Solution: **Statement showing pre and post incorporation profit**

Particulars.	Total	Basis Of distribution	Pre incorporation period	Post incorporation period
Gross Profit	56,000	Sales	16,000	40,000
Less: Expenses				
G. Expenses	14,220	Time	6,320	7,900
Directors Fees	5,000	Post	--	5,000
Incorporation Exps.	1,500	Post	--	1,500
Rent	1,350	Actual	400	950
Manager Salary	2,000	Pre	2,000	--
Capital Reserve (Pre Incorp. Profit)			7,320	--
Net Profit (Post Incorp. Loss)			--	24,650

Time ratio 4:5

Sales Ratio = (4×0.5) : (5×1)

2 : 5

QUESTION 6.

The Partners of A agencies decided to convert the partnership into a private limited company called A Ltd with effect from 1st April 2009. The Consideration was agreed at ₹ 58,50,000 based on firms balance Sheet as at 31-03-2009. However, due to some procedural difficulties, the company could be incorporated only on 1st July, 2009. Meanwhile the business was continued on behalf of company and the consideration was settled on that day with interest @ 12% p.a. the same books of accounts were continued by the company which closed its accounts for the first time on 30th June,2010 and prepare following summarized P&L a/c.

		₹
Sales		1,17,00,000
Cost of goods sold	81,90,000	
Salaries	5,85,000	
Depreciation	90,000	
Advertisements	3,51,000	
Discounts	5,85,000	
Managing Directors Remunerations	45,000	
Miscellaneous Business Expenses	60,000	
Office cum Showroom Rent	3,60,000	
Interest	4,75,500	1,07,41,500
profit		9,58,500

The company's borrowing was ₹ 25,00,000 at 12% p.a. to pay the purchase consideration due to firm and for working capital requirements.

The company was able to double the average monthly sales of the firm from 1st July 2009, but the salary trebled from that date. It had to occupy additional space from 1st Oct 2009 for which Rent was ₹ 15,000 per month.

Prepare a summarized statement of profit and loss in a columnar form apportioning cost and revenue between pre-incorporation and post-incorporation periods. Also, suggest how the pre incorporation profit dealt with.

QUESTION 7.

The partners Kamal and Vimal decided to convert their existing partnership business into a Private Limited Company called M/s. KV Trading Private Ltd. with effect from 1-7-2014.
The same books of accounts were continued by the company which closed its account for first term on 31-3-2015
The summarized Profit and Loss Account for the year ended 31-3-2015 is below:

	(₹) in lakhs	(₹) in lakhs
Turnover		240.00
Interest on investments		6.00
		246.00
Less: Cost of goods sold	102.00	
Advertisement	3.00	
Sales Commission	6.00	
Salary	18.00	
Managing directors remuneration	6.00	
Interest on Debentures	2.00	
Rent	5.50	
Bed Debts	1.00	
Underwriting Commission	2.00	
Audit Fees	2.00	
Loss on sale of investment	1.00	
Depreciation	4.00	152.50
		93.50

The following additional information was provided

(i) The average monthly sales doubled from 1-7-2014. GP ratio was constant.
(ii) All investments were sold on 31-5-2014.
(iii) Average monthly salary doubled from 1-10-2014.
(iv) The company occupied additional space from 1-7-2014 for which rent of ₹ 20,000 per month was incurred.
(v) Bad debts recovered amounting to ₹ 50,000 for a sale made in 2012, has been deducted from bad debts mentioned above.
(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the Profit/Loss for such periods. Also suggest how the pre-incorporation profits are to be dealt with. **(May 2015 – 8 Marks)**

Solution:

<u>Sales Ratio</u>

From 1-04-2014 to 1-07- 2014 = 1 X 3 = 3
From 1-07-2014 to 31-03-2015= 2 X 9 = 18
So Sales Ratio will be 3:18 or 1:6

<u>Time Ratio</u> = 3:9 or 1:3

<u>Ratio for Salary</u>

From 1-04-2014 to 1-07-2014 = 1 X 3 = 3
From 1-07-2-14 to 30-09-2014= 1 X 3 = 3
From 1-10-2014 to 31-03-2015= 2 X 6 = 12
So Ratio for Salary will be 3: 15 (3 + 12) or 1:5

Statement showing pre and post incorporation profit (Fig in Lakhs)

Particulars.	Total	Basis Of distribution	Pre incorporation period	Post incorporation period
Gross Profit (240 – 102)	138.00	Sales	19.71	118.29
Add: Interest on investments	6.00	Pre	6	-
Add: Bad Debts Recovered	0.50	Pre	0.50	
Total	144.00		26.21	118.29
Less: Expenses:				
Advertisement	3.00	Sales	0.43	2.57
Sales Commission	6.00	Sales	0.86	5.14
Salary	18.00	1:5	3.00	15.00
Managing directors remuneration	6.00	Post	-	6.00
Interest on debentures	2.00	Post	-	2.00
Rent:				
- 20,000 X 9	1.80	Post	-	1.80
- Balance 3.7 (5.5 – 1.80)	3.70	Time	0.925	2.775
Bad Debts (1.00 + 0.5)	1.50	Sales	0.21	1.29
Underwriting Commission	2.00	Post	-	2.00
Audit Fees	2.00	Post	-	2.00
Loss on Sale of Investments	1.00	Pre	1.00	-
Depreciation	4.00	Time	1.00	3.00
Capital Reserve (Pre Incorp. Profit)			18,785	-
Net Profit (Post Incorp. profit)			-	74,715

QUESTION 8.

SALE Limited was incorporated on 01.08.2014 to take-over the business of a partnership firm w.r.f. 01.04.2014. The following is the extract of Profit and Loss Account for the year ended 31.03.2015(i)

Particulars	Amount	Particulars	Amount
To Salaries	1,20,000	By Gross Profit	6,00,000
To Rent Rates & Taxes	80,000		
To Commission on Sales	21,000		
To Depreciation	25,000		
To Interest on Debentures	32,000		
To Director Fees	12,000		
To Advertisement	36,000		
To Net Profit for the year	2,74,000		
	6,00,000		**6,00,000**

(i) SALE Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30%from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation, also explain how pre-incorporation profit is treated in the accounts.

(Nov 2015 – 8 Marks)

Solution:

1. Computation of Ratios

Particulars	Pre – Incorporation	Post – Incorporation	Total
(a) No. of Months	1^{st} Apr to 31^{st} Jul = 4 Months	1^{st} Aug to 31^{st} Mar = 8 Months	4 : 8 = **1 : 2**
(b) Sales Ratio	Sales = 100 × 4 Months =400	Sales =125 × 8 Months =1000	400 : 1000= **2:5**
(c) GP on Sales	25%	30%	
(d) Ratio of GP (Pre: Post) (b × c)	400 × 25% = 100	1000 × 30% = 300	100:300 = **1:3**

2. Statement showing computation of Profit / Loss for Pre and Post Incorporation Periods (₹)

Particulars	Ratio	Pre Incorpn.	Post Incorpn.
A. **Gross Profit** (as per Note 1)	1:3	**1,50,000**	**4,50,000**
B. **Apportionment of Expenses**			
Salaries	1:2	40,000	80,000
Rent, Rates & Taxes	1:2	26,667	53,333
Commission on Sales	2:5	6,000	15,000
Depreciation	1:2	8,333	16,667
Debenture Interest (issued after the Company is formed)		Nil	32,000
Directors Fee (Paid by the Company only after incorporation)		Nil	12,000
Advertisement Expenses(initiated post–incorporation)		Nil	36,000
Total Expenses		**81,000**	**2,45,000**
C. **Profit (A – B)**		**69,000**	**2,05,000**

3. Treatment: Pre–Incorporation Profits are transferred to "**Capital Reserve"**, (i.e. capitalized), and may be used for –

(a) Writing off Goodwill on Acquisition, if any.

(b) Writing off Preliminary Expenses,

(c) Writing down Overvalued Assets, if any, etc.

QUESTION 9.

The Partners of sewda enterprize decided to convert the partnership into a private limited company Patel (P) Ltd with effect from 1st January 2015. However, the company could be incorporated only on 1st June, 2015. Meanwhile the business was continued on behalf of company and the consideration of ₹ 60,00,000 was settled on that day with interest @ 18% p.a. The company avails loan of ₹ 90,00,000 at 15% p.a. on 1st June, 2015 to pay the purchase consideration due to firm and for working capital requirements. The same books of accounts were continued by the company which closed its accounts for the first time on 31st March, 2016 and prepare following summarized P&L a/c.

Particulars	₹	₹
Sales		1,98,00,000
Cost of goods sold	1,18,80,000	
Discount to dealers	4,62,000	
Directors Remunerations	6,00,000	
Salaries	9,00,000	
Rent	13,50,000	
Interest	15,75,000	
Depreciation	3,00,000	
Office Expenses	10,50,000	
Sale promotion expenses	3,30,000	
Preliminary expenses (to be written off in first year itself)	1,50,000	1,85,97,000
Profit		**12,03,000**

Sales from June 2015 to December 2015 were 2.5 times of the average sales of pre- incorporation period, which further increased to 3.5 times in January to March, 2016. The company recruited additional workforce to expand the business. The salary from July 2015 doubled. They also acquire additional showroom at monthly Rent of ₹ 1,00,000 from July 2015.

Prepare a statement of profit and loss apportioning cost and revenue between pre-incorporation and post-incorporation periods.

QUESTION 10.

Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2016 to take over their existing business. The summarized Profit & Loss A/C as given by Happy Ltd. for the year ending 31st March, 2017 is as under:

Happy Ltd.

Profit & Loss A/c. for the year ending March 31, 2017

Particulars	Amount	Particulars	Amount
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees	12,000		
To Net Profit	1,33,350		
Total	**4,50,000**	**Total**	**4,50,000**

Prepare a statement showing allocation of expenses & calculation of pre- incorporation & post – incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.
(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.
(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2013-14 has been deducted from bad debts mentioned above.
(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.
(v) Happy Ltd. had to occupy additional space from 1st Oct. 2016 for which rent was ₹ 2,400 per month.

(May 2017- 8 Marks)

QUESTION 11.

The Promoters of Shiva Ltd. took over on behalf of the company a running business with effect from 1st April 2017. The company got incorporated on 1st August 2017. The annual accounts were made up to 31st March, 2018 which revealed that the sales for the whole year totalled ₹ 2400 lakhs out of which sales till 31st July, 2017 were for ₹ 600 lakhs. Gross profit ratio was 20%. The expenses from 1st April 2017, till 31st March, 2018 were 20%

	₹ in Lakhs
Salaries	75
Rent, Rates and Insurance	30
Sundry Office Expenses	72
Traveler's Commission	20
Discount allowed	16
Bad Debts	8
Directors' Fee	30
Tax Audit Fee	16
Depreciation on Tangible Assets	15
Debenture Interest	14

Prepare a statement showing the calculation of profits for the pre -incorporation and Post incorporation periods.

Ans. Pre-Acquisition Profit ₹ 41 Lakhs, Post Acquisition Profit ₹ 143 Lakhs

QUESTION 12.

Sun Limited took over the running business of a partnership firm M/s A & N Brothers with effect from 1st April, 2017. The company was incorporated on 1st September, 2017. The following profit and loss account has been prepared for the year ended 31st March, 2018.

Particulars		Particulars	
To salaries	1,33,000	By Gross Profit b/d	7,50,000
To rent	96,000		
To carriage outward	75,000		
To audit fees	12,000		
To travelling expenses	66,000		
To commission on sales	48,000		
To printing and stationery	24,000		
To electricity charges	30,000		
To depreciation	80,000		
To advertising expenses	24,000		

To preliminary expenses To Managing Director's remuneration To Net Profit c/d	9,000 8,000 1,45,000		
	7,50,000		**7,50,000**

Additional Information:

1. Trend of sales during April, 2017 to March, 2018 was as under:

April, May	₹ 85,000 per month
June, July	₹ 1,05,000 per month
August, September	₹ 1,20,000 per month
October, November	₹ 1,40,000 per month
December onwards	₹1,50,000 per month

2. Sun Limited took over a machine worth ₹ 7,20,000 from A&N Brothers and purchased a new machine on 1st February, 2018 for ₹ 4,80,000. The company decides to provide depreciation @ 10% p.a.
3. The company occupied additional space from 1st October, 2017 @ rent of ₹ 6,000 per month.
4. Out of travelling expenses, ₹ 30,000 were incurred by office staff while remaining expenses were incurred by salesmen.
5. Audit fees pertains to the company.
6. Salaries were doubled from the date of incorporation.

You are required to prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the profit/(loss) for such periods.

Ans. Capital Reserves ₹ 64,000, Net Profit ₹ 81,000

CHAPTER-3

BONUS ISSUE OF SHARES

AFTER STUDYING THIS CHAPTER, YOU WILL BE ABLE TO:

- **UNDERSTAND THE PROVISIONS RELATING TO ISSUE OF BONUS SHARES.**
- **ACCOUNTING FOR ISSUE OF SHARES**
- **MEANING OF RIGHT SHARES**
- **VALUE OF RIGHT**

QUESTION 1.

The Balance Sheet of A Ltd. as at 31.03.2015 is as follows:

Liabilities	₹	Assets	₹
Authorized share capital		Sundry Assets	17,00,000
150,000 equity shares			
of ₹10 each	15,00,000		
Issued, subscribed and paid up			
80,000 equity shares of ₹ 7.50 each			
called-up and paid-up	6,00,000		
Reserve:			
Capital redemption reserve	1,50,000		
Plant Revaluation reserve	20,000		
Share premium Account	1,50,000		
Development rebate reserve	2,30,000		
Investment allowance reserve	2,50,000		
General Reserve	3,00,000		
	17,00,000		**17,00,000**

The company wanted to issue bonus shares to its shareholders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

(a) You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

(b) Show the amended Balance Sheet.

Solution:

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Final Call a/c	Dr.		**2,00,000**	
	To Equity Share Capital a/c				**2,00,000**
	(Being Final call money due on 80,000 shares @₹ 2.50 per shares)				
	General Reserve a/c	Dr.		**2,00,000**	
	To Bonus to SH a/c				**2,00,000**
	(Being Bonus Announced)				
	Bonus to SH a/c	Dr.		**2,00,000**	
	To Equity Share Final Call a/c				**2,00,000**
	(Being Bonus Adjusted)				
	Capital redemption reserve	Dr.		**1,50,000**	
	Share premium Account	Dr.		**1,50,000**	
	General Reserve a/c	Dr.		**1,00,000**	
	To Bonus to SH a/c				**4,00,000**
	(Being Fully paid bonus announced)				
	Bonus to SH a/c	Dr.		**4,00,000**	
	To Equity Share Capital a/c				**4,00,000**
	(Being 40,000 bonus shares of ₹ 10 each are allotted)				

Balance Sheet
As at 31-03-2015 (Amended)

Particulars	Notes	Amounts(₹)
I- Equity and Liabilities		
1. Shareholders Fund		
(a) Share Capital	1	12,00,000
(b) Reserve and Surplus	2	5,00,000
Total		**17,00,000**
II- Assets		
1. Sundry Assets		17,00,000
Total		**17,00,000**

Note 1- Share Capital

Authorized share capital 150,000 equity shares of ₹10 each	**15,00,000**
Issued, subscribed and paid up 1,20,000 equity shares of ₹ 10 each fully paid up **Note: out of above 40,000 equity shares of ₹ 10 each are issued without consideration as bonus.**	**12,00,000**

Note 2- Reserve and Reserve

Particulars	Opening	Addition	Deletion	Closing
Capital redemption reserve	1,50,000	-	1,50,000	-
Plant Revaluation reserve	20,000	-	-	20,000
Share premium Account	1,50,000	-	1,50,000	-
Development rebate reserve	2,30,000	-	-	2,30,000
Investment allowance reserve	2,50,000	-	-	2,50,000
General Reserve	3,00,000	-	3,00,000	-
Total				**5,00,000**

QUESTION 2.

A Ltd issued had 25,000 equity shares of ₹ 100 each, ₹ 80 paid up. Now company convert partly paid shares into fully paid up by way of bonus. After that company issued fully paid bonus shares of ₹ 100 each in the same proportion in which partly paid bonus was given. Company has sufficient Revenue Reserves.

Ans. fully paid bonus shares 6,250 shares

QUESTION 3.

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2018:

	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum Reduction in free reserves. Pass necessary journal entries.

Solution:

Date	Particulars	Dr. (₹)	Cr. (₹)
	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c (b.f.) Dr. To Bonus to Shareholders A/c (Bonus issue of one share for every four shares held, by utilising various reserves)	55,000 30,000 15,000	 1,00,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (being Capitalisation of profit)	1,00,000	 1,00,000

QUESTION 4.

Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 20X1:

	₹
4,500 Equity shares of ₹ 10 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

Solution:

Date	Particulars	Dr. (₹)	Cr. (₹)
	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c (b.f.) Dr. To Bonus to Shareholders A/c (Bonus issue of one share for every four shares held, by utilising various reserves)	70,000 40,000 40,000	 1,50,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (being Capitalisation of profit)	1,50,000	 1,50,000

QUESTION 5.

Following is the extract of the Balance Sheet of Beltex Ltd. as at 31st March, 2000.

	₹
Authorized Capital	
10,000, 12% Preference shares of ₹10 each	1,00,000
1,00,000 equity shares of ₹10 each	10,00,000
Issued and subscribed capital:	
8,000 12% preference shares of ₹10 each fully paid	80,000
90,000 equity shares of ₹10 each, ₹8 paid up	7,20,000
Reserve and surplus:	
General reserve	1,20,000
Capital redemption reserve	75,000
Securities premium	25,000
Profit and loss Account	2,00,000
Secured Loan	
12% Partly Convertible debentures @ ₹100 each	5,00,000

On 1st April, 2000 the company has made final call @ ₹2 each on 90,000 equity shares. The call money was received by 20th April, 2000. Thereafter the company decided to capitalize its reserve by way of bonus at the rate of one share for every four shares held. Share premium of ₹ 25,000 includes a premium of ₹ 5,000 for shares issued to vendors pursuant to a scheme of amalgamation.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue but before conversion of debentures. Are the convertible debenture holders entitled to bonus?

QUESTION 6.

Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 2018

	₹
Authorized Capital	
30,000, 12% Preference shares of ₹10 each	3,00,000
3,00,000 equity shares of ₹10 each	30,00,000
Issued and subscribed capital:	
24,000 12% preference shares of ₹10 each fully paid	2,40,000
2,70,000 equity shares of ₹10 each, ₹8 paid up	21,60,000
Reserve and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and loss Account	6,00,000

On 1st April, 2018, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2018. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2018 after bonus issue.

Solution: **(Fig in Lakhs)**

Date	Particulars		Dr. (₹)	Cr. (₹)
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of ₹ 2 per share on 10 crore equity shares made due)			
June 1	Capital Redemption Reserve A/c	Dr.	1485	
	Securities Premium A/c	Dr.	2000	
	General Reserve A/c (b.f.)	Dr.	515	
	To Bonus to Shareholders A/c			4000
	(Bonus issue of two share for every five shares held, by utilising various reserves)			
	Bonus to Shareholders A/c	Dr.	4000	
	To Equity Share Capital A/c			4000
	(being Capitalisation of profit)			

VALUE OF RIGHT

QUESTION 7.

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share and value of right?

Ans. Ex-right market price of a share ₹ 200, Value of Right is ₹ 40

QUESTION 8.

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering four new share for every 9 shares held by the shareholder. The market value of the share is ₹ 390 and the company is offering one share of ₹ 130 each. Calculate the value of a right. What should be the ex-right market price of a share and value of right?

Ans. Ex-right market price of a share ₹ 310, Value of Right is ₹ 80

CHAPTER-4

REDEMPTION OF PREFERENCE SHARES

AFTER STUDYING THIS CHAPTER, YOU WILL BE ABLE TO:

- **MEANING OF DIFFERNET TYPES OF PREFERENCE SHARES**
- **PROVISION FOR REDEMPTION OF PREFERENCE SHARES**

REDEMPTION OF FULLY PAID UP PREFERENCE SHARES

QUESTION 1.

Sure and Fast Ltd. has part of its share capital consists of, 2000 12% Redeemable Preference Shares of ₹100 each, repayable at a premium of 5%. The shares have now become ready for redemption. It is decided that the whole amount will be redeemed out of a fresh issue of 20,000 equity shares of ₹10 each at ₹11 each. The whole amount is received in cash and the 12% preference shares are redeemed. Show the necessary journal entries in the books of the company.

Solution **Journal Entries**

Date	Particulars	L.F.	Amounts (₹)	Amounts (₹)
	Preference Share Capital a/c Dr. Premium on Redemption a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 2000 Shares of ₹ 100 each @ 5% Premium.)		2,00,000 10,000	 2,10,000
	Bank a/c Dr. To Equity Share Capital a/c To Securities Premium a/c (Being 20,000 Equity Shares of ₹ 10 each are issued @ a premium of ₹ 1 per shares.)		2,20,000	 2,00,000 20,000
	P & L a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)		10,000	 10,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid)		2,10,000	 2,10,000

QUESTION 2.

Vanities Ltd. had an issue 1,000, 12% Redeemable Preference Shares of ₹100 each Repayable at a premium of 10%. These shares are to be redeemed now out of the Accumulated reserves, which are more than the necessary sum required for redemption. Show the necessary entries in the books of the company, assuming that the premium on Redemption of shares has to be written off against the company's Securities Premium Account.

Solution **Journal Entries**

Date	Particulars	L.F.	Amounts (₹)	Amounts (₹)
	Preference Share Capital a/c Dr. Premium on Redemption a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 1000 Shares of ₹ 100 each @ 10% Premium.)		1,00,000 10,000	 1,10,000
	Revenue Reserves a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)		10,000	 10,000

	Revenue Reserves a/c Dr. To Capital Redemption Reserve a/c (Being CRR created)		1,00,000	 1,00,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid)		1,10,000	 1,10,000

QUESTION 3.

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2011.

Share capital: 40,000 Equity shares of ₹10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st January 2012, the Board of Directors decided to redeem the preference shares at par by utilization of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution: **Journal Entries**

Date	Particulars	L.F.	Amounts (₹)	Amounts (₹)
	Preference Share Capital a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 1000 Shares of ₹ 100 each @ 10% Premium.)		1,00,000	 1,00,000
	General Reserves a/c Dr. Profit & Loss a/c Dr. To Capital Redemption Reserve a/c (Being CRR created)		75,000 25,000	 1,00,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid)		1,00,000	 1,00,000

QUESTION 4.

C Limited had 3,000, 12% Redeemable Preference Shares of ₹100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 25,000 Equity Shares of ₹10 each at par,

(ii) 1,000 14% Debentures of ₹100 each.

The issue was fully subscribed and all amounts were received in full .The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

Solution: **Journal Entries**

Date	Particulars	L.F.	Amounts (₹)	Amounts (₹)
	Preference Share Capital a/c Dr. Premium on Redemption a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 3000 Shares of ₹ 100 each @ 10% Premium.)		3,00,000 30,000	 3,30,000
	Bank a/c Dr. To Equity Share Capital a/c (Being 25,000 Equity Shares of ₹ 10 each issued at par)		2,50,000	 2,50,000
	Bank a/c Dr. To 14% Debentures a/c (Being 1,000 Debentures of ₹ 100 each issued at par)		1,00,000	 1,00,000
	P & L a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)		10,000	 10,000
	P & L a/c Dr. To Capital Redemption Reserve a/c (Being CRR created)		50,000	 50,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid)		3,30,000	 3,30,000

QUESTION 5.

The capital structure of a company consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve ₹80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve (out of which ₹5,000 not free for distribution as dividend) ₹10,000; Securities Premium ₹2,000, Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

Solution: **Calculation of Profit available for CRR and Fresh issue of Shares**

	₹
General Reserve (80,000 – 20,000) Profit & Loss A/c Investment Allowance Reserve (10,000 – 5,000 Not available for Dividend)	60,000 20,000 5,000
Total Reserve & Surplus Less: Premium on Redemption to be written	75,000 10,000
Reserve & Surplus available for CRR	**65,000**

Calculation of Fresh issue of Shares

	₹
Preference Shares Capital to be Redeemed	1,00,000
Less: CRR to be Created	65,000
Fresh Issue of Equity Share Capital (3,500 equity shares of ₹ 10 at par)	**35,000**

Journal Entries

Date	Particulars	L.F.	Amounts (₹)	Amounts (₹)
	Preference Share Capital a/c Dr. Premium on Redemption a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 1,000 Shares of ₹ 100 each @ 10% Premium.)		1,00,000 10,000	 1,10,000
	Bank a/c Dr. To Equity Share Capital a/c (Being 3,500 Equity Shares of ₹ 10 each are issued at par)		35,000	 55,000
	P & L a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)		10,000	 10,000
	General Reserves a/c Dr. Profit & Loss a/c Dr. Investment Allowance Reserve a/c Dr. To Capital Redemption Reserve a/c (Being CRR created)		60,000 10,000 5,000	 65,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid)		1,10,000	 1,10,000

An Extract of Balance Sheet
(After Redemption)

Particular	Notes	Amounts (₹)
I- Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	**1**	2,35,000
(b) Reserve and Surplus	**2**	92,000
Total		
II- Assets		
1. Current Assets		
(a) Cash & Cash Equivalent		23,000
Total		

Note 1 – Share Capital

Particular	Amounts (₹)
Equity Share Capital (23,500 shares @ ₹ 10 each)	2,35,000
Total	**2,35,000**

Note 2 – Reserve and Surplus

Particular	Opening	Addition	Deduction	Closing
CRR	-	65,000	-	65,000
Securities Premium	2,000	-	-	2,000
Investment Allowance Reserve	10,000	-	5,000	5,000
General Reserves	80,000		60,000	20,000
Profit and Loss a/c	20,000			--
				92,000

Note 3 – Cash & Cash Equivalent

Particular	Amounts (₹)
Opening Balance	98,000
Add: Fresh Issue	35,000
Less: Payment to PSH	1,10,000
Total	**23,000**

QUESTION 6.

The Balance sheet of Malik Ltd is as Follows:

Liabilities	₹	Assets	₹
Share capital		**Fixed Assets:**	
Issued and Subscribed Capital:		Land and Building	2,00,000
1,000, 9% Redeemable Preference		Plant and Building	60,000
Shares of ₹100 each	1,00,000	Furniture and Fixtures	9,000
₹18,000 Equity Shares of ₹10 each	1,80,000	**Current Assets:**	
Reserves and Surplus:		Stock	60,000
Securities Premium Account	20,000	Debtors	25,000
General Reserve Account	60,000	Investments	54,000
Profit and Loss Account	40,000	Bank	42,000
Current Liabilities:			
Sundry Creditors	50,000		
	4,50,000		**4,50,000**

The Company decided to redeem its preference shares at a premium of 5% on 1st April, 2008.

A fresh issue of 3,000 equity shares of ₹10 each was made at ₹ 9 per shares, payable in full on 1st April, 2008. These were fully subscribed and all moneys were duly collected. All the investments were sold for ₹50,000 to provide cash for redemption of preference shares. The directors wish that only a minimum reduction should be made in the revenue reserves.

You are required to give the journal entries, including those relating to cash to record the above transactions and to draw up the balance sheet as it would appear after redemption of preference shares.

Solution **Journal Entries**

Date	Particulars	L.F.	Amounts	Amounts
	Bank a/c Dr. P & L a/c Dr. To Investment a/c (Being Investment Sold)		50,000 4,000	 54,000
	Preference Share Capital a/c Dr. Premium on Redemption a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 1,000 Shares of ₹ 100 each @ 5% Premium.)		1,00,000 5,000	 1,05,000
	Bank a/c Dr. Discount on Issue of Shares a/c Dr. To Equity Share Capital a/c (Being 3,000 Equity Shares of ₹ 10 each are issued @ a Discount of ₹ 1 per shares.)		27,000 3,000	 30,000
	P & L a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)		5,000	 5,000
	General Reserve a/c Dr. P & L a/c Dr. To Capital Redemption Reserve a/c (Being CRR created)(1,00,000 – 27,000)		60,000 13,000	 73,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid)		1,05,000	 1,05,000
	Securities Premium a/c Dr. To Discount on Issue of Shares (Being Discount Written off from Securities Premium)		3,000	 3,000

Balance Sheet of MALIK Ltd as on 31-03-2008
(After Redemption)

Particular	Notes	Amounts (₹)
III- Equity and Liabilities		
2. Shareholders' Funds		
(c) Share Capital	**1**	2,10,000
(d) Reserve and Surplus	**2**	1,08,000
3. Current Liabilities		
(a) Trade payable(Sundry Creditors)		50,000
Total		**3,68,000**
IV- Assets		
2. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible		2,69,000

(ii) Intangible		-
3. Current Assets		
(b) Inventories		60,000
(c) Trade Receivable		25,000
(d) Cash & Cash Equivalent		14,000
Total		**3,68,000**

Note 1 – Share Capital

Particular	Amounts (₹)
Equity Share Capital (21,000 shares @ ₹ 10 each)	2,10,000
Total	**2,10,000**

Note 2 – Reserve and Surplus

Particular	Opening	Addition	Deduction	Closing
CRR	-	73,000	-	73,000
Securities Premium	20,000	-	3,000	17,000
General Reserves	60,000	-	60,000	-
Profit and Loss a/c	40,000		22,000	18,000
				1,08,000

Note 3 – Fixed Assets

Particular	Amounts (₹)
Land and Building	2,00,000
Plant and Machinery	60,000
Furniture and Fixture	9,000
Total	**2,69,000**

Note 3 – Cash & Cash Equivalent

Particular	Amounts (₹)
Opening Balance	42,000
Add: Fresh Issue	27,000
Add: Sale of Investment	50,000
Less: Payment to PSH	(1,05,000)
Total	**14,000**

QUESTION 7.

The Balance Sheet of Producers Ltd. as at 31st March, 2008 is as follows:

Liabilities	₹	Assets	₹
Share Capital :		Fixed Assets :	
Authorized Capital		Plant and Machinery	1,90,000
40,000 Equity Shares		Furniture and Fixtures	20,000
of ₹10 each	4,00,000	Investments	60,000
1,000 8% Preference Shares of		Current Assets, Loans	
₹100 each	1,00,000	and Advances:	
	5,00,000	A. Current Assets;	
Issued and Subscribed Capital:		Stock	1,30,500
25,000 Equity Shares of ₹10 each		Debtors	49,550
fully paid – up	2,50,000	Cash at Bank	4,950
1,000, 8% Preference Shares of		B. Loans and Advances:	

₹100 each fully paid – up	1,00,000	Prepaid expenses	1,000
Reserves and Surplus:			
Securities Premium Account	9,000		
Profit and Loss Account	55,000		
Current Liabilities and Provisions			
A. Current Liabilities:			
Sundry Creditors	22,500		
B. Provisions			
Provisions for taxation	19,500		
	4,56,000		**4,56,000**

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a Premium of 10% and sold its investment of ₹70,800. Preference shares were redeemable at a premium of 10%. Show the necessary journal entries in the books of the company and prepare the balance Sheet of the company immediately after redemption of preference shares.

QUESTION 8.

The Balance Sheet of X Ltd. as on 31st March, 20X3 is as follows:

Particulars	₹
EQUITY AND LIABILITIES	
1. Shareholders' funds	
Share capital	2,90,000
Reserves and Surplus	48,000
2. Current liabilities	
Trade Payables	56,500
ASSETS	**3,94,500**
1. Fixed Assets	
Tangible asset	3,45,000
Non-current investments	18,500
2. Current Assets	
Cash and cash equivalents (bank)	31,000
	3,94,500

The share capital of the company consists of ₹50 each equity shares of ₹2,25,000 and ₹100 each Preference shares of ₹65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹12,000.

(c) to issue minimum equity share of ₹50 each at a premium of ₹10 per share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions

REDEMPTION OF FULLY CALLED UP BUT PARTLY PAID UP PREFERENCE SHARES

QUESTION 9.

The following is the balance sheet of Oscar India Ltd. as on 31st March 2008;

Liabilities	₹	Assets	₹
Preference share capital: 2,500 shares of ₹100 each fully called – up Less: Final call @ ₹20 per share Unpaid	 2,50,000 2,000 2,48,000	Fixed Assets Investment Bank	6,00,000 50,000 90,000
Equity share capital: 30,000 shares of ₹10 each fully paid – up	 3,00,000		
Profit and loss A/c	1,50,000		
Securities premium	15,000		
Creditors	27,000		
	7,40,000		**7,40,000**

On 30th June, 2008, the Board of directors decided to redeem the preference shares at a premium of 10% and to sell the investments at the market price of ₹40,000. They also decided to issue sufficient number of equity shares of ₹10 each at a premium of Re.1 per share, required after utilizing the profit and loss account leaving a balance of ₹50,000. Premium on redemption is required to be set off against securities premium account.

Repayments on redemption were made in full except to one shareholder holding 50 shares only due to his leaving India for good. You are required to show the journal entries and the balance sheet of the company after redemption. Assumption made should be shown in the working.

Solution **Journal Entries**

Date	Particulars	L.F.	Amounts (₹)	Amounts (₹)
	Bank a/c Dr. P & L a/c Dr. To Investment a/c (Being Investment Sold)		40,000 10,000	 50,000
	Preference Share Capital a/c Dr. Premium on Redemption a/c Dr. To Preference Share Holder a/c (Being Redemption Due on 2400 Shares of ₹ 100 each @ 10% Premium.)		2,40,000 24,000	 2,64,000
	Bank a/c Dr. To Equity Share Capital a/c To Securities Premium a/c		1,65,000	 1,50,000 15,000

	(Being 15,000 Equity Shares of ₹ 10 each are issued @ a premium of ₹ 1 per shares.) 2,40,000 – 90,000)			
	P & L a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)		24,000	 24,000
	P & L a/c Dr. To Capital Redemption Reserve a/c (Being CRR created)(1,50,000 – 10,000 – 50,000)		90,000	 90,000
	Preference Share Holder a/c Dr. To Bank a/c (Being Amount Paid) (2,400 – 50) X 110		2,58,500	 2,58,500

Balance Sheet of Oscar Ltd as on 31-03-2008
(After Redemption)

Particular	Notes	Amounts (₹)
V- Equity and Liabilities		
4. Shareholders' Funds		
(e) Share Capital	1	4,58,000
(f) Reserve and Surplus	2	1,46,000
5. Current Liabilities		
(b) Trade payable(Sundry Creditors)		27,000
(c) Other Current Liabilities (PSH)		5,500
Total		6,36,500
VI- Assets		
4. Non-Current Assets		
(b) Fixed Assets		
(iii) Tangible		6,00,000
(iv) Intangible		-
5. Current Assets		
(e) Cash & Cash Equivalent	3	36,500
Total		6,36,500

Note 1 – Share Capital

Particular		Amounts (₹)
Preference Share Capital- 100 Shares of ₹ 100 each	10,00	
Less: Calls in Arrear @ 20 Per Share	2,000	8,000
Equity Share Capital (45,000 shares @ ₹ 10 each)		4,50,000
Total		**4,58,000**

Note 2 – Reserve and Surplus

Particular	Opening	Addition	Deduction	Closing
CRR	-	90,000	-	90,000
Securities Premium	15,000	15,000	--	30,000
Profit and Loss a/c	1,50,000	-	1,24,000	26,000
				1,46,000

Note 3 – Cash & Cash Equivalent

Particular	Amounts (₹)
Opening Balance Add: Fresh Issue Add: Sale of Investment Less: Payment to PSH	90,000 1,65,000 40,000 (2,58,500)
Total	**36,500**

QUESTION 10.

Following is the balance sheet of Pankaj cements Ltd. As on 31st March, 1996:

Liabilities	₹	Assets	₹
Preference share capital:		Fixed assets	12,00,000
5,000 shares of ₹ 100 Each, fully called-up	5,00,000	Investment	1,00,000
Less: Final call of ₹ 20 Per share unpaid	4,000	Bank	1,80,000
Equity share capital:	**4,96,000**		
60,000 shares of ₹ 10 each, fully paid-up	6,00,000		
Profit & Loss account	3,00,000		
Security Premium	30,000		
Creditors	54,000		
	14,80,000		**14,80,000**

On 30th June, 1996, the Board of directors decided to redeem the preference shares at a premium of 10% and to sell the investments at its market price of ₹ 80,000. They also decided to issue sufficient number of equity shares of ₹ 10 each at a premium of ₹ 1 per share, required after utilizing the profit and loss account leaving a balance of ₹ 1, 00,000. Premium on redemption is required to be set off against Security Premium account.

Repayments on redemption were made in full except to one shareholder holding 100 shares who left India. You are required to show the journal entries and the balance sheet of the company after redemption. Assumptions made should be shown in the working.

QUESTION 11.

The following is the balance sheet of Trinity Ltd. as at 31.3.2014.

Liabilities	₹	Assets	₹
Share capital		**Fixed Assets:**	
Authorised:		**Gross Block 3,00,000**	
10000 10% redeemable preference Shares		**Less: Accumulated Dep. 1,00,000**	**2,00,000**
of ₹ 10 each	**1,00,000**	**Investments**	**1,00,000**
90,000 Equity Shares of ₹ 10 each	**9,00,000**	**Current Assets:**	
Issued and Paid Up Capital:		**Stock**	**25,000**
10000 10% redeemable preference Shares		**Debtors**	**25,000**
of ₹ 10 each	**1,00,000**	**Cash & Bank**	**50,000**
10,000 Equity Shares of ₹ 10 each	**1,00,000**	**Miscellaneous Expenditure to the**	
Reserves and Surplus:		**extent not written off**	**20,000**
General Reserve	**1,20,000**		
Securities Premium	**70,000**		
Profit & Loss a/c	**20,500**		
Current Liabilities and Provisions	**9,500**		
	4,20,000		**4,20,000**

For the year Ended 31-03- 2015, the company made a Net Profit of ₹ 15,000 after providing ₹ 20,000 depreciation and writing off the miscellaneous expenditure of ₹ 20,000.

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

1. The preference dividend for the year ended 31.3.2015 was paid before 31.3.2015.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2015, was the same as on 31.3.2014.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2015.
5. To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of ₹ 30,000 after such redemption.
6. Investments were sold at 90% of cost on 31.3.2015.
   You are required to:
   (a) Pass necessary Journal Entries to record redemption of preference shares and issue of bonus shares.
   (b) Prepare the cash and bank A/c.
   (c) Prepare the Balance Sheet as at 31st March, 2015 incorporating the above transactions.

REDEMPTION OF PARTLY CALLED UP PREFERENCE SHARES

QUESTION 12.

The capital structure of a company consists of 25,000 Equity Shares of ₹ 10 each fully paid and 1,500 6% Preference Shares of ₹ 100 each, ₹ 80 per share paid up. Undistributed profits and reserves are as under:

General Reserve – ₹ 75,000 (out of which a minimum balance of ₹ 25,000 is to be maintained)
Profit and Loss A/c – ₹ 15,000
Investments Allowance Reserve – ₹ 10,000 (out of which ₹ 6,000 is not free for distributions as dividend)

Security Premium A/c– ₹ 4,000
Preference Shares are now to be redeemed at a premium of 10%. A final call of ₹ 20 per share were made. 50 holders holding altogether 350 shares failed to pay the call money, and the Directors went on redemption utilising the undistributed profits and reserves. New equity shares of ₹ 10 each were issued to the public to the extent necessary to comply with the requirements of law. At the time of redemption, 5 holders holding altogether 160 shares were untraceable.
The Directors decided to maintain a minimum Cash and Bank balance for ₹ 75,000 and also agreed to provide necessary sums by way of temporary loan to the company (free of interest). Cash and Bank balance immediately before redemption was ₹ 30,000.

Assuming the above-mentioned transactions are carried out, pass Journal Entries.

QUESTION 13.

Following is the Balance Sheets of M/s Z Ltd. as at 31st March, 2009:-

Liabilities	**₹**	**Assets**	**₹**
80,000, 6% redeemable preference		Sundry Assets	16,80,000
Shares of ₹10 each ₹ 9 paid up	7,20,000	Cash	5,20,000
40,000 equity shares of			
₹10 each fully paid	4,00,000		
Securities premium	1,00,000		
Profit and loss account	5,00,000		
General Reserve	60,000		
Sundry Creditors	4,20,000		
	22,00,000		**22,00,000**

By the terms of their issue, the preference shares were redeemable at a premium of ₹ 0.50 per share on 1st April, 2009, and it was decided to arrange for this, as for as possible, out of the companies resources subject to leaving a Credit Balance of ₹ 24,000 in the profit and loss A/c. It was also decided to raise the balance of funds required by the issue of sufficient number of equity shares at premium of 10%.

Show the necessary Journal entries giving effect to the above transactions and the Balance Sheet thereafter.

QUESTION 14.

The Balance Sheet of XYZ as at 31st December, 2011 inter alia includes the following:

	₹
50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2012 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹100 each at ₹110 per share, ₹20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 20X3. The issue was fully subscribed and allotment made on 1st March, 2012. The money due on allotment was received by 31st March, 2012. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1.

QUESTION 15.

The books of B Ltd. showed the following balance on 31st December, 20X3:

30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹10 each, ₹8 paid up (all shares issued on 1st April, 20X2).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹80,000; General Reserve ₹1,20,000; Securities Premium Account ₹15,000 and Capital Reserve ₹21,000.

Preference shares are redeemed on 1st January, 20X1 at a premium of ₹2 per share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account.

Show the necessary Journal Entries to record the transactions.

QUESTION 16.

The following is the Balance Sheet of Zed Ltd. as on 31st March 2015:

Liabilities	₹	Assets	₹
50,000 Equity Shares of ₹ 10 each, ₹ 8 per share called up	4,00,000	Fixed Assets	6,00,000
5,000 13% Red. preference shares of ₹ 100 each	5,00,000	Investments	2,00,000
Security Premium	98,000	Stock	2,00,000
General Reserve	90,000	Sundry Debtors	2,00,000
Profit and Loss A/c	1,12,000	Cash at Bank	3,00,000
Sundry Creditors	3,00,000		
	15,00,000		**15,00,000**

The company resolved:

(a) To convert the partly paid-up Equity Shares into fully paid-up on 1st April, 2015 without requiring the shareholders to pay for the same.

(b) To redeem the Preference Shares on 30th April, 2015 at a premium of 7.5% and for this purpose to issue 3,000 12% Preference Shares of ₹ 100 each at a premium of 10%, payable in full on application.

The resolutions were carried into effect, for the purpose of the above redemption on 29th April, 2015. The Company sold its fixed assets costing ₹ 3,00,000 for ₹ 3,82,500 and all the investments for ₹2,60,000. On 31st May 2015 all payments were made on redemption except to holders of 200 shares who could not be traced.

On 30th June, 2015 the Directors issued fully paid Bonus Shares to the shareholders at the rate of 3 for 5 held at a premium of 5%.

You are required to give necessary Journal Entries in the books of the company to record the above Transactions.

Chapter-5

DEBENTURES

After studying this unit, you will be able to:

- **Issue of Debentures**
- **Redemption of Debentures**
- **Understand the requirement of creation of Debenture Redemption Reserve and making investments for the purpose of redemption of debentures;**
- **Understand various methods for redemption of debentures;**
- **Understand the accounting treatment of redemption of debentures;**
- **Solve problems based on redemption of debentures.**

DEFINITION

A debenture may be defined as a certificate issued by a company under its seal acknowledging a debt due to its holder. The most essential character of a debenture is the admission of record of indebtedness.

CLASSIFICATION OF DEBENTURES

(A) From the Point of View of Security
1. Naked
2. Mortgaged

(B) From the Point of View of Redemption
1. Redeemable
2. Irredeemable

(C) From the Point of View of Convertibility
1. Convertible
2. Non-convertible

(D) From the Point of View of Transferability
1. Registered
2. Bearer

A company may issue various kinds of debentures with different rights as given below:-

(A) From the Point of View of Security

1. **Naked debentures*:*** Naked debentures are those which do not carry any charge on the assets of the company. The holders of such debentures are not given any security as to the payment of interest and repayment of capital.
2. **Mortgage debentures*:*** Debentures which are secured by mortgage or charge on assets.

Sometimes on the same security money is borrowed by the company by issuing debentures in two or more installments. Debentures so issued may be given priority in repayment depending upon the order in which they have been issued Debentures issued earlier will have priority over debentures issued later. Mortgage debentures may therefore, by further classified as following:

(i) **First debentures***:* These debentures have priority over other debentures as regard payment out of the proceeds of the property mortgaged.

(ii) **Second debentures***:* These debentures are repaid after the claims of the first debentures have been met.

For example, a company had freehold property worth ₹ 1, 00,000 against which First Debentures of ₹ 60,000 and Second Debentures of ₹ 40,000 were issued. In case the Property is sold for ₹ 90,000 out of the sale proceeds, First Debenture holders will be paid ₹ 60,000 and the balance of ₹ 30,000 will be used for payment to Second Debenture holders.

Trust Deed. In case of mortgage debentures issued to public, it becomes essential for the company to appoint trustees who hold the property given by way of security in trust for the benefit of all debenture holders. This is necessary because it is impossible to give each debenture-holder title deeds of the mortgaged property. The company acknowledges its indebtedness to the trustees and conveys them legal and equitable interest in the property, given by way of security for the loan, by handing over the relevant title deeds.

(B) From the Point of View of Redemption

1. **Redeemable debentures:** Redeemable debentures provide for the payment of the principal amount on the expiry of a certain period. Redeemable debentures can be issued even after they have been redeemed until they have been cancelled. Upon such reissue, the person entitled to the debentures will have the same rights and priorities as if the debentures had been redeemed.
2. **Irredeemable debentures:** In the case of *irredeemable or perpetual debentures* the company does not give any undertaking of repaying the money borrowed by issuing debentures, after a fixed term or within a fixed period during the continuance of business by the company. Company may repay debentures at any time, it may choose to do so, but the creditors cannot compel the company to repay them at any certain time. They shall, however, be repaid when the company goes into liquidation or makes a default in the payment of interest.

(C) From the Point of View of Convertibility

1. **Convertible debentures:** These are debentures which are convertible into shares of the company as per the terms of their issue.
2. **Non-convertible debentures :** Debentures not convertible into shares of the company are termed as non-convertible debentures :

(D) From the Point of View of Transferability

1. **Registered debentures:** Registered debentures are made out in the name of a particular person, who is registered as a debenture-holder in the books of the company. The names of the debenture-holder are recorded in the company's register of debentures holders They are transferable in the same way as shares or in accordance with the conditions endorsed on their back.
2. **Bearer debentures:** Bearer debentures are treated as negotiable instruments and are transferable by delivery alone. The names of the holders of such debentures are not required to be registered in the register of debenture-holders.

ISSUE OF DEBENTURES

The entries for issue of debentures are made on the same pattern as for issue of shares. They can also be issued at par, premium or discount.

The accounting entries are being given below:

A. Issues of debentures for consideration other than cash.

Vendors Dr.
To Debentures A/c

In case debentures are issued at a discount, the 'Debentures Discount Account' will be debited with the amount of discount allowed. In case issue of debentures is at premium, the "Security Premium Account" will be credited with the amount of premium.

Issue of debentures for cash

1. **for receipt of application money:**

Bank A/c Dr.
To Debenture Application A/c

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2. **on allotment of debentures:**

Debentures Application A/c Dr.
To Debentures A/c
(For transfer of Debentures application money)

Debenture Allotment A/c Dr.
To Debentures A/c
(For allotment money due)

Bank A/c Dr.
To Debenture Allotment A/c
(For receipt of allotment money)

In case allotment is made at premium and premium is to be received on allotment, the entry for amount due on allotment will be:

Debenture Allotment A/c Dr.
To Debentures A/c
To Security Premium A/c

In case allotment is made at discount, the entry will be:

Debenture Allotment A/c Dr.
Discount on issue of Debentures A/c Dr.
To Debentures A/c

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3. **On First / Second /Final Call.**

Debentures First/ Second /Final call A/c Dr.
To Debentures A/c
(For First /Second/Final Call due)

Bank A/c Dr.
To Debenture First /Second/ Final call (money received)

4. If money is received in one installment.
(If issued at par)
Bank A/c Dr.
To Debentures A/c

DIFFERENT TERMS OF ISSUE OF DEBENTURES (PRACTICAL PROBLEMS)

QUESTION 1.

A company issues the following debentures: (Give journal entries)
(a) 1,000,12 per cent debentures of ₹ 100 each at par but redeemable at a premium of 5 percent after 10 years.
(b) 500,14 percent debentures of ₹ 100 each at a premium of 10 % payable at par after 5 years.
(c) 500, 10 % debentures of ₹ 100 each at discount of 10% but payable at premium of 5 % after ten years 300, deb. of ₹ 100 each, as collateral security to creditor who advanced a loan of ₹ 25,000.

QUESTION 2.

Give journal entries in each of the following alternative cases assuming the face value of a debenture being ₹ 100.
(a) A debenture issued at ₹ 100 repayable at ₹ 100.
(b) A debenture issued at ₹ 95 repayable at ₹ 100.
(c) A debenture issued at ₹ 105 repayable at ₹ 100.
(d) A debenture issued at ₹ 100 repayable at ₹ 105.
(e) A debenture issued at ₹ 90 repayable at ₹ 105.
(f) A debenture issued at ₹ 90 repayable at ₹ 95.

QUESTION 3.

Show by means of journal entries how you would record the following issues.
Also show how they would appear in their respective Balance Sheets.
(a) A Ltd. issues at par 20,000 12% Debentures of ₹ 100 each repayable also at par.
(b) B Ltd. issues 30,000 12% Debentures of ₹ 100 each at a discount of 5% to be repaid at par at the end of 5 years.
(c) C Ltd. issues 12% Debentures of the total face value of ₹ 40,00,000 at a premium of 5% to be redeemed at par.
(d) D Ltd. issued ₹ 50,00,000 12% Debentures at par but redeemable at the end of 10 year at 105%.
E Ltd. issues ₹60,00,000 12% Debentures at a discount of 5% repayable at a premium of 10% at a premium of 10% at the end of 5 years.

ISSUE OF DEBENTURES AS COLLATERAL SECURITY

A Company may borrow money from a bank or other person and may give debentures of the company as an additional security besides giving any other property of the company by way of security. These debentures are given to the lender with the understanding that in case the company pays the loan, they will be returned back to the company but in case it fails to pay the loan, the lender will have the right to realize them and use the proceeds for satisfaction of his claim:
There are two ways of dealing with such Debentures in the accounts of the company.

- **(i)** **No entry** is made in the books of the company. A note is given in the Balance Sheet regarding deposition of the debentures as collateral security.
- **(j)** **Issued as Collateral security**

  When issued

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

  When Loan discharged

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

QUESTION 4.

A Ltd. secured a loan of ₹ 80,000 from the Canara Bank by issuing 1,000. 15% Debentures of ₹ 100 each as collateral security.
Required: How will you treat the issue of such debenture?

WIRITING OF LOSS ON ISSUE OF DEBENTURES

The loss on issue of debentures (e.g., discount on issue of debentures or premium payable on redemption etc.) appears on the 'Assets side' of the Balance Sheet, However, it is a fictitious asset, which must be written off as soon as possible. The loss can be written off from any capital profit (including shares premium) or revenue profit, the entry for writing off the loss will be as follows:

Capital Reserve /P & L. Account Dr.
To Loss (Discount) on Issue of Debentures A/c

It is to be noted that writing off loss on issue of debentures is not a legal necessity. However, sound financial principles require that such issue should be written off as soon as possible, but in any case before the Debentures are completely redeemed.
In case such loss has to be written off from Profit & Loss Account as deferred revenue expenditure, the amount to be written off each year will be calculated as follows:

(i) Where debentures are to be redeemed after a fixed period*:* The amount of loss of discount on issue of debentures is written of evenly over the years, after which the Debentures will be redeemed. This is because every year enjoyed equal benefit of the funds raised on account of issue of debentures. For example, if the debentures are to be redeemed after 10 years in a lump sum and the loss on issue of debentures is a sum of ₹ 20,000, every year ₹ 2,000 should be written off from the Profit & Loss A/c.

(ii) Where the Debentures are to be redeemed in installments*:* The funds in use, each year go diminishing every year and therefore the loss on issue of debentures is also divided over different years in the ratio of amount of debentures outstanding at the beginning of each year.

QUESTION 5.

On 01.01.2001, X Ltd. issued 4,000 15% debentures of ₹ 100 each at a discount of 7.8%, which are redeemable at par by annual drawings in 4 years commencing from 31st March 2002 as per the following redemption plan:
1st Draw 10%, 2nd draw 20%, 3rd draw 30% and 4th draw 40%.
Required: calculate the amount of discount to be written off each year assuming that X Ltd. follows calendar year as its accounting year.
ANS- 1st- 96, 00, 2nd- 8,880, 3rd- 7,200,4th- 4,560, 5th- 960

QUESTION 6.

R. Ltd. issued Debentures at 94% for ₹ 1,00,000 on April 1975, repayable by five equal annual drawing of ₹ 20,000 each. The company closes its accounts on calendar year basis. Indicate the amount of discount to be written off every accounting year assuming that the company decides to write off the debentures discount during the life of the debentures.
Ans- 1975 ₹ 1,500, 1978 ₹ 900 1976, ₹ 1,700 1979 ₹ 500, 1977 ₹ 1,300 1980 ₹ 100

QUESTION 7.

India Ltd. issued 10,000 debentures of ₹ 100 each at a discount of 6%. The expenses on issue amounted to ₹ 35,000. The debentures have to be redeemed at the rate of ₹ 1, 00,000 each year commencing with end of fifth year. How much discount and expenses should be written off each year?

ANS- In each first 5 years discount to be written off will be		**= ₹ 10,000**
6th year	**=**	**= ₹ 9,000**
Similarly of 7th year	**=**	**= ₹ 8,000**
8th year	**=**	**= ₹ 7,000**
9th year	**=**	**= ₹ 6,000**
10th year	**=**	**= ₹ 5,000**
11th year	**=**	**= ₹ 4,000**
12th year	**=**	**= ₹ 3,000**
13th year	**=**	**= ₹ 2,000**
14th year	**=**	**= ₹ 1,000**

QUESTION 8.

Bee Ltd. issued 2,000 12% Debentures of ₹ 100 each at as discount of 6% on 1.4 1989 repayable by equal annual drawings in four years

You are required to show the Discount on issue of Debentures Account over the period.

QUESTION 9.

Venus Ltd. issued 1,000 12% Debentures of ₹ 100 each at a discount of 5% These Debentures are redeemable at a premium of 10% after 5 years.
Your are required to show:

(i) The journal entry on issue of the Debentures; and
(ii) The loss on issue of Debentures Account over the period.

DEBENTURE INTEREST

Debenture Interest is a charge against profits. It is payable to the debenture holders whether profits are earned or not.
As per provisions of Income Tax Act, 1961 a company is required to deduct tax at source at a prescribed rate before payment of Debentures interest to the debenture holders.

REDEMPTION OF DEBENTURES

Introduction

Redemption of debentures refers to the discharge of liability in respect of the debentures issued by a company. According to Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. According to Rule 18 of the Companies (**Share Capital and Debentures**) Rules, 2014, the company shall not issue secured debentures, unless it complies with the following conditions, namely: - An issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue. Provided that a company engaged in the setting up of infrastructure projects may issue secured debentures for a period exceeding ten years but not exceeding thirty years.

Therefore, for secured debentures, the date of Redemption of debenture of debenture shall not exceed 10 years from the date of issue. A company engaged in the setting up of infrastructure projects may issue secured debentures up to redemption period of thirty years.

Creation of debenture redemption reserve account

Section 71(4) states that when debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for the redemption of debentures.
Rule 18(7) of Companies (Share Capital and Debentures) Rules, 2014 prescribes the following conditions.
The company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below-
(a) The Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;

(b) The company shall create Debenture Redemption Reserve (DRR) in accordance with following conditions:-

(i) No DRR is required for debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures. For other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013, DRR will be as applicable to NBFCs registered with RBI.

(ii) For NBFCs registered with the RBI under Section 45-IA of the RBI (Amendment) Act, 1997, 'the adequacy' of DRR will be 25% of the value of debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities) Regulations, 2008, and no DRR is required in the case of privately placed debentures.

(iii) For other companies including manufacturing and infrastructure companies, the adequacy of DRR will be 25% of the value of debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities), Regulations 2008 and also 25% DRR is required in the case of privately placed debentures by listed companies.
For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of debentures.

(c) Every company required to create Debenture Redemption Reserve shall on or before the 30th day of April in each year, invest or deposit, as the case may be, a sum which shall not be less than fifteen percent, of the amount of its debentures maturing during the year ending on the 31st day of March of the next year, in any one or more of the following methods, namely:-

(i) In deposits with any scheduled bank, free from any charge or lien;

(ii) In unencumbered securities of the Central Government or of any State Government;

(iii) In unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(iv) In unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882;

(v) the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above: Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen per cent of the amount of the debentures maturing during the year ending on the 31st day of March of that year;

(d) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(e) the amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of redemption of debentures.

PRACTICAL PROBLEMS

QUESTION 1.

A company purchased its own 11% debenture" in the open market for ₹ 50,00,000. DR(cum Interest) The interest amount included in the purchase price is ₹ 1,50,000. The face value of The debentures purchased is ₹ 52,00,000. The company cancelled the debentures so purchased. Pass Journal Entries in the books of the Company for purchase and immediate cancellation of Debentures.

Journal Entries

	Particulars	Amounts(₹)	Amounts(₹)
	Profit & Loss a/c Dr. To DRR a/c (Being Amount t/f to DRR (52,00,000 x 25%)	13,00,000	 13,00,000
	Own Debentures a/c Dr. Debenture interest a/c Dr. To Bank a/c **(Being own debentures are Purchased from open market)**	48,50,000 1,50,000	 50,00,000
	Debenture a/c Dr. To Own Debentures a/c To profit on cancellation a/c **(Being Debentures are cancelled)**	52,00,000	 48,50,000 3,50,000
	Profit on cancellation a/c Dr. To Capital Reserve a/c **(being Amt transferred)**	3,50,000	 3,50,000
	DRR a/c Dr. To General Reserve (Being DRR transferred)	13,00,000	 13,00,000

QUESTION 2.

On January 1 Rama Ltd had outstanding in its books 500 Debentures of ₹ 100 each interest at 6% per annum. DRR balance is standing in books at ₹ 12,500. In accordance with the powers in the Deed, the directors acquired in the open Market debentures for immediate cancellation as follows:

March 1	₹ 5,000 at ₹ 98.00 (cum interest)
Aug. 1	₹ 10,000 at ₹ 100.25 (cum interest)
Dec. 1	₹ 2,500 at ₹ 98.50 (Ex-interest)

Debenture interest is payable half-yearly, on 30th June and 31st December. Show ledger accounts of debentures, debentures interest and profit or loss on cancellation, ignoring income-tax.

Ans.:- Profit as cancellation ₹ 212. Debenture Interest ₹ 2,488.

QUESTION 3.

On 1st January X Ltd has ₹ 12,000 6% debentures. DRR balance is standing in books at ₹ 4,000. In accordance with the powers under the deed, the directors acquire in the open market for immediate cancellation of debentures as follows:

March 1	₹ 2,000 at ₹ 98	(cum-interest)
August 1	₹ 4,000 at ₹ 100.25	(cum-interest)
December 15	₹ 1,000 at 98 ½	(ex-interest)

Debenture interest is payable half-yearly, 30th June and 31st December. Show the ledger accounts. Ignore Income-tax.

Ans.:- Debenture Balance ₹ 5,000; Debenture interest ₹ 517.50; Profit on cancellation Total – ₹ 85.

QUESTION 4.

Salman Limited issued ₹ 1,50,000 5% debentures on 30th September, 2017 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 2018 and the cancellation was made on the same date. On 31 December 2017, balance in the DRR of the company was ₹ 15,000 and investments made for the purpose of redemption were ₹ 22,500.

1st March, 2018 ₹ 25,000 nominal value purchased for ₹ 24,725 ex-interest

1st September 2018 ₹ 20,000 nominal value purchased for ₹ 20,125 cum-interest

You are required to draw up the following accounts up to the date of cancellation:

(i) Debentures Accounts;

(ii) Own Debenture Investment Account;

Ignore taxation and make calculations to the nearest rupee.

QUESTION 5.

The following balances appeared in the books of Paradise Ltd as on 1-4-2017:

(i) 12 % Debentures ₹ 7,50,000

(ii) Balance of DRR ₹ 25,000

(iii) DRR Investment 1,12,500 represented by 10% ₹ 1,125 Secured Bonds of the Government of India of ₹ 100 each. Annual contribution to the DRR was made on 31st March every year. On 31-3-2018, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2018:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account.

QUESTION 6.

The following balances appeared in the books of a company as on December 31, 2017: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000 ; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.

The Interest on debentures had been paid up to December 31, 2017. On February 28, 2018, the investments were realized at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

QUESTION 7.

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

(a) No. of partly convertible debentures issued- 2,00,000; face value and issue price-₹ 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists- 1.5.2018, date of allotment- 1.6.2018, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

(d) Underwriting Commission- 2%.

(e) Number of Debentures applied for – 1,50,000

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2019. (Including cash and bank entries).

QUESTION 8.

On 1st April, 20X1, in MK Ltd.'s ledger 9% debentures appeared with an opening balance of ₹ 50,00,000 divided into 50,000 fully paid debentures of ₹ 100 each issued at par.

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

On 31.5.20X1, the company purchased 8,000 debentures of its own @ ₹ 98 (ex-interest) per debenture. On same day it cancelled the debentures acquired. You are required to prepare necessary ledger accounts (excluding bank A/c).

QUESTION 9.

A company had 16,000, 12% debentures of ₹ 100 each outstanding as on 1st April, 20X1, redeemable on 31st March, 20X2.

On 1 April 20X1, the following balances appeared in the books of accounts- Investment in 2,000 9% secured Govt. bonds of ₹ 100 each. DRR is ₹ 1,00,000. Interest on investments is received yearly at the end of financial year. 2,000 own debentures were purchased on 31st March 2012 at the average price of ₹ 99 and cancelled on the same date. On 31st March, 20X2, the investments were realised at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March 20X2:

(1) 12% Debentures Account

(2) Debenture Redemption Reserve Account

(3) Debenture Redemption Investments Account

REMEMPTION BY CONVERSION

QUESTION 10.

A Ltd. had 10,000 debentures of ₹ 100 each which are redeemable @ 20% Premium by converting into equity share of ₹ 10 each issued at ₹ 15 per share. Pass Journal Entries.

QUESTION 11.

H Ltd had issued 60,000 15% Convertible Debentures of 100 each on 1st April, 2011. The Debentures are due for redemption on 1st March, 2014. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to debenture holders to convert 20% of their holding into equity shares (Nominal Value of 10) at a price of 15 per share. Debenture holders holding 2500 Debentures did not exercise the option. Calculate the Number of shares issued to the debenture holders exercising the option to the maximum.

Ans. Number of equity shares issued 80,500.

SOME MISCELLANOUS PROBLEMS

QUESTION 12.

The Balance Sheet of Dee Limited on 31st March, 2009 was as follows:

Liabilities	₹	Assets	₹
Share capital:		Fixed Assets	8,00,000
Authorized capital:		(at cost less depreciation)	
50,000 equity		Debenture redemption	
Shares of ₹ 10 each	5,00,000	Reserve investments	2,00,000
Issued and Subscribed		Cash balance	2,50,000
25,000 Equity shares of ₹10 fully		Other current Assets	10,00,000
paid up	2,50,000		
Reserves and surplus:			
General reserve	2,75,000		
Profit and Loss A/c	1,25,000		
Debenture redemption reserve	2,50,000		
Secured Loans:			
12% convertible debentures	5,00,000		
(5,000 Deb. of ₹ 100 each)			
Other secured loans	2,50,000		
Current liabilities & Provisions	6,00,000		
	22,50,000		**22,50,000**

At the General Meeting it is resolved to:

(1) Give existing shareholders the option to purchase one share of ₹ 10 each at ₹ 15 for every five shares held. This option was taken up by all the shareholders.

(2) Issue bonus share in ratio of one share for every five share held.

(3) Redeem the debentures at a premium of 5% and also confer option to the debenture holder to convert 50% of their holding into equity shares at a predetermined price of ₹ 15 per share and balance payment to be made in cash.

Holders of 3,000 debentures opted to get their debentures redeemed in cash only while the rest opted for getting the same converted into equity shares as per the term of issue. Debenture redemption fund investment realized at par on sales.

You are required to redraft the Balance Sheet after giving effects to the right issue and redemption of debentures. Also show the calculations in respect of no. of equity shares issued and cash payment.

QUESTION 13.

The Balance Sheet of BEE Co. Ltd. on 31st December, 2018 is as under:

Liabilities	₹	Assets	₹
Share capital:		Free hold Property	1,15,000
Authorized capital:		Stock	1,35,000
30,000 equity		Debtors	75,000
Shares of ₹ 10 each	3,00,000	Cash	30,000
Issued and Subscribed		Bank balance	2,00,000
20,000 Equity shares of ₹10 fully paid up	2,00,000		
Reserves and surplus:			
Profit and Loss A/c	1,20,000		
12% convertible debentures	1,20,000		
Trade payable	1,15,000		
	5,55,000		**5,55,000**

At the Annual Meeting it was resolved:

(a) To give existing shareholders the option to purchase one ₹10 share at ₹ 15 for every four shares (held prior to the bonus distribution), this being taken up by all share-holders.

(b) To issue one bonus share for every four shares held.

(c) To repay the debentures at a premium of 3 per cent.

Give the necessary journal entries and the company's sheet after these transactions are completed.

Solution: **Journal Entries**

Dates	Particulars	Dr. (₹)	Cr. (₹)
	Bank a/c Dr. To Equity Share Capital a/c To Securities Premium a/c (Being 5,000 Right shares are issued of ₹ 10 @ 15 per share in 1:4)	75,000	 50,000 25,000
	Securities premium a/c Dr. Profit & Loss a/c Dr. To Bonus to Shareholder a/c (Being 5,000 (25,000 x 1/5) Bonus shares of ₹ 10 each are announced)	25,000 25,000	 50,000

	Bonus to Shareholders a/c Dr. To Equity Share Capital a/c (Being 5,000 Equity Shares of ₹ 10 each are allotted as bonus)	50,000	 50,000
	Profit & Loss a/c Dr. To Debenture Redemption Reserve a/c (Being DRR create @ 10% of ₹ 1,20,000)	12,000	 12,000
	12% Debentures a/c Dr. Premium On Redemption a/c Dr. To Debenture holders a/c (Being Debentures are due for Redemption @ 3% Premium)	1,20,000 3,600	 1,23,600
	Profit & Loss a/c Dr. To Premium on Redemption a/c (Being Premium on Redemption written off)	3,600	 3,600
	Debenture holders a/c Dr. To Bank a/c (Being Amount Paid)	1,23,600	 1,23,600
	DRR a/c Dr. To General Reserve a/c (Being debenture redemption reserve are transferred)	12,000	 12,000

Prepare Balance Sheet yourself.

QUESTION 14.

The summarized Balance Sheet of convertible Limited, as on 30th June, 2018 stood as follows:

Liabilities	₹	Assets	₹
Share capital:		Fixed Assets	1,60,00,000
Issued and Subscribed		(at cost less depreciation)	
5,00,000 Equity shares of ₹10 each		Debenture redemption Reserve	
fully paid up	50,00,000	investments	15,00,000
General reserve	75,00,000	Cash and Bank balance	75,00,000
Profit & Loss a/c	10,00,000	Other current Assets	2,00,00,000
Debenture redemption Reserve	10,00,000		
13.5% convertible debentures	1,00,00,000		
(1,00,000 Deb. of ₹ 100 each)			
Other loans	80,00,000		
Current liabilities & Provisions	1,25,00,000		
	4,50,00,000		**4,50,00,000**

The debentures are due for redemption on 1st July, 2018. The terms of issue of debentures Provided that they were redeemable at a premium 5% and also conferred option to the Debenture holders to convert 20% of their holding into equity shares at a predetermined price Of ₹ 15.75 per share and the payment in cash.

Assuming that:

(i) Except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.

(ii) The investments realize at par on sale; and

(iii) All the transactions are put through, without any lag, on 1st July, 2018.

Redraft the balance sheet of the company as on 1st July, 2018 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

Solution: **Calculation of No of Shares Issued on Conversion**

Debenture Holder Who exercise the conversion option (1,00,000 – 25,000)	75,000 debentures
Convertible portion (75,000 x 20%)	15,000 debentures
No of Shares issuable (15,000 x 105)/15.75	1,00,000 shares

Calculation of Cash Paid to Debenture Holder

Debenture Holder who accepted Cash (1,00,000 – 15,000)	85,000
Cash Paid to them (85,000 x 105)	₹ 89,25,000

Revised Balance Sheet
As at 1st July, 2008

Particulars	Notes	Amounts (₹)
I- Equity and Liabilities:		
1. Shareholders Fund		
(a) Share Capital	1	60,00,000
(b) Reserve & Surplus	2	95,75,000
2. Non-Current Liabilities		
Other Loan		80,00,000
3. Current Liabilities and Provision		1,25,00,000
Total		3,60,75,000
II- Assets		
1. Non-Current Assets		
Fixed Assets		1,60,00,000
2. Current Assets		
(a) Cash and Cash equivalent	3	75,000
(b) Other Current Assets		2,00,0000
Total		3,60,75,000

Note 1- Share Capital

5,00,000 Equity Shares of ₹ 10 each	50,00,000
Add: 1,00,000 shares of ₹ 10 each issued to Debenture holder	10,00,000
Total	60,00,000

Note 2- Reserves and Surplus

Particulars	Opening	Addition	Deletion	Closing
Securities Premium	-	5,75,000	-	5,75,000
(1,00,000 x ₹ 5.75)			-	
General Reserve	75,00,000	10,00,000	-	85,00,000
Profit & Loss a/c	10,00,000	-	5,00,000	5,00,000
Debenture Red reserve	10,00,000	-	10,00,000	--
Total				95,75,000

Note 3- Cash and Cash Equivalent

Opening Balance	75,00,000
Add: Sale of Deb Red Fund Investment	15,00,000
Less: Payment to Debenture Holder	89,25,000
Total	75,000

CHAPTER-6

CASH FLOW STATEMENT

After studying this unit, you will be able to:

- **Define cash flow statement as per AS 3**
- **Differentiate operating, investing and financing activities**
- **Learn the various elements of cash and cash equivalents**
- **Prepare cash flow statement both by direct method and indirect method.**

QUESTION 1.

Astha Ltd. paid on interim dividend of ₹ 1,00,000 during the financial year 2015 – 2016. Along With, it also paid ₹ 10,200 as dividend distribution tax, ABC Ltd., while preparing cash flow statement for 2015 – 2016, classified dividend paid as financing activities and Dividend Distribution Tax paid as cash flow from operating activities. Do you agree with such treatment? Answer your questions in framework of AS-3.

QUESTION 2.

X Ltd. purchased debentures of ₹ 10 Lacs of Y Ltd. which are traded in stock exchange. How Will you show item as per AS – 3 while preparing cash flow statement for the year ended on 31st March 2008?

QUESTION 3.

Garden Ltd. acquired fixed assets viz, plant and machinery for ₹ 20 lakhs. During the same year it sold Its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow Towards purchase of fixed assets in the cash flow statement as per AS – 3?

QUESTION 3.

Hoshiyar Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and interest earned on them:

(1) to suppliers
(2) to employees
(3) to its subsidiaries companies

(ii) Investment made in subsidiary Smart Ltd. and dividend received
(iii) Dividend paid for the year
(iv) TDS on interest income earned on investments made
(v) TDS on interest earned on advance given to suppliers
(vi) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement.

QUESTION 4.

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year Ended 31st March, 2001 in accordance with AS-3 (Revised) using the direct method. The Company does not have any cash equivalents.

Summary Cash Account for the year ended 31-03-2001

	₹ '000		₹ '000
Balance on 1-4-2000	50	Payment to Suppliers	2,000
Issue of Equity shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expenses	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31-3-2001	150
	3,250		**3,250**

QUESTION 5.

Following is the cash flow abstract of Alpha Ltd for the years ended 31st March, 2008;

Cash Flow Abstract

Inflows	**₹**	**Outflows**	**₹**
Opening Balance:		Payment to creditors	90000
Cash	10000	Salaries and wages	25000
Bank	70000	Payments of overheads	15000
Share capital		Fixed assets acquired	400000
Share Issues	500000	Debentures redeemed	50000
Collection from debtors	350000	Bank loans repaid	250000
Sales of fixed assets	70000	Taxations	55000
		Dividends	100000
		Closing balance:	
		Cash	5000
		Bank	10000
	1000000		**1000000**

Prepare Cash flow statement for the year ended 31st March 2008 in accordance with Accounting Standard-3.

QUESTION 6.

The following summary cash account has been extracted from the company's accounting records:

Summary Cash Account

		(₹ '000)
Balance at 1-1-X8		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	(3,034)
Balance at 31-12-08		**212**

Prepare Cash Flow statement of this company Hills Ltd., for the year ended 31st December 1998 in accordance with AS-3.

The company does not have any cash equivalents.

Ans. CFOA ₹309, CFIA (₹ 30), CFFA (₹ 102)

QUESTION 7.

From the following, Prepare Cash Flow Statement.

Cash Account

Particular	₹	Particulars	₹
To Balance b/d	10,000	By Cash Purchase	15,000
To Commission Received	5,000	By Rent Paid	8,000
To Cash Sales	1,00,000	By Overhead Paid	10,000
To Bank (Withdrawal)	50,000	By Bank (Deposit)	80,000
To Sale of Short Term Investment	35,000	By Repayment of Loan	30,000
To Sale of Machinery	20,000	By Purchase Long term investment	40,000
To Interest Received	30,000	By Balance c/d	67,000
	2,50,000		**2,50,000**

Bank Account

Particular	₹	Particulars	₹
To Balance b/d	30,000	By Payment to Creditors	1,10,000
To Cash (Deposit)	80,000	By Salaries	1,28,000
To Sale of Long Term Investment	50,000	By Cash (withdrawal)	50,000
To Sale of Building	1,50,000	By Redemption of Preference Shares	1,60,000
To Receive From Debtors	4,00,000	By Purchase Short term investment	1,70,000
To Dividend Received	40,000	By Interest Paid	4,500
To Issue of Shares	1,20,000	By Dividend Paid	25,000
To Issue of Debentures	80,000	By Tax Paid	1,55,000
		By Balance c/d	1,47,500
	9,50,000		**9,50,000**

Short Term Investment Account (Marketable Securities)

Particular	₹	Particulars	₹
To Balance b/d	50,000	By Cash (Sale)	35,000
To Bank (Purchase)	1,70,000	By Balance c/d	1,85,000
	2,20,000		**2,20,000**

QUESTION 8.

From the following, Prepare Cash Flow Statement.

Cash Account

Particular	₹	Particulars	₹
To Balance b/d	30,000	By Cash Purchase	45,000
To Interest Received	15,000	By Travelling Expenses Paid	24,000
To Cash Sales	3,00,000	By Salaries Paid	30,000
To Bank (Withdrawal)	1,50,000	By Bank (Deposit)	2,40,000
To Sale of Long Term Investment	1,05,000	By Redemption of Debenture	90,000
To Sale of Furniture	60,000	By Purchase Long term investment	1,20,000
To Dividend Received	90,000	By Balance c/d	2,01,000
	2,50,000		**7,50,000**

Bank Account

Particular	₹	Particulars	₹
To Balance b/d	90,000	By Payment to Creditors	3,30,000
To Cash (Deposit)	2,40,000	By Rent	5,28,000
To Sale of Short Term Investment	1,50,000	By Cash (withdrawal)	1,50,000
To Sale of Machinery	4,50,000	By Redemption of Debentures	4,80,000
To Receive From Debtors	12,00,000	By Purchase Short term investment	5,10,000
To Issue of Shares	4,80,000	By Interest Paid	13,500
To Loan Taken	2,40,000	By Dividend Paid	75,000
		By Tax Paid	6,00,000
		By Balance c/d	1,63,500
	28,50,000		**28,50,000**

Short Term Investment Account (Marketable Securities)

Particular	₹	Particulars	₹
To Balance b/d	1,80,000	By Bank (Sale)	1,50,000
To Bank (Purchase)	5,10,000	By Balance c/d	5,40,000
	6,90,000		**6,90,000**

QUESTION 9.

From the following information, prepare cash flow statement:

Balance Sheet

	1-1-01	31-12-01		1-1-01	31-12-01
Share Capital	2,00,000	2,00,000	Cash	8,000	10,000
Profit & Loss A/c	50,000	90,000	Bank	22,000	20,000
			Debtors	10,000	20,000
Bank Loan	10,000	---	Stock	25,000	15,000
Creditors	15,000	20,000	Non-Current		
Outstanding Exp.	5,000	1,000	Assets	2,35,000	2,75,000
Provision for Taxation	20,000	25,000			
Unclaimed Dividend	---	4,000			
	3,00,000	**3,40,000**		**3,00,000**	**3,40,000**

Net profit for the year 2001 after providing ₹ 20,000 depreciation was ₹ 60,000. During 2001, Company declared equity dividend @ 10%, and paid ₹ 15,000 as income-tax.

Ans. CFOA ₹86,000, CFIA (₹ 60,000), CFFA (₹ 26,000)

QUESTION 10.

The following data were provided by the accounting records of Ryan Ltd. at year-end March 31, 1997:

Income Statement

	(₹)
Sales	6,98,000
Cost of goods Sold	(5,20,000)
Gross Margin	1,78,000

Operating Expenses		
(Including Depreciation Expenses of ₹ 37,000)		(1,47,000)
Profit		31,000
Other Income (Expenses)		
Interest Expense Paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	
Net Expenses		(8,000)
Balance Profit		23,000
Income Tax		(7,000)
Retained profit		16,000

Comparative Balance Sheet

Assets	**31-3-97**	**31-3-96**
Plant Assets	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
Net Assets	6,12,000	4,37,000
Investment (Long term)	1,15,000	1,27,000
Current Assets:		
Inventory	1,44,000	1,10,000
Accounts Receivable	47,000	55,000
Cash	46,000	15,000
Prepaid Expenses	1,000	5,000
	9,65,000	**7,49,000**
Liabilities		
Share Capital	4,65,000	3,15,000
Reserves and Surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Current Liabilities		
Accounts Payable	50,0000	43,000
Accrued Liabilities	12,000	9,000
Income taxes Payable	3,000	5,000
	9,65,000	**7,49,000**

Analysis of selected accounts and transactions during 1996-97

1. Sold plant assets that cost ₹ 10,000 with accumulated depreciation of ₹ 2,000 for ₹ 5,000.
2. Issued ₹ 1,00,000 of bonds at face value in an exchange for Plant assets on 31st March, 1997.
3. Repaid ₹ 50,000 of bonds at face value at maturity
4. Issued 15,000 shares of ₹ 10 each.
5. Paid cash dividends ₹ 8,000.

Prepare Cash Flow Statement as per AS-3, using indirect and direct method.

Solution: **Indirect Method**

Cash flow Statements of Ryan Ltd.

For the year ended 31-03-97

Particular	Amounts(₹)	Amounts(₹)
Difference in Profit as per Balance Sheet	8,000	
Add: Cash dividend	8,000	
Add: Provision for Taxes	7,000	
Profit before Tax	23,000	
Add: Depreciation	37,000	
Add: interest expenses	23,000	
Add: loss on sale of Plant	3,000	
Less: profit on sale of investments	(12,000)	
Less: interest received	(6,000)	
Cash from operation before change in working capital	68,000	
Adjustments for working capital changes		
decrease in Accounts Receivable	8,000	
Increase in stock	(34,000)	
Increase in Account Payable	7,000	
decrease in prepaid expenses	4,000	
increase in accrued Liabilities	3,000	
Cash from operation before payment of tax expenses	56,000	
Less: payment of tax expenses(5,000+7,000-3,000)	9,000	47,000
A- Cash flow from operating Activities		
B- Cash flow from investing Activities		
Sale of Plant	5,000	
Sale of investment		
Purchase of Plant	(1,20,000)	
Purchase of investment	24,000	(85,000)
Interest Received	6,000	
C- Cash flow from financing Activities		
Issue of shares	1,50,000	
Redemption of Bond	(50,000)	
Payment of dividend	(8,000)	69,000
Payment of interest	(23,000)	31,000
Net increase(decrease) in cash or cash equivalent		15,000
Add: opening balance of cash or cash equivalent		46,000
Closing balance of cash or cash equivalent		