SOLUTION

AS 7 "CONSTRUCTION CONTRACTS"

Ans.1

According to paragraphs 38, 39 and 41 of AS 7, an enterprise should disclose:
(a) The amount of contract revenue recognized as revenue in the period;
(b) The methods used to determine the contract revenue recognized in the period; and
(c) The methods used to determine the stage of completion of contracts in progress.

In case of contract still in progress the following disclosures are required at the reporting date:
(a) The aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
(b) The amount of advances received; and
(c) The amount of retentions.

An enterprise should also present:
(a) The gross amount due from customers for contract work as an asset; and
(b) The gross amount due to customers for contract work as a liability.

Ans.2

As per para 35 of AS 7 "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Therefore, The foreseeable loss of ₹ 3 crores (₹ 53 crores less ₹ 50 crores) should be recognised as an expense immediately in the year ended 31st March, 2015. The amount of loss is determined irrespective of
(i) Whether or not work has commenced on the contract;
(ii) Stage of completion of contract activity; or
(iii) The amount of profits expected to arise on other contracts which are not treated as a single construction contract in accordance with para 8 of AS 7.

AS 9 "Revenue Recognition"

Ans.3

As per para 12 of AS 9 „Revenue Recognition‟, „In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished‟.

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.

Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 60,000 is treated as amount due from advertisers as on 31.03.2014 and ₹ 2,40,000 will be treated as payment received against the sale.

However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014.

The amount received from sale of advertising space on 10.03.2014 of ₹ 2,40,000 will be considered as an advance from advertisers for the year ended 31^{st} March, 2014.

Ans.4

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer"s request. M/s Paper Products Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2015.

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,20,000 as the time period for rejecting the goods had expired.

Case (iv)

Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

Thus total revenue amounting ₹ 10,41,000 (60,000 + 1,20,000+ 1,20,000 + 7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd.

AS 19 "LEASES"

Ans.5

For the purpose of accounting AS 19 'Leases' classify the lease into two categories as follows:

(i) Finance Lease

(ii) Operating Lease

Finance Lease: It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. As per para 8 of the standard, in following situations, the lease transactions are called Finance lease:

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset even if title is not transferred.
- At the beginning of lease term, present value of minimum lease rental covers the initial fair value.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Operating Lease: It is lease, which does not transfer all the risks and rewards incidental to ownership. Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Ans.6

As per AS 19 'Leases', a finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

As per para 8 of the standard, classification of lease into a finance lease or an operating lease depends on the substance of the transaction rather than its form. Three situations which would normally lead to a lease being classified as a finance lease are:

(a) The lessor transfers ownership of the asset to the lessee by the end of the lease term;

(b) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;

(c) The lease term is for the major part of the economic life of the asset even if title is not transferred.

Ans.7

(i) Determination of Nature of Lease

It is assumed that the fair value of the leased equipment's is equal to the present value of minimum lease payments.

Present value of residual value at the end of 3rd year = ₹ 60,000 x 0.7513
= ₹ 45,078

Present value of lease payments = ₹ 6,00,000 – ₹ 45,078
= ₹ 5,54,922

The percentage of present value of lease payments to fair value of the equipment is
(₹ 5,54,922 / ₹ 6,00,000) x 100 = 92.487%.

Since, it substantially covers the major portion of the lease payments, the lease constitutes a finance lease.

(ii) Calculation of Unearned Finance Income

Annual lease payment = ₹ 5,54,922 / 2.4868 = ₹ 2,23,147 (approx)

Gross investment in the lease = Total minimum lease payment + unguaranteed residual value

= (₹ 2,23,147 × 3) + ₹ 60,000 = ₹ 6,69,441 + ₹ 60,000 = ₹ 7,29,441

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value

= ₹ 7,29,441 – ₹ 6,00,000 = ₹ 1,29,441

Ans.8

As per para 11 of AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

In the given case, fair value of the machinery is ₹ 7,00,000 and the net present value of minimum lease payments is ₹ 6,99,054. As the present value of the machine is less than the fair value of the machine, the machine will be recorded at value of ₹ 6,99,054.

Calculation of finance charges for each year

Year	Finance charge ₹	Payment ₹	Reduction in outstanding liability ₹	Outstanding liability ₹
1st year beginning	-	-	-	6,99,054
End of 1st year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2nd year	75,587	3,00,000	2,24,413	2,79,499
End of 3rd year	41,925	3,00,000	2,58,075	21,424**

Ans.9

(i) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.
(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.
(iii) Since the asset is procured only for the use of lessee, it is a finance lease.
(iv) The lease is a finance lease if X = Y, or where X substantially equals Y.

Ans.10

As per para 3 of AS 19 ‘ Leases’ the interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of

(a) The minimum lease payments under a finance lease from the standpoint of the lessor; and
(b) Any unguaranteed residual value accruing to the lessor,

To be equal to the fair value of the leased asset.

Present value at discount rate of 10%

Year	Lease Payments (₹)	Disc. Factor (10%)	Present Value (₹)
1	80,000	0.909	72,720
2	80,000	0.826	66,080
3	80,000	0.751	60,080
4	80,000	0.683	54,640
5	80,000	0.621	49,680
5	40,000	0.621	24,840
5	24,000	0.621	14,904
	Total		3,42,944

Present value at discount rate of 14%

Year	Lease Payments (₹)	Disc. Factor (10%)	Present Value (₹)
1	80,000	0.877	70,160
2	80,000	0.769	61,520
3	80,000	0.675	54,000
4	80,000	0.592	47,360
5	80,000	0.519	41,520
5	40,000	0.519	20,760
5	24,000	0.519	12,456
	Total		3,07,776

Interest Rate Implicit on Lease = 10% + $\frac{14\% - 10\%}{3,42,944 - 3,07,776}$ x (3,42,944 – 3,20,000)

= 10% 2.609% = 12.609% or say 12.61%

Ans.11

(i) Determination of nature of lease

Fair value of asset ₹ 7,00,000
Unguaranteed residual value ₹ 70,000
Present value of residual value at the end of 4^{th} Year = ₹ 70,000 x 0.683 = ₹ 47,810
Present value of lease payment recoverable = ₹ 7,00,000 - ₹ 47,810
= ₹ 6,52,190

The percentage of present value of lease payment to fair value of the asset is
= (₹ 6,52,190/₹ 7,00,000)x100
= 93.17%

Since it substantially covers the major portion of lease payments and life of the asset, the lease constitutes a finance lease.

(ii) Calculation of Unearned finance income

Annual lease payment = ₹ 6,52,190 / 3.169
= ₹ 2,05,803 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value.

= (₹ 2,05,803 x 4) + ₹ 70000
= ₹ 8,23,212 + ₹ 70,000 = ₹ 8,93,212

Unearned finance income = Gross investment – Present value of minimum lease payment and unguaranteed residual value.

= ₹ 8,93,212 – ₹ 7,00,000 (₹ 6,52,190 + ₹ 47,810)
= ₹ 1,93,212

Ans.12

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year
= ₹ 50,000 x 0.7513
= ₹ 37,565

Present value of lease payments = ₹ 5,00,000 – ₹ 37,565
= ₹ 4,62,435

The percentage of present value of lease payments to fair value of the equipment is
(₹ 4,62,435/ ₹ 5,00,000) x 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = ₹ 4,62,435/ 2.4868 =₹ 1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value
= (₹ 1,85,956 × 3) + ₹ 50,000
= ₹ 5,57,868 + ₹ 50,000 = ₹ 6,07,868

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value
= ₹ 6,07,868 – ₹ 5,00,000 = ₹ 1,07,868

AS 20 "EARNINGS PER SHARE"

Ans.13

Computation of weighted average number of shares outstanding during the period

Date	No. of equity shares	Period outstanding	Weights (months)	Weighted average number of shares
(1)	(2)	(3)	(4)	(5) = (2) x (4)
1st April, 2008	1,500 (Opening)	12 months	12/12	1,500
1st August, 2008	600 (Additional issue)	8 months	8/12	400
31st March, 2009	500 (Buy back)	0 months	0/12	-
Total				**1,900**

Basic Earnings Per Share = $\frac{\text{Net Profit or Loss for the period attributable to Equity Shareholders}}{\text{Weighted Average Number of Equity Shares outstanding during the period}}$

$$= \frac{2,75,000}{1,9000\ shares} = ₹144.74$$

Ans.14. **Computation of Earnings Per Share**

	Earnings ₹	**Shares**	**Earnings per share ₹**
Net Profit for the year 2009-10	30,00,000		
Weighted average number of shares outstanding during the year 2009-10		12,00,000	
Basic Earning Per Share $= \frac{30,00,000}{12,00,000}$			2.50
Number of shares under option		2,00,000	
Number of shares that would have been issued at fair value (As indicated in Working Note) $\left(2,00,000 \times \frac{15}{25}\right)$		(1,20,000)	
Diluted Earnings Per Share $\left[\frac{30,00,0000}{12,80,000}\right]$	30,00,000	12,80,000	2.34

Working Note:

The earnings have not been increased as the total number of shares has been increased only by the number of shares (80,000) deemed for the purpose of the computation to have been issued for no consideration

Ans.15.

		₹ in crores
Profit after depreciation but before VRS Payment	-	75.00
Less: Depreciation – No. adjustment required	32.10	
VRS payments	10.00	
Provision for taxation	5.00	
Fringe benefit tax		(47.10)
Net Profit		27.90
No. of shares		9.30 crores

EPS $= \frac{\text{Net profit}}{\text{No.of shares}} = \frac{27.90}{9.30} = 3$ per share

Ans.15.

(a) Computation of basic earnings per share (EPS)

	Year 2009 -10 (`)	**Year 2010 – 11 (`)**
EPS for the year 2009-10 as originally reported $= \frac{Net\ profit\ of\ the\ year\ attributable\ to\ equity\ sahreholders}{Weighted\ average\ number\ of\ equity\ outstanding\ during\ the\ year}$ $= \frac{`\ 25,00,000}{12,00,000\ shares}$	2.08	
EPS for the year 2009-10 restated for rights issue $= \frac{`\ 25,00,000}{(12,00,000\ shares\ \times 1.06)}$	1.97 (approx.)	
EPS for the year 2010-11 including effects of right issue $= \frac{40,00,000}{\left(12,00,000 \times \frac{3}{12}\right) + \left(16,00,000 \times \frac{9}{12}\right)}$		2.64 (approx.)

Working Notes:

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

1. Computation of theoretical ex-rights fair value per share

$$\frac{(`28 \times 12,00,000\ shares) + (`\ 22 \times 4,00,000\ shares)}{12,00,000\ shares + 4,00,000\ shares}$$

2. Computation of adjustment factor

$$= \frac{Fair\ value\ per\ share\ prior\ to\ exercise\ of\ rights}{Theoretical\ ex{-}right\ value\ per\ share} = \frac{`\ 28}{`\ 26.5} = \mathbf{1.06}\ (\boldsymbol{approx.})$$

Ans.16. Calculation of number of equity shares allotted to be debenture holders

	No. of debenture
Total number of debentures	30,000
Less: Debenture holders not opted for conversion	(2,500)
	27,500
Option for conversion	20%
Number of debentures for conversion $\left(27,500 \times \frac{20}{100}\right)$	5,500
Redemption value at a premium of 5% (5,500 x ₹ 105)	₹ 5,77,500
Number of equity shares to be allotted $\frac{`\ 5,77,500}{`\ 15}$	38,500 shares

Ans.17. (i) As per para 16 of AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares

7,20,000 X 5/12	= 3,00,000 shares
9,60,000 X 5/12	= 4,00,000 shares
8,40,000 X 2/12	= 1,40,000 shares
	= 8,40,000 shares

(ii) Earning per share

Basic EPS 2010-11 = ` 24,00,000/24,00,000 = ` 1

Adjusted EPS 2009-10 = ` 7,20,000/24,00,000 = ` 0.30

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2009-10, the earliest period reported.

Ans. 18.

As per AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or lesser number of shares outstanding at any time.

For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Computation of weighted average number of shares outstanding during the period

Date	**No. of equity shares**	**Period outstanding**	**Weights (months)**	**Weighted average number of shares**
(1)	(2)	(3)	(4)	(5)= (2) x (4)
1st April, 2014	50,00,000 (Opening)	3 months	3/12	1,25,000
30th June 2014	6,00,000 (after Additional issue)	6.5 months	6.5/12	3,25,000
15th Jan, 2015	5,50,000 (after Buy back)	2.5 months	2.5/12	1,14,583
31st March, 2015	5,50,000 (Balance)	0 month	0/12	-
Total				5,64,583

AS 24 "DISCOUNTING OPERATIONS"

Ans.19.

AS 26 "INTANGIBLE ASSETS"

Ans. 21.

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Therefore, the manager cannot defer the expenditure write off to future years.

Hence, the expenses amounting ` 20 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2011.

Ans.22.

Amortization of cost of patent as per AS 26

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	200	.25	100
2	200	.25	100
3	200	.25	100
4	100	.40 (Revised)	40
5	100	.40 (Revised)	40
6	50	.20 (Revised)	20
			400

In the first three years, the patent cost will be amortised in the ratio of estimated future cash flows i.e. (200: 200: 200: 100: 100).

The unamortized amount of the patent after third year will be ₹ 100 (400-300) which will be amortised in the ratio of revised estimated future cash flows (100:100:50) in the fourth, fifth and sixth year.

Ans.23.

(1) Research Expenditure - According to para 41 of AS 26 'Intangible Assets', the expenditure on research of new process design for its product ₹ 530 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. As the question states that the expenditure was incurred as ` 360 Lakhs in 2011-12 and ₹ 230 Lakhs in the financial year 2012-13 it should be written off as an expense in these two financial years

(2) Cost of internally generated intangible asset - The question states that the development phase expenditure amounting ₹ 360 lakhs incurred upto 31st March, 2012 meets asset recognition criteria. As per AS 26 for measurement of such internally generated

intangible asset, fair value can be estimated by discounting estimated futures net cash flows.

Savings (after tax) from implementation of new design for next 5 years	80 lakhs p.a.
Company's cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (₹ 80 lakhs x 3.7908)	303.26 lakhs

The cost of an internally generated intangible asset would be lower of cost value ₹ 360 lakhs or present value of future net cash flows ₹ 303.26 lakhs.

Hence, cost of an internally generated intangible asset will be ₹ 303.26 lakhs.

The difference of ₹ 56.74 lakhs (i.e. ₹ 360 lakhs – ₹ 303.26 lakhs) will be amortized by the enterprise for the financial year 2011-12.

(3) Amortisation - The company can amortise ₹ 303.26 lakhs over a period of five years by charging ₹ 60.65 lakhs per annum from the financial year 2012-13 onwards.

Ans.24.

Calculation of cost of software (intangible asset) acquired for internal use

Purchase cost of the software	$ 1,00,000
Less: Trade discount @ 5%	($ 5,000)
	$ 95,000
Cost in ₹ (US $ 95,000 x ₹ 52)	49,40,000
Add: Import duty on cost @ 20% (₹)	9,88,000
	59,28,000
Purchase tax @ 10% (₹)	5,92,800
Installation expenses (₹)	25,000
Profession fee for clearance from customs (₹)	20,000
Cost of the software to be capitalized (₹)	65,65,800

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset.

Ans. 25.

As per para 63 of AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.

Company has been following the policy of amortisation of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2013 at ₹ 72 lakhs i.e. ₹ 120 lakhs less ₹ 48 lakhs.

The difference of ₹ 16 Lakhs (₹ 88 lakhs – ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve.The carrying amount of ₹ 72 lakhs will be amortised over remaining 6 years by amortising ₹ 12 lakhs per year.

Ans.26.

As per AS 26 'Intangible Assets'

(i) Expenditure to be charged to Profit and Loss account for the year ending 31.03.2013

₹ 32 lakhs is recognized as an expense because the recognition criteria were not met until 1st December 2012. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(ii) Carrying value of intangible asset as on 31.03.2013

At the end of financial year, on 31st March 2013, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ` 28 (60-32) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st December 2012).

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2014

	(₹ in lacs)
Carrying Amount as on 31.03.2013	28
Expenditure during 2013 – 2014	90
Book Value	118
Recoverable Amount	(82)
Impairment loss	36

₹ 36 lakhs to be charged to Profit and loss account for the year ending 31.03.2014.

(iv) Carrying value of intangible asset as on 31.03.2014

	(₹ in lacs)
Book Value	118
Less: Impairment loss	(36)
Carrying amount as on 31.03.2014	82

Ans. 27. Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2012 = ₹ 40,000 x .02 + ₹ 25,000 x .03
= ₹ 800 + ₹ 750 = ₹ 1,550

As at 31st March, 2013 = ₹ 25,000 x .02 + ₹ 90,000 x .03
= ₹ 500 + ₹ 2,700 = ₹ 3,200

Amount debited to Profit and Loss Account for year ended 31st March, 2013

	₹
Balance of provision required as on 31.03.2013	3,200
Less: Opening Balance as on 1.4.2012	(1,550)
Amount debited to profit and loss account	1,650

Note: No provision will be made on 31st March, 2013 in respect of sales amounting ₹ 40,000 made on 19th January, 2011 as the warranty period of 2 years has already expired.

Ans. 28. As per para 14 of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognised when:

(i) An enterprise has a present obligation as a result of past event;

(ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. The possibility of an outflow of resources embodying economic benefits seems to be remote in the given situation, since the directors of WZW Ltd. are of the opinion that the claim can be successfully resisted by the company. Therefore, the company shall not disclose the same as contingent liability. However, following note in this regard may be given in annual accounts of the company:

"Litigation is in process against the company relating to a dispute ith a competitor who alleges that the company has infringed patents and is seeking damages of ₹ 1,000 lakhs.

However, the directors are of the opinion that the claim can be successfully resisted by the company".

ESOP

Q:1 WN1

Granted 10,000
- Exercised 6000
- lapsed 4000

WN2
FV = 10
MV = 210
Sec. Prem = 210 − 10 = 200
Offer Price = 90
Concession = 120

Journal Entries

Date	Particulars		Dr	Cr
31.3	Bank a/c (6000 × 90)	Dr	540,000	
	Employee Comp Exp a/c (6000 × 120)	Dr	720 000	
	To Eq Sh Cap (6000 × 10)			60000
	To Sec. Prem (6000 × 200)			12,00,000
31.3	P&L a/c	Dr	7,20,000	
	To Employee Comp. Exp a/c			720,000

Q:3

Employee Compensation Expense

Estimated (460 × 120 × 12)	662400
(−) Estimated lapse (25%)	165600
Actual Expenditure	496800

⇓

Allocated over vesting period of 3 Years
i.e. ₹ 165600 p.a.

Q:2 Estimated Employee Compensation Expenses (Beginning)

8000
× 90
720000

10-11 (Full)	11-12 (Full)	12-13 (Full)	13-14 (Full)	14-15 (6m)
160000	160000	160000	160000	80000

(It is assumed that books are closed on Sept 30)

2010-11

30.9	Employee comp Exp a/c Dr	160,000	
	To O/s ESOP a/c		160000
30.9	P&L a/c Dr	160000	
	To Employee comp Exp a/c		160,000

2011-12

30.9	Employee comp Exp a/c Dr	160000	
	To O/s ESOP a/c		160000
30.9	P&L a/c Dr	160000	
	To Employee comp Exp a/c		160,000

2012-13

30.9	Employee comp Exp a/c Dr	40,000	
	To O/s ESOP a/c		40000
30.9	P&L a/c Dr	40,000	
	To Employee comp Exp a/c		40,000

2013-14 No Entry (No Provisions needed)

2014-15 1) No provision needed

2) 30.9	Bank a/c (3000 x 80) Dr	240,000	
	O/s ESOP a/c (3000 x 90) Dr	270000	
	To Eq Sh Capital (3000 x 10)		30,000
	To Sec. Premium (3000 x 160)		480000
30.9	O/s ESOP a/c (1000 x 90) Dr	90000	
	To General Reserves a/c		90,000

WN 1 Final Expense estimate in 2012-13

8000
(−) 4000
4000
x 90
360000
(−) Provided in 2 years 320000
40000

Buy Back

① For Buy Back of Equity Shares

Premium on Buy Back

120l shares × 25%

= 30l shares × 25 each

150l

- S.P (always 1st): 150l
- DP: Not required

FV of ESC

120l × 25%

= 30l shares × ₹10 each

300 l

- Proceed (FV) of FI: Not given
- DP → create CRR: 265l – GR, 35l – P&L

General Reserve A/c	Dr	265l	
Profit & Loss A/c	Dr	35l	
To CRR A/c			300l
Equity SC A/c	Dr	300l	
Premium on BB A/c	Dr	150l	
To Equity shareholders A/c			450l
Equity shareholders A/c	Dr	450l	
To Bank A/c			450l
Securities Premium A/c	Dr	150l	
To Premium on BB A/c			150l
CRR A/c	Dr	225l	
To Bonus to Equity SH			225l
Bonus to Equity SH A/c	Dr	225l	
To Equity Share Capital A/c			225l

WN Bonus

90l : ??
4 : 1

22.5l shares × 10 = ₹225l

② Buy Back of Equity Shares

253

Premium on Buy Back

250,000 sh × 20%

50,000 sh × 40

= 20 L

S.P. Always 1st — 20 L

D.P — Not required

FV of ES

50,000 sh × 10

500,000

Proceeds (FV) of FI — 200,000

D.P → Create CRR — 300,000 - RR.

Journals

Bank A/c	Dr	22,00,000	
Profit & Loss A/c	Dr	800,000	
To Investments A/c			30,00,000
Revenue Reserve A/c	Dr	300,000	
To CRR A/c			300,000
Equity Share Capital A/c	Dr	500,000	
Premium on Buy Back A/c	Dr	20,00,000	
To Equity Share holders A/c			2500,000
Equity Shareholders A/c	Dr	2500,000	
To Bank A/c			2500,000
Securities Premium A/c	Dr	2000,000	
To Premium on BB A/c			20,00,000

③ Maximum number of shares that can be bought back

Condition ①

The Company can buy back upto a maximum of 25% of Paid Up Value of Equity Share Capital of the ~~Preceding~~ Particular Financial Year

$$\text{Number of shares that can be BB} = \frac{25\% \text{ of Paid Up value of ESC}}{\text{Paid up value per share}}$$

$$= \frac{25\% \text{ of } 330\,Cr}{₹10}$$

$$\boxed{① = 8.25\ Cr\ shares}$$

Condition-2

Maximum expenditure (FV + Premium on BB) cannot exceed 25% of Co's own funds.

Co's own funds = PSC + ESC + Securities Premium + DP(GRRDP) − Miscellaneous expenses

= Nil + 330 Cr + 90 Cr + 240 Cr + 90 Cr − Nil

Co's own funds = 750 Cr

Maximum expenditure = 25% of Co's own funds

= 25% × 750 Cr

= ₹ 187.5 Cr

$$\text{Maximum number of shares} = \frac{\text{Maximum expenditure}}{\text{BB price}}$$

$$= \frac{₹\,187.5\,Cr}{25 + 20\%}$$

$$\boxed{② = 6.25\,Cr\ shares}$$

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Condition-3

The ratio of debt of debt to equity must not exceed 2:1 after such BB.

Debt means Borrowed funds (Long Term + Short term)
Equity means Co's total own funds (As in Condition 2)

	Total own funds	= 2400,000
(-)	Minimum equity base required ($\frac{1}{2}$ of debt)	= (500000)
		1900,000

10 : 25

Create CRR		Maximum expenditure
542857		1357143
÷ FV10		÷ 25
54285.7 =	No. of eq. shares	= 54285.7

$\boxed{③ = 54285}$

∴ As per the provisions of Companies Act, 2013, Company can buyback least of condition 1,2,3 above

ii) 24000 equity shares of FV ₹10 each @ ₹25/share.

Solution to Homework section.

TOPIC ⟶ UNDERWRITER'S LIABILITY

Pg 259 Q 1

Total Applications	=	125000 shares	
- Subscriptions	=	90,000 shares	80,000 Marked; 10,000 unmarked
Undersubscribed	=	35,000 shares	

Note: In this question, it is not specified whether to treat firm underwriting as Marked Applications or Unmarked Applications.
If the question like this is asked in the exam for more than 12 marks, it is advisable to solve considering both the possibilities. Otherwise, make an assumption (and write it) and solve the answer accordingly.

① If the benefit of firm u/w is GIVEN to u/w

Statement showing liability of underwriters (in shares)

	A (30)	B (25)	C (25)	D (20)
Gross liability	37500	31,250	31,250	25000
- Firm underwriting	(4000)	(6000)	NIL	(15,000)
- Marked Applications	(24,000)	(20,000)	(12,000)	(24,000)
- Unmarked Applications GLR (6:5:5:4)	(3000)	(2500)	(2500)	(2000)
	6500	2750	16,750	(16000)
- Surplus of D [6:5:5]	(6000)	(5000)	(5000)	16,000
	500	(2250)	11,750	NIL
- Surplus of B [6:5]	(1227)	2250	(1023)	NIL
	(727)	NIL	10,727	NIL
- Surplus of A trf to C	727	NIL	(727)	NIL
Liab. of u/w as per contract	NIL	NIL	10,000	NIL

+ Firm underwriting	4000	6000	NIL	15000
Total liability	4000	6000	~~10,000~~	15,000

Journal of Company

① Application money received from public

Bank a/c Dr. 45L

To Share Application a/c 45L

(90,000 shrs X 50₹)

(Being ------------)

② Application money trf to SC

Share Application a/c Dr. 45L

To ESC a/c 45L

(Being ----------------)

③ Application money receivable from u/w

A a/c Dr. 200,000

B a/c Dr. 300,000

C a/c Dr. 500,000

D a/c Dr. 750,000

To ~~Share App.~~ ESC a/c 1750,000

Net Entry

④ Commission payable to u/w

~~A a/c Dr. 75,000~~

U/w comm a/c Dr. 200,000

To A a/c 75,000

To B a/c 62,500

To C a/c 62500

To D a/c 50,000

(Being ----------)

⑤ Net amt. receivable from u/w

To A a/c 125,000

To B a/c 237500

To C a/c 437500

To D a/c 700,000

Bank a/c Dr. 15,00,000.

WN1 Statement of Receivables & Payables

	A	B	C	D	Total
Receivable					
Application Money	200,000 (4K x 50)	300,000 (6K x 50)	500,000 (10K x 50)	750,000 (15K x 50)	1750,000
Payable					
Commission	75000 [37500 x 100 x 2%]	62500 [31250 x 100 x 2%]	62500 [31250 x 100 x 2%]	50,000 [25000 x 100 x 2%]	250,000
Net Receivable	125000	237500	437500	700,000	15,00,000

② If benefit of firm u/w is not given to u/w

Statement showing liability of underwriters (in shares)

	A	B	C	D
Gross Liability	37500	31,250	31,250	25,000
- Marked Applications	(24000)	(20,000)	(12,000)	(24,000)
- Unmarked Applications (10,000 + 4K + 6K + 15K) GLR 6:5:5:4	(10,500)	(8750)	(8750)	(7,000)
	3000	2500	10,500	(6000)
- Surplus of D [6:5:5]	(2250)	(1875)	(1875)	6000
Liab. as per u/w contract	750	625	8,625	NIL
+ Firm underwriting	4000	6000	NIL	15000
Total liability	4750	6625	8625	15000

Journal of Company

① Bank a/c Dr. 45L
To Share App a/c 45L
(90,000 x 50₹)
(Being - - - - - - - - - - -)

② Share App. a/c Dr. 45L
To ESC a/c 45L
(Being - - - - - - - -)

③ A a/c Dr. 237500
B a/c Dr. 331,250
C a/c Dr. 431,250
D a/c Dr. 750,000
To ESC a/c 17,50,000
(Being - - - - - - -)

④ U/w comm. a/c Dr. 200,000
To A a/c 75000
To B a/c 62500
To C a/c 62500
To D a/c 50,000
(Being - - - - - - - -)

⑤ Bank a/c Dr. 15,50,000
To A a/c 162500
To B a/c 268,750
To C a/c 368,750
To D a/c 700,000
(Being - - - - - - - - - -)

classmate

Date

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WN1 Statement of Receivables & Payables

	A	B	C	D	Total
Receivable					
• Application money	237500 [4750 x 50]	331,250 [~~6k~~ x 50] 6625	431,250 [8625 x 50]	750,000 [15k x 50]	1750,000
Payable					
• Commission	75,000 [37500 x 100 x 2%]	62500 [31250 x 100 x 2%]	62500	50,000 [25000 x 100 x 2%]	200,000
Net Receivable	162500	268750	368750	700000	15,50,000

Pg 259 Q2

~~Total~~ Public Issue = 150,000 shares
- Applications = 75000 Shares
Undersubscription = 75,000 shares

22500 Unmarked
52500 Marked

① Statement Showing underwriter's liability (in shares)

	X	Y	Z
Gross Liability	90,000	37500	22500
	[90K/150K x100 = 60%]	25%	15%
- Firm underwriting	(12000)	(4500)	(15,000)
	78,000	33,000	7500
- Marked Application	(15,000)	(30,000)	(7500)
	63,000	3000	NIL
- Unmarked Application [60:25:15]	(13,500)	(5625)	(3375)
	49,500	(2625)	(3375)
- Surplus of Y & Z trf to X	(6000)	2625	3375
Liab. of u/w as per contract	43,500	NIL	NIL
+ Firm u/w	12,000	4500	15000
Total liability	55,500	4500	15,000

② Statement of Net Receivable or Payable

	X	Y	Z	Total
• Receivable				
Application money	11,10,000	90,000	300,000	15,00,000
	[55500 x 20]	[4500 x 20]	[15000 x 20]	
• Payable Commission	90,000	37500	22,500	150000
	[90K x 20 x 5%]	[37500 x 20 x 5%]	[22500 x 20 x 5%]	
Net Receivable	10,20,000	52500	277,500	13,50,000

Date
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Journal of COMPANY

		Dr.	Cr.
X a/c	Dr.	11,10,000	
Y a/c	Dr.	90,000	
Z a/c	Dr.	300,000	
To ESC a/c [75000 x 10]			750,000
To Securities Premium a/c [75000 x 10]			750,000
(Being - - - - - - - - - - - -)			
U/w commission a/c	Dr.	150,000	
To X a/c			90000
To Y a/c			37500
To Z a/c			22,500
(Being - - - - - - - - - - - -)			
Bank a/c	Dr.	13,50,000	
To X a/c			10,20,000
To Y a/c			52,500
To Z a/c			277,500
(Being - - - - - - - - - - - -)			

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Pg 260 Q3

Public Issue : 36,00,000 shares [45L - 20%]
- Applications : ~~34,75,000~~ 31,00,000 shares ← 28,75,000 Marked; 225,000 Unmarked
Undersubscr. : 500,000 shares

① Statement of u/w liability (in shares)

	A & Co.	B & Co.	C & Co.
Gross liab.	12,00,000	12,00,000	12,00,000
- Firm u/w *	(100,000)	(100,000)	(100,000)
	11,00,000	11,00,000	11,00,000
- Marked App.	(725,000)	(840,000)	(13,10,000)
	375,000	260,000	(210,000)
- Unmarked App.	(75,000)	(75,000)	(75,000)
	300,000	185,000	(285,000)
- Surplus of C & Co.	(142500)	(142500)	285,000
	157,500	42500	NIL.
+ Firm u/w	100,000	100,000	100,000
Total liab.	257500	142500	100,000

② Statement of Receivables & Payables

	A & Co.	B & Co.	C & Co.	Total
• Receivable				
Application	30,90,000	17,10,000	12,00,000	60,00,000
	[257500 x 12]	[142500 x 12]	[1L x 12]	
• Payable				
commission	600,000	600,000	600,000	18,00,000
	[12,00,000 x 10 x 5%]			
Net Receivable	2490,000	11,10,000	600,000	42,00,000

* In the absence of Information, it is assumed that benefit of firm u/w are given to the underwriters.

③ Journal of company (Scorpo Ltd.)

•	A&Co. a/c	Dr. 30,90,000	
	B&Co. a/c	Dr. 17,10,000	
	C&Co. a/c	Dr. 12,00,000	
	To ES a/c [5L×10]		50,00,000
	To Securities Premium a/c [5L×2]		10,00,000
	(Being ....)		
•	U/w commission a/c	Dr. 18,00,000	
	To A&Co. a/c		6L
	To B&Co. a/c		6L
	To C&Co. a/c		6L
	(Being ....)		
•	Bank a/c	Dr. 42,00,000	
	To A&Co. a/c		24,90,000
	To B&Co. a/c		11,10,000
	To C&Co. a/c		6,00,000
	(Being ....)		

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Pg 260 Q 4

Public Issue	=	80,000 shares	22000 marked
− Applications	=	40,000 shares	18000 unmarked
Undersubscription	=	40,000 shares	

Statement of u/w liability (in shares)

	A (60%)	B & Co (25%)	C Corp. (15%)
Gross liab.	48000	20,000	12,000
− firm u/w	(6400)	(8000)	(2400)
	41600	12,000	9600
− Marked App.	(8000)	(10,000)	(4000)
− Unmarked App. (60 : 25 : 15)	(10800)	(4500)	(2700)
	22,800	(2500)	2900
− Surplus of B & Co. (60 : 15)	(2000)	2500	(500)
	20,800	NIL	2400
+ Firm u/w	6400	8000	2400
Total liab.	27,200	8000	4800

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INTERNAL RECONSTRUCTION

Q.1 In the books of A Ltd.

Journal Entries

	Particulars	Debit (₹)	Credit (₹)
i)	6% Cumulative Preference Share A/c Dr	4,00,000	
	To 6% Cumulative Preference Share A/c		3,00,000
	To Capital Reduction A/c		1,00,000
	[Being Reduction of Preference shares of ₹100 each to shares of ₹75 each		
ii)	Equity share Capital A/c (₹10) Dr	7,50,000	
	To Equity Share Capital A/c (₹2)		1,50,000
	To Capital Reduction		6,00,000
	[Being Reduction of Equity shares of ₹10 each to Equity shares of ₹2 each		
iii)	Capital Reduction A/c Dr	24,000	
	To Equity Share Capital A/c		24,000
	[Being arrears of preferrnce dividend satisfied by issue of equity shares to the extent of 25% and balance amount waived]		
iv)	Accrued Interest A/c Dr	22,500	
	To Bank A/c		22,500
	(Being debenture interest paid)		

v)	Freehold Property A/c Dr	20,000	
	To Capital Reduction A/c		20,000
	(Being freehold property revalued).		
vi)	6% Debentures A/c Dr	1,20,000	
	To Freehold Property A/c		1,20,000
	(Being freehold property takenover by debentureholders in part payment of their claims		
vii)	Bank A/c Dr	1,30,000	
	To 8% Debentures A/c		1,30,000
	(Being 8% debentures issued for cash).		
viii)	Freehold Property A/c Dr	62,500	
	To Capital Reduction A/c		62,500
	(Being balance freehold property revalued).		
ix)	Bank A/c Dr	1,40,000	
	To Trade Investment A/c		55,000
	To Capital Reduction A/c		85,000
	(Being sale of trade investments at profit)		
x)	Directors Loan A/c Dr	1,00,000	
	To Equity Share Capital A/c		90,000
	To Bank A/c		5,000
	To Capital Reduction A/c		5,000
	(Being director claims settled)		

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		Dr	Cr
xi)	Capital Reduction A/c ... Dr	12,500	
	To Bank A/c		12,500
	(Being ~~pental~~ penalty paid @5% of Contract price of ₹ 2,50,000 to cancel the same)		
xii)	Capital Reduction A/c ... Dr.	8,36,000	
	To Patents A/c		37,500
	To Goodwill A/c		1,30,000
	To Inventory A/c		65,000
	To Provision for Doubtful Debts		68,500
	To Profit & Loss A/c		5,35,000
	(Being assets revalued & losses written off)		

Balance Sheet of A & Co. (And Reduced) as on 1st Jan'12.

Particulars	Notes	₹
I. Equity and liabilities.		
1. Shareholders' funds		
a. Share Capital	1	5,64,000
2. Non-Current liabilities		
a. Long term borrowings	2	3,85,000
3. Current liabilities		
a. Trade Payables		3,00,000
b. Short term provisions	3	68,500
TOTAL		13,17,500

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II Assets		
1. Non-Current Assets		
a. Fixed Assets		
i) Tangible Assets	4	4,37,500
ii) Intangible Assets	5	-
2. Current Assets		
a. Inventories		3,60,000
b. Trade receivables	6	4,85,000
c. Cash and cash equivalents		35,000
TOTAL		13,17,500

Notes to accounts:-

1. Share Capital.	
Authorised share Capital	?
Issued, subscribed & Paid up Capital.	
1,32,000 Equity shares of ₹ 2 each, fully paid	2,64,000
(Of the above, 45000 shares have been issued for consideration other than cash)	
4,000, 6% Preference shares of ₹ 75 each, fully paid	3,00,000
	5,64,000

		₹	₹
2	Long-term borrowings.		
	Secured.		
	6% Debentures		2,55,000
	8% Debentures		1,30,000
			3,85,000
3	Short term provision	₹	₹
	Provision for doubtful debt		68,500
4	Tangible Assets	₹	₹
	Fixed assets.		
	Free hold property	4,25,000	
	(+) Appreciation	82,500	
	(-) Disposed off	(1,20,000)	3,87,500.
	Plant		50,000
			4,37,500
5	Intangible Asset	₹	₹
	Goodwill	1,30,000	
	(-) w/off	(1,30,000)	-
6	Trade Receivables.		
	Trade Receivables		4,85000

Q.2

In the books of Rebuilt Ltd.
Journal Entries

	Particulars	₹	₹
i)	Equity Share Capital A/c (50) Dr	7,50,000	
	To Equity Share Capital A/c (2.5)		37,500
	To Capital Reduction A/c		7,12,500
	[Being Reduction of Equity shares of ₹ 50 each to share of ₹ 2.5 each		
ii)	Bank A/c Dr	1,12,500	
	To Equity Share Capital A/c		1,12,500
	[Being 3 new Equity share of ₹ 2.5 each subscribed by 15,000 shareholders.		
iii)	7% Preference Share Capital A/c (50) Dr.	6,00,000	
	Capital Reduction A/c Dr	60,000	
	To 5% Preference Sh. Cap A/c (10)		4,80,000
	To Equity Share Cap. A/c (2.5)		1,80,000
	[Being 7% Preference Shares cancelled and 4, 5% Preference shares of ₹ 10 each issued along with 6 Eq. shs of ₹ 2.5 each against each Preference Share.		
iv)	Loan A/c Dr	1,50,000	
	To 5% Preference Share Capital A/c		1,20,000
	To Equity Share Capital A/c.		30,000
	[Being Loan settled partly by issue of Pref. shs & Equity shs]		

v)	Bank A/c Dr	1,00,000	
	To Equity Share Capital A/c		1,00,000
	[Being 40,000 Eq. shs subscribed by directors of company]		
vi)	Loan A/c Dr	2,00,000	
	To Bank A/c		2,00,000
	[Being loan repaid partly]		
vii)	Capital Reduction A/c Dr	6,52,500	
	To Profit & Loss A/c		4,51,000
	To Plant		35,000
	To trademarks & Goodwill		1,66,500
	[Being assets revalued & losses written off]		

Balance Sheet of Rebuilt Ltd (and reduced) as on 31st March 2011

	Particulars	Notes	₹
I	Equity and Liabilities		
1.	Shareholders fund.		
a.	Share Capital	1	10,60,000
2.	Non-Current liabilities.		
a.	Long term borrowings.		2,23,000
3.	Current Liabilities.		
a.	Trade Payables		2,07,000
b.	Other Current Liabilities.		35,000
	TOTAL		15,25,000

II	**Assets.**	
1.	**Non-Current Assets**	
a.	**Fixed Assets.**	
i)	Tangible Assets	6,33,000
ii)	Intangible Assets	1,51,500
2.	**Current Assets**	
a.	Inventories	4,00,000
b.	Trade Receivables	3,28,000
c.	Cash & Cash Equivalents	12,500
	TOTAL	15,25,000.

Notes to Accounts.

1.	Share Capital.		
	Authorised Share Capital:-		
	65,000 Pref shs of ₹ 10 each	6,50,000	
	3,00,000 Equity shs of ₹ 2.5 each	7,50,000	14,00,000
	Issued, subscribed and paid up Capital.		
	1,80,000 Equity shares of ₹ 2.5 ~~each~~ each fully paidup.		4,60,000
	60,000 5% Preference Shares of ₹ 10 each fully paid up.		6,00,000
	TOTAL		11,60,000

2.	Tangible Assets.	
	Building at Cost less depreciation.	4,00,000
	Plant at Cost less depreciation	2,33,000
		6,33,000
3.	Intangible Assets.	
	Trademark and Goodwill	1,51,500
4.	Cash & Cash Equivalents.	
	Bank.	12,500

Q.2) In the books of Fortune Ltd.
Journal Entries

	Particulars		Debit	Credit
i)	5% First Debenture A/c	Dr	5,00,000	
	6% Second Debenture A/c	Dr	3,00,000	
	~~Sur~~ Unsecured Creditors A/c	Dr	90,000	
	~~Cash~~ Bank A/c	Dr	30,000	
	To Capital Reduction A/c			2,10,000
	To 7% Debentures A/c			5,10,000
	[Being Mr. Simple's claims settled by issuing 7% debentures partly and balance claim waived off]			
ii)	6% Second Debentures A/c	Dr	3,00,000	
	Unsecured Creditors A/c	Dr	60,000	
	To Bank A/c			90,000
	To Capital Reduction A/c			2,70,000
	[Being Ms. Dimple's claims settled by giving her cash partly and balance waived off]			
iii)	Unsecured Creditors A/c	Dr	2,25,000	
	To Equity Share Capital A/c			1,50,000
	To Capital Reduction A/c			75,000
	[Being ~~Crds issued~~ equity shares issued to 75% Crds and their balance claim waived off]			

iv)	Equity Share Final Call A/c Dr	1,80,000	
	To Equity Share Capital A/c		1,80,000
	[Being final call made on partly paid Equity shares]		
v)	Bank A/c Dr	1,80,000	
	To Equity Share final Call A/c		1,80,000
	[Being money received against final call]		
vi)	Equity Share Capital A/c (60) Dr	3,60,000	
	To Equity Share Capital A/c (7.5)		45,000
	To Capital Reduction A/c		3,15,000
	[Being Reduction of Equity shares of ₹ 60 each to ₹ 7.5 each]		
vii)	Capital Reduction A/c Dr	8,60,000	
	To Profit & Loss A/c		8,60,000
	[Being P/L Balance w/off against Capital Reduction A/c]		
viii)	Capital Reduction A/c Dr	10,000	
	To Capital Reserve A/c		10,000
	[Being profit transfered to Capital Reserve A/c]		

Balance Sheet of Fortune Ltd (And Reduced) as on 1st April 2011

Particulars	Notes	Amt (₹)
I. Equity & Liabilities		
1. Shareholders fund		
a. Share Capital	1	1,95,000
b. Reserves & Surplus	2	10,000
2. Non-Current Liabilities		
a. Long term borrowings	3	5,10,000
3. Current Liabilities		
a. Other current liabilities.	4.	1,99,000
TOTAL		9,14,000
II Assets		
1 Non-Current Assets		
a. Fixed Assets.		5,14,000
2. Current Assets		
a. Cash & Cash Equivalents		4,00,000
TOTAL.		9,14,000

Notes to Accounts.

		₹
1	Share Capital.	
	Authorized Share Capital.	?
	Issued, Subscribed & paidup Capital.	
	26,000 Equity Shares of ₹ 7.5 each, fully paidup.	1,95,000
	[Of the above, 20,000 Equity shares are issued for consideration other than cash]	

2.	Reserves & Surplus		
	Capital Reserve.		10,000.
3.	long term borrowings		
	7% Debentures		5,10,000
4.	Other Current Liabilities		
	Unsecured Creditors	75,000	
	Creditors for Expenses	1,24,000	1,99,000

Q.4)

In the books of Green Ltd.
Journal Entries

	Particulars	Debit	Credit.
i)	Equity Share Final Call A/c Dr.	10,00,000	
	To Equity Share Capital A/c		10,00,000
	[Being Final Call made on partly paid Equity shares]		
ii)	~~Equ~~ Bank A/c	10,00,000	
	To Equity Share final Call A/c		10,00,000
	[Being money received against final Call]		
iii]	Equity Share Capital A/c [50]	75,00,000	
	To Equity share Capital A/c [20]		30,00,000
	To Capital Reduction A/c.		45,00,000
	[Being Equity shares of ₹ 50 each reduced to Equity shares of ₹20 each		

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~~iv)~~	~~12% First Debentures A/c~~	~~8,00,000~~	
	~~12% Second Debentures A/c~~	~~7,00,000~~	
	~~Trade Payables A/c~~	~~2,00,000~~	
	~~To Capital Reduction A/c~~		~~7,00,000~~
iv)	12% First Debentures A/c Dr	3,00,000	
	12% Second Debentures A/c Dr	7,00,000	
	Trade Payables A/c Dr	2,00,000	
	Bank A/c Dr	2,00,000	
	To Capital Reduction A/c		7,00,000
	To 14% First Debentures A/c		7,00,000
	[Being claims of Mr. X cancelled to the extent of ₹ 7,00,000 and 14% Debentures issued for balance.]		
v)	12% First Debentures A/c Dr	2,00,000	
	12% Second Debentures A/c Dr	3,00,000	
	Trade Payables A/c Dr	1,00,000	
	To Capital Reduction A/c		3,00,000
	To 14% First Debentures A/c		3,00,000
	[Being claims of Mr. Y cancelled to the extent of ₹ 3,00,000 and 14% Debentures issued for balance.]		
vi)	Capital Reduction A/c	55,00,000	
	To Goodwill A/c		20,00,000
	To Profit / Loss A/c		20,00,000
	To Computes A/c		15,00,000
	[Being assets revalued & losses written off.]		

Balance Sheet of Green Ltd (and reduced) as on 31st March, 20X1

	Particulars	Notes	₹
I	~~Shar~~ Equity and Liabilities		
1	Shareholders Funds		
a	Share Capital.	1	30,00,000
2.	Non-Current liabilities		
a.	Long-term borrowings.	2	10,00,000
3.	Current Liabilities.		2,00,000
a.	Trade payables		
	TOTAL		42,00,000
II	Assets.		
1	Non-Current Assets.		
a.	Fixed Assets.		
i)	Tangible assets.	3	30,00,000
2.	Current assets.		12,00,000
a.	Cash & Cash Equivalents		
	TOTAL		42,00,000

Notes to Accounts

1.	Share Capital.	
	Authorised Share Capital.	75,00,000
	Issued Subscribed & paid up Capital.	
	1,50,000 Equity shares of ₹ 20 each, fully paid up	30,00,000

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2.	Long term borrowings.	
	14% First Debentures	10,00,000
3.	Tangible Assets.	
	Building	10,00,000
	Plant	10,00,000
	Computers.	10,00,000
		30,00,000

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Date

Q.5)

In the books of M/s Ice Ltd.

Journal Entries

Particulars	Debit (₹)	Credit (₹)
i) 8% Prefernce Share Capital A/c (100) Dr	4,00,000 ~~10,00,000~~	
To 8% Pref. Share Cap. A/c (80)		3,20,000 ~~8,00,000~~
To Capital Reduction A/c		80,000 ~~2,00,000~~
[Being Preference shares of ₹100 each reduced to Preference shares of ₹80 each		
ii) Equity share Capital A/c (10)	10,00,000	
To Equity share Cap. A/c (2)		2,00,000 ~~80,000~~
To Capital Reduction A/c		8,00,000
[Being Equity shares of ₹10 each reduced to Equity shares of ₹2 each		
iii) Capital Reduction A/c Dr	32,000	
To Equity share Cap A/c		32,000
[Being $2/3^{rd}$ of Preference dividend waived off and for balance $1/3^{rd}$ Equity shares of ₹2 each issued]		
iv) 6% Debentures A/c Dr.	3,00,000	
To Freehold Property A/c		3,00,000
[Being freehold property takenover by debentureholders in part payment of their claims]		

v)	Arrear Interest A/c Dr	24,000	
	To Bank A/c		24,000
	[Being Interest paid]		
vi)	Freehold Property A/c Dr	1,50,000	
	To Capital Reduction		1,50,000
	[Being Freehold property revalued].		
vii)	Bank A/c Dr	2,50,000	
	To Trade Investment A/c		2,00,000
	To Capital Reduction A/c		50,000
	[Being Investments sold at profit]		
viii)	Director's Loan A/c Dr.	3,00,000	
	To Capital Reduction A/c		2,25,000
	To Equity Shares Capital A/c		75,000.
	[Being 75% of loan waived and balance settled through issue of Equity shares of ₹ 2 each]		
ix)	Capital Reduction A/c Dr.	9,45,000	
	To Trade Receivables		1,80,000
	To Inventories		2,40,000
	To Profit & Loss A/c.		
	[Being assets revalued & losses w/off]		
x).	Capital Reduction A/c Dr.	30,000	
	To Bank A/c		30,000
	[Being penalty paid @ 5% of 6,00,000 to settle contractual commitments]		
xi)	Capital Reduction A/c Dr	2,98,000	
	To Capital Reserve A/c		2,98,000
	(Being P/L trf)		

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∴ ~~We do not have sufficient balance in Capital Reduction A/c, we have w/off Profit & Loss Dr Balance to the extent it is possible.~~

Balance Sheet of M/s Ice Ltd (and reduced) as on 31/3/2015

	Particulars	Notes	₹
I	Equity & Liabilities		
1	Shareholders funds		
a	Share Capital	1	6,27,000
b.	Reserves & Surplus	2	2,98,000
2.	Non-Current Liabilities		
a.	Long term borrowings	3	1,00,000
3.	Current Liabilities		
a.	Trade payables		1,01,000
	TOTAL		11,26,000
II	Assets		
1	Non-current Asset		
a.	Fixed Assets		
i)	Tangible Assets	4	6,00,000
2	Current Assets.		
a	Trade receivables		2,70,000
b	Inventories		60,000
c	Cash & Cash Equivalents.		1,96,000
			11,26,000

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Date

Notes to Accounts.

1	Share Capital	
	Authorised Share Capital	?
	Issued subscribed & Paidup Capital	
	1,53,500 Equity shares of ₹ 2 each fully paidup.	3,07,000
	(Of the above 53,500 shs are issued for consideration other than cash).	
	4,000 8% Preference shs of ₹ 80 each, fully paid up	3,20,000
		6,27,000.
2	Reserves & Surplus.	
	Capital Reserve	2,98,000
3.	Long term borrowings.	
	6% Debentures	1,00,000.
4	Fixed Assets	
	Tangible Assets	
	Freehold Property	4,00,000
	Plant & machinery	2,00,000
		6,00,000

AMALGAMATION OF CO.

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Calculation of P.C

Pay to	Pay in	Calculation		Amt
~~PSH~~	~~9% PS~~	Issue	Held	
Pref. sh. holders	9% Pref. sh. of P Ltd	3	4	
		?	2000	
		1500 x 100		150,000
~~ESH~~	Eq. Sh of	6	5	
Eq. sh. holders	P Ltd.	?	5000	7,50,000
		= 6000 x ~~100~~ 125		~~600000~~
	Cash	5000 x 20		100000
		10,00,000		~~850000~~

Q1

Dr Realisation A/c Cr

To Sundry Asset		By Sundry Liab	
Land & Building	764000	Payable 266000	
Inventory	775000	Provision IT 220000	486000
Rec	~~182000~~ 190000	By ADD	8000
~~Cash~~	~~329000~~ 172000	By Jupiter Ltd	188000
To C/B		By C/B	
Bill pay	38000	Rec	150000
Tax	222000	By J Ltd	5000
To Liq. Exp	8000		
To C/B			
Creditors	216000	PC	
To ESH	316000		
	2213000		2529000

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A.W.
Q.2.
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②

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In the books of Vayu Ltd.

Realisation Account

Dr.			Cr.		
To Sundry Assets			By Sundry liab		
Goodwill	25,000		Retirement Fund	20,000	
Building	1,00,000		Trade Payables	80,000	1,00,000
Machinery	1,50,000				
Inventory	1,75,000		By Hari Ltd. A/c (P.C.)		5,30,000
Trade Receivables	1,00,000				
Cash at Bank	20,000	5,70,000			
To Preference Shareholders A/c		10,000			
To Equity Shareholders A/c		50,000			
		6,30,000			6,30,000

Equity shareholders Account

Dr.		Cr.	
To Equity shares of Hari Ltd. A/c	4,20,000	By Equity share capital	3,00,000
		By General Reserve A/c	70,000
		By Realisation A/c	50,000
	4,20,000		4,20,000

10% Preference shareholders Account

Dr.		Cr.	
To 9% Preference shares of Hari Ltd. A/c	1,10,000	By Pref. share capital	1,00,000
		By Realisation A/c	10,000
	1,10,000		1,10,000

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Date:

Hari Ltd. Account (Purchasing)

Dr.			Cr.
To Realisation A/c	5,30,000	By Equity shares in Hari Ltd. A/c	4,20,000 ~~4,00,000~~
		~~By Securities Premium~~	~~20,000~~
		By 9% Pref. shares in Hari Ltd. A/c	1,10,000
	5,30,000		5,30,000

Equity shares in Hari Ltd. A/c

Dr.			Cr.
To Hari Ltd. A/c	4,20,000 ~~4,00,000~~	By Equity shareholders	4,20,000
~~To Securities Premium A/c~~	~~20,000~~		

9% Preference shares in Hari Ltd. A/c

Dr.			Cr.
To Hari Ltd. A/c	1,10,000	By 10% Pref. shareholders A/c	1,10,000
	1,10,000		1,10,000

WN1 Calculation of Net Assets and P.C.

	Assets		
	Goodwill		50,000
	Building	1,50,000	1,50,000
	Machinery	1,60,000	1,60,000
	Inventory	1,57,500	1,57,500
	Trade Receivables		1,00,000
	Cash at Bank		20,000
			6,37,500
Less	**Liabilities**		
	Retirement Gratuity Fund		(20,000)
	Trade Payables		(80,000)
	Provision for doubtful debts		(7,500)
	Net Assets	5,30,000	530,000
Discharge of P.C.	Preference shareholders	1,00,000	
	Add Premium @ 10%	10,000	1,10,000
	Equity share capital	4,00,000	
	Add Premium @ 5%	20,000	4,20,000
			5,30,000

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Journal of ~~Vayu~~ Hari Ltd.

	Particulars		Dr. (₹)	Cr. (₹)
1)	Business Purchased A/c	Dr.	5,30,000	
	To Liquidators of Vayu Ltd. A/c			5,30,000
	(Being business purchased from Vayu Ltd)			
2)	Building A/c	Dr	1,50,000	
	Goodwill A/c	Dr.	50,000	
	Machinery A/c Machinery A/c	Dr.	1,60,000	
	Inventory A/c Inventory A/c	Dr.	1,57,500	
	Trade Receivables A/c Trade Receivables A/c	Dr	1,00,000	1,00,000
	Cash at Bank A/c	Dr.	20,000	
	To Retirement Gratuity Fund A/c			20,000
	To Trade Payables A/c			80,000
	To Provision for Doubtful Debts A/c			7,500
	To Business Purchased A/c			5,30,000
	(Being Assets & liab. are taken over)			
3)	Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
	To Equity share capital A/c			4,00,000
	To Pref. share capital A/c			1,10,000
	To Securities Premium A/c			20,000
	(Being P.C discharged)			

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Balance sheet of Hari Ltd. as on 31st March, 2001 (After Absorⁿ)

		Note	Amount
I)	Equity and Liabilities		
1.	Shareholder's Funds		
a.	Share Capital	1	16,10,000
b.	Reserves and Surplus	2	90,000
2.	Non-Current Liabilities		70,000
3.	Current Liabilities	3	2,10,000
	TOTAL		19,80,000
II)	Assets		
1.	Non-Current Assets		
a.	Fixed		11,10,000
	Tangible	4	11,10,000
	Intangible		1,00,000
2.	Current Assets		
a.	Inventory		4,07,500
b.	Trade Receivables		2,92,500
c.	Cash and cash equivalents		70,000
	TOTAL		19,80,000

Note 1:- Share Capital	
Authorised	?
Issued, Subscribed, Paid up	
1,40,000 equity shares of ₹10 each fully paid up	14,00,000
2,100 9% Preference shares of ₹100 each, fully paid up	2,10,000
	16,10,000

~~Note~~: (Out of above, 1,100 Pref. shares and 40,000 equity shares were issued for other than cash consideration)

Note 2:- Reserves and Surplus	
Securities Premium	20,000
General Reserve	70,000
	90,000

Note 3:- Current Liabilities	
Trade Payables	2,10,000
	2,10,000

Note 4:- Tangible Assets	
Building	4,50,000
Machinery	6,60,000
	11,10,000

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Q.3

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i) Calcⁿ of equity ~~pref~~ share issued to Neel ltd & Gagan ltd

Profits	Neel	Gagan
I year	262800	275125
II year	212200	249875
Total	475000	525000

Neel = $\frac{24000 \times 475}{1000}$ = 11400 equity shares

Gagan = $\frac{24000 \times 525}{1000}$ = 12600 equity shares

Calcⁿ of 12% Pref share to issued by Neel ltd & Gagan ltd

	Neel	Gagan
Net assets (WN-1)	840,000	9,24,000
8% return of net assets	67200	73920
12% Pref sh to issued		
$\frac{67200 \times 100}{12} \times \frac{1}{10}$	56000 sh	
$\frac{73920 \times 100}{12} \times \frac{1}{10}$		61600 sh

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ii) Calⁿ of PC

Payment to	Payment in	working	₹
Neel			
Equity shares	Equity shares	~~285000~~	285000
	12% Pref sh	–	560000
			845000

Gagan			
Equity shares	Equity shares	–	315000
	12% Pref sh	–	616000
			931000

WN-1 Calculation of net assets

	Neel	Gagan
Plant & machinery	525000	675000
Building	775000	648000
Current Assets	163000	158000
(-) current liabilities	(623500)	(557600)
	840,000	924000

Amalgamation H.W [Q.4]

Q.4

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In the books of better Ltd

Realisation A/c

Dr Particulars		₹	Particulars	₹ Cr
To Sundry Assets :			By Sundry Liabilities :	
Fixed Assets	15,00,000		Other liabilities	2,00,000
(+) Current Assets	5,00,000	20,00,000		
			By Best Ltd A/c	18,00,000
~~To equity shareholder's A/c~~				
		20,00,000		20,00,000

Equity Shareholders A/c

Dr Particulars	₹	Particulars	₹ Cr
~~To Bonus shares issued from Reserves & surplus (W.N2)~~	~~5,00,000~~	By equity share capital A/c (Refer Note 2)	15,00,000
			3,00,000
To equity shares in Best Ltd A/c	18,00,000	By Reserves & surplus (8,00,000 - 5,00,000)	~~8,00,000~~
	18,00,000		18,00,000

Dr Best Ltd A/c Cr

Particulars	₹	Particulars	₹
To Realisation A/c	18,00,000	By equity shares in Best Ltd A/c	18,00,000
	18,00,000		18,00,000

Dr Equity shares in Best Ltd A/c Cr

Particulars	₹	Particulars	₹
To Best Ltd A/c	18,00,000	By equity shareholder's A/c	18,00,000
	18,00,000		18,00,000

Journal of Best Ltd

Date	Particulars	L/F	Debit (₹)	Credit (₹)
1.4.2011	Business purchase A/c Dr		18,00,000	-
	To Liquidators of Better Ltd A/c		-	18,00,000
	(Being purchase consideration payable)			
1.4.2011	Fixed Assets A/c Dr		15,00,000	-
	Current Assets A/c Dr		5,00,000	-
	To other liabilities A/c		-	2,00,000
	To Business purchase A/c		-	18,00,000
	[Being assets & liabilities taken over]			
1.4.2011	Liquidators of Better Ltd A/c Dr		18,00,000	-
	To Equity share Capital A/c		-	12,00,000
	To Securities Premium A/c		-	6,00,000
	(Being PC paid)			

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Date

Date	Particulars	LF	Debit (₹)	Credit (₹)
1.4.11	Creditors (Better Ltd) A/c Dr		1,00,000	–
	To Debtors (Best Ltd) A/c		–	1,00,000
	(Being inter company debts written off)			
1.4.11	Goodwill A/c Dr		10,000	–
	To ~~Unrealised profit A/c~~ Stock A/c		–	10,000
	(Being unrealised profit on stock)			

Balance sheet of Best Ltd
as on 1/04/2011
(after absorption)

Particulars	Note No.	C.Y (₹)	P.Y (₹)
I. Equity & liabilities :-			
1. Shareholder's fund			
a. Share capital	1.	32,00,000	
b. Reserves & surplus	2.	16,00,000	
2. Non-current liabilities		–	
3. Current liabilities (20L + 1L)	3.	21,00,000	
Total		69,00,000	
II. Assets			
1. Non current Assets			
[A] Fixed Assets			
(a) Tangible assets (25L + 15L)	4.	40,00,000	
(b) Intangible assets		10,000	
2. Current Assets	5.	28,90,000	
Total		69,00,000	

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Working Notes :-

① Calculation of purchase consideration :-
(Net Asset Method)

Particulars	₹
Fixed Assets	15,00,000
Current Assets	5,00,000
(−) Other liabilities	(2,00,000)
Purchase Consideration	18,00,000
÷ ~~Nom~~ Amt of equity shares	150
No. of equity shares to be issued	12,000

② Revised value of equity share capital of Better Ltd :-

Bonus shares

Issued	Held
1	2
?	10,000
$\boxed{5,000}$	

∴ Revised value = 15,000

i.e. 15,000 × 100 = 15,00,000

③ Revised value of Reserves & surplus :-

Opening Balance	=	8,00,000
(−) Bonus shares issued	=	(5,00,000)
Closing Balance		3,00,000

4. Investments are assumed to be short term investment.

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Notes to Accounts:

			CY (₹)	PY (₹)
1.	Share capital			
	Authorised capital		?	
	Issued, called up & paid up capital –			
	32,000 equity shares of ₹ 100 each fully pd up		32,00,000	
			32,00,000	
	*(out of above, 12,000 shares are issued for other than cash consideration.)			

			CY (₹)	PY (₹)
2.	Reserves & surplus			
	others		10,00,000	
	Securities premium		6,00,000	
			16,00,000	

			CY (₹)	PY (₹)
3.	Current ~~Assets~~ liability :-			
	Best Ltd	20,00,000		
	Better Ltd	2,00,000		
	(–) Inter company debt	(1,00,000)	21,00,000	

			CY (₹)	PY (₹)
4.	Tangible Assets			
	Best Ltd → Fixed Asset		25,00,000	
	Better Ltd → Fixed Asset		15,00,000	
			40,00,000	

			CY (₹)	PY (₹)
5.	Current Assets			
	Current Assets			
	Best Ltd	20,00,000		
	(–) Inter Company Debts	(1,00,000)		
	Better Ltd	5,00,000		
	(–) Unrealised profit	(10,000)	23,90,000	
	Investment		5,00,000	~~5,00,000~~
			28,90,000	

Type → Merger & Absorption →

H.W Section

(15) (Q.5)

Q.5

T/P-296

(a) AMALGAMATION IN NATURE OF MERGER

Journal Entries in books of X Ltd

1	Business Purchase A/c (P.C) Dr		53,70,000	
	To ~~Equit~~ liquidators of Y Ltd A/c			53,70,000
	(Being business purchased from Y Ltd.)			
2	land & building A/c Dr		15,50,000	
	Plant & Machinery A/c Dr		17,00,000	
	Furniture & fixtures A/c Dr		3,50,000	
	Investments A/c Dr		5,00,000	
	Inventory A/c Dr		9,50,000	
	Trade receivables A/c Dr		10,30,000	
	Cash & Bank A/c Dr		5,20,000	
	~~Goodwill A/c~~ Profit & loss A/c Dr		1,70,000	
	To General Reserve A/c			2,50,000
	To Export Profit Reserve A/c			2,00,000
	To Investment Allowance Reserve A/c			100,000
	~~To Profit & loss A/c~~			~~500,000~~
	To 13% debenture A/c (in Y Ltd A/c)			3,50,000
	To Trade Payables			3,50,000
	To Other Current liabilities			1,50,000
	To Business Purchase A/c			53,70,000
	(Being Assets & liab. taken over from Y Ltd)			
3	liquidators of Y Ltd A/c Dr		53,70,000	
	To Equity share capital A/c			35,00,000
	To 15% preference share capital A/c			18,70,000
	(Being P.C. discharged)			
4	13% debentures of Y Ltd A/c Dr		3,50,000	
	To 13% debenture A/c			3,50,000

(Being deb. of Y Ltd. settled.)

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BALANCE SHEET OF X ltd for the year ending on 31st March, 2011 (After Merger)

	NOTE	CY (₹)	PY (₹)
I Equity and liabilities			
1) Shareholder's fund			
A) Share Capital	1	1,25,70,000	
B) Reserves and Surplus	2	19,30,000	
2) Non current liabilities		850,000	
A) long term borrowings	3		
3) Current liability			
A) Trade Payables (450+350)		800,000	
B) Other current liability (200+150)		350,000	
Total		16,500,000	
II Assets			
1) Non Current Assets			
A) Fixed Assets			
(i) Tangible Assets	4	99,25,000	
B) Non current Investments (700+500)		12,00,000	
2) Current Assets			
A) Inventory (1250+950)		2200000	
B) Trade receivables (900+1030)		1930,000	
C) Cash and cash equivalents (725+520)		12,45,000	
Total		16,500,000	

NOTES TO ACCOUNTS

	CY(₹)	PY(₹)
1) Share Capital		
Authorised	?	
Issued, subscribed, called up & paid up		
8,50,000 Equity shares of ₹10 each fully paid up	85,00,000	
40,700, 14% preference shares of ₹100 each fully paid up	40,70,000	
	1,25,70,000	
Note: out of above, part of shares are issued other than cash		
2) Reserves & Surplus		
General Reserve (500 + 250)	7,50,000	
Export profit Reserve (300 + 200)	500,000	
Investment Allowance Reserve	100,000	
Profit & loss A/c (750 - 170)	~~(180)~~	580,000
	~~1180~~	1930,000
3) Long term borrowing		
8,500, 13% debentures	8,50,000	
4) Tangible Asset		
land & building (2500 + 1550)	40,50,000	
Plant & machinery (3250+1700)	49,50,000	
Furniture and Fixture (575 + 350)	9,25,000	
	99,25,000	

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(b) IN NATURE OF ABSOPTION

Journal Entries in books of Y ltd

	Particulars			Dr.	Cr.
1	Business Purchase A/c	Dr		53,70,000	
	To liquidators of Y ltd A/c				53,70,000
	(Being business purchased from Y Ltd.)				
2	land & building A/c	Dr		15,50,000	
	Plant & Machinery A/c	Dr		12,00,000	
	Furniture & fixtures A/c	Dr		3,50,000	
	Investment A/c	Dr		500,000	
	Inventory A/c	Dr		9,50,000	
	Trade receivables A/c	Dr		1030,000	
	Cash & bank A/c	Dr		5,20,000	3,80,000
	To Capital Reserve A/c				~~2,80,000~~
	~~To Export Profit Reserve A/c~~ ~~Investment~~ Allowance				~~100,000~~ ~~200,000~~
	To 13% debentures of Y ltd A/c				350,000
	To Trade payables A/c				350,000
	To current liabilities A/c				1,50,000
	To Business Purchase A/c				5370,000
	(Being Assets & lias. taken over of Y Ltd.)				
3	liquidators of Y ltd A/c	Dr		53,70,000	
	To Equity share Capital A/c				35,00,000
	To 14% preference share capital A/c				18,70,000
	(Being PC discharged)				
4	13% debentures of Y ltd A/c	Dr		350,000	
	To 13% debentures A/c				350,000
	(Being deb. of Y Ltd. Settled)				
5	Amalgmation Adj Res. A/c	Dr		3,00,000	
	To Export Profit Res				2,00,000
	To Inv. All. Res				1,00,000
	(Being Statutory Res. of Y Ltd. taken over & Carried forward)				

BALANCE SHEET OF X Ltd as on 31st March 2011 (After Absorption)

I Equity & liabilities		
1) Shareholder's fund		
A) Share capital	1	12,570,000
B) Reserves and surplus	2	19,30,000
2) Non current Liability		
A) long Term borrowings (13% debentures)		850,000
3) Current liabilities		
A) Trade Payables (450 + 350)		800,000
B) Other current liabilities (200 + 150)		350,000
Total		16,500,000
II Assets		
1) Non Current Asset		
A) Fixed Asset		
(i) Tangible Asset	3	99,25,000
B) Non current Investment (700 + 500)		1200,000
2) Current Asset		
A) Inventory (1250 + 950)		2200,000
B) Trade receivables (900 + 1030)		1930,000
C) Cash and cash equivalents (725 + 520)		12,45,000
Total		16,500,000

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NOTES TO ACCOUNTS

	CY(₹)	PY(₹)
1) Share Capital		
Authorised	?	
Issued, subscribed, called up and paid up		
8,50,000 equity shares of ₹10 each fully paid up	85,00,000	
40,700 14% preference share of ₹100 each fully paid up	4070,000	
	12,570,000	
Note :- (out of above : part of share are issued other than cash)		
2) Reserves & Surplus		
Amal. Adj. Res.	(3,00,000)	
General Reserve	500,000	
Export Profit Reserve (3,00,000 + 2,00,000)	~~300~~ 5,00,000	
Investment Allowance Reserve	100,000	
Profit and loss A/C	750,000	
Capital Reserve A/c (~~Abn~~ Absorption Profit)	~~2,80~~ 3,80,000	
	19,30,000	
3) Tangible Asset		
land & building (2500 + 1550)	4050,000	
Plant & Machinery (3250 + 1700)	4950,000	
Furniture & fixture (575 + 350)	925,000	
	~~8,925~~	
	9925,000	

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WN-1) Calculation of P.C

PAYMENT TO	PAYMENT IN	CALCULATION	AMT(₹)
• Equity Shareholders	Equity shares	350,000 eq shs × ₹10	3500,000
• Preference shareholders	15% preference shares	∴ 18,700 shs × 100₹ [1870,000 / 100₹]	18,70000 [17L × 110%]
		Purchase consideration	53,70,000

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H.W. (JKSC Textbook) Amalg". Absorption....

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In the Books of ~~Anu~~ Shrishti ltd.

Realisation A/c

Particulars		Amt.	Particulars	Amt.
To Sundry Assets			By Sundry liabilities	
Goodwill	5,00,000		9% Debentures	5,00,000
Tangible fixed Assets	30,00,000		Trade Creditors	1,00,000
Stock	10,40,000			
Debtors	1,80,000		By Anu ltd. (P.C.)	75,00,000
Cash & Bank	2,55,000	50,00,000		
To Cash (Realisation Exp.)		25,000		
To ~~Shareholder's~~ A/c		31,00,000		
		81,00,000		81,00,000

Anu ltd A/c

Particulars	Amt.	Particulars	Amt.
To Realisation (P.C.)	75,00,000	By Equity shares in Anu ltd.	67,50,000
		By cash	7,50,000
	75,00,000		75,00,000

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Equity shareholder's A/c

Particulars	Amt.	Particulars	Amt.
To Preliminary exp.	50,000	By Share Capital	30,00000
To Equity shares in Anu Ltd.	67 50,000	By export Profit Res.	8,50,000
		By General Reserve	50,000
To Cash	7,50,000	By Profit & Loss A/c	5,59,000
		By Realisation	31,00000
	75,50,000		75,50,000

9% Debenture A/c

Particulars	Amt.	Particulars	Amt.
To Realisation	5,00,000	By bal b/d	500,000
	5,00,000		5,00,000

WN I. Calculation of Purchase Consideration

Pay to	Pay in	working	Amt
Eq. Shares holder	Equity shares	4,50,000 x 15	67,50,000
Equity sh. holder	Cash	3,00,000 x 2.50	7,50,000
		P.C.	75,00,000

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In the Books of Anu ltd.

Journal Entries

Particulars	LF	Dr.	Cr.
Business Purchase	Dr	75,00,000	
To liquidator's of Shrishti ltd			75,00,000
(Being business purchased from Shristi Ltd.)			
Tangible fixed assets	Dr	60,00,000	
Stock	Dr	7,10,000	
Debtors	Dr	1,80,000	
Cash & Bank	Dr	2,55,000	
Goodwill	Dr	10,64,000	
To 9% debentures [5,00,000 + 20%]			6,00,000
To Trade creditors			1,00,000
To Provision for doubtful debts			9,000
To Business Purchase			75,00,000
(Being Assets & liab. taken over)			
Liquidator's of Shrishti ltd	Dr	75,00,000	
To Equity share capital [4,50,000 x 10]			45,00,000
To Cash			7,50,000
To Securities Premium [4,50,000 x 5]			22,50,000
(Being P.C discharged)			
9% Debentures	Dr	6,00,000	
Discount on issue of Debentures	Dr	25,000	
To 8% debentures in Anu ltd [6250 x 100]			6,25,000
(Being 9% Deb. Settled)			

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Goodwill Dr	50,000	
To Cash & Bank		50,000
(Being amt. paid for liq. exp. of Shri sti Ltd.)		
Amalgamation Adjustment Reserve Dr	8,50,000	
To ~~Statutory Reserve~~ (Export Profit Reserve)		8,50,000
(Being Statutory Res. carried forward)		

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Q7. JKSC-HW

ii)

Realⁿ a/c

Dr. | | Cr.

Particulars	₹	Particulars	₹
To Sundry Assets		By Sundry Liabilities	
Land and Building 764,000		Bills payable 40,000	
Inventory 775,000		Creditors 226,000	
Bills Receivable 30,000		Provision for Tax. 220,000	486,000
Debtors 160,000	17,29,000	By R.D.D	8,000
To Bank a/c			
Liquidation Expenses 8000		By Jupiter Ltd a/c (P.C.)	18,80,000
Bills Payable 38,000		By Bank a/c	
Income Tax 2,22,000	268,000	Trade Receivable 150,000	150,000
To Bank a/c (Trade payable)	211,000		
To ~~ESH~~ Eq. Sh. Holders A/c (Profit)	316,000		
	25,24,000		25,24,000

E.S.H. a/c

Dr. | | Cr.

Particulars	₹	Particulars	₹
To Equity Share Capital	14,70,000	By Equity Share Capital a/c	10,00,000
To 16% P.S.C	4,10,000	By Capital Reserve a/c	42,000
		By Contingency Reserve a/c	2,70,000
		Profit and loss a/c	2,52,000
		By Realⁿ a/c (Profit)	316,000
	18,80,000		18,80,000

Bank a/c

Dr.	₹		Cr ₹
To Balance b/d	3,29,000	By Realization a/c	2,68,000
To Realization a/c Trade Receivables	1,50,000	By Realization a/c Trade payables	2,11,000
	4,79,000		4,79,000

Jupiter Ltd a/c

Dr.	₹		Cr ₹
To Realization a/c P.C	18,80,000	By 10% Preference Share Capital a/c	4,10,000
		By Equity Share Capital	14,70,000
	18,80,000		18,80,000

i) Calculation of Number of Preference and Equity shares in Jupiter Ltd.

Particulars	₹
Land & Building	10,80,000
Inventory	7,70,000
Bills Receivable	30,000
∴ Total Purchase Consideration	18,80,000
Less: 10% Preference Share Capital (4100 shares × ₹100)	(4,10,000)
∴ Purchase Consideration for Equity Share Holders in Eq. Sh	14,70,000
Number of Shares for Equity share Holders of ₹ 10 each. (14,70,000 / ₹8/-)	183750