

Chapter 3

Company Accounts

Unit 1: Preparation of Financial Statements

Question 1

A company lodged a claim to insurance company for Rs. 5,00,000 in September, 2006. The claim was settled in February, 2007 for Rs. 3,50,000. How will you record the short fall in claim settlement in the books of the company.

(2 Marks) (November, 2007)

Answer

Journal Entry

		Rs.	Rs.
Profit and Loss A/c	Dr.	1,50,000	
To Insurance Company A/c			1,50,000

[Being the shortfall in insurance claim is the loss, transferred to Profit and Loss A/c]

Question 2

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

- (i) That 20% of the net profit of each year shall be transferred to reserve fund.
- (ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.
- (iii) That the balance available for distribution shall be applied:
 - (a) in paying 14% on cumulative preference shares.
 - (b) in paying 20% dividend on equity shares.
 - (c) one-third of the balance available as additional dividend on preference shares and 2/3 as additional equity dividend.

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

The profit for the year 2008 was Rs. 10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Account –below the line.

(8 Marks)(November, 2008)

Answer

Profit and Loss Account –(below the line) for the year ended 2008

	Rs.		Rs.
To Depreciation	31,200	By Profit	10,00,000

To	Provision for income tax	80,000		
To	Net profit c/d	<u>8,88,800</u>		
		<u>10,00,000</u>		<u>10,00,000</u>
To	Reserve fund	1,77,760	By	Balance b/f
To	Proposed preference dividend (1,82,000 + 93,450)	2,75,450	By	Net profit b/d
To	Proposed equity dividend (1,40,000 + 1,86,900)	3,26,900		80,000
To	Bonus to employees (14,000 + 18,690)	32,690		8,88,800
To	Balance c/d	<u>1,56,000</u>		
		<u>9,68,800</u>		<u>9,68,800</u>

Working Note:

<i>Balance of amount available for Preference and Equity shareholders and Bonus for Employees</i>	<i>Rs.</i>
Credit Side	9,68,800
Less: Dr. side [1,77,760 + 1,82,000+1,40,000+14,000 + 1,56,000]	<u>6,69,760</u>
	<u>2,99,040</u>

Suppose remaining balance will be = x

Suppose preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3} x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3} x$

Bonus to Employees = $\frac{2}{3} x \times \frac{10}{100} = \frac{2}{30} x$

Now, $\frac{2}{3} x + \frac{1}{3} x + \frac{2}{30} x = 2,99,040$

$32 x = 89,71,200$

$x = 89,71,200/32 = \text{Rs.} 2,80,350$

Share of preference shareholders - $\text{Rs. } 2,80,350 \times \frac{1}{3} = \text{Rs.} 93,450$

Share of equity shareholders - $\text{Rs. } 2,80,350 \times \frac{2}{3} = \text{Rs.} 1,86,900$

Bonus to employees - $\text{Rs. } 2,80,350 \times \frac{2}{30} = \text{Rs.} 18,690$

Question 3

The Managing Director of A Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs.25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, A Ltd. made net profit of Rs.43,00,000 before charging MD's remuneration, but after charging provision for taxation of Rs.17,20,000. Compute remuneration payable to the Managing Director.
(2 Marks) (June, 2009)

Answer

Calculation of remuneration of the Managing Director	<i>Rs. in Lacs</i>
Net profit as per books	43.00
Add: Provision for taxation	<u>17.20</u>
Annual profit for the purpose of managerial remuneration	<u>60.20</u>
Managing Director's Remuneration @ 5% of above	3.01
Minimum remuneration to be paid to the Managing Director	
= Rs.25,000 per month × 12	3.00
Hence, in this case, remuneration to be paid to the Managing Director of A Ltd. =	
Rs.3,01,000.	

Unit 2: Cash Flow Statement

Question 1

What is meant by 'Cash' and 'Cash equivalents' as per AS-3?

(4 Marks) (May, 2007)

Answer

As per AS 3 'Cash Flow Statements', the term 'Cash' and 'Cash equivalents' mean the following:

Cash: It includes cash on hand and demand deposits with banks.

Cash Equivalents: It means short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

Question 2

J Ltd. presents you the following information for the year ended 31st March, 2007:

	(Rs. in lacs)
(i) Net profit before tax provision	36,000
(ii) Dividend paid	10,202
(iii) Income-tax paid	5,100
(iv) Book value of assets sold	222
Loss on sale of asset	48
(v) Depreciation debited in P & L account	24,000
(vi) Capital grant received - amortized in P & L A/c	10
(vii) Book value of investment sold	33,318
Profit on sale of investment	120
(viii) Interest income from investment credited in P & L A/c	3,000
(ix) Interest expenditure debited in P & L A/c	12,000
(x) Interest actually paid (Financing activity)	13,042
(xi) Increase in working capital	67,290
[Excluding cash and bank balance]	
(xii) Purchase of fixed assets	22,092
(xiii) Expenditure on construction work	41,688
(xiv) Grant received for capital projects	18
(xv) Long term borrowings from banks	55,866

(xvi)	Provision for Income-tax debited in P & L A/c	6,000
	Cash and bank balance on 1.4.2006	6,000
	Cash and bank balance on 31.3.2007	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

(16 Marks) (November, 2007)

Answer

Cash Flow Statement as per AS 3

Cash flows from operating activities:		Rs. in lacs
Net profit before tax provision		36,000
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure	<u>12,000</u>	<u>36,048</u>
		72,048
Less: Non cash income		
Amortisation of capital grant received	(10)	
Profit on sale of investments	(120)	
Interest income from investments	<u>(3,000)</u>	<u>3,130</u>
	Operating profit	68,918
Less: Increase in working capital		<u>(67,290)</u>
	Cash from operations	1,628
Less: Income tax paid		<u>(5,100)</u>
Net cash used in operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 – 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	
Expenditure on construction work	<u>(41,688)</u>	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	

Interest paid	(13,042)	
Dividend paid	<u>(10,202)</u>	
Net cash from financing activities		<u>32,640</u>
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2006		<u>6,000</u>
Cash and bank balance as on 31.3.2007		<u>8,000</u>

Question 3

From the following summarised Cash account of S Ltd., prepare cash flow statement for the year ended 31st March, 2009 in accordance with AS 3 (revised) using direct method.

Summarised Cash Account

	(Rs.000)		(Rs.000)
Opening balance	50	Payment to suppliers	2,000
Issue of share capital	300	Purchase of fixed assets	200
Received from customers	2,800	Overhead expenses	200
Sale of fixed assets	100	Wages and salaries	100
		Tax paid	250
		Dividend paid	50
		Bank loan	300
		Closing balance	<u>150</u>
	<u>3,250</u>		<u>3,250</u>

(8 Marks)(June,2009)

Answer

Cash Flow Statement for the year ended 31.3.2009

Rs. in '000

Cash flow from Operating Activities

Cash received from customers	2,800	
Less: Cash paid to suppliers	2,000	
Cash paid for overhead expenses	200	
Cash paid for wages and salaries	<u>100</u>	<u>2,300</u>
		500
Less: Income tax paid		<u>250</u>
Net cash generated from Operating Activities		250

Cash flow from Investing Activities

Sale of fixed assets	100
Less: Purchase of fixed assets	<u>200</u>

Net cash used in Investing Activities

(100)

Cash flow from Financing Activities

Received from issue of share capital	300	
Less: Payment of bank loan	300	
Payment of dividend	<u>50</u>	<u>350</u>
Net cash used in Financing Activities		<u>(50)</u>
Net increase in cash and equivalents		100
Add: Cash and equivalents at the beginning of the year		<u>50</u>
Cash and equivalents at the end of the year		<u>150</u>

Question 4

Balance Sheet of Raman Ltd. is given below:

(Rs. in '000)					
Liabilities	31.3.08	31.3.09	Assets	31.3.08	31.3.09
Share capital	500	500	Land & building	300	300
9% Debentures	200	160	Machinery	164	180
Sundry creditors	230	216	Stock-in-trade	200	228
Profit and Loss A/c	40	54	Sundry debtors	170	162
Depreciation fund	80	88	Cash and bank balances	120	110
Contingency reserve	140	110	Current Investment	262	190
Outstanding expenses	<u>30</u>	<u>48</u>	Pre-paid expenses	<u>4</u>	<u>6</u>
	<u>1,220</u>	<u>1,176</u>		<u>1,220</u>	<u>1,176</u>

The following information is furnished:

- One old machinery which has original cost of Rs.30,000 was sold for Rs.10,000. The accumulated depreciation in respect of the said machinery amounts to Rs.16,000.
- One new machinery was acquired for Rs.46,000.
- 9% Debentures were redeemed at a discount of 4% of their face value.
- Dividend at 12% was declared and paid in cash.
- Income-tax liability of Rs.30,000 paid was debited to contingency reserve.

You are required to prepare Cash Flow Statement in accordance with the Accounting Standard 3.
(16 Marks) (November, 2009)

Answer

Cash Flow Statement of Raman Ltd.
for the year ended 31st March, 2009

		<i>Rs.</i>	<i>Rs.</i>
A.	<u>Cash flow from Operating Activities</u>		
	Net profit before tax (Rs. 54,000 – Rs. 40,000 + Rs. 60,000)	74,000	
	Add: Adjustment for depreciation (W.N.1)	24,000	
	Interest on debentures* (Rs.1,60,000 x 9%)	14,400	
	Loss on sale of machinery (W.N.2)	<u>4,000</u>	
		1,16,400	
	Less: Profit on redemption of debentures	<u>(1,600)</u>	
		1,14,800	
	Less :Income tax paid	<u>(30,000)</u>	
	Operating profit before changes in Working Capital	84,800	
	Add: Increase in outstanding expenses 18,000		
	Decrease in sundry debtors 8,000		
	Decrease in current investment** <u>72,000</u>	<u>98,000</u>	
		1,82,800	
	Less: Decrease in sundry creditors 14,000		
	Increase in stock in trade 28,000		
	Increase in prepaid expenses <u>2,000</u>	<u>(44,000)</u>	
	<i>Net cash from operating activities</i>		1,38,800
B.	<u>Cash flow from Investing Activities</u>		
	Sale of old machinery	10,000	
	Purchase of machinery	<u>(46,000)</u>	
	<i>Net cash used in investing activities</i>		(36,000)
C.	<u>Cash flow from Financing Activities</u>		
	Redemption of debentures (Rs. 40,000 – Rs.1,600)	(38,400)	
	Payment of dividend	(60,000)	
	Payment of interest on debentures	<u>(14,400)</u>	

* It is assumed that debentures were redeemed at the beginning of the year.

** It is assumed that current investments cannot be liquidated within short duration of 3 months, therefore it has not been considered as part of cash and cash equivalents.

	Net cash used financing activities	(1,12,800)
	Net decrease in cash and cash equivalents during the year	(10,000)
	Cash and cash equivalents at the beginning of the year	<u>1,20,000</u>
	Cash and cash equivalents at the end of the year	<u>1,10,000</u>

Working Notes:

1. Depreciation Fund

	Rs.		Rs.
To Machinery A/c	16,000	By Balance b/d	80,000
To Balance c/d	88,000	By Profit and Loss A/c (Current year depreciation)	24,000
	<u>1,04,000</u>		<u>1,04,000</u>

2. Machinery A/c

	Rs.		Rs.
To Balance b/d	1,64,000	By Depreciation Fund	16,000
To Bank	46,000	By Bank	10,000
		By Profit and loss A/c (loss on sale)	4,000
		By Balance c/d	<u>1,80,000</u>
	<u>2,10,000</u>		<u>2,10,000</u>

[illegible]

	director's remuneration	1,80,000	Post	-	1,80,000		
To	Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000		
To	Miscellaneous office expenses	2,40,000	1:4	48,000	1,92,000		
To	Interest	19,02,000	Actual	7,02,000	12,00,000		
To	Net profit (Bal. fig.)			-	<u>38,72,000</u>		
				<u>15,98,000</u>	<u>124,80,000</u>	<u>15,98,000</u>	<u>124,80,000</u>

Note: Since the profits prior to incorporation are in the negative, they would:

- either be considered as a reduction from any capital reserve accruing in relation to the transaction, or
- be treated as goodwill.

Working Notes:

(1) Calculation of Time Ratio

Pre-Incorporation Period

1st January, 2008 to 31st March, 2008

(3 Months)

3:

1:

Post-Incorporation Period

1st April, 2008 to 31st March, 2009

(12 Months)

12

4

(2) Calculation of Sales Ratio

Pre-Incorporation Period

3 Months

3 x 1

3:

1:

Post-Incorporation Period

12 Months

12 x 2

24

8

(3) Calculation of Staff Salary Ratio

Pre-Incorporation Period

3 Months

3 x 1

3:

1:

Post-Incorporation Period

12 Months

12 x 3

36

12

(4) Calculation of Interest

Pre-Incorporation Period

2,34,00,000 x 3/12 x 12/100

= Rs.7,02,000

Post-Incorporation Period

1,00,00,000 x 12/100

= Rs.12,00,000

(5) Calculation of Rent

1 July 2008 to 31st March, 2009 = 9 Months

Total additional rent = 60,000 x 9 = Rs.5,40,000

Remaining rent = 14,40,000 – 5,40,000 = Rs.9,00,000

Rent per month	=	$\frac{9,00,000}{15}$	=	Rs.60,000 per month
Pre-Incorporation Period rent	=	60,000 x 3	=	<u>1,80,000</u>
Post-Incorporation Period rent	=	60,000 x 12	=	7,20,000
		Additional rent	=	<u>5,40,000</u>
				<u>12,60,000</u>

(6) **Calculation of Gross Profit**

Trading Account

		Rs.		Rs.
To	Cost of goods sold	3,27,60,000	By	Sales
To	Gross profit (Bal. fig.)	<u>1,40,40,000</u>		4,68,00,000
		<u>4,68,00,000</u>		<u>4,68,00,000</u>

Unit 4

Question1

X Co. Ltd. has its share capital divided into equity shares of Rs.10 each. On 1.10.2008 it granted 20,000 employees' stock option at Rs.50 per share, when the market price was Rs.120 per share. The options were to be exercised between 10th December, 2008 and 31st March, 2009. 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 up to 31st March, 2009.

(4 marks) (November, 2009)

Answer

In the books of X Co. Ltd.

Journal Entries

			Rs.	Rs.
1.10.2008	Employee compensation expense A/c Dr.		14,00,000	
	To Employee stock option outstanding A/c			14,00,000
	(Being the grant of 20,000 stock options to employees at Rs.50 when market price is Rs.120)			
10.12.08	Bank A/c Dr.	8,00,000		
to	Employee stock option outstanding A/c Dr.	11,20,000		
31.3.09	To Equity share capital A/c			1,60,000
	To Securities premium A/c			17,60,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.09	Employee stock option outstanding A/c Dr.	2,80,000		
	To Employee compensation expense A/c			2,80,000
	(Being reverse entry passed for lapse of 4,000 stock options)			
31.3.09	Profit and Loss A/c Dr.	11,20,000		
	To Employee compensation expense A/c			11,20,000
	(Being transfer of employee compensation transferred to Profit and Loss Account)			

Unit 5: Underwriting of Shares

Question 1

What do you understand by the term 'Firm Underwriting'?

(2 Marks) ((November, 2007)

Answer

'Firm underwriting' signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him, i.e. the underwriter is obliged to take up:

1. the number of shares he has applied for 'firm'; and
2. the number of shares he is obliged to take up on the basis of the underwriting agreement.

Question 2

Albert Ltd. issued 50,00,000 Equity shares of Rs.10 each. The whole issue was underwritten by A, B and C as below:

A	15,00,000 shares
B	25,00,000 shares
C	10,00,000 shares

Applications were received for 48,50,000 shares of which the marked applications were as follows:

A	12,00,000 shares
B	25,00,000 shares
C	8,50,000 shares

Calculate the number of shares to be taken up by the underwriters.

(4 Marks) (May, 2008)

Answer

	(Number of shares)		
	A	B	C
Gross Liability (3:5:2)	15,00,000	25,00,000	10,00,000
Less: Marked applications	<u>12,00,000</u>	<u>25,00,000</u>	<u>8,50,000</u>
	3,00,000	Nil	1,50,000
Less: Unmarked applications* in 3:5:2 ratio	<u>90,000</u>	<u>1,50,000</u>	<u>60,000</u>
	2,10,000	(1,50,000)	90,000
Less: Surplus of B allocated to A & C in 3:2 ratio	<u>90,000</u>	<u>1,50,000</u>	<u>60,000</u>
Number of shares to be taken up by the underwriters	<u>1,20,000</u>	<u>Nil</u>	<u>30,000</u>

*48,50,000 shares – (12,00,000 + 25,00,000 + 8,50,000) =3,00,000 shares.

Question 3

Consider the following data pertaining to three underwriters, Ajay, Samay and Vijay:

Particulars	Ajay	Samay	Vijay
Shares underwritten	8,000	16,000	24,000
Marked application	6,000	8,000	11,000

(2 Marks) (November, 2008)

Answer

(in shares)				
Particulars	Ajay	Samay	Vijay	Total
Shares underwritten	8,000	16,000	24,000	48,000
Less: 19,800* Unmarked applications (in the ratio 1:2:3)	<u>3,300</u>	<u>6,600</u>	<u>9,900</u>	<u>19,800</u>
	4,700	9,400	14,100	28,200
Less: Marked applications	<u>6,000</u>	<u>8,000</u>	<u>11,000</u>	<u>25,000</u>
	(1,300)	1,400	3,100	3,200
Less: Surplus of Ajay's share (in the ratio 2:3)	<u>1,300</u>	<u>520</u>	<u>780</u>	<u>Nil</u>
Final liability	<u>Nil</u>	<u>880</u>	<u>2,320</u>	<u>3,200</u>

Question 4

A company entered into an underwriting agreement with Mr. B for 60% of the issue of Rs.50,00,000, 15% debentures, with a firm underwriting of Rs.5,00,000. Marked applications were in respect of debentures worth Rs.35,00,000. Compute liability of Mr. B and commission payable to him.

(2 Marks) (June, 2009)

Answer

	Rs.
Gross Liability (Rs.50,00,000 × 60%)	30,00,000
Less: Marked applications Rs.35,00,000 which is more than the Liability but credit will not be given more than gross liability	<u>30,00,000</u>
Net liability	NIL
Add: Firm underwriting	<u>5,00,000</u>
Total liability	<u>5,00,000</u>

* Total Unmarked applications = Total applications received – Total marked applications
i.e. 44,800 – 25,000 = 19,800 unmarked applications.

$$\text{Calculation of underwriting commission} = 30,00,000 \times \frac{2.5}{100} = \text{Rs.}75,000$$

Underwriting Commission payable @ 2.5%*	75,000
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* Section 76 of the Companies Act provides that underwriting commission is provided only at a rate authorized by the articles of the company, not exceeding 2.5% of the issue price of debentures. Therefore, in the above solution, underwriting commission has been calculated at 2.5%.

Unit 6: Redemption of Debentures

Question 1

A company purchased its own 11% debentures in the open market for Rs. 50,00,000 (cum-interest). The interest amount included in the purchase price is Rs. 1,50,000. The face value of the debentures purchased is Rs. 52,00,000. The company cancelled the debentures so purchased.

Pass Journal Entries in the books of the company for purchase and immediate cancellation of debentures.

(4 Marks) (November, 2007)

Answer

Journal Entries

11% Own Debentures A/c	Dr.	48,50,000	
Debenture interest A/c	Dr.	1,50,000	
To Bank			50,00,000

[Being purchase of own debentures from the market]

11% Debentures A/c	Dr.	52,00,000	
To 11% Own Debentures A/c			48,50,000
To Capital Reserve			3,50,000

[Being profit on cancellation of debentures transferred to Capital Reserve A/c]

Question 2

On 1st April, 'X' purchased 12% debentures in 'M' Ltd. for Rs.6,50,000. The face value of these debentures were Rs.6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

(2 Marks) (November, 2008)

Answer

Computation of cost of acquisition of debentures:	Rs.
Cum- interest purchase price of debentures	6,50,000
Less: Interest from the last date of payment of interest to the date of purchase i.e. for 3 months $6,00,000 \times \frac{3}{12} \times \frac{12}{100}$	<u>18,000</u>
Cost of debentures at the time of acquisition	<u>6,32,000</u>

Question 3

Arjun Ltd. issued 10,000 (Nos.) of 12% debentures of Rs.100 each in April, 2007. Interest is payable on 30th September and 31st March every year. The company purchased 2,000 debentures at Rs.104 per debenture on cum-interest basis on 1.7.2008. The own debentures were cancelled on 30.9.2009. Show Journal entries that are required to be passed for purchase of own debentures, interest on own debentures and for cancellation of those debentures.

(2 Marks) (November, 2009)

Answer**Journal Entries**

			Rs.	Rs.
1.7.2008	12% Own Debentures A/c	Dr.	2,02,000	
	Interest on own Debentures A/c	Dr.	6,000	
	To Bank A/c			2,08,000
	(Being purchase of 12% own debenture on cum interest basis)			
30.9.2008	12% Debenture Interest A/c	Dr.	60,000	
	To Bank A/c			48,000
	To Interest on Own Debentures A/c			12,000
	(Being interest on Debentures including own debentures for 6 months i.e. upto 30.9.2008)			
31.3.2009	12% Debenture Interest A/c	Dr.	60,000	
	To Bank A/c			48,000
	To Interest on Own Debentures A/c			12,000
	(Being interest on Debentures including own debentures for 6 months i.e. upto 31.3.2009)			
30.9.2009	12% Debenture Interest A/c	Dr.	60,000	
	To Bank A/c			48,000
	To Interest on Own Debentures A/c			12,000
	(Being interest on Debentures including own debentures for 6 months i.e. upto 30.9.2009)			
30.9.2009	12% Debentures A/c	Dr.	2,00,000	
	Loss on cancellation of 12% Debentures A/c	Dr.	2,000	
	To 12% Own Debentures A/c			2,02,000
	(Being cancellation of 2,000 own debentures)			
30.9.2009	Profit and Loss A/c	Dr.	2,000	
	To Loss on cancellation of 12% Debentures			2,000
	(Being loss on cancellation transferred)			

Unit 7: Amalgamation and Reconstruction

Question 1

P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the Balance Sheet of P and Q as at 31.3.2007:

Liabilities	P	Q	Assets	P	Q
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	<u>1,63,500</u>	<u>1,58,600</u>
	<u>13,98,500</u>	<u>14,12,600</u>		<u>13,98,500</u>	<u>14,12,600</u>

Following are the additional information:

- (i) *The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.*
- (ii) *Liabilities of P includes Rs.50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.*
- (iii) *P has goods purchased from Q, cost to him Rs.10,000. This is included in the Current asset of P as at 31st March, 2007.*
- (iv) *The assets of P and Q are to be revalued as under:*

	P	Q
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- (v) *The purchase consideration is to be discharged as under:*

- (a) *Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.*
- (b) *Profits for the preceding 2 years are given below:*

	P	Q
	Rs.	Rs.
1 st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

- (c) *Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.*

You are required to:

- (i) Compute the amount of equity and preference shares issued to P and Q.
- (ii) Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

(16 Marks) (May, 2007)

Answer

(i) Calculation of amount of equity shares issued to P and Q

Profits of	P	Q
	Rs.	Rs.
I st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

$$24000 \times 475/1000$$

11,400 equity shares

$$24000 \times 525/1000$$

12,600 equity shares

Calculation of amount of 12% Preference shares issued to P and Q

	P	Q
	Rs.	Rs.
Capital employed (Refer working note 1)	8,40,000	9,24,000
8% return on capital employed	67,200	73,920
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12} \right]$	Rs. 5,60,000	
$\left[73,920 \times \frac{100}{12} \right]$		Rs. 6,16,000

Total Purchase Consideration

	P	Q
	Rs.	Rs.
Equity Shares	2,85,000	3,15,000
12% Preference shares	<u>5,60,000</u>	<u>6,16,000</u>
Total	<u>8,45,000</u>	<u>9,31,000</u>

(ii) **Balance Sheet of PQ Ltd. (after amalgamation)**

Liabilities	Rs.	Assets	Rs.
<i>Authorised share capital:</i>		<i>Fixed assets:</i>	
1,00,000 Equity Share of Rs.25 each	<u>25,00,000</u>	Goodwill (W.N.1)	14,000
<i>Issued and subscribed share capital:</i>		Plant and Machinery	12,00,000
24,000 Equity Shares of Rs.25 each	6,00,000	Building	14,23,000
1,17,600 12% Preference shares of Rs.10 each	11,76,000	<i>Current Assets (W.N.2)</i>	2,70,100
(All of the equity and preference shares have been issued for consideration other than cash)			
Current Liabilities (W.N. 3)	<u>11,31,100</u>		
	<u>29,07,100</u>		<u>29,07,100</u>

Working Notes:

1. Goodwill

	P	Q
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	<u>1,63,500</u>	<u>1,58,600</u>
	14,63,500	14,81,600
Less: Current liabilities	<u>6,23,500</u>	<u>5,57,600</u>
Net assets taken (capital employed)	8,40,000	9,24,000
Less: Purchase consideration	<u>8,45,000</u>	<u>9,31,000</u>
Goodwill	<u>5,000</u>	<u>7,000</u>
Total purchased goodwill		12,000
Add: Unrealised profit of Rs.10,000 @ 20% = Rs.2,000 is adjusted from current assets and from goodwill (since P & L A/c is not given)		<u>2,000</u>
Total Goodwill		<u>14,000</u>

2. Current Assets

	P	Q
	Rs.	Rs.
Balances before amalgamation	1,63,500	1,58,600
Less: Liabilities of P due to Q	-	50,000
Less: Unrealised Profit on stock i.e.Rs.10,000 x 20%	<u>2,000</u>	

Total	<u>1,61,500</u>	<u>1,08,600</u>
Grand Total		<u>2,70,100</u>

3. Current Liabilities

	P	Q
	Rs.	Rs.
Balances before amalgamation	6,23,500	5,57,600
Less: Liabilities of P due to Q	<u>50,000</u>	<u>-</u>
Total	<u>5,73,500</u>	<u>5,57,600</u>
Grand Total		<u>11,31,100</u>

Question 2

Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	Rs.	Assets	Rs.
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of		Furniture and fixtures	2,50,000
Rs 10 each fully paid up	20,00,000	Patents and copyrights	70,000
6,000 8% Preference shares		Investments (at cost)	68,000
of Rs. 100 each	6,00,000	(Market value Rs. 55,000)	
9% Debentures	12,00,000	Stock	14,00,000
Bank overdraft	1,50,000	Sundry debtors	14,39,000
Sundry creditors	5,92,000	Cash and bank balance	10,000
		Profit and Loss A/c	<u>4,05,000</u>
	<u>45,42,000</u>		<u>45,42,000</u>

The following scheme of reconstruction was finalised:

- (i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- (ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- (iii) Stock equal to Rs.5,00,000 in book value will be taken over by sundry creditors in full settlement of their dues.
- (iv) Investment value to be reduced to market price.
- (v) 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.

(16 Marks) (November, 2007)

Answer

In the Books of ABC Ltd.

Journal Entries

Particulars		Rs.	Rs.
8% Preference share capital A/c	Dr.	6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c	Dr.	4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c	Dr.	12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Sundry creditors A/c	Dr.	5,92,000	
To Stock A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving stocks]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000

To Profit and loss A/c	4,05,000
To Capital reserve A/c	1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]	

Capital Reduction Account			
	Rs.		Rs.
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000
To Capital reserve A/c	<u>1,54,000</u>	By Sundry creditors A/c	<u>92,000</u>
	<u>5,72,000</u>		<u>5,72,000</u>

Balance Sheet of ABC Ltd. (And Reduced)

As on 31st March 2007

Liabilities	Rs.	Assets	Rs.
Share capital		Plant & machinery (9,00,000 – 9,00,000)	Nil
2,00,000 Equity shares of Rs.10 each fully paid-up	20,00,000	Furniture & fixtures	2,50,000
Capital reserve	1,54,000	Patents & copyrights	70,000
11% Debentures (Rs.4,20,000 + Rs.3,00,000)	7,20,000	Investments (Rs.68,000 – Rs.13,000)	55,000
		Stock (Rs.14,00,000 – Rs.5,00,000)	9,00,000
		Sundry debtors	14,39,000
		Cash at bank (refer W.N.)	<u>1,60,000</u>
	<u>28,74,000</u>		<u>28,74,000</u>

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid
= Rs.10,000 + Rs.3,00,000 – Rs.1,50,000
= Rs.1,60,000

Question 3

What are the two main methods of accounting for amalgamation of companies?

(2 Marks) (November, 2007)

Answer

Two main methods of accounting for amalgamations are

- (i) **The Pooling of Interests 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 adjustments required in para 11 of AS 14.
- (ii) **The Purchase method-** Under this method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or on the basis of their fair values at the date of amalgamation.

Question 4

Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008:

Particulars	A Ltd.	B Ltd.
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	<u>2,60,000</u>	<u>1,70,000</u>
	<u>24,40,000</u>	<u>14,80,000</u>
Land and building	9,00,000	4,50,000
Plant and machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	<u>30,000</u>	<u>40,000</u>
	<u>24,40,000</u>	<u>14,80,000</u>

The companies agree on a scheme of amalgamation on the following terms:

- (i) A new company is to be formed by name AB Ltd.
- (ii) AB Ltd. to take over all the assets and liabilities of the existing companies.
- (iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:
 - A Ltd. = Rs.18 per share
 - B Ltd. = Rs.20 per share
- (iv) A contingent liability of A Ltd. of Rs.60,000 is to be treated as actual existing liability.
- (v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs.6 per share.

(vi) The face value of shares of AB Ltd. are to be of Rs.10 each.

You are required to:

- (i) Calculate the purchase consideration (i.e., number of shares to be issued to A Ltd. and B Ltd.).
- (ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.
- (iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.
- (iv) Prepare the Balance Sheet of AB Ltd.

(16 Marks) (May, 2008)

Answer

(i) Statement showing calculation of purchase consideration

	(Number of shares)	
	A Ltd.	B Ltd.
Existing shares	1,00,000	60,000
Less: Shares held by A Ltd.	<u> </u>	<u>5,000</u>
	<u>1,00,000</u>	<u>55,000</u>
Value per share	Rs.18	Rs.20
Total value	Rs.18,00,000	Rs.11,00,000
No. of shares to be issued at a premium of Rs.6 per share i.e. Rs.16 (10+6)	<u>1,12,500 shares</u>	<u>68,750 shares</u>
	Rs.	Rs.
Share capital	11,25,000	6,87,500
Add: Securities premium	<u>6,75,000</u>	<u>4,12,500</u>
Total purchase consideration	<u>18,00,000</u>	<u>11,00,000</u>

(ii) Journal Entries in the books of A Ltd.

	Rs.	Rs.
Realisation A/c	Dr. 24,40,000	
To Land & building A/c		9,00,000
To Plant & machinery A/c		5,00,000
To Stock A/c		5,20,000
To Sundry debtors A/c		4,10,000
To Investments A/c		80,000
To Bank A/c		30,000

(Being assets transferred to Realisation A/c)

Profit and loss A/c	Dr.	60,000	
To Creditors A/c			60,000
(Being contingent liability treated as real liability)			
10% Debentures A/c	Dr.	5,00,000	
Creditors A/c	Dr.	3,20,000	
To Realisation A/c			8,20,000
(Being transfer of liabilities to Realisation A/c)			
AB Ltd.	Dr.	18,00,000	
To Realisation A/c			18,00,000
(Being the purchase consideration accounted for)			
Share in AB Ltd. A/c	Dr.	18,00,000	
To AB Ltd.			18,00,000
(Being purchase consideration received)			
Share Capital A/c	Dr.	10,00,000	
Securities premium A/c	Dr.	2,00,000	
General Reserve A/c	Dr.	3,00,000	
Profit and Loss A/c	Dr.	1,20,000	
Realisation A/c	Dr.	1,80,000	
To Shareholders A/c			18,00,000
(Being transfer of balances to shareholders' account)			
Shareholders A/c	Dr.	18,00,000	
To Shares in AB Ltd.			18,00,000
(Being closure of shareholders a/c)			

(iii) Journal Entries in the Books of AB Ltd.

		Rs.	Rs.
Land & building A/c	Dr.	9,00,000	
Plant & machinery A/c	Dr.	5,00,000	
Stock A/c	Dr.	5,20,000	
Debtors A/c	Dr.	4,10,000	
Bank A/c	Dr.	30,000	
Goodwill A/c	Dr.	2,60,000	
To 10% Debentures A/c			5,00,000
To Sundry creditors A/c			3,20,000

To Liquidator of A Ltd. A/c	18,00,000
(Being the purchase consideration of A Ltd. accounted for)	

Land & building A/c	Dr.	4,50,000
Plant & machinery A/c	Dr.	3,80,000
Stock A/c	Dr.	3,50,000
Debtors A/c	Dr.	2,60,000
Bank A/c	Dr.	40,000
Goodwill A/c	Dr.	90,000

To Secured loan A/c	3,00,000
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To Sundry creditors A/c	1,70,000
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To Liquidator of B Ltd. A/c	11,00,000
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(Being purchase consideration of B Ltd. accounted for)

Liquidator of A Ltd. A/c	Dr.	18,00,000
To Equity share capital A/c		11,25,000
To Securities premium A/c		6,75,000

(Being shares issued to Liquidator of A Ltd.)

Liquidator of B Ltd. A/c	Dr.	11,00,000
To Equity share capital A/c		6,87,500
To Securities premium A/c		4,12,500

(Being shares issued to Liquidator of B Ltd.)

(iv)

Balance Sheet of AB Ltd.

(After amalgamation of A Ltd. & B Ltd.)

Liabilities	Rs.	Assets	Rs.
Share capital:		Goodwill (2,60,000 + 90,000)	3,50,000
1,81,250 Equity shares of Rs.10 each fully paid up	18,12,500	Land & building	13,50,000
(above shares have been issued for consideration other than cash)		Plant & machinery	8,80,000
		Stock	8,70,000
Securities premium	10,87,500	Sundry debtors	6,70,000
10% Debentures	5,00,000	Cash at bank	70,000
Secured loan	3,00,000		
Sundry creditors	<u>4,90,000</u>		<u> </u>

41,90,000

41,90,000

Question 5

The Balance Sheet of R Ltd., at March, 2008 was as follows:

	Rs.		Rs.
Share capital authorised	<u>1,40,000</u>	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 shares 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	Investments in shares in 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	<u>4,40,000</u>
	<u>18,28,000</u>		<u>18,28,000</u>

Note: The arrear of preference dividends amount to Rs. 51,200.

A scheme of reconstruction was duly approved with effect from 1st April, 2008 under the conditions stated below:

- The unpaid amount on the equity shares would be called up.
- 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%.
- The equity shareholders would accept a reduction of Rs. 7.5 per share.
- 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.
- A bad debt provision at 2% would be created.
- The other assets would be valued as under:

	Rs.
Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stocks	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 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 authorised share capital would be restated to Rs. 14,00,000.
- (l) The new face values of the shares-preferences and equity will be maintained at their reduced levels.

You are required to prepare:

- (i) Necessary ledger accounts to effect the above; and
- (ii) The Balance Sheet of the company after reconstruction.

(16 Marks) (November, 2008)

Answer

In the books of R Ltd.

Ledger Accounts

Capital Reduction Account

	Rs.		Rs.
To Intangibles (68,000 – 48,000)	20,000	By 8% Cumulative preference shares capital account	1,60,000
To Plant and equipment account (2,40,000 – 1,40,000)	1,00,000	By Equity share capital account	4,80,000
To Deferred revenue expenditure account	48,000	By Freehold premises account (3,80,000 – 1,40,000)	2,40,000
To Profit and loss account	4,40,000	By Stock account (2,50,000 – 2,48,000)	2,000
To Investment account (W.N. 2)	11,500		
To Provision for doubtful debts	6,400		
To Capital reserve account (Balance Transferred)	<u>2,56,100</u>		
	<u>8,82,000</u>		<u>8,82,000</u>

Equity Share Capital Account

	Rs.		Rs.
To Capital reduction account	4,80,000	By Balance b/d	4,80,000
To Balance c/d	6,60,000	By Equity share final call account (64,000 × Rs.2.5)	1,60,000
		By Loan from Directors account	60,000
		By Bank account	

	[(64,000+24,000) × 2 × Rs.2.5]	<u>4,40,000</u>
<u>11,40,000</u>		<u>11,40,000</u>

8% Cumulative Preference Share Capital Account

	Rs.		Rs.
To 10% Cumulative preference share capital account	4,80,000	By Balance b/d	6,40,000
To Capital reduction account	<u>1,60,000</u>		
	<u>6,40,000</u>		<u>6,40,000</u>

Bank Account

	Rs.		Rs.
To Equity share final call account	1,60,000	By Balance b/d (overdraft)	2,08,000
To Equity share capital account	4,40,000	By Balance c/d	5,12,000
To 10% Cumulative preference share capital account	<u>1,20,000</u>		
	<u>7,20,000</u>		<u>7,20,000</u>
To Balance b/d	5,12,000		

10% Cumulative Preferences Share Capital Account

	Rs.		Rs.
To Balance c/d	6,00,000	By 8% Cumulative preference share capital account	4,80,000
		By Bank	<u>1,20,000</u>
	<u>6,00,000</u>		<u>6,00,000</u>
		By Balance b/d	6,00,000

R. Ltd., (and Reduced)

Balance Sheet as at 1 April, 2008

	Rs.		Rs.
Authorised: Share capital	<u>14,00,000</u>	Intangibles	48,000
Issued: 80,000 10% Cumulative preference shares of Rs.7.5 each	6,00,000	Freehold premises	3,80,000
2,64,000 equity shares of Rs.2.5 each	6,60,000	Plant and equipment	1,40,000
Capital reserve	2,56,100	Investment in Q Ltd., (W.N.1)	3,12,500
Sundry creditors	4,40,000	Stock	2,50,000

	Debtors less provision for doubtful debts (Rs.3,20,000 – Rs.6,400)	3,13,600
	Bank	<u>5,12,000</u>
	<u>19,56,100</u>	<u>19,56,100</u>

Working Notes:

- Valuation of investments in shares of Q Ltd., = $\frac{\text{Rs.2,50,000}}{12\%} \times \frac{15}{100} = \text{Rs.3,12,500}$
- Reduction in the value of investment in shares of Q Ltd.
Rs.3,24,000 – Rs.3,12,500 = Rs.11,500.

Question 6

Give the journal entry to be passed for accounting unrealized profit on stock, under amalgamation.

(2 Marks) (June, 2009)

Answer

Journal entry to be passed for accounting unrealized Profit on stock:

Under amalgamation in the nature of merger:

General Reserve/Profit and Loss A/c Dr.

To Stock A/c (Stock Reserve A/c)

(Being amount adjusted for unrealized profit on stock)

OR

If amalgamation is in nature of purchase, Journal entry would be:

Goodwill or Capital Reserve A/c Dr.

To Stock A/c (Stock Reserve A/c)

(Being adjustment for unrealized profit on stock)

Question 7

The Balance Sheet of Neptune Ltd as on 31.3.2009 is given below:

Liabilities	Rs.	Rs.	Assets	Rs.
80,000, Equity shares of Rs.10 each fully paid		8,00,000	Freehold property	5,00,000
5,000, 6% Cumulative preference shares of Rs.100 each fully paid		5,00,000	Plant & machinery	1,80,000
6% Debentures (secured by freehold property)	3,75,000		Trade investment (at cost)	1,70,000
Arrear interest	<u>22,500</u>	3,97,500	Sundry debtors	4,50,000
Sundry creditors		17,500	Stock in trade	2,00,000
Director's loan		3,00,000	Deferred advertisement	

			expenditure	1,50,000
			Profit and Loss A/c	<u>3,65,000</u>
		<u>20,15,000</u>		<u>20,15,000</u>

The Court approved a scheme of re-organisation to take effect on 1.4.2009 and the terms are given below:

- (i) Preference shares are to be written down to Rs.75 each and equity shares to Rs.2 each.
- (ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance equity shares of Rs.2 each to be allotted.
- (iii) Arrear of debenture interest to be paid in cash.
- (iv) Debentureholders agreed to take one freehold property (Book value Rs.3,00,000) at a valuation of Rs.3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.
- (v) Deferred advertisement expenditure to be written off.
- (vi) Stock value to be written off fully in the books.
- (vii) 50% of the Sundry Debtors to be written off as bad debt.
- (viii) Remaining freehold property (after take over by debentureholders) to be valued at Rs.3,50,000.
- (ix) Investment sold out for Rs.2,00,000.
- (x) 80% of the Director's loan to be waived and for the balance, equity shares of Rs.2 each to be issued.
- (xi) Company's contractual commitments amounting to Rs.5,00,000 to be cancelled by paying penalty at 3% of contract value.
- (xii) Cost of re-construction scheme is Rs.20,000.

Show the Journal entries (with narration) to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme.

(16 Marks)(November, 2009)

Answer

Journal Entries in the Books of Neptune Ltd.

	Particulars		Rs.	Rs.
(i)	6% Preference share capital A/c (Rs. 100) Dr.		5,00,000	
	To 6% Preference share capital A/c (Rs. 75)			3,75,000
	To Capital reduction A/c			1,25,000
	(Being preference shares of Rs.100 each reduced to Rs.75 each as per the scheme)			
(ii)	Equity share capital A/c (Rs.10) Dr.		8,00,000	
	To Equity share capital A/c (Rs.2)			1,60,000
	To Capital reduction A/c			6,40,000
	(Being equity shares of Rs.10 each reduced to Rs.2 each as per			

	the scheme)			
(iii)	Capital reduction A/c To Equity share capital A/c (Being arrears of preference share dividend of one year to be satisfied by issue of 1,500 equity shares of Rs.2 each as per the scheme)	Dr.	30,000	30,000
(iv)	Accrued debenture interest A/c To Bank A/c (Being accrued interest on debentures paid)	Dr.	22,500	22,500
(v)	6% Debenture A/c To Freehold property A/c (Being claim of debentureholders settled in part by transfer of freehold property as per the scheme)	Dr.	3,00,000	3,00,000
(vi)	Capital reduction A/c To Profit and loss A/c To Deferred advertising expenses A/c To Stock A/c To Sundry debtors A/c (Being the various assets written off as per the scheme)	Dr.	9,40,000	3,65,000 1,50,000 2,00,000 2,25,000
(vii)	Freehold property A/c To Capital reduction A/c (Being appreciation in the value of remaining property)	Dr.	1,50,000	1,50,000
(viii)	Bank A/c To Trade investment A/c To Capital reduction A/c (Being trade investment sold on profit)	Dr.	2,00,000	1,70,000 30,000
(ix)	Director's loan A/c To Equity share capital A/c To Capital reduction A/c (Being Director's loan reduced by 80% and remaining balance discharged by issue of equity shares of Rs. 2 each)	Dr.	3,00,000	60,000 2,40,000
(x)	Capital reduction A/c To Bank A/c (Being payment of 3% penalty on cancellation of contractual commitments)	Dr.	15,000	15,000
(xi)	Capital reduction A/c To Bank A/c (Being reconstruction expenses paid)	Dr.	20,000	20,000

(xii)	Capital reduction A/c	Dr.	1,80,000	
	To Capital reserve A/c			1,80,000
	(Being balance of capital reduction account transferred)			

Balance Sheet of Neptune Ltd. (And Reduced)

as at 1st April, 2009

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
1,25,000, Equity shares of Rs.2 each (out of above 45,000 shares have been issued for consideration other than cash)	2,50,000	Freehold property	3,50,000
		Plant	1,80,000
5,000, 6% Cumulative Preference shares of Rs.75 each fully paid up	3,75,000	Debtors	2,25,000
Capital reserve	1,80,000	Cash at bank (2,00,000 – 22,500 – 15,000 – 20,000)	1,42,500
6% Debentures (3,75,000 – 3,00,000)	75,000		
Creditors	<u>17,500</u>		
	<u>8,97,500</u>		<u>8,97,500</u>

Unit 8: Liquidation of Companies

Question 1

What is B list contributories?

(4 Marks) (November, 2008)

Answer

B list contributories are the shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up. They may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors, as existed on the date of transfer of shares and cannot be paid out of the funds otherwise available with the liquidator, provided also that the existing shareholders have failed to pay the amount due on the shares.

Question 2

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 realised and secured creditors and debentureholders are paid) is Rs.7,50,000.
- (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) Liquidator's remuneration is 2% on payments to preferential and other unsecured creditors

(8 Marks) (June, 2009)

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 (Amount received on call for 7,000 equity shares @ Rs.6.53 per share)	45,710	By Preferential creditors	35,000
		By Unsecured creditors	2,30,000
		By Preference shareholders	5,00,000
		By Equity shareholders (Amount paid to holders of 3,000 equity shares @ Rs.8.47 per equity share)	25,410
	<u>7,95,710</u>		<u>7,95,710</u>

* 35,000 + 2,30,000 = 2,65,000

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: Payments made:		
Liquidator's remuneration	5,300	
Preference creditors	35,000	
Unsecured creditors	2,30,000	
Preference shareholders	<u>5,00,000</u>	<u>7,70,300</u>
		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	<u>4,20,000</u>	<u>6,45,000</u>
Total loss to be borne by equity shareholders		<u>6,65,300</u>
No. of equity shares		10,000 shares
Loss per equity shares	$\frac{6,65,300}{10,000} = \text{Rs.}66.53$	
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 × 8.47 (i.e. 75 – 66.53) = Rs. 25,410		

Question 3

TM Ltd. went in for voluntary liquidation on 31st March, 2009.

The Balance Sheet of the company as at 31.3.2009 is given below:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Freehold property	11,85,000
1,00,000 Equity shares of Rs.10 each fully paid up	10,00,000	Plant	6,03,000
10% Preference shares of Rs.100 each fully paid up	12,00,000	Motor vehicles	1,15,000
Securities premium	1,00,000	Stock	3,72,000
5% Debentures	2,00,000	Sundry debtors	1,48,000
Interest on debentures	5,000	Profit & Loss A/c	4,28,000
Bank overdraft	1,16,000		
Sundry creditors	<u>2,30,000</u>		
	<u>28,51,000</u>		<u>28,51,000</u>

The preference dividends are in arrear for the years 2007-08 and 2008-09.

The company's Articles provide that on liquidation, out of surplus assets remaining after payment of liquidation costs and outside liabilities, it shall be applied firstly towards arrears of preference dividend, secondly to preference shareholders with a premium thereon at Rs.10 per share and finally any residue shall be paid to the equity shareholders.

The Liquidator realised the assets as below:

	Rs.
Freehold property	14,25,000
Plant	5,05,000
Motor vehicles	1,18,000
Stock in trade	3,00,000
Sundry debtors	1,20,000

Creditors were paid less discount of 5%. Debentureholders were paid alongwith accrued interest upto 30.6.2009.

Liquidators remuneration is 2% of the assets realised and cost of liquidation was Rs.7,640.

Prepare the Liquidator's Statement of Account.

(8 Marks) (November, 2009)

Answer

TM Ltd. (In Liquidation)

Liquidator's Final Statement of Account

Particulars	Rs.	Particulars	Rs.	Rs.
To Assets realised:		By Liquidator's remuneration ($24,68,000 \times \frac{2}{100}$)		49,360
Freehold property	14,25,000	By Liquidation cost		7,640
Plant	5,05,000	By Debenture holders:		
Motor vehicles	1,18,000	5% Debentures	2,00,000	
Stock	3,00,000	Add: Debenture Interest	5,000	
Debtors	1,20,000	Interest for 3 months upto 30.6.2009	<u>2,500</u>	2,07,500
		By Bank overdraft		1,16,000
		By Creditors	2,30,000	
		Less: 5% discount	<u>11,500</u>	2,18,500
		By Preference Shareholders:		
		Share Capital	12,00,000	
		Add: 10% premium	1,20,000	
		Add: O/s dividend (for 2 years)	<u>2,40,000</u>	15,60,000
		By Equity shareholders [(Bal. Fig.) at the rate of Rs.3.09 per share]		<u>3,09,000</u>
	<u>24,68,000</u>			<u>24,68,000</u>

