

ii. Provision for doubtful debts 92

iii. Loss on sale of investments 12

iv. Rebate on bills discounted 55

(b) 20% of profit is transferred to statutory reserves

(c) 5% of profit is transferred to revenue reserve.

ANSWER:

FORM B

Profit and loss account for the year ended on 31st March..........

	Schedule	Amount
Incomes:	13	
Interest earned	14	
Other income		
Total (a)		
Expenditure:		
Interest expended	15	
Operating expenses	16	
Provisions and contingencies	--	
Total (b)		
Net profit(loss) for the year (a-b)		
Profit/loss brought forward		
Total		

Appropriations: Transfer to statutory reserves Transfer to other reserve Transfer to proposed dividend Balance carried over to Balance Sheet		
Total		

QUESTION NO 40

From the following information, prepare the profit and loss account of Triveni Bank Ltd. for the year ending 31.12.2004:

Particulars	Rs.
Interest on loan	2,59,000
Interest on fixed deposit	2,75,000
Rebate on bills discounted	49,000
Commission, exchange and Brokerage	8,200
Establishment expenses	54,000
Discount on bills discounted	1,95,000
Interest on cash credits	2,23,000
Interest on current accounts	42,000
Rent, taxes and lighting	18,000
Interest on overdraft	1,54,000
Director fees	3,000
Auditors fees	1,000
Interest on savings deposits	68,000
Postage and telegram	1,000
Printing and stationary	3,000
Sundry charges	1,700

Bad debts written off amounted to Rs.40,000. Provision for taxation may be made @ 36.6%. working should from part of your answer.

ANSWER:

FORM B

Profit and loss account for the year ended on 31st March..........

	Schedule	Amount
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		
Expenditure:		
Interest expended	15	
Operating expenses	16	
Provisions and contingencies	--	
Total (b)		
Net profit(loss) for the year (a-b)		
Profit/loss brought forward		
Total		
Appropriations:		
Transfer to statutory reserves		
Transfer to other reserve		
Transfer to proposed dividend		
Balance carried over to Balance Sheet		
Total		

QUESTION NO 41

From the following information prepare profit and loss account of sharma bank Ltd. for the period ended on 31.3.2005:

Particulars	Rs.'000
Interest on loans	300
Interest on fixed deposits	275
Commission	10
Exchange and brokerage	20

Salaries and allowance	150
Discount on bills (gross)	152
Interest on cash credits	240
Interest on temporary overdraft in current account	30
Interest on savings bank deposits	87
Postage, telegram and stamps	10
Printing and stationary	20
Sundry expenses	10
Rent	15
Taxes and licenses	10
Audit fees	10

Additional information:

(a) Rebate on bills discounted Rs.30,000

(b) Salary of managing director is Rs.30,000

(c) Bad debts Rs.40,000

(d) Provision for income tax is to be made @ 36.6% (round off to nearest thousand)

(e) Interest of Rs.4000 on doubtful debts was wrongly credited to interest on loans account.

Working should form part of your answer.

ANSWER:

FORM B

Profit and loss account for the year ended on 31st March………

	Schedule	Amount
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		

Expenditure: Interest expended Operating expenses Provisions and contingencies	 15 16 --	
Total (b)		
Net profit(loss) for the year (a-b) Profit/loss brought forward		
Total		
Appropriations: Transfer to statutory reserves Transfer to other reserve Transfer to proposed dividend Balance carried over to Balance Sheet		
Total		

QUESTION NO 42

Following information is furnished to you by sound Bank Ltd. For the year ended 31st March, 2008:

	(Rs. thousands)
Interest and discount (Income)	8,860
Interest on public deposits (Expenditure)	2,720
Operating expenses	2,662
Other Incomes	250
Provision and contingencies (it includes provision in respect of Non-performing assets (NPAs) and tax provisions)	2004
Rebate on bills discounted to be provided for	5
As on 31.3.2008 classification of	
Advances :	
Standard assets	5000
Sub-standard Assets	1,120
Doubtful Assets –fully unsecured	200

Doubtful assets –fully secured	
Less than 1 years	50
More than 1 years but less than 3 years	300
More than 3 years loss assets	200

You are required to prepare:

Profit and loss Account of the Banks for the years ended 31st March, 2008.

Provision in respect of advances.

SOLUTION

FORM B

Profit and loss account for the year ended on 31st March.........

	Schedule	Amount
Incomes: Interest earned Other income	 13 14	
Total (a)		
Expenditure: Interest expended Operating expenses Provisions and contingencies	 15 16 --	
Total (b)		
Net profit(loss) for the year (a-b) Profit/loss brought forward		
Total		
Appropriations: Transfer to statutory reserves Transfer to other reserve Transfer to proposed dividend Balance carried over to Balance Sheet		
Total		

QUESTION NO 43

From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd. For the year ending 31st March, 2009:

	Rs.		Rs.
Interest and discount	44,00,000	Interest Expended	13,60,000
Other income	1,25,000	Opening Expenses	13,31,000
Income on investments	5,000	Interest on balance with RBI	25,000

Additional Information

Rebate on bills discounted to be provided for Rs. 15,000

Classification of advances

Standard assets	25,00,000
Sub-standard Assets	5,60,000
Doubtful Assets not covered by security	2,55,000
Doubtful Assets covered by security	
For 1 year	25,000
For 2 years	50,000
For 3 years	1,00,000
For 4 years	75,000
Loss Assets	1,00,000

(c) Make tax Provision @ 35%

(d) Profit and Loss A/c (Cr.) Rs. 40,000.

SOLUTION

FORM B

(e) Profit and loss account for the year ended on 31st March..........

	Schedule	Amount
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		

Expenditure: Interest expended Operating expenses Provisions and contingencies	 15 16 --	
Total (b)		
Net profit(loss) for the year (a-b) Profit/loss brought forward		
Total		
Appropriations: Transfer to statutory reserves Transfer to other reserve Transfer to proposed dividend Balance carried over to Balance Sheet		
Total		

QUESTION NO 44

From the following information, prepare Profit and Loss A/c of Hyderabad Bank Ltd, for the year ended 31st March, 1993.

Items	000 Rs.
Interest on cash credit	18,20
Interest on overdraft	7,50
Interest on term loans	15,40
Income on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Commission of letters of credit	1,18
Commission on government business	82
Profit on sale of land and building	27
Loss on exchange transactions	52
Interest paid on deposit	7,20
Auditors' fess and allowances	1,20

Director's fees and allowances	2,50
Advertisings	1,80
Salaries, allowances and bonus to employees	12,40
Payment to Provident fund	2,80
Printing and stationery	1,40
Repairs and maintenance	50
Postage, telegrams, telephones	80

Others information

(i) Interest on NPA is as follows:

	Earned (Rs. 000)	**Collected (Rs. 000)**
Cash credit	8,20	4,00
Overdraft	450	1,00
Term Loans	750	2,50

(ii) classification on advances ('000 Rs.)

Sub Standard	11,20
Doubtful assets not covered by security	2,00
Doubtful assets covered by security for one year	50
Loss Assets	2,00

(iii) Book Value of Investments is Rs. 2750 out of which 25% held for maturity. Market value of rest investments 75% is Rs. 19,00.

SOLUTION

FORM B

Profit and loss account for the year ended on 31st March.........

	Schedule	**Amount**
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		
Expenditure:		
Interest expended	15	
Operating expenses	16	
Provisions and contingencies	--	
Total (b)		

Net profit(loss) for the year (a-b) Profit/loss brought forward		
Total		
Appropriations: Transfer to statutory reserves Transfer to other reserve Transfer to proposed dividend Balance carried over to Balance Sheet		
Total		

QUESTION NO 45

From the Following in formation, prepare Profit and Loss A/c of Dimple Bank as on 31-3 -2013.

Rs' 000	Item	Rs' 000
2011-12		2012-13
14,27	Interest and Discount	20,45
1,14	Income from investment	1,12
1.55	Interest on Balances with RBI	1,77
7.22	Commission, Exchange and Brokerage	7,12
12	Profit on sale of investments	1,22
6.12	Interest on Deposits	8,22
1.27	Interest to RBI	1,47
7,27	Payment to and provision for employees	8,55
1,58	Rent, taxes and lighting	1,79
1,47	Printing and stationery	2,12
1,12,	Advertisement and publicity	98
98	Depreciation	98
1,48	Director's fees	2,12
1,10,	Auditor's fees	1,10
50	Law charges	1,52
48	Postage, telegrams and telephones	62
42	Insurance	52
57	Repair & maintenance	66

Also give necessary Schedules

Other information:

(i) The following items are already adjusted with interest and Discount

Tax provision ('000 Rs)	1,48
Provision for Doubtful Debts ('000 Rs)	92
Loss on sale of investments ('000 Rs)	12
Rebate on Bills discounted ('000 Rs)	55

(ii) Appropriation :

25% of profit is transferred to Statutory Reserves

5% of profit is transferred to Revenue Reserve.

CONCEPT 7: BILLS FOR COLLECTION

QUESTION NO 46

On 01.04.2013 bills for collection was 7 lacs. During 2013-14 bills received for collection amounted to 64.5 lacs. Bills collected were 47 lacs. Bills dishonored was 5.5 lacs. Prepare Bills for collection (Assets) and Bills for Collection (Liabilities) Accounts.

SOLUTION

Bills for Collection (Assets) Account

	Rs in lacs		Rs in lacs
To Balance b/d	7	By Bills for collection	47
To Bills for collection	64.5	By bills discoursed	5.5
	___	By Balance c/d	19.
	71.5		71.5

Bills for Collection (Liabilities) Account

	Rs in lacs		Rs in lacs
To Bills for collection	47	By Balance b/d	7
T Bills dishonored	5.5	By Bills for collection	64.5
By Balance c/d	19		______
	71.5		71.5

QUESTION NO 47

On 1.4.1990 bills for collection were Rs.7,00,000. During 1990-91 bills received for collection amounted to Rs.64,50,000, bills collected were Rs.47,00,000 and bills dishonored and returned were Rs.550500. Prepare bills for collection (Assets A/c) and bills for collection (liability A/c)

QUESTION NO 48

From the following details, prepare bills for collection (asset) account and bills for collection (liabilities) account:

	Rs.
On 1.4.2005, bills for collections were	51,00,000
During the year 2005-06 bills received for collection amounted to	75,00,000
Bill collected during the year 2005-06	98,47,000
Bills dishonored and returned during the year	27,10,000

ANSWER:

Bills for collection (Assets) account

	Rs.		Rs.
To balance b/d	51,00,000	By bills for collection (liabilities) account	98,47,000
To bills for collection (liabilities) account	75,00,000	By bills for collection (liabilities) account	27,10,000
		By balance c/d	43,000
	1,26,00,000		1,26,00,000

Bills for collection (Liabilities) account

	Rs.		Rs.
To bills for collection (asset) account	98,47,000	By balance b/d	51,00,000
To bills for collection (asset) account	27,10,000	By bills of collection (asset) account	75,00,000
To balance c/d	43,000		
	1,26,00,000		1,26,00,000

CONCEPT 8: MISC. CONCEPTS

QUESTION NO. 49

From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would appear in the general ledger.

On 1-4-1998 Acceptances not yet satisfied stood at Rs.22,30,000. Out of which Rs.20 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance Register revealed the following:

Client	Acceptances/Guarantees	Remarks
	Rs.	
A	10,00,000	Bank honoured on 10-6-98
B	12,00,000	Party paid off on 30-9-98
C	5,00,000	Party failed to pay and bank had to honour
		On 30-11-98
D	8,00,000	Not satisfied up-to 31-3-99
E	5,00,000	do
F	2,70,000	do
Total	42,70,000	

QUESTION NO 50

How will you disclose the following ledger balances in the Final Accounts of DVD bank :

	Rs. Ins lacs
Current Accounts	700
Saving accounts	500
Fixed deposit	700
Cash credits	600
Term loans	500
Bills discounted & Purchased	800

Additional information:

(i) Included in the Current Accounts Ledger are accounts overdrawn to the extent of Rs 250 lacs.

(ii) One of the cash Credit account of Rs. 10 lacs (including interest Rs. 1 lac) is doubtful. 60% of term loans are secured by government guarantees, 20% of cash credit is unsecured, other portion is secured by tangible assets.

QUESTION NO 51

Following FACTS have been taken out from the records of Adarsha Bank in respect of the year ending March 31, 2013:

(a) On 1-4-2012 Bills for collection were ' 7,00,000. During 2012-2013 bills received for collection amounted to Rs 64,50,000, bills collected were Rs 47,00,000 and bills dishonoured and returned were Rs 5,50,500. Prepare Bills for Collection (Assets) A/c and bills for Collection (Liability) A/c.

(b) On 1-4-2012, Acceptance, Endorsement, etc. not yet satisfied amounted to Rs 14,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to Rs 44, 00,000. Bank honoured acceptances to the extent of Rs 25,00,000 and client paid off Rs 10,00,000 against the guaranteed liability. Clients failed to pay Rs 1,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other Obligations A/c" as it would appear in the General ledger.

(c) It is found from the books, that a loan of Rs 6,00,000 was advanced on 30-9-2012 @ 10 per cent p.a. interest payable half yearly; but the loan was outstanding as on 31-3-2013 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was Rs 10,000 fully paid shares of ' 100 each (the market value was T 98 as per the Stock Exchange information as on 30th Sept., 2012). But due to fluctuations, the price fell to Rs 40 per share in January, 2013. On 31-3 -2013, the price as per Stock Exchange rate was Rs 82 per share. State how you would classify the loan as secured/unsecured in the Balance Sheet of the Company.

(d) The following balances are extracted from the Trial Balance as on 31-3 -2013:

	Dr. Rs	Cr. Rs
Interest and Discounts		98,00,000
Rebate for bills discounted		20,000
Bills discounted and purchased	4,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 20 12- 2013 amount to l4,000. Prepare Ledger Accounts.

SOLUTION

(a) Bills for Collection (Assets) A/c

2012		Rs	2012-13		Rs
Aprl. 1	To Balance b/d	7,00,000		By Bills for collection (Liabilities) A/c	47,00,000
2012-13	To Bills for collection (liabilities) A/c	64,50,000		By Bills for collection (Liabilities) A/c	5,50,500
			2013 Mar. 331	By Balances c/d	18,99,500
		71,50,000			71,50,000

Bills for Collection (Liabilities) Account

2012-13		Rs	2012		Rs
	To Bills for collection (Assets) A/c	47,00,000	Apr. 1	By balance b/d	7,00,000
	To Bills for Collection (Assets) A/c	5,50,000	2012-13	By Bills for collection (Assets) A/c	64,50,000
2013 Mar.31	To Balance c/d	18,99,500			
		71,50,000			71,50,000

(b) Acceptances, Endorsement & other obligation Account

2012-13		Rs	2012	2012	Rs
	To Constituent's Liability for Acceptance	25,00,000	Apr.1	By Balance c/d	14,50,000
	To Constituent's Liability for Acceptances, Endorsement etc	10,00,000	2012-13	By Constituent's Liabilities for Acceptances, Endorsements, etc	44,00,000

	To Constituent's Liability for Acceptances, Endorsements etc (amount paid on failure of clients)	1,00,000			
Mar. 31	To Balance c/d	22,50,000			
		58,50,000			

(d) For classifying loans as fully secured or otherwise, the value of the security as on the last date of the year is considered. The value of the security is Rs 8,20,000 covering the loan and the interest due comfortably. Hence it is to be treated as good and fully secured.

(d) Rebate on Bills Discounted Account

		Rs			Rs
2012-13	To Interest and Discount A/c	6,000	2012 Apr.1	By Balance b/d	20,000
2012 Mar. 31	To Balance c/d	14,000			
		20,000			20,000

Interest & Discount Account

		Rs	2012		Rs
2013 Mar. 31	To Profit & Loss A/c	98,06,000	Apr. 1	By Balance b/d	98,00,000
			2012-13	By Rebate on Bills discounted A/c	6,000
		98,06,000			98,06,000

CONCEPT 9: CAPITAL ADEQUACY RATIO

QUESTION NO 52

A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals, find out the risk adjusted asset and risk weighted assets ration:

Capital funds	Figures in Rs. Lakhs
Equity share capital	4,80,00
Statutory reserve	2,80,00
Capital reserve (of which Rs.280 lakhs were due to revaluation of assets and the balance due to sale)	12,10
Assets:	
Cash balance with RBI	4,80
Balances with other bank	12,50
Certificate of deposits with other commercial bank	28,50
Other investments	78,250
Loans and advances:	
Guaranteed by government	128,20
Guaranteed by public sector undertakings of government of India	702,10
Others	52,02,50
Premises, furniture and fixtures	182,00
Other assets	201,20
Off-Balance Sheet items:	
Acceptances, endorsements and letters of credit	37,02,50

CONCEPT 10: BALANCE SHEET

QUESTION NO 53

From the following trial balance as on 31st March, 1993, prepare final accounts of Latha Bank Ltd:-

(Rs. In '000)

	Dr.	Cr.
Interest on Advances		800
Interest on Investments		125
Commission, Exchange & Brokerage		200
Profit on sale of investments		20
Other revenue receipts		80
Share Capital		2000
Statutory Reserve		900
P & L A/c		650
Fixed Deposits		275
Savings Deposits		325
Current Deposits		125
Borrowings from other banks		300
Borrowings from RBI		100
Bills Payable (Net)		25
Interest accrued		75
Cash balance	200	
Balance with other banks	400	
Cash with RBI	100	
Investments in Govt. Securities	300	
Other Approved Securities	100	
Bills purchased and discounted	250	
Cash credits, overdrafts and Demand loans	1425	
Term Loans	1275	

Premises (Net)	1375	
Furniture	250	
Interest Expense	120	
Salary	75	
Printing and stationary	35	
Postage & Telegram	20	
Repairs	25	
Interest accrued	50	
	--------------	------------
	6000	6000
	--------------	------------
Bills for collection	235	

Additional information:

Advances made have been classified as under:

	Cash credits, Overdrafts, etc.	Term Loans	Bills Purchased
Standard Assets	1000	975	225
Sub-standard assets	125	100	25
Doubtful-Upto one year	100	20	---
One to three years	120	50	---
More than three years	50	80	---
Loss Assets	30	50	---
	---------	--------	---------
	1425	1275	250
	---------	--------	---------

No provision has been made so far against these assets. Doubtful assets are secured to the extent of 50% of the dues.

ANSWER:

SCHEDULE III

(Section 29)

FORM A

Form of Balance Sheet

Balance Sheet of ……………………..(name of banking company)

Balance Sheet as on 31st March ……… (years)

	Schedule	Amount
Capital and Liabilities		
Capital	1	
Reserve and Surplus	2	
Deposits	3	
Borrowings	4	
Other liabilities and provisions	5	
Total (a)		
Assets		
Cash and bank balances with reserve bank of India	6	
Balance with other banks and money at call and short notice	7	
Investments		
Loans and advances	8	
Fixed assets	9	
Other Assets	10	
	11	
Total (b)		
Contingent liabilities	12	
Bills for collection		

FORM B

Profit and loss account for the year ended on 31st March……….

	Schedule	Amount
Incomes:		
Interest earned	13	
Other income	14	
Total (a)		
Expenditure:		
Interest expended	15	
Operating expenses	16	
Provisions and contingencies	--	
Total (b)		
Net profit(loss) for the year (a-b)		
Profit/loss brought forward		
Total		
Appropriations:		
Transfer to statutory reserves		
Transfer to other reserve		
Transfer to proposed dividend		
Balance carried over to Balance Sheet		
Total		

QUESTION NO 54

From the following information prepare a Balance sheet of International Bank ltd. as on 31st March 1994 giving the relevant schedules:

	Dr.	Cr.
		(Rs. in lakhs)
Share Capital		198.00
19,80,000 shares of Rs.10 each		
Statutory Reserve		231.00
Net Profit Before Appropriation		150.00

P & L A/c		412.00
Fixed Deposits Account		517.00
Saving deposits account		450.00
Current Accounts	28.00	520.12
B/P		0.10
Cash credits	812.10	
Borrowing from other banks		110.00
Cash on hand	160.15	
Cash with RBI	37.88	
Cash with other banks	155.87	
Money at call	210.12	
Gold	55.23	
Government securities	110.17	
Premises	155.70	
Furniture	70.12	
Term Loan	792.88	
	----------	-----------
	1.22	2588.22
	----------	-----------

Additional information:

Bills for collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the bank not acknowledged as debt	55,000
Depreciation charges – premises	1,10,000
Furniture	78,000

50% of the term loans are secured by government guarantees. 10% of cash credit is unsecured. Also calculate cash reserves required and statutory liquid reserves required.

Note: cash reserve required 4% of demand and time liabilities; liquid reserves required 20.5% of demand and time liabilities.

ANSWER:

SCHEDULE III

(Section 29)

FORM A

Form of Balance Sheet

Balance Sheet of ………………………(name of banking company)

Balance Sheet as on 31st March ……….(years)

	Schedule	**Amount**
Capital and Liabilities		
Capital	1	
Reserve and Surplus	2	
Deposits	3	
Borrowings	4	
Other liabilities and provisions	5	
Total (a)		
Assets		
Cash and bank balances with reserve bank of India	6	
Balance with other banks and money at call and short notice	7	
Investments	8	
Loans and advances	9	
Fixed assets	10	
Other Assets	11	
Total (b)		
Contingent liabilities	12	
Bills for collection		

QUESTION NO 55

The following are the ledger balances (in Rupees Vaishnavi Bank as on March 31, 2013:

	Dr.	Cr.
Share Capital		19,00,00
Current accounts control		9,70,00
Employee security deposits		74,20
Investments in Govt. of India Bonds	9,43,70	
Gold Bullion	1,51,30	
Silver	20,00	
Constituent liabilities for acceptances and endorsements	5,65,00	5,65,00
Borrowings from banks		7,72,30
Building	6,50,00	
Furniture	50,00	
Money at call and short notice	2,60,00	
Commission & brokerage		2,53,00
Saving accounts		1,5000
Fixed deposits		2,30,50
Balances with other banks	4,63,50	
Other investments	5,56,30	
Interest accrued on investments	2,46,20	
Reserve Fund		14,00,00
P & L A/c		6,500
Bills for collection	4,35,00	4,35,00
Interest		6,20,00
Loans	1,810,00	
Bills discounted	1,25,00	
Interest	79,50	
Discounts		4,20,00
Rents		6,00
Audit fees	50,00	

Depreciation reserve (furniture)		2,00
Salaries	2,12,00	
Rent, rates and taxes	1,20,00	
Cash in hand and with Reserve bank	7,50,00	
Miscellaneous income		39,00
Depreciating reserve (building)		8,00
Directors fees	10,00	
Postage	12,50	
Loss on sale of investments	2,00,00	
Branch adjustments	2,00,00	
	79,10,000	79,10,000

Other information :

The bank's profit and Loss Account for the year ended and Balance Sheet as on 31st March, 2013 are required to be prepared in appropriate from. Further information (in Rupees thousand) available is as follow:-

(a)	Rebate on bills discounted to be provided	40,00
(b)	Depreciation for the year	
	Building	50,00
	Furniture	5,00

Included in the current accounts ledger are accounts overdrawn to the extent of 2500.

LATEST EXAMINATION PROBLEMS

QUESTION NO 56

A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (up to 3 years). Detail of the account is:

Outstanding	₹ 7,24,000
ECGC Cover	30% of outstanding (Subject to
Value of security	maximum of ₹ 1,50,000)
As per valuation on the date of grant of loan	2,25,000
As per realizable value as on date of Balance Sheet	1,75,000

Compute the necessary provision to be made by bank as per applicable rate

SOLUTION

Computation of provision to be made by a Bank

	₹
Outstanding Value of Doubtful Asset (up to 3 years)	7,24,000
Less :Value of security (excluding ECGC cover)	(₹ 1,75,000)
Sub Total	₹ 5,49,000
Less :ECGC Cover (subject to ₹ 1,50,000 maximum)	(₹ 1,50,000)
Unsecured Portion	₹ 3,99,000
Provision:	
For unsecured portion @ 100% of ₹ 3,99,000	₹ 3,99,000
For secured portion @ 40% of ₹ 1,75,000	₹ 70,000
Total Provision	₹ 4,69,000

QUESTION NO 57

A commercial bank has the allowing capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted asset ratio. State your observation on the risk weighted asset ratio.

Particulars	Amount
	(₹ in crores)
Equity Share Capital	400.000
Statutory Reserve	250.000
Capital Reserve (of which Reserve ₹ 18 crores were due to revaluation of assets and the balance due to sale of capital assets)	86.000
Assets	
Cash Balance with RBI	12.00
Balance with other Banks	20.00
Other Investments	40.00
Loans & Advances	
(i) Guaranteed by Government	14.50
(ii) Others	5,465.00
Premises Furniture & Fixtures	74.00
Off Balance Sheet Items	
(i) Guarantees and other obligations	700
(ii) Acceptances, endorsements and letter of credit	4,900.00

QUESTION NO 58

Find out the income to be recognised by ABC Bank Ltd. for the year ended 31st March, 2014 in respect of interest on advances [₹ in Lakhs] as detailed below:.

	Performing Asset		N.P.A.	
	Interest earned	Interest received	Interest earned	Interest received
Terms Loan	280	180	170	20
Cash credits and overdrafts	1700	1630	310	48
Bills purchased and discounted	400	400	180	70

ANSWER

Total income = 2518

QUESTION NO 59

(a) Following facts have been taken out from the records of M/s. Sneha Bank Ltd. in respect of the year ending March 31, 2015:

(i) On 1-4-2014 Bills for collection were ₹ 10,15,000. During 2014-15 bills received for collection amounted to ₹ 89,75,000, bills collected were ₹ 64,50,000 and bills dishonoured and returned were ₹ 11,25,000.

Prepare Bills for collection (Assets) Account and bills for Collection (Liability) Account.

(ii) On 1-4-2014, Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 27,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 67,50,000. Bank honoured acceptances to the extent of ₹ 44,50,000 and client paid of ₹ 15,00,000 against the guaranteed liability. Clients failed to pay ₹ 4,00,000 which the Bank had to pay.

Prepare the "Acceptances, Endorsements and other obligations Account" as it would appear in the General Ledger.

(iii) It is found from the books, that a loan of ₹ 50,00,000 was advanced on 30.09.2014 @ 14% p.a. Interest payable half yearly; but the loan was outstanding as on 31.3.2015 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was ₹ 1,00,000 fully paid shares of ₹ 100 each (the market value was ₹ 98 per share as per the Stock Exchange information as on 30th September, 2014). But due to fluctuations, the price fell to· ₹ 45 per share in January, 2015. On 31-3-2015, the price as per Stock Exchange rate was ₹ 85 per share.

State how would you classify the loan as secured/unsecured in the Balance Sheet of the Company.

(iv) The following balances are extracted from the Trial Balance as on 31.3.2015:

	Dr. (₹)	Cr. (₹)
Interest and Discount		98,00,000
Rebate for bills discounted		45,000
Bills discounted and purchased	5,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2014-15 amount to ₹ 24,000. Prepare ledger accounts. (12 Marks)

ANSWER

(a) **(i)** **Bills for Collection (Assets) A/c**

		₹			₹
1.4.14	To Balance b/d	10,15,000	2014-15	By Bills for Collection (Liabilities) A/c	64,50,000
2014-15	To Bills for Collection (liabilities) A/c	89,75,000	2014-15	By Bills for collection (Liabilities) A/c	11,25,000
			31.3.15	By Balance c/d	24,15,000
		99,90,000			99,90,000

Bills for Collection (Liabilities) Account

		₹			₹
2014-15	To Bills for collection	64,50,000	1.4.14	By Balance b/d	10,15,000
2014-15	To Bills for Collection (Assets) A/c	11,25,000	2014-15	By Bills for collection (Assets) A/c	89,75,000
31.3.2015	To Balance c/d	24,15,000			
		99,90,000			99,90,000

In the general ledger

Acceptances, Endorsement & other Obligation Account

		₹			₹
2014-15	To Constituents' Liability for Acceptance, Endorsement, etc.	44,50,000	1.4.14	By Balance b/d	27,50,000

	To Constituents' Liability for Acceptances, Endorsement etc.	15,00,000	2014-15	Constituents, Liabilities for Acceptances, Endorsements, etc.	67,50,000
	To Constituents' Liability for Acceptances, Endorsements, etc. (amount paid on failure of clients)	4,00,000			
31.3.15	To Balance c/d	31,50,000			
		95,00,000			95,00,000

(iii) For classifying loans as fully secured or otherwise, the value of the security as on the last date of the year is considered. The value of the security is ₹ 85,00,000 covering the loan and the interest due comfortably. Hence, it is to be treated as good and fully secured.

(iv) **Rebate on Bills Discounted Account**

		₹			₹
2014-15	To Interest and Discount A/c	21,000	1.4.14	By Balance b/d	45,000
31.3.15	To Balance c/d	24,000			
		45,000			45,000

Interest & Discount Account

		₹			₹
31.3.15	To Profit & Loss A/c	98,21,000	1.4.14	By Balance b/d	98,00,000
			2014-15	By Rebate on Bills discounted A/c	21,000
		98,21,000			98,21,000

QUESTION NO 60

ABC bank Ltd. has a balance of ₹ 40 crores in "Rebate on bills discounted" account as on 31st March, 2014. The Bank provides you the following information:

- During the financial year ending 31st March, 2015 ABC Bank Ltd. discounted bills of exchange of ₹ 5,000 crores charging interest @ 14% and the average period of discount being 146 days.
- Bills of exchange of ₹ 500 crores were due for realization from the acceptors/customers after 31st March, 2015. The average period of outstanding after 31st March, 2015 being 73 days. These bills of exchange of ₹ 500 crores were discounted charging interest @ 14% p.a.

You are requested to pass necessary Journal Entries in the books of ABC Bank Ltd. for the above transactions.

ANSWER:

Income to be transferred to profit & loss = 40 + 280 - 14 = 306.

QUESTION NO 62 (MAY 2016 10 MARKS)

(a) From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2016:

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowance	50
Interest on Balance with RBI	30	Advertisement	36
Commission on remittances and transfer	15	Salaries, allowances bonus to employees and	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28

Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on transactions exchange	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information:

₹ in lakhs

		Earned	Collected
(i)	Interest on NPA is as follows:		
	Cash Credit	164	80
	Term Loans	90	20
	Overdraft	150	50

(d) Classification of Non-performing Advances:	
Standard	60
Sub-standard-fully secured	22
Doubtful assets-fully unsecured	40
Doubtful assets covered fully by security:	
Less than 1 year	6
More than 1 year upto 3 years	3
More than 3 years	2
Loss Assets	38

(iii) Investments

Bank should not keep more than 25% of its investment as 'held -for-maturity' investment; the market value of its rest 75% investment is ` 3,95,00,000 as on 31.03.2016.

- Provide 35% of the profits towards provision for taxation.
- Transfer 20% of the profit to Statutory Reserves.

QUESTION NO 63

A commercial bank has the following capital funds and assets. You are required to segregate the capital funds into Tier- I and Tier- II capitals and also find out the risk adjusted assets and capital adequacy ratio.

Capital Funds and Assets	₹ In crores
Paid up share capital	1,500
Statutory Reserves	300
Securities Premium	300
Capital Reserve (of which ₹ 80 crores were due to revaluation of assets and balance due to sale)	180
Assets:	
Cash balance with R.B.I.	120
Claims on Banks	340
Other Investments	4,600
Loans & Advances:	
Guaranteed by Government of India and State Governments	800
Bank Staff Advances- Fully covered by Super-annuation Benefits	100
Other loans and advances	340
Premises, Furniture & Fixtures, Other Assets	7,850
Intangible Assets	30
Off Balance Sheet Items:	
Acceptance, Endorsements, Letter of Credits, Guarantees and Other Obligations	3,100

ANSWER

Tier one 2170, tier two 36, raa=15978, car 13.81%

BUY BACK OF SHARES

TOTAL NUMBER OF QUESTIONS = 13 + 6 =19

(CLASS QUESTIONS PLUS TEST)

QUESTION WEIGHTAGE ON THE BASIS OF STAR RATING:

***** = 7,12,13

**** = 1,2,10

CONCEPT 1: RULES UNDER COMPANIES ACT 2013 (SECTION 68)

The Companies Act, 2013 under Section 68(1) permits companies to buy back their own shares and other specified securities out of:

(i) its free reserves; or

(ii) The securities premium account; or

(iii) The proceeds of the issue of any shares or other specified securities

Note: No buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

The other important provision relating to the buyback are:

(1) Section 68(2) further states that no company shall purchase its own shares or other specified securities unless—

   (a) The buy-back is authorized by its articles;

   (b) A special resolution has been passed in general meeting of the company authorizing the buy-back;

   However, the above provision do not apply where the buy back is ten percent or less of the paid up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors. Hence, in case the buy back is up to 10% of paid up equity + free reserves, the same may be done with the authorization of the Board Resolution without the necessity of its being authorized by the articles of association of the company and by a special resolution of its members passed at a general meeting of the company.

   (c) The buy-back is equal or less than twenty-five per cent of the total paid-up capital and free reserves of the company:

(d) The ratio of the debt owed by the company (both secured and unsecured) after such buy - back is not mo1e than twice the total of its paid up capital and its free reserves:

Note: Central Government may prescribe a higher ratio of the debt than that specified under this clause for a class or classes of companies.

(e) All the shares or other specified securities for buy-back are fully paid-up;

(f) The buy-back of the shares or other specified securities listed on any recognized stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;

(g) The buy-back in respect of shares or other specified securities other than those specified in clause (F) is in accordance with the guidelines as may be prescribed. Provided that no offer of buy back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy back if any. This means that there cannot be more than one buy back in one year.

(2) Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors where the buy back is up to 10% of the paid up equity capital + free reserves.

(3) The buy-back may be-

(a) from the existing security holders on a proportionate basis; or

(b) from the open market; or

(c) By purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

(4) Where a company has passed a special resolution under clause (b) of Sub-section (2) to buy-back its own shares or other securities under this section, it shall, before making such buy-back, file with the Registrar and the Securities and Exchange Board of India a declaration of solvency in the form as may be prescribed and verified by an affidavit to the effect that the Board has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year of the date of declaration adopted by the Board, and signed by at least two directors of the company, one of whom shall be the managing director, if any:

Note: No declaration of solvency shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognised stock exchange.

(5) Where a company buys-back its own securities, it shall extinguish and physically destroy the securities so bought-back within seven days of the last date of completion of buy- back.

(6) Where a company completes a buy-back of it share or other specified securities under this section, it shall not make further issue of same kind of shares (including allotment of further shares under clause (a) of Sub-section (1) of Section (62) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option scheme, sweat equity or conversion of preference shares or debentures into equity shares.

(7) If a company makes default in complying with the provisions of this section or any regulations made by SEBI in this regard, the company may be punishable with a fine which shall not be less than Rs One Lakh but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for upto 3 years or with a fine of not less than one lakh rupees but which may extend to three lakh rupees or with both.

(8) Section 69(1) states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.

(9) The Capital Redemption Reserve Account may be applied by the company in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.

(10) Where a company buy-back its securities under this section, it shall maintain a register the securities so bought, the consideration paid for the securities bought-back, the date of cancellation of securities, the date of extinguishing and physically destroying of securities and such other particulars as may be prescribed.

(11) A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board of India, a return containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed, provided that no return shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on anyrecognisedstockexchange.
Some Important Terms

(a) "specified securities" includes employees' stock option or other securities as may be notified by the Central Government from time to time;

(b) "free reserves" means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:

Provided that

(i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or

(ii) any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves;

CONCEPT 2 : SOME BASIC QUESTIONS

QUESTION NO 1

ON 31st March, 2001 following was the balance sheet of new Era Ltd.:

Liabilities	Rs. In lacs	Assets	Rs. In lacs
Equity share capital (fully paid up shares of Rs.10 each)	2,400	Machinery	3600
		Furniture	452
Securities premium	350	Investments	148
General reserve	930	Stock	1200
Profit and loss account	340	Debtors	520
12% debentures	1500	Cash at bank	740
sundry creditors	750		
sundry provisions	390		
	6660		6660

On 1st April 2001, the company announced the buy back of 25% of its equity shares at the rate of Rs.15 per share. For the purpose, it sold all of its investments for Rs. 150 lacs and issued 2 lacs 14% preference shares of Rs. 100 each at par. The entire amount being payable with application.

The issue was fully subscribed. The company achieved the target of the buy back. Later the company issued one fully paid equity share of Rs. 10 by way of bonus share for every four equity shares held by the equity shareholders.

Show journal entries for all the transaction including cash transactions.

QUESTION NO 2

Following is the balance sheet of XYZ Ltd. as on 31.3.2000

Liabilities	Rs.	Assets	Rs.
Equity share capital (40,000 shares of 10 each)	4,00,000	Fixed assets	15,00,000
		Stock	50,000
General reserve	12,00,000	Debtors	80,000
Share premium	80,000	Bank	2,80,000
12% debentures	1,60,000		
sundry creditors	70,000		
	19,10,000		19,10,000

The company decided to buy back 10,000 equity shares through tender method. Shares were purchased @25 per share. Company made a public issue of 3000 preference shares of Rs. 10 each at par for the purpose. Expenses on buy back of shares amounted to Rs.8000.

QUESTION NO 3

The balance sheet of Gunshot Ltd. As on 31.3.2008: is given:

(Rs. In '000)

Liabilities	Amount	Assets	Amount
Share capital :		Fixed Assets	2,700
Equity share of Rs. 10 each	800	Non-trade investments	300
Share premium	100	Stock	600
General Reserve	780	Sundry Debtors	360
Profit and Loss A/c	120	Cash and bank	160
10% Debenture	2,000		
Creditors	320		
	4120		4,120

Gunshort Ltd. buy back 16,000 shares at Rs. 20 per share. For this purpose, the Company sold its all Non-trade investments for Rs. 3,20,000 Give journal Entries what full narrations effecting the buy back.

QUESTION NO 4 (HOME WORK)

M. Ltd. furnishes the following summarised balance Sheet as at 31st March, 20X1:

	₹ in'000	₹ in '000
Equity & Liabilities		
Share Capital:		
Authorised Capital:		5,000
Issued and Subscribed Capital		
3,00,000 Equity shares of ₹ 10 each fully paid up	3,000	
20,000 9% Preference Shares of 100 each	2,000	5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities -10% Debentures		400
Current liabilities and provisions		40
		11,750
Assets		
Fixed Assets: Cost	3,000	
Less: Provision for depreciation	250	2,750
Non-current investment at cost		5,000
Current assets, loans and advances (including		
Cash and bank balances)		4,000
		11,750

The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25 lakhs.

You are required to pass necessary journal entries.

SOLUTION

Journal Entries in the books of M Ltd.

		Dr.	Cr.
		₹ in 000	₹ in'000
1.	Bank A/c Dr. Profit and Loss A/c Dr. To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	2,500 500	 3,000
2.	Equity share capital A/c Dr. Premium payable on buy-back Dr. To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)	600 300	 900
3.	Equity shares buy-back A/c Dr. To Bank A/c (Being payment made for buy-back of equity shares)	900	 900
4.	Securities premium A/c Dr. To Premium payable on buy-back (Being Premium payable on buy-back charged form Securities Premium)	300	 300
5.	Revenue reserve A/c Dr. To Capital Redemption Reserve A/c (Being Creation of capital redemption reserve to the extent of the equity shares bought back)	600	 600

QUESTION NO 5

Anu Ltd. (a non-listed company) furnishes you with the following summarised balance sheet as at 31st March, 20X1:

		(₹ in crores)
Sources of Funds		
Share Capital:		
Authorised		100
Issued:		
12% Redeemable preference shares of ₹ 100 each fully paid	75	
Equity shares of ₹ 10 each fully paid	25	100
Reserves and surplus:		
Capital reserve	15	
Securities premium	25	
Revenue reserves	260	300
		400

Application of Funds		
Fixed assets: cost	100	
Less: Provision for depreciation	(100)	Nil
Non-current investment at cost (Market value ₹ 400 Cr.)		100
Current assets	340	
Less: Current liabilities (Trade payables)	(40)	300
		400

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

(i) Pass Journal entries to record the above.

(ii) Prepare balance sheet as at. 1.4.20X1.

QUESTION NO 6

Dee Limited (a non-listed company) furnishes the following summarised balance Sheet as at 31st March, 20X1:

	₹'000	₹'000
Liabilities		
Share capital:		
Authorised capital		30,00
Issued and subscribed capital		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹ 100 each	2,00	
(Issued two months back for the purpose of buy back)		27,00
Reserves and surplus:		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	35,00	97,00
Current liabilities and provisions		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

SOLUTION

In the books of Dee Limited

Journal Entries

	Particulars		Dr.	Cr.
				(₹ in '000)
(i)	Bank Account	Dr.	22,00	
	Profit and Loss Account	Dr.	8,00	
	To Investment Account			30,00
	(Being the investments sold at for the purpose of buy back)			
(ii)	Equity Share capital account	Dr.	5,00	
	Premium payable on buy back Account	Dr.	20,00	
	To Equity shares buy back Account			25,00
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	20,00	
	To Premium payable on buy back Account			20,00
	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue reserve Account	Dr.	3,00	
	To Capital redemption Reserve Account			3,00
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			
(v)	Equity shares buy –back Account	Dr.	25,00	
	To Bank Account			25,00
	(Being the payment made on buy back)			

Balance Sheet of Dee Limited as on 1st April, 20X1

(After buy back of shares)

Particulars	Note No	(₹ in '000)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,00
(b) Reserves and Surplus	2	69,00
(2) Current Liabilities		14,00
Total		10,500
II. Assets		
(1) Non-current assets		
(a) Fixed assets		93,00
(2) Current assets (15,00-3,00)		12,00
Total		10,500

Notes to Accounts

			(₹ in '000)	(₹ in '000)
1	**Share Capital**			
	Authorised Capital:			30,00
	Issues and subscribed capital:			
	2,00,000 Equity shares of ₹ 10 each fully paid up		20,00	
	2,000 10% Preference shares of ₹ 100 each fully paid up		2,00	22,00
2	**Reserves and Surplus**			
	Capital reserve		10,00	
	Capital redemption reserve		3,00	
	Securities Premium	22,00		
	Less: Premium payable on buy back of shares	20,00	2,00	
	Revenue reserve	30,00		
	Less: Transfer to Capital redemption reserve	3,00	27,00	
	Profit and loss A/c	35,00		
	Less: Loss on investment	8,00	27,00	69,00

QUESTION NO 7

Extra Ltd. (a non – listed company) furnishes you with the following summarised Balance Sheet as on 31st March, 20X1:

(₹ in lakhs)

Liabilities	Amount	Assets	Amount
Equity shares of ₹ 10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference		Investments at cost	120
Shares of ₹ 100 each fully paid	20	Current assets	142
Capital reserves	8		
Revenue reserves	50		
Securities premium	60		
10%Debentures	4		
Current liabilities	70		
	312		312

(i) The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.

(ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share.

The payment for the above was made out of huge bank balances, which appeared as a part of the current assets.

(iii) Included in its investments were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.

(iv) The company had 1,00,000 equity stock option outstanding on the above mentioned date, to the employees at ₹ 20 when the market price was ₹ 30 (This was included under current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.

Pass the journal entries to record the above.

Prepare Balance Sheet as at. 01.04.20X1.

QUESTION NO 8

M Ltd. furnishes the following summarised Balance Sheet as at 31st March, 2013:

	₹ In '000	₹ in '000
Equity & Liabilities		
Share Capital		5,000
Authorised Capital:		
Issued and Subscribed Capital		
3,00,000 Equity shares of ₹ 10 each fully paid up	3,000	
20,000 9% preference Shares of 100 each	2,000	5,000
(issued two months back for the purpose of buy back)		
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities -10% Debentures		400
Current liabilities and provisions		40
Assets		11,750
Fixed Assets: Cost	3,000	
Less: Provision for depreciation	250	2,750
Non-current investments at cost		5,000
Current assets, loans and advances (including		4,000
Cash and bank balances)		--------------
		11,750

(1) The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ lakhs.

(2) The Company redeemed the preference shares at a premium of 10% on 1st April , 2013.

(3) Included in its investments were 'Investments in own debentures' costing ₹ 3 lakhs (face value ₹ 3.30 lakhs). These debentures were cancelled on 1st April, 2013.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2013.

QUESTION NO 9

KG Limited furnishes the following summarised Balance Sheet as at 31st March, 20X1:

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital	1,200	Machinery	1,800
(fully paid up shares of ₹ 10 each)		Furniture	226
Securities premium	175	Investment	74
General reserve	265	Inventory	600
Capital redemption reserve	200	Trade receivables	260
Profit & loss A/c	170	Cash at bank	740
12% Debentures	750		
Trade payables	745		
Other current liabilities	195		
	3,700		3,700

On 1st April, 20X1, the company announced the buyback of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 20X1, the company achieved the target of buy back. On 31th April, 20X1 the company issued one fully paid up equity share of ₹ 10 by of bonus for every four equity shares held by the equity shareholders.

You are required to:

(1) Pass necessary journal entries for the above transactions.

(2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

ANSWER

In the books of KG Limited

Journal Entries

Date 20X1	Particulars	Dr.	Cr. (₹ lakhs)
April 1	Bank A/c Dr.	75	
	To Investment A/c		74
	To Profit on sale of investment		1
	(Being investment sold on profit)		

April 5	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	300 150	 450
	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 30 Lakh Equity Shares)	450	 450
April 5	General reserve A/c Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)	265 35	 300
April 30	Capital redemption reserved A/c Dr. To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	225	 225
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)	225	 225

Balance Sheet (After buy back and issue of bonus shares)

Particulars	Note No	Amount (₹ in Lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,125
(b) Reserves and Surplus	2	436
(2) Non-Current Liabilities		
(a) Long –term borrowings -12% Debentures		750
(3) Current Liabilities		
(a) Trade payables		745
(b) Other current liabilities		195
Total		3,251
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	2,026
(2) Current assets		
(a) Current investments		
(b) Inventory		600
(c) Trade receivables		260
(d) Cash and cash equivalents (W.N.2)		365
Total		3,251

Note to Accounts

			₹
1.	**Share Capital** Equity share capital (Fully paid up shares of ₹ 10 each)		1125

2.	**Reserves and Surplus**			
	General Reserve	265		
	Less: Transfer to CRR	(265)	-	
	Capital Redemption Reserve	200		
	Add: Transfer due to buy-back of shares from P/L	35		
	Transfer due to buy-back of shares from Gen/res	265		
	Less: Utilisation for issue of bonus shares	(225)	275	
	Securities Premium	175		
	Less: Adjustment for premium paid on buy back	(150)	25	
	Profit & Loss A/c	170		
	Add: Profit on sale of investment	1		
	Less: Transfer to CRR	(35)	136	436
3.	Tangible assets			
	Machinery		1800	
	Furniture		226	2026

Working Notes:

1. Amount of bonus shares = 25% of (1,200-300) lakhs = ₹ 225 lakhs
2. Cash at bank after issue of bonus shares

	₹ in lakhs
Cash balance as on 1st April, 20X1	740
Add: Sale of investments	75
	815
Less: payment for buy back of shares	(450)
	365

Note: In the given solution, in is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves or securities premium (to the extent available) also.

CONCEPT 3 :PROPORTIONATE CANCELLATION

QUESTION NO 10

Number of shares to be bought back by company A 2,00,000

Share price of company A Rs. 38 per share

Quotes received from shareholders are tabulated as under:

Buy back price range	Shares offered for buy back by A	Shares offered for buy back by B	Shares offered for buy back by C	Shares offered for buy back byD	Total shares for buy back
Rs.40	20,000	40,000	20,000	50,000	1,30,000
Rs.42	35,000	55,000	30,000	70,000	1,90,000
Rs.44	50,000	55,000	60,000	85,000	2,50,000
Rs.46	80,000	1,00,000	1,00,000	1,20,000	4,00,000

QUESTION NO 11

Current market price of shares of ABC Ltd. Rs.40

No of shares announced to be bought back by company 2,00,000

Buy back price announced by the company Rs.50

No number of shares offered for buy back at the buy back price 8,00,000

CONCEPT 4 :MASTER PROBLEMS ON BUY BACK

QUESTION NO 12

Following is the Balance Sheet of M/s competent Limited as on 31st march, 2012:

Liabilities	Rs	Assets	Rs
Equity Shares of Rs 10 each		Fixed Assets	46,50,000
Fully paid	12,50,000	Current Assets	30,00,000
Revenue	15,00,000		
Securities Premium	2,50,000		
Profit. & Loss Account	1,25,000		
Secured Loans :			
12% Debentures _	18,75,000		
Unsecured Loans	10,00,000		
Current Liabilities_	16,50,000		
Total	**76,50,000**		**76,50,000**

The company wants, to buy back 25,000 equity shares of Rs 10 each, on 1st April, 2012, at Rs 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 a part of current assets.

Comments with your calculation, whether buy back of shares by company is within the provisions of the companies act, 2013. Pass necessary journal entries towards buy back of shares and prepare balance sheet after buy back of shares.

QUESTION 13

(STUDY MATERIAL)

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2011:

	Particulars	(in crores)	
(1)	Equity Share Capital (Shares of 10 each fully paid)	-	330
(2)	Receives and Surplus		
	General Reserve	240	-
	Securities Premium Account	90	-

	Profit & Loss Account	90	-
	Infrastructure Development Reserve	180	600
(3)	Loan Funds		1,800

The shareholders of Perrotte Ltd., on the Recommendation of their Board of Directors have approved on 12.09.2011 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs 25 per share and in

order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

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

Assuming that the entire buy back is completed by 09.12.2011, show the accounting entries in the company's books in each situation.

TEST YOUR KNOWLEDGE PROBLEMS

Question 1

The following summarised Balance Sheet pee Limited (a non-listed company) furnishes as at 31st March, 2017:

	₹	₹
Equity & Liabilities		
Share capital		
Authorised capital		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00,000	
5,000, 10% Preference shares of ₹ 100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹ 10 each fully paid up	24,00,000	
3,000, 10% Preference shares of ₹100 each	3,00,000	27,00,000
(Issued two months back for the purpose of buy back)		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities Premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current Liabilities		16,00,000
Trade payables	13,00,000	1,40,00,000
Other current Liabilities	3,00,000	
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
Furniture	20,00,000	
Non-current Investments		76,00,000
		30,00,000

Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
Cash and bank balance	<u>15,00,000</u>	<u>34,00,000</u>
		<u>1,40,00,000</u>

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ ₹ 60 per share. For this purpose, it sold all of its investment for ₹ 25,00,000

The company achieved its target of buy-back. You are required to:

(a) Pass necessary journal entries and

(b) Prepare the Balance Sheet of the company after buy back of Shares.

SOLUTION

Journal Entries in the books of pee Limited

	Particulars		Dr.	Dr.
(i)	Bank Account	Dr.	25,00,000	
	Profit and Loss Account	Dr.	5,00,000	
	To Investment Account			30,00,000
	(Being the investments sold at loss for the purpose of buyback)			
(ii)	Equity Share Capital account	Dr.	4,80,000	
	Premium payable on buy back Account	Dr.	24,00,000	
	To Equity shares buy back Account			28,80,000
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	24,00,000	
	To Premium payable on buy back Account			24,00,000
	(Being the Premium payable on buy back adjusted against securities Premium account)			

(iv)	Revenue Reserve Account Dr. To Capital Redemption Reserve Account (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000)	1,80,000	1,80,000
(v)	Equity shares buy-back Account Dr. To Bank Account (Being the payment made on buy back)	28,80,000	28,80,000

Balance Sheet of Pee Limited as on 1st April, 2017

(After buy back of shares)

Particulars	Note No	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(i) Non-Current assets		
(a) Fixed assets		76,00,000
(2) Current assets		30,20,000
Total		1,06,20,000

Note to Accounts

				₹
1	**Share Capital**			
	Authorised capital			30,00,000
	Issued and subscribed capital:			
	1,92,000 Equity shares of ₹ 10 each fully paid up		1,92,0000	
	3,000 10% preference shares of ₹ 100 each fully paid up		3,00,000	22,20,000
	Reconciliation of shares capital			
	Opening no. of shares		2,40,000	
	Buy-back of shares during the year		48,000	1,92,000
	During the year the company has buy back of 48,000 shares			
2	**Reserves and Surplus**			
	Capital reserve		10,00,000	
	Capital redemption reserve		1,80,000	
	Securities Premium	27,00,000		
	Less: Premium payable on buy back of shares	24,00,000	3,00,000	
	Revenue reserve	25,00,000		
	Less: Transfer to Capital redemption reserve	1,80,000	23,20,000	
	Profit and loss A/c	35,00,000		
	Less: Loss on investment	5,00,000	30,00,000	68,00,000

QUESTION 2

Following is the summarissed Balance Sheet of Complicated Ltd. As on 31st March, 2016:

Liabilities	Amount(₹)
Equity shares of ₹ 10 each, fully paid up	12,50,000
Bonus shares of ₹ 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been passed by the Company towards this. The buy back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to give the necessary journal entries towards buy back of shares and prepare the Balance sheet after buy back of shares.

SOLUTION

As per the information given in the question, buy- back of 25,000 shares @ ₹ 20,as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

		Debit(₹)	Debit (₹)
(a)	Equity Shares buy-back account Dr.	5,00,000	
	To Bank account		5,00,000
	(Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)		
(b)	Equity share capital account Dr.	2,50,000	
	Securities premium account Dr.	2,50,000	
	To Equity shares buy-back account		5,00,000
	(Being cancellation of shares bought back)		
(c)	Revenue reserve account Dr.	2,50,000	
	To Capital redemption reserve account		
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)		2,50,000

Balance Sheet of Complicated Led.

As on 1st April, 2016

Particulars	Note No	Amount ₹
EQUITY AND LIABILATIES		
1 Shareholders' funds		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
(a) Long-term borrowings	3	28,75,000
3 Current liabilities		
(a) Other current liabilities	4	19,50,000
Total		81,50,000

ASSETS		
1 Non-current assets		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000 -5,00,000)		35,00,000
Total		81,50,000

Note to Accounts

			₹	₹
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of ₹ 10 each			11,00,000
2.	Reserves and Surplus			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	NIL	
	Share Option Outstanding Account		4,00,000	
	Capital reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

QUESTION 3

Alpha Limited furnishes the following summarised Balance Sheet as at 31st March, 2017:

Liabilities	(₹ In lakhs)	Assets	(₹ In lakhs)
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
		Investment	148
Securities premium	350	Inventory	1,200
General reserve	530	Trade receivables	500
Capital redemption reserve	400	Cash at bank	1,500
Profit & loss A/c	340		
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	400		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy- back.

(2) Prepare Balance sheet of Alpha Limited after buy-back of the shares.

(Hint; The Given amount of CRR in balance sheet is related with earlier buy back. It is not related with current buy back)

SOLUTION

In the books of Alpha Limited

Journal Entries

(₹ in lakhs)

Date 2017	Particulars		Dr.	Cr.
April 1	Bank A/c	Dr.	150	
	To Investment A/c			148
	To Profit on sale of investment			2
	(Being investment sold on profit)			

April 5	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity share buy back A/c (Being the amount due to equity shareholders on buy back)	600 300	 900
	Equity shares buy back A/c Dr.		
April 5	General reserve A/c Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares form free reserves transferred to capital redemption reserve account as per the law)	530 70	 600

Balance Sheet (After buy back)

Particulars	Note No	Amount (₹ In lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves And Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings-12% Debentures		1,500
(3) Current Liabilities		
(a) trade payables		1,400
(b) Other current liabilities		478
Total		6,500

II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N)		750
Total		6,500

Note to Account

				₹
1.	**Share Capital**			
	Equity share capital (Fully paid up shares of ₹ 10 each)			1800
2.	**Reserves and Surplus**			
	General Reserve	530		
	Less: Transfer to CRR	(530)	-	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares form P/L	70		
	Transfer due to buy-back of shares from Gen.res	530	1,000	
	Securities premium	350		
	Less: adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	1,322
3.	**Tangible assets**			
	Machinery		3,600	
	Furniture		450	4,050

Working Note:

Cash at back after buy-back

	₹ In lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

QUESTION 4

The following was the balance sheet of Mukta Ltd. as on 31st March, 2016

Equity & liability	**₹ (in lakhs)**	**Assets**	**₹ (in lakhs)**
Authorised Capital:		Fixed Assets	1,12,000
Equity shares of ₹ 10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of ₹ 10 each fully paid up	64,000	Trade Receivables	66,000
10% Redeemable preference Shares of 10 each, Fully paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade payables	26,400		
	2,15,200		2,15,200

On 1st April, 2016 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹ 20 per Share. In order to make Cash available, the Company sold all the Investments for ₹ 25,200 Lakhs and raised a Bank Loan amounting to ₹ 16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities Premium will be utilised to the maximum extent s allowed by law.

SOLUTION

Journal entries

In the books of Mukta Ltd.

		Dr.	Cr.
			₹ In lakhs
1	Bank A/c Dr. To Investments A/c To Profit and Loss A/c (Being Investments sold and, profit being credited to profit and Loss Account)	25,200	 24,000 1,200
2	10% Redeemable Preference Share Capital A/c Dr. Premium payable on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being amount payable on redemption of Preference shares, at a Premium of 10%)	20,000 2,000	 22,000
3	Securities Premium A/c Dr. To Premium payable on Redemption of Preference Shares A/c (Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)	2,000	 2,000
4	Equity Share Capital A/c Dr. Premium payable on Buyback A/c Dr. To Equity Share buy back A/c (Being the amount due on buy-back)	16,000 16,000	 32,000

5	Securities Premium A/c (6,400 – 2,000) Dr. General Reserve A/c (balancing figure) Dr. To Premium payable on Bay back A/c (Being Premium on buy back provided first out of Securities Premium and the balance out of General Reserves.)	4,400 11,600	 16,000
6	Bank A/c Dr. To Bank Loan A/c (Being Loan taken from Bank to finance Buy back	16,000	 16,000
7	Preference Shareholders A/c Dr. Equity Shares buy back A/c Dr. To Bank A/c (Being payment made to preference Shareholders and Equity Shareholders)	22,000 32,000	 54,000
8	General Reserve Account Dr. To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of Preference shares redeemed and equity Shares bought back) (20,000 + 16,000)	36,000	 36,000

QUESTION 5

Umest Ltd. resolves to buy 4 Lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22. Per share. For the purpose, it issued 1 lakh11% preference Shares of ₹ 10 each at par, the entire amount payable with application. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart From its adequate balance in General Reserve to Fulfill the legal requirements regarding buy- back. Give necessary journal entries to record the above transactions.

SOLUTION

Journal Entries

		₹	₹
1.	Bank A/c Dr. To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	10,00,000	 10,00,000
2.	11% Preference share application & allotment A/c Dr. To 11% Preference Share Capital A/c (Being allotment of 1 lakh preference Share	10,00,000	 10,00,000
3.	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being creation of capital redemption reserve for buy back of shares)	30,00,000	 30,00,000
4.	Equity share capital A/c Dr. Securities premium A/c Dr. General reserve A/c Dr. To Equity shareholders/Equity Shares buy back A/c (Amount payable to equity shareholder on buy back)	40,00,000 16,00,000 32,00,000	 88,00,000
5.	Equity shareholders/ Equity Shares buy back A/c Dr. To Bank A/c (Being payment made for buy back of shares)	88,00,000	 88,00,000

Working Notes:

1. Calculation of amount used form General Reserve Account

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)	88,00,000
Less: Proceeds from issue of Preference Shares	(10,00,000)
(1,00,000 shares x ₹ 10)	
Less: Utilisation of Securities Premium Account	(16,00,000)
Balance used from General Reserve Account	62,00,000

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back	40,00,000
(4,00,000 shares x ₹ 10)	
Less: Nominal value of Preference Shares issued for such buy	(10,00,000)
Back (1,00,000 shares x ₹ 10)	
Amount transferred to Capital Redemption Reserve Account	30,00,000

Note: It is assumed that buy- back of 4,00,000 equity shares is within the prescribed 25% limit of total equity shares.

QUESTION 6

M. Ltd. furnishes the following summarised Balance Sheet as at 31st March, 2015:

	₹ in '000	₹ in '000
Equity & Liabilities		
Share Capital		
Authorised Capital:		10,000
Issued and Subscribed Capital:		
6,00,000 Equity shares of ₹ 10 each fully up	6,000	
40,000 9% Preference Shares of 100 each	4,000	10,000

Reserve and Surplus:		
Capital reserve	20	
Revenue reserve	8,000	
Securities Premium	1,000	
Profit and Loss account	3,600	12,620
Non-current liabilities -10% Debentures		500
Current liabilities and provisions		380
		23,500
Assets		
Fixed Assets: Cost	6,000	
Less: Provision for depreciation	500	5,500
Non-current investments as cost		10,000
Current assets, loans and advances (including Cash and bank balance)		8,000
		23,500

The company passed a resolution to buy back 10% of its equity @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 60 lakhs for ₹ 50 lakhs. The company also redeemed all preference shares at par on 1st April, 2015.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04. 2015.

SOLUTION

Journal Entries in the books of M Ltd.

			Dr.	Cr.
			₹ in '000	₹ in'000
1	Bank A/c	Dr.	5,000	
	Profit and Loss A/c	Dr.	1,000	
	To Investment A/c			6,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			

2	Preference Share capital A/c Dr. To Preference shareholders A/c (Being redemption of preference share capita at par)		4,000	4,000
3	Preference shareholders A/c Dr. To Bank A/c (Being payment made to preference shareholders)		4,000	4,000
4	Revenue Reserve A/c Dr. To Capital redemption reserve A/c (Being creation of capital redemption reserve to the extent of nominal value of preference shares redeemed and amount of equity bought back i.e. 4,000 + 600		4,600	4,600
5	Equity share capital A/c Dr. Securities Premium A/c (Premium payable on buy- back Dr. To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)		600 300	900
6	Equity shares buy-back A/c Dr. To Bank A/c (Being payment made for buy-back of equity shares)		900	900

Balance sheet of the M Ltd. as on 1st April, 2015

	Note No.	₹ In'000
Equity and Liabilities		
1 Shareholders funds		
Share Capital	1	5,400
Reserves and Surplus	2	11,320

2 Non-current liabilities		
Long term borrowings	3	500
3 Current liabilities		380
Total		17,600
Assets		
1 Non-current assets		
(a) Fixed assets		5,500
(b) Non-current investments		4,000
2 Current assets	4	8,100
Total	5	17,600

Note to Accounts

			₹ in'000	₹ in'000
1.	Share Capital			
	Authorised share capital:			10,000
	Issued ,Subscribed and fully paid up share capital:			
	5,40,000 Equity shares of ₹ 10 each, fully paid up			5,400
	(60,000 equity shares had been bought back and cancelled during the year)			
2.	Reserves and Surplus			
	Capital Reserves		20	
	Securities premium	1,000		
	Less: premium on buy-back of equity shares	(300)	700	
	Revenue Reserve	8,000		
	Less: Transfer to Capital Redemption Reserve	(4,600)	3,400	
	Capital Redemption reserve		4,600	
	Surplus (Profit & Loss Account)	3,600		
	Less: Loss on sale of investment	1,000	2,600	11,320

3.	Long term borrowing 10% Debentures			
4.	Non-current investments			
	Balance			500
	Add: Cash received on sale of investment			10,000
	Less: Payment made to equity shareholders for buy back of shares			
	Payment made to preference shareholders			
5.	Current assets			
	Balance		8,000	
	Add: Cash received on sale of investment		5,000	
	Less: Payment made to equity shareholders for buy back of shares		(900)	
	Payment made to preference shareholders		<u>(4,000)</u>	
				<u>8,100</u>

NOTES

SHARE BASED PAYMENTS

(Note: SEBI Guidelines, Companies Act, Rules & ICAI Guidance Notes are applicable for the above).

(MASTER QUESTIONS: 1,2,3,4,5,6,7,8,9,10,14,15,17)

Share Based Payments

1. **Meaning and Inclusion:** Share-Based Payments cover all forms of Share-Based Payment for goods and services supplied to the Reporting Entity including-
   (a) Employee Share or Share Option Scheme (Note: Employees are defined widely and include others providing similar services).
   (b) Share-based payments to parties other than Employees that have supplied goods or services to the Entity.
   (c) Payments to be settled in cash or other assets at amounts that depend on Share Values.
2. **Types of Share Based Payments:**
   (a) **Equity Settled:** Entity receives goods or services in return for Equity Instruments, such as Shares or Options.
   (b) **Cash Settled:** Entity receives goods or services in return for incurring liabilities to the Supplier for amounts based on the price of the Entity's Shares or other Equity Instruments. (In this context, Cash includes Other Assets).
   (c) **Share based Plans with Cash alternatives:** Transactions that may be settled either in Equity Instruments or Cash at either the Entity's or Supplier's discretion.
3. Forms: Share based Payment Plans generally take the following forms - \
   (a) Employee Stock Option Plan (ESOP) : It is a contract that gives the Employees of an enterprise the right, but not obligation for a specified period to purchase or subscribe to the specified number of Shares of the Enterprise at a fixed or determinable price, called the Exercise Price.
   (b) Employees Stock Purchase Plans (ESPP) : It is a plan under which the enterprise offers Shares to its Employees at a discounted price as part of Public Issue or otherwise. (Note: ESPP with Option features = ESOP).
   (c) Stock Appreciation Right (SAR): These are rights that entitle the Employees to receive Cash or Shares for an amount equivalent to the excess of Market Price on Exercise Date over a stated price.

Employees Share-Based Payments

1. Meaning: Employee Share-Based Payments are incentive payments to employees in form of Shares. It also includes, Cash Incentives to Employees, quantum of which is linked with value of Shares.
2. Scheme:
   (a) Exercise Price: The payment in form of Shares generally involve grant of Options to Employees to subscribe Shares of the Employer Enterprise at a confessional price called the Exercise Price.
   (b) Extent of Gain: Employees gain to the extent of the excess of Market Price of Share at the time of exercise over the specified Exercise Price.
   (c) Cash Incentives: In case of Employee Share-based Payments in form of Cash Incentives, the excess of Market Price on specified future date and a stated price is paid in Cash.
3. Key Terms used in employees Share-Based Payments:
   (a) Grant Date: Day on which Share-based payment plan is announced and accepted by Employees.
   (b) Vesting Date: Day when the Employees become entitled to such payments.
   (c) Vesting Period: Period between these Grant Date and Vesting Date.
   (d) Exercise Period: Period between the Vesting Date and Exercise Date.

Accounting for Employees Stock Option Plans

1 **Recognition of Expenses on Yearly Basis:** Amount of benefit under an Option is determined either at Intrinsic value or Fair Value, and recognized as an Expense over the Vesting Period as follows:-

Employees' Compensation Expenses A/c Dr.
    To Stock Options Outstanding A/c.

Note:

(a) **Stock Options Outstanding:**

- Nature: Stock Options Outstanding A/c is transactional in nature and is ultimately transferred to another Equity Account such as Share Capital, Securities Premium Account and/or General Reserve at the time of settlement.
- Disclosure: Credit Balance of "Stock Options Outstanding A/c" is shown in the Balance Sheet.

(b) **Employees Compensation:** The balance of Employees' Compensation Expenses A/c is transferred to the Profit and Loss Account of the period. In case capitalization is justified the balance of Employees' Compensation Expense A/c is transferred to the concerned Asset A/c. instead of the Profit and Loss Account.

2. **Exercise of Option:** On exercise of the Option, the Enterprise issues Shares on receipt of the Exercise Price. The consideration for such Shares comprises of the Exercise Price and the aggregate value of Option recognized as expense, standing to the credit of Stock Options outstanding A/c.

   Stock Options Outstanding A/c. Dr.

   (Value of Options expensed over the vesting period)

   Bank A/c. Dr. (Exercise Price)

   To Share Capital A/c.

   To Securities Premium A/c.

3. **Lapse of Option:** Where the right to obtain Shares or Stock Options expires unexercised, the balance standing to the credit of the relevant Equity Account should be transferred to General Reserve.

   Stock Options Outstanding A/c Dr.

   To General Reserve A/c.

QUESTION NO 1 (CONDITIONAL SERVICE PERIOD)

The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	525
Number options granted per employee	100
Vesting condition: Continuous employment for 3 years	
Nominal value per share (Rs.)	100
Exercise price per share (Rs.)	125
Market priced per share on grant date (Rs.)	149
Vesting date	March 31,2009
Exercise	March 31,2010
Fair value of option per share on grant date (Rs.)	30

Position on 31/03/07

(a) Estimated annual rate of departure 2%

(b) Number of employees left = 15

Position on 31/03/08

(a) Estimated annual rate of departure 3%

(b) Number of employee left = 10

Position on 31/03/09

(a) Number of employees left = 8

(b) Number of employees entitled to exercise option = 492

Position on 31/03/10

(a) Number of employees exercising the option = 480

(b) Number of employees not exercising the option = 12

Compute expenses to recognize in each year by (i) fair value method (ii) intrinsic value method and show important accounts in books of the company by both of the methods.

QUESTION NO 2 (VESTING BASED ON TARGET OF PROFITS)

The following particulars in respect of stock options granted by a company are available.

Grant date	Apriil,2006
Number of employees covered	500
Number options granted per employee	100
Fair value of option per share on grant date (Rs.)	25

The vesting period shall be determined as below:

(a) If the company earns Rs. 120 crore or above after taxes in 2006-07, the options will vest on 31/03/07.

(b) If condition (a) is not satisfied but the company earns Rs. 250 crores or above after taxes in aggregate in 2006-07 and 2007-08, the option will vest on 31/03/08.

(c) If conditions (a) and (b)are not satisfied but the company earns Rs. 400 crores or above after taxes in Aggregate in 2006-07, 2007-08 and 2007-09, the options will vest on 31/03/09

Position on 31/03/07

(a) The company earned Rs. 115 crore after taxes in 2006-07

(b) The company expects to earn Rs. 140 crores in 2007-08 after taxes

(c) Expected vesting date: March 31,2008

(d) Number of employees expected to be entitled to option =474

Position on 31/03/08

(a) The company earned Rs. 130 crore after taxes in 2007-08

(b) The company expects to earn Rs. 160 crores in 2008-09 after taxes

(c) Expected vesting date: March 31,2009

(d) Number of employees expected to be entitled to option = 465

Position on 31/03/09

(a) The company earned Rs. 165 crore after taxes in 2008-09

(b) Number of employees on whom the option actually vested = 450

Compute expenses to recognize in each year.

QUESTION NO 3 (VESTING BASED ON TARGET OF MARKET PRICE)

The following particular in respect of stock option granted by a company are available:

Grant date	Aprial 1,2006
Number of employees covered	50
Number options granted per employee	1,000
Fair value of option per share on grant date (Rs)	9

The option will vest to employees serving continuously for 3 years from vesting date, provided the share price is Rs. 70 or above at the end of 2008-09

The estimates of number employees satisfying the condition the condition of continuous employment were 48 on 31/03/07, 47 on 31/03/08. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2008-09 was Rs.68

Compute expenses to recognize in each year and show important accounts in books of the company.

QUESTION NO 4 (CA FINAL MAY 2008)

ABC Ltd. Grants 1,000 employees stock options on 1.4.2004 at Rs. 40, when the market price is Rs. 160. The vesting period is 2 $\frac{1}{2}$ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2006. 600 options are exercised on 30.6.2007. 100 vested options lapse at the end of the exercise period. Pass the journal entries giving suitable narrations.

Graded Vesting

1. Meaning: Graded Vesting refers to a situation where Options under a plan vest on different dates. Based on Vesting Dates the plan is segregated into different groups.
2. Example: A Plan may provide that Shares offered to an Employee shall vest in proportion of 1:1:3 in three years commencing from fifth year. Thus, if an Employee is offered 100 Shares under the plan, 20 Shares shall vest in Year 5, 20 Shares shall vest in year 6 and 60 Shares shall vest in Year 7. Options vesting in Year 5 is treated as a separate plan, from those vesting in Year 6 and 7. Accounting is done accordingly.
3. Accounting: Each of these groups under the Plan is treated as a Separate Plan, with specific, vesting and period and expected life. Accounting can be either Fair Value based, or Intrinsic Value based, explained as under:-
   (a) Fair Value based: Fair Value of the Option is determined to each of the groups and computed separately, since it depends on expected life. After such determination, such Fair value of a Group is then allocated to accounting periods and recognized as Expense for the period with reference to vesting period for the group.
   (b) Intrinsic Value based: Intrinsic Value of an Option does not depend on its expected life. Hence, Intrinsic Value of Option per Share shall be the same for each group. Intrinsic Value of a Group is allocated to accounting periods and recognized as Expense for the period with reference to vesting period for the group.

QUESTION NO 5

The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	400
Number options granted pre employee	60
Nominal value per share (Rs.)	100
Exercise price per share (Rs.)	125

Shares offered were put in three groups. Group 1 was for 20% of shares offered with vesting period one-year. Group II was for 40% of shares offered with vesting period two-years. Group III was for 40% of shares offered with vesting period theree-years. Fair value of option per share on grant date was Rs. 10 for Group I, Rs. 14 for Group III.

Position on 31/03/07

(a) Number of employees left = 40

(b) Estimate of number of employees to leave in 2007-08 = 36

(c) Estimate of number of employees to leave in 2008-09 = 34

(d) Number of employees exercising option in Group I = 350

Position on 31/03/08

(a) number of employees left = 35

(b) Estimate of number of employees to left in 2008-09 =30

(c) Number employees exercising option in Group II =319

Position on 31/03/09

(a) Number of employees left = 28

(b) Number of employees at the end of last vesting period =297

(c) Number of employees exercising options in Group III = 295

Options not exercised immediately on vesting, were forfeited.

Compute expenses to recognize in each year and show important accounts in books of the company by both of the methods.

Modification of Terms of Option:

(a) Treatment: If the modification increases the Fair Value of Option (e.g. Exercise Price is reduced) –

(i) Compute Incremental Fair Value = Fair Value of Modified Option as on date of modification.

Less: Fair value of Original Option as on date of modification.

(ii) Recognize the Incremental Fair Value, as Expenses, over the remaining vesting period.

Note: If the modification reduces the Fair Value of Option, such modification is ignored.

(b) Timing of Recognition:

Situation	Time of Recognition
If modification occurs immediately	Incremental FV is recognized as Expense immediately.
If employee is required to complete additional period of service before becoming unconditionally entitled to the Option	Incremental FV is recognized as Expense over the additional vesting period.

QUESTION NO 6

The following particulars in respect of stock options granted by a company are availabele:

Grant date	April 1,2006
Number of employees covered	600
Number options granted per employee	60
Vesting condition: Continuous employment for 3 years	
Nominal value per share (Rs.)	100
Exercise price per share (Rs.)	125
Vesting date	March 31,2009
Exercise Date	March 31,2010
Fair value of option per share on grant date (Rs.)	

Position on 31/03/07

(a) Number of employees left =30

(b) Estimate of number of employees to leave in 2007-08 and 2008-09 = 70

(c) Exercise price was reduced to Rs. 120

(d) Fair value of original option on 31/03/07 = Rs. 13

(e) Fair value of option at reduced exercise price on 31/03/07 = Rs.15

(f) Vesting date for modified option was March 31,2009

Postion on 31/03/08

(a) Number of employees left = 35

(b) Estimate of number of employees to leave in 2008-09 = 30

Position on 31/03/09

(a) Number of employees left = 28

(b) Number of employees entitled to exercise option = 507

Postion on 31/03/10

(a) Number of employees exercising the option =500

(b) Number of employees not exercising the option = 7

Compute the amount of expense the company should recognize in each of the years 2006-07, 2007-08 and show important accounts in books of the company.

Cancellation & Settlement during Vesting Period

If an Enterprise cancels or settles a grant of ESO during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied); the accounting treatment is as under:-

(a) The entire amount of Unamortised Value of Option: should be recognized immediately.

(b) Payments made to the Employees on cancellation or settlement should be debited to ESOP Outstanding A/c. to the maximum extent of Fair Value of Options granted, measured t the cancellation/settlement date. Any payment in excess of the Fair value is recognized as an Expense.

(c) Replacement of Scheme:

- If new option are granted to the employees in replacement for the cancelled options, the replacement is regarded as a Modification.
- For this purpose, the Incremental Fair Value = Fair value of Replaced Option (Less). Net Fair Value of Cancelled Option, as on the date of replacement.

- Net Fair Value of Cancelled Option = Its Fair value immediately before the cancellation, (Les) Amount of any payment made to the Employee on cancellation that is debited to ESOP Outstanding A/c. as per (b) above.

QUESTION NO 8

The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2006
Number of employees covered	600
Number options granted per employee	100
Vesting condition: Continuous employment for 3 years	
Nominal value per share (Rs.)	10
Exercise price per share (Rs.)	45
Vesting date	March 31,2009
Exercise Date	May 31,2010
Fair value of option per share on grant date (Rs.)	15

Position on 31/03/07

(a) Number of employees expected to satisfy service condition =540
(b) Number of employees left = 15
(c) Profit before amortization of ESOP cost = Rs. 11.90 lakh
(d) Fair value per share = Rs.60

Position on 31/03/08

(e) Number of employees expected to satisfy service condition =552
(f) Number of employees left = 20
(g) Profit before amortization of ESOP cost = Rs. 12.62 lakh
(h) Fair value per share = Rs.66

Position on 31/03/09

(i) Number of employees left = 11
(ii) Number of employees entitled to exercise option = 554

(iii) Profit before amortization ESOP cost =Rs 13.79 lakh

(iv) Fair value per share = Rs. 72

Position on 31/05/10

(a) Number of employees exercising the option = 550

(b) Number or employees not exercising the option = 4

(c) Show Employees Compensation A/c ESOP Outstanding A/c from 2006-07 to 2009-10.

(d) Compute basic and diluted EPS for the years 2006-07 to 2008-09

Stock Appreciation Rights

1. Meaning:

   (a) Stock Appreciation Rights is a Call Option held by Employees.

   (b) Stock Appreciation Rights entitle the Employees to claim cash payment to the extent of Market Price of underlying Shares on the Exercise Date over the Exercise Price.

   (c) Stock Appreciation Rights are not exercised, if the Market Price of underlying Shares on the Exercise Date is less than the Exercise Price.

2. **Accounting:** Value of Call is recognized as an Expense over the Vesting Period (as in the case of ESOP). Value per Option is re-assessed at each reporting date. The Liability for SAR is recognized as Provision instead of ESOP Outstanding as follows:-

   Employee Compensation Expense A/c. Dr.

   To Provision for Employees Compensation Expense A/c.

QUESTION NO 9

A company announced a Stock Appreciation Right on 01/04/06 for each of its 525 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exrcise price Rs.125 per share in respect of 100 shares, subject to condition on continuous employment for 3 years. The SAR is exercisable after 31/03/09 bit before 30/06/09. The fair value of SAR was Rs. 21 in 2006-07, Rs. 23 om 2007-08 amd Rs.24 om 2008-09. In 2007-07 the company estimates that 2% of the employees shall leave the company. The was revised to 3% in 2007-08. Actually, 15 employees left the company in 2006-08, 10 left in 2007-08 and 8 left in 2008-09. The SAR therefore actually vested to 492 employees. On 30/06/09, when the SAR was exercised, the intrinsic value was Rs.25 per share.

Show Provision for SAR A/c by fair value method.

Employees Share-based Payment Plans with Cash Alternatives

1. Components	These Plans consist of 2 components viz. – (a) Liability Component, i.e. the Employer's obligation to pay the price differential in cash, and (b) Equity Component, i.e. the Employer's obligation to issue Shares at the Exercise Price.
2. Initial Measurement	(a) On the Grant Date, the Company should measure the Fair Value of the Plan on the assumption that at employees will exercise their options in favour of – (i) Cash Settlement, (ii) Equity Settlement. (b) Fair Value of the Liability Component =Fair Value of Plan for Cash Settlement. (c) Fair Value of Equity Component = Fair Value of Plan for Equity Settlement (less) Fair value of Liability Component as computed above.
3. Accounting	(a) Accounting Procedure for Liability Component is same as that SAR. (b) Accounting Procedure for Equity Component is same as that for ESOP.
4. Settlement	(a) On the date of settlement, the Company should re-measure the Liability to its Fair value. (b) If the Employees opt for Shares, the amount of Liability should be treated as the consideration for the Shares issued. (c) If the Employees opt for Cash Settlement, the balance in ESOP Outstanding A/c should be transferred to General Reserve.

QUESTION NO 10

A company announced a share-based payment plan for its employees on 01/04/06, subject to a vesting period of 3 years. By the plan the employees can (i) either claim difference between exercise price Rs.150 per share and market price of those shares on vesting date in respect of 10,000 share of (ii) can subscribe to 12,000 shares at exercise price Rs. 150 per share, subject to lock in period of 5 year. Pm 01/04/06, for value of the option, without considering restrictions on transfers was Rs. 30 and that after considering restrictions on transfer was Rs.27. The fair value estimates, without considering transfer restrictions were Rs.31.50, Rs. 32.70 and Rs. 34 respectively, at the emd pf 2006-07, 2007-08 and 2008-09. Show important accounts in books of the company if employees opt for (i) cash settlement (ii) equity settlement.

TEST YOUR KNOWLEDGE

QUESTION 11 (EXPENSE RECOGNITION)

Good luck Limited grants 180 Shares Options to each of its 690 Employees. Each grant containing condition on the employees working for Good luck Ltd. over the next 4 years. Good luck Ltd. has estimated that the Fair Value of Option is Rs.15. Goodluck Ltd also estimated that 30% of Employees will leave during the four year period and hence forfeit their rights to the Share Option. If the above expectations are correct, what amount of Expenses to be recognized during vesting period?

SOLUTIONS:

1. Total Number of Options Granted (Employees 690 x Options per Employee 180)	1,24,200
2. Total Number of Options Expected to Vest (1,24,200 x 70%) (i.e. after 30% Employees leaving)	86,940 Shares
3. Fair value Per Option (given)	Rs. 15
4. Fair value of Options Expected to Vest at the end of Vesting Period = (x) x (3)	Rs. 13,04,100
5. Amount to be expensed in Year 1 = $\frac{\text{Total Value of Option}}{\text{Vesting period 4 Years}} = \frac{13,04,100}{4}$	Rs. 3,26,025

QUESTION 12

(ESOP – Expense Recognition – Variation in Estimates)

Vishnu Ltd. granted 500 Options to each of its 2,500 Employees in 2009-2010, at an Exercise Price of Rs.50, when the Market Price was the same. The contractual life (Vesting and Exercise Period), of the options granted is 6 years with the Vesting Period and Exercise Period being 3 Years each.

The expected annual forfeitures are estimated at 3%. The Fair Value per Option is arrived at Rs. 15

Actual forfeiture in 2009-2010 were 5%. However, at the end of 2009-2010, the Management of Vishnu Ltd. still expects the actual forfeitures would average only 3% over the entire vesting period. During 2010-2011, the Management revises its estimated forfeiture rate to 10% per annum.

Of the 2,500 Employees, 1,900 Employees have completed the 3 Year vesting period, 1,000 Employees exercise their right to obtain Shares vested in them in pursuance of ESOP at the end of 2013-2014 and 500 Employees exercise their right at the end of 2014-2015. The rights of the remaining employees expire unexercised at the end of 2014-2015. The Face Value per share is Rs. 10.

Show the necessary Journal Entries with suitable narrations. Working should form part of the answer.

SOLUTION:

1. Computation of Expense to be Recognized.

Details	FY 2009-2010	FY 2010-2011	FY 2011-2012
(a) Number of Employees at year end	2,500 – 5% = 2,375	2,375 – 3% (assumed actual) = 2,303	Given 1,900
(b) Annual Forfeiture Expected in future	3%	10%	NA
(c) Total Number of Options Expected to Vest on exercise date (Note)	11,17,318.75 (a) x 500 Shares x 97% x 97%)	10,36,350 (a) x 500 Shares x 90%)	9,50,000 (a) x 500 Shares)
(d) Total Value of Options Expected to Vest at the end of Vesting Period = (C) x PV of Option)	11,17,318.75 x Rs.15 = Rs.1,67,59,780	10,36,350 x Rs.15 = Rs.1,55,45,250	9,50,000 x Rs. 15 = Rs. 1,42,50,000
(e) Total Cumulative Cost of Options	(d) x 1/3) = Rs.55,86,594	(d) x 2/3 = Rs. 1,03,63,500	(d) x 3/3) = Rs. 1,42,50,000
(f) Less: Already recognized in Previous years	0	(Rs.55,86,594)	(Rs. 1,03,63,500)
(g) Amount to be Expected this year	Rs.55,86,594	Rs. 47,76,906	Rs. 38,86,500

2. Journal Entries

Date	Particulars	Debit Rs.	Credit Rs.
31.03.2010	Employee Compensation Expense A/c	55,86,594	
	To Employees Stock Options Outstanding A/c.		55,86,594
	(Being Employee Compensation Expense recognized for the year)		
31.03.2011	Employee Compensation Expense A/c	47,76,906	
	To Employees Stock Options Outstanding A/c.		47,76,906
	(Being Employee Compensation Expense recognized for the year)		
31.03.2012	Employee Compensation Expense A/c	38,86,500	
	To Employees Stock Options Outstanding A/c.		38,86,500
	(Being Employee Compensation Expense recognized for the year)		
31.03.2014	Bank A/c. (1,000 x 500 x Rs.50)	2,50,00,000	
	Employee Stock Options Outstanding A/c. (1000x500xRs.15)	75,00,000	
	To Equity Shares Capital A/c. (1000 x 500 x Rs. 10)		50,00,000
	To Securities Premium A/c. (Rs.65 – Rs.10)x1000x500)		2,75,00,000
	(Being exercise of Options by 1,000 Employees for 500 Option and subscription of Equity Shares by at a total price of Rs. 65 per share i.e. payment of Rs.50 per share and Rs.15 per share through Stock option outstanding)		

Date	Particulars	Debit Rs.	Credit Rs.
31.03.2015	Bank A/c. (500 x Rs.50)	1,25,00,000	
	Employee Stock Options Outstanding A/c. (500 x 500 x Rs.15)	37,50 ,000	
	To Equity Shares Capital A/c. (500 x 500 x Rs. 10)		25,00,000
	To Securities Premium A/c. (Rs.65 – Rs.10) x 500 x 500)		1,37,50,000
	(Being exercise of Options by 500 Employees for 500 Option and subscription of Equity Shares by at a total price of Rs. 65 per share i.e. payment of Rs.50 per share and Rs.15 per share through Stock option outstanding)		
31.03.2015	Employee Stock Option Outstanding A/c.	30,00,000	
	To General Reserve A/c		30,00,000
	(Being Balance in Employees Stock Option Outstanding A/c. transferred to General Reserve upon their expiry without exercise = 400 Employees x 500 Options per Employee x Rs. Rs.15 Fair Value).		

Note: Balance in Employee Compensation Expense is transferred to Profit & Loss A/c. every year, as Expense.

QUESTION 13 (LAPSE OF OPTIONS DURING VESTING PERIOD)

Trivikrama Ltd. grants 1,000 Employees Stock Options on 1.4.2012 at Rs.40, when the Market Price is Rs. 160. The vesting period is 2 ½ Yeas and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2014. 600 options are exercised on 30.6.2015. 100 vested options lapse at the end of the exercise period. Pass necessary journal entries giving suitable narrations.

SOLUTIONS:

Journal Entries

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31.03.2013	Employee Compensation Dr. Expenses A/c. (Being amortization of Employee Compensation Expenses for the year) (Note 1)	48,000	 48,000
31.03.2014	Employee Compensation Dr. Expenses A/c. (Being amortization of Employee Compensation Expenses for the year) (Note 1)	48,000	 48,000
30.09.2014	ESOP Outstanding A/c Dr. To General Reserve A/c. (Being reversal of amortization of Employee Compensation Expenses at the end of vesting period – Note 2)	12,000	 12,000
3006.2015	Bank A/c. (600 Shares x Exercise Dr. Price Rs.40) ESOP Outstanding A/c (600 Shares x Rs.120) To Equity Share Capital (600 Shares x Rs.10) To Securities Premium A/c.(600 Shares x Rs. 150) (Being exercise of 600 Options at Rs.40 Per share, and recognition of Sec. Premium)	24,000 72,000	 6,000 90,000
01.10.2015	ESOP Outstanding A/c. (100 Shares x Rs.120) Dr. To General Reserve A/c. (Being 100 Vested options lapsed at the end of expiry period, balance in Stock Options Outstanding transferred to General Reserve)	12,000	 12,000

Note:

1. Fair Value of Options = 1,000 Shares x (Rs. 160 – Rs.40)

   = Rs. 1,20,000 to be amortised over Vesting period of 2.5 years.

   So Amount to be written off in 2012-2013 are 2013-2014 $= \frac{1,20,000}{2.5 \text{ Years}}$

   = Rs. 48,000 each year.

2. Computation of Amortization Expense to be reversed -

Total Amortization Expense = 700 options x Rs. 120 per option	84,000
Less: Expense already recognized in 2012-2013 and 2013-2014	(96,000)
Expense to be recognized / (reversed) now	(12,000)

(a) Lapse during Vesting Period: Lapse of Options during the Vesting Period (i.e. between 01.04.2012 to 30.09.2014) should be adjusted cumulatively i.e. accounted for by suitably reducing the amount to be expensed off subsequent to the date of lapsing. In the above case, Option Cost amortized already is in excess of the Option Cost on eligible options. So the difference is transferred to General Reserve. (Para 18 & Para 22 of Guidance Note).

(b) Lapse after Vesting Date: For Lapse of Options after the vesting date (during the Exercise Period), the balance standing to the credit of Stock Options Outstanding should be transferred to General Reserve. The amount already amortized should not be written back to the Profit and Loss Account at all.

QUESTION 14

(ESOP – Variation in vesting Period – Expenses Recognition)

Virtual Limited granted on 1st April 2011, 1,00,000 Employees Stock Option at Rs. 40, when the Market Price was Rs. 60. These options will vest at the end of Year 1, if the earning of Virtual Limited is more than 15% or it will vest alt the end of the year 2, if the average earnings of two years is more than 12% or lastly it will vest at the end of third year, If the average earings of 3 years will be 9% or more. 6000 unvested options lapsed on 31st March 2012. 5,500 unvested options lapsed on 31st March 2013 and finally 3,000 unvested options lapsed on 31st March 2014.

Year ended on	Earnings in %
31.3.2012	13%
31.3.2013	9%
31.3.2014	7%

Employees exercised for 85,000 Stock Options which vested in them at the first opportunity and the balance were lapsed. Pass necessary journal entries and show the necessary working.

SOLUTION:

1. Computation of Expenses to be recognized

Details	FY 2011-12	FY 2012-2013	FY 2013-2014
(a) Total No. of Options Expected to Vest	1,00,000 – Lapsed 6,000 = 954,000	94,000 –Lapsed 5,500 = 88,500	88,500 – Lapsed 3,000 = 85,500
(b) Compensation Expenses at Rs.20 (60-40)	Rs. 18,80,000	Rs. 17,70,000	Rs. 17,10,000
(c) Vesting Period expected	2 Years	3 Years	3 Years
(d) Total Cumulative Cost of Options	(b) x1/2 = Rs.9,40,000	(a) x 2/3 = Rs.11,80,000	(b) 3/3 Rs. 17,10,000
(e) Less: Already recognized in Prev. Year	0	(Rs. 940,000)	(Rs. 11,80,000)
(f) Amount to be Expensed this year	Rs. 9,40,000	Rs. 2,40,000	Rs.5,30,000

2. Journal Entries

Date	Particulars	Debit Rs.	Credit Rs
31.03.2012	Employees Compensation Expenses A/c. Dr	9,40,000	
	To Employee Stock Options Outstanding A/c		
	(Being Compensation Expenses recognized in respect of ESOP (Win 1)		9,,40,000

31.03.2012	Profit and Loss Account Dr. To Employees Compensation Exp. A/c. (Being Compensation Expenses charged in Profit & Loss A/c.)	9,40,000	 9,40,000
31.03.2013	Employees Compensation Expenses A/c. Dr. To Employees Stock Option Outstanding (Being Compensation Exp. recognized in respect of ESOP (WN1)	2,40,000	 2,40,000
31.03.2013	Profit and Loss Account Dr. To Employees Compensation Expense A/c (Being Compensation Expense charged to Profit & Loss A/c.)	2,40,000	 2,40,000
31.03.2014	Employees Compensation Expenses A/c. Dr. To Employees Stock Option Outstanding A/c (Being Compensation Expenses recognized in respect of ESOP(WN 1)	5,30,000	 5,30,000
321.03.2014	Profit and Loss account Dr. To Employees Compensation Expense A/c. (Being Compensation Expense charged to Profit & Loss A/c.)	5,30,000	 5,30,000
During FY 2004-2005	Bank A/c. (85,00 xRs.40) Dr. Employee Stock Options Outstanding A/c. To Equity Share Capital A/c.(85,000 x Rs.10 To Securities Premium /c (85,000xRs.50) (Being 85,000 Options exercised)	34,00,000 17,00,000	 8,50,000 42,50,000

During FY 2014-2015	Employee Stock Option Outstanding A/c (500 x Rs.20) To General Reserve A/c. (Being ESOP outstanding A/c. on lapse of 500 options transferred to General Reserve)	10,000	10,000

QUESTION NO 15

P Ltd. granted option for 8,000 equity shares of nominal value of ₹ 10 on 1st October, 20X0 at ₹ 80 when the market price was ₹ 170. The vesting period is 4 Years, 4,000 unvested options lapsed on 1st December, 20X2, 3,000 options were exercised on 30th September, 20X5 and 1,000 vested options lapsed at the end of the exercise. Pass Journal Entries for above transactions.

QUESTION NO 16

Ajanta grants 120 share options to each of its 460 employees. Each grant is conditions on the employee working for Ajanta over the next three years. Ajanta has estimated that the fair value of each share option is ₹ 12. Ajanta estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options. Everything turns out exactly as expected.

Required:

Calculate the amounts to be recognised as expense during the vesting period.

SOLUTION

year	Calculation	Expense for Period	Cumulative expense
1	55,200 options x 75 % ₹ 12 x 1/3 years	1,65,600	1,65,600
2	(55,200 options x 75% ₹ 12 x 2/3 years)- ₹ 165,600	1,65,600	3,31,200
3	(55,200 options x 75% x ₹ 12 x 3/3 years) - ₹ 331,200	1,65,600	4,96,800

An enterprise should review all estimates taken in consideration for valuation of option. the value of options recognised as expense in an accounting period is the excess of cumulative expense as per latest estimates up to the current accounting period over total expense recognised up to the previous accounting period.

QUESTION NO 17

Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4. 20X1 for ₹ 20, depending upon the employee at the time of vesting of options. Options would be exercisable within a year if it is vested. The market price of the share is ₹ 50 each, These options will vest at the end of year 1 if the earning of Choice Ltd. it 16% or it will vest at the end of the year 2 if the average earing of two years of is 13% or lastly it will vest at the end of the third year it the average earning of 3 years will be 10% 5,000 unvested options lapsed on 31.3.20X2. 4,000 unvested options lapsed on 31.3.20X3 and finally 3,500 unvested options lapsed on 31.3.20X4.

Following is the earning of Choice Ltd.

Year ended on	Earning (In%)
31.3.20X2	14%
31.3.20X3	10%
31.3.20X4	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

QUESTION NO 18 (EMPLOYESS STOCK PURCASE PLAN)

On April 1,2006, a company offered 100 shares to each of its 500 employees at Rs. 40 per share. The employees are given a month to decide whether or not to accept the `offer. The shares issued under the plan shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is Rs. 50 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 48 per share.

On April 30,2006, 400 employees accepted the offer and paid Rs. 40 per share purchased. Nominal value of each share is Rs. 10

Record the issue of shares in book of the company under the aforesaid plan.

SOLUTION:

1. Computation of Expense to be recognized

Particulars	**Value**
Intrinsic Value of Option = Fair Value Rs. 48 Less: Issue price Rs.40	Rs. 8
Number of Shares expected to vest under the Scheme = 400 Employees x 100 shares	40,000
Total Fair Value of Options = 40,000 shares x Rs.8	Rs.3,20,000
Expected Vesting Period	One Month
Expense recognized during the year	Rs.3,20,000

2. Journal Entry

Date	**Particulars**	**Debit (Rs.)**	**Credit (Rs.)**
30.04.2015	Bank A/c. Dr. (40,000 share x 2 Rs.40)	16,00,000	
	Employees' Compensation A/c.	3,20,000	
	Dr. (40,000 Shares x Rs.8)		
	To Share Capital A/c. (40,000 Shares x Rs.10)		4,00,000
	To Securities Premium A/c.(40,000 Shares x 38)		15,20,000
	(Being 40,000 ESPP Shares issued at a Premium of Rs.38 Per Share)		

QUESTION NO 19 (C A NOV 2005 & MAY 2011)

A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 20X1 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 15th March, 20X2 and 31st March, 20X2. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year.

Show journal Entries.

SOLUTION

Journal Entries

	Particulars	Dr. ₹	Dr. ₹
15th March 20X2 to	Bank A/c (9,500 x 40) Dr.	3,80,000	
	Employee compensation expense A/c [9,500 x (130-40) Dr.	8,55,000	
	To Equity share capital A/c (9,500 X 10)		95,000
	To Securities premium A/c [9,500 X (130-10)]		11,40,000
	(Being allotment to employees of 9,500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)		
31st March 20X2	Profit and Loss A/c Dr.	8,55,000	
	To Employee compensation expense A/c		8,55,000
	(Being transfer of employee compensation expense to profit and loss account)		

QUESTION NO 20 (NOV 2009)

X Limited has its share capital divided into equity shares of ₹ 10 each. On 1-10-20X1, it granted 20,000 employees' stock options at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 10th December, 20X1 and 31st March, 20X2.The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries (with narration) as would appear in the books of the company upto 31st March, 20X2.

SOLUTION

Journal Entries in the books of Arihant Ltd.

		₹	₹
10.12.X1 to 31.3.X2	Bank A/c (16,000 x 50) Dr.	8,00,000	
	Employee compensation expense A/c Dr. (16,000 x 70)	11,20,000	
	To Equity share capital A/c (16,000 x 10)		1,60,000
	To Securities premium A/c (16,000 x 110)		17,60,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option plan)		
31.3.X2	Profit and Loss A/c Dr.	11,20,000	
	To Employee compensation expense A/c		11,20,000
	(Being transfer of employee compensation expenses to profit and Loss Account)		

QUESTION NO 21

A company has its share capital divided into shares of ₹ 10 each, On 1-1-20X1, it granted 5,000 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

SOLUTION

In the books of Company

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
1-3-X2	Bank A/c Dr.	2,40,000	
	Employees compensation expenses A/c Dr.	4,32,000	
	To Equity Share Capital A/c		
	To Securities Premium A/c		48,000
	(Being allotment to employees 4,800 shares of ₹ 10 each at a premium of ₹ 130 at an exercise price of ₹ 50 each)		6,24,000
31-3-X2		4,32,000	
	Profit and Loss account Dr.		
	To Employees compensation expenses A/c		
			4,32,000
	(Being transfer of employees compensation expenses)		

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = ₹ 140- ₹ 50 = ₹ 90 x per share = ₹ 90 X 4,800 = ₹ 4,32,000/- in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.
3. Securities Premium Account = ₹ 50 - ₹ 10 = ₹40 per share + ₹ 90 per share on account of discount of option price over market price = ₹ 130 per share = ₹ 130 x 4,800 = ₹ 6,24,000/- in total.

LIQUIDATION OF COMPANIES

TOTAL NUMBER OF QUESTIONS = 13 + 6 =19

(CLASS QUESTIONS PLUS TEST)

MASTER PROBLEMS; 4,5,7,9,15,16

TEST YOUR KNOWLEDGE; 4,1

Statement of Affairs

In the case of a winding up by Court

- a Statement of Affairs of the company in the prescribed form defied by an affidavit, and
- containing particulars stated under section 454(1) of the Companies Act, 1956 has to be submitted to the Official Liquidator. The statement should be submitted by directors and one or more persons who are the manager, secretary or other chief of the company. In the case of a voluntary winding up either by member or creditors, a Statement of Affairs is required to be submitted.

According to the provisions contained under sections 496 and 508, Liquidator in both the types of winding up are required to hold a general meeting at the end of the first year and at the end of each succeeding year. They must lay before the meeting an account of their acts and dealing together with a statement in the prescribed form and containing. Preached particulars with respect to proceedings in and the position of the liquidation.

The Companies (Court) Rules, 1959 prescribe that the Statement of Affairs should be prepared in Form 57 contained in the Rules. The liquidators also are required to submit annual reports under sections 496 and 508. Such reports are to be presented in Form 153 of the Rules. At the close of the winding up of proceedings in a voluntary liquidation, the liquidators are required to place before the final meeting of shareholders and creditors a consolidated account of the amounts received and paid out by him in Form 156 of the Rules. The broad lines on which the Statement of Affairs is prepared are the following

It may be noted that corresponding sections of the companies Act, 2013 have not been notified till 31st May, 2015. Therefore, relevant section of the companies Act, 1956 are applicable at present. This unit has been given in line with the provisions of the companies Act, 1956.

(1) Include assets on which there is no fixed charge at the value they are expected to realise. Students should note to calls in arrear but not uncalled capital.

(2) Include assets on which there is a fixed charge. The amount expected to be realised would be compared with the amount due to the creditor concerned. Any surplus is to be extended to the other column. A deficit (the amount owed to the creditor exceeding the amount realisable from the asset) is to be added to unsecured creditors.

(3) The total of assets in point (1) and any surplus from assets mentioned in point (2) is available for all the creditors (except secured creditors already covered by specifically mortgaged assets).

(4) From the total assets available, the following should be deducted one by one :-

(i) Preferential creditors,

(ii) Debentures having a Abating charge, and

(iii) Unsecured creditors.

If a minus balance emerges, there would be deficiency as regards creditors, otherwise there would be a surplus.

(5) The amount of total paid-up capital (giving details of each class of shares) should be added and the figure emerging will be deficiency (or surplus) as regards members.

Note: Statement of affairs should accompany eight lists:

List A Full particulars of every description of property not specially pledged and included in any other list are to be set forth in this list.

List B Assets specifically pledged and creditors fully or partly secured.

List C Preferential creditors for rates, taxes, salaries, wages and otherwise.

List D List of debenture holders secured by a floating charge.

List E Unsecured creditors.

List F List of preference shareholders.

List G List of equity shareholders.

List H Deficiency or surplus account.

Deficiency Account

The official liquidator will specify a date for period (minimum three years) beginning with the date on which information is supplied for preparation of an account to explain the deficiency or surplus. On that date either assets would exceed capital plus liabilities, that is, there would be a reserve or there would be a deficit or debit balance in the Profit and Loss Account. The Deficiency account is divided into two parts:

1. The first part starts with the deficit (on the given date) and contains every. item increases deficiency (or reduces surplus such as losses, dividends etc.).
2. The second part starts with the surplus on the given date and includes all profits.

If the total of the first exceeds that of the second, there would be a deficiency to the extent of the difference, and if the total of the second part exceeds that of the first, there would be a surplus.

Overriding Preferential Payments

The Companies (Amendment) Act, 1985 has introduced section 529A which states that certain dues are to be settled even before the payments to preferential creditors under section on 530 in the case of winding up of company. Section 529A states that in the event of winding up a company workmen's dues and debts due to secured creditors, to the extent such debts rank under section 529 (1) (c), shall be paid in priority to all other debts. The workmen's dues and debts to secured creditors shall be paid in full, unless the assets are insufficient to meet them, in which case they shall be compensated in equal proportions.

It may be noted here that workmen's dues, in relation to a company, means the aggregate of the following sums:

(i) all wages or salary including wages payable for time or piece work and salary earned wholly or in part by way of commission of any workman and any compensation payable to any workman under any of the provisions of the Industrial Disputes Act, 1947;

(ii) all accrued holiday remuneration becoming payable Workman workman or the-case of his death to any other person in his right, on the termination of his employment before, or by the effect of, the winding up order;

(iii) All amounts due in respect of any compensation or liability for compensation under Workmen's Compensation Act, 1923 in respect of death or disablement of any workman of the company;

(iv) All sums due to any workman from a provident fund, a pension fund, a gratuity fund or any other fund for the welfare of the workmen maintained by the company

Preferential Creditors

Section 530 specifies the creditors that have to be paid in priority subject to the provisions of section 529A to unsecured creditors or creditor having a floating charge. Such creditors are known as Preferential Creditors. These are the following

(a) All revenues, taxes1 cesses and rates, becoming due and payable by the company to the government or to the local authority within 12 months next before the commencement of the winding up.

(b) All wages or salaries (including wages payable for time or piece work and salary earned ,wholly or in part by way of commission) of any employee due for the period not exceeding 4. months Within the twelve months next before commencement of winding up provided the amount payable to one claimant will not exceed Rs 20,000.

(c) All accrued holiday remuneration becoming payable to any employee on account of winding up.

Note: Person who advance money for the purpose of making preferential payments under (b) and (c) above will be treated as preferential creditors, provided the money is actually so used.

(d) Unless the company is being wound up voluntarily for the purpose of reconstruction, all contributions payable during the 12 months next under the Employees State Insurance Act, 1948, or any other law for the time being in force.

(e) All sums due as compensation to employees under the Workmen's Compensation Act, 1923.

(f) All sums due to any employee from a provident fund, pension fund, gratuity fund or any other fund, for the welfare of the employees maintained by the company.

(g) The expenses of any investigation held under section 235 or 237 in so far as they are payable by the company.

CONCEPT 1: STATEMENT OF AFFAIRS

QUESTION NO 1

Insol Limited is to be liquidated. Their summarized Balance Sheet as at 30th September 2018 appears as under:

Liabilities	Rs.
2,50,000 equity shares of Rs.10 each	25,00,000
Secured Debentures (on land and buildings)	10,00,000
Unsecured loans	20,00,000
Trade creditors	35,00,000
	90,00,000
Assets	**Rs.**
Land and buildings	5,00,000
Other fixed assets	20,00,000
Current assets	45,00,000
Profit and Loss account	20,00,000
	90,00,000

Contingent liabilities are:	
For bills discounted	1,00,000
For excise duty demands	1,50,000

On investigation it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realized as follows:

	Rs.
Land and buildings	11,00,000
Other fixed assets	18,00,000
Current assets	35,00,000

Taking the above into account prepare the statement of affairs.

QUESTION 2

M company Limited went into voluntary liquidation on 31.3.2018. The following balances are extracted from its books on that date:

Liabilities	Amount	Assets	Amount
Capital: 50,000 equity shares of Rs.10 each		Building	1,50,000
	5,00,000	Plant and machinery	2,10,000
Debentures (secured by a floating charge)		Stock in trade	95,000
	2,00,000	Book debts	65,000
Bank overdraft	30,000	Calls in arrear	1,00,000
Creditors	40,000	Cash on hand	10,000
		Profit and Loss account	1,40,000
	7,70,000		7,70,000

Plant and machinery and building are valued at Rs.1,50,000 and Rs.1,20,000 respectively. On realization losses of Rs.15,000 are expected on stock. Book debts will realize Rs.70,000. Calls in arrears are expected to realize 90%. Bank overdraft is secured against buildings. Preferential creditors for taxes and wages are Rs.6,000 and miscellaneous expenditure outstanding Rs.2000.

Prepare the statement of affairs.

QUESTION NO 3

X company Limited went into voluntary liquidation on 31.3.2018. The following balances are extracted from its books on that date:

Liabilities	Amount	Assets	Amount
Capital: 24,000 equity shares of Rs.10 each	2,40,000	Lease hold property	1,20,000
		Plant and machinery	90,000
Debentures (secured by a floating charge)		Stock in trade	3,000
	1,50,000	Book debts	1,50,000
Bank overdraft	54,000	Investment	18,000
Creditors	60,000	Cash in hand	3,000
		Profit and Loss account	1,20,000
	5,04,000		5,04,000

The following assets are valued as under:

Machinery	1,80,000
Lease hold properties	2,18,000
Investment	12,000
Stock	6,000
Debtors	1,40,000

The bank overdraft is secured by deposit of title deeds of leasehold properties. There were preferential creditors Rs.3000 which were not included in creditors Rs.60,000.

Prepare a statement of affairs.

QUESTION NO 4

A winding up order has been issued against M Limited .The following information is obtained with regard to the assets and liabilities as on 30.6.2018:

Freehold premises (book value Rs.4,50,000) valued at	3,75,000
First mortgage of freehold premises	3,00,000
Second mortgage of freehold premises	1,12,500
8% Debentures carrying a floating charge on the undertaking	
interest due 1st September and 1st April and paid on due dates	1,50,000
Managing Director's emoluments (6 months)	22,500

Staff salary month (one month)	16,050
Trade Debtors – Good	31,500
Doubtful (estimated to realize 50 per cent)	12,900
Bad	72,750
Plant and machinery (book value Rs.2,47,500) estimated to realize	1,74,000
Bank overdraft- unsecured	58,125
Cash in hand	825
Stock (at cost Rs.50,850) estimated to realize	33,900
Issued capital:	
Equity shares of Rs.10 each fully called up	1,50,000
Calls in arrears, Rs.3000 estimated to realize	1,500
Unsecured creditors	2,96,250
Contingent liability in respect of a claim for damages Rs.37,500- estimated to be settled for	18,000
Income tax liability:	
For 30 June 2016	5,250
For 30 June 2017	1,275
For 30 June 2018	2,700
The reserves of the company on 1st September, 2017 amounted to Rs.7,500	

You are required to prepare statement of affairs and deficiency account.

QUESTION NO 5

Following are the details regarding unfortunate Limited, which went into voluntary liquidation as on 31 December 1996:

3000 equity shares of Rs.100 each Rs.80 called up and paid ₹		2,40,000
6% 1000 preference shares of Rs.100 each fully called up	1,00,000	
Less: calls in arrear	5,000	
		95,000
5% Debentures having a floating charge on the assets		1,00,000
(Interest paid up to 30 June 1996)		
Mortgage on land and buildings		80,000

Trade creditors		2,65,500
Wages outstanding	20,000	
Secretary's salary @ Rs.500 per month outstanding	3,000	
Managing director's salary		6,000

	Estimated to produce	Book value
Land and building	1,30,000	1,20,000
Plant	1,30,000	2,00,000
Tools	4,000	20,000
Patents	30,000	50,000
Stock	74,000	87,000
Accounts receivable	60,000	90,000
Investments (pledged with bank for an overdraft of Rs.1,90,000)	1,70,000	1,80,000

On 31December 1991 the Balance Sheet of the company showed a general reserve of Rs.40,000 accompanied by a debit balance of Profit and Loss account 25,000. In 1992 the company made a profit of Rs.40000 and declared a dividend of 10 per cent on equity shares. The company suffered a total loss of Rs.109000 besides loss of stock due to fire 40000 during 1993,1994, and 1995. for the current year accounts were not made.

The cost of winding up is expected to be Rs.15,000. You are required to prepare the statement of affairs and deficiency account of the company as on 31st December 1996.

QUESTION NO 6

X Ltd. was ordered to be wound up on March 31st, 2018 on which date its summarised balance sheet was as follows:

Liabilities		Rs	Assets	Rs
Subscribed Capital:				
10,000 shares of Rs 100 each		10,00,000	Goodwill	1,00,000
5% Debentures	1,60,000		Building	3,50,000
Interest Accrued	4,000	1,64,000	Plant	5,50,000
(Secured by floating charge on all assets)			Fixtures	23,000
			Stock	38,000

Bank Overdraft (Secured by hypothecation of stock) Trade payables		25,000 36,000	Debtors Cash P& L A/c	25,000 500 138,500
Total		12,25,000	Total	12,25,000

The amounts estimated to be realised are : Goodwill 1,000; Building Rs 3,00,000 Plant Rs 5,25,000; Fixtures Rs 10,000; Stock Rs 31,000 Debtors Rs 20,000.

Creditors included Rs 6,000 on account of wages of 15 men at ' 100 per month for 4 months immediately before the date of winding up: 9,000 being the salaries of 5 employees at 300 per month for the previous 6 months; Rent for godown for the last six months amounting to Rs 3,000 Income-tax deducted out of salaries of employees Rs 1,000 and Directors Fees Rs 500.

Three years ago, the debit balance in the Profit and Loss Account was Rs 77,925 and since that date the accounts of the company have shown the following figures:

	Year 31-3-2009 Rs	**Year 31-3-2010 Rs**	**Year 31-3-2011 Rs**
Gross Profit	65,000	45,000	40,000
Wages and Salaries	40,500	36,000	34,400
Electricity and Water Tax.	5750	6380	5260
Debentures interest	8000	8000	8000
Bad Debts	8540	7600	6700
Depreciation	6700		
Directors' Fees	1000	1000	1000
Miscellaneous Expenses	10500	7265	7980
Total	80990	66245	63340

In addition it is estimated that the company would have to pay Rs 5,000 as compensation to an employee for injuries suffered by him which was contingent liability not accepted by the company. Prepare the Statement of Affairs and the Deficiency account

CONCEPT 2: LIQUIDATOR' FINAL STATEMENT OF ACCOUNT

QUESTION NO 7

X Limited resolved on 31st December 2018 that the company be wound up voluntarily. The following was the trial balance extracted from its books as on that date:

	Rs.	Rs.
Equity shares of Rs.10 each		2,00,000
9% preference shares of Rs.10 each		1,00,000
Plant (less depreciation w/o Rs.85,000)	2,15,000	
Stock in trade	2,50,000	
Sundry debtors	55,000	
Sundry creditors		75,000
Bank balance	74,000	
Preliminary expenses	6,000	
Profit and Loss a/c (balance on 1st January 2018)		30,000
Trading loss for the year 2018	24,000	
Preference dividend for the year 2018	6,000	
Outstanding expenses (including mortgage interest)		25,000
4% Mortgage loan		2,00,000
Total	6,30,000	6,30,000

On 1st January 2019 the liquidator sold to M Limited plant for Rs.2,05,000 and stock in trade for Rs.2,00,000. The sale was completed in January 2019 and the consideration satisfied as to Rs.2,62,200 in cash and as to the balance in 6% Debentures of the purchasing company issued to the liquidator at a premium of 2%.

The remaining steps in the liquidation were as follows:

(i) The liquidator realized Rs.52,000 out of the books debts and the cost of collection amounted to Rs.2,000.

(ii) The loan mortgage was discharged on 31st January 2019 along with interest from 31st July 2018. Creditors were discharged subject to 2% and outstanding expenses excluding mortgage interest were settled for Rs.2,000.

(iii) On 30th June 2019 six month's interest on Debentures was received from M Limited.

(iv) Liquidation expenses amounting to Rs.3,000 and liquidator's remuneration of 3% on disbursements to members were paid on 30th June 2019 when:

(a) The preference shareholders were paid out in cash and

(b) The Debentures on M Limited and the balance of cash were distributed ratably among the equity shareholders.

Prepare the liquidator's statement of account showing the distribution.

QUESTION NO 8

Prakash Processors Limited went into voluntary liquidation on 31st December 2018 when their Balance Sheet read as follows:

Liabilities	Rs.
Issued and subscribed capital:	
5,000 10% cumulative preference shares of Rs.100 each fully paid	5,00,000
2,500 equity shares of Rs.100 each, Rs.75 paid	1,87,500
7,500 equity shares of Rs.100 each, Rs.60 paid	4,50,000
15% Debentures secured by a floating charge	2,50,000
Interest outstanding on Debentures	37,500
Creditors	3,18,750
	17,43,750
Assets	**Rs.**
Land and building	2,50,000
Machinery and plant	6,25,000
Patents	1,00,000
Stock	1,37,500
Sundry debtors	2,75,000
Cash at bank	75,000
Profit and Loss account	2,81,250
	17,43,750

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of Rs.38,000.

The assets realized as follows:

Land and building Rs.3,00,000; Machinery and plant Rs.5,00,000; Patents Rs.75,000; Stock Rs.1,50,000; Sundry debtors Rs.2,00,000.

The expenses of liquidation amounted to Rs.27,250. The liquidator is entitled to a commission of 3% on assets realized except cash. Assuming the final payments including those on Debentures is made on 30th June 2019 show the liquidator's final statement of account.

QUESTION NO 9

The following is the Balance Sheet of Y Limited as at 31st March 2018:

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed assets:	
2,000 equity shares of Rs.100 each, Rs.75 per share paid up	1,50,000	Land and buildings	4,00,000
		Plant and machinery	3,80,000
6,000 equity share of Rs.100 each Rs.60 per share paid up	3,60,000	Current assets:	
2,000 10% Preference shares of Rs.100 each fully paid up	2,00,000	Stock at cost	1,10,000
		Sundry debtors	2,20,000
10% Debentures (having a floating charge on all assets)	2,00,000	Cash at bank	60,000
		Profit and Loss account	2,40,000
Interest accrued on Debentures (also secured as above)	10,000		
Sundry creditors	4,90,000		
	14,10,000		14,10,000

On that date the company went into Voluntary liquidation. The dividends on preference shares were in arrears for the last two years. Sundry creditors include a loan of Rs.90,000 on mortgage of land and buildings. The assets realized were as under:

	Rs.
Land and building	3,40,000
Plant and machinery	3,60,000
Stock	1,20,000
Sundry debtors	1,60,000

Interest accrued on loan on mortgage of buildings upto the date of payment amounted to Rs.10,000. The expenses of liquidation amounted to Rs.4,600. The liquidator is entitled to a remuneration of 3% on all the assets realized (except cash at bank) and 2% on the amounts distributed among equity shareholders. Preferential creditors included in sundry creditors amount to Rs.30,000 all payments were made on 30th June 2018. Prepare the liquidator's final statement of account.

QUESTION NO 10

The following was the Balance Sheet of X Limited as on 31.3.2018:

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed assets	
14% 4,000 Preference shares of Rs.100 each fully paid up	4,00,000	Land	40,000
		Buildings	1,60,000
8,000 Equity shares of Rs.100 each Rs.60 per share paid up	4,80,000	Plant and machinery	5,40,000
		Patents	40,000
Reserve and surplus	NIL	Investments	NIL
Secured loans		Current assets, loans and advances:	
14% Debentures (having a floating charge on all assets)	2,30,000	A. Current assets:	
Interest accrued on above Debentures (also having a floating charge as above)	32,200	Stock at cost	1,00,000
		Sundry debtors	2,30,000
Loan on mortgage of land and building	1,50,000	Cash at bank	60,000
		B. Loans and advances	NIL
Unsecured loan	NIL	Miscellaneous expenses	
Current liabilities and provisions:			
Current liabilities			
Sundry creditors	1,17,800	Profit and Loss a/c	2,40,000
	14,10,000		14,10,000

On 31.3.2018 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounted to Rs.30,000.

The assets realized the following sums:

Land Rs.80,000; Buildings Rs.2,00,000; Plant and machinery Rs.5,00,000; Patents Rs.50,000; Stock Rs.1,60,000; Sundry debtors Rs.2,00,000.

The expenses of liquidation amounted to Rs.29,434. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts distributed among unsecured creditors other than preferential creditors. All payments were made on 30th June 2018. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

QUESTION NO 11

X Limited went into voluntary liquidation on 31st December 2018 when their Balance Sheet read as follows:

Liabilities	Rs.
Issued and subscribed capital:	
15,000 10% cumulative preference shares of Rs.100 each fully paid	15,00,000
7,500 Equity shares of Rs.100 each, Rs.75 paid	5,62,500
22,500 Equity shares of Rs.100 each, Rs.60 paid	13,50,000
15% Debentures secured by a floating charge	7,50,000
Interest outstanding on Debentures	1,12,500
Creditors	9,56,250
Assets	**Rs.**
Land and Buildings	7,50,000
Machinery and plant	18,75,000
Patents	3,00,000
Stock	4,02,500
Sundry debtors	8,25,000
Cash at bank	2,25,000
Profit and Loss account	8,53,750

Preference dividend were in arrears for 2 years and the creditors included preferential creditors of Rs.38,000.

The assets were realized as follows:

Land and building Rs.9,00,000; Machinery and plant Rs.15,00,000; Patents Rs.2,25,000; Stock Rs.4,50,000; Sundry debtors Rs.6,00,000.

The expenses of liquidation amounted to Rs.27,250. The liquidator is entitled to a commission of 3% on assets realized except cash. Assuming the final payments including those on debentures were made on 30th June 2019. Show the liquidator's final statement of account.

QUESTION NO 12

The summarized Balance Sheet of Mathew Limited as on 31.3.2018, being the date of voluntary winding up is as under:

Liabilities	Rs.	Assets	Rs.
Share capital:		Land and building	3,86,000
12% Cumulative preference shares 10,000 shares of Rs.100 each fully paid up	10,00,000	Plant and machinery	8,21,000
		Stock in trade	1,84,000
Equity share capital:		Book debts	13,37,000
5,000 Equity shares of Rs.100 each Rs.60 per share called and paid up	3,00,000	Profit and Loss account	3,72,000
5,000 Equity shares of Rs.100 each Rs.50 per share called and paid up	2,50,000		
Paid up share capital	15,50,000		
15% Debentures	4,00,000		
Preferential creditors	1,05,000		
Bank overdraft	3,03,000		
Trade creditors	7,42,000		
	31,00,000		31,00,000

Preference dividend is in arrears for two years. By 31.3.2018 the assets realized were as follows:

	Rs.
Land and building	9,84,000
Stock in trade	1,63,000
Plant and machinery	7,12,000
Book debts	11,91,000

Expenses of liquidation is Rs.54,000. The remuneration of the liquidator is 3 per cent of the realisation. Income tax payable on liquidation is Rs.44,500. Assuming that the final payments are made on 31.3.2019, prepare the liquidator's final statement of account.

QUESTION NO 13

T Limited was placed in voluntary liquidation on 31st December 2018 when its Balance Sheet was follows:

	Rs.		Rs.
Issued share capital:		Freehold factory	5,80,000
50,000 Equity shares of Rs.10 each fully paid less calls in arrear amounting to Rs.25,000	4,75,000	Plant and machinery	2,89,000
6,000 5% Cumulative preference shares of Rs.100 each fully paid up	6,00,000	Motor Vehicles	57,500
Share premium account	50,000	Stock	1,86,000
5% Debentures account	1,00,000	Debtors	74,000
Interest on Debentures	2,500	Profit and Loss account	2,14,000
Bank overdraft	58,000		
Creditors	1,15,000		
	14,00,500		14,00,500

The preference dividends are in arrears from 2015 onwards.

The company's articles provide that on liquidation out of the surplus assets remaining after payment of liquidation costs and outside liabilities there shall be paid firstly all arrears of preference dividend, secondly the amount paid up on the preference shares together with a premium thereon of Rs.10 per share and thirdly and balance then remaining shall be paid to the equity shareholders.

The bank overdraft was guaranteed by the directors who were called upon by the bank to discharge their liability under the guarantee. The directors paid the amount to the bank.

The liquidator realized the assets as follows:

	Rs.
Freehold factory	7,00,000
Plant and machinery	2,40,000
Motor Vehicles	59,000

Stock	1,50,000
Debtors	60,000
Calls in arrears	25,000

Creditors were paid less discount of 5 per cent. The Debentures and accrued interest were repaid on 31st March 2019.

Liquidation costs were Rs.3,820 and liquidator's remuneration was 2 per cent on the amounts realized.

Prepare the liquidators final statement of account.

QUESTION NO 14

Break Limited went into voluntary liquidation on 31.3.2019. The balances in its books on that date were:

Liabilities	Rs.	Assets	Rs.
Share capital:		Land	50,000
Authorized and subscribed		Buildings	2,00,000
5,000 6% preference shares of Rs.100 each fully paid up	5,00,000	Plant and machinery	6,25,000
		Stock	1,37,500
2,500 Equity shares of Rs.100 each, Rs.75 paid up	1,87,500	Sundry debtors	2,75,000
		Cash at bank	75,000
7,500 Equity shares of Rs.100 each, Rs.60 paid up	4,50,000	Profit and Loss account	4,10,000
5% Debentures (secured by a floating charge on all assets)	2,50,000		
Interest due on Debentures	12,500		
Bank overdraft	1,00,000		
Unsecured creditors	2,00,000		
Taxes due to government within 12 months	12,500		
Salaries and wages due for 4 months for workers	60,000		
	17,72,500		17,72,500

The liquidator is entitled to a remuneration of 5% on all assets realized except cash and 1% on the amount distributed to unsecured creditors other than preferential creditors.

Bank overdraft is secured by deposit of title deed of land and building which realized Rs.3,00,000. Other assets realized the following sums:

	Rs.
Plant and machinery	5,00,000
Stock	1,50,000
Sundry debtors	2,00,000

Expenses of liquidation amounted to Rs.27,250.

Prepare the liquidator's final statement of account. Liquidator realized all assets on 1.4.2019 and discharged his obligation on the same date. The dividend on preference shares were in arrears for two years.

QUESTION NO 15

The Balance Sheet of Asco Limited as on 31st March 2018:

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed assets:	
1,000 6% Preference shares of Rs.100 each fully paid	1,00,000	Machinery	1,90,000
2,000 Equity shares of Rs.100 each fully paid	2,00,000	Furniture	10,000
2,000 Equity shares of Rs.100 each, Rs.75 paid	1,50,000	Current assets:	
Loan—bank (secured on stock)	1,00,000	Stock	1,20,000
Current liabilities and provision:		Debtors	2,40,000
Creditors	3,50,000	Cash at bank	50,000
Income tax payable	10,000	Miscellaneous expenses:	
		Profit and Loss account	3,00,000
	9,10,000		9,10,000

The company went into liquidation on 1st April 2019. The assets were realized as follows:

	Rs.
Machinery	1,66,000
Furniture	8,000
Stock	1,10,000
Debtors	2,30,000
Liquidation expenses amounted to	4,000

The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors. Calls on partly paid shares were made but the amount due on 200 shares were found to be irrecoverable.

Prepare the liquidator's statement of account.

QUESTION NO 16

The following Balance Sheet of Confidence Builders Limited as on 30th September 2018:

Liabilities	Rs.	Assets	Rs.
Share capital		Land and building	1,20,000
Issued: 11% pref. Shares of Rs.10 each	1,00,000	Sundry current assets	3,95,000
		Profit and Loss account	38,500
10,000 equity shares of Rs.10 each fully paid up	1,00,000	Debentures issue expenses not written off	2,000
5,000 equity shares of Rs.10 each, Rs.7.50 per share paid up	37,500		
13% Debentures	1,50,000		
Mortgage loan	80,000		
Bank overdraft	30,000		
Creditors for trade	32,000		
Income tax arrears:			
(Assessment concluded in July 1998)			
Assessment year 16-17	21,000		
Assessment year 17-18	5,000		
	5,55,500		5,55,500

Mortgage loan was secured against land and buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the Debentures holders appointed a receiver. The Debentures holders brought the land and buildings to auction and realized Rs.1,50,000. He also took charge of sundry assets of value of Rs.2,40,000 and realized Rs.2,00,000. The bank overdraft was secured by a personal guarantee of two of the directors of the company and on the bank raising a demand, the directors paid off the due from their personal resources. Costs incurred by the receiver were Rs.2,000 and by the liquidators Rs.2,800. The receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realized by him. Preference shareholders had not been paid dividend for period after 30th September 2016 and interest for the last half year was due to the Debenture holders. Rest of the assets were realized at Rs.1,00,000.

Prepare the accounts to be submitted by the receiver and liquidator.

QUESTION NO 17

The position of Valueless Ltd on its liquidation is as under:

Issued and paid up capital

3000	11% preference shares of Rs 100 each fully paid.
3000	Equity shares of Rs 100 each fully paid.
1000	Equity shares of Rs 50 each, Rs 30 per share paid.

Call in arrears are Rs 10,000 and calls received in advance Rs 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is Rs 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidators final statement of account.

QUESTION NO 18

From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final statement of Account.

(i) Cash with liquidators (after all assets are realized and secured creditors and debentures holders are paid P is Rs. 7,50000.

(ii) Preferential creditors to be paid Rs. 35,000.

(iii) Other unsecured creditors Rs. 2,30,000.

(iv) 5,000, 10% preference shares of Rs. 100 each fully paid.

(v) 3,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.

(vi) 7,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.

(vii) Liquidators' remuneration is 2% on payments to preferential and other unsecured creditors

Answer:

Liquidator's Final Statement of Account

	Rs		Rs
To cash in hand	7,50,000	By Liquidator's remuneration (2% on 2,65,000)	5,300
To Cash/ bank	45,710	By Preferential creditors	35,000
(Amount received on call for 7,000 equity shares @ Rs 6.53 per share)		By Preferential creditors By Unsecured creditors By Preference shareholders	35,000 2,30,000 5,00,000
		By Equity shareholders (amount paid to holders of 3,000 equity shares @ Rs. 8.47 per equity share)	25,410
	7,95,710		7,95,710

Working note:

Calculation of amount receivable from equity shareholders or payable to equity shareholders

	Rs.	Rs.
Cash in hand (Assets realized)		7,50,000
Less: Payment made:		
Liquidator's remuneration	5,3000	
Preference creditors Unsecured creditors Preference shareholders	35,000 2,30,000 5,00,000	7,70,300
		20,300
Add: Amount payable to equity shareholders (paid up):		
3,000 equity share of Rs. 100 each Rs. 75 paid up	2,25,000	
7,000 equity share of Rs. 100 each Rs. 60 paid up	4,20,000	6,45,000
Total loss to be borne by equity shareholders		6,65,300
No. of equity shares		10,000 shares

Loss per equity shares = Rs. 66.53

Amount receivable from 7,000 equity shareholders = 7,000 x 6.53 (i.e. 66.53 – 60)

= Rs. 45,710

Amount payable to 3,000 equity shareholders = 3,000 x 8.47 (i.e. 75-66.53)

= Rs. 25,410

CONCEPT 3: "B" LIST OF CONTRIBUTORIES

QUESTION NO 19

Liquidation of YZ Ltd commenced on 2nd April, 2004 certain creditors could not receive payments out of the realization of assets and out of the contributions from Amount list contributions. The following are the details of certain transfers which took place in 2003 and 2004:

Shareholders	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2003	Rs 5,000
P	1,500	1st May, 2003	Rs 3,300
Q	1,000	1st October, 2003	Rs 4,300
R	500	1st November, 2003	Rs 4,600
S	300	1st February, 2004	Rs 6,000

All the shares were of Rs 10 each, Rs 8 per share paid up. Show the amount to be realized from the various persons listed above ignoring expenses and remuneration to liquidator etc.

ANSWER

STATEMENT SHOWING LIABILITY OF "B" LIST CONTRIBUTORIES

Creditors outstanding on the date of ceasing to be member	P 1500 shares	Q 1000 shares	R 500 shares	S 300 shares	Amount to be paid to creditors
(i) Rs.3,300 (15:10:5:3)	1,500	1,000	500	300	3,300
(ii) Rs.1000 (4,300-3,300)	-	555	278	167	1,000
(iii) Rs. 300 (4,600-4,300)	-	-	188	112	300

(iv) Rs.1,400(6,000-4,600)	-	-	-	1400	1400
Total (A)	1500	1,555	966	1,979	6,000
Total (B) Maximum liability on shares held	3,000	2,000	1,000	600	
Total (C) lower of A and B	**1,500**	**1,555**	**966**	**600**	

QUESTION NO 20

In a liquidation, which commenced on 2 April 1997 certain creditors could not receive payments out of the realization of assets and out of the contributions from "A" list contributories. The following are the details of certain transfers, which took place in 1996 and 1997.

Shareholders	Number of shares transferred	Date of ceasing to be member	Creditors remaining unpaid and outstanding ferred at the date of ceasing to be member
X	1,500	1st March 96	4,000
A	1,000	1st May 96	6,000
B	1,500	1st July 96	7,500
C	300	1st Nov. 96	8,000
D	200	1st Feb. 97	9,500

All the shares were Rs.10 each, Rs.6 paid up ignoring expenses of and remuneration to liquidators, etc., show the amount to be realized from the various persons listed above.

QUESTION NO 21

Pessimist Limited has gone into liquidation on 10th May 2000. The details of members who have ceased to be members within the year 31st March 2000 are given below. The debts that could not be paid out of realization of assets and contribution from present members ("A" Contributories) are also given with their date-wise break up. Shares are of Rs.10 each Rs.6 per share paid up.

You are to determine the amount realizable from each person.

Shareholders	No. of shares transferred	Date of transfer	Proportionate unpaid debts
Purchase	1,000	20.04.99	3,000
Q	1,200	15.05.99	5,000
R	1,500	18.09.99	9,200
S	800	24.12.99	10,500
T	500	12.03.2000	11,000

ANSWER

STATEMENT SHOWING LIABILITY OF "B" LIST CONTRIBUTORIES

Creditors outstanding on the date of ceasing to be member	Q 1,200 shares	R 1500 shares	S 800 shares	T 500 shares	Amount to be paid to creditors
Rs. 5,000 (12:15:8:5)	1,500	1,875	1,000	625	5,000
Rs.4,200(15:8:5)	-	2,250	1,200	750	4,200
Rs.1,300(8:5)	-	-	800	500	1,300
Rs.500(only to T)	-	-	-	500	500
Total (a)	1500	4,125	3,000	2,375	11,000
Maximum liability on shares held (b)	4,800	6,000	3,200	2,000	
Amount in a or b which ever is lower	**1,500**	**4,125**	**3,000**	**2,000**	

QUESTION NO 22

Bad Luck Limited went into voluntary liquidation and the proceedings commenced on 2nd July 1980. Certain creditors could not receive payment out of the realisation of assets and out of the contributions from the contributories of the "A" list. The following details of share transfers are made available to you.

Name of the transferor shareholder	No. of shares transferred	Date of the transfer ceasing to be a member	Creditors remaining unpaid and outstanding at the time of the transferor ceasing to be a member
A	1,000	1st March 1979	6,000
B	1,250	15th August 79	8,000
C	500	1st October 79	10,750
D	2,000	1st December 79	13,000
E	250	1st April 1980	15,000

All the shares were of Rs.10 each on which Rs.5 per share had been paid up. Ignoring other details like liquidator's expenses etc. you are required to work out of the liability of the individual contributories listed above.

QUESTION NO 23

In a winding up which commenced on 15th September 1986 certain creditors could not receive payments out of the realisation of assets and out of contribution from "A" list of contributories. Following are the details of certain share transfers that took place prior to liquidation and the amount of creditors remaining unpaid:

Shareholders	No. of shares transferred	Date when ceased to be member	Creditors remaining unpaid and outstanding on the date of ceasing to be a member
L	2,000	31-8-1985	8,000
M	1,800	20-9-1985	12,000
N	1,200	15-11-1985	17,400
O	1,000	22-4-1986	18,600
P	500	10-7-1986	22,000

All the shares were of Rs.10 each, on which Rs.5 per share had been called and paid up. Ignoring expenses of liquidation, remuneration to liquidator etc. work out the amount to be realized from the above contributories

TEST YOUR KNOWLEDGE

QUESTION NO 1

The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @2½ % on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of ₹ 100 each fully paid up.

50,000 Equity shares of ₹ 10 each fully paid up

30,000 Equity shares of ₹ 10 each, ₹ 8 paid up

Assets realized ₹ 20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	₹
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized Rs.3,20,000)	3,50,000
Debenture holders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of Rs. 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

ANSWER

Liquidator's Statement of Account

	₹			₹
To Assets Realised	20,00,000	By Liquidator's remuneration		
To Receipt of call money on 29,000 equity shares @ 2 per share	58,000	2.5% on 23,20,000*	58,000	
		2.5% on 50,000	1,000	
		2% on 13,12,745 (W.N.3)	26,255	85,255

		By Liquidation Exp. By Debenture holders having a floating charges on all assets By Preferential creditors By Unsecured creditors		10,000 6,00,000 50,000 13,12,745
	20,58,000			20,58,000

Percentage of amount paid to unsecured creditors to total unsecured creditors.

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors = ₹ 3,50,000-₹ 3,20,000= ₹ 30,000
2. Total unsecured creditors = 18,00,000+30,000 (W.N.1)= Rs. 18,30,000
3. Liquidator's remuneration on payment to unsecured creditors.

Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = ₹ 13,39,000

Liquidator's remuneration on unsecured creditors = $\frac{2}{102} \times$ 13,39,000 = ₹ 26,255

or on Rs. 13,12,754 x 2/100 = ₹ 26,255

QUESTION NO 2

The summarized Balance Sheet of Full Stop Limited as on 31st March 2013, being the date of voluntary winding up is as under:

Liabilities	₹	Assets	₹
Share Capital		Land & Building	5,20,000
5,000, 10% Cumulative		Plant & Machinery	7,80,000
Preference share of ₹ 100		Inventory in trade	3,25,000
each fully paid up	5,00,000	Book debts	10,25,000
Equity Share capital:		Profit & Loss account	5,50,000
5,000 Equity Shares of			
₹ 100 each ₹ 60 per share			
called and paid up	3,00,000		

5,000 Equity shares of ₹ 100 each ₹ 50 per share called up and paid up	2,50,000		
Securities Premium	7,50,000		
10% Debentures	2,10,000		
Preferential creditors	1,05,000		
Bank overdraft	4,85,000		
Trade Creditors	6,00,000		
	32,00,000		32,00,000

Preference dividend is in arrears for three years. By 31.03.2013, the assets realized were as follows:

	₹
Land & Building	6,20,000
Inventory in Trade	3,10,000
Plant & Machinery	7,10,000
Book debts	6,60,000

Expenses of liquidation are ₹ 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is ₹ 67,000. Assuming that the final payments were made on 31.03.2013, prepare the Liquidator's Statement of Account.

ANSWER:

Liquidator's Statement of Account

Receipts	₹	**Payments**	₹
Land & Building	6,20,000	Liquidator's remuneration	46,000
Inventory in trade	3,10,000	Liquidation expenses	86,000
Plant & machinery	7,10,000	10% Debentures	2,10,000
Book debts	6,60,000	Preferential creditors	1,05,000
		Income tax payable	67,000
		Bank overdraft	4,85,000
		Trade creditors	6,00,000

		Preference shareholders:	
		Capital	5,00,000
		Arrears of preference dividend for 3 years	1,50,000
		Refund on 5,000 shares of Rs.60 paid up @ ₹ 10.10 per share (Refer W.N.)	50,500
		Refund on 5,000 shares of ₹ 50 paid up @ ₹ 0.10 per share (Refer W.N.)	500
	23,00,000		23,00,000

Working Note:

	₹
Total equity capital paid up (3,00,000 + 2,50,000)	5,50,000
Less: Balance available after payment to secured, unsecured, preferential creditors and preference shareholders (23,00,000 – 46,000 – 86,000 – 2,10,000 – 1,05,000 – 67,000 – 4,85,000 – 6,00,000 – 5,00,000 – 1,50,000)	(51,000)
Loss to be borne by 10,000 equity shareholders	4,99,000
Loss per share	₹ 49.90
Hence, amount of refund on ₹ 50 per share paid up(₹ 50- ₹ 49.90)	₹ 0.10
Amount of refund on ₹ 60 per share paid up (₹ 60-₹ 49.90)	₹ 10.10

QUESTION NO 3

The summarized Balance Sheet of Vasant Ltd. as on 31st March, 2013, being the date of voluntary winding up is as under:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:		Land & Building	1,30,000
Issued: 10% Pref. Share of ₹ 10 each	1,50,000	Sundry Current Assets	4,36,000
10,000 Equity Shares of ₹ 10 each, fully paid up	1,00,000	Profit and Loss Account	35,000
5,000 Equity shares of ₹ 10 each, ₹ 8 per share paid up	40,000	Debenture issue expenses not written off	2,000
13% Debentures	1,50,000		
Mortgage Loan	70,000		
Bank Overdraft	30,000		
Trade Creditors	38,000		
Income Tax Arrears (assessment concluded in February 2013)	25,000		
	6,03,000		6,03,000

Mortgage loan was secured against Land & Building. Debentures were secured by a floating charge on all assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver for the debenture holders. He brought the Land & Buildings to auction and realized ₹ 1,60,000. He also took charge of Sundry Assets of value of ₹ 2,36,000 and realized ₹ 2,00,000. The Bank overdraft was secured by personal guarantee of the directors of the Company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Costs incurred by the Receiver were ₹ 1,950 and by the Liquidator ₹ 3,000. The receiver was not entitled to any remuneration but the Liquidator was to

receive 2% fee on the value of assets realized by him. Preference Shareholders have not been paid dividend for period after 31st March, 2011 and interest for the last half year was due to the Debentureholders. Rest of the assets were realized ate ₹ 1,50,000.

Prepare the accounts to be submitted by the receiver and Liquidator.

ANSWER:

Receiver's Receipts and Payments Account

Receipts	₹	₹	Payments	₹	₹
Sundry Assets realized		2,00,000	Costs of the Receiver Preferential payments:		1,950

Surplus received from Mortgage loan:- Sale Proceeds of land and building Less: Applied to discharge mortgage loan	1,60,000 (70,000)	90,000	Income Taxes (raised within 12 months) Debentures holders: Principal amount Interest for half year Surplus transferred to the Liquidator	 1,50,000 9,750	25,000 1,59,750 1,03,300
		2,90,000			2,90,000

Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Surplus received from Receiver	1,03,300	Cost of Liquidation	3,000
Assets Realised	1,50,000	Remuneration to Liquidator (1,50,000x2%)	3,000
Calls on Contributories:		Unsecured Creditors:	
On holder of 5,000 Equity shares at the rate of 1.38 per share	6,900	Trade 38,000 Directors for Bank O/D cleared 30,000	68,000
		Preferential Shareholders: Capital 1,50,000 Arrear of Dividends 30,000	1,80,000
		Equity Shareholders: Return of money to holders of 10,000 equity shares at 62 Paisa each	6,200
	2,60,200		2,60,200

Working Note:

Call from partly paid shares

Deficit before call from Equity Shares			₹
= ₹ (1,03,300+1,50,000)- ₹ (3,000+3,000+68,000+1,80,000) = 700			
Notional call on 5,000 shares @ ₹ 2 each			10,000
Net balance after notional call	(a)	9,300	
No. of shares deemed fully paid	(b)	15,000	

Refund on fully paid shares $\frac{9,300}{15,000}$ = ₹ 0.62

Call on partly paid share (₹ 2 – ₹ 0.62) = ₹ 1.38

QUESTION 4

(a) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 10,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is ₹ 4,12,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors, in toto.

(b) A Liquidator is entitled to receive remuneration at 2% on the assets realized. 3% on the amount distributed to Preferential creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows:

Liquidation	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

ANSWER:

(a) Calculation of liquidator's remuneration:

	₹
Liquidator's remuneration on assets realized (Rs.10,00,000 x 2,/100)	20,000
Liquidator's remuneration on payment to unsecured creditors (Rs.4,12,000 x 3/103)	12,000
Total liquidator's remuneration	32,000

(b) Calculation of Total Remuneration payable to Liquidator

		₹
2% on Assets realized	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N.)		39,255
Total Remuneration payable to Liquidator		91,505

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses.

Payment to secured creditors, preferential creditors & liquidator's remuneration.

= ₹ 25,00,000 - ₹ 25,000 – ₹ 10,00,000 – ₹ 75,000 – ₹ 50,000 – ₹ 2,250

= ₹ 13,47,750

Liquidator's remuneration on payment to unsecured creditors

= 3/103 x ₹ 13,47,750 = ₹ 39,255

QUESTION 5 (STATEMENT OF AFFAIRS)

'A' Ltd. is to be liquidated. Their summarized Balance Sheet as at 30th September, 2012 appears as under:-

	₹
Liabilities:	
5,00,000 equity shares of ₹ 100 each	50,00,000
Secured debentures (on Land and Building)	20,00,000
Unsecured Loans	40,00,000
Trade Creditors	70,00,000
	1,80,00,000
Assets:	
Land and Building	10,00,000
Other Fixed Assets	40,00,000
Current Assets	90,00,000
Profit and Loss Account	40,00,000
	1,80,00,000

Contingent Liabilities are:	
For bills discounted	2,00,000
For excise duty demands	3,00,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realized as follows:

	₹
Land and Building	22,00,000
Other fixed assets	36,00,000
Current assets	70,00,000

Taking the above into account, prepare the statement of affairs:

ANSWER:

Statement of Affairs of 'A' Ltd. (in Liquidation)
as at 30th Septembe,2012

		Estimated Realisable value (₹)
Assets not specifically pledged (as per List A):		
Other Fixed Assets		36,00,000
Current Assets		70,00,000
		1,06,00,000
Assets specifically pledged (as per List B):		
Estimated Due to Deficiency Surplus		
Realizable secured ranking as carried Value creditors unsecured to the last col.		
Land & Building ₹ 22,00,000 ₹ 20,00,000 - ₹ 2,00,000		2,00,000
Estimated total assets available for preferential creditors, debenture holders secured by a floating charge and unsecured creditors		1,08,00,000
Summary of Gross Assets:		
Gross realizable value of assets specifically pledged	22,00,000	
Other Assets	1,06,00,000	
Total Assets	1,28,00,000	

	Liabilities	
Gross Liabilities	**Liabilities**	
20,00,000	Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specifically pledged	-
3,00,000	Preferential creditors (as per List C) – for demand of excise duty	3,00,000
	Balance of assets available for debentures holders secured by floating charge and unsecured creditors	1,05,00,000
-	Debenture holders secured by floating charge (as per List D)	-
	Unsecured creditors(as per List E):	
	Unsecured Loans	40,00,000
40,00,000	Trade creditors	70,00,000
70,00,000	Liability for bills discounted (Contingent)	2,00,000
2,00,000	Estimated deficiency as regards creditors (difference between gross assets and gross liabilities)	7,00,000
1,35,00,000		
	Issued and called up capital:	
	5,00,000 Equity shares of ₹ 10 each (as per List G)	50,00,000
	Estimated deficiency as regards members/ contributories	57,00,000

QUESTION NO 6

A liquidator is entitled to received remuneration at 2% on the assets realized. 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 45,00,000 against which payment was made as follows:

Liquidation expenses	₹	50,000
Secured Creditors	₹	15,00,000
Preferential Creditors	₹	1,25,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

ANSWER:

Calculation of Total Remuneration payable to Liquidator:

		Amount ₹
2% on Assets realized	(45,00,000 x 2%)	90,000
3% on payment to Preferential creditors	1,25,000 x 3%	3,750
3% on payment made to Unsecured creditors (Refer W.N.)		45,000
Total Remuneration payable to Liquidator		1,38,750

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration.

= ₹ 45,00,000 – ₹ 50,000 – ₹ 15,00,000 – ₹ 1,25,000 – ₹ 90,000 – ₹ 3,750

= ₹ 27,31,250

Sufficient amount is available for unsecured creditors therefore Liquidator's remuneration on payment to unsecured creditors = 3%x ₹ 15,00,000 = ₹ 45,000

QUESTION NO 7

Write the LISTS which should accompany the Statement of Affairs, in case of a winding up by Court.

Answer:

Statement of Affairs should accompany the following eight lists in case of winding up by the court:

List A Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.

List B Assets specifically pledged and creditors fully or partly secured.

List C Preferential creditors for rates, taxes, salaries, wages and otherwise.

List D List of debentures holders secured by a floating charge.

List E Unsecured creditors.

List F List of preference shareholders.

List G List of equity shareholders.

List H Deficiency or surplus account.

QUESTION 8 (OVERRIDING PREFERENTIAL CREDITORS)

XYZ Limited is being would up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes 5 crores. The company owes following amounts to others:

- ✓ Dues to workers -- ₹ 1,25,00,000
- ✓ Taxes Payable to Government -- ₹ 30,00,000
- ✓ Unsecured Creditors -- ₹ 60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among

Section 326 of the Companies Act, 2013 is talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kinds of creditors. According to the proviso given in the section 326 the creditors is only ₹ 4,00,00,000/-.security of every secured creditor should be deemed to be subject to a paripassu portion change in favor of the workman to the extent of their

ANSWER:

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realied* Workman's Dues}}{\text{Workman's Dues + Secured Loan}}$$

$$\text{Workman's Share to Secured Asset} = \frac{4,00,00,000 * 1,25,00,000}{1,25,00,000 + 5,00,00,000}$$

$$= 4,00,00,000 * \frac{1}{5}$$

Workman's Share to Secured Assets = 80, 00,000

Amount available to secured creditor is ₹ 400 Lakhs – 80 Lakhs = 320 lakhs Hence, no amount is available for payment of government dues and unsecured creditors.

QUESTION 9

The Position of Careless Ltd. on its liquidation is as under:

5,000, 10% Preference Share of ₹ 100 each ₹ 60 paid up

2,000, Equity Share of ₹ 75 each, ₹ 50 paid up

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

Liquidator is entitled to a commission of 2% on the amount realised from calls made on contributories

You are required to Prepare Liquidator's Final Statement of Account if the total assets realised ₹ 3,80,400.

SOLUTION

Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Assets realised	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidation's Remuneration	400
Equity Shares @ ₹ 10 per share		Unsecured Creditors	99,000
(W.N.)		Preference Shareholders	3,00,000
	4,00,400		4,00,400

Working Notes:

(i) **Calculation of Shortage of funds**

	₹
Total Amount Available	3,80,400
Loss: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	19,600

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{\text{100-Rate of Commistion}} = 19{,}600 \times \frac{100}{100 - 2}$$

$$= ₹ \frac{19{,}600 \times 100}{98} = ₹\ 20{,}000$$

(iii) Uncalled Capital @ 25 on 2,000 shares = ₹ 50,000

(iv) Amount of Calls to be made (lest of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share (20,000 /20)

(v) Commission on Call = ₹ 20,000 x 2/100 = ₹ 400

FINANCIAL REPORTING OF NBFC

NON BANKING FINANCE COMPANY

Non-Banking Financial Company (NBFC)

1. **NBFC:** A non-Banking Financial Company (NBFC) is a Company registered under the Companies Act, and is engaged in the business of –
   (a) Loans and Advances
   (b) Acquisition of Shares/Stock/Bonds/Debentures/Securities issued by Government or Local Authority or other Securities of like marketable nature
   (c) Leasing
   (d) Hire-Purchase
   (e) Insurance Business
   (f) Chit Business

2. **NBFCs vs Banks:** NBFCs function like that of Banks, however there are a few differences:-
   (a) a NBFC cannot accept Demand Deposits.
   (b) it is not a part of the payment and settlement system and as such cannot issue Cheques to its customers &
   (c) Deposit Insurance Facility of DICGC is not available for NBFC Depositors unlike in case of Banks.

VARIOUS TYPES OF NBFC'S

A. Asset Finance Company (AFC):

1. AFC is a Company which is a Financial Institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, e.g. Automobiles, Tractors, Machineries, Generator Sets, Earth Moving and Material Handling Equipment and General Purpose Industrial Machines.
2. Principal Business means aggregate of financing real/physical assets supporting economic activity and Income arising therefrom is not less than 60% of its Total Assets and Total Income respectively.

B. Investment Company (IC): It is a Company which is a Financial Institution carrying on as its main business of the acquisition of securities.

C. Loan Company (LC): It is a Company which is a Financial Institution carrying on as its main business by providing finance, whether by making Loans or Advances or otherwise for any activity other than its own, but does not include an Asset Finance Company.

D. Mortgage Guarantee Company (MGC): A Mortgage Guarantee Company is a Company registered with RBI under the RBI-notified scheme for registration of Mortgage Guarantee Companies. A MGC would be treated as NBFC. Further, RBI has exempted a Mortgage Guarantee Company from requirement of – (a) Registration (2) Maintenance of Liquid Assets, & (3) Creation and Transfer to Reserve Fund from Net Profits.

E. Infrastructure Finance Company (IFC): An IFC is defined as non-deposit taking NBFC, that fulfills the following :-

1. Minimum 75% of its Total Assets should be deployed in Infrastructure Loans as per Current RBI Regulations.
2. Minimum Net Owned Funds of Rs. 300 Crores.
3. Minimum Credit Rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA etc.
4. Minimum Capital to Risk Asset Ratio (CRAR) of 15% (with a Minimum Tier 1 Capital of 10%).

F. Core Investment Companies (CIC): Core Investment Company means a NBFC carrying on the business of acquisition of Shares and securities which satisfies the following conditions:-

1. It holds not les than 90% of its Total assets in the form of Investment in Equity Shares, Preference shares, Debt or Loans in Group companies.
2. Its Investments in equity Shares (including Instruments compulsorily convertible into Equity Shares within a period not exceeding 10 years from the date of issue) in Group Companies constitutes not less than 60% of its Total Assets.
3. It does not trade in its investments in Shares, Debt or Loans in Group Companies except through block sale for the purpose of dilution or disinvestment.
4. It does not carry on any8 other financial activity referred us/45-I(c) and 45-I(f) of RBI Act, except investment in Bank Deposits, Money Market Instruments, Government Securities, Loans and Investments in Debt Issuances of Group Companies or guarantees issued on behalf of Group Companies.

CIC-ND-SI:

- Core Investment Companies (CIC) require registration with RBI, only, if their Asset Size is Rs. 100 Crores or more. Such CICs will be regarded as Systemically Important Core Investment Companies (CICs-ND-SI).

- A CIC-ND-SI which fulfills the following conditions, will not be required to meet the requirement for maintaining Net Owned Funds & Capital Adequacy and Exposure Norms as required under Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (RBI) Directions, 2007.
    (i) Maintenance of Minimum Capital Ratio where Adjusted Net Worth shall not be less than 30% of its Aggregate Risk Weighted Assets on Balance Sheet and Risk Adjusted Value of Off-Balance Sheet items as on the date of the last audited Balance Sheet at the end of the financial year.
    (ii) Ensuring that is outside Liabilities at all times does not exceed 2.5 times of the Adjusted Net Worth as on the last audited Balance Sheet date.
- CICs-ND-SI will be required to submit an Annual Certificate from their Statutory Auditors regarding compliance with the above guidelines, within 1 month from the date of finalization of the Balance Sheet.

G. Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC).

1. Infrastructure Debt Funds (IDFs) seek to facilitate the flow of long-term debt into infrastructure projects.
2. IDF-NBFC rises resources through issue of either Rupee or Dollar denominated bonds of minimum 5 year maturity.
3. Investors of IDF-NBFC's Bonds are primarily domestic and off-shore Institutional Investors, especially Insurance and Pension Funds which have long term resources.

H. Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI): An NBFC-MFI is a non-deposit taking NBFC (other than a Company licensed u/s 8 of Companies Act) that fulfills the following conditions:-

1. Minimum Net Owned Funds of Rs.5 Crore. (For NBC-MFIs registered in the North Eastern Region of the Country, the Minimum NOF requirement shall be Rs. 2 Crores).
2. Minimum 85% of its Net Assets are in the nature of "Qualifying Assets" (Note: Income derived by an NBFC-MFI from the remaining 15% of is assets shall be in accordance with RBI Regulations.)

    Significance of NBFC-MFI: An NBFC which does not qualify as an NFC-MFI, shall not extend loans to micro-finance sector, which in aggregate exceed 10% of its Total Assets.

Note:

Net Assets = Total Assets other than Cash and Bank Balances and Money Market Instruments.

* Qualifying Asset* is a Loan which satisfies the following criteria –

(a) Loan disbursed by an NBFC-MFI to a Borrower with a Rural Household Annual Income not exceeding Rs. 60,000 or Urban and Semi-Urban Household Income not exceeding Rs. 1,20,000.

(b) Loan Amount does not exceed Rs. 35000 in the first cycle and Rs. 50,000 in subsequent cycles.

(c) Total Indebtedness of the Borrower does not exceed Rs.50,000.

(d) Tenure of Loan not less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty.

(e) Loan to be extended without collateral.

(f) Aggregate Amount of loans, given for income generation, is not les than 75% of the total loans given by MFIs.

(g) Loan is repayable or weekly, fortnightly or monthly installments at the choice of the Borrower.

I. Residuary Non-Banking Company (RNBC):

1. RNBC is a Non-Banking Institution which is a Company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner or lending in any manner.
2. A RNBC receives deposits under any scheme or arrangement, by whatever name called, in a lumpsum or in installments by way of contribution or subscriptions or by sale of units or certificates or other instruments etc.
3. RNBCs are also registered as NBFC, with the RBI.

PRUDENTIAL NORMS FOR NBFC

Capital Adequacy – Tier – 1 Capital and Tier – II Capital

Tier – I Capital	Tier – II Capital
Owned Fund Less: Invt. in Shares of other NBFCs. Less: Investment in Shares/Debentures/ Bonds/Outstanding Loans/ Advances including HP and Lease Finance made to and Deposits with Subsidiaries and Group Companies, in excess of 15% of Owned Fund	Aggregate of – 1. Preference Shares (except those considered in Owned Fund i.e. not convertible into Equity). 2. Revaluation Reserves discounted at 55% 3. General provisions & Loss Reserves to the extent these are not attributable to actual diminution or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of 1% of Risk Weighted assets. 4. Hybrid Instruments and 5. Subordinated Debt.

Capital Adequacy Requirement

1. Every NBFC shall, maintain a Minimum Capital Adequacy Ratio consisting of Tier 1 and Tier II capital which shall not be less than 15% of its Aggregate Risk-Weighted Assets.
2. The total of Tier II Capital, at any point of time, shall not exceed 100% of Tier I Capital.

INCOME RECOGNITION

1. Basis of Recognition: Income recognition should be based on recognized accounting principles.
2. Income from NPAs: Income including interest/discount or any other charges on NPA should be recognized any when it is actually realized. Any income recognized before the asset was classified NPA and remaining unrealized should be reversed.
3. HP Assets: If the instalments are overdue for more than 12 months, income shall be recognized only when hire charges are actually received. Any income credited to P&L A/c before the HP Asset was classified as NPA, and remaining unrealized should be reversed.

4. Lease Rentals: Where the lease rentals are overdue for more than 12 months, the income shall be recognized only on actual realization of the lease rentals. The Net Lese Rentals (i.e. Gross Lease Rent adjusted by amount debited/credited Lease Adjustment Account Less Depreciation) credited to P&L A/c. before the asset became NPA and remaining unrealized should reversed.

5. Income from Investments: The following principles apply –

Investment Income	Income Recognition Principles
(a) Dividend on Shares of Companies and units of Mutual Fund.	Cash Basis. Accrual basis may be followed when the dividend is declared t the Company's AGM and NBFC's right to receive payment is established.
(b) Income from Bonds, Debentures of Corporate and Govt. Securities/ Bonds	Accrual Basis if interested rate is predetermined, interest is serviced regularly and interest is not in arrears.
(c) Income from Government Guaranteed Bonds and Securities of Corporate Bodies.	Accrual Basis

INVESTMENTS

1. **Investment Policy:** Board of Directors of the NBFC should frame and implement an Investment Policy for the Company containing the criteria for classifying investments into current and long term.

2. **Classifications:** Each investment should be classified into either Current Investment or Long term Investment at the time of making investment. Inter-Class transfer can be done only at the beginning of each half-year (either on 1st April or 1st October) only with the approval of the Board.

3. **Accounting for Inter-Class Transfer:**

   (a) Investments should be transferred scrip-wise at lower of Book value or Market value from the long-term to current or vice-versa.

   (b) Depreciation in each scrip should be fully provided for an appreciation should be ignored.

   (c) Depreciation in one scrip cannot best off against appreciation in another scrip at the time of such inter-class transfer even if they are in the same category.

4. **Grouping of Quoted Investment :** Quoted current Investment should be grouped as under for valuation purposes - (a) Equity Shares (b) Preference Shares (c) Debentures and Bonds (d) Government Securities (including Treasury Bills) (e) Units of Mutual Fund and (f) Others

5. **Valuation of Investments:**

Investment	Valuation
(a) Long Term Investment	As per AS issued by ICAI.
(b) Quoted Current Investments (for each category, to be considered scrip-wise)	Cost or Market Value whichever is lower. (See Note below)
(c) Unquoted Equity Shares held as Current Investments.	Cost or Break-up value, whichever is lower. * Fair value may be substituted for Break-up value, if considered necessary. * Where Investee co.'s B/Sheet is not available for 2 years, value of Shares = Rs.1 only.
(d) Unquoted Proef. Shares held as Current Invts.	Cost or Face Value, whichever is lower.
(e) Unquoted Govt. Securities/Govt. guaranteed Bonds	Carrying Cost.
(f) Unqutoed Current Invts in units of Mutual Fund	NAV declared by Mutual Fund for each scheme.
(g) Commercial Papers	Carrying Cost.

Note: For Quoted Current Investments :-

* If the aggregate Market Value (i.e. total of all scrips in that category) for any category is les than the aggregate cost for that category, the net depreciation shall be provided for/charged to P&L A/c.
* If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored.
* Depreciation in one category of investment shall not be set off against appreciation in another category.

Note: Unquoted Debentures shall be treated as Term Loans or other type of credit facilities (and not as investments) depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

LIQUID ASSETS REQUIREMENT

1. **Minimum Liquid Assets:** NBFCs accepting Public Deposits should maintain Liquid Assets at the minimum level of 15% of Public Deposits outstanding as on the last working day of the second preceding quarter. (Sec. 45-IB of RBI Act).
2. **Break up for Minimum Level:**
   (a) **Government Securities/ Guaranteed Bonds:** Of this minimum level, not less than 10% must be invested in approved securities i.e. in Government Securities or Government Guaranteed Bonds. The liquid assets in form of investments in approved Securities must be maintained in dematerialized form only.
   (b) **Term Deposits:** The remaining 5% of Minimum Liquid Assets can be invested in unencumbered Term Deposit with any Scheduled Commercial Bank.
3. **Utilisation:** The Liquid Assets maintained as above are utilized for payment of claims of depositors. However, the Deposits being unsecured, he depositors do not have any direct claim on Liquid Assets.

ASSET LIABILITY MANAGEMENT (ALM)

1. **Definition:** Asset Liability Management (ALM) is a Risk Management Tool that helps a Bank or NBFC to manage its liquidity risk and interstate risk. This helps Banks or NBFCs plan Long Term Financial, Funding and Capital Strategy using Present Value Analysis.
2. **Application/Uses of ALM:**
   (a) With ALM, a Bank or NBFC can model interest income and expenses for analysis and re-price assets and Liabilities.
   (b) Based on ALM position, Bans or NBFCs can also model effects of Competitive pricing to create innovative and imaginative Banking Products.
   (c) ALM also helps regulatory compliance for Banks or NBFCs by through appropriate investment or Disinvestment Decisions to maintain the required Statutory Liquidity Ratio (SLR), Credit Reserve Ratio (CRR) and other ratios specified by RBI Guidelines.
3. **Components of ALM :** ALM involves Structural Liquidity Gap Analysis, Interest Rate Gap Analysis, Net Interest Income Analysis, Net Interest Margin Analysis Tolerance Analysis, Cost to close Analysis, Duration Gap Analysis, Trend Analysis, Comparative Analysis, Present Value Analysis, Forward Analysis and Scenario Analysis.

QUESTION 1 CA FINAL MAY 2014 (4 MARKS)

Peoples Financiers Ltd. is an NBFC provision Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for year ended 31st March, 2014:

	Interest overdue but recognized in Profit & Loss		Net Book Value of assets outstanding
Assets Funded		Interest Amount	Outstanding
	Period overdue	(Rs. Crore)	(Rs. Crore)
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

ANSWER:

On the basis of the given information, regarding of hire purchase and leased assets, additional provision shall be made as under.

			(Rs in crore)
(a)	Where hire charges are overdue upto 12 months	Nil	-
(b)	Where hire charges are overdue for more than 12 months but upto 24 months.	10% of the net book value 10% x 2,410	241
(c)	Where hire charges are overdue for more than 24 months but upto 36 months	40% of tie net book value 40% x 1,280	512
(d)	Where hire charges are overdue for more than 36 months but upto 48 months.	70% of the net book value 70% x 647	452.90
		Total	1,205.90

QUESTION 2 (HOME WORK)

Valuation of Investments by NBFC.

Anischit Finance Ltd. is a Non-Banking Finance Company. It makes available to you the Costs and Market Price of various investments held by it. (Figures in Rs. Lakhs) as on 31st March -

Scrips	Cost	Mkt. Price	Scrips	Cost	Mkt. Price
Equity Shares A	60.00	61.20	Mutual Fund MF 1	39.00	24.00
B	31.50	24.00	MF 2	30.00	21.00
C	60.00	36.00	MF 3	6.00	9.00
D	60.00	120.00			
E	90.00	105.00	Govt. Securities GV 1	60.00	66.00
F	75.00	90.00	GV 2	75.00	72.00
G	35.00	6.00			

1. Can the Company adjust Depreciation of a particular item of investment within a category?
2. What should be the value of Investment as on 31st March ?
3. Is it possible to off-set Depreciation in Investment in –Mutual Funds against appreciation of the value Investment in Equity Shares and Government Securities?

SOLUTIONS:

1. Quoted Current Investments are to be valued at Cost of Market Value, whichever is lower. Such amount can be aggregated for all scrips in that category and the net depreciation should be computed. Hence, Depreciation of a particular item can be adjusted within the same category of investments.
2. Value of Investments will be as under:-

Type of Investment	Valuation Principle	Value of Investments
Equity Shares (aggregate)	Lower of Cost or Market Value	Rs. 406.50 Lakhs
Mutual Funds	NAV (Market value assumed)	Rs. 54.00 Lakhs
Government Securities	Cost	Rs. 135,.00 Lakhs
Total		Rs.595.50 Lakhs

3. Inter-Category Adjustments of appreciation and depreciation in values of investments cannot be done. Hence, it is not possible to offset deprecation in investment in Mutual Funds against appreciation of value of investments in Equity Shares and Government Securities.

QUESTION 3

Provisioning BY NBFC

While closing its books of accounts on 31st March, a Non-Banking Finance Company has its advances classified as follows:

Particulars		Rs. in Lakhs
Standard Assets		16,800
Sub-Standard assets		1,340
Secured Portion of Doubtful Debts:	- Upto one year	320
	- one Year to three years	90
	- More than three years	30
Unsecured Portion		97
Loss Assets		48

Calculate the amount of provisions to be made against the advances for DEPOSIT TAKING & NON DEPOSIT TAKING SYSTEMICALLY IMPORTANT as well as for NON DEPOSIT NON SYSTEMICALLY IMPORTANT COMPANIES as per RBI direction rules 2016.

QUESTION 4

Provisioning by NBFC

While closing its Books of Account as on 31st March a Non-Banking Finance Company (NBFC) has its advances classified as –

Particulars	Rs. in Lakhs
Standard Assets	10000
Sub-Standard Assets	1,000
Secured Portion of Doubtful Debts	
- Upto one year	160

- -One year to three years	70
- More than three years	20
Unsecured Portion of Doubtful Debts	90
Loss assets	30

Calculate the amount of provisions to be made against the advances for DEPOSIT TAKING & NON DEPOSIT TAKING SYSTEMICALLY IMPORTANT as well as for NON DEPOSIT NON SYSTEMICALLY IMPORTANT COMPANIES as per RBI direction rules 2016.

QUESTION 5 (HOME WORK)

Computation of Net Owned Funds

Laddu Finance Ltd. is a Non-Banking Finance Company. The Extracts of its Balance Sheet are given below:

Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Paid Up Equity Share Capital	100	Leased out Assets	800
Free Reserves	500	In Shares of Subsidiaries and Group Companies	100
Loans	400		100
Deposits	400	In Debentures of Subsidiaries and Group Companies	
		Cash & Bank Balance	
		Deferred Expenditure	
			200
			200
Total	1400	Total	1400

You are required to compute 'Net Owned Fund' of Laddu Finance Ltd. as per the NBFC (Deposit Accepting or Holding) Companies Prudential Norms (RBI) Directions.

QUESTION NO 6

While closing its books of account on 31st March, 2003 a non banking finance company has its advances classified as follows:

	Rs. In lakhs
Standard assets	8,400
Sub-standard assets	910
Secured portions of doubtful debts:	
-up to one year	60
-one year to three years	70
-more than three years	20
Unsecured portion of doubtful debts	87
Loss Assets	24

Calculate the amount of provisions to be made against the advances for DEPOSIT TAKING & NON DEPOSIT TAKING SYSTEMICALLY IMPORTANT as well as for NON DEPOSIT NON SYSTEMICALLY IMPORTANT COMPANIES as per RBI direction rules 2016.

QUESTION NO 7

While closing its books of account on 31st March, 2005 a Non-banking Finance Company has its advances classified as follows:

	Rs. In lakhs
Standards assets	16,800
Sub-standard assets	1,340
Secured positions of doubtful debts	
Upto one year	320
One year to three years	90
More than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the Advances.

QUESTION NO 8

XYZ Finance Ltd. is a non-banking finance company. It makes available to you the costs and market price of various investments held by it:

		Rs. In lakhs
	Cost	**Market Price**
Equity Shares:		
Scrip A	40.00	40.80
Scrip B	21.00	16.00
Scrip C	40.00	24.00
Scrip D	40.00	80.00
Scrip E	60.00	70.00
Scrip F	50.00	60.00
Scrip G	20.00	4.00
	271.00	294.80
Mutual Funds :		
MF1	26.00	16.00
MF2	20.00	14.00
MF3	4.00	6.00
	50.00	36.00
Government Securities:		
GV1	40.00	44.00
GV2	50.00	48.00
	90.00	92.00

You are required to answer following questions:

(i) Can the company adjust depreciation of a particular item of investment within a category?

(ii) What should be the value of Investments?

(iii) Is it possible to offset depreciation investment in mutual funds against appreciation of value of investments in Equity Shares and Government Securities.

ANSWER:

(i) Yes, Costs and Market price of current investments should be aggregate under each group.

(ii) Equity Shares Rs. 271.00

Mutual Funds Rs. 36.00

Government Securities Rs. 90.00

(iii) No.

QUESTION NO 9

Mahindra Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

(Rs. In lakhs)

Liabilities	Amount	Assets	Amount
Paid up equity share capital	100	Leased out Assets Investment:	800
Free Reserves	500	In shares of subsidiaries and	
Loans	400	group companies	100
Deposits	400	In debentures of subsidiaries	
		And group companies	100
		Cash and Bank balances	200
		Deferred Expenditure	200
	1,400		1,400

You are required to compute Tier- I Capital of Mahindra Finance Ltd.

QUESTION NO 10

Usha Finance Ltd. is a non-banking finance company. It makes available in to you the costs and market price of various investments held by it.

	Cost	Rs. In lakhs Market Price
Equity Shares:		
Scrip A	40.00	40.80

Scrip B	21.00	10.00
Scrip C	40.00	24.00
Scrip D	40.00	80.00
Scrip E	60.00	70.00
	201.00	230.80
Mutual Funds		
MF1	26.00	16.00
MF2	20.00	14.00
MF3	4.00	6.00
	50.00	36.00
Government Securities		
GV1	40.00	44.00
GV2	50.00	48.00
	90.00	92.00

(i) Can the company adjust depreciation of a particular item of investment within a category?

(ii) What should be the value of investment?

(iii) Is it possible to offset depreciation in investment of mutual funds against appreciation of value of investment in Equity Shares and Government Securities?

ANSWER

(i) Yes, Cost and Market price of current investment should be aggregated under each group.

(ii) Equity Shares Rs.201.00

Mutual Funds Rs.36.00

Government Securities Rs.90.00

(iii) No.

QUESTION NO 11

Anis chit Finance Ltd. is a non-banking finance company. It makes available to you the costs and market price of various investments held by it.

(Figures in Rs. Lakhs) as on 31.3.08

Scrips:	Cost	Market Price
A. Equity shares-		
A	60.00	61.20
B	31.50	24.00
C	60.00	36.00
D	90.00	120.00
E	75.00	105.00
F	30.00	6.00
	406.50	442.20
B. Mutual Funds-		
MF-1	39.00	24.00
MF-2	30.00	21.00
MF-3	6.00	9.00
	75.00	54.00
C. Government securities-		
GV-1	60.00	66.00
GV -2	75.00	72.00
	135.00	595.50

(i) Can the company adjust depreciation of a particular item of investment within a category?

(ii) What should be the value of investment as on 31.3.2008?

(iii) Is it possible to offset depreciation in investment in mutual fund against appreciation of the value of investment in Equity shares and Government security ?

QUESTION 12 CA FINAL NOV 2012

Prudential Norms for NBFC

Samvedan Limited is a Non-Banking Finance Company. It accepts Public Deposit and also deals in Hire Purchase Business. It provides you with the following information regarding major Hire Purchase deals. Few Machines were sold on hire purchase basis. The Hire Purchase Price was set as Rs. 100 Lakhs as against the cash Price of Rs. 80 Lakhs. The amount was payable as Rs. 20 Lakhs down payment and balance in 5 equal instalments. The Hire Vendor collected first instalment as on 31.03.2014, but could not collect the second installment which was due on 31.03.2015. The Company was finalizing accounts for the year ending 31.03.2015. Till 15.05.2015,the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%. You are required to answer the following:-

(a) What should be the principal outstanding on 01.04.2014? Should the Company recognize Finance Charge for the year 2014-2015 as Income?

(b) What should be the Net Book Value of Assets on 31.03.2015 so far Samvedan Ltd. is concerned as per NBFC Prudential Norms requirement for provisioning?

(c) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

SOLUTION:

Particulars	Rs. in Lakhs
(a) HP Price	100
(b) Down Payment	20
(c) Balance amount payable (a) –(b)	80
(d) Amount payable in each instalment (80 Lakhs / 5 instalments)	16
(e) Annuities Factor at 10.42% for 5 Years	3.7505
(f) PV of the instalments (d) x (e)	60
(g) Interest Component (c) – (f)	20

Loan Repayment Schedule

Year	Opening Principal	Instalment Amount	Interest	Principal Repaid	Closing Principal
(1)	(2)	(3)	(4) + (2) x 10.42%	(5) = (3) – (4)	(6) = (2)-)5)
1	60	16	6.252	9.748	50.252
2.	50.252	16	5.236	10.764	39.488
3.	39.488	16	4.115	11.885	27.603
4.	27.603	16	2.876	13.124	14.479
5.	14.479	16	1.521	14.479	Nil
	Total	80	20	60	

Principal Outstanding as on 01.04.2014 = Rs. 50,252 Lakhs. Finance Charges for the year 2014-2015 can be recognized as Income since the instalments are overdue for a period less than12 months.

Computation of Net Book Value Assets

Particulars	Rs. in Lakhs
(a) Aggregate of Overdue and Future Instalments Receivable (Rs. 16 Lakhs x 4)	64
(b) Balance of Unmatured Finance Charges (4.115 + 2.876 + 1.521)	8.512
(c) Provision for Non-Performing assets (Note)	7.488
(d) Net Book Value of the Asset (a) – (b) - (c)	48.000

Notes:

Particulars	Rs. in Lakhs
(a) Aggregate of Overdue and Future Instalments Receivable	64
(b) Balance of Unmatured Finance Charges	8.512
(c) Depreciated Value of the Asset (Rs.80 Lakhs – (80 Lakhs x 20% x 2 Years)	48
(d) Provision to be created (a) – (b) – (c)	7.488

QUESTION 13 C.A.FINAL MAY 2015

Team Ltd. Is a non-banking finance company. It accept public deposits and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-3-2013. Few machines were sold on hire purchase basis. The hire purchase price was set at Rs 100 lacs as against the cash price of Rs 80 lacs. Rs 20 were payable as down payment and the balance was payable in 5 equal installments. The hire vendor collected first installment as on 31.3.2014, but could not collect the second installment which was due on 31.3.2015. The company was finalizing accounts for the year ended on 31.3.2015. Till 15.4.2015, the date on which the Board of Directors signed the accounts, the second installment was not collected, Presume IRR to be 10.42%.

Required:

(i) What should be the principal outstanding on 1.4.2017? Should the company recognize finance charge for the year 2014-15.

(ii) What should be the net book value of assets as on 31.32015 as per NBFC prudential norms requirement for provisioning?

(iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by the RBI? (8 marks)

QUESTION 14

Bright Finance Ltd. is a non- banking financial company, it provides you with the following information regarding its outstanding amount, ₹ 200 lakhs of which installments are overdue on 200 accounts for last two months (amount overdue ₹ 40 lakhs), on 24 accounts for three months (amount overdue ₹ 24 lakhs), on 10 accounts for more than 30 months (amount overdue ₹ 20 lakhs) and on 4 accounts for more than three years (amount over due ₹ 20 lakhs-already identified as sub-standard asset) and one account for ₹ 10 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 6 Lakhs) for more than 12 months and other are identified as sub-standard asset for a period of less than 12 months.

Classify the assets for the company in line with non-Banking Financial Company Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

BUSINESS COMBINATION (ACCOUNTING STANDARD 14)

(Dear Student, this topic does not include internal reconstruction as we have covered it separately

QUESTION NO 1(AS-14)

What are the conditions, which, according to Accounting Standard 14, must be satisfied for 'Amalgamation in the nature of Merger' and 'Amalgamation in the nature of Purchase'?

OR

What are the conditions, which, according to Accounting Standard 14, must be satisfied for 'Amalgamation in the nature of Merger'?

OR

Distinguish between amalgamation by merger and by purchase as per AS 14.

ANSWER:

Amalgamation in the Nature of Merger: An amalgamation in the nature of merger should satisfy all the following conditions:

All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company.

Shareholders holding at least 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company (shares already held by the transferee company or its subsidiaries or their nominees are not to be considered for the purpose of 90%).

Purchase consideration is discharged wholly by the issue of equity shares in the transferee company; however, cash may be paid in respect of any fractional shares.

The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the Nature of Purchase: An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified above is not satisfied.

QUESTION NO 2(AS-14)

What are the methods of accounting for amalgamation? In what circumstances which method should be applied?

ANSWER:

Methods of Accounting for Amalgamations: There are two main methods of accounting for amalgamations.

Pooling of interests method: An amalgamation in the nature of merger should be accounted for-under the pooling of interests method.

Purchase method: An amalgamation in the nature of purchase should be accounted for under the purchase method.

QUESTION NO 3(AS-14)

Explain pooling of interest method of amalgamation.

ANSWER:

The Pooling of Interests Method: It requires that-

- Assets and liabilities of the transferor-company should be recorded at their existing carrying amounts, i.e., they are to be taken at their book values.
- Reserves (whether capital or revenue or arising on revaluation) of the transferor company should be recorded at their existing carrying amounts and in the same form, i.e., balance of general reserve should be carried as revaluation reserve, balance of revaluation reserve is carried as revaluation reserve etc.
- Difference of the share capital issued and other consideration paid to the transferor company over and above its own share capital should be adjusted in reserves.
- Balance of the Profit and Loss Account of the transferor company should be aggregated with that of the transferee company or transferred to the General Reserve.
- If transferor and transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted, the effects on the financial statements of any changes in accounting policies should be reported in accordance with AS 5.

QUESTION NO 4 (AS-14)

Explain purchase method of amalgamation.

ANSWER:

The Purchase Method:

It requires that-

- Assets and liabilities of the transferor company should be either incorporated at their existing carrying amounts or consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.
- Reserves (whether capital or revenue or arising on revaluation) of the transferor company, other than the statutory reserves, should not be included in the financial statements of the transferee company.
- Any excess of the consideration over the value of the net assets should be recognised as goodwill arising on amalgamation. If the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.
- Goodwill arising on amalgamation should be amortised to income on a systematic basis not exceeding five years unless a somewhat longer period can be justified.
- Identity of statutory reserve should be maintained, if required, by an equal charge to the Amalgamation Adjustment Account, which is presented under the head "Miscellaneous expenditure' and is adjusted against the balance of statutory reserves when their separate identities are no longer required.

QUESTION NO 5 (AS-14)

What are the discloser requirements prescribed under AS-14?

OR

Briefly describe the discloser requirements for amalgamation including additional discloser, if any, for different methods of amalgamation as per AS-14?

ANSWER

Discloser Requirements: AS-14 requires following disclosers:

Common discloser: For all amalgamations, the following disclosures should be made:

Names and general nature of business of the amalgamating companies;

Effective date of amalgamation for accounting purposes;

Method of accounting used to reflect the amalgamation; **and**

Particulars of the scheme sanctioned under a statute.

Additional Discloser: In addition to above following should also be disclosed where-

1. **Pooling of interest method** is followed,

- Description and number of shares issued, together with % of each company's equity shares exchanged to effect the amalgamation;
- Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof

2. **Purchase method** is followed,

   Consideration for the amalgamation and a description of the consideration paid or contingently payable; and

   Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

QUESTION NO 6 (AS-14)

Briefly describe the disclosure requirements for Amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS-14.

ANSWER

The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in **the** first financial statements following the amalgamation:

- names and general nature of business of the amalgamating companies;
- the effective date of amalgamation for accounting purpose;
- the method of accounting used to reflect the amalgamation; and
- particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following, additional disclosures should be made in the first financial statements following the amalgamation:

(i) Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and

(ii) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof. For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

   (i) Consideration for the amalgamation and a description of the consideration paid or contingently payable; and

(ii) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

QUESTION NO 7

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

ANSWER

As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(i) The Pooling of interest Method

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies'.

(ii) The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and. liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company, amalgamation.

BASIC QUESTIONS FROM THE POINT OF VIEW ACCOUNTING

QUESTION NO 8 (NET ASSET METHOD)

The financial position of two companies Hari Limited and Vayu Limited as on 31st March 2002 was as under:

	Hari Limited Rs.	Vayu Limited Rs.
Assets:		
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Stock	2,50,000	1,75,000
Debtors	2,00,000	1,00,000
Cash at bank	50,000	20,000
Preliminary expenses	30,000	10,000
	13,80,000	5,80,000
Liabilities:		
Share capital:		
Equity shares of Rs.10 each	10,00,000	3,00,000
9% preference shares of Rs.100 each	1,00,000	
10% preference shares of Rs.100 each		1,00,000
General reserve	1,00,000	80,000
Retirement Gratuity fund	50,000	20,000
Sundry creditors	1,30,000	80,000
	13,80,000	5,80,000

Hari Limited absorbs Vayu Limited on the following terms:

1. 10% Preference shareholders are to be paid by issue of 9% preference shares of Hari Limited.
2. Goodwill of Vayu Limited is valued at Rs.50,000, Buildings are valued at Rs.1,50,000 and the machinery at Rs.1,60,000.

3. Stock to be taken over at 10% less value and reserve on bad and doubtful debts to be created @ 7.5%.
4. Equity shareholders of Vayu Limited will be issued equity shares @ 5% premium.

Prepare necessary ledger accounts to close the books of Vayu Limited and show the acquisition entries in the books of Hari Limited. Also draft the Balance Sheet after absorption as at 31st March 2002.

QUESTION NO 9 (NET PAYMENT METHOD)

Wye Ltd acquires the business of Z Limited. Whose Balance Sheet on 31stDecember, 1996 is as follows:

Liabilities	Amount	Assets	Amount
Share capital divided into shares of Rs.100 each:-		Goodwill	2,00,000
		Land and building	4,00,000
6% preference shares capital	4,00,000	Plant and machinery	6,00,000
Equity share capital		Patents	50,000
Capital reserve	8,00,000	Stock	1,50,000
Profit and Loss account	1,00,000	Book debts	1,80,000
6% debentures	50,000	Cash at bank	70,000
Interest outstanding on above	2,00,000	Underwriting commission	40,000
Workmen's compensation reserve	12,000		
- expected Liability Rs.5000	8,000		
Trade creditors	1,20,000		
	16,90,000		16,90,000

Wye Limited was to take over all assets (except cash) and Liabilities (except doe interest due on debentures) and to pay following amounts:

(a) Rs.2,00,000 7% debentures (Rs.100 each) in Wye Limited for the existing debentures in Z Limited; for the purpose, each debenture of Wye Limited is to be treated as worth Rs.105

(b) For each preference shares in Z Limited Rs.10 in cash and one 9% preference shares of Rs.100 each in Wye Limited

(c) For each equity share in Z Limited Rs.20 in cash and one equity share in Wye Limited of Rs.100 each having market value of Rs.140.

(d) Expenses of Liquidation of Z Limited are to be reimbursed by Wye Limited to the extent of Rs.10,000. Actual expenses amounted to Rs.12,500.

Wye Limited valued land and building at Rs.5,50,000, plant and machinery at Rs.6,50,000 and patents at Rs.20,000.

QUESTION NO 10 (NET ASSET METHOD)

The Indo-Gulf Company Limited sells its business to the Continental Company Limited as on December 31,1984 on which date its Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Paid up capital:		Freehold property	1,50,000
2,000 shares of Rs.100 each	2,00,000	Goodwill	50,000
Debentures	1,00,000	Plant and tools	83,000
Trade creditors	30,000	Stock	35,000
Reserve fund	50,000	Bills receivable	4,500
Profit and Loss account	20,000	Sundry debtors	27,500
		Cash at bank	50,000
	4,00,000		4,00,000

The Continental Company Limited agreed to take over the assets (exclusive of cash at bank and goodwill) at 10 percent less than the book value, to pay Rs.75,000 for goodwill and to take over the Debentures.

The purchase consideration was to be discharged by the allotment to the Indo-Gulf Company Limited of 1,500 shares of Rs.100 each at a premium of Rs.10 per share and the balance in cash.

The cost of the liquidation amounted to Rs.3,000. Show the necessary accounts in the books of the Indo-Gulf Company Limited and show the necessary journal entries recording the transactions in the books of the Continental Company Limited.

QUESTION NO 11 (NET PAYMENT METHOD)

X Limited agreed to acquire the business of Y Limited as on December 31 1995. The summarized Balance Sheet of Y Limited on that date was as follows:

Liabilities	Amount	Assets	Amount
Share capital in fully paid up shares of Rs.10 each	6,00,000	Goodwill	1,00,000
		Land and Building and Plant	6,40,000
General Reserve	1,70,000	Stock in trade	1,68,000
Profit and Loss a/c	1,10,000	Debtors	36,000
6% Debentures	1,00,000	Cash	56,000
Creditors	20,000		
	10,00,000		10,00,000

The amount payable by X Limited was agreed as follows:

1. A Cash payment equivalent to Rs.2.50 for every Rs.10 share in Y Limited.
2. The issue of such an amount of fully paid 5 per cent Debentures of X Limited at 96 per cent as is sufficient to discharge the 6 per cent Debentures of Y Limited at a premium of 20 per cent.
3. The issue of 90,000 Rs.10 shares fully paid in X Limited having an agree value of Rs.15 per share.

When computing the agreed consideration, the directors of X Limited valued the land, building and plant at Rs.12,00,000, the stock in trade at Rs.1,42,000 and debtors at their face value subject to an allowance of 5 per cent to cover doubtful debts. The cost of liquidation (met by X) of Y Limited comes to Rs.5000. Close the books of Y Limited and pass the journal entries required in the books of X Limited.

QUESTION NO 12 (C.A.FINAL NOV 1995) (16 MARKS)

(NET PAYMENT METHOD)

With a view to reducing establishment expenses and generally to effect economy on working; Divya Limited agreed to take over the Pranav Limited as a going concern both companies engaged in the same trade.

Divya Limited was to pay the Debentures and liabilities of Pranav Limited and take over the assets the consideration being the issue by Divya Limited of 4,00,000 fully paid shares of

Rs.10 each and the payment of Rs.3,00,000 in cash to the Pranav Limited. Divya Limited was to pay the liquidation expenses, which amounted to Rs.1,40,000.

The balances in the books of the respective companies as on the date of absorption are given hereunder:

	Divya Limited (Rs.)	Pranav Limited (Rs.)	Divya Limited (Rs.)	Pranav Limited (Rs.)
Authorized capital:				
Divya Limited 20,00,000 shares of Rs.10 each				
Pranav Limited 7,50,000 shares of Rs.10 each				
Issued capital			1,50,00,000	50,00,000
Unpaid calls	50,000	10,000		
10% Debentures			50,00,000	10,00,000
Land and building	1,03,33,000	35,68,200		
Goodwill	30,00,000	5,00,000		
Sundry debtors & creditors	7,24,000	3,98,400	8,34,200	4,36,200
Bank balances	16,84,200			2,00,000
Stock	17,92,600	7,85,200		
Plant & machinery	38,76,800	16,43,900		
Bills receivable	3,62,100			
Profit and Loss a/c			9,88,500	2,69,500
	2,18,22,700	69,05,700	2,18,22,700	69,05,700

Assume that the absorption was duly effected but that the unpaid calls and a book debt of Rs.40,000 due to the Pranav Limited proved irrecoverable.

Prepare the Realisation account and Members account in the books of Pranav Limited and the Balance Sheet of Divya Limited after the absorption.

CALCULATION OF PURCHASE CONSIDERATION

QUESTION NO 13 (FRACTIONAL SHARES) STUDY MATERIAL

A Limited agreed to absorb B Limited on 31st March 1999, whose balance sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed assets	7,00,000
80,000 shares of Rs.10 each fully paid	8,00,000	Investments	
Reserve and surplus		Current assets	
General reserve	1,00,000	Loans and advances	
Secured loan		Stock in trade	1,00,000
Unsecured loan		Sundry debtors	2,00,000
Current liabilities & Provisions			
Sundry creditors	1,00,000		
	10,00,000		10,00,000

The consideration was agreed to be paid as follows:

(a) A payment in cash of Rs.5 per share in B Limited and

(b) The issue of shares of Rs.10 each in A Limited on the basis of 2 equity shares (valued at Rs.15) and one 10% cum, preference share (valued at Rs.10) for every five shares held in B Limited.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding.

Chopra	116	
Karki	76	
Amar singh	72	
Malhotra	28	
Other individuals	8	(eight members holding one share each)

	300	

It was agreed that A Limited will pay in cash for fractional shares equivalent at agreed value of shares in B Limited i.e. Rs.65 for five shares of Rs.50 paid. Prepare a statement showing the purchase consideration receivable in shares and cash.

QUESTION NO 14 (16 MARKS)

The summarized Balance Sheets of R Limited and P Limited for the year ending on 31.3.2000 are as under:

	R Limited Rs.	P Limited Rs.		R Limited Rs.	P Limited Rs.
Equity share capital (in shares of Rs.10 each)	24,00,000	12,00,0000	Fixed assets	55,00,000	27,00,000
8% pref. Share capital (in shares of Rs.10 each)	8,00,000		Current assets	25,00,000	23,00,000
10% pref. Share capital (in shares of Rs.10 each)		4,00,000			
Reserves	30,00,000	24,00,000			
Current liabilities	18,00,000	10,00,000			
	80,00,000	50,00,000		80,00,000	50,00,000

The following information is provided:

(i)

	R Limited Rs.	P Limited Rs.
Profit before tax	10,64,000	4,80,000
Taxation	4,00,000	2,00,000
Preference dividend	64,000	40,000
Equity dividend	2,88,000	1,92,000

(ii) The equity shares of both companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

(iii) R Limited proposes to absorb P Limited as on 31.3.2000. The terms of absorption are as under:

(a) Preference shareholders of P Limited will receive 8% preference shares of R Limited sufficient to increase the income of preference shareholders of P Limited by 10%.

(b) The equity shareholders of P Limited will receive equity shares of R Limited on the following basis:

(i) The equity shares of P Limited will be valued by applying to the earnings per share of P Limited.75% of price earnings ratio of R Limited based on the results of 199-2000 of both the companies.

(ii) The market price of equity shares of R Limited is Rs.40 per share.

(iii) The number of shares to be issued to the equity shareholders of P Limited will be based on the above market value.

(iv) In addition to equity shares, 8% preference shares of R Limited will be issued to the equity shareholders of P Limited to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 19999-2000.

(v) The assets and liabilities of P Limited as on 31.3.2000 are revalued by professional valuer as under:

	Increased by Rs.	Decreased by Rs.
Fixed assets	1,00,000	
Current assets		2,00,000
Current assets		40,000

For the next two years no increase in the ratio of equity dividend is expected.

You are required to;

Set out in detail the purchase consideration

QUESTION NO 15

Channai Limited and Kolkata Limited have agreed that Chennai Limited will take over the business of Kolkata Limited with effect from 31st December 2001 it is agreed that:

(i) 10,00,000 shareholders of Kolkata Limited will receive shares of Chennai Limited. The swap ratio is determined on the basis of 26 weeks average market prices of shares of both the companies. Average prices have been worked out at Rs.50 and Rs.25 for the shares of Chennai Limited and Kolkata Limited respectively.

(ii) In addition to (i) above shareholders of Kolkata Limited will be paid cash based on the projected synergy that will arise on the absorption of the business of Kolkata Limited by Chennai Limited. 50% of the projected benefits will be paid to the shareholders of Kolkata Limited.

The projection has been agreed upon by the management of both the companies:

Year	2002	2003	2004	2005	2006
Benefit (in Rs. Lakhs)	50	75	90	100	105

The benefit is estimated to grow at the rate of 2% from 2007 onwards.

It has been further agreed that a discount rate of 20% should be used to calculate the cash that the holder of each share of Kolkata Limited will receive:

(i) Calculate the cash that holder of each share of Kolkata Limited will receive.

(ii) Calculate the total purchase consideration.

QUESTION NO 16

The Massive Company Ltd. was incorporated on 1st July 2014 for the purpose of acquiring North Ltd. South Ltd. and West Ltd.

The summarized balance sheets of these companies as on 30th June 2014 are as	North Ltd.	South Ltd.	West Ltd.
Assets			
Tangible fixed assets – at cost less	5,00,000	4,00,000	3,00,000
Goodwill	Nil	60,000	Nil
Other assets	2,00,000	2,80,000	85,000
	7,00,000	7,40,000	3,85,000

	North Ltd.	South Ltd.	West Ltd.
Liabilities			
Issued ordinary share capital shares of Rs.10	4,00,000	5,00,000	2,50,000
P&L A/c.	1,50,000	1,10,000	60,000
10% Debentures	70,000	Nil	40,000
Trade Payables	80,000	1,30,000	35,000
	7,00,000	7,40,000	3,85,000

Average annual profits before			
Debentures interest (July 2013 to June 2014 inclusive)	90,000	1,20,000	50,000
Professional valuation of tangible assets on 30th June 2014	6,20,000	4,80,000	3,60,000

(1) The directors in their negotiations agreed that (i) the recorded goodwill of South Ltd. is valueless (ii) the 'other assets' of North Ltd. are worth Rs. 30,000 (iii) the valuation of 30th June 2014 in respect of tangible fixed assets should be accepted, (iv) these adjustments are to be made by the individual company before the completion of the acquisition.

(2) The acquisition agreement provides for the issue of 12 per cent unsecured Debentures to the value of the net assets of companies North Ltd., South Ltd., and West Ltd. and for the issuance of 10 nominal value ordinary shares for the capitalized average profit of each acquired company in excess of net assets contributed. The capitalisation rate is established at 10 per cent.

You are required to calculate purchase consideration and show the purchase consideration as discharged.

QUESTION NO 17

The following are the Balance sheets (as at 31.3.2006) of A Ltd. and B Ltd.

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital:			Fixed Assets	50,00,000	30,00,000
Equity Shares of Rs.10 each	36,00,000	18,00,000			
			Investments	5,00,000	5,00,000
10% Preference Shares of Rs.100 each	12,00,000	-	**Current Assets**		
12% Preference shares of Rs.100 each	--	6,00,000	Stock	18,00,000	12,00,000
			Debtors	15,00,000	12,00,000
			Bills receivable	50,000	10,000

Reserve and Surplus:			Cash at Bank	1,50,000	90,000
Statutory Reserve	1,00,000	1,00,000			
General Reserve	25,00,000	17,00,000			
Secured Loan					
15% Debentures	5,00,000	--			
12.5% Debentures	--	5,00,000			
Current Liabilities					
Sundry Creditors	10,80,000	12,80,000			
Bills Payable	20,000	20,000			
	90,00,000	60,00,000		90,00,000	60,00,000

Contingent liabilities for bills receivable discounted Rs. 20,000

(A)	The following additional information is provided by you.	A Ltd.	B Ltd.
	Profit before interest and Tax	14,75,000	7,80,000
	Rate of Income Tax	40%	40%
	Preference dividend	1,20,000	72,000
	Equity dividend	3,60,000	2,70,000
	Balance profit transferred to Reserve account		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd. proposed to absorb business of B Ltd. as on 31.3.2006. The agreed terms for absorption are:

(i) 12% Preference share holders of B Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of B Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of B Ltd. will be valued by applying to the earnings per share of B Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2005-06 of both the Companies.

(b) The market price of Equity shares of A Ltd. is 40 per share.

(c) The number of shares to be issued to Equity shareholders of B Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference shares of A Ltd. will be issued to the equity shareholders of B Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2005-2006.

(iii) 12% Debentures holders of B Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(iv) Rs.16,000 is to be paid by A Ltd. to B Ltd. for liquidation expenses. Sundry Creditors of B Ltd. include Rs. 20,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by B Ltd.

(v) Fixed assets of both the companies are to be revalued at 20% above book value. Stock in trade is taken over at 10% less than their book value.

(vi) Statutory reserve has to be maintained for two more years.

(vii) For the next two years no increase in the rate of equity dividends is anticipated.

(viii) Liquidation expense is to be considered as part of purchase consideration.

You are required to:

(i) Find out the purchase consideration.

(ii) Give journal entries in the books of A Ltd. (16 Marks, May 2007)

ANSWER:

(i) Computation of Purchase Consideration

For Preference Shareholders

Present Income of Preference Shareholders of B Ltd	72,000
Add: Required 20% increase	14,400
	86,400

10% Preference Shares to be issued of 8,64,000 (86,400/10) x 100)

For Equity Shareholders

Valuation of Equity Shares of B Ltd. =

Number of Shares x Value of one share (i.e. EPS of B Ltd. x P/E ratio of A Ltd. x (60/100)= 1,80,000 x (Rs. 2 x20x(60)/100) = 1,80,000 x 24 = Rs. 43,20,000

Issue of Equity Shares

No. of Equity Shares to be issued at 80% of Market Price i.e.

80% of Rs. 40 = Rs.32

$\frac{43,20,000}{32}$ = 1,35,000 x Rs. 10 = Rs. 13,50,000

Equity Share capital	=	1,35,000 x Rs. 10	=	Rs. 13,50,000
Securities Premium	=	1,35,000 x Rs. 22	=	Rs. 29,70,000
				Rs. 43,20,000

Issue of Preference Shares	Rs.
Present Equity Dividend	2,70,000
Less: Expected Equity Dividend from A Ltd.	
(13,50,000 x (10/100)	1,35,000
Loss in Income	1,35,000

10% Preference Shares to be issued of Rs. 13,50,000

(Rs. 1,35,000/10) x 100)

Purchase Consideration

Preference Shares Capital (8,40,000 + Rs. 13,50,000)	22,14,000
Equity Share Capital (1,35,000 shares of Rs. 10 each at Rs. 32 per share)	43,20,000
Liquidation Expenses (in cash)	16,000
	65,50,000

(ii) Journal Entries in the Books of A Ltd.

	Particulars	Dr.(Rs.)	Cr. (Rs.)
1.	Fixed Assets A/c. Dr.	10,00,000	
	To Revaluation Reserve		10,00,000
	(Being Revaluation of Fixed assets at 20% above book value)		

2.	Business Purchase A/c.	Dr.	65,50,000	
	To Liquidator of B Ltd.			65,50,000
	(Being purchase consideration payable for the business taken over from B Ltd.)			
3.	Fixed Assets A/c.	Dr.	36,00,000	
	Investment A/c.	Dr.	5,00,000	
	Stock A/c.	Dr.	10,80,000	
	Debtors A/c.	Dr.	12,00,000	
	Bills Receivable A/c.	Dr.	10,000	
	Cash at Bank A/c.	Dr.	90,000	
	Goodwill A/c.(Balancing figure)	Dr.	19,10,000	
	To 12% Debentures in B Ltd.			5,40,000
	To Creditors			12,80,000
	To Bills Payable			20,000
	To Business Purchase A/c.			65,50,000
	(Being incorporation of different assets and Liabilities of B Ltd. taken over at agreed values and balance debited to goodwill account)			
4.	Liquidator of B Ltd.	Dr.	65,50,000	
	To Equity Share Capital A/c.			13,50,000
	To Securities Premium A/c.			29,70,000
	To Preference Share Capital A/c.			22,14,000
	To Bank A/c.			16,000
	(Being discharge of consideration for B Ltd.'s business)			
5.	12% Debentures in B Ltd.	Dr.	5,40,000	
	Discount on issue of Debentures	Dr.	60,000	
	To 15% Debentures			6,00,000
	(Being allotment of 15% Debentures to debenture holders at a discount of 10% to discharge liability of B Ltd. debentures)			

6.	Sundry Creditors A/c. Dr. To Sundry Debtors A/c. (Being cancellation of Mutual owing)	20,000	20,000
7.	Amalgamation Adjustment A/c. Dr. To Statutory Reserve A/c. (Being statutory reserve account is maintained under statutory requirements)	1,00,000	1,00,000
8.	Securities Premium A/c. Dr. To Discount on issue of Debentures A/c (Being discount on issue of Debentures written off out of securities premium)	60,000	60,000

Working Notes:

1. Calculation of EPS & P/E ratio

	A Ltd.	**B Ltd.**
	Rs.	**Rs.**
Profit before interest and Tax	14,75,000	7,80,000
Less: Interest on debentures	75,000	60,000
Profit before tax	14,00,000	7,20,000
Less: Tax @ 40%	5,60,000	2,88,000
	8,40,000	4,32,000
Less: Preference Dividend	1,20,000	72,000
Earnings available for equity share holder	7,20,000	3,60,000
Number of Shares	3,60,000	1,80,000
EPS (Earnings/No. of shares)	2	2
Market Price	Rs. 40	Not given
P/E ratio	40/2 = 20	N.A.

2. Computation of Goodwill/ Capital Reserve on absorption.

		Rs.
Purchase consideration		65,50,000
Fixed Assets taken over	30,00,000	
Add: Increase by 20%	6,00,000	36,00,000
Investments		5,00,000
Current Assets:		
Stock	12,00,000	
Less: Reduction in value by 10%	1,20,000	
	10,80,000	
Debtors	12,00,000	
B/R	10,000	
Cash at Bank	90,000	23,80,000
		64,80,000
Less: Outside Liabilities		
12% Debentures at premium	5,40,000	
Sundry Creditors	12,80,000	
Bills Payable	20,000	18,40,000
		46,40,000
Goodwill (PC-NET ASSETS)		19,10,000

QUESTION 18 (C A FINAL NOV 2008 16 MARKS)

System Ltd. and HRD Ltd. decided to amalgamate as on 01.04.2008. Their Balance Sheets as on 31.03.2008 were as follows:

(in '000)

Particulars	System Ltd.	HRD Ltd.
Source of Funds:		
Equity share capital (Rs.10 each)	150	140
9% preference share capital (Rs. 100 each)	30	20

Investment allowance reserve	5	2
Profit and Loss Account	10	6
10% Debentures	50	30
Sundry Creditors	25	15
Tax provision	7	4
Equity Dividend Proposed	30	28
Total	307	245
Application of Funds:		
Building	50	50
Plant and Machinery	80	70
Investments	40	25
Sundry Debtors	45	35
Stock	36	40
Cash and Bank	40	25
Preliminary Expenses	6	--
Total	307	245

From the following information, you are to prepare the draft Balance Sheet as on 01.04.2008 of a new company, intranet Ltd. which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50% Debentures are to be converted into Equity Shares of the New Company.

(ii) Out of the investments, 20% are non-trade investments.

(iii) Fixed Assets or systems Ltd. were valued at 10% above cost and that or HD Ltd. at 5% above cost.

(iv) 10% of sundry Debtors were doubtful for both the companies. Stocks to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transfer or companies are to be discharged by issuing Equity shares of Rs.10 each of the new company at a premium of Rs. 5 per share.

Amalgamation is in the nature of purchase.

ANSWER:

M/s. Intranet Ltd.
Draft Balance Sheet as at 1.4.2008

Particulars	Note No.	Rs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,27,990
(b) Reserves and Surplus	2	1,45,995
(2) Non-Current Liabilities	3	40,000
Long term borrowings		
(3) Current Liabilities		
(a) Trade Payables		40,000
(b) Short Term provisions	4	11,000
Total		5,64,985
II. Assets		
(1) Non-current assets		
(a) Fixed Assets		
Tangible Assets	5	2,80,00
(b) Non-current investments	6	65,000
(c) Other non-current assets	7	7,000
(2) Current assets		
(a) Inventories		76,000
(b) Trade receivables	8	72,000
(c) Cash and cash equivalents	9	64,985
Total		5,64,985

Notes to Accounts

1.	Share Capital		
	Equity share capital (W.N.2)	2,77,990	
	27,799 Equity shares of Rs.10 each, fully paid up		
	(25,133+2,666)		
	9% Preference share capital (W.N.2)	50,000	3,27,990
	Shares of Rs.100 each		
2.	Reserve and Surplus		
	Securities premium (1,25,665+13,330) (W.N.2)	1,38,995	
	Investment allowance reserve (Rs.5,000+2,000)	7,000	1,45,995
3.	Long Term Borrowings		
	Secured		
	10% Debentures (50% of Rs.80,000)	40,000	40,000
4.	Short term Provisions		
	Tax Provision (Rs.7,000 + Rs.4,000)		11,000
5.	Tangible Assets		
	Building (Rs.66,000 + Rs.52,000)	1,18,500	
	Plant and machinery (Rs.88,000 + Rs.73,500)	1,61,500	2,80,000
6.	Non-current investments		
	Trade investments (80%)	48,750	
	Non-Trade investments (20%)	16,250	65,000
7.	Other non-current assets		7,000
	Amalgamation adjustment account		
8.	Trade receivables		
	Sundry debtors (Rs.45,000 + Rs.35,000)	80,000	
	Less: Provision for doubtful debts @ 10%	(8,000)	72,000
9.	Cash & Cash equivalents		
	Cash and Bank (Rs. 40,000 + Rs.25,000 – Rs.15)		64,985

Working Notes:

1. Calculation of value of equity shares issued to transferor companies.

		System Ltd.		HRD Ltd.
Assets taken over:				
Building		66,000		52,500
Plant and Machinery		88,000		73,500
Investments (trade and non- trade)		40,000		25,000
Stock		36,000		40,000
Sundry Debtors		40,500		31,500
Cash & Bank		40,000		25,000
		3,10,500		2,47,500
Less: Liabilities				
10% Debentures	50,000		30,000	
Sundry Creditors	25,000		15,000	
Tax Provision	7,000	(82,000)	4,000	(49,000)
		2,28,500		1,98,500
		(30,000)		(20,000)
Less: Preference Share Capital		1,98,500		1,78,500

2. Number of shares issued to equity shareholders, debentures holders and preference shareholders.

	System Ltd.	HRD Ltd.	Total
Equity shares issued @ Rs.15 per share (including Rs.5 Premium)			
1,98,500 divided by 15	13,233 Shares		
1,78,500 divided by 15		11,900 shares	25,133 shares
Equity Share capital @ Rs.10	1,32,330	1,19,000	2,51,330
Securities premium @ Rs. 5	66,165	59,500	1,25,665
	1,98,495	1,78,500	3,76,995

50% of Debentures are converted into equity shares @ Rs. 15 per share			
25,000 divided by 15	1,666 Shares		
15,000 divided by 15		1,000 shares	2,666 Shares
Equity share capital @ Rs.10	16,660	10,000	26,660
Security premium @ Rs.5	8,330	5,000	13,330
	24,990	15,000	39,990
9% Preference share capital issued	30,000	20,000	50,000

QUESTION 19 (CA FINAL MAY 2013 16 MARKS)

Sun Limited agreed to absorb Moon Limited on 31st March 2012 whose Summarized Balance Sheet stood as follows:

Equity and Liabilities		Assets	
Share capital		Fixed Assets	10,50,000
1,20,000 shares of Rs.10 each	12,00,000	Investments	
Reserves & Surplus			
General reserve	1,50,000	Current Assets,	
Secured Loan	-	Loans and Advances	
Unsecured Loan	-	Stock in Trade	1,50,000
Current Liabilities &		Sundry Debtors	3,00,000
Provisions			
Sundry Creditors	1,50,000		
	15,00,000		15,00,000

The consideration was agreed to be paid as follows:

(a) A payment in cash of Rs. 5 per share in Moon Ltd. and

(b) The issue of shares of Rs. 10 each in Sun Ltd. on the basis of two equity shares (valued at Rs.15) and one 10% cumulative preference share (valued at rs.10) for every five shares held in Moon Ltd.

The whole of the share capital consist of shareholdings in exact multiple of five except the following holding.

P	174
Q	114

R 108

S 42

Other individuals 12 (Twelve members holding one share each)

It was agreed that Sun Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Moon Ltd. i.e. 65 for five shares of Rs. 50 paid.

Prepare a statement showing the purchase consideration receivables in shares and cash.

ANSWER:

(a) Schedule showing determination of fractional shares

	Holding of Shares (A)	Exchangeable in nearest multiple of live (B)	Exchange in equity shares (C) = (B)/5x2	Exchange in Preference shares (D) = (B)/5x1	Non-exchangeable shares (E) = (A)-(B)
P	174	170	68	34	4
Q	114	110	44	22	4
R	108	105	42	21	3
S	42	40	16	8	2
Other Individuals	12	-	-	-	12
	450	425	170	85	25

(B) (i) Shares Exchangeable in Equity Shares of Sun Ltd.

	No. of Shares		No. of Shares
1,20,00-450 (Total A above)	1,19,550	2/5 there of	47,820
450-25 (Total E Above)	425	2/5 thereof	170
	1,19,975		47,990

(ii) Shares Exchangeable in 10% Cumulative Preference Shares of Sun Ltd.

	No. of Shares		No. of Shares
Shares held as in b (i) (above)	1,19,550	1/5 there of	23,910
Shares held as in b(i) above	425	1/5 thereof	85
	1,19,975		23,995

(c) There are 25 shares in Moon Ltd. which are not capable of exchange into equity and preference shares of Sun Ltd. They will be paid @ Rs.65 for five shares of Rs.50 Paid. = 325

Statement showing calculation of Purchase Consideration.

47,990 Equity shares @ Rs. 15 each	7,19,850
23,995, 10% Cumulative Preference shares @ Rs.10 each	2,39,950
Cash on 1,19,975 shares @ Rs. 5 each	5,99,875
Add: Cash for 25 fractional shares.	325
	15,60,000

UPDATION OF ACCOUNTS

QUESTION NO 20

The Balance Sheets of Rama Limited and Krishan Limited as at 31st December 1980 were as following:

Liabilities	Rama Limited	Krishan Limited	Assets	Rama Limited	Karishan Limited
Share capital: Divided into equity shares of Rs.10 each	6,00,000	4,00,000	Fixed assets (other than goodwill)	5,00,000	3,50,000
Reserves	1,50,000	1,00,000	Stock in trade	95,000	75,000
Profit and Loss account	75,000	60,000	Debtors	1,40,000	1,00,000
Sundry creditors	37,500	30,000	Cash at bank	1,17,500	60,000
			Preliminary expenses	10,000	5,000
	8,62,500	5,90,000		8,62,500	5,90,000

Rama Limited took over and absorbed Krishan Limited as on 1st July 1981. No Balance Sheet of Krishan Limited was prepared on the date of take over. But the following information is made available to you:

(a) In the six months ended 30th June, 1981 Krishan Limited made a net profit of Rs.60,000 after providing for depreciation at 10% per annum on fixed assets;

(b) Rama Limited during that period had made net profits of Rs.1,45,000 after providing for depreciation at 10% per annum on the fixed assets;

(c) Both the companies had distributed dividends of 10% on 1st April 1981;

(d) Goodwill of Krishan Limited on the date of take over was estimated at Rs.25,000 and it was agreed that the stock of Krishan Limited would be appreciated by Rs.15,000 on the date of take over;

(e) Rama Limited to issue shares to shareholders of Krishan Limited on the basis of the intrinsic value of shares on the date of take over.

Draft the Balance Sheet of Rama Limited after absorption.

QUESTION 21 (C A FINAL NOV.2007 16 MARKS)

The Balance sheets of Strong Ltd. and Weak Ltd. as on 31.03.2007 is as follows:

Balance Sheet as on 31.03.2007

Liabilities	Strong Ltd.	Weak Ltd.	Assets	Strong Ltd	Weak Ltd.
Equity Share Capital (Rs.100 each)	50,00,000	30,00,000	Fixed Assets other than Goodwill	30,00,000	20,00,000
Reserve	4,00,000	2,00,000	Stock	8,00,000	6,00,000
P/L A/c.	6,00,000	4,00,000	Debtors	14,00,000	9,00,000
Creditors	5,00,000	3,00,000	Cash & Bank	12,00,000	3,50,000
			Preliminary Expenses	1,00,000	50,000
	65,00,000	39,00,000		65,00,000	39,00,000

Strong Ltd. takes over Weak Ltd. on 01.07.07. No Balance Sheet of Weak Ltd. is available as on that date. It is however estimated that Weak Ltd. earns estimated profit of Rs. 2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2007.

Estimated profit of Strong Ltd. during these a month is Rs. 4,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months period Goodwill of Weak Ltd. is valued at Rs. 2,00,000 and Fixed Assets are valued at Rs. 1,00,000 above the estimated book value. Purchase consideration is to be satisfied by strong Ltd. by shares at par, Ignore Income Tax.

You are required to calculate the following:

(i) No. of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration.

(ii) Net Current Assts of Strong Ltd. and Weak Ltd. as on 01.07.2007.

(iii) P/L A/c. balance of the Strong Ltd. as on 01.07.2007.

(iv) Fixed Assets as on 01.07.2007;

(v) Balance Sheet of Strong Ltd. as on 01.07.2007 after takeover of Weak Ltd.

SOLUTION:

(i) Number of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration.

Weak Ltd.			
Goodwill			2,00,000
Fixed Assets		20,00,000	
Less: Depreciation		50,000	
		19,50,000	
Add: Appreciation		1,00,000	20,50,000
Stock			6,00,000
Debtors			9,00,000
Cash and Bank Balances			
Add: Profit after deprecation	2,00,000	3,50,000	
Add: Depreciation (non-cash)	50,000	2,50,000	
Less: Dividend		(3,00,000)	3,00,000
			40,50,000
Less: Creditors			3,00,000
Purchase Consideration			37,50,000

(ii) Calculation of Net Current Assets as on 01.07.2007

		Strong Ltd.		**Weak Ltd.**
Current Assets:				
Stock		8,00,000		6,00,000
Debtors		14,00,000		9,00,000
Cash and Bank	12,00,000		3,50,000	
Less: Dividend	(5,00,000)		(3,00,000)	
Add: Profit before depreciation	4,75,000	11,75,000	2,50,000	3,00,000
				18,00,000
Less: Creditors		33,75,000		18,00,000
		5,00,000		3,00,000
		28,75,000		15,00,000

(iii) Profit and Loss Account balance of Strong Ltd. as on 1.07.2007

P&L A/c. balance as on 31.03.2007	6,00,000
Less: Dividend Paid	5,00,000
	1,00,000
Add: Estimated profit for 3 months after charging depreciation	4,00,000
	5,00,000

(iv) Fixed Assets as on 01.07.2007

Fixed Assets of Strong Ltd. as on 31.03.2007		30,00,000
Less: Depreciation for 3 months		75,000
		29,25,000
Fixed assets taken over of Weak Ltd. as on 31.03.2007	20,00,000	
Less: Proportionate depreciation for 3 months on fixed assets	50,000	
	19,50,000	
Add: Appreciation above the estimated book value	1,00,000	20,50,000
		49,75,000

(v) Balance sheet of Strong Ltd. as on 01.07.2007 (after Take Over)

Particulars	Note No.	Rs.
1. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	87,50,000
(b) Reserve and Surplus	2	8,00,000
(2) Current Liabilities		
Trade Payables	3	8,00,000
Total		1,03,50,000

II. Assets		
(1) Non-Current assets		
(a) Fixed Assets		
i. Tangible assets	4	49,75,000
ii. Intangible assets	5	2,00,000
(2) Current Assets		
(a) Inventories (8,00,000+6,00,000)		14,00,000
(b)Tradereceivables (14,00,000+9,00,000)		23,00,000
(c) Cash and Cash equivalents (11,75,000 + 3,00,000) – As per (Ii) above		14,75,000
Total		1,03,50,000

NOTES TO ACCOUNTS

1.	Share Capital		
	87,500 (50,000+37,500) equity shares of Rs. 100 each		87,50,000
2.	Reserve and Surplus		
	Reserves Less Preliminary expenses (4,00,000 – 1,00,000)	3,00,000	
	Profit and Loss Account (As computed (iii)	5,00,000	8,00,000
3.	Trade Payables (5,00,000+3,00,000)		8,00,000
4.	Tangible Assets		
	Fixed assets (as computed in (iv)		49,75,000
5.	Intangible assets		2,00,000

INTRINSIC VALUE METHOD

QUESTION NO 22

The following are the Balance Sheets of Strong Limited and Small Limited as at 31st December 1988:

Liabilities	Strong Limited	Small Limited	Assets	Strong Limited	Small Limited
Share capital			Fixed assets cost		
Shares of the face value of Rs.10 each	1,50,000	1,20,000	Less depreciation	1,40,000	75,000
			Current assets		
Reserves	95,000	10,000	Stock	42,000	47,000
Secured loans			Trade debtors	30,000	50,000
10% Debentures		20,000	Balance at bank	80,000	10,000
Current liabilities					
Trade creditors	47,000	32,000			
	2,92,000	1,82,000		2,92,000	1,82,000

Strong Limited agreed to absorb Small Limited as on 31st December 1988 on the following terms:

(a) Strong Limited agreed to repay 10% Debentures of Small Limited

(b) Strong Limited to revalue its fixed assets at Rs.1,95,000 to be incorporated in the books.

(c) Shares of both the companies to be valued on net assets basis, after considering Rs.50,000 towards value of goodwill of Small Limited

(d) The costs of absorption of Rs.3,000 are met by Strong Limited

You are required to:

(i) Calculate the ratio of exchange of shares.

(ii) Give journal entries in the books of Strong Limited

(iii) Construct the bank account to arrive at the balance on absorption.

QUESTION NO 23

B Co. Limited had the following Balance Sheet as on 31st March 1978.

Liabilities	Amount	Assets	Amount
Share capital of 100 each	50,00,000	Fixed Assets	83,00,000
Capital reserve	10,00,000	Current Assets	69,00,000
General reserve	36,00,000	Investments	17,00,000
Unsecured loans	22,00,000	Goodwill	2,00,000
Sundry creditors	42,00,000		
Provision for taxation	11,00,000		
	1,71,00,000		1,71,00,000

B Co. Limited is Amalgamated with Beeson Limited as on 31st March, 1978 on which date the Balance Sheet of Beeson Limited as follows:

Liabilities	Amount	Assets	Amount
Share capital of 10 each	80,00,000	Fixed Assets	1,60,00,000
General Reserve	1,00,00,000	Current Assets	1,68,00,000
Secured Loans	40,00,000		
Sundry Creditors	46,00,000		
Provision for taxation	52,00,000		
Proposed Dividend	10,00,000		
	3,28,00,000		3,28,00,000

For the purpose of the Amalgamation the goodwill of B Co. Limited was considered valueless. There are also arrears of depreciation in B Co. Limited amounting to Rs.4,00,000. The shareholders in B Co. Limited are allotted, in full satisfaction of their claims. Shares in Beesons in the same proportion as the respective intrinsic values of shares of two companies bear to one another. Pass journal entries in the books of both the companies to give effect to

ENTRIES ARE TO BE MADE AT PAR

QUESTION NO 24

Exe Limited is absorbed by Wye Limited. Given below are the Balance Sheets of the two companies prepared after revaluation of their assets on a uniform basis:

Balance Sheet of Exe Limited

Liabilities	Amount	Assets	Amount
Paid up capital:		Sundry assets	16,85,000
9,000 equity shares of Rs.150 each Rs.135 paid up	12,15,000	Cash in hand	3,500
General reserve	4,03,500		
Profit and Loss account	15,000		
Sundry creditors	55,000		
	16,88,500		16,88,500

Balance Sheet of Wye Limited

Liabilities	Amount	Assets	Amount
Paid up capital:		Sundry assets	43,57,500
40,000 equity shares of Rs.75 paid up (fully paid)	30,00,000	Cash in hand	27,500
General reserve	12,85,000		
Profit and Loss account	35,000		
Sundry creditors	65,000		
	43,85,000		43,85,000

The holder of every three shares in Exe Limited was to receive five shares in the Wye Limited plus as much cash as is necessary to adjust the rights of shareholders of both the companies. In accordance with the intrinsic value of the share as per the respective Balance Sheets.

Pass necessary journal entries in the books of Wye Limited and prepare the Balance Sheet giving effect to the above scheme of absorption. Entries are to be made at par value only.

QUESTION NO 25 (IMPORTANT QUESTION FOR EXAMS 16 MARKS)

The following are the Balance Sheets of Big Limited and Small Limited for the year ending on 31st March 1998.

(Figures in crores of rupees)

	Big Limited	Small Limited
Equity share capital in equity shares of Rs.10 each	50	40
Preference share capital in 10% preference shares of Rs.100 each		60
Reserves and surplus	200	150
Loans secured	250	250
Total funds	100	100
	350	350
Applied for: fixed assets at cost less depreciation	150	150
Current assets less current liabilities	200	200
	350	350

The present worth of fixed assets of Big Limited is Rs.200 crores and that of Small Limited is Rs.429 crores. Goodwill of Big Limited is Rs.40 crores and of Small Limited is 75 crores.

Small Limited absorbs Big Limited by issuing equity shares at par in such a way that intrinsic net worth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

(a) Show the Balance Sheet after absorption.

(b) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings.

PURCHASE CONSIDERATION WITH VALUATION OF GOODWILL

QUESTION NO 26 (CA FINAL NOV 1986)

The following is the Balance Sheet of weak Limited as on June 30, 1976:

Liabilities	Amount	Assets	Amount
Share capital (2000 shares of Rs.100 each)	2,00,000	Goodwill	35,000
		Land and Building	85,000
Reserve fund	20,000	Plant and Machinery	1,60,000
5% Debentures	1,00,000	Stock	55,000
Loan from A (a director)	40,000	Debtors	65,000
Sundry creditors	80,000	Cash at bank	34,000
		Discount on Debentures	6,000
	4,40,000		4,40,000

The business of the company is taken over by strong Limited as on the date on the following terms:

(i) Strong Limited to take over all assets except cash, to value the assets at their book value less 10 per cent except goodwill which was to be valued at 4 years purchase of the excess of average (five years) profits over 8 per cent of the combined amount of share capital and reserves.

(ii) Strong Limited to take over trade creditors, which were subject to a discount of five per cent. Other outside liabilities were discharged by strong Limited at their book values.

(iii) The purchase consideration was to discharged in cash to the extent of Rs.10,000 and the balance in fully paid equity shares of Rs.10 each valued at Rs.12.50 per share.

(iv) The average of five years profits was Rs.30100. the expenses of liquidation amounted to Rs.4000. weak Limited had sold prior to 30th June, 1976 goods costing Rs.30,000 to strong Limited for Rs.40,000. Debtors include Rs.20,000 still due from strong Limited on the date of absorption, Rs.25,000 worth of the goods were still in stocks of strong Limited. Show the important ledger accounts in the books of weak Limited and journal entries in the books of strong Limited.

QUESTION NO 27 (STUDY MATERIAL

Balance Sheets of Ax Ltd. and Tx Ltd. as on 31.12.1999. Tx Ltd. was merged with Ax Ltd. with effect from 1.1.2000 and merger was in the nature of purchase:

BALANCE SHEET AS ON 31.12.1999

	AX Ltd.	TX Ltd.		AX Ltd.	TX Ltd.
Share capital	7,00,000	2,50,000	Fixed assets	9,50,000	4,00,000
(Rs.10each)			Investments	2,00,000	50,000
General reserve	3,50,000	1,20,000	(non trade)		
Profit and Loss Account	2,10,000	65,000	stock	1,20,000	50,000
			Debtors	75,000	80,000
Export reserve	70,000	40,000	Advance tax	80,000	20,000
12% debentures	1,00,000	1,00,000	Cash and bank	2,75,000	1,30,000
Creditors	40,000	45,000	Preliminary exp.	10,000	-
Tax provision	1,00,000	60,000			
Proposed dividend	1,40,000	50,000			
	17,10,000	7,30,000		17,10,000	7,30,000

Ax Ltd. would issue 12% debentures to discharge the claims of the debentures holders of Tx Ltd. at par. Non trade investments of Ax Ltd. fetched @ 25% while those of Tx Ltd. fetched @ 18% profit (pre tax) by Ax Ltd. and Tx Ltd. during 1997, 1998 and 1999 and were as follows:

	AX Ltd.	TX Ltd.
1997	5,00,000	1,50,000
1998	6,50,000	2,10,000
1999	5,75,000	1,80,000

Goodwill may be calculated on the basis of capitalization method taking 20% as the pre tax normal rate of return. Purchase consideration is discharged by Ax Ltd. on the basis of intrinsic value per share. The company decided to cancel the proposed dividend. Prepare Balance Sheet of Ax Ltd after taking over the business.

QUESTION NO. 28 (C A FINAL MAY 2008 16 MARKS)

T. Ltd. and V. Ltd. propose to amalgamate. Their balance sheets as at 31st March, 2008 were as follows:

Liabilities	T. Ltd.	V. Ltd.	Assets	T. Ltd.	V Ltd.
Share capital:			Fixed Assets:		
Equity shares of 10 each	15,00,000	6,00,000	Less: Dep.	12,00,000	3,00,000
General reserve	6,00,000	60,000	Investment (face value of Rs.3 Lakhs, 6% tax free G.P. notes)	3,00,000	
Profit & Loss A/c.	3,00,000	90,000			
Creditors	3,00,000	1,50,000			
			Stock	6,00,000	3,90,000
			Debtors	5,10,000	1,80,000
			Cash and Bank Balances	90,000	30,000
	27,00,000	9,00,000		27,00,000	9,00,000

Their net profits (after taxation) were as follows:

Year	T. Ltd.	V. Ltd.
2005-06	3,90,000	1,35,000
2006-07	375,000	1,20,000
2007-08	4,50,000	1,68,000

Trading Profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 years purchase of average super profits. The stock of T. Ltd. are to be taken at Rs. 6,12,000 and Rs. 4,26,000 respectively for the purpose of amalgamation. W. Ltd. is formed for the purpose of amalgamation of two companies.

(a) Suggest a scheme of capitalization of W. Ltd. and ratio of exchange of shares; and

(b) Draft the opening balance sheet of W. Ltd.

ANSWER:

(a) Scheme of capitalization of W. Ltd. and radio of exchange of shares Computation of Net Assets of amalgamating companies.

	T. Ltd.	V. Ltd.
Goodwill (W.N.2)	3,19,200	1,21,200
Fixed Assets	12,00,000	3,00,000
6% investments (Non-trade)	3,00,000	
Stock	6,12,000	4,26,000
Debtors	5,10,000	1,80,000
Cash and Bank Balances	90,000	30,000
	30,31,200	10,57,200
Less: Creditors	3,00,000	1,50,000
Net Assets	2731,200	9,07,200
	1,50,000	60,000
No. of equity shares	18,208	15.12
Intrinsic Value of a share		
No. of shares to be issued by W. Ltd. to T. Ltd. 1,50,000 x 18,208/10	2,73,120 Shares	
V. Ltd. 60,000 x 15.12/10		90,720 Shares

In total 2,73,120 + 90,720 i.e. 3,63,840 shares will be issued by W. Ltd. Ratio by exchange of shares will be as follows:

1. Holders of 1,50,000 equity shares of T.Ltd. will get 2,73,120 shares in W. Ltd.
2. Similarly, holders, of 60,000 equity shares of V. Ltd. will get 90,720 shares in W.Ltd.

(b) Opening Balance Sheet of W. Ltd.

Particulars	Note No.	Rs.
1. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	36,38,400
(2) Current Liabilities		
Trade payable (3,00,000 + 1,50,000)		4,50,000
Total		40,88,400

II. Assets		
(1) Non-current assets		
(a) Fixed Assets		
i. Tangible assets	2	15,00,000
ii. Intangible assets	3	4,40,000
(b) Non-current Investments	4	3,00,000
(b) Current Assets		
(a) Inventories (6,12,000+4,26,000)		10,38,000
(b) Trade receivables (5,10,000+1,80,000)		6,90,000
(c) Cash and Cash equivalents (90,000 + 30,000)		1,20,000
Total		40,88,400

Notes to Accounts

1.	Share Capital Equity share capital 3,63,840 Equity shares of Rs.10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	36,38,400
2.	Tangible Assets Other Fixed Assets (Rs.12,00,000+Rs. 3,00,000)	15,00,000
3.	Intangible assets Goodwill (W.N.2) (Rs.3,19200+Rs.1,21,200)	4,40,000
4.	Non-current Investments Investments in 6% Tax Free G.P. Notes	3,00,000

Working Notes:

1. Calculation of closing trading capital employed on the basis of net assets.

Particulars	T Ltd.	V. Ltd.
Fixed Assets	12,00,000	3,00,000
Stock	6,12,000	4,26,000
Debtors	5,10,000	1,80,000
Cash and Bank Balances	90,000	30,000
	24,12,000	9,36,000
Less: Creditors	3,00,000	1,50,000
	21,12,000	7,86,000
Net Assets		

2. Calculation of Value of goodwill

(i) Average Trading Profit	T Ltd.	V Ltd.
2005-06	3,90,000	1,35,000
2006-07	3,75,000	1,20,000
2007-08	4,50,000	1,68,000
Profit after tax	12,15,000	4,23,000
Profit before tax (40%)	20,25,000	7,05,000
Add: Under Valuation of closing stock	12,000	36,000
	20,37,000	7,41,000
Average of 3 Years Profit before tax	6,79,000	2,47,000
Less: Income from non-trade investments		
(3,00,000 x 6%)	18,000	--
Average profit before tax	6,61,000	2,47,000
Less: 40% tax	2,64,400	98,800
Average profit after tax	3,96,600	1,48,200

(ii) Super Profits	3,96,600	1,48,200
Average trading profit		
Less Normal Profit		
T. Ltd. Rs 21,12,000 x 15%	3,16,800	
V. Ltd. Rs. 7,86,000 x 15%		1,17,900
	79,800	30,300
(iii) Value of goodwill at 4 years purchase of super Profits	3,19,200	1,21,200

DISSENTING SHAREHOLDERS

QUESTION NO 29 (DISSENTING SHAREHOLDERS)

Modern Ltd. agrees to acquire the business of the simple cotton Ltd. on the basis of the following Balance Sheet:

Liabilities	Amount	Assets	Amount
10,000 shares of Rs.50, 30 paid up	3,00,000	Freehold property	1,25,000
		Plant and machinery	25,000
Reserve fund	62,500	Stock	1,50,000
Profit and loss account	30,000	Investments	5,000
Creditors	37,500	Debtors	1,00,000
		Bank	25,000
	4,30,000		4,30,000

Modern Ltd. took over all the assets and liabilities of the vendor company. A sum of Rs.7,500 was retained by the vendor company for the payment of expenses of liquidation, income tax liability and settlement for dissenting shareholders.

Vendor Company was allotted one share of Rs.100 each, Rs.50 paid up for two shares held by its shareholders. Out of the amount of Rs.7500 retained by the liquidator of Simple Cotton Ltd. payments were made as under:

Cost of liquidation Rs.1250, tax Rs.3750 and dissenting shareholders holding 50 shares @ Rs.32.50 per share i.e., Rs.1625. the market value of the share of the Modern textile Ltd. was Rs.60 per share.

Prepare necessary books.

QUESTION NO. 30 (CA FINAL NOV.2013 16 MARKS)

Following is the Extract of Balance Sheet of M/s. Sunny Ltd. and Money as on 31.03.2013:

Balance Sheet Extract as on 31.03.2013

	Sunny Ltd.	Money Ltd.
Authorised Share Capital	15,00,000	5,00,000
Equity Share Capital of Rs.10 each fully paid	8,00,000.00	2,00,000.00
General Reserve	1,10,000.00	45,000.00

Profit & Loss Account	42,000.00	18,000.00
Statutory Fund	16,000.00	8,000.00
Trade Payable	45,000.00	24000.00
Provisions	95,000.00	12000.00
	11,08,000.00	3,07,000.00
Goodwill	20,000.00	0.00
Machines & Plant	5,10,000.00	1,95,000.00
Other fixed Assets	90,000.00	15,000.00
Current Assets		
Inventories	1,85,000.00	35,000.00
Debtors	1,00,500.00	35,000.00
Prepaid expenses	24,500.00	2,000.00
Cash in Hand & Bank	1,78,000.00	25,000.00
	11,08,000.00	3,07,000.00

The two companies have entered into a scheme of Amalgamation and a new company Z Ltd. is formed. The Amalgamation is to take place in the following manner:

(1) For the purpose of Amalgamation a new Company Z is to be formed with an authorized Share Capital of 2,50,000 equity shares of s.10 each.

(2) Z Ltd. is issue fully paid shares to the shareholders of Sunny Ltd. and Money Ltd. at a price of Rs. 5 and Rs. 3 above the intrinsic value of the shares respectively.

(3) The scheme or amalgamation was not supported by 100 shareholders of Sunny Ltd. and had to be paid Rs. 10 per share above intrinsic value as consideration. The amount of the dissenting shareholders was borne by Z Ltd.

(4) Fixed Assets of Sunny Ltd. were last revalued in the year 2009 after which there has been an increase of 15% in the values, while assets of Money Ltd. have not shown any change in prices. The current assets of Money Ltd. include Debtors of Rs.20,000 which are considered bad.

(5) Money Ltd.'s Stock-in-trade as on 31.03.2013 includes stock of s.25,000 purchased from Sunny Ltd. at a profit of 25% on cost price.

(6) The Statutory Fund of the companies is to be maintained by Z Ltd. for a period of 3 years.

(7) Sunny Ltd. had declared dividend of 10% on 31.03.2013 which has still not been paid.

(8) Goodwill shown in books of Sunny Ltd. was considered to be worthless.

(9) All the assets of the companies are taken over by Z Ltd. at the revalued amounts, Liabilities have to be paid in full.

Calculate the purchase consideration paid by Z to the shareholders of both the companies and prepare the Balance Sheet of Z Ltd. as per revised Schedule VI after the Amalgamation (Notes to Balance Sheet need not form part of the answer).

ANSWER

Calculation of Net Assets	Sunny Ltd.		Money Ltd.	
Goodwill (given to be of nil value)				
Machines and Plant	510,000		1,95,000	
Other Fixed Assets	90,000		15,000	2,10,000
	6,00,000			
Add: 15% increase in price	90,000	6,90,000		
Current Assets				
Inventories		1,85,000	35,000	30,000
Less: Loading on Stock			5,000	
(25,000x25/125)				
Debtors		1,00,500	35,000	
Less: Debtors considered bad			20,000	15,000
Prepaid expenses	1,78,000	24,500		2,000
Cash in Hand & Bank				
Less: Payment of Dividend	(80,000)	98,000		25,000
(10% of Rs. 8,00,000)				
Value of Total Assets		10,98,000		2,82,000
Less: Liabilities				
Trade Payables		45,000		24,000
Provisions	95,000	15,000		12,000
Less: Proposed dividend	(80,000)			
paid and adjusted in cash				
(assumed that proposed dividend was included in provisions)		10,38,000		2,46,000

WORKING NOTES:

1. Calculation of Intrinsic Value of Shares

	Sunny Ltd.	Money Ltd.
Net Assets value as on 31.03.2013	10,38,000.00	2,46,000.00
No. of shares of the Company	80,000.00	20,000.00
Intrinsic Value of shares	12.975	12.30

2. Calculation of Purchase Consideration

	Sunny Ltd.	Money Ltd.
Intrinsic Value of Shares	12.975	12.30
Premium to be paid by Z Ltd.	5.00	3.00
Amount to be paid per share	17,975	15.30
No. of shareholders agreeing to amalgamation	79,900	20,000
Total amount to be paid by Z Ltd.	14,36,202	3,06,000
No. of shares to be issued by Z Ltd. Rs.10 per share (Rs. 2 paid in cash)	1,43,620	30,600
Total Number of equity shares	1,74,220	
Payment to dissenting shareholders (100 shares x 22.98)	2,298	
Total purchase consideration	14,38,500	3,06,000

Entries in Books of Z Ltd.

Business Purchase A/c.	Dr.	1,744,500	
To Liquidators of Sunny Ltd.			14,38,500
To Liquidators of Money Ltd.			3,06,000
(Being the purchase of Sunny Ltd. and Money Ltd.)			
Fixed Assets	Dr.	900,000	
Inventories	Dr.	2,15,000	

Debtors	Dr.	1,15,500	
Prepaid Expenses	Dr.	26,500	
Cash & Bank	Dr.	1,23,000	
Goodwill (balancing figure)	Dr.	4,60,000	
To Trade Payables			69,000
To Provisions			27,000
To Business Purchase A/c.			17,44,500
(Being the assets and liabilities of the companies taken over at revalued values)			
Liquidators of Sunny Ltd.	Dr.	14,38,500	
Liquidators of Money Ltd.	Dr.	3,06,000	
To Equity Shares Capital A/c.			17,42,200
To Cash A/c.			2,300
Amalgamation Adjustment A/c.	Dr.	24,000	
To Statutory Funds			24,000
(Being the statutory reserves of Sunny and Money Ltd.)			

Balance Sheet of Z Ltd. as on 31st March, 2013

	Note No.	
Equity and Liabilities		
Shareholders' Funds		
(a) Share Capital		1742,200
(b) Reserves and surplus		
Statutory Funds		24,000
Non-Current Liabilities		-
Long term borrowings		

<u>Current Liabilities</u>		
(a) Trade Payables		69,000
(b) Other Current Liabilities		
(c) Short term provisions		27,000
Total		18,62,200
<u>Non-Current Assets</u>		
(a) Fixed Assets		9,00,000
(i) Tangible Assets		4,60,500
(Ii) Intangible Assets		24,000
<u>Current Assets</u>		
(a) Inventories		2,15,000
(b) Trade Receivables		1,15,500
(c) Cash and Bank Balances		1,210,700
(d) Short-term loans and advances		26,500
Total		18,62,200

STATUTORY RESERVES IN BALANCE SHEET OF VENDOR COMPANY

QUESTION NO 31 (CA FINAL MAY 1996)

A Limited and B Limited were amalgamated on and from 1st April 1995. A new company C Limited was formed to take over the business of the existing companies. The Balance Sheets of A Limited and B Limited as on 31st March 1995 are given below:

(Rs. In lakhs)

Liabilities	A Limited	B Limited	Assets	A Limited	B Limited
Share capital			Fixed Assets		
Equity shares of Rs.100 each	800	750	Land and Building	550	400
			Plant and Machinery	350	250
12% Preference shares of Rs.100	300	200	Investment	150	50
Reserve and Surplus:			Current assets, Loans and Advances		
Revaluation Reserve	150	100	Stock	350	250
General Reserve	170	150	Sundry Debtors	250	300
Investment Allowance Reserve	50	50	Bills receivable	50	50
Profit and Loss a/c	50	30	Cash and bank	300	200
Secured Loans:					
10% Debentures (Rs.100 each)	60	30			
Current Liabilities and Provisions:					
Sundry Creditors	270	120			
Bills Payable	150	70			
	2,000	1,500		2,000	1,500

Additional information:

(i) 10% Debenture-holders of A Limited and B Limited are discharged by C Limited issuing such number of its 15% Debentures of Rs.100 each so as to maintain the same amount of interest.

(ii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Limited at a price of Rs.150 per share (face value Rs.100)

(iii) C Limited will issue 5 equity shares for each equity share of A Limited and 4 equity shares for each equity shares of B Limited. The share are to be issued @ Rs.30 each, having a face value of Rs.10 per share.

(iv) Investment allowance reserve is to be maintained for 4 more years

Prepare the Balance Sheet of C Limited as on 1st April 1995 after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

BUSINESS COMBINATION IN THE NATURE OF MERGER (POOLING INTEREST METHOD)

QUESTION NO 32 (BASED ON MERGER)

A Limited and B Limited were amalgamated on and from 1st April, 1999. A new company AB Limited was formed to take over the business of existing companies. The Balance Sheet of A Limited and B Limited as on 31st March 1999 are given below:

	A Limited	B Limited		A Limited	B Limited
Equity shares of Rs.10 each	2,400	1,600	Fixed assets	4,800	3,200
			Less: Depreciation	800	600
12% Preference shares of Rs.100 each	1,200	800		4,000	2,600
Capital reserve	800	600	Investments	1,600	600
General reserve	1,200	600	Stock	1,200	600
Profit and Loss a/c	400	200	Debtors	1,600	800
Secured loans	1,600	800	Cash and bank balance.	1,200	600
Trade creditors	1,200	400			
Tax provision	800	200			
	9,600	5,200		9,600	5,200

Other information:

(i) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of AB Limited at an issue price of Rs.125 per share.

(ii) AB Limited will issue one equity share of Rs.10 each for every share of A Limited and B Limited. The shares are issued at a premium of Rs.5 per share. Prepare the Balance Sheet of AB Limited on the assumption that the Amalgamation is in the nature of merger.

QUESTION NO 33 (C.A.FINAL MAY 2001)

Alpha Limited and Beta Limited were amalgamated on and from 1st April 2001. A new company Gamma Limited was formed to takeover the business of the existing companies. The Balance Sheets of Alpha Limited and Beta Limited as on 31st March 2001 are given below:

(Rs. In lakhs)

Liabilities	Alpha Limited	Beta Limited	Assets	Alpha Limited	Beta Limited
Share capital			Fixed Assets	1,200	1,000
Equity shares of Rs.100 each	1,000	800	Current Assets, Loans and Advances	880	565
15% Preference shares of Rs.100 each	400	300			
Reserve and Surplus:					
Revaluation Reserve					
General Reserve	100	80			
Profit and Loss a/c	200	150			
Secured Loan	80	60			
12% Debentures of Rs.100 each	96	80			
Current Liabilities and Provisions	204	95			
	2,080	1,565		2,080	1,565

Other information:

(i) 12% Debenture holders of Alpha Limited and Beta Limited are discharged by Gamma Limited by issuing adequate number of 16% Debentures of Rs.100 each to ensure that they continue to receive the same amount of interest.

(ii) Preference shareholders of Alpha Limited and Beta Limited have received same number of 15% preference shares of Rs.100 each of Gamma Limited

(iii) Gamma Limited has issued 1.5 equity shares of each equity share of Alpha Limited and 1 equity share for each equity share of Beta Limited. The face value of shares issued by Gamma Limited is Rs.100 each.

Prepare the Balance Sheet of Gamma Limited as on 1st April 2001 after the amalgamation has been carried out using the "pooling of interest method".

JINDAL SIR MESSAGE:

Dear students, i am still not satisfied with number of questions on amalgamation that we have done in class so far but all concepts have been covered.

I want to provide you more classes on this topic. So refer volumn ii (second book) for more practice.

NOTES

INTERNAL RECONSTRUCTION

CONCEPT 1: PROBLEMS ON CONVERSION IN FACE VALUE OF EQUITY SHARES

QUESTION NO 1

The following is the Balance Sheet of Rocky Limited as at 31st March 2018:

In lacs

Liabilities:-	
Fully paid equity shares of Rs.10 each	500
Capital reserve	6
12% debentures	400
Debenture interest outstanding	48
Trade creditors	165
Director's Remuneration outstanding	10
Other outstanding expenses	11
Provisions	33
	1,173
Assets:	
Goodwill	15
Land and building	184
Plant and machinery	286
Furniture and fixtures	41
Stock	142
Debtors	80
Cash and bank	27
Discount on issue of debentures	8
Profit and loss account	390
	1,173

The following scheme of internal reconstruction was framed, approved by the court, all the concerned parties and implemented:

(a) All the equity shares converted into the same number of fully paid shares of Rs.2.50 each.

(b) Directors agree to forego their outstanding remuneration.

(c) The debenture holders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(d) The existing shareholders agree to subscribe for cash, fully paid equity shares of Rs.2.50 each for Rs.125 lacs.

(e) Trade creditors are given the option of either to accept fully paid equity shares of Rs.2.50 each for the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs.65lacs accept equity shares whereas those for Rs.100lacs accept Rs.80lacs in cash in full settlement.

(f) The assets are revalued as under: (In Lacs)

a. Land and building	230
b. Plant and machinery	220
c. Stock	120
d. Debtors	76

Pass the journal entries for all the above-mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction

QUESTION NO 2

Green Limited had decided to reconstruct the Balance Sheet since it had accumulated huge losses. The following is the Balance Sheet of the company on 31.3.2018 before reconstruction:

Balance Sheet of Green Limited as at 31.3.2018

Liabilities		Assets	
50,000 equity shares of Rs.50 each	25,00,000	Goodwill	20,00,000
		Building	10,00,000
1,00,000 equity shares of Rs.50 each., Rs.40 paid up	40,00,000	Plant	10,00,000
		Computers	25,00,000
12% first Debentures	5,00,000	Investment	nil
12% second Debentures	10,00,000	Current assets	nil
Sundry creditors	5,00,000	Profit and Loss account	20,00,000
	85,00,000		85,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X (Rs.)	Mr. Y (Rs.)
12% first Debentures	3,00,000	2,00,000
12% second Debentures	7,00,000	3,00,000
Sundry creditors	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up Rs.50 shares	3,00,000	2,00,000
Partly paid up shares	5,00,000	5,00,000

The following scheme of reconstruction is approved by all parties interested and also by the court:-

(a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of Rs.20 each.

(b) Mr. X is to cancel Rs.7,00,000 of his total debt (other than share amount) and to pay Rs.2 lakh to the company and to receive new 14% first debentures for the balance amount.

(c) Mr. Y is to cancel Rs.3,00,000 of his total debt (other than equity shares) and to accept new 14% first debentures for the balance.

(d) The amount thus rendered available by the scheme shall be utilized in writing off of goodwill, Profit and Loss account and the balance to write off the value of computers.

You are required to draw the journal entries to record the same and also show the Balance Sheet of the reconstructed company

QUESTION NO 3

The paid up capital of Toy Limited amounted to Rs.2,50,000 consisting of 25,000 equity shares of Rs.10 each.

Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction, which was duly approved by the court. The terms of reconstruction were as under:

(a) In lieu of their present holdings; the shareholders are to receive:

i. Fully paid equity shares equal to 2/5th of their holding.

ii. 5% preference shares fully paid up to the extent of 20% of the above new equity shares.

iii. 3,000 6% second debentures of Rs.10 each.

(b) An issue of 2,500 5% first debentures of Rs.10 each was made and fully subscribed in cash.

(c) The assets were reduced as follows:

i. Goodwill from Rs.1,50,000 to Rs.75,000

ii. Machinery from Rs.50,000 to Rs.37,500

iii. Leasehold premises from Rs.75,000 to Rs.62,500.

Show the journal entries to give effect to the above scheme of reconstruction.

QUESTION NO 4

The Balance Sheet of BCR Limited as on 31.03.2018 appears as below:

Liabilities	**Rs.**
Share capital:	
1,50,000 equity shares of Rs.10 each fully paid	15,00,000
5,000 11% preference shares of Rs.100 each fully paid	5,00,000
Secured loans:	
11% Debentures	5,00,000
Interest accrued and due on Debentures	1,10,000
Bank overdrafts	6,30,000
Unsecured loans	5,00,000
Interest accrued and due	1,50,000
Current liabilities	5,00,000
	43,90,000
Assets:	
Fixed assets at cost	20,00,000
Less depreciation reserves	15,00,000
	5,00,000
Stocks and stores	6,00,000
Receivables	14,50,000
Other current assets	2,00,000
Miscellaneous expenditure: Profit and Loss account	16,40,000
Total	43,90,000

A scheme of reconstruction has been agreed amongst the shareholders and the creditors with the following salient features:

(a) Interest due on unsecured loans is waived.

(b) 50% of the interest due on the Debentures is waived.

(c) The 11% preference shares holders rights are to be reduced to 50% and converted into 15% Debentures of Rs.100 each.

(d) Current liabilities would be reduced by Rs.50,000 on account of provisions no longer required.

(e) The banks agree to the arrangement and to increase the case credit/over draft limits by Rs.1,00,000 upon the shareholders agreeing to bring in a like amount by way of new equity.

(f) Besides additional subscription as above, the equity shareholders agree to convert the existing equity share into new 10-rupee shares of total value Rs.5,00,000.

(g) The debit balance in the Profit and Loss account is to be wiped out. Rs.2,60,000 provided for doubtful debts and the value of the fixed assets increased by Rs.4,00,000.

Redraft the Balance Sheet of the company based on the above scheme of reconstruction.

QUESTION NO 5

Paradise Limited which had experienced trading difficulties, decided to reorganize its finances. On March 31,2018 a final Trial balance extracted from the books of the company showed the following position:

	Dr (Rs.)	Cr (Rs.)
Share capital, Authorised and issued:		
1,500 6% Cumulative preference shares of Rs.100 each		1,50,000
2,000 equity shares of Rs.100 each		2,00,000
Capital reserve		36,000
Profit and Loss account	1,10,375	
Preliminary expenses	7,250	
Goodwill at cost	50,000	
Trade creditors		42,500
Debtors	30,200	
Bank overdraft		51,000
Leasehold property at cost	80,000	

Leasehold property, Provision for depreciation		30,000
Plant and machinery at cost	2,10,000	
Plant and machinery, Provision for depreciation		57,500
Stock in trade	79,175	
	5,67,000	5,67,000

The approval of the court was obtained for the following scheme for reduction of capital:

(a) The preference shares to be reduced to Rs.75 per share.

(b) The equity shares to be reduced to Rs.12.50 per share.

(c) One Rs.12.50 equity shares to be issued for each Rs.100 of gross preference dividend arrears, the preference dividend had not been paid for three years.

(d) The balance of capital reserve account to be utilized.

(e) Plant and machinery to be written down to Rs.75,000.

(f) The Profit and Loss account balance and all intangible assets to be written off.

At the same time as the resolution to reduce capital was passed, another resolution was approved restoring the total authorized capital to Rs.3,50,000 consisting of 1,500 6% Cumulative preference shares of Rs.75 each and the balance in equity shares of Rs.12.50 each. As soon as the above resolutions had been passed 5,000 equity shares were issued at par, for cash, payable in full upon application. The same were fully subscribed and paid. You are required:

(i) To show the journal entries necessary to record the above transactions in the company's books and

(ii) To prepare the Balance Sheet of the company after completion of the scheme.

QUESTION NO 6

The Balance Sheet of A & Company Limited as on 31.12.2018 is as follows:

Assets	Rs.	Rs.
Fixed assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	

Goodwill	1,30,000	6,42,500
Traded investments (at cost)		55,000
Current assets:		
Debtors	4,85,000	
Stock	4,25,000	
Deferred advertising	1,00,000	10,10,000
Profit and Loss account		4,35,000
Total		21,42,500
Liabilities:		
Share capital:		
4000 6% cumulative preference shares of Rs.100 each	4,00,000	
75,000 Equity shares of Rs.10 each	7,50,000	11,50,000
6% Debentures (secured on freehold property)	3,75,000	
Accrued interest	22,500	3,97,500
Current liabilities:		
Bank overdraft	1,95,000	
Creditors	3,00,000	
Directors' loans	1,00,000	5,95,000
Total		21,42,500

The court approved a scheme of re-organisation to take effect on 1.1.2018 whereby:

(i) The preference shares to be written down to Rs.75 each and equity shares to Rs.2 each.

(ii) Of the preference share dividends which are in arrears for four years, three fourths to be waived and equity shares of Rs.2 each to be allotted for the remaining quarter.

(iii) Accrued interest on Debentures to be paid in cash.

(iv) Debenture-holders agreed to take over freehold property, book value Rs.1,00,000 at a valuation of Rs.1,20,000 in part repayment of their holdings and to provide additional cash of Rs.1,30,000 secured by a floating charge on company's assets at an interest rate of 8% per annum.

(v) Patents, Goodwill and Deferred advertising to be written off.

(vi) Stock to be written off by Rs.65,000.

(vii) Amount of Rs.68,500 to be provided for bad debts.

(viii) Remaining freehold property to be re-valued at Rs.3,87,500.

(ix) Trade investments be sold for Rs.1,40,000.

(x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of Rs.2 each and as to 5% in cash and balance 5% being waived.

(xi) There were capital commitments totaling Rs.2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xii) Ignore taxation and cost of the scheme.

You are requested to show journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the scheme.

QUESTION NO 7

S.P. Construction Company finds itself in financial difficulty. The following is the Balance Sheet on 31st December 2018

Liabilities	Rs.	Assets	Rs.
Share capital		Land	1,56,000
20,000 Equity shares of Rs.10 each fully paid	2,00,000	Building (net)	27,246
		Equipment	10,754
5% Cum. Preference shares of Rs.10 each fully paid	70,000	Goodwill	60,000
8% Debentures	80,000	Investments (Quoted) in shares	27,000
Loan from directors	16,000	Stock	1,20,247
Trade creditors	96,247	Sundry debtors	70,692
Bank overdrafts	36,713	Profit and Loss account	39,821
Interest payable on Debentures	12,800		
	5,11,760		5,11,760

The authorize capital of the company is Rs.20,000 equity shares of Rs.10 each and 10,000 5% Cum. Preference shares of Rs.10 each.

During a meeting of shareholders and directors, it was decided to carry out a scheme of internal reconstruction. The following scheme has been agreed:

(a) The equity shareholders are to accept reduction of Rs.7.50 per share, and each equity share is to be re-designated as a share of Rs.2.50 each.

(b) The equity shareholders are to subscribe for a new share on the basis of 1 for 1 at a price of Rs.3 per share.

(c) The existing 7,000 preference shares are to be exchanged for a new issue of 3,500 8% Cum. Preference shares of Rs.10 each and 14,000 equity shares of Rs.2.50 each.

(d) The Debenture holders are to accept 2,000 equity shares of Rs.2.50 each in lieu of interest payable.

The interest rate is to be increased to 9.5%. Further Rs.9,000 of this 9.5% Debentures are to be issued and taken up by the existing holders at Rs.90 for Rs.100.

(e) Rs.6,000 of directors' loan is to be credited. The balance is to be settled by issue of 1,000 equity shares of Rs.2.50 each.

(f) Goodwill and the Profit and Loss account balance are to be written off.

(g) The investment in shares is to be sold at current market value of Rs.60,000.

(h) The bank overdraft is to be repaid.

(i) Rs.46,000 is to be paid to trade creditors now and balance at quarterly intervals.

(j) 10% of the debtors are to be written off.

(k) The remaining assets were professionally valued and should be included in the books of account as follows:

Land	90,000
Building	80,000
Equipment	10,000
Stock	50,000

It is expected that due to changed condition and new management operating profit will be earned at the rate of Rs.50,000 p.a. after depreciation but before interest and tax.

Due to losses brought forward it is unlikely that any tax liability will arise until 2020.

You are required to show the necessary journal entries to effect the reconstruction scheme; prepare the Balance Sheet of the company immediately after the reconstruction.

QUESTION NO 8

Liabilities	Amount	Assets	Amount
Equity shares of Rs.10 each		Goodwill	3,00,000
10% preference shares of Rs.10 each	10,00,000	Land	4,00,000
		Building at cost	3,75,000
12% debentures	4,00,000	Machinery at cost	2,20,000
Interest payable on deb.	3,00,000	Investment	2,25,000
Loan from directors	36,000	Stock	3,60,000
Provision for depreciation:	1,00,000	Debtors	2,00,000
Building	75,000	Cash	5,000
Machinery	80,000	Advertisement suspense account	25,000
Bank overdraft	1,50,000		
Sundry creditors	2,59,000	Profit and Loss account	2,90,000
	24,00,000		24,00,000

The authorized share capital of the company is 2,50,000 equity shares of Rs.10 each and 50,000 10% preference shares of Rs.10 each.

It was decided during a meeting of the shareholders and directors of the company to carry out a scheme of internal reconstruction as follows:

I. Each equity share is to be re designated as a share of Rs2.50. The equity shareholders are to accept a reduction in the nominal value of their share from Rs.10 to Rs.2.50 and subscribe for a new issue on the basis of 1for 2 at a price of Rs.4 per share.

II. The existing preference shares are to be exchanged for a new issue of 30,000 15% preference shares of Rs.10 each and 40,000 equity shares of Rs.2.50 each.

III. The debenture holders are to accept 10,000 equity shares of Rs.2.50 each in lieu of interest payable. The interest rate is to be increased to 14%. A further Rs.1,00,000 of 14% debentures of Rs.100 each is to be issued and taken up by the existing holders at Rs.90.

IV. Rs.40,000 of director's loan is to be cancelled. The balance amount is to be settled by issue of 10,000 equity shares of Rs.2.50 each.

V. The investments are to be sold at current market price of Rs.3,00,000.

VI. The bank overdraft is to be repaid.

VII. A sum of Rs.1,59,000 is to be paid to the creditors immediately and the balance is to be paid at quarterly intervals.

VIII. All intangible and fictitious assets are to be eliminated.

IX. The following assets are to be adjusted to fair values: debtors Rs.1,80,000, stock Rs.3,20,000, machinery Rs.1,00,000: building Rs.2,50,000 and land Rs.3,20,000.

X. It is estimated that under new arrangements net profit before interest and tax will be Rs.2,50,000 per annum. There will be no tax liability of the company for the next five years.

You are required to:

(a) Show the journal entries to effect the reconstruction scheme.

(b) Prepare the Balance Sheet of the company immediately after reconstruction and

(c) Show how the anticipated profits will be distributed under new arrangements.

SOLUTION

IN THE BOOKS OF COMPANY
JOURNAL ENTRIES

PARTICULARS	DEBIT	CREDIT
Equity share capital (10) Dr.	10,00,000	
To Equity share capital (2.5)		2,50,000
To Reconstruction (7.5)		7,50,000
(Being 100000 shares of 10 each converted into 2.5 each)		
Bank Account Dr.	2,00,000	
To Equity share capital(2.5)		1,25,000
To Security Premium(1.5)		75,000
(Being 50000 new shares issued @1 for 2)		
10% Pref.Share Capital account Dr.	4,00,000	
To 15% Pref share capital (30000x10)		3,00,000
To Equity share capital(40000x2.5)		1,00,000
(Being Existing Pref. Share Capital is converted into new equity and Pref.shares)		

Outstanding Interest on Debentures Dr. To Equity Share Capital (10000x2.5) To Reconstruction (Being Payable interest on debentures settled)	36,000	 25,000 11,000
12% Debentures Dr. To 14% Debentures (Being interest rate on existing debentures increased)	3,00,000	 3,00,000
Bank account Dr. Discount a/c Dr. To 14% Debentures (Being new issue of debentures issued)	90,000 10,000	 1,00,000
Director' Loan account Dr. To Reconstruction To Equity share capital(10000x2.5) To Security Premium (Being o/s Director loan settled)	1,00,000	 40,000 25,000 35,000
Bank account Dr. To investments To Reconstruction (Being investment sold)	3,00,000	 2,25,000 75,000
Bank overdraft account Dr. To bank (Being bank overdraft repaid)	1,50,000	 1,50,000

Creditors account Dr. To bank (Being part payment to creditors paid)	1,59,000	 1,59,000
Reconstruction account Dr. To Goodwill To Advertisement Suspense To Profit /loss To discount on issue on debentures (Being intangible assets & losses written off)	6,25,000	 3,00,000 25,000 2,90,000 10,000
Reconstruction Account Dr To Stock To Debtors To machinery To building To Land (Being assets revalued)	2,30,000	 40,000 20,000 40,000 50,000 80,000
Securities premium account Dr. To Reconstruction account (Being Reserves utilized)	1,10,000	 1,10,000
Reconstruction account dr. To capital Reserve (being surplus amount transferred)	1,31,000	 1,31,000

RECONSTRUCTION ACCOUNT

Particulars	Amount	Particulars	Amount
To goodwill	3,00,000	By equity share capital	7,50,000
To Advertisement suspense	25,000	By interest o/s	11,000
To profit/loss	2,90,000	By director loan	40,000
To discount	10,000	By bank (investment)	75,000
To stock	40,000	By securities premium	1,10,000
To debtors	20,000		
To machinery	40,000		
To building	50,000		
To land	80,000		
To capital Reserve(bal.fig)	**1,31,000**		
	9,86,000		**9,86,000**

B/S TOTAL =14,56,000

QUESTION NO 9

The balance sheet of Y Ltd. as on 31 March 2018 was as follows:

Liabilities	Amount	Assets	Amount
5,00,000 Equity shares of Rs.10 each fully paid	50,00,000	Goodwill	10,00,000
		Patent	5,00,000
9% 20,000 Preference shares of Rs.100 each fully paid	20,00,000	Land and building	30,00,000
		Plant and machinery	10,00,000
10% First debentures	6,00,000	Furniture and fixtures	2,00,000
10% Second debentures	10,00,000	Computers	3,00,000
Debentures interest outstanding	1,60,000	Trade investment	5,00,000
Trade creditors	5,00,000	Debtors	5,00,000
Director's loan	1,00,000	Stock	10,00,000
Bank O/D	1,00,000	Discount on issue of debentures	1,00,000
Outstanding liabilities	40,000	Profit and loss a/c (loss)	15,00,000
Provision for tax	1,00,000		
	96,00,000		96,00,000

Note: Preference dividend is in arrears for last three years.

A hold 10% first debentures for Rs.4,00,000 and 10% second debentures for Rs.6,00,000. He is also creditors for Rs.1,00,000. B holds 10% first debentures for Rs.2,00,000 and 10% second debentures for Rs.4,00,000 and is also creditors for Rs.50,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

1) All the Equity shares be converted into fully paid Equity shares of Rs.5 each.
2) The Preference shares be reduced to Rs.50 each and the Preference shareholders agree to forego their arrears of Preference dividends in consideration of which 9% Preference shares are to be converted into 10% Preference shares.
3) Mr. A is to cancel Rs.6,00,000 of his total debt including interest on debentures and to pay Rs.1 lakh to the company and to receive new 12% debentures for the balance amount.
4) Mr. B is to cancel Rs.3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.
5) Trade creditors (other than A and B) agreed to forego 50% of their claim.
6) Directors to accept settlement of their loans as to 60% thereof by allotment of Equity shares and balance being waived.
7) There were capital commitments totaling Rs.3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
8) The directors refund Rs.1,10,000 of the fees previously received by them.
9) Reconstruction expenses paid Rs.10,000
10) The taxation liability of the company is settled at Rs.80,000 and the same is paid immediately.
11) The assets are revalued as under:

	Rs.
Land and building	28,00,000
Plant and machinery	4,00,000
Stock	7,00,000
Debtors	3,00,000
Computers	1,80,000
Furniture and fixtures	1,00,000
Trade investment	4,00,000

Pass journal entries for all the above mentioned transactions including amounts to be written off of goodwill, patents, loss in profit and loss account and discount on issue of debentures. Prepare bank account and working of allocation of interest on debentures between A and B.

QUESTION NO 10

following is the Balance Sheet of ABC Ltd. as at 31^{st} March, 2018:

Liabilities	Rs.	Assets	Rs.
Share Capital :		Plant and Machinery	9,00,000
2,00,000 Equity Shares of Rs. 10 each fully paid up	20,00,000	Furniture and Fixtures	2,50,000
6,000 8% preference shares of Rs. 100 each	6,00,000	Patents and Copyrights investment (at cost)	70,000
9% Debentures	12,00,000	(Market value Rs. 55,000)	68,000
Bank overdraft	1,50,000	Stock	14,00,000
Sundry Creditors	5,92,000	Sundry Debtors	14,39,000
		Cash and Bank Balance	10,000
		Profit and loss	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalized:

- Preference shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.
- Debenture holders having charge on Plant and machinery would accept Plant and machinery in full settlement of their dues.
- Stock equal to Rs. 5,00,000 in book value will be taken over by Sundry Creditors in full settlement of their dues.
- Investment value to be reduced to market price.
- The Company would issue 11% Debentures for Rs. 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital reduction account and Balance Sheet of the company after internal reconstruction.

QUESTION NO 11

The Balance Sheet of R. Ltd. at 31 march, 2018 was as follows:

	Rs.		Rs.
Share capital Authorized	14,00,000	Intangibles	68,000
Issued : 64,000 8% cumulative preference shares of Rs. 10 each, fully paid	6,40,000	Freehold premises at cost	1,40,000
64,000 Equity share of Rs. 10 each, Rs. 7.5 paid	4,80,000	Plant and equipment at cost less depreciation	2,40,000
Loans from directors	60,000	Q Ltd. at cost	3,24,000
Sundry creditors	4,40,000	Stocks	2,48,000
Bank overdraft	2,08,000	Debtors	3,20,000
		Deferred Revenue expenditure	48,000
		Profit and Loss account	4,40,000
	18,28,000		18,28,000

Note: the arrear of Preference dividends amount to Rs. 51,200.

A scheme of reconstruction was duly approved with effect from 1 April, 2018 under the conditions state below:

(a) The unpaid amount on the Equity shares would be called up.

(b) The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of Rs. 2.5 per share. The dividend rate would be enhanced to 10%.

(c) The Equity shareholders would accept a reduction of Rs. 7.5 per share.

(d) R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the share capital of that company .Q Ltd. Is not a quoted company, The average net profit (after tax) of the company is Rs. 2,50,000. The shares would be valued based on 12% capitalization rate.

(e) A bad debt provision at 2% would be created.

(f) The –other assets would be valued as under:

	Rs.
Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stock	2,50,000

The Profit and Loss account debit balance and the balance standing to the debit of the deferred revenue Expenditure account would be eliminated.

(h) The directors would have to take equity shares at the new face value of Rs. 2.5 per share in settlement of their loan.

(i) The Equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.

(j) The Preference shareholders would take up one new preference share for every four held.

(k) The authorized Share capital would be restated to RS. 14,00,000.

(l) The new face values of the shares-preference and equity will be maintained at their reduced levels.

You are required to prepare:

(i) Necessary journal entries to effect the above ; and

(ii) The Balance Sheet of the company after reconstruction.

QUESTION NO 12

Following is the Balance Sheet of Weak Ltd. as on 31.03.2018:

Liabilities	Amount	Assets	Amount
Equity shares of 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% Preference shares of Rs.100 each	50,00,000	Investments (market value Rs.9,50,000)	10,00,000
10% Debentures of 100 each	40,00,000	Current assets	1,00,00,000
Creditors	50,00,000	Profit and Loss Account	4,00,000
Taxation provision	1,00,000	Preliminary expenses	2,00,000
	2,41,00,000		2,41,00,000

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to Rs.40 each paid up.

(ii) All Preference shares are reduced to Rs.60 each paid up

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of Rs.100 each and exchange the same for fresh debentures of Rs.70 each for every debentures held by them.

(iv) One of the creditors of the company to whom the company owes Rs.20,00,000 decides to forego 40% of his claim. He is allotted 30,000 equity shares of Rs.40 each in full satisfaction of his claim.

(v) The taxation liability of the company is settled at Rs.1,50,000.

(vi) Fixed assets are to be written down by 30%.

(vii) Current assets are to be revalued at Rs.45,00,000.

(viii) Investments are to be brought at market value.

(ix) It is decided to write off the fictitious assets.

Pass journal entries and show Balance Sheet of the company after giving effect to the above.

ANSWER:

Journal entries

	Debit Rs.	Credit Rs.
Equity share capital Dr. Preference share capital Dr. To Capital reduction a/c (being equity capital is reduced to Rs.40 per share and Preference share capital to Rs.60 per share)	60,00,000 20,00,000	 80,00,000
10% debentures account Dr. To 12% debentures To Capital reduction account (being interest rate of debentures is changed and 30% amount is reduced by converting the debentures into 70 each)	40,00,000	 28,00,000 12,00,000
Creditors account Dr. To capital reduction account To equity share capital (40% amt. of creditors is reduced and for remaining 60% equity shares are issued)	20,00,000	 8,00,000 12,00,000

Provision for taxation Dr. Capital reduction a/c Dr. To Bank account (being tax liability is settled at Rs. 150000)	1,00,000 50,000	 1,50,000
Capital reduction account Dr. To fixed assets To current assets To investments (being assets are revalued as per given information)	93,00,000	 37,50,000 55,00,000 50,000
Capital reduction account Dr. To Profit and Loss Account To preliminary expenses (being fictitious assets are written off)	6,00,000	 4,00,000 2,00,000
Capital reduction account Dr. To Capital Reserve (unutilized amount in reduction account is transferred)	50,000	 50,000

CAPITAL REDUCTION ACCOUNT

Particulars	**Amount**	**Particulars**	**Amount**
To cash (additional tax)	50,000	By equity share capital	60,00,000
To fixed assets	37,50,000	By Preference capital	20,00,000
To current assets	55,00,000	By debentures	12,00,000
To investments	50,000	By creditors	8,00,000
To Profit and loss Account	4,00,000		
To preliminary expenses	2,00,000		
To capital reserve **(bal.fig)**	50,000		
	1,00,00,000		**1,00,00,000**

CONCEPT 2: PROBLEMS ON CONVERSION IN PAID UP VALUE OF EQUITY SHARES

QUESTION NO 13

XY Limited

Balance Sheet as at 31st March 2018

Liabilities	Amount	Assets	Amount
2,00,000 equity shares of Rs.10 each, Rs.5 paid	10,00,000	Fixed assets	11,40,000
6,000 8% preference shares of Rs.100 each	6,00,000	Patents and copyrights	80,000
9% Debentures	6,00,000	Investment at cost (Market value Rs.55,000)	65,000
Interest accrued on Debentures	1,08,000	Stock	4,00,000
Bank overdraft	1,50,000	Debtors	4,39,000
Interest accrued on bank overdraft	15,000	Bank	10,000
Creditors	69,000	Profit and Loss account	4,08,000
	25,42,000		25,42,000

Preference dividend is in arrear for one year.

(a) Preference shares holders to give up their claims, inclusive of dividends, to the extent of 30% and desire to be paid off.

(b) Debenture- holders agree to give up their claims to interest in consideration of their interest being enhanced to 12%.

(c) Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once.

(d) Creditors would like to grant a discount of 5% if they are paid immediately.

(e) Balance of Profit and Loss account. Patents and copyrights and debtors of Rs.30,000 to be written off.

(f) Fixed assets to be written down by Rs.34,000.

(g) Investments are to reflect their market value.

(h) To the extent not specifically stated, equity shareholders suffer on reduction of their rights. Cost of reconstruction is Rs..3,350.

Draft journal entries in the books of the company assuming that the scheme has been put through fully with the equity shareholders bringing in necessary cash to pay off the parties and to leave a working capital of Rs.30,000, and prepare the Balance Sheet after reconstruction.

QUESTION NO 14

The following is the Balance Sheet as at 31st December 2018 of Blackened Prospectus Limited:

Liabilities	Amount	Assets	Amount
3000 cumulative preference shares of Rs.100 each fully paid up	3,00,000	Fixed assets (including goodwill of Rs.1,00,000)	10,80,000
7500 equity shares of Rs.100 each fully paid up	7,50,000	Investments	20,000
Share premium	12,000	Stock in trade	2,00,000
General reserve	80,000	Trade Debtors	1,54,500
Trade creditors	3,75,000	Bank balances	62,500
	15,17,000		15,17,000

Contingent liability:

Preference dividends in arrears Rs.66,000

The board of directors of the company decided upon the following scheme of reconstruction:

(a) The preference shares are to be converted into 13% unsecured Debentures of Rs.100 each in regard to 80% of the dues (including arrears of dividends) and for the balance equity shares of Rs.50 paid up would be issued. The authorized capital of the company permitted the issue of additional shares.

(b) Equity shares would be reduced to shares of Rs.50 each paid up.

(c) All equity holders agree to pay the balance in cash.

(d) Goodwill has lost its value and is to be written off fully. Investment are to reflect their market value of Rs.30,000. Obsolete items in stock of Rs.50,000 are to be written off. Bad debts to the extent of 5% of the total Debtors would be provided for. Fixed assets to be written down by Rs.1,50,000.

The scheme was duly approved and put into effect.

QUESTION NO 15

The directors of Hardluck Limited decided to recommend to the shareholders certain steps to put the affairs of the company back on the rails. On 30th June 2018 the Balance Sheet of the company was as under:

Liabilities	Rs.	Assets		Rs.
Share capital:		Fixed assets:		
Authorized: 1,00,000 equity shares of Rs.1 each	1,00,000	Goodwill at cost		22,600
Issued and paid up:		Freehold property at cost	50,000	
85,000 equity shares of Rs.1 each fully paid	85,000	Less depreciation	8,500	41,500
Reserves and surplus:		Plant and machinery at cost	1,19,000	
Share premium	15,000	Less depreciation	59,000	60,000
Current liabilities:		Investments:		
Trade creditors	64,500	Shares—at cost in associated companies	30,000	
Bank overdraft	56,500	Other quoted investments at cost	16,000	46,000
Loan from bank	60,000	Current assets:		
		Stock	23,000	
		Debtors	19,600	42,600
		Profit and Loss account		68,300
	2,81,000			2,81,000

The scheme of reconstruction as approved by the competent authorities was as under:

(a) The issued ordinary shares were reduced to 5 paise each paid up; the unpaid value of the share was subsequently called by the company and paid by all the shareholders.

(b) The balance of un-issued capital was allotted to the bank in part discharge of the loan; the balance due was paid in cash.

(c) The authorized capital of the company is to be increased by another 50,000 shares and these are to be issued to the existing shareholders as rights issue. The amount due from the shareholders was realized.

(d) Trade creditors to give up 25% of their claims and the balance due to them to be converted into 12% secured Debentures of Rs.100 each.

(e) Interest of Rs.6,500 on overdraft to be waived by the bank and the balance overdraft to be paid off.

(f) All amounts available including share premium to be utilized to write off losses, goodwill and the value of shares in associated companies.

Show the journal entries to record the above and also draw the Balance Sheet of the company after the scheme is fully implemented. All workings should form part of your answer.

CONCEPT 3: PROBLEMS ON SHARE SURRENDER

QUESTION NO 16

Liabilities	Amount	Assets	Amount
8,000 equity shares of Rs.100 each fully paid	8,00,000	Land, Building and Machinery	14,00,000
8% debentures	14,00,000	Stock	1,00,000
Accrued interest on Debentures	70,000	Sundry debtors	40,000
Sundry creditors	4,50,000	Investments	15,000
Income tax liability	10,000	Cash at bank	1,03,000
		Cash in hand	2,000
		Profit and Loss account	10,70,000
	27,30,000		27,30,000

The fixed assets are heavily overvalued. A scheme of reorganization was prepared and passed. The salient points of the scheme are the following:

(a) Each share shall be sub divided into ten fully paid equity shares of Rs.10 each.

(b) After such sub division, each shareholder shall surrender to the company 90% of his holding, for the purpose of reissue to debenture holders and creditors so far as required and otherwise for cancellation.

(c) Of those surrendered 50,000 equity shares of Rs.10 each, shall be converted into 8% preference shares of Rs.10 each fully paid for debenture holders.

(d) The debenture holders total claim shall be reduced to Rs.5,00,000. This will be satisfied by the issue of 50,000 preference shares of Rs.10 each fully paid.

(e) The claim of sundry creditors shall be reduced by 80% and the balance shall be satisfied by allotting them equity shares of Rs.10 each fully paid from the shares surrendered.

(f) Shares surrendered and not reissued shall be cancelled.

Assuming that the scheme is duly approved by all parties interested and by the court, draft necessary journal entries and Balance Sheet of the company after the scheme has been carried into effect.

QUESTION NO 17

The Balance Sheet of Revise Limited as at 31st March, 2018 was as follows:

Liabilities	Amount	Assets	Amount
Authorized and subscribed capital:		Fixed assets:	
10,000 equity shares of Rs.100 each fully paid	10,00,000	Machinery	1,00,000
		Current assets:	
Unsecured loan:		Stock	3,20,000
12% debentures	2,00,000	Debtors	2,70,000
Accrued interest	24,000	Bank	30,000
Current liabilities:		Profit and Loss account	6,00,000
Creditors	72,000		
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 be sub-divided into ten fully paid equity shares of Rs.10 each.

(b) After sub-division, each shareholder shall surrender to the company 50 per cent of his holding, for the purpose of re-issue to debenture-holders and creditors as necessary.

(c) Out of shares surrendered, 10,000 shares of Rs.10 each shall be converted into 12% preference shares of Rs.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 Rs.1,00,000 which are converted out of shares surrendered.

(e) Creditors claim shall be reduced to 50 per cent, to be settled by the issue of equity shares of Rs.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

CONCEPT 4: PROBLEMS ON FORMATION OF SCHEME

QUESTION NO 18

Liabilities	Amount	Assets	Amount
10,000, 10% cumulative preference shares of Rs.10 each fully paid up	1,00,000	Goodwill	25,000
		Freehold property at cost	90,000
20,000 equity shares of Rs.10 each fully paid up	2,00,000	Plant and machinery at cost less depreciation	85,000
Creditors	75,000	Investments (market value 86,000)	80,500
Bank overdraft	15,000	Stock	35,000
General reserve	70,000	Debtors	40,000
		Cash at bank	500
		Profit and Loss account	1,04,000
	4,60,000		4,60,000

Prepare a capital reduction scheme and redraft the Balance Sheet after incorporating your proposals for submission to board to directors. The cumulative preference dividend are in arrears for two years.

CONCEPT 5: ALTERATION OF SHARE CAPITAL

QUESTION NO 19

On 31-12-20X1, B Ltd. had 20,000, ₹ 10 Equity Shares as authorised capital and the shares were all issued on which ₹ 8 was paid up. In June, 20X2 the company in general meeting decided to sub-divide each share into shares of ₹ 5 with ₹ 4 paid up. In June, 20X3 the company in general meeting resolved to consolidate 20 shares of ₹ 5, ₹ 4 per share paid up into one share of ₹ 100 each, ₹ 80 paid up.

Pass entries. And show how share capital will appear in notes to Balance Sheet as on 31- 12-20X1, 31-12-20X2 and 31-12-20X3.

QUESTION NO 20

C Ltd. had ₹ 5,00,000 authorised capital on 31-12-20X1 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully up. In June 220X2 the Company decided to convert the issued shares into stock. But in June, 20X3 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

MASTER PROBLEM

QUESTION NO 21

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 20X1:

Liabilities	₹	Assets	₹
6,000 shares of ₹ 60,each,₹ 30 paid up		Property, Machinery and plant etc. (Cost ₹ 3,90,000)	
First debentures	3,00,000	Estimated at	1,50,000
Second debentures	6,00,000	Cash in hand of the receiver	2,70,000
Unsecured Trade payables	4,50,000	Charged under debentures	4,20,000
		Uncalled capital	1,80,000
			6,00,000
		Deficiency	7,50,000
	13,50,000		13,50,000

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also on unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured trade payables for ₹ 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel ₹ 2,10,000 of the total debt owing to him, to bring ₹ 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
2. B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of ₹ 7.50 each, fully paid against their claim for each share of ₹60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the Scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

TEST YOUR KNOWLEDGE

QUESTION NO 1 (16 MARKS)

M/s Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company as on 31st March, 2012 before reconstructions.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital			
50,000 Share of Rs. 50 each fully paid up	25,00,000	Good will	22,00,000
1,00,000 shares of Rs. 50 each Rs. 40 paid up	40,00,000	Land & Building	42,70,000
Capital Reserve	5,00,000	Machinery	8,50,000
8% Debentures of Rs. 100 each	4,00,000	Computer	5,20,000
12% Debentures of Rs. 100 each	6,00,000	Stock	3,20,000
Trade Creditors	12,40,000	Trade Debtors	10,90,000
Outstanding Expenses	10,60,000	Cash at Bank	2,68,000
		Profit & Loss Account	7,82,000
Total	1,03,00,000	Total	1,03,00,000

Following the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited.

	Mr. Shiv		Mr. Ganesh
8% Debentures	3,00,000		1,00,000
12% Debentures	4,00,000		2,00,000
Total	**7,00,000**	**Total**	**3,00,000**

The following scheme of internal reconstruction was framed and implemented, as approved by the Court and concerned parties.

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.

(2) The existing shares holders agree to subscribe in cash, fully paid up equity shares of Rs. 40 each for Rs. 12,50,000.

(3) Trade Creditors are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debenture amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% debentures for the balance amount due. He also agree to subscribe further 15% Debenture in cash amounting to Rs. 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Stock at Rs. 3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any of Capital Reduction A/c will be adjusted against capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstructions.

ANSWER:

Journal entries	Debit Rs.	Credit Rs.
Equity share final call Dr.	10,00,000	
To Equity share capital		10,00,000
(being final call is made on 1,00,000 shares @10)		
Bank account Dr.	10,00,000	
To Equity share final call		10,00,000
(being amount of share final call is received from shareholders)		
Equity Share capital account Dr. (50)	75,00,000	
To Reconstruction account(10)		15,00,000
To equity share capital (40)		60,00,000
(being equity shares of Rs.50 are converted into Rs.40 per share)		

Bank account Dr.	12,50,000	
To Equity Share capital		12,50,000
(being new equity shares are issued to existing shareholders)		
Creditors account Dr.	12,40,000	
To Equity share capital		7,50,000
To Cash(70%)		3,43,000
To Reconstruction account(30%)		1,47,000
(being creditors are settled in cash and shares)		
8% Debentures account Dr	3,00,000	
12% Debentures account Dr.	4,00,000	
To Mr. Shiv		7,00,000
(being amount due to shiv)		
Mr. Shiv account Dr.	7,00,000	
Bank account Dr.	1,00,000	
To 15% Debentures		6,00,000
To Reconstruction		2,00,000
(being amount is settled which was payable to Mr.shiv))		
8% Debentures account Dr	1,00,000	
12% Debentures account Dr.	2,00,000	
To Mr. Ganesh		3,00,000
(being amount due to Ganesh)		
Mr. Ganesh account Dr.	3,00,000	
To 15% Debentures		2,50,000
To Reconstruction		50,000
(being amount is settled which was payable to Mr. Ganesh)		

Land & Building account Dr. Stock account Dr. To Reconstruction account (being assets are revalued upward as per given market values)	9,14,000 30,000	 9,44,000
Reconstruction account Dr. To Machinery To computers To debtors (being assets revalued downward as per given market values)	3,59,000	 1,30,000 1,20,000 1,09,000
Outstanding expenses account Dr. To bank (being expenses are paid in cash)	10,60,000	 10,60,000
Reconstruction account Dr. To profit & loss account To Goodwill (being losses are written off as per requirement)	29,82,000	 7,82,000 22,00,000
Capital reserve account Dr. To Reconstruction account (being capital reserve is adjusted against reconstruction) **(REFER RECONSTRUCTION ACCOUNT)**	5,00,000	 5,00,000

RECONSTRUCTION ACCOUNT

Particulars	Amount	Particulars	Amount
To machinery	1,30,000	By Equity share capital	15,00,000
To computers	1,20,000	By creditors	1,47,000
To debtors	1,09,000	By shiv	2,00,000
To profit and loss	7,82,000	By Ganesh	50,000
To goodwill	22,00,000	By land and building	9,14,000
		By stock	30,000
		By capital reserve (balancing figure)	**5,00,000**
	33,41,000		**33,41,000**

Balance Sheet Total = 88,50,000 (H0me Work)

(Hint: Journal entries related with shiv & ganesh can be shown on net basis without making any amount due to them as we did in class)

QUESTION NO 2 (16MARKS)

The Balance Sheet of M/s Cube Limited as on 31-03-2013 is given below :

Particular	Note No.	Amount (Rs in laksh)
Equity & Liabilities Shareholder's Funds		
Share Capital	1	700
Reserves & Purples	2	(261)
Non- Current Liabilities		
Long term Borrowing	3	350
Current Liabilities		
Trade Payables	4	51
Other Liabilities	5	12
Total		852
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	375
Current Assets		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & Cash Equivalents	10	2
Total		852

Note		Amount (Rs. in lakh)
1.	Share Capital Authorised	
	100 lakh Equity Shares of Rs 10 each	1,000
	4 laksh, 8% Preference Share of Rs 100 each	400
		1,400
	Issued, Subscribed and paid-up	
	50 laksh Equity Share of Rs 10 each, fully paid up	500
	2 lakh 8% Preference Share of Rs 100 each, fully paid up	200
		700
2.	Reserves & Surplus	
	Debit balance of profit & Loss A/c	(261)
3.	Long Term Borrowing	
	6% Debentures (Secured by Freehold Property	200
	Director's Loan	150
		350
4	Trade Payable	
	Sundry Creditors for Goods	51
5.	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	12
6.	Tangible Assets	
	Freehold Property	275
	Plant & Machinery	100
		375
7.	Current Investment	
	Investment in Equity Instruments	100
8.	Inventories	
	Finished Goods	150
9.	Trade Receivable	
	Sundry Debtors for Goods	225
10.	Cash and cash Equivalents	
	Balance with Bank	2

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to Rs 80 each and Equity Shares to Rs 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3 rd and for balance 1/3 rd, Equity Shares of Rs 2 each to be alloted.

(3) Debenture Holder agreed to take one Freehold Property at its book value of Rs 150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at Rs 200 lakh.

(6) All investments sold out for Rs 125 lakh.

(7) 70% of Director's loan to be waived and for the balance, Equity Share of Rs 2 each to be allowed.

(8) 40% of Sundry Debtors and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to Rs 300 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction.

(b) Prepare Reconstruction Account and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet immediately after the implementation of scheme of internal reconstruction.

ANSWER 2 (16MARKS)

IN THE BOOKS OF CUBE LTD.

Journal entries	**Debit Rs.**	**Credit Rs.**
8% Preference share capital(Rs.100) Dr.	200	
To 8% Preference share capital(Rs.80)		160
To Reconstruction account		40
(being preference share capital is converted from Rs.100 each in to Rs.80 each)		

Equity Share Capital a/c (Rs.10) Dr. To Equity Share Capital (Rs.2) To Reconstruction account (being equity shares capital is converted from Rs.10 each into Rs.2 each)	500	 100 400
Reconstruction account Dr. To equity share capital (being payment of preference dividend in equity shares is considered as an additional liability)	16	 16
6% Debentures account Dr. To freehold property account (being payment of debentures is made)	150	 150
Outstanding interest account Dr. To bank (being interest is paid)	12	 12
Freehold property account Dr. To Reconstruction account (being balance freehold property is revalued)	75	 75
Bank account Dr. To investment account To profit on sale of investment (being investments are sold at profit)	125	 100 25
Profit on sale of investment account Dr. To Reconstruction account (being profit on sale of investment is transferred to reconstruction account)	25	 25

Director' loan account Dr. To Reconstruction account (70%) To Equity share capital (30%) (being outstanding balance in director' loan account is settled)	150	 105 45
Reconstruction account Dr. To Debtors (225*40%) To stock (150*80%) (being assets are revalued at market price)	210	 90 120
Reconstruction account Dr. To bank (being penalty on cancellation on contracts is paid)	15	 15
Reconstruction account Dr. To profit and loss account (being debit balance in profit and loss account is written off)	261	 261
Reconstruction account Dr. To capital reserve (being excess surplus in reconstruction account is transferred to capital reserve account)	143	 143

RECONSTRUCTION ACCOUNT

Particulars	**Amount**	**Particulars**	**Amount**
To equity share capital	16	By equity share capital	400
(dividends)		By Preference capital	40
To debtors	90	By freehold property	75
To stock	120	By profit on sale of invest.	25
To bank(penalty)	15	By director' loan	105
To profit and loss a/c	261		
To capital reserve **(bal.fig)**	143		
	645		**645**

NOTES TO BALANCE SHEET:

SHARE CAPITAL:

Authorized capital:

100 Lakh equity shares of 2 each	200 lakhs
4 Lakh preference shares of 80 each	320 lakhs

Issued,subscribed and paid up capital:

Equity share capital (2each)	161 lakhs
(500 -400+16+45)	
Preference share capital (80 each)	160lakhs
(200lakhs-40lakhs)	

TANGIBLE ASSETS:

Freehold property (275 lakhs -150 lakhs +75 lakhs)	200 lakhs
Plant and machinery	100 lakhs

QUESTION NO 3 (ALTERATION IN SHARE CAPITAL)

Pass journal entries for the following transactions :

(i) Conversion of 2 Lakh fully paid equity shares of Rs. 10 each into stock of Rs. 1,00,000 and balance has 12% fully convertible Debenture.

(ii) Consolidation of 40 Lakh fully paid equity shares of Rs. 2.50 each into 10 lakh fully paid equity share of 10 each.

(iii) Sub-division of 10 lakh fully paid 11% preference shares of Rs. 50 each into 50 lakh fully paid 11% preference shares of Rs. 10 each.

(iv) conversion of 12% preference shares of Rs. 5,00,000 into 14% preference shares Rs. 3,00,000 and remaining balance as 12% Non-cumulative preference shares.

ANSWER:

No.	JOURNAL ENTRIES	AMOUNT	AMOUNT
1.	Equity share capital Dr.(10)	20,00,000	
	To Equity share capital		1,00,000
	To 12% Debentures		19,00,000
	(being equity share capital is converted in to Stock and debentures)		

2.	Equity share capital Dr.(2.5) To Equity share capital (10) (being 40 lacs equity shares of 2.5 each are converted into 10lacs of 10 each)	1,00,00,000	 1,00,00,000
3.	11% P.S.C Dr. (50) To 11% P.S.C (10) (being 10lac preference shares of 50 are sub divided into 50 lac shares of 10 each)	5,00,00,000	 5,00,00,000
4.	12% P.S.C Dr. To 14% P.S.C To 12% P.S.C (being preference shares are converted)	5,00,000	 3,00,000 2,00,000

QUESTION 4(16MARKS)

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 Rs 50 each fully paid up	60,00,000	Plant & Machinery	22,00,000
		Trade Investment	16,50,000
9%preference shares of Rs 10 each fully paid up	40,00,000	Inventories	9,50,000
		Trade Receivable	18,00,000
7% debentures (secured by plant & machinery)	23,00,000	Cash and bank	
8% debentures	17,00,000	Balances	3,60,000
trade payable	6,00,000	Profit & Loss	2,15,000
provision for tax	75,000	Account	
	------------		--------------
	1,46,75000		1,46,75,000

The Board of Directors of the company decided upon the following scheme 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 Rs 50 each as under:

(a) New fully paid equity shares of Rs 10 each equal to 2/3rd of their holding.

(b) 9% preference shares of Rs 8 each to the extent of 25% of the above new equity share capital.

(c) Rs 2,80,000, 10% debentures of Rs 80 each.

(2) The preference shareholders agreed that their Rs 10 shares should be reduced to Rs 8 by cancellation of Rs 2 per share. They also agreed to subscribe for two new equity shares of Rs 10 each for every five preference shares held.

(3) The taxation liability of the company is settled at Rs 66,000 and the same is paid immediately.

(4) One of the trade creditors of the company to whom the company owes Rs 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of Rs 10 each in full satisfaction of his balance claim.

(5) Other trade creditors of Rs 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 Rs 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 Rs6,50,000 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 ah 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 hooks of M/s Clean Ltd. as per Schedule Ill to the Companies Act., 2013.

ANSWER 4 (16MARKS)

IN THE BOOKS OF CLEAN LTD.

Journal entries	Debit Rs.	Credit Rs.
Equity Share Capital a/c (50) Dr.	60,00,000	
To Equity Share Capital (10)		40,00,000
To 9% Preference share capital (8)		10,00,000
To 10% Debentures (80)		2,80,000
To Reconstruction account		7,20,000
(being existing equity shares capital is converted in to new equity shares, preference shares and debentures otherwise cancelled)		
9% Preference share capital(10) Dr.	40,00,000	
To 9% Preference share capital(8)		32,00,000
To Reconstruction account(2)		8,00,000
(being preference share capital is converted from 10 each in to 8 each)		
Bank account Dr.	21,00,000	
To Equity share capital (10)		21,00,000
(being new issue of equity shares made to preference shareholders)		
$\frac{(10,00,000 + 32,00,000)}{8}$ =(5,25,000/5)x2x10		
Provision for taxation account Dr.	75,000	
To Bank		66,000
To Reconstruction account		9,000
(being Tax liability settled)		

Creditors account Dr. To Reconstruction account (30%) To Equity share capital (70%) (being creditors of 1,00,000 settled)	1,00,000	 30,000 70,000
Creditors account Dr. To 9% Preference share capital To cash (150000x80%) To Reconstruction account(150000x20%) (being balance in creditors account settled)	5,00,000	 3,50,000 1,20,000 30,000
Reconstruction account Dr. To bank (being penalty on cancellation on contracts is paid)	26,000	 26,000
7%Debentures account Dr. To Plant & machinery account To Reconstruction account (being outstanding balance in debenture account is settled by transfer of plant & machinery)	23,00,000	 22,00,000 1,00,000
8% Debentures account Dr. To 10% Debentures To Reconstruction account (being 8% debentures converted into 10% debentures) $(17,00,000/50) = \frac{34000}{2} \times 1 \times 80$	17,00,000	 13,60,000 3,40,000
Reconstruction account Dr. To Debtors (18,00,000x1/4) To stock (9,50,000x1/5) (being assets are revalued at market price)	6,40,000	 4,50,000 1,90,000

Reconstruction account Dr. To Land & building (75,00,000x5%) (being building revalued)	3,75,000	 3,75,000
Reconstruction account Dr. To profit and loss account (being debit balance in profit and loss account is written off)	2,15,000	 2,15,000
Reconstruction account Dr. To capital reserve (being excess surplus in reconstruction account is transferred to capital reserve account)	7,73,000	 7,73,000

RECONSTRUCTION ACCOUNT

Particulars	**Amount**	**Particulars**	**Amount**
To Bank (penalty)	26,000	By equity share capital	7,20,000
To debtors	4,50,000	By Preference capital	8,00,000
To stock	1,90,000	By provision for tax	9,000
To Land & building	3,75,000	By creditors	60,000
To profit and loss a/c	2,15,000	(30,000+30,000)	
To capital reserve **(bal.fig)**	7,73,000	By 7%Debentures	1,00,000
		By 8% Debentures	3,40,000
	20,29,000		**20,29,000**

BALANCE SHEET OF CLEAN LTD.(& reduced) as on 31.3.2015

	AMOUNT	AMOUNT
Shareholders fund:		
Equity share capital	61,70,000	
(60L-60L+40L+21L+.7L)		
9% Preference share capital	45,50,000	
(40L-8L+10L+3.5L)		
Capital Reserve	7,73,000	1,14,93,000
Noncurrent liabilities:		
8% Debentures (17L-3.4L)	13,60,000	
9% Debentures	2,80,000	16,40,000
Current liabilities:	--	--
		1,31,33,000
Non current Assets:		
Land & building	71,25,000	
Trade investments	16,50,000	87,75,000
Current assets:		
Stock	7,60,000	
Debtors	13,50,000	
Cash and bank balances	22,48,000	43,58,000
		1,31,33,000

QUESTION NO 5

Following is the summarised Balance Sheet of Ravi Limited as on 31st March, 2017.

Balance Sheet as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Authorised and Issued equity share capital:		Patent	4,00,000
		Plant & machinery	30,00,000
30,000 shares of ₹ 100 each fully paid	30,00,000	Building	5,50,000
20,000 7% cumulative preference shares of ₹ 100 each fully paid	20,00,000	Trade receivables	23,50,000
		Inventory	16,30,000
General Reserve	6,00,000	Cash	1,20,000
Loan form Director	4,40,000	Bank Balance	2,30,000
Trade payables	24,60,000	Profit and Loss account	8,40,000
Outstanding expenses	3,20,000		
Declared dividend	3,00,000		
	91,20,000		**91,20,000**

Note: The arrears of preference dividend amount to ₹ 2,80,000

The company had suffered losses since last 3 years due to bad market condition and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

(1) Equity shares to be converted into 3,00,000 shares of ₹ 10 each.

(2) Equity shareholders to surrender top the company 80 percent of their holdings.

(3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.

(4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 5,00,000 out of the surrendered equity shares.

(5) Directors agree to forego the amounts due on account of loan.

(6) Surrendered shares no otherwise utilised to be cancelled.

(7) Assets to be reduced as under:

	₹
Patent by	4,00,000
Plant & Machinery by	4,00,000
Inventory by	3,40,000

(8) Trade receivables to the extent of ₹ 17,00,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 7,00,000.

(10) Declared dividend is paid to the equity shareholders.

(11) Any surplus after meeting the losses should be utilsed in writhing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 60,000.

(13) Further 40,000 equity shares were issued to the exiting member for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to drawn up the resultant Balance Sheet of the Company.

SOLUTION:

Books of Ravi Ltd. Journal Entries

Particulars		Debit (₹)	Credit (₹)
Equity Share Capital (₹ 100 each) a/c	Dr.	30,00,000	
To Equity share capital (₹ 10 each) A/c			30,00,000
(Sub division of equity share into ₹ 10 each)			
Equity Share Capital (₹ 10) A/c	Dr.	24,00,000	
To Share surrendered A/c			24,00,000
(Surrender of 80% of shareholding by equity share holders)			
7% Cumulative Preference share capital A/c	Dr.	20,00,000	
To 8% cumulative preference share capital A/c			20,00,000
(Conversion of 7% Cumulative Preference share capital into 8% Cumulative preference share capital. They also forgo their to arrears of dividends)			

Shares Surrendered A/c	Dr.	5,00,000	
To Equity share capital A/c			5,00,000
(Surrendered share issued against trade payables under reconstruction scheme)			
Declared Dividend A/c	Dr.	3,00,000	
Expenses of reconstruction A/c	Dr.	60,000	
To Bank A/c			3,60,000
(Dividend to Equity Shareholder's and reconstruction expeses)			
Share surrendered A/c	Dr.	19,00,000	
To capital Reduction A/c			19,00,000
(Cancellation of unissued surrendered shares)(24,00,000 -5,00,000)			
Loan from Director A/c	Dr.	4,40,000	
Trade payables A/c	Dr.	6,15,000	
Building A/c	Dr.	1,50,000	
To Capital reduction A/c			12,05,000
(Amount sacrificed by directors and trade payables and appreciation in value of building)			
Loan from Director A/c	Dr.	31,05,000	
To Patent A/c			4,00,000
To Trade receivables A/c			6,50,000
To Inventory A/c			3,40,000
To Profit and Loss A/c			8,40,000
To Expenses on Reconstruction A/c			60,000
To Plant A/c (bal.flg)			8,15,000
(Various assets and expenses written off)			

Bank A/c	Dr.	4,00,000	
To Share application money A/c			4,00,000
(Application money receive on full and final payment)			
Share application money A/c	Dr.	4,00,000	
To Share capital A/c			4,00,000
(Being 40,000 equity shares of ₹ 10 each issued and fully paid up)			

Note: Cancellation of preference divided need not be journalese. On cancellation, it ceases to be contingent liability and hence no further discolored required.

Balance Sheet of Ravi Ltd. (and Reduced) as at 31st March, 2017

	Particulars	Note	Amount (₹)
I.	**EQUITY AND LIABILITIE**		
	1. Shareholders' funds		
	a. Share Capital	1	35,00,000
	b. General reserve		6,00,000
	2. Current liabilities		
	a. Trade payables (24,60,000-6,15,000)		18,45,000
	b. Other current liabilities I(outstanding expenses)		3,20,000
	Total		62,65,000
II.	**ASSETS**		
	1. Non-current assets		
	Fixed assets		
	i. Tangible assets	2	28,85,000
	ii. Intangible assets	3	-
	2. Current assets		
	a. Inventories (16,30,000 – 3,40,000)		12,90,000
	b. Trade receivables (23,50,000- 6,50,000)	4	17,00,000
	c. Cash and cash equivalents		3,90,000
	Total		62,65,000

Note to the financial statements

(1) Share capital

	Particulars	**Amount (₹)**
a.	Authorised	
	• 3,00,000 equity shares of ₹ 10 each	30,00,000
	• 20,000 8% cumulative preference shares ₹ 100 each	20,00,000
b	Issued, Subcribed and fully paid up	
	• 1,50,000 equity shares of ₹ 10 each (for the above 50, 000 shares were issued as fully paid up for consideration other than cash under the scheme of reconstruction)	15,00,000
	• 20,000 8% cumulative preference shares of ₹ 100 each	20,00,000
	Total	35,00,000

(2) Tangible assets

Particulars	₹
Plant (30,00,000 – 15,000)	21,85,000
Building (5,50,000 + 1,50,000)	7,00,000
Total	28,85,000

(3) Intangible assets

Particulars	₹
Patent (4,00,000 - 4,00,000)	-

(4) Cash and cash equivalents

	Particulars	₹
a.	Balance with bank (2,30,000 - 3,00,000- 60,000 + 4,00,000)	2,70,000
b.	Cash on hand	1,20,000
	Total	3,90,000

QUESTION 6

Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010.

Liabilities	₹	Assets	₹
8000 – 7 1/2 % Preference		Plant and Machinery	8,50,000
Shares @ ₹100 each		Furniture & Fittings	1,60,000
Fully Paid	8,00,000	Patents and Copy right	60,000
1,80,000 Equity Shares		Goodwill	35,000
@₹10 each fully paid	18,00,000	Investments (at cost)	65,000
11% Debentures	10,00,000	Sundry Debtors	12,00,000
Bank overdraft	1,65,000	Stock	13,00,000
Loan from Director	15,000	Cash in Hand	12,000
Trade creditors	6,20,000	Profit & Loss a/c.	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalized:

(i) Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.

(ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement.

(iii) Trade creditors accepted to take over the stock upto the value of ₹6,20,000.

(iv) Equity shareholders are to accept reduction of rs.4 per share.

(v) Investment is to be valued at market price i.e. ₹ 60,000.

(vi) Sundry Debtors and remaining stock is to be valued a 90% of their book value.

(vii) **Directors have to forgo their loan in full.**

(viii) **Patents and Copy Right and Goodwill have no more value.**

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

ANSWER:

In the books of XYZ Ltd.

Journal Entries

	Particulars	L.F.	₹	₹
(i)	$7\frac{1}{2}$% Preference Share Capital A/c. Dr.		8,00,000	
	To 9% Preference Share CapitalA/c.			6,40,000
	To Capital Reduction A/c.			1,60,000
	(Being surrender of 20% shares by 7.5% Preference shareholders and issuance of 9% preference shares for remaining balance as per the scheme of reconstruction)			
(ii)	11% Debentures A/c. Dr.		10,00,000	
	To Debenture holders A/c.			10,00,000
	(Being 11% debentures transferred to debenture holders account)			
(iii)	Debenture holders A/c. Dr.		10,00,000	
	To Plant & Machinery A/c.			8,50,000
	To Capital Reduction A/c.			1,50,000
	(Being plant and machinery given to debenture holders in full settlement as per the scheme of reconstruction)			
(iv)	Trade Creditors A/c. Dr.		6,20,000	
	To (Inventories) A/c.			6,20,000
	(Being stock given to trade creditors against heir dues as per the scheme of reconstruction)			
(v)	Equity Share Capital A/c (₹10) Dr.		18,00,000	
	To Equity Share Capital A/c. (₹6)			10,80,000
	To Capital Reduction A/c.			7,20,000
	(Being reduction of ₹ 4 per equity share as per the scheme of reconstruction).			

(vi)	Capital Reduction A/c. Dr.		10,06,000	1,20,000
	To Trade Receivable A/c.			5,000
	To Investment A/c.			68,000
	To Inventories A/c.			60,000
	To Patents and copyright			35,000
	To Goodwill			7,18,000
	To Profit and Loss A/c.			
	(Being writing off losses and reduction in the values of assets as per the scheme of reconstruction).			
(vii)	Director's Loan A/c. Dr.		15,000	
	To Capital Reduction A/c.			15,000
	(Being loan forgo by directors as per the scheme of reconstruction)			
(viii)	Capital Reduction A/c. Dr.		39,000	
	To Capital Reserve A/c.			39,000
	(Being balance of capital reduction account transferred to capital reserve account)			

Capital Reduction Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Provision for doubtful debts	1,20,000	By $7\frac{1}{2}$% Preference share Capital A/c.	1,60,000
To Investment A/c.	5,000	By 11% Debentures A/c.	1,50,000
To Inventory A/c.	68,000	By Equity Share Capital	7,20,000
To Patents & Copyright A/c.	60,000	By Director's Loan A/c.	15,000
To Goodwill A/c.	35,000		
To Profit and Loss A/c.	7,18,000		
To Capital Reserve A/c.	39,000		
	10,45,000		10,45,000

Balance Sheet of M/s. XYZ Ltd.(and reduced)

Particulars	Notes No.	₹ in 000
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	17,20
(b) Reserve and Surplus	2	39
(2) Current Liabilities		
(a) Other current liabilities	3	165
Total		1,924
II. Assets		
(1) Non-current assets		
(a) Fixed Assets	4	160
(b) Non-current investment		60
(2) Current assets		
(a) Inventory-stock		612
(b) Trade Receivable	5	10,80
(c) Cash and Cash equivalents		12
Total		1,924

Notes to Accounts:

	Particulars		₹ in '000
1.	**Share Capital**		
	Equity Shares		
	1,80,000 Equity share @ ₹6 each 9% Pref. Share	10,80	
	6,400, 9% Pref. share @ ₹100 each	6,40	1,720
2.	**Reserve & Surplus**		
	Capital reserve		39
3.	**Current Liabilities**		
	Bank overdraft		1,65
4.	**Fixed Asset**		
	Furniture & Fixture		1,60

5.	**Trade Receivable**		
	Sundry Debtors	12,00	
	Less: Prov. for doubtful debts	(1,20)	10,80

QUESTION 7 (SHARE SURRENDER)

The Balance Sheet of X Limited as on 31st March,2011 was as follows:

Liabilities	Amount ₹	Assets	Amount₹
Authorised and Subscribed Capital:		Fixed Assets:	
10,000 Equity Shares of ₹100 each full paid	10,00,000	Machineries	3,50,000
		Current Assets:	
Unsecured Loans		Stock	2,53,000
15% Debentures	3,00,000	Debtors	2,30,000
Accrued Interest	45,000	Bank	20,000
Current Liabilities:		Profit & Loss A/c.	5,80,000
Creditors	52,000		
Provision for Income Tax	36,000		
	14,33,000		14,33,000

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

(i) Each share be sub-divided into 10 fully paid up equity share of ₹10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and creditors as necessary.

(iii) Out of shares surrendered, 1000 shares of ₹10 each shall be converted into 10% Preference Shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.

(v) Creditors claim shall be reduced by 25%, it is to be settled by the issue of equity shares of ₹10 each out of shares surrendered.

(vi) Balance of Profit and Loss Account to be written off.

(vii) **The shares surrendered and not re-issued shall be cancelled.**

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

ANSWER:

In the books of X Limited
Journal Entries

	Particulars	L.F.	Amount ₹	Amount ₹
(i)	Equity Share Capital (₹ 100) A/c. Dr.		10,00,000	
	To Share Surrender A/c.			5,00,000
	To Equity Share Capital (₹10) A/c.			5,00,000
	(Being sub-division of 10,000 equity shares of ₹100 each into 1,00,000 equity shares of ₹10 each and surrender of 50,000 of such sub-divided shares as per capital reduction scheme).			
(ii)	15% Debenture A/c. Dr.		1,50,000	
	Accrued Interest A/c. Dr.		22,500	
	To Reconstruction A/c.			1,72,500
	(Being transfer 50% of the claims of the debenture-holders to Reconstruction A/c. in consideration of which 10% Preference shares are being issued, out of share surrender A/c. as per capital reduction scheme).			
(iii)	Creditors A/c. Dr.		52,000	
	To Reconstruction A/c.			52,000
	(Being transfer of claims of the creditors to Reconstruction A/c. 25% of which is reduction and equity shares are issued in consideration of the balance amount)			

(iv)	Share Surrender A/c. Dr. To 10% Preference Share Capital . To Equity Share Capital A/c. To Reconstruction A/c. (Being preference and equity shares are issued to discharge the claims of the debentures holders and the creditors respectively as per scheme and the balance in share surrender account is transferred to reconstruction account).		5,00,000	 1,00,000 39,000 3,61,000
(v)	Reconstruction A/c. Dr. To Profit & Loss A/c. To Capital Reserve A/c. (Being Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve Account)		5,85,500	 5,80,000 5,500

Balance Sheet of X Ltd.

(As on …………………………..)

Particulars	Notes No.	Amount ₹
1. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	6,39,000
(b) Reserves & Surplus	2	5,500
(2) Non-Current Liabilities		
(a) 15% Debentures	3	1,72,500
(3) Current Liabilities		
(a) Other current liabilities	4	36,000
Total		8,53,000

II. Assets		
(1) Non-Current Assets		
(a) Fixed Assets	5	3,50,000
(2) Current assets		
(a) Inventory		2,53,000
(b) Trade Receivable	6	2,30,000
(c) Cash and Cash equivalents	7	20,000
Total		8,53,000

Notes to Accounts:

	Particulars		
1.	**Share Capital**		
	Equity Share Capital		
	53,900 Equity share @ ₹10 each	5,39,000	
	10% Pref. share capital		
	10,000, 10% Pref. Shares @ ₹ 10 each	1,00,000	6,39,000
	(All the above share are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment received in cash)		
2.	Reserves and Surplus		
	Capital Reserve		5,500
3.	15% Debentures		
	15% Debentures	1,50,000	
	Add: Accrued Interest	22,500	1,72,500
4.	Other current Liabilities		
	Provision for Income Tax		36,000
5.	Fixed Assets		
	Machinery		3,50,000
6.	Trade Receivable		
	Debtors		2,30,000
7.	Cash and Cash equivalents		
	Bank Balance		20,000

QUESTION NO 8

The Balance Sheet of M/s. Ice Ltd., as on 31.3.2011 is given below:

Liabilities	₹	Assets	₹
1,00,000 equity shares of ₹10 each fully paid up	10,00,000	Freehold Property	5,50,000
		Plant and Machinery	2,00,000
4,000 8% preference shares of ₹100 each fully paid	4,00,000	Trade Investment (at cost)	2,00,000
		Sundry Debtors	4,50,000
6% Debenture 4,00,000	-	Stock-in-Trade	3,00,000
(secured by freehold property)		Deferred Advertisement Expenses	50,000
Arrear Interest 24,000	4,24,000	Profit and Loss account	4,75,000
Sundry Creditors	1,01,000		
Director's Loan	3,00,000		
	22,25,000		22,25,000

The Board of Directors of the Company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) Preference shares are to be written down to ₹80 each and equity shares to ₹2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹2 each to be allotted.

(iii) Debenture holders agreed to take one freehold property at its book value of ₹3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity share of ₹2 each to be allotted.

(viii) 40% of sundry debtors, 80% of stock and 100% of deferred advertisement expenses to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

ANSWER:

In the books of Ice Ltd.

Journal Entries

	Particulars	Debit ₹	Credit ₹
(i)	8% Preference Share Capital A/c. (₹100 each)	4,00,000	
	To 8% Preference Share Capital A/c. (₹80 each)		3,20,000
	To Capital reduction A/c.		80,000
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)		
(ii)	Equity Share Capital A/c (₹10 each) Dr.	10,00,000	
	To Equity Share Capital A/c (₹ 2 each)		2,00,000
	To Capital Reduction A/c.		8,00,000
	(Being the equity shares of ₹ 10 each reduced to ₹2 each)		
(iii)	Capital Reduction A/c. Dr.	32,000	
	To Equity Share Capital A/c. (₹2 each)		32,000
	(Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity share of ₹ 2 each)		
(iv)	6% Debentures A/c. Dr.	3,00,000	
	To Freehold Property A/c.		3,00,000
	(Being claim settled in part by transfer of freehold property)		
(v)	Accrued Debenture Interest A/c. Dr.	24,000	
	To Bank A/c.		24,000
	(being accrued debenture interest paid)		

(vi)	Freehold Property A/c Dr.	1,50,000	
	To Capital Reduction a/c.		1,50,000
	(Being appreciation in the value of freehold property)		
(vii)	Bank A/c. Dr.	2,50,000	
	To Trade Investment A/c.		2,00,000
	To Capital Reduction A/c.		50,000
	(Being trade investment sold on Profit)		
(viii)	Director's Loan A/c. Dr.	3,00,000	75,000
	To Equity Share Capital A/c. (₹ 2 each)		2,25,000
	To Capital Reduction A/c.		
	(Being director's loan waived by 75% and balance being discharged by issue of 37,500 equity shares of ₹ 2 each)		
ix.	Capital Reduction A/c. Dr.	12,73,000	
	To Profit and Loss A/c.		4,75,000
	To Trade receivables A/c.		1,80,000
	To Inventories-in-Trade A/c.		2,40,000
	To Deferred Advertisement Expenses A/c.		50,000
	To Bank A/c.		30,000
	To Capital Reserve A/c.		2,98,000
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)		

Balance Sheet of Ice Ltd.

Particulars	Notes No.	₹ in 000
1. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	6,27,000
(b) Reserves & Surplus	2	2,98,000
(2) Non-Current Liabilities		
6% Debentures		1,00,000
(3) Current Liabilities		
(a) Trade Payables	3	1,01,000
Total		11,26,000
II. Assets		
(1) Non-Current Assets		
(a) Tangible assets	5	6,00,000
(b) Intangible assets		-
(2) Current assets		
(a) Trade receivable - Debtors		2,70,000
(b) Inventories - Stock	6	60,000
(c) Cash and Cash equivalents		1,96,000
Total		11,26,000

Notes to Accounts:

		Amount ₹	Amount ₹
1.	**Share Capital**		
	Equity Share Capital		
	1,53,500 Equity share of ₹ 2 each	3,07,000	
	(Out of which 53,500 shares have been issued		
	for consideration other than (cash)		
	Preference Share Capital		
	4,000, 8% Pref. Shares of ₹ 80 each fully paid up	3,20,000	6,27,000

	Reserves and Surplus		
	Capital Reserve		2,98,000
2.	Trade payables		
	Sundry Creditors		1,01,000
3.	Tangible assets		
	(a) Freehold Properties	4,00,000	
	(b) Plant & Machinery	2,00,000	6,00,000
4.	Cash and Cash equivalents		
	Bank Balance sales of Investment	2,50,000	
	Less: Payment of Debenture's interest	(24,000)	
5.	Less: use in capital reduction	(30,000)	1,96,000

QUESTION NO 9

The summarized Balance Sheet of Bad Luck Ltd. as on 31st March, 2013 was as follows:-

		Note	Amount ₹	Amount ₹
A.	Equity and Liabilities			
	1. Shareholder's Fund			
	(a) Share Capital	1	7,50,000	
	(b) Reserve and Surplus	2	(10,00,000)	(2,50,000)
	2. Non-current Liabilities			
	(a) Long Term borrowings	3		5,00,000
	3. Current Liabilities			
	(a) Short Term Borrowings	4	5,00,000	
	(b) Trade Payables		2,50,000	7,50,000
	Total			10,00,000
B.	Assets			
	1. Non-current assets			
	(a) Fixed Assets			
	(i) Tangible assets 5		5,50,000	
	(ii) Intangible assets 6		1,50,000	7,00,000

	2. Current Assets			
	(a) Inventories		1,50,000	
	(b) Trade Receivables		1,25,000	
	(c) Deferred revenue expenditure		25,000	3,00,000
	Total			10,00,000

Notes to Accounts:

		Amount ₹	Amount ₹
1.	**Share Capital**		
	Authorised, issued & fully paid		
	5,000 Equity share of ₹100 each	5,00,000	
	2,500 8% Preference shares of ₹100 each	2,50,000	7,50,000
2.	Reserves and Surplus		
	Profit and Loss Account		(10,00,000)
3.	Long Term Borrowings		
	8% Debentures		5,00,000
4.	Short Term Borrowings		
	Loan from Directors	3,00,000	
	Bank overdraft	2,00,000	5,00,000
5.	Tangible assets		
	Freehold Properties	4,00,000	
	Plant	1,50,000	5,50,000
6.	Intangible Assets		
	Goodwill	1.00,000	
	Trademark	50,000	1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

(i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹20 each. Each class of shares then to be converted into shares of ₹ 100 each.

(ii) The debenture holders to take over freehold property (book value ₹2,00,000) at a valuation of ₹2,50,000 in part repayment of their holdings. remaining freehold property to be revalued at ₹6,00,000.

(iii) Loan from Directors to be waived off in full.

(iv) Stock of ₹50,000 to be written off, ₹12,500 to be provided for bad debts.

(v) Profit and Loss account balance, Trademark, goodwill and deferred revenue expenditure to be written off.

Pass Journal Entries for all the above mentioned transactions. Also, Prepare Capital Reduction account and company's Balance sheet immediately after reconstruction.

ANSWER:

Journal Entries in the Books of Bad Luck Ltd.

	Particulars		Debit ₹	Credit ₹
(i)	8% Preference Share Capital A/c.(₹100 each)	Dr.	2,50,000	
	To 8% Preference Share Capital A/c. (₹ 25			62,500
	To Capital Reduction A/c			1,87,500
	(Being the preference shares of ₹100 each reduced to ₹25 each according to the approved scheme)			
(ii)	Equity Share Capital A/c. (₹100 each)	Dr.	5,00,000	
	To Equity Share Capital A/c.(₹20 each)			1,00,000
	To Capital Reduction a/c.			4,00,000
	(Being the equity shares of ₹100 each reduced to ₹20 each)			
(iii)	Preference Share Capital A/c. (₹ 25)	Dr.	62,500	
	To Preference Share Capital A/c. (₹100)			62,500
	(Being conversion of 2500 shares of ₹25 each to 625 shares of ₹100 each)			
(iv)	Equity Share Capital A/c. (₹20)	Dr.	1,00,000	
	To Equity Share Capital A/c.(₹100)			1,00,000
	(Being conversion of 5,000 shares of ₹20 each to 1000 shares of ₹ 100 each)			

(v)	Freehold Property To Capital Reduction A/c. (Being value of freehold property appreciated)	Dr.	50,000	 50,000
vi.	8% Debentures A/c. To Freehold Property (Being claim of Debenture holders settled in pat by transfer of freehold property)	Dr.	2,50,000	 2,50,000
vii.	Freehold Property To Capital Reduction A/c. (Being appreciation in the value of freehold property)	Dr.	4,00,000	 4,00,000
viii.	Director's Loan A/c. To Capital Reduction A/c. (Being director's loan waived in full)	Dr.	3,00,000	 3,00,000
ix.	Capital Reduction A/c. To Deferred Revenue Expenditure To Profit and Loss A/c. To Provision of Doubtful Debts A/c. To Inventories To Goodwill A/c. To Trademark To Capital Reserve A/c. (Being certain value of various assets (tangible & intangible) Profit and Loss account debit balance written off and balance transferred to capital reserve account).	Dr.	13,37,500	 25,000 10,00,000 12,500 50,000 1,00,000 50,000 1,00,000

(b) Capital Reduction Account

Particulars	Amt.(₹)	Particulars	Amt. (₹)
To Provision for Doubtful Debts	12,500	By Preference Share Capital	1,87,500
To Inventories	50,000	By Equity Share Capital	4,00,000
To Profit & Loss A/c.	10,00,000	By Freehold Property (50,000+4,00,000)	4,50,000
To Trademark	50,000	By Director's Loan	3,00,000
To Goodwill	1,00,000		
To Deferred Revenue Expenditure	25,000		
To Capital Reserve	1,00,000		
	13,37,500		13,37,500

Balance Sheet of Bad Luck Ltd. (and Reduced)
As on 31st March, 2013

Particulars	Notes No.	Amount ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,62,500
(b) Reserves and Surplus	2	1,00,000
(2) Non-Current Liabilities		
(a) Long-Term borrowings	3	2.50,000
(3) Current Liabilities		
(a) Short Term Borrowings		2,00,000
(b) Trade Payable	4	2,50,000
		9,62,500
II. Assest		
(1) Non-current Assets		
(a) Fixed Assets	5	7,50,000
(b) Tangible assets		
(2) Current Assets		
(a) Inventories	6	1,00,000
(b) Trade receivables		1,12,500
		9,62,500

Notes to Accounts

S.No.	Particulars	Amt. (₹)
1.	Share Capital	
	Authorised, issued and fully paid up	
	1,000 Equity Shares of ₹100 each fully paid up	1,00,000
	625, 8% Preference Shares of ₹ 100 each	62,500
		1,62,500
2.	Reserve and Surplus	
	Capital Reserve	1,00,000
3.	Long Term Borrowings	
	8% Debentures ₹(5,00,000 – 2,50,000)	2,50,000
4.	Short Terms Borrowings	
	Bank Overdraft	2,00,000
5.	Tangible Assets	
	Freehold Property	6,00,000
	Plant	1,50,000
		7,50,000
6.	Trade Receivables	
	Trade Receivables	1,25,000
	Less: Provision for doubtful debts	(12,500)
		1,12,500

QUESTION 10

The Balance Sheet of X Ltd. as at 31st March, 2014 was as follows:-

X Limited

Balance Sheet as at 31.03.2014

	Particulars	Amount (₹)
1.	Equity and Liabilities	
	1. Shareholder's Funds	
	Share Capital	

	(a) 40000 equity shares of ₹100 each fully paid		40,00,000
	(b) 20000, 10% preference shares of ₹ 100 each fully paid		20,00,000
	Reserve & Surplus		
	(a) Securities Premium Account		1,50,000
	(b) Profit & Loss Account		(23,00,000)
2.	Non Current Liabilities		
	Long Term Borrowings		4,00,000
	7% Debentures of ₹ 100 each		
3.	Current Liabilities		
	Other Current Liabilities		
	(a) Creditors		10,00,000
	(b) Loan from Director		2,00,000
	Total Liabilities		54,50,000
II.	Assets		
	1. Non Current Assets		
	Fixed Assets		
	(a) Land & Building	20,00,000	
	(b) Plant & Machinery	12,00,000	32,00,000
	Intangible Assets		
	Goodwill		4,00,000
	2. Current Assets		
	(a) Debtors	12,00,000	
	(b) Stock	5,00,000	
	(c) Cash at Bank	1,50,000	18,50,000
	Total Assets		54,50,000

No Dividend on Preference Shares has been paid for last 5 years.

The following scheme of reorganization was duly approved by the Court:

(i) Each equity share to be reduced to ₹25.

(ii) Each existing "Preference Share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity share of ₹25 each.

(iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of s.25.

(iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.

(v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000; ₹ 1,00,000 and ₹2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.

(vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of4%. Shares were fully taken up.

(viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal entries to record the above transactions.

ANSWER:

In the books of X Ltd.

Journal Entries

	Particulars	L.F.	Amount ₹	Amount ₹
(i)	Equity Share Capital (₹ 100) A/c. Dr.		40,00,000	
	To Equity Share Capital (₹25) A/c.			10,00,000
	To Capital Reduction A/c.			30,00,000
	(Being Equity Shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c.)			

(ii)	10% Preference Share Capital (₹100) A/c To 10% Preference Share Capital (₹75) To Capital Reduction A/c. (Being Preference Shares of ₹100 each reduced to ₹75 each and balance transferred to Capital Reduction A/c.)		20,00,000	 15,00,000 5,00,000
(iii)	10% Preference Share Capital (₹75) A/c. To 13% Preference Share Capital (₹50) A/c. To Equity Share Capital a/c. (Being one new 13% Preference Share of ₹50 each and one Equity Share of ₹25 each issued against 10% Preference Share of ₹75 each)		15,00,000	 10,00,000 5,00,000
(iv)	Capital Reduction A/c. Dr. To Preference Share Dividend Payable A/c. (Being arrear of Preference Share Dividend payable for one year)		2,00,000	 2,00,000
(v)	Preference Share Dividend Payable A/c. Dr. To Equity Share Capital A/c. (₹ 25) (Being Equity Shares of ₹ 25 each issued for arrears of Preference Share Dividend)		2,00,000	 2,00,000
(vi)	7% Debenture A/c. Dr. To Debenture Holders A/c. (Being balance of 7% Debentures transferred to Debenture Holders A/c.)		4,00,000	 4,00,000

(vii)	Debenture Holder A/c. Dr. To 13% Preference Share Capital A/c. To Bank A/c. To Capital Reduction A/c. (Being 25% of Debenture Holders opted to take 13% Preference Shares at par and remaining took 90% cash payment for their claims)		4,00,000	 1,00,000 2,70,000 30,000
(viii)	Loan from Director Dr. To Provision for Contingent Liability A/c. (Being contingent liability of ₹ 2,00,000 is payable and adjusted against loan from Director A/c.)		2,00,000	 2,00,000
(ix)	Bank A/c. Dr. To Equity Share Application & Allotment A/c. (Being application money received on 50,000 Equity Shares @ ₹25 each)		12,50,000	 12,50,000
(x)	Equity Share Application & Allotment A/c. To Equity Share Capital A/c. (Being application money transferred to Capital A/c. on allotment)		12,50,000	 12,50,000
(xi)	Underwriting Commission A/c. Dr. To Bank A/c. (Being underwriting commission paid)		50,000	 50,000
(xii)	Land & Building A/c. Dr. To Capital Reduction A/c. (Being value of Land & Building appreciated)		5,00,000	 5,00,000

(xiii)	Expenses on Reconstruction A/c. Dr.		20,000	
	To Bank A/c.			20,000
	(Being payment of expenses on reconstruction)			
(xiv)	Capital Reduction A/c Dr.		38,30,000	
	To Goodwill A/c.			4,00,000
	To Plant & Machinery A/c.			3,00,000
	To Stock A/c.			1,00,000
	To Debtors A/c.			2,00,000
	To Profit & Loss A/c.			23,00,000
	To Expenses on Reconstruction A/c.			20,000
	To Underwriting Commission A/c.			50,000
	To Capital Reserve A/c.			4,60,000
	(Being various losses written off and balance of Capital Reduction A/c. transferred to Capital Reserve A/c)			

QUESTION 11

The following is the Balance Sheet of Star Ltd. as on 31st March, 2015.

A	Equity & Liabilities		₹
1.	**Shareholders' Fund**		
	(a) **Share Capital**		
	9,000 7% Preference Shares of ₹100 each fully paid		9,,00,000
	10,000 Equity shares of ₹100 each fully paid		10,00,000
	(b) **Reserve & Surplus**		
	Profit and Loss Account		(2,00,000)
2.	**Non-current liabilities:**		
	"A" 6% Debentures (Secured on Bombay Works)		3,00,000
	"B" 6% Debentures (Secured on Chennai Works)		3,50,000

3.	**Current Liabilities and Provisions:**		
	(a) Workmen's Compensation Fund:		
	Bombay Works		10,000
	Chennai Works		5,000
	(b) Trade Payables		1,25,000
	Total		**24,90,000**
B.	**Assets**		
1.	**Non Current Assets**		
	Tangible Assets:		
	Bombay Works		9,50,000
	Chennai Works		7,75,000
2.	**Investment:**		
	Investments for Workman's Compensation Fund		15,,000
3.	**Current Assets:**		
	(a) Inventories		4,50,000
	(b) Trade Receivables		2,50,000
	(c) Cash at Bank		50,000
	Total		**24,90,000**

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to ₹80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹10

(iii) The directors of refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹26,000 which is included among the Sundry Creditors.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% debenture holders agreed to take over the Chennai works at rs.4,25,000 and to accept an allotment of 1,500 equity shares of ₹10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹10 each fully paid at par to Star Ltd.

(vii) The Chennai Workmen's compensation fund disclosed that there were actual liabilities of ₹1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Stock was to be written off by ₹1,90,000 and a provision for doubtful debts is to be made to the extent of ₹20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital reduction Account is to be applied as two thirds to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd., after the scheme has been carried into effect.

ANSWER:

In the Books of Star Ltd.

Journal Entries

	Particulars	L.F.	Amount ₹	Amount ₹
(i)	7% Preference share capital A/c (₹100)		9,00,000	
	To 9% Preference shae capital A/c(₹80)			7,20,000
	To Capital reduction A/c.			1,80,000
	(Being preference shares reduced to ₹80and also rate of dividend raised from 7% to 9%).			
(ii)	Equity share capital A/c. (₹100 each) Dr.		10,00,000	
	To Equity share capital A/c. (₹10 each)			1,00,000
	To Capital reduction A/c.			9,00,000
	(Being reduction of nominal value of one share of ₹100 each to ₹ 10 each)			
(iii)	Bank A/c. Dr.		50,000	
	To Capital reduction A/c.			50,000
	(Being directors refunded the fee amount)			

(iv)	Trade payables A/c. (Interest on Dr. debentures) To Capital reduction A/c. (Being interest forgone by the debenture holders)		26,000	 26,000
(v)	No entry required.			
(vi) a	'B' 6% Debentures A/c. Dr. To Debentures holders A/c. (Being amount due to Debentures holders)		3,50,000	 3,50,000
b.	Debentures holders A/c. Dr. To Chennai Works A/c. To Equity Share Capital A/c. (Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders).		4,40,000	 4,25,000 15,000
c.	Equity Share of Zia Ltd. A/c. To Debentures holders A/c. (Being 9000 equiy shares of Zia Ltd. issued by Debentures holders)		90,000	 90,000
(vii) a.	Chennai Works – Workmen Compensation Fund Dr. To Capital Reduction A/c. (Being difference due to reduced amount of actual liability transferred to capital reduction account).		4,000	 4,000

b.	Bank A/c. Dr. To Investment for Workmen Compensation Fund To Capital reduction A/c. (Being Investment for Workmen Compensation Fund sold @ 10% profit)		15,400	 14,000 1,400
c.	Trade Payables A/c. Dr. To Bank A/c. (Being part payment made to trade payables)		15,400	 15,400
(viii)	Capital reduction A/c. To Provision for Doubtful Debts A/c. To Inventory A/c. (Being assets revalued)		2,10,000	 20,000 1,90,000
(ix)	Capital reduction A/c. Dr. To Profit & Loss A/c. To Tangible Assets – Chennai works (Being assets revalued and losses written off)		5,50,000	 2,00,000 3,50,000
(x)	Capital reduction A/c. Dr. To Tangible Assets – Bombay Works To Capital reserve A/c. (Being assets revalued and remaining amount transferred to capital reserve account)		4,01,400	 2,67,600 1,33,800