

CHAPTER 4

COMPANY ACCOUNTS

UNIT 1: ESOPS AND BUY BACK OF SHARES

BASIC CONCEPTS

- As per Section 77B, no company can purchase its own share from
 - Subsidiary company
 - Investment company
 - Default in repayment of deposits or interest payable
 - Not complied with provisions of Sections 159, 207 and 211.
- As per the Companies Amendment Act, 2000, companies can issue equity shares with differential rights.
- ESOP is an option given to whole-time directors, officers or employees of a company to purchase or subscribe the securities offered by the company at a future date, at a predetermined price.
- There are two methods of accounting for Employee Share Based Payments viz., the intrinsic value method or fair value method.

Question 1

Conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares.

(November, 2001)

Answer

As per section 77A of the Companies Act, 1956 a joint stock company has to fulfill the following conditions to buy-back its own equity shares:

- (a) The buy-back is authorised by its articles.

- (b) A special resolution* has been passed in general meeting of the company authorising the buy-back.
- (c) The buy-back does not exceed 25% of the total paid up capital and free reserves of the company. Provided the buy-back must not exceed 25% of its total paid up equity capital in that financial year.
- (d) The ratio of the debt owed by the company is not more than twice the capital and its free reserves after such buy-back.
- (e) All the shares for buy-back are fully paid up.
- (f) The buy-back is made out of the free reserves (which include securities premium) or out of the proceeds of a fresh issue of any shares or other specified securities.
- (g) The buy-back is completed within 12 months of the passing of the special resolution or a resolution passed by the Board.
- (h) The buy-back of the shares listed on any recognised stock exchange is in accordance with the regulations made by the SEBI in this behalf.
- (i) Before making such buy-back, a listed company has to file with the Registrar and the SEBI a declaration of solvency in the prescribed form.

Question 2

Sweat equity shares and conditions, which must be fulfilled by a Joint Stock Company to issue these shares
(November, 2001)

Answer

The Companies (Amendment) Act, 1999 introduced through section 79A a new type of equity shares called 'Sweat Equity Shares'. The expression 'sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called.

Notwithstanding anything contained in section 79, which deals with the power of a company to issue shares at a discount, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:-

- (i) the issue of sweat equity shares is authorised by a special resolution passed by the company in the general meeting.

* If the buy-back by the company is or less than 10% of the total paid-up equity capital and free reserves of the company then it can be authorised by the Board by means of resolution passed at its meeting and no special resolution will be required.

- (ii) the resolution specifies the number of shares, current market price, the consideration if any, and the class or classes of directors or employees to whom such equity shares are to be issued.
- (iii) not less than one year has, at the time of the issue, elapsed since the date on which the company was entitled to commence business.
- (iv) the sweat equity shares of company, whose equity shares are listed on a recognised stock exchange, are issued in accordance with the regulations made by the Securities and Exchange Board of India in this behalf. But in the case of company whose equity shares are not listed on any recognised stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed.

All the limitations, restrictions and provisions relating to equity shares are applicable to sweat equity shares also.

Question 3

What is employee stock option plan? Explain the importance of such plans in the modern time.

(November, 2010)

Answer

Employee Stock Option Plan: It is a plan under which the enterprise grants employee stock options. Employee stock option is a contract that gives the employees of the enterprise the right, but not the obligation, for a specified period of time to purchase or subscribe the shares of the company at a fixed or determinable price.

Employee stock option plans encourage employees to have higher participation in the company. The importance of these plans is as follows:

1. Stock options provide an opportunity to employees to contribute in the growth of the company.
2. Stock option creates long term wealth in the hands of the employees.
3. They are important means to attract, retain and motivate the best available talent for the company.
4. It creates a common sense of ownership between the company and its employees.

Question 4

X Co. Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.10.2010 it granted 20,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 10th December, 2010 and 31st March, 2011. 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, 2011.

(November, 2009)

Answer

In the books of X Co. Ltd.

Journal Entries

			₹	₹
1.10.2010	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 ₹ 50 when market price is ₹ 120)			
10.12.10	Bank A/c Dr.	8,00,000		
to	Employee stock option outstanding A/c Dr.	11,20,000		
31.3.11	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)			
31.3.11	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)			
31.3.11	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)			

Question 5

KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2012.

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	Stock	600
Capital redemption reserve	200	Debtors	260
Profit & loss A/c	170	Cash at bank	740
12% Debentures	750		
Sundry creditors	745		
Other current liabilities	195		
	<u>3,700</u>		<u>3,700</u>

On 1st April, 2012, 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 ₹ 75 lakhs.

On 5th April, 2012, the company achieved the target of buy back. On 30th April, 2012 the company issued one fully paid up equity share of ₹ 10 by way 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 **(November, 2010)**

Answer

In the books of KG Limited

Journal Entries

Date 2012	Particulars	Dr.	Cr.
		(₹ in lakhs)	
April 1	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	75	74 1
April 5	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back)	450	450
	Equity share capital A/c Dr. Premium payable on buy back A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	300 150	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	265 35	300

April 30	the law)			
	Capital redemption reserve A/c	Dr.	225	
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)			225
	Bonus shares A/c	Dr.	225	
	To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)			225
	Securities premium A/c	Dr.	150	
	To Premium payable on buy back A/c (Being premium payable on buy back adjusted from securities premium account)			150

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

Particulars	Note No	Amount (₹ in Lacs)
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 - Sundry creditors		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) Stock		600
(c) Trade receivables		260
(d) Cash and cash equivalents (W.N. 2)		365
Total		3,251

Notes to Accounts

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			₹
1.	Share Capital		
	Equity share capital (Fully paid up shares of ₹10 each)		1125
2.	Reserves and Surplus		
	Capital Redemption Reserve (200+300-225)	275	
	Securities premium (175-150)	25	
	Profit & Loss A/c (170+1-35)	<u>136</u>	436
3.	Tangible assets		
	Machinery	1800	
	Furniture	226	2026

Working Notes:

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

	₹ in lakhs
Cash balance as on 1 st April, 2012	740
Add: Sale of investments	<u>75</u>
	815
Less: Payment for buy back of shares	<u>(450)</u>
	<u>365</u>

Note: In the given solution, it is possible to adjust transfer to capital redemption reserve account or capitalization of bonus shares from any other free reserves also.

Question 6

S Ltd. grants 1,000 options to its employees on 1.4.2008 at ₹ 60. The vesting period is two and a half years. The maximum period is one year. Market price on that date is ₹ 90. All the options were exercised on 31.7.2011. Journalize, if the face value of equity share is ₹ 10 per share.
(June, 2009)

Answer

**Books of S Ltd.
Journal Entries**

Date	Particulars	Debit ₹	Credit ₹
31.3.09	Employees Compensation Expense Account Dr. To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of ₹ 30)	12,000	12,000

	each, amortized on straight line basis over 2½ years)			
	Profit and Loss Account	Dr.	12,000	
	To Employees Compensation Expense Account			12,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.10	Employees Compensation Expense Account	Dr.	12,000	
	To Employees Stock Option Outstanding Account			12,000
	(Being compensation expense recognized in respect of 1,000 options granted to employees at discount of ₹ 30 each, amortized on straight line basis over 2½ years)			
	Profit and Loss Account	Dr.	12,000	
	To Employees Compensation Expense Account			12,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.11	Employees Compensation Expense Account	Dr.	6,000	
	To Employees Stock Option Outstanding Account			6,000
	(Being balance of compensation expense amortized ₹ 30,000 less ₹ 24,000)			
	Profit and Loss Account	Dr.	6,000	
	To Employees Compensation Expense Account			6,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.7.11	Bank Account (₹ 60 × 1,000)	Dr.	60,000	
	Employees Stock Option Outstanding Account (₹ 30×1,000)	Dr.	30,000	
	To Equity Share Capital Account			10,000
	To Securities Premium Account			80,000
	(Being exercise of 1,000 options at an exercise price of ₹ 60 each and an accounting value of ₹ 30 each)			

Working Notes:

- Total employees compensation expense = 1,000 x (₹ 90 – ₹ 60) = ₹ 30,000
- Employees compensation expense has been written off during 2½ years on straight line basis as under:
I year = ₹ 12,000 (for full year)
II year = ₹ 12,000 (for full year)
III year = ₹ 6,000 (for half year)

UNIT 2 : UNDERWRITING OF SHARES AND DEBENTURES

- Underwriting contracts are basically of two types:
 - Wholly underwritten if one person is responsible to subscribe all the issue.
 - Partially underwritten, when some part of the issue is considered to be underwritten by company.
- 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.
- Underwriting Commission
 - (1) No underwriting commission is payable on the shares taken up by the promoters, employees, directors, business associates, etc.
 - (2) Commission is payable on the whole issue underwritten.
 - (3) In case of shares, the commission paid or agreed to be paid should not exceed **5%** of the price at which the shares are issued.
 - (4) In case of debentures, the commission paid or agreed to be paid should not exceed **2.5%** of the price at which the shares are issued.
 - (5) Accounting Entries
 1. For Commission due

Commission Account Dr.
 To Underwriter Account
 2. For payment of Commission

Underwriter Account Dr.

To Bank Account

[Cheque]

To Share Capital Account

[Shares]

To Debentures Account

[Debentures]

➤ When the issue is Fully Underwritten [without Firm Underwriting]

Method 1

Under this method, all unmarked applications are divided between the underwriters in the ratio of **gross liability** of individual underwriter. For determining the liability of individual underwriter, the following steps are followed:

- Step 1** Compute gross liability (if it has not been given) of individual underwriter on the basis of agreed ratio.
- Step 2** Subtract marked applications from gross liability of respective underwriters.
- Step 3** Determine the number of unmarked applications. (Unmarked application = Total applications received less marked applications). Divide unmarked applications between different underwriters in the **ratio of gross liability**. If the resultant figures are all positive or zero, then stop here. Now these figures represent the net liability of each underwriter.

If some of the resultant figures are negative, then continue to Step 4.

- Step 4** Add all negative figures and divide the resultant between the underwriters having positive figures in the ratio of gross liability.

Repeat Step 4 unless all figures are positive. Now these figures represent the net liability of each underwriter.

Method 2

Under this method, all unmarked applications are divided between the underwriters in the ratio of **gross liability less marked applications**. For determining the liability of individual underwriter, the following steps are followed:

- Step 1** Compute gross liability in the usual manner (if it has not been given).
- Step 2** Subtract marked applications from gross liability of respective underwriters, If some of the resultant figures are negative, then add all negative figures and divide their sum in the ratio of gross liability.
- Step 3** Determine the number of unmarked applications. Divide unmarked applications between different underwriters in the **ratio of gross liability less marked applications**, i.e., the resultant figures of Step 2. If the resultant figures of Step 3 are **all positive** or zero, then stop here. Now these figures represent the net liability of each underwriter.

If some of the resultant figures are negative, then continue to Step 4.

- Step 4** Add all negative figures and divide their sum between the underwriters having positive figures in the same **ratio of Step 3**. Repeat Step 4 unless all figures are non-negative. Now these figures represent the net liability of each underwriter.

➤ When the Issue is Fully Underwritten [with Firm Underwriting]

There are two alternative ways:

- (i) The benefit of firm underwriting is not given to individual underwriter, or
- (ii) The benefit of firm underwriting is given to individual underwriter.

(i) The benefit of firm underwriting is not given to individual Underwriter:

For determining the liability of individual underwriter, the following steps are followed:

Step 1 Compute gross liability in the usual manner (if it has not been given).

Step 2 Subtract marked applications (excluding firm underwriting) from gross liability of respective underwriters. If some of the resultant figures are found negative, then add all negative figures and divide the resultant in the ratio of gross liability.

Step 3 Determine the number of unmarked applications as follows:

Total subscriptions (excluding firm underwriting)	*****
Less: Marked applications (excluding firm underwriting)	*****
Unmarked applications by public	*****
Add: Applications under firm underwriting	*****
Total unmarked applications	*****

Divide the above calculated unmarked applications in the ratio of **gross liability**.

If the resultant figures of Step 3 are all positive or zero, then it represents **net liability** as per agreement. After this step, go to Step 5 (skip Step 4).

If some of the resultant figures are negative, then continue to Step 4.

Step 4 Add all the negative figures and divide the resultant between the underwriters having positive figures in the ratio of **gross liability**. Repeat Step 4 unless all figures are non-negative. Now these figures represent the **net liability** as per agreement. After this step, go to Step 5.

Step 5 Add firm underwriting with the **net liability** as per agreement. The resultant figures represent **total liability**.

Here,

- (1) Firm underwriting is treated as unmarked applications and divided in the ratio of gross liability.
- (2) The liability of underwriter consists of:
 - (a) Net liability as per agreement; and
 - (b) firm underwriting.

(ii) The benefit of firm underwriting is given to individual underwriter

For determining the liability of individual underwriter, the following steps are followed:

Step 1 Compute gross liability in the usual manner (if it has not been given).

Step 2 Subtract marked applications (excluding firm underwriting) from gross liability of respective underwriters. If some of the resultant figures are

found negative, then add all negative figures and divide their sum in the ratio of gross liability.

Step 3 Determine the number of unmarked applications as follows:

Total subscriptions (excluding firm underwriting)	*****
Less: Marked applications (excluding firm underwriting)	*****
Unmarked applications by public	*****

Divide the above calculated unmarked application in the **ratio of gross liability**.

Step 4 Subtract “firm underwriting” of individual underwriter from the respective figures of Step 3.

If the resultant figures of Step 4 are all positive or zero, then that represents net liability as per agreement. After this step, go to Step 6 (skip Step 5).

If some of the resultant figures are negative, then continue to Step 5.

Step 5 Add all negative figures and divide it between the underwriters having positive figures in the ratio of gross liability. Repeat Step 5 unless all figures are non-negative. Now these figures represent the net liability as per agreement. After this step, go to Step 6.

Step 6 Add firm underwriting with the net liability as per agreement. The resultant figures represent total liability.

Here,

- (1) **Firm underwriting is not treated as unmarked applications.**
- (2) **Firm underwriting is credited to individual underwriters separately.**
- (3) **The liability of Underwriter consists of:**
 - (a) **Net liability as per agreement; and**
 - (b) **Firm underwriting.**

Question 1

“Firm” underwriting. Also give the accounting entries relating to firm underwriting in the books of:
(i) the company, (ii) the underwriter **(November, 1999, May 2001 & 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.

For example, A underwrites 60% of an issue of 10,000 shares of ₹ 10 each of XY Co. Ltd. and also applies for 1,000 shares, 'firm'. The underwriting commission is agreed to at the rate of 2.5 percent. In case there are marked applications for 4,800 shares, he will have to take up 2,200 shares, i.e. 1,000 shares for which he applied 'firm' and 1,200 shares to meet his liability of underwriting contract. If, on the other hand, the underwriting contract has provided that an abatement would be allowed in respect of shares taken up 'firm', the liability of A in the above-mentioned case would only be for 1,200 shares in total. The accounting entries in relation to firm underwriting of 1,000 shares in the above example are given below :

Entries in the books of XY Co. Ltd. (Company)

		Dr. ₹	Cr. ₹
1.	A's Account To Equity Share Capital Account (Being allotment of underwritten equity shares in pursuance of firm underwriting contract, vide Board's resolution)	Dr. 10,000	10,000
2.	Underwriting Commission on Issue of Shares Account To A's Account (Being underwriting commission due to the underwriter under the firm underwriting contract)	Dr. 250	250
3.	Bank Account To A's Account (Being money received in full settlement of account from underwriter)	Dr. 9,750	9,750

Entries in the books of A (Underwriter)

		Dr. ₹	Cr. ₹
1.	Underwriting Account To XY Co. Ltd. Account (Being the liability to take up necessary number of shares of the company in pursuance of firm underwriting contract recorded)	Dr. 10,000	10,000

2.	XY Co. Ltd. Account	Dr.	250	
	To Underwriting Account			250
	(Being underwriting commission income credited to underwriting account)			
3.	XY Co. Ltd. Account	Dr.	9,750	
	To Bank Account			9,750
	(Being balance money paid to the company in full settlement of account)			

Question 2

Write a short note on Firm underwriting and Partial underwriting along with firm underwriting.

(May 2004 & November, 2005)

Answer

In firm underwriting the underwriter agrees to subscribe upto a certain number of shares/debentures irrespective of the nature of public response to issue of securities. He gets these securities even if the issue is fully subscribed or over-subscribed. These securities are taken by the underwriter in addition to his liability for securities not subscribed by the public. Under partial underwriting along with firm underwriting, unless otherwise agreed, individual underwriter does not get the benefit of firm underwriting in determination of number of shares/debentures to be taken up by him.

Question 3

A joint stock company resolved to issue 10 lakh equity shares of ₹10 each at a premium of ₹1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totalled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

- (i) Prepare a statements calculating underwriters' liability for shares other than shares underwritten firm.
- (ii) Pass journal entries for all the transactions including cash transactions. **(May, 2001)**

Answer

- (i) **Statement showing underwriters' liability for shares other than shares underwritten firm**

	X	Y	Z	Total
Gross liability	5,85,000	2,25,000	90,000	9,00,000
(9,00,000 shares in the ratio of 65 : 25 : 10)	<u>1,19,500</u>	<u>57,500</u>	<u>10,500</u>	<u>1,87,500</u>
	4,65,500	1,67,500	79,500	7,12,000
Less : Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	<u>4,55,000</u>	<u>1,75,000</u>	<u>70,000</u>	<u>7,00,000</u>
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	<u>(6,500)</u>	<u>7,500</u>	<u>(1,000)</u>	—
	<u>4,000</u>	—	<u>8,500</u>	<u>12,500</u>

	₹	₹	₹
Liability amount @ ₹ 11	44,000	—	93,500
Underwriting commission payable (Gross liability × ₹ 11 × 2%)	1,28,700	49,500	19,800
Net Amount payable	84,700	49,500	
Net Amount receivable			73,700

- (ii) **Journal Entries**

	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Shares Application A/c (Being application money received on 1 lakh equity shares @ ₹ 11 per share)	11,00,000	11,00,000

Bank A/c	Dr.	97,62,500	
To Equity Share Application A/c			97,62,500
(Application money received on 8,87,500 equity shares @ ₹ 11 per share from general public and underwriters for shares underwritten firm)			
Equity Share Application A/c	Dr.	1,08,62,500	
X' s A/c	Dr.	44,000	
Z' s A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities Premium A/c			10,00,000
(Allotment of 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share)			
Underwriting commission A/c	Dr.	1,98,000	
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
(Amount of underwriting commission payable to X, Y and Z @ 2% on the amount of shares underwritten)			
Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	
Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

Question 4

Scorpio Ltd. came out with an issue of 45,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co; B & Co. and C & Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

A & Co.	7,25,000 shares
B & Co.	8,40,000 shares

C & Co.	<u>13,10,000 shares</u>
Total	<u>28,75,000 shares</u>

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid alongwith application. You are required to:

- Compute the underwriters liability (number of shares)
- Compute the amounts payable or due to underwriters; and
- Pass necessary journal entries in the books of Scorpio Ltd. relating to underwriting

(November, 2005)

Answer
(a) Computation of liabilities of underwriters (No. of shares):

	A & Co.	B & Co.	C & Co.
Gross liability	12,00,000	12,00,000	12,00,000
Less: Firm underwriting	<u>1,00,000</u>	<u>1,00,000</u>	<u>1,00,000</u>
	11,00,000	11,00,000	11,00,000
Less: Marked applications	<u>7,25,000</u>	<u>8,40,000</u>	<u>13,10,000</u>
	3,75,000	2,60,000	(2,10,000)
Less: Unmarked applications distributed to A & Co. and B & Co. in equal ratio	<u>1,12,500</u>	<u>1,12,500</u>	<u>Nil</u>
	2,62,500	1,47,500	(2,10,000)
Less: Surplus of C & Co. distributed to A & Co. and B & Co. in equal ratio	<u>1,05,000</u>	<u>1,05,000</u>	<u>2,10,000</u>
Net liability (excluding firm underwriting)	1,57,500	42,500	Nil
Add: Firm underwriting	<u>1,00,000</u>	<u>1,00,000</u>	<u>1,00,000</u>
Total liability (No. of shares)	<u>2,57,500</u>	<u>1,42,500</u>	<u>1,00,000</u>

(b) Computation of amounts payable by underwriters:

	₹	₹	₹
Liability towards shares to be subscribed @ 12 per share	30,90,000	17,10,000	12,00,000
Less: Commission (5% on 12 lakhs shares @ 10 each)	<u>6,00,000</u>	<u>6,00,000</u>	<u>6,00,000</u>
Net amount to be paid by underwriters	<u>24,90,000</u>	<u>11,10,000</u>	<u>6,00,000</u>

(c)

**In the Books of Scorpio Ltd.
Journal Entries**

Particulars	Dr.	Cr.
	₹	₹
Underwriting commission A/c To A & Co. A/c To B & Co. A/c To C & Co. A/c (Being underwriting commission on the shares underwritten)	Dr. 18,00,000	6,00,000 6,00,000 6,00,000
A & Co. A/c B & Co. A/c C & Co. A/c To Equity share capital A/c To Share premium A/c (Being shares including firm underwritten shares allotted to underwriters)	Dr. 30,90,000 Dr. 17,10,000 Dr. 12,00,000	50,00,000 10,00,000
Bank A/c To A & Co. A/c To B & Co. A/c To C & Co. A/c (Being the amount received towards shares allotted to underwriters less underwriting commission due to them)	Dr. 42,00,000	24,90,000 11,10,000 6,00,000

Question 5

Gemini Ltd. came up with public issue of 30,00,000 Equity shares of ₹ 10 each at ₹ 15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio.

Applications were received for 27,00,000 shares.

The marked applications were received as under:

A	8,00,000 shares
B	7,00,000 shares
C	6,00,000 shares

Commission payable to underwriters is at 5% on the face value of shares.

- (i) *Compute the liability of each underwriter as regards the number of shares to be taken up.*
 - (ii) *Pass journal entries in the books of Gemini Ltd. to record the transactions relating to underwriters.*
- (November, 2008)**

Answer
(i) Computation of liability of underwriters in respect of shares

	<i>(In shares)</i>		
	A	B	C
Gross liability	15,00,000	10,00,000	5,00,000
Less: Unmarked applications	<u>3,00,000</u>	<u>2,00,000</u>	<u>1,00,000</u>
	12,00,000	8,00,000	4,00,000
Less: Marked applications	<u>8,00,000</u>	<u>7,00,000</u>	<u>6,00,000</u>
	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A & B in 3:2 ratio	<u>1,20,000</u>	<u>80,000</u>	<u>2,00,000</u>
Net liability	<u>2,80,000</u>	<u>20,000</u>	<u>Nil</u>

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

		₹	₹
A's Account	Dr.	42,00,000	
B's Account	Dr.	3,00,000	
To Share Capital Account			30,00,000
To Securities Premium Account			15,00,000
(Being the shares to be taken up by the underwriters)			
Underwriting Commission Account	Dr.	15,00,000	
To A's Account			7,50,000
To B's Account			5,00,000
To C's Account			2,50,000
(Being the underwriting commission due to the underwriters)			
Bank Account	Dr.	34,50,000	
To A's Account			34,50,000
(Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)			
B's Account	Dr.	2,00,000	
To Bank Account			2,00,000
(Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)			
C's Account	Dr.	2,50,000	
To Bank Account			2,50,000
(Being the underwriting commission paid to C)			

Question 6

'X' Ltd., issued 1,00,000 equity shares of ₹ 10 each at par. The entire issue was underwritten as follows:

A – 60,000 shares (Firm underwriting 8,000 shares)

B – 30,000 shares (Firm underwriting 10,000 shares)

C – 10,000 shares (Firm underwriting 2,000 shares)

The total applications including firm underwriting were for 80,000 shares.

The marked applications were as follows:

A- 20,000 shares; B- 14,000 shares; C- 6,000 shares.

The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter.
(November, 2009)

Answer**Statement showing liability of underwriters***

	No. of shares			
	A	B	C	Total
Gross Liability	60,000	30,000	10,000	1,00,000
Less: Firm underwriting	(8,000)	(10,000)	(2,000)	(20,000)
	52,000	20,000	8,000	80,000
Less: Marked applications	(20,000)	(14,000)	(6,000)	(40,000)
	32,000	6,000	2,000	40,000
Less: Unmarked applications (total application less firm underwriting less marked applications) in gross liability ratio (i.e. 80,000 – 20,000 – 40,000)	(12,000)	(6,000)	(2,000)	(20,000)
Net Liability	20,000	-	-	20,000
Add: Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	28,000	10,000	2,000	40,000

EXERCISES

1. Noman Ltd. issued 80,000 Equity Shares which were underwritten as follows:

Mr. A	48,000 Equity Shares
Messrs B & Co.	20,000 Equity Shares
Messrs C Corp.	12,000 Equity Shares

* The solution is given on the basis that 'the benefit of firm underwriting is given to individual underwriters.'

The above mentioned underwriters made applications for 'firm' underwritings as follows:

<i>Mr. A</i>	<i>6,400 Equity Shares</i>
<i>Messrs B & Co.</i>	<i>8,000 Equity Shares</i>
<i>Messrs C Corp.</i>	<i>2,400 Equity Shares</i>

The total applications excluding 'firm' underwriting, but including marked applications were for 40,000 Equity Shares.

The marked Applications were as under:

<i>Mr. A</i>	<i>8,000 Equity Shares</i>
<i>Messrs B & Co.</i>	<i>10,000 Equity Shares</i>
<i>Messrs C Corp.</i>	<i>4,000 Equity Shares</i>

(The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten)

You are required to show the allocation of liability. Workings will be considered as a part of your answer.

(Hints: Total liability of Mr. A - 27,200 shares, of M/s. B & Co. - 8,000 shares and C Corpn. - 4,800 shares)

UNIT 3 : REDEMPTION OF DEBENTURES

BASIC CONCEPTS

- Debenture creates a charge against some or all the assets of the company.
- Charge may be fixed or floating, depends upon the condition of issue.

Debentures may be redeemed after a fixed number of years or after a certain period has elapsed. Many debentures are issued with the notice that they may be redeemed at the option of the company within a specified period of time and at a price specified. The debentures may be redeemed in one of the four ways:

- (a) By payment in lump sum at the end of a specified period of time; or
- (b) By payment in annual installments;
- (c) By purchasing its own debentures in the open market.
- (d) By conversion into shares.

For redemption of Debentures a company shall maintain Debenture Redemption Reserve Fund

Question 1

State the guidelines of SEBI regarding issue of convertible debentures for issue of capital and disclosure requirements.
(November, 1998)

Answer

An issuer making a public issue or rights issue of convertible debt instruments shall comply with the following conditions:

- (a) it has obtained credit rating from one or more credit rating agencies;
- (b) it has appointed one or more debenture trustees in accordance with the provisions of section 117B of the Companies Act, 1956 and Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993;
- (c) it has created debenture redemption reserve in accordance with the provisions of section 117C of the Companies Act, 1956;
- (d) if the issuer proposes to create a charge or security on its assets in respect of secured convertible debt instruments, it shall ensure that:
 - (i) such assets are sufficient to discharge the principal amount at all times;

- (ii) such assets are free from any encumbrance;
- (iii) where security is already created on such assets in favour of financial institutions or banks or the issue of convertible debt instruments is proposed to be secured by creation of security on a leasehold land, the consent of such financial institution, bank or lessor for a second or pari passu charge has been obtained and submitted to the debenture trustee before the opening of the issue;
- (iv) the security/asset cover shall be arrived at after reduction of the liabilities having a first/prior charge, in case the convertible debt instruments are secured by a second or subsequent charge.

The issuer shall redeem the convertible debt instruments in terms of the offer document.

Question 2

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.2011:

Trinity Ltd.

Balance Sheet as at 31st March, 2011

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
<i>Authorised</i>		Gross Block	3,00,000
10,000 10% Redeemable Preference Shares of ₹10 each	1,00,000	Less : Depreciation	<u>1,00,000</u>
90,000 Equity Shares of ₹10 each	<u>9,00,000</u>	Investments	1,00,000
	<u>10,00,000</u>	Current Assets and Loans and Advances	
<i>Issued, Subscribed and Paid-up Capital</i>		Inventory	25,000
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000	Debtors	25,000
10,000 Equity Shares of ₹ 10 each	<u>1,00,000</u>	Cash and Bank Balances	50,000
(A) <u>2,00,000</u>		Misc. Expenditure to the extent not written off	20,000
Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	<u>18,500</u>		
(B) <u>2,08,500</u>			
Current Liabilities and Provisions (C) <u>11,500</u>			
Total (A + B + C)	<u>4,20,000</u>	Total	<u>4,20,000</u>

For the year ended 31.3.2012, the company made a net profit of ₹ 15,000 after providing ₹ 20,000 depreciation and writing off the miscellaneous expenditure of ₹ 20,000.

The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3.2012 was paid before 31.3.2012.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2012, was the same as on 31.3.2011.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2012.
5. To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of ₹30,000 after such redemption.
6. Investments were sold at 90% of cost on 31.3.2012.

You are required to

- (a) Prepare necessary journal entries to record redemption and issue of bonus shares.
- (b) Prepare the cash and bank account.
- (c) Prepare the Balance Sheet as at 31st March, 2012 incorporating the above transactions.

(November, 1996)

Answer

Journal Entries in the Books of Trinity Ltd.

		Dr.	Cr.
		₹	₹
Securities Premium A/c To Premium on Redemption of Preference shares (Being amount of premium payable on redemption of preference shares)	Dr.	10,000	10,000
10% Redeemable Preference Capital Premium on redemption of Preference Shares To Preference Shareholders (Being the amount payable to preference shareholders on redemption)	Dr. Dr.	10,00,000 10,000	1,10,000
General Reserve A/c To Capital Redemption Reserve (Being transfer to the latter account on redemption of shares)	Dr.	1,00,000	1,00,000
Bank A/c Profit and Loss A/c	Dr. Dr.	45,000 5,000	

To Investments (Being amount realised on sale of Investments and loss thereon adjusted)			50,000
Preference shareholders A/c To Bank (Being payment made to preference shareholders)	Dr.	1,10,000	1,10,000
Capital Redemption Reserve A/c To Bonus to Shareholders (Amount adjusted for issuing bonus share in the ratio of 1 : 1.)	Dr.	1,00,000	1,00,000
Bonus to Shareholders A/c To Equity Share Capital (Balance on former account transferred to latter)	Dr.	1,00,000	1,00,000

(b) Cash and Bank A/c

			₹		₹
To	Balance b/d		50,000	By Preference Dividend	10,000
To	Cash from operations:			By Preference shareholders	1,10,000
	Profit	15,000		By Balance c/d	30,000
	Add : Depreciation	20,000			
	Add : Miscellaneous Expenditure written off	<u>20,000</u>	55,000		
To	Investments		<u>45,000</u>		
			<u>1,50,000</u>		<u>1,50,000</u>

**(c) Balance Sheet of Trinity Limited
as at 31st March, 2012 (after redemption)**

Particulars	Note No	Amount
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000

(b) Reserves and Surplus	2	98,500
(2) Current Liabilities		
(a) Trade payables		11,500
Total		3,10,000
II. Assets		
(1) Non-current assets		
(a) <i>Fixed assets</i>	3	
(i) Tangible assets		1,80,000
(b) Non-current investments (Market Value ₹ 45,000)		50,000
(2) Current assets		
(a) Current investments		-
(b) Inventories		25,000
(c) Trade receivables		25,000
(d) Cash and cash equivalents		30,000
Total		3,10,000

Notes to Accounts

₹			
1	Share Capital		
	(i) Authorised Capital	<u>10,00,000</u>	
	(ii) Issued, Subscribed and Paid-up Capital - 20,000 Equity Shares of ₹10 each fully paid (10,000 shares have been allotted as Bonus Shares by capitalising capital Redemption Reserve)	<u>2,00,000</u>	2,00,000
2	Reserves and Surplus		
	General Reserve	20,000	
	Securities Premium	60,000	
	Profit and Loss A/c	<u>18,500</u>	98,500
3	Tangible assets		
	Gross Block	3,00,000	
	Less : Depreciation upto 31.3.2011	(1,00,000)	
	For the year	<u>(20,000)</u>	1,80,000

Working Notes:

	₹
(i) Profit and Loss for the year ending 31st March, 2012	
Balance as on 1.4.2011	18,500
Add : Profit for the year	<u>15,000</u>
	33,500
Less : Preference Dividend	10,000
Loss on sale of investments	<u>5,000</u>
	<u>15,000</u>
Balance as on 31.3.2012	<u>18,500</u>
(ii) General Reserve	1,20,000
Less : Transfer to Capital Redemption Reserve	1,00,000
Balance as on 31.3.2012	20,000
(iii) Securities Premium	70,000
Less : Premium on Redemption of Preference shares	10,000
Balance as on 31.3.2012	60,000
(iv) Capital Redemption Reserve	1,00,000
Less : Transfer for Bonus Shares	1,00,000
Balance as on 31.3.2012	NIL
(v) Sale of Investments	
Cost of Investments	50,000
Less : Cash Received	45,000
Loss on Sale of Investments	5,000
Total Investments:	1,00,000
Less : Cost of Investments sold	50,000
Cost of Investments on hand	50,000
Market value (90% of ₹ 50,000)	45,000

Question 3

Libra Limited recently made a public issue in respect of which the following information is available:

- (a) *No. of partly convertible debentures issued 2,00,000; face value and issue price ₹ 100 per debenture.*
- (b) *Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.*
- (c) *Date of closure of subscription lists 1.5.2010, date of allotment 1.6.2010, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).*
- (d) *Underwriting Commission 2%.*
- (e) *No. of debentures applied for 1,50,000.*
- (f) *Interest payable on debentures half-yearly on 30th September and 31st March.*

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2011 (including cash and bank entries).
(May, 1995)

Answer

In the books of Libra Ltd.

Journal Entries

Date	Particulars	Amount Dr.	Amount Cr.
		₹	₹
1.5.2010	Bank A/c Dr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ ₹ 100 each)	1,50,00,000	1,50,00,000
1.6.2010	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission Dr. To Underwriters A/c (Commission payable to underwriters @ 2% on ₹ 2,00,00,000)	4,00,000	4,00,000

30.9.2010	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c (Amount received from underwriters in settlement of account)			46,00,000
30.9.2010	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)			10,00,000
30.10.2010	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			20,00,000 1,00,00,000
31.3.2011	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c (Interest paid on debentures for the half year)			7,50,000

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2011

On ₹ 80,00,000 for 6 months @ 15%	= ₹ 6,00,000
On ₹ 1,20,00,000 for 1 months @ 15%	= ₹ 1,50,000
	<u>₹ 7,50,000</u>

Question 4

Progressive Ltd. issued ₹ 10,00,000, 6% Debenture Stock at par on 21.1.1999, Interest was payable on 30th June and 31st December, in each year.

Under the terms of the Debentures Trust the owned stock is redeemable at par. The trust deed obliges the Company to pay to the trustees on 31st December, 2010 and annually thereafter the sum of ₹ 1,00,000 to be utilised for the redemption and cancellation of an equivalent amount of stock, which is to be selected by drawing lots.

Alternatively, the Company is empowered as from 1st January, 2010 to purchase its own debentures on the open market. These Debentures must be surrendered to the Trustees for cancellation and any adjustments for accrued interest recorded in the books of account. If in any year the nominal amount of the stock surrendered under this alternative does not amount to ₹ 1,00,000 then the shortfall is to be paid by the Company to the Trustees in cash on 31st December.

The following purchases of stock were made by the Company:

		Nominal value of stock purchased	Purchase price per ₹100 of stock
		₹	₹
(1)	30th September, 2010	1,20,000	98
(2)	31st May, 2011	75,000	95 (Ex-interest)
(3)	31st July, 2012	1,15,000	92

The Company fulfilled all its obligations under the trust deed.

Prepare the following Ledger Accounts :

- (a) Debenture Stock A/c
 (b) Debenture Redemption A/c
 (c) Debenture Interest A/c

Note : Ignore costs and taxation

(November, 1998)

Answer

In the Books of Progressive Ltd.

Debenture Stock Account

2010		₹	2010		₹
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	<u>8,80,000</u>			<u>10,00,000</u>
		<u>10,00,000</u>			
2011		₹	2011		₹
May 31	To Debenture Redemption A/c	75,000	Jan. 1	By Balance b/d	8,80,000
Dec.31	To Debenture Redemption A/c	25,000			
	To Balance c/d	<u>7,80,000</u>			<u>8,80,000</u>
		<u>8,80,000</u>			
2012		₹	2012		₹
July 31	To Debenture Redemption A/c	1,15,000	Jan. 1	By Balance b/d	7,80,000
Dec.31	To Balance c/d	<u>6,65,000</u>			
		<u>7,80,000</u>			<u>7,80,000</u>

Debenture Redemption Account

2010		₹	2010		₹
Sept. 30	To Bank A/c (₹1,20,000×0.98 – ₹1,800)	1,15,800	Sept.30	By Debenture Stock A/c	1,20,000
	To Capital Reserve A/c	4,200			
		<u>1,20,000</u>			<u>1,20,000</u>
2011		₹	2011		₹
May 30	To Bank A/c (₹75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
	To Capital Reserve A/c (Profit on cancellation)	3,750	Dec. 31	By Debenture Stock A/c	25,000
Dec.31	To Bank A/c (Shortfall=₹1,00,000 – ₹75,000)	25,000			
		<u>1,00,000</u>			<u>1,00,000</u>
2012		₹	2012		₹
July 31	To Bank A/c (₹1,15,000 × .92 – ₹575)	1,05,225	July 31	By Debenture Stock A/c	1,15,000
	To Capital Reserve A/c (Profit on cancellation)	9,775			
		<u>1,15,000</u>			<u>1,15,000</u>

Debenture Interest Account

2010		₹	2010		₹
June 30	To Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200
Sept. 30	To Bank A/c	1,800			
Dec. 31	To Bank A/c	<u>26,400</u>			
		<u>58,200</u>			<u>58,200</u>
2011		₹	2011		₹
May 31	To Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175
June 31	To Bank A/c	24,150			
Dec. 31	To Bank A/c	<u>24,150</u>			
		<u>50,175</u>			<u>50,175</u>
2012		₹	2012		₹
June 30	To Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925
July 31	To Bank A/c	575			

Dec. 31	To Bank A/c	<u>19,950</u>			
		<u>43,925</u>			<u>43,925</u>

Working Notes :

Interest paid on Debentures @6% per annum:

Date	Amount of Debentures	Period	Interest
	₹		₹
2010			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
2011			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
2012			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

- Notes :** (1) It has been assumed that debentures are purchased for immediate cancellation.
 (2) The purchases of 30th September, 2010 and 31st July, 2012 have been taken on cum-interest basis

Question 5

Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.:

Issued ₹ 1,00,000, 11% debentures at 95% redeemable at the end of 10 years.

- (i) at 102%, and (ii) at 98% (May, 2000)

Answer

ABC Co. Ltd.
Journal Entries

		Dr.	Cr.
		₹	₹
(i) Bank A/c	Dr.	95,000	
Discount on issue of debentures A/c	Dr.	5,000	
Loss on issue of debentures A/c	Dr.	2,000	

	To 11% Debentures A/c		1,00,000
	To Premium on Redemption of debentures A/c		2,000
	(Issue of ₹ 1,00,000 11% debentures at a discount of 5% but redeemable at a premium of 2%)		
(ii)	Bank A/c	Dr.	95,000
	Discount on issue of debentures A/c	Dr.	5,000
	To 11% Debentures A/c		1,00,000
	(Issue of ₹1,00,000, 11% debentures at a discount of 5% and redeemable at discount of 2%)		

Question 6

On 1st April, 2010, in MK Ltd's ledger 9% debentures appeared with a opening balance of ₹ 50,00,000 divided into 50,000 fully paid debentures of ₹ 100 each issued at par.

Interest on debentures was paid half-yearly on 30th of September and 31st March every year.

On 31.5.2010, the company purchased 8,000 debentures of its own @ ₹ 98 (ex-interest) per debenture.

On 31.12.2010 it cancelled 5,000 debentures out of 8,000 debentures acquired on 31.5.2010.

On 31.1.2011 it resold 2,000 of its own debentures in the market @ ₹ 101 (ex-interest) per debenture.

You are required to prepare:

- Own debentures account;
- Interest on debentures account; and
- Interest on own debentures account.

(November, 2008)

Answer
MK Ltd.'s Ledger
(i) Own Debentures Account

		₹			₹
31.5.10	To Bank	7,84,000	31.12.10	By 9% Debentures A/c	5,00,000
31.12.10	To Capital Reserve (Profit on cancellation)	10,000	31.1.11	By Bank- Resale of 2,000 debentures	2,02,000
31.1.11	To Profit and Loss A/c (Profit on resale)	6,000	31.3.11	By Balance c/d	98,000
		<u>8,00,000</u>			<u>8,00,000</u>

(ii)

Interest on Debentures Account

		₹			₹
31.5.10	To Bank (Interest for 2 months on 8,000 debentures)	12,000	31.3.11	By Profit and Loss A/c	4,38,750
30.9.10	To Interest on own debentures (Interest for 4 months on 8,000 debentures)	24,000			
30.9.10	To Bank (Interest for 6 months on 42,000 debentures)	1,89,000			
31.12.10	To Interest on own debentures (Interest for 3 months on 5,000 debentures)	11,250			
31.3.11	To Interest on own debentures (Interest for 6 months on 1,000 debentures)	4,500			
31.3.11	To Bank (Interest for 6 months on 44,000 debentures)	<u>1,98,000</u>			
		<u>4,38,750</u>			<u>4,38,750</u>

(iii)

Interest on Own Debentures Account

		₹			₹
31.3.11	To Profit and Loss A/c	45,750	30.9.10	By Interest on Debentures A/c	24,000
			31.12.10	By Interest on Debentures A/c	11,250
			31.01.11	By Bank (interest for 4 months on 2,000 debentures)	6,000
			31.03.11	By Interest on Debentures	<u>4,500</u>
		<u>45,750</u>			<u>45,750</u>

Working Note:

31.5.10	Acquired 8,000 Debentures @ 98 per debenture (ex-interest)		₹
	Purchase price of debenture $8,000 \times ₹ 98$	=	7,84,000
	Interest for 2 months $₹ 8,00,000 \times 9\% \times \frac{2}{12}$	=	12,000
30.9.10	Interest on own debentures		
	$[₹ 8,00,000 \times 9\% \times \frac{1}{2}]$ less ₹12,000	=	24,000
	Interest on other debentures		
	$₹ 42,00,000 \times 9\% \times \frac{1}{2}$	=	1,89,000
31.12.10	Cancellation of 5,000 own debentures		
	Face value ₹100 less acquired at ₹ 98 = $2 \times 5,000$	=	10,000
31.1.11	Resale of 2,000 Debentures sold for 101 (ex-interest) acquired for ₹ 98 (ex-interest)		
	$2,000 \times ₹ 3$ per Debenture	=	6,000
31.12.10	Interest on cancelled 5,000 debentures		
	$5,000 \times ₹ 100 \times 9\% \times \frac{1}{4}$	=	11,250
31.3.11	Interest on 1,000 own debentures		
	$₹ 1,00,000 \times 9\% \times \frac{1}{2}$	=	4,500

Question 7

A company had 16,000, 12% debentures of ₹ 100 each outstanding as on 1st April, 2009, redeemable on 31st March, 2010. On that day, sinking fund was ₹ 14,98,000 represented by 2,000 own debentures purchased at the average price of ₹ 99 and 9% stocks face value of ₹ 13,20,000. The annual instalment was ₹ 56,800.

On 31st March, 2010 the investments were realized at ₹ 98 and the debentures were redeemed. You are required to write up the following accounts for the year ending 31st March 2010:

(1) 12% Debentures account

(2) Debenture redemption sinking fund account.

(November, 2010)

Answer

12% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31 st March, 2010	To Own debentures A/c	2,00,000	1 st April, 2009	By Balance b/d	16,00,000
	To Bank A/c	<u>14,00,000</u>			
		<u>16,00,000</u>			<u>16,00,000</u>

Debenture Redemption Sinking Fund Account					
Date	Particulars	₹	Date	Particulars	₹
31 st March, 2010	To 9% Stock A/c (loss) (W.N.5)	6,400	1 st April, 2010	By Balance b/d	14,98,000
	To General reserve A/c (Bal.fig.)	16,93,200	31 st March, 2010	By Profit and loss A/c	56,800
				By Interest on sinking fund A/c (W.N.3)	1,42,800
				By Own debentures A/c (W.N.4)	<u>2,000</u>
		<u>16,99,600</u>			<u>16,99,600</u>

Working Notes:**1. Amount of stock as on 1st April, 2009**

	₹
Sinking fund balance as on 1 st April, 2009	14,98,000
Less: Own debentures	<u>(1,98,000)</u>
	<u>13,00,000</u>

2. Sales value of 9% stock

= Face value / ₹ per stock

= ₹ 13,20,000 / ₹ 100 = 13,200 stock

Sales value = 13,200 stock x ₹ 98 per stock

= ₹ 12,93,600

3. Interest credited to Sinking Fund

(i) Interest on 9% stock (₹ 13,20,000 x 9%) ₹ 1,18,800

(ii) Interest on own debentures (2,000 Debentures x ₹ 100 x 12%) ₹ 24,000

₹ 1,42,800

4. Own Debentures Account

		₹			₹
1 st April, 2009	To Balance b/d	1,98,000	31 st March, 2010	By 12% Debentures A/c	2,00,000
31 st March, 2010	To Sinking fund A/c	<u>2,000</u>			
		<u>2,00,000</u>			<u>2,00,000</u>

5. 9% Stock Account

		₹			₹
1 st April, 2009	To Balance b/d (Face value ₹ 13,20,000) (W.N.1)	13,00,000	31 st March, 2010	By Bank account (W.N.2)	12,93,600
				By Sinking fund (loss on sales)	6,400
		<u>13,00,000</u>			<u>13,00,000</u>

Question 8

Following is the extract of the Balance Sheet of S.T.B. Ltd. a listed company as at March 31, 2010:

Authorised Capital:	₹
40,000, 12% Preference shares of ₹ 10 each	4,00,000
4,00,000, Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>44,00,000</u>
Issued and Subscribed Capital:	
32,000, 12% Preference shares of ₹ 10 each fully paid	3,20,000
3,60,000 Equity shares of ₹ 10 each fully paid-up	36,00,000
Reserves and Surplus	
Revaluation reserves	80,000
General reserves	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% partly convertible debentures @ ₹ 100 each	20,00,000

On April 30, 2010, the company decided to capitalise its reserves by way of Bonus at the rate 1:4. Securities premium of ₹ 1,00,000 includes a premium of ₹ 20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes ₹ 1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of ₹ 10 each fully paid on April 30, 2010.

State with reason on the following:

- Whether Revaluation Reserve be capitalised?
- How much amount of Capital reserve can be capitalised?
- How much amount of 'Securities Premium A/c' can be capitalised?
- Are the convertible debentureholders entitled to Bonus shares?

- (v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2010.
- (vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented?
(May, 2010)

Answer

- (i) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 "Reserves created by Revaluation of fixed assets cannot be capitalized."
- (ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, 'Capital Reserve' realized in cash can be utilized for issue of fully paid Bonus shares. Therefore, ₹ 1,60,000 being profit on sale of plant, is a capital profit which has been realized in cash, can be utilized for issue of the bonus shares. For remaining balance in capital reserve account no further details of its constituent have been given. Therefore, no comment on it can be made.
- (iii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Securities Premium collected in cash only can be utilized for Bonus issue; therefore i.e. (₹ 1,00,000 – ₹ 20,000) ₹ 80,000 can be utilized for Bonus issue.
- (iv) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentureholders. Pending such conversion, necessary number of shares should be earmarked for convertible debentureholders. Therefore, convertible debentureholders are also entitled to the bonus shares in the same ratio as the equity shareholders.

(v) Minimum number of Equity shares to be issued as bonus shares

Issue of Bonus Shares to Equity Shareholders	90,000 Shares
Number of bonus shares to be issued after conversion $\left(\frac{20,00,000 \times 20\%}{10} \right) \times \frac{1}{4}$	<u>10,000 Shares</u>
Total bonus issue through equity shares	<u>1,00,000 Shares</u>

(vi) Minimum Authorised Share Capital

	Shares	₹
Equity share capital		
Existing Equity Shares	3,60,000	36,00,000
Bonus to Equity Shareholders	90,000	9,00,000
20% conversion of 12% Debentures	40,000	4,00,000
Bonus shares to be issued to Debentureholders after conversion	<u>10,000</u>	<u>1,00,000</u>
Authorised Equity Share Capital	5,00,000	50,00,000
Preference share capital		
12% Preference Shares	<u>40,000</u>	<u>4,00,000</u>
Minimum Authorised Capital	<u>54,00,000</u>	<u>54,00,000</u>

UNIT 4 : AMALGAMATION AND RECONSTRUCTION

BASIC CONCEPTS

- Amalgamation means joining of two or more existing companies into one company, the joined companies lose their identity and form themselves into a new company.
- In absorption, an existing company takes over the business of another existing company. Thus, there is only one liquidation and that is of the merged company.
- A company which is merged into another company is called a transferor company or a vendor company.
- A company into which the vendor company is merged is called transferee company or vendee company or purchasing company.
- In amalgamation in the nature of merger there is genuine pooling of:
 - Assets and liabilities of the amalgamating companies,
 - Shareholders' interest, Also the business of the transferor company is intended to be carried on by the transferee company.
- In amalgamation in the nature of purchase, one company acquires the business of another company.
- Purchase Consideration can be defined as the aggregate of the shares and securities issued and the payment made in form of cash or other assets by the transferee company to the share holders of the transferor company.
- There are two main methods of accounting for amalgamation:
 - The pooling of interests method, and
 - The purchase method.
- Under pooling of interests method, the assets, liabilities and reserves of the transferor company will be taken over by transferee company at existing carrying amounts.
- Under purchase method, the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

Reconstruction

- Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
- Reconstruction account is a new account opened to transfer the sacrifice made by the shareholders for that part of capital which is not represented by lost assets.
- Reconstruction account is utilized for writing-off fictitious and intangible assets, writing down over-valued fixed assets, recording new liability etc.
- If some credit balance remains in the reconstruction account, the same should be transferred to the capital reserve account.
- Methods of Internal reconstruction :
 - Alteration of share capital :
 - Sub-divide or consolidate shares into smaller or higher Denomination
 - Conversion of share into stock or vice-versa
 - Variation of shareholders' rights :
 - Only the specific rights are changed. There is no change in the amount of capital.
 - Reduction of share capital
 - Compromise, arrangements etc.
 - Surrender of Shares.

Question 1

P Ltd. was incorporated on 1.4.2011 with an authorised capital of ₹ 5,00,000 divided into equity shares of ₹ 10 each. It tookover the business of P on the basis of following valuation:

	₹
<i>Goodwill</i>	<i>20,000</i>
<i>Plant</i>	<i>80,000</i>
<i>Stock</i>	<i>15,000</i>
<i>Debtors</i>	<i>30,000</i>
<i>Cash</i>	<i>5,000</i>
<i>Creditors</i>	<i>8,000</i>

- (a) Purchase consideration was satisfied by issue of equity shares of ₹10 at par.
- (b) Preliminary expenses paid by the company ₹8,000.
- (c) 20,000 shares were issued to Public at ₹ 12 each. The shares were fully subscribed and paid up. In addition to the above, the following further balances arise in the books as on 31.3.2012:

	₹		₹
Purchases	3,00,000	Branch Suspense (Cr.)	14,000
Sales	5,20,000	Bank	1,30,000
Salaries	60,000	Ramprakash (Suspense) (Dr.)	30,000
Other Expenses	20,000	Gulati (Suspense) (Cr.)	25,000
Debtors	92,000	Closing stock	20,000
Building	1,75,000	Creditors	18,000

The following information is also to be considered:

- (1) Ramprakash Suspense A/c represents ₹ 30,000 paid to him for a joint venture business. In addition to the above, Ramprakash spent personally ₹ 20,000 for purchase of goods and ₹ 2,500 for expenses. Sales made by him were ₹ 70,000 and the balance stock was taken over by him at an agreed valuation of ₹ 2,500. Ramprakash is to get 2/5 of the profit.
- (2) Gulati's Suspense represents advance made by him against a consignment of 10 TV sets, costing ₹ 10,000 each to be priced 35% over cost. Gulati is to get 15% commission on sales. Gulati has incurred ₹ 5,000 as transportation charges and has sold 8 TV sets. No entry was passed on sending the goods.
- (3) Sales include the following:
 - (a) Goods sold on "Sale or Return" basis—Cost ₹ 30,000 on which 25% profit was charged. The goods have not yet been accepted by the customer.
 - (b) Hire-purchase sales ₹ 50,000; prices being determined by adding $33\frac{1}{3}\%$ on cost price. 30% of instalments have not yet fallen due.
 - (c) Goods sent to branch ₹ 30,000 (Invoice Price) at 25% profit on Cost price. Remittance received from branch has been credited to Branch Suspense Account. Branch returns disclose that branch had ₹ 10,000 closing stock (invoice price), ₹ 500 in cash and ₹ 7,500 in debtors.
- (4) Bank balance given above is not in agreement with the balance as per bank statement. Cheques deposited ₹ 10,000 and cheques issued for ₹ 8,000 have not

been recorded in the bank statement; ₹ 15,000 cheque dishonoured by a party and bank charges of ₹ 700 have not yet been entered in cash-book.

(5) Provide 5% depreciation on building, 40% for taxation and 15% dividend. Transfer ₹ 20,000 to General Reserve.

(6) All purchases and sales transactions were on credit.

Prepare Balance Sheet as at 31st March, 2012 and Profit & Loss Account for the year ended 31st March, 2012.
(November, 2000)

Answer

Profit and Loss Account of P Ltd.
for the year ended as at 31st March, 2012

	Particulars	Notes	Amount (₹)
I	Revenue from operations	9	<u>6,33,550</u>
II	Total Revenue (I + II)		<u>6,33,550</u>
III	Expenses:		
	Purchases of Stock-in-Trade		3,00,000
	Changes in inventories of stock in trade	10	(35,000)
	Employee benefits expense		60,000
	Finance costs	11	700
	Depreciation and amortization expense	12	8,750
	Other expenses		<u>20,000</u>
	Total expenses		<u>3,54,450</u>
IV	Profit before tax		<u>2,79,100</u>
V	Provision for taxation (40% of ₹ 2,79,100)		<u>1,11,640</u>
VI	Profit (Loss) for the period (III - IV)		<u>1,67,460</u>
VII	Appropriations		
	Proposed Dividend		51,300
	Transfer to General Reserve		<u>20,000</u>
			<u>71,300</u>
VIII	Profit (Loss) carried forward to Balance Sheet (VI-VII)		<u>96,160</u>

**Balance Sheet of P Ltd.
as at 31st March, 2012**

Particulars	Note No	Amount
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,42,000
(b) Reserves and Surplus	2	1,56,160
(2) Current Liabilities		
(a) Trade payables		18,000
(b) Short-term provisions	3	1,62,940
Total		<u>6,79,100</u>
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	4	2,46,250
(ii) Intangible assets		20,000
(2) Current assets		
(a) Inventories	5	90,250
(b) Trade receivables	6	1,35,800
(c) Cash and cash equivalents	7	1,78,800
(d) Other current assets	8	8,000
Total		<u>6,79,100</u>

Notes to Accounts

		₹
(1) Share Capital		
Authorised		
50,000 Equity shares of ₹ 10 each, fully paid up		<u>5,00,000</u>
Issued and Subscribed		
34,200 Equity shares of ₹10 each, fully paid up (Out of these shares, 14,200 shares have been allotted as fully paid up for consideration other than cash)		3,42,000

(2) Reserves and Surplus			
Profit and Loss A/c		96,160	
Security premium		40,000	
General Reserve		<u>20,000</u>	1,56,160
(3) Provisions			
Provision for taxation		1,11,640	
Proposed dividend		<u>51,300</u>	1,62,940
(4) Tangible Assets			
Building		1,75,000	
Less: Depreciation		<u>(8,750)</u>	1,66,250
Plant			<u>80,000</u>
			<u>2,46,250</u>
(5) Stock			
Stock in hand		20,000	
Goods sent on approval basis		30,000	
Hire purchase stock		11,250	
Consignment stock		21,000	
Branch stock		<u>8,000</u>	90,250
(6) Trade Receivable			
Sundry debtors		24,500	
Branch debtors		7,500	
Gulati's account		61,800	
Ramprakash's account		<u>42,000</u>	1,35,800
(7) Cash and cash equivalents			
Bank		1,14,300	
Cash in hand	64,000		
Cash at branch	<u>500</u>	<u>64,500</u>	1,78,800

(8) Other Current Assets			
Preliminary expenses			8,000
(9) Revenue from operations			
Sales		4,37,500	
Goods sent to branch		24,000	
Goods sent on hire purchase		37,500	
Goods sent on consignment		<u>1,00,000</u>	5,99,000
Profit on:			
Joint venture		12,000	
Hire purchase		8,750	
Branch		6,000	
Consignment		<u>7,800</u>	<u>34,550</u>
	Total		<u>6,33,550</u>
(10) Change in Inventories of Stock-in-Trade			
Opening Stock		15,000	
Less: Closing Stock	20,000		
Add: Goods sent on sale or return basis	<u>30,000</u>	<u>(50,000)</u>	
			<u>(35,000)</u>
(11) Finance costs			
Bank Charges			700
(12) Depreciation and amortization expense			
Land and Buildings (5% on ₹ 1,75,000)			8,750

Working Notes :
(1) Sales Account

	₹		₹
To Sundry Debtors A/c-		By Balance b/d (given)	5,20,000
Goods sold on sale or return basis	37,500		
$\left[30,000 \times \frac{125}{100} \right]$			

To Sundry Debtors A/c			
Hire purchase sales	15,000		
To Sundry Debtors A/c-			
Goods sent to branch,	30,000		
To Profit & Loss A/c	<u>4,37,500</u>		
	<u>5,20,000</u>		<u>5,20,000</u>

(2) **Memorandum Debtors Account**

	₹		₹
To P (Debtors taken over)	30,000	By Cash	4,78,000
To Sales	4,37,500	By Balance c/d	24,500
To Hire purchase sales	<u>35,000</u>		
	<u>5,02,500</u>		<u>5,02,500</u>

(3) **Sundry Debtors Account**

	₹		₹
To Balance b/d	92,000	By Sales A/c	
To Bank A/c (cheque dishonoured)	15,000	(Goods sold on sale or return basis)	37,500
		By Sales A/c-	
		H.P. Sales	15,000
		Goods sent to branch	30,000
		By Balance c/d	<u>24,500</u>
	<u>1,07,000</u>		<u>1,07,000</u>

(4) **Branch Account**

	₹		₹
To Goods sent to Branch A/c	24,000	By Branch Suspense A/c	14,000
To Profit & Loss A/c	6,000	By Balance c/d-	
		Stock $\left[10,000 \times \frac{100}{125}\right]$	8,000
		Cash	500
		Debtors	<u>7,500</u>
	<u>30,000</u>		<u>30,000</u>

(5) **H.P. Trading Account**

	₹		₹
To Goods sent on H.P. $\left[50,000 \times \frac{3}{4} \right]$	37,500	By H.P. Sales By H.P. Stock	35,000 11,250
To Profit on H.P. $\left[35,000 \times \frac{1}{4} \right]$	8,750		
	46,250		46,250

(6) **Memorandum Joint Venture Account**

	₹		₹
To Ram Prakash Suspense A/c	30,000	By Ram Prakash A/c- Sales	70,000
To Ram Prakash A/c (Purchases)	20,000	Stock taken over	2,500
To Ram Prakash A/c (Expenses)	2,500		
To Share of Profits- P & L A/c (3/5)	12,000		
Ram Prakash (2/5)	8,000		
	72,500		72,500

(7) **Ram Prakash's Account**

	₹		₹
To Mem. Joint Venture A/c- Sales	70,000	By Mem. Joint Venture A/c- Purchases	20,000
Stock taken over	2,500	Expenses	2,500
		Profits share	8,000
		By Balance c/d	<u>42,000</u>
	<u>72,500</u>		<u>72,500</u>

(8) **Consignment Account**

	₹		₹
To Goods sent on consignment A/c (10 × 10,000)	1,00,000	By Gulati A/c (Sales)	1,08,000

To Gulati A/c (Expenses)	5,000	By Consignment Stock (2 × 10,000) =	20,000
To Gulati A/c (Commission) (1,08,000 × 15%)	16,200	Add : Expenses $[5,000 \times \frac{2,000}{10,000}] =$	<u>1,000</u>
			21,000
To Profit & Loss A/c	<u>7,800</u>		
	<u>1,29,000</u>		<u>1,29,000</u>

(9) **Gulati's Account**

	₹		₹
To Consignment A/c $[8 \times 10,000 \times \frac{135}{100}]$	1,08,000	By Gulati Suspense A/c	25,000
		By Consignment A/c Expenses	5,000
		Commission	16,200
		By Balance c/d	61,800
	<u>1,08,000</u>		<u>1,08,000</u>

(10) **Sundry Creditors Account**

	₹		₹
To Cash A/c	2,90,000	By P (Creditors taken over)	8,000
To Balance c/d	<u>18,000</u>	By Purchases A/c	<u>3,00,000</u>
	<u>3,08,000</u>		<u>3,08,000</u>

(11) **Cash and Bank Account**

	₹		₹
To P A/c (Cash taken over)	5,000	By Creditors A/c	2,90,000
To Memorandum Debtors A/c	4,78,000	By Salaries A/c	60,000
To Sundry Debtors A/c	15,000	By Other Expenses A/c	20,000
To Share Capital A/c	2,00,000	By Ram Prakash Suspense A/c	30,000
To Securities Premium A/c	40,000	By Building A/c	1,75,000
To Gulati Suspense A/c	25,000	By Preliminary Expenses A/c	8,000
To Branch Suspense A/c	14,000	By Balance c/d-	
		Bank (given)	1,30,000
		Cash (balance)	<u>64,000</u>
	<u>7,77,000</u>		<u>7,77,000</u>

(12) **Bank Account**

	₹		₹
To Balance b/d	1,30,000	By Bank Charges A/c	700
		By Sundry Debtors A/c	
		(Cheque dishonoured)	15,000
		By Balance c/d	<u>1,14,300</u>
	<u>1,30,000</u>		<u>1,30,000</u>

(13) **Calculation of purchase consideration**

	₹	₹
Assets taken over :		
Goodwill	20,000	
Plant	80,000	
Stock	15,000	
Debtors	30,000	
Cash	<u>5,000</u>	1,50,000
Less : Creditors		<u>8,000</u>
Net assets taken over		<u>1,42,000</u>

Purchase consideration will be discharged by issue of 14,200 equity shares of ₹ 10 each.

Notes :

1. The rate of depreciation for Plant has not been given in the question, therefore, no depreciation has been provided on Plant.
2. Sundry Debtors Account and Memorandum Debtors Account can be combined also.
3. The provision for corporate dividend tax has been ignored.

Question 2

The following is the summarized Balance Sheet of Rocky Ltd. as at March 31, 2012:

Liabilities	₹ in lacs
Fully paid equity shares of ₹ 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade Creditors	165

Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	<u>33</u>
	<u>1.173</u>
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Stock	142
Debtors	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	<u>390</u>
	<u>1.173</u>

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

- (i) All the equity shares be converted into the same number of fully-paid equity shares of ₹ 2.50 each.
- (ii) Directors agree to forego their outstanding remuneration.
- (iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.
- (iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.
- (v) Trade creditors are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Creditors for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.
- (vi) The Assets are revalued as under:

	₹ in lacs
Land and building	230
Plant and Machinery	220
Stock	120
Debtors	76

Pass Journal Entries for all the above mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction.
(May 2002)

Answer
Journal Entries

			₹ in lacs
		Dr.	Cr.
Equity Share Capital (₹ 10 each) A/c To Equity Share Capital (₹ 2.50 each) A/c To Reconstruction A/c (Conversion of all the equity shares into the same number of fully paid equity shares of ₹ 2.50 each as per scheme of reconstruction)	Dr.	500	125 375
Director's Remuneration Outstanding A/c To Reconstruction A/c (Outstanding remuneration foregone by the directors as per scheme of reconstruction)	Dr.	10	10
12% Debentures A/c Debenture Interest Outstanding A/c To 13% Debentures A/c To Reconstruction A/c (Conversion of 12% debentures into 13% debentures, Debentureholders forgoing outstanding debenture interest)	Dr. Dr.	400 48	400 48
Bank To Equity Share Application A/c (Application money received for equity shares)	Dr.	125	125
Equity Share Application A/c To Equity Share Capital (₹ 2.50 each) A/c (Application money transferred to share capital)	Dr.	125	125
Trade Creditors To Equity Share Capital (₹ 2.50 each) A/c To Bank A/c To Reconstruction A/c (Trade creditors for ₹ 64 lakhs accepting shares for full amount and those for ₹ 100 lakhs accepting cash equal to 80% of claim in full settlement)	Dr.	165	65 80 20

Capital Reserve To Reconstruction A/c (Capital Reserve being used for purpose of reconstruction)	Dr.	6	6
Land and Building To Reconstruction A/c (Appreciation made in the value of land and building as per scheme of reconstruction)	Dr.	46	46
Reconstruction A/c To Goodwill To Plant and Machinery To Stock To Debtors To Discount on issue of Debentures To Profit and Loss Account (Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)	Dr.	505	15 66 22 4 8 390

Balance Sheet of Rocky Ltd. (and Reduced) as on 31st March, 2012

Particulars	Note No.	Amount
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	315
(2) Non-Current Liabilities		
(a) Long-term borrowings - 13% Debentures		400
(3) Current Liabilities		
(a) Other current liabilities		11
(b) Short-term provisions		33
Total		759
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	2	491

(ii) Intangible assets	3	0
(2) Current assets		
(a) Current investments		
(b) Inventories		120
(c) Trade receivables	4	76
(d) Cash and cash equivalents		72
Total		759

Notes to Accounts

₹			
1 Share Capital			
1,26,000 Fully paid equity shares of ₹ 2.50 each (W.N. 2) (26,000 shares have been issued for consideration other than cash)			315
2 Tangible assets			
a) Land and Building	184		
Add: Amount of appreciation under scheme of reconstruction	<u>46</u>	230	
b) Plant and Machinery	286		
Less: Amount written off under scheme of reconstruction dated.....	<u>(66)</u>	220	
c) Furniture and Fixtures	-	<u>41</u>	
			<u>491</u>
3 Intangible assets			
Goodwill			15

Note : Goodwill has been written off under reconstruction scheme in the solution given above.

Working Notes :

1. (₹ in lacs)

Reconstruction Account

	₹		₹
To Goodwill	15	By Equity Share Capital A/c	375
To Plant and Machinery	66	By Director's Remuneration Outstanding A/c	10
To Stock	22	By Debenture Interest Outstanding A/c	48
To Debtors	4	By Trade Creditors	20
To Discount on issue of		By Capital Reserve	6

Debentures	8	By Land and Building	46
To Profit and Loss A/c	<u>390</u>		<u>—</u>
	<u>505</u>		<u>505</u>

2. Equity share capital as on 31st March, 2012 (after reconstruction)

	₹
Equity Share Capital (₹2.50 each)	125
Add: Fresh issue	125
Add: Equity shares issued to creditors	<u>65</u>
	<u>315</u>

3. Cash at bank as on 31st March, 2012 (after reconstruction)

	₹
Cash at bank (before reconstruction)	27
Add: Proceeds from issue of equity shares	<u>125</u>
	152
Less: Payment made to creditors	<u>(80)</u>
	72

Question 3

The Balance Sheet of Y Limited as on 31st March, 2011 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
5,00,000 Equity Shares of ₹ 10 each fully paid	50,00,000	Goodwill	10,00,000
9% 20,000 Preference shares of ₹100 each fully paid	20,00,000	Patent	5,00,000
10% First debentures	6,00,000	Land and Building	30,00,000
10% Second debentures	10,00,000	Plant and Machinery	10,00,000
Debentures interest outstanding	1,60,000	Furniture and Fixtures	2,00,000
Trade creditors	5,00,000	Computers	3,00,000
Directors' loan	1,00,000	Trade Investment	5,00,000
Bank O/D	1,00,000	Debtors	5,00,000
Outstanding liabilities	40,000	Stock	10,00,000
Provision for Tax	1,00,000	Discount on issue of debentures	1,00,000
	<u>96,00,000</u>	Profit and Loss Account (Loss)	<u>15,00,000</u>
			<u>96,00,000</u>

Note: Preference dividend is in arrears for last three years.

A holds 10% first debentures for ₹ 4,00,000 and 10% second debentures for ₹6,00,000. He is also creditors for ₹ 1,00,000. B holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 4,00,000 and is also creditors for ₹ 50,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

- (i) All the equity shares be converted into fully paid equity shares of ₹5 each.
- (ii) The preference shares be reduced to ₹ 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.
- (iii) Mr. 'A' is to cancel ₹ 6,00,000 of his total debt including interest on debentures and to pay ₹1 lakh to the company and to receive new 12% debentures for the Balance amount.
- (iv) Mr. 'B' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.
- (v) Trade creditors (other than A and B) agreed to forego 50% of their claim.
- (vi) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.
- (vii) There were capital commitments totalling ₹ 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (viii) The Directors refund ₹ 1,10,000 of the fees previously received by them.
- (ix) Reconstruction expenses paid ₹10,000.
- (x) The taxation liability of the company is settled at ₹ 80,000 and the same is paid immediately.
- (xi) The assets are revalued as under:

	₹
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 & Loss Account and Discount on issue of debentures. Prepare Bank Account and working of allocation of Interest on Debentures between A and B.

(November 2003)

Answer

Journal Entries in the Books of Y Ltd.

		Dr.	Cr.
		₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c Dr. To Equity Share Capital (₹ 5 each) A/c To Reconstruction A/c (Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)	50,00,000	25,00,000 25,00,000
(ii)	9% Preference Share Capital (₹100 each) A/c Dr. To 10% Preference Share Capital (₹50 each) A/c To Reconstruction A/c (Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)	20,00,000	10,00,000 10,00,000
(iii)	10% First Debentures A/c Dr. 10% Second Debentures A/c Dr. Trade Creditors A/c Dr. Interest on Debentures Outstanding A/c Dr. Bank A/c Dr. To 12% New Debentures A/c To Reconstruction A/c (Being ₹ 6,00,000 due to A (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)	4,00,000 6,00,000 1,00,000 1,00,000 1,00,000	7,00,000 6,00,000
(iv)	10% First Debentures A/c Dr. 10% Second Debentures A/c Dr.	2,00,000 4,00,000	

	Trade Creditors A/c	Dr.	50,000	
	Interest on Debentures Outstanding A/c	Dr.	60,000	
	To 12% New Debentures A/c			4,10,000
	To Reconstruction A/c			3,00,000
	(Being ₹ 3,00,000 due to B (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)			
(v)	Trade Creditors A/c	Dr.	1,75,000	
	To Reconstruction A/c			1,75,000
	(Being remaining creditors sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			60,000
	To Reconstruction A/c			40,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made for cancellation of capital commitments.)			
(viii)	Bank A/c	Dr.	1,10,000	
	To Reconstruction A/c			1,10,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			80,000
	To Reconstruction A/c			20,000
	(Being payment of tax for 80% of liability in full settlement.)			
(xi)	Reconstruction A/c	Dr.	47,20,000	
	To Goodwill A/c			10,00,000

To Patent A/c	5,00,000
To Profit and Loss A/c	15,00,000
To Discount on issue of Debentures A/c	1,00,000
To Land and Building A/c	2,00,000
To Plant and Machinery A/c	6,00,000
To Furniture & Fixture A/c	1,00,000
To Computers A/c	1,20,000
To Trade Investment A/c	1,00,000
To Stock A/c	3,00,000
To Debtors A/c	2,00,000
(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction.)	

Working Notes:

(1) Outstanding interest on debentures have been allocated between A and B as follows:

		₹
A's Share		
10% First Debentures	4,00,000	
10% Second Debentures	<u>6,00,000</u>	<u>10,00,000</u>
10% on ₹10,00,000 i.e. (A)		<u>1,00,000</u>
B's Share		
10% First Debentures	2,00,000	
10% Second Debentures	<u>4,00,000</u>	<u>6,00,000</u>
10% on ₹ 6,00,000 i.e. (B)		<u>60,000</u>
Total (A + B)		<u><u>1,60,000</u></u>

(2) **Bank Account**

		₹			₹
To	A (reconstruction)	1,00,000	By	Balance b/d	1,00,000
To	Reconstruction A/c		By	Reconstruction A/c	15,000
	(paid by directors)	1,10,000		(capital commitment penalty paid)	
			By	Reconstruction A/c	
				(reconstruction expenses paid)	10,000

			By	Provision for tax A/c(tax paid)	80,000
			By	Balance c/d	<u>5,000</u>
		<u>2,10,000</u>			<u>2,10,000</u>

Question 4

Following are the summarized Balance Sheet of companies as at 31.12.2012:

Liabilities	D Ltd.	V Ltd.	Assets	D Ltd.	V Ltd.
	₹	₹		₹	₹
Equity share capital (₹ 100)	8,00,000	6,00,000	Goodwill	6,00,000	—
General Reserve	4,00,000	3,00,000	Fixed Assets	5,00,000	8,00,000
Investment Allowance			Investments	2,00,000	4,00,000
Reserve	—	4,00,000	Current Assets	4,00,000	3,00,000
Sundry Creditors	<u>5,00,000</u>	<u>2,00,000</u>			
	<u>17,00,000</u>	<u>15,00,000</u>		<u>17,00,000</u>	<u>15,00,000</u>

D Ltd. took over V Ltd. on the basis of the respective shares value, adjusting wherever necessary, the book values of assets and liabilities on the basis of the following information:

- Investment Allowance Reserve was in respect of addition made to fixed assets by V Ltd. in the year 2006-2011 on which income tax relief has been obtained. In terms of the Income Tax Act, 1961, the company has to carry forward till 2015 reserve of ₹ 2,00,000 for utilization.
- Investments of V Ltd. included 1,000 shares in D Ltd. acquired at cost of ₹ 150 per share. The other investments of V Ltd. have a market value of ₹ 1,92,500.
- The market value of investments of D Ltd. are to be taken at ₹ 1,00,000.
- Goodwill of D Ltd. and V Ltd. are to be taken at ₹ 5,00,000 and ₹ 1,00,000 respectively.
- Fixed assets of D Ltd. and V Ltd. are valued at ₹ 6,00,000 and ₹ 8,50,000 respectively.
- Current assets of D Ltd. included ₹ 80,000 of stock in trade received from V Ltd. at cost plus 25%.

The above scheme has been duly adopted. Pass necessary Journal Entries in the books of D Ltd. and prepare Balance Sheet of D Ltd. after taking over the business of V Ltd. Fractional share to be settled in cash, rest in shares of D Ltd. Calculation shall be made to the nearest multiple of a rupee.

(May 2004)

Answer

Journal Entries in the Books of D Ltd.

		Dr.	Cr.
		Amount (₹)	Amount (₹)
Business Purchase Account	Dr.	12,42,500	
To Liquidator of V Ltd.			12,42,500
(For purchase consideration due)			
Investments Account	Dr.	1,92,500	
Goodwill Account (Balancing figure)	Dr.	1,00,000	
Fixed Assets Account	Dr.	8,50,000	
Current Assets Account	Dr.	3,00,000	
To Sundry Creditors Account			2,00,000
To Business Purchase Account			12,42,500
(For assets and liabilities taken over at agreed value)			
Liquidator of V Ltd.	Dr.	12,42,500	
To Equity Share Capital Account (₹100)			9,03,600
To Securities Premium Account (₹ 37.50)			3,38,850
To Cash Account			50
(For purchase consideration discharged)			
Goodwill Account	Dr.	16,000	
To Current Assets (Stock) Account			16,000
(For elimination of unrealized profit on unsold stock)			
Amalgamation Adjustment Account	Dr.	2,00,000	
To Investment Allowance Reserve Account			2,00,000
(For incorporation of statutory reserve)			

Balance Sheet of D Ltd.
as on 31st December, 2012

Particulars	Note No	Figures as at the end of current reporting period
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	17,03,600
(b) Reserves and Surplus	2	9,38,850

(2) Current Liabilities		
(a) Trade payables		7,00,000
	Total	33,42,450
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets(5,00,000 + 8,50,000)		13,50,000
(ii) Intangible assets		
Goodwill (6,00,000 + 1,00,000 + 16,000)		7,16,000
(b) Non-current investments (2,00,000 + 1,92,500)		3,92,500
(c) Other non- current assets (Amalgamation Adjustment Account)		2,00,000
(2) Current assets		
(a) Other current assets (7,00,000 – 50 – 16,000)		6,83,950
	Total	33,42,450

Notes to Accounts

		₹
1. Equity Share Capital		
17,036 shares of v 100 each (out of which 9,036 shares are issued in favour of vendor for consideration other than cash)		17,03,600
2. Reserves and Surplus		
General Reserve	4,00,000	
Securities Premium	3,38,850	
Investment Allowance Reserve	<u>2,00,000</u>	9,38,850

Working Notes:
1. Calculation of net asset value of shares

	<i>D Ltd.</i>	<i>V Ltd.</i>
	₹	₹
Goodwill	5,00,000	1,00,000
Fixed Assets	6,00,000	8,50,000
Investments	1,00,000	3,30,000*
Current Assets	<u>4,00,000</u>	<u>3,00,000</u>
	16,00,000	15,80,000

Less: Sundry Creditors	<u>5,00,000</u>	<u>2,00,000</u>
Net assets	<u>11,00,000</u>	<u>13,80,000</u>
Number of shares	8,000	6,000
Value per equity share	137.50	230

*Investments of V Ltd. are calculated as follows:	₹
Shares in D Ltd. (1,000 × 137.50)	1,37,500
Market value of remaining investments (given)	<u>1,92,500</u>
	<u>3,30,000</u>

2. Calculation of Purchase Consideration

	₹
Net assets of V Ltd.	<u>13,80,000</u>
Value of Shares of D Ltd.	<u>137.50</u>
Number of shares to be issued in D Ltd. to V Ltd. (13,80,000 ÷ 137.50)	10,036.36
Less: Shares already held by V Ltd.	<u>1,000</u>
Additional shares to be issued	<u>9,036.36</u>
Total value of shares to be issued (9036 × 137.50)	12,42,450
Cash payment for fractional share (.36 × 137.50)	<u>50</u>
	<u>12,42,500</u>

Question 5

Exe Limited was wound up on 31.3.2011 and its Balance Sheet as on that date was given below:

Balance Sheet of Exe Limited as on 31.3.2011

Liabilities	₹	Assets			₹
Share capital: 1,20,000 Equity shares of ₹10 each	12,00,000	Fixed assets			9,64,000
Reserves and surplus: Profit prior to incorporation	42,000	Current assets: Stock		7,75,000	
Contingency reserve	2,70,000	Sundry debtors	1,60,000		
Profit and loss A/c	2,52,000	Less: Provision for bad and doubtful debts	<u>8,000</u>	1,52,000	
Current liabilities:		Bills receivable		30,000	
		Cash at bank		<u>3,29,000</u>	12,86,000

Bills payable	40,000				
Sundry creditors	2,26,000				
Provisions:					
Provision for income tax	<u>2,20,000</u>				
	<u>22,50,000</u>				<u>22,50,000</u>

Wye Limited took over the following assets at values shown as under:

Fixed assets ₹12,80,000, Stock ₹7,70,000 and Bills Receivable ₹30,000.

Purchase consideration was settled by Wye Limited as under:

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹100 each. The balance was settled by issuing equity shares of ₹10 each at ₹ 8 per share paid up.

Sundry debtors realised ₹ 1,50,000. Bills payable was settled for ₹38,000. Income tax authorities fixed the taxation liability at ₹2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

- Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.
- Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Wye Limited account in the books of Exe Limited.
- Pass journal entries in the books of Wye Limited.

(May 2005)

Answer

(i) Purchase consideration

	₹
Fixed assets	12,80,000
Stock	7,70,000
Bills receivable	<u>30,000</u>
Purchase consideration	<u>20,80,000</u>

Amount discharged by issue of preference shares = ₹5,10,000

No. of preference shares to be allotted = $\frac{5,10,000}{100} = 5,100$ shares

Amount discharged by allotment of equity shares = ₹ 20,80,000 – ₹ 5,10,000

= ₹ 15,70,000

Paid up value of equity share = ₹ 8

Hence, number of equity shares to be issued = $\frac{15,70,000}{8}$

= 1,96,250 shares

(ii)

Realisation Account

In the books of Exe Ltd.

		₹			₹
To	Fixed assets	9,64,000	By	Provision for bad and doubtful debts	8,000
To	Stock	7,75,000	By	Bills payable	40,000
To	Sundry debtors	1,60,000	By	Sundry creditors	2,26,000
To	Bills receivable	30,000	By	Provision for taxation	2,20,000
To	Bank account:		By	Wye Ltd. account	
	Liquidation expenses	8,000		(Purchase consideration)	20,80,000
	Bills payable	38,000	By	Bank account: Sundry debtors	1,50,000
	Tax liability	2,22,000			
	Sundry creditors	2,11,000			
To	Equity shareholders (profit transferred)	<u>3,16,000</u>			
		<u>27,24,000</u>			<u>27,24,000</u>

Cash/Bank Account

		₹			₹
To	Balance b/d	3,29,000	By	Realisation account:	
To	Realisation account:			Liquidation expenses	8,000
	Sundry debtors	1,50,000		Bills payable	38,000
				Tax liability	2,22,000
				Sundry creditors (Bal.fig.)	<u>2,11,000</u>
		<u>4,79,000</u>			<u>4,79,000</u>

Equity Shareholders Account

		₹			₹
To	10% Preference shares in Wye Ltd.	5,10,000	By	Equity share capital account	12,00,000
To	Equity shares in Wye Ltd.	15,70,000	By	Profit prior to incorporation	42,000
			By	Contingency reserve	2,70,000
			By	Profit and loss account	2,52,000
			By	Realisation account (Profit)	<u>3,16,000</u>
		<u>20,80,000</u>			<u>20,80,000</u>

Wye Limited Account

		₹			₹
To	Realisation account	20,80,000	By	10% Preference shares in Wye Ltd.	5,10,000
			By	Equity shares in Wye Ltd.	<u>15,70,000</u>
		<u>20,80,000</u>			<u>20,80,000</u>

(iii)

Journal Entries
in the books of Wye Ltd.

<i>Particulars</i>	<i>Dr.</i>	<i>Cr.</i>
	<i>Amount</i>	<i>Amount</i>
	₹	₹
Business purchase account To Liquidator of Exe Ltd. account (Being the amount of purchase consideration payable to liquidator of Exe Ltd. for assets taken over)	Dr. 20,80,000	20,80,000
Fixed assets account	Dr. 12,80,000	
Stock account	Dr. 7,70,000	
Bills receivable account	Dr. 30,000	
To Business purchase account (Being assets taken over)		20,80,000
Liquidator of the Exe Ltd. account To 10% Preference share capital account To Equity share capital account (Being the allotment of 10% fully paid up preference shares and equity shares of ₹ 10 each, ₹ 8 each paid up as per agreement for discharge of purchase consideration)	Dr. 20,80,000	5,10,000 15,70,000

Question 6

Following is the summarized Balance Sheet as at March 31, 2012:

				(₹ '000)	
Liabilities	Max Ltd.	Mini Ltd.	Assets	Max Ltd.	Mini Ltd.
Share capital:			Goodwill	20	—
Equity shares of ₹ 100 each	1,500	1,000	Other fixed assets	1,500	760
9% Preference shares of ₹. 100 each	500	400	Debtors	651	440
General reserve	180	170	Stock	393	680
Profit and loss account	—	15	Cash at bank	26	130
12% Debentures of ₹ 100 each	600	200	Own debenture (Nominal value ₹ 2,00,000)	192	
Sundry creditors	415	225	Discount on issue of debentures	2	
			Profit and loss account	411	
	<u>3,195</u>	<u>2,010</u>		<u>3,195</u>	<u>2,010</u>

On 1.4.2012, Max Ltd. adopted the following scheme of reconstruction:

- Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- Own debentures of ₹ 80,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- Debentureholders of ₹ 2,80,000 agreed to accept one machinery of book value of ₹ 3,00,000 in full settlement.
- Creditors, debtors and stocks were valued at ₹ 3,50,000, ₹ 5,90,000 and ₹ 3,60,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- The Company paid ₹ 15,000 as penalty to avoid capital commitments of ₹ 3,00,000.

On 2.4.2012 a scheme of absorption was adopted. Max Ltd. would take over Mini Ltd. The purchase consideration was fixed as below:

- Equity shareholders of Mini Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Mini Ltd.

- (b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Max Ltd. for every 5 preference shares held in Mini Ltd.
- (c) Issue of one 12% debenture of ₹ 100 each of Max Ltd. for every 12% debentures in Mini Ltd.

You are required to give Journal entries in the books of Max Ltd. and draw the resultant Balance Sheet as at 2nd April, 2012

(November 2005)

Answer**In the Books of Max Ltd.**

	Particulars	Dr.	Cr.
01.04.2012		Amount	Amount
		₹	₹
	Equity share capital A/c To Equity share capital A/c (Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)	Dr. 15,00,000	15,00,000
	Equity share capital A/c To Capital reduction A/c (Being reduction of capital by 50%)	Dr. 7,50,000	7,50,000
	Capital reduction A/c To Bank A/c (Being payment in cash of 10% of arrear of preference dividend)	Dr. 13,500	13,500
	Bank A/c To Own debentures A/c To Capital reduction A/c (Being profit on sale of own debentures transferred to capital reduction A/c)	Dr. 78,400	76,800 1,600
	12% Debentures A/c To Own debentures A/c To Capital reduction A/c (Being profit on cancellation of own debentures transferred to capital reduction A/c)	Dr. 1,20,000	1,15,200 4,800
	12% Debentures A/c Capital reduction A/c To Machinery A/c (Being machinery taken up by debentureholders for ₹ 2,80,000)	Dr. 2,80,000 Dr. 20,000	3,00,000
	Creditors A/c Capital reduction A/c To Debtors A/c	Dr. 65,000 Dr. 29,000	61,000

	To Stock A/c (Being assets and liabilities revalued)		33,000
	Capital reduction A/c	Dr. 4,33,000	
	To Goodwill A/c		20,000
	To Discount on debentures A/c		2,000
	To Profit and Loss A/c		4,11,000
	(Being the balance of capital reduction transferred to capital reserve account)		
	Capital reduction A/c	Dr. 15,000	
	To Bank A/c		15,000
	(Being penalty paid for avoidance of capital commitments)		
	Capital reduction A/c	Dr. 2,45,900	
	To Capital reserve A/c		2,45,900
	(Being penalty paid for avoidance of capital commitments)		
02.04.2012	Business Purchase A/c	Dr. 13,20,000	
	To Liquidators of Mini Ltd.		13,20,000
	(Being the purchase consideration payable to Mini Ltd.)		
	Fixed Assets A/c	Dr. 7,60,000	
	Stock A/c	Dr. 6,80,000	
	Debtors A/c	Dr. 4,40,000	
	Cash at Bank A/c	Dr. 1,30,000	
	To Sundry Creditors A/c		2,25,000
	To 12% Debentures A/c of Mini Ltd.		2,00,000
	To Profit and Loss A/c		15,000
	To General reserve A/c ₹ (1,70,000+80,000*)		2,50,000
	To Business purchase A/c		13,20,000
	(Being the take over of all assets and liabilities of Mini Ltd. by Max Ltd.)		
	Liquidators of Mini Ltd. A/c	Dr. 13,20,000	
	To Equity Share Capital		10,00,000
	To 9% Preference share capital		3,20,000
	(Being the purchase consideration discharged)		
	12% Debentures of Mini Ltd. A/c	Dr. 2,00,000	
	To 12% Debentures A/c		2,00,000
	(Being Max Ltd. issued their 12% Debentures in against of every Debentures of Mini Ltd.)		

* ₹ 80,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Balance Sheet of Max Ltd. as at 2.4.2012

Particulars	Note No	Amount
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	25,70,000
(b) Reserves and Surplus	2	6,90,900
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		4,00,000
(3) Current Liabilities		
(a) Trade payables		5,75,000
Total		42,35,900
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		19,60,000
(2) Current assets		
(a) Inventories		10,40,000
(b) Trade receivables		10,30,000
(c) Cash and cash equivalents		2,05,900
Total		42,35,900

Notes to Accounts

			₹
1	Share Capital		
	Equity Share Capital		17,50,000
	9% Preference share capital		8,20,000
2	Reserves and Surplus		
	Profit and Loss A/c	15,000	
	General Reserve	4,30,000	
	Capital Reserve	<u>2,45,900</u>	6,90,900

Working Notes:

1. Purchase Consideration

$$\text{Equity share capital } 10,000 \times \frac{50}{5} \times \text{Rs. } 10 = 10,00,000$$

$$9\% \text{ Preference share capital } 4,000 \times \frac{4}{5} \times 100 = \underline{3,20,000}$$

$$\text{₹ } \underline{13,20,000}$$

2. General Reserve

	₹
Share Capital of Mini Ltd. (Equity + Preference)	14,00,000
Less: Share Capital issued by Max Ltd.	<u>13,20,000</u>
General reserve (resulted due to absorption)	80,000
Add: General reserve of Mini Ltd.	1,70,000
General reserve of Max Ltd.	<u>1,80,000</u>
	<u>4,30,000</u>

Questions 7

Following is the Balance Sheet of M Ltd. as at 31st March, 2011:

Liabilities	₹	Assets	₹
15,000, 10% Preference shares of ₹ 100 each	15,00,000	Goodwill	3,50,000
35,000 Equity shares of ₹ 100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium account	1,00,000	Plant & Machinery	10,00,000
7% Debentures of ₹ 100 each	5,00,000	Stock	6,00,000
Creditors	12,50,000	Debtors	15,00,000
Loan from Director	1,50,000	Cash at bank	1,00,000
		Preliminary expenses	4,00,000
		Profit & Loss A/c	<u>15,50,000</u>
	<u>70,00,000</u>		<u>70,00,000</u>

No dividend on Preference shares has been paid for the 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 1 new 13% Preference share of ₹ 50 each and 1 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 ₹ 25.

- (iv) The Debentureholders 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 half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.
- (v) Contingent liability of ₹ 1,50,000 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 and Machinery, Stock and Debtors by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.
- (vii) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.
Shares were fully taken up.
- (viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions.

(June 2009)

Answer

In the books of M Ltd.

Journal Entries

	Particulars		Dr. Amount (₹)	Cr. Amount (₹)
1.	Equity Share Capital (₹ 100) A/c To Equity Share Capital (₹ 25) A/c To Capital Reduction A/c (Being Equity shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)	Dr.	35,00,000	8,75,000 26,25,000
2.	10% Preference Share Capital (₹ 100) A/c To 10% Preference Share Capital (₹ 75) A/c To Capital Reduction A/c (Being Preference shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c)	Dr.	15,00,000	11,25,000 3,75,000
3.	10% Preference Share Capital (₹ 75) A/c To 13% Preference Share Capital (₹ 50) A/c	Dr.	11,25,000	7,50,000

4.	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)			3,75,000
	Capital Reduction A/c To Preference share dividend payable A/c (Being arrear of Preference share dividend payable for one year)	Dr.	1,50,000	1,50,000
5.	Preference share dividend payable A/c To Equity Share Capital A/c (Being Equity Shares of ₹ 25 each issued for arrears of Preference Share dividend)	Dr.	1,50,000	1,50,000
	7% Debentures A/c To Debenture holders A/c (Being balance of 7% Debentures transferred to Debenture holders A/c)	Dr.	5,00,000	5,00,000
7.	Debenture holders A/c To 13% Preference Share Capital A/c To Bank A/c To Capital Reduction A/c (Being 50% of Debenture holders opted to take 13% Preference shares at par and remaining took 90% cash payment for their claims)	Dr.	5,00,000	2,50,000 2,25,000 25,000
	Loan from Director A/c To Provision for Contingent Liability A/c (Being contingent liability of ₹ 1,50,000 is payable and adjusted against Loan from director A/c)	Dr.	1,50,000	1,50,000
9.	Bank A/c To Equity Share Application & Allotment A/c (Being application money received on 40,000 Equity shares @ ₹ 25 each)	Dr.	10,00,000	10,00,000
	Equity Share Application & Allotment A/c To Equity Share Capital A/c (Being application money transferred to capital A/c, on allotment)	Dr.	10,00,000	10,00,000

11.	Underwriting Commission A/c To Bank A/c (Being underwriting commission paid)	Dr.	40,000	40,000
12.	Land & Buildings A/c To Capital Reduction A/c (Being value of Land & Buildings appreciated)	Dr.	3,00,000	3,00,000
13.	Expenses on Reconstruction A/c To Bank A/c (Being payment of expenses on reconstruction)	Dr.	15,000	15,000
14.	Capital Reduction A/c To Goodwill A/c To Plant & Machinery A/c To Stock A/c To Debtors A/c To Preliminary Expenses A/c To Profit & Loss A/c To Expenses on Reconstruction A/c To Underwriting Commission A/c To Capital Reserve A/c (Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)	Dr.	31,75,000	3,50,000 4,00,000 1,00,000 1,50,000 4,00,000 15,50,000 15,000 40,000 1,70,000

UNIT 5 : LIQUIDATION OF COMPANIES

BASIC CONCEPTS

In case of winding up of the company, a statement called Statement of affairs is prepared.

- Deficiency Account is the result of capital plus liabilities exceeding the assets or deficit or debit balance in the profit and loss account.
- Overriding preferential payments are the payments to be made for the workman's dues and debts secured to secured creditors to the extent they rank under section 529(1)(c).
- Creditors that have to be paid in priority to unsecured creditors or creditor having a floating charge.
- In case of voluntary winding up, the statement prepared by the Liquidator showing receipts and payment of cash is called "Liquidator's Statement of Account".
- The shareholders who transferred partly paid shares within one year, prior to the date of winding up 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.

Question 1

What are the contents of "Liquidators' statement of account"? How frequently does a liquidator have to submit such statement?
(November, 1999)

Answer

The statement prepared by the liquidator showing receipts and payments of cash in case of voluntary winding up is called "Liquidators' statement of account" (Form No. 156 Rule 329 of the Companies Act, 1956). There is no double entry involved in the preparation of liquidator's statement of account. It is only a statement though presented in the form of an account.

While preparing the liquidator's statement of account, receipts are shown in the following order :

- (a) Amount realised from assets are included in the prescribed order.
- (b) In case of assets specifically pledged in favour of creditors, only the surplus from it, if any, is entered as 'surplus from securities'.
- (c) In case of partly paid up shares, the equity shareholders should be called up to pay necessary amount (not exceeding the amount of uncalled capital) if creditors' claims/claims of preference shareholders can't be satisfied with the available amount. Preference shareholders would be called upon to contribute (not exceeding the amount as yet uncalled on the shares) for paying of creditors.

- (d) Amounts received from calls to contributories made at the time of winding up are shown on the Receipts side.
- (e) Receipts per Trading Account are also included on the Receipts side.
Payments made to redeem securities and cost of execution and payments per Trading Account are deducted from total receipts.

Payments are made and shown in the following order :

- (a) Legal charges;
- (b) Liquidator's expenses;
- (d) Debentureholders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent);
- (e) Creditors:
 - (i) Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge);
 - (ii) Unsecured creditors;
- (f) Preferential shareholders (Arrears of dividends on cumulative preference shares should be paid up to the date of commencement of winding up); and
- (g) Equity shareholders.

Liquidator's statement of account of the winding up is prepared for the period starting from the commencement of winding up to the close of winding up. If winding up of company is not concluded within one year after its commencement, Liquidator's statement of account pursuant to section 551 of the Companies Act, 1956 (Form No. 153) is to be filed by a Liquidator within a period of two months of the conclusion of one year and thereafter until the winding up is concluded at intervals of not more than one year or at such shorter intervals, if any, as may be prescribed.

Question 2

Overriding preferential payments under section 529A of the Companies Act, 1956. (May, 2000)

Answer

The Companies (Amendment) Act, 1985 introduced Section 529A which states that certain dues are to be settled in the case of winding up of a company even before the payments to preferential creditors under Section 530. Section 529A states that in the event of winding up of 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 debts provable [Section 529(i)(a)] and the valuation of annuities and future and contingent liabilities [Section 529(1)(b)] shall be paid in full, unless the assets are insufficient to meet them, in which case they shall abate in equal proportions.

Workmen's dues, in relation to a company, means the aggregate of the following sums:

1. 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, in respect of services rendered

to the company and any compensation payable to any workman under any of the provisions of the Industrial Disputes Act, 1947;

2. all accrued holiday remuneration becoming payable to any workman, or in 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 or resolution;
3. 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;
4. all sum 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.

Question 3

B List of Contributories and the liability of contributories included in the list. (November, 2008)

Answer

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 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.

Their liability will crystallize only (i) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (ii) when the existing shareholders fail to pay the amount due on the shares to the liquidator.

Question 4

Pessimist Ltd. has gone into liquidation on 10th May, 2011. The details of members, who have ceased to be members, within the year ended 31st March, 2011 are given below. The debts that could not be paid out of realisation of assets and contribution from present members ('A' contributories) are also given with their date-wise break up. Shares are of ₹ 10 each, ₹ 6 per share paid up.

You are to determine the amount realisable from each person.

Shareholders	No. of shares transferred	Date of transfer	Proportionate unpaid debts
P	1,000	20.04.2010	3,000
Q	1,200	15.05.2010	5,000
R	1,500	18.09.2010	9,200
S	800	24.12.2010	10,500
T	500	12.03.2011	11,000

(November, 2000)

Answer
Statement of liabilities of B List Contributories

Creditors outstanding on the date of transfer (ceasing to be member)			Q	R	S	T	Amount to be paid to creditor
No. of shares			1,200	1,500	800	500	
Date		₹	₹	₹	₹	₹	₹
15.5.2010		5,000	1,500	1,875	1,000	625	5,000
18.9.2010	9,200						
	<u>-5,000</u>	4,200	—	2,250	1,200	750	4,200
	10,500						
24.12.2010	<u>-9,200</u>	1,300	—	—	800	500	1,300
	11,000						
12.3.2011	<u>10,500</u>	500	—	—	—	500	125*
Total (a)		11,000	1,500	4,125	3,000	2,375	10,625
Maximum liability on shares held (b)			4,800	6,000	3,200	2,000	
Amount paid (a) and (b) whichever is lower			1,500	4,125	3,000	2,000	

Working Note:

P will not be liable since he transferred his shares prior to one year preceding the date of winding up. The amount of ₹ 5,000 outstanding on 15th May, 2010 will have to be contributed by Q, R, S and T in the ratio of number of shares held by them, i.e. in the ratio of 12:15:8:5; thus Q will have to contribute ₹ 1,500; R ₹ 1,875; S ₹ 1,000; T ₹ 625. Similarly, the further debts incurred between 15th May, 2010 to 18th September, 2010, viz. ₹ 4,200 for which Q is not liable will be contributed by R, S and T in the ratio of 15:8:5. R will have to contribute ₹ 2,250. S and T will contribute ₹ 1,200 and ₹ 750 respectively. The further increase from ₹ 9,200 to ₹ 10,500 viz. ₹ 1,300 occurring between 18th September and 24th December will be shared by S and T who will be liable for ₹ 800 and ₹ 500 respectively. The increase between 24th December and 12th March, is solely the responsibility of T.

* Against T's liability of ₹ 2,375, he can be called upon to pay ₹ 2,000, the loss of ₹ 375 will have to be suffered by the creditors.

Question 5

Liquidation of YZ Ltd. commenced on 2nd April, 2011. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2010 and 2011:

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, 2010	₹ 5,000
P	1,500	1st May, 2010	₹ 3,300
Q	1,000	1st October, 2010	₹ 4,300
R	500	1st November, 2010	₹ 4,600
S	300	1st February, 2011	₹ 6,000

All the shares were of ₹ 10 each, ₹ 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

(November, 2004)

Answer

Statement of liabilities of B list contributories

Share-	No. of	Maximum	Division of Liability as on				
holders	shares transferred	liability (upto ₹ 2 per share)	1.5.2010	1.10.2010	1.11.2010	1.2.2011	Total
		₹	₹	₹	₹	₹	₹
P	1,500	3,000	1,500	—	—	—	1,500
Q	1,000	2,000	1,000	555	—	—	1,555
R	500	1,000	500	278	188	—	966
S	<u>300</u>	<u>600</u>	<u>300</u>	<u>167</u>	<u>112</u>	<u>21</u>	<u>600</u>
	3,300	6,600	3,300	1,000	300	21	4,621

Working Note:

Date	Cumulative liability	Increase in liability	Ratio of no. of shares held by the members
1.5.2010	3,300	—	30 : 20 : 10 : 6
1.10.2010	4,300	1,000	20 : 10 : 6
1.11.2010	4,600	300	10 : 6
1.2.2011	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of ₹ 600, therefore amount payable by S is restricted to ₹ 21 only, on 1.2.2011.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2010 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

Question 6

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

Issued and paid up Capital:

3,000 11% preference shares of ₹ 100 each fully paid.

3,000 Equity shares of ₹ 100 each fully paid.

1,000 Equity shares of ₹ 50 each ₹ 30 per share paid.

Calls in Arrears are ₹ 10,000 and Calls received in Advance ₹ 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is ₹ 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.

(November, 2004)

Answer**Liquidators' Final Statement of Account**

<i>Receipts</i>	<i>₹</i>	<i>Payments</i>	<i>₹</i>
Cash	4,13,000	Return to contributors:	
Realisation from:		Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of ₹ 5 per		Calls in advance	5,000
equity share of ₹ 50 each (₹ 5 ×		Equity shareholders of	
1,000)	<u>5,000</u>	₹ 100 each (3,000 × ₹ 30)	<u>90,000</u>
	<u>4,28,000</u>		<u>4,28,000</u>

Working Note:

	<i>₹</i>
Cash account balance	4,13,000
Less: Payment for dividend	33,000

Preference shareholders	3,00,000	
Calls in advance	<u>5,000</u>	<u>3,38,000</u>
		75,000
Add: Calls in arrears		<u>10,000</u>
		85,000
Add: Amount to be received from equity shareholders of ₹ 50 each (1,000 × 20)		<u>20,000</u>
Amount disposable		<u>1,05,000</u>

Number of equivalent equity shares:

$$\begin{aligned}
 3,000 \text{ shares of ₹ 100 each} &= 6,000 \text{ shares of ₹ 50 each} \\
 1,000 \text{ shares of ₹ 50 each} &= \underline{1,000} \text{ shares of ₹ 50 each} \\
 &= 7,000 \text{ shares of ₹ 50 each}
 \end{aligned}$$

$$\text{Final payment to equity shareholders} = \frac{\text{Amount left for distribution}}{\text{Total number of equivalent equity shares}}$$

$$= ₹ 1,05,000 / 7,000 \text{ shares} = ₹ 15 \text{ per share to equity shareholders of ₹ 50 each.}$$

$$\text{Therefore for equity shareholders of ₹ 100 each} \left(15 \times \frac{100}{50} \right)$$

$$= ₹ 30 \text{ per share to equity shareholders of ₹ 100 each.}$$

Calls in advance must be paid first, so as to pay the shareholders on prorata basis. Equity shareholders of ₹ 50 each have to pay ₹ 20 and receive ₹ 15 each. As a result, they are required to pay net ₹ 5 per share.

Question 7

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 ₹ 3,20,000)	3,50,000
Debentureholders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of ₹ 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.
(November, 2007)

Answer
(a) (i) Liquidator's Final 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% on 50,000	1,000
				2% on 13,12,745 (W.N.3)	<u>26,255</u>
					85,255
			By	Liquidation Expenses	10,000
			By	Debenture holders having a floating charge on all assets	6,00,000
			By	Preferential creditors	50,000
			By	Unsecured creditors	<u>13,12,745</u>
		<u>20,58,000</u>			<u>20,58,000</u>

(ii) 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)
= ₹ 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

* Total assets realised = ₹ 20,00,000 + ₹ 3,20,000 = ₹ 23,20,000

$$\text{Liquidator's remuneration on unsecured creditors} = \frac{2}{102} \times 13,39,000 = ₹ 26,255$$

$$\text{or on ₹ 13,12,754} \times 2/100 = ₹ 26,255$$

Question 8

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. **(May, 2010)**

Answer**Calculation of liquidator's remuneration:**

	₹
Liquidator's remuneration on assets realised (₹ 10,00,000 x 2 /100)	20,000
Liquidator's remuneration on payment to unsecured creditors (₹ 4,12,000 x 3/103)	<u>12,000</u>
Total liquidator's remuneration	<u>32,000</u>

Question 9

'A' Ltd is to be liquidated. Their summarised Balance Sheet as at 30th September, 2011 appears as under:

	₹
Liabilities:	
5,00,000 equity shares of ₹ 100 each	50,00,000
Secured debentures (on Land and Buildings)	20,00,000
Unsecured loans	40,00,000
Trade creditors	70,00,000
	<u>1,80,00,000</u>
Assets:	
Land and buildings	10,00,000
Other fixed assets	40,00,000
Current assets	90,00,000
Profit and loss account	40,00,000
	<u>1,80,00,000</u>

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 realised 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.

(November, 2009)

Answer

**Statement of Affairs of 'A' Ltd. (in Liquidation)
as at 30th September, 2011**

					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 Realizable value	Due to secured creditors	Deficiency ranking as unsecured	Surplus carried to the last column	
	₹	₹	₹	₹	
Land and 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
<u>Summary of Gross Assets:</u>					
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 debentureholders secured by floating charge and unsecured creditors	1,05,00,000
	– Debentureholders secured by floating charge (as per List D)	–
	Unsecured creditors (as per List E):	
40,00,000	Unsecured Loans	40,00,000
70,00,000	Trade creditors	70,00,000
2,00,000	Liability for bills discounted (Contingent)	2,00,000
1,35,00,000	Estimated deficiency as regards creditors (difference between gross assets and gross liabilities)	7,00,000
	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

EXERCISES

1. The following is the Balance Sheet of Y Limited as at 31st March, 2011:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets :	
2,000 Equity Shares of ₹ 100 each ₹ 75 per share paid up	1,50,000	Land & Buildings	4,00,000
6,000 equity shares of ₹ 100 each ₹ 60 per share paid up	3,60,000	Plant and Machineries	3,80,000
2,000 10% Preference Share of ₹ 100 each fully paid up	2,00,000	Current Assets :	
10% Debentures (having a floating charge on all assets)	2,00,000	Stock at cost	1,10,000
Interest accrued on Debentures (also secured as above)	10,000	Sundry Debtors	2,20,000
Sundry Creditors	4,90,000	Cash at Bank	60,000
	14,10,000	Profit and Loss A/c	2,40,000
			14,10,000

On that date, the company went into Voluntary Liquidation. The dividends on preference shares were in arrear for the last two years. Sundry Creditors include a loan of ₹ 90,000 on mortgage of Land and Buildings. The assets realised were as under:

	₹
Land and Buildings	3,40,000
Plant & Machineries	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 ₹ 10,000. The expenses of Liquidation amounted to ₹ 4,600. The Liquidator is entitled to a remuneration of 3% on all the assets realised (except cash at bank) and 2% on the amounts distributed among equity shareholders. Preferential creditors included in sundry creditors amount to ₹ 30,000. All payments were made on 30th June, 2011. Prepare the liquidator's final statement of account.

(Hints: Payment to Equity shareholders ₹ 35,000 (₹ 17.50 per share on 2,000 shares) & ₹ 15,000 (₹ 2.50 per share on 6,000 shares))

2. In a winding up of a company, certain creditors remained unpaid. The following persons had transferred their holding sometime before winding up :

Name	Date of Transfer	No. of Shares transferred	Amount due to creditors on the date of transfer
P	2010 January 1	1,000	₹ 7,500
Q	February 15	400	12,500
S	March 15	700	18,000
T	March 31	900	21,000
U	April 5	1,000	30,000

The shares were of ₹ 100 each, ₹ 80 being called up and paid up on the date of transfers.

A member, R, who held 200 shares died on 28th February, 2010 when the amount due to creditors was ₹ 15,000. His shares were transmitted to his son X.

Z was the transferee of shares held by T. Z paid ₹ 20 per share as calls in advance immediately on becoming a member.

The liquidation of the company commenced on 1st February, 2011 when the liquidator made a call on the present and the past contributories to pay the amount.

You are asked to quantify the maximum liability of the transferors of shares mentioned in the above table, when the transferees:

- (i) pay the amount due as "present" member contributories;

(ii) do not pay the amount due as "present" member contributories.

Also quantify the liability of X to whom shares were transmitted on the demise of his father R.

(Hints: Liability of Q, R/X, S and U will be ₹ 2,174, ₹ 3,666, ₹ 5,830 and ₹ 18,330 respectively.)

3. The following was the Balance Sheet of X Limited as on 31.3.2011 :

Balance Sheet of X Limited as at 31.3.2011

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
14%, 40,000 preference shares of		Land	40,000
₹ 100 each fully paid up	4,00,000	Buildings	1,60,000
8,000 equity shares of ₹ 100 each,		Plant and Machinery	5,40,000
₹60 per share paid up	4,80,000	Patents	40,000
Reserves and Surplus	NIL	Investments	NIL
Secured Loans		Current assets, loans and advances	
1. 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
		Cash at bank	60,000
2. Loan on mortgage of land and building	1,50,000	B. Loans and Advances	NIL
Unsecured Loan	NIL	Miscellaneous expenses	
Current Liabilities and provisions		Profit and Loss A/c	2,40,000
A. Current liabilities			
Sundry creditors	1,17,800		
	<u>14,10,000</u>		<u>14,10,000</u>

On 31.3.2011 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to ₹ 30,000.

The assets realised the following sums

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

The expenses of liquidation amounted to ₹ 29,434. The liquidator is entitled to a commission of 2% on all assets realised (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made on 30th June, 2011. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

(Hints: Payment to Equity shareholders ₹ 2,00,960 (₹ 25.12 per share on 8,000 shares)