Unit 1. Issue of Shares

A Joint Stock Company is a very important form of business organization. The Public Limited Companies raise their capital by issuing shares to the public. This is major portion of capital to any Public Limited Company.

Types of Shares:

The capita of the company can be divided into different units with definite value called shares. Holders of these shares are called shareholders or members of the company. They are two types of shares. They are:

1. Preference Shares and
2. Equity shares.

1. Preference Shares:

Shares which enjoy the preferential rights such as to dividend and repayment of capital over the equity shares, in the event of winding up of the company are called preference shares. The holders of preference shares will get a fixed rate of divided.

Preference shares are classified as follows:

a. Cumulative Preference shares
b. Non- Cumulative Preference shares
c. Redeemable Preference shares
d. Participating Preference shares
e. Non-Participating Preference shares

a. Cumulative Preference shares:

If the company does not earn adequate profit in any year, dividends on preferences shares may not be paid for that year. But if the preference shares are cumulative such unpaid dividends are treated as arrears and can be carried forward to subsequent years. Such unpaid dividends on these shares go on accumulating and become payable out of the profits of the company, in subsequent years. Only after such arrears have been paid off, any divided can be paid to the equity shares.

b. Non- Cumulative Preference shares:

The holders of non-cumulative preference shares will get a preferential right in getting fixed divided before it is distributed to equity shareholders. The fixed divided is to be paid only out of the divisible profits but if in a particular year there is no profit, the non-cumulative preference shareholders will not get any dividend for that year and they cannot claim in future. Such dividend cannot be carried forward to next year.

c. Redeemable Preference shares:

Capital raised by issuing equity shares, is not to be repaid to the shareholders but capital raised through the issue of redeemable preference shares it to be paid back. So, the preferences shares on which amount is repayable on the expiry of the period of the shares, are called redeemable preference shares.

As per the sec 55 of Companies Act 2013 a company can issue preference shares for a maximum period of 20 years.

KINDS OF CAPITAL:

In Company Law, there are several words used in connection with capital, they may be classified as follows:

1. Authorized Capital: This is also called Registered or Nominal Capital. The amount of capital mentioned in the Memorandum of Association at the time of registration of Company is called Authorized Capital. This is the maximum amount of capital authorized to be raised by issue of shares.

2. Issued Capital: The total Authorized Capital may not be needed by the Company at the time it commences business. Therefore, it may issue shares to the required amount. So, Issued Capital is that part of the Authorized Capital which is actually offered to the public for subscription.

3. Subscribed Capital: Subscribed Capital is that part of the Issued Capital which has been subscribed by the public. This Capital is either equal to or less than the Issued Capital.

4. Called up Capital: Called up Capital means the amount actually called by the Company on the shares of the members.

5. Paid up Capital: It is the amount of money actually paid by the subscribers. The amount not paid by the members becomes Calls in arrears.

6. Uncalled Share Capital: The unpaid portion of the Subscribed Capital is called Uncalled Capital.

Shares may be issued (a) at par (Face Value), (b) at a premium and (c) at a discount.

(a) Issue of Shares at par: Generally share amount is collected in some installments' like some amount on application, on allotment and the remaining on calls. If shares are so issued, the following entries are to be recorded.

i) When money is received along with the application:

Bank A/c. Dr.

To Share Application A/c.

(Being application money received on ... shares at ... per share)

ii)(a) When application money is transferred to the Share Capital A/c.:

Share Application A/c. Dr.

To Share Capital A/c.

ii)(b) When application money is rejected :

Share Application A/c. Dr.

To Bank A/c.

ii)(c) When Share application money is received in excess and the same is adjusted to allotment :

Share Application A/c. Dr.

To Share Allotment A/c.

iii) When allotment money is due:

Share Allotment A/c. Dr.

To Share Capital A/c.

(Being the share allotment money on ..... shares at Rs..... per share due from shareholders)

iv) When the allotment money is received:

Bank A/c. Dr.

To Share Allotment A/c.

v) When the first call made and due:

Share first call A/c. Dr.

To Share Capital A/c.

(Being the first call money on .... shares at Rs. . per share due)

vi) For receipt of first call:

Bank A/c. Dr.

To Share first call A/c.

Note: Similar call entries are to be passed for further calls.

Adjustments Entries:

1. When call money is received in advance:

Bank A/c. Dr.

To Share first call A/c.

2. When call money is in arrear:

Calls in arrear A/c. Dr.

To Share call A/c.

3. When interest is received on Calls in arrears:

Bank A/c. Dr.

To Interest A/c.

4. When Interest is paid on Calls in advance :

Interest A/c. Dr.

To Bank A/c.

PROBLEMS

1. A Limited Company has been incorporated with an authorized capital of Rs.2,00,000 divided into 2000 equity shares of Rs.100 each. The Company issued 1000 equity shares to the public payable as Rs.20 on application, Rs.25 on allotment, Rs.35 on first call and the balance on final call. All the money was duly received. Make journal entries to record the issue of shares.

Sol.

Journal entries

Date	Particulars	lf no	Debit Rs.	Credit Rs.
	Bank a/c Dr.		**20,000**	
	To Share application a/c			**20,000**
	(Being application money received for 1000 shares at Rs.20 per share)			
	Share Application a/c Dr.		**20,000**	
	To Share Capital a/c			**20,000**
	(Being share application money transferred to share capital account)			
	Share allotment a/c Dr.		**25,000**	
	To Share capital a/c			**25,000**
	(Being allotment money due on 1000shares at Rs.25 per share)			
	Bank a/c Dr.		**25,000**	
	To Share allotment a/c			**25,000**
	(Being allotment money received)			
	Share first call a/c Dr.		**35,000**	
	To Share capital a/c			**35,000**
	(Being first call money due on 1000shares at Rs.35 per share)			
	Bank a/c Dr.		**35,000**	
	To Share first call a/c			**35,000**
	(Being first call money received)			
	Share final call a/c Dr.		**20,000**	
	To Share capital a/c			**20,000**
	(Being final call money due on 1000shares at Rs.20 per share)			
	Bank a/c Dr.		**20,000**	
	To Share final call a/c			**20,000**
	(Being final call money received)			

2. Prameel Co. Ltd. was registered with a capital of Rs.20,00,000 divided into 80,000 shares of Rs.25 each. The Company offered to the public subscription 50,000 shares payable at Rs.5 on application, Rs.10 on allotment and the balance equal call. The Company received applications for 40,000 shares. All the money was duly received. Pass necessary journal entries and show how they would appear in Balance Sheet.
Sol.

Journal Prameel Company limited

Date	Particulars	lf no	Debit Rs.	Credit Rs.
	Bank a/c Dr.		**2,00,000**	
	To Share application a/c			**2,00,000**
	(Being application money received for 40000 shares at Rs.5 per share)			
	Share Application a/c Dr.		**2,00,000**	
	To Share Capital a/c			**2,00,000**
	(Being share application money transferred to share capital account)			
	Share allotment a/c Dr.		**4,00,000**	
	To Share capital a/c			**4,00,000**
	(Being allotment money due on 40000shares at Rs.10 per share)			
	Bank a/c Dr.		**4,00,000**	
	To Share allotment a/c			**4,00,000**
	(Being allotment money received)			
	Share first and final call a/c Dr.		**4,00,000**	
	To Share capital a/c			**4,00,000**
	(Being first call money due on 40000shares at Rs.10 per share)			
	Bank a/c Dr.		**4,00,000**	
	To Share first call a/c			**4,00,000**
	(Being first call money received)			

3. X Ltd. was registered with a capital of Rs.2,50,000 divided into 25,000 equity shares of Rs.10 each. The Company offered to public2 subscription 20,000 shares, payable Rs.3 on application, Rs.4 on allotment and the balance on call. The Company received applications for 15,000 shares. The Company did not make call for. All the money was duly received. Make necessary journal entries and show how the Share Capital will appear in the Balance Sheet.

4. On 01.01.2019 the directors of X Ltd. decided to issue 1,00,000 shares of Rs.10 each, payable Rs.2-50 on application and Rs.2-50 on allotment. Applications are received for 1,20,000 shares on 10th January and the Board of Directors decided to reject 20,000 share applications, money being refunded. All allotment money is received in full. The balance on shares is not called up. Pass necessary journal entries.

5. XY Ltd. was registered with an authorized capital of 2,00,000 shares of Rs.10 each, 1,40,000 shares were issued to the public. The public subscribed for 1,80,000 shares. The shares are payable as follows :

On Application	Rs.3
On Allotment	2
On First call	3
On Final call	2

All the money was received. Pass journal entries.

Issue of Shares at Premium:

Every share is of a certain price is known as its face value. Generally, shares are issued at their face value. Sometimes, Companies may issue shares at a premium, i.e., at a price higher than its face value. The excess price over face value is known as Premium. For example, if a share of Rs.10 is issued at Rs.12, Rs.2 will be the premium. Share Premium is a capital profit. Hence, it is not available for payment of dividend to the shareholders. It appears on the Liabilities side of Balance Sheet.

Premium may be collected alongwith application or allotment or alongwith call. The usual practice is to collect the premium along with the allotment money.

Entries:

I. When Premium is received with application money:

(i) Bank A/c. Dr.
  To Share Application A/c.

(ii) For Transfer:
  Share Application A/c. Dr.
  To Share Capital A/c.
  To Share Premium A/c.

II. When Premium is payable alongwith Allotment money:

(i) Share Allotment A/c. Dr.
  To Share Capital A/c.
  To Share Premium A/c.

(ii) For Receipt of Allotment money:
Bank A/c. Dr.
To Share Allotment A/c.

6. S Ltd. issued 15,000 equity shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application, Rs.6 on allotment (including premium) and the balance on call. Pass journal entries and show how they would appear in Balance Sheet.

7. M Ltd. offered 30,000 equity shares of Rs.20 each at Rs.24 per share payable as Rs.6 on application, Rs.8 on allotment (including premium) and the balance at the end of 3rd month from the date of allotment. All the money was duly received. Prepare a Cash Book and pass journal entries and also show them in Balance Sheet.

8. X Ltd. was registered with Rs.20,00,000 Capital divided into 20,000 shares of Rs.100 each. These shares are issued at 20% premium payable as Rs.35on 9 application (including Rs.5 premium), Rs.45 on allotment (including Rs.15 premium) and the balance on two equal installments after 3 months and 6 months respectively form the date of allotment. The allotment was made on 1st April, 1998. All the money was received.

Show Cash Book, necessary journal entries and the Balance Sheet.

ISSUE OF SHARES AT A DISCOUNT:

A Company can issue shares at a discount, i.e., at a price less than its face value. For example, if a share of Rs.10 each is issued at Rs.9, it is said to be issued at a discount of Re.1 per share.

Discount allowed on issue of shares is a loss of Capital nature. Hence, it is to be debited to a separate account namely Discount on issue of Shares A/c.It appears on the Assets side of Balance Sheet under Miscellaneous Expenditure. This is usually written off to Profit and Loss Account over a period of 3 to 5 years.

Generally, it is allotted at the time of allotment only.

Entries :

1. When shares are issued at a discount on allotment :

For Allotment Due :

Share Allotment A/c. Dr.
Discount on issue of Shares A/c. Dr.
To Share Capital A/c.

For Receipt :

Bank A/c. Dr.
To Share Allotment A/c.

9. X Ltd. offered 20,000 equity shares of Rs.20 each at a discount of 5% payable as follows :

On Application	Rs.6
On Allotment	8
On Call	5

The applications received were for 16,000 shares. All the money was duly received. Pass journal entries and show how these transactions would appear in Balance Sheet.

10. X Ltd. has been incorporated with Rs.20,00,000 Capital divided into 20,000 shares of Rs.100 each. It issued 15,000 shares to public at Rs.5 discount payable as Rs.25 on application, Rs.30 on allotment and the balance on two equal calls at Rs.20 each. The Company received applications for 12,000 shares. All the share money was10 duly received. Pass necessary journal entries and also show the relevant items in Balance Sheet.

Adjustment of excess application money towards the Allotment and Calls :

Sometimes a Company may not allot all the shares for which applications have been received. Because of over subscription, the allotment is either made of less number of shares or on pro-rata basis (Ratio basis).

In such a case, the excess application money will be adjusted either on allotment or calls. If there is still surplus it will be paid to shareholders in cash.

11. A Company issued Rs.5,00,000 new capital divided into Rs.10 shares at a premium of Rs.4 per share payable Re.1 on application, Rs.6 on allotment (including Rs.2 premium) and Rs.7 on call (including premium).

Over payments on applications were to be applied towards sums due on allotment. Where no allotment was made, application money was to be returned in full. The issue was oversubscribed to the extent of 13000 shares. Applicants for 12000 shares were alloted only 1000 shares and applicants for 2000 shares were sent letters of regret. All money due was received. Pass journal entries.

12. A Company issued 50,000 shares at Rs.10 each payable Rs.2 on application, Rs.3 on allotment, Rs.2 on first call and the balance on final call. The Company received applications of 75,000 and allotment was made on pro-rata. Surplus application money is to be adjusted to allotment and calls. All the money received. Pass journal entries.

Calls in arrears and Calls in advance:

If any amount has been called by the Company either as allotment or call money and a shareholder has not paid that money, this is known as Calls in arrears on which 5% interest is charged.

Similarly, if any call has been made but while paying that call, some shareholders have paid the amount of the rest of calls also, then such amount is called Calls in advance and will be credited to a separate account known as Calls in advance A/c. Calls in advance A/c. is shown on the Liabilities side of Balance Sheet. Generally interest is paid on such calls at 6% p.a.

13. On 01.03.1998 X Ltd. makes an issue of 20,000 equity shares of Rs.10 each payable as follows :

On application	Rs.2
On allotment	3
On first & final call	6 (3 months after allotment)

Applications were received for 26000 shares and directors made allotment in full to the applicants demanding 10 or more shares and returned money to the applicants for 6000 shares. One shareholder who was alloted 40 shares paid first and final call with allotment money and another shareholder alloted 60 shares did not pay allotment money on his shares but which he paid with the first and final call. Directors have decided to charge 5% and allow 6% interest on Calls in arrears and Calls in advance respectively. Give journal entries.

14. H Ltd. issued 40,000 equity shares of Rs.10 each, payable at Rs.2 on application, Rs.4 on allotment and Rs.4 on call. All the amount payable on allotment was duly received except in one case where the shareholder failed to pay the amount due on allotment on his 100 shares and another shareholder paid the shares in full on allotment itself of his 50 shares.

Pass necessary journal entries and also prepare the Balance Sheet.

15. Blue Moon Ltd. issued 50,000 shares of Rs.10 each payable as under :

Rs.2	On application
Rs.2.5	On allotment
Rs.3	On first call
Rs.2.5	On final call

The public applied for 90,000 shares. The allotment was made as follows on 1st April, 15.

To the applicants of 45,000 shares	Full
To the applicants of 20,000 shares	Quarter (25%)
To the remaining applicants	Nil

The first call was made on 1st November and the first call on 1st Feb., 16. According to the terms of issue the surplus application money could be kept by the Company against the money due on allotment and against subsequent calls. One shareholder to whom 5000 shares were alloted paid on allotment the full amount due on the shares.

The interest at 5% p.a. on Calls in advance was paid on 1st Feb.,16. Give Cash Book and journal entries in the books of the Company assuming that all the money was duly received. Also prepare Calls in advance A/c.

Forfeiture of Shares:

When a shareholder is called upon to pay call amount by the Company, he has to pay on or before the date specified by the Company. If he fails to pay the call, the Company has two remedies against the shareholder namely, (1) it may sue him for the amount due, (2) it may forfeit his shares subject to the provision of the articles.

The Company do not generally resort to the first remedy as it involved a lengthily procedure of litigation. They resort to the second one that is to forfeit the shares. The implication of forfeiture is to cancel the allotment and treat the amount already received thereon as forfeited. When shares are forfeited, the amount already paid by the shareholder is transferred to a separate account, i.e., Forfeited Shares Account. It is a Capital profit and so it appears on the Liabilities side of Balance Sheet. When forfeited shares are reissued at a discount, the discount may be written off from the Forfeited Shares A/c. If there is any further balance, it will be transferred to Capital Reserve A/c.

(i) When shares issued at par are forfeited :

Share Capital A/c. Dr.
To Share Calls A/c.
To Forfeited Shares A/c.

(ii) When shares are issued at a premium and the premium amount not paid by the shareholder and the shares are forfeited :

Share Capital A/c. Dr.
Share Premium A/c. Dr.
To Calls in arrears A/c.
To forfeited Shares A/c.

Note: If the premium is once collected, it should not be appropriated when the shares are forfeited. So, It only appears in Premium A/c.

(iii) When shares issued at a discount are forfeited :

Share Capital A/c. Dr.

To Calls in arrears A/c.
To Discount on issue of shares A/c.
To Forfeited Shares A/c.

Reissue of Forfeited Shares:

Forfeited Shares may be reissued by the Company for any amount. If such shares are issue at a discount, then the discount should not exceed the forfeited amount. There is no bar to reissue of the forfeited shares at par or at premium.

(i) When the Forfeited shares are reissued at a discount:
Bank A/c. Dr.(Amount received on reissue)
Forfeited Shares A/c. Dr. (With discount allowed)
To Share Capital A/c.

(ii) When Forfeited Shares are reissued at a premium:
Bank A/c. Dr.
To Share Capital A/c.
To Share Premium A/c.

(iii) After reissue of Forfeited shares, the balance in Forfeited Shares A/c. if any should be transferred to Capital Reserve by passing the following entry.
Shares forfeited A/c. Dr.
To Capital Reserve A/c.

16. A Company offered for subscription 55000 shares of Rs.10 each, payable Rs.3 on application, Rs.4 on allotment and Rs.3 on final call. The offer was fully subscribed and all the money called up was duly received with the exception of the call Rs.3 on 820 shares. The Company after due notice, forfeited the shares. The shares were reissued subsequently at a price of Rs.6 per share. Give journal entries, prepare Forfeited Shares A/c. and also Balance Sheet.

17. R.S.Ltd. having a nominal capital of Rs.20,00,000 in shares of Rs.100 each, invited applications for 10,000 shares payable as follows:

On application	Rs.25
On allotment	35
On first call	20
On final call	20

The Company received applications for 9000 shares. All the money due is received with the exception of second and final call on 250 shares, these shares were forfeited and reissued as fully paid at Rs.90 per share. Write journal entries and show Balance Sheet.

18. A Limited Company issue 10,000 shares of Rs.10 each payable Rs.3 on application, Rs.3 on allotment, Rs.2 on first call and Rs.2 on final call. All the shares were duly subscribed and alloted and both the calls were made. All cash was received except final call on 200 shares. The directors forfeited them and reissued as fully paid for Rs.1400.

Give necessary entries.

19. Krishna Ltd. issued 10,000 equity shares of Rs.20 each and 2000 preference shares of Rs.20 each, the latter at a premium of 5%. The amount on shares is 14
to be paid as follows: Rs.5
On application
On allotment (including premium)
and the balance on Call.

Govinda failed to pay the call due on his 100 equity shares. There were no calls in arrears on any other shares. An amount of Rs.6000 was paid to the underwriters as formation expenses. The 100 shares were forfeited and reissued at par. Prepare Cash Book, pass journal entries and show the Balance Sheet.

20. G Ltd. issued 10,000 equity shares at Rs.10 each payable Rs.5 on application (including Rs.2 premium), Rs.4 on allotment and Rs.3 on call. All the money is received in full with the exception of allotment on 200 shares and call on 500 shares (including the above 200 shares). The shares were forfeited and 400 (including the above 200) shares were reissued at Rs.7 per share. Prepare Cash Book, pass journal entries and show Balance Sheet.

21. Suvega Ltd. issued 1,00,000 shares of Rs.10 each at a premium of Rs.1 per share. The amount payable was as follows:

Rs.2	On application
4	On allotment (including premium)
2.5	On first call
2.5	On final call

The public applied for 90,000 shares and these shares were allotted. The directors made both the calls. The allotment and were not received on 1000 shares and the final call on 1500 shares. The directors forfeited the shares on which allotment and first call were not paid. 800 of these shares were reissued as fully paid at Rs.8 per share. Give journal entries and Balance Sheet of the Company.

Unit II ISSUE OF DEBENTURES

The most usual form of borrowing by a Company is issue of debentures. Debenture refers to the borrows capital from the public and is popularly known as Loan Capital. Generally Companies which need funds for their development and expansion of long period, issue debentures to the public. A debenture is an acknowledgement of the borrowing made by the Company from the public.

Debentures are commonly issued in a manner similar to the issue of shares. The Company may collect the cost of debenture on one lump sum or in instalments like on application, allotment and calls. Debentures may be issued at par or at a premium or at a discount.

I. Issue of Debentures at Par:

Here, we get the same entries as in case of the issue of shares.

II. Issue of Debentures at Premium:

When debentures are issued at premium and repayable at par:

Bank A/c. Dr.
To Debentures A/c.
To Debenture Premium A/c.

III. Issue of Debentures at Discount:

When debentures are issued at discount and redeemable at par:

Bank A/c. Dr.
Loss on issue of Debentures A/c. Dr.
To Debentures A/c.

Different conditions of issuing Debentures:

I. When debentures are issued at par and redeemable at premium:

Bank A/c. Dr. (with amount received)
Loss in issue of Debentures A/c.Dr. (with difference between amount received & repayable)
To Debentures A/c. (with face value)
To Premium on redemption of Debentures A/c.

II. When debentures are issued at discount and redeemable at premium (at par):

Bank A/c. Dr. (with amount received)
Loss in issue of Debentures A/c. Dr. (with discount on issue and premium on redemption)
To Debentures A/c. (with face value)
To Premium on redemption of debentures A/c.

Redemption of Debentures:

When debentures are redeemed in the following cases:

(a) When debentures are issued at par and repayable at par,
(b) When debentures are issued at premium and repayable at par, 18

(c) When debentures are issued at discount and repayable at par, the following entry is to be passed.

Debentures A/c. Dr.

To Bank A/c.

When debentures are issued at par or at discount and repayable at premium:

Debentures A/c. Dr.

Premium on redemption of debentures A/c. Dr.

To Bank A/c.

PROBLEMS

1. A Limited Company issued 2000 debentures of Rs.100 each repayable at par at the end of the 10th year. The debentures were payable 25% on application, 25% on allotment and the balance on call. All the money was received by the Company in due course. Pass necessary journal entries.

2. M Ltd. issued 5000 debentures of Rs.100 each at a premium of 10% repayable at the end of the 5th year. The debentures were payable as 20% on application, 40% on allotment (including premium) and the balance on call. All the money was received. You are asked to journalise the above transactions.

3. On 1st July, 2021 Sports Ltd. issued 10000, 6% debentures of Rs.10 each at 95% repayable on 30th June, 2021 at par. Rs.6 per debenture is payable on application and the balance on allotment. Interest is payable on the full nominal value from 1st Sep., 2021.

Applications were received for 15000 debentures. Allotment was made for all proportionately, oversubscriptions being applied to the balance due on allotment which took place on 31st Aug., 2021. All sums due on allotment were received by 14th Sep., 2021.

Assuming that the discount is to be written off evenly over the whole period. You are required to draft journal entries to record (a)the issue of debentures, (b)the charges to P&L A/c. for the year ended 30th June, 2022.

4. A Company issued 10,000 debentures of Rs.100 each for subscription. The debenture money is payable as follows:

Rs.30	On application
40	On allotment
20	On first call
10	On final call

A person who holds 200 debentures fails to pay the amount due at the time of allotment. However, he pays this amount with the first call money. Another person who is holding 400 debentures has paid all the calls in advance at the time of allotment. Give journal entries.

5. On 01.01.05 P Ltd. issued 4000, 14% debentures of Rs.100 each at a discount of 10% repayable in 4 years by annual equal instalments.

(a) Give journal entries on the date of issues,

(b) Show 14% debentures A/c., Discount on Debentures A/c. and Debenture Interest A/c. till the date of redemption.

6. A Ltd. issued Rs.1,00,000 debentures, 10% on 01.04.04 at a discount of 10% repayable in annual drawings of Rs.25000 each on 31st March every year. You are required to (a) pass journal entry for issue and (b) show necessary ledger accounts.

7. Sunitha Ltd. issued Rs.2,00,000, 10% debentures on 01.01.02 at a discount of 5% repayable in annual drawings of Rs.50,000 commencing from 31st December following. Journalise the above transactions for 4 years ending 31st Dec.,05 assuming that the Company decided to write off debentures discount during the life of the debentures. Also show necessary ledger accounts.

8. A Limited Company has made an issue of Rs.5,00,000;9% Debentures on 01.04.04, the terms of which include that the company must take a 4 year Sinking Fund Insurance policy for the redemption of debentures at a premium of 5%. The annual premium is Rs.115000. The value of the policy increases each year by 6%. Give the necessary ledger accounts to record the above transactions for 4 years.

9. A company issued Rs.2,00,000; 6% Debentures of Rs.1000 each at par, repayable at the end of 5 years at a premium of 5%. In terms of the Trust Deed, a Sinking Fund was to be created for the purpose of accumulating sufficient fund for the purpose. Investments were made yielding 5% interest received at the end of each year. All investments, including reinvestments of interest received, were made at the end of the year. Prepare for 5 years, (a) Sinking Fund Account; and (b) Sinking Fund Investment Account.

ISSUE AND REDEMPTION OF DEBENTURES

A Company for its extension and development may raise funds without increasing its share capital. The Company may invite the public to lend money for a fixed period. For such money, debentures may be issued. Debentures is an instrument in writing given by a Company.

Differences between Shares and Debentures:

Shares	**Debentures**
1. A Share is an indication of ownership. Shareholders are the owners of the Company.	1.A Debenture is an Acknowledgement of the borrowing made by the Company from public. They are Creditors to the Company.
2. Dividend on shares is payable only out of profits of the Company.	2.Interest on debentures has to be paid compulsorily irrespective of profits earned.
3. The rate of dividend on shares is variable.	3.The rate of interest on debentures is fixed. 20

4. A shareholder is entitled to vote.	4. A debenture-holder has no right of voting.
5. Share is a part of the Capital of a Company.	5.Debentures are a part of borrowings.
6. Shares are not redeemable during the existence of the Company.	6.Debentures can be redeemed by a Company after a specif period.
7. When a Company wound up, the right of shareholders rank only after the claims of the debenture-holders and other creditors.	7. When a Company is wound up, the debenture-holders have prior claim on the assets of the Company.

Issue of Debentures:

The Accounting procedure to be followed for the issue of debentures are practically the same as for the issue of shares is concerned. Debentures may also be issued at par or at a premium or at a discount.

Accounting Treatment:

1. When debentures are issued at par or premium or discount payable on application:

Bank A/c. Dr.
Discount on issue of debentures A/c. Dr.
To Debentures A/c.
To Premium on debentures A/c.

2. Issuing Debentures with different Conditions:

a) When debentures are issued at par and redeemable at premium:

Bank A/c. Dr.
Loss in issue of debentures A/c. Dr.
To Debentures A/c.
To Premium on redemption of debentures A/c.

b) When debentures are issued at discount and redeemable at premium:

Bank A/c. Dr.
Loss in issue of debentures A/c.Dr.(with discount on issueand premium on redemption)
To Debentures A/c. (Face value)
To Premium on redemption of debentures A/c.

PROBLEMS

1. M & Co. Ltd. issued 5000 debentures of Rs.100 each at a premium of 10% repayable at par at the end of 5th year. The debentures were payable 20% on application, 40% on allotment (including premium) and the balance on first and final call. All the money was received by the Company. Pass necessary journal entries in the books of Company.

2. X Ltd. issued 2000 debentures of Rs.100 each at a discount of 10% repayable at par. The debentures were payable Rs.25 on application, Rs.15 on allotment and the balance on two equal calls. Pass necessary journal entries.

3. Sunitha Ltd. issued 200,000; 10% debentures on 01.01.19 at a discount of 5%, repayable in annual drawings of Rs.50,000 commencing from 31st December following. The Company's year ends on 31st December. Journalise the above transactions assuming that the Company decided to write off debenture discount during the life of the debentures.

4. P Ltd. issued 14%, 4000 debentures of Rs.100 each at 10% discount repayable in 4 equal annual installments, on 01.01.19. Show a)journal entries and b)necessary ledger accounts.

5. Naveen Ltd. issued 10% debentures for Rs.100,000 at 5% discount on 01.01.19, repayable annually Rs.25000 on Lottery basis from the following December towards. Company closes its accounts on 31st December annually. Pass necessary journal entries and prepare ledger accounts up to 31.12.1997.

Redemption of Debentures:

1. When debentures are issued at par or premium or discount and repayable at par:

    Debentures A/c. Dr.

        To Bank A/c.

2. When debentures are issued at par or discount and repayable at premium:

    Debentures A/c. Dr.

    Premium on redemption of debentures A/c. Dr.

        To Bank A/c.

6. X Ltd. issued 2000, 10% debentures of Rs.100 each. Give journal entries and the Balance Sheet in each of the following cases.

a) The debentures are issued and redeemable at par.
b) Debentures issued at a discount of 5% but redeemable at par.
c) Debentures are issued at a premium of 10% but redeemable at par.
d) Debentures are issued at par but redeemable at premium of 10%.
e) Debentures are issued at a discount of 5% but redeemable at a premium of 5%.

7. Pass journal entries relating to the issue of the following debentures.

a) 100, 8% debentures of Rs.1000 each are issued at 5% discount and are repayable at par.
b) 100,7% Rs.1000 debentures are issued at 5% discount and are repayable at 10% premium.
c) 100, 9% Rs.1000 debentures are issued at 5% premium.
d) 500, 8 1/2% debentures of Rs.100 are issued as collateral security against a loan of Rs.50000.

8. Journalise the following at the time of issue and redemption.

1. Kanpur Construction Ltd. issued 1000, 3% debentures of Rs.100 each at par for a period of 3 years, repayable at par.
2. Vikas Ltd. issued 4000, 4% debentures of Rs.100 each at par for a period of 5 years, repayable at a premium of 5%.
3. A Company issued 3000, 6% bonds of Rs.100 each at a discount of 3%, redeemable after 5 years at par.
4. National Company issued 5000, 5% debentures of Rs.500 each at a discount of 3% for a period of 10 years, redeemable at 5% premium.

Redemption of debentures by creating Sinking Fund or Debenture Redemption Fund:

Debentures are to be redeemed on specific date. Hence, it is desirable to make some arrangement for their redemption in a well-planned manner. Otherwise, it will be very difficult for the Company to pay huge money on the date of redemption. Generally, a prudent business concern take precautionary measures in a planned manner by creating a separate fund known as Debenture Redemption Fund. This fund is created by making a fixed provision out of Profit and Loss Appropriation Account. The funds so appropriated are invested outside the business in marketable securities. The interest received on the investments will be further invested. At the end of a stipulated period, a sufficient amount would be available to redeem the debentures.

The amount to be set aside each year can be found by reference to Sinking Fund Tables.

Accounting Treatment:

The following entries are to be passed at the end of the first year.

1. On setting aside the amount required to provide for the redemption of debentures:

Profit and Loss Appropriation A/c. Dr.
 To Sinking Fund A/c (Debenture Redemption Fund)

2. For investing the amount :

Sinking Fund Investment A/c Dr.
 To Bank A/c.

At the end of Second and Subsequent years:

1. When interest is received on Investments:

Bank A/c. Dr.
 To Sinking Fund A/c.

2. When amount set aside:

Profit and Loss Appropriation A/c. Dr.
 To Sinking Fund A/c.

3. When the Instalment and interest invested in Securities:

Sinking Fund Investments A/c. Dr.

To Bank A/c.

At the end of the last year:

1. When Investments are sold:

Bank A/c. Dr.

To Sinking Fund Investment A/c.

2. If there is a profit on sale of Investments:

Sinking Fund Investments A/c. Dr.

To Sinking Fund A/c.

3. When the balance of Fund Account transferred to General Reserve:

Sinking Fund A/c. Dr.

To General Reserve A/c.

4. When debentures are paid:

Debentures A/c. Dr.

To Bank A/c.

9. On 01.01.2017 Dinesh Ltd. issued 1000, 6% debentures of Rs.100 each repayable at the end of 4th years. It has been decided to provide a Sinking Fund for this purpose. The investment being expected to realize 4% p.a. Sinking Fund table shows that Re.0.23549 is required at 4% interest. On 31.12.2020 the investment realized Rs.75800. The debentures were paid off. Prepare Sinking Fund Account and Sinking Fund Investment A/c.

10. Y Ltd. issued 6% debentures for Rs.120,000 on 1st Jan., 16. These debentures were to be redeemed on 31.12.19. For this purpose, a Sinking Fund was established. The investments were expected to earn 5% net p.a. Sinking fund tables show that Re.0.232012 invested annually at 5% amounts to Re.1 in 4 years. Show the necessary ledger accounts to deal with the redemption, assuming investments realize Rs.88000 on 31.12.19 and the bank balance on that date was Rs.49000 after receipt of interest on Sinking Fund Investments. Sinking Fund Investments were made to the nearest Rs.100.

11. ABC Ltd. has Rs.600,000; 5% debentures outstanding on 1.4.16. On that date the debenture redemption fund stood at Rs.500,000 represented by Rs.590,000, 3% (1992) Government Loan. The annual installment added to the debenture redemption fund was Rs.82300. On 31.3.17 the balance at bank was Rs.140,000. On that date the interest on Investments was received. The investments were sold at 83% and the debentures were paid off. Show necessary ledger accounts for the year ended 31.3.17.

12. A Company has Rs.120,000; 5% debentures outstanding on 01.01.18. On that date the Sinking Fund stood at Rs.100,000 represented by Rs.118,000; 3% loan of Government of India. The annual installment added to the Sinking Fund is Rs.16460. On 31.12.18 the balance at bank (after interest on investments received) was Rs.11280. On that date the investments were sold at 83% net and the debentures paid off. Show necessary ledger accounts for the year 18.

13. On 01.01.10 X Ltd. issued debentures of Rs.500,000 redeemable at par on 01.01.15. It was decided to establish Sinking Fund for the purpose of redemption. Show the ledger accounts for 5 years assuming the annually invested amount earns 5% interest. Sinking Fund tables show that Re.0.1809748 amounts to Re.1 at 5% in 5 years.

14. Garuda Ltd. issued 1000, 14% debentures of Rs.100 each on 01.04.11 repayable at the end of 4 years at a premium of 5%. It has been decided to institute a Sinking Fund for the purpose. The investments being expected to realize 6% net. Sinking Fund table shows that Re.0.22859 invested annually amounts to Re.1 at 6% in 4 years. Investments are made in multiples of 100s only.

On 31.03.15 the balance at the bank was Rs.50,000 and investments realized Rs.82000. The debentures were paid off. Show necessary ledger accounts.

15. A Company issued 7% debentures of Rs.600,000 with a condition that they would be redeemed after 3 years at 10% premium. The amount set aside for the redemption of debentures is invested in 5% Securities. The Sinking Fund tables show that Re.0.31720856 at 5% compound interest in 3 years will become Re.1. You are required to give journal entries for recording the transactions for 3 years.

ISSUE OF BONUS SHARES
(Capitalization of Profit)

Companies generally do not distribute whole of their profits every year. They retain a portion of profits to strengthen the financial position of the Company or to meet unforeseen contingencies or for some specific purpose such as Debenture Redemption Reserve, Dividend Equalization Reserves etc. To the extent of the profits retained in the business, the shareholders have to sacrifice their dividends.

When the reserves accumulated out of the Company's requirements, the management can think of benefiting the shareholders by the issue of shares out of the accumulated reserves.

Bonus may be paid to the shareholders either by way of cash or issuing additional shares. If bonus is to be offered in terms of cash, the liquid source of the Company may be depleted. Hence, growth-oriented Companies generally offer bonus by way of issuing shares freely. In this way, Companies capitalize their profits.

Source of Bonus issues:

Bonus shares can be issued out of the following:

1. Balance of P&L A/c.,
2. General Reserve,
3. Capital Profits i.e., Profit on sale of fixed assets etc.,
4. Any other Reserves,
5. Capital Redemption Reserve,
6. Share Premium

Note: Capital Redemption Reserve and Share Premium can be utilized only for issuing fully paid bonus shares.

Accounting Treatment:

1. When bonus is declared:

Profit and Loss A/c. Dr.
General Reserve A/c. Dr.
Share Premium A/c. Dr.
To Bonus to shareholders A/c.

2. When bonus shares are issued:

Bonus to Shareholders A/c. Dr.
To Share Capital A/c.
To Share Premium A/c. (If bonus shares are issued at premium)

3. If the bonus is utilized for making the partly paid shares into fully shares, the following two additional entries are to be passed.

a) For Share Call due:

Share final call A/c. Dr.
To Share Capital A/c.

b) When bonus is utilized for making partly paid shares into fully paid shares:

Bonus to Shareholders A/c. Dr.
To Share final call A/c.

PROBLEMS

1. Asha Ltd. has resolved to utilize Rs.500,000 out of its Reserve Fund is declaration of a bonus to the shareholders. However, the bonus is to be applied to the extent of Rs.200,000 in payment of final call of Rs.40 per share on 5000 shares of Rs.100 each and to the extent of Rs.300,000 for the issue of 3000 bonus shares of Rs.100 each to the existing shareholders. Draft journal entries to the above resolution.

2. The following is the Balance Sheet of Strong Ltd. as on 31.12.19.

Liabilities	Rs.	Assets	Rs.
5000 Equity Shares of Rs.100		Sundry Assets	1025000
each, Rs.75 paid up	375000		
Share Premium	100000		26
General Reserve	200000		

P&L A/c.	150000	
Creditors	200000	
	1025000	**1025000**

It was resolved that out of the balance of P&L A/c., the partly paid shares are converted into fully paid shares and issue of 1 bonus share for every 2 shares held out of Share Premium and General Reserve Accounts. Share Premium Account should be used completely. Pass necessary journal entries and prepare a Balance Sheet after the issue of bonus shares.

3. A Company has a Share Capital of 10,00,000 equity shares of Rs.10 each, Rs.8 per share paid up. It has accumulated large profits amounting to Rs.80,00,000 in the Reserve Fund Account. The directors decided to utilize the whole of the Reserve Fund to make Capital properly representative of the financial position as follows:

1. The existing shares be made fully paid without the shareholders having to pay anything and

2. Each shareholder to be given proportionate to his holdings, bonus shares for the remaining amount in the Reserve Fund, the shares to be valued at Rs.12 each. Pass necessary journal entries to record the above transactions.

4. A Company has accumulated large profits in the Reserve A/c. and the directors decided to utilize a part of this in order to make the Capital properly representative of the financial position.

The Paid up Share Capital is Rs.10,00,000 consisting of 90,000 equity shares of Rs.10 each fully paid and 20,000 equity shares of Rs.10 each, Rs.5 paid up. The directors decided to issue 1 bonus share at a premium of Rs.10 for every fully paid share held and to make the partly paid shares as fully paid. At the date of the allotment of bonus shares, the market value of the equity share stands at Rs.33. Give necessary journal entries in respect of the above transactions.

5. The following extract is taken from the Balance Sheet of Bharat Ltd. as on 31.03.19.

Authorized Capital – 20,000 Equity Shares of Rs.10 each	2,00,000	
Issued and Subscribed Capital – 7000 shares of Rs.10 each	70,000	
Reserve Fund		36,000
P&L A/c.	29,000	

The directors pass a resolution to capitalize a part of the existing reserves and profits by issuing bonus shares. 1 bonus share is being issued for every 4 equity shares held at present. For this purpose, Rs.10000 is to be provided out of Reserve Fund and the balance out of P&L A/c. Set out the journal entries to give effect to the resolution and how they would affect the Balance Sheet of the Company?

6. The following items appear in the Balance Sheet of a Limited Company.

Share Capital:		
Authorised – 20000 shares of Rs.10 each		Rs. 2,00,000
Issued & Paid up – 10000 equity shares of Rs.10 each, Rs.8 paid up	80,000	
Reserves & Surplus:		
Share Premium	2,000	
Capital Redemption Reserve	4,000	
General Reserve	40,000	

The Company passed the following resolution:
That the General Reserve be utilized in making the partly paid shares as fully paid up.
That further 1000 fully paid equity bonus shares of Rs.10 each be issued to the existing shareholders. For this purpose, General Reserve should be utilized to the minimum extent.

You are required to pass the journal entries to record the above and show necessary items in the Balance Sheet as would appear after giving effect to the resolution.

7. A Company with an Issued and Subscribed Capital of Rs.10,00,000 in 100,000 shares, face value of Rs.10 each of which Rs.8 per share is paid up, has accumulated Reserve of Rs.300,000. Out of this Reserve, Rs.200,000 is intended to be utilized in declaring a bonus at the rate of 25% on the Paid up Capital so that the shares may become fully paid. Show the necessary journal entries.

8. The Balance Sheet of Calm Ltd. on 31.03.2019 was as follows:

Liabilities	Rs.	Assets	Rs.
4000 Equity Shares of Rs.100 each, Rs.80 paid up	3,20,000	Sundry Assets	10,00,000
Share Premium A/c.	60,000		
Capital Redemption Reserve	70,000		
General Reserve	1,00,000		
P&L A/c.	3,00,000		
Sundry Creditors	1,50,000		
	10,00,000		**10,00,000**

The directors recommended the following with a view to capitalizing whole of Share Premium A/c., General Reserve A/c., Redemption Reserve and Rs.50000 out of P&L A/c. The existing shares be made fully paid without the shareholders having to pay anything. Each shareholder to be given fully paid bonus shares at a premium of 25% for the remaining amount in proportion to his holding. Assuming that the scheme is accepted and 28
that all formalities are gone through, give journal entries and also show to what proportion bonus shares will be distributed among shareholders.

9. The Moon Ltd. has the following items in its Balance Sheet.

1. 100,000 Equity Shares of Rs.50 each, Rs.40 paid up.
2. General Reserve Rs.11,00,000.
3. Share Premium Rs.500,000.
4. Capital Reserve Rs.700,000.

The Company decided:

1. To capitalize its General Reserve to convert the existing shares to fully paid up shares.
2. To issue out of Share Premium and Capital Reserve (both used in full) bonus shares of Rs.10 each fully paid at 25% premium.

Pass necessary journal entries.

10. The following is the Balance Sheet of Sri Ltd. as on 31.03.19.

Liabilities	Rs.	Assets	Rs.
Share Capital – 40,000		Fixed Assets	400000
Equity Shares of Rs.10	400000	Investments	100000
General Reserve	100000	Stock	40000
Debenture Redemption Reserve	110000	Debtors	60000
Share Premium	40000	Bank	300000
P&L A/c.	90000		
Current Liabilities	60000		
Redeemable Debentures	100000		
	900000		**900000**

On 1.4.19 the directors of the Company decided to pay off the redeemable debentures. The Investments realized full value. They also decided to declare Rs.200,000 bonus to the shareholders from the General Reserve and to utilize the amount of bonus by issuing 1 bonus share of Rs.10 each for every 2 shares held in the Company. Give necessary journal entries for the redemption of debentures and the issue of bonus shares as on 1.4.19.

11. Rao Co. Ltd. Had an authorized equity capital of Rs.20 lakhs divided into shares of Rs.100 each. The paid up capital was Rs.12,50,000. Besides this, the Company had 9% Redeemable Cumulative Preference Shares of Rs.10 each for Rs.2,50,000. Balances on other accounts were: Securities Premium Rs.18000; Profit and Loss Account Rs.72000 and General Reserve Rs.340,000. Included in Sundry Assets were investments of the face value of Rs.30,000 carried in the books at a cost of Rs.34000.

The Company decided to redeem the Cumulative Preference Shares at 10% premium, partly by the issue of equity shares of the face value of Rs.120,000 at a premium 29
of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off.

After redemption of the Cumulative Preference Shares, fully paid bonus shares were issued in the ratio of 1:4.

Give the necessary journal entries bearing in mind that the directors wanted a minimum reduction in the free reserves, while effecting the above transactions. Working should form part of your answer.

12. The Balance Sheet of Zee Ltd. As at 31.3.2019 is given below:

	Rs.		Rs.
Issued & Paid up Share		Freehold Property	200000
Capital:		Stock in Trade	120000
20,000 Equity Shares	200000	Sundry Debtors	100000
of Rs.10 each	180000	Cash & Bank balance	180000
P&L Appropriation A/c.	120000		
6% Redeemable Debentures			
Current Liabilities &			
Provisions:	100000		
Sundry Creditors			
	600000		
			600000

It was resolved at the Annual General Meeting:

1) to pay a dividend of 10%.
2) To issued one Bonus share for every 4 shares held.
3) To give existing shareholders the option to buy one Rs.10 share at Rs.14 for every 4 shares held prior to bonus distribution.
4) To repay the Debentures at a premium of 4%.

All the shareholders took up the option in (3) above. Prepare appropriate Journal entries and draw up the Balance Sheet after the above transactions have been given effect to. (ignore taxation)

13. The Balance Sheet of Perkins Ltd. as at 31st March, 2019 is given below:

	Rs.		Rs.
Share Capital:		**Fixed Assets:**	
Authorised:30,000 Equity		Freehold Property	100000
shares of Rs.10 each	300000	**Current Assets:**	
Issued & Paid up: 20,000		Stock in Trade	120000
Equity shares of Rs.10		Sundry Debtors	80000
each	200000	Cash & Bank balance	220000
Reserves & Surplus:			30
P&L A/c. (Cr.)	140000		
Secured Loans:			
6% Debentures	120000		

Current Liabilities:		
Sundry Creditors	60000	
	520000	**520000**

At the Annual General Meeting it was resolved:

1) To pay a dividend of 10%.
2) To issued one bonus share for every four shares held as on the date of the last Balance Sheet,
3) To give existing shareholders the option to purchase one Rs.10 share at Rs.14 for every four shares held prior to the issue of bonus shares,
4) To repay the debentures at a premium of 4%.

All the shareholders exercised the option in (3) above. Draft necessary journal entries and prepare the Balance Sheet after the resolution have been given effect to. Ignore taxes.

14. The Share Capital of Mayur Industries Limited consisted of 50,000 equity shares of Rs.10 each fully paid. The Company has accumulated out of profits a Reserve Fund of Rs.5,00,000. It issued further 10,000 equity shares during 2019 at a premium of Rs.30 per share and the entire amount had been realized.

During 2019, an independent valuation of its assets increased the Balance Sheet values as thus:

	Rs.
Land & Buildings by	600000
Plant & Machinery by	300000
Stores & Spares by	250000

The valuation reduced the amounts of the following:

Goodwill by	150000
Patents by	100000

At the end of 1995, it was decided to redeem 3000 debentures of Rs.100 each at 5% premium; to adopt the new valuation; and to allot the equity shares of Rs.10 each as fully paid bonus shares for every equity share held.

It was also decided that the balance of Reserve Fund, after carrying out all the above arrangements, was to be capitalized.

Pass journal entries to record the transactions in the books of Mayur Industries Ltd. 31

15. A Company with an issued and subscribed capital of Rs.10,00,000 in 100,000 shares face value of Rs.10 each of which Rs.8 per share is paid up, has accumulated a Reserve of Rs.300,000. Out of this Reserve Rs.200,000 is intended to be utilized in declaring a bonus at the rate of 25% on the paid up capital so that the shares may become fully paid.

Show the necessary journal entries.

16. The Balance Sheet of Cosmos Ltd. on 31st March, 19 was as follows:

	Rs.		Rs.
4000 Equity shares of Rs.100 each, Rs.80 paid up	320000	Sundry Assets	1000000
Securities Premium A/c.	60000		
Capital Redemption Reserve A/c.	70000		
General Reserve	100000		
P&L A/c.	300000		
Sundry Creditors	150000		
	1000000		**1000000**

The directors recommended the following with a view to capitalizing whole of the Securities Premium A/c., Capital Redemption Reserve A/c., General Reserve and Rs.50,000 out of P&L A/c.:

The existing shares be made fully paid without the shareholders having to pay anything.

1) Each shareholder to be given fully paid bonus shares at a premium of 25% for the remaining amount in proportion to his holdings. Assuming that the scheme is accepted and that all formalities are gone through, give journal entries and also show in what proportion bonus shares will be distributed among shareholders. 32

UNIT- 3 VALUATION OF GOODWILL

Name and fame of the existing business is called goodwill. Generally, the existing business will have a circle of customers, with the help of which the firm will get profits without any further efforts. So, goodwill is the present value of a firm's anticipated super normal earnings. Goodwill is an intangible asset.

Goodwill is a valuable asset if the concern is profitable, on the other hand, it is value less if the concern is a losing one. There-fore it can be stated goodwill represents the value of reputation of the firm. Goodwill is a thing easy to describe but difficult to define.

The capacity of business to earn profit in future is basically what is meant by the term goodwill.

Need for valuation of goodwill:

Goodwill is to be valued in the following circumstances:

A. When a new partner is admitted into partnership firm.
B. When a partner retires or dies.
C. When there is change in the profit-sharing ratio.
D. When a business is taken over by a company.
E. When the companies are amalgamated or absorbed.
F. When a person wants to purchase a large no of shares of a company.
G. When the business of a company is taken over by the Government.

Features of goodwill:

Following are the features of goodwill.

1. Goodwill can be sold only with the entire business or it cannot be sold in part or in isolation except on admission or retirement of a partner.
2. Goodwill is valuable only if it is capable of being transferred from one person to another.
3. Goodwill represents a non-physical value over and above the physical assets.
4. Goodwill cannot have an exact cost as its value fluctuates from time to time due to internal and external factors.
5. The value of goodwill is based on subjective judgement of the valuer.

Methods of valuing goodwill:

The following are the methods of valuing goodwill.

1. Arbitrary method
2. Average profits method
3. Super profits method
4. Capitalization method.

Arbitrary method: the valuation of goodwill is arrived at by making a valuation by one of the parties, i.e., vendor or purchaser to which the other agrees. The parties may together estimate the value to be placed on the goodwill or an independent party may be called in to give his opinion as to the value, it being left to the parties to decide whether they will accept or reject such valuation.

Average profits method:

Under this method goodwill is valued on the basis of profits of previous years. The Goodwill is then estimated to be worth so many years' purchase of such average profit. The no of years selected is on the basis of past experience. Average used may be simple or weighted.

The value of goodwill is calculated by multiplying the adjusted annual profits by the number of years purchase. Goodwill is valued as follows:

NOTE: step – 1 Calculation of adjusted profit or Future maintainable profits:

Particulars	Rs.	Amount
Given profits Add: 1. Capital expenses 2. Loss on sale of assets 3. Loss due to fire or theft 4. Unrecorded incomes 5. Non-busines expenses if any 6. Future expected incomes/profits if any Less: 1. Remuneration of management 2. Future expenses if any 3. Expenses not allowed earlier if any 4. Non-recurring income (non-business exps) 5. Profit on sale of assets if any Adjusted/future maintainable profit		

Step 2: calculation of adjusted average profits:

After computing the adjusted profits, it is necessary to find out the adjusted average profit. This can be ascertained by SIMPLE OR WEIGHTED AVERAGE PROFIT METHOD.

SIMPLE AVERAGE PROFIT METHOD:

This method is applied when there is fluctuation in profits and can be calculated by using the following formula.

Where adjusted average or

Simple average profit = total adjusted profits of all the given years / no of years.

WEIGHTED AVERAGE PROFIT METHOD. This method is used when the given profits are in increasing or decreasing trend or when weights are given in the question.

Weighted average profit is calculated by using the following formula:

Weighted Adjusted Average profits = Total product/total weights.

Step - 3 calculation of goodwill:

Value of goodwill under simple average profit method is calculated as follows:

Goodwill = adjusted average x no of years purchase (it will be given)

Value of goodwill under weighted average profit method is calculated as follows:

Goodwill = weighted average profits x no of years purchase.

3. SUPER PROFITS METHOD:

Super profit is the excess of the average profits over the normal profits based on normal rate of return on capital employed. For calculation of super profits, the following three factors are required.

1. Normal rate of return the investor expects from his investment.
2. **Capital employed**: it may be calculated on the basis of assets side items or liabilities side items.

Procedure to find capital employed from assets side:

Capital Employed = Fixed Assets + Trade Investments + Current Assets – Debentures – Current liabilities.

Procedure to find capital employed from liabilities side:

Capital Employed = Paid up ES and PS capital + Reserves and Surplus + Revaluation profit – Fictitious assets – Non-trade Assets – Revaluation loss on assets.

Average Capital Employed may be calculated as follows:

= (capital employed at the beginning + Capital Employed at the end)/2 OR

= capital employed at the end – ½ of current year profits after tax or

= Capital employed at the beginning + ½ of current year profits after tax.

3. **Normal Profits**: it is calculated by multiplying the normal rate of return with capital employed or average capital employed as the case may be.

Super Profit method has three variations i.e.

a. Purchase of Super Profits Method.
b. Capitalization of Super Profits method.
c. Annuity method.

Goodwill is valued as follows:

a. Purchase of Super Profits Method:

Value of Goodwill = Super profits x no of years purchase.

b. Capitalization of Super Profits method:

Value of Goodwill = Super profits / Normal rate of return.

c. Annuity method.

Value of Goodwill = Super profits x Annuity table value.

4. **CAPITALIZATION METHOD OR CAPITALISATION OF EXPECTED FUTURE NET PROFIT**:

Past adjusted profits generally provide the basis for ascertaining the average net profit which it is expected will be earned in the future. A reduction is made for remuneration to the management.

The following steps may be taken in computing goodwill:

a. Ascertain the average net profit which it is expected will be earned in future.
b. Capitalize this net profit at the normal rate of return i.e.
   Capitalized value (of profits) = average net profits/ normal rate of return
c. Find the value of net tangible assets used in business i.e. Net tangible assets or
   Capital employed = tangible assets – out-side liabilities

d. Deduct the net tangible assets as per (c) from the capitalized profits as per (B) and the difference is goodwill.
   Goodwill = Capitalized profits – Capital employed.

PURCHASE OF AVERAGE PROFITS METHOD:

A. SIMPLE AVERAGE PROTS METHOD:

1. Calculate the amount of goodwill on the basis of 3years purchase of the average profits of last 5years. The profit for last 5years are:

Years:	I	II	III	IV	V
Profits:	4,800	7,200	10,000	3,000	5,000.

2. Calculate the amount of goodwill on the basis of 2years purchase of the average profits of last 5years. The profit for last 5years are:

Years:	2011	2012	2013	2014	2015
Profits:	10,000	4,000	6,000	10,000	20,000.

3. X, Y and Z are partners sharing profits in the ration of 2/5, 2/5 and 1/5 respectively. It was provided in the partnership agreement that on the death or retirement of a partner, goodwill should be valued on the basis of 4years purchase of the average profits of the preceding 7years. Z retires on 30th June 2016. Calculate the amount of goodwill due to Z. net profits for the 7years ended on 30th June 2016 are:

Years:	2010	2011	2012	2013	2014	2015	2016
Profits:	32,000	40,000	72,000	64,000	32,000	80,000	72,000.

4. Mohan and co. decided to purchase a busines for Rs80,000. Its profits for the last 4years are 2016 – 20,000, 2017-25,000, 2018 – 24,000 and 2019 – 23,000. The business is looked after by the management. Remuneration from alternative employment, if not engaged in business, for the management comes to Rs.3,000p.a.
   Find the amount of goodwill on the basis of 3yers purchase of the average profit for the last 4years.

5. Following particulars are available in respect of the business carried on by X ltd. Profits earned: 2014 -Rs.50,000, 2015- Rs.48,000 and 2016 – Rs. 52,000.
   a. Profits of 2015 is reduced by due to stock destroyed by fire and profits of 2014 includes a non-recurring income of Rs.3,000.
   b. Profits of 2016 include Rs.2,000 income on investment. 5
   c. The stock is not insured and it is thought prudent to insure the stock in future. The insurance premium is estimated at Rs.500 p.a.

d. Fair remuneration to the proprietor (not taken in the calculation of profits) is Rs. 10,000 p.a. You are required to compute the value of goodwill on the basis of 2years purchase of average profits of the last three years.

SUPER PROFITS METHOD:

8. From the following information calculate value of goodwill on the basis of three years purchase of super profit of the business:
   a. Average capital employed in the business is Rs. 18,00,000.
   b. Rate of interest expected from capital having regard to the risk involved is 10%.
   c. Net trading profits of the firm of the past 3years were Rs.3,22,800, 2,72,100 and 3,37,500.
   d. Fair remuneration to the partners for their services is 36,000 p.a.

9. From the following particulars of Aswani calculate value of goodwill on the basis of three years purchase of super profit taking average of last 4years:

   Fixed assets Rs. 8,00,000.
   Current assets Rs. 80,000
   Current liabilities Rs. 1,60,000
   Normal rate of return – 15% of average capital employed.
   Managerial remuneration if employed elsewhere Rs. 10,000 p.a. profits for the last four years were Rs.1,20,000, 1,50,000 and Rs. 1,40,000 respectively.

10. Balance sheet of X ltd as <u>on 31-1-2016</u> is given below:

Equity and liability	Amount	Assets	Amount
8%, 5,000 pref shares of Rs10		Goodwill	
each	50,000	Fixed assets	10,000
10,000 Equity share of		Investments	
10each	1,00,000	(5% Govt.	1,80,000
Reserves (including provision		Loan)	
for taxation Rs.10,000)		Current assets	
Debentures	85,000		20,000
Creditors			
	50,000		1,00,000
	25,000		
	3,10,000		**3,10,000**

The average profit of the company (after deducting interest on debentures and taxes) is Rs. 31,000. The market value of the machinery included in fixed assets is Rs.5,000 more. Expected rate of return is 10% on average capital employed. Calculate the value of goodwill of the company on the basis of five years purchase of super profit.

11. Following is the Balance Sheet of Goutham Ltd as on 31-12-2015.

Liabilities	Amount	Assets	Amount
Equity shares of Rs.10each General reserve Surplus a/c Current liabilities	10,00,000 4,00,000 2,00,000 2,00,000 **18,00,000**	Fixed Assets Investments (6%Govt. loan) Current Assets	8,00,000 2,00,000 8,00,000 **18,00,000**

Net profit after tax: 2013- 2,60,000, 2014- 2,50,000 and 2015 – 3,00,000. The goodwill may be taken as 4years purchase of average super profits. Normal return on average capital employed is 15%. The current assets are to be taken as Rs.8,40,000. Ascertain the value of goodwill.

12. State with reasons whether the following statement is correct or not:
Mr. A's financial position is as follows:

a. Sundry assets Rs.9,27,342
b. Current liabilities Rs. 52,492
c. Average net profit for last four years Rs. 1,20,500
d. Average capital employed Rs. 9,00,000
e. Average annual remuneration RS. 18,000
f. The goodwill valued at four year's purchase of super profits is Rs. 50,000
   Therefore, the expected rate of return is 15%.

13. Mr. A runs a chemist shop. His net assets as on 31-3-2016 amounted to Rs.20,00,000. After paying rent of Rs. 45,000 a year and salary of Rs.30,000 to the manager, he earns a profit of Rs. 2,10,000. His landlord, who happens to be an expert chemist, is interested in the purchasing the shop. 10% is considered to be reasonable return on capital employed. What can A expect as payment of goodwill?
Assume the value of building Rs. 1,00,000 and goodwill is valued at 3year's purchase.

14. Mr. Mohan runs a cosmetic store. Her net assets as on 31-3-2019 (excluding building of Rs.40,000) amounted to Rs.2,00,000.

After paying rent of Rs. 2,000 a year and salary of Rs.10,000 to the manager, she earns a profit of Rs.50,000. Her landlord, is interested in the purchasing the shop. 12% is considered to be reasonable return on capital employed. 40 Calculate the value of goodwill at 3 year's purchase of super profit. Assume that manager will continue to manage the business.

15. Mr. Wiseman has invested a sum of Rs.2,00,000 in his own business which is a very profitable one. The annual profit from the business is Rs.45,000 which includes a sum of Rs.10,000 received as compensation of a part of his business premises.

As an alternative to his engagement in his business, he could engage himself in employment thereby getting an annual salary income of Rs.7,200. Considering 2% as fair compensation for the risk involved in the business, calculate value of goodwill on capitalization of super profits at the normal rate of interest. Ignore taxation.

16.The net profit of a business after tax are:40,000, 42,500, 46,000, 52,500 and 59,000. The capital employed in the business is Rs. 4,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for next 5years.

Calculate value of goodwill on the basis of:

a. Five years purchase of super profits,
b. Annuity method, taking the present value of annuity of Re. 1 for 5years at 10% as 3.78 and
c. Capitalization of super profits.

17. Following particulars are available in respect of the business carried on by a trader:

a. Profits earned: 2016 -50,000, 2017- 60,000 and 2018- 55,000.
b. Normal rate of profit - 10%
c. Capital employed - 3,00,000
d. Present value of an annuity of one rupee for five years at 10% ---- 3.78
e. The profits included non-recurring profits on an average basis of Rs.4,000 out of Which it was deemed that even non-recurring profits had a tendency of appearing at the rate of Rs.1,000p.a.

Your required to calculate goodwill:

1. As per 5year's purchase of super profits.
2. As per capitalization of super profits method.
3. As per annuity method.

UNIT IV VALUATION OF SHARES

Shares of Public Companies are freely transferable. Hence their valuation is absolutely necessary for buying and selling. Generally the shares of Public Limited Companies are quoted in the stock exchange. The prices quoted in stock exchange, usually serve as a basis of value of shares. This holds good only for ordinary transactions in respect of small lots. This may not hold good in respect of large lot. Further all the shares are not quoted in the stock exchange. Therefore valuation is needed for unquoted shares of transferring from one person to another.

Shares of Private Limited Companies are not freely purchased and sold to the public. Even though they are not freely transferable their valuation is required when the private company is to be sold or purchased. Further, to assess the amount due to the member of the private company, the valuation of shares is to be taken up.

Need for valuation of Shares: The stock exchange price of a share may not always be warranted by the financial position of the company, because stock exchange prices are influenced by supply and demand, bank rate, taxation, political influence, International political situation etc. Hence not only the shares of private companies and the unquoted shares of public companies need valuation.

The need for valuation of shares arises in the following cases:

1. When unquoted shares are to be purchased and sold.
2. For formulating schemes of Amalgamation and Absorption.
3. When a block of shares are purchased so as to acquire controlling interest i.e., merger or take over.
4. When a block of shares is to be purchased not so much as to acquire the controlling interest.
5. When a shareholder dies – for the purpose of assessing estate tax.
6. When shares are given as gift – for the purpose of assessing the gift tax.
7. When the company is nationalized and the shareholders are compensated by the government.
8. For conversion of one class of shares into another class of shares.
9. When shares are to be taken as a security against loan
10. When shares are purchased by employees of a company to be retained by them during the tenure of their service.

11. When partners hold shares of a company, for ascertaining the amount to be distributed amongst them on dissolution of the firm.

Factors affecting the value of shares:

Generally the following factors affect the value of shares.

1. Profitability of the concern.
2. Demand and supply of shares.
3. Yield expected by the investors.
4. Political, economic and social conditions prevailing within and outside the government.
5. Governmental policies.
6. Nature of business.
7. Reserves of the company.
8. Rate of proposed dividend.
9. Availability of sufficient fixed assets over outside liabilities.
10. Book value of shares.

Methods of valuation of shares: The methods of valuation of shares depend on the purpose of valuation and factors affecting the value of shares. The following are the important methods of valuation of shares.

1. Net Assets Method or Intrinsic Value Method.
2. Yield Method.
3. Earning Capacity Method.
4. Fair Value Method.
5. Exchange Ratio Method.
6. Simultaneous Equation Method.

1. Net Assets Method: This method is also known as Asset Backing Method or Intrinsic Value Method or Balance Sheet Method or Break up Value Method or Real Value Method or Net worth or Equity Method.

Under this method, the valuation of shares may be made either i)on a Going Concern basis or ii)Break-up value basis. In the case of Going Concern, the utility of the asset to the concern will be considered. In the case of break-up value method, the realizable value i.e., market value of assets will be considered for valuation of shares.

$$\text{Value of Share} = \frac{\text{Net Assets}}{\text{No.of Shares}}$$

Note: Net assets will be ascertained as follows:

Net Assets = Assets – Liabilities

Determination of Value of Net Assets: While ascertaining the value of net assets, care must be taken to revalue the assets and liabilities properly and to revise the value of goodwill properly. Net assets value will be determined as follows:

Net Assets = Realizable value of assets – Outside Liabilities payable

(Or)

Net Assets = Revalued Assets – Revalued Liabilities

(Or)

Net Assets = Equity Share Capital + Preference Share Capital + Reserves and Surplus + Profit on revaluation of assets including goodwill – (Miscellaneous expenses to the extent of not written off + Profit and Loss Account Debit balance + Loss on revaluation of assets including goodwill)

Proforma for calculation of Net assets of the Company:

Fixed assets (Realizable value)	Xxxx	
Investments (Realizable value)	Xxxx	
Current assets (Realizable value)	Xxxx	
Goodwill (Realizable value)	Xxxx	
Cash & Cash at bank (Actuals)	Xxxx	
Total Assets		**xxxxx**
Less: Current Liabilities	Xxxx	
Debentures	Xxxx	xxxx
Net assets of the business		**xxxxx**
Less: Preference Share Capital	Xxxx	
Preference Share Dividend	Xxxx	
Share in Reserves & Surplus in case of participating Preference Shares	Xxxx	xxxx
Funds available to Equity Shareholders		**xxxxx**

$$\text{Intrinsic value of Equity Share} = \frac{\text{Funds available to Equity Shareholders}}{\text{Number of Equity Shares}}$$

When there are partly paid-up shares are in the Company:

Where there are both fully and partly paid-up equity shares, the amount uncalled on partly paid shares should be added to the total net assets as Notional calls. Then, this total amount will be divided by the total number of equity shares (both fully paid and partly paid).

Total Net assets (Funds available to equity shareholders before calling the Notional Calls)	xxxx
Add: Notional calls on partly paid up	xxxx
Total funds available to equity shareholders	**xxxx**

$$\text{Intrinsic value of Equity Share} = \frac{\text{Total Funds available to Equity Shareholders}}{\text{Number of Equity Shares (Both fully and partly paid)}}$$

Intrinsic value of each partly paid share = Intrinsic value of fully paid equity share - Notional call made on the partly paid share(i.e., uncalled amount on each partly paid share)

2. Yield Method: This method is called Market Value Method. Under this method, the future maintainable profit is estimated by reference to past performance. This is adjusted by eliminating non-recurring incomes deducting Income Tax, making allocation to reserves and preference dividend. This adjusted profit is capitalized at the normal rate of return in similar business. Alternatively the value of share under this method can be calculated by the following formulae.

i) At first, Expected Rate of Return should be calculated:

$$\text{Expected Rate of Return} = \frac{\text{Profit available to Equity Shareholders}}{\text{Total Paid up Equity Share Capital}} \times 100$$

ii) Basing on the Expected Rate of Return, the value of share can be calculated:

$$\text{Value of each Share} = \frac{\text{Expected Rate of Return x Paid up value of Share}}{\text{Normal Rate of Return}}$$

Calculation of profits available to equity shareholders as dividend:

Particulars	Amount
Actual or Average Profits (adjusted)/ Earnings	xxx
less Transfer to reserve	xx
	xxx
less Preference dividend if any 49	x

profit available to equity share holders	xx

3. Earning Capacity Method: Yield Methods fails to take into account the financial stability and strength and as it considers only the rate of dividend rather than earning capacity of the concern. To overcome this, Earning Capacity Method is designed. Under this method, the value of shares is calculated as follows:

$$\text{Value of Share} = \frac{\text{Rate of Earning}}{\text{Normal Rate of Return}} \times \text{Paid up value of Share}$$

The market value of Share can also be calculated by the following formula:

$$\frac{\text{Dividend (in rupees) per Share}}{\text{Normal Rate of Dividend}}$$

4. Fair Value Method: Some authorities are of the view that neither the Intrinsic value nor the Yield value is correct but the proper method of valuation is to make a mean between the Intrinsic value and Yield value. In other words, Fair value is the average of Intrinsic value and Yield value. This is popularly known as Dual Method or Fair Value Method. The formula for this method is:

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

This Dual Method attempts to minimize the demerits of both Earning basis and Net Assets basis method.

5. Exchange Ratio Method: This method is generally adopted in valuing the shares at the time of Absorption and Amalgamation. The Purchase Consideration is calculated on the basis of Exchange Ratio mutually agreed between absorbing and absorbed Companies.

6. Simultaneous Equation Method: This method of valuing the shares is also adopted in the problems of amalgamation and absorption where there are inter-company investments or cross investments i.e., when the amalgamating holds the shares of another. For example, if A and B Companies are amalgamating, A Company investments consist of B Company shares. Similarly B Company investments consist of the A Company shares. In such a case, unless the shares of A Company are valued, the value of investments of the B Company cannot be found out. In such a case, the shares of Amalgamating Companies are valued by using Simultaneous Equation Method.

PROBLEMS

I. NET ASSETS METHOD:-

1. On 31.12.19 the Balance Sheet of a Limited Company disclosed the following position.

Liabilities	Rs.	Assets	Rs.
Issued Capital – 40,000		Fixed Assets	500000
Shares @ Rs.10 each	400000	Current Assets	200000
Reserves	30000	Goodwill	40000
Profit & Loss A/c.	80000		
6% Debentures	100000		
Sundry Creditors	130000		
	740000		**740000**

On 31.12.2019 the fixed assets were independently valued at Rs.3,60,000 and the goodwill at Rs.50,000. Compute the value of Company's share by the net assets method.

Sol. **VALUATION OF SHARES**

NET ASSETS METHOD:

$$\text{Value of Share} = \frac{\text{Net Assets}}{\text{No.of Shares}}$$

Where Net Assets = Realizable of Assets – outside liabilities

Realizable value of assets:

Particulars	Rs.	Amount Rs
Fixed assets		3,60,000
Goodwill		50,000
Current assets		2,00,000
total		**8,10,000**
less Outside liabilities:		
6% Debentures	1,00,000	
Sundry Creditors	1,30,000	**2,30,000**
Net assets		**5,80,000**

$$\text{Value of Share} = \frac{5,80,000}{40,000}$$

= **Rs.14.5**

2. The following Balance Sheet of A Ltd. as on 31.12.17 is as follows:

Liabilities	Rs.	Assets	Rs.
3000 equity shares of Rs.100 each	300000	Cash in hand	2000
		Bank	20000
8% Preference shares of Rs.100 each	150000	Debtors	80000
		Stock	140000
General Reserve	40000	Land & Buildings	205000
P&L A/c.	80000	Furniture	30000
6% Debentures	50000	Goodwill	70000
Sundry Creditors	15000	Discount on issue of shares	18000
		Preliminary expenses	50000
		Discount on issue of Debentures	20000
	635000		**635000**

The value of assets is assessed as follows:

a). Furniture to be depreciated at 10%.

b). Value of Stock, Land & Buildings and Goodwill is valued at Rs.120,000; Rs.250,000 and Rs.80,000 respectively.

c) Debtors are expected to realize 80% of book value.

Find out the value of equity shares.

3. From the following Balance Sheet, you are required to find out the value of equity share.

Liabilities	Rs.	Assets	Rs.
2000, 6% Preference Shares	200000	Assets at the book value	600000
30,000 equity shares of Rs.10 each	300000		
Liabilities	100000		
	600000		**600000**

The market value of half of the assets is considered at 10% more than the book value and the remaining half at 5% less than the book value. There was a liability of Rs.5000 which remains unrecorded. Assume the preference shares have no priority as to repayment of Capital or Dividend.

4. The following is the Balance Sheet of Vijaya Co. Ltd. as on 31.12.18.

Liabilities	Rs.	Assets	Rs.
35000 equity shares of Rs.10 each	350000	Bank	75000
		Current Assets	230000
1500, 9% Preference Shares of Rs.100 each	150000	Fixed Assets	299000
		Goodwill	55000
General Reserve	45000		
P&L A/c.	18000		
Proposed Preference Dividend	13500		
Sundry Creditors	70000		
Other Liabilities	12500		
	659000		**659000**

The assets are revalued as follows:
Current Assets Rs.235,000,
Fixed Assets Rs.280,000,
Goodwill Rs. 60,000.

Calculate the value of Equity Share and Preference Share. The Preference shares are non-participating.

5. The Balance Sheet of Limited Company disclosed the following position as on 31.12.19.

Liabilities	Rs.	Assets	Rs.
2000 equity shares of Rs.100 each	200000	Goodwill	55000
		Investments	175000
Reserve Fund	75000	Stock	220000
P&L A/c.	25000	Debtors	130000
6% Debentures	150000	Bank	20000
Sundry Creditors	50000		
Workmen's Saving A/c.	100000		
	600000		**600000**

The profit for the last 5 years were Rs.10000; Rs.15000; Rs.20000; Rs.25000 and Rs.30000. The market value of Investments was Rs.110000. Goodwill is valued at 2 years' purchase of average annual profits for the last 5 years. Find the intrinsic value of each share.

6. Your client intends to invest not more than Rs.15000 in equity shares of Iron Foundry Ltd. and wants you to advise him the maximum number of shares he can expect to acquire with the said amount on the basis of the following information available to him.

Issued and Paid up Capital:

6% Preference Shares of Rs.100 each	Rs.500,000
Equity Shares of Rs.10 each	300,000
	800,000

Average net profits of the business is Rs.57000. Expected normal yield is 7% in case of equity shares.

Total tangible assets (other than Goodwill) are Rs.949000 and total outside liabilities are Rs.95000.

Goodwill is to be calculated at 5 years' purchase of the Super Profits, if any. Show your workings in detail. Ignore Income Tax.

7. On the basis of the following information, calculate the value of equity shares.

10000, 10% Preference Shares of Rs.100 each	Rs.10,00,000
60000 Equity Shares of Rs.10 each	6,00,000
Total Assets other than Goodwill	20,00,000
Total outside Liabilities	2,00,000
Average net profit after tax	1,00,000

Expected normal yield for equity shares is 7% of Capital. Goodwill is to be taken at 5 years' purchase of super profits.

8. The following is the balance sheet of Vishal Ltd. on 31.03.14.

Liabilities	Rs.	Assets	Rs.
10000, 6% Preference Shares	100000	Sundry Assets	510000
30000 Ordinary Shares	300000	Discount on	
Debenture Redemption Fund	30000	Debentures	10000
7% Debentures	50000	Preliminary	
Depreciation Fund	30000	expenses	30000
Sundry Creditors	100000	P&L A/c.	60000
	610000		**610000**

The sundry assets were worth Rs.5.45 lakhs. Interest on debentures and preference dividend are in arrears for 1st year. You are required to value the Ordinary Shares, if Preference Shares have priority for a)Repayment of Capital and arrears of dividend, b)Repayment of Capital only.

9. Prosperous Ltd. has the following details:

Share Capital:	
9% Preference Shares of Rs.100 each	3,00,000
1000 Equity Shares of Rs.100 each, Rs.50 paid up	50,000
1000 Equity Shares of Rs.100 each, Rs.25 paid up	25,000
1000 Equity Shares of Rs.100 each, fully paid up	1,00,000
	4,75,000
Reserves & Surplus:	
General Reserve	2,00,000
P&L A/c.	50,000
	7,25,000

There is Rs.75,000 increase in the value of assets. As per Articles of Association, Preference Shareholders have priority not only for their capital but also to the extent of 10% of surplus assets at the time of dissolution of Company. Compute the value of Preference Shares and Equity Shares.

10. Calculate the intrinsic value of each type of share.

a) 2000 equity shares of Rs.100 each, fully paid up Rs.200,000.
b) 1000 equity shares of Rs.100 each, Rs.60 paid up Rs.60,000.
c) 2000 equity shares of Rs.100 each, Rs.50 paid up Rs.100,000.
d) 8%, 1000 Pref Shares of Rs.100 each, fully paid up100,000.
e) 6%, 1000 Pref Shares of Rs.100 each, Rs.40 paid upRs.40,000.
f) General Reserve Rs.150,000.
g) Outside liabilities Rs.100,000.
h) Realisable value of tangible assets Rs.750,000.

11. Calculate the intrinsic value of an equity share.

a) 1000 equity shares of Rs.100 each, fully paid up Rs.100,000.
b) 2000 equity shares of Rs.100 each, Rs.40 paid up Rs.40,000.
c) Preference Share Capital Rs.50,000.
d) Reserves Rs.110,000.
e) Outside Liabilities Rs.150,000.
f) Realisable value of assets are equal to total liabilities.

12. Calculate value of each equity share from the following.

1000 Equity shares of 100 each fully paid	100000
1000 Equity shares of 050 each fully paid	50000

1000 Equity shares of 020 each fully paid	20000
Reserves & Surplus	80000
Fictitious Assets	5000
External Liabilities	7000

II. Yield Value Method:

13. On 31.12.18 the Balance Sheet of a Limited Company disclosed the following position.

Liabilities	Rs.	Assets	Rs.
Issued Capital in Rs.10		Fixed Assets	500000
Shares	400000	Current Assets	200000
Reserves	90000	Goodwill	40000
P&L A/c.	20000		
5% Debentures	100000		
Current Liabilities	130000		
	740000		**740000**

On 31.12.18 the Fixed Assets were independently valued at Rs.5,50,000 and Goodwill at Rs.50,000. The net profits for 3 years were Rs.51,600, 52,000 and 51,650 of which 20% was placed to Reserve, this proportion in which the Company is engaged and where a fair investment return may be taken at 10%. Compute the value of share by the Yield Method.

14. The following is the Balance Sheet of Desai & Co. as on 31.03.18.

Liabilities	Rs.	Assets	Rs.
10000 shares of Rs.10 each	100000	Land & Buildings less dep.	70000
General Reserve	50000	Plant & Machine less dep.	70000
Taxation Reserve	20000	Trade Marks	20000
Workmen's Saving A/c.	20000	Stock	20000
P&L A/c.	30000	Debtors	48000
Sundry Creditors	40000	Bank	25000
		Preliminary exp.	7000
	260000		**260000**

The Plant & Machinery is worth Rs.60000 and Land & Buildings are worth Rs.130,000 as valued by an independent values. Rs.5000 of the debtors is to be taken as bad. The profits of the Company were:

1996	Rs.50,000
1997	60,000
1998	70,000

It is the practice of the Company to transfer 20% of the profits to

Reserve. Ignoring taxation, find out the value of shares of the Company on their intrinsic basis and also on Yield basis. Shares of similar Companies quoted in the stock exchange yield 12% on their market value. Goodwill of the Company may be taken at Rs.100,000.

15. The following is the Balance Sheet of Rupa Co. Ltd. as on 31.12.18.

Liabilities	Rs.	Assets	Rs.
6000 Equity Shares of Rs.100 each	600000	Cash at Bank	50000
		Sundry Debtors	80000
5000, 6% Debenture of Rs.100 each	500000	Stock	120000
		Investments	100000
General Reserve	70000	Land & Buildings	410000
P&L A/c.	20000	Furniture 56	60000
Sundry Creditors	30000	Goodwill	70000
Other Liabilities	10000	Plant & Machinery	340000
	1230000		**1230000**

All the assets were independently valued at Rs.14,00,000. The Company earned net profits for the last 5 years as follows : Rs.80000, 84000, 92000, 88000 and Rs.96000. It was decided to set aside 15% of the profits towards General Reserve. This proportion was considered reasonable in the industry. The fair investment return may be taken at 10%. Find out the value of equity share of the Company by the

(a) Assets Valuation Method (b) Yield Method.

16. The following is the Balance Sheet of M Ltd. as on 31.12.19.

Liabilities	Rs.	Assets	Rs.
10000 shares of Rs.5 each	50000	Land & Buildings	30000
General Reserve	15000	Plant & Machinery	30000
Taxation Reserve	10000	Trade Marks	5000
Workmen's Saving A/c.	7500	Stock	12000
Creditors	24500	Debtors	20000
P&L A/c.	8000	Bank	15000
		Preliminary expenses	3000
	115000		**115000**

The Land & Buildings have been valued at Rs.65000 and the Plant & Machinery at Rs.25000. Debtors to the extent of Rs.2000are to be considered as bad. The profits for the last 3 years were: Rs.22000, Rs.26000 and Rs.23000.

It is the Company's practice to transfer 25% of profit to Reserve. Similar Companies give a yield of 10% on the market value of their share.

Goodwill may be taken at Rs.40000. Find out the value of share by Net Assets Method and Yield Method.

17. Mr.Ramnath intends to invest Rs.66000 in equity shares of a Limited Company and seeks your advise as to the maximum number of shares he can expect to acquire based on

(1)Intrinsic value including Goodwill,

(2)Intrinsic value excluding Goodwill,

(3)Yield basis.

The following information is available:

Issued & Paid up Capital:	
6% Preference Shares of Rs.100 each	Rs.11,00,000
Add: Equity shares of Rs.10 each	7,00,000
	18,00,000

Average net profits of the business is Rs.150,000. Expected normal yield is 8% in case of such equity shares. It is observed that net assets on revaluation are worth Rs.140,000, more than the amount at which they are stated in the books. The Goodwill is to be calculated at the 5 years' purchase of Super Profits, if any. Ignore taxation.

UNIT V FINAL ACCOUNTS OF JOINT STOCK COMPANIES

All business organizations prepare their final accounts at the end of the accounting year. There is no statutory obligation on the part of the trading and partnership firms to prepare final accounts but the Companies Act had made it obligatory every Company to prepare its final accounts in accordance with the requirements of Sec.128 of the companies Act 2013.

Section 128 of the companies Act 2013 requires that every company shall prepare and keep at its registered office books of accounts and other relevant books and papers and financial statements for every financial year. The books will be kept on accrual basis and according to the double entry system of accounting.

Important Adjustments:

1. Provision for Income Tax: Since the actual amount of Income Tax payable will be known only after the assessment is made by Income Tax Department, the liability for Income tax has to be estimated while preparing the P&L A/c. and should be provided for.

1. Provision for tax as given in adjustment will appear on the debit side of P&L A/c. and again in the Balance Sheet on the Liabilities side under the head of Current Liabilities and Provisions.

2. When both the payment of tax and provision for tax are given in Trial Balance, the payment of Income tax is shown on the debit side and Provision for tax on the credit side of P&L Appropriation A/c.

2. Interest on Funds: Interest on any fund is directly shown as an addition to the fund in Balance Sheet only. It should not be credited to P&L A/c. as an income.

3. Goods distributed as Free Samples:

a) Once it is deducted from Purchases on the debit side of Trading Account.

b) Again it is debited to P&L A/c. as an adjustment.

4. Materials, Wages, etc., used for making Loose Tools:

a) Once these are deducted from the concerned item on the debit side of the Trading A/c.

b) Again they appear on the Assets side under the head of Current Assets as an asset (Loose Tools).

6. Loss of Stock:

A. If Stock is insured:

a) Loss of stock is shown as an addition to Closing Stock on the credit side of Trading A/c.

b) The excess of loss over claim if any is charged to P&L A/c.

c) The amount of claim is shown on the Assets side of Balance Sheet under the head of Current Assets.

B. If Stock is not insured:

a)Loss of stock is shown as an addition to Closing Stock in Trading Account.

b) The total loss is charged to P&L A/c.

7. Valuation of Stocks:

I. Undervaluation:

A. Opening Stock:

a) The undervalued amount is to be added to Opening Stock in Trading Account.

b) The same amount is also added to Surplus in Balance Sheet.

B. Closing Stock:

a) The undervalued amount is added to the Closing Stock on the credit side of Trading A/c.

b) The increased value of stock (Original value) is shown in Balance Sheet.

II. Overvaluation:

A. Opening Stock:

a) The undervalued amount is reduced from Opening Stock in Trading A/c.

b) The same amount is deducted from Surplus in Balance Sheet.

B. Closing Stock:

a) The overvalued amount is reduced from Closing Stock in Trading A/c., and

b) The original value (Reduced value) of Stock is shown in Balance Sheet.

Final accounts of a Company consist of:-

1. A statement of Profit and Loss
2. Balance Sheet.

The Profit and Loss Account is prepared to ascertain the results of business operation of the company over accounting period. In the case of a company, the net profit disclosed by the Profit and Loss Account is not transferred to the capital account in the Balance Sheet as it is done in the case of sole trading concern or a partnership concern. In the case of Companies, profit must be utilized according to provisions of the Companies Act. For that purpose, 70 a separate account is prepared known as Profit and Loss Appropriation Account. This account shows the manner in which the net profit earned in a particular year is utilized or disposed off.

In the case of a Company, it is not necessary to split the Profit and Loss Account into three sections namely Trading Account, Profit and Loss Account and Profit and Loss Appropriation Account. Only Profit and Loss Account may be prepared which may cover items appearing in Trading Account, Profit and Loss Account and Profit and Loss Appropriation Account.

PART-II Form of STATEMENT OF PROFIT AND LOSS:

Name of company:----------------

Profit and loss statement for the year ended----------------- (Rs.-----)

	Particulars	Note no.	Current year figures	Previous year figures
I	Revenue from operations			
II	Other income			
III	**Total revenue (I+II)**		Xxxxx	
IV	**Expenses::**			
	1.Cost of materials consumed			
	2.Purchase of stock-in-trade			
	3.Change in inventories of finished goods and WIP.			
	4.employee benefit expenses			
	5.finance cost			
	6.depreciation			
	7.other expenses (including preliminary expenses)			
V	**Total expenses**		Xxxx	
VI	Profit before exceptional items and tax (III-IV)			
	Exceptional items			
VII	**Profit before tax**			
	Tax expenses:			
	1.current year tax			
	2.deferred tax			
VIII				
	Profit(loss) for the period from continuing operations.		XXXX	

IX X	Profit(loss)from dis- continuing operations. Tax expenses of dis-continuing operations. Net profit/loss for the year		Xxxx xxx	

General instructions to the financial statements:

1. Revenue from operations disclose a. sale of goods b. sale of services and c. other operating revenues less excise duty.
2. Other income includes a. interest on investments b. dividend income c. net gain/loss on sale of investments d. other non-operating income.
3. Finance cost includes interest on debentures and borrowings.

SURPLUS ACCOUNT:

Balance of Surplus Account at the beginning of the year	xxx
Add: profit for the year	xxx
	Xxxx
Less: 1. previous year provision for tax	
2. Transfer to general reserve	
3. Proposed Dividend/Interim Dividend	----
Surplus	xx

Transfer to reserves: sec 123 of the Companies Act, 2013 provides that:

No dividend shall be declared or paid by a company for any financial year out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of Schedule II, except after the transfer to the reserves of the company a certain percentage of its profits for that year as specified below;

Dividend proposed	Profit transfer to reserve
1. When proposed dividend exceeds10% but not exceeding 12.5% of Paid up capital.	Profit transfer to reserve shall not less than 2.5% of C.Y. profits.
2. proposed dividend exceeds 12.5% but not exceed 15%.	Transfer to Reserve shall not less than 5% of C.Y. profits.
3. proposed dividend exceeds 15% but not exceed 20%.	Transfer to reserve shall not less than 7.5% of C.Y. profits.
4. proposed dividend exceeds 20% of paid up capital.	Transfer to reserve shall not less than 10% of C.Y. profits.

DIVIDENDS: shareholders expect some return for the money invested by them in the company. They get the return on their investment in the form of dividends. Thus, dividends are the profits of the company distributed amongst the shareholders. The company may declare dividends in general meeting, but no dividend shall exceed the amount recommended by the board of directors.

Dividends are usually paid on paid up share capital only.

Dividends may be the following 2 types:

1. Interim Dividend
2. Final dividend.

Interim Dividend:

The dividend declared between two annual general body meetings is interim dividend. Sec 123 of the Companies Act 2013 provides that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss a/c and out of the current year profit. Such interim divided shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding 3 financial years.

Final dividend: The dividend declared at the annual general meeting of the shareholders is called as final dividend. It is declared by the shareholders on the recommendation of the directors. The dividend proposed by the directors is provided for the final accounts of the company and is paid only after it has been passed at the annual general meeting of the shareholders.

Corporate dividend tax:

As per the Finance Act, 1997 dividends paid or declared were subject to corporate dividend tax @10% with effect from 1 June, 1997. Such corporate dividend tax is deducted from surplus sub-head in the Balance Sheet and it is also shown under the heading current liabilities as a provision till it is paid. But as per the recent Finance Act, the rate of the tax is 15% plus 10% surcharge and cess of 2%. Total percentage of corporate divided tax with surcharge and cess comes to 17% approximately.

Accounting entries relating to Dividend:

1. When the dividend is proposed by the directors:
   Surplus a/c Dr
   To Proposed dividend a/c.

2. When the dividend recommended by the directors is passed by the shareholders at the annual general meeting:
   Proposed dividend account Dr
       To Dividend a/c
       To Income Tax a/c
3. On opening a separate Bank a/c for the payment of dividend
   Dividend Banking a/c Dr
       To Bank a/c
4. On payment of Dividends-
   Dividend a/c Dr
     To Dividend Banking a/c
5. When the amount of unpaid divided is transferred Unpaid Divided ac
   Unpaid Divided ac (with bank) Dr
       To divided banking ac
6. If the unpaid divided is not claimed by the shareholders within 3years.
   Dividend ac Dr
       To unpaid Dividend a/c

Balance Sheet:

Part I-form of **BALANCE SHEET**

Name of company------------

Balance sheet as on ----------------   (Rs.in------)

EQUITY AND LIABILITIES:	Note no	Figures as at the end of Current year	Figures as at the end of Previous Year
1. **shareholders Funds**: a. share capital b. Reserves and surplus c. money received against share warrants 2. share application money pending allotment Total		Xxxxx	
3. Non-current Liabilities: a. Long-term borrowings b. Deferred tax liability net c. Other long-term liability d. Long-term provisions Total		Xxxxx	

4. Current liabilities:			
a. Short-term borrowings			
b. Trade payables			
c. Other current liabilities			
d. Short-term provisions			
Total		Xxxxx	
Grand total(1+2+3+4)		Xxxxxx	
ASSETS			
1. Non-current Assets:			
a. Fixed Assets:			
Tangible assets			
Intangible assets			
Capital work-in-process			
Intangible assets under development			
b. Non-current Investments			
c. Deferred tax asset (net)			
d. Long term loans and advances			
e. Other non-current assets			
Total		Xxxxx	
2. Current assets:			
a. Current investments			
b. Inventories			
c. Trade receivables			
d. Cash and cash equivalents			
e. Short term loans and advances			
f. Other current assets			
Total		Xxxx	
Grand total (1+2)		xxxx	

**Contingent liability if any

Important Adjustments:

1. Provision for Income Tax: Since the actual amount of Income Tax payable will be known only after the assessment is made by Income Tax Department, the liability for Income tax has to be estimated while preparing the P&L A/c. and should be provided for.

Provision for tax as given in adjustment will appear on the debit side of P&L A/c. and again in the Balance Sheet on the Liabilities side under the head of Current Liabilities and Provisions.

PROBLEMS

1. for the year ended 31st March,2019 provision for income tax has been made for Rs.50,00,000. Advance payment of tax for that year amounted to Rs.45,00,000 and tax deducted at source on income earned by the company amounted to Rs.46,000. On November15,2019, the assessment was completed and tax liability was determined at 58,40,000. Advance payment of tax for the year ending 31st March,2020 was Rs.62,00,000.

Show the necessary accounts for the year ending 31st March,2020 assuming Rs.70,00,000 provision for taxation for the year ending 31st March,2020.

Ans.

PROVISION FOR INCOME TAX ACCOUNT

Date	Particulars	Amount	Date	particulars	Amount
2020 March31	To income tax ac	58,40,000	2019 April1	By balance b/d	50,00,000
	Tobalancec/d (given)	70,00,000	2020 March 31	By profit and loss ac	70,00,000
				By surplus ac (58,40,000-50,00,000) less amount provided last year	8,40,000
		1,28,40,000			**1,28,40,000**

INCOME TAX ACCOUNT

Date					
2019 Nov 15	To advance tax ac	45,00,000	2020 march 31	By provision for tax a/c	58,40,000
	To income tax deducted at source	46,000			
	To bank Bal.fig.	12,94,000			
		58,40,000			**58,40,000**

1. The following is the Trial Balance of Lakshmi Ltd. as on 31stmarch,2019.

Particulars	**Dr. Rs.**	**Cr. Rs.**
Stock on 31st March2018	75000	
Purchases & Sales	245000	350000
Wages	50000	
Discount		5000
Furniture & Fittings	17000	

Salaries	7500	
Rent	4950	
Sundry expenses	7050	
surplus A/c.		15030
Dividends	9000	
Share Capital		100000
Debtors & Creditors	37500	17500
Plant & Machinery	29000	
Bank	16200	
Reserve		15500
Patents & Trademarks	4830	
	503030	**503030**

Prepare final accounts after taking into account the following adjustments.

1. Stock on 31.3.2019 was Rs.82000 but the market value Rs.90000.
2. Depreciate fixed assets at 10%.
3. Make provision for tax at 50%. 4. Ignore corporate dividend tax.

2. The following balances of Universal Trading Company on 31.12.19 are given to you. The Company has an Authorized Capital of Rs.5,00,000, divided into 5000 equity shares of Rs.100 each. On 31.12.19, 2500 shares were issued and fully called up.

	Rs.		Rs.
Stock	50000	Advertisement	3800
Sales	425000	Bonus	10500
Purchases	300000	Debtors	38700
Wages	70000	Creditors	35200
Discount allowed	4200	Plant & Machinery	80500
Discount received	3150	Furniture	17100
Insurance up to 31.03.2020	6720	Bank bal.	134700
Salaries	18500	Reserve	25000
Rent	6000	Loan from M.D.	15700
General expenses	8950	Bad debts	3200
P&L A/c.	6220	Calls in arrears	5000
Printing & Stationery	2400		

You are required to prepare final accounts on 31.12.19. The following further information is also given.

1. Cost of stock on 31.12.19 Rs.91500 and market value Rs.86500. 77

2. Depreciate Plant at 15% and Furniture at 10%.
3. O/s wages Rs.200 and Salary Rs.1200.
4. Provide 5% dividend on Paid up Capital.

3. From the following TB of Ltd. as on 31.3.2019, prepare final accounts.

	Rs.		Rs.
Factory Premises at cost	450000	ShareCapital: 30,000;	
Plant & Machinery at cost	349160	7% Preference	
Motor Lorries at cost	73000	shares of Rs.10 each	300000
Sundry Debtors	121780	60,000 Equity shares	
Bad debts	2850	of Rs.10 each	600000
Rent, Rates & Taxes	28400	Surplus A/c.	16240
Advertisement	19500	G.P. for the year	246640
Bank balance	68500	RBDD	9000
Directors' fees	3600	Sundry Creditors	129640
Audit fee	10000	Transfer fees	110
Stock on 31.3.2019	114600	Accrued wages	12840
Rent, Taxes paid in advance	7980	Staff Benevolent Fund	17900
Salaries & Wages	32000		
Dividends paid:			
On Preference Shares	21000		
On Equity Shares (Interim)	15000		
patents	15000		
	1332370		**1332370**

The provision of doubtful debts is to be made up to Rs.10200. The Factory Premises, Plant & Machinery and Motor Lorries are to be depreciated by 3%, 15% and 20% respectively. The Authorized Capital of the Company is Rs.10,00,000 divided into 1,00,000 shares of Rs.10 each. You are required to prepare (a) statement of P&L., (b) Balance Sheet in the form prescribed under the Companies Act,2013. Also ignore taxation and transfer to reserve as required by law. You need not provide corporate dividend tax.

4. The following balances were extracted from the books of Chandra Ltd. for the year ended 31.3.2019.

	Rs.		Rs.
Buildings	600000	Sundry Creditors	350000
Furniture	60000	Surplus A/c.	20000
Motor Vehicles	60000	Gross Profit	1000000
Equity shares of Companies	400000	Dividend received on	
Stock in trade at cost	400000	Investments	10000
Sundry Debtors, unsecured		Salaries & Wages	220000

considered good	280000	Directors' fee	8000
Bank	172000	Electricity charges	25000
Advance against construction of Building	130000	Rent, Taxes & Insurance	10000
		Audit fee	15000
Share Capital –10,000 equity Shares of Rs.100 each	1000000		

Prepare final accounts of the Company for the year ended 31st March,2019 after making the following adjustments:

1. Provide 10% depreciation p.a.
2. Stock has been revalued as Rs.360000. This has not been considered yet.
3. Debts more than 6 months are Rs.80000. 4.Ignore taxation.

5. Prepare Balance Sheet as at 31st March,2016 from the particulars furnished by Vision Ltd, as per Schedule III of the companies Act,2013.

Eq.Share capital of Rs.10each 8,00,000	Sundry debtors 1,60,000
Calls in arrears 800	Advances(Dr) 43,160
Land 1,60,000	Proposed dividend 48,000
Building 2,80,000	Surplus ac 80,000
Plant and machinery 4,20,000	Cash at bank 1,97,600
Furniture 40,000	Patents 10,640
General reserve 1,68,000	Sundry creditors 1,60,000
Loan from IDBI 1,20,000	Stock:
Loans (unsecured) 96,800	Finished goods 1,60,000
Provision for tax 54,400	Raw materials 40,000
Adjustments:	

a. 1,500 equity shares were issued for consideration other than cash.
b. Loan of Rs.1,20,000 from IDBI is inclusive of Rs.6,000 for interest accrued but not due. The loan is hypothecated by plant and machinery.
c. Debtors of Rs.50,000 are due for more than six months.
d. The cost of assets: building Rs.3,20,000; plant and machinery Rs.5,60,000; furniture Rs.50,000.
e. Bills receivable for Rs.2,20,000 maturing on 30th June,2016 have discounted.
f. The company had contract for the erection of machinery at Rs.1,50,000 which is still incomplete.

6. On 31.3.15 The Hind Flour Mills Ltd. disclosed the following balances.

	Rs.		Rs.
Stock on 1.4.14: Wheat	95000	Advances for values to	
Flour	160000	be	45000
Wheat purchases	4050000	received	196000
Power & Fuel	75000	Advance tax	321000
Stores consumed	220000	Book debts	
Rates & Taxes	25000	Investments at cost in	340000
Repairs to Buildings	15000	Rs.350000 Govt. Loan	12000
Repairs to Machinery	65000	Cash	500000
Insurance	57000	Bank	
Misc. expenses	250000	**Credit Balances:**	
Wages & Salaries	430000	Sales	5550000
Provident Fund		Interest on	
Contribution	50000	Investments(Net)	9000
Staff Welfare expenses	100000	Rent	4000
Directors' fees	2000	Surplus A/c.	60000
Land	120000	Share Capital	720000
Buildings	205000	General Reserve	830000
Machinery	305000	Capital Reserve	100000
Furniture	1000	Provision for taxation	85000
Motor Vehicles	1000	Unclaimed dividends	9000
Stores & Spare parts	383000	Employees' deposits	16000
		Trade Creditors	640000

From the foregoing balances and the subjoined information, prepare final accounts.

1. Stocks on 31.3.15 were:- Wheat at cost Rs.149000.
   Flour at market value Rs.217000.
2. Provide Rs.60000 for taxation and Rs.20000 for managerial commission.
3. O/s expenses:- Wages & Salaries Rs.56000; Misc. expenses Rs.20000 & Rates & Taxes Rs.5000.
4. Insurance prepaid Rs.7000.
5. Depreciation provided up to 31.3.14:-
   Buildings – Rs.315000; Machinery – Rs.1145000;
   Furniture – Rs.19000 ; Motor Vehicles – Rs.29000.
6. Book debts of which (Rs.121000 more than 6 months old) all are unsecured but considered good. Rs.21000 being due from a private company in which a director is a member.

7. There is a claim of Rs.25000 against the Company which is not acknowledged as yet.
8. The authorized share capital consists of 12000 shares of Rs.100 each, of which 7200 shares are issued as fully paid. A dividend of Rs.20 per share is proposed.

6. From the following Trial Balance of M Ltd., prepare final accounts for the year ended 31.03.18.

Particulars	Dr. Rs.	Cr. Rs.
Equity Share Capital (Shares of Rs.100 each)		400000
8% Preference Shares of Rs.100 each		20000
Plant at cost	300000	
Land & Buildings at cost	500000	
Depreciation up to 31.03.17: On Plant		100000
On Land & Buildings		150000
Dividend Equalization reserve		10000
Investments in Shares	200000	
Stock	70000	
Bank	60000	
Debtors	50000	
Surplus A/c.		25000
Creditors		30000
Income Tax deducted at source on dividend	2200	
Establishment expenses	15000	
Rent & Taxes	6000	
Audit fee (including Rs.1000 for other services)	2500	
M.D's minimum remuneration	12000	
Directors' fees	2000	
Sundry expenses	6000	
Dividend (Gross)		10000
Misc. Receipts		2300
Gross profit		304400
Income tax for previous year not provided for	6000	
	1231700	**1231700**

You ascertain that:

1. Depreciation is to be charged on the written down value of Plant at 10%, Land & Buildings at 5%.
2. The directors propose to recommend a dividend of 15% on equity shares.

3. Provision for tax is to be made at 55%.
4. A sum of Rs.15000 is to be transferred to Dividend Equalization Reserve.

7. The following is the Trial Balance of Wholesale Traders Ltd. as on 31.3.18.

Particulars	Dr. Rs.	Cr. Rs.
Issued Capital – Shares of Rs.10 each		420000
Properties at cost	800000	
Motor van	25000	
Provision for depreciation on 31.3.17:		
Leasehold Property		21000
Other Properties		50000
Motor van		10000
Administration and Selling expenses	176500	
Opening Stock	120000	
Purchases & Sales	1387500	2065000
M.D's Remuneration	50000	
Rent received		36000
Investments	67500	
Investment Income (after deduction of 22% Income tax)		3400
7% Debentures		150000
Debenture Interest	10500	
Bank Interest	5820	
Bank O.D.		7300
Debtors & Creditors	310000	151000
Interim dividend	16800	
Surplus A/c.		57520
Calls in arrears	1000	
General Reserve		100000
Share Suspense A/c.		3000
Unclaimed dividends		1500
Cash	15100	
Bank	90000	
	3075720	**3075720**

Further Information:

1. Closing Stock Rs.167000.
2. No effect has been given to the following Board resolutions:

a) Passed on 15th July,17 forfeiting 500 shares for non-payment of call of Rs.1000.

b) Passed on 18th Sep.,17 for reissuing the 500 forfeited shares of Rs.10 each as fully paid for a consideration of Rs.3000 received and laying credited to Shares Suspense A/c.

3. The directors have recommended the following appropriations:

a) Final dividend at Rs.5 per share including the interim dividend already declared on 23rd Dec.,17.

b) Transfer of Rs.10000 to General Reserve.

4. Depreciation is to be provided as follows:

Motor car – 20% on W.D.V.

Properties other than Leasehold – 3% on W.D.V.

Leasehold Property purchased on 1.4.11 at a cost of Rs.140000 for a period of 40 years.

5. M.D. is entitled to a remuneration of 10% of the net profit subject to a minimum of Rs.50000.

6. Provision of taxation to be made at 55%.

Prepare final accounts.

8. ABC Ltd. has the following Trial Balance as on 31.3.2016

	Rs.		Rs.
Opening Stock	150000	Equity Share Capital (Rs.10 shares)	750000
Purchases	800000		
Wages	225000	Preference Shares of Rs.10 each	500000
Electric Power	37500		
Factory expenses	87500	6% Debentures (Mortgaged on assets)	500000
Carriage on Sales	50000		
Carriage on Purchases	25000	Creditors	112500
Salaries	150000	Provision for Income Tax	112500
Insurance	25000	Surplus A/c.	95000
Debtors	225000	General Reserve	250000
Bank	15000	O/s Salaries & Wages	62500
SinkingFund Investments (4% Govt. Bonds)	225000	Sales	1925000
		Interest on Govt. Bonds	5000
Debenture Interest	15000	Sinking fund	225000
Buildings	750000		
Machinery	1125000		
Directors' fees	25000		
Auditor's fees	15000		
Income tax paid	102500		
Dividends: preference share	15000		
Interim dividend in E.Share	75000		
Preliminary expenses	50000		

Goodwill	350000	
	4537500	**4537500**

Information:

1. Closing Stock Rs.148000.
2. Make provision for tax for this year Rs.128000.
3. Provide Rs.45000 for General Reserve, Rs.15000 for Sinking fund and 10% dividends for equity shares.
4. Depreciate Buildings at 2% and Machinery at 10%.
5. Write off preliminary expenses.
6. Bad debts were Rs.5000. Provide for RBDD at 2% on debtors and discount reserve at 2% on creditors.
7. Interest on Govt. Bonds is due Rs.3500.

9. The following Trial Balance has been extracted from the books of XYZ Ltd. as on 31st March,18. Prepare P&L A/c. and Balance Sheet.

	Rs.		Rs.
Land & Buildings	14000	Share Capital	20000
(Original cost Rs.30000)		General Reserve	3000
Furniture	800	8% Debentures	10000
(Original cost Rs.1500)		Bank O.D.	150
Plant & Machinery	10000	Sundry Creditors	1600
(Original cost Rs.20000)		Share Premium	1000
Stock on 31.3.18	12800	Debenture	
Salaries	800	Redemption Reserve	4000
Printing & Stationery	120	Gross Profit	10400
Debtors	7000	surplus A/c.	850
Investments	600		
Cash	200		
Preliminary expenses	400		
Bank balance	2400		
Advance Income Tax	800		
Interest	200		
Debenture Interest	400		
Directors' fees	200		
Rent, Rates & Insurance	280		
	51000		**51000**

Further Information:

1. Depreciation is to be provided for as under:
    a) Land & Buildings at 5% on Straight Line Basis.
    b) Furniture and Plant at 10% on Reducing Balance Basis.
2. Debtors worth Rs.6000 are less than 6 months old. Out of the

remaining debtors worth Rs.500 are considered bad.

3. Authorized capital consists of 1000 equity shares of Rs.100 each, of which 400 shares are issued and Rs.50 per share paid up.
4. Provide for: a)Audit fees Rs.250; b) Provision for tax Rs.2400.
5. Insurance is prepaid to the extent of Rs.80.
6. The directors have recommended:
   a) Transfer Rs.1000 to Redemption Reserve.
   b) Transfer Rs.400 to General Reserve.
   c) Equity dividend at 8% on paid up capital.
7. It has been decided to write off half of the preliminary expenses.
8. Previous year's figures need not be given.

10. The following is the Trial Balance of Universal Earthmovers Ltd. as on 31st March,1998.

	Rs.		Rs.
Opening Stock	290000	Surplus A/c.	50900
Power	10300	Sales	365000
Salaries & Wages	217000	Share Capital	500000
Purchases	232200	Provision for tax	15000
Rent & Taxes	7500	Provision for doubtful	6300
Insurance	10000	debts	125000
Prepaid expenses	27500	Secured Bank loan	100000
Repairs to Building	21000	General Reserve	1600
Managerial	11100	Unclaimed dividends	133000
Commission	475000	Creditors	1800
Land & Buildings	350000	O/s Commission	624000
Machinery	8500	Depreciation A/c.	600
Furniture	4000	Misc. Receipts	75000
Office equipment	22500	O/s expenses	
Motor Vehicles	290000		
Sundry Debtors	21600		
Bank	**1998200**		**1998200**

Other Information:

1. Closing Stock Rs.580000.
2. Provide Rs.20000 for further taxation.
3. The depreciation written off to 31.3.17 was as follows:
   Land & Buildings – Rs.289200
   Machinery - 309300
   Furniture - 7500
   Office equipment - 3500
   Motor Vehicles - 14500
4. Debtors outstanding more than 6 months Rs.6300 out of which Rs.2000 is bad debt and the rest are doubtful.

5. Transfer Rs.60000 to General Reserve and provide Rs.7.50 dividend per share.
6. The authorized share capital is 10000 shares of Rs.100 each, all are issued and subscribed and Rs.50 per share paid up.

11. RKC was registered with an authorized capital of Rs.30,00,000 in equity shares of Rs.10 each. The following is the list of balances extracted from the books on 31.12.19.

	Rs.		Rs.
Purchases	925000	Cash	28750
Wages	424325	Paid up Capital	2000000
Mfg. expenses	65575	surplus A/c. (Cr.)	72500
Salaries	70000	6% Debentures	1500000
Bad debts	10550	Sundry Creditors	290000
Directors' fees	31125	Sales	2075000
Debenture interest	45000	B/P	167500
paid	25000	Plant	1500000
Preliminary expenses	37500	Premises	1650000
Calls in arrears	84175	Interim dividend	187500
General expenses	375000	Furniture	35000
Stock on 1.1.19	100000	Sundry Debtors	436000
Goodwill	199500	General Reserve	125000
Bank			

prepare final accounts after making the following adjustments.

1. Stock on 31.12.19 was Rs.455000.
2. Depreciate Plant by 10%.
3. Provide half year's interest on debentures.
4. Write off Rs.2500 from Preliminary expenses.
5. Make provision for bad and doubtful debts Rs.4250.

12. The following is the Trial Balance of a company as on 31st March,19.

Particulars	Rs.	Rs.
Stock on 31.03.19	75000	
Purchases and Sales	245000	340000
Productive Wages	30000	
carriage	950	
furniture	17000	
Reserve		15500
Cash	45300	
Discounts		3000
Salaries	7500	
Rent	4000	
General expenses including insurance	16950	
surplus		15000
Debtors & Creditors	27500	17500

Plant & Machinery	29000	
Capital (10,000 shares of Rs.10 each)		100000
Patents	4800	
Bills receivable	5000	
Purchase returns		10000
Bills payable		7000
	508000	**508000**

You are required to prepare final accounts.

1. Stock on 31.03.19 Rs.88000.
2. Provide income tax at 35% and corporate tax at 10%.
3. Depreciate Machinery at 15%, furniture 10% and patents at 5%.
4. Outstanding rent Rs.800 and salaries Rs.900.
5. Provide Rs.510 for doubtful debts.
6. The board recommended the payment of divided at15%p.a.
7. Transfer the minimum required amount to general reserve.

13. The following balances appeared in the books of Krishna Flour Mills Ltd. as on 31st March,12.

Particulars	Rs.	Rs.
Stock of Wheat	4500	
Stock of Flour	8250	
Wheat purchases	202000	
Flour sales		277000
Mfg. expenses	45000	
Salaries & Wages	6500	
Establishment	2800	
Interest		2500
Rent received		4000
surplus A/c.		17500
Directors' fees	3000	
Dividend (2011)	4500	
Land	16000	
Buildings	27500	
Plant & Machinery	28850	
Furniture	2550	
Motor Vehicles	2550	
Stores and Spare parts	9150	
Advances	12250	
Sundry Debtors	35850	
Investments	12000	
Share Capital		36000
Pension Fund		11500
Dividend Equalization Fund	87	15000

Taxation Provision		4250
Unclaimed dividends		450
Deposits		1800
Trade Creditors		40000
Bills Payable		21000
Bills Receivable	5000	
Bank	15600	
Reserve Fund		12850
	443850	**443850**

Prepare final accounts by taking the following into account.

1. Stock on 31.03.12: Wheat at cost – Rs.7450.
   Flour at market rate – Rs.10850.
2. O/s expenses: Mfg. expenses – Rs.11250 ; Salaries – Rs.600;
   Establishment – Rs.500.
3. Provide depreciation: On Buildings – 2% p.a.; On Plant&Machinery-10%
   On Furniture – 10% ; Motor Vehicles-20%
4. Interest accrued on Govt. Securities Rs.500.
5. The directors propose a dividend of 20%.
6. Provision for taxation is to be made at Rs.6000.
7. B/R Rs.2000 were endorsed to Creditors on 31.03.12 but no entry has been passed.
8. The authorized capital consists of 6000 shares of Rs.10 each of which 3600 shares are issued and fully paid.

14. The authorized capital of YK Ltd. is Rs.7,50,000 consisting of 3000; 6% cumulative preference shares of Rs.100 each and 4500 equity shares of Rs.100 each. The following is the Trial Balance on 31st Dec.,13.

Particulars	Rs.	Rs.
Paid up Capital:		
3000; 6% Cumulative Preference Shares		300000
3000 equity shares, Rs.75 paid up		225000
Goodwill	100000	
5% Mortgage Debentures		210000
Freehold Property at cost	390000	
Debtors & Creditors	167500	125520
General Reserve		82725
Stock on 1.1.13	241500	
Surplus A/c.		58500
Reserve for taxation		8800
Salaries	108500	
Delivery expenses 88	33250	

Rent and Rates	21000	
General expenses	102000	
Furniture at cost	75000	
Purchases & Sales	486500	928600
Bills Receivable	6000	
Freight & Carriage	3750	
Investments	60000	
Debenture Interest (Half Year)	5250	
Final dividend for 2012	20250	
Preference dividend (Half year ended 30.06.13)	9000	
Bank	97500	
Cash	14145	
Shares forfeited a/c.		2000
	1941145	**1941145**

Other Information:

1. Closing Stock Rs.215000.
2. Depreciate Freehold Property at 2.5% and Furniture at 6%.
3. The directors propose to pay the second half year's dividend on preference shares and 10% dividend on equity shares.
4. 50 shares have been forfeited on non-payment of Rs.35 per share.

You are required to prepare final accounts.

15. The Bharat Mfg. Co. Ltd. has an authorized capital of Rs.3,00,000 divided into 3000 equity shares of Rs.100 each. 2000 shares were issued to the public on 01.04.18 and the shares were paid at Rs.80 per share.
The directors made a call for the remaining Rs.20 per share on 01.01.19. The following Trial Balance is on 31st March,19.

Particulars	Dr. Rs.	Cr. Rs.
Goodwill	16000	
Debtors & Creditors	20800	30600
Land & Buildings	90000	
Plant & Machinery	165600	
Loose Tools	9400	
Furniture & Fittings	3600	
Preliminary expenses	4900	
Calls in arrears	2500	
Cash in hand	500	
5% Govt. Tax free Bonds (Face value Rs.10,000)	9880	
Bills Receivable	13600	
Motor Vehicles	3000	

surplus A/c. on 1.4.18		8800
Reserve		15000
Bank O.D.		11180
Purchases & Returns	240000	5000
Advertisement	2540	
Returns & Sales	7000	307800
Legal charges	1000	
Carriage	3700	
Wages	23200	
Rent, Rates & Insurance	4900	
Share Capital		200000
6% Debentures		100000
Stock on 1.4.18	47600	
Income Tax	2800	
Trade expenses	1500	
Repairs to Plant	860	
Interim dividend for half year (30-09-18)	3500	
	678380	**678380**

Prepare final accounts.

1. Create RBDD at 5%.
2. Charge depreciation at 5% on Plant & Machinery, 7.5% on Furniture, 10% on Loose Tools and 20% Motors.
3. The stock in trade on 31.03.19 valued at Rs.54200.
4. On 16th Nov., the directors declared on interim dividend of 5% p.a. for 6 months ending on 30th Sep.,18.
5. The directors have proposed a final dividend of 6% for the year.

16. Sankar Ltd. have an authorized capital of Rs.1,00,000 comprising of 2500, 6% preference shares and 7500 equity shares both of Rs.10 each.

From the following balances, prepare Manufacturing A/c., P&L A/c. for the year ended 31st March,1994 and Balance Sheet as on that date.

Rs. Rs.

Stock on 1.4.13:		Plant & Machinery	29000
Materials	27000	Office Furniture	9000
W.I.P.	3000	Sales	170000
Finished goods	24000	Sundry Income	1750
Salaries & Wages	30000	General Reserve	10000
Insurance	750	Equity Capital – 5000 shares	
Purchase of materials	120000	of Rs.10 each	50000
Inward freight	10500	Preference Capital _ 1000	
Electricity, Power and Fuel	3000	shares of Rs.10 each	10000
Rent, Rates & Taxes	1500	Dividend Equalization Fund	3000
Interest	3000	Secured Loans	20000
Sundry expenses	13800	Bank O.D.	35000
Calls in arrears – equity	750	Sundry Creditors	10000
Sundry Debtors	26000	Provisions for taxation	1950
Bank	13200	Unpaid dividend	8500
Land & Buildings	7500	surplus A/c.	1800

The following additional information is available:-

1. Closing Stock: Raw Material - Rs.33000
   W.I.P. - 4000
   Finished goods 40000
2. Depreciate Land & Buildings at 2%, Plant & Machinery at 10% and Furniture at 15%.
3. Apportion electricity and Salaries between factory and office in 2:1.
4. Out of the debtors Rs.900 are doubtful but it is decided to provide 4% on debtors
5. Transfer Rs.1000 to General Reserve.
6. Provide for 10% equity dividend on Paid up Capital.

17. The following balances are extracted from the books of Byson Jeans Ltd. as on 31st March,15.

	Rs.		Rs.
Stock on 1.4.14	57600	Dividends paid	52450
Machinery	200000	Sales	987800
Carriage in	20400	Purchases	406750
Creditors	63000	Fuel & Power	47300
Salaries	150000	Wages	104800
Freehold Property	100000	Carriage on Sales	3200
Returns inward	6800	Sundry Debtors	145000
Cash	5400	Bank	26300
Insurance	6000	General expenses	30000
Returns outwards	5000	Furniture	100000
Capital (Rs.10 each)	600000	Buildings	200000
Patents	75000	surplus A/c. on 1.4.14	110000

1. Authorized Capital of the Company consists of 1,00,000 shares of Rs.10 each out of which 70,000 shares were offered to public and 60,000 shares were subscribed.
2. The closing stock on 31.03.15 was valued at Rs.68000 but its market value was more by Rs.7000.
3. Patents, Buildings, Machinery and Furniture are to be written off and provision for doubtful debts maintained, all at 5%.
4. Wages include Rs.20,000 paid on 31.03.15 for erection of Cycle Shed for the use of employees.
5. Transfer Rs.20,000 to General Reserve.
6. The directors proposed 10% dividend.

Prepare the Company's final accounts.

18. From the following details of Sri Tronics Ltd., prepare final accounts as on 31.03.15.

	Rs.in '000s		Rs.in '000s
Authorized Capital	40,000	Debtors	59,000
Subscribed Capital	20,000	Bank	320
Stock on 01.04.14:		Loans & Advances	580
Materials	50,020	Development Reserve	2,340
W.I.P.	20,080	Investment Reserve	4,250
Finished goods	99,900	General Reserve	25,800
Purchases	4,48,400	Secured Loans	13,480
Sales	6,69,700	Fixed deposits	16,000
Salaries & Wages	29,710	Depreciation Fund	28,000
Other expenses	1,17,640	Depreciation	3,550
Other incomes	2,880	Investments	190
Sundry Creditors	1,10,775	Accrued Interest	25
Fixed assets at cost	63,870		

Additional Information:

1. Stock on 31.03.15: Material - Rs.3,00,00,000
W.I.P. - 2,50,00,000
Finished goods 7,59,00,000
2. Market value of Investments Rs.1,95,000.
3. Provide for dividend at 25%.
4. Transfer to General Reserve Rs.1,00,000.
5. Sundry debtors include Rs.1,00,000 outstanding for more than 6 months.

19.

9. Following is the Trial Balance of X Ltd as at 31st March, 2020.

Particulars	Debit (Rs.)	Credit (Rs.)
Stock as on 1-4-2019	2,08,000	
Purchases & sales	17,00,000	21,60,000
Freight charges	40,000	
Wages	3,00,000	
Discount	74,960	40,000
Furniture	4,00,000	
Salaries	1,48,000	
Rent	37,800	
Sundry expenses	20,280	
P & L A/c (1-4-2019)		2,04,240
Goodwill	2,60,000	
Share capital		10,00,000
Debtors & Creditors	2,94,000	2,86,000
Machinery	3,68,000	
Cash & Bank	1,05,200	
Reserve fund		2,06,000
Patents	1,20,000	
10% Debentures		2,00,000
Interest on Debentures	20,000	
	40,96,240	40,96,240

Adjustments :

a. Closing stock - Rs. 8,80,000

b. Depreciate furniture @ 10% & Machinery @ 15%.

c. Write off Goodwill Rs. 60,000.

d. Provision for Taxation - 30%

e. Proposed dividend - 15% (Ignore CDT)

Prepare final Accounts.

Q20
Exam 2018 BU

7. Premier Company Ltd. had an authorised capital of ₹ 6,00,000 in equity shares of ₹ 10 each. The Trial Balance on 31-03-2015 is given below :

Calls in arrears	7,500
Premises	3,00,000
P and M	3,30,000
Interim dividend (including corporate dividend tax)	37,500
Stock (1-4-2014)	75,000
Fixtures	7,200
Debtors	87,000
Goodwill	25,000
Cash in hand	760
Cash at bank	39,900
Purchases	1,85,000
Preliminary expenses	5,000
Wages	84,865
General expenses	16,835
Freight and carriage	13,115
Salaries	14,500
Director's fees	5,725
Bad debts	2,100

Debenture interest paid	9,000
Called up capital	4,00,000
6% Debenture	3,00,000
Profit and Loss A/c (1-4-2014) Cr.	14,500
Bills payable	38,000
Creditors	50,000
Sales	4,15,000
General Reserve	25,000
Bad debts provision (1-4-2014)	3,500

Adjustments :

1) Depreciate plant and machinery by 10%.
2) Write off preliminary expenses ₹ 500.
3) Provide for debenture interest due.
4) Of the debtors ₹ 500 are further bad.
5) Provide for R.D.D. at 5% on debtors.
6) Closing stock ₹ 95,000.

Prepare income statement and Balance Sheet.

Q21.

11. On 31.03.2013 the following ledger balances were extracted from the books of Bhavani Manufacturing Company Ltd. :

Dr.	Rs.	Cr.	Rs.
Calls in arrears	37,500	Equity share capital	23,00,000
Plant and Machinery	18,00,000	Bills payable	1,90,000
Stock (1.4.2012)	3,75,000	General reserve	1,25,000
Furniture	36,000	Profit and loss a/c (1.4.2012)	72,500
Sundry debtors	4,35,000	6% debentures	15,00,000
Buildings	15,00,000	Sales	24,80,000
Purchases	9,25,000	Reserve for doubtful debts	17,500
Interim dividend paid	3,75,000	Sundry creditors	2,30,000
Rent	24,000		
General expenses	24,500		
Debenture interest	45,000		
Preliminary expenses	25,000		
Manufacturing expenses	65,500		
Goodwill	1,45,000		
Wages	4,24,000		
Cash in hand	39,500		
Cash at bank	1,91,500		
Director's fees	28,500		
Bad debts	10,500		
Commission paid	36,000		
Salaries	72,500		
4% Government securities	3,00,000		
	69,15,000		69,15,000

Adjustments :

(a) Depreciate Plant and Machinery by 10% and Furniture by 5%

(b) Write off Preliminary expenses by 20%

(c) Transfer Rs. 25,000 General reserve

(d) Provide for Income tax Rs. 62,500

(e) Half year's Debenture interest is outstanding

(f) Provide for final dividend at 5%. Ignore Corporate Dividend Tax

(g) Maintain provision for doubtful debts 5% on Sundry debtors

(h) The stock on 31.03.2013 was estimated at Rs. 5,04,000.

You are required to prepare the final accounts.

Exam 2022 BU

From the following trial balance prepare Final Accounts of Fazal Company for the accounting period 31st March 2020.

Sl. No.	Particulars	Dr.	Cr.
1	Sales		13,08,000
2	General Reserve		24,000
3	Opening inventories	1,16,800	
4	Trade payable		51,780
5	Purchase of goods	4,64,160	
6	Depreciation on Tangible Assets	31,000	
7	Trade Receivables	1,70,000	
8	Salary Expenses	1,96,940	
9	Provision for Bad and Doubtful debts		10,000
10	Cash & Cash Equivalents	71,000	
11	Tangible Assets	3,10,000	
12	Freight	97,760	
13	Amortizations on Tangible Assets	37,000	
14	Sundry Expenses	85,720	
15	Share capital (Equity Shares of 100 each)		5,00,000
16	Profit & Loss A/c		14,000
17	Preliminary Expenses	40,000	
18	Power & Fuel	1,08,400	
19	Bad debts	7,000	
20	Intangible Assets	1,72,000	
	Total	**19,07,780**	**19,07,780**

Adjustments :

i) Create provision for taxation at 30%.

ii) Write - off $\frac{1}{5}^{th}$ of Preliminary Expenses.

iii) Write - off Rs. 5,000 as bad debts and maintain PBDD @ 10% on Debtors.

iv) Closing inventories Rs. 57,600.

v) Directors proposed dividend of 15%.