Biyani's Think Tank

Concept based notes

Corporate Accounting

(B.Com. Part-I)

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Note: **A feedback form is enclosed along with think tank. Kindly fill the feedback form and submit it at the time of submitting to books of library, else NOC from Library will not be given.**

Author

Syllabus

B.Com.. Part-I

Corporate Accounting

Section-A

1. Accounting principles, Conventions and concepts.
2. Accounting Standards : Procedure of framing Accounting Standards and their relevance in Accounting. AS-1, AS-9, AS-14 and AS-20.
3. Issue of Shares & Debentures, Forfeiture of shares, reissue of forfeited shares, right shares.
4. Redemption of preference shares and debentures.

Section-B

5. Business Purchase and Underwriting, Profit prior and post incorporation.
6. Final accounts of companies including managerial remuneration, disposal of profits and issue of bonus shares.
7. Valuation of Goodwill and Shares.

Section-C

8. Internal reconstruction (without scheme)
9. Amalgamation of Companies (excluding inter-company holdings).
10. Liquidation of Companies.

Note : The candidate should be permitted to use battery operated pocket calculator that should not have more than 12 digits, 6 functions and 2 memories and should be noiseless and cordless.

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Content

Chapter-1

Accounting : Principles, Concepts and Conventions

Q.1 Define Accounting. What is GAAP (Generally accepted Accounting Principles)? Explain briefly the Accounting Principles.

Ans Accounting may be defined as the process of recording, classifying, summarizing and interpreting the financial transactions and communicating the results there of to the persons interested in such information.

GAAP (Generally Accepted Accounting Principles): It is a Technical concept that describes the basic rules, concepts, conventions and procedures that represent accepted accounting practices at a particular time.

Accounting principles can be divided into two parts:

Principle

Concepts	**Conventions**
The term concept includes those basic assumptions, conditions and ideas upon which the science of accounting is based.	Conventions used to signify the customs or traditions as a guide to the preparation of accounting statements.

Accounting Concepts :

(1) **Entity Concept:** According to this concept business is treated as a separate unit and distinct from its proprietors.

(2) **Dual Aspect Concept:** According to this concept every transaction has two sides at least. If one account is debited, any other account must be credited. Every business transaction involves duality of effects. (i) Yielding of that benefit (ii) The giving of that benefit.

(3) **Going Concern Concept:** This concept assumes that the business will continue to exist for a long period in the future. There is neither the necessity nor the intention to liquidate it.

(4) **Accounting Period Concept:** According to this concept the entire life of the concern is divided in time intervals for the measurement of profit at frequent intervals.

(5) **Money Measurement Concept:** Only those transactions and events are recorded in accounting which is capable of being expressed in terms of money.

(6) **Cost Concept :** According to this concept:

(a) An asset is ordinarily entered in the accounting records at the price paid to acquire it.

(b) This cost is the basis for all the subsequent accounting for the asset.

(7) **Matching Concept:** In determining the net profit from business operations all cost which is applicable to revenue of the period should be charged against that revenue.

(8) **Accrual Concept:** This concept helps in relating the expenses to revenue for a given accounting period.

(9) **Realization Concept:** According to this concept, revenue is recognized when sale is made and sale is considered to be made when a goods passes to the buyer and he becomes legally liable to pay for it.

(10) **Verifiable objectivity Concept:** This concept means that all accounting transactions that are recorded in the books of accounts should be evidenced and supported by business documents.

Conventions: Accounting conventions are of following types:-

(1) **Convention of Disclosure:** According to this convention accounting reports should disclose fully and fairly the information they purport to represent. The information which are of material interest to proprietors.

(2) **Convention of Materiality:** The accountant should attach importance to material details and ignore insignificant details.

(3) **Convention of Consistency:** This convention describes that accounting principles and methods should remain consistent in order to enable the management to compare the results of the two periods. These principles should not be changed year after year.

(4) **Convention of Conservatism:** According to this convention, in the books of accounts all anticipated losses should be recorded and all anticipated gains should be ignored.

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Chapter-2

Accounting Standard

Q.1 Define Accounting Standards and discuss important features of AS-I, AS-9, AS-14, AS-20.

Ans.: Accounting Standard: Accounting standards are the policy documents issued by the recognized expert accountancy body relating to various aspects of measurements, treatment and disclosure of accounting transactions and events.

AS-I : Disclosure of Accounting Policies : The standard issued by Accounting standard Board (ASB) deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements. Such disclosure would facilitate a meaningful comparison between financial statements of different enterprise. Following points are considered in this disclosure:

- Going concern, consistency and accrual have been generally accepted as fundamental accounting assumptions.
- The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.
- The areas in which different accounting policies may be adopted are :-
  - Methods of depreciation, depletion and amortization.
  - Valuation of Inventories, Investments, Goodwill, fixed assets.
  - Treatment of Contingent liabilities, retirement benefits.

- The basis for the selection of accounting policies is that they should represent a true and fair view of the state of affairs of the enterprise.
- Prudence, Substance over form and Materiality are the major consideration governing the selection of accounting policies.
- Any change in an accounting policy which has a material effect should be disclosed and the significant accounting policies should normally be disclosed in one place.

AS-9: Revenue Recognition: Revenue recognition is mainly concerned with the timing of recognition of revenue in the statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. The statement is concerned with the bases for recognition of revenue in the statement of profit and loss account of an enterprise.

The statement is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from:-

- The sale of goods;
- The rendering of services; and
- The use by others of enterprise resources yielding interest, royalty and divided.

Sale of Goods : A key criterion for determine when to recognize revenue from a transaction involving the sale of goods is that the seller has transferred the property in the goods to the buyer for a consideration. The transfer of property in goods, in most cases, results in or coincides with the transfer of significant risk and rewards of ownership to the buyer.

Rendering of Services: Revenue from service transaction is usually recognized as the services is performed, either by the proportionate completion method or by the completed service method

(i) Proportionate completion method: - Performance consists of the execution of more than one act. Revenue is recognized under this method would be determined on the basis of contract value, associated costs, number of acts or other suitable basis.

(ii) Completed service method: - Performance consists of the execution of a single act. Revenue is recognized when the sale of final act takes place.

The use by others of Enterprise Resources Yielding interest, Royalties and Dividends.

(i) Interest accrues (for the use of cash resources) is recognized on the time basis determined by the amount outstanding.

(ii) Royalties accrue (for the use of know how, patents, trade marks) in accordance with the terms of relevant agreement.

(iii) Dividends –rewards (from the holding of investment in shares) is recognized when a right to receive payment is established.

Recognition of revenue requires that revenue is measurable and that at the time of sale of goods, or the rendering of services it would not be unreasonable to expect ultimate collection.

AS-14 : Accounting for Amalgamations (Come into effect from 1-4-1995):

This Statement deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves. This statement is directed principally to companies although some of its requirements also apply to financial statement of other enterprise.

The following terms are used in this statement with the meaning specified :-

(i) Amalgamation means an amalgamation present to the provision of the companies act 1956 or any other statute which may be applicable to companies.

(ii) Transferor Company means the company which is amalgamated into another company.

(iii) Transferee Company into which a transferor company is amalgamated. An Amalgamation may be either: (a) in the nature of merger, or (b) in the nature of purchase.

In case of an amalgamation in the nature of merger following conditions should be satisfied:-

(i) All assets and liabilities will be the assets and liabilities of Transferee Company.

(ii) Share holders holding not less than 90% of the face value of the equity shares of the transferor company will be the shareholder of Transferee Company.

(iii) Payment will be made in equity shares to the equity share holders except cash may be paid in respect of any fractional shares.

(iv) Business of the transferor company will be continued by the Transferee Company.

(v) Book values will be same in the books of Transferee Company.

When any one or more above conditions are not satisfied, an amalgamation should be considered to be an amalgamation in the nature of purchase.

For an amalgamation in the nature of merger, pooling of interest method is applied and for an amalgamation in the nature of purchase – purchase method is applied.

AS-20: Earning Per Share (Come into effect from 1-4-2001) : It is mandatory in nature, from that date, in respect of enterprise whose equity shares are listed on a recognized stock exchange in India.

The objective of this statement is to prescribe principles for the determination and presentation of earning per share which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period.

(A) **Basic Earning per Share:** Basic earnings per share should be calculated by dividing the net profit or loss (after deducting preference dividend and any attributable tax there to) for the period, attributable to equity share holder by the weighted average number of equity shares outstanding during the period.

(B) **Fair Value per Share:** Fair value per share is calculated by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights.

(C) **Diluted Earning per Share:** For the purpose of calculating diluted earning per share, the net profit or loss for the period attributable to equity share holders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

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Chapter-3

Issue and Forfeiture of Shares

Q.1 Give the definition of A Company?

Ans.: A company is an association of persons who agree to contribute money to the equity shares for the purpose of employing it in a business. A company is a creation of law and is called an artificial person, having a corporate legal entity and a common seal.

Q.2 What is a Share? Explain the types of Shares.

Ans. **Share:** The capital of a company is divided into units of small denominations; each such unit is called a share.

Types of Shares : A public company can issue only two types of shares :-

(1) Preference shares

(2) Equity Shares

(1) **Preference Share:** Preference share is one which carries the following two preferential rights:-

(a) In respect of payment of dividends.

(b) In return of capital if the company being wound up.

Types of Preference Shares:

(i) **Cumulative Preference Shares:** These are those shares on which arrears of dividend accumulate which could not be paid due to insufficient profits in any year.

(ii) **Non-Cumulative Preference Shares:** These shares do not have the privilege of accumulation of the unpaid or arrears of dividends.

(iii) **Participating Preference Shares:** Shares, which carry the right left after paying preference and equity dividends.

(iv) **Convertible Preference Shares:** Shares, which can be converted into equity shares after a particular period.

(v) **Non-Convertible Preference Shares:** Shares, which don't carry the right of conversion into equity shares.

(vi) **Redeemable Preference Shares:** Shares, the capital of which is refunded by the company after a specified duration.

(vii) **Irredeemable Preference Shares:** The capital of which can not be refunded before winding up of the company.

(viii) **Non-Participating Preference Shares:** Shares which do not carry the right of sharing in the surplus left after paying equity dividend.

(ix) **Cumulative Convertible Preference Shares:** Which are cumulative as well as convertible having both the rights.

(2) **Equity shares:** They are such shares which carry no special rights as regards receipt of dividends and return of capital at the time of liquidation. According to sec. 5(2) of companies Act, 1956, equity shares are those which are not preference shares.

Q.3 Explain the meaning of Share Capital and Its Categories.

Ans.: **Share Capital:** Capital raised by the company from issue of shares.

(1) **Authorized Capital:** This is the maximum limit of capital which is authorized to raise.

(2) **Issued Capital:** It is that part of authorized capital which the company has issued to the public.

(3) **Subscribed Capital :** It is that part of the issued capital which is actually subscribed by the public.

(4) **Called Up Capital:** It is that amount on the shares subscribed, demanded from the public by the company.

(5) **Paid-Up Capital:** The part of called-up capital which is actually paid by shareholders.

(6) **Reserve Capital:** The company may decide by passing a special resolution that a portion of the uncalled amount shall not be called up by the company except in case of winding up or liquidation. This is called reserve capital.

Q.4 Explain the Accounting Treatment in case of Issue of Shares.

Ans. A company can issue shares in two ways - (i) for cash and (ii) for consideration other than cash. These shares may be issued at par or at premium or at discount.

Accounting Entries for Issue of Shares :

1. Issue of shares for cash consideration:-

(A) **Shares Payable in Lump-Sum :** When shares are issued at nominal value payable full in a single instatement, the shares so payable are said to have been issued in lump-sum.

(B) **Share Payable in Installments:**

Where a company does not require the immediate use of all proceeds from share issue, the shares are issued as payable in installments.

Shares are said to be at par when they are issued at a price equal to the face value (nominal value).

1. On Receipt of Application money Bank A/c Dr. To Share Application A/c	With actual money received on applications
2. On acceptance of applications for Allotment: Share Application A/c Dr. To Share Capital A/c	With actual money due on shares allotted
3. On making allotment money due:	

Share Allotment A/c Dr. To Share Capital A/c	With money due on allotment
4. On receipt of allotment money Bank A/c Dr. To Share Allotment A/c	With money received on allotment.
5. On making the first call Share First Call A/c Dr. To Share Capital A/c	With first call money due
6. On receipt of first call Bank A/c Dr. To Share First Call A/c	With money received on first call

Note : Similar entries will be made for the second or third calls through share second call account and share third call account respectively.

- **Calls in Arrear:** Some shareholders fail to pay the amount due on allotment and/or calls on the share hold by them. Such unpaid amount on account of one or more installments is called calls in arrear unpaid calls.

Entry: It is not mandatory to maintain a separate account for calls in arrear. When a separate account is opened in such a case following entry will be made:-

Calls in Arrear A/c Dr.

To Share Allotment A/c

To Share I/II/Final Call A/c

Interest at the rate not exceeding 5% per annum shall be charged for the period from the date fixed for payment to the date of actual payment.

Calls in Advance : Any amount received from a share holder in excess of the amount due is called "Calls-in-Advance".

Entry :

Bank A/c Dr.

To Calls in Advance A/c

(with the amount received in advance)

The amount received in respect of future calls shall be adjusted when the call received in advance is made due.

Calls in Advance A/c Dr.

To Particular Call A/c

Table (A) of Companies Act, 1956, interest at the rate of 6% per annum may be allowed to the shareholders.

- **Issue of Shares at Premium:** Share are said to be issued at a premium when they are issued at a price higher than the face value. The excess of issue price over the face value is called as the amount of securities premium. It is shown on liabilities side of B/S under the heading of "Reserve and Surplus."

  (i) For transferring money to Capital A/c -

  Share Call A/c Dr. (Particular call)

  To Share Capital A/c (Amount of Capital)

  To Securities Premium A/c (Amount of Premium

  (ii) On receipt of full amount including premium -

  Bank A/c Dr. (Amount received)

  To Share (Particular) Call A/c

- **Issue of Shares at Discount:** Shares are said to be issued at discount when they are issued at a price lower than the face value. It is treated as a loss of capital nature :-

(i) On allotment money being due -

Share Allotment A/c Dr. (Actual amount due)

Discount on Shares A/c Dr. (Discount on issue)

To Share Capital A/c (Total amount)

(ii) On allotment money received -

Bank A/c Dr.

To Share Allotment A/c

(Allotment money received excluding discount)

(iii) On writing off the amount of discount –(every year)

Securities Premium/ P&L A/c Dr.

To Discount on issue of share A/c

II Issue of shares for a consideration other than cash

It is not necessary to issue the shares only for cash. Sometimes a company issue fully paid shares for consideration other than cash, in the following cases:

(1) Issue of shares to Promoters: Promoters are the persons who have formed the company and brought it into existence. For the services rendered by them they may be issue shares by the company. The entry would be made:

Goodwill A/c Dr.

To Equity or Preference Share Capital A/c

(For equity or preference shares issued to its promoters)

(2) Issue of shares for Purchases of Assets: Sometimes a company purchases some assets and makes the payment to vendor in fully paid shares. Such shares may be issued at par, or at premium, or at discount. The Journal entries to be made are as under:

1. When Asset is purchased:

Sundry Asset A/c Dr. (With the Purchases price)

To Vendor's A/c (With the Purchases Price)

2. (a) On issue of shares to vendors at par:

Vendors A/c Dr. (With the Purchase Price)

To Share Capital A/c (Nominal value of Shares)

(b) On issue of shares to vendors at premium:

Vendors A/c Dr. (With the Purchase Price)

To Share Capital A/c (With the Nominal Value of Shares)

To Security Premium A/c (With the Amount of premium)

(c) Vendors A/c Dr. (With the Purchase Price)

Discount on issue of share Dr. (With the nominal value of shares)

To Share Capital a/c

Q.5 What is meant by Forfeiture of Shares? Explain the Accounting Treatment of Forfeiture of Shares and their Reissue?

Ans.: Forfeiture of Shares: Forfeiture of shares means the cancellation of allotment to defaulting shareholders (who has fail to pay one or more installment) and to treat the amount already received on such shares as forfeited.

Accounting Entries on Forfeiture of Shares:

Condition	Journal Entry	Amount
Forfeiture of shares issued at par	Share Capital A/c Dr. To Share Allotment A/c To Share First Call A/c To Share Second Call A/c To Share Forfeited A/c	Called up amount Arrears on allotment Arrears on I call Arrears on II call Amount received on these shares

Condition	Journal Entry	Amount
Forfeiture of shares issued at premium which also remains unpaid	Share Capital A/c Dr. Securities Premium A/C Dr. To Share Allotment To Share First Call A/c To Share ….Call A/c To Share Forfeited	Called up amount for capital Called up amount for premium Arrears on Allotment Arrears on I call Arrears on Final call Amount received on these shares
Forfeiture of shares issued at premium which is received	Share Capital A/c Dr. To Share Allotment A/c To Share First Call A/c To Share Second Call A/c To Share Forfeited A/c	Amount called up Arrears on I Allotment Arrears on I call Arrears on final call Amount received on shares forfeited excluding premium
Forfeiture of shares issued at discount	Share Capital A/c Dr. To Discount on Issue of Share To Shares Allotment To Shares First call A/c To Shares Second call A/c To Share Forfeiture A/c	Amount called up with discount Amount of Discount Arrears on Allotment Arrears on I call Arrears on II call Amount received on shares forfeited.

Reissue of Forfeited Shares : A company can reissue the forfeited shares (being the property of the company) in accordance with the provisions contained in the articles of company. The maximum amount of discount which may be allowed on reissue is as :-

(i) When shares were originally issued at par or at premium –the amount credited to forfeited shares account.

(ii) When shares were originally issued at discount:- amount credited to forfeited share account plus the amount of original discount.

Entries for Reissue of Forfeited Shares:

Condition	Journal Entry	Amount
Reissue at par	Bank A/c Dr. To Share Capital A/c	Actual amount received Called up amount
Reissue at premium	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c	Total amount received Amount credited as paid up Amount of premium
Reissue at discount originally issued at par or at premium	Bank A/c Dr. Share Forfeited A/c Dr. To Share Capital A/c	Amount received Discount on reissue Amount credited as paid

Q.6 Write short notes on the following :-

(1) Use of amount of premium

(2) Over-subscription of shares

(3) Under subscription of shares

Ans.: (1) **Use of amount of premium :** According to section 78 of the companies Act, 1956 :-

(i) To issue fully paid bonus shares to the members

(ii) To write off preliminary expenses of company

(iii) To write off the expenses or the commission paid or discount allowed on the issue of shares or debentures of the company.

(iv) To provide premium on redemption of preference shares and debentures of the company.

(v) To utilize at the time of buy-back of shares.

(2) **Over Subscription of shares:** Shares are said to be over-subscribed when the number of shares applied for is more than the shares offered for the issue. Board of directors may make the allotment of shares as under in case of over-subscription:-

(i) Pro-rata or proportional allotment to all the applications. Excess money received is not refunded but retained and of adjusted towards sums due for allotment.

(ii) Some of the applicants may be rejected fully while remaining applicants be allotted shares in full. In such a case, the application money to non allottees is refunded along with a letter of regret.

(3) **Under Subscription:**- Share are said to be under-subscribed when the number of share applied for is less than the number of shares offered.

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Chapter-4

Issue of Debentures

Q.1 Define the meaning of Debentures and its various types.

Ans.: **Debentures:** A debenture is written acknowledgement of debt by a company under its common seal, generally secured by floating change on company's assets. Interest is paid to debenture holders at a fixed rate at regular intervals.

Types of Debentures:

(a) **Registered Debentures:** Debentures which are transferable only by transfer deed.

(b) **Bearer Debentures:** Debentures which are transferred by mere delivery and the company does not keep the record of debenture holders.

(c) **Redeemable Debentures:** Debentures which are redeemed after specified period of time.

(d) **Irredeemable Debentures:** Such debentures are payable after a long period of time (not pre decided) or on winding up of the company.

(e) **Convertible Debentures:** Debentures which are convertible into shares or new debentures.

(f) **Non-Convertible Debentures:** Debentures which can not be converted into shares or new debentures.

(g) **Secured or Mortgage Debentures:** Debentures which are secured on particular assets or on general assets of the company.

(h) **Unsecured or Naked Debentures:** The debentures which are not secured on any asset.

(i) **Zero Interest Debentures:** Debentures on which no interest is paid by the company. Such debentures are either issued at heavy discount or such debentures are converted into equity shares offered at low rate.

Q.2 Explain the issue of Debentures as Collateral Security.

Ans.: A collateral security is an additional or secondary but contingent security for the performance of an obligation. Sometime, a company deposits its debentures as additional security to secure loan from the bank. So the debentures are deposited to provide security for the loan. There are two methods of dealing with such debentures in the books of accounts of the company:-

First : In this method no entry need to passed, entry is passed only for taking a loan and on liabilities side of balance sheet a note is given below the loan that the loan is secured by the issue of debentures.

Second :

(i) On issuing the debentures as collateral security -

Debentures suspense A/c	Dr.
To % Debentures A/c	

(ii) On repayment of loan -

Debenture A/c	Dr.
To Debenture Suspense A/c	

Q.3 Distinguish between Share and Debenture.

Ans.: **Difference between Shares and Debentures**

S.No.	Shares	Debentures
1.	Share is a part of Capital	Debenture is an acknowledgment of debt
2.	Share holders are owners of the company	Debenture holders are creditors of the company.
3.	Dividend is paid on shares if company earns profit	Interest always paid whether profit or loss to company
4.	On liquidation shareholders are paid after debenture holders	On liquidation Debenture holders are paid before shareholder

Q.4 Explain the Accounting Treatment of Issue of Debentures according to the condition of Redemption.

Ans.

Condition	On Receipt of Application	Allotment of Debentures
Debentures issued at par and to be redeemed at par	Bank A/c Dr. To Debenture Application A/c	Debenture Application A/c Dr. To Debentures A/c
Debentures issued at par and to be redeemed at premium	Bank A/c Dr. To Debenture Application A/c	Debenture Application A/c Dr. Loss on issue of Debenture A/c Dr. To Debentures A/c To Premium on Redemption of Debentures A/c
Debentures issued at premium and redeemable at premium	Bank A/c Dr. To Debenture Application A/c	Debenture Application A/c Dr. Loss on issue of Debenture A/c Dr. To Debentures A/c To Securities Premium A/c To Premium on Redemption of

		Debentures A/c
Condition	**On Receipt of Application**	**Allotment of Debentures**
Debentures issued at Discount and redeemable at Premium	Bank A/c Dr. To Debenture Application A/c	Debenture Application A/c Dr. Discount on Issue of Debenture A/c Dr. Loss on issue of Debenture A/c To Debentures A/c Dr. To Premium on Redemption of Debentures A/c

Note : Loss on issue of debentures = premium payable on redemption.

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Chapter-5

Redemption of Preference Shares

Q.1 What are Redeemable Shares? Discuss the different methods of redeeming the redeemable preference shares. Also give necessary journal entries under each method.

Ans.: Redeemable Preference shares are those shares, the capital of which is refunded by the company after a specified duration. The redemption of such shares is made in accordance with the provisions of section 80 of the companies Act.

Preference shares can be redeemed when they are fully paid up. In case a company has partly paid preference shares, it must see that they are made fully paid up before they are redeemed.

Accounting of Redemption of Preference shares: The preference shares can be redeemed by the following methods, according to the provision of section 80 of companies Act :-

(1) Redemption Out of Profit

(2) Redemption Out of Fresh Issue of Shares

(3) Redemption Out of Profits and Fresh Issue of Shares

(4) Redemption by Conversion

(1) **Redemption Out of Profits :** When company is redeeming the preference shares out of profits which are otherwise available for distribution of dividend, the accounting entries will be as follows :-

(i) **On Redemption of Preference Shares :**

Preference Share Capital A/c Dr.

(Face value)

Premium on Redemption of Preference Shares A/c Dr.

(Premium payable)

To Preference Share Holders A/c

(Being Preference share capital transferred)

(ii) **Write Off of Premium Payable on Redemption:**

Securities Premium A/c Dr. (First Preference)

Revenue Profit A/c Dr. (Second preference)

To Premium on Redemption of Preference Shares A/c

(iii) **Transfer to Capital Reserve Account :**

Revenue Profits A/c Dr.

To Capital Redemption Reserves A/c

(Being amount transferred according to section 80 of the companies Act.)

(iv) **On Payment :**

Preference Share Holders A/c Dr.

To Bank A/c

(Being payment made on redemption)

(2) **Redemption Out of Proceeds of Fresh Issue :** When a company is interested to redeem the preference shares out of proceeds of fresh issue the all above entries mentioned in (1) will be passed except amount transferred to capital redemption reserve account. In addition, the entries for fresh issue of shares will be passed.

(3) **Redemption Out of Profits Available for Dividend and Proceeds of New Issue of Shares :** In that case, accounting will be same as above (1) and (2). Here the total of the amount transferred to CRR (Capital Redemption Reserve) and proceeds of fresh issue excluding securities premium should no be less than by the nominal value of redeemable preference shares. Entries will be as follows:-

(i) First following entries for the issue of new shares will be passed :-

(a) Bank A/c Dr.

To Share Application A/c

(Application money on shares received)

(b) Share Application A/c Dr.

To Share Capital A/c

(Amount transferred to share capital on allotment)

(ii) **Redemption Out of Profits :**

General Reserve A/c or P & L A/c Dr.

To Capital Redemption Reserve A/c

(Amount transferred to capital Redemption Reserve)

(iii) **Provision for Premium on Redemption :**

P & L A/c or General Reserve A/c

or Securities Premium A/c Dr.

To Premium on Redemption of Preference shares A/c

(Provision made for Premium on Redemption of preference shares)

Redeemable Preference Share Capital A/c Dr.

Premium on Redemption of Preference Shares A/c Dr.

To Preference Share Holders A/c

(Being Amount transferred to preference shareholder A/c)

Preference Shareholder A/c Dr.

To Bank A/c

(Being payment made)

(4) **Redemption by Conversion of Shares :** Company can convert the preference shares into equity shares new preference shares or debentures if articles permit. In this method of Redemption first of all number of shares to be issued will be calculated by dividing the

amount payable to preference shareholders by the issue price of shares or debentures to be issued on conversion, then following entries will be passed:-

Preference Share Capital A/c	Dr.
Premium on Redemption A/c	Dr.
To Preference Share Holders A/c	
(Being amount transferred to on redemption.)	
Preference share holders A/c	Dr.
To Equity Share Capital A/c	
To Preference Share Capital A/c	
To Debentures A/c	
(Being Preference Shares converted)	

(If redeemed at premium)

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Chapter-6

Redemption of Debentures

Q.1 What are different method of Redemption of Debentures? Explain with Accounting entries.

Ans.: The following are the important methods of redemption of debentures :-

(1) By payment in one lump sum

(i) Out of capital or issue of new debentures or shares

(ii) Out of accumulated profits

(2) By annual drawings

(3) By purchase in open market, and

(4) By conversion in shares and Debentures

(1) **By Payment in One Lump-Sum**

(i) **Redemption Out of Capital:** When the amount of debentures to be redeemed is small, this method of redemption out of capital is followed. In this method company issue new shares or debentures for making arrangement of funds for redemption. Journal entries for issuing shares and debentures will be passed as discussed earlier.

Journal entries for redemption are as follows :-

Redemption at par:

Debentures A/c Dr.

To Bank A/c

(Debentures redeemed at par)

Redemption at premium:

1) Debentures A/c Dr.
   Premium on Redemption
   Of Debenture A/c Dr.
   To Bank

2) P&L or Securities premium A/c
   To Premium on Redemption of
   Debentures A/c
   (Premium on redemption of Debentures written off)

Redemption at discount:

1) Debentures A/c Dr.
   To Bank A/c
   To Profit on Redemption of
   Debentures A/c
   (Debentures redeemed at discount)
2) Profit on Redemption of
   Debentures A/c Dr.
   To Capital Reserve A/c
   (Profit on redemption transferred)

(ii) **Redemption Out of Profits :** When adequate amount of profits is transferred from P&L A/c to the debenture redemption reserve account, at the time of redemption of debentures. Such redemption is known as redemption out of profits. In addition to the entries explain in case of redemption out of capital, the following entry is passed every year for the transfer to redemption reserve.

Profit & Loss Appropriation A/c Dr.

To Debenture Redemption Reserve A/c

(Annual Installment transferred)

Note: A Company has to create DRR in case of Issue of debenture with maturity of more than 18 month, equivalent to 50% of the amount of debenture issue before debenture redemption commences).

This reserve is transferred to General Reserve after the redemption of debentures is completed:-

Entry : Debenture Redemption Reserve (DRR) A/c Dr.

To General Reserve A/c

(Balance of debenture redemption fund transferred to general reserve after redemption)

(2) **Redemption by Annual Drawings:** If debentures are to be redeemed by Annual drawings the debentures for redemption are selected by lottery or drawings. Debenture account is debited with the amount of face value of debentures and debenture holder account is credited. On actual payment debenture holders account is debited and Bank account is credited.

(3) **Redemption of Debentures by Purchasing in Open Market:** If a company has right to purchase its own debentures under the terms and conditions of issue, then the company may purchase its own debentures for :-

(i) Direct Cancellation (ii) for investment in debentures

(i) **Purchase of Own Debentures for Cancellation:** Following entry will be passed :-

Debentures A/c Dr.

To Bank A/c

To Profit on Redemption of Debentures A/c

(Own debentures cancelled by purchases in the open market)

This profit is capital profit and transferred to capital reserve.

(ii) **Purchase of Company's Own Debentures for Investment:** When adequate additional funds are accumulated in the company; which are not deployed profitably the company may purchase its own debentures so that interest payable on such debentures may be saved. This decision will be taken by company if its debentures are available in open market at discount:-

(A) **Journal Entry for Purchase of Own Debentures:**

Own Debentures A/c Dr.

(with the purchase price)

To Bank A/c

(B) **Resale of Own Debenture kept for Investment at a Profit :**

(a) Bank A/c Dr.

To Own Debentures A/c

To Profit on Resale of Own Debentures A/c

(b) In case of loss, "Loss on Resale of own debenture A/c" will be debited.

(C) **Cancellation of Own Debentures kept for Investment (at a Profit) :**

(a) Debentures A/c Dr.

To Own Debentures A/c

To Profit on Cancellation of Own Debentures A/c

(b) In case of loss, loss on cancellation of own debentures A/c will be debited.

(4) **Redemption of Debentures by Conversion:** Redemption by conversion means redeeming the debentures by converting them into new class of debentures or shares:

The following entries are passed :-

(i) Debentures A/c Dr.

To debenture holders A/c

(Transfer of the balance of debentures to debenture holder on conversion)

(ii) **At Par:**

Debenture Holder A/c Dr.

To Share Capital A/c

or To New Debenture A/c

or To Bank A/c

(Debentures converted and paid off at par)

At Premium

Debenture Holder A/c Dr.

To Securities Premium A/c

or To Share Capital A/c

or To New Debentures A/c

At Discount:

Debenture Holders A/c Dr.

Discount on Issue of Share A/c Dr.

Discount on Issue of Debenture A/c Dr.

To Share Capital A/c

or To New Debentures A/c

(Debentures converted into shares and debentures at discount)

Q.2 Explain Redemption of Debentures by Creative Sinking Fund. Also show the Accounting Entries.

Ans.: Debentures has to be redeemed after the expiry of specified period. If proper provision is not made, then there will be no strain on working capital and the company may face liquidity crises.

Par collecting funds for redemption of debenture a sinking fund is created by making a charge against divisible profits. Every year an equal amount is debited to P&L Appropriation Account and simultaneously credited to sinking fund account. The amount so appropriated is invested outside the business in marketable securities.

Sinking fund may be of the following two types : -

(1) **Cumulative Sinking Fund :** When the amount appropriated is allowed to accumulate at a compound interest, so as to generate the amount required to redeem debentures on the date of redemption, it is called cumulative sinking fund.

Journal Entries :

At the End of First Year :

(i) **Amount to be Appropriated Annually Out of Profits :**

Profit & Loss Appropriation A/c Dr.

To Debentures Sinking Fund A/c

(Annual sum transferred to debenture sinking fund A/c)

(ii) **Amount to be Invested :**

Debenture Sinking Fund Investment A/c Dr.

To Bank A/c

After First Year :

(i) **Interest on Investments :**

Bank A/c Dr.

To debenture sinking fund A/c

(Interest received on Sinking fund Investment A/c)

(ii) **Annual Installment to be Appropriated :**

Profit & Loss Appropriation A/c Dr.

To Debenture Sinking Fund A/c

(iii) **Annual Installment & Interest Invested :**

Debentures Sinking Fund Investment A/c Dr.

To Bank A/c

Last Year (When Debentures are to be Redeemed) :

(i) **Interest of Accumulated Investment Received :**

Bank A/c Dr.

To Debenture Sinking Fund A/c

(ii) **Transfer of Annual Installment :**

Profit & Loss Appropriation A/c Dr.

To Debenture Sinking Fund A/c

(iii) **Sale of Sinking fund Investment :**

Bank A/c Dr.

To Debenture Sinking fund investment A/c

(iv) **Profit on Sale of Investment :**

Debenture Sinking Fund Investment A/c Dr.

To Debenture Sinking Fund A/c

In case of loss reverse entry will be passed :-

(v) **Payment of Debentures :**

Debentures A/c Dr.

To Bank A/c

(vi) **Balance of Sinking Fund Transferred :**

Debenture Sinking fund A/c Dr.

To General Reserve A/c

(2) **Non-Cumulative Sinking Fund :** Under this method of Sinking fund, the amount is appropriated when there are adequate profits. The amount so appropriation will be uniform each year.

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Chapter-7

Acquisition of Business

Q.1 What do you understand by "Purchase Consideration"? How is it ascertained? What journal entries are passed in the books of Purchasing Company for the purchase of business and payment of purchase consideration?

Ans.: **Purchase Consideration:** Whenever any running business is purchased by any newly established company it is known as "Purchase of Business". The concern selling its business is known as 'Vender'. The amount paid by purchaser to vendor in consideration of purchase of business is known as purchase consideration.

Ascertainment of Purchase Consideration : It can be decided by following two methods :-

(1) **Net Payment Method:** According to this method purchase consideration is equal to amount paid by purchaser in consideration of purchase of business which also includes shares or debentures issued by purchasing company.

(2) **Net Assets Method:** If no purchase consideration has been decided between purchaser and seller or only a part of it has been decided, then purchase consideration can be decided by net assets method.

Computation of Net Assets: Total of assets of vendor taken over at revalued price (If revalued price is not given then book value) **less** total of Liabilities of vendor taken over at revalued price (If revalued price is not given then book value.)

Calculation of Value of Good will or Capital Reserve :

Goodwill = Purchase Consideration – Net Assets

Capital Reserve = Net Assets – Purchase Consideration

Note : Either there will be goodwill or capital reserve, both can not arise in the same question.

Journal Entries in the Books of Purchaser when Assets and Liabilities are Purchased :

Sundry Assets A/c Dr. (Show each assets separately)

To Sundry Liabilities A/c (Show each liability separately)

To Vendor's A/c (By purchase consideration)

(Sundry assets and liabilities taken over)

Note : If total of Debit side is less, balance amount will be shown in the debit side as Goodwill. If total of Credit side is less balance amount will be shown as capital reserve in credit side.

Final Amount is paid to Vendor :

Vendor's A/c Dr. (By purchase Consideration)

To Equity Share Capital A/c

To Preference Share Capital A/c

To Debentures A/c

To Bank A/c (Purchase Consideration discharged)

If there is any delay in payment to vendors, interest will be paid to vendors and following entry will be passed :-

Interest to Vendor A/c Dr.

To Bank A/c

(Being interest paid for delay in payment of)

Q.2 What would be accounting treatment if purchasing company collects and pays the amount of debtors and creditors respectively of vendor?

Ans.: Following entry will be passed when amount is recovered from debtors or vendors :-

(i) Cash A/c Dr. (Net amount realized)

To Vendor's Adjustment A/c

Note : No entry will be passed for discount or bed debts of Vendor.

(ii) Following entry will be passed when any amount is paid to creditors of Vendors :

Vendors Adjustment A/c Dr. (Total amount paid)

To cash A/c

(iii) If any commission is accrue for providing such service :

Vendors Adjustment A/c Dr.

To Commission A/c

(iv) For making final payment to Vendors :-

Vendors Adjustment A/c Dr.

To cash A/c

Q.3 What is "Profit Prior to and Post Incorporation"? Explain the method of ascertaining them.

Ans.: According to the companies Act, 1956 a company comes into existence only from the date on which certificate of incorporation is obtained by it. If any company has purchased a running business and certificate of incorporation is obtained later on, then profit earned till the date of such certificate will be known as profit prior to 'incorporation' rest of the profit will be known as profit of post incorporation.

Profit prior to incorporation is a capital profit and transferred to capital reserve. If it is a loss it can be transferred to goodwill account.

Steps to Ascertain Profit Prior To and Post Incorporation :

(i) At first, Trading Account will be prepared to ascertain gross profit for the period. Trading account is prepared for whole of the year, the word 'for the period ending' will be used instead of 'for the year ending. So, Trading Account may be prepared for a period less than of more than 12 months.

(ii) Time ratio will be determined between profit prior to incorporation and post incorporation. All expenses shown in P&L account related to time such as rent, salary, insurance premium, depreciation etc. will be apportioned on the basis of time ratio.

(iii) Sales ratio will be determined on the basis of sales prior to incorporation and post incorporation. Gross profit for the period will be apportioned on this basis. All expenses related to sales such as advertisement expenses, commission, expenses on agents, bad debts, packing expenses etc. will be apportioned on this basis.

(iv) Some expenses are of different nature which can neither be apportioned on time basis nor it can be apportioned on sale basis. Such expenses can be apportioned as follows:

a) Some expenses are related to post incorporation period only e.g. vendor is an individual or firm then salary to owner, interest on capital, drawing etc. are purely expenses of prior period and no part of it will be apportioned to post incorporation period.

b) Some expenses are related to post incorporation period only e.g., purchases is company and vendor is not a company then interest on debentures, directors fee, share transfer fee (income) and amortization of preliminary expenses relates to post incorporation. No part of it can be charged against profit prior to incorporation.

Note: In case vendor and purchaser both are company Ltd. Then it cannot be said that expenses relates to post incorporation period only. So, in that case such expenses related to company form should be apportioned on time basis.

c) For some type of expenses, specific information is provided either directly or indirectly. In such a situation expenses should be apportioned accordingly.

After following steps aforesaid steps profit & loss account is prepared in columnar form. Two columns are prepared for the pre-incorporation items and post incorporation items. All the pre-incorporation items and past incorporation items will be shown in these two columns separately. The difference of debit and credit side will be the net profit or loss prior to incorporation and post incorporation. Pre-incorporation profit is revenue profit and post incorporation profit is capital profit

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Chapter-8

Underwriting of Shares and Debentures

Q.1 What do you understand by Under Writing Agreement?

Ans.: Underwriting of shares and debentures is an agreement between company and a person or a group of persons to provide guarantee that in case shares or debentures are not fully subscribed by the public they will purchase balance of shares and debentures.

Q.2 Describe the following :

Ans.: (A) Sub-Underwriting Agreement

(B) Pure Underwriting

(C) Firm Underwriting

(D) Partial Underwriting

(A) Sub-Underwriting Agreement: If underwriters feel that there is big risk in underwriting of particular company then they can transfer such risk to other person by sub-under writing agreement.

(B) Pure Underwriting : In this type of agreement liability of underwrites will arise only if issue of shares or debentures is under-subscribed.

(C) Firm-Underwriting : In well established companies, underwriters are interested to get some shares or debentures of company in addition to commission even if issue is oversubscribed. In firm underwriting, under-writers will definitely get shares as agreed between company and underwriters.

(D) **Partial underwriting :** In such underwriting, underwriters make agreement for part of issue of debentures and shares.

Q.3 What is maximum rate of Underwriting Commission on shares and debentures as per Companies Act?

Ans.: According to section 76 of the companies Act, 1956 commission can not exceed 5% of issue price of shares. In case of debentures, commission can not exceed 2.5% of issue price of debentures.

Q.4 How liability of Co-Underwriters will be determined in case of Joint Underwriting?

Ans.: Liability of each underwriter will be decided by following steps :-

(i) At first, shares or debentures of each underwriters as per agreement is mentioned in each column in a table.

(ii) Marked shares of each underwriter will be deducted out of shares as per agreement.

(iii) Unmarked shares will be deducted in proportion of benefit of unmarked shares given to each under writer or the proportion for which under writing agreement is signed.

(iv) In case of firm under writing, underwriters shares can be treated as marked or unmarked. If nothing is given in this regard, such shares can be treated as marked shares.

(v) If after deducting marked or unmarked shares balance liability of under writer is negative, then this negative balance will be apportioned to other under-writers in the ratio of their liability for which underwriting agreement was signed or any other given ratio.

(vi) After adjustment of negative balance liability of each under writer is known as net liability.

(vii) In underwriters agree to take shares of firm underwriting in addition to under writing shares then in last, shares of firm under writing will be added in net liability. It is known as gross liability of each underwriter.

Q.5 Explain the Accounting Treatment for Under Writing in the books of Company and Underwriters?

Ans.: Following entries will be passed on in the books of company for under writing :-

(i) **For Under Writing Commission :**

Underwriting Commission A/c Dr.

To Underwriter's A/c

(Underwriting commission due to underwriters.)

(ii) **To Issue Balance Shares to Underwriters :**

Underwriter's A/c Dr.

To Equity Share Capital A/c

(Shares allotted to underwriters under underwriting agreement)

(iii) **To Receive Final Payment :**

Bank A/c Dr.

To Underwriter's A/c

(Final payment received from underwriters)

Note : If there is no liability of underwriter to purchase shares or amount of commission exceeds amount of gross liability, then following entry will be passed.

(iv) **To Make Final Payment :**

Underwriter's A/c Dr.

To Bank A/c

(Final payment made to underwriter.)

(v) **To Write Off Commission Account :**

Reserve/Securities Premium/ P&L A/c Dr.

To underwriting commission A/c

(Commission Account written off)

Accounting Treatment in the Books of Underwriter :

Journal Entries :

(1) **For Underwriting Commission :**

X Company A/c Dr.

To Underwriting Commission A/c

(Commission due from X Company)

(2) **For Share Received From Company :**

Shares/Debentures (Investment) in X Company A/c Dr.

To X Company A/c (at issue price only)

(Balance shares received from X Company)

(3) **To Transfer Commission into Share Account :**

Underwriting Commission A/c Dr.

To Shares/Debentures (Investment) A/c

(Commission transferred into shares account)

(4) **To Make Final Payment :**

X Company A/c Dr.

To Bank A/c

(Final payment made to company)

(5) **When Underwriters are not Liable to take Shares and Commission is Received :**

Bank A/c Dr.

To X Company A/c

(Commission received from Company)

Note : If amount payable on shares is less than commission then also this entry will be passed for the balance of amount.

(6) **To Close Commission A/c when it is not Transferred to Share A/c:**

P&L A/c Dr.

To Underwriting Commission A/c

(Commission transferred to P&L A/c)

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Chapter-9

Final Account of Companies and Managerial Remuneration

Q.1 What do you understand by Final Accounts of a Company?

Ans.: To show the profit earned during the year and financial position of company at a particular date. It is compulsory for a company to prepare Profit and loss account and Balance Sheet – called at the end of the year as per section 209 of the Indian Companies Act, 1956. Such accounts are called final account of a company.

Q.2 What is Managerial Remuneration?

Ans.: The remuneration given to managerial persons including director, managing director, manager for their services is called managerial remuneration.

Q.3 Discuss the Provisions of Companies Act, 1956 regarding Managerial Remuneration.

Ans.: The remuneration to directors is governed by the section 198 and 309 of the companies Act. The amount of remuneration is to be determined by the articles or by a resolution passed by the company in the general meeting of shareholder or by a special resolution if the articles so required.

A whole time or managing director or manager may be paid remuneration by way of monthly pay and /or by way of specified percentage of net profits of the company.

Managerial Remuneration - Maximum Limits :

(A) **For Companies Having Profit :**

Rate %

(i)	Overall (excluding fees for attending meeting)	11% of Net profit in all
(ii)	If there is one whole time/ Managing director/ manager	5% of Net profit
(iii)	If there are two or more whole time directors including managing director	10% of Net profit in all
(iv)	Remuneration to part time directors: (a) If there is no managing or whole time director in the company (b) If there is a managing or whole time director	 3% of net profit in all 1% of net profit in all

(B) **For Companies Having No Profit or Inadequate Profit :** In case the company has no profits or its profits are inadequate it may pay remuneration to managerial person as per the following option given in schedule XII of companies Act, 1956, based on effective capital of the company:

Where the Effective Capital of Company is	I Option	II Option
	Monthly Remuneration Shall Not Exceed (Rs.)	Monthly Remuneration Shall Not Exceed (Rs.)
(i) > Rs. 1 Crore	75,000	1,50,000
(ii) 1 Crore ≤ Amount ≤ 5 Crore	1,00,000	2,00,000
(iii) Rs. 5 Crore ≤ Amount<Rs. 25 crores	1,25,000	2,50,000
(iv) Rs. 25 crores ≤ Amount <Rs. 50 crores	1,50,000	3,00,000
(v) Rs. 50 crores ≤ Amount <Rs. 100 crores	1,75,000	3,50,000
(vi) Rs. 100 crores ≤Amount	2,00,000	4,00,000

Working note:-

(1) **Calculation of Effective Capital :**

Add :

(i) Total Subscribed Capital

(ii) Balance of Securities Premium A/c

(iii) Reserve and Surplus (Except Revaluation Reserve)

(iv) Long Term Debt

(v) Deposits (Due after one year)

Total :

Less :

(i) Total Investments (Except Investment in Shares, Debentures and Other Securities in case of a Investment Company)

(ii) Accumulated Loss and Preliminary Expense not Written Off

Total :

(2) **Computation of Profit for the Purpose of Managerial Remuneration :**

(U/s -349, 350 and 351)

Profit as per Profit and Loss Account (as prepared by the Company)

Add :

(a) For Debit Side of P&L Account (if debited) -

(i) Managerial Remuneration (not Fees)

(ii) Provision for Tax, Super Tax, Corporate Tax

(iii) All Capital Expenses and Losses

(iv) Written Off of Fictitious Assets

(v) Ex Gratia Payment to Workers

(vi) Provisions (if it is more than the requirement)

(vii) All Reserves

(viii) Dividends and Tax on Dividend (Paid or Proposed)

(b) For Credit Side of P&L Account (if not credited)

Subsidies and Bounties

Less :

All Capital Profits (if credited P&L Account)

Total : ☐

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Chapter-10

Disposal or Appropriation of Profits

Q.1 What is meant by Divisible Profits?

Ans.: Divisible profits are those profits of the company out of which the company has the legal right to distribute and pay the dividend.

Q.2 Give journal entries of Declaration and Payment of Dividend.

Ans.: Journal Entries for Declaration and Payment of Dividend :

(i) Entry on recommending or proposing dividend by directors at the time of preparation of final accounts :

Profit & Loss Appropriation A/c	Dr.
To Proposed Preference Dividend A/c	
To Proposed Tax on Preference Dividend A/c	
To Proposed Equity Dividend A/c	
To Proposed Tax on Equity Dividend A/c	
(Proposal for declaration of dividend)	

The balance of both of the proposed accounts will be shown under the heading "current Liabilities & Provision" in the balance sheet.

(ii) Dividend accepted by the shareholders in Annual General Meeting:

Proposed Preference Dividend A/c	Dr.
Proposed Tax on Preference Dividend	Dr.
Proposed Equity Dividend A/c	Dr.
Proposed Tax on Equity Dividend A/c	Dr.

To Preference Dividend A/c

To Tax on Preference Dividend A/c

To Equity Dividend A/c

To Tax on Equity Dividend A/c

(Dividend accepted by the shareholders)

(iii) To open a separate bank account for the payment of divided :

Dividend Bank A/c Dr.

To Bank A/c

(Being separate bank A/c for payment of dividend)

(iv) Issue of dividend warrants on special Bank account :

Preference Dividend A/c Dr.

Equity dividend A/c Dr.

To Dividend Bank A/c

(Dividend warrants issued for payment)

(v) On payment of tax to Government :

Tax on Preference Dividend A/c Dr.

Tax on Equity Dividend A/c Dr.

To Bank A/c

(Being tax deposited in Govt. treasury)

(vi) After expiry of validity of dividend warrant, on the basis of information from the bank, regarding non-payment of dividend :

Dividend Bank A/c Dr.

To Unclaimed Dividend A/c

(Dividend not claimed transferred to unclaimed Dividend A/c)

(vii) After expiry of validity period of dividend amount, a new bank account will be opened by the amount of dividend not claimed:-

Unpaid Dividend Bank A/c Dr.

To Dividend Bank A/c

(Amount deposited in new bank account as required by Section 205(A) (i) of companies Act)

Note : Unclaimed Dividend Account will be shown in the Balance sheet at liabilities side under the head current liabilities and provisions in part 'A'. Similarly unpaid Dividend Bank Account will appear at assets side under the head 'Current Asset', loan and advances' in part 'A'.

(viii) Issue of new or fresh dividend warrant on request :

(They can be issued upto 7 years from the date of declaration of dividend)

Unclaimed Dividend A/c Dr.

To unpaid Dividend Bank A/c

(Being unclaimed dividend paid)

(ix) After expiry of 7 years from the date of declaration of dividend, the balance in unpaid dividend Bank A/c will be transferred to investor Education and protection fund :

Unpaid Dividend A/c Dr.

To Unpaid Dividend Bank A/c

(Being dividend not claimed transferred to investor education and protection fund after 7 years)

Q.3 What are Bonus Shares? In what circumstances should Bonus Shares be issued? What Accounting Entries are passed for Bonus? Discuss the guidelines of SEBI for Bonus Shares.

Ans.: Bonus Shares : If Company issues fresh shares without charging anything, these shares are called bonus shares.

Circumstances for Issuing Bonus Shares :

(i) When the amount of accumulated profits and reserves becomes very large.

(ii) When the rate of dividend of the company is much higher than normal rate of dividend, then to make the rate of dividend equivalent to normal rate of dividend.

(iii) When the market value of Shares rises so high that sale and purchase of shares is not conducted normally.

Guidelines for Issue of Bonus Shares : The securities and Exchange Board of India (SEBI) by an order on 27^{th} January, 2000 issued the following guidelines for issue of bonus shares:-

(i) No Company shall, pending conversion of FCDs/PCDs issue any by way of bonus unless similar benefit is extended to the holders of such FCDs through reservation of shares in proportion to such convertible part of FCDs or PCDs.

(ii) The shares so reserved may be issued at the time of conversion of debentures on the same terms on which the bonus issues were made.

(iii) The bonus issue is made out of free reserves.

(iv) Revaluation Profits cannot be used to provide bonus shares.

(v) The bonus shares can not be issued, in lieu of dividend.

(vi) The existing shares capital must be fully paid up at the time of bonus issue.

(vii) No bonus can be take up till the full payment of arrears of interest outstanding, repayment of installment on debentures and or on fixed deposits.

(viii) No bonus can be made if the company has defaulted in respect of the statutory payment to employees.

(ix) After declaration of bonus the shares must be issued within 6 months.

(x) Bonus can be issued only if it is provided in Articles of Association.

(xi) If the authorized share capital is increased because of bonus shares, a resolution must be passed in the meeting of shareholders regarding increase in authorized capital.

Accounting Treatment for Bonus Issue : The following entries will be passed regarding bonus issue :-

(i) If declaration of bonus is proposed out of current year's profits :

(a) On making proposal regarding bonus :

Profit and Loss Appropriation A/c Dr.

To Proposal Bonus to Shareholders A/c

(proposal made for the declaration of bonus)

(b) On approval of the proposal regarding bonus in the general meeting :

Proposed Bonus to Shareholders A/c Dr.

To Bonus to Shareholders A/c

Note : If bonus is proposed out of past years profit or from reserves or from other reserves, there is no need to put a proposal.

(ii) Directly in the meeting of shareholders the proposal will be accepted or rejected. If proposal accepted the entry will be :

General Reserve A/c Dr.

Other Free Reserve A/c Dr.

Securities A/c Dr.

Capital Redemption Reserve A/c Dr.

To Bonus to Shareholders A/c

(Bonus from reserves being approved)

Payment of Bonus :

(1) By making partly paid-up shares fully paid :

(i) Share Final Call A/c Dr.

To Share capital A/c

(Share Final call money due)

(ii) On utilizing the amount of bonus :

Bonus to Shareholders A/c Dr.

To Share Final Call A/c

(Bonus applied towards share call)

(2) To issue fresh fully paid-up bonus shares to the shareholders free of cost :

(i) On declaration of bonus share :

P&L Appropriation A/c or General reserve A/c Dr.

Or Capital Redemption Reserve A/c / Securities Premium A/c Dr.

Or Capital Reserve A/c Dr.

To Bonus to Shareholders A/c

(Bonus declared out of ………)

(ii) On issue of bonus shares at par :

Bonus to Shareholders A/c Dr.

To Share Capital A/c

(…… Bonus shares issued at par)

(iii) On issue of Bonus shares at premium :

Bonus to Shareholders A/c Dr.

To Share Capital A/c

To Securities Premium A/c

(Bonus Shares issued at premium)

Q.4 Explain the term Capitalization of Profits. Give four example of Capital Profit.

Ans.: The process of increasing of the paid up share capital by reducing the balance of profit and reserves is called capitalization of profits.

Examples of Capital Profit :

(i) Profit Prior to Incorporation

(ii) Securities Premium

(iii) Profit on Reissue of Shares

(iv) Revaluation of Profits

(v) Capital Redemption Reserve

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Chapter-11

Valuation of Goodwill

Q.1 Describe the concept of Goodwill.

Ans.: Goodwill is the value of the reputation of the firm judged in respect of its capacity to bring in, unaided profits. Goodwill is an asset that cannot be seen but can be imagined. Hence it is known as an "intangible asset."

Q.2 What are the bases of Valuation of Goodwill? Explain

For the valuation of Goodwill the following Profits are calculated -

(1) Actual Average Profit or Future Maintainable Profit

(2) Super Profit

Ans.: (1) **Calculation of Actual Average Profit :** It can be calculated by using the following three steps :

Step –I : Calculation of Adjusted Profit :

		Rs.
Net Profit Before Tax		xxx
Add :		
	Abnormal Expenses & Losses (If debited in P&L A/c)	xxx

Less :		
	Abnormal Income and Profit (If credited in P&L A/c)	xxx
	Preference Share Dividend	xxx
	Provision for Taxation	xxx
	Provision for Bad and Doubtful Debt	xxx

(Due to Accounting Error)	
Income from Non-Trade Investments	xxx
(If Unequal Income in Every Year)	xxx

Adjusted Profit	xxx

Step II : Calculation of Average Profit :

Simple Average Profit = $\frac{\text{Total adjusted profit of given number of year}}{\text{Number of years}}$

If past adjusted profit show any trend of raising or falling then weighted average profit will be calculated.

Weighted Average Profit = $\frac{\text{Total Product of Profits \& Weights}}{\text{Total of Weight}}$

Step III : Calculation of Actual Average Profit or Future Maintainable Profit :

		Rs.
Average Profit		xxx
Add :		
(i)	Expenses that will not incur in future	xxx
(ii)	Income and Profit that will arise in future	xxx
(iii)	Savings in depreciation due to decrease in value of Fixed Assets	xxx
		-------
		xxx
Less :		
(i)	Expenses that will incur in future	xxx
(ii)	Income and profit that will not arise in future	xxx
(iii)	Fair remuneration of the owner	xxx

(iv)	Income from non-Trading Investment	xxx
(v)	Additional depreciation on increased value of assets	xxx
(vi)	Provision for bad debts in future	xxx

	Future Maintainable Profit or Actual Average Profit	xxx
		-----

(2) Super Profit :

Super Profit = Actual Average Profit – Normal Profit

To calculate normal profit - (a) Average capital employed, and (b) Normal rate of return is computed. These can be calculated as follows :-

(A) **Capital Employed :**

Total of Assets – Outside Liabilities

To calculate the total of assets the following points should be kept in mind :-

(b) Fixed assets and intangible assets will be taken at their realizable value otherwise at book value.

(c) Fictitious assets and goodwill given at cost will not be included.

(d) Non-trade investments will not be taken.

Average Capital Employed :

Average Capital Employed can be calculated by following three formulae:

(i) $$\frac{\text{Opening Capital Employed + Closing Capital Employed}}{2}$$

(ii) Opening Capital Employed + ½ of current years profit after tax and preference dividend

(iii) Closing Capital Employed – ½ of current years profit after tax and preference dividend

(B) **Normal Rate of Return :** The rate of earnings which normally applies in similar concerns or which is expected by the investor to apply in similar concern is known as normal rate of return.

Q.3 Explain the various methods of Valuation of Goodwill.

Ans.: There are three methods of valuation of goodwill, the selection of method will depend on the circumstance of a particular business.

(1) **Year's Purchase Method :** This method is based on the assumption that the buyer of business will earn certain amount of profit or super profit during the life time of business. So he must pay some of the years profits as goodwill to the seller.

Goodwill = Future Maintainable Profit or Actual Average Profit X Number of years (2 or 3)

Or Goodwill = Super Profit X Number of year (4 to 5)

Goodwill = Normal Capital Employed – Actual Capital Employed

(2) **Capitalization Method :**

(i) **Capitalization of Super Profit Method :** According to this method it is estimated that how much capital will be required to earn super profit at a normal rate of return or profit.

$$\text{Value of Goodwill} = \frac{\text{Super Profit} \times 100}{\text{Normal rate of return}}$$

(ii) **Capitalization of Average Profit :** In this method first average profit is capitalized at normal rate of return. This is known as normal Capital Employed

$$\text{Normal Capital Employed} = \frac{\text{Actual Average Profit}}{\text{Normal rate of return}} \times 100$$

Then value of goodwill will be calculated as follows :-

Value of Goodwill = Normal Capital Employed – Actual Capital employed

(3) **Annuity Method :** According to this method the goodwill will be equal to the amount of present value of future super profits because one has to pay goodwill today but the amount of super profit will be earned in future. In this way loss of interest can be compensated.

Value of Goodwill = Super Profit X present value of Rs. 1

Present value of Rs. 1 received annually for 'n' year = $1(1/1+r)^n/r$

Here r = rate of interest, n = number of years.

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Chapter-12

Valuation of Shares

Q.1 Under which circumstances valuation of Shares is needed?

Ans.: The Shares of a Company are to be valued at different occasions. These are :-

(i) When shares of one class are to be converted into shares of another class.

(ii) When shares want to take loan against the shares.

(iii) When shares are to be bought and sold.

(iv) When companies are amalgamated and a new company is formed. The new company is to exchange the shares with the shareholder of old companies on the basis of value of shares.

(v) When one or more existing companies are purchased by another existing company.

(vi) Acquisition of interest of dissenting shareholders under a scheme of reconstruction.

(vii) When government wants to compensate the shareholders on the nationalization of a company.

(viii) When shares of a company is not quoted in stock exchange and holder is interested to value them or wants to dispose them.

Q.2 What do you understand by Valuation of Shares? Discuss the different methods of Valuation of Shares.

Ans.: Generally investors invest in the shares of a company after confirming :-

(i) Whether his investment in shares will be safe or not; and (ii) whether he will receive a fair return by fixed amount or not. To get the reply of these questions investors value the shares and then think to investment. For this purpose the shares can be valued by the following methods :-

(1) **Net Assets Valuation Method :** Under this method of valuation, it is ascertained that what amount of assets is available with the company for every share, so this method is known as "Assets backing Method." Also known as "Net Assets Method" and "Balance sheet Method" and "intrinsic value method" or break up value method."

Following procedure will be adopted to value the shares by this method :-

Calculation of Net Assets :

Net Assets = Total Realizable value of assets – total outside liabilities

Note :

(i) Realizable value of fixed assets is not given then written down value will be taken.

(ii) Intangible assets will be considered if realizable value is given.

(iii) Investments (whether trading or not-trading) will be considered at their present value.

(iv) The current assets will be considered after providing for bad debts and probable loss.

(v) Fictitious assets will not be considered.

Alternative Method : The value of net assets can also be ascertained on the basis of liabilities side of balance sheet.

	Share Capital		xxx
	Reserve and Surplus		xxx
	Profit on Revaluation		xxx
	Excess of Provision for Taxation		xxx
	Excess of Workman's Compensation Fund		xxx
			xxx
Less :	Fictitious Assets	xxx	
	Loss on Revaluation	xxx	
	Contingent Liabilities	xxx	xxx
			xxx

Calculation of Value Per Share :

(A) When Capital Structure of Company Consists of equity share Capital only :-

Case (1) : When normal value of all equity shares is equal and fully paid up:

$$\text{Value per Equity Share} = \frac{\text{Value of Net Assets}}{\text{No. of Equity Shares issued by the Company}}$$

Case (2) : If the capital structure of company consists equity shares of different nominal value of shares:

$$\text{Value per share} = \frac{\text{Proportionate net asset of a particular category}}{\text{No. of equity shares of same category}}$$

(B) If capital structure of the company consists of both (Equity and preference shares) type of shares : -

(i) When preference shareholders are having both preferences for payment of dividend and payment of capital :-

Value per Equity Share = Net Asset - (Preference share capital + Arrears of Preference share Dividend)/ No. of preference shares

(ii) If Preference Shares are having the preference as regards capital only :-

$$\text{Value per Equity Share} = \frac{\text{Net Assets} - \text{Preference share Capital}}{\text{No. of Equity shares}}$$

$$\text{Value per preference Share} = \frac{\text{Preference Share capital}}{\text{No of Preference shares}}$$

(iii) If Preference Shares are having the preference regards dividend only :-

$$\text{Value per Equity Share} = \frac{\text{Net Assets} - \text{Arrears of preference share dividend}}{\text{No. of Equity shares} + \text{No. of preference Shares}}$$

Value per preference share=

$$\text{Value per Equity Share} + \frac{\text{Arrear of preference share dividend}}{\text{No. of Preference shares}}$$

(iv) If preference share are not having any preference by the articles, therefore the per share value for equity share and preference will be:-

$$\text{Value per share} = \frac{\text{Net Assets}}{\text{No. of Equity Shares} + \text{No. of Preference share}}$$

Note : In (iii) and (iv) above, the same formula will be used, when the face value and paid up value of equity shares and preference shares is same. If the paid up value is different, the net assets will be distributed between the preference shares and equity shares in their paid up value ratio and then the such proportionate net assets will be divided by the number of shares of particular category.

(2) **Yield Valuation Method :** In this method the value of share is based on income received (Dividend) or receivable. To value share by this method, one of the following basis may be used :-

(a) **On the Basis of Dividend Rate :** Investors who are in minority interested in investing the amount for short period, give weight to the dividend that will be provided by the company in near future. The following formula will be used to value the share:

$$\text{Value per Equity share} = \frac{\text{Rate of Dividend X Paid Up Value Per Share}}{\text{Normal Rate of Return}}$$

Explanation of the terms used in above formula :-

(i) $$\text{Rate of Dividend} = \frac{\text{Amount of Dividend X 100}}{\text{Total paid up capital}}$$

(ii) Normal Rate of Return = Normal rate of return means the return that is to be earned by the company engaged in similar business.

(b) **On the Basis of Expected Rate of Return :** Generally companies do not distribute the whole of the profit as dividend to shareholders and hence the value of the share should be based on rate of earning.

$$\text{Value of Equity Share} = \frac{\text{Expected Rate of Return X 100}}{\text{Normal Rate of Return}}$$

Here the Expected Rate of Return will be calculated as :-

Expected Rate of Return = Profit available for equity shares X 100

Paid up Equity share Capital

(c) **On the Basis of Earning Capacity or Actual Rate of Return :** When amount is invested for a long period, or a huge amount is invested the share should be ascertained on the basis of earning capacity of the company.

$$\text{Value per equity share} = \frac{\text{Actual Rate of Return X Paid up value per share}}{\text{Normal Rate of Return}}$$

The actual Rate of Return can be ascertained by the following formula:-

$$\text{Actual Rate of Return} = \frac{\text{Profit Earned X 100}}{\text{Net Capital Employed}}$$

In above formula we have to ascertain :-

(i) Profit earned;

(ii) Net Capital employed

(i) **Profit Earned :** The term "Profit earned" means the "Profit before interest, transfer to reserve & preference share dividend but after tax."

(ii) **Net Capital Employed :**

Net Capital Employed (Assets Approach) =

Fixed assets (At revalued Price or at W.D.V.) + Trade Investment +Current Assets – Current Liabilities

Net Capital Employed (Liabilities Approach) =

Equity share capital + Preference Share Capital + Reserve & Surplus + Debentures + Long term Loan – fictitious Assets –Non trade

investment +Revaluation Profit
– Revaluation Loss

Q.3 Write Short notes on the followings-

(1) Fair Value of Shares

(2) Value of Shares in case of Bonus Shares

(3) Valuation of Rights

Ans.: (1) **Fair Value of Shares :** Fair value of share means the average of intrinsic value of share and yield value of share. Formula :-

$$\text{Fair value per Share} = \frac{\text{Intrinsic Value per Share + Yield Value per Share}}{2}$$

(i) **Intrinsic Value per Share** is the value of share based on the Net Assets Method.

(ii) **Yield Value per Share** is the value of share based on dividend, expected rate of return and earning capacity of the concern.

(2) **Value of Shares in case of Bonus Shares** : After bonus issue the number of shares will increase in company's books but net assets remains same. So, the intrinsic value of share is reduced.

$$\text{Value per Share} = \frac{\text{Net Assets (Existing Equity Fund)}}{\text{No. of Shares (including Bonus Shares)}}$$

(3) **Valuation of Rights** : As per section 81 of the companies Act, 1956, provides that if a public company increase its paid up capital by issuing new shares within a period of 2 years from its incorporation or within one year of first allotment of shares, whichever is earlier, the existing shareholders have a right to purchase the new equity shares from the company. If such shares are knows as Right shares, and this Right is known as "Right of Pre-emption".

The transfer of shares may be of 2 types as following :-

(i) **Ex-Right :** The value of right excluded in the market value of share because the existing shareholders have a right to purchase the right share.

(ii) **Cum-Right :** The value of right included in the market value of share, because the purchaser have a right to purchase the right shares.

$$\text{Value of Rights} = \frac{\text{No. of Right Shares X (Market Price – Issue Price)}}{\text{No. of Existing Shares + No. of Right Shares}}$$

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Chapter-13

Internal Reconstruction of Companies

Q.1 What is Internal Reconstruction?

Ans.: "Internal Reconstruction is recapitalization in the form of quosi-reorganization under which deficit is absorbed, a new company is not formed and the company reaches in a state of profit from a state of loss after this date."

Q.2 What are the different methods of Alteration of Share Capital as provided under the Companies Act, 1956?

Ans.: **Methods of Alteration in Share Capital :** A company Limited by shares can alter its share capital under sec. 94 of companies Act 1956, if articles of Association of company permits it and a resolution has been passed in the general meeting of the company. Share capital can be altered in following ways;

(1) Increase in share capital by issue of new shares

(2) Consolidation of shares

(3) Sub-division of shares

(4) Conversion of shares into stock or stock into shares

(5) Cancellation of unissued shares

(1) **Increase in Share Capital by Issue of New Shares :** When a company requires additional capital, it can increase its share capital by issuing new shares. If the company has issued all its authorized capital then it can increase its authorized capital by make changes in Memorandum of Association with the permission of S.E.B.I. No

accounting entry will be passed for increasing authorized share capital but in relation to issue of new shares some entries will be passed as are generally passed in case of issue of shares.

(2) **Consolidation of Shares :** When the shares of small denominations of a company are changed into shares of big denominations it is called consolidation of shares. The total capital of company does not change by consolidation of shares but the number of shares decreases.

Following entry is passed in this case :-

(Old Denomination) Share Capital A/c Dr.

To (New Denomination) Share Capital A/c

(Being consolidation of … Shares of Rs. …………… Each into……. share of Rs. …………. each)

(3) **Sub-Division of Shares :** When the shares of a company are sub-divided in shares of small value, it is known as sub-division of shares. The total capital of the company does not get affected by sub-division of shares but the numbers of shares increases.

(Old denomination) Share capital A/c Dr.

To (New Denomination) Share Capital A/c

(Sub-division of ……. shares of Rs.…….. each into….shares of Rs. …..each)

(4) **Conversion of Shares into Stock or Stock into Shares :** A company can convert its fully paid up shares into stock or stock into fully paid up shares. By converting shares into stock, any amount of stock capital can be transferred to any other person. Following entry will be passed for such conversion.

(a) **Conversion of Shares into Stock :**

Equity Shares Capital A/c Dr.

To Equity Stock A/c

(Equity shares of Rs. …….. each fully paid up converted into equity stock of Rs. ……….)

(b) **Conversion of Stock into Fully Paid Equity Shares :**

Equity Stock A/c Dr.

To Equity Share Capital A/c

(Equity stock of Rs. ……….. Converted into ……. Equity shares of Rs. ………. Each fully paid)

(5) **Cancellation of Unissued Share :** Cancellation of unissued shares by a company does not amount to reduction of paid up share capital. As no accounting entry has been done in the books of company for such shares, therefore no entry is passed for cancellation of such shares, only the authorized capital is adjusted in the balance sheet of the company.

Q.3 Discuss the different methods of Reduction in Share Capital.

Ans.: A company can reduce its capital as per the provisions given in section 100 to 105 of companies Act, 1956. Following conditions are required to be fulfilled by a company to reduce its share capital :-

(a) The articles of association of a company permit it to reduce its capital.

(b) The company has passed a special resolution.

(c) Court has approved the scheme of reduction in share capital.

Method of Reduction in Share Capital : A Company can reduce its share capital by any of the following three methods :-

(1) Extinguishing the liability of uncalled amount on shares

(2) Refund of excess capital to shareholders

(3) Reducing the paid up share capital

(1) **Extinguishing or Reducing the Uncalled Amount on Shares** : If the shares issued by company are not fully called up then the company can either partly or wholly eliminate the liability of shareholders on such shares. By eliminating the liability of uncalled amount, the paid up capital of company will not reduce but the company relinquishes its right of calling uncalled amount and the liability of shareholders for uncalled capital is eliminated.

(Old Denomination) Share Capital A/c Dr.

To (New Denomination) Share Capital A/c

(Uncalled amount of Rs………… Per share cancelled).

(2) **Refund of Excess Capital to Shareholders :** If excessive capital has been collected or it is not used profitably by the company the company can return this excess capital.

Following entries will be passed :-

(i) **When Denomination of Shares is Changed :**

(Old Denomination) Share Capital A/c Dr. (Old Paid Up Capital)

To (New Denomination Share Capital A/c (New Paid Up Capital)

To Sundry Shareholders A/c (Amount Refunded)

(Conversion of Rs. ……….Shares into Rs. ……… fully paid shares and refund of Rs. … per share on ………… share)

Sundry Shareholders A/c Dr.

To Bank A/c

(Payment made to shareholders)

(ii) **When Denomination of Shares is not Changed :**

Share Capital A/c Dr. (Returnable Amount)

To Sundry Shareholders A/c (Returnable Amount)

(Rs……. Per share on …… Shares refunded to shareholders)

Sundry Shareholder A/c Dr.

To Bank A/c

(Payment made to shareholders in the form of accumulation losses)

(3) **Reduction in Paid Up Share Capital** : The capital reduction programme, capital lost is written off and new capital is raised

from shareholders. To apply the capital reduction programme a Capital Reduction Account is opened in the books of the company. The amount sacrificed by debenture holders, share holders and creditors is credited in this account and it is used to write of f accumulated losses and deferred revenue expenditure, Accounting under this scheme is done as follows:

(i) **When Denomination of Shares is Reduced :**

(Old Denomination) Share Capital A/c Dr. (Old Capital)

To (New Denomination) Share Capital A/c (New Capital)

To Capital Reduction A/c (Reduction Amount)

(ii) **When Denomination of Shares is not Reduced Only Paid Value is Reduced:**

Share Capital A/c Dr. (Reduction Amount)

To Capital Reduction A/c

(iii) **Balance of Any Reserve (If Any) Transferred :**

Capital Reserve/General Reserve/Any Particular Reserve A/c Dr.

To Capital Reduction A/c

(iv) **Sacrifice by Debenture Holders and Creditors :**

Debenture A/c Dr.

Creditors A/c Dr.

To Capital Reduction A/c

(v) **Increase in the Value of Assets or Decrease in the Value of Liability :**

(Particular) Asset A/c Dr. (Increase of Amount)

(Particular) Liability A/c Dr. (Decrease of Amount)

To Capital Reduction A/c

(vi) **Various Accumulated Losses, Fictitious Assets and Loss on Assets and Liabilities Written Off :**

Capital Reduction A/c Dr.

To P&L A/c/Preliminary Exp. A/c

To Discount on Issue of Shares/and Debentures A/c

To Goodwill/Patents

To (Particular) Assets A/c

To (Particular) Liability A/c

(vii) **Provision for Any Contingent Liability made :**

Capital Reduction A/c Dr.

To Provision for Contingencies A/c

(viii) **Balance of Capital Reduction A/c transferred :**

Capital Reduction A/c Dr.

To Capital Reserve A/c

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Chapter-14

Amalgamation of Companies

Q.1 What is Amalgamation in the Nature of Purchase? How Purchase Consideration is calculated under this method?

Ans.: Amalgamation in the Nature of Purchase : Amalgamation of companies which do not fulfill one or more conditions of amalgamation in the nature of merger is amalgamation in the nature of purchase.

Calculation of Purchase consideration in case of Amalgamation in nature of purchase :-

There are four methods of calculating purchase consideration:

(i) **Lumpsum or Adhoc Method :** In this method purchase consideration will be given in advance. So the amount of purchase consideration will be given directly to Vendor company by purchasing company.

(ii) **Net Assets Method :** As per this method, purchase consideration is the difference between the agreed price of assets and liabilities taken over by the purchasing company. In this method, fictitious assets are not included while calculating purchase consideration.

(iii) **Net Payment Method :** In this method the various payments made by purchasing company to the shareholders of vendor company are summed up for calculating purchase consideration. The payment may be made not only in cash but also in form on equity shares and preference shares. It is to be noted that if payment to other party is not made through vendor company but directly then it is not included in calculation of purchase consideration. Debentures will not be included in payment of purchase consideration.

(iv) **Intrinsic Value of Shares Method :** In this method purchase consideration is discharged by transferee company on the basis of intrinsic value of shares by the following formula :-

$$\text{Intrinsic Value of shares} = \frac{\text{Net Assets for Equity Shareholders}}{\text{No. of Equity Shares}}$$

Q.2 Pass journal entries in the books of Purchasing Company and in the books of Vendor Company in case of Amalgamation in the Nature of Purchase.

Ans.: Accounting Entries in case of Amalgamation in the Nature of Purchase :

In the Books of Vendor Company : The accounting books of liquidated company are closed in case of amalgamation. Accounting entries are made through Realization account. The entries in the books of vendor company will be as follows :-

(1) **Transfer of Assets taken over by Purchasing Company to Realization Account :**

Realization A/c Dr.

To (Particular) Assets A/c (At Book Value)

(2) **Transfer of Liabilities taken over to Realization A/c :**

(Particular) Liabilities A/c Dr.

To Realization A/c

(3) **Transfer of Statutory Reserves to Realization Account :**

(If statutory reserve is to be maintained in future)

Statutory Reserve A/c Dr.

To Realization A/c

(4) **Purchase Consideration Due :**

Purchasing Company A/c Dr.

To Realization A/c

(5) **Purchase Consideration Received :**

Bank A/c Dr.

Prof. Shares in Purchasing Co. A/c Dr.

Equity Shares in Purchasing Co. A/c Dr.

To Purchasing Co. A/c

(6) **Transfer of Prof. Share Capital to Preference Shareholders A/c** :

Preference share Capital A/c Dr.

To Preference Shareholders A/c

(7) **Dividend Due on cumulative Preference Shares :**

Realization A/c Dr.

To Preference Share Dividend A/c

Preference Share Dividend A/c Dr.

To Preference Share Holders A/c

(8) **Payment to Preference Share Holders :**

Preference Share Holders A/c Dr.

To Shares in Purchasing Company A/c

To Bank A/c

If preference shareholders are paid more or less, then the balance amount will be transferred to Realization account.

(9) **Transfer of Equity Share Capital, Revenue Reserve, and Capital Reserve :**

Equity Share Capital A/c Dr.

General Reserve/ P&L A/c Dr.

Capital Reserve A/c Dr.

Particular Reserve A/c Dr.

To Equity Shareholders A/c

(10) **Transfer of Fictitious Assets and Accumulated Losses :**

Equity Shareholders A/c Dr.

To Profit & Loss A/c

To Preliminary Expenses A/c

To (Particular) Loss A/c

(11) **Realization from Assets not taken over by Purchasing Company :**

Cash/Bank A/c Dr. (Amount Realised)

Realization A/c Dr. (Loss on sale if any)

To (Particular) Assets A/c (Book Value of Assets)

(12) **Payment of Liabilities not taken over by Purchasing Company :**

Creditor (or Particular Liability) A/c Dr.

To Cash/Bank A/c

To Debentures in Purchasing in Company A/c

To Preference Shares in Purchasing Company A/c

To Equity Shares in Purchasing Company A/c

If any profit or loss arises on payment of liability it will be credited or debited to Realization account.

(13) **Entry for Liquidation Expenses** will be made according to the situation, which may be as follows :-

(i) If expenses A/c paid by purchasing company no entry will be made in the books of vendor company.

(ii) If expense4s are borne by vendor company, the following entry will be passed :-

Realization A/c Dr.

To Bank A/c

(iii) If realization expenses are paid by vendor company reimbursed by purchasing company, following entry will be passed :-

(a) On payment :

Realization A/c Dr.

To Bank A/c

(b) Amount received from Purchasing Company :

Bank A/c Dr.

To Realization A/c

(iv) If liquidation expenses are included in purchase consideration then it will be credited to Realization account as per entry 3. At the time of payment of Expenses, entry will be passed according to (iii) (a).

(14) **Transfer of Balance of Realization Account to Equity Shareholders :**

If debit balance in realization account i.e. loss :-

Equity Shareholders A/c Dr. (Amount of Loss)

To Realization A/c

If credit balance in realization account i.e. profit :-

Realization A/c Dr.

To Equity Shareholders A/c

(15) **Payment to Equity Shareholders :**

Equity Shareholders A/c Dr.

To Cash/Bank A/c

To Debentures in Purchasing Company A/c

To Preference Shares in Purchasing Company A/c

To Equity Shares in Purchasing Company A/c

All account of Vendor Company will be closed by posting the above entries in ledger accounts.

Accounting in the Books of Purchasing Company :

(i) **Assets and Liabilities Taken Over :**

(Particular) Assets A/c Dr. (Agreed Value of Assets)

To (Particular) Liabilities A/c (Agreed Value of Liabilities)

To liquidator of Vendor Co. A/c (Purchase Consideration)

If the value of assets taken over by purchasing company is less than the total value of liabilities and purchase consideration the difference is Goodwill and if the value of assets is more than the total value of liabilities and purchase consideration, the difference will be capital reserve. Goodwill account will be debited or capital reserve account will be credited in the above journal entry.

(ii) **Statutory Reserves Taken Over :**

Amalgamation Adjustment A/c Dr.

To Statutory Reserve A/c

(iii) **Payment of Purchase Consideration :**

Liquidator of Vendor Co. A/c Dr. (Purchase Consideration)

To Equity Share Capital A/c (Paid Up Value of Shares)

To Preference Share Capital A/c (Paid Up Value)

To Securities Premium A/c (Premium on Shares)

To Debentures A/c (Paid Up Value)

To Cash / Bank A/c (Cash Payment)

(iv) **Payment of Debentures of Vendor Company :**

Debentures A/c (Vendor Company) Dr.

To Debenture A/c (Purchasing Company)

To Bank A/c (If in cash)

(v) **Payment of Realization Expenses in addition to Purchase Consideration :**

Goodwill/ Capital Reserve A/c Dr.

To Cash/Bank A/c

No additional Entry will be passed in case such expenses are part of purchase consideration.

Q.3 How will you deal the following items in case of Amalgamation :

(1) Mutual Debts; **(2) Unrealized Profits.**

Ans.: (1) **Mutual Debts** : Due to mutual trading and lending transactions between the companies one company may be debtor trade debtor, borrower or acceptor of bill of another company. The company entitled to receive the amount shows such mutual indebtness as asset in its balance sheet and the company which is to discharge the obligation shows such mutual indebtness as liability in its balance sheet.

Thus we may find mutual debtors and creditors, mutual bills receivables and payables, loan to another and loan from another in the balance sheet of two existing companies being agreed to amalgamate.

Accounting in the books of Transferor (Vendor) company. There is no accounting effect of mutual debts in the books of vendor company. While closing the books of vendor company the balance of such items is transferred to realization account in the same way as other assets and liabilities.

Accounting in the books of purchasing company: The journal entry of business purchase will be done according to general rules in the books of purchasing company entries :-

(i) **If Purchasing Company is Debtors and Vendor Company is Creditor :**

Creditors (in Purchasing Company) A/c Dr.

To Debtors (in Vendor Company) A/c

(ii) **If Purchasing Company is Creditor and Vendor Company is Debtor :**

Creditor (in Vendor Company) A/c Dr.

To Debtors (in Purchasing Company) A/c

(iii) **Bills Payable in the Books of Purchasing Company and Bills Receivable in the Books of Vendor Company :**

Bills Payable (in Purchasing Co.) A/c Dr.

To Bills Receivable (in Vendor Co.) A/c

(iv) **Bills Payable in the Books of Vendor Co. and Bills Receivable in the Books of Purchasing Company :**

Bills Payable (in Vendor Company) A/c Dr.

To Bills Receivable (in Purchasing Company) A/c

(v) Other mutual debts in the books of purchasing and vendor company are shown as asset in the books of one company and liabilities in the books of other company. The amount of mutual debt is deducted from assets and liabilities side of purchasing company. If loan is taken by purchasing company :

Loan from Vendor Co. A/c Dr.

To Loan to Purchasing Company A/c

If loan has been taken by Vendor Co.

Loan from Purchasing Co. A/c Dr.

To Loan to Vendor A/c

(2) Unrealized Profit on Stock : Transactions of purchase and sale of goods usually happens between companies in same business. Goods are sold by adding profit on cost. If at the date of amalgamation, either the purchasing company or vendor company is holding stock of such goods then in case goods are sold at profit, the profit included in such goods will be assumed as unrealized profit.

Adjustment for unrealized profit will be done as follows :-

In the Books of Transferor Company : No adjustment is required in the books of transferor company.

In the Books of Transferee Company :

(a) If Stock is held in the hands of transferor company than transferee company firstly takes over stock from transferor company and then following entry is passed to eliminate unrealized profit :-

Goodwill/Capital Reserves A/c Dr.

To Stock A/c (By amount of unrealized profit)

(b) If Stock held by transferee company is out of goods purchased from transferor company at cost plus. Profit the transferee company is to pass following entry for elimination of unrealized profit :-

Goodwill/ Capital Reserve A/c Dr.

To Stock A/c (By amount of unrealized profit)

Q.4 Explain the "Pooling of Interest Method" of Accounting for Amalgamation.

Ans.: Pooling of interest method is applied in case of amalgamation in nature of merger, the accounting procedure is as follows :-

(i) All the Assets, of Reserves & surpluses are taken by the transferee company at their book values.

(ii) Soon after amalgamation, consolidated figure of Profit and loss account of both the transferor company and transferee company is shown in the Balance Sheet of purchasing company other reserves are also consolidated and shown in Balance Sheet.

(iii) If accounting polices of both vendor Company and purchasing company are different then same policies must be adopted.

(iv) If there is any difference between the share capital of transferor company and share capital issued to shareholder of transferor company, it will be adjusted through reserve.

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Chapter-15

Accounts of Companies in Liquidation

Q.1 What is meant by Liquidation of Companies?

Ans.: Liquidation is a process by which the business of a company is closed, assets are sold, the money realized from sale is used for payment to creditors and if any amount is left after payment to various creditors, it is divided between the shareholders as per the provisions given in the articles. Therefore liquidation is a process by which the life of a company comes to an end.

Q.2 What are the various modes of Winding Up of a Company? Explain.

Ans.: According to Section 425 (1), the winding up of a company may be by any of the following three methods :-

(1) Compulsory winding up or winding up by court

(2) Voluntary winding up

  (a) Voluntary winding up by members and

  (b) Voluntary winding up by creditors

(3) Winding up under supervision of court

(1) **Compulsory Winding Up or Winding Up by Court :** When company is liquidated on the order of court it is called winding up by court or compulsory winding up. Court can give order in following situations :-

(i) If company has passed special resolution for winding up of company.

(ii) If company does not call statutory meeting within the prescribed time or does not present statutory report to registrar.

(iii) If company does not commence its business within a year from its incorporation or suspends its business for a whole year.

(iv) If the number of members is reduced below seven in case of public company or below two in case of private company.

(v) If the company is unable to pay debts.

(vi) If the court is of the view that it is just and equitable to close the business.

Procedure of Compulsory Winding Up : A Procedure aptitude by court for compulsory winding up of a company is as follows :-

(i) An Application for winding up is filled to court.

(ii) Consideration on application by court

(iii) After hearing the application court can give winding up order and to discharge liquidation activities appoints a liquidator.

(iv) Presentation of statement of affairs of company to the liquidator.

(v) Liquidator takes the right of the company and presents the report of the company to the court.

(vi) After checking the report court gives the order of completion of winding up liquidator sends a certified copy of this order to office of Registrar and registrar cut offs the name of company.

(2) **Voluntary Winding Up** : A company may be wound up voluntarily by passing ordinarily resolution or special resolution. Voluntary winding up may be of two types :-

(i) **Voluntary Winding Up by Members :** In this case director make declaration called declaration of solvency and file it to the Registrar and Shareholders passes a special resolution for winding of the company. After that liquidator is appointed for winding up of the company. Liquidator after making scrutiny of accounts reports to the court. The company is deemed to have been dissolved from the date of submission of report.

(ii) **Voluntary Winding up by Creditors :** When company is not in a position to meet its liabilities the creditors takes over the control to secure their interests. In this case Resolution for voluntary winding up by creditors is passed by members in the general meeting of company.

(3) **Winding Up Under Supervision of Court :** At any time after the company has passed a resolution for voluntary winding up, the court may direct that the voluntary winding up shall continue subject to supervision of court if :-

(i) The resolution for voluntary winding up has not been approved, or

(ii) Any creditor or member of company has applied to the court for winding up under its supervision

(iii) The court is of opinion that without it the interests of members and creditors are not secured.

Under it, the court get the same powers as it was having under compulsory winding up. Remaining Procedure is same.

Q.3 What is Statement of Affairs? When is it prepared? Give a specimen form of this statement and explain it.

Ans.: When winding up of company is as per the order of the court or provisional official liquidator is appointed by the court, the directors and officers are required to present a statement of affairs to the liquidator within 21 days of winding up order or appointment of liquidator.

The following points are mentioned in the statement of affairs :-

(i) Assets of company and loans and liabilities of company.

(ii) Full disclosure of creditors and Debtors of the company.

(iii) Other information required by Central Government and liquidator.

Statement of affairs is prepared in a prescribed format which is as follows:-

Form of Statement of Affairs

<table>
<tr><td colspan="5">Assets not specifically pledged (as per list 'A')
Bank Balance
Cash in Hand
Marketable Securities
Bills Receivable
Trade Debtors
Loans and Advances
Unpaid Calls
Stock in Trade
Work-in-Progress
Freehold Property, Land and Building
Leasehold Property
Plant and Machinery
Furniture Fittings, Utensils etc.
Investments other than Marketable Securities
Live Stock
Other Property viz.</td><td>Estimated realizable value Rs.</td></tr>
<tr><td>Assets</td><td>(a)</td><td>(b)</td><td>(c)</td><td>(d)</td><td>…………</td></tr>
<tr><td>Specifically pledged
(as per list 'B')</td><td>Estimated realizable value
Rs.</td><td>Due to secured Creditors
Rs.</td><td>Deficiency ranking as unsecured
Rs.</td><td>Surplus carried to last column
Rs.</td><td></td></tr>
<tr><td colspan="5">Estimated Surplus from Assets specifically pledged
Estimated Total Assets available for Preferential Creditors, Debenture Holders secured by a Floating Charge and Unsecured Creditors</td><td>…………</td></tr>
</table>

(Carried Forward)		…………
Summary of Gross Assets	**Rs.**	
Gross realizable value of Assets pledged	…………	
Other Assets	…………	
Gross Assets Total (Rs.)	………….	
Estimated Total Assets available for Preferential Creditors, Debenture Holder Secured by a Floating Charge and Unsecured Creditors (Brought Forward)		……….
Liabilities		
(to be deducted from surplus or added to deficiency as the case may be) Secured creditors (as per list 'B') to the extent to which claims are estimated to be covered by Assets specifically pledged.		
(Interest in Gross Liabilities Column only)		
(Deduct) Preferential Creditors (as per list 'C')		……….
Estimated Balance of Assets Available		………..
(Deduct) Debenture Holders and Creditors Secured by a Floating Charge. (as per list 'D')		………..
Estimated Surplus/Deficiency as regards Debenture Holders, Unsecured Creditors (as per list 'E')		………...
	Rs.	
Estimated Unsecured Balance of Claims of Creditors		
Partly Secured on Specific Assets brought from (c)	………….	
Trade Account	………….	
Bills Payable	………….	
Outstanding Expenses	…………..	
Bank Overdraft	…………..	
Contingent Liabilities	…………..	…………
Estimated Surplus/Deficiency as regards Creditors, being difference between :		

	Rs.	
Gross Assets and	…….……	
Gross Liabilities	….………..	………..
Issued and Called Up Capital	Rs.	
Preference Share Capital (as per list 'F')	………....	
Equity share capital (as per list 'G')	……….....	………..
Estimated Surplus/Deficiency as regard Membership (as per list 'H')		………..

Description of above lists is as follows :-

(1) **Assets not Specifically Pledged as per List 'A'** : under this heading the assets which are not pledged are shown.

(2) **Assets Specifically Pledged as per List 'B' :** The assets which are pledged with creditors is shown under this head. The related description of assets and loan is shown under four column of amount.

(3) **Overriding Preferential Payments :** Workmen's dues & debts due to secured creditors shall be paid in priority to all other debts.

(4) **Preferential Creditors as per List 'C' :** Preferential creditors are those unsecured creditors who are paid in priority to creditors having a floating charge and other (non-preference) unsecured creditors. Preferential creditors include the following :-

(i) All Revenues, taxes, cases and rates due to the central or state government or to a local authority which have become due and payable within twelve months before the date of winding up order.

(ii) All wages or salaries of any employee not exceeding Rs. 20,000 due for a period not exceeding four months within the said twelve months before the date of winding up order.

(iii) All accrued holiday remuneration becoming payable to an employee officer is not included in it.

(iv) If any person has given any loan to the company for making payment (i) and (ii) above, he will be assumed as preferential creditors.

(v) All amount due in respect of contribution payable during the twelve months under the Employee's State Insurance Act, 1948.

(vi) All Compensation due under workmen compensation Act, 1923 above two rules do not apply when winding up is voluntary for amalgamation or reconstruction.

(vii) All sums due to any employee from any fund for the welfare of the employee maintained by the company.

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

(5) **Debenture having a Floating Charge on Assets of the Company as per list 'D' :** Generally Debentures floating charge on movable and immovable assets of company, therefore they are shown before unsecured creditors.

(6) **Unsecured Creditors as per list 'E' :** All creditors except preferential creditors and fully secured creditors are included in this list.

(7) **Preference Share Capital as per list 'F' :** Called up share capital is shown under this head. Unrealized amount from shareholders is deducted from list F.

(8) **Equity Share Capital as per list 'G' :** Called up capital is shown under this head.

(9) **Deficiency or Surplus as regards Members as per list 'H' :** Deficiency or surplus in case of winding up is included in this list.

Q.4 What do you under stand by Liquidator's Statement of Account? When is it prepared and how?

Ans.: Company can be wound up by court or voluntarily. Liquidator is appointed in both the cases. If company is liquidated by court, the liquidator is also appointed by court. All the assets of the company are realized and all the liabilities are paid then the liquidator presents a final statement of account to the court. It is called "Liquidator's Final Statement of Account.

If company is voluntarily winding up, he is appointed by shareholders; therefore, he presents his final statement of account to the court company.

Liquidation Statement of Account of the Winding Up

Receipts	Estimated value	Value realized	Payment	Rs. P.	Payment Rs. P.
Assets :			(i) Legal Charges		. . .
Cash at Bank			(ii) Liquidators		
Cash in Hand			Remuneration		
Marketable Securities			% on Rs. ....Realized	. . .	. . .
Bills Receivable			% on Rs..Distributed	. . .	
Trade Debtors					
Loans and Advances					
Stock in Trade					
Work in Progress			**Total**	. . .	
Freehold Property			(iii) Liquidation	. . .	
Leasehold Property			Expenses		
Plant & Machinery			(iv) Preferential	. . .	
Furniture, Fittings, Utensils etc.			Creditors	. . .	
Patents, Trademarks etc.			(v) Creditors having a		
Investments other than			Floating Charge	. . .	
Marketable Securities			(vi) Secured Creditors		
Surplus From Securities			(vii) Returns to	. . .	
Unpaid Calls at Commen-			Contributories	. . .	
cement of Winding-Up			(viii) Preference Share		
Amount Received from Calls			Capital		
on Contributories Made in the			(ix) Equity Share		
Winding-Up			Capital		
Receipts as per Trading A/c					
Other Property					
		. . .			. . .

Note : The payments are made in the above shown order.

Q.5 Who is termed as "contributory'? Discuss his Liability in the event of Winding-Up of Company. How is the Liability of list 'B' contributories determined?

Ans.: Contributory: According to the section 428 of Companies Act, contributory means a person liable to contribute to the assets of company in the event of its being wound up and includes holders of shares which are fully paid.

The following persons are included as contributories :-

(i) **Present Members :** Present members are the members whose names are included in the register at the time of staring of winding up process. In case of winding up of a company every present member is liable to contribute in the assets of the company member is liable for the amount which remain unpaid on his shares. These members are known as contributories of List A.

(ii) **Past Members :** Persons who are ceased to be members of the company within one year before the commencement of winding up. Their liability is secondary. The members are knows as 'B-List of contributories.'

Liability of Past Members (B List Contributories) :

(i) Past members is not liable, if he ceased to be a member before 1 year of commencement of winding up.

(ii) The ex-member will not be liable for the agreements done after he ceased to be a member.

(iii) The ex-member shall be liable only for the amount remained unpaid on shares.

(iv) The ex-member shall not be liable till the court is satisfied that the present members are unable to make contribution.

(v) The liability of ex-members shall be in proporting to the shares held at the time of ceasing of membership.

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B. Com (Part-I) Examination, 2011
(10+2+3 Patterns)
(Faculty of Commerce)
ACCOUNTANCY AND BUSINESS STATISTICS

First Paper: Corporate Accounting

OBJECTIVES PART- I

Time: One Hour **Max. Marks: 40**

Attempt all questions.

1. Answer each of the following questions in not more than 20 words. Each question carries two marks.

   i. In how many categories the share capital of a company may be classified? Name them.

   ii. Can partly paid up preference shares be redeemed? If not, then how they can be redeemed?

   iii. What do you understand by debenture?

   iv. When was the Accounting Standards Board constituted?

   v. What is meant by net assets?

   vi. State the purposes for which generally appropriation of profits is made in a company?

   vii. What are the bases of valuation of goodwill?

   viii. What are the types of Reconstruction of companies in broad sense?

   ix. What types of amalgamation are mentioned in Indian Accounting Standard 14?

   x. Give the types of voluntary winding up.

2. Answer the following questions in not more than 50 words each. Each question carries 4 marks.

   i. A company had issued 5,000 equity shares of Rs. 100 each on which Rs. 75 per share was called. A person holding 200 shares had paid only Rs. 40 per share. Give the journal entry for recording the transaction relating to forfeiture of his shares.

   ii. A company had issued debentures of the nominal value of Rs. 5,00,000 at 10% discount. The redemption of these debentures was to be made by annual drawing of Rs. 1,00,000. Give the amount of discount to be written off in each of the first two years.

   iii. What is meant by calculation of fair value of shares?

   iv. What is underwriting commission?

   v. For what purposes the balance of Capital Reduction Account may be used?

DESCRIPTIVE PART- II

Time: Two Hours **Max. Marks: 60**

Attempt three questions in all, Selection at least one question from each Section. All questions carry equal marks of 20 each.

Section-A

3. X company limited offered 4,000 debentures of Rs. 100 each to public for subscription. Applications for the purchase of 5,000 debentures were received. The debentures were allotted proportionately to the applicants and excess application money was retained for adjustment towards allotment money. The debenture money was payable as follows:

   Rs. 30 on application, Rs. 40 on allotment, Rs. 20 on first call and Rs.10 on second call. A person who held 100 debentures failed to pay the amount due at the time of allotment. He, however, paid that amount with first call money, another person who held 200 debentures, paid all the calls in advance at the time of allotment.

   Pass necessary journal entries (including those of cash) in the books of the company.

4. Write notes on any four of the following :
   i. "Every debit has equal credit", to which concept this rule is related?
   ii. What is meant by forfeiture of shares? Explain the accounting-treatment of forfeiture of shares.
   iii. When and how the preference shares are redeemed by conversion into equity shares?
   iv. What is the main difference between share and debenture?
   v. Give the functions of Accounting Standards Boar

Section-B

5. A company was formed with an authorized share capital of Rs. 10,00,000 divided into 50,000 equity shares of Rs. 10 each and 50,000 preference shares of Rs. 10 each to acquire the running business of Messrs Prem Bahadur and Sons, whose Balance Sheet stood as follows :

Balance Sheet

Liabilities		Rs.
Bills payable		7,000
Sundry creditors		12,800
Capital		2,64,200
		2,84,000
Assets		Rs.
Cash at Bank		9,000
Book debts	16,000	
Less : Provision for doubtful debts	1000	15,000
Life insurance policy(Surrender value)		8,000
Stock in trade		62,000
Plant and Machinery		1,00,000
Freehold premises		90,000
		2,84,000

The purchase price was agreed upon at Rs. 3,50,000 to be paid as Rs. 1,00,000 in fully paid equity shares, Rs. 1,00,000 in fully paid preference shares, Rs. 60,000 in redeemable debentures and the balance in cash. The company does not take over the insurance policy, values the stock and the plant and machinery at 10% less than their respective book values and the freehold premises at 20% more than their book value. The liabilities will be discharged by the company.

The remaining both kinds of shares were issued to and paid up by public with the exception of 1,200 equity shares held by Lala K. Prasad on which he had not paid the allotment money of Rs. 3 per share and which were subsequently forfeited and re-issued at a discount of 20 percent. Application money @ Rs. 7 per share was payable on both kinds of shares.

Give journal entries to record the above transactions.

6. Balance Sheet of Rohit Limited as on 31st March, 2010 is as follows :

Balance Sheet	Rs.
10,000 equity shares of Rs. 10 each, fully paid up	1,00,000
5,000 equity shares of Rs. 10 each Rs. 5 paid up	25,000
4,000 equity shares of Rs 10 each Rs. 4 paid up	16,000
Securities premium	10,000
Sundry creditors	40,000
	1,91,000
Fixed Assets	1,20,000
Stock	30,000
Debtors	21,000
Cash at Bank	20,000
	1,91,000

On 31st March 2010 realisable value of company's fixed assets is Rs. 1,80,000 and the value of goodwill of the company is Rs. 80,000. Compute intrinsic value of equity shares.

Section-C

7. Nalin Limited was registered with an authorized share capital of Rs. 60 lakhs divided into 30,000 equity shares of Rs. 100 each and 30,000 preference shares of Rs. 100 each of which 20,000 equity shares and 20,000 preference shares had already been issued in year of company's incorporation. After 3 years from the date of its incorporation, now company decided to increase its share capital by issuing the remaining equity and preference share at a premium of 5%. To satisfy the requirements of Section 81 of the Companies Act, 1956 the company first offered these shares to those shareholders who enjoy the preemption right to purchase these shares. Assuming all these shares are taken up by existing shareholders. The shares are payable as to Rs. 50 on application and Rs. 55 on allotment (including premium of Rs. 5) per share.

   The company spent Rs. 2,000 in connection with these share issue and the directors decided to write off this expenditure against premium received on issue of shares.

   (a) Pass the necessary journal entries relating to issue of these shares in the books of the company.

   (b) Show the share capital and premium on issue of shares in the Balance Sheet of the company.

8. Write short notes on the following :

   i. Deficiency account.

   ii. Receiver's statement of account

   iii. Payment of preference share dividend by the liquidator.

B. Com (Part-I) Examination, 2010
ACCOUNTANCY AND BUSINESS STATISTICS

First Paper: Corporate Accounting

OBJECTIVES PART- I

Time: One Hour **Max. Marks: 40**

Attempt all questions.

1. Answer each of the following questions in not more than 20 words. Each question carries two marks.

   i. "Every debit equal credit", to which concept this rule is related?

   ii. Give the name of Accounting Standard 1 and 9.

   iii. What may be the maximum amount of discount on re-issue of forfeited shares?

   iv. How the debentures can be redeemed? Name them.

   v. A company offered 50,000 shares to the public for subscription. 60% of this was underwritten. Firm underwriting was for 10,000 shares. Applications were received for 25,000 shares from the public. Calculate the liability of underwrites.

   vi. What amount of company has to transfer to statutory, if company is interested to provide 22% dividend on equity shares?

   vii. Write the formula for computing value of right.

   viii. In which list preferential creditors are included?

   ix. What accounting entry is passed to cancel intercompany debtors and creditors?

   x. How many types of accounting conventions are there? Name any two.

2. Answer the following questions in not more than 50 words each. Each question carries 4 marks.

   i. A company forfeited 500 shares of Rs. 10 each Rs. 8 called up, for non-payment of first call @ Rs. 3 per share and reissued these shares @ Rs. 9 per share as fully paid up. Pass Journal entries regarding forfeiture and reissue.

   ii. A company purchased 200 12% debentures of Rs. 100 each at Rs. 97 on 1st July, 2009 for immediate cancellation. Interest is payable on 30th September and 31th March each year. Pass journal entries in the books of the company if it is purchased on cum interest.

   iii. Give an abridged form of Balance Sheet of company.

   iv. A company having 9,000 equity shares of Rs. 10 each fully paid and Rs.45,000 reserves and surplus issues one bonus share for every three equity shares held. Find out the value of shares after the issue of bonus shares.

   v. Calculate liquidator's Remuneration from the following data

		Rs.
a.	Amount available for unsecured creditors	
b.	and liquidator's remuneration	50,000
c.	Unsecured creditors excluding preferential creditors	30,000
d.	Preferential creditors	10,000
e.	Liquidator's remuneration is 10% of payment of unsecured	
f.	creditors	

DESCRIPTIVE PART- II

Time: Two Hours **Max. Marks: 60**

Attempt three questions in all, Selection at least one question from each Section. All questions carry equal marks of 20 each.

Section-A

3. Write notes on any four of the following :
   (i) Difference between surrender of shares forfeiture of shares.
   (ii) Concepts of accounting.
   (iii) Dematerialization (D-mat) of shares
   (iv) Issue of Debentures as collateral security.
   (v) Salient features of AS 14

4. Goyal Limited had issued 5,000 redeemable preference shares of Rs. 100 each on which full amount was called, are due for redemption at a premium of 10% : The following balance are appearing in the books of the company :

	Rs.
Redeemable preference share capital	5,00,000
Calls in arrear (on above redeemable preference shares)	10,000
General Reserve	3,00,000
Securities Premium	40,000
Export subsidy reserve	2,00,000

It is ascertained that calls-in-arrear are on account of final call on 500 shares held by four members whose whereabouts are not known. Rs. 50,000 of the export subsidy reserve is free for distribution as dividends. Balance of general reserve and securities premium are to be utilized for the purpose of redemption and the shortfall, if any, is to be made good by issue of equity shares of Rs.10 each at par. the redemption of preference share was duly carried out. You are required to give the journal entries and show how these items will appear in company's Balance Sheet after redemption.

Section-B

5. A company was formed with an authorized capital of Rs. 10,00,000 dividend 50,000 equity shares of Rs.10 each and 50,000 preference shares of Rs. 10 each to acquire the going concern of M/s Good Traders whose Balance Sheet is as follows:

Balance Sheet

Liabilities	**Amount** Rs.	**Assets**		**Amount** Rs.
Bills Payable	7,000	Bank		9,000
Creditors	12,800			
Capital	2,64,200	Debtors	16,000	
		Less : Provision	1,000	15,000
		Insurance Policy		8,000
		Stock		
		Plant and Machinery		62,000
		Freehold Premises		90,000

The purchase price was agreed upon at Rs. 3,50,000 to be paid Rs. 1,00,000 in fully paid up equity shares and Rs. 1,00,000 in fully paid up preference shares, Rs. 60,000 in redeemable debentures and balance in cash. The company does not take over insurance policy. Value of stock and plant and machinery at 10% less the book value of free hold premises of 20% more than book value. The liabilities were discharged by company. The balance of both the kind of shares were issued to and paid up by public with exception of 1,200 equity shares held by Ram on which subsequently forfeited and reissued at a discount of 20%.

Give journal entries to record the above transaction and prepare Balance Sheet of the company. Application money @ Rs. 7 per share were payable for both kind of shares.

6. The following information related to the business of sole traders:

(a) Net assets Rs. 18,00,000

(b) 10% Govt. securities Rs. 2,50,000

(c) Net Profit of past 3 years Rs. 2,80,000 for 2007, Rs. 2,50,000 for 2008, and Rs. 3,10,000 for 2009

(d) Reasonable expected return in same type of business is 10%

(e) Fair remuneration is Rs.30,000 per annum. Calculate value of goodwill:

(i) On the basis of 3 years purchase of actual average profit.

(ii) On the basis of capitalizing the super profit.

(iii) On the basis of an annuity of super profit, taking the present value of one rupee for five years at 10 percent interest is 3.791.

Section-C

7. How will you deal the following item in case of amalgamation?

(i) Mutual debts

(ii) Unrealized profit

(iii) Purchase consideration in case of amalgamation in the nature of merger

8. On the following is the balances sheet of Ram Limited as on 31st March, 2009.

Liabilities	Rs.
Authorized issued and subscribed capital	1,50,000
1,500 6% cumulative preference shares of Rs. 100 each fully paid up	2,00,000

2,000 equity shares of Rs. 100 each fully paid up	36,000
Capital reserve	42,500
Bank overdraft	51,000
	4,79,500

Assets	Rs.
Goodwill at cost	50,000
Leasehold at cost less Rs 30,000 depreciation	50,000
Plant and machinery at cost less Rs. 57,500 depreciation	1,52,500
Stock in trade	79,200
Debtors	30,200
Preliminary expenses	7,250
Profit and Loss account	1,10,375
	4,79,500

Note: Dividend on preference shares is in arrear for the last three years. The company is experiencing trading difficulties and decided to reorganize its finance. The approval of the court was obtained on April, 1 2009 for the following scheme for reduction of capital:

(i) The cumulative preference shares to be reduced to Rs. 12.50 per share.

(ii) The equity share to be reduced to Rs. 12.50 per share.

(iii) One Rs. 12.50 equity share to be issued for each Rs. 100 gross preference share dividend arrears.

(iv) The balance of capital reserve account to be utilized.

(v) Plan the machinery to be written down to Rs. 75,000

(vi) The debit balance of profit and loss account, all intangible assets to be written off.

(vii) The authorized share capital to be retained at Rs. 3,50,000 consisting 1,500 6% cumulative preference shares of Rs. 75 each and the balance in equity shares of Rs. 12.50 each.

(viii) 5,000 equity shares to be issued at par, for cash payable in full upon application. The same were fully subscribed and paid for.

You are required to pass necessary journal entries and prepare balance sheet of the company after completion of the scheme.

B. Com (Part-I) Examination, 2009
ACCOUNTANCY AND BUSINESS STATISTICS

First Paper: Corporate Accounting

OBJECTIVES PART- I

Time: One Hour **Max. Marks: 40**

Attempt all questions.

1. Answer the following questions in not more than 20 words each. Each question carries 2 marks.

   i. Name any four conventions of accounting.
   ii. Write the name of AS-14 and 20.
   iii. A company forfeited 1,000 equity shares of Rs. 10 each on which Rs. 8 per share had been called and Rs. 5 per share was received in cash by the company. What journal entry will be made for forfeiture in the book of the company?
   iv. Give four examples of divisible profits.
   v. Give the treatment of loss prior to incorporation.
   vi. What do you understand by firm underwriting?
   vii. What would be the maximum remuneration if there is only one whole time director?
   viii. When is internal reconstruction desirable? Give any two situations.
   ix. What do you mean by Absorption of Companies?
   x. What is fair value of Share?

2. Answer the following questions in not more than 50 words each. Each question carries 4 marks.

   i. S Ltd. issued Rs. 80,000 13% debentures at 5% discount, which are redeemable at 10% premium after 3 year. Pass the journal entry on issue of debentures in the books of Company.

ii. A company had acquired running business from Goving & Sons with effect from January, 1 2008 which was incorporated on May, 1 2008. Total sales of the year was Rs. 1,80,000. The sales per month in the first half year were one half of what they were in the later half year. Calculate the sales Ratio.

iii. Give four examples of Capital Profit.

iv. M. Ltd. converts its 2,00,000 equity shares of Rs. 10 each fully paid up into equity stock of Rs. 20,00,000 on 31st March, 2007 and then reconverts the equity stock into equity shares of Rs.100 each fully paid up on 31st March, 2008. Give necessary journal entries.

v. How have consideration and fair value been defined in the Indian Accounting Standard - 14 in the relation to amalgamation?

DESCRIPTIVE PART-I

Time Allowed: 2 Hours **Max. Marks: 60**

Attempt three questions in all, Selection at least one question from each Section. All questions carry equal marks of 20 each.

Section-A

3. What is meant by forfeiture of shares? Explain the accounting treatment of forfeiture of shares and their reissue.

4. On 31st December, 2008 Ganga Mineral Water Ltd. had outstanding Rs. 10,00,000 in 7% debentures of Rs. 100 each redeemable at a premium 5% on 28th February 2009. On 1st January, 2009 it was decided to give the holders of these debentures the following options;

   (i) To convert their holding into 9% preference shares of Rs. 100 eact at per.

   (ii) To accepts new 8% debentures of Rs.100 each at Rs. 94.50 per debentures or

   (iii) To accept new 8% debentures of Rs. 100 each at Rs. 94.50 per debenture or

   Find out:

   (i) Nominal value of preference share issued.

   (ii) Nominal value of new 8% debentures issued and its discount.

   (iii) The amount paid in cash to the debenture holders. Give necessary journal entries also.

Section-B

5. What is mean by 'Profit Prior to and post-incorporation"? Explain the method of ascertaining them. How such profits and losses are dealt with in company accounts?

6. The following particulars are available of Happy exports ltd.

i. Capital : 45,000 6% preference shares of Rs. 10 each, fully paid up;

a. 45,000 equity shares of Rs. 10 each, fully paid up.

ii. External liabilities Rs. 75,000

iii. Reserve and surplus Rs. 35,000

iv. Average profit after taxation earned every year by the company Rs. 85,050

v. The normal profit earned on the market value of equity shares fully paid oon the same type of company is 9%

vi. Company transfers every year Rs. 10,000 in reserve

Calculate fair value of share assuming that out of the total assets, assets worth Rs. 3,500 are fictitious.

Section-C

7. What do you mean by Amalgamation of Companies? How purchase consideration is determined for these?

8. On 31st March, 2008, the date of liquidation of a company its balance sheet was as follows:

Liabilities	**Amount Rs.**	**Assets**	**Amount Rs.**
3,000 7% Preference shares	3,00,000	Buildings Machines	4,00,000 1,60,000

of Rs. 100 each 6,000 Equity shares of Rs. 10 each Rs. 8 paid up 3,000 Equity shares of Rs. 10 each Rs. 7 paid up. 6% Debentures of Rs.. 100 each Outstanding interest on Debentures Creditors Bills payable	 48,000 21,000 72,000 8,000 2,000	Stock Debtors Cash	4,00,000 6,40,000 51,000
	16,51,000		16,51,000

Realised from assets : Building Rs. 3,50,000; Machines Rs. 2,00,000 Debtors Rs. 6,00,000 Stock Rs. 4,61,000 Liquidation on expenses Rs. 2,000. remuneration OF liquidator : 1/2% ON realization of assets including cash andn 1% on the amount paid to unsecured creditors. Creditors shown in the balance sheet include Rs. 2,000 preferential. Interest on debentures is to be paid only up to 31st May, 2008. Dividend on preference share is in arrears for 1 year and it has to be paid before equity share capital. Legal charges were Rs. 1,000 prepare liquidator's final statement of account.

B. Com (Part-I) Examination, 2008
ACCOUNTANCY AND BUSINESS STATISTICS

First Paper: Corporate Accounting

OBJECTIVES PART- I

Time: One Hour **Max. Marks: 40**

Attempt all questions.

1. Answer the following questions in not more than 20 words each. Each question carries 2 marks.

   i. Name any two accounting concepts.

   ii. Write the names of AS-1, 9 and 14.

   iii. What do you mean by forfeiture of shares?

   iv. Give four examples of divisible profits.

   v. Write the journal entry on issue of 10 debentures of Rs.100 at per but redeemable at 20% premium.

   vi. What is difference between underwriting commission and brokerage?

   vii. Give journal entry for conversion of equity shares into stock.

   viii. What is meant by absorption of companies?

   ix. What is the formula of valuation of goodwill by capitalization of super profit?

   x. What is meant by liquidation of companion?

2. Answer the following questions in not more than 50 words each. Each question carries 4 marks.

   i. The fair value of equity share is Rs. 113.50 and yield value is Rs. 120. Find out the intrinsic value of share and net assets, if 50,000 equity shares of Rs.10 each issued by the company.

ii. A company forfeited 1,000 shares of Rs. 10 each, Rs. 8 called up, for non-payment of first call @ Rs.3 per share. Pass Journal entry for forfeiture of shares.

iii. Give the treatment of loss prior of incorporation.

iv. What do you mean by buy-back to incorporation?

v. A company issued a prospectors inviting application for 20,000 equity shares of Rs. 10 each. The whole issue was underwritten as follows:

   a. A - 10,000 shares, B - 6,000 shares and C- 4,000 shares.

   b. Applications were received for 16,000 shares, and C- 4,000 shares. Applications were received for 16,000 shares, of which marked application were as follows :

vi. 8,000, B-2,850 shares and C- 4,150 shares.

DESCRIPTIVE PART-I

Time Allowed: 2 Hours **Max. Marks: 60**

Attempt three questions in all, Selection at least one question from each Section. All questions carry equal marks of 20 each**.**

Section-A

3. What are Redeemable preference shares? State the legal provisions regarding redemption of such shares.

4. Goyal Ltd. issued a prospectus with the object of inviting applications for 10,000 equity shares of Rs. 10 each at a premium of 10% payable, Rs. 3 applications, Rs. 5 (including premium) on allotment and the balance on call. The issue was subscribed to the extent of 2 1/2 times. Applications for shares below 20 (5,000 shares in total) were rejected. An applicant for 5,000 shares was given 1,000 shares. The remaining shares were allotted pro-rata. The excess amount to the extent of allotment dues was retained. Shareholders holding 300 shares failed to pay the allotment money. Shareholders holding 450 shares failed to pay the call money and their shares were forfeited. 150 equity shares out of the lot of 300 shares were reissued at a premium of 20% show the journal entries including cash entries.

Section-B

5. On 31st March, 2007 the Balance Sheet of X ltd. disclosed the following positions of the company:

Balance Sheet as on 31st March, 2007

Liabilities	Rs.
10,000 equity shares of Rs. 100 each fully paid	1,00,000
Profit and loss account	3,56,000
Bank overdraft	40,000
Sundry creditors	1,54,000
Provision for taxation	90,000
	16,40,000
Assets	**Rs.**
Land and Building	4,40,000
Plant and Machinery	1,90,000
Stock in trade	7,00,000
Sundry debtors	3,10,000
	16,40,000

The net profits of the company after providing for depreciation and taxation were as follows:

2002-2003	–	Rs. 1,70,000
2003-2004	–	Rs. 1,92,000
2004-2005	–	Rs. 1,80,000
2005-2006	–	Rs. 2,00,000
2006-2007	–	Rs. 1,90,000

On 31st March, 2007 land and buildings were valued at Rs.5,00,000 and plant and machinery at Rs. 3,00,000. In view of the nature of business 10% on closing capital employed is considered a reasonable return in this company.

Find out the value of equity share on net assets basis. The goodwill may be taken at five years purchase of the super-profits. Ignore additional depreciation.

6. What is managerial remuneration? Discuss the provision of companies Act, 1956 regarding managerial remuneration.

Section-C

7. Following are the Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2007 :

Balance Sheet

Liabilities	A Ltd. Rs.	B. Ltd. Rs.
Share Capital equity shares of Rs. 100 each fully paid	6,00,000	3,00,000
Reserves	2,00,000	60,000
6% debentures	2,00,000	1,00,000
Creditors	2,50,000	1,50,000
	12,50,000	6,10,000

Assets	A Ltd. Rs.	B Ltd. Rs.
Fixed assets (Other than goodwill)	8,30,000	2,50,000
Current assets	4,00,000	3,50,000
Preliminary expenses	20,000	10,000
	12,50,000	12,50,000

Goodwill of A Ltd. and B Ltd. is valued at Rs. 1,20,000 and Rs. 40,000 respectively. A Ltd. purchases B. Ltd. on the basis of intrinsic valued of the shares. Give journal entries in the books of the two companies.

8. What is meant by internal reconstruction? Give conditions when internal reconstruction becomes desirable

B. Com (Part-I) Examination, 2007
ACCOUNTANCY AND BUSINESS STATISTICS

First Paper: Corporate Accounting

OBJECTIVES PART- I

Time: One Hour **Max. Marks: 40**

Attempt all questions.

1. Answer the following questions in not more than 20 words each. Each question carries 2 marks.

   i. Give two examples of uses of convention of conservatism.
   ii. What is completed service contract methods?
   iii. Mention any two purposes for which the amount of securities premium account can be used.
   iv. Give journal entry for issue of shares to promoters for their services.
   v. What do you understand by issue of debentures as collateral security?
   vi. If interest is due on purchase consideration then what journal entry is passed on its payment?
   vii. How is 'Discount on issue of shares/debentures' shown in the Balance Sheet of a company?
   viii. What is capitalization of profits?
   ix. Give two characteristics of Absorption.
   x. What are the types of voluntary winding up?

2. Answer the following questions in not more than 50 words each. Each question carries 4 marks.

   i. Calculate of amount of actual average profit from the following information:
      a. Goodwill : Rs. 98000 (5 years purchase of super profit)

b. Normal rate of return = 10%

c. Average capital employed = Rs. 5,00,000

ii. The face value of the equity share of Sundaram Ltd. is Rs.20 and the current market price is Rs. 210. The company offers the right shares at the rate of 3 equity shares for every 5 equity shares held. The right share being priced at Rs. 130 Calculate the value of right.

iii. A company issued Rs. 20,000 12% debentures at a discount of 5% which are redeemable at 5% premium. What journal entry will be passed at the time of issue of debentures?

iv. Give four examples of capital profit.

v. Calculate of amount of remuneration to the liquidator from the following data:

i. Amount available for unsecured creditors	Rs. 50,000
ii. Unsecured creditors	Rs. 46,000

Liquidator's remuneration is 10% of payment of unsecured creditors.

DESCRIPTIVE PART-I

Time Allowed: 2 Hours **Max. Marks: 60**

Attempt three questions in all, Selection at least one question from each Section. All questions carry equal marks of 20 each**.** Each question has internal choice in the form of either/or.

Section-A

3. Discuss briefly various accounting concepts and conventions.

or

Fortune Ltd. has an issued capital of 1,300 8% preference Shares of Rs. 100 each and 9,000 Equity Shares of Rs. 50 each. The preference shares are redeemable at a premium of 7 1/2 on April 1, 2006 was as follows:

Balance Sheet as on 31.03.2006

Liabilities	Rs.
Share Capital	
1,300 8% preference shares of Rs. 100 each fully paid up	1,30,000
9,000 equity shares of Rs. 50 each fully paid up	4,50,000
Reserve and surplus	
Profit and loss account	96,000
Current liabilities	
Creditors	1,00,000
Outstanding expenses	7,89,000

Assets	**Rs.**

Fixed Assets	6,90,000
Investment	37,000
Bank	62,000

In order to facilitate the redemption of preference shares, the company decided:

i. To sell all the investment for Rs. 32,000

ii. To finance part of the redemption from company's funds, subject to leaving a balance of Rs. 24,000 in the profit and loss account.

iii. To issue sufficient number of equity shares of Rs. 50 each at a premium of Rs. 13 per share to raise the balance of fund shares.

The issue of equity shares was fully subscribed and Preference Shares were redeemed on due date. Pass necessary journal entries to record the above transactions and prepare the Balance sheet as on completion of redemption.

Section-B

4. Sum India Ltd. was formed with an authorised capital of Rs 50 lakhs divided into 20,000 7% preference shares of Rs. 100 each and 3,00,000 equity shares of Rs. 10 each. 10,000 preference shares were issued is 1998 and were fully paid up with an exception of 1,000 shares on which final call of Rs. 20 per share was uh paid. 2,00,000 equity shares were issued on which Rs. 8 was called and paid up. Advance call also received at the rate of Rs. 2 per share on 10,000 shares. Company articles provide the following provisions for divided.

(i) The preference shares are participating and will get an extra dividend @ 7.5% after providing minimum dividend to equity shares @ 12.5%

(ii) After providing extra dividend to preference shares, if profits remain, an extra 7.5% dividend will be provided to equity shares.

(iii) The shareholders may resolve to award bonus to employees ......2% of surplus profit (if any) after providing original dividend on preferences shares and equity shares.

(iv) The remaining profits up to Rs. 5,00,000 are to be transferred general reserve and balance to be carried forward to next year.

The profit for the year ended 31st March, 2006, amounted to ....14,00,000 Prepare company's profit and loss appropriation account for the year assuming that the directors proposed the dividend and the bonus to employees as provided above.

or

The following is the Balance Sheet of Blue Moon Pvt. Ltd. as on 31st March, 2006 :

Balance Sheet

Liabilities	Rs.
85,000 equity Shares of Rs. 10 each	8,50,000
Current Liabilities	2,00,000
	10,50,000
	Rs.
Assets	10,50,000
Sundry Assets	10,50,000

Average net profit of the business is Rs. 3,00,000 expected normal return is 20% in cash of such equity shares. It is observed that the sundry assets on revolution are worth Rs. 1,00,000 more than the book value. Goodwill is to be valued at 3 purchase of super profit. Determine the fair value of equity share. Ignore additional depreciation on revalued value of fixed assets at the time of calculation of future maintainable profits.

or

The following is the Balance Sheet of Blue Moon Pvt. Ltd. as on 31st March, 2006 :

Balance Sheet

Liabilities	Rs.
85,000 Equity shares of Rs. 10 each	8,50,000
Current Liabilities	2,00,000
	10,50,000

Average net profit of the business is Rs. 3,00,000 expected normal return is 20% in cash of such equity shares. It is observed that the sundry assets on revolution are worth Rs. 1,00,000 more than the book value. Goodwill is to be valued at 3 purchase of super profit. Determine the fair value of equity share. Ignore additional depreciation on revalued value of fixed assets at the time of calculation of future maintainable profits.

Section-C

5. What do you understand by "Liquidator's Statement of Account? When is it prepared and how?

or

P Ltd. suffered continuous losses. Its Balance Sheet as on 31.12.2006 was as follows:

Liabilities	Rs.
Authorized, issued and subscribed capital;	
30,000 Equity Shares of Rs. 10 each fully paid up	3,00,000
2,000 8% cumulative preference shares of Rs. 100 each	
Fully paid up	2,00,000
Securities premium	90,000
Unsecured Premium	50,000

Sundry creditors	3,00,000
Outstanding expenses (including Director's)	
Remuneration on Rs. 20,000)	70,000
	10,10,000

Assets	Rs.
good will	50,000
Plant	3,00,000
Loose tools	10,000
Debtors	2,50,000
Stock	1,50,000
Cash	10,000
Bank	35,000
Preliminary expenses	5,000
Profit and Loss Account	2,00,000
	10,10,000

Note: Dividends on preference shares are in arrears for three years. The following programme of reconstruction has been agreed upon and duly approved by the court:

i. Equity shares to be converted into 1,50,000 shares of Rs. 2 each.
ii. Equity shareholders to surrender 90% of their holding to the company.
iii. Preference shareholders forego arrears of dividend and in lieu thereof the rate of 8% to be increased to 9% in future.
iv. Sundry creditors agree to reduce their claims by one-fifth in consideration of their getting shares of Rs. 35,000 of the surrendered equity shares.
v. Directors forego their loan and remuneration.
vi. Assets are worth; Plant; Rs. 2,60,000 loose tools Rs. 2,000 Debtors Rs. 2,35,000 and stock Rs. 1,30,000

vii. Expenses of reconstruction amounted to Rs. 10,000

a. Any surplus remaining after meeting the loses and expenses should be utilized in further reducing the value of plant.

b. To provide working capital, all existing members to subscribe 50,000 equity shares.

Give journal entries to implement the above outline of reconstruction.

B. Com (Part-I) Examination, 2006
ACCOUNTANCY AND BUSINESS STATISTICS

First Paper: Corporate Accounting

OBJECTIVES PART- I

Time: One Hour **Max. Marks: 40**

Attempt all questions.

1. Answer the following questions in not more than 20 words each. Each question carries 2 marks.

 i. Accounting is concerned with monetary and non monetary transactions.

 ii. How "Basic Earnings per Share" is calculated?

 iii. A company had issued 5,000 equity shares of Rs. 100 each on which Rs. 75 per share was called. A person holding 200 shares had paid only Rs. 40 per share. Give the journal entry for recording the transaction relating to forfeiture of his shares.

 iv. A company had acquired running business from A with effect from January 1, 2004 which was incorporated on 1st May 2004. Total sales of the year was Rs. 1,80,000. The sales per month in the first half year were one half of what they in the later half year. Calculated sales ratio.

 v. What is the maximum limit of managerial remuneration under section 198 of the Companies Act, 1956?

 vi. The fair value of equity shares is Rs.113.50 and yield value is Rs.120. Find out the value of share and net assets, if 50,000 equity shares of Rs. 10 each issued by the company.

 vii. Write methods of reduction in share capital.

 viii. What is meant by "Amalgamations in the nature of merger?

 ix. What do you mean by contributory?

x. What do you mean by; buy back of shares'?

2. Answer the following questions in not more than 50 words each. Each question carries 4 marks.

(i) Renu was allotted 200 shares of Rs. 100 each at Rs. 95. The amount was payable as to Rs. 25 on application, Rs. 30 on allotment and the balance on first call. Renu could not pay the amount due on first call and her shares were forfeited. Subsequently, these shares were re-issued at Rs. 50 per share as fully paid up. Pass journal entries regarding forfeiture and re-issue.

(ii) Krishna Ltd. issued debentures of Rs. 6,00,000 on 1st July, 2002 at a discount of 5%. The debentures are repayable in three equal instatement of Rs.2,00,000 each on 30th June every year. Calculate the amount of discount to be written off at the end of each year. Assuming that the books are closed on 31st March every year.

(iii) Sharma Industries Ltd. signed a underwriting agreement with four underwrites as follows. Calculate net liability of each underwriter:

	A	B	C	D	Total
Shares under Written	1,00,000	2,00,000	4,00,000	4,00,000	10,00,000
Marked Shares	1,18,000	80,000	2,52,000	2,48,000	6,98,000
Unmarked Shares	.-	-	-	-	1,80,000
					18,78,000

(iv) Pre Bonus intrinsic value per share was Rs. 14. The company provided bonus shares in the ratio of 1 : 5 what be post bonus intrinsic value?

(v) In case of amalgamation, how purchase consideration can be calculated by Net Asset Method.

DESCRIPTIVE PART-I

Time Allowed: 2 Hours **Max. Marks: 60**

Attempt three questions in all, Selection at least one question from each Section. All questions carry equal marks of 20 each.

Section-A

3. Sumit Ltd. issued a prospectus for the issue of 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 each payable on application (1.1.05) Rs. 5, on allotment (1.02.05) Rs. 5 (including premium), on first and final call (on 01.03.05) Rs. 2.50 The issue was oversubscribes and application received and allotment are summarised as below:

Categories	A	B	C
No. of application	80	40	2
No. of shares applied by each	1,000	10,000	40,000
Shares allotted to each applicant	500	1,000	10,000

It was decided that amount overpaid on application were to be adjusted by the company towards sums due on allotment. Surplus contribution after adjusting towards allotment was refunded on 15th Feb. 2005. Santosh who had paid Rs. 10,000 on application on 2,000 shares in category (a) was unable to meet the call due on March 1. The director forfeited his share on April, 1 2005. All other shareholders paid the sums on the due dates. The forfeited shares were reissued to Mangal on May 1, 2005 for Rs. 10,500 Pass necessary journal entries to record the transactions in the books of the company.

4. From the following particulars, calculate the value of goodwill by the annuity methods based at three years purchase of super profits.

(i) Net assets Rs. 15,00,000

(ii) 10% Govt. securities Rs. 2,00,000

(iii) Net profit of past three year Rs. 2,30,000 in 2003, Rs. 1,80,000 in 2004 and Rs. 2,80,000 in 2005.

(iv) Profit for 2004 arrived after debiting Rs. 30,000 as loss on sale of asset.

(vi) Normal rate of return is similar types of business 12 percent.

Section-B

5. Megha Ltd. went into liquidation on 31st March, 2005 when the following Balance Sheet was prepared:

Balance Sheet

Issued Capital	Rs.
5260 equity shares of Rs. 10 each	52,600
Trade creditors	30,000
Creditors holding lien on leasehold property	13,000
Rates and taxes due for the preceding 8 months	400
Salaries and wages due for the month of Dec. 2003	1,200
Managing Directors commission in arrears since july, 2002	2,800
Bank overdraft	500
	1,00,500

The liquidator realised the assets as follows:

Leasehold property Rs. 8,000 plant and machinery Rs. 12,900, stock leasehold property debtors Rs. 18,000

The expenses of liquidation amounted to Rs. 290 and liquidator's remuneration was agreed at 2% on amount realized from the sale of assets and 1 1/2 on the amount paid to unsecured creditors (including preferential creditors) prepare liquidator's statement of account.

6. A ltd. incorporated on May 1, 2004 received the certificate to commence businesses on May 31, 2004, It had acquired a running business from M/s Gupta and Co. with effect from January 1, 2004 The purchase consideration was Rs. 5,00,000 of which Rs. 1,00,000 was to be paid in cash and Rs. 4,00,000 in the form paid shares. The Co. also issued shares of Rs. 4,00,000 for cash. Machinery costing Rs. 2,50,000 was then installed. Assets acquired from the vendors were: Machinery Rs. 3,00,000 stock Rs. 60,000 patents Rs. 40,000.

   During the year 2004 the total sales were Rs. 18,00,000 the sales per month in the first half year were one half of what they were in the later half year. The net profit of the company after charging the following expenses, was Rs.1,00,000 depreciation Rs. 54,000, audit fees Rs. 7,500 directors fees Rs. 25,000 preliminary expenses Rs. 6,000 office expenses Rs. 39,000 selling expenses Rs. 36,000 Int. to vendors up to May 31, 2004 Rs. 2,500 ascertain the reincorporation and post incorporation amounts of profit and prepare balance sheet of the company as on December 31, 2004 closing stock was valued at Rs. 70,000.

Section-C

7. Discuss salient features of A.S.1 and 9.

8. How will you deal the following items in case of amalgamation?

   (i) Mutual Debts

   (ii) Unrealized profits