Sums

① Haja Ltd. was incorporated with a Share capital of Rs. 10,00,000 in Rs. 10 Shares. The company Purchased machinery from Bharani Ltd. for Rs. 5,00,000 Payable in fully Paid Shares of the company. The director also decided to allot 2,500 Shares credited as fully Paid to Promoters for their Services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give journal entries.

S.No	Particular		Debit	Credit
1)	Machinery A/c	Dr	5,00,000	
	To Bharani Ltd A/c			5,00,000
	(Being machinery Purchased)			
2)	Bharani Ltd A/c	Dr	5,00,000	
	To Share capital A/c			5,00,000
	(Being fully Paid up shares issued to Bharani Ltd.)			
3)	Goodwill A/c (2500 Sh x 10)	Dr	25,000	
	To Share capital A/c			25,000
	(Being share issued to Promoters)			
4)	Bank A/c (47,500 x 10)	Dr	4,75,000	
	To Share capital A/c			4,75,000
	(Being 47,500 Shares issued to Public)			

11 (4)

S. No	Particular		Debit	credit
1	Bank A/c (8000×2)	Dr	16,000	
	To Share application A/c			16,000
	(Being share application money received)			
2	Share application A/c	Dr	16,000	
	To Share capital A/c			16,000
	(Being the share application money transferred to share capital A/c)			
3	Share allotment A/c (8000×5)	Dr	40,000	
	To Share capital A/c			40,000
	(being the share allotment money due)			
4	Bank A/c	Dr	40,000	
	To Share allotment A/c			40,000
	(Being the share allotment money received)			
5	Share 1 & final call A/c (8000×3)	Dr	24,000	
	To Share capital A/c			24,000
	(Being the share 1 and final call money due)			
6	Bank A/c (8000-100= 7900×3)	Dr	23,700	
	To Share 1 & final call A/c			23,700

7900×3
23700

7 Raj Ltd. issued 10,000 Shares of Rs. 100 each at Rs. 120 payable as follows:

write

Rs. 25 on application

Rs. 45 on allotment (including Premium)

Rs. 20 on first call and

Rs. 30 on final call

9,000 Shares were applied for and were allotted. All money were received with the exception of the first & final calls on 200 Shares held by Alagar. These shares were forfeited.

Give journal entries to record the above transactions.

Raj Ltd company

(I)

1) Bank A/c (9000×25) Dr 2,25,000
To Share application A/c 2,25,000
(Being Share application money due on 9000 Shares)

2) Share application A/c Dr 2,25,000
To Share capital A/c 2,25,000
(Being Share application money received)

3) Share allotment A/c (9000×45) Dr 4,05,000
(9000×35) To Share Capital A/c 3,15,000
(9000×10) To Securities Premium A/c 90,000
(Being Shares allotment A/c money due on 9000 Shares)

4 Bank A/c Dr 4,05,000
To Share allotment A/c 4,05,000
(Being Share allotment money received)

5) Share call A/c (9000×20) Dr 1,80,000
To Share capital A/c 1,80,000

6) Bank A/c (9000−200=8800×20) Dr 1,76,000
To Share I call A/c 1,76,000
(Being Share I call money received on 8800 Shares)

7 Share final call A/c (9000×30) Dr 2,70,000
To Share capital A/c 2,70,000

8 Bank A/c (8800×30) Dr 2,64,000
To Share final call A/c 2,64,000
(Being Share final call money received)

(9) Share capital (200 ×120) Dr 24,000
(200×50) To Share I & final call A/c 10,000
(200×70) To Share foreited A/c 14,000
(Being 200 Shares were forfeited)

(10) Share forfeited A/c (200×2) Dr 400
Bank A/c (200×10) Dr 2000
(200×12) To Share capital A/c 2400
(Being the forfeited shares)

(11) Share forfeited A/c Dr 14,000
To capital reserve 14,000

8 New line Ltd issued 20,000 Shares of Rs. 10 each at a Premium of Rs. 2 Payable as follows:

on application - Rs. 2
on allotment - Rs. 5
on first call - Rs. 2
on final call - Rs. 3

Applications for 15,000 Shares were received and all these Shares were allotted. The first call was made and the amount due there on was received except the amount on 500 Shares. Hence, these Shares were forfeited and reissued at Rs. 7 each, as fully paid up.

Pass journal entries in the books of the company.

(8) (1) Bank A/c (15,000 × 2) Dr 30,000
To Share application A/c 30,000
(Being Share application money due on 15,000 Shares)

(2) Share application A/c Dr 30,000
To Share capital A/c 30,000
(Being the application money received to 15,000 Shares)

(3) Share allotment A/c (15,000×5) Dr 75,000
To Share capital A/c 75,000
(Being Share allotment due on 15,000 Shares)

(4) Bank A/c (15,000 × 5) Dr 75,000
To Share allotment A/c 75,000
(Being Shares allotment Rs transferred to Bank A/c)

(5) Share I call A/c (15000×2) Dr 30,000
To Share capital A/c 30,000
(Being Share I call amount received)

(6) Bank A/c (15,000 - 500 = 14,500 × 2) Dr 29,000
To Share I call A/c 29,000
(Being Share I call amount received on 15,000 Shares)

(500×12)

7 Share capital A/c Dr 60,000

(500×5) To Share I call A/c 2500

(500×7) To Share forfeited A/c 3500

(Being to Shares were forfeited)

8 Bank A/c (500×7) Dr 3500

Shares forfeited A/c (500×5) Dr 2500

To Share capital A/c 1000

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Q9 Bhooma Ltd. issued 50,000 Shares of Rs. 100 each Payable as follows:
Rs. 20 on applications; Rs. 30 on allotment;
Rs. 25 on first call & Rs. 25 on final call
The company received applications for 40,000 Shares and all these applications

were accepted. All sums due on allotment, first and final calls were received except the final call on 400 shares. These 400 shares were subsequently forfeited by the company and reissued at Rs. 80 per share.

Give journal entries in the books of the company.

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Sum 9

S. No	Particular	Debit	Credit
1)	Bank A/c (40,000 x 20) Dr	8,00,000	
	To Share application A/c		8,00,000
	(Being Share application money received)		
2)	Share application A/c Dr	8,00,000	
	To Share capital A/c		8,00,000
	(Being Share application money transferred to Share capital A/c)		
3)	Share allotment A/C (40,000 x 30) Dr	12,00,000	
	To Share capital A/C		12,00,000
	(Being the Share allotment money due)		
4)	Bank A/C Dr	12,00,000	
	To Share allotment A/C		12,00,000
	(Being the Share allotment money received)		
5)	Share first call A/C (40,000 x 25) Dr	10,00,000	
	To Share capital A/C		10,00,000
	(Being the Share first call money due)		
6	Bank A/c Dr	10,00,000	
	To Share first call A/c		10,00,000

7) Share final call A/c (40,000 × 25) Dr 10,00,000
To Share capital A/c 10,00,000

8) Bank A/c (40,000 - 400) (39600 × 25) Dr 9,90,000
To Share final call A/c 9,90,000

9) Share capital (400×100) Dr 40,000
To Share final call A/c (400 × 25) 10,000
To Share forfeited A/c 30,000
(Being to shares were forfeited)

10 Bank A/c (400 × 80) Dr 32 000
Share forfeited (400×20) Dr 8000
To Share capital A/c 40,000
(Being the forfeited share were reissued)

11) Share forfeited A/c (30,000 - 8000) Dr 22,000
To capital reserve A/c 22,000
(Being share forfeited money transferred to capital reserve)

company.

10 Prosperous co. Ltd., invited application for 1,00,000 Shares of Rs.10 each at a Premium of Rs.2 Per Sh. The Shares are Payable Rs.3 on application, Rs.5 on allotment (including Premium), Rs.4 on first & final call. There was over subscription & application were received for 1,90,000 shares. Allotment was made as under:

	Shares applied	Share allotted
To applicats of	80,000	80,000
To applicats of	10,000	Nil
To applicats of	1,00,000	20,000
	1,90,000	1,00,000

Excess money paid on applications was adjusted against sums due on allotment & first & final call. All money due were received.

Find out the total amount refunded to applicants and pass journal entries in the books of company.

10)

S.No	Particular	Debit	Credit
1	Bank A/c (1,90,000×3) Dr	5,70,000	
	To Share application A/c		5,70,000
	(being share application money received)		
2	Share application A/c Dr	5,70,000	
	To Share capital A/c		3,00,000

TOTAL	calculation	I category	II category	III category
1,90,000	Applied	80,000	10,000	1,00,000
1,00,000	Allotted	80,000	Nil	20,000
5,70,000	Application money	80,000×3 240000	10,000×3 30,000	1,00,000×3 3,00,000
3,00,000	(–) Share capital	240000	Nil	60,000
2,70,000		Nil	30,000	2,40,000
1,00,000	(–) Share Allotment	Nil		(20,000×5) 1,00,000
1,70,000	total	Nil	30,000	1,40,000
	(–) Share I & final call amount			20,000×4
80,000			30,000	80,000
90,000	Amount returned to applicants		30,000	60,000

S.No	Particular	Debit	Credit
2)	Share application A/c Dr	5,70,000	
	To Share capital A/c		3,00,000
	To Share Allotment		1,00,000
	To Share I & final call		80,000
	To bank A/c		90,000

(100×10)

7 Share capital (NOS of Shares forfeited × called up money) 1000

To Share I and final (100×3) call A/c 300

To Share foreited A/c (100×7) 700

(Being to shares were forfeited)

Share forfeited A/c (100×2) Dr 200

8 Bank A/c (100×8) Dr 800

To Share capital A/c 1000

(Being the forfeited share were re-issued)

(700 − 200)

9 Shares forfeited A/c Dr 500

To capital reserve A/c 500

(Being shares forfeited money transferred to capital reserve A/c)

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(12) B. Ltd issued 1,00,000 equity shares of Rs. 10 each payable Rs. 2.50 each as application, allotment, first & final calls respectively. Application for 80,000 shares were received & allotment was done in full. By the end of the A/c year on 31.12.89, the following amount were received. on 60,000 sh - full amount on 18,000 sh - Rs. 7.5 per sh on 500 sh - Rs. 5 per sh on 1500 sh - Rs. 2.50 per sh on which less than Rs. 7.50 had been paid were forfeited and reissued at Rs. 8 per sh on the same data

S. No	Particular	Debit	credit
1	Bank A/c (80,000×2.5) To Share application A/c (Being share application money received)	2,00,000	2,00,000
2	Share application A/c Dr To Share capital A/c (Being share application money transferred to share capital A/c)	2,00,000	2,00,000
3	Share allotment A/c (80,000×2.5) To Share capital A/c (Being share allotment money due)	2,00,000	2,00,000
4	Bank A/c (80,000−1500=78500×2.5) Dr To Share allotment A/c (Being allotment money received)	1,96,250	1,96,250
5	Share I call A/c (80,000×2.5) Dr To Share capital A/c	2,00,000	2,00,000
6	Bank A/c (80,000−2000=78000×2.5) To Share I call A/c	1,95,000	1,95,000
7	Share final call A/c Dr To Share capital	2,00,000	2,00,000

8 Bank A/c (80,000 - 20,000 = 60,000 x 2.5) Dr 1,50,000
To Share final call A/c 1,50,000
(Being Share final call money received)

9 Share capital A/c (2,000 x 10) Dr 20,000
To Share allotment (1500 x 2.5) 3750
To Share I call (2,000 x 2.5) 5000
To Share final call (2000 x 2.5) 5000
To Share forfeited A/c 6250
(500 x 2.5 + 1500 x 2.5) =
1250 + 3750
(Being to share were forfeited)

1,250
3750
5000

10 Bank A/c (2000 x 8) Dr 16,000
Share forfeited (2000 x 2) Dr 4,000
To Share capital A/c 20,000
(Being the forfeited Share were re-issued)

11 Share forfeited A/c Dr 2,250
To capital reserve A/c 2,250
(6250 - 4000)
(Being share forfeited money transferred to capital reserve A/c)

(13) The Hindustan manufacturing co. Ltd had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs. 10 each of which Rs. 7.50 were called up. A final call of Rs. 2.50 was made and all amounts were paid except the two calls of Rs. 2.50 each in respect of 100 shares held by D. Roy. These shares were forfeited and reissued at Rs. 8 per shares as fully paid up.

make the journal entries (including that of cash) necessary to record final call, forfeited of shares and reissue of forfeited shares.

10,000 shares

S.No	Particular		Debit	Credit
1)	Share final call A/c (10,000×2.5)	Dr	25,000	
	To Share capital A/c			25,000
	(Being share final call amount due on 10,000 shares)			
2)	Bank A/c (10,000 - 100 = 9900×2.5)	Dr	24,750	
	To Share final call A/c			24,750
	(Being share final call A/c money received)			

3	Share capital A/c (100x10) Dr	1000	
	To Share I call A/c (100x2.5)		250
	To Share II call A/c (100x2.5)		250
	To Share forfeited A/c (100x5)		500
	(Being 100 share were forfeited for the non payment of call money)		
4	Bank A/c (100x8) Dr	800	
	Share forfeited A/c (100x2) Dr	200	
	To Share capital A/c		1000
	(Being forfeited were re-issued)		
5	Share forfeited A/c (500-200) Dr	300	
	To capital reserve A/c		300
	(Being the shares forfeited A/c transferred to capital reserve A/c)		

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(14) Bright Ltd.., invited applications for 10,000 Shares of Rs.100 each at a discount of 6% Payable as follow:

on application Rs.30

on allotment Rs.24

on first & final call Rs.40

Applications were received for 9,500 Shares and all these were accepted. All moneys due were received except the final call on 250 Shares which were forfeited. 150 of the forfeited Shares were reissued at Rs.80 Per shares as fully Paid.

Assuming that all requirements of the law have been complied with, pass journal entries in the books of the company and also Prepare the balance sheet.

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26/08/20

S. No	Particular		Debit	Credit
1)	Bank A/c (95000 x 30)	Dr	2,85,000	
	To Share application A/c			2,85,000
	(Being share application money received)			
2)	Share application A/c	Dr	2,85,000	
	To Share capital A/c			2,85,000
	(Being share application money transferred to share capital A/c)			
3)	Share allotment A/c	Dr	2,28,000	
	Discount on issued of Shares A/c (95000x6)		57,000	
	(95000x30) To Share capital A/c			2,85,000
	(Being share allotment money due on 95000 shares)			
4)	Bank A/c	Dr	2,28,000	
	To Share allotment A/c			2,28,000
	(Being share allotment money received)			
(9500x40) 5)	Share I & final call A/c	Dr	3,80,000	
	To Share capital A/c			3,80,000
	(Being share first & final call amount due)			

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(9500 - 250 =

b) Bank A/c 9250 X 40) Dr 3,70,000

To I & final call A/c 3,70,000

(Being share first and final call money received on 9250 shares)

UNIT - II

① The following is the Summarised balance Sheet of a company.

Liabilities	Rs	Assets	Rs
10% Redeemable Preference Shares:		Sundry assets	8,10,000
1000 Sh of Rs 100 each	1,00,000	cash at Bank	90,000
50,000 Equity Sh of Rs. 10 each fully Paid	5,00,000		
General Reserve	1,00,000		
Capital Reserve	50,000		
Creditors	1,50,000		
	9,00,000		9,00,000

For the Purpose of redemption of Preference Shares, the company made a fresh issue of 4,500 equity shares of Rs. 10 each at a Premium of 10%. The Preference Shares were redeemed at a Premium 10%.

Show journal entries and Prepare the balance Sheet after redemption.

1) Bank A/c Dr 49,500
To equity Share capital A/c 45,500
To Share Premium A/c 4,500
(Being issue of equity shares)

2) General Reserve A/c Dr 55,000
To capital redempation reserve A/c 55,000
(Being transfer to C.R.R)

3 Redeemable Preference Share Capital A/c Dr 1,00,000
Premium of redemption of Preference Shares A/c Dr 10,000
To redeemable Preference Shareholder A/c 1,10,000
(Being amount Paid)

4 Share Premium A/c Dr 4,500
General reserve A/c Dr 5,500
To Premium on redemption of Pref Shares 10,000
(Being transfer of amount from Share Premium)

5 Redeemable Pref. Shareholder A/c Dr 1,10,000
To bank A/c 1,10,000
(Being amount Paid to Shareholder A/c)

Balance Sheet

I Equity and liabilities

(i) Shareholders funds

Share capital		1	5,45,000
Reserve and surplus		2	
General Reserve	39,500		
capital redemption reserve	55,000		
capital reserve	50,000		1,44,500
(ii) creditors			1,50,000
			8,39,500

ii Assets	
(i) Sundry Assets	8,10,000
(ii) cash (90,000 + 49,500 - (1,10,000)	29,500
	8,39,500

Ex : 5

(2) Sri Ram Ltd had the following balance sheet as on 1.4.2007

Liabilities	Rs	Assets	Rs
10,000 6% Pref Shares of Rs.10 each	1,00,000	Buildings	2,00,000
30,000 Equity Shares of Rs.10 each	3,00,000	Plant	2,00,000
General Reserve	1,00,000	Stock	1,00,000
P & L A/c	80,000	Debtors	1,00,000
creditors	1,20,000	cash at Bank	1,00,000
	7,00,000		7,00,000

The company decided to redeem its Preference Shares at 10% Premium. For this purpose, it issued new 5,000 equity shares of Rs.10 each at 10% Premium. Show necessary journal entries and balance sheet.

(1) Bank A/c	Dr	5,50,000	
To equity Share capital A/c			5,00,000
To Share Premium A/c			50,000
(Being new issue of equity Shares)			
(2) General Reserve A/c	Dr	50,000	
To capital redemption Reserve A/c			50,000
(Being transfer to C.R.R)			
(3) Redeemable Pref Share capital A/c	Dr	1,00,000	
Premium of redemption A/c	Dr	10,000	
To redeemable Preference Shareholder A/c			1,10,000
(Being transfer of Share capital to Shareholder)			
(4) General Reserve A/c	Dr	5,000	
Securities Premium A/c	Dr	5,000	
To Premium on redemption A/c			10,000
(Being adjustment for Premium)			
(5) Redeemable Pref Shareholder A/c	Dr	1,10,000	
To Bank A/c			1,10,000
(Being final Payment to Paid)			

Balance Sheet

I Equity & liabilities
(i) Shares holder
Share capital

Share capital	3,50,000
General Reserve	45,000
C.R.R	50,000
capital Reserve	
Profit & loss A/c	80,000
creditors	1,20,000
	6,45,000

II Assets

Bulding	2,00,000
plant	2,00,000
Stock	1,00,000
Debtors	1,00,000
cash (1,00,000+55,000-1,10,000)	45,000
	6,45,000

Ex: 17

(3) The following was the balance Sheet of A. Ltd at march 31 st 2003

Liabilities		Assets		
Share capital		Fixed assets		
10,000 Equity Shares			1,10,000	
of 10 each	1,00,000	(-) Depn	50,000	60,000
10,000 6%		Stock		140,000
Preference Shares		Debtors		140,000
of Rs. 10 each	1,00,000	cash at Bank		1,00,000

P& L A/c	45,000	
General Reserve	80,000	
Taxation Reserve	30,000	
Current liabilities	85,000	
	4,40,000	4,40,000

it was decided to issue a further 3,000 equity shares at a Premium of Rs. 5 Per Shares and to redeem the Preference Shares. Pass the necessary journal entries for redeeming the Preference Shares and Prepare the balance Sheet after the redemption is completed.

19/09/2020 Ex: 17

① Bank A/c	Dr 45,000	
(3,000 X10) To Equity Share capital A/c		30,000
(3,000 X5) To Securities Premium A/c		15,000
(Being new issue shares)		
② General Reserve A/c	Dr 70,000	
To capital redemption reserve A/c		70,000
(Being transfer to C.R.R)		
③ Redeemable Preference Share capital A/c	Dr 1,00,000	
To Redeemable Preference Shareholder A/c		1,00,000
(Being transfer to amount Shareholder A/c)		
④ Redeemable Preference Shares holder A/c	Dr 1,00,000	
To Bank A/c		1,00,000

Balance Sheet

I Equity & liabilities			
(i) Share holder's fund's			
Share capital	1		1,30,000
Reserve & Surplus	2		
Profit & Loss		45,000	
(80,000-70,000) General Reserve		10,000	
Taxation Reserve		30,000	85,000
Share Premium			15,000

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Current liability		3	85,000
C.R.R			70,000
			385 000
II Assets			
Fixed assets	1,10,000		
(-) Depre	50,000		60,000
Stock			1,40,000
Debtors			1,40,000
Cash (1,00,000+45,000-1,00,000)			45,000
			3,85,000

Ex: 4 A company has 4,000 7% redeemable Preference Shares of Rs.100 each fully paid. The company decides to redeem the shares on December 31, 2004 at a Premium of 5%. The company has sufficient Profit but in order to augment liquid funds and redeem the shares, it makes the following issues:

(i) 1,000 equity shares of Rs.100 each at Premium of 10%

(ii) 1,000 5% debentures of Rs.100 each

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries to record the above.

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(4)

1. Bank A/c Dr 1,10,000

(1000 × 100) To equity Share capital A/c 1,00,000

(1,00,000 × 10%) To Share Premium A/c 10,000

(Being issue of Shares)

2. Bank A/c Dr 1,00,000

(1000 × 100) To 5% debentures A/c 1,00,000

(Being issue of 1000 debentures)

3. Profit & loss A/c Dr 3,00,000

To capital redemption reserve A/c 3,00,000

(Being Profit transfer to C.R.R)

4,00,000
1,00,000
3,00,000

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$2,00,000 \times 7/100$

14,000

(4) Reedeemable Pref Shares A/c Dr 4,00,000
Premium on redemption of
(4,00000 x 5%) Preference Shares A/c Dr 20,000
TO redemable Pref Share
capital A/c 4,20,000

(5) Share Premium A/c Dr 10,000
Profit & loss A/c Dr 10,000
TO Premium on redemption 20,000
of Preference Shares A/c
(Being transfer of amount)

(6) Reedeemable Preference Shares 4,20,000
holder's A/c Dr
TO Bank A/c 4,20,000
(Being Payment of amount)

(5) A company has 8,000 redeemable Preference Shares of Rs. 100 each fully paid. The company decides to redeem the shares on Sept, 30, 2006 at a Premium of 7%. The company has sufficient Profit but in order to augment liquid funds the following issues are made:

(i) 3,000 6% debentures of Rs. 100 each at Rs. 110

(ii) 2,000 equity shares of Rs. 100 each at Rs. 111

These issues were fully subscribed and all the amount were received. The redemption was duly carried out. Give journal entries.

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(5)

		Dr	Cr
	(1) Bank A/c Dr	3,30,000	
(3000 × 100)	To 6% debentures A/c (Premium)		3,30,000
	(Being issue of 3000 debentures)		
	(2) Bank A/c Dr	2,22,000	
(2000 × 100)	To equity Share capital A/c		2,00,000
(2,00,000 × 11%)	To Share Premium A/c		22,000
	(Being issue of Shares)		
	(3) Profit & loss A/c Dr	6,00,000	
[illegible],00,000	To capital redemption reserve A/c		6,00,000
[illegible],00,000			
[illegible],00,000			

56
14
42

56
22
34

(4) Reedeemable Pref Shares A/c Dr 8,00,000
Premium on redemption A/c Dr 56,000
To Reedeemable Pref
Share capital A/c 8,56,000

(5) Share Premium A/c Dr 22,000
Profit & loss A/c Dr 34,000
To Premium on redemption
of Preference Shares A/c 56,000
(Being transfer to amount)

(6) Reedeemable Preference Share
holder's A/c Dr 8 56,000
To Bank A/c 8,56,000
(Being final payment of
amount)

(6) on 30th June 1998, the balance sheet of Sandhya Ltd, stood as follow:

Liabilities	Rs	Assets	Rs
Equity Share capital	10,00,000	Sundry assets	14,00,000
Redeemable pref. Share capital	4,00,000	Bank	5,00,000
P&L A/c	3,00,000		
Sundry creditors	2,00,000		
	19,00,000		19,00,000

on the above data, the Preference share had to be redeemed. For this purpose, 2,000 equity shares of Rs. 100 each were issued at Rs. 110. The company also issued 8% debentures totalling Rs. 3,00,000. The shares and debentures were immediately subscribed and paid for. The Preference shares were duly redeemed. Give journal entries and the balance sheet after redemption.

① Bank A/c Dr 5,20,000
To Equity Share capital A/c 2,00,000
To Securities Premium A/c 20,000
To 8% debentures A/c 3,00,000
(Being issue of 2,000 equity shares of Rs. 100 each at a premium of Rs. 10 and Rs. 3,00,000 8% Debentures)

② Profit & Loss A/c Dr 2,00,000
To capital Redemption Reserve A/c 2,00,000
(Total amount required to redeem Preference Shares)

③ Redeemable Pref Share capital A/c Dr 4,00,000
To Redeemable Pref. Share holder's A/c 4,00,000
(Being transfer of amount due to Pref Shareholder)

④ Redeemable Pref Shareholder A/c Dr 400000
To Bank A/c 400000

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Balance Sheet

(i) Equity and liabilities

(i) Share holder's funds:

Share capital	1	12,00,000
Reserves and surplus	2	3,20,000
long term borrowing	3	3,00,000
Trade Payables	4	2,00,000
		20,20,000

ii Assets

Tangible assets	5	14,00,000
cash at Bank (5,00,000 + 5,20,000 - 4,00000)		6,20,000
		20,20,000

7 The balance Sheet of wallace Ltd as on 31 st Dec 2009 was as under:

Liabilities	Rs	Assets	Rs
Share capital		Sundry assets	3,65,000
1,000 redeemable Preference Shares of Rs. 100 each	1,00,000	Bank balan	1,40,000
2,000 equity Shares of Rs. 100 each fully Paid	2,00,000		
General reserve	80,000		
P & L A/c	50,000		
Sundry creditors	75,000		
	5,05,000		5,05,000

on this date, the Preference Shares were redeemed at per. journalise and Prepare balance Sheet after redemption.

① General Reserve A/c Dr 80,000
Profit & loss A/c Dr 20,000
To capital redemption reserve A/c 1,00,000

② Redeemable Pref Share capital A/c Dr 1,00,000
To redeemable Pref Shareholder A/c 1,00,000

③ Redeemable pref Shareholder A/c Dr 1,00,000
To Bank A/c 1,00,000

Balance Sheet

I Equity and liabilities

Share capital		2,00,000
Reserve & Surplus		
C.R.R	1,00,000	
P&L A/c	30,000	1,30,000
creditors		75,000
		4,05,000

Assets

Sundry Assets	3,65,000
Bank	40,000
	4,05,000

③ Give journal entries to record the following in the books of the respective companies.
'X' company Ltd redeems 1,00,000 9% Preference Shares of Rs.10 each at Per out of revenue profits.

① 9% redemption Pref. Share capital A/c Dr		10,00,000	
To 9% redemption Pref. Share holder A/C			10,00,000
(Being the amount due)			

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
	2	9% redemption Pref Shares holder's A/c Dr	10,00,000		10,00,000
		To Bank A/c			
		(Being final amount transfer to Share holder's A/c)			
Sum:9	4	'P' Company Ltd redeems 20,000 8% Preference Shares of Rs. 100 each at a Premium of 10% out of the Profit otherwise available for dividend.			
	1	8% Redemption Pref. Shares capital A/c Dr	20,00,000		
		To 8% redemption Pref. Share holder's A/c			20,00,000
		(Being the amount due)			
	2	Securities Premium A/c Dr	2,00,000		
(20,00,000 x 10/100)		To Premium on redemption A/c			2,00,000
		(Being adjust on Premium)			
	3	8% redeemable Pref Shares holder's A/c	20,00,000		
		To Bank A/c			20,00,000
		(Being the amount transfer to share holder A/c)			

Folio No.	PARTICULARS	Rs	Ps	Rs	Ps
	(5) Lakshmi Company Ltd. had decided to issue 2,000 equity Shares of Rs.100 each at Per and utilise the Proceeds to redeem 20,000 6% Preference Shares of Rs.10 each at a Premium of 10%. The new issue was fully Subscribed and Paid up. The redemption was completed as Per Schedule. Give journal entries.				
	(1) Bank A/c (2000×100) Dr	2,00,000			
	To equity Share A/c			2,00,000	
	(Being the new issue of Shares)				
	(2) 6% Redeemable Pref Shares (20,000×10) capital A/c Dr	2,00,000			
	2,00,000×10/100 Premium on redemption A/c Dr	20,000			
	To 6% Redeemable Pref Shares holder A/c			2,20,000	
	(3) Securities Premium A/c Dr	20,000			
	To Premium on redemption A/c			20,000	
	(Being Premium adjustment)				
	(4) 6% Redeemable Pref. Share holder A/c Dr	2,00,000			
	To Bank A/c			2,00,000	

Assume ... implemented. Give ...

Sum.13 (1) The following extract from the balance of Vijay Ltd as on 31 St Dec 1997 is given to you.

Share capital		
2,00,000 equity Shares of Rs. 10 each		20,00,000
2,00,000 6% Redeemable Preference Shares of Rs 10 each		20,00,000
capital Reserve		10,00,000
General Reserve		6,00,000
Profit & Loss A/c		17,00,000

The company exercises its option to redeem the Preference Shares on 1 st jan 20..

Amount needed for redemption		
Face Value	20,00,000	
(1) 6% redeemable Pref. Shares capital A/c Dr	20,00,000	
To 6% redeemable Pref. Shareholder A/c		20,00,000
(Being the amount due to redemption)		

Date	Folio No.	Particulars	Rs	Ps	Rs	Ps
		② General reserve A/c Dr	6,000			
		profit & loss A/c Dr	14,000			
		To capital redemption reserve A/c			20,00,000	
		(Being adjustment to C.R.R)				
		③ 6% redeemable Pref. Share holder's A/c Dr	20,00,000			
		To Bank A/c			20,00,000	
		(Being final amount paid to Shareholder's A/c)				

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Ex:25 The Summarised balance Sheet of Gauri Ltd on 31 St Dec 2004 was as follows

Liabilities	Rs	Assets	Rs
2,000 9% redeemable Pref Shares of Rs.100 each fully Paid	2,00,000	Sundry Assets	9,80,000
80,000 equity Shares of Rs.10 each, fully Paid	8,00,000	Cash at Bank	4,20,000
P&L A/c	2,60,000		
creditor	1,40,000		
	14,00,000		14,00,000

On the above data, the Preference Shares were redeemed at a Premium of 10%. you are required to Pass journal entries and give the amended balance Sheet.

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
(5)	(1)	Profit & Loss A/c Dr	2,00,000		
		To capital redemption reserve A/c			2,00,000
		(Being transfer made for redemption)			
	(2)	Reedeemable Pref Share capital A/c Dr	2,00,000		
		Premium on redemption A/C Dr	20,000		
		To redeemable Pref shareholder			2,20,000
		(Being amount payable)			
	3	Profit & loss A/c Dr	20,000		
		To Premium on redemption of Pref shares A/c			20,000
		(Being Premium Provide out of P& L A/c)			
	4	Redeemable Pref Shareholder A/c Dr	2,20,000		
		To Bank A/c			2,20,000

Balance Sheet

I Equity and liabilities			
Share capital		1	80,000
P& L A/c	40,000		
C.R.R	2,00,000	2	240,000
creditors		3	1,40,000
			11,80,000
II Assets			
Sundry Assets			9,80,000
current Assets (cash)			2,00,000
			11,80,000

6 The following is the balance sheet of Raj Ltd as on 31st Dec 2009

Liabilities	Rs	Assets	Rs
50,000 Equity Shares of Rs. 10 each	5,00,000	Sundry assets	6,00,000
2,000 8% redeemable Preference Shares of Rs. 100 each	2,00,000	Cash at Bank	4,40,000
P & L A/C	2,40,000		
Sundry Creditor	1,00,000		
	10,40,000		10,40,000

The company resolved to redeem its Preference shares at a Premium of 20% out of Profits.

Pass the necessary journal entries and show the important ledger accounts and the company balance sheet after completion of redemption.

Date	L.F.	Particulars		Dr. Rs	Cr. Rs
(6)		① Profit & Loss A/c	Dr	2,00,000	
		To capital redemption reserve A/c			2,00,000
		(Being transfer made for redemption)			
		② Redeemable Pref Share capital A/c	Dr	2,00,000	
		Premium on redemption of Preference Share A/c	Dr	40,000	
		To redeemable Preference Share holder A/c			2,40,000
		(Being amount Payable)			
		③ Profit & loss A/c	Dr	40,000	
		To Premium on redemption			40,000
		(Being Premium Provide out of P&L)			
		④ Redeemable Preference Share holder A/c	Dr	2,40,000	
		To Bank A/c			2,40,000
		(Being final Payment)			

Balance Sheet

i Equity and liabilities			
Share capital		1	5,00,000
P&L A/c	000		
C.R.R	2,00,000	2	2,00,000
Creditors		3	1,00,000
			8,00,000

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs	Ps
		ii Assets	1			
		Sundry assets			6,00,000	
		Cash (4,40,000 - 2,40,000)			2,00,000	
					8,00,000	

22.09.20

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

UNIT - IV

methode of valuable of Good will

1) a) Average Profit method

Goodwill = Average Profit x No. of years purchase.

b) weighted average Profit method

weighted average Profit

$= \frac{\text{weighted annual Profit}}{\text{weight}}$

Good will = weighted average Profit x No. of years Purchase

2) a) Super Profit method

Normal Profit = Average capital employed x Normal rate of return

Super Profit = Expected Average Profit - Normal Profit

b) captalisation of Super Profit

Good will = $\frac{\text{Average annual Super Profit}}{\text{Normal Rate of Return}} \times 100$

c) Annuity method

Good will = Average annual Profit x Annuity Rate

3) capitalisation method

PARTICULARS | Rs | Ps | Rs | Ps

capitalisation value of business

$= \frac{\text{Expected Average net Profit}}{\text{Normal Rate of Return}} \times 100$

Goodwill = capitalised value of business - Net Tangible Assets.

Ills: 1

① calculate the amount of goodwill on the basis of three years Purchase of the last five year's average Profits. The Profit for the last five years are:

	Rs
I year	4,800
II year	7,200
III year	10,000
IV year	3,000
V year	5,000

(i) Average Profit

	Rs
I year	4,800
II year	7,200
III year	10,000
IV year	3,000
V year	5,000
	30,000

Average Profit $= \frac{30,000}{5 \text{ years}} = 6,000$

(ii) Good will = Average Profit × No. of years Purchase
= 6,000 × 3
= Rs. 18,000

Ex:1

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

② Goodwill is to be valued at 3 years Purchase of five years average Profit. The Profits for the last five years of the firm were:
1994 - Rs. 2,400, 1995 - Rs. 3,000, 1996 - Rs. 3,400, 1997 - Rs. 3,200, 1998 - Rs. 4,000
Calculate the amount of goodwill

i) Average Profit =

1994	2400
1995	3000
1996	3400
1997	3200
1998	4000
	16000

Average Profit $= \frac{16,000}{5}$

$= 3200$

ii) Goodwill = Average Profit × No. of years Purchase

$= 3200 \times 3$

$= 9600$

Ex: 2

3 Calculate the amount of goodwill in the following case, on the basis of three year's Purchase of the last four year's average Profit. The Profit and losses for the last four years are:

year.	Rs
1995	10,000
1996	16,000
1997	6,000 (loss)
1998	12,000

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PARTICULARS | Rs | Ps | Rs | Ps

i) Average Profit

years	Rs
1995	10,000
1996	16,000
1998	12,000
	38,000
(-) 1997	6,000
	32,000

Average Profit = $\frac{32,000}{4}$

= 8,000

(ii) Good will = Average Profit × No. of years Purchase

= 8,000 × 3

= 24,000//

22.09.20

Ass: 3

4 Following details are available about the business of Sagar Ltd.

(i) Profits: 1994 - Rs. 80,000; In 1995 - Rs. 1,00,000; In 1996 - Rs. 1,20,000;

(ii) Non - recurring income of Rs. 8,000 is included in the profit of 1995

(iii) Profits of 1994 have been reduced by Rs. 12,000 because goods were destroyed by fire;

(iv) Goods have not been insured but is thought Prudent to insure them in future. The insurance Premium is estimated at Rs. 800 Per year

(v) Reasonable remuneration of the Proprietor of the business is Rs. 12,000 Per year but it has not been taken into account for calculation of above mentioned Profits;

(vi) Profits of 1996 include Rs. 10,000 income on

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
		investment. calculate goodwill on the basis of three years Purchase of the average Profit of last three years.			
		Solution :	Rs		Rs
year					
			80,000		
1994		Profits			
		(+) unusual loss: Stock destroyed by fire	12,000		92,000
			1,00,000		
1995		Profits			
		(-) Non-recurring income	8,000		92,000
			1,20,000		
1996		Profits			
		(-) Income on investment	10,000		1,10,000
		TOTAL Profit			2,94,000

$$\text{Average Profit} = \frac{2,94,000}{3}$$

$$= 98,000$$

Average Profit =		98,000
(-) Insurance Premium	800	
Proprietor's remuneration	12,000	12,800
Average maintainable Profit		85,200

∴ Goodwill = Average maintainable Profits × No. of years Purchase

= 85,200 × 3

= 255,600

6. Vijay & Co. has decided to buy the business of Mr. Sekar who has earned Profit in the last three years as Rs. 12,000, Rs. 10,000 and Rs. 11,000. Mr. Sekar was himself taking care of management of the business. If he had worked elsewhere, he would have earned income of Rs. 2,000 P.a. calculate the value of goodwill on the basis of 2 years Purchase of average Profit of last 3 year.

Average Profit $= \frac{12,000 + 10,000 + 11,000}{3}$

$= \frac{33,000}{3} = 11,000$

(–) Sekar's Salary $\quad 2,000$

$9,000$

Goodwill = Average Profit × No. of year Purchase

$= 9,000 \times 2 = 18,000$

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs	Ps
3:3	5	Calculate the goodwill in the following case: Goodwill is to be calculated at one year's Purchase of the last 3 year's average Profit. The Profit of first year was Rs. 6,000, Second year twice the Profit of the first year and the third year one and half times the Profit of Second year.				

FOLIO No.	PARTICULARS	Rs	Ps	Rs	Ps

5) Average Profit = 6,000

6,000 x 2 = 12,000

12,000 x 1.50 = 18,000

36,000 / 3 = 12,000

~~Goodwill = Average Profit x No. of years Purchase~~

= 36

Goodwill = 12,000

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PARTICULARS	Rs	Rs
Assets Side approach		
Assets at market value		
Fixed assets less depreciation		xxx
current assets (other than goodwill, non-trading assets, deferred expenditure like Preliminary expenses, discount etc.)		xxx
		xxx
(-) External liabilities (at revised values, if any)		
Creditors	xxx	
Bills payable	xxx	
Debentures	xxx	
Taxes	xxx	
outstanding bills etc.	xxx	xxx
capital employed at the end of the year		xxx
		xxx
(-) Half the Profit earned during the year		xxx
(Average capital employed)		xxx
Liabilities Side approach		
Equity Share capital		xxx
Preference Share capital		xxx
Reserves		xxx
Profit & loss A/c (Cr)		xxx
Profit on revaluation of assets and liabilities		xxx
(-) Goodwill	xxx	
Losses & Past expenses not yet written off	xxx	

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Loss on revaluation	xxx	xxx
capital employed at the end		xxx
-> 1/2 of current year Profit.		xxx
average capital employed.		xxx

15 The Balance Sheet of a Partnership firm is as follows:

Liabilities	Rs	Assets	Rs
capital		Goodwill	68,000
X 1,20,000		Building	1,46,000
Y 1,20,000	2,40,000	Stock	90,000
Sundry creditors	1,20,000	Debtors	58,000
Bills Payable	40,000	Cash and Bank	38,000
	4,00,000		4,00,000

Co. Ltd is to be formed to take over this firm. For this Purpose, assets are revalued as under:

Stock - Rs. 94,000 ; Debtors - Rs. 40,000 ; Building - Rs - 1,28,000

Profit of the firm for the Past five years before charging anything in respect of the Partners were Rs. 40,000 ; Rs - 60,000 ; Rs - 72,000 ; Rs - 64,000 ; Rs - 74,000. Included in these Profits were non-recuring items averaging Rs. 3,000, but from the nature of the business casual non-recurring items were found to arise every years and the Promoters agreed that Rs. 2,400 Should be allowed as Profit from this Source.

Similar business paid a dividend of 8% per annum on their equity shares and the partners who would be the directors of the company were to be paid remuneration X - Rs. 18,000 and Y - Rs. 12,000 p.a calculate goodwill on five years purchase of Super Profits.

Assets		
Building	128000	
Stock	94000	
Debtors	40,000	
Cash and Bank	38,000	3,00,000
(-) Outside liabilities		
Creditors	1,20,000	
Bills Payable	40,000	1,60,000
Capital employed		1,40,000

Calculation of normal Profit

= 1,40,000 × 8/100

= 11,200

Calculation of adjusted average Profit

Total Profit for 5 years

40,000
60,000
72,000
64,000
74,000 = 310,000

Average Profit = $\frac{310,000}{5}$ 62,000

(-) Fair remuneration to Partners (18,000 + 12000) 30,000

32,000

PARTICULARS

	Rs	Ps	Rs	Ps
(-) Excess of non-recurring items (3000-2,400)			600	
Adjusted average Profit			31,400	

calculate of Super Profit

= 31,400 - 11,200

= 20,200

Good will = 20,200 × 5

= 1,01,000

20.02.20 Ex(15)16 The following is the balance Sheet of A Ltd., as on 31St December 1999:

Liabilities	Rs	Assets	Rs
6% Preference Shares of Rs. 10 each	1,50,000	Good will	1,50,000
Equity Shares of Rs. 10 each	4,50,000	Land	2,75,000
Profit & loss A/c	7,50,000	Plant	1,50,000
6% Debentures	3,00,000	Investments	3,00,000
Sundry creditors	1,85,000	Stock	2,50,000
		Debtors	3,00,000
		Bank	2,00,000
		Preliminary Expenses	10,000
	18,35,000		18,35,000

Additional informations are :

(a) Debentures are to be redeemed in full before business is taken over by the new company

(b) The investments will be Sold and the Proceeds so realized will be used in Partly redeeming

debentures.
(c) The value of land is to be ascertained on the basis of 8% return. The current rental value is Rs. 50,400
you are required to calculate the amount of capital employed in the business for valuation of goodwill.

Calculation of capital employees

land (50400/8 × 100)	6,30,000	
Plant	1,50,000	
Stock	2,50,000	
Debtors	3,00,000	
Bank	3,00,000	16,30,000
(−) 6% debentures	3,00,000	
creditor	1,85,000	4,85,000
capital employed		11,45,000

(17) The Balance sheet of X Ltd as on 31.3.1996 is as follows:

Liabilities	Rs	Assets	Rs
5,000 8% Pref Shares of Rs. 10 each	50,000	Goodwill	10,000
10,000 equity Shares of Rs. 10 each	1,00,000	Fixed assets	1,80,000
Reserves (including Provisions for taxation Rs. 10,000)	1,00,000	Investments (5% Govt loan)	20,000
8% Debentures	50,000	Current assets	1,00,000
		Preliminary expenses	10,000
		Discount on debentures	5,000

PARTICULARS		Rs	Ps	Rs	Ps
creditors	25,000				
	3,25,000			3,25,000	

The average Profit of the company (after deducting interest on debentures and taxes) is Rs. 30,000. The market value of the machinery included in fixed assets is Rs. 5000 more. Expected rate of return is 10%. Evaluate the goodwill of the company at 5 times of the Super Profit.

calculation for capital employed

Fixed Assets	1,80,000		
(+) market value	5,000	1,85,000	
current Assets		1,00,000	
		2,85,000	
(-) 8% debentures	50,000		
creditors	25,000		
Provision for Tax	10,000	85,000	
capital employed		2,00,000	
(-) 1/2 of Profit			
(30,000 - 1000) x 1/2		14,500	
20,000 x 5%			
		1,85,500	

Average Profit = 30,000 - 1000
= 29,000

Normal Profit = Average capital employed x Normal rate
= 1,85,500 x 10%
= 18,550

DATE	FOLIO No.	PARTICULARS	Rs	Ps
		Super Profit = 29,000 - 18,550		
		= 10,450		
		Goodwill = 10,450 × 5		
		= 52,250		

30.09.20

Ex:2519 Annuity method

The net Profit of a company after Providing for taxation, for the past five years are Rs.40,000 ; Rs. 42,000 ; Rs. 45,000 ; Rs : 46,000 and Rs. 47,000. The capital employed in the business is Rs. 4,00,000 on which a reasonable rate of return of 10% is expected. it is expected that the company will be able to maintain its super profit for the next five years.

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calculate the value of goodwill of the business on the basis of an annuity of Super Profits, taking the Present value of annuity of one rupee for 5 years @ 10% interest as Rs. 3.78.

I year	40,000
II "	48,000
III "	45,000
IV "	46,000
V "	47,000
	2,20,000

Average Profit = $\frac{2,20,000}{5}$

= 44,000

Normal Profit = capital employee x rate of return

= 4,00,000 x 10%

= 40,000

Super Profit = A.P - N.P

= 44,000 - 40,000

= 4,000

Good will = S.P X Annuity factor

= 4,000 X 3.78

= 15,120

Ex: 27 20 From the following Particulars, find out the value of Goodwill as Per annuity method:

(a) capital employed : Rs. 3,00,000

(b) Normal rate of return : 10%

(c) Present value of Re. 1 for 5 years at 10% is 3.78

(d) Normal Profit for 5 years :

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PARTICULARS | Rs | Ps | Rs | Ps

Ist year Rs: 30,000 ; II year Rs. 32.000 ; III year Rs: 34,000 ; IV year Rs. 36,000 ; V year Rs: 38,000
Non-recurring income : Rs. 1600
Non-recurring expenses : Rs. 1,000

I year	30,000
II year	32,000
III year	34,000
IV year	36,000
V year	38,000
	1,70,000

$\therefore \frac{170,000}{5}$

= 34,000

(+) Non recurring Expenses = 1,000

35,000

(−) Non recurring income 1600

33,400

Normal Profit = capital employee x rate of return
= 3,00,000 x 10%
= 30,000

Super Profit = Average Profit − Normal Profit
= 33,400 − 30,000
= 3,400

Goodwill = Super Profit x Annuity factor
= 3,400 x 3.78
= 12,852

Ex:30 21) The following Particulars are available in respect of the business carried on by a trader:
(a) Profit earned :

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DATE | FOLIO No. | PARTICULARS | Rs | Ps | Rs

1987 - Rs. 50,000 ; 1988 - Rs. 60,000 ; 1989 - Rs.
55,000
(b) Normal rate of Profit 10%.
(c) capital employed Rs. 3,00,000
(d) Present value of an annuity of one rupee
for five years at 10%. Rs. 3.78.
(e) The Profit included non-recurring Profits
on an average basis of Rs. 4,000 out of
which it was deemad that even Non-
recurring Profit had a tendency of
appearing at the rate of Rs. 1,000 P.A
you are required to calculate goodwill:
(i) as Per Five year Purchase of Super
Profit
(ii) as Per capitalisation of Super Profit
method and
(iii) as Per Annuity method.

I year	50,000
II year	60,000
III year	55,000
	165,000

$\therefore$ A.P $\frac{165,000}{3}$ = 55,000

(-) N.R. Profit 3,000

Average Profit = 52,000

N.P = capital empl × rate of return
= 3,00,000 × 10%
= 30,000

S.P = A.P - N.P
= 52,000 - 30,000
= 22,000

PARTICULARS	Rs	Ps	Rs	Ps
Goodwill = S.P × No. of year Purchase				
= 22,000 × 5				
= 1,10,000				
Goodwill = S.P / 10%				
= 22,000 / 10%				
= 2,20,000				
Good will = S.P × Annuity factor				
= 22,000 × 3.78				
= 83,160				

METHODS OF VALUATION OF SHARES

The Valuation of Shares may broadly be classified as under :

Methods of valuation

- Net asset method (or) Asset backing method (or) Intrinsic value method (or) Break up value method (or)
- Yield method (or) Market value method (or) Earning capacity method (or) Dividend yield method
- Fair value method (or) Average of Asset backing and yield method

PARTICULARS	Rs	Ps	Rs	Ps

Real value method (or) Asset - basis method (or) Net worth method (or) Equity method

$$\text{Net assets value of a Shares} = \frac{\text{Net value of assets - Liabilities - Preference Shareholders claims}}{\text{Number of equity Shares}}$$

Proforma for net assets method of valuation of Shares:

	Rs	Rs
Assets at market value		
Goodwill (if any)		XXX
Fixed assets		XXX
Investment		XXX
current assets		XXX
		XXX
Total assets		
(-) current liabilities	XXX	
Debentures	XXX	XXX
Preference Share capital (with arrears of dividend)	XXX	
Net assets available for equity Shareholders		XXX

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

Intrinsic value per Share = $\frac{\text{Net assets available for equity Shareholder}}{\text{Number of equity Shares}}$

Alternative method of calculation of net assets

	Rs	Rs
Equity Share capital		XXX
Reserves		XXX
other Surpluses		XXX
Profit on revaluation of assets		XXX
Gross equity		XXX
(-) loss on revaluation of assets	XXX	
miscellaneous expenditure and loss	XXX	XXX
Net equity		XXX

Intrinsic value per Share = $\frac{\text{Net Equity}}{\text{Number of equity Shares}}$

2 yield method / Earning capacity method

Expected rate of return = $\frac{\text{Profit available for equity dividend}}{\text{Paid up equity capital}} \times 100$

yield value per Share = $\frac{\text{Expected rate of return}}{\text{Normal rate of return}} \times$ Paid up value per equity Shares

PARTICULARS

	Rs	Ps	Rs	Ps

1) From the following information, compute the "Intrinsic value" of an equity Shares of Sunny Ltd.

Liabilities	Rs	Assets	Rs
2,000 equity Shares of Rs.100 each, fully paid	2,00,000	Land & Building	80,000
2,000 6% Preference Shares of Rs.10 each	20,000	Plant & Machinery	80,000
General reserve	50,000	Book debts	10,000
5% debentures of Rs. 100 each	20,000	Stock-in-trade	40,000
Sundry creditors	20,000	cash & Bank b/c	70,000
		Investment in 5% Govt. Securities	20,000
		Preliminary Expenses	10,000
	3,10,000		3,10,000

(i) Fair return on capital employed in this type of business is 10% p.a

(ii) Goodwill is to be taken at 4 years Purchase value of Super Profit

(iii) Average of the Profits (after deduction of Preliminary expenses) for the last Seven year is Rs. 38,000. Preliminary expenses to the extent of Rs. 2,000 has been written off every years for the last Seven year. Profit is more or less Stable over years and the Same trend is expected to be maintained in the near future. Ignore taxation.

(i) calculation of capital employed

Land & Building	80,000
Plant & machinery	80,000
Book debts	10,000

PARTICULARS	Rs	Rs
Stock - in - trade		40,000
Cash & Bank		70,000
		2,80,000
(-) External liabilities		
Sundry creditor	20,000	
5% debentures	20,000	40,000
capital employed		2,40,000

(ii) Normal Profit = 2,40,000 X 10%
= 24,000

(iii) Average Profit	38,000	
(-) Interest on investment (20,000 X 5%)	1,000	
	37,000	

(iv) Super Profit = 37,000 - 24,000
= 13,000

(v) Good will = 13,000 X 4
= 52,000

(b) computation of value of each equity Shares.

Calculation of net assets

Investment		20,000
Good will		52,000
land & Building		80,000
Plant & machinery		80,000
Book debts		10,000
Stock - in - trade		40,000
Cash & Bank		70,000
		3,52,000
(-) Sandry Creditors	20,000	
5% debentures	20,000	

Ex: 3(

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PARTICULARS | Rs | Ps | Rs | Ps

PARTICULARS	Rs	Rs
Preference Share capital	20,000	60,000
		2,92,000

Intrinsic value of equity Share = Net assets / No. of equity Shares

$= \frac{2,92,000}{2,000}$

$= 146$

2) The following is the Summarised Balance Sheet of a company as 31.12.1987

Liabilities	Rs	Assets	Rs
10,000 5% Preference Shares of Rs. 100 each fully Paid	10,00,000	Fixed assets	38,00,000
2,00,000 equity Shares of Rs. 10 each fully Paid	20,00,000	Investments	10,25,000
General reserve	15,00,000	Stock-in-trade	5,72,000
Profit & loss A/c	12,00,000	Sundry debtor	12,78,000
6% debentures	8,00,000	cash at bank	2,25,000
Sundry creditors	2,75,000		
outstanding Expenses	1,25,000		
	69,00,000		69,00,000

For the Purpose of valuation of Shares, fixed assets are to be depreciated by 10% and investment are to be revalued at Rs. 10,80,000. Debtors will realise Rs. 12,14100. interest on debentures is accrued due for 9 month and

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
		Preference dividend for 1987 is also due; neither of these has been provided for in the Balance Sheet. calculate the value of each equity share.			
		Assets			
		Fixed Assets	38,00,000		
		(-) Depreciation (38,00,000×10%)	3,80,000		
					34,20,000
		Investment			10,80,000
		Stock			5,72,000
		Debtor			12,14,100
		Cash			2,25,000
					65,11,100
		(-) liabilities			
		Preference share capital	10,00,000		
		(+) dividend 10,00,000 × 5%	50,000		
			10,50,000		
		6% debentures 8,00,000			
		(+) interest ($8,00,000 \times \frac{6}{100} \times \frac{9}{12}$) 36,000	8,36,000		
		creditors	2,75,000		
		outstanding expenses	1,25,000		22,86,000
		Net Assets available to equity shareholders			42,25,100

Intrinsic value of equity shares = $\frac{\text{Net Assets of equity shareholders}}{\text{Number of equity shares}}$

$= \frac{42,25,100}{2,00,000}$

$= 21.13$

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PARTICULARS | Rs | Ps | Rs | Ps

3) The following is the Balance Sheet of X Co. Ltd, as on 31.12.1986

Liabilities	Rs	Assets	Rs
1,000 6% Pref. Shares of Rs. 10 each	10,000	Fixed Assets	30,000
3,000 equity Shares of Rs. 10 each	30,000	current Assets	25,000
7% debentures	10,000	Preliminary Exp	2,000
Debenture redemption fund	5,000	Discount on issue of debentures	3,000
Depreciation fund	10,000	P & L A/c	12,000
creditors	7,000		
	72,000		72,000

you are Supplied with the following information
(a) Debenture interest is owing for one year
(b) Book debts included in current assets are doubtful to the extant of Rs. 2,000 for which no provision has been made;
(c) The market value of investment included in current assets is Rs. 10,000, while the assets has been shown at it cost of Rs. 15,000
Ascertain the value of each equity share by the Asset - Backing method.

Ex:37 3 Assets

	Fixed Assets		30,000
	Current Asset	25,000	
(-)	doubtful debt	2,000	
		23,000	
(+)	investment	10,000	
		33,000	
(-)	cost	15,000	18,000
			48,000
(-)	liabilities		
	Preference share capital	10,000	
	7% debentures	10,000	
	creditors	7,000	
	Depreciation fund	10,000	
	debentures interest	700	37700
	$10,000 \times 7/100$		
			10,300

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
ill:33	9	The issued share capital of a company was Rs.10,00,000 consisting of 10,000 equity shares of Rs. 100 each. The net profit for the last 5 years were : Rs. 1,00,000 ; Rs. 80,000 ; Rs. 1,20,000 ; 1,60,000 and Rs. 1,40,000 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 12%. Compute the value of the company's share by the yield value method :			
		(i) Calculation of Profit available for equity Shareholders"			
		Average Profit = $\frac{1,00,000 + 80,000 + 1,20,000 + 1,60,000 + 1,40,000}{5}$ =			1,20,000
		(–) Transfer to reserve at 20% on 1,20,000			24,000
		Profit available for equity dividend			96,000
		(ii) Expected rate of return = $\frac{\text{Profit available for equity dividend}}{\text{Paid up equity capital}} \times 100$			
		= $\frac{96,000}{10,00,000} \times 100$			
		= 9.6%			
		(iii) Calculation of yield value :			
		Yield value Per Share = $\frac{\text{Expected rate of return}}{\text{Normal rate of return}} \times$ Paid up value Per equity Share			

Ex:47

PARTICULARS | Rs | Ps | Rs | Ps

$= \frac{9.6\%}{12\%} \times 100$

$= 80$

10 Raman holds 5,000 equity Shares in Raghavan Ltd. The paid up capital of which at 30,000 equity Share of Rs. 1 each. it is ascertained that:
(a) The normal net Profit of such company is Rs. 5,000 and
(b) The normal return for the type of business carried out by the company is 8%. Raman requests you to value his shares based upon the above figures.

Normal Net Profit = Rs. 5000

Expected rate of return $= \frac{\text{Profit available}}{\text{Paid up equity capital}} \times 100$

$= \frac{5000}{30,000} \times 100$

$= 16.67\%$

Yield value Per Share $= \frac{\text{Expected rate}}{\text{Normal rate}} \times$ Paid up value Per Share

$= \frac{16.67}{8} \times 1$

$= 2.08$

Raman's Share value $= 5,000 \times 2.08$

$=$ Rs. 10,400

12.10.20

UNDERWRITING

Partial underwriting

① When a Part of the issue is underwritten by only underwritter

One underwriter may underwrite a Part of the issue, Say 70%. The company becomes reponsible for the balance of 30% of the issue adn is 'deemed' as the underwriter for that portion.

In Such a Situations, the underwriter is given credit for all the marked applications. Unmarked applications are treated as adjusted towards the portion of the issue for which the company is responsible. Underwritter's liability is determined as follow:

Particulars	No. of Shares
Total issue	XXX
(-) The Portion of the issue for which the company is responsible	XXX
Grass liability of the underwritter	XXX
(-) marked application	XXX
Balance left	XXX
(-) Surplus unmarked applications (if any)	XXX
Net Liability of the underwritter	XXX

FOLIO No.	PARTICULARS	Rs	Ps	Rs	Ps

(2) when a Part of issue is underwritten by two or more underwritters

The company is deemed as the underwritter for the portion of the issue which as not underwritten. Liability of each underwriter is determined as follows:

Particulars	No. of Shares		
Gross liability of underwriters	xxx	xxx	xxx
(-) marked applications	xxx	xxx	xxx
Balance left	xxx	xxx	xxx
(-) Surplus unmarked application in gross liability ratio	xxx	xxx	xxx
Balance left	xxx	xxx	xxx
(-) Surplus from other underwritters divided in Gross liability ratio of the recipients	xxx	xxx	xxx
Net liability of underwriters	xxx	xxx	xxx

when applications for firm underwritting are treated like marked forms:

Particulars	No of Shares X	Y	Z	Total
Gross liability	xx	xx	xx	xx
(-) Firm underwriting	xx	xx	xx	xx
	xx	xx	xx	xx
	xx	xx	xx	xx
(-) marked applications	xx	xx	xx	xx
	xx	xx	xx	xx
(-) unmarked application in gross liability ratio	xx	xx	xx	xx
	xx	xx	xx	xx
Transfer: Surplus of any under writer to the other in their gross liability ratio	xxx	xx	xx	xx
Net liability	xx	xx	xx	xx

when applications for firm underwriting are treated like unmarked forms:

Particular	No of Shares X	Y	Z	TOTAL
Gross liability	xx	xx	xx	xx
(-) marked applications	xx	xx	xx	xx
	xx	xx	xx	xx
(-) unmarked and firm underwriting applications in gross liability ratio	xx	xx	xx	xx
	xx	xx	xx	xx
Transfer: Surplus of any underwriter to other in their gross liability ratio	xx	xx	xx	xx
Net liability	xx	xx	xx	xx
(+) Firm underwriting	xx	xx	xx	xx

PARTICULARS					Rs	Ps	Rs	Ps
Firm underwriting	xx	xx	xx	xx				
TOTAL Liability	xxx	xxx	xxx	xxx	TOTAL liability	xxx	xxx	xxx	xxx

MODEL JOURNAL ENTRIES

Particular	Debit	Credit
1) For Shares Subscribed by the Public		
Bank A/c Dr	xxx	
To Share capital A/c		xxx
[Being Shares allotted to the Public]		
2) For underwriter liability		
Underwriter's A/c Dr	xxx	
To Share capital A/c		xxx
[Being Share to be taken by the underwriters as per underwriting contract]		
③ For underwriting commission Payable		
Underwriting commission A/c Dr	xxx	
To underwriter A/c		xxx
[Being commission Payable as per agreement]		

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(4) For net amount receivable from underwriter's

	Dr		
Bank A/c	Dr	XXX	
To underwriter's A/c			XXX
[Being amount received in settlement from the under writers]			

IN THE BOOKS OF THE UNDERWRITER
JOURNAL ENTRIES

Particular	Debit	Credit
1) For Shares to be taken as underwriting obligation		
Share in company A/c Dr	XXX	
To company A/c		XXX
[Being Shares received from company as per the underwriting contract]		
2) For commission receivable		
Company A/c Dr	XXX	
To underwriting commission A/c		XXX
[Being commission receivable as per the terms of the underwriting contract]		
(3) For Payment of cash in Settlement		
Company A/c Dr	XXX	
To Bank A/c		XXX

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PARTICULARS | Rs | Ps | Rs | Ps

[Being Payments made in Settlement to the company]

4) If there is any decline in the market value of Shares or debentures acquired from company.

Particulars	Dr	Cr
P & L A/c Dr	XXX	
To Shares/Debentures in company A/c		XXX
(Being decline in the market value taken into A/c)		

10.20

14. A company issues 10,000 equity Shares of Rs. 10 each at Par. The issue was underwritten by K & co. for maximum commission Permitted by law. The Public applied for and received 8,000 Shares. Give journal entries in the company's books and also Prepare balance Sheet.

Particular	Dr	Cr
Bank A/c Dr	80,000	
To equity Share capital A/c		80,000
(Being 8,000 equity Shares issued to the Public @ Rs. 10 each)		
K & co. A/c Dr	20,000	
To Equity Share capital A/c		20,000
(Being Shares to be taken by the underwriters as per the underwriting agreement)		

DATE	FOLIO No.	PARTICULARS	Rs	Rs	Rs
		Underwriting commission A/c Dr	2,500		
		To K & Co. A/c			2,500
		(Being maximum commission of 2.5% payable to underwriter on the issue value of Rs. 1,00,000)			
		Bank A/c Dr	17,500		
		To K & Co. A/c			17,500
		(Being receipt of balance from underwriters after adjusting commission)			
Note to A/c	1.	Share capital			
		issue and paid up capital			
		10,000 shares of Rs. 10 each			1,00,000
	2	other current assets			
		underwriting commission			2,500

Balance Sheet

DATE	FOLIO No.	PARTICULARS	Rs	Rs	Rs
	1.	Equity and liabilities			
		(i) Shareholder's funds:			
		Share capital			1,00,000
					1,00,000
	ii	Assets:			
		cash at bank			97,500
		other current			2,500
					1,00,000

PARTICULARS | Rs | Ps | Rs | Ps

(15) Bharat Ltd., issued 1,50,000 equity Shares. The whole of the issue was underwritten as follow:
X - 50% ; Y - 25% and Z - 25%.
Application for the 1,20,000 Shares were received in all, out of which application for 30,000 Shares and the Stamp of X, those for 15,000 Shares that of Y and those for 30,000 Shares that of Z. The remaining application for 45,000 Shares did not bear any Stamp.
Determine the liability of the underwriters

	No. of. Shares			
	X	Y	Z	TOTAL
Gross liability	75,000	37,500	37,500	1,50,000
(-) marked applications	30,000	15,000	30,000	75,000
	45,000	22,500	7,500	75,000
(-) unmarked application in the ratio of gross liability (2:1:1)	22,500	11,250	11,250	45,000
	22,500	11,250	-3,750	30,000
Z's Surplus transfered to X and Y in their gross liability ratio of 2:1	-2,500	-1,250	+3,750	-
	20,000	10,000	-	30,000

5 (16) Reefers Ltd., made a public issue of 80,000 equity Shares of Rs. 10 each. The entries issue was underwritten by five underwriters as follow:
A - 25% ; B - 15% ; C - 10% ; D - 30% and E - 20%.
Application bearing the rubber stamp of an underwritter are to be applied in relife of his libability
As a result of the issue, the following

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

applications were received:

Bearing rubber stamp of A for 11,000 Shares

" " " " B for 8,200 "

" " " " C for 7,400 "

" " " " D " 6,600 "

" " " " E " 6,800 "

24,000

Not bearing any stamp

64,000

you are required to find out the liability of individual underwriters.

Particular	NO. OF SHARES A	B	C	D	E	TOTAL
Gross liability	20,000	12,000	8,000	24,000	16,000	80,000
(-) market applications	11,000	8,200	7,400	6,600	6,800	40,000
	9,000	3,800	6,00	17,400	9,200	40,000
(-) unmarked applications in gross liability ratio (25:15:10:30:20)	6,000	3,600	2,400	7200	4800	24,000
	3,000	200	+1,800	10,800	4,400	16,000
(-) C's surplus transfer to A, B, D & E in their gross liability ratio (25:15:30:20)	-500	-300	-1800	-600	-400	-
	2,500	-100	-	9600	4000	16,000
(-) By surplus transfer to A, D & E in their gross liability ratio (25:30:20)	-33	+100	-	-40	-27	
	2,467	-	-	9560	3973	16,000

PARTICULARS

The final allotment of Shares will be

To the public	. 64,000 Shares
To A	. 2,467 Shares
To D	. 9,560 Shares
To E	. 3,973 Shares
TOTAL	80,000

17 Kalyan Kumar Co. Ltd was formed with a capital of Rs. 10,00,000 in Rs. 10 Shares, the whole amount being issued to the Public. The underwriting of these Shares was as follows:

A - 35,000; B - 30,000; C - 20,000; D - 10,000; E - 3,000; F - 2,000

All the marked applications froms were to go in relief of the underwriters whose stamp they bear. The application from marked by the underwriters were:

A - 10,000; B - 22,500; C - 20,000; D - 7,500; E - 5,000; F - Nil

Applications for 20,000 Shares were received on froms not marked. Draw up a statement showing the number of Shares each underwriter had to take up.

Particular	NO. of SHARES						
	A	B	C	D	E	F	TOTAL
Gross liability	35,000	30,000	20,000	10,000	3,000	2,000	1,00,000
(-) market application	10,000	22,500	20,000	7,500	5,000	Nil	65,000
	25,000	7,500	-	2,500	-2000	2000	35,000
(-) unmarked applica tion cations (35:30:20:10:3:2)	7,000	6,000	4000	2000	-600	400	20,000

Particulars							
	18,000	1,500	-4000	500	-2,600	1600	15,000
C's and E's Surplus transferred A, B, D and F in their gross liability ratio	-3000	-2571	+4,000	-857	+2,600	-172	-
	15,000	-1,071	-	-357	-	1428	15,000
B's & D's Surplus transferred to A & F in their gross liability ratio (35 : 2)	-1,351	+1,071	-	+357	-	-77	-
Net liability of the underwriters	13,649	-	-	-	-	1,351	15,000

Ex : 1 (18) Nazar Ltd., issued 10,000 equity Shares of Rs. 100 each at per. The whole issue has been underwritten by John & co for a commission of 2 %. The company received applications only for 5,000 Shares. All the applications were accepted. Give journal entries, assuming that all amounts due have been received.

Particular	Dr	Cr
(1) Bank A/c Dr	5,00,000	
To equity Share capital A/c		5,00,000
(Being Shares issued to Public)		
(2) John & co A/c Dr	5,00,000	
To equity Share capital A/c		5,00,000
(Being Share taken by underwriting)		

15 Ex

Folio No.	PARTICULARS	Rs	Ps	Rs	Ps
	(3) underwriting commission A/c Dr	20,000			
	To John & Co A/c			20,000	
	(Being commission payable)				
	(4) Bank A/c Dr	4,80,000			
	To John & Co A/c			4,80,000	
	(Being receipt of balance from underwriters)				

6.10.20

(19) A,B,C Ltd., incorporated on 1st January 1985, issued Prospectus inviting applications for 6,00,000 equity Shares of Rs. 10 each.

The whole issue was fully underwritten by A, B, C and D as follow:

A - 2,00,000 Shares, B - 1,70,000 Shares

C - 1,40,000 ,, , D - 40,000 ,,

Application were received for 6,50,000 Shares of which marked applications were as follow:

A - 2,50,000 Shares, B - 1,70,000 Shares

C - 1,40,000 ,, , D - 40,000 ,,

Find out the liabilities of individual underwriters.

Particular	A	B	C	D	TOTAL
Gross liability	2,00,000	1,50,000	1,50,000	1,00,000	6,00,000
(-) marked application	2,50,000	1,70,000	1,40,000	40,000	6,50,000
	-50,000	-20,000	10,000	60,000	-50,000
(-) A's surplus transfered to C & D 3:2	+50,000	-	-30,000	-20,000	+50,000
	-	-20,000	-20,000	40,000	-

DATE	FOLIO No.	PARTICULARS		Rs	Ps	Rs	
	(–)	B'S Surplus transfered to D		+2,000	-	-20000	-
			-	-	-20,000	20,000	-
	(–)	C'S Surplus transfered to 'D'	-	-	+20,000	-20,000	-
		Net liability	-	-	-	-	-

Ex:8 (20) Arun Ltd.., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows:

X - 40%; Y - 40%; Z - 20%.

Applications for 80,000 shares were received in all out of which application for 20,000 shares had the stamp of X, those for 10,000 shares that of Y and 20,000 shares that of Z.

The remaining applications did not bear any stamp.

Show the liability of the underwriters.

	Particular	X	Y	Z	TOTAL
	Gross liability	40,000	40,000	20,000	1,00,000
(–)	marked application	20,000	10,000	20,000	50,000
		20,000	30,000	-	50,000
(–)	unmarked application (4:4)	15,000	15,000	-	30,000
	Net liability	5000	15,000	-	20,000

21 X Ltd., which was incorporated on 1.1.2005 issued applications for 5,00,000 equity shares of Rs. 10 each. The entries issue was fully underwritten by A, B, C and D

A - 2,00,000 Shares ; B - 1,50,000 Shares

C - 1,00,000 Shares ; D - 50,000 Shares

Applications were received for 4,50,000 shares of which marked applications were as follow:

A - 2,20,000 Shares ; B - 90,000 Shares ;

C - 1,10,000 Shares ; D - 10,000 Shares :

You are required to calculate the Net liability of individual underwriters, by giving credit to unmarked application in the ratio of gross liability.

	Particular	A	B	C	D	TOTAL
	Gross liability	2,50,000	1,50,000	1,00,000	50,000	5,00,000
(-)	marked app	2,20,000	90,000	1,10,000	10,000	4,30,000
		-20,000	60,000	-10,000	40,000	70,000
(-)	A's Surplus transfer to B & D 15:5 or 3:1	+20,000	-15,000	-	-5,000	-
		-	45,000	-10,000	35000	
(-)	C's Surplus transfer to B & D 3:1		~~37,500~~	+10,000	~~32,500~~	
			37,500	-	32,500	
(-)	unmarked app 3:1	-	15,000	-	-5000	20,000
		-	22,500	-	27,500	50,000

16/10/20

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs	Ps

21.24 22 Fast Forward limited made an issue of 60,000 Shares which were underwriten as follow:
'X' - 30,000 Shares ; 'y' - 18,000 Shares and
Z - 12,000 Shares
in addition, there was 'Firm' underwriting as follow:
X - 3000 Shares, y - 1,500 Shares, Z - 4,500 Shares
The total Subscriptions including 'Firm' underwriting were for 45,600 Shares. The following marked form were include in the Subsciptions
X - 9,000 Shares, y - 13,500 Shares, Z - 5100 Shares.
Show the allocative of liabilities of each underwriter.
(a) if the benefit of 'Firm' underwriting applications is given to individual underwriters by treating them like 'marked forms'.
(b) if the benefit of firm underwriting application is not given to individual underwriters by treating them like 'unmarked forms'.

(a)

Particular	X	Y	Z	TOTAL
	No. of Shares			
Gross liability	30,000	18,000	12,000	60,000
(-) marked application	9,000	13,500	5,100	27,600
	21,000	4,500	6,900	32,400
(-) Firm underwriting	3,000	1,500	4,500	9,000
	18,000	3,000	2,400	23,400
(-) unmarked application in the ratio of gross liability (30:18:12)	4500	2,700	1,800	9,000
Net liability	13,500	300	600	14,400
(+) Firm underwriting	3,000	1,500	4,500	9,000
TOTAL liability of underwriters	16,500	1,800	5,100	23,400

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DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
		calculation of unmarked application			
		Total application including firm			45,600
		(-) Firm underwriting application (3,000 + 1,500 + 4,500)			9,000
					36,600
		(-) marked application (9,000 + 13,500 + 5,100)			27,600
		unmarked form from public			9,000

(b)

Particular	NO OF SHARES X	Y	Z	TOTAL
Gross liability	30,000	18,000	12,000	60,000
(-) marked application	9,000	13,500	5,100	27,600
	21,000	4,500	6,900	32,400
(-) unmarked application including firm underwriting in gross liability ratio (9,000 + 9,000) (30 : 18 : 12)	9,000	5,400	3,600	18,000
	12,000	-900	3,300	14,400
y's surplus transfer to x and z in their gross liability ratio (30 : 12)	-643	+900	-257	-
Net liability	11,357	-	3043	14,400
(+) Firm underwriting	3,000	1,500	4500	9,000
Total liability of underwriters	14,357	1,500	7,543	23,400

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19/10/20

DATE | FOLIO No. | PARTICULARS | Rs | Ps | Rs

UNIT - V

Profit Prior to Incorporation
Bank of Apportionment of expenses

i) Time Ratio:
All expenses of a company which can be linked or related to "time" must be divided between Pre and Post incorporation Periods in time Ratio. examples are Salaries, rent, Stationery, Postage, bank charges, depreciation, interest, etc..,

2) 'weighted' or 'adjusted' time Ratio
If any changes were made in the number of employees, or office accommodation, etc.., weightage must be as to the changes in arriving at the time ratio. Such a ratio is called weighted time ratio.

3) Sales Ratio:
All expenses related to sales are also to be apportioned in sale ratio. Eg: advertising, salemen's commission, sales Promotion expenses, carriage outwards, bad debts, discount allowed etc..,

4) weighted Sales Ratio:
Sale ratio adjusted for the changes in trend.

5) Allocations of expenses:
Similarly, Partner's Salaries, interest

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PARTICULARS

over Purchase Price till the Date of incorporation may be allocated to the Pre-incorporation Period.

6) Actual Expenditure:
if Specific details are available about any Particular item of expenditure as to how must was Spent in the Pre and post incorporation Periods the actual amt should be charged to the respective Periods.

Table Showing treatment of different items

Nature of items	Basis of Apportionment
1. Gross Profit / loss	Sales ratio or weighted Sales ratio
2. All fixed expenses like Salaries, rent, rates, taxes, insurance, depreciation, postage etc.	Time ratio or weighted or adjusted Time ratio
3. All variable expenses directly Varying with turnover like commission, discount, Salesmen's remuneration, advertisement, carriage outwards.	Sales ratio or weighted Sales ratio
4. All expenses related to pre incorporation	Allocation to the Pre Period alone Such as Vendor's Salary.

incorporation Period
till the incorporation
date.

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
		5. All expenses wholly application to post	incorporation Period like		
		director's fees debentures interest, discount on issue of debentures, Preliminary expenses or formation expenses written off. Donations given by the company etc:-	Allocation to the post incorporate Period.		

(1) illustration : I

(a) Rajan, a small scale industrualist decided to convert him firm into a limited company with effect from 1st April 1996. But he obtained the ceritificate of incorporation on 1st August 1996 and the ceritificate to commence business on 1st october 1996. His accounts were closed on 31st December 1996.

Find out the time ratio for the Purpose of ascertaining Pre incorporation Profit.

(b) A company was incorporated on 1-2-98 to Purchase the business of Abdul Kalam & Son's as from 1st November 1997.

There were 10 employee before incorporation but 5 more were appointed on 1-2-98. you are required to ascertain the weighted time ratio for dividing Salaries between the pre

PARTICULARS | Rs | Ps | Rs | Ps

and Post incorporation Periods, assuming that the account are finalised 30 st october.

(a) computation of that ratio
Pre incorporation Period, from
1-4-96 to 1-8-96 = 4 month
Post incorporation Period from
1-8-96 to 31-12-96 = 5 month
Time ratio = 4:5

(b) computation of weighted time ratio:
There were 10 employes in the Pre incorporation Period of 3 month
There were 15 employes in the Post incorporation Period of 9 month.
weighted time ratio = 10×3 : 15×9
= 30 : 135
= or
= 2 : 9

(2) illustration : 2

(a) Arul and Balu agreed to Sell their business to a limited company from 1-1-97 but the company was legally incorporated on 1-5-97 and Prepared final accounts on 31-12-97. it was observed that the Sales were unifrom upto the date of incorporation but went up by 50% on average thereafter.
calculate the weighted Sales ratio
(b) murugan Ltd., was formed on 1-7-96 to acquire the business of johnson & Son with

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

effect from 1-1-96. when the company's first accounts were Prepared on 31-12-96, The following were noted:
(1) Sales for the year's Rs: 3,00,000
(2) Sales in january, February, April and may were only 50% of the annual average. Sales of August, September and December were twice the annual average.
calculate the weighted Sales ratio.

(a) computation of weighted Sales ratio
Sales went up on average by 50% after incorporation. If weighted of '1' is given to each month before incorporation, the weightage for each post incorporation month is 1.5.
weighted Sales ratio } = 4 month X 1 : 8 month X 1.5
= 4 : 12 or 1 : 3

(b) computation of weighted Sales ratio

Average Sale Per month in 1996	= $\frac{3,00,000}{12}$	= 25,000
Sales of january, Febuary, April and may at 50% of the annual average	25,000 × 50/100 × 4 =	50,000
Sales of August, September, November and December at twice the annual average	25,000 × 2 × 3 =	1,50,000
		2,00,000
Sales of the remaining 5 month in the year	3,00000 − 2,00,000	1,00,000

PARTICULARS	Rs	Ps	Rs	Ps
Average monthly sales for the 5 month	$\frac{1,00,000}{5}$		20,000	
Pre incorporation sales = january, Feboruary, April and may at 50% of the annual average 25,000×4× 50%		=	50,000	
Sale of march and june at annual average	20,000×2		40,000	
Total Pre incorporation sales		-	90,000	
Post incorporation sales =	3,00,000 - 90,000	-	2,10,000	
weighted sales ratio	- 90,000 : 2,10,000 (or) 3 : 7			

(3) Illustration : 3

Ganesh Ltd., was registered on 1-7-97 to acquire the running business of Suneel & co., with effect from 1-1-97. The following was the Profit and loss Account of the company on 31-12-97.

Particular	Rs	Particular	Rs
To office expenses	54,000	By Gross Profit B/d	2,25,000
To Formation expenses	10,000		
To Stationery & Postage	5,000		
To Selling Expenses	60,000		
To Director's Fees	20,000		
To Net Profit	76,000		
	2,25,000		2,25,000

FOLIO No.	PARTICULARS	Rs	Ps	Rs

You are required to Prepare a Statement showing Profit earned by the company in Pre and post incorporation Periods. The total Sales for the year took Place in the ratio 1:2 before and after incorporation respectively.

1. Revenue from operation:

	Basis of Apportionment	Total	Pre incorporation	Post incorporation
Gross Profit	Sales ratio 1:2	2,25,000	75,000	1,50,000

2 other Expenses:

	Basis of Apportionment	Total	Pre incorporation	Post incorporation
office exp	Time ratio 1:1	54,000	27,000	27,000
stationary & Postage	Time ratio 1:1	5000	2,500	2,500
Formation exp	Allocation	10,000	-	10,000
Director's fees	Allocation	20,000	-	20,000
Selling exp	Sale ratio 1:2	60,000	20,000	40,000
TOTAL		1,49,000	49,500	99,500

Ex:

FOLIO No. PARTICULARS Rs Ps Rs Ps

Statement of Profit and loss of Ganesh Ltd for the year ended 31.12.1997

Particular	Note No	Total	Pre incorporation	Post incorporation
Revenue from operations	1	2,25,000	75,000	1,50,000
less Expenses: other Exp	2	1,49,000	49,500	99,500
Profit for the Period		76,000	25,500	50,500

Ex:2 4 A company was incorporated on 1st may 1984 to take over a business as a going concern from 1st january of the same year. The turnover for the year ended 31st December was Rs. 2,00,000, namely Rs. 60,000 for the first Period upto 1st may and Rs. 1,40,000 for the following Period. Form the Profit and loss a/c given below for the year ended 31st December 1984, you are required to ascertain Profit Prior to incorporation.

Profit & Loss Account for the year ended 31-12-84

Particular	Rs	Particular	Rs
To Rent & Rates	3,240	By Gross Profit	70,000
To Insurance	720		
To lighting	2,040		
To Salaries	7,800		
To Director's fees	2,000		
To Sales Discount	5,000		
To Sales commission	10,000		
To General Exp	2,400		
To carriage outwards	3,000		
To Bank charges	420		
To Repairs	1,380		
To Bad Debts	600		

DATE	FOLIO No.	PARTICULARS			Rs	Ps
		To Loan interest	1,200			
		To Net Profit	30,200			
			70,000			

Ex:3

Time Ratio:
Pre : 1.1.84 to 30.4.84 = 4 month
post : 1.5.84 to 31.12.84 = 8 month
Time Ratio = 4:8 (or)
= 1:2//

Sales Ratio:
= 60,000 : 1,40,000
= 6:14 (or)
= 3:7//

Statement of Profit & Loss

	Particular	Basis of apportionment	Total	Pre incor - portion	post - port
	Gross Profit (1)	S.R (3:7)	70,000	21,000	49,
Exp:	Rent & Taxes	T.R (1:2)	3240	1080	21
	insurance	T.R (1:2)	780	240	48
	Lighting	T.R (1:2)	2040	680	13,
	Salary	T.R (1:2)	7800	2600	52
	Director's fees	Allocation	2000	-	200
	Sales dis	S.R (3:7)	5,000	1500	350
	Sales commission	S.R (3:7)	10,000	3000	7,0
	General exp	T.R (1:2)	2400	800	160
	carr outwards	S.R (3:7)	3000	900	210
	Bank chages	T.R (1:2)	420	140	280
	Repairs	T.R (1:2)	1380	460	920
	Bad debts	S.R (3:7)	600	180	420
	Loan int	T.R (1:2)	1200	400	800

Ex:

PARTICULARS		Rs	Ps	Rs
Total (2)		39,800	11,980	27,820
Profit (1-2)		30,200	9020	21,180

Ex:3 5 you are required to calculate the Time ratio for the Pre and Post incorporations Periods from the following Particulars:

(a) Date of Incorporation : 1st june 1999

(b) Period of Financial Accounts : April 1999 To march 2000

(c) Total wages Rs. 4,800

(d) Number of workers : Pre incorporation Period : 5

Post incorporation Period : 25

Also divide the total wages between Pre and post incorporation Periods.

Pre incorporation Period : 1.4.99 - 31.5.99 = 2 month

Post incorporation Period : 1.6.99 - 31.3.2000 = 10 month

Time Ratio = 2 : 10 (or)

= 1 : 5//

weighted Time Ratio

Pre = 5×1 = 5

post = 25×5 = 75

weighted time Ratio = 5 : 75 (or)

= 1 : 25//

wages = 4800

Pre incorporation = 4800 × 1/25 = 185

Post incorporation = 4800 × 25/26 = 4615

Ex:7 6 Razak Mia Ltd., was formad on 1st may 1994 to Purchase the business of yaleel & co., with effect from 1-1-94. while Preparing final accounts on 31-12-94, it was observed that

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

(a) Total Sales for the year were Rs. 10,00,000
(b) Sales in the second half of the year were double to those in the first half, on a monthly average basis.

You are required to find out the sales ratio for the purpose of determining the Pre and Post incorporation Profits.

Sales Ratio:
Pre incorporation : 1.1.94 - 31.4.94 = 4 month
Post incorporation = 1.5.94 - 31.12.94 = 8 month
Sales Ratio = 4:8 (or)
= 1:2

weighted Sales Ratio = 4×1 : (2×1 + 6×2)
= 4 : 14
= 2 : 7

Ex:15 (7) From the following data, calculat Profit Prior to incorporation:
Time Ratio : 1:2
Sales Ratio : 1:3
Gross Profit : Rs, 1,70,500
Administrative expenses : Rs. 69,600
Expenses relating to sales : Rs. 18,600
Preliminary expenses : Rs. 11,560

STATEMENT OF PROFIT AND LOSS

Particular	Basis of apportionment	Total	Pre incor-poration	Post incorporation
Gross Profit (A)	S.R 1:8	1,70,500	42,625	1,27,8[illegible]

Ex:7 (

other Expenses

PARTICULARS		Rs	Ps	Rs
Administrative ~~Business~~ Exp	T:R 1:2	69600	23200	46400
Sales Exp	S:R 1:3	18,600	4,650	13,950
Preliminary Exp	Allocation	11,560	-	11,560
Total (B)		99,760	27850	71,910
Profit (A - B)		70,740	14,775	55,965

Final Accounts

Ex:7 (8) A Limited company was registered with an authorised capital of Rs. 30,00,000 in equity Shares of Rs. 10 each. The following is the list of balances extracted from its books on 31.12.94

Purchases	9,25,000
wages	4,25,325
manufacturing Exp	65,575
Salaries	70,000
Bad debts	10,550
Director's fee	31,125
Debenture interest Paid	45,000
Preliminary Exp	25,000
calls-in-arrears	37,500
Plant & machinery	15,00,000
Premises	16,50,000
Interim dividend Paid	1,87,500
Furniture and fittings	35,000
Sundry debtors	4,36,000
General Exp	84,175
Stock on 1.1.94	3,75,000
cash in hand	1,00,000
Goodwill	28,750

PARTICULARS	Rs
Cash at bank	1,99,500
Subscribed and fully called up capital	20,00,000
Profit & Loss A/c (Cr)	78,500
6% Debentures	15,00,000
Sundry creditors	2,90,000
Bills Payable	1,67,500
Sales	20,75,000
General reserve	1,25,000

You are required to Prepare Statement of Profit and loss for the year ended 31.12.94 and the Balance sheet as on that date, after making, the following adjustments.

Depreciate Plant & Machinery by 10%. Provide half years interest on debentures Also write off Preliminary expenses and make Provision for bad and doubtful debts of Rs. 4,250 on sundry debtors. Stock on 31 st December 1994 was Rs. 4,55,000. Provide for corporate dividend tax @ 17%.

Notes to account on Statement of Profit & loss

1	Revenue operation	
	Sales	20,75,000
	Other income	-
2	cost of good sold	
	Opening stock	3,75,000
(+)	Purchase	9,25,000
(+)	mfg exp	65,575
(-)	closing Stock	4,55,000
	cost of good sold	9,10,575

Note No.	PARTICULARS	Rs	Rs
3	Employee Benefit Exp		
	wages		4,24,325
	Salaries		70,000
	Employee Benefit Exp		4,94,325
4	Finance cost (6% on 15,00,000)		
	Debenture interest Paid	45,000	
	(+) out standing	45,000	90,000
5	Depreciate & Amortisation Exp		
	Depreciation on Plant 10% on 15,00,000		1,50,000
	Preliminary Exp		25,000
	Depreciation		1,75,000
6	Other Exp		
	Bad debts		10550
	Director fees		31125
	General Exp		84175
	other Expenses		1,30,100

Step: 2

Statement of Profit & loss for the year ended 30 june 2016

	Particulars	Note No.	Rs
I	Revenue from operation	1	20,75,000
	Sales		-
II	other income		
III	Total Revenue (A)		
IV	Expenses	2	910575
	cost of good sold	3	494325
	Employee Benefit Exp	4	9000
	Finance cost		

DATE	FOLIO No.	PARTICULARS	Rs	Ps	
			5		135...
		Depraliation & Amordisation			130...
		other Exp			1,80...
		Total Exp (B)			2,75,0...
	V	Profit from tax (A-B)			
	VI	Less: Tax Exp			-
		Provision for tax			2,75,00...
	VII	Profit after tax			

Step: 3 Notes to allocuts on Balance Sheet

1	Share capital	2,00,000	
	called up capital	37,500	1,92,500
(-)	calls in arrears		
2	Reserves & Surplus		1,25,000
	Reserve		
	Surplus in memant of Profit loss:		
	Balance of the Begining of the year	72500	
(+)	Profit for year	275000	
		347500	
(-)	Dividend Paid	187500	1,60,000
	Reserves & Surplus		2,85,000
3	long term borrowing 6% Debentures		15,00,000
4	Trade Payable		
	Creditors	2,90,000	
	Bill Payable	1,67,500	4,57,500
5	Short term Provision		-
6	other current liabilities		-
	outstanding debenture Interest		45,000
7	Tangible assets		

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DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs	Ps
		Plant : less - Depreciation				
		15,00,000 - 1,50,000	13,50,000			
		Premises	6,50,000			
		furniture	35,000		30,35,000	
	8	intangible assets				
		Goodwill			1,00,000	
	9	Trade Receivable				
		Debtors	436000			
		(-) RBD	4250		431750	

Step : 4 Balance Sheet as on 30^{th} june 2016

		Particulars	Note No.		Rs	
		Equity & liabilities				
	1	Shareholder's funds				
		Share capital	1		1962500	
		Reserve & Surplus	2		285000	
	2	Non - current liabilities				
		long term Borrowings	3		15,00,000	
	3	current liabilities				
		Trade Payable	4		457500	
		Short term Provision	5		-	
		other current liabilities	6		45,000	
		Total			42,50,000	
		Assets				
	1	Non - current Assets				
		Fixed assets				
		Tangible assets	7		30,35,000	
		intangible assets	8		1,00,000	
	2	current assets				
		inventories (closing stock)			45,500	
		Trade Receivable	9		4,31,750	
		cash & cash equivalents			2,38,250	
		Total			42,50,000	

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs

Ex:17 (9) The following is the Trial Balance of A Ltd as on 30.6.90

Particular	Debit	Credit
Stock on 30.6.89	7,500	
Purchase and Sales	24,500	35,000
wages	5,000	
Discounts	700	500
Salaries	750	
Rent	495	
Insurance	1,705	
Profit & Loss A/c (1989)		1,503
Dividend Paid	900	-
capital		10,000
Debtors and creditors	3,750	1,750
machinery	2,900	-
cash at Bank	1,620	-
Reserve	-	1,550
Bad debts	483	-
	50,303	50,303

Adjustments:

(i) Stock on 30.6.90 Rs. 8,200

(2) Depreciate machinery at 10%

(3) Provide 5% discount on debtors

(4) Provide 2½% discount on creditors

(5) Six months insurance was unexpired of Rs. 75 Per annum

(6) one month's rent @ Rs. 540 Per annum was due on 30 June

(7) Provide managing Directors commission, 15% on the net Profit before deducting his commission

you are required to Prepare statement of Profit & loss Account for the year ended 30.6.90 and the Balance Sheet on that date.

Step : 1

Particulars	Rs	Ps	Rs	Ps
Note to Accounts on Statement of Profit & loss				
1) Revenue from operator				
Sales			3,50,000	
other income : Discount Receive			5,000	
2) cost of good sold :				
opening Stock			75,000	
(+) Purchase			2,45,000	
(-) closing Stock			83,000	
cost of good sold			237,000	
3 Employee Benefit Exp				
wages			50,000	
Salaries			7,500	
Employee Benefit Exp			57,500	
4 Finance costs			-	
5 Depreciations & Amortisation Exp				
Depreciation on plant 10% on 29000			2900	
Depreciation on furniture & fitting 10% on 17,000			1700	
Depreciation on Patners & Trade marks 10% on 4830			483	
Depreciation			5083	
6 other Exp			4950	
Rent			7050	
Sundry Exp			12000	
other Exp				

Step: 2

DATE	FOLIO No.	PARTICULARS	Rs	Ps	
		Statement of Profit or loss for the year ended 30th June 2016			
	I	Revenue from operation	1		3,50,000
	II	other income			5,000
	III	Total Revenue (A)			3,55,000
	IV	Expenses			
		cost of good sold	2		2,37,000
		Employee Benefit Exp	3		57,500
		Finance cost	4		-
		Depreciation & Amortisation	5		5083
		other Exp	6		12000
		Total Exp (B)			311583
	V	Profit before Tax (A-B)			43417

Step: 3 Notes to account on Balance Sheet

1	Share capital		
	Paid up capital		1,00,000
2	Reserve & Surplus		
	Reserve		15,500
	Surplus in Statement of Profit & loss Balance Sheet		
	at the Beining of year	15,030	
(+)	Profit of the year	21708	
		36,738	
(-)	Dividend Paid	9,000	23738
	Reserve & Surplus		43238
3	Long term borrowing		
	unsecured loan		-
4	Trade Payables		
	creditors		17500
5	Short term Provision		
	Provision for tax		21,709

Date	Folio No.	Particulars	Rs	Ps	Rs	Ps
	6	other current liability			-	
	7	Tangible assets				
		Plant less: Depreciation				
		29000 - 2900	26100			
		furniture less: Depreciation				
		17000 - 1700	15300		41400	
		Intangible assets				
		patents less: Depreciation				
		4830 - 483			4347	
	8	Trade Receivables				
		Debtors			37500	

Step:4 Balance Sheet as on 30 june 2016

Date	Folio No.	Particulars	Rs	Ps	Rs	Ps
		Equity liabilities				
	1	Share holder's funds				
		Share capital	1		1,00,000	
		Reserve & Surplus	2		43,238	
	2	Non current liabilities				
		long term borrowing	3		-	
	3	current liability				
		Trade Payable	4		17,500	
		short term Provision	5		21,709	
		other current liabilities	6			
		Total			182447	
		Assets				
	1	Non-current assets Fixed ass			41400	
		Tangible assets	7		4347	
		intangible assets	8			
	2	current assets			83,000	
		inventories (closing stock)			37500	
		Trade Receivable	9		37500	
		cash & cash equivalents				

LIO No.	PARTICULARS	Rs	Ps	Rs	Ps
	Short term loans & advances			-	
	Total			182447	

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Total

ii:I (10) moon and Star co. Ltd is a company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity Shares of Rs. 100 each on 31.12.1985 of which 2,500 Shares were fully called up. The following are the balances extracted from the ledger as on 31.12.1985.

Trial balance of moon & Star Co. Ltd

Debit	Rs	Credit	Rs
opening Stock	50,000	Sales	3,25,000
Purchase	2,00,000	Discount received	3,150
wages	70,000	Profit & Loss A/c	6,220
Discount allowed	4,200	Creditors	35,200
insurance (upto 31.3.86)	6,720	Reserves	25,000
Salaries	18,500	loan from	
Rent	6,000	managing director	15,700
General expenses	8,950	Share capital	2,50,000
Printing	2,400		
Advertisements	3,800		
Bonus	10,500		
Debtors	38,700		
plant	1,80,500		
furniture	17,100		
Bank	34,700		
Bad debts	3,000		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

PARTICULARS

You are required to Prepare Statment of Profit & loss for the year ended 31.12.1985 and a balance sheet as on that date. The following further information is given:

(a) closing stock was valued at Rs. 1,91,500
(b) Depreciation on plant at 15% and on furniture at 10%. should be provided.
(c) A tax provision of Rs. 8,000 is considered necessary
(d) The directors declared an interim dividend on 15.8.85 for 6 months ending june 30,1985 @ 6%.
(e) Provide for corporate dividend tax @17%.

Note to accounts on Statement of Profit and loss

1) Reserve from operations:		
Sales		3,25,000
2) other income:		
Discount received		3,150
3) cost of goods sold:		
opening stock		50,000
(+) Purchases		2,00,000
		2,50,000
(-) closing stock		1,91,500
cost of good sold		58,500
4 Employee benefit exp		
wages		70,000
salaries		18,500
Bonus		10,500
		99,000
5 Depreciation and amortisation exp		
Dep. on Plant		27,075
Dep. on furniture		1,710

DATE		PARTICULARS			
					88,785
	6	other exp			4,200
		Discount allowed		6,720	
		insurance		1,680	5,040
		(-) Prepaid (6,720x3/12)			6,020
		Rent			8,950
		General exp			2,400
		Printing			3,800
		Advertising			3,000
		Bad debts			33,590

Moon Star Ltd.

Statement of Profit and loss for the year ended 31.12.1985

Particulars	Note	Amount
Revenue from operation	1	3,25,000
other income	2	3,150
Total revenue (A)		3,28,150
Expenses :		
cost of good sold	3	58,500
Employee benefit Exp	4	99,000
Dep and amortisation	5	28,785
other Exp	6	33,590
Total Exp (B)		2,19,875
Profit before tax (A-B)		1,08,275
(-) Tax exp : current tax		8,000
Profit for the Period		1,00,275

Note to Accounts on Balance Sheet

	Particulars	Amount
1	Share capital :	
	Authorised capital :	
	5,000 equity Shares of Rs.100 each	5,00,000

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Note No.	PARTICULARS	Rs	Ps	Rs	Ps
	issued SubScribed and called up:				
	2.500 Shares of Rs.100 each	2.50.000			
	(-) call in arrears	5.000			
				2,45.000	
2.	Reserve & Surplus:				
	Reserve			25.000	
	Surplus in Statement of Profit and loss:				
	Balance at the begining of the year	6,220			
	Profit for the year	1,00,275			
		1,06,495			
(-)	APPropriations:				
	interim dividend (2,45,000x 6%)	14,700			
	corporate dividend tax (14,700x17%)	2,499			
				89,296	
				1,14,296	
3	long term borrowings unsecured loan			15,700	
4	Trade Payables: Creditors			35,200	
5	Short term Provisions:				
	Provision for tax			8,000	
	Dividend tax Payable			2,499	
				10,499	
6	other current liabilities intheirm dividend Payable			14,700	
7	Tangible assets				
	plant Dep (1,80,500-27,075)			1,53,425	

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DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
		furniture less Dep			
		(17,100 − 1,710)			15,390
					1,68,815
	8	Trade receivable			38,700
		Debtors			
	9	Short term loans and			
		advances:			1,680
		Prepaid insurance			

Moon & Star co Ltd

Balance sheet as on 31.12.1985

	Particular	Note No	Rs
I	Equity and liabilities		
	(i) Share holder's funds:		
	Share capital	1	2,45,000
	Reserve & Surplus	2	1,14,296
	(ii) Non current liabilities		
	long term borrowing	3	15,700
	(iii) current liabilities		
	Trade Payable	4	35,200
	Short term Provision	5	10,499
	other current liabilities	6	14,700
	Total (i)+(ii)+(iii)		4,35,395
II	Assets		
	(i) Non current assets		
	Tangible assets	7	1,68,815
	(ii) current assets		
	Trade receivable	8	38,700
	closing Stock		1,91,500
	Bank		34,700

PARTICULARS	Rs	Ps	Rs	Ps
Short term loan and advances	9		1,680	
Total (i) + (ii)			4,35,395	

Unit - III

Issue of Debentures

① Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debenture were issued as follows:

(1) issued at Par, redeemable at Par,
(2) issued at a discount of 5% repayable at Par
(3) issued at a Premium of 10%, repayable at Par
(4) issued at Par, redeemable at a Premium of 10%.
(5) issued at a discount of 5% repayable at a Premium of 10%.

You are also required to show how the items concerned appear in the Balance Sheet in each of the above cases.

Particular	Dr	Cr
1) Bank A/c Dr	1,00,000	
To 8% debentures A/c		1,00,000
[Being issue of 1,000 debentures of Rs. 100 each at Par, repayable at Par]		

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
	2	Bank A/c Dr	95,000		
		Discount on issue of debenture A/c Dr	5,000		
		To 8% Debentures A/c			1,00,000
		[Being issue of 1,000 debentures of Rs.100 each at 5% discount, repayable at Par]			
	3)	Bank A/c Dr	1,10,000		
		To 8% debentures A/c			1,00,000
		To Securities Premium A/c			10,000
		[Being issue of 1,000 debenture of Rs. 100 each at 10% Premium, repayable at Par]			
	4)	Bank A/c Dr	1,00,000		
		Loss on issue of debentures Dr	10,000		
		To 8% Debentures A/c			1,00,000
		To Premium on redemption of debentures A/c			10,000
		[Being issue of 1,000 debentures of Rs. 100 each at Par, repayable at Premium of 10%.]			
	5	Bank A/c Dr	95,000		
		Discount on issue of debentures A/c Dr	5,000		
		Loss on issue of debentures Dr	10,000		
		To 8% Debentures A/c			1,00,000
		To Premium on redemption of debentures A/c			10,000

PARTICULARS	Rs	Ps	Rs	Ps
[Being issue of 1,000 debentures of Rs. 100 each at 5% discount, repayable at 10% Premium]				

(i) Balance Sheet of Timex Ltd. (includes)

Liabilities	Rs
Non - current liabilities	
long term borrowings:	
8% debentures	1,00,000
Assets	**Rs**
current assets	
cash at bank	1,00,000

(ii) Balance Sheet of Timex Ltd (includes)

liabilities	Rs
Non - current liabilities	
long term borrowings:	
8 % debentures	1,00,000
Assets	
current assets	
cash at Bank	95,000
other current assets:	
Discount on issue of debenture	5,000

(iii) Balance Sheet of Timex Ltd (includes)

Liabilities	Rs
Reserve & Surplus	
Securities Premium	10,000
Non - current liabilities	
long term borrowing:	
8 % debentures	1,00,000

DATE	FOLIO No.	PARTICULARS			Rs
		Assets			
		current Assets			1,10,000
		cash at Bank			
		(iv) Balance sheet of Timex Ltd (includes)			
		Liabilities			Rs
		Non-current liabilities			
		long term borrowing :			
		8% debentures			1,00,000
		Premium on redemption of debentures			10,000
		Assets			Rs
		current assets :			
		cash at Bank			1,00,000
		other current assets :			
		Loss on issue of debentures			10,000
		(v) Balance sheet of Timex Ltd (includes)			
		Liabilities			Rs
		Non-current liabilities			
		long term borrowing			
		8% debentures			1,00,000
		premium on redemption of debentures			10,000
		Assets			Rs
		current assets :			
		cash at Bank			95,000
		other current assets :			
		loss on issue of debentures			10,000
		Discount on issue of debentures			5,000

PARTICULARS

(2) Excel Ltd. made the following issue of debentures on 1.4.97

(1) 200 10% debentures of Rs.100 each to settle a creditor who supplied a machine on credit some time ago at a Price of Rs.18,000

(2) 300 10% debentures of Rs.100 each for cash at a discount of 5%.

(3) 1,000 10% debentures of Rs.100 each to the bankers as collateral security for a loan of Rs.80,000

All the above issues are redeemable Par

Pass journal entries to record the above in the books of the company and show the these items are to be shown when the company Balance sheet is prepared.

Books Excel Ltd

	Particular		Dr	Cr
1	machine vendor's A/c	Dr	18,000	
	Discount on issue of debentures A/c	Dr	2,000	
	To 10% debentures A/c			20,000
	[Being issue of 200 debenture of Rs.100 each at a discount of 10% to settle the A/c of machine supplier]			
2	Bank A/c	Dr	28,500	
	Discount on issue of debentures	Dr	1,500	
	To 10% Debentures A/c			30,000
	(Being discount of 5%.)			

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DATE	FOLIO No.	PARTICULARS		Rs	Ps	Rs
	3	Debenture Suspense A/c	Dr	1,00,000		
		To 10% Debentures A/c				1,00,000
		(Being collateral Security to bankers against loan of Rs. 80,000)				

Balance Sheet of Excel Ltd as a (includes)

Liabilities	Rs
Non-current liabilities	
Long term borrowing	
1,500 10% Debentures of Rs. 100 each (of these 1000 debentures issued as collateral Security as Per contra)	1,50,000
Bank loan (Secured by issue of 1,000 debentures of Rs.100 each as collateral Security)	80,000
Assets	
Current assets :	
cash at Bank	28,500
other current assets	
Discount on issue of debenture	3,500
Debentures Suspense a/c as Per contra	1,00,000

ill-4 (3) moon Rays Ltd issued 50,000 8% debentures of Rs.10 each to the Public at Per, to be paid Rs. 4 on application and the Balance on allotment.

Application were received for 48,000 debentures. Allotment was made to all the applicants and the amount due was received Promptly.

PARTICULARS | Rs | Ps | Rs | Ps

Give Journal entries to record the transaction and show how - they appear in the Balance sheet of the company.

Books of moon Rays Ltd
Journal

Particular		Dr	Cr
1) Bank A/c	Dr	1,92,000	
To Debentures application A/c			1,92,000
(Being application money at Rs. 4 Per debenture for 48,000]			
2) Debenturs application A/c	Dr	1,92,000	
To 8% Debentures A/c			1,92,000
[Being transfer of application money to debentures A/c)			
3) Debentures Allotment A/c	Dr	2,88,000	
To 8% debentures A/c			2,88,000
(Being allotment amount Rs. 6 received in 48,000 debentures)			
4) Bank A/c	Dr	2,88,000	
To Debentures Allotment A/c			2,88,000
(Being allotment amount on 48,000 debentures received)			

DATE	FOLIO No.	PARTICULARS	Rs	Ps	Rs
		Balance Sheet of moon Rays Ltd			
		Liabilities			Rs
		Non-current liabilities:			
		long term borrowing - 8% debentures			4,80,000
		Assets			Rs
		current assets:			
		cash at Bank			4,80,000

iu:94 (4) Samy Ltd, issued 6% debentures for Rs. 12,00,000 on 1.1.94 it was Provided in the debentures trust deed that the debentures are repayable at the end of 1996 with a Premium of 10%. A Sinking fund was set up to Provide cash for the redemption on the due data. The amounts set aside annually are to be invested in 5% government bonds. Sinking fund tables show that on 0.31720856 at 5% compound interest in 3 year will become Rs. 1

you are required to write the ledger accounts for all the 3 years in the company's book. calculations may be made to the nearest rupee.

Annual contribution to Sinking funds = Amount to be repaid X Sinking fund factor

= (12,00000 + 1,20,000) X 0.31720856

= Rs. 4,18,715

Book of Samy Ltd

Ledger

Sinking Fund Account

Date	Particular	Rs	Date	Particular	Rs
31.12.94	To Balance c/d	4,18,715		By P&L Appn A/c	4,18,715
31.12.95	To Balance c/d	8,58,366	1.1.95	Balance b/d	4,18,715
			31.12.95	By P&L Appn	4,18,715
			,,	By interest on sinking fund investment	20,936
		8,58,366			8,58,366
31.12.96	To General reserve (Transfer)	13,20,000	1.1.96	By Balance b/d	8,58,366
			31.12.96	By P&L Appn A/c	4,18,715
			31.12.96	By interest on Sinking fund investment	42,919
		13,20,000			13,20,000

Interest on Sinking fund investment A/c

Date	Particular	Rs	Date	Particular	Rs
31.12.95	To Sinking fund A/c (Transfer)	20,936	31.12.95	By Bank	20,936
31.12.96	To Sinking fund A/c	42,919	31.12.96	By Bank	42,919

Sinking fund investment Account

Date	Particular	Rs	Date	Particular	Rs
31.12.94	To Bank A/c	4,18,715	31.12.94	By Balance c/d	4,18,715
1.1.95	To Balance b/d	4,18,715	31.12.95	By Balance c/d	8,58,366
31.12.95	To Bank A/c	4,39,651			
		8,58,366			8,58,366
1.1.96	To Balance b/d	8,58,366	31.12.96	By Bank	8,58,366
		8,58,366			8,58,366

6% Debentures A/c

Date	Particulars	Rs	Date	Particulars	Rs
31.12.94	To Bal c/d	12,00,000	1.1.94	By Bank	12,00,000
31.12.95	To Bal c/d	12,00,000	1.1.95	By Bal b/d	12,00,000
31.12.96	To Debenture holders A/c (Transfer)	12,00,000	1.1.96	By Bal b/d	12,00,000

Debentureholders A/c

Date	Particulars	Rs	Date	Particulars	Rs
31.12.96	To Bank	13,20,000	31.12.96	By 6% debentures A/c (Transfer)	12,00,000
			31.12.96	By Premium on redemption of debentures (12,00,000×10%)	1,20,000
		13,20,000			13,20,000

iv:30 (5) Sudhir Ltd issued 15,000 10% debentures of Rs.100 each on 1.1.95. They are repayable at the end of 3 year, at Per. The company decided to take an insurance policy for the redemption of these debentures to provide the necessary cash. The Premium Payable at the begining of every year is Rs. 4,11,975 and interest at 10% p.a., at compound rate is expected. The policy amount was received at the end of the third year and the debenture were duly redeemed.

Show ledger accounts in the books of the company for all the years.

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Date	Particulars	Rs	Date	Particulars	Rs

Debentures Redemption Fund Account

Date	Particulars	Rs	Date	Particulars	Rs
31.12.95	To Bal c/d	4,53,172	31.12.95	By P&L Appn A/c	4,11,975
			"	By debenture redemption Policy A/c (interest) (4,11,975 x 10/100)	41,197
		4,53,172			4,53,172
31.12.96	To Bal c/d	9,51,662	1.1.96	By Balance b/d	4,53,172
			31.12.96	By P&L Appn A/c	4,11,975
			"	By debenture redemption Policy A/c (interest) (453172 + 411975) x 10/100	86,515
		9,51,662			9,51,662
31.12.97	To General reserve A/c	15,00,000	1.1.97	By Bal b/d	9,51,662
			31.12.97	By P&L Appn A/c	4,11,975
			"	By debenture redemption Policy A/c (interest) (951662 + 411975) x 10/100	1,36,363
		15,00,000			15,00,000

Debenture redemption policy account

Date	Particulars	Rs	Date	Particulars	Rs
1.1.95	To Bank (Premium)	4,11,975	31.12.95	By Bal c/d	4,53,172
31.12.95	To debenture redemption fund A/c (interest)	41,197			
1.1.96	To Bal b/d	4,53,172	31.12.96	By Bal c/d	9,51,662
1.1.96	To Bank (Premium)	4,11,975			

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DATE	FOLIO No.	PARTICULARS	Rs	DATE	PARTICULARS	Rs
31.12.96		To Debenture redemption fund A/c (interest)	86,515			
			9,51,662			9,51,662
1.1.97		To Bal b/d	9,51,662	31.12.97	By Bank (Policy amount)	15,00,000
1.1.97		To Bank (Premium)	4,11,975			
31.12.97		To debenture redemption fund A/c (interest)	1,36,363			
			15,00,000			15,00,000

10% Debentures Account

DATE	FOLIO No.	PARTICULARS	Rs	DATE	PARTICULARS	Rs
31.12.96		To Bal c/d	15,00,000	1.1.95	By Bank A/c (issue)	15,00,000
31.12.96		To Bal c/d	15,00,000	1.1.96	By Bal b/d	15,00,000
31.12.97		To Bank (repayment)	15,00,000	1.1.97	By Bal b/d	15,00,000