FINANCIAL ACCOUNTING

(As per the Revised Syllabus of T.Y. BAF, 2015-16, Semester V, University of Mumbai)

Winner of "Best Commerce Author – 2013-14" by Maharashtra Commerce Association
"State Level Mahatma Jyotiba Phule Excellent Teacher Award 2016"

Lion Dr. Nishikant Jha

ICWA, PGDM (MBA), M.Com., Ph.D., D.Litt. [USA],
CIMA Advocate [CIMA U.K.], BEC [Cambridge University],
International Executive MBA [UBI Brussels, Belgium, Europe],
Recognised UG & PG Professor by University of Mumbai.
Recognised M.Phil. & Ph.D. Guide by University of Mumbai.
Assistant Professor in Accounts & HOD, BAF, Thakur College of Science & Commerce.

Visiting Faculty in K.P.B. Hinduja College for M.Phil. & M.Com., University of Mumbai.
CFA & CPF (USA), CIMA (UK), Indian & International MBA, CA & CS Professional Course.

Prof. Nimesh Jotaniya

PGDFM, M.Com., UGC-NET
Assistant Professor in Accounts,
Thakur College of Science & Commerce,
Kandivali (W), Mumbai.

Rajendra U. Patil

M.Com., M.Phil., MAH-SET
Assistant Professor,
Navneet Education Society,
Night Degree College, Tardeo, Mumbai.

First Edition : 2016

Himalaya Publishing House

ISO 9001:2008 CERTIFIED

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First Edition : 2016

Published by : Mrs. Meena Pandey for **Himalaya Publishing House Pvt. Ltd.,**
"Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai - 400 004.
Phone: 022-23860170/23863863, Fax: 022-23877178
E-mail: himpub@vsnl.com; Website: www.himpub.com

Branch Offices :

New Delhi : "Pooja Apartments", 4-B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi - 110 002. Phon e: 011-23270392, 23278631; Fax: 011-23256286

Nagpur : Kundanlal Chandak Industrial Estate, Ghat Road, Nagpur - 440 018. Phone: 0712-2738731, 3296733; Telefax: 0712-2721216

Bengaluru : Plot No. 91-33, 2nd Main Road Seshadripuram, Behind Nataraja Theatre, Bengaluru-560020. Phone: 08041138821, 9379847017, 9379847005

Hyderabad : No. 3-4-184, Lingampally, Besides Raghavendra Swamy Matham, Kachiguda, Hyderabad - 500 027. Phone: 040-27560041, 27550139

Chennai : New-20, Old-59, Thirumalai Pillai Road, T. Nagar, Chennai - 600 017. Mobile: 9380460419

Pune : First Floor, "Laksha" Apartment, No. 527, Mehunpura, Shaniwarpeth (Near Prabhat Theatre), Pune - 411 030.
Phone: 020-24496323/24496333; Mobile: 09370579333

Lucknow : House No 731, Shekhupura Colony, Near B.D. Convent School, Aliganj, Lucknow - 226 022. Phone: 0522-4012353; Mobile: 09307501549

Ahmedabad : 114, "SHAIL", 1st Floor, Opp. Madhu Sudan House, C.G. Road, Navrang Pura, Ahmedabad - 380 009.
Phone: 079-26560126; Mobile: 09377088847

Ernakulam : 39/176 (New No: 60/251) 1st Floor, Karikkamuri Road, Ernakulam, Kochi – 682011. Phone: 0484-2378012, 2378016 Mobile: 09387122121

Bhubaneswar : 5 Station Square, Bhubaneswar - 751 001 (Odisha).
Phone: 0674-2532129, Mobile: 09338746007

Kolkata : 108/4, Beliaghata Main Road, Near ID Hospital, Opp. SBI Bank, Kolkata - 700 010, Phone: 033-32449649, Mobile: 7439040301

DTP by : Prerana Enterprises, Mumbai.

Printed at : Rose Fine Arts, Mumbai. On behalf of HPH.

PREFACE

We are happy to present this book ***"Financial Accounting"*** to the students of T.Y.BAF or T.Y. B.Com (Accounting and Finance) for Semester V. In this edition, an effort has been made to incorporate professional examination questions at relevant places in the book.

The syllabus contains a list of topics covered in each chapter which will avoid controversies regarding the exact scope of the syllabus. The text follows the term-wise chapter topics pattern prescribed in the syllabus. We have preferred to leave the text of the section and rules as it is and thereafter, added the comments with the intention of explaining the subject to the students in a simplified language. While making an attempt to explain in a simplified language, any mistake of interpretation might have crept in. This book is an unique presentation of subject matter in an orderly manner. This is a student-friendly book and tutor at home. We hope the teaching faculty and students community will find this book of great use.

We are extremely grateful to students of T.Y.BAF and Mr. K.N. Pandey of Himalaya Publishing House Pvt. Ltd. for their devoted and untiring personal attention accorded by them to this publication. We gratefully acknowledge and express our sincere thanks to the following people without whose inspiration, support and constructive suggestions, this book would not have been possible.

- *Mr. Jitendra Singh Thakur (Trustee, Thakur College)*
- *Dr. Chaitaly Chakraborty (Principal, Thakur College)*
- *Mrs. Janki Nishikant Jha*

We welcome suggestions from students and teachers for further improvement of the book.

Authors

Financial Accounting and Auditing Paper V: Financial Accounting

Modules at a Glance

Sr. No.	Modules	No. of Lectures
1	AS-14, Amalgamation, Absorption and External Reconstruction (Excluding Inter-company Holdings)	15
2	Internal Reconstruction	15
3	Underwriting of Shares and Debentures	10
4	Liquidation of Companies	10
5	Buyback of Equity Shares	10
	Total	**60**

Sr. No.	Modules/Units
1	**AS-14 – Amalgamation, Absorption and External Reconstruction (Excluding Inter-company Holdings)** In the nature of merger and purchase with corresponding accounting treatments of pooling of interests and purchase method respectively. Meaning and computation of purchase consideration. Inter-company debtors, creditors, loan, bills, loading in stock.
2	**Internal Reconstruction** Need for reconstruction and company law provisions. Distinction between internal and external reconstructions. Methods including alteration of share capital, variation of shareholder rights, subdivision, consolidation, surrender and reissue/cancellation, reduction of share capital with relevant legal provisions and accounting treatment for same.
3	**Underwriting of Shares and Debentures** Introduction, Underwriting, Underwriting Commission Provision of Companies Act with respect to Payment of underwriting commission, Underwriters, Sub-Underwriters, Brokers and Manager to issues, Types of underwriting, Abatement Clause Marked, Unmarked and Firm-underwriting applications, Liability of the underwriters in respect of underwriting contract ------ Practical problems.
4	**Liquidation of Companies** Meaning of liquidation or winding up, Preferential payments, Overriding preferential payments, Preparation of statement of affairs, deficit/surplus account, Liquidator's final statement of account.
5	**Buyback of Shares** Company Law/Legal provisions (including related restrictions, power, transfer to capital redemption reserve account and prohibitions), Compliance of conditions including sources, maximum limits and debt-equity ratio. Cancellation of Shares bought back (excluding buyback of minority shareholding).

Question Paper Pattern

Scheme of Examination

Credit Based Grading System Scheme of Examination

- **Internal Assessment – 25%** — **25 Marks**
- **Semester End Examinations – 75%** — **75 Marks**

Duration: $2^1/_2$ Hours. **Maximum Marks: 75**

All questions are compulsory carrying 15 marks each. **Questions to be Set: 05**

	Particulars	Marks
Q.1	Objective Questions (a) Sub-questions to be asked (10) and to be answered (any 08) (b) Sub-questions to be asked (10) and to be answered (any 07) (*Multiple Choice/True or False/Match the Column, Fill in the Blanks)	15 Marks
Q.2	Full Length Practical Question	15 Marks
	OR	
Q.2	Full Length Practical Question	15 Marks
Q.3	Full Length Practical Question	15 Marks
	OR	
Q.3	Full Length Practical Question	15 Marks
Q.4	Full Length Practical Question	15 Marks
	OR	
Q.4	Full Length Practical Question	15 Marks
Q.5	(a) Theory Questions	08 Marks
	(b) Theory Questions	07 Marks
	OR	
Q.5	Short Notes To be asked (05) To be answered (03)	15 Marks

Note: Full length question of 15 marks may be divided into two sub-questions of 08 and 07 marks.

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CHAPTER 1

AMALGAMATION OF COMPANIES

With effect from	01.04.1995	
Levels of Enterprises	Companies (AS) Rules, 2006 All types of Companies	Enterprises other than Companies I, II & III

1. DEFINITIONS AND SCOPE

1. **Scope:** AS 14 is primarily directed at Companies –

   (a) To account for amalgamations, and

   (b) To account for any resultant Goodwill or Reserves.

   Note: Even though it is primarily directed at Companies, AS – 14 requirements may also apply to Financial Statements of other enterprises.

   AS – 14 specifically excludes acquisitions in the nature of purchase by one Company of Shares or assets of another Company, the consideration being paid by way of – (a) Cash, or (b) by issue of shares or other securities in the acquiring Company, or (c) partly in one form and partly in the other.

Particulars	Amalgamation	Acquisition
1. Meaning	It means an **amalgamation** pursuant to the provisions of the Companies Act, 1956, or any other applicable statute.	**Acquisitions** arise when there is a purchase by one Company of whole or part of the Shares or assets of another Company.
2. Parties	Transferor Company & Transferee Company.	Acquired Company & Acquiring Company.
3. Entity	Transferor Company ceases to exist after amalgamation.	Acquired Company is not dissolved. It continues to exist as a separate Company.
4. AS – 14	Applicable.	Not Applicable.
5. Governing Statute	Companies Act, 1956	SEBI Act, 1992

Amalgamation vs. Absorption: Amalgamation **Includes –** (a) two or more Companies joining to form a New Company, and or (b) absorption and blending of one by the other. Thus, Amalgamation includes Absorption also.

1. **Amalgamation:** It means an amalgamation pursuant to the provisions of the Companies Act, 1956, or any other statute, which may be applicable to Companies.
2. **Transferor Company:** It means the Company, which is amalgamated into another Company.
3. **Transferee Company:** It means the Company into which a Transferor Company is amalgamated.
4. **Reserve:** It means the portion of earnings, receipts or other surplus of an Enterprise, (whether capital or revenue) appropriated by the Management for a general or specific purpose, other than a provision for depreciation or diminution in the value of assets or for a known liability.

5. **Consideration:** Consideration for the amalgamation means, the aggregate of the Shares and other securities issued and the payment made in the form of cash or other assets, by the Transferee Company, **to the Shareholders** of the Transferor Company.
6. **Fair Value:** Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing Buyer and a knowledgeable, willing Seller, in an arm's length transaction,
7. **Pooling of Interests Method:** It is a method of accounting for amalgamations, the object of which is to account *for* the amalgamation as if the separate businesses of the amalgamating Companies were intended to be continued by the Transferee Company. Accordingly, only minimal changes are made in aggregating the individual Financial Statements of the amalgamating Companies.

Type	Amalgamation in the nature of Merger	Amalgamation in the nature of Purchase
1. Meaning	There is a pooling of assets and liabilities of both Companies, as also the interests of the Shareholders and the businesses of the amalgamating Companies.	One Company acquires another Company, but the Shareholders of the Amalgamating Company do not continue to have a proportionate interest in the Equity or the business of the combined Company.
2. Continuation of business	The business of the Transferor Company is intended to be continued by the Transferee Company.	The business of the Company may not be intended to be continued by the Transferee Company.
3. Carrying amounts	All Assets, Liabilities, Capital and Reserves represent the sum of the relevant figures of the amalgamating Companies.	Assets and Liabilities may not be taken up in full by the Transferee Company in total. In effect, there is no pooling of assets and liabilities.
4. Participation in Management	There is a continuing participation by the Management of the Transferor Company in the Management of the Transferee Company after the amalgamation.	The Transferee Company takes the role of a dominant party after the amalgamation.
5. Method of Accounting	The Pooling of Interests Method is generally used for accounting.	The Purchase Method is normally used for accounting.

Amalgamation in the nature of Merger is an amalgamation, which satisfies all the following conditions

1. **Assets and Liabilities:** All the Assets and Liabilities of the Transferor Company become, after amalgamation, the assets and liabilities of the Transferee Company.
2. **Equity Shareholders:** Shareholders holding not less than 90% of the Face Value of the Equity Shares of the Transferor Company, (other than the Equity Shares already held therein, immediately before the amalgamation, by the Transferee Company or its Subsidiaries or their Nominees) become Equity Shareholders of the Transferee Company by virtue of the amalgamation.
3. **Consideration to Equity Shareholders = Equity Shares:** The consideration for the amalgamation receivable by those Equity Shareholders of the Transferor Company who agree to become Equity Shareholders of the Transferee Company, is discharged by the Transferee Company wholly by the issue of Equity Shares in the Transferee Company, except that cash may be paid in respect of any fractional Shares.

4. **Continuity of business:** The business of the Transferor Company is intended to he carried on, after the amalgamation, by the Transferee Company.

5. **Book Values of Assets and Liabilities:** No adjustment is intended to be made to the Book Values of the Assets and Liabilities of the Transferor Company, when they are incorporated in the Financial Statements of the Transferee Company, except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase is an amalgamation,

which does not satisfy any one or more of the conditions specified above.

2. Types of Amalgamation and Methods of Accounting

Method **Para Ref.**	**Pooling of Interests Method** **10, 11, 31, 33, 34, 35**	**Purchase Method** **12, 13, 32, 36, 37, 38, 39**
1. Used in	Generally used in amalgamations in the nature of **Merger.**	Normally used in amalgamations in its nature of **Purchase.**
2. Recording of Assets and Liabilities	Assets, Liabilities and Reserves of the Transferor Company are recorded at their **existing Carrying Amounts,** subject to adjustments for uniformity in accounting policies.	Assets and Liabilities are recorded either at their – (a) existing Carrying Amounts, or (b) by allocating the consideration to individual assets on the basis of their **Fair Values.**
3. Profit & Loss Account of the Transferor Company	Balance of the Profit & Loss Account of the Transferor Company should be – * aggregated with the corresponding balance in P&L A/c of the Transferee Company, OR * transferred to the General Reserve, if any, of the Transferee Company.	Balance in the Profit & Loss Account appearing in the Financial Statements of the Transferor Company, whether debit or credit, loses its **Identity.**
4. Treatment of Non–Statutory Reserves	Capital or Revenue Reserves should be recorded at their **existing Carrying Amounts** and in the same form as **at** the date of amalgamation.	Capital or Revenue Reserves. **(other than Statutory Reserves)** should not be included in the Financial Statements of the Transferee Company. Statutory Reserves are **retained** at the existing Carrying Amount by the entry –
5. Treatment of Statutory Reserves	Statutory Reserves are retuned at the existing Carrying Amount, in the books of the Transferee Company.	Amalgamation Adjustment Account Dr. To Statutory Reserve (by name) A/c When the Statutory Reserve is no longer required to be maintained, the above entry should be reversed.
6. Goodwill Capital Reserve	Difference between the amount recorded as Share Capital issued (plus any additional consideration in the form of cash or other assets), and the amount of Share Capital of the Transferor Company should be adjusted in **Reserves,** in the Financial Statements of the Transferee Company. **[Note:** See **EAC Opinion** for treatment of Capital Reserve.]	Excess Consideration over the value of the net assets of the Transferor Company should be recognised in the Transferee Company's Financial Statements as **Goodwill,** which should be amortised to income on a systematic basis over its useful life. **(normally five years.)** If the consideration is lower than the value of the Net Assets acquired, the difference should be treated as **Capital Reserve.**

7. Adjustments to Assets and Liabilities	Adjustments become necessary only, when both Companies have conflicting accounting policies. The effect of changes in accounting policies must be disclosed, as per AS – 4.	Adjustments become necessary to – (a) ensure uniformity in accounting policies, or, (b) record assets not recorded in the books of the Transferor Company, e.g. Know-how or other Intangible Asset, or, (c) record liability not recorded in the books of the Transferor Company, e.g. provision for planned employee termination or plant relocation costs.
8. Management Intervention	There is no domination by the Management of either of the amalgamating Companies in recording Assets and Liabilities.	The Management of the Transferee Company may influence the determination of Fair Values for Assets and Liabilities.

1. Components: The consideration for the amalgamation (both in the nature of Merger or Purchase) may consist of – (a) Securities, (b) Cash, or (c) Other Assets.

2. Valuation of Consideration: Valuation becomes necessary only when there is a non cash element in the consideration. In determining the value of non cash consideration, an assessment is made of the Fair Value *of its* elements. A variety *of* techniques are applied in arriving at Fair Value, e.g. –

Nature of Consideration	Valued at
(a) In case of Securities	Fair Value is the value fixed by the statutory authorities, if any. Alternatively, other techniques may be applied.
(b) In case of other assets	Fair Value is Market Value of the assets given up. When it is not readily available, then respective Net Book Values are considered.

3. Adjustments: Consideration may be subject to adjustments in the light of one or more future events, e.g.

(a) When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration.

(b) In all other cases, the adjustment is recognised as soon as the amount is determinable.

Particulars	Amalgamation in the nature of Merger	Amalgamation in the nature of Purchase
1. Identity of Reserves	The identity of the Reserves is preserved, and they appear in the Financial Statements of the Transferee Company in the same form in which they appeared in the Financial Statements of the Transferor Company.	The identity of the Reserves is not preserved. However, Statutory Reserves to be maintained for a specified period, e.g. Development Allowance Reserve and Investment Allowance Reserve under Income Tax Act, are recorded at the existing Carrying Amounts.
2. Reserves for Dividend Distribution	Reserves, which were available for distribution as dividend before the amalgamation, would also is available for distribution as dividend after the amalgamation.	The identity of the Reserves is **not preserved.** The question of Dividend Distribution out of Capital Reserve does not arise.

3. Treatment of Consideration	The difference between the consideration and the amount of Share Capital of the Transferor Company is adjusted in the **Reserves** in the Financial Statements of the Transferee Company. **[See Note below for EAC Opinion** on Capital Reserve]	The amount of consideration is deducted from the value of the Net Assets of the Transferor Company acquired by the Transferee Company. The treatment is as under (a) **When Consideration > Net Assets:** Difference is debited to. **Goodwill** A/c. (b) **When Consideration** < Net **Assets:** Difference is credited to **Capital Reserve** A/c.

Note: Capital Reserve in case of Amalgamation in the nature of Merger EAC Opinion

● **Capital Reserve:** The difference between Issued Share Capital of the Transferee Company [i.e. Purchasing Company] and the Share Capital of the Transferor Company (is) [i.e. Selling Company (is)] should be treated as Capital Reserve, in the books of the Transferor Company. ● **Restriction:** Reserve created on amalgamation is not available for the purpose of distribution to Shareholders as dividend and / or Bonus Shares. ● **Applicability:** Capital Reserve arises only if the Purchase Consideration (i.e. Shares issued by the Purchasing Company) is **less** than the Share Capital (Equity + Preference) of the Transferor Companies.	**EAC Opinion (April 2004 CA Journal Page 1042)**

In the case of Amalgamation in the nature of Merger

Treatment of difference between Purchase Consideration & Share Capital of Transferor Companies

Purchase Consideration is **more than** the Share Capital of Transferor Company.	Purchase Consideration is **less than** the Share Capital of Transferor Company.
Excess Consideration shall be adjusted against — ● **Free Reserves of Transferor,** i.e. Selling Company (Statutory Reserves like Investment Allowance Reserve, Export Profit Reserve, etc. should not be adjusted). ● **Free Reserves,** if any, **of the Purchasing Company,** i.e. General Reserve, P & L Account, etc.	● Shortfall in Consideration* shall be credited to **Capital Reserve.** ● This Reserve is similar to Share Premium. ● This Reserve cannot be used for distribution to Shareholders as dividend and/or Bonus Shares.

Illustration: Big Ltd. took over Small Ltd. on 1st April, by way of merger, on the date of amalgamation, the Reserves of Small Ltd. were – (a) General Reserve Rs. 100 Lakhs, (b) P & L A/c Rs. 50 Lakhs, (c) investment Allowance Reserve (under IT Act) Rs. 45 Lakhs. Small Ltd. had a Paid-up Capital of Rs. 150 Lakhs in Equity Shares and Rs. 200 Lakhs in Preference Shares. The treatment of Reserves in different situations will be –

Situation	I	II	III
Purchase Consideration Paid-Up Capital of Transferor Co.	480 150 + 200 = 350	600 150 + 200 = 350	300 150 + 200 = 350
Difference	Excess 130	Excess 250	Shortfall (50)
Adjustments in –	G/R of Small = 100 P&L of Small = **30** **(Bal. figure)**	G/R of Small = 100 P&L of Small = 50 G/R / P&L of Big = **100** **(Bal. figure)**	**Capital Reserve** = 50 as per EAC Opinion
Balance Reserves of Small Ltd. to be recorded in the books of Big Ltd.	G/R of Small = Nil P&L of Small = 20 Invt Allow Res = 45	G/R of Small = Nil P&L of Small = Nil Invt Allow Res= 45	G/R of Small = 100 P&L of Small = 50 Invt Allow Res = 45 Capital Reserve = 50

3. Principles – Accounting for Amalgamation

1. **Statute prevails:** Where the scheme oil amalgamation sanctioned under a Statute, e.g. Companies Act, 1956, prescribes the treatment to be given to the Reserves of the Transferor Company after amalgamation, the same should be followed.
2. **Disclosures:** Where the Statute prescribes the treatment of Reserves, in the interest of better understanding, the following disclosure should be made in the first Financial Statements following the amalgamation –
   (a) Description of the accounting treatment given to the Reserves together with the reasons for following a treatment different from that prescribed in AS – 14.
   (b) Deviations in the accounting treatment given to the Reserves as prescribed by the scheme of amalgamation sanctioned under the Statute, as compared to the requirements of AS – 14 that would have been followed, had no treatment been prescribed by the Statute.
   (c) The financial effect if any, arising due to such deviation.

Treatment of Goodwill

1. **Recognition of Goodwill:** Any **excess** consideration over the value of the Net Assets of the Transferor Company should be recognised in the Transferee Company's Financial Statements as **Goodwill.** Goodwill arising on amalgamation represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortised to income on a systematic basis over its useful life.
2. **Amortisation: Goodwill** arising on amalgamation should be amortised to income on a systematic basis over its useful life. Due to the nature of goodwill, it is generally difficult to estimate its useful life with reasonable certainty, on a reasonable estimation, goodwill should be amortised over a period **not exceeding five years,** unless a longer period is justified.
3. **Factors considered in estimating the useful life of Goodwill**
   (a) the foreseeable life of the business or industry,
   (b) the effects of product obsolescence, changes in demand and other economic factors,
   (c) the service life expectancies of key individuals or group of employees,
   (d) expected actions by competitors or potential competitors, and
   (e) legal, regulatory or contractual provisions affecting the useful life.

Example: Tarun Ltd. acquired the Net Assets of Varun Ltd. for a total consideration of Rs. 25 Lakhs. The Fair Value of Net Assets of Varun Ltd. is Rs. 20 Lakhs. Here, the difference of Rs. 5 Lakhs constitutes **Goodwill,** to be amortised by Tarun Ltd. over a five-year period, unless a longer period is justified.

Treatment of Capital Reserve amalgamation in the nature of purchase?

1. **Capital Reserve:** If the consideration paid for amalgamation is **less** than the Net Assets of the Transferor Company, the difference is called **Negative Goodwill.** This should be recognised in the Transferee Company's Financial Statements as **Capital Reserve.**

2. **Example: Dhruva Ltd.** acquired the Net Assets of Uttama Ltd. for a total consideration of Rs. 25 Lakhs. The Fair Value of Net Assets of Uttama Ltd. is Rs. 40 Lakhs. In the above case, the difference of Rs. 15 Lakhs constitutes **Negative Goodwill.** This should be recognised as **Capital Reserve** in the Financial Statements of Dhruva Ltd.

Effect of Amalgamation after the Balance Sheet Date?

Amalgamation is effected	Treatment
● After the Balance Sheet Date, but ● Before the issuance of Financial Statements by either parties.	● The amalgamation is **not incorporated** in the ● Financial Statements, **but** ● Disclosure is made in accordance with AS – 4.

In certain circumstances, the amalgamation may also provide additional information affecting the Financial Statements themselves, for instance, by allowing the going concern concept assumption to be maintained.

Example: As per a scheme sanctioned under the Companies Act, 1956, Kripa Ltd. is amalgamated with Sundari Ltd. with effect from 1st May 2011. Both Companies close their accounts 31st March every year. For the year ended 31st March 2011, the Companies have not yet finalised their accounts. The amalgamation is to be accounted only during the financial year ending 31st March 2012. However, disclosure is made in the accounts for the year ending 31st March 2011, as per AS – 4 requirements,

Balances in the P & L Account treated in the books of the Transferee Company?

Amalgamation in the nature of Merger [Para 21]	Amalgamation in the nature of Purchase [Para 22]
Balance in P & L A/c appearing in the Financial Statements of the Transferor Company is – (a) aggregated with the corresponding balance appearing in Financial Statements of the Transferee Company, OR, (b) transferred to the General Reserve, if any.	Balance in P & L A/c appearing in the Financial Statements of the Transferor Company, whether debit or credit, **loses its identity.**

4. Disclosure Requirements

The First Financial Statements following the Amalgamation should disclose –

For all Amalgamations	Additional disclosures under the Pooling of Interests Method	Additional disclosures under the Purchase Method
Para 24, 43	**Para 25, 44**	**Para 26, 45**
● Names and general nature of business of the Amalgamating Companies, ● Effective date of amalgamation for accounting purposes, ● Method of accounting used to reflect the amalgamation, and ● Particulars of the scheme sanctioned under a Statute.	● Description and number of Shares issued, together with the percentage of each Company's Equity Shares exchanged to effect the amalgamation, and ● Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.	● Consideration for the amalgamation and a description of the consideration paid or contingently payable, and ● Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any Goodwill arising on amalgamation.

Summary of EAC Opinions in AS – 14

Nature of Capital Reserve: The difference between issued Share Capital of the Transferee Company and the Share Capital of the Transferor Company should be treated as Capital Reserve for AS – 14 purposes. This Reserve is not available for distribution to Shareholders as dividend or as Bonus Shares.	**April 2004 CA Journal Pg.1042**
Amalgamation of 100% Subsidiary with its 100% Holding Company: Amalgamation of a Subsidiary with its 100% Holding Company satisfies all the conditions for amalgarnation in the nature of Merger. Also, a Subsidiary cannot be "acquired" by its Holding Company, since it is already acquired. Hence, it should be accounted under the Pooling of Interests Method only.	**EAC Opinion**

Steps involved in Accounting for Amalgamations

Step	Procedure
1	See whether the Amalgamation is in the nature of **Merger** or in the nature of **Purchase. (See Q.2 above)**
	● Determine the **Purchase Consideration,** i.e. Cash, Securities or Other Assets paid by the Purchasing Company to the **Shareholders** of the Selling Company.
2	● Payment made to Debenture holders of the Selling Company or reimbursement of Liquidation Expenses of the Selling Company, does **not** constitute Purchase Consideration.
	● Purchase Consideration can be determined based on — (a) **Net Payments basis,** i.e. total of shares and cash paid by the Purchasing Company to the Selling Company, or (b) **Net Assets basis,** i.e. Assets (including Goodwill, if any) Less Liabilities taken over, at the agreed values.

	Verify for special considerations in Shareholdings	
	Situation	**Treatment**
3	**Purchasing Company holding Shares in Selling Company**	Purchase Consideration should be calculated for Outsiders' Interests only.
	Selling Company holding Shares in Purchasing Company	Additional Shares will be issued by the Purchasing Company (Total Shares to be issued Less Shares already held by the Selling Company).
	Cross Holdings, i.e. Purchasing and Selling Companies holding Shares in each other	Purchase Consideration (based on **Net Assets** basis) should be determined using **simultaneous equations.** (In case of Net Payments based Purchase Consideration, simultaneous equations are not required.)
4	Pass the necessary Journal Entries in the books of the Selling Company, so as to close its books.	
5	Compute **Goodwill / Capital Reserve** for the Purchasing Company, in case of an amalgamation in the nature of Purchase.	
6	Pass the necessary Journal Entries in the books of the Purchasing Company, and prepare the revised Balance Sheet of the Purchasing Company after absorption / takeover.	

JOURNAL ENTRIES IN THE BOOKS OF SELLING COMPANY

Note: No distinction is made between Amalgamation in the nature of **Merger. or Purchase,** in the books of the Selling Company. The Journal Entries are similar in both cases.

	Transaction	**Journal Entry**
1.	Transfer of Assets taken over by Purchasing Company	Realisation A/c Dr. To Sundry Assets (individually)(at B/S Value)
	Note: ● If Cash is not taken over by the Purchasing Company, it should not be transferred to Realisation A/c. ● If Selling Company already holds Shares in Purchasing Company, such "Investments in Shares of Purchasing Company" A/c, should not be transferred to Realisation A/c.	
2	Transfer of Liabilities taken over by Purchasing Company	Sundry Liabilities A/c (individually) (at B/S Value) Dr. To Realisation A/c
3	Direct Sale of specific Assets not taken over by Purchasing Company	Cash / Bank A/c (amount received) Dr. Realisation A/c (if sold at Loss) Dr. To Sundry Assets A/c (specified asset) (at B/s Value) To Realisation A/c (if sold at Profit)
4	Direct Settlement of specific Liabilities not taken over by Purchasing Company	Sundry Liabilities A/c (at B/s Value) Dr. Realisation A/c (if settled at Loss) Dr. To Cash / Bank A/c (amount settled) To Realisation A/c (if settled at Profit)
5	Expenses of Liquidation / Realisation met by Selling Company	Realisation A/c Dr To Cash / Bank A/c

	Note: ● If Purchasing Company **meets the Realisation Expenses directly,** no entry is required in Selling Co.'s Books. ● If the Purchasing Company **reimburses the Liquidation Expenses,** then "Purchasing Company" Account should be debited instead of "Realisation Account". A separate receipt entry should be passed for the reimbursement received. (**Alternatively,** the payment of Liquidation Expenses and receipt of reimbursement can be ignored in the books of the Selling Company) ● If the Liquidation Expenses are **shared** by the Purchasing Company and Selling Company, the Journal Entry in **Item 5** should be made only for the **Selling Company's Share** of Expenses.	
6	Transfer of Share Capital to Sundry Shareholders Account If Purchasing Co. holds Shares in Selling Co.	Equity Share Capital A/c (Total Amt) Dr. To Sundry Shareholders A/c (Outsiders' Share) To Realisation A/c (Purchasing Co.'s Share, if any)
7	Transfer of Reserves and Surplus (to Sundry Shareholders, i.e. Outsiders' Share only)	Reserves & Surplus A/c Dr. To Sundry Shareholders A/c (fully transferred)
8	Transfer of Accumulated Losses, if any	Sundry Shareholders A/c Dr. To P&L Account / Misc. Expenditure, etc.
9	Recording of Purchase Consideration due	Purchasing Company A/c Dr. To Realisation A/c Cash / Bank A/c Dr.
10	Receipt of Purchase Consideration	Shares in Purchasing Co. A/c Dr. To Purchasing Company A/c
11	Transfer of Profit on Realisation (reverse entry is passed for Loss, if any)	Realisation A/c Dr. To Sundry Shareholders A/c Sundry Shareholders A/c Dr.
12	Final Settlement to Shareholders	To Cash / Bank A/c To Shares in Purchasing Co. A/c

Note:

1. **Participating Preference Shams:** Generally all Reserves, Accumulated Losses and Profit Loss on Realisation is transferred to Equity Shareholders Account. Preference Shareholders are not entitled for the same. However, in respect of Participating Preference Shares, they are entitled to the Credit Balances in Reserves and Surplus on Realisation, if it is permitted by – (a) Articles of Association, and (b) terms of amalgamation / absorption. In any case, Accumulated Losses/Loss on Realisation will be borne entirely by Equity Shareholders.
2. **Absorption without Liquidation of Selling Company:** Sometimes, the Purchasing Company may take over all the Assets and liabilities of the Selling Company, **without liquidating the latter.** In such case, the Selling Company will continue to exist as an Investment Company. In accounting for such Takeover —
   (a) There is no payment / settlement to Shareholders, hence entry 6, 7, 8, 11 and 12 above will not be applicable.
   (b) Profit on Realisation is transferred to Capital Reserve Account.
   (c) Loss on Realisation if any, is adjusted against Reserves of the Selling Company.
   (d) Assets of Selling Company will consist **only** of Shares / Securities of the Purchasing Company.

Format of some Ledger Accounts in the books of Selling Company

1. Realisation Account

Particulars	₹	Particulars	₹
To Sundry Assets A/c (Assets taken over) (individually) (transfer at Book Values)		By Sundry Liabilities (Liab. taken over) (individually) (transfer at Book Values)	
To Cash / Bank (liquidation Expenses met)		By Purchasing Co. A/c (Purchase Consideration Due)	
To Sundry Assets / Liabilities A/c (Assets disposed of at loss if any, Liabilities settled at higher amounts than Book Values, if any)		By Sundry Assets / Liabilities A/c (Assets disposed of at a gain if any, Liabilities settled at lower amounts than Book Values, if any)	
To Sundry Shareholders A/c (Profit on Realisation transferred)		By Equity Share Capital A/c , (Purchasing Co.'s Share in Equity Cap. of Selling Co, if any)	
		By Sundry Shareholders A/c (Loss on Realisation transferred, if any)	
Total		**Total**	

2. Equity Shareholders' Account / Sundry Shareholders' Account

Particulars	₹	Particulars	₹
To P&L A/c / Misc. Expenditure (Transfer of Accumulated Losses, Dr. Bal. etc.)		By Equity Share Capital (Outside Shareholders Portion of Equity Capital)	
To Realisation A/c (Loss on Realisation, if any)		By Reserves (All Reserves, fully transferred)	
To Cash / Bank (Final Settlement)		By Realisation A/c (Profit on Realisation)	
To Equity Shares in Purchasing Company (Final Settlement)			
Total		**Total**	

3. Purchasing Company Account

Particulars	₹	Particulars	₹
To Realisation A/c (Purchase Consideration due)		By Cash / Bank (Settlement of Purchase Consideration)	
		By Equity Shares in Purchasing Co. (Settlement of Purchase Consideration)	
Total		**Total**	

4. Investment in Equity Shares of Purchasing Company Account (if Selling Company already holds Shares in Purchasing Company)

Particulars	₹	Particulars	₹
To balance b/d (Shares already held) To Purchase Company A/c (Purchase Consideration received now)		By Sundry Shareholders A/c (Final Settlement / Distribution to Outside Shareholders)	
Total		**Total**	

Journal Entries in the Books of Purchasing Company

	Transaction	Journal Entry
1.	Purchase Consideration Due	Business Purchase A/c Dr. To Liquidator of Selling Company A/c
	Assets and Liabilities taken over (**Note:** Where the Purchasing Company already holds some Shares in the Selling Company, the relevant Investment Account is also credited, for Cancellation purposes.)	**A. PURCHASE METHOD:** Sundry Assets A/c (at agreed values) Dr. Goodwill A/c (balancing figure, *if* any) Dr. To Sundry Liabilities A/c (at agreed values) To Business Purchase A/c (Purchase Consideration) To Capital Reserve A/c (balancing figure, *if* any)
	Either Goodwill or Capital Reserve will arise as the balancing figure in case of Purchase Method.	(If Purc Consi> Net Assets, Goodwill will arise as bal. fig.) (If Purc Consi< Net Assets, Capital Reserve will arise as b/f)
		B. MERGER METHOD: **(i) When Purchase Consideration >S. Cap of Selling Co.** Sundry Assets A/c (at B/s Values) Dr.
2	*Excess consideration is adjusted against –* *(a) Free Reserves (incl. P & L) of Selling Co.* *(b) Free Reserves of Purchasing Co. and* *(c) finally, against P & L A/c of Purchasing Co.*	Reserves A/c (balancing figure, if any) Dr. To Sundry Liabilities A/c (at B/s Values) To Statutory Reserves of Selling Company A/c (if any) To Business Purchase A/c (Purchase Consideration) To Reserves A/c (balancing figure, if any)
		(ii) When Purchase Consideration <S. Cap of Selling Co. Sundry Assets A/c (at B/s Values) Dr. To Sundry Liabilities A/c (at B/s Values) To Statutory Reserves of Selling Company A/c (if any) To Business Purchase A/c (Purchase Consideration) To Free Reserves of Selling Co. A/c To Capital Reserve A/c **(as per EAC Opinion)**
	All Reserves (i.e. Statutory and Free) of Selling Company are fully recorded. Shortfall In consideration is credited to Capital Reserve A/c.	

3	Discharge of Purchase Consideration	Liquidator *of* Selling Company A/c Dr. To Equity / Preference Share Capital A/c To Securities Premium A/c *(if* any) To Cash / Bank A/c (for fractions, etc.)
4	Realisation / Liquidation Expenses met reimbursed by Purchasing Company	**A. PURCHASE METHOD** Goodwill / Capital Reserve A/c Dr. To Cash / Bank A/c **B. MERGER METHOD** P & L Account / Reserves A/c To Cash / Bank A/c
	● If Selling Co. **meets the Realisation Expenses directly;** no entry is required in Purchasing Co's Books. ● If the Realisation Expenses are **shared** by the Purchasing Company and Selling Company, the Entry in **Item 4** should be recorded **only** for the **Purchasing Company's Share** of expenses.	
5	Recording of **Statutory Reserves** of Selling Company (for amalgamation in the nature of **PURCHASE** only)	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c *(**Note:** This entry is **Not Applicable for Merger Method**)*
	● Statutory Reserve is shown on the Liabilities Side under **"Reserves and Surplus".** Amalgamation Adjustment A/c is shown on the Assets Side of the Balance Sheet. ● The above entry is reversed once the statutory time period expires / obligations are completed.	
6	Elimination of **Inter Company Owings**	Sundry Creditors / Bills Payable A/c Dr. To Sundry Debtors / Bills Receivable A/c
7	Elimination of **Unrealised Profits on Stocks,** if any (**Note:** This is applicable when Purchasing Company has sold goods to Selling Company at a profit, and which remains in the Selling Company's Stock, on the date of takeover.)	**A. PURCHASE METHOD** Goodwill / Capital Reserve Dr. To Stock Reserve / Stock **B. MERGER METHOD** P & L Account / Reserves A/cDr. To Stock Reserve / Stock

A/cing Treatment when Purchasing Co. already holds Shares in Selling Co.

1. Computation of Purchase Consideration

Net Assets Method	**Payments Method**
● Compute Net Assets for entire business of Selling Company. ● Deduct proportion already held by Purchasing Company. ● **Purchase Consideration** = Amount due to **Outside Shareholders,** ie. Total Net **Assets less** Proportion/Share already held by Purchasing Company.	**Purchase Consideration** Payments to be made **to Outside Shareholders,** i.e. Total Shares of Selling Co. **Less:** Shares already held by Purchasing Co.

2. Accounting Treatment Entries

Transferor / Selling Company's Books	Purchasing Company's Books
● Share Capital relating to Purchasing Co's holding is transferred to Realisation A/c **(for cancellation).** ● Balance Share Capital **(Outsiders' Holdings) and** all Reserves / Accumulated Losses / Profit or Loss on Realisation is transferred to Sundry Shareholders' Account.	When Assets and Liabilities taken over are recorded, **"Shares in Selling Co's A/c"** (appearing in the Assets side of Purchasing Co's B/s as **Investments)** is also credited in order to cancel this Inter-Company Investment.

Note: In the Purchasing Company's books, where the scheme of amalgamation requires that the Investments (appearing in Purchasing Company's Books as Assets) be revalued to reflect the current NAV, it is recorded before journalising the assets and liabilities takeovers. Hence cancellation of Investments a/c will be at NAV.

A/cing Treatment when Purchasing Co. already holds Shares in Purchasing Co.

1. Computation of Purchase Consideration

Net Assets Method	Payments Method
● Compute Net Assets Value (NAV) of Purchasing Company's Shares and revalue Selling Co's holding at that NAV per Share. ● Compute Net Assets of Selling Company, including Investments valued at NAV. ● Compute Number of Shares of Purchasing Company to be issued to settle the above Total Net Assets (including Invts.) ● **Purchase Consideration** = Number of Shares as above **Less** Shares already held by Selling Company.	● Compute Number of Shares of Purchasing Company, to be issued as per the agreed exchange ratio / terms of scheme. ● **Purchase Consideration** = Number of Shares as derived above, **Less** Shares already held by Selling Company.

2. Accounting Treatment Entries

Transferor / Selling Company's Books	Purchasing Company's Books
● Investments A/c (i.e. Shares in Purchasing Co.) **should not** be transferred to Realisation A/c. ● Where required, Investments (i.e. Shares in Purchasing Co.) should be revalued to reflect the current NAV. ● Final settlement to Shareholders = Shares already held + Shares now received by way of purchase consideration.	● Usual accounting procedure is followed. ● For ascertaining adjustment against Reserves / Capital Reserve, the **total** of (Purchase Consi paid + Invts held by Selling Co.) should be **compared** with Paid Up Capital of Selling Co.

A/cing Treatment in case of Cross Holdings, i.e. when Selling Co. already holds Shares in Purchasing Co. and vice-versa

1. Computation of Purchase Consideration

Net Assets Method	Payments Method
● Compute Net Assets of Selling Company, including Investments (Shares in Purchasing Company) valued at NAV, and determine **Outsiders' Interests** thereon. ● Compute Number of Shares of Purchasing Company to be issued to settle the above Net Asset. ● **Purchase Consideration** = Number of Shares as above **Less** Shares already held by Selling Company.	● Compute Number of Shares of Purchasing Company, to be issued to **Outside Shareholders** as per terms of scheme. ● **Purchase Consideration** = Number of Shares as above **Less** Shares already held by Selling Company.

2. Accounting Treatment Entries

Transferor / Selling Company's Books	Transferee / Purchasing Company's Books
● Investments A/c (i.e. Shares in Purchasing \ Company) **should not** be transferred to Realisation A/c. ● Where required, Investments A/c (i.e. Shares in Purchasing Company) should be revalued to reflect the current NAV. ● Share Capital relating to Purchasing Company's holding is transferred to Realisation A/c **(for cancellation)** ● Balance Share Capital **(Outsiders' Interests)** and all Reserves / Accumulated Losses / Profit or Loss on Realisation is transferred to Sundry Shareholders' Account. ● Final Settlement to Shareholders = Shares already held + Shares now received by way of Purchase Consideration.	● When Assets and Liabilities taken over are recorded, **"Shares in Selling Company's A/c"** appearing in the Assets side of Purchasing Company's B/s as **Investments)** is also credited in order to cancel this Inter-Company Investments. ● For ascertaining adjustment against Reserves / Capital Reserve, the **total** of (Purc. Consi paid + All Inter Co. Invts) should be **compared** with Paid Up Capital of Selling Company.

Note: Simultaneous Linear Equations Method should be applied in appropriate situations, Refer Illustrations.

Practical Questions – A/cing for Amalgamations

1. Computation of Purchase Consideration

Illustration 1 : Computation of Purchase Consideration

Given below are the Balance Sheets of Ashwathama Ltd. and Bheeshma Ltd. as on 31st December, in which date the Companies were amalgamated and a new Company Chandrachuda Ltd. was formed. **(in ₹ 000s)**

Liabilities	Ashwa-thama Ltd.	Bheeshma Ltd.	Assets	Ashwa-thama Ltd.	Bheeshma Ltd.
Equity Shares of Rs. 10 each	70,00	60,00	Sundry Fixed Assets	85,00	70,60
Reserves	20,00	40,00	Sundry Current Assets	20,00	30.00
Sundry Creditors & Other Current Liabilities	15,00	10,00	Miscellaneous Expenditure	—	10,00
Total	105,00	110,00	Total	+105,00	110,00

It was agreed that Sundry Fixed Assets of Ashwathama Ltd. would be valued at 7,100,00 thousand and that of Bheeshma Ltd. at Rs. 95,00 thousand. Chandrachuda Ltd. would issue the requisite number of Equity Shares of Rs. 10 each at 10% premium to discharge claim of the Equity Shareholders of Ashwathama Ltd. & Bheeshma Ltd. How many shares of Chandrachuda Ltd. should be issued to takeover the business of the two merging Companies?

Solution: **(in Rs. 000s)**

Particulars	Ashwathama Ltd.	Bheeshma Ltd.
Sundry Fixed Assets	100,00	95,00
Sundry Current Assets	20,00	30,00
Total Assets	120,00	125,00
Less: Liabilities Taken over	15,00	10,00
Purchase Consideration	105,00	115,00
Total Purchase Consideration	**–105,00 + 115,00 = 220,00**	

Number of Equity Shares to be issued = Rs. 220,00 thousand + Rs. 11 (including premium) = 20,00 thousand. Hence, Chandrachuda Ltd. will be formed with a Paid Up Capital of Rs. 200,00 thousand and Securities Premium of Rs. 20,00 thousand.

Illustration 2 : Computation of Purchase Consideration

The Balance Sheet of Partha Ltd. as on 31st December is given below. **(in Rs. 000s)**

Liabilities	Amount	Assets	Amount
Share Capital: Equity Shares of Rs. 10 each	50,50	Sundry Fixed Assets	50,00
8% Preference Shares	9,60	Stock	20,00
12% Debentures	15,00	Debtors	10,00
Sundry Creditors & Other Liabilities	10,00	Cash & Bank	5,00
Total	85,00	Total	85,00

Krishna Ltd. agrees to take over Partha Ltd., by issuing requisite number of Preference Shares of Rs. 10 each at 5% discount to the Preference Shareholders of Partha Ltd., and requisite number of Equity Shares of Rs. 10 each at par to

the Equity Shareholders of Partha Ltd. Purchase Consideration is settled as per Book Value of the assets, and the Debentures will be taken over by Krishna Ltd. on the agreement that these will be paid off at 10% premium after one year. Debenture holders of Partha Ltd. will accept 12% Debentures of Krishna Ltd. Calculate Purchase Consideration.

Solution: **Purchase Consideration by Net Assets Method** **(in Rs. 000s)**

Particulars			Amt.	Amt.
	Book Value of Assets taken over (i.e. Total of Assets Side)			85,00
Less:	Liabilities taken over:	Debentures	15,00	
		Additional Liability for Premium on Redemption at 10%	1,50	
		Sundry Creditors & Other Liabilities	10,00	(26,50)
		Net Purchase Consideration		58,50

This Purchase Consideration shall be discharged by 8% Preference Shares and Equity Shares of Krishna Ltd. (Issue of Debentures to the Debentureholders of Partha Ltd. shall not be included in Purchase Consideration).

Number of Shares to be issued is computed as under –

(1) Preference Shares to be issued = Rs. 950 thousands + Rs. 9.50 = 100 thousands (i.e. at a discount)

Balance of Purchase Consideration = Rs. 58.50 thousands – Rs. 950 thousands = Rs. 49,00 thousand

(2) Equity Shares to be issued = Rs. 49,00 thousands + Rs. 10 = 490 thousands

Illustration 3 : Computation of Purchase Consideration – Mutual Holdings

Arun Ltd. and Bhairav Ltd. decide to amalgamate themselves into Sandhya Limited. The following are their Balance Sheets as on 31st December.

Liabilities	Arun	Bhairav	Assets	Arun	Bhairav
Face Value and Paid Up Capital			Investments		
Share Capital (Rs. 10 each)	5,00,000	4,00,000	1000 Shares in B Ltd.	1,30,000	—
General Reserves	2,00,000	1,00,000	2000 Shares in A Ltd.	—	2,10,000
10% Debentures	2,00,000	1,50,000	Sundry Assets	7,70,000	4,40,000
Total	9,00,000	6,50,000	Total	9,00,000	6,50,000

Compute the amount of Purchase Consideration of each of these Companies under Purchase Method as per AS – 14.

Solution: Since there is Inter Company Shareholding, Simultaneous Equations Method is applied.

Computation of Net Assets

Particulars		Arun	Bhairav
	Investment in Equity Shares of B Ltd. (1000 ÷ 4000) = 1/4th	1/4th × B	—
	Investment in Equity Shares of A Ltd. (2000 ÷ 5000) = 2/5th	—	2/5th × A
	Sundry Assets	7,70,000	4,40,000
Less:	10 % Debentures	(2,00,000)	(1,50,000)
	Net Assets (Let Intrinsic Value of Arun Ltd. and Bhairav Ltd. be 'A' & 'B')	A	B

The two equations are: A = 5,70,000 + $\frac{1}{4}$ B ..... **Eqn 1**, and B = 2,90,000 + A ..... **Eqn 2**

By substituting value of A from **Equation 1** in **Equation 2,** we get, B = 2,90,000 + (5,70,000 + B)

So, B = 2,90,000 + 2,28,000 + B. B – B = 5,18,000. i.e. B = 5,18,000 B = 5,18,000 ×

So, **B = Rs. 5,75,556 (approx.)**

Upon substituting value of B in **Equation 1,** we get A = 5,70,000 + (5,75,556) = **Rs. 7,13,889** (Approx)

Illustration 4 : Computation of Purchase Consideration

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

Liabilities	Rs.	Assets	Rs.
14,000 Equity Shares of Rs. 100 each fully paid	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Discount on issue of Debentures	10,000
10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	Profit & Loss A/c	60,000
Bank Overdraft	50,000		
Bills Payable	40,000		
Total	19,00,000	Total	19,00,000

Rajata Ltd. agreed to take over the business of Swarna Ltd. Calculate Purchase Consideration under Net Assets Method. The Market Value of 75% of the Sundry Assets is estimated to be 12% more than the Book Value and that of the remaining 25% at 8% less than the Book Value. The Liabilities are taken over at Book Values. There is an unrecorded liability of Rs. 25,000.

Solution: Computation of Purchase Consideration under Net Assets Method

Particulars	Computation	Rs.
Sundry Assets taken over	(18,00,000 × 75% × 112%) + (18,00,000 × 25% × 92%)	19,26,000
Less: Liabilities taken over	10% Deb + Sundry Creditors + Bank OD + Bills Payable + New Liabilities	
	2,00,000 + 2,00,000 + 50,000 + 40,000 + 25,000	(5,15,000)
	Net Assets Taken Over = Purchase Consideration	**14,11,000**

Illustration 5 : Computation of Purchase Consideration

The abstract of the Balance Sheet of the Arjun Ltd. as at 31st March are as follows –

Liabilities	Rs.
Equity Share Capital (Rs. 100 each)	15,00,000
12% Preference Share Capital (Rs. 100 each)	8,00,000
13% Debentures	3,00,000

On 31st March, Bagya Ltd. agreed to take over Arjun Ltd. on the following terms:

1. For each Preference Share in Arjun Ltd, Rs. 10 in Cash and one 9% Preference Share of Rs. 100 in Bagya Ltd.

2. For each Equity Share in Arjun Ltd., Rs. 20 in Cash and one Equity Share in Bagya Ltd. of Rs. 100 each. It was decided that the Share in Bagya Ltd. will be issued at Market Price Rs. 140 per Share.
3. Liquidation Expenses of Arjun Ltd. are to be reimbursed by Bagya Ltd. to the extent of Rs. 10,000. Actual Expenses amounted to Rs. 12,500.

You are required to compute the amount of Purchase Consideration.

Solution: **Computation of Purchase Consideration**

Particulars		Rs.
Preference Shares:	9% Preference Shares of Rs. 100 each (8,000 Shares × Rs. 100)	8,00,000
Equity Shares:	Equity Shares issued at Premium of Rs. 40 per Share.	
	Rs. 15,00,000 + Rs. 100 = 15,000 Shares.	
	15,000 Shares issued at Rs. 140 per Share.	
	Therefore, Total Value of Equity Shares	
	(including Premium) (15,000 × Rs. 140)	21,00,000
Cash:	For Preference Shares: 8,000 × Rs. 10	80,000
	For Equity Shares: 15,000 × Rs. 20	3,00,000
	Total Purchase Consideration	**32,80,000**

Note, Reimbursement of Liquidation Expenses will not form part of Purchase Consideration.

2. Merger and Purchase – both methods of Accounting

Illustration 5 : Computation of Purchase Consideration

Arjuna Ltd. and Bhagavan Ltd. amalgamated on and from 1st January. A new Company Kurukshetra Ltd. was formed to take over the business of the existing Companies. Their Balance Sheets as on 31st December was **(in Rs. 000s)**

Liabilities	Arjuna	Bhagavan	Assets	Arjuna	Bhagavan
Share Capital: Equity Shares of Rs. 10 each	60,00	70,00	Sundry Fixed Assets	85,00	75,00
General Reserve	15,00	20,00	Investments	10,50	5,50
Profit and Loss Account	10,00	5,00	Stock	12,50	27,50
Investment Allowance Reserve	5,00	1,00	Debtors	18,00	40,00
Export Profit Reserve	50	1.00	Cash & Bank	4,50	4,00
12% Debentures	30,00	40,00			
Sundry Creditors	10,00	15,00			
Total	130,50	152,00	Total	130,50	152,00

Investment Allowance Reserve and Export Profit Reserve are to be statutorily carried over for another 3 years.

Kurukshetra Ltd. issued requisite number of Shares to discharge the claims of the Equity Shareholders of the Transferor Companies. Compute the Purchase Consideration and show !he discharge thereof. Also draft the Balance Sheet of Kurukshetra Ltd, assuming amalgamation in the nature of (1) Merger, (2) Purchase.

Solution: 1. Computation of Purchase Consideration **(in Rs. 000s)**

	Particulars	Arjuna	Bhagavan	Total
	Sundry Fixed Assets	85,00	75,00	
	Investments	10,50	5,50	
	Stock	12,50	27,50	
	Debtors	18,00	40,00	
	Cash & Bank	4,50	4,00	
	Total Assets Taken Over	**130,50**	**152,00**	**282,50**
Less:	Sundry Liabilities			
	12% Debentures	30,00	40,00	
	Sundry Creditors	10,00	15,00	
	Net Assets Taken Over	**90,50**	**97,00**	**18,750**
Less:	Reserves & Surplus – General Reserve	15,00	20,00	
	Profit and Loss Account	10,00	5,00	
	Investment Allowance Reserve	5,00	1,00	
	Export Profit Reserve	50	1,00	
	Net Purchase Consideration (under Merger Method)	**60,00**	**70,00**	**130,00**

2(a) Discharge of Purchase Consideration (under Pooling of Interest Merger Method):

Arjuna $130,00 \times \frac{90,50}{187,50}$ = 6,27,500 Equity Shares of Rs. 10 each = 62,75

Bhagavan $130,00 \times \frac{90,50}{187,50}$ = 6,72,500 Equity Shares of Rs. 10 each = 67,25

2(b) Discharge of Purchase Consideration (under Purchase Method) (= Net Assets Taken over)

Arjuna 9,05,000 Equity Shares of Rs. 10 each = 90,50

Bhagavan 9,70,000 Equity Shares of Rs. 10 each = 97,00

3. Computation of Capital Reserve Adjustment towards General Reserve (Under Merger Method)

	Particulars	Arjuna	Bhagavan
	Purchase Consideration	62,75	67,25
Less:	Paid up Capital	(60,00)	(70,
	Difference	2,75	(2,75)
	Treatment	Adjustment towards the General Reserve of the Selling Company	Transfer towards Capital Reserve

General Reserve after making the above adjustment is 15,00 + 20,00 – 275 = 32,25

4. Balance Sheet of Kurukshetra Ltd. as on 1st January
(Pooling of Interest Merger Method) **(Rs. 000s)**

	Particulars as at 1st January			Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	(a) Share Capital			**1**	130,00	
	(b) Reserves and Surplus			**2**	57,50	
(2)	**Non Current Liabilities:**	Long Term Borrowings		**3**	70,00	
(3)	**Current Liabilities:**					
	Trade Payables	Sundry Creditors (10,00 + 15,00)			25,00	
	Total				**282,50**	
II	**ASSETS**					
(1)	**Non-Current Assets:**					
	(a) Fixed Assets: Tangible Assets		(85,00 + 75,00)		160,00	
	(b) Non Current Investments		(10,50 t 5,50)		16,00	
(2)	**Current Assets:**					
	(a) Inventories	Stock in Trade	(12,50 + 27,50)		40,00	
	(b) Trade Receivables	Sundry Debtors	(18,00 + 40,001		5800	
	(c) Cash and Cash Equivalents	Cash & Bank	(4,50 + 4,00)		8:50	
	Total				**282,50**	

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: ..... Equity Shares of .....each		
Issued, Subscribed & Paid up: 13,00,000 Equity Shares of Rs. 10 each	130,00	
(6,27,500 Shares of Rs. 10 each and 6,72,500 Shares of Rs. 10 each issued for non cash consideration to Shareholders of Arjuna Ltd. and Bhagwan Ltd. respectively)		
Total	**130,00**	

Schedule 2: Reserves and Surplus

	Particulars			This Year	Prev. Yr.
(a)	Capital Reserve			2,75	
(b)	Other Reserves	— General Reserve	(12,25 + 20,00)	32,25	
		— Investment Allowance Reserve	(5,00 + 1,00)	6,00	
		— Export Profit Reserve	(50 + 1,00)	1,50	
(c)	Surplus	— Profit & Loss A/c	(10,00 + 5,00)	15,00	
	Total			**57,50**	

Schedule 3: Long Term Borrowings

Particulars	This Year	Prev. Yr.
Secured Borrowings: 12% Debentures (30,00 + 40,00) (assumed New Debentures are secured and are issued against Old Series)	70,00	
Total	**70,00**	

4. Balance Sheet of Kurukshetra Ltd. as on 1st January (Purchase Method) (Rs. 000s)

	Particulars as at 1st January		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	187,50	
	(b) Reserves and Surplus		**2**	7,50	
(2)	**Non–Current Liabilities:**	Long Term Borrowings	**3**	70,00	
(3)	**Current Liabilities:**				
	Trade Payables	Sundry Creditors (10,00 + 15,00)		25,00	
	Total			**290,00**	
11	**ASSETS**				
(1)	**Non–Current Assets**				
	(a) Fixed Assets: Tangible Assets	(85,00 + 75,00)		160,00	
	(b) Non Current Investments	(10,50 + 5,50)		16,00	
	(c) Other Non Current Assets	Amalgamation Adjustment A/c (contra)		7,50	
(2)	**Current Assets:**				
	(a) Inventories	Stock in Trade (12,50 + 27,50')		40,00	
	(b) Trade Receivables	Sundry Debtors (18,00 + 40,00)		58,00	
	(c) Cash and Cash Equivalents	Cash & Bank (4,50 + 4,00)		8,50	
	Total			**290,00**	

Note:

1. Amalgamation Adjustment A/c (contra) represents the entry for Statutory Reserves to be carried forward, i.e. Investment Allowance Reserve and Export Profit.
2. Shares are issued by Kurukshetra Ltd. on the basis of Net Assets of Arjuna Ltd. and Bhagavan Ltd. There is no adjustment to the asset values. Hence, there is no Goodwill in the above Purchase Method of Accounting.

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: . . . . . Equity Shares of .....each		
Issued, Subscribed & Paid-up: 18,75,000 Equity Shares of Rs. 10 each (9,05,000 Shares of Rs. 10 each and 9,70,000 Shares of Rs. 10 each issued for non cash consideration to Shareholders of Arjuna Ltd. and Bhagwan Ltd. respectively)	187,50	
Total	**187,50**	

Schedule 2: Reserves and Surplus

Particulars			This Year	Prev. Yr.
Other Reserves	— Investment Allowance Reserve	(5,00 + 1,00)	6,00	
	— Export Profit Reserve	(50 + 1,00)	1,50	
Total			**Nil**	

Schedule 3: Long Term Borrowings

Particulars		This Year	Prev. Yr.
Secured Borrowings: 12% Debentures	(30,00 + 40,00)	70,00	
(assumed New Debentures are secured and are issued against Old Series)			
Total		**70,00**	

Illustration 4 : Amalgamated in the nature of Merger vs. Purchase

Long Ltd. and Short Ltd. was amalgamated on and from 1st April. A new Company Moderate Ltd. was formed to take over the business of the existing Companies. The Balance Sheets of Long Ltd. & Short Ltd. as on 31st March are as under — **(Rs. In Lakhs)**

Liabilities	Long	Short	Assets	Long	Short
Share Capital:			Fixed Assets:		
Equity Shares of Rs. 100 each	850	725	Land & Building	460	275
14% Preference Shares of Rs. 100 each	320	175	Plant & Machinery	325	210
Reserves & Surplus:					
Revaluation Reserve	125	80	Investments	75	50
General Reserve	240	160	Current Assets, Loans & Advances:		
Investment Allowance Reserve	50	30	Stock	325	269
P & L Account	75	52	Sundry Debtors	305	270
Secured Loans: 13% Debentures (Rs. 100 Each)*	50	28	Bills Receivable	25	—
Unsecured Loans:					
Public Deposit	25	—	Cash & Bank	385	251
Current Liabilities and Provisions:					
Sundry Creditors	145	75			
Bills Payable	20	—			
Total	**19,00**	**13,25**	**Total**	**19,00**	**13,25**

Other information:

(a) 13% Debentureholders of Long Ltd. & Short Ltd. are discharged by Moderate Ltd., by issuing such number of its 150% Debentures of Rs. 100 each so as to maintain the same amount of interest.

(b) Preference Shareholders of the two Companies are issued equivalent number of 15% Preference Shares of Moderate Ltd. at a price of Rs. 125 per Share (Face Value = Rs. 100).

(c) Moderate Ltd. will issue 4 Equity Shares for each Equity Share of Long Ltd., and 3 Equity Shares for each Equity Share of Short Ltd. The Shares are to be issued at 7 35 each having a Face Value of Rs. 10 per Share.

(d) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance Sheet of Moderate Ltd. as on 1st April after the amalgamation has been carried out, on the basis of the following assumptions: (1) in the nature of Merger, and (2) in the nature of Purchase.

Solution:

1. Computation of Purchase Consideration **(in Rs. Lakhs)**

Particulars		Long Ltd.	Short Ltd.
Preference Shareholders:	3,20,000 Shares of Rs. 125 each	400.00	
	1,75,000 Shares of Rs. 125 each		218.75
Equity Shareholders:	4 × 8,50,000 = 34,00,000 Shares of Rs. 35 each	11,90.00	
	3 × 7,25,000 = 21,75,000 Shares of Rs. 35 each		761.25
	Total	**15,90.00**	**9,80.00**

2. Computation of Securities Premium **(in Rs. Lakhs)**

Particulars	Share Capital	Securities Premium	Total
Preference Share Capital (3,20,000 + 1,75,000) = 4,95,000 Shares	Rs. 100 each $\frac{13\%}{15\%}$ 495.00	at Rs. 25 each = 123.75	618.75
Equity Share Capital (34,00,000 + 21,75,000) = 55,75,000 Shares	Rs. 10 each 557.50	at Rs. 25 each = 1,393.75	1,951.25
Total		**1,517.50**	

3. Issue of Debentures **(in Rs. Lakhs)**

Particulars	Long Ltd.	Short Ltd.	Total
15% Fresh Issue for 13% Old Debentures	$(50 \times \frac{13\%}{15\%}) = 43.33$	(28 ×) = 24.27	(43.33 + 24.27) = 67.60

4. Balance Sheet of Moderate Ltd. as on Ist April (Pooling of Interest/Merger Method) (Rs. in Lakhs)

	Particulars as at 1st April		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	1,052.50	
	(b) Reserves and Surplus		**2**	1,839.90	
(2)	**Non Current Liabilities:**	Long Term Borrowings	**3**	92.60	
(3)	**Current Liabilities:**	Trade Payables	**4**	240.00	
	Total			**3,225.00**	

II	**ASSETS**				
(1)	**Non–Current Assets**				
	(a) Fixed Assets: Tangible Assets			**5**	1,270.00
	(b) Non Current investments		(75 + 50)		125.00
(2)	**Current Assets:**				
	(a) Inventories	Stock in Trade	(325+269)		594.00
	(b) Trade Receivables			**6**	600.00
	(c) Cash and Cash Equivalents	Cash & Bank	(385 + 251)		636.00
			Total		**3,225.00**

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: ..... Equity Shares of .....each & ..... Preference Shares of ..... each		
Issued, Subscribed & Paid-up:	557.50	
(a) 55,75,000 Equity Shares of Rs. 10 each (34,00,000 Shares of Rs. 10 each and 21,75,000 Shares of Rs. 10 each issued for non cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)		
(b) 4,95,000 Preference Shares of Rs. 100 each (3,20,000 Shares of Rs. 100 each and 1,75,000 Shares of Rs. 100 each issued for non cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)	495.00	
Total	**1,052.50**	

Schedule 2: Reserves and Surplus

	Particulars			This Year	Prev. Yr.
(a)	Securities Premium Reserve (WN 2)			1,517.50	
(b)	Other Reserve	— Investment Allowance Reserve	(50 + 30)	/86,00	
		— Revaluation Reserve	(125 + 80)	205.00	
(c)	Surplus	(Note)		47.40	
		Total		**1,839.90**	

Working Note: Adjustment in Reserves (in case of Merger)

	Particulars		Long Ltd.	Short Ltd.
	Equity Share Capital		850.00	725,00
	Preference Share Capital		320.00	175.00
	Total Share Capital		1,170.00	900.00
Less:	Purchase Consideration		(1,59 0.00)	(980.00)
	Difference between Capital and Consideration		420.00	80.00
	Total difference to be adjusted in Reserves	(420+80)		500.00
Less:	Adjustment in General Reserve	(240 + 160)		(400.00)
	Adjustment in Profit & Loss Account	(75 + 52)		(127.00)

	Amount in P & L Account to be carried to Balance Sheet		27.00
Add:	Difference arising on issue of Debentures (67,60 50 28) = Surplus Gain		10.40
	Net Amount of P & L A/c		**37.40**

Schedule 3: Long Term Borrowings

	Particulars	This Year	Prev. Yr.
A. Secured Borrowings:	15% Debentures of Rs. 100 each	67.60	
B. Unsecured Borrowings:	Public Deposits	25.00	
	Total	**2.60**	

Schedule 4: Trade Payables

	Particulars		This Year	Prev. Yr.
(a)	Sundry Creditors	(145+75)	220 00	
(b)	Bills Payable		20.00	
	Total		**240 00**	

Schedule 5: Tangible Fixed Assets

	Particulars		This Year	Prev. Yr.
(a)	Plant & Machinery	325 + 210)	535.00	
(b)	Land & Building	(460 + 275)	735.00	
	Total		**1,270.00**	

Schedule 6: Trade Receivables

	Particulars		This Year	Prev. Yr.
(a)	Sundry Debtors	(305 + 270)	575.00	
(b)	Bills Receivable		25.00	
	Total		**600.00**	

5. Balance Sheet of Moderate Ltd. as on 1st April (purchase Method) (Rs. in Lakhs)

	Particulars as at 1st April		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	1,052.50	
	(b) Reserves and Surplus		**2**	1,919.90	
(2)	**Non Current Liabilities:**	Long Term Borrowings	**3**	92.60	
(3)	**Current Liabilities:**	Trade Payables	**4**	240.00	
	Total			**3305.00**	

II	**ASSETS**				
(1)	**Non Current Assets**				
	(a) Fixed Assets: Tangible Assets			**5**	1,270.00
	(b) Non-Current Investments		(75 + 50)		125.00
	(c) Other Non Current Assets	Amalgamation Adjustment A/c (contra)			80.00
(2)	**Current Assets:**				
	(a) Inventories	Stock in Trade	(325 +269)		594.00
	(b) Trade Receivables			**6**	600.00
	(c) Cash and Cash Equivalents	Cash & Bank	(385 + 251)		636.00
	Total				**3305.00**

Note: Amalgamation Adjustment A/c (contra) represents the entry for Statutory Reserves to be carried forward, i.e. Investment Allowance Reserve.

Schedule 1: Share Capital

Particulars	**This Year**	**Prev. Yr.**
Authorised . .....Equity Shares of .....each & .....Preference Shares of .....each		
Issued, Subscribed & Paid up:		
(a) 55,75,000 Equity Shares of Rs. 10 each	557.50	
(34,00,000 Shares of Rs. 10 each and 21,75,000 Shares of Rs. 10 each issued for non-cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)	495.00	
(b) 4,95,000 14% Preference Shares of Rs. 100 each		
(3,20,000 Shares of Rs. 100 each and 1,75,000 Shares of Rs. 100 each issued for non-cash consideration to Shareholders of Long Ltd. and Short Ltd. respectively)		
Total	**1,052.50**	

Schedule 2: Reserves and Surplus

	Particulars		**This Year**	**Prev. Yr.**
(a)	Capital Reserve	(76.67 + 245.73) Refer Note below	322.40	
(b)	Securities Premium Reserve	(WN 2)	1,517.50	
(c)	Other Reserve	Investment Allowance Reserve (50+30)	80.00	
	Total		**1,919.96**	

Working Note: Purchase Consideration and Goodwill Capital Reserve

	Particulars	Long Ltd.	Short Ltd.
Assets Taken over:	Land & Building	460.00	275.00
	Plant & Machinery	325.00	210.00
	Investments	75.00	50.00
	Stock	325.00	269.00
	Sundry Debtors	305.00	270.00
	Bills Receivable	25.00	—
	Cash & Bank	385.00	251.00
	Sub–Total (A)	1,900.00	1,325.00
Liabilities Taken Over:	13% Debentures	43.33	24.27
	Public Deposits	25.00	
	Sundry Creditors	145.00	75.00
	Bills Payable	20.00	
	Sub–Total (B)	233.33	99 27
	Net Assets Taken over (A)–(B)	**1,666.67**	**1,225.73**
Less:	Purchase Consideration	(1,590,00)	(980.00)
	Capital Reserve	**76.67**	**245.73**

Schedule 3: Long Term Borrowings

	Particulars	This Year	Prev. Yr.
A. Secured Borrowings:	15% Debentures of Rs. 100 each	67.60	
B. Unsecured Borrowings:	Public Deposits	25.00	
	Total	**92.60**	

Schedule 4: Trade Payables

	Particulars		This Year	Prev. Yr.
(a)	Sundry Creditors	(145 + 75)	220.00	
(b)	Bills Payable		20.00	
	Total		**240.00**	

Schedule 5 : Tangible Fixed Assets

	Particulars		This Year	Prev. Yr.
(a)	Plant & Machinery	(325+210)	535.00	
(b)	Land & Building	(460 + 275)	735.00	
	Total		**1,270.00**	

Schedule 6 : Trade Receivables

Particulars			This Year	Prev. Yr.
(a)	Sundry Debtors	(305 + 270)	575.00	
(b)	Bills Receivable		25.00	
Total			**600.00**	

April – 2012

Illustration 5: Solved Following are the Balance Sheet of Jay Ltd. and Vijay Ltd. as on 31-03-2011.

Liabilities	Jay Ltd. Rs.	Vijay Ltd. Rs.	Assets	Jay Ltd. Rs.	Vijay Ltd. Rs.
Equity Shares Rs. 10 each, fully, paid-up	5,50,000	3,00,000	Land and Building	2.50.000	3,50,000
			Furniture and Fittings	1,20,000	80,000
General Reserve	40,000	60,000	Investments	25,000	—
Profit and Loss Account	55,000	75,000	Stock	65,000	40,000
Export Profit Reserve	90,000	60,000	Sundry Receivables	1,25,000	1,10,000
Dividend Equalisation Reserve	75,000	85,000	Cash and Bank Balance	3,35,000	90,000
Sundry Payable	1,10,000	90,000			
	9,20,000	**6,70,000**		**9,20,000**	**6,70,000**

On the above date, Jay Ltd. takes over the business of Vijay Ltd. (including Cash and Bank Balance), on the following terms and conditions:

(a) All the Assets and Liabilities are taken over at book value except the following assets which were revalued and taken over as follows:
Land and Building Rs. 6,00,000, Furniture and Fittings Rs. 50,000.

(b) Statutory reserves are to be maintained for next 3 years.

(c) Sundry receivables of Jay Ltd. included Rs. 3,000, receivable from Vijay Ltd.

(d) Purchase Consideration is settled by issuing 60,000 equity shares in Jay Ltd., of Rs. 10 each at Rs. 15 each to the equity shareholders of Vijay Ltd. Rs. 3,00,000 of Purchase Consideration is paid in cash.

(e) Stock of Vijay Ltd. includes goods of the sales Price of Rs. 75,000 sold by Jay Ltd. to Vijay Ltd. at a profit of 25% on cost.

You are required to:

(i) Calculate Purchase consideration.

(ii) Prepare Balance Sheet of Jay Ltd. after amalgamation.

Amalgamation of Companies

		Rs.
1.	**(a) Purchase consideration**	
	(i) 60,000 equity shares in Jay Ltd. of Rs 10 each at Rs 15 Each (60,000 * 15)	9,00,000
	(ii) Cash	3,00,000
		12,00,000

(b) Assets taken over	
Land and Building	6,00,000
Furniture and fittings	50,000
Stock	40,000
Sundry Receivables	1,10,000
Cash and Bank	90,000
	8,90,000
Less: Liabilities taken over	
Sundry Payables	90,000
Net Assets	**8,00,000**
(c) Goodwill = 12,00,000 8,00,000 = 4,00,000	
(d) Unrealised Profit:	
Sale price of stock	5,000
Profit 25% on cost i.e. 20% on sales	1,000
Cost	4,000
(e) Inter company Debt Rs. 3,000	

Jay Ltd.
Balance Sheet As on 31st March, 2012

(Rs. In '000)

	Particulars	**Note No.**	**Rs.**	**Rs.**
1.	**Equity and liabilities**			
	1. Shareholder's Funds			
	(a) Share Capital	1	1150.000	
	(b) Reserve and Surplus	2	619.000	1769.000
	2. Current Liabilities			
	(a) Trade Payables	3	197.000	197.000
	Total			**1966.000**
II.	**Assets**			
	1. Non-current assets			
	(a) Fixed Assets			
	(i) Tangible Assets	4	1020.000	
	(ii) Intangible Assets	5	400.000	
	(b) Non-Current Investments	6	25.000	1445.000
	2. Current Assets			
	(a) Inventories	7	104.000	
	(b) Trade Receivables	8	232.000	
	(c) Cash and Cash Equivalents	9	125.000	
	(d) Other Current Assets	10	60.000	521.00
	Total			**1966.000**

Notes to Accounts

(Rs. In '000)

	Particulars	**Rs.**	**Rs.**
1.	**Share Capital**		
	Equity Share Capital		
	Issued, Subscribed & Fully Paid Share capital		
	1,15,000 shares of Rs. 10 each		**1150.000**
2.	**Reserves and Surplus**		
	Securities Premium Reserve		300.000
	Dividend Equalisation Reserve		75.000
	Export Profit Reserve		150.000
	General Reserve		40.000
	P & L A/c	55.000	
	Less : Unrealised Profits	**1.000**	54.000
			619.000
3.	**Trade Payable**		
	Sundry payables		200.00
	Less Inter Company Debt		3.000
			197.000
4.	**Tangible Assets**		
	Land & Buildings		850.000
	Furniture & Fitting		170.000
	Total		**1020.000**
5.	**Intangible Assets**		
	Goodwill		400.000
6.	**Non- Currents Investment**		400.000
	Trade Investments		25.000
			25.000
7.	**Inventories**		
	Finished Good	105.000	
	Less Unrealised	1.000	104.000
			104.000
8.	**Trade Receivables**		
			235.000
	Less : Inter Co. Debt		3.000
			232.000
9.	**Cash and Cash Equivalents**		
	Balances with Banks and Cash		125.000
			125.000
10.	**Other Current Assets**		
	Amalgamation Adj. A/c		60.000
			60.000

October – 2011

Illustration 6: Parag Ltd. and Chirag Ltd. agreed to amalgamate and form a now company namely Anurag Ltd. which OR take over all the assets and liabilities of both the companies. Following are the Balance Sheets of Parag Ltd. and Chirag Ltd. as on 31st March, 2010. (16)

Liabilities	Parag Ltd. Rs.	Chirag Ltd. Rs.	Assets	Parag Ltd. Rs.	Chirag Ltd. Rs.
Equity Shares of Rs. 10 each, fully paid.	4,00,000	5,00,000	Plant & Machinery	8,00,000	8,00,000
			Stock	65,000	60,000
6% Preference Shares of Rs. 100 each, fully paid	—	3,00,000	Debtors	95,000	50,000
			Profit & Loss A/c	—	1,40,000
Profit & Loss A/c.	5,00,000	—	Bank	65,000	40,000
Statutory Reserve		—			
9% Debentures of Rs. 100 each	—	2,00,000			
Creditors	75,000	90,000			
Total	**10,25,000**	**10,90,000**	**Total**	**10,25,000**	**10,90,000**

Terms of Amalgamation:

In case of Parag Ltd.:

Assets and Liabilities are to be taken over at book values. For every 4 Equity Shares in Parag Ltd. 5 Equity Shares of Rs. 10 each in Anurag used shall be issue at 10% premium.

In case of Chirag Ltd.:

(1) 6% Preference shareholders of Chlrag Ltd. would be allotted 4, 7% Preference shares of Rs. 100 each in Anurag Ltd. for every 5, 6% Preference shares in Chirag Ltd.

(2) 9% Debentureholders would be discharged at par by issue of an equal number of 10% Debenture of Rs. 100 each in Anurag Ltd. at par.

(3) Plant & Machinery and stock shall be appreciated by 10%.

(4) Balance of purchase consideration would be discharged by issue of Equity Shares of Rs. 10 each in Anurag Ltd. issued at 10% premium.

(5) Sundry Debtors of Chirag Ltd. include Rs. 5,000 due from Parag Ltd.

You are required to.

(i) Compute Purchase Consideration.

(ii) Give necessary Journal Entries in the books of Anurag Ltd. and

(iii) Balance sheet of Anurag Ltd. after Amalgamation.

Parag and Chirag Ltd.

Statement of purchase Consideration

Particulars	Parag Ltd. (Rs.)
40000/4*5 Equity Shares @ Rs 11 each	5,50,000

Net Assets Taken Over (Goodwill/Capital Reserve)

Particulars	Rs.	Rs.
Plant and Machinery	8,00,000	
Stock	65,000	
Debtors	95,000	
Bank	**65,000**	10,25,000
Less : Liabilities taken over		75,000
Sundry Creditors		**9,50,000**
Net Assets taken over		5,50,000
Less : Purchase Consideration		**4,00,000**
Capital Reserve		

Chirag Ltd. Net Assets Taken Over

Particulars	Rs.	Rs.
Plant and Machinery	8,80,000	
Stock	66,000	
Debtors	50,000	
Bank	**40,000**	10,36,000
Less : Liabilities taken over 9% Debentures of Rs. 100 each	2,00,000	
Sundry Creditors	**90,000**	2,90,000
Net Assets Taken Over (Purchase Consideration)		**7,46,000**

Discharge of Purchase Consideration

Particulars	Parag Ltd. Rs.
To Preference Shareholders 3,000/5*4*100	2,40,000
To Equity Shareholders 46,000*11	5,06,000
	7,46,000

In the Books of Anurag Ltd.
Journal Entries

Sr. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Business Purchase A/c	Dr.	12,96,000	
	To Liquidators of Parag Ltd. A/c			5,50,000
	To Liquidators of Chirag Ltd. A/c			7,46,000
	(Being business taken over on amalgamation)			
2.	Plant and Machinery A/c	Dr.	8,00,000	
	Stock A/c	Dr.	65,000	
	Debtors A/c	Dr.	95,000	
	Bank A/c		Dr.	65,000
	To Sundry Creditors A/c			75,000
	To Business Purchase A/c			5,50,000
	To Capital Reserve A/c			4,00,000
	(Being assets and liabilities of Parag Ltd. taken over)			

3.	Liquidator of Parag Ltd. A/c	Dr.	5,50,000	
	To Equity Share Capital A/c			5,00,000
	To Securities Premium A/c			50,000
	(Being purchase consideration of Parag Ltd. discharged)			
4.				8,80,000
				66,000
				50,000
				40,000
	Plant and Machinery A/c	Dr.		2,00,000
	Stock A/c	Dr.		90,000
	Debtors A/c	Dr.		7,46,000
	Bank A/c	Dr.		
	To 9% Debentures of 100% each A/c			
5.	To Sundry Creditors A/c		7,46,000	
	To Business Purchase A/c			4,60,000
	(Being assets and liabilities of Chirag Ltd. taken over)			2,40,000
	Liquidators of Chirag Ltd. A/c	Dr.		46,000
	To Equity Share Capital A/c			
6.	To 7% Preference Share Capital A/c		2,00,000	
	To Securities Premium A/c			2,00,000
	(Being purchase consideration of Chirag Ltd. discharged)			
7.	9% Debentures of Chirag Ltd. A/c	Dr.	50,000	
	To 10% Debentures A/c			50,000
	(Being debentures of Chirag Ltd. discharged)			
8.	Amalgamation Adjustment A/c	Dr.	5,000	
	To Statutory Reserve A/c			5,000
	(Being Statutory Reserve of Parag Ltd. retained)			
	Creditors A/c	Dr.		
	To Debtors A/c			
	(Being inter co dues adjusted)			

Anurag Ltd.
Balance Sheet As on 1st April, 2012

(Rs. In '000)

	Particulars	Note No.	Rs.	Rs.
I.	**Equity and liabilities**			
	1. Shareholder's Funds			
	(a) Share Capital	1	1200.000	
	(b) Reserves and Surplus	2	**546.000**	1746.000
	2. Non-current Liabilities			
	(a) Long-term borrowings	3	**200.000**	200.000
	3. Current Liabilities			
	(a) Trade Payable	4	**160.000**	**160.000**
II.	**Assets**			**2106.000**
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible assets	5	**1680.000**	1680.000
	2. Current Assets			
	(a) Inventories	6	131.000	
	(b) Trade Receivables	7	140.000	
	(c) Cash and Cash Equivalents	8	105.000	
	(d) Others Current Assets	9	**50.000**	**426.000**
				2106.000

Notes to Accounts

(Rs. In '000)

	Particulars	Rs.
1.	**Share Capital**	
	Equity Shares Capital	
	Issued, subscribed and fully paid Share Capital	960.000
	9% preference Share Capital	240 000
		1200 000
2.	**Reserves and Surplus**	
	Capital Reserve	400.000
	Securities Premium	96.000
	Statutory Reserve	50 000
		546.000
3.	**Long term Borrowings Secured**	
	10% Debentures	200 000
		200.000
4.	**Trade Payable**	160.000
		160 000
5.	**Tangible Assets**	
	Plant & Machinery	1680 000
		1680 000

6.	**Inventories**		
	Finished Goods		131.000
			131 000
7.	**Trade Receivables**		
	Secured/ Unsecured/ Doubtful		140 000
			140 000
8.	**Cash and Cash Equivalents**		
	Balances with Banks		105.000
			105.000
9.	**Other Current Assets**		
	Amalgamation Adj. A/c		**50.000**
			50.000

April – 2011

Illustration 7: Following are the Balance Sheets of Rahul Ltd. and Mehul Ltd. as on 31st March, 2010. (20)

Liabilities	Rahul Ltd. Rs.	Mehul Ltd. Rs.	Assets	Rahul Ltd. Rs.	Mehul Ltd. Rs.
Equity Shares at Rs. 10 each, fully paid	5,00,000	3,00,000	Goodwill	—	50,000
10 % Preference Shares of			Building	3,00,000	4,00,000
Rs. 100 each fully paid	—	2,00,000	Machinery	1,00,000	90,000
12% Preference shares of			Furniture	20,000	10,000
Rs. 100 each fully paid	3,00,000	—	Investments	2,00,000	50,000
General Reserve	1,00,000	1,21,000	Debtors	3,00,000	1,50,000
Profit and Loss A/c	50,000	40,000	Stock	1,00,000	1,00,000
Statutory Reserve	20,000	10.000	Other Current Assets	2,30,000	50,000
9% Debentures of Rs. 100 each	1,50,000	1,50,000	Bank	30,000	20,000
Sundry Creditors	1,00,000	59,000			
Other Liabilities	60,000	40,000			
Total	**12,80,000**	**9,20,000**	**Total**	**12,80,000**	**9,20,000**

On the above date Rahul Ltd. takes over the business of Mehul Ltd. on the following terms and conditons:

(a) All Fixed Assets (other than Goodwill) are to be taken over at 20% above book values and current assets (other than cash and bank balance) are valued at 15% below book values.

(b) Goodwill to be considered as worth Rs. 1,50,000

(c) Equity Shareholders of Mehul Ltd. are to be issued, 8 Equity Shares of Rs. 10 each in Rahul Ltd. at Rs. 12 each, for every 5 Equity Shares in Mehul Ltd. Balance of Purchase Consideration to be paid in cash.

(d) 10% Preference Shareholders of Mehul Ltd. are to be paid at 10% premium by issue of 12% Preference Shares of Rahul Ltd. at par.

(e) Investments of Mehul Ltd. represent investments in own debentures of face value Rs. 50,000 purchase at par, which are to be cancelled before the company is taken over by Rahul Ltd.

(f) Investments of Rahul Ltd. include investments in 9% Debentures of Mehul Ltd. of face value Rs. 1,00,000 purchased at Rs, 95,000.

(g) Sundry Debtors of Rahul Ltd. include Rs. 5,000 due from Mehul Ltd.

You are required to:
(i) Compute Purchase Consideration.
(ii) Pass necessary Journal Entries in the books of Rahul Ltd.
(iii) Prepares Balance sheet of Rahul Ltd. after amalgamation.

Mehul Ltd.
Purchase Consideration (Net Asset) Method
Net assets taken over

(Rs. In '000)

Particulars	**Rs.**	**Rs.**
Assets taken over		
Goodwill	1,50,000	
Building	4,80,000	
Machinery	1,08,000	
Furniture	12,000	
Debtors	1,27,500	
Stock	85.000	
Other Current assets	42,500	
Bank	20,000	
		10,25,000
Less: Liabilities taken over		
9% debentures	1,00,000	
Sundry Creditor	59,000	
Other liabilities	40,000	
		1,99,000
Purchase consideration		**8,26,000**

Settlement of Purchase Consideration

	Particulars	**Rs.**
1.	To Preference Shareholders 2200 x 100	2,20,000
2.	To Equity Shareholders 30,000/5 x 8 x 12	5,76,000
3.	Cash	30,000
		8,26,000

In the Books of Rahul Ltd.
Journal entries

Sr. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Business purchase A/c	Dr	8,26,000	
	To Liquidator of Mehul Ltd.			8,26,000
	(Being purchased business of Mehul Ltd.)			
2.	Goodwill A/c	Dr		
	Building A/c	Dr	1,50,000	
	Machinery A/c	Dr	4,80,000	
	Furniture A/c	Dr	1,08,000	
	Debtor A/c	Dr	12,000	
	Stock A/c	Dr	1,27,000	
	Other Current assets A/c	Dr	85,000	
	Bank A/c	Dr	42,500	
	To Sundry Creditor A/c			20,000
	To 9% Debentures A/c			59,000
	To Other Liabilities A/c			1,00,000
	To Business Purchase A/c			40,000
	(Being taken over of Assets & Liabilities)			8,26,000
	Liquidator of Mehul Ltd. A/c	Dr		
	To Equity Share Capital A/c			
3.	To I 2% Preference Share Capital A/c		8,26,000	
	To Securities Premium A/c			4,80,000
	To Cash A/c			2,20,000
	(Being Settlement of Purchase consideration)			96,000
				30,000
4.	9% Debentures of Mehul Ltd. A/c	Dr		
	To Investment A/c			
	To Capital Reserve A/c			
	(Being Purchased 9% Debentures of Mehul Ltd.)		1,00,000	
				95,000
	Amalgamation Adjustment A/c	Dr		5,000
	To Statutory Reserve A/c			
	(Being Statutory Reserve brought into books)			
5.	Creditors A/c	Dr	10,000	
	To Debtors A/c			10,000
	(Being adjusted inter co Debt)			
	Capital Reserve A/c	Dr		
6.	To Goodwill A/c		5,000	
	(Being transferred Capital Reserve to Goodwill A/c)			5,000
7.	Capital Reserve A/c		5,000	
	To Goodwill A/c			5,000
	Being transferred Capital Reserve to Goodwill A/c)			

Rahul Ltd.
Balance Sheet as on 1st April 2012

(Rs. In '000)

	Particulars	Note No.	Rs.	Rs.
I.	**Equity and liabilities**			
	1. Shareholder's Funds			
	(a) Share Capital	1	1500.000	
	(b) Reserves and Surplus	2	276.000	1776.000
	2. Non-current Liabilities			
	(a) Long-term borrowing			
	3. Current Liabilities	3		150.000
	(a) Trade payable			
	(b) Other current liabilities	4	154.000	
II.	**Assets**	5	100.000	254.000
	1. Non-current Assets			
	(a) Fixed Assets			
	(i) Tangible assets			
	(ii) lntangible	6	1020.000	
	(b) Non-current Investment	7	145.000	
	2. Current Assets	8	105.000	1270.000
	(a) Inventions			
	(b) Trade Receivable			
	(c) Cash and Cash Equivalents	9	185.000	
	(d) Other Current Assets	10	422.500	
		11	20.000	
		12	287.500	910.000

See accompanying notes to the Financial Statements

Notes to Accounts

(Rs. In '000)

	Particulars	Rs.
1.	Share Capital	
	Equity Share Capital	
	(Issued Subscribed & fully Paid-up)	980.000
	98000 equity shares of Rs 10 each	
	Preference Share Capital	520.000
	5,200 12% preference shares of Rs 100 each	1500.000
2.	Reserves and Surplus	
	Securities Premium Reserves	96.000
	Statutory Reserve	30.000
	General Reserve	100.000
	P & L A/c	50,000
		276.000

3.	Long term Borrowings secured	
	9% Debentures of Rs 100 each	150.000
		150.000
4.	Trade Payable	
	Sundry Creditors	154.000
		154.000
5.	Other Current Liabilities	
	Other Liabilities	100.000
		100.000
6.	Tangible Assets	
	Building	780.000
	Machinery	280.000
	Furniture	32.000
		1020.000
7.	Intangible Assets	
	Goodwill	145.000
		145.000
8.	Non-Current Investments	105.000
		105.000
9.	Inventories	
	Stock in Trade	185.000
		185.000
10.	Trade Receivable	
	Debtors	422.000
		422.000
11.	Cash and Cash Equivalent	
	Balances with Banks	20.000
		20.000
12.	Other Current Assets	
	Other Assets	272.500
	Amalgamation Adj. A/c	10,000
		282.500

October – 2010

Illustration 8: Aqua Engineers Ltd. a newly formed company acquired business of Beeta Ltd. as on 31-3-2009. (20)

The Balance Sheet of Beeta Ltd. as on that date was as under:

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs, 10 each fully paid	1,50,000	Goodwill	20,000
General Reserve	25,000	Land & Building	80,000
Export Profit Reserve	8,000	Plant	80,000
Profit and Loss Account	18,000	Investments	30,000
12% Debentures	60.000	Stock	40,000
Sundry Creditors	37,000	Debtors	50,000
Provision for Tax	30.000	Bills Receivable	8,000
		Bank	20,000
	3,28,000		**3,28,000**

Terms of acquisition:

(1) Aqua Engineers Ltd. issued 25,000 equity shares of Rs. 10 each at Rs. 12 per share.

(2) Aqua Engineers Ltd. paid Rs. 4 in cash for each share of Beeta Ltd.

(3) Aqua Engineers Ltd. discharged 12% debentures of Beeta Ltd. at 10% premium by issue of its 15% debentures at a discount of 12%.

(4) Aqua Engineers Ltd. paid absorption expenses Rs. 3,000.

(5) Aqua Engineers Ltd. revalued Land & Building at Rs. 1,00,000, Plant at 10% below book value, Stock at Rs. 35,000 and Debtors subject to 5% provision for doubtful debts.

(6) Beeta Ltd. sold one-fifth of the shares received from Aqua Engineers Ltd. at Rs. 13.00 per share.

(7) Aqua Engineers Ltd. issued 10,000 equity shares of Rs. 10 each at Rs. 12 each to the public. The issue was fully subscribed and paid for.

(8) Export Profit Reserve is to be maintained for next three years.

You are required to:

(i) Compute Purchase Consideration.

(ii) Prepare Realisation Account, Aqua Engineers Ltd. Account, Equity Shareholders Account, Equity Shares in Aqua Engineers Account and Bank Account in the books of Beeta Ltd.

(iii) Prepare Balance Sheet of Aqua Engineers Ltd. after acquisition under purchase method.

Equity Shares in Aqua Engineers Ltd. A/c

Particulars	Rs.	Particulars	Rs.
To Aqua Engineers A/c	3,00,000	By Bank A/c	65,000
To Realisation A/c	5,000	By Equity Shareholders A/c	2,40,000
	3,05,000		**3,05,000**

Cash / Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	20,000	By Realisation	20,000
To Aqua Engineers A/c	60,000	By Equity Shareholder A/c	1,25,000
To Equity Shares in Aqua Ltd.	65,000		
	1,45,000		**1,45,000**

Aqua Engineers Ltd.
Balance Sheet as on 1st April 2012

(Rs. in '000)

	Particulars	Note No.	Rs.	Rs.
1.	**Equity and liabilities**			
	1. Shareholder's Funds			
	(a) Share Capital	1	350.000	
	(b) Reserves and Surplus	2	**78.000**	428 000
	2. Non current Liabilities			
	(a) Long term borrowings	3	**75.000**	75.000
	3. Current Liabilities			
	(a) Trade Payable	4	37.000	
	(b) Short-term Provisions	5	**30.000**	67.000
	Total			**570.000**
II.	**Assets**			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible assets	6	172.000	
	(ii) Intangible	7	183.500	
	(b) Non Current Investment	8	**30.000**	**385.500**
	2. Current Assets			
	(a) Inventories	9	35.000	
	(b) Trade Receivables	10	47.500	
	(c) Cash and Cash Equivalents	11	77.000	
	(d) Short term Loans and Advances	12	8.000	
	(e) Others Current Assets	13	17.000	184.000
	Total			**570.000**

Notes to Accounts

(Rs. in '000)

	Particulars	Rs.
1.	**Share Capital**	
	Equity Share Capital	
	Issued, Subscribed and fully paid Share Capital	
	35,000 equity shares of Rs. 10 each	**350.000**
2.	**Reserves and Surplus**	
	Securities Premium	70.000
	Export Profit Reserve	8.000
		78.000
3.	**Long term Borrowings Secured**	
	15% Debentures	75.000
		75.000
4.	**Trade Payable**	
	Sundry Creditors	37.000
		37.000

5.	**Short-Term Provisions**		
	Provision for Tax		30.000
			30.000
6.	**Tangibles Assets**		
	Land & Buildings		100.000
	Plant		72.000
			172.000
7.	**Intangibles Assets**		
	Goodwill		183.500
			183.500
8.	**Non-Currents Investments**		
	Trade Investments		30.000
			30.000
9.	**Inventories**		
	Stock in Trade		35.000
			35.000
10.	**Trade Receivable**		
	Debtors	50.00	
	Less RDD	(2.500)	**47.500**
			47.500
11.	**Cash and Cash Equivalents**		
	Balances with Banks		77.000
			77.000
12.	**Short-Term Loans and Advances**		
	Bills Receivable		8.000
			8.000
13.	**Other Current Assets**		
	Amalgamation Adj. A/c		8.000
	Discount on issue of Debentures		9.000
			17.000

Bank A/c

Liabilities	Rs.	Assets	Rs.
To Beeta Ltd.	20,000	By Goodwill A/c	3,000
To Equity Capital	1,00,000	Beeta Ltd.	60,000
To Security Premium	20,000	By Balance c/d	77,000
	1,40,000		**1,40,000**

2. Export Profit Reserve Rs. 8,000 is brought into the books by debiting Amalgamation adjustment A/c which is shown under, Miscellaneous Expenses.
3. Payment of absorption expenses is debited to Goodwill A/c as per AS-14

Statement of purchase consideration
Aqua Engineers Ltd.

Particulars	Rs.
1. Equity Shares (25,000)*12	3.00.000
2. Cash 15,000*4	60,000
	3,60,000

Statement of Net Assets taken over

Particulars	Rs.	Rs.
All Assets at Agreed Values		
Land and Building	1,00,000	
Plant	72,000	
Investments	30,000	
Stock	35,000	
Debtors	50,000	
Bills Receivable	8,000	
Bank	**20,000**	**3,15,000**
Less: All Liabilities at Revised Values		
12% Debentures	66,000	
Sundry Creditors	37,000	
Provision for Tax	30,000	
Provision for Doubtful Debts	2,500	**1,35,500**
Net Assets taken over		1,79,500
Less : Purchase Consideration		3,60,000
Goodwill		**1,80,500**

In the Books of BEETA Ltd.
Realisation A/c

Particulars	Rs.	Particulars	Rs.
To Goodwill	20,000	By 12% Debentures	60,000
To Land and Building	80,000	By Sundry Creditors	37,000
To Plant	80,000	By Provision for Tax	30,000
To Investment	30,000	By Aqua Engineers A/c	3,60,000
To Stock	40,000	By Equity Shares in Aqua	
To Debtors	50,000	Engineers A/c	5,000
To Bills Receivable	8,000		
To Bank	20,000		
To Equity Shareholders A/c	1,64,000		
	4,92,000		**4,92,000**

Equity Shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Equity Shares in Aqua Engineers A/c	2,40,000	By Equity Share Capital	1,50,000
To Cash/Bank	1,25,000	By General Reserve	25,000
		By Export Profit Reserve	8,000
		By Profit and Loss A/c	18,000
		By Realisation A/c	1,64,000
			3,60,000

Aqua Engineers Ltd. A/c

Particulars	Rs.	Particulars	Rs.
To Realization A/c	3,60,000	By Equity Shares Aqua Engineers A/c	3,00,000
		By Cash/ Bank	60,000
	3,60,000		**3,60,000**

April – 2010

Illustration 9: Josh Ltd. and Ashish Ltd. were amalgamated on and from 1st April, 2009. A new company namely Shilpa Ltd. was formed to take over the business of Josh Ltd. and Ashish Ltd. (16)

Balance Sheets as on 31st March, 2009

Liabilities	Josh Ltd. Rs.	Ashish Ltd. Rs.	Assets	Josh Ltd. Rs.	Ashish Ltd. Rs.
Equity Shares of Rs. 100 each fully paid	4,00,000	3,75,000	Land and Building	3,00,000	1,50,000
12% Preference Shares of			Plant and Machinery	1,50,000	1,80,000
Rs. 100 each fully paid	1,50,000	1,00,000	Computers	75,000	20,000
General Reserve	85,000	75,000	Stock	2,00,000	1,00,000
Profit & Loss A/c.	25,000	15,000	Debtors	1,25,000	2,00,000
Statutory Reserves	1,00,000	75,000	Bib Receivables	90,000	20,000
10% Debenture of Rs. 100 each	30,000	15,000	Bank	60,000	80,000
Sundry Creditors	1,10,000	70,000			
Bills Payable	1,00,000	25,000			
	10,00,000	**7,50,000**		**10,00,000**	**7,50,000**

Additional Information:

(a) Shilpa Ltd. issued five equity shares, for each equity share of Josh Ltd. and four equity shares, for each equity share of Ashish Ltd. The shares are of Rs. 10 each, issued at Rs. 30 each.

(b) Preference Shareholders of both the companies are issued equivalent number of 15% preference shares of new company at Rs. 150 per share (face value Rs. 100).

(c) 10% Debentureholders of Josh Ltd. and Ashish Ltd. are discharged by Shilpa Ltd. issuing such number of its 15% Debenture of Rs. 100 each so as to maintain the same amount of interest.

(d) Shilpa Ltd. revalued following assets taken over from Josh Ltd. and Ashish Ltd.:

	Josh Ltd. Rs.	Ashish Ltd. Rs.
Land and Building	4,00,000	2,00,000
Plant and Machinery	1,20,000	1,50,000
Computers	70,000	ROW
Stock	1,50,000	80,000
Debtors	1,10,000	1,90,000

You are required to: (i) Compute Purchase Consideration. (ii) Pass Journal entries in the books of Shilpa Ltd., under purchase method.

Net assets taken over

	Josh Ltd. Rs.	Ashish Ltd. Rs.
Net Assets taken over (goodwill/capital Reserve)		
Land & Building	4,00,000	2,00,000
Plant & machinery	1,20,000	1,50,000
Computers	70,000	10,000
Stock	1,50,000	80,000
Debtors	1,10,000	1,90,000
Bills receivable	90,000	20,000
Bank	60,000	80,000
	10,00,000	7,30,000
Less : Liabilities taken over		
10% Debentures of Rs. 100 each	20,000	10,000
Sundry Creditors	1,10,000	70,000
Bills Payable	1,00,000	25,000
Net Assets taken over	2,30,000	1,05,000
Less : Purchase Consideration	7,70,000	6,25,000
Goodwill	8,25,000	6,00,000
Capital Reserve	55,000	25,000

In the books of Shilpa Ltd.
Journal entries

Sr. No.	Particulars		Debit (Rs.)	Credit (Rs.)
1.	Business purchase A/c	Dr	14,25,000	
	To Liquidator of Josh Ltd. A/c			8,25,000
	To Liquidator of Ashish Ltd. A/c			6,00,000
	(Being purchase of business)			
2.	Land & building A/c	Dr	4,00,000	
	Plant & machinery A/c	Dr	1,20,000	
	Computers A/c	Dr	70,000	
	Stock	Dr	1,50,000	
	Debtors A/c	Dr	1,10,000	
	Bill receivable A/c	Dr	90,000	
	Bank	Dr	60,000	
	Goodwill A/c	Dr	55,000	
	To 10% Debentures A/c			20,000
	To Sundry Creditors A/c			1,10,000
	To bill Payable A/c			1,00,000
	To Business Purchase A/c			8,25,000
3.	Liquidator of Josh Ltd. A/c	Dr	8,25,000	
	To Equity Share Capital A/c			2,00,000
	To 15% Preference Share capital A/c			1,50,000
	To Securities Premium A/c			4,75,000
	(Being settled purchase consideration)			
4.	Land & Building A/c	Dr	2,00,000	
	Plant & machinery A/c	Dr	1,50,000	
	Computers A/c	Dr	10,000	
	Stock	Dr	80,000	
	Debtors A/c	Dr	1,90,000	
	Bill receivable A/c	Dr	20,000	
	Bank	Dr	80,000	
	To Capital Reserve			25,000
	To 10% Debentures A/c			10,000
	To Sundry Creditors A/c			70,000
	To bill Payable A/c			.25,000
	To Business Purchase A/c			6,00,000
	(Being brought into books assets & liabilities taken over)			
5.	Liquidator of Ashish Ltd. A/c		6,00,000	
	To Equity Share Capital A/c			1,50,000
	To 15% Preference Share capital A/c			1,00,000
	To Securities Premium A/c			3,50,000
	(Being settled purchase consideration)			

6.	10% Debentures of Josh A/c 10% Debentures of Ashish A/c To 15% Debentures A/c (Being 15% debentures issued to debentureholders A/c)	20,000 10,000	 30,000
7.	Amalgamation Adjustment A/c To statutory Reserve A/c (Being statutory reserve brought forward)	1,75,000	 1,75,000
8.	Capital Reserve A/c To Goodwill A/c (Being transferred goodwill to capital reserve A/c)	25,000	 25,000

October – 2009

Illustration 10: Following are the Balance Sheets of Vivek Ltd. and Narendra Ltd. as on 31st March 2008. (16)

Liabilities	Vivek Ltd. Rs.	Narendra Ltd. Rs.	Assets	Vivek Ltd. Rs.	Narendra Ltd. Rs.
Equity Share Capital			Goodwill	2,00,000	73,000
(Rs. 10 each fully paid)	6,50,000	3,50,000	Land & Building	3,60,000	2,00,000
Securities Premium	1,00,000	2150,000	Own Debentures		
			(Face value Rs. 35,000)		30,000
Capital Reserve	60,000	—	Investment in 8%		
			Debentures of		
Export Profit Reserve	—	32,000	Narendra Ltd. (Face Value		
			Rs, 40,000)	34,000	—
Reserve Fund	—	2,32,000	Current Assets	7,67,000	8,45,000
9% Debentures	1,00,000	—	Preliminary Expenses	47,000	37,000
8% Debentures	—	75,000			
Bank Overdraft	62,000	—			
Sundry Creditors	4,36,000	2,46,000			
	14,08,000	**11,85,000**		**14,08,000**	**11,85,000**

On the above date Vivek Ltd. absorbed Narendara Ltd. Purchase consideration payable by Vivek Ltd. was agreed as follows:

(1) A cash payment of Rs. 6 for every equity share of Narendra Ltd.

(2) Issue of four equity shares of Rs. 10 each in Vivek Ltd. at Rs. 25 per share for every five shares in Narendra Ltd.

Sundry creditors of Vivek Ltd. include Rs. 26,000 payable to Narendra Ltd. Narendra Ltd. cancelled its own debentures held as investment before absorption by Vivek Ltd. Vivek Ltd. cancelled debentures of Narendra Ltd. held as investment after absorption.

You are required to prepare, following ledger accounts in the books of Narendra Ltd.: (a) Realisation A/c, (b) Equity Shareholders A/c, (c) Vivek Ltd. A/c, (d) Equity Shares in Vivek Ltd. A/c, (e) Bank A/c.

Also prepare Balance Sheet of Vivek Ltd. after absorption (under purchase method).

In the ledger of Narendra Ltd.

Realisation A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	73,000	By Sundry Creditors A/c	2,46,000
To Land and Building A/c	2,00,000	By Debentures (75,000 35,000) A/c	40,000
To Current Assets A/c	8,45,000	By Vivek Ltd. A/c (Purchase Consideration)	9,10,000
To Equity Shareholders A/c (Profit Realisation)	78,000		
	11,96,000		**11,96,000**

Equity Shareholders A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Preliminary Expenses A/c	37,000	By Equity Share Capital A/c	3,50,000
To Bank A/c	2,10,000	By Securities Premium A/c	2,50,000
To Equity Shares in Vivek Ltd. (Shares Given)	7,00,000	By Export Profit Reserve A/c	32,000
		By Reserve Fund A/c	2,32,000
		By Capital Reserve A/c (35,000 30,000)	5,000
		By Realisation A/c (Profits)	78,000
	9,47,000		**9,47,000**

Bank A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Vivek Ltd,	2,10,000	By Equity Shareholder (Balance Paid)	2,10,000
	2,10,000		**2,10,000**

Vivek Ltd. A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Realisation A/c	9,10,000	By Equity Shareholders A/c	7,00,000
		By Bank A/c (Purchase consideration received)	2,10,000
	9,10,000		**9,10,000**

Equity Shares In Vivek Ltd. A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Vivek Ltd., A/c	7,00,000	By Equity Shareholders A/c (Shares Distributed)	7,00,000
	7,00,000		**7,00,000**

Statement of Purchase Consideration

	Rs.
Cash Payment: (35,000 shares @ 6 each)	2,10,000
Issue of Equity Shares in Vivek Ltd: x 35,000 = 28,000 shares of Rs 10 each at Rs 25 each	7,00,000
	9,10,000

Balance Sheet as on 31st March 2012

(Rs. In '000)

	Particulars	Note No.	Rs.	Rs.
I.	**Equity and Liabilities**			
	1. Shareholders' funds			
	(a) Share Capital	1	9,30,000	
	(b) Reserves and Surplus	2	6,18,000	15,48,000
	2. Non-Current Liabilities			
	(a) Long-Term Borrowings	3	1,00,000	1,00,000
	3. Current Liabilities			
	(a) Short-Term Borrowing	4	2,72,000	
	(b) Trade Payables	5	6,56,000	9,28,000
	Total			**25,76,000**
II.	**Assets**			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible Asset	6	5,60,000	
	(ii) Intangible Asset	7	3,51,000	9,11,000
	2. Current Assets			
	(a) Cash and cash equivalents	8	15,86,000	
	(b) Other Current Assets	9	79,000	16,65,000
				25,76,000

Notes to Accounts

(Rs. in '000)

	Particulars	**Rs.**
1.	Capital and Liabilities	
	Equity Share Capital	
	Issued subscribed and fully paid	
	share capital 93,000 equity shares of Rs. 10 each	9,30,000
2.	Reserves and Surplus	
	Capital Reserves	66,000
	Security Premium Reserves	5,20,000
	Export Profit Reserves	32,000
		6,18,000
3.	Long Term borrowing secured	
	9% debentures	1,00,000
		1,00,000
4.	Short term borrowing secured	
	Bank overdraft	2,72,000
		2,72,000
5.	Trade payable	
	Creditors	6,56,000
		6,56,000
6.	Tangible Assets	
	Land and Building	5,60,000
		5,60,000
7.	Intangible Assets	
	Goodwill	3,51,000
		3,51,000
8.	Cash and cash equivalents	
	Balances with banks (Assumed)	15,86,000
		15,86,000
9.	Other Current Assets	
	Preliminary expenses	47,000
	Amalgamation adj. A/c	32,000
		79,000

April – 2009

Illustration 11: Following are the Balance Sheets of Alpha Ltd. and Beeta Ltd. as on 31st March, 2008. (16)

Liabilities	Alpha Ltd. Rs.	Beeta Ltd. Rs.	Assets	Alpha Ltd. Rs.	Beeta Ltd. Rs.
Share Capital:			Goodwill	60,000	1,00,000
7% Preference shares of Rs. 100 each	4,50,000	6,00,000	Premises	6,50,000	7,00,000
Equity Shares of Rs. 100 each	8,00,000	12,00,000	Plant & Machinery	4,80,000	6,20,000
General Reserve.	70,000	80,000	Computer	1,20,000	2,00,000
Profit and Loss A/c	45,000	62,000	Stock	1,80,000	2,50,000
Statutory Reserve	27,000	48,000	Sundry Debtors	1,10,000	3,15,000
10% Debentures	1,50,000	84,000	Bib Receivable	30,000	20,000
Sundry Creditors	75,000	1,20,000	Bank	12,000	24,000
Bills Payable	25,000	35,000			
	16,42,000	**22,29,000**		**16,42,000**	**22,29,000**

Beeta Ltd. takes over Alpha Ltd. on 1st April 2008 on the following terms:

(1) Beeta Ltd. discharged purchase consideration as under:
   (a) Issued 10000 Equity Shares of Rs. 100 each at a premium of 5% for the equity shareholders of Alpha Ltd.
   (b) Issued 8% Preference Shares of Rs. 100 each at par to discharge the preference shareholders of Alpha Ltd. at 10% premium.

(2) The Debentures of Alpha Ltd. to be converted into equivalent number of debentures of Beeta Ltd.

(3) Sundry Debtors of Beeta Ltd. include Rs. 25,000 being amount due from Alpha Ltd.

(4) Bills payable of Alpha Ltd. includes Rs. 7,000 being the amount of bills accepted in favour of Beeta Ltd. but the Bills Receivable of Beeta Ltd. includes Rs. 5,000 only being the amount of bills due from Alpha Ltd.

(5) The Stock of Beeta Ltd. includes Rs. 30,000 worth of goods purchased from Alpha Ltd. on which Alpha Ltd. made a profit of 25% on cost.

You are required to:

(a) Calculate purchase consideration.

(b) Pass Journal Entries in the books of Beeta Ltd. assuming that amalgamation is in the nature of purchase.

(c) Prepare Balance Sheet of Beeta Ltd. after amalgamation.

Purchase consideration:

1. For equity shareholders:	10,50,000
10,000 equity shares in Beeta Ltd. of Rs. 100 each at a premium of 5%	
1. For 7% preference shareholders:	4,95,000
4950, 8% preference shares in Beeta Ltd. of Rs. 100 each at par	15,45,000

Journal Entries in the books of Beeta Ltd.

Particulars	Dr. Rs.	Cr. Rs.
Business purchase a/c	15,45,000	
To liquidators of Alpha a/c		15,45,000
(Being purchase of business)		
Goodwill a/c	2,13,000	
Premises a/c	6,50,000	
Plant & machinery a/c	4,80,000	
Computer a/c	1,20,000	
Stock a/c	1,80,000	
Sundry debtors a/c	1,10,000	
Bills receivable a/c	30,000	
Bank a/c	12,000	
To 10% debentures of Alpha Ltd., a/c		1,50,000
To Sundry creditors a/c		75,000
To bills payable a/c		25,000
To Business purchase a/c		15,45,000
(Being assets & liabilities taken over brought into books)		
Liquidators of Alpha a/c	15,45,000	
To Equity share capital a/c		10,00,000
To Securities premium a/c		50,000
To 8% Preference share capital a/c		4,95,000
(Being settled purchase consideration but issue of 10,000 equity shares of Rs. 100 each at 5% premium and 4950 preference shares of Rs 100 each)		
10% debentures of Alpha Ltd., a/c	1,50,000	
To 10% debentures of Beeta Ltd.		1,50,000
(Being issued debentures to the debenture holders of Alpha Ltd.)		
Sundry creditors of Alpha Ltd., a/c	25,000	
To sundry debtors of Beeta Ltd., a/c		25,000
(Being intercompany debt adjusted)		
Bills payable of Alpha Ltd., a/c	5,000	
To bills receivable of Beeta Ltd., a/c		5,000
(Being intercompany bills adjusted)		
Goodwill a/c	6,000	
To stock a/c		6,000
(Being unrealised, profit adjusted)		
Amalgamation adjustment a/c	27,000	
To Statutory reserves a/c		27,000
(Being statutory reserves brought into the books)		

Beeta Ltd.
Balance Sheet as on 1st April 2012

Particulars	Note No.	Rs.	Rs.
I. Equity and Liabilities			
1. Shareholder's funds			
Share capital	1		3295,000
Reserve and surplus	2	267,000	3,562,000
2. Non-current liabilities			
Long term borrowing	3	234,000	234,000
3. Current liabilities			
Trade payables	4	225,000	225,000
			4,021,000
II. Assets:			
I . Noncurrent liabilities:			
(a) Fixed assets			
(i) Tangible assets	5	2,770,000	
(ii) Intangible assets	6	319,000	3,089,000
2. Current assets			
(a) Inventories	7	424,000	
(b) Trade receivables	8	400,000	
(c) Cash in cash equipments	9	36,000	
(d) Short term loans in advances	10	45,000	
(e) Other current assets	11	27,000	9,32,000
Total			**4,021,000**

See accompanying notes to the financial statements

Notes to Accounts

Particulars	Rs.	Rs.
Share capital		
Equity share capital		
Issued, subscribed and fully paid share capital	2200,000	
22,000 equity shares of 100 each		
Preference share capital		
6000 7% Pref. shares of Rs. 100 each	600,000	
4950 7% Pref. shares of Rs. 100 each	495,000	
Reserves and surplus		
Securities premium	50,000	
Statutory reserve	75,000	
General reserve	80,000	
P & L A/c	62,000	
Long term borrowing secured		234,000
10% debentures		234,000

Trade payable	75,000	
Sundry creditors Alpha	25,000	
Less inter.co.debt	50,000	
Beeta	120,000	
	25,000	
Bills payable	5,000	
Less inter co. debt	20,000	
Beeta	35,000	55,000
Tangible assets		225,000
Premises		1350,000
Plant and machinery		1100,000
Computer		320,000
		2270,000
Intangible assets		
Goodwill		319,000
		319,000
Inventories stocking trade		
Beeta	250,000	
Less unrealised	6,000	
	244,000	
Alpha	180,000	424,000
Trade receivable		
Sundry debtors Beeta	315,000	
Less: Inter co. debt	25,000	
	290,000	
Alpha	110,000	400,000
Cash and cash equivalents		
Balance with banks		36,000
Short term loans and advances		
Bills receivable		45,000
Other current assets		
Amalgamation adj. A/c		27,000

3. Amalgamation in the nature of Merger

Illustration 5 : Pooling of Interest Method – Basics

Hari Ltd. having Share Capital of Rs. 50 Lakhs divided into Equity Shares of Rs. 10 each, was taken over by Govind Ltd. Hari Ltd. has General Reserve of Rs. 10,00,000 and Profit and Loss Account Cr. Rs. 5,00,000. Govind Ltd. issued 11 Equity Shares of Rs. 10 each for every 10 Shares of Hari Ltd. Show how the Journal Entries would be passed in the books of Govind Lid. for the Shares issued under the Pooling of Interests Method of Amalgamation.

Solution: **1. Computation of Reserves to be incorporated in the books of Govind Ltd.**

	Particulars	Rs.
	Paid Up Capital of Hari Ltd.	56,00,000
Less:	Purchase Consideration (5,00,000 ×) × 10 = 5,50,000 Shares x Rs. 10 each	55,00,000
	Difference to be adjusted with I reduced from General Reserve of Hari Ltd.	**5,00,000**
Balance Reserves of Hari Ltd. to be incorporated		
	General Reserve (10,00,000 5,00,000)	5,00,000
	Profit and Loss Account (Credit Balance, fully taken over)	5,00,000

2. Journal Entries in the books of Govind Ltd. **(Rs. in Lakhs)**

S.No.	Particulars		Dr.	Cr.
1	Business Purchase A/c	Dr.	55	
	To Liquidator of Hari Ltd. A/c			55
	(Being Purchase Consideration Due)			
2	Net Assets A/c	Dr.	65	
	To Business Purchase A/c			55
	To General Reserve A/c			5
	To Profit and Loss A/c			5
	(Being recording of Assets and Liabilities taken over from Hari Ltd. under amalgamation) 1/10			
3	Liquidator of Hari Ltd. A/c	Dr.	55	
	To Equity Share Capital A/c			55
	(Being discharge of consideration, by allotment of 5,50,000 Equity Shares of Rs. 10 each fully paid)			

Illustration 6 : Amalgamation as Merger – Journal Entries, B/s Preparation, Mutual Owings Elimination

The following were the Balance Sheets of Rudra Ltd. and Shiva Ltd. as at 31st March (Rs. in Lakhs)

Liabilities	Rudra	Shiva	Assets	Rudra	Shiva
Equity Share Capital (of Rs. 10 each)	15,000	6,000	Land and Buildings	6,000	5,000
Securities Premium	3,000	—	Plant and Machinery	14,000	—
Foreign Projects Reserve	—	310	Furniture, Fixtures and Fittings	2,304	1,700
General Reserve	9,500	3,200	Stock	7,862	4,041
Profit and Loss Account	2,870	825	Debtors	2,120	1,020
12% Debentures	—	1,000	Cash at Bank	1,114	609
Bills Payable	120	—	Bills Receivable	—	80
Sundry Creditors	1,080	463	Cost of Issue of Debentures	—	50
Sundry Provisions	1,830	702			
Total	**33,400**	**12,500**	**Total**	**33,400**	**12,500**

All the Bills Receivable held by Shiva Ltd. were Rudra Ltd.'s acceptances.

On the above date, Rudra Ltd. took over Shiva Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Rudra Ltd. would allot 3 fully paid Equity Shares of Rs. 10 each at par for every 2 Equity Shares held in Shiva Ltd. It was also agreed that 12% Debentures in Shiva Ltd. would be converted into 13% Debentures in Rudra Ltd. of the same amount and denomination. Also, expenses of amalgamation amounting to Rs. 1 Lakh were borne by Rudra Ltd.

Required: (1) **Pass Journal Entries in the books of Rudra Ltd. and, (2) Prepare Rudra Ltd.'s B/Sheet immediately after the Merger.**

Solution: **1. Computation of Purchase Consideration**

1. Purchase Consideration is discharged as 3 Equity Shares of Rudra Ltd. for every 2 Equity Shares held in Shiva Ltd.

2. Shiva Ltd. has = 600 Lakh Shares. Since 3 Shares of Rudra Ltd. = 2 Shares of Shiva Ltd.,

   the Number of Shares of Rudra Ltd. to be issued = $600 \times \frac{6,000}{2\,10}$ = 900 Lakh Shares.

3. Amount of Purchase Consideration = 900 Lakh Shares × Rs. 10 = Rs. 9,000 Lakhs.

Note: The Question clearly states that the amalgamation is in the nature of Merger. Hence, **Pooling of Interest Method** is followed in the accounting for this amalgamation.

2. Computation of Goodwill on Merger (Rs. in Lakhs)

	Particulars		**Rs. Lakhs**	**Rs. Lakhs**
	Land and Buildings		5,000	
	Furniture, Fixtures & Fittings		1,700	
	Stock		4,041	
	Debtors		1,020	
	Cash at Bank		609	
	Bills Receivable		80	12,450
Less:	**Liabilities:**			
	Foreign Projects Reserve		310	
	Profit and Loss A/c (Rs. 825 Rs. 50 Cost of issue of Debentures)		775 5	
	12% Debentures	1,000		
	Sundry Creditors	463		
	Sundry Provisions	702		
	General Reserve	3,200	(6,450)	
	Net Assets taken over			**6,000**
Less:	Purchase Consideration	**(WN 1)**		(9,000)
	Capital Reserve / (Goodwill)	**(since Consideration > Net Assets)**		**(3,000)**

Since Amalgamation is in the nature of Merger, this Goodwill Rs. 3,000 Lakhs will be adjusted in the Reserves of Rudra Ltd.

3. Journal Entries in the books of Rudra Ltd. **(Rs. in Lakhs)**

S.No.	Particulars		Dr.	Cr.
1.	Business Purchase A/c	Dr.	9,000	
	To Liquidator of Shiva Ltd. A/c		—	9,000
	(Being business of Shiva Ltd. taken over for consideration settled as per agreement)			
2.	Plant and Machinery A/c	Dr.	5,000	
	Furniture, Fixtures & Fittings A/c	Dr.	1,700	
	Stock A/c	Dr.	4,041	
	Debtors A/c	Dr.	1,020	
	Cash at Bank A/c	Dr.	609	
	Bills Receivable A/c	Dr.	80	
	To Foreign Project Reserve A/c			310
	To General Reserve (3,200 – 3,000 adjustment in Reserves) (bal. **figure)**			**200**
	To Profit and Loss A/c (825 – 50 cost of issue of debt)			775
	To 12% Debentures A/c			1,000
	To Sundry Creditors A/c			463
	To Sundry Provisions A/c			702
	To Business Purchase A/c			9,000
	(Being Assets & Liabilities taken over from Shiva Ltd.) **(See Note below)**			
3.	Liquidator of Shiva Ltd. A/c	Dr.		9,000
	To Equity Share Capital A/c			9,000
	(Being Purchase Consideration discharged in the form of Equity Shares of Rudra Ltd.)			
4.	General Reserve A/c	Dr.	1	
	To Bank A/c			1
	(Being Liquidation Expenses paid by Rudra Ltd.)			
5.	12% Debentures A/c	Dr.	1000	
	To 13% Debentures A/c			1000
	(Being 12% Debentures discharged by issue of 13% Debentures)			
6.	Bills Payable A/c	Dr.	80	
	To Bills Receivable A/c			80
	(Being cancellation of Mutual Owings on account of Bills Receivable / Payable)			

Note: The Question is silent on the treatment of Fictitious Assets. So, it is assumed that they are not transferred to the Amalgamated Co. Hence, Cost of Issue of Debentures shown in Shiva Ltd.'s B/s is not transferred to Rudra Ltd.

4. Balance Sheet of Rudra Ltd. as at 1st April (Pooling of Interest / Merger Method) (Rs. in Lakhs)

	Particulars as at 1st April			Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	(a) Share Capital			**1**	24,000	
	(b) Reserves and Surplus			**2**	16,654	
(2)	**Non–Current Liabilities:**	Long Term Borrowings (13% Debentures)			1,000	
(3)	**Current Liabilities:**					
	(a) Trade Payable			**3**	1,583	
	(b) Short Term Provisions		(1,830 + 702)		2,532	
	Total				**45,769**	
11	**ASSETS**					
(1)	**Non–Current Assets**					
	Fixed Assets: Tangible Assets			**4**	29,004	
(2)	**Current Assets:**					
	(a) Inventories	Stock in Trade	(7,862 + 4,041)		11,903	
	(b) Trade Receivables	Debtors	(2,120 + 1,020)		3,140	
	(c) Cash and Cash Equivalents	Cash & Bank	(1,114 + 609 – 1)		1,722	
	Total				**45,769**	

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: ..... Equity Shares of ..... each		
Issued, Subscribed & Paid Up: 2,400 Lakh Equity Shares of Rs. 10 each (including 900 Lakh Shares issued for non cash consideration in a scheme of amalgamation)	24,000	
Total	**24,000**	

Schedule 2: Reserves and Surplus

	Particulars		This Year	Prev. Yr.
(a)	Securities Premium Reserve		3,000	
(b)	Other Reserve — Foreign Projects Reserve		310	
	— General Reserve	(9,500 + 200 – 1)	9,699	
(c)	Surplus	(2,870 + 775)	3,645	
	Total		**16,654**	

Schedule 3: Trade Payables

	Particulars		This Year	Prev. Yr.
(a)	Sundry Creditors	(1,080 + 463)	1,543	
(b)	Bills Payable	(120 – 80)	40	
	Total		**1,583**	

Schedule 4: Tangible Fixed Assets

Particulars			This Year	Prev. Yr.
(a)	Land & Building	(6,000 + 5,000)	11,000	
(b)	Plant & Machinery	(14,000 + Nil)	14,000	
(c)	Furniture & Fittings	(2,304 + 1,700)	4,004	
		Total	**29,004**	

Illustration 7 : Amalgamation as Merger – Journal Entries, B/s Preparation,

The following are the Balance Sheets of Mahima Ltd. and Nithya Ltd., as at 31st March **(Rs. in Lakhs)**

Liabilities	Mahima	Nithya	Asses	Mahima	Nithya
Share Capital:			Plant and Machinery	4,215	468
Fully paid Equity Shares of Rs. 10 each	3,600	900	Furniture and Fixtures	2,400	163
10% Pref. Shares off 10 each, fully paid-up	1,200	Nil	Motor Vehicles	Nil	51
Capital Reserve	600	Nil	Stock	2,370	444
General Reserve	2,100	Nil	Sundry Debtors	1,044	237
Profit and Loss Account	780	Nil	Cash at Bank	1,542	240
8% Redeemable Debentures of Rs. 1,000 each	Nil	300	Preliminary Expenses	Nil	33
Trade Creditors	2,421	369	Discount on Issue of Debentures	Nil	6
Provisions	870	93			
Total	**11,571**	**1,662**	**Total**	**11,571**	**1,662**

A new Company Song Ltd. was got incorporated with an Authorised Capital of Rs. 15,000 Lakhs divided into Shares of Rs. 10 each. In an amalgamation in the nature of Merger, Mahima Ltd. & Nithya Ltd. were merged into Song Ltd. on the following terms —

(a) Purchase Consideration for Mahima Ltd.'s business is to discharged by issue of 120 Lakhs fully paid 11% Preference Shares and 720 Lakhs fully paid Equity Shares of Song Ltd. to the Preference and Equity Shareholders of Mahima Ltd. in full satisfaction of their claims.

(b) To discharge Purchase Consideration for Nithya Ltd.'s business, Sona Ltd. to allot 90 Lakhs fully paid up Equity Shares to Shareholders of Nithya Ltd. in full satisfaction of their claims.

(c) Expenses on the liquidation of Mahima Ltd. and Nithya Ltd. amounting to Rs. 6 Lakhs are to be borne by Song Ltd.

(d) 8% Redeemable Debentures of Nithya Ltd. to be converted into 8.5% Redeemable Debentures of Sona Ltd.

(e) Expenses on Incorporation of Sona Ltd. were Rs. 15 Lakhs.

You are required to —

(a) Pass necessary Journal Entries in the books of Sona Ltd. to record above transactions, and

(b) Prepare Balance Sheet of Song Ltd. after Merger.

Solution:

1. Computation of Purchase Consideration (in Lakhs)

Particulars	Mahima	Nithya	Total
Preference Shareholders	120 Lakhs Shares × Rs. 10 = 1,200	—	1,200
Equity Shareholders	720 Lakhs × Rs. 10 = 7,200	90 Lakhs × Rs. 10 = 900	8,100
Total	**8,400**	**900**	**9,300**

2. Analysis of Reserves to be incorporated in the books of Sona Ltd. (Rs. in Lakhs)

	Particulars	Mahima	Nithya
(a)	Purchase Consideration	8,400	900
(b)	Paid Up Capital (Equity + Preference)	4,800	900
(c)	**Difference**	**3,600**	**—**
(d)	Difference adjusted against the Reserves		
	— General Reserve of Mahima Ltd.	2,100	—
	— Profit & Loss A/c of Mahima Ltd.	780	—
	— Profit & Loss A/c of Sona Ltd. (Balance)	**720**	—

3. Journal Entries in the Books of Sona Ltd. (Rs. in Lakhs)

Nature of Amalgamation: Merger Method of Accounting: Pooling of Interest

S.No.	Particulars		Dr.	Cr.
1.	Business Purchase A/c	Dr.	9,300	
	To Liquidator of Mahima Ltd. A/c			8,400
	To Liquidator of Nithya Ltd. A/c			900
	(Being purchase of business of Mahima Ltd. & Nithya Ltd., and consideration due thereon)			
2.	Plant and Machinery A/c	Dr.	4,215	
	Furniture and Fixtures A/c	Dr.	2,400	
	Stock A/c	Dr.	2,370	
	Sundry Debtors A/c	Dr.	1,044	
	Cash at Bank A/c	Dr.	1,542	
	Profit & Loss A/c **(WN 2)**	Dr.	720	
	To Business Purchase A/c			8,400
	To Capital Reserve A/c			600
	To Trade Creditors A/c			2,421
	To Provisions A/c			870
	(Being recording of Assets and Liabilities taken over from of Mahima Ltd.)			
3.	Plant and Machinery A/c	Dr.	468	
	Furniture and Fixtures A/c	Dr.	183	
	Motor Vehicles A/c	Dr.	51	
	Stock A/c	Dr.	444	
	Sundry Debtors A/c	Dr.	237	
	Cash at Bank A/c	Dr.	240	

	Preliminary Expenses A/c	Dr.	33	
	Debentures Discount A/c	Dr.	6	
	To Business Purchase A/c			900
	To Debenture Holders A/c			300
	To Trade Creditors A/c			369
	To Provisions A/c			93
	(Being recording of Assets and Liabilities taken over from Nithya Ltd.)			
4.	Liquidator of Mahima Ltd. A/c	Dr.	8,400	
	Liquidator of Nithya Ltd. A/c	Dr.	900	
	To Equity Share Capital A/c			8,100
	To 11% Preference Share Capital A/c,			1,200
	(Being discharge of Purchase Consideration by allotment of Equity & Preference Shares)			
5.	Profit & Loss A/c	Dr.	6	
	To Bank A/c			6
	(Being payment of Liquidation Expenses of Mahima and Nithya Ltd)			
6.	Debenture Holders A/c	Dr.	300	
	To 8.5% Redeemable Debentures A/c			300
	(Being Allotment of 8.5% Debentures of Sona Ltd. to Debenture Holders of Nithya Ltd.)			
7.	Preliminary Expenses A/c	Dr.	15	
	To Bank A/c			15
	(Being expenses incurred for formation of New Company)			
8.	Profit & Loss A/c	Dr.	54	
	To Preliminary Expenses (33 + 15)			48
	To Debentures Discount			6
	(Being Preliminary Expenses and Debentures Discount written off)			

4. Balance Sheet of Sona Ltd. as on 31st March (Pooling of Interest Merger Method) (Rs. in Lakhs)

	Particulars as at 31st March			Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	(a) Share Capita!			**1**	9,300	
	(b) Reserves and Surplus			**2**	(180)	
(2)	**Non–Current Liabilities:**					
	Long Term Borrowings	8.5% Redeemable Debentures (Secured)			300	
(3)	**Current Liabilities:**					
	(a) Trade Payables	Creditors	(2,421 + 369)		2,790	
	(a) Short Term Provisions		(870+93)		963	
	Total				**13,173**	

II	**ASSETS**				
(1)	**Non–Current Assets**				
	Fixed Assets: Tangible Assets			**3**	7,317
(2)	Current Assets:				
	(a) Inventories	Stock–in–Trade	(2,370 + 444)		2,814
	(b) Trade Receivables	Debtors	(1,044 + 237)		1,281
	(c) Cash and Cash Equivalents	Cash & Bank	(1,542 + 240 – 15 – 6)		1,761
	Total				**13,173**

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: ..... Equity Shares of Rs. 10 each &		
..... 11% Preference Shares of Rs. 10 each	**15,000**	
Issued, Subscribed & Paid-up:		
(a) 810 Lakh Equity Shares of Rs. 10 each	8,100	
(All the above Shares were issued for non cash consideration)		
(b) 120 Lakh 11% Preference Shares of Rs. 10 each	1,200	
(All the above Shares were issued for non cash consideration)		
Total	**9,360**	

Schedule 2: Reserves and Surplus

Particulars	This Year	Prev. Yr.
(a) Capitol Reserve	600	
(b) Surplus Profit and Loss A/c (54 + 6 + 720)	(780)	
Total	**(180)**	

Schedule 3: Tangible Fixed Assets

Particulars	This Year	Prev. Yr.
(a) Plant & Machinery (4,215 + 468)	4,683	
(b) Furniture & Fittings (2,400 + 183)	2,583	
(c) Motor Vehicles	51	
Total	**7,317**	

Illustration 8 : Amalgamation as Merger

Balance Sheets as on 31st March **(in Rs.)**

Liabilities	Gee Ltd.	Pee Ltd.	Assets	Gee Ltd.	Pee Ltd.
Equity Share Capital (Rs. 10 per Share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference Share Capital (Rs. 100 each)	11,00,000	8,50,000	Plant and Machinery	16,25,000	8,50,000
General Reserve	2,50,000	2,50,000	Furniture and Fixtures	2,87,500	1,75,000
Export Profit Reserve	1,50,000	1,00,000	Investments	3,50,000	2,50,000
Investment Allowance Reserves		50,000	Stock	6,25,000	4,75,000
Profit and Loss Account	3,75,000	1,25,000	Debtors	4,00,000	4,60,000
15% Debentures (Rs. 100 each)	2,50,000	1,75,000	Bills Receivable	50,000	55,000
Trade Creditors	1,50,000	75,000	Cash at Bank 3,62,500	2,60,000	
Bills Payable If	75,000	1,00,000			
Other Current Liabilities	1,00,000	75,000			
Total	**49,50,000**	**33,00,000**	**Total**	**49,50,000**	**33,00,000**

All the Bills Receivable of Pee Ltd. were having Gee Ltd.'s acceptances. Gee Ltd. takes over Pee Ltd. on the above date. The Purchase Consideration is discharged as follows –

(a) Issued 1,65,000 Equity Shares of Rs. 10 each at par to the Equity Shareholders of Pee Ltd.

(b) Issued 15% Preference Shares of Rs. 100 each to discharge the Preference Shareholders of Pee Ltd. at 10% Premium.

(c) The Debentures of Pee Ltd. will be converted into equivalent number of Debentures of Gee Ltd. A The Statutory Reserves of Pee Ltd. is to be maintained for two more years.

(e) Expenses of Amalgamation amounting to Rs. 10,000 will be borne by Gee Ltd.

Show the opening Journal Entries and the Opening Balance Sheet of Gee Ltd. as at 1st April after amalgamation, on the assumption that the amalgamation is in the nature of Merger.

Solution:

1. Computation of Purchase Consideration and adjustment of difference

Particulars		Rs.	Rs.
Purchase Consideration:			
	1,65,000 Equity Shares of Rs. 10 each	16,50,000	
	8,50,000 × 110% = 9,35,000/100 = 9,350 Preference Shares	9,35,000	25,85,000
Less:	Amount Due to Equity Shareholders		(15,00,000)
Less:	Amount Due to Preference Shareholders		(8,50,000)
	Difference to be adjusted in the General Reserves of Gee Ltd.		**2,35,000**

Note: The Balance of General Reserv**e to be** incorporated in the books is Rs. 15,000 (Rs. 2,50,000 – Rs. 2,35,000).

2. Journal Entries in the Books of Gee Ltd.

S.No.	Particulars		Dr. (Rs.)	Cr.(Rs.)
1.	Business Purchase A/c	Dr.	25,85,000	
	To Liquidator of Pee Ltd. A/c			25,85,000
	(Being Business of Pee Ltd. taken over as per agreement)			
2.	Buildings A/c	Dr.	7,75,000	
	Plant & Machinery A/c	Dr.	8,50,000	
	Furniture & Fixtures A/c	Dr.	1,75,000	
	Investments A/c	Dr.	2,50,000	
	Stock A/c	Dr.	4,75,000	
	Debtors A/c	Dr.	4,60,000	
	Bills Receivable A/c	Dr.	55,000	
	Cash at Bank A/c	Dr.	2,60,000	
	To General Reserve A/c **(WN 1)**			15,000
	To Export Profit Reserve A/c			1,00,000
	To Investment Allowance Reserve A/c			50,000
	To Profit & Loss A/c			1,25,000
	To Debentureholders of Pee Ltd. A/c			1,75,000
	To Trade Creditors A/c			75,000
	To Bills Payable A/c			1,00,000
	To Other Liabilities A/c			75,000
	To Business Purchase A/c			25,85,000
	(Being recording of Assets & Liabilities taken over from Pee Ltd.)			
3.	Liquidator of Pee Ltd. A/c	Dr.	25,85,000	
	To Equity Share Capital A/c			16,50,000
	To Preference Share Capital A/c			9,35,000
	(Being Purchase Consideration discharged in the form of Shares of Gee Ltd.)			
4.	General Reserve A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being Liquidation Expenses borne by Gee Ltd.)			
5.	Debentureholders of Pee Ltd. A/c	Dr.	1,75,000	
	To 15% Debentures of Gee Ltd. A/c			1,75,000
	(Being 15% Debentures of Pee Ltd. converted to equivalent Debentures of Gee Ltd.)			
6.	Bills Payable A/c	Dr.	55,000	
	To Bills Receivable A/c			55,000
	(Being cancellation of Mutual Owings on account of Bills Receivable)			

3. Balance Sheet of Gee Ltd. as at 1st April (Pooling of Interest Merger Method)

	Particulars as at 1st April		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		**1**	61,85,000	
	(b) Reserves and Surplus		**2**	10,55,000	
(2)	**Non–Current Liabilities:**				
	Long Term Borrowings	15% Debentures (Assumed Secured)		4,25,000	
(3)	**Current Liabilities:**				
	(a) Trade Payables		**3**	3,45,000	
	(b) Other Current Liabilities	(1,00,000 + 75,000)		1,75,000	
	Total			**81,85,000**	
II	**ASSETS**				
(1)	**Non–current Assets**				
	(a) Fixed Assets: Tangible Assets		**4**	49,62,500	
	(b) Non Current Investments	(2,50,000 + 3,50,000)		6,00,000	
(2)	**Current Assets:**				
	(a) Inventories	Stock-in-Trade (6,25,000 + 4,75,000)		11,00,000	
	(b) Trade Receivables		**5**	9,10,000	
	(c) Cash and Cash Equivalents	(3,62,500 + 2,60,000 – Expenses 10,000)		6,12,500	
	Total			**81,85,000**	

Schedule 1: Share Capital

Particulars		This Year	Prev. Yr.
Authorised:	.....Equity Shares of Rs..... each		
	..... Preference Shares of Rs.....each		
Issued, Subscribed & Paid up:	4,15,000 Equity Shares of Rs. 10 each	41,50,000	
	1,10,000 14% Preference Shares of Rs. 10 each	11,00,000	
	9,350 15% Preference Shares of Rs. 100 each	9,35,000	
(Of the above, 1,651.000 Equity Shares and 9,350 15% Preference Shares were issued for non-cash consideration, under a scheme of amalgamation)			
Total		**61,85,000**	

Schedule 2: Reserves and Surplus

	Particulars		This Year	Prev. Yr.
(a)	Export Profit Reserve	(1,50,000 + 1,00,000)	2,50,000	
(b)	Investment Allowance Reserve		50,000	
(c)	Other Reserve	(2,50,000 + 15,000 10,000)	2,55,000	
(d)	Surplus	(3,75,000 + 1,25,000)	5,00000	
		Total	**10,55,000**	

Schedule 3: Trade Payables

Particulars		This Year	Prev. Yr.
(a) Trade Creditors	(1,50,000 + 75,000)	2,25,000	
(b) Bills Payable	(75,000 + 1,00,000 – 55,000)	1,20,000	
Total		**3,45,000**	

Schedule 4: Tangible Fixed Assets

Particulars		This Year	Prev. Yr.
(a) Land and Building	(12,50,000 + 7,75,000)	20,25,000	
(b) Plant and Equipment	(16,25,000 + 8,50,000)	24,75,000	
(c) Furniture and Fixtures	(2,87,500 + 1,75,000)	4,62,500	
Total		**49,62,500**	

Schedule 5: Trade Receivables

Particulars		This Year	Prev. Yr.
(a) Debtors	(4,00,000 + 4,60,000)	8,60,000	
(b) Bills Receivable	(50,000 + 55,000 55,000)	50,000	
Total		**9,10,000**	

Illustration 9 : Amalgamation as Merger – Two Companies taken over

Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31st March –

Particulars	A Ltd.	B Ltd.
Share Capital: Equity Shares of Rs. 10 each (fully paid-up)	10,00,000	6,00,000
Securities Premium	2,00,000	—
General Reserve	3,00,000	2,50,000
Profit and Loss Account	1,80,000	1,60,000
10% Debentures	5,00,000	
Secured Loan	—	3,00,000
Sundry Creditors	2,60,000	1,70,000
Total	**24,40,000**	**14,80,000**
Land and Building	9,00,000	4,50,000
Plant and Machinery	5,00,000	3,80,000
Investment (5,000 Shares of B Ltd.)	80,000	—
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at Bank	30,000	40,000
Total	**24,40,000**	**14,80,000**

The Companies agree on a scheme of amalgamation on the following terms:

1. A new Company is to be formed by name AB' Ltd., to take over all the Assets and Liabilities of the Existing Companies.
2. For the purpose of amalgamation, the Shares of the Existing Companies are to be valued as under: A Ltd. = Rs. 18 per Share, and B Ltd. = Rs. 20 per Share.

3. Contingent Liability of A Ltd. of Rs. 60,000 is to be treated as actual existing liability.
4. Shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of Shares of AB Ltd., at a premium of Rs. 6 per Share.
5. The Face Value of the Shares of AB Ltd. are to be of Rs. 10 each.

You are required to:

1. Calculate the Purchase Consideration (i.e. Number of Shares to be issued to A Ltd. and B Ltd.).
2. Pass Journal Entries in the books of A Ltd. or the transfer of Assets and Liabilities.
3. Pass Journal Entries in the books of AB Ltd., for the acquisition of A Ltd. and B Ltd.
4. Prepare the Balance Sheet of AB Ltd.

Solution: 1. Determination of Purchase Consideration

Particulars	A Ltd.	B Ltd.	
		A Ltd.	Others
(a) No. of Equity Shares Outstanding	1,00,000	5,000	55,000
(b) Agreed Price per Share	Rs. 18.00	Rs. 20.00	Rs. 20.00
(c) Total Consideration	Rs. 18,00,000	Rs. 1,00,000	Rs. 11,00,000
(d) Allotment Price [Face Value 10 + Premium	Rs. 16.00	Rs. 16.00	Rs. 16.00
(e) No. of Shares to be issued	1,12,500	6,250	68,750

2. Journal Entries in the books of A Ltd.

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	General Reserve A/c	Dr.	60,000	
	To Other Liability A/c			60,000
	(Being Contingent Liability recorded as an Actual Liability as per the terms of amalgamation.) (Note: Balance in General Reserve is 2,40,000 after the above adjustment.)			
2.	Realisation A/c	Dr.	24,40,000	
	To Land and Building A/c			9,00,000
	To Plant and Machinery A/c			5,00,000
	To Investments A/c			80,000
	To Stock A/c			5,20,000
	To Debtors A/c			4,10,000
	To Cash at Bank A/c			30,000
	(Being ail the Assets transferred to Realisation A/c)			
3.	10% Debentures A/c	Dr.	5,00,000	
	Sundry Creditors A/c	Dr.	2,60,000	
	Other Liability A/c	Dr.	60,000	
	To Realisation A/c			8,20,000
	(Being all the Liabilities transferred to Realisation A/c)			

4.	Equity Share Capital A/c	Dr.	10,00,000	
	Securities Premium A/c	Dr.	2,00,000	
	General Reserve A/c	Dr.	2,40,000	
	Profit and Loss A/c	Dr.	1,80,000	
	To Equity Shareholders A/c			16,20,000
	(Being Share Capital & Reserves transferred to Equity Shareholders)			
5.	AB Ltd. A/c	Dr.	18,00,000	
	To Realisation A/c			18,00,000
	(Being Purchase Consideration due from AB Ltd.)			
6.	Realisation A/c	Dr.	1,80,000	
	To Equity Shareholders A/c			1,80,000
	(Being Profit on Realisation transferred)			
7.	Equity Shares in AB Ltd. A/c	Dr.	18,00,000	
	To AB Ltd. A/c			18,00,000
	(Being receipt of 1,12,500 Shares of Rs. 10 each at a Premium of Rs. 6 per Share as consideration)			
8.	Equity Shareholders A/c	Dr.	18,00,000	
	To Equity Shares of AB Ltd. A/c			18,00,000
	(Being Shares received from AB Ltd. transferred to Shareholders)			

3. Journal Entries in the books of AB Ltd. (for Takeover of A Ltd.)

Nature of Amalgamation: Merger Method of Accounting: Pooling of Interest

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Business Purchase A/c	Dr.	18,00,000	
	To Liquidator of A Ltd. A/c			18,00,000
	(Being Purchase Consideration Due in respect of takeover of A Ltd.)			
2	Land and Building A/c	Dr.	9,00,000	
	Plant and Machinery A/c	Dr.	5100000	
	Stock A/c	Dr.	520,000	
	Debtors A/c	Dr.	4,10,000	
	Investments A/c	Dr.	80,000	
	Cash at Bank A/c	Dr.	30,000	
	Profit & Loss A/c (AB Ltd.)	Dr.	1,80,000	
	To 10% Debentures A/c			5,00,000
	To Sundry Creditors A/c			2,60,000
	To Other Liability A/c			60,000
	To Business Purchase A/c			18,00,000
	(Being various Assets and Liabilities recorded upon acquisition)			

	Note: (a) Equity Share Capital of A Ltd. — Rs. 10,00,000 (b) Consideration Paid — Rs. 18,00,000 **(c) Difference (b) – (a) — Rs. 8,00,000** **Adjusted against** (a) Share Premium of A Ltd. — Rs. 2,00,000 (b) General Reserve of A Ltd. — Rs. 2,40,000 (c) Profit and Loss A/c of A Ltd. — Rs. 1,80,000 (d) Profit and Loss A/c of AB Ltd. — Rs. 1,80,000 **(e) Total — Rs. 8,00,000**		
3.	Liquidator of A Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 1,12,500 Shares of Rs. 10 each at a premium of Rs. 6 per Share, allotted to the Shareholders of A Ltd. on account of amalgamation)	18,00,000	 11,25,000 6,75,000

4. Journal Entries in the books of AB Ltd. (for takeover of B Ltd.)

Mature of Amalgamation: Merger Method of Acccounting: Pooling of Interest

Note: By acquiring A Ltd., 5000 Shares in B Ltd. becomes the Investments of AB Ltd. Thus, Consideration is settled only for remaining Outside Shareholders, i.e. the Purchase Consideration is Rs. 11,00,000 only.

S. No.	Particulars	Dr. (Rs.)	Cr.(Rs.)
1.	Business Purchase A/c Dr. To Liquidator of B Ltd. A/c (Being consideration due to Outside Shareholders, on takeover)	11,00,000	 11,00,000
2.	Land and Building A/c Dr. Plant and Machinery A/c Dr. Stock A/c Dr. Debtors A/c Dr. Cash at Bank A/c Dr. Profit and Loss A/c (AB Ltd.) Dr. To Secured Loan A/c To Sundry Creditors A/c To Business Purchase A/c To Investments A/c (Being Various Assets and Liabilities recorded upon acquisition) **Note:** (a) Equity Share Capital of B Ltd. — Rs. 6,00,000 (b) Consideration Paid + Invts A/c balance — Rs. 11,80,000 **(c) Difference (b) – (a) — Rs. 5,80,000**	4,50,000 3,80,000 3,50,000 2,60,000 40,000 1,70,000	 3,00,000 1,70,000 11,00,000 80,000

	Adjusted against – (a) General Reserve of B Ltd. — Rs. 2,50,000 (b) Profit and Loss A/c of B Ltd. — Rs. 1,60,000 (c) Profit and Loss A/c of AB Ltd. — Rs. 1,70,000 **(d) Total — Rs. 5,80,000**		
3.	Liquidator of B Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 68,750 Shares of Rs. 10 each at a premium of Rs. 6 per Share, allotted to the Shareholders of B Ltd. on account of acquisition)	11,00,000	 6,87,500 4,12,500

5. Balance Sheet of AB Limited as at 31st March

	Particulars as at 31st March			Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	(a) Share Capital			**1**	18,12,500	
	(b) Reserves and Surplus			**2**	7,37,500	
(2)	**Non Current Liabilities:**	Long Term Borrowings		**3**	8,00,000	
(3)	**Current Liabilities:**					
	(a) Trade Payables	Creditors	(2,60,000 + 1,70,000)		4,30,000	
	(6) Others				60,000	
		Total			**38,40,000**	
II	**ASSETS:**					
(1)	**Non–Current Assets**					
	Fixed Assets: Tangible Assets			**4**	22,30,000	
(2)	**Current Assets:**					
	(a) Inventories	Stock in Trade	(5,20,000 + 3,50,000)		8,70,000	
	(b) Trade Receivables	Debtors	(4,10,000 + 2,60,000)		6,70,000	
	(c) Cash and Cash Equivalents		(30,000 + 40,000)		70,000	
		Total			**38,40,000**	

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: ..... Equity Shares of Rs. 10 each		
Issued, Subscribed & Paid-up: 1,81,250 Equity Shares of Rs. 10 each	18,12,500	
(All the above Shares are issued for non cash consideration under a scheme of amalgamation)		
Total	**18,12,500**	

Schedule 2: Reserves and Surplus

Particulars		This Year	Prev. Yr.
(a) Securities Premium Reserve	(6,75,000 + 4,12,500)	10,87,500	
(b) Surplus		(3,50,000)	
	Total	**7,37,500**	

Schedule 3: Long Term Borrowings (Secured)

Particulars		This Year	Prev. Yr.
(a) 10% Debentures	5,00,000		
(b) Other Secured Loans	3,00,000		
	Total	**8,00,000**	

Schedule 4: Tangible Fixed Assets

Particulars		This Year	Prev. Yr.
(a) Land and Buildings	(9,00,000 + 4,50,000)	13,50,000	
(b) Plant and Equipment	(5,00,000 + 3,80,000)	8,80,000	
	Total	**22,30,000**	

EXERCISES

(I) Multiple Choice Questions:

1. Amalgamation of companies is governed by
   (a) AS – 13 (b) AS – 14 (c) AS – 9 (d) AS – 11
2. The scheme of amalgamaton can invoice _____ companies.
   (a) none (b) two (c) one (d) three
3. The amalgamation requires approval of _____.
   (a) High Court (b) Registrar of Companies (c) Central Government (d) Directors
4. Approval by _____ a of shareholders is necessary for treatment as in nature of merger.
   (a) 51% (b) 75% (c) 90% (d) 80%
5. Approval by _____ % of shareholders is required for implementation of the scheme of amalgamation.
   (a) 51% (b) 75% (c) 80% (d) 90%
6. In case of purchase method, transferee company should record assets at _____.
   (a) book value (b) cost (c) market value (d) agreed value
7. In case of pooling of interest method, transferee company should record assets at _____.
   (a) cost (b) market value (c) agreed value (d) book value
8. Amalgamation Adjustment Account is required in respect of _____.
   (a) general reserve (b) statutory reserve (c) security premium (d) capital reserve
9. The excess of net asset value over consideration is _____.
   (a) capital reserve (b) security premium (c) profit or loss (d) goodwill
10. AS – 14 covers amalgamation of _____.
    (a) companies (b) firms (c) firms and company (d) Directors and Partners

[**Ans.:** 1. (b), 2. (b) and (d), 3. (a), 4. (c), 5. (b), 6. (d), 7. (d), 8. (b), 9. (a), 10. (a)]

(II) Fill in the Blanks:

1. Amalgamation is covered under _____.

2. Amalgamation are of _____ types.
3. Amalgamation needs to be approved by _____ % of shareholders.
4. AS – 14 covers only amalgamation of _____ .
5. The payment made to debentureholders should _____ included in consideration.
6. The approval by _____ of shareholders is necessary for amalgamation in the nature of _____.
7. The two methods of accounting for amalgamation are relevant for _____ company.
8. _____ method provides that assets and liabilities should be recored at book value by a new company.
9. Purchase method requires accounting for assets and liabilities at _____ by transferee company.
10. Amalgamation Adjustment Accounts is applicable per _____ method of accounting.
11. Amalgamation includes _____ reconstruction.
12. Amalgamation of _____ is not covered under AS – 14.
13. Arrangement between _____ or more companies is necessary for amalgamation.
14. Merger of absorption are schemes of _____ .
15. Reserves of transferor company is required to be adjusted under _____ method of accounting.
16. Unrecorded assets cannot be accounted per _____ method.
17. Amalgamation which does not fulfil conditions of merger is called _____ .
18. Capital Reduction is _____ a variety of amalgamation.
19. The accounting for transferor company is in _____ manner irrespective of type of amalgamation.
20. Goodwill or capital reserve can arise under _____ method of accounting.
21. In merger, all assets and liabilities are taken over at _____ .
22. In amalgamation, the purchasing company is called as _____ company.
23. In amalgamation, the vendor company is called as _____ company.
24. _____ Method is followed for accounting merger.
25. Payment to _____ does not form part of purchase consideration.
26. Payment of liquidation expenses does not form part of _____ .
27. As per AS – 14, goodwill arising on amalgamation should be written off within _____ years.
28. Dissolution expenses paid by purchasing company are debited to _____ Account in purchase.
29. Dissolution expenses paid by purchasing company are debited to _____ in merger.
30. In merger, shareholders holding _____ % of the face value of equity shares become equity shareholders of the transferee company.
31. Preliminary expenses are transferred to _____ Shareholders' Account.
32. In merger, vendor companies are _____ .
33. The company amalgamated into another company is _____ company.
34. Purchasing company is called as _____ company.
35. On amalgamation preliminary expenses are debited to _____ .
36. Premium on settlement of preference shares is debited to _____ A/c.
37. Amalgamation Adjustment A/c appears in the Balance sheet under _____ .
38. Profit on Realisation is transferred to _____ A/c.

[**Ans.:** 1. AS – 14; 2. two; 3. 75%; 4. companies; 5. not; 6. 90%, merger; 7. transferee; 8. Pooling of Interest; 9. agreed / revised; 10. purchase; 11. external; 12. firms; 13. one; 14. amalgamation; 15. pooling of interest; 16. pooling of interest; 17. purchase method; 18. not; 19. same; 20. purchase; 21. book value; 22. Transferee; 23. transferor; 24. Pooling of Interest; 25. debentureholders; 26. purchase consideration; 27. 5; 28. Goodwill; 29. G.R. A/c, 30. 90; 31. Equity; 32. Liquidated co.; 33. transferor; 34. transferee; 35. equity shareholder's A/c; 36. Realisation; 37. Miscellaneous expenditure; 38. equity shareholders A/c]

(III) Match the columns

1.

	Group 'A'		Group 'B'
(1)	Amalgamation	(a)	Pooling of interest
(2)	Merger type	(b)	Purchase type
(3)	Consideration	(c)	AS – 14
(4)	Approval by 90% shareholders	(d)	Merger type
(5)	Approval by 75% shareholders	(e)	Payment for shareholders

[**Ans.:** 1. (c); 2. (a); 3. (e); 4. (d); 5. (b)]

2.

	Group 'A'		Group 'B'
(1)	Purchase Method	(a)	Book value
(2)	Amalgamation Adjustment Account	(b)	Revised value
(3)	Capital reserve	(c)	Excess of consideration
(4)	Merger Method	(d)	Excess of net asset taken over
(5)	Goodwill	(e)	Purchase Method

[**Ans.:** 1. (b); 2. (e); 3. (e); 4. (a); 5. (c)]

3.

	Group 'A'		Group 'B'
(1)	Transeferor company	(a)	Covered as amalgamation
(2)	Transferee company	(b)	Can be only one
(3)	Can be one or more	(c)	Not covered as amalgamation
(4)	Absorption of company	(d)	To be liquidated
(5)	Sale of specific asset	(e)	Transferor company

[**Ans.:** 1. (d); 2. (b); 3. (e); 4. (a); 5. (c)]

4.

	Group 'A'		Group 'B'
(1)	Deepika Ltd. takes over Ranbir Ltd.	(a)	Governed by AS 14
(2)	Accounting for amalgamation	(b)	are liquidated
(3)	One merger vendor cos	(c)	Purchasing company
(4)	Transferee Company	(d)	Preliminary expenses are debted to equity shareholders
(5)	On amalgamation	(e)	amortised on systematic basis
(6)	Goodwill on amalgamation	(f)	shown under miscellaneous expenses
(7)	Amalgamation Adjustment A/ct	(g)	vendor co's books are closed
(8)	On amalgamation	(h)	is an absorption
		(i)	Capital Reserve
		(j)	purchase consideration

[**Ans.:** 1. (h); 2. (a); 3. (b); 4. (c); 5. (d); 6. (e); 7. (h); 8. (g)]

(IV) State whether the following statement are True or False:

1. Accounting for amalgamation is governed by AS–14.
2. Amalgamation involves two or more companies.
3. Amalgamation includes reconstruction.
4. Scheme of amalgamation requires approval by 75% of shareholders of every company involved.

5. The payment made to debentureholders is a part of purchase consideration.
6. The two varieties of accounting methods are applicable for transferor companies.
7. Pooling of interest method requires the modification of balance in reserves.
8. If payment of consideration to shareholders is partly by cheque, the method of accounting applicable is purchase of business.
9. Amalgamation Adjustment Account is applicable under purchase method.
10. Capital reserve or goodwill can arise in pooling of interest method.
11. Dissenting holders claim to be paid as per the decision of directors.
12. Amalgamation and demerger indicates dissimilar schemes.
13. Internal reconstruction is one of the variety of amalgamation.
14. Accounting for absorption or take over is not covered under AS–14.
15. Payment to prference shareholders for unpaid dividend is to be included in consideration.
16. Partly paid shares cannot be issued as consideration.
17. The shares of transferor company should always be fully paid up.
18. The final accounts of amalgamated company should suffix the words "And increased".
19. In a scheme of amalgamation unusable assets may not be transferred to amalgamated company.
20. Amalgamation becomes merger only when assets and liabilities taken over become the assets and laibities of transferee company.
21. Purchase consideration includes payment to creditors also.
22. Under purchase method, excess of net assets over purchase consideration is transferred to capital reserve.
23. One amalgamation, transferor company cannot be dissolved.
24. Fictitious assets appearing in the Balance Sheet of transferor company any transferred to Realisation Account.
25. In amalgamation, two or more companies are liquidated and one is formed.
26. Goodwill arising on amalgamation as per AS–14 is retained in the books till liquidation.
27. Under Pooling of Interest Method, the transferee company incorporates in its book as only the external liabilities and assets of the transferor company.
28. In Net Asset Method of purchase consideration, even fictitious assets are considered.
29. In external reconstruction, there is one liquidation and one formation.
30. In Pooling of Interest Method, all assets and liabilities are incorporated in the books of transferee compajy at book value.
31. AS–14 does not make any distinction between amalgamation and absorption.
32. Absorption takes place when an existing company takes over two or more companies.
33. Takeover of Santoshkumari Ltd. by Santoshkumar Ltd. a new company is external reconstruction.
34. On merger vendor companies are not liquidated.
35. Transferr company is a vendor company on amalgamation of companies.
36. On amalgamation preliminary expenses are debited to Realisation A/c.
37. In merger assets and liabilities of vendor company are tansferred to purchasing company at book value.
38. Goodwill on amalgamation is the excess of purchase consideration over net assets taken over.
39. Under amalgamation profit on Realisation is transferred to preference shareholders A/c.
40. On amalgamation payment of liquidation expenses does not form part of purchase consideration.
41. In Merger all the assets and liabilities are not transferred to Transfree company.
42. On amalgamation debentures of transferor company are credited to Realisation A/c.

[**Ans.: True:** 1, 2, 3, 4, 7, 8, 9, 15, 22, 25, 29, 30, 31, 33, 37, 38, 40, 42.
False: 5, 6, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28, 32, 34, 35, 36, 39, 41]

(V) Short Questions:

1. What is Amalgamation of Companies?
2. What are the types of Amalgamation as per AS 14?
3. What is Merger?
4. What is purchase of business?
5. Who is a Transferor or Company?
6. Who is a Transferee Company?
7. What is Amalgamation Adjustment A/c?
8. What is Purchase Consideration?
9. How is Purchase Consideration calculated as per Net Asset method?
10. How is Purchase Consideration calculated as per Net Payment method?
11. Wha do you mean by Accumulated Profits?
12. What do you mean by Accumulated Losses?
13. Mention any five items of Accumulated Profits.
14. Which funds are strictly liabilities?
15. Which funds are accumulated profits?
16. What is Intrinstic value of a share?
17. How are Realisation expenses treated in Amalgamation of Companies?
18. How is the claim of Equity Shareholders settled?

April – 2000

(1) M.D. Ltd. and . M.L.D. Ltd. furnish you with their balance sheet as at 31st December 2014

(Rs. In Lakhs)

	M.D. Ltd.		**M.L.D. Ltd.**	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Sources of funds:				
Share capital Authorised	25		50	
Issued, paid-up:				
Equity shares of Rs. 10 each fully paid in cash		05		03
Reserves/Surplus				
Capital- reserve	04		05	
Revenue reserves		19		05
		24		08
Less: Debit balance in P & L a/c		—		02
Loan Funds:		24		06
Secured by a charge on fixed assets		06		04
		30		10
Funds Represented by:				
Fixed assets (at cost.)	12		12	
Less: Depreciation	06		06	
		06		06
Net Current assets		24		04
Rs. in Lakhs		30		10

On the basis of the above the following decisions were taken and approved by the Hon. Mumbai High Court.

(a) Directors of M.L.D. Ltd. are to bring fresh equity share capital of Rs. 10 lakhs at par.

(b) The business of M.D. Ltd. is to be absorbed by M.L.D. Ltd. for Rs. 27 lakhs to be discharged in the form of equity shares of Rs. 10 each at par. Fixed assets taken over from M.D. Ltd. are to be valued at Rs. 8 lakhs.

(c) M.L.D. Ltd. is to provide Rs. 3 lakhs for depreciation on its original fixed assets. Capital reserve appearing in the books of M.L.D. Ltd. is to be utilised for this purpose and to write off the adverse balance in revenue statement.

(d) Bank monies brought in under (a) above are to be utilised to pay-off all secured lenders. You are asked to:

Prepare balance sheet of M.L.D. Ltd. on the basis of the above information after absorption.

April – 2001

(2) Come Here Ltd. and Be Together Ltd. decided to amalgamate into Come Together Ltd. (16)

Show journal entries in respect of the following in the books of Come Together Ltd.

Fixed Assets other than goodwill of Come Here Ltd, to be written up by Rs. 85,000

Fixed Assets other than goodwill of Be Together Ltd. to be written down by Rs. 37,000.

Goodwill of Be Together Ltd. to be considered at Rs. 56,000 and that of Come Here Ltd. at Rs. 21,000.

Stocks of Come Here Ltd. include goods purchased from Be Together Ltd. who sold the goods at a Gross Profit *of* 15%. Cost of the goods for Come Here Ltd. was Rs. 10,350; these goods had not been paid for as on the date of amalgamation; further, Bills Payable of Come Here Ltd. included a bill drawn by Be Together Ltd. for Rs. 3,500 which had not fallen due for payment till the date of amalgamation.

Come Here Ltd. is defending a suit for Trade Mark violation, dispute amount being Rs. 20,000. Share capital *of* Come Here Ltd. was Rs. 5,20,000 and that *of* Be Together Ltd. Rs. 3,64,000. Reserves and Surplus *of* the two companies, before the foregoing adjustments were Come Here Ltd. Rs. 64,000 and Be Together Ltd. Rs. 75,000. There were no fictitous assets in either Company's Balance Sheet.

Come Together Ltd. will settle the purchase consideration by issue of its shares *of Rs. 10* each at Rs. 16 per share, any fracton being paid by cash.

April – 2002

(3) Following are the Balance Sheets of Big Ltd. and Small Ltd. as at 31st Marech 2014

Liabilities	**Big Ltd. Rs**	**Small Ltd. Rs.**	**Assets**	**Big Ltd. Rs.**	**Small Ltd. Rs.**
Equity Share Capital	10,00,000	3,00,000	Plant	8,00,000	
Reserves	3,00:000	70,000	Computer	1,00,000	
Bills Payable	50,000	10,000	Stocks	3,00,000	
Sundry Creditors	1,50,000	80,000	Debtors	1,80,000	
			Cash at Bank	1,00,000	75,000
			Bill Receivable	20,000	30,000
Rs.	**15,00,000**	**4,60,000**	**Rs.**	**15,00,000**	**4,60,000**

Big Ltd. takes over business of Small Ltd. for Rs. 3,00,000 in the form of Equity Shares of Rs. 10 each allotted at par. Included in Bills payable of Big Ltd. are bills amounting to Rs. 30,000 accepted in favour of Small Ltd. for goods purchased. Of the above mentioned bills of Rs. 30,000 bills of Rs. 5,000 only still remain on the date of absorption in the hands of Small Ltd. The rest having been endorsed in favour of Creditors or got discounted with the bank.

On the date of absorption the stock of Big Ltd. include goods purchased from Small Ltd. at the invoice price of Rs. 15,000. Small Ltd. charging profit at 25% on cost

Expenses of liquidation of Small Ltd. Rs. 7,000 were met by Big Ltd.

Prepare realisation account and Equity shareholders account in the books of Small Ltd. Also pass necessary Journal Entries in the books of Big Ltd. and prepare its Balance Sheet after absorption of Small

Ltd. assuming amalgamation is in the nature of purchase.

April – 2003

(4) The following were the Balance Sheets of Amar Ltd. & Akbar Ltd. as at 31st March, 2002

	Amar Ltd. Rs.	**Akbar Ltd. Rs.**
Equity Sham COW (fully paid shares of Rs. 10 each)	15,00,000	6,00,000
Securities Premium	3,00,000	—
Foreign Projects Reserve	—	31,000
General Reserve	9,50,000	34,000
Profit & Loss A/c	2,87,000	82X
12% Debentures	—	1,00,000
Bills Pay	12,000	—
Sundry Creditors	1130,000	45,000
Sundry Provisions	1,61,000	71,500
Rs.	**33,40,000**	**12,50,000**
Assets	**Amar Ltd. Rs.**	**Akbar Ltd. Rs.**
Land & Building	8,00,000	—
Plant & Machinery	12,00,00	5,00,000
Furniture, Fixtures & Fittings	2,50,000	1,60,000
Stock in Trade	7,70,000	4,10,000
Sundry Debtors	2,20,000	1,10,000
Cash at Bank	1,00,000	62,000
Bills Receivable	—	1 8,000
Rs.	**33,40,000**	**12,50,000**

All the bills receivable hold by Akbar Ltd. were Amar Ltd.'s acceptances. On 1st April, 2002, Amar Ltd. took over Akbar Ltd. in an amalgamation in the nature of merger.

It was agreed that in discharge of consideration for the business, Amar Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Akbar Ltd.

It was also agreed that 12% Debentures in Akbar Ltd. would be converted into 13% Debentures in Amar Ltd. of the same amount and denomination. Expenses of amalgamation amounting to Rs. 1,000 were borne by Amar Ltd.

You are required to:

(a) Pass Journal entries in the books of Amar Ltd. and (b) Prepare Balance Sheet of Amar Ltd. immediately after the merger.

October – 2003

(5) On 31st March 2002, B Ltd. was absorbed by A Ltd. the latter taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 80,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company.

The Balance sheets of the companies as at 31st March 2002 were as under (16)

Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Share Capital:			Goodwill	40,000	12,000
Authorised	3,00,000	1,00,000	Plant and Machinery	82,400	20,000
Issued and Subscribed:			Furniture	16,000	61000
Equity Shares of Rs. 10 each fully paid-up	1,80,000	40,000	Stock in Trade	53,100	12,000
General Reserve	36,000	10,000	Sundry Down	44,240	9,200
Profit and Loss A/c	4,100	2,580	Prepaid Insurance	-	140
Sundry Creditors	14,114	7,890	Income Tax Refund Claim	-	1,200
Bills Payable	2,040	800	Cash in Hand	174	70
Provision for Taxation	2,480	1,000	Cash in Bank	2,800	1,660
Rs.	**2,38,714**	**62,270**	**Rs.**	**2,38,714**	**62,270**

Amalgamation expenses amounting to Rs. 200 were paid by A Ltd. You are required to:

(a) Show the necessary journal entries in the books of A Ltd. assuming amalgamation in the nature of merger.

(b) Prepare the Balance Sheet of A Ltd. after the amalgamation.

April – 2004

(6) Following are the Balance Sheets of Galaxy Ltd. and Gemini Ltd. as on 31st March, 2003.

Liabilities	**Galaxy Ltd. Rs.**	**Gemini Ltd. Rs.**	**Assets**	**Galaxy Ltd. Rs.**	**Gemini Ltd. Rs.**
Share Capital (Rs. 10 each)	50,000	1,00,000	Fixed Asset	60,000	1,25,000
Reserve Fund	20,000	30,000	Loan to Gemini Ltd.	5,000	—
Foreign Projects Reserve	5,000	—	Debtors	15,000	10,000
Creditors	15,000	20,000	Stock	10,000	15,000
Loan from Galaxy Ltd.	—	5,000	Cash at Bank	—	5,000
	90,000	**1,55,000**		**90,000**	**1,55,000**

Gemini Ltd. agreed to absorb Galaxy Ltd. on the following terms:

Gemini Ltd. shall give one share of Rs. 10 each at Rs. 35 per share for every 3 shares hold in Galaxy Ltd., the amount for the fraction of shares shall be paid in cash calculated as per the market price of the share of Gemini Ltd.

Stock of Galaxy Ltd. includes goods worth Rs. 7,500 purchased from Gemini Ltd. which has a profit margin of 20% on cost.

Debtors of Gemini Ltd. includes Rs. 2,500 being, amount due from Galaxy Ltd. but the Creditors of Galaxy Ltd. include Rs. 2,000 only being the amount due to Gemini Ltd. The difference between the Debtors and Creditors is due to cash in transit.

The shares of Gemini Ltd. are quoted in the market at Rs. 45 per share.

You are requested to pass the journal entries in the books of Gemini Ltd. and the Balance Sheet after the absorption, assuming that the Foreign Projects Reserve is still to be maintained for 3 years.

Assume that the amalgamation is in the nature of Purchase.

October — 2004

(7) The following is the Balance Sheet of Vikrant Ltd. (16)

Liabilities	Rs.	Assets	Rs.
Issues and Paid-up		Intangible Assets	50,000
Equity Share Capital	5,00,000	Fixed Assets	4,20,000
Statutory Reserve (to be maintained for 3 more years)	10,000	Current Assets	1,10,000
Debentures	1,00,000	Profit and Loss A/c	80,000
Creditors	50,000		
	6,60,000		**6,60,000**

Viral Ltd. agreed to absorb Want Ltd. on the following terms:

(1) Viral Ltd. agreed to take over all the assets and liabilities.

(2) The assets of Want Ltd. are to be considered to be worth Rs. 5,00,000.

(3) The purchase price is to be paid one-quarter in cash and the balance in shares which are issued at the market price.

(4) Liquidation expenses amounted to Rs. 300 agreed to be paid by Vikrant Ltd.

(5) Market value of share of Rs. 10 each of Virat Ltd. is Rs. 12 per share.

(6) Debentures of Vikrant Ltd. were paid.

(7) The amalgamation is in the nature of purchase.

You are required to show. (a) Purchase consideration. (b) Ledger accounts in the books of Vikrant Ltd. (c) Opening entries in the books of Virat Ltd.

April – 2005

(8) The following are the Balance sheets as on 31-12-2004 of NISHA LTD. and USHA LTD. (16)

LIABILITIES	NISHA LTD. Rs.	USHA LTD. Rs.	ASSETS	NISHA LTD. Rs.	USHA LTD. Rs.
Equity Share Capital [Rs. 100 per share]	2,00,000	120,000	Land and Building	70,000	—
15% Debentures	40,000	—	Plant and Machinery	2,20,000	1,00,000
Reserve Fund	76,000	5,000	Stock	35,000	18,000
Employees Provident Fund	6,000	—	Debtors	25,000	16,000
Sundry Creditors	30,000	16,000	Bank	6,000	2,000
Profit a and Loss A/c	4,000	—	Misc. Expenses not W/o Advertisement Expenses	—	5,000
	3,56,000	**1,41,000**		**3,56,000**	**1,41,000**

The two companies agree to amalgamate and form a new company M/s. UJALA Ltd. which takes over the assets and liabilities of both the companies.

The authorised capital of Ujala Ltd. is Rs. 20,00,000 consisting of 2,00,000 Equity shares of Rs. 10 each. The assets of Nisha Ltd. are taken over at 90% of the book-value with the exception of land and building which are accepted at book value.

Both the companies, are to receive 10% of the net valuation of their respective business as Goodwill.

The purchase consideration is to be satisfied by Ujala Ltd. in its fully paid shares at 10% premium. In return of Debentures of Nisha Ltd., Debentures of the same amount and denomination are to be issued by Ujala Ltd.

Close the books of Nisha Ltd. and Usha Ltd. and show the Opening Balance sheet of Ujala Ltd. under Purchase Method.

October – 2005

(9) The following are the Balance Sheets of 'A' Ltd. and 'B' Ltd. as on 31st March, 2004: (16)

Liabilities	A Rs.	B Rs.	Assets	A Rs.	B Rs.
Equity, Share Capital (Rs. 10 each)	4,50,000	3,00,000	Land & Building	2.60,000	1,45,000
13% Pref. Share Capital (Rs. 100 each)	2,70,000	1,70,000	Plant & Machinery	3,15,000	1,80,000
General Reserves	50,000	25,000	Furniture	59,500	35.000
Export Profit Reserves	30,000	20,000	Investments	1.23,000	97,000
Investment Allowance Reserves	—	10,000	Stock	85,000	88,000
Profit & Loss Amount	75,000	50,000	Debtors	77,500	67,000
14% Debentures (Rs. 100 each)	50,000	35,000	Cash & Bank	50,000	38,000
Current Liabilities	45,000	40,000			
	9,70,000	**6,50,000**		**9,70,000**	**6,50,000**

'A' Ltd. takes over 'B' Ltd. on 1st April 2004. 'A' Ltd. discharges the purchase consideration as below:

(1) Issued 35,000 Equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.

(2) Issued 15% Preference Shares of Rs. 100 each to discharge the Preference shareholders of 'B' Ltd. at 100/0 premium.

The Debentures of 'B' Ltd. will be converted into equivalent number of Debentures of 'A' Ltd.

The Statutory Reserves of 'B' Ltd. (Export Profit Reserve and Investment Allowance Reserve) are to be maintained for 2 more years.

You are required to show the Balance Sheet of 'A' Ltd. assuming that

(a) The amalgamation is in the nature of Merger and

(b) The amalgamation is in the nature of Purchase.

April – 2006

(10) Following are the Balance Sheets of ROHAN Ltd. and SOHAN Ltd. as on 31-3-2005: (20)

Liabilities	Rohan Ltd. Rs.	Sohan Ltd. Rs.	Assets	Rohan Ltd. Rs.	Sohan Ltd. Rs.
Share Capital:			**Fixed Assets:**		
9% Preference Shams of			Goodwill	1,50,000	1,50,000
Rs. 100 each	6,00,000	9,00,000	Land & Building	6,00,000	7,50,000
Equity shares of			Plant & Machinery	4,50,000	6,00,000
Rs. 100 each	9,00,000	15,00,000	Computer	3,00,000	4,50,000
Reserves & Surplus:			Investments	1,50,000	1,50,000
General Reserves	75,000	90,000	**Current Assets**		
Revaluation Reserves	45,000	60,000	**Loans & Advances:**		
Export Profit Reserves	30,000	45,000	Stock	3,00,000	4,50,000
Profit & Loss Account	15,000	30,000	Sundry Debtors	1,50,000	3,00,000
Secured Loans:			Bills receivables	75,000	1,50,000
12% Debentures of			Bank	1,95,000	3,75,000
Rs. 100 each	3,00,000	4,50,000			
Unsecured Loans	1,50,000	75,000			
Current Liabilities and Provisions:					
Sundry	2,25,000	1,80,000			
Bills payable	30,000	45,000			
	23,70,000	**33,75,000**		**23,70,000**	**33,75,000**

Mohan Ltd. was formed to take over the business of Rohan Ltd. and Sohan Ltd. with an authorised share capital of Rs. 30,00,000 consisting of 20,000, 13% Preference Shares of Rs. 100 each and 100,000 Equity Shares of Rs. 10 each.

Terms of Amalgamation:

(1) 9% Preference shareholders of both the companies are issued equal number of 13% Preference shares of Mohan Ltd. at a price of Rs. 125 each.

(2) Mohan Ltd. will issue four Equity shares for three Equity shares of Rohan Ltd. and four Equity shares for five Equity shares of Sohan Ltd. The shares are to be issued at Rs. 35 each.

(3) 12% Debentureholders of both the companies are discharged by Mohan Ltd. by issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest,

(4) Mohan Ltd., agree to take over all assets and all liabilities at book values except the following:
   (i) Tangible fixed assets at 10% more than book-values.
   (ii) Investments and Sundry Debtors at 90% of their book values.

(5) Export Profit **Reserves are to be maintained for three more years. You are required to:**
   (i) Compute purchase consideration of Rohan Ltd. and Sohan Ltd.
   (ii) Pass Journal entries and Prepare Balance Sheet after amalgamation in the books of Mohan Ltd, applying Purchase Method.

October – 2006

(11) Shubha Ltd. absorbed Sushma Ltd. with effect from 1st April, 2005 when their Balance sheets as on 31-03-2005 were as under: (20)

Liabilities	Shubha Ltd. Rs.	Sushma Ltd. Rs.	Assets	Shubha Ltd. Rs.	Sushma Ltd. Rs.
Share Capital			**Fixed Assets:**		
11% Preference Shares of Rs. 100 each	2,00,000	2,00,000	Land & Building	2,20,000	1,40,000
Equity shares of Rs. 100 each	5,00,000	2,00,000	Plant & Machinery	4.20,000	2,60,000
			Current Assets,		
Reserves & Surplus:			**Loans & Advances**	2,90,000	1,60.000
Revaluation Reserves	20.000	—	Stock	1,201000	1,40,000
Export Profit Reserves	40,000	20,000	Sundry Debtors	1,30,000	90,000
General Reserve	2,00,000	60,000	Bills Receivable	20,000	10,000
Secured Loans:			Bank		
10% Debentures of Rs. 100	—	1,20,000			
is% Debentures of Rs. 100	80.000	—			
Current Liabilities and Provisions:					
Sundry Creditors	1,60,000	2,00,000			
	12,00,000	**8,00,000**		**12,00,000**	**8,00,000**

Terms of Amalgamation:

(a) Shubha Ltd. will issue Eight equity shares for Five equity shares in Sushma Ltd.

(b) 11% Preference shareholders of Sushma Ltd. will be issued equal number of Equity shares in Shubha Ltd.

(c) 10% Debentureholders of Sushma Ltd. are discharged by Shubha Ltd. by issuing equal number of its 15% Debentures of Rs. 100 each.

(d) All the Assets and Liabilities of Sushma Ltd. are taken over at book values except the following: (i) Fixed Assets at 10% more than book values. (ii) Stock at Rs. 1,44,000. (iii) Debtors at Rs. 1,25,000. (iv) Bills Receivable at Rs. 81,000.

You are required to:

(i) Compute purchase consideration. (ii) Prepare Ledger Accounts to close the books of Accounts of Sushma Ltd. (iii) Pass journal entries and prepare Balance-sheet after Amalgamation in the books of Shubha Ltd. applying Purchase Method.

April – 2007

(12) BK Ltd. is formed to takeover 'Bunty Ltd. and Kuber Ltd'. Their Balance Sheets on the date of amalgamation are as below: (20)

Balance Sheets as on 31st March, 2006

Liabilities	Bunty Ltd. Rs.	Kuber Ltd. Rs.	Assets	Bunty Ltd. Rs.	Kuber Ltd. Rs.
Share Capital of Rs. 10 each			Goodwill	—	25,000
Equity shares	2,40,000	1,60,000	Buildings	1,50,000	1,40,000
11% Preference Shares	1,50,000	1,00,000	Machinery	80,000	60,000
General Reserve	45,000	40,000	Furniture	10,000	5,000
Profit & Loss A/c	30,000	21,000	Investments	1,40,000	BOX
9% Debentures	1,00,000	1,00,000	Debtors	1,65,000	60,000
Sundry Creditors	60,000	40,000	Stock	75,000	90,000
Other Liabilities	40,000	24,000	Cash & Bank	13,000	8,000
			Other Current Assets	20,000	10,000
			Preliminary Expenses	12,000	7,000
	6,65,000	**4,85,000**		**6,65,000**	**4,85,000**

BK Ltd. issued 10,000 equity shares of Rs. 10 each to the public at a premium of 10 Bunty Ltd. and Kuber Ltd. were taken over by BK Ltd. on the following terms.

Re: Bunty Ltd.

(a) Equity Shareholders are to be issued 7 Equity Shares of Rs. 10 at par in BK Ltd. and are to be paid Rs. 5 in cash for surrender of each 6 shares.

(b) Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.

(c) All Assets and liabilities are valued at book value except Machinery which is valued at 10% below book value and Debtors are worth Rs. 1,60,000.

(d) Liquidation expenses of Rs. 12,500 are to be borne by BK Ltd.

(e) Discharge the debentures of Bunty Ltd. at a discount of 10% by the issue of 13% Debentures of Rs. 100 each in BK Ltd.

Re: Kuber Ltd.

(a) Cash Rs. 3,000 is to be retained for liquidation expenses.

(b) Debtors and investments are valued at 90% of cost.

(c) Machinery and stock are valued at 10% above cost and other assets and liabilities are valued at book value except Fictitions Assets.

(d) Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.

(e) Balance of Purchase consideration is payable, in equity shares at par.

(f) Discharge the debentures of Kuber Ltd. at par by to issue of 13% Debentures of Rs. 100 each in BK Ltd.

(g) The Face value of Equity shares and preference shares in BK Ltd. is of Rs. 10 each.

Show the necessary Ledger Accounts in the books of 'Bunty Ltd.' and Kuber Ltd. Also calculate purchase considerations.

(13) 'S' Ltd. is to be taken over by 'IT Ltd. 'S' Ltd. has 9 Debentures of Rs. 100 each of the face value of Rs. 22,50,000 9% debenture holders of 'S' Ltd. are discharged by 'R' Ltd. issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest. Calculate the number of debentures to be issued by 'R' Ltd. (4)

(14) 'P' Lid. purchased premises worth Rs. 22,56,000. It issues its debentures at 4% discount in satisfaction of the purchase price. Calculate how many debentures will be issued in case debenture is of Rs.100 each. (2)

October – 2007

(15) Following are the Balance Sheets of X Ltd. and Y Ltd. (20)

Balance Sheets as on 31st March, 2006

Liabilities	**X Ltd. Rs.**	**Y Ltd. Rs.**	**Assets**	**X Ltd. Rs.**	**Y Ltd. Rs.**
Equity Share Capital of Rs. 10 each	75,00,000	45,00,000	Building	25,00,000	15AWD
Export Profit Reserves	3,00,000	3,00,000	Machinery	32,50,000	17,00,000
Profit and Loss Account	7,00,000	6,00,000	Stock	25,50,000	18,00,000
Generaal Reserve	2,00,000	4,50,000	Debtors	9,00,000	10,00,000
12% Debenture of Rs. 100 each	5,00,000	3,00,000	Bank	7,00,000	5,50,000
Sundry Creditors	7,00,000	5,50,000	Preliminary Expenses	—	1,00000
	99,00,000	**67,00,000**		**99,00,000**	**67,00,000**

Z Ltd. was formed to acquire all assets and liabilities of X Ltd. and Y Ltd. on the following terms:

(a) Z Ltd. to have an authorised share capital of Rs. 5 crores dividend into 5,00,000 equity shares of Rs. 100 each.

(b) The business of both companies were taken over for a total price of Rs. 1.2 crores to be discharged by Z Ltd. by issue of equity shares of Rs. 100 each at a premium of 20%.

(c) The shareholders of X Ltd. and Y Ltd. to got shares in Z Ltd. in the ratio of net assets values of their respective shares.

(d) The Debentures of both the companies to be converted into equivalent number of 14% Debentures of Rs. 100 each in Z Ltd. at a discount of 10%,

(e) All the tangible assets of both companies are taken over by Z Ltd. at book values except following:

Assets	**X Ltd. Rs.**	**Y Ltd. Rs.**
Building	28,00,000	18,20,000
Machinery	31,50,000	16,00,000

(f) Sundry creditors of X Ltd. and Y Ltd. are taken over at Rs. 6,50,000 and Rs. 5,00,000 respectively.

(g) Statutory Reserve are to be maintained for 3 years more.

You are required to: (I) Compute Purchase consideration of X Ltd. and Y Ltd. (II) Pass Journal Entries in the Books of Z Ltd. (III) Prepare Balance Sheet after amalgamation. Apply Purchase Method.

April – 2008

(16) 'A' Ltd. absorbed 'B' Ltd. w.e.f. 1st April, 2007 when their Balance sheets were as under (20)

Balance Sheets as at 31st March, 2007

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Equity Shares of Rs. 10 each fully paid	10,00,000	4,00,000	Land and Building	4,40,000	2,80,000
11% Preference shares of Rs. 100 each			Plant and Machinery	8,40,000	5,20,000
Fully paid	4,00,000	4,00,000	Stock	5,80,000	3,20,000
Revaluation Reserves	40,000	—	Sundry Debtors	2,40,000	2,80,000
General Reserve	3,00,000	1,00,000	Bills receivables	2,60,000	1,80,000
Exprot Profits Reserves	80,000	40,000	Bank	40,000	20,000
Other Statutory Reserves	1,00,000	20,000			
15% Debertures	1,00,000	—			
10% Debentures	—	2,40,000			
Sundry Creditors	3,20,000	4,00,000			
	24,00,000	**16,00,000**		**24,00,000**	**16,00,000**

Terms of Absorption:

(a) 'A' Ltd. will issue Eight Equity shares for every Five Equity shares in 'B' Ltd. of Rs. 10 each at Rs. 11 per share.

(b) 11I% Preference shareholders of 'B' Ltd. will be issued equal number of preference shares in A Ltd. of Rs. 100 each at Rs. 105 per share.

(c) 'A' Ltd. agreed to take over the debentures of 'B' Ltd. at book value. Subsequently after absorption, 10% debentureholders of 'B' Ltd. are discharged by 'A' Ltd. issuing such number of its 15% debentures of Rs. 100 each so as to maintain the same amount of interst.

(d) All the assets and liabilities of 'B' Ltd. were taken over at book values except the following which were revalued as follows:

	Rs.
Lard and Building	3,00,000
Plant and Machinery	5,00,000
Stock	3,00,000
Sundry Debtors	2,60,000
Bills receivables	1,60,000
Creditors	3,80,000

(e) Cost of absorption amounting to Rs. 10,000 was paid by 'A' Ltd.

(f) Creditors of 'B' Ltd. include Rs. 10,000 payable to X Ltd.

(g) It was decided by the directors of 'A' Ltd. to set off Goodwill and Capital Reserves mutually.

you are required to:

(i) Compute Purchase Consideration of 'B' Ltd.

(ii) Pass Journal entries in the books of 'A' Ltd.

(iii) Prepare Balance sheet after absorption of 'A' Ltd.

Apply Purchase Method.

October – 2008

(17) Balance Sheet of North Sick Ltd. as on 31.03.2007 is as below.

Liabilities	Rs.	Assets	Rs.
5,000 8% Preference Shares of Rs. 10 each fully paid-up	50,000	Office Premises	
25,000 Equity Shares of Rs. 10 each fully paid-up	2,50,000	At Goregaon	1,00,000
10% Debentures	50,000	At Borivli	60,000
Creditors	40,000	Furniture	40,000
		Current Asset	1,90,000
	3,90,000		**3,90,000**

A new Company namely West Healthy Ltd. was formed with Authorised Capital of 50,000 equity shares of Rs. 10 each. The directors of the Company:

(a) Issued 10,000 equity shares at premium of 10% to the public for cash. The issue was fully subscribed and paid for.

(b) Paid underwriting commission of Rs. 5,000 to the underwriters ICICI Bank Ltd.

(c) Paid Rs. 10,000 to M/s. ANIC & Co. Chartered Accountants, as professional fees for Co. formation.

(d) Decided to take over the business of North Sick Ltd. on the following terms:

(i) To issue 6 equity shares of Rs. 10 each at 10% premium for every 5 equity shares in North Sick Ltd.

(ii) To Issue 5,000 equity shares of Rs. 10 each at 10% premium to the preference shareholders of North Sick Ltd.

(iii) To revalue Goregaon office at Rs. 1,50,000 and Borivli office at Rs. 90,000.

(iv) To take over 10% debentures of North Sick Ltd. at face value. Then, debentureholders of North Sick Ltd. shall be Issued 12% debentures of the face value Rs. 55,000 in West Healthy Ltd.

You are required to:

(a) Write necessary journal entries in the books of West Healthy Ltd. to record the above transactions.

(b) Prepare Balance Sheet of West Healthy Ltd. as on 1-4-2007, after take-over.

October – 2012

(18) Following is the Balance Sheet of Prakash Ltd. as on 31st March, 2011.

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs, 10 each fully paid-up	4,00,000	Land and Building	3,85,000
Capital Reserve	25,000	Furniture and fittings	80,000
Profit & Loss Account	75,000	Stock	40,000
Export Profit Reserve	60,000	Sundry receivables	75,000
Revaluation reserve	1,50,000	Cash and Bank Balance	2,20,000
Sundry Payables	90,000		
Total	**8,00,000**	**Total**	**8,00,000**

On the above date, Akash Ltd. is formed to takeover the business of Prakash Ltd., (including Cash and Bank Balance), on the following terms and conditions:

(a) Stock is taken over at 75% of its book value.

(b) Furniture and fittings are taken over at Rs. 70,000.
(c) Sundry receivables are taken over, subject to reserves for bad debts of Rs. 5,000.
(d) Land and Building is taken over by Akash Ltd. at Rs. 10,00,000.
(e) Statutory reserve is required to be maintained for 1 more year.
(f) Goodwill is valued and taken over at 250% of the book value of furniture and fittings.
(g) 90% Purchase consideration is settled by issuing equity shares in Akash Ltd., of Rs. 10 each at Rs. 15 each, to the equity shareholders of Prakash Ltd. 10% of the Purchase consideration is settled in cash.
(h) Akash Ltd. issued, 12%, 40,000 preference shares of Rs. 10 each at Rs. 9 each fully paid up. All these preference shares were fully subscribed for by public and issued accordingly by the company.

You are required to:
(i) Calculate Purchase Consideration
(ii) Prepare Balance Sheet of Akash Ltd. after amalgamation.

April – 2013

(19) Following are the Balance Sheets of Honest Limited and Faithful Limited as on 31st March, 2012: (15)

Liabilities	**Honest Ltd. Rs.**	**Faithful Ltd. Rs.**	**Assets**	**Honest Ltd. Rs.**	**Faithful Ltd. Rs.**
Equity Share Capital (Shares of Rs. 100 each fully paid-up)	12,00,000	18,00,000	Goodwill	90,000	1,50,000
7% Preference Share Capitol (Shares of Rs. 100 each fully paid-up)	6,75,000	9,00,000	Premises	9,75,000	10,50,000
General Reserve	1,05,000	1,20,000	Plant and Machinery	9,00,000	12,30,000
Profit and Loss Account	67,500	93,000	Stock	2,70,000	3,75,000
Statutory Reserve	40,500	72,000	Sundry debtors	2,10,000	5,02,500
100A Debentures	225,000	1,26,000	Bank	18,000	36,000
Sundry creditors	1150,000	2,32,500			
Total	**24,63,000**	**33,43,500**	**Total**	**63,000**	**33,43,500**

On the above date, Faithful Limited takes over Honest Limited on the following terms and conditions:
(a) All the Assets and Liabilities are taken over at book value except the following which were revalued as follows:
(b) Premises Rs. 8,50,000 and Plant and Machinery Rs. 17,00,000.
(c) Equity Shareholders of Honest Limited to be issued 10,000 equity shares of Rs. 100 each at 10% premium.
(d) 7% Preference shareholders of Honest Limited to be discharged at 10% premium by issuing 8% Preference Shares of Rs. 100 each (at par) in Faithful Limited.
(e) Debentures of Honest Limited to be converted into equivalent number of debentures of Faithful Limited.
(f) Sundry debtors of Faithful Limited include Rs. 25,000 due from Honest Limited.
(g) Cost of liquidation amounting to Rs. 4,000 were borne by Faithful Limited.

You are required to:

(i) Calculate purchase consideration.

(ii) Show workings for Goodwill/Capital Reserve.

(iii) Prepare Balance Sheet of Faithful Limited after Amalgamation.

October – 2013

(20) Following is the Balance Sheet of River Limited as on 31st March, 2013: (15)

Liabilities	Amount Rs.	Assets	Amount Rs.
6% Preference Shares (20,000 of Rs. 10 each)	2,00,000	Patent Rights	1,00,000
Equity Shares (30,000 Shares of Rs. 10 each)	3,00,000	Plant & Machinery	2,25,000
Profit & Loss Account	52,000	Investments	3,90,000
General Reserve	75,000	Stock	1,15,000
11% Debentures	1,45,000	Sundry Debtors	1,10,000
Statutory Reserves	1,25,000	Cash at Bank	57,000
Sundry Creditors	85,000	Preliminary Expenses	10,000
Bills Payable	25,000		
Total	**10,07,000**	**Total**	**10,07,000**

On the above date Ocean Limited is formed to absorb River Limited on the following terms and conditions:

(a) Absorption expenses of Rs. 5,000 are paid by Ocean Limited.

(b) Ocean Limited to take over all the Assets and Liabilities of River Ltd. at Book value except Plant & Machinery of Rs. 2,10,000.

(c) 6% Preference shareholders of River Limited are to be settled at 5% premium by issue of 7% Preference Shares of Rs. 10 each in Ocean Limited.

(d) Equity Shareholders of River Limited to be issued equal number of Equity Shares in Ocean Limited of Rs. 10 each at 5% premium.

You are required to:

(i) Compute Purchase Consideration payable by Ocean Limited to River Limited.

(ii) Pass necessary Journal Entries in the books of River Limited.

April – 2014

(21) Tom Ltd. agreed to acquire business of Jerry Ltd. as on 31-03-2013. The summarised Balance Sheet of Jerry Ltd. as on 31-03-2013 was as follows: (15)

Liabilities	Rs.
12,000, equity shares of Rs. 10 each fully paid	1,20,000
General Reserve	34,000
Profit and Loss Account	22,000
6% Debentures	20,000
Creditors	4,000
	2,00,000

Assets	Rs.
Goodwill	20,000
Building	60,000
Machinery	68,000
Closing Stock	33,600
Debtors	7,200
ICICI Bank Account	11,200
	2.00,000

The consideration payable was as follows:

(a) Cash payment equal to Rs. 2.50 per share in Jerry Ltd.

(b) Issue of 18,000 Equity sharers of Rs. 10 each of Tom Ltd., having and agreed value of Rs. 15 per share.

(c) Issue of such an amount of fully paid 9% Debentures of Tom Ltd. at Rs. 96, each as is sufficient to discharge 6% Debentures of Jerry Ltd. at 20% premium.

(d) While calculating the consideration the assets were revalued as follows: Building and Machinery at Rs. 1,20,000 each, stock at Rs. 28,400 and Debtors subject to 5% provision for Discount

(e) Liquidation expenses agreed to be paid by Jerry Ltd. was Rs. 1,000.

Prepare.

(i) Statement of Purchase consideration.

(ii) Necessary ledger accounts to close the books of Jerry Ltd.

(iii) Opening Journal entries in the books of Tom Ltd.

❖●❖●❖

CHAPTER 2

CAPITAL REDUCTION & INTERNAL RECONSTRUCTION

1. **Compromise and Arrangement:** A Scheme of Compromise and Arrangement is an **agreement** between a Company and its Members and Creditors (both Long-Term Creditors and Short Term Creditors), when the Company faces financial problems. Such an arrangement is called **Capital Reduction A/c,** and involves sacrifices by Shareholders, or Creditors and Debentureholders or by all.
2. **Types:** Capital Reduction A/c can be of two types –
   (a) External Capital Reduction A/c – where a new Company is formed by transferring the undertaking of an existing Company, e.g. Amalgamation of two Companies, Absorption of one Company into another, Demerger. of a Company into two or more new Companies, etc.
   (b) Internal Capital Reduction A/c – where the affairs of a Company are re-aligned, without liquidating the Company and forming a new Company.

Difference between Internal and External Capital Reduction A/c

Basics	Internal Capital Reduction A/c	External Capital Reduction A/c
Existing Company	Existing Company is not liquidated.	Existing Company is liquidated & wound up.
New Company	No new Company is formed, but only the rights of Shareholders and Creditors are changed.	A New Company is formed to take over the Liquidated Company.
Reduction of Capital	There is a certain reduction of Capital (of Members), and sometimes Outside Liabilities like Debentureholders and Creditors, may have to reduce their claims also.	There is no reduction of capital. In fact there is a Fresh Issue of Share Capital of the New company.
Regulated by	Sec. 100 of the Companies Act, 1956.	Sec. 494 of the Companies Act, 1956.

1. **Meaning:**
   (a) Internal Capital Reduction A/c is a scheme in which the affairs of a Limited Company are re-organised for – (a) proper reflection of Capital, or (b) compounding / compromising / settling with Creditors, or (c) Company's betterment / turnaround, etc.
   (b) Capital Reduction A/c: The Share Capital of a Company which has been suffering losses continuously for a long time, is not truly represented by its assets. In such case, the scheme of Capital Reduction involves writing-off that portion of Capital which is already lost.
2. **Methods:** In Internal Capital Reduction A/c, the following methods are generally employed or used simultaneously –
   (a) Alteration of Share Capital as per Sec.94, 95, 97 of the Companies Act.
   (b) Variation of Shareholders' Rights as per Sec.106 of the Companies Act.
   (c) Reduction of Share Capital as per Sec.100 to 105 of the Companies Act.
   (d) Compromise/ Arrangement as per Sec.391 to 393 and Sec.394A of the Companies Act.
   (e) Surrender of Shares.

3. Aspects: Internal Capital Reduction A/c involves the following aspects –

(a) Revaluation of Assets to a realistic value, e.g. Market Value of Current Assets, Trade Investments, etc.

(b) Writing off of Fictitious Assets and Losses ' e.g. Goodwill, Patents, Miscellaneous Expenditure to the extent not written off or adjusted, Debit Balance in Profit and Loss Account, etc.

(c) Re-assessment of Liabilities by seeking waiver / reduction / remission of liability from Creditors and Lenders (including Debentureholders, if any), recording previously unrecorded liability, etc.

(d) Re-statement of Capital by reducing the Paid-Up Value of Shares, (both Equity and Preference) and / or varying the rights attached to different classes of shares.

4. Capital Reduction A/c: The above aspects are accounted / recognised as under –

Capital Reduction / Reconstruct on Re-organisation A/c

Debited with -		**Credited with -**	
● Downward Revaluation of Assets ● Upward Re-assessment of Liabilities ● Recording / paying of previously unrecorded Liabilities ● Expenses of Capital Reduction A/c ● Writing off of Fictitious Assets, Intangible Items, and Accumulated Losses ● **Net Surplus,** if any, transferred to **Capital Reserve**		● Upward Revaluation of Assets ● Downward Re-assessment of Liabilities ● Sacrifices / Rebates by Lenders / Creditors, towards Claims due to them ● Sacrifices by Shareholders, by way of Reduction of Capital	

Note:

If Scheme Involves arrangements with -	**Name of Account to be used**
Shareholders only	Capital Reduction / Capital Reduction A/c / Reorganiscition
Shareholders and Creditors / Lenders / Debentureholders	Capital Reduction A/c / Reorganisation

Hence, the general A/c Head **"Capital Reduction A/c** may be used.

4. List the Journal Entries for various transaction in the course of Internal Capital Reduction A/c

Transaction	**Journal Entry**
1. Reduction of Share Capital by **reducing Paid-up Value** of Shares, without reducing Face Value (say 7 100 Face Value retained, but Rs. 100 already paid-up is reduced to Rs. 15 paid-up)	Equity Share Capital (Rs. 100 each) Dr. 85 To Capital Reduction A/c 85
2. Reduction of Share Capital by **reducing both Face Value and Paid-Up Value,** (say Rs. 100 reduced to Rs. *15)*	Equity Share Capital (Rs. 100 each) Dr. 100 To Equity Share Capital (Rs. 15 each) 15 To Capital Reduction A/c (balance written off) 85
3. Shareholders giving up their claim to Reserves and Accumulated Profits	Reserves A/c (individually) Dr. To Capital Reduction A/c
4. Shares surrendered and cancelled subsequently	Equity Share Capital Dr. To Shares Surrendered A/c Shares Surrendered A/c Dr. To Capital Reduction A/c (to the extent cancelled)
5. Downward Revaluation of Assets	Capital Reduction A/c Dr. To Sundry Assets A/c (individually)

6. Upward Revaluation of Assets, i.e. Increase / Appreciation in Asset Values	Sundry Assets A/c (individually) Dr. To Capital Reduction A/c
7. Sacrifices made by Debentureholders, Creditors, etc. by agreeing for a lower amount of dues payable to them	External Liabilities A/c (individually) Dr. To Capital Reduction A/c' A/c (to the extent sacrifice made) To Bank A/c (to the extent payment made immediately)
8. Expenses *of* Capital Reduction A/c and previously unrecorded liability paid	Capital Reduction A/c Dr. To Bank A/c
9. Provisions settled at higher amount than appearing in the Balance Sheet	Provision (for Taxation, etc.) (as per B/s) Dr. Capital Reduction A/c (difference / additional amt) Dr. To Bank A/c (Total amount paid now)
10. Writing off of Fictitious Assets, Intangible Items, and Losses	Capital Reduction A/c Dr. To Fictitious Asset A/cs (e.g. Goodwill, Patents, etc.) To P&L A/c (Dr. Balance if any) To Misc. Expenditure A/c (Disc. on Issue of Shares, etc.)
11. Transferring the balance left in Capital Reduction A/c to Capital Reserve	Capital Reduction A/c Dr. To Capital Reserve A/c
12. Variation in Shareholders' Rights without affecting Capital Reduction A/c **(Refer Note below)**	**Change** in Rate of Dividend for Preference Shares: (Old) % Cum. Pref. Share Capital A/c Dr. To (New) % Cum. Pref. Share Capital A/c **Conversion** from Cumulative to Non-Cumulative Pref.Shares: % Cum. Pref. Share Capital A/c Dr. To ... % Non-Cum. Pref. Share Capital A/c
13. Conversion of Fully Paid Shares into Stock, or vice-versa **(Refer Note below)**	Conversion of shares into Stock: Equity Share Capital (Rs. each) Dr. To Equity Stock A/c **Re-conversion of Stock into Stock:** Equity Stock A/c Dr. To Equity Share Capital (Rs. each)
14. Sub-Division and Consolidation of Shares **(Refer Note below)** (say Rs. 100 Share divided into 10 Shares of Rs. 10 each)	Equity Share Capital (Rs. 100 each) Dr. To Equity Share Capital (Rs. 10 each)

Other Points:

- A Certified Copy of Court / NCLT's Order approving the Scheme and Minutes must be filed with. the ROC.
- While preparing the Balance Sheet of a Capital Reduction A/c Company, the words "and Reduced" should be added only if the Court / NCLT directs so.
- The amount written off against Fixed Assets under the scheme of Capital Reduction A/c should be shown for a period of five years in accordance with Schedule VI Disclosure Requirements.

Notes : The following **alterations** can be done without affecting Capital Reduction A/c –

Variation in Shareholders' Rights	● When a Company has issued different classes of Shares with different rights or privileges attached to such Shares, e.g. Rights as to Dividend, Voting Rights, etc. any of such rights may be changed in any manner. ● Some examples for change in rights are - (a) change in rate of dividend on Preference Shares, or (b) conversion of Cumulative Preference Shares into Non-Cumulative Preference Shares without changing the amount of Share Capital.
Conversion of Fully Paid Shares into Stock, or vice-versa	● Stock is the aggregate of fully paid-up Shares of a Member, merged into one fund of equal value. ● A Company can convert its Fully Paid Shares into Stock [Sec.94(c)], by a resolution passed in General Meeting. ● Stock can be divided into fractions of any amount. Any part of the Fund can be transferred. However, Companies may restrict the transfer of stock to multiples of, say, Rs. 100. ● Upon the Company converting its Shares into Stock, the book-keeping entries merely record the transfer from Share Capital A/c. A separate Stock Register is now maintained, in which details of Members' holdings are entered and the Annual Return is modified accordingly.
Sub-Division and **Consolidation of Shares**	● If authorised by its Articles, a Company may, in a General Meeting, by passing an Ordinary Resolution, decide to sub-divide or consolidate the share into those of a smaller or higher denomination than that fixed by the Memorandum of Association, so long as the proportion between the paid-up and unpaid amount, if any, on the Shares continues to be the same as it was in the case of the Original Shares.

PRACTICAL QUESTIONS – INTERNAL CAPITAL REDUCTION A/C

Points for Consideration:

- The A/c Head "Capital Reduction A/c" is used in most of the Illustrations, since the Scheme involves sacrifices by Shareholders / Lenders / Creditors, etc.
- Unless otherwise specified, it is assumed that reduction in Share Capital, involves both Nominal and Paid-up Value.
- It is assumed that the Court / NCLT directs that the words "and Reduced" be added to the B/Sheet.

Illustration 1: Internal Capital Reduction A/c – Journal Entries

The Paid-Up Capital of Arjuna Ltd. amounted to Rs. 2,50,000 consisting of 25,000 Equity Shares of Rs. 10 each. Due to losses incurred by the Company continuously, the Directors of the Company prepared a scheme for Capital Reduction A/c which was duly approved. The terms of Capital Reduction A/c were as under –

(i) In lieu of their present holdings, the Shareholders are to receive:
  (a) Fully paid Equity Shares equal to 2/5th of their holding.
  (b) 5% Preference Shares fully paid-up to the extent of 20% of the above new Equity shares.
  (c) 3,000, 6% Second Debentures oft 10 each.

(ii) An Issue of 000, 5% First Debentures of Rs. 10 each was made and fully subscribed in cash.

(iii) The assets were reduced as follows –
  (a) Goodwill from Rs. 1,50,000 to Rs. 75,000.
  (b) Machinery from Rs. 50,000 to Rs. 37,500.
  (c) Leasehold Premises from Rs. 75,000 to Rs. 62,500.

Show the Journal Entries to give effect to the above scheme of Capital Reduction A/c.

Solution: **Journal Entries in the books of Arjuna Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Old) A/c Dr,	2,50,000	—
	To Equity Share Capital (New) A/c (2/5th of Rs. 2,50,000)		1,00,000
	To 5% Preference Share Capital A/c (20% of Rs. 1,00,000)		20,000
	To 6% Second Debentures A/c		30,000
	To Capital Reduction A/c		1,00,000
	(Being conversion of 25,000 Equity Shares, and balance transferred to Capital Reduction A/c as per approved Scheme of Capital Reduction A/c dated.....)		
2.	Bank A/c Dr.	25,000	
	To 5% First Debentures A/c		25,000
	(Being issue of Rs. 25,000, 5% First Debentures for cash as per approved Scheme of Capital Reduction A/c dated.....)		
3.	Capital Reduction A/c Dr.	1,00,000	
	To Goodwill A/c		75,000
	To Plant & Machinery A/c		12,500
	To Leasehold Premises A/c		12,500
	(Being Assets written down as per approved Scheme of Capital Reduction A/c dated		

Illustration 2: Internal Capital Reduction A/c – Journal Entries

The following scheme of Capital Reduction A/c has been approved for Bheema Limited –

(i) The Shareholders to receive in lieu of their present holding at 1,00,000 Shares oft 10 each the following:
   (a) New fully paid Rs. 10 Equity shares equal to 3/5th of their holding.
   (b) 10% Preference Shares fully paid to the extent of 1/5th of the above new Equity Shares.
   (c) Rs. 40,000, 8% Debentures.
   (d) An Issue of Rs. 1 Lakh 10% First Debentures was made and allotted, payment for the same being received in cash forthwith.
   (e) Goodwill which stood at Rs. 1,40,000 was completely written off.
   (f) Plant arid Machinery which stood at Rs. 2,00,000 was written down to Rs. 1,60,000
   (g) Freehold Property which stood at Rs. 1,50,000 was written down by Rs. 50,000

   You am required to draw up necessary Journal entries in the books of Bheema Limited for the above Capital Reduction A/c.

Solution: **Journal Entries In the books of Bheema Limited**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Old) A/c Dr. To Equity Share Capital (New) A/c (Rs. 10,00,000 x 3/5) To 10% Preference Shares A/c (Rs. 6,00,000 x 1/5) To 8% Debentures A/c To Capital Reduction A/c (Being 1,00,000 existing Equity Shares of Rs. 10 each reduced to 60,000 fully paid Equity Shares of Rs. 10 each, 10% Preference Shares to the extent of 1/5 th of New Equity Shares and 8% Debentures for Rs. 40,000 vide approved scheme of Capital Reduction A/c dated.. and balance credited to Capital Reduction A/c)	10,00,000	 6,00,00 1,20,000 40,000 2,40,000
2.	Cash A/c Dr. To 10% First Debentures A/c (Being issue of 10% First Debentures worh Rs. 1,00,000 against Cash vide approved scheme of Capital Reduction A/c dated.....)	1,00,000	 1,00,000
3.	Capital Reduction A/c Dr. To Goodwill A/c (Being Goodwill written off vide approved Scheme of Capital Reduction A/c dated)	1,40,000	 1,40,000
4.	Capital Reduction A/c Dr. To Plant and Machinery A/c (Being value of Plant and Machinery written down from Rs. 2,00,000 to Rs. 1,50,600 vide approved scheme of Capital Reduction A/c dated.....)	50,000	 50,000
5.	Capital Reduction A/c To Freehold Property A/c (Being value of Freehold Property written down by Rs. 50,000 vide approved scheme of Capital Reduction A/c dated.....)	Dr. 50,000	 50,000

Illustration 3: Internal Capital Reduction A/c – Journal Entries

Following is the Balance Sheet of Chandru Ltd. as at 31st March, 2014:

Liabilities	Rs.	Assets	Rs.
15,000 10% Preference Shares of Rs. 100 each	15,00,000	Goodwill	3,50,000
35,000 Equity Shares of Rs. 100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium	1,00,000	Plant & Machinery	10,00,000
7% Debentures of Rs. 100 Each	5,00,000	Stock	6,00,000
Creditors	12,50,000	Debtors	15,00,000
Loan from Director	1,50,000	Cash at Bank	1,00,000
		Preliminary Expenses	4,00,000
		Profit & Loss A/c	15,50, 000
Total	**70,00,000**	**Total**	**70,00,000**

No dividend on Preference Shares has been paid for the last 5 years.

The following scheme of reorganisation was duly approved by the Court:

1. Each Equity Share to be reduced to Rs. 25.
2. Each existing Preference Share to be reduced to Rs. 75, and then exchanged for 1 new 13% Preference Share of Rs. 50 each and 1 Equity Share of Rs. 25 each.
3. Preference Shareholders have foregone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in Fully Paid Equity Shares of Rs. 25 each.
4. Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of Rs. 50 each issued at par. One half (in value) of the Debentureholders accepted Preference Shares for their claims. The rest were paid cash.
5. Contingent Liability of Rs. 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the Loan given by the Director to the Company.
6. Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Stock and Debtors by Rs. 4,00,000, Rs. 1,00,000 and Rs. 1,50,000 respectively. Increase the value of Land and Buildings to Rs. 13,00,000.
7. 40,000 New Equity Shares of Rs. 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.
8. Expenses incurred by the Company for the Scheme, excluding Underwriting Commission amounted to Rs. 15,000.

Pass necessary Journal Entries to record the above transactions.

Solution: **Journal Entries in the books of Chandru Ltd.**

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 100) A/c	Dr.	35,00,000	
	To Equity Share Capital (Rs. 25) A/c			8,75,000
	To Capital Reduction A/c			26,25,000
	(Being Equity Shares of Rs. 100 each reduced to 25 each, and balance transferred to Capital Reduction A/c, as per approved Scheme of Capital Reduction A/c dated.....)			
2.	10% Preference Share Capital (Rs. 100) A/c	Dr.	15,00,000	
	To 10% Preference Share Capital (Rs. 75) A/c			11,25,000
	To Capital Reduction A/c			3,75,000
	(Being Preference Shares of Rs. 100 each reduced to Rs. 75 and balance transferred to Capital Reduction A/c as per approved Scheme of Capital Reduction A/c dated.....)			
3.	10% Preference Share Capital (Rs. 75) A/c	Dr.	11,25,000	
	To 13% Preference Share Capital (Rs. 50) A/c			7,50,000
	To Equity Share Capital (Rs. 25) A/c			3,75,000
	(Being one new 13% Preference Share of Rs. 50 each and one Equity Share of Rs. 25 each issued against 10% Preference Share of Rs. 75 each)			
4.	Capital Reduction A/c	Dr.	1,50,000	
	To Preference Dividend Payable (10%) A/c			1,50,000
	(Being arrear of Dividend on Preference Shares payable for one year)			
5.	Preference Dividend Payable (10%) A/c	Dr.	1,50,000	
	To Equity Share Capital (Rs. 25) A/c			1,50,000
	(Being Equity Shares of Rs. 25 each issued for arrears of Pref. Share Dividend)			

6.	7% Debentures A/c Dr. To Debentureholders A/c (Being balance of 7% Debentures transferred to Debentureholders A/c)	5,00,000	 5,00,000
7.	Debentureholders A/c Dr. To 13% Preference Share Capital (Rs. 50) A/c To Bank A/c To Capital Reduction A/c (Being 50% of Debentureholders opting to take 13% Preference Shares at par, and remaining Debentureholders taking 90% cash payment for their Claims.)	5,00,000	 2,50,000 2,25,000 25,000
8.	Loan from Director A/c Dr. To Provision for Contingent Liability A/c (Being Contingent Liability of Rs. 1,50,000 pble, adjusted against Loan from- Director)	1,50,000	 1,50,000
9.	Bank A/c Dr. To Equity Share Application & Allotment A/c (Being application money received on the 40,000 Equity Shares at Rs. 25 each)	10,00,000	 10,00,000
10.	Equity Share Application & Allotment A/c Dr. To Equity Share Capital (Rs. 25) A/c (Being Application Money transferred to Equity Capital A/c, on allotment)	10,00,000	 10,00,000
11.	Underwriting Commission A/c Dr. To Bank A/c (Being Underwriting Commission paid)	40,000	 40,000
12.	Land and Buildings A/c Dr. To Capital Reduction A/c (Being value of Land and Buildings appreciated)	3,00,000	 3,00,000
13.	Capital Reduction A/c Dr. To Bank A/c (Being payment of expenses on Capital Reduction A/c)	15,000	 15,000
14.	Capital Reduction A/c Dr. To Goodwill A/c To Plant and Machinery A/c To Stock A/c To Debtors A/c To Preliminary Expenses A/c 1 To Profit & Loss A/c To Expenses on Capital Reduction A/c To Underwriting Commission A/c (Being various losses / intangible items written off using Capital Reduction A/c, as per approved Scheme of Capital Reduction A/c dated	30,05,000	 .330,000 4,00,000 1,00,000 1,50,000 4,00,000 15,50,000 15,000 40,000
15.	Capital Reduction A/c Dr. To Capital Reserve A/c **(See Capital Reduction A/c below)** (Being balance in Capital Reduction A/c transferred to Capital Reserve)	1,55,000	 1,55,000

Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Preference Dividend Payable (10%) A/c	1,50,000	By Equity Share Capital (Rs. 100) A/c	26,25,00.0
To Bank (Expenses on Capital Reduction A/c)	15,000	By 10% Preference Share Capital (Rs. 100) A/c	3,75,000
To Goodwill- A/c	3,50,000	By Debentureholders A/c	25,000
To Plant and Machinery A/c	4,00,000	By Land and Buildings A/c	3,00,000
To Stock A/c	1,00,000		
To Debtors A/c	1,50,000		
To Preliminary Expenses A/c	4,00,000		
To Profit & Loss A/c	15,50,000		
To Expenses on Capital Reduction A/c	15,000		
To Underwriting Commission A/c	40,000		
To Capital Reserve A/c (balancing figure)	55,000		
Total	**33,25,000**	**Total**	**33,25,000**

Note: Capital Reduction A/c is prepared for clarification of Journal Entries, and computing the amount transferred to Capital Reserve.

Illustration 4: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

The following is the Balance Sheet of Dayalan Ltd. as at 31st March –

Liabilities	Rs.	Assets	Rs.
Share Capital:		Plant and Machinery Assets	9,00,000
2,00,000 Equity Shares of Rs. 10 each fully paid-up	20,00,000	Furniture and Fixtures	2,50,000
6,000 8% Preference Shares of Rs. 100 each	6,00,000	Patents and Copyrights	70,000
9% Debentures	12,00,000	Investments (at Cost) (Market Value Rs. 55,000)	68,000
Bank Overdraft	1,50,000	Stock	14,00,000
Sundry Creditors	5,92,000	Sundry Debtors	14,39,000
		Cash and Bank Balances	10,000
		Profit and Loss A/c	4,05,000
Total	**45,42,000**	**Total**	**45,42,000**

The following scheme of Capital Reduction A/c was finalised:

1. Preference Shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.
2. Debentureholders having charge on Plant & Machinery, would accept Plant & Machinery in full settlement of their dues.
3. Stock equal to Rs. 5,00,000 In Book Value will be taken over by Sundry Creditors in full settlement of their dues.
4. Investment Value to be reduced to Market Price.
5. The Company would issue 11% Debentures for Rs. 3,00,000 and augment its Working Capital requirement, after settlement of Bank Overdraft.

Pass necessary Journal Entries, prepare Capital Reduction A/c and Balance Sheet of the Company after internal Capital Reduction A/c.

Solution: **1. Journal Entries in the books of Dayalan Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Preference Share Capital A/c Dr. To Capital Reduction A/c (30% of 6,00,000) To 11% Debentures A/c (Being Debentures issued to Preference Shareholders, and part amount given. up by Preference Shareholders, as per approved Scheme of Capital Reduction A/c dated.....)	6,00,000	 1,80,000 4,20,000
2.	9% Debentures A/c Dr. To Plant and Machinery A/c To Capital Reduction A/c (Being Debentureholders accepting Plant and Machinery in full satisfaction of their claim, approved Scheme of Capital Reduction A/c dated.....)	12,00,000	 9,00,000 3,00,000
3.	Sundry Creditors A/c Dr. To Stock To Capital Reduction A/c (Being part of Stock taken over for the claims of Sundry Creditors, in full settlement of claim, approved Scheme of Capital Reduction A/c dated	5,92,000	 5,00,000 92,000
4.	Capital Reduction A/c Dr. To Investments a/c (Being Investments written down to Market Value)	13,000	 13,000
5.	Bank a/c Dr. To 11% Debentures a/c (Being 11% Debentures issued to public, for Rs. 3,00,000 at pay [assumed])	3,00,000	 3,00,000
6.	Bank Overdraft A/c Dr. To Bank A/c (Being Bank Overdraft settled under approved Scheme of Capital Reduction A/c dated.....)	1,50,000	 1,50,000
7.	Capital Reduction A/c Dr. To Profit and Loss a/c To Patents a/c To Capital Reserve a/c (WN 2) (Being balance in Capital Reduction A/c used to write off Intangible Assets and balance transferred to Capital Reserve A/c)	5,59,000	 4,05,000 70,000 84,000

2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Investments A/c	13,000	By Preference Share Capital A/c	1,80,000
To Profit and Loss A/c	4,05,000	By 9% Debentures A/c	3,00,000
To Patents & Copyrights	70,000	By Creditors	92,000
To Capital Reserve a/c **(balancing figure)**	**84,000**		
Total	**5,72,000**	**Total**	**5,72,000**

3. Cash and Bank A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	10,000	By Bank Overdraft A/c	1,50,000
To 11% Debentures A/c	3,00,000	By balance c/d	1,60,000
Total	**3,10,000**	**Total**	**3,10,000**

4. Balance Sheet of Dayalan Ltd. (and Reduced) as on 31st March

	Particulars as at 31st March	Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	B-1	20,00,000	
	(b) Reserves and Surplus – Capital Reserve (WN 2)		34,000	
(2)	**Non--Current Liabilities:**			
	Long Term Borrowings	B-2	7,20,000	
	Total		**28,04,000**	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: Tangible Assets – Furniture & Fixtures		2,50,000	
	(b) Non-Current Investments – Cost Rs. 68,000, but taken at Market Value		55,000	
(2)	**Current Assets:**			
	(a) Inventories – Stock-win-Trade		9,00,000	
	(b) Trade Receivables – Sundry Debtors		14,39,000	
	(c) Cash and Cash Equivalents (WN 3)		1,60,000	
	Total		**28,04,000**	

Schedule B-1: Share Capital

Particulars		This Year	Prev. Yr.
Authorised:	.....Equity Shares of Rs... each		
Issued, Subscribed & Paid-up:	2,00,000 Equity Shares of Rs. 10 each	20,00,000	
Total		**20,00,000**	

Schedule B-2: Long Term Borrowings

Particulars	This Year	Prev. Yr.
11% Debentures of Rs. 100 each (assumed as secured) (Of the above 4200 Debentures issued by converting Preference Shares into Debentures)	**7,20,000**	
Total	**7,20,000**	

Illustration 5: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

The Balance Sheet of Enkan Ltd. as on 31st March is given below –

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each fully paid (80,000 Shares)	8,00,000	Freehold Property	5,00,000
6% Cumulative Pref. Shares of 100 each fully paid	5,00,000	Plant and Machinery	180,000
6% Debentures (Secured by Freehold Property)	3,75,000	Trade Investment (at Cost)	1,70,000
Arrears of Interest on Debentures	22,500	Sundry Debtors	4,50,000
Sundry Creditors	17,500	Stock in Trade	2,00,000
Directors' Loan	3,00,000	Deferred Advertisement Expenditure	1,50,000
		Profit and Loss A/c	3,65,000
Total	**20,15,000**	**Total**	**20,15,000**

The Court approved a scheme of Reorganisation to take effect on 1st April, and the terms are given below–

(a) Preference Shares are to be written down to Rs. 75 each and Equity Shares to Rs. 2 each.

(b) Preference Dividend in arrear for 4 years to be waived by 75% & for the balance Equity Shares of Rs. 2 each to be allotted.

(c) Arrear of Debenture Interest to be paid in Cash.

(d) Debentureholders agreed to take one Freehold Property (Book Value Rs. 3,00,000), at a valuation of Rs. 3,00,000, in part payment of their holding. Balance Debentures to remain as Liability of the Company.

(e) Deferred Advertisement Expenditure to be written off.

(f) Stock Value to be written off fully in the Books.

(g) 50% of the Sundry Debtors to be written off as Bad Debt.

(h) Remaining Freehold Property (after take over by Debentureholders) to be valued at Rs. 3,50,000. investments sold out for Rs. 2,00,000. 80% of the Director's Loan to be waived and for the balance Equity Shares of Rs. 2 each to be issued.

(i) Company's contractual commitments amounting to Rs. 5,00,000 to be cancelled by paying penalty at 3% of Contract Value.

(j) Cost of Capital Reduction A/c Scheme is Rs. 20,000.

Show the Journal entries (with narration) to be passed for giving effect to the above transactions and draw the Balance Sheet of the Company after effecting the Scheme.

Solution: It is assumed the Nominal Value and Paid-up Value of Equity Shares and Preference Shares are reduced to Rs. 2 and Rs. 75 respectively, with appropriate adjustment in the number of shares', to keep Authorised Capital intact.

1. Journal Entries in the books of Enkan Ltd.

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10) A/c Dr. To Equity Share Capital (Rs. 2) A/c To Capital Reduction A/c (Being reduction in value of Equity Shares of Rs. 10 each to Rs. 2 each as per approved scheme of Capital Reduction A/c dated ...)	8,00,000	 1,60,000 6,40,000
2.	6% Preference Share Capital (Rs. 100) A/c Dr. To Preference Share Capital (Rs. 75) A/c To Capital Reduction A/c (Being reduction in value of Preference Shares of Rs. 100 each to Rs. 75 each as per approved scheme of Capital Reduction A/c dated	5,00,000	 3,75,000 1,25,000
3,	Capital Reduction A/c Dr. To Equity Share Capital (Rs. 2) A/c (Being waiver of Arrears of Preference Dividend, amounting to Rs. 90,000 (5,00,000 x 6% x 4 Years x 75% waived) and for the balance Rs. 30,000 (5,00,000 x 6% x 4 Years x 25%) 15,000 Equity Shares of Rs. 2 allotted, as per approved scheme of Capital Reduction A/c dated ....)	30,000	 30,000
4.	Arrears of Debentures Interest A/c Dr. To Cash / Bank A/c (Being payment of Debenture Interest Arrears in cash, as per approved scheme of Capital Reduction A/c dated ...)	22,500	 22,500
5.	6% Debentures A/c Dr. To Freehold Property A/c (Being transfer of title deed on Freehold Property to Debentureholders of the Company, in part settlement, as per approved scheme of Capital Reduction A/c dated)	3,00,000	 3,00,000
6.	Freehold Property A/c [3,50,000 – (5,00,000 – 3,00,000)] Dr. To Capital Reduction A/c (Being Revaluation of Freehold Property, as per scheme of Capital Reduction A/c dated	1,50,000	 1,50,000
7.	Bank A/c Dr. To Investments A/c To Capital Reduction A/c (Being Sale of Investments as per approved Capital Reduction A/c scheme of dated	2,00,000	 1,70,000 30,000
8.	Directors' Loan A/c Dr. To Equity Share Capital A/c (Rs. 2 each) To Capital Reduction A/c (3,00,000 x 80%) (Being Directors' Loan claim settled at 20% by issuing 30,000 Equity Shares of Rs. 2 each and the balance 80% being waived as per approved scheme of Capital Reduction A/c dated....)	3,00,000	 60,000 2,40,000
9.	Capital Reduction A/c Dr. To Bank A/c (Being payment of Capital Commitment Penalty of Rs. 15,000 (3% of Rs. 5,00,000) as per approved scheme of Capital Reduction A/c dated)	15,000	 15,000

10.	Capital Reduction A/c Dr. To Bank A/c (Being payment of Capital Reduction A/c Expenses Rs. 20,000)	20,000	 20,000
11.	Capital Reduction A/c Dr. To Stock in Trade A/c To Deferred Advertisement Expenditure A/c To Debtors A/c (4,50,000 x 50%) To Profit and Loss A/c (Being writing off of losses and reduction in the value of assets as per approved scheme of Capital Reduction A/c dated	9,40,000	 2,00,000 1,50,000 2,25,000 3,65,000
12.	Capital Reduction A/c Dr. To Capital Reserve A/c (Being balance in Capital Reduction A/c transferred to Capital Reserve - WN - 1)	1,80,000	 1,80,000

2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Bank A/c (Expenses of Capital Reduction A/c)	20,000	By Equity Share Capital A/c	6,40,000
To Bank A/c (Penalty paid)	15,000	By 9% Preference Share Capital A/c	1,25,000
To Equity Share Capital A/c (for Pref Dvnd)	30,000	By Freehold Property A/c	1,50,000
To Stock in Trade A/c	2,00,000	By Bank A/c (Profit on Sale of Investments)	30,000
To Deferred Advt Expenditure A/c	1,50,000	By Directors' Loan Outstanding	2,40,000
To Debtors A/c	2,25,000		
To Profit and Loss A/c	3,65,000		
To Capital Reserve a/c (balancing figure)	1,80,000		
Total	**11,85,000**	**Total**	**11,85,000**

3. Bank Account

Particulars	Rs.	Particulars	Rs.
To Investment A/c	1,70,000	By Debenture Interest	22,500
To Capital Reduction A/c - Profit on Sale	30,000	By Capital Reduction A/c (Expenses)	20,000
		By Capital Reduction A/c (Penalty)	15,000
		By balance c/d (balancing figure)	1,42,500
Total	**2,00,000**	**Total**	**2,00,000**

4. Balance Sheet of Enkan Ltd. (and reduced) as at 1st April

	Particulars as at 31st March		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		B-1	6,25,000	
	(b) Reserves and Surplus	– Capital Reserve (WN 2)		1,80,000	
(2)	**Non-Current Liabilities:**				
	Long Term Borrowings	– 6% Debentures (Secured against Freehold Property)		75,000	
(3)	**Current Liabilities:**				
	Trade Payables	– Sundry Creditors		17,500	
	Total			**8,97,500**	
II	**ASSETS**				
(1)	**Non-Current Assets**				
	Fixed Assets: Tangible Assets		B-2	5,30,000	
(2)	**Current Assets:**				
	(a) Trade Receivables	– Sundry Debtors (Balance 50%)		2,25,000	
	(b) Cash and Cash Equivalents	(WN 3)		1,42,500	
	Total			**8,97,500**	

Schedule B-1: Share Capital

Particulars		This Year	Prev. Yr.
Authorised:..... Equity Shares of Rs. 2 each &..... 6% Preference Shares of Rs. 75 each			
Issued, Subscribed & Paid-up:	1,25,000 Equity Shares of Rs. 2 each	2,50,000	
	5,000 6% Preference Shares of Rs. 75 each	3,75,000	
Total		**6,25,000**	

Schedule B-2: Tangible Assets

Particulars		This Year	Prev. Yr.
(a)	Freehold Property (Cost Rs. 2,00,000 revalued under Scheme of Capital Reduction A/c)	3,50,000	
(b)	Plant & Machinery	1,80,000	
Total		**5,30,000**	

Illustration 6: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

The Balance Sheet of Malini Ltd. as on 31st March is given below:

Liabilities		Rs.	Assets	Rs.
1,00,000 Equity Shares of Rs. 10 each fully paid-up		10,00,000	Freehold Property	5,50,000
4,000, 8% Preference Shares of Rs. 100 each fully paid		4,00,000	Plant and Machinery	2,00,000
6% Debentures (secured by Freehold Property)	4,00,000		Trade Investments (at cost)	2,00,000
Add: Arrear Interest	24,000	4,24,000	Sundry Debtors	4,50,000
Sundry Creditors		1,01,000	Stock-in-Trade	3,00,000
Director's Loan		3,00,000	Deferred Advertisement Expenses	50,000
			Profit and Loss Account	4,75,000
Total		**22,25,000**	**Total**	**22,25,000**

The Board of Directors of the Company decided upon the following Scheme of Capital Reduction A/c with the consent of respective Stakeholders:

1. Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.
2. Pref. Dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.
3. Debentureholders agreed to take one Freehold Property at its Book Value of Rs. 3,00,000 in part payment of their holding. Balance Debentures to remain as liability of the Company.
4. Arrear Debenture Interest to be paid in cash.
5. Remaining Freehold Property to be valued at Rs. 4,00,000.
6. Investment sold out for Rs. 2,50,000.
7. 75% of Directors Loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allotted.
8. 40% of Sundry Debtors, 80% of Stock and 100% of Deferred Advertisement Expenses to be written off.
9. Company's Contractual Commitments amounting to Rs. 6,00,000 have been settled by paying 5% Penalty of Contract Value.

Show the Journal Entries for giving effect to the Internal Capital Reduction A/c and draw the Balance Sheet of the Company after affecting the scheme.

Solution: **1. Journal Entries in the books of Malini Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	8% Preference Share Capital (Rs. 100) A/c Dr. To 8% Preference Share Capital (Rs. 80) A/c To Capital Reduction A/c (Being 8% Preference Shares written down to Rs. 80 each vide approved Scheme of Capital Reduction A/c dated.....)	4,00,000	 3,20,000 80,000
2.	Equity Share Capital (Rs. 10) A/c Dr. To Equity Share Capital (Rs. 2) A/c To Capital Reduction A/c (Being Equity Shares written down to Rs. 2 each vide approved Scheme of Capital Reduction A/c dated	10,00,000	 2,00,000 8,00,000
3.	Capital Reduction A/c Dr. To Equity Share Capital (Rs. 2) A/c (Being arrears of Preference Dividend Rs. 96,000 waived to 2/3rd extent, balance settled by issue of 16,000 Equity Shares of Rs. 2 each)	32,000	 32,000
4.	6% Debentures A/c Dr. To Freehold Property (Being Freehold Property taken over by 6% Debentureholders in part payment)	3,00,000	 3,00,000
5.	Arrears of Debenture Interest A/c Dr. To Bank A/c (Being Arrears of Debenture Interest paid immediately by Cash / Bank)	24,010	 24,000
6.	Freehold Property A/c Dr. To Capital Reduction A/c (Being remaining Freehold Property revalued) [5,50,000 – 3,00,000] = 2,50,000, Increase in Value = Rs. 4,00,000 – 2,50,000 = Rs. 1,50,000	1,50,000	 1,50,000
7.	Bank A/c Dr. To Trade Investments A/c To Capital Reduction A/c (Being Trade Investments sold at a profit of Rs. 50,000)	2,50,000	 2,00,000 50,000

8.	Directors' Loan A/c Dr. To Capital Reduction A/c To Equity Share Capital (Rs. 2) A/c (Being Directors Loan waived to an extent of 75% and for the balance Equity Shares of Rs. 2 each issued, Number of Shares = 37,500)	3,00,000	 2,25,000 75,000
9.	Capital Reduction A/c Dr. To Sundry Debtors A/c To Stock A/c To Deferred Advertisement Expenditure A/c To Profit and Loss A/c (Being Sundry Debtors, Stock, Deferred Advertisement Expenses and Debit Balance of Profit and Loss A/c written off under Capital Reduction A/c Scheme)	9,45,000	 1,80,000 2,40,000 50,000 4,75,000
10.	Capital Reduction A/c Dr. To Bank A/c (Being 5% Penalty towards Contractual Commitments paid)	30,000	 30,00-0
11.	Capital Reduction A/c Dr. To Capital Reserve A/c (WN 2) (Being balance in Capital Reduction A/c credited to Capital Reserve)	2,98,000	 2,98,000

2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Bank (Penalty Paid)	30,000	By 8% Preference Shares (reduction)	80,000
To Sundry Debtors (written off)	1,80,000	By Equity Share Capital A/c (reduction)	8,00,000
To Equity Share Capital (Arrears of Dvnd)	32,000	By Freehold Property A/c (revaluation)	1,50,000
To Stock (written off)	2,40,000	By Trade Investments (Profit on Sale)	50,000
To Deferred Advertisement Exps (written off)	50,000	By Director's Loan (Waiver)	2,25,000
To Profit & Loss A/c (written off)	4,75,000		
To Capital Reserve **(halancing figure)**	**2,98,000**		
Total	**13,05,000**	**Total**	**13,05,000**

3. Bank A/c

Particulars	Rs.	Particulars	Rs.
To Trade Investments (Sale Proceeds)	2,50,000	By Arrears of Debenture Interest	24,000
		By Capital Reduction A/c - Penalty paid	30,000
		By balance c/d **'balancing figure)**	**1,96,000**
Total **2,50,000**		**Total**	**2,50,000**

4. Balance Sheet of Malini Ltd. (and reduced) as on 31st March (after Capital Reduction A/c)

	Particulars as at 31st March		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		B-1	6,27,000	
	(b) Reserves and Surplus	– Capital Reserve		2,98,000	
(2)	**Non-Current Liabilities:**				
	Long Term Borrowings 6% Debentures				
	(Secured against Freehold Property)			1,00,000	
(3)	**Current Liabilities:**	– Trade Payables (Sundry Creditors)		1,01,000	
	Total			**11,26,000**	
II	**ASSETS**				
(1)	**Non-Current Assets**	Fixed Assets: Tangible Assets	B-2	6,00,000	
(2)	**Current Assets:**				
	(a) Current Investments				
	(b) Inventories	– Stock-in-Trade (3,00,000 – 80%)		60,000	
	(c) Trade Receivables	– Sundry Debtors (4,50,000 – 40%)		2,70,000	
	(d) Cash and Cash Equivalents	(WN 3)		1,96,000	
	Total			**11,26,000**	

Schedule B-1: Share Capital

Particulars		This Year	Prev. Yr.
Authorised:	..... Equity Shares of Rs. 2 each		
	..... Preference Shares of Rs. 80 each		
Issued, Subscribed & Paid-up:	1,53,500 Equity Shares of Rs. 2 each	3,07,000	
	4,000 8% Preference Shares of Rs. 80 each	3,20,000	
Total		**6,27,000**	

Number of Equity Shares = Given 1,00,000 + Pref Dividend Arrears 16,000 4 Directors 37,5001,53,500 Shares.

Schedule B2: Tangible Assets

Particulars	This Year	Prev. Yr.
(a) Freehold Property (Net Book Value 2,50,000 + under Capital Reduction A/c 1,50,000)	4,00,000	
(b) Plant & Machinery	2,00,000	
Total	**6,00,000**	

Illustration 7: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

The following is the Balance Sheet of Garuda Limited as on 31st March.

Liabilities	Rs.	Assets	Rs.
12,000, 10% Preference Shares of Rs. 100 each	12,00,000	Goodwill	90,000
24,000 Equity Shares of Rs. 100 each	24,00,000	Land & Building	12,00,000
10% Debentures	6,00:000	Plant & Machinery	18,00,000
Bank Overdraft	6,00,000	Stock	2,60,000
Sundry Creditors	3,00,000	Debtors	2,80,000
		Cash	30,000
		P&L A/c	14,00,000
		Preliminary Expenses	40,000
Total	**51,00,000**	**Total**	**51,00,000**

On the above date, the Company adopted the following scheme of Capital Reduction A/c:

(a) Equity Shares to be reduced to Rs. 40 each fully paid, and Preference Shares to be reduced to fully paid Shares of Rs. 76 each.

(b) Debentureholders took over Stock and Debtors in full satisfaction of their claims.

(c) Land and Building to be appreciated by 30% and Plant and Machinery to be depreciated by 30%.

(d) Fictitious and Intangible Assets are to be eliminated. Expenses of Capital Reduction A/c amounted to Rs. 5,000.

Give Journal Entries incorporating the above scheme of Capital Reduction A/c, and prepare the reconstructed Balance Sheet.

Solution: **1. Journal Entries in the books of Garuda Ltd.**

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c (Rs. 100)	Dr.	24,00,000	
	To Equity Share Capital A/c (Rs. 40)			9,60,000
	To Capital Reduction A/c			14,40,000
	(Being Equity Shares reduced to Rs. 40 each as per scheme of Capital Reduction A/c dated.....)			
2.	Preference Share Capital A/c (Rs. 100)	Dr.	12,00,000	
	To Preference Share Capital A/c (Rs. 75)			9,00,000
	To Capital Reduction A/c			3,00,000
	(Being Preference Shares reduced to Rs. 75 each as per scheme of Capital Reduction A/c dated.....)			
3.	10% Debentures A/c	Dr.	6,00,000	
	To Stock A/c			2,60,000
	To Debtors A/c			2,80,000
	To Capital Reduction A/c			60,000
	(Being Debentureholders' Claim satisfied as per Scheme of Capital Reduction A/c)			
4.	Capital Reduction A/c (18,00,000 x 30%)	Dr.	5,40,000	
	To Plant and Machinery A/c			5,40,000
	(Being downward Revaluation of Plant & Machinery as per Scheme of Capital Reduction A/c)			

5.	Capital Reduction A/c Dr.	15,30,000	
	To Goodwill A/c		90,000
	To Preliminary Expenses A/c		40,000
	To P&L A/c		14,00,000
	(Being Intangible & Fictitious Assets written off as per Scheme of Capital Reduction A/c)		
6.	Land & Buildings A/c (Rs. 12,00,000 x 30%) Dr.	3,60,000	
	To Capital Reduction A/c		3,60,000
	(Being Upward Revaluation of Land &'Buildings as per Scheme of Capital Reduction A/c)		
7.	Capital Reduction A/c Dr.	5,000	
	To Bank A/c		5,000
	(Being Expenses on Capital Reduction A/c paid)		
8.	Capital Reduction A/c Dr.	85,000	
	To Capital Reserve A/c (WN 2)		85,000
	(Being balance in Capital Reduction A/c transferred to Capital Reserve A/c)		

2. Capital Reduction Account

Particulars	Rs.	Particulars	Rs.
To Plant and Machinery A/c	5,40,000	By Equity Share Capital A/c (Rs. 100)	14,40,000
To Goodwill A/c	90,000	By Preference Share Capital A/c (Rs. 100)	3,00,000
To Preliminary Expenses Eric	40,000	By 10% Debentures A/c	60,000
To P&L A/c	14,00,000	By Land & Buildings A/c	3,60,100
To Bank A/c (Expenses on Capital Reduction A/c)	5,000		
To Capital Reserve A/c (balancing figure)	85,000		
Total	**21,60,000**	**Total**	**21,60,000**

3. Balance Sheet of Garuda Ltd. (and reduced) as at 31st March

	Particulars as at 31st March		Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**				
	(a) Share Capital		B-1	18,60,000	
	(b) Reserves and Surplus	– Capital Reserve (WN 2)		85,000	
(3)	**Current Liabilities:**				
	(a) Short Term Borrowings	– Bank O/D		6,00,000	
	(b) Trade Payables	– Sundry Creditors		3,00,000	
	Total			**28,45,000**	
II	**ASSETS**				
(1)	**NonCurrent Assets**				
	Fixed Assets: Tangible Assets		B-2	28,20,000	
(2)	**Current Assets:**				
	Cash and Cash Equivalents	(30,000 – 5,000)		25,000	
	Total			**28,45,000**	

Schedule B1: Share Capital

Particulars		This Year	Prev. Yr.
Authorised: ..... Equity Shares of Rs. 40 each &.... Preference Shares of Rs. 75 each			
Issued, Subscribed & Paid-up:	24,000 Equity Shares of Rs. 40 each	9,60,000	
	12,000 10% Preference Shares of Rs. 75 each	9,00,000	
Total		**18,60,000**	

Schedule B2: Tangible Assets

Particulars		This Year	Prev. Yr.
(a) Land & Building	(Cost 12,00,000 + Increase on Capital Reduction A/c 3,60,000)	15,60,000	
(b) Plant & Machinery	(Cost 18,00,000 – Decrease on Capital Reduction A/c 5,40,000)	12,60,000	
Total		**28,20,000**	

Illustration 8: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

The summarised Assets and Liabilities position of Garuthman Ltd. as on 1st April was as follows:

Liabilities	Rs.	Assets	Rs.
Authorised Capital:		Goodwill	20,000
80,000 Equity Shares of Rs. 10 each	8,00,000	Land and Buildings	1,60,000
2,000 9% Preference Shares of Rs. 100 each	2,00,000	Plant and Machinery	1,20,000
Issued and Paid-up Capital:		Investments	24,000
40,000 Equity Shares of Rs. 10 each (Rs. 7.50 paid-up)	3,00,000	Stock	54,000
2,000 9% Preference Shares of Rs. 100 each fully paid	2,00,000	Debtors	1,18,000
Unsecured Loans	80,000	Cash in Hand	6,000
Trade Creditors	48,000	Profit and Loss Account	1,42,800
Bank Overdraft	16,800		
Total	**6,44,800**	**Total**	**6,44,800**

Notes: Dividend on Preference Shares has not been declared for 2 years.
No Provision has been made for Sales Tax Liability of Rs. 9,000.

The following Scheme of Capital Reduction A/c has been approved

1. Uncalled Capital is to be called up in full, and Equity Shares are to be reduced to Rs. 5 per Share.
2. Sales Tax Liability of I 9,000 is to be paid Immediately.
3. Land & Buildings are to be shown in the Balance Sheet at full Market Value of Rs. 2,20,000, and Goodwill is to be written off.
4.. Trade Creditors have consented for 25% of remission of liability, on a condition that 25% of the net liability after remission 14 paid forthwith and the balance is paid within one year.
5. Investments are to be taken over by Bank in full settlement of the Overdraft balance.
6. Preference Shareholders have agreed to give up their right for the two years dividend, and accept 12 fully paid Equity Shares of Rs. 5 each for each fully paid Preference Share.

Required:

(i) Pass necessary Journal Entries recording the above transactions, and

(ii) Draw up a fresh Balance Sheet after giving effect to the scheme of Capital Reduction A/c.

Solution: **1. Journal Entries in the books of Garuthman Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c Dr. To Equity Share Capital A/c (Being the amount of Final Call Money received on 40,000 Equity Shares at Rs. 2.50 per Share, credited to Share Capital A/c)	1,00,000	 1,00,000
2.	Equity Share Capital (Rs. 10) A/c Dr. To Equity Share Capital (Rs. 5) A/c To Capital Reduction A/c (Being 40,000 Equity Shares of Rs. 10 each fully paid reduced to 40,000 Equity Shares of Rs. 5 each fully paid vide approved scheme of Capital Reduction A/c dated balance credited to Capital Reduction A/c)	4,00,000	 2,00,000 2,00,000
3.	Land & Building A/c Dr. To Capital Reduction A/c (Being the appreciation in the value of Land & Buildings vide approved scheme of Capital Reduction A/c credited to Capital Reduction A/c) (2,20,000 – 1,60,000 = 60,000)	60,000	 60,000
4.	Capital Reduction A/c Dr. To Goodwill A/c To Profit & Loss A/c To Sales Tax Payable A/c (Being Goodwill & Dr. balance of P&L written off, Sales Tax Payable provided against Capital Reduction A/c vide approved scheme of Capital Reduction A/c dated.....)	1,71,800	 20,000 1,42,800 9,000
5.	Trade Creditors Dr. To Capital Reduction A/c (48,000 x 25%) To Bank A/c [25% of (48,000 12,000)] (Being the remission of Creditors' Liability credited to Capital Reduction A/c and amount immediately paid to Creditors Rs. 9,000 vide approved scheme of Capital Reduction A/c dated....)	21,000	 12,000 9,000
6.	Bank Overdraft A/c Dr. Capital Reduction A/c To Investments A/c (Being investments having Book Value of Rs. 24,000 given in discharge of Bank Overdraft of Rs. 16,800, the difference debited to Capital Reduction A/c)	16,800 7,200	 24,000
7.	9% Preference Share Capital A/c Dr. To Equity Share Capital (Rs. 5) A/c To Capital Reduction A/c (Being the allotment to 9% Pref. Shareholders of 2,000 x 12 Equity Shares of Rs. 5 each = Rs. 1,20,000, balance transferred to Capital Reduction A/c) **Note:** Preference Dividend for the past two years is not recorded in the Books. Hence, no entry is required for its waiver.	2,00,000	 1,20,000 80,000
8.	Sales Tax Payable Dr. To Bank A/c (Being amount paid against Sales Tax Payable in final settlement)	9,000	 9,000
9.	Capital Reduction A/c Dr. To Capital Reserve A/c (WN 2) (Being the balance in Capital Reduction A/c transferred to Capital Reserve)	1,73,000	 1,73,000

2. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Goodwill (written off)	20,000	By Equity Share Capital A/c (Reduction)	2,00,000
To Profit & Loss A/c (written off)	1,42,800	By Land & Building (Appreciation in Value)	6.01000
To Sales Tax Payable A/c (recorded)	9,000	By Trade Creditors (Remission of Liability)	12,000
To Investments (Loss on takeover by Bank)	1 7,200	By Preference Share Capital (Sacrifice)	80,000
To Capital Reserve (balancing figure)	1,73,000		
Total	**3,52,000**	**Total**	**3,52,000**

3. Cash / Bank Account

Receipts	Rs.	Payments	Rs.
To balance b/d	6,000	By Trade Creditors (25% settled)	9,000
To Equity Share Capital Call money	1,00,000	By Sales Tax Payable (amount paid)	9,000
		By balance c/d (Balancing Figure)	88,000
Total	**1,06,000**	**Total**	**1,06,000**

4. Balance Sheet of Garuthman Ltd. (and Reduced) as on 1st April (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	(a) Share Capital	B-1	3,20,000
	(b) Reserves and Surplus – Capital Reserve (WN 2)		1,73,000
(2)	**NonCurrent Liabilities:**		
	Long Term Borrowings – Unsecured Loans		80,000
(3)	**Current Liabilities:**		
	Trade Payables Creditors (Given 48,000 – Remission 12,000 – Paid 9,000)		27,000
	Total		**6,00,000**
II	**ASSETS**		
(1)	**NonCurrent Assets**		
	Fixed Assets: Tangible Assets	B-2	3,40,000
(2)	**Current Assets**		
	(a) Inventories – Stock-in-Trade		54,000
	(b) Trade Receivables – Sundry Debtors		1,18,000
	(c) Cash and Cash Equivalents (WN 3)		88,000
	Total		**6,00,000**

Schedule B-1: Share Capital

Particulars			This Year
Authorised:	1,60,000 Equity Shares of Rs. 5 each	8,00,000	
	2,000 9% Preference Shares of Re. 1 .00 each	2,00,000	10,00,000
Issued, Subscribed & Paid-up:	64,000 Equity Shares of Rs. 5 each		3,20,000
Total			**3,20,000**

Note: It is assumed that the amount of Authorised Capital remains intact at Rs. 10,00,000, (with the same breakup of Equity and Preference Capital) with a reorganisation of the number of Equity Shares.

Schedule B-2: Tangible Assets

Particulars		This Year
(a) Land & Buildings	(Cost 1,60,000 + Increase on Capital Reduction A/c 60,000)	2,20,000
(b) Plant & Machinery		1,20,000
Total		**3,40,000**

Illustration 9: Internal Capital Reduction A/c – Debentures given to Creditors Cash for Fractions - Journal Entries and Balance Sheet

The Directors of Harihara Ltd. decided to recommend to the Shareholders, certain measures to put the affairs of the Company back on the rails. On 30th June, the Balance Sheet of the Company was as under:

Liabilities	Rs.	Assets	Rs.
Share Capital: Authorised:		Fixed Assets:	
1,00,000 Equity Shares of Re. 1 each	1,00,000	Goodwill at Cost	22,600
Issued and Paid-up:		Freehold Property	
85,000 Equity Shares of		(Cost 50,000 Deprn. 8,500)	41,500
Re. 1 each fully paid	85,000	Plant & Machinery	
		(Cost 1,19,000 Deprn 59,000)	60,000
Reserves and Surplus:		Investments:	
Securities Premium	15,000	Shares at Cost in Associated Co's	30,000
Current Liabilities:		Other Quoted Investments at Cost	16,000
Trade Creditors	64,500	Current Assets:	
Bank Overdraft	56,500	Stock	23,000
Loan from Bank	1,81,000	Debtors	19,600
		Profit and Loss Account	68,300
Total	**2,81,600**	**Total**	**2,81,000**

The Scheme of Capital Reduction A/c as approved by the competent authorities, was as under

1. The Issued Ordinary Shares were reduced to 5 paise each paid-up, the Unpaid Value of the Share was subsequently called by the Company and paid by all the Shareholders.
2. The balance of Unissued Capital was allotted to the Bank in part discharge of the loan, the balance due was paid in cash.
3. The Authorised Capital of the Company is to be increased by another 50,000 Shares and these are to be issued to the existing Shareholders as Rights Issue. The amount due from the Shareholders was realised.
4. Trade Creditors to give up 25% of their claims, and the balance due to them to be converted into 12% Secured Debentures of Rs. 100 each.
5. Interest of Rs. 6,500 on Overdraft to be waived by the Bank and the Balance Overdraft to be paid off.
6. All amounts available Including Securities Premium to be utilised to write off Losses, Goodwili and the Value of Shares in Associated Companies.

Show Journal Entries to record the above and draw the Balance Sheet of the Company after the scheme is fully implemented.

Solution. **1. Journal Entries in the books of Harihara Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c Dr. To Capital Reduction A/c (Being the reduction of 85,000 Shares from Re. 1 each paid-up to 5 Paise each paid-up vide approved scheme of Capital Reduction A/c dated ....) (85,000 x Rs. 0.95	80,750	 80,750
2.	Bank A/c Dr. To Equity Share Capital A/c (Being payment made by Shareholders on 85,000 Shares at Rs. 0.95 each)	80,750	 80,750
3.	Bank Loan A/c Dr. To Equity Share Capital A/c (1,00,000 85,000) To Bank (balancing figure) (Being the allotment of 15,000 Equity Shares towards part settlement of loan and the balance discharged by payment)	60,000	 15,000 45,000
4.	Trade Creditors A/c Dr. To Capital Reduction A/c (64,500 x 25%) To 12% Debentures A/c (64,500 x 75%) rounded off to nearest Rs. 100 To Bank (fraction balance) (Being the settlement with Creditors 25% of the claim being given up, and the balance discharged by issue of Debentures and payment in cash for fractions)	64,500 48,300	 16,125 75
5.	Bank A/c Dr. To Equity Share Capita(A/c (Being cash received from Shareholders on allotment of 50,000 Shares of Re. 1 each, by way of Rights issue vide approved scheme of Capital Reduction A/c)	50,000	 50,000
6.	Bank Overdraft Dr. To Bank A/c To Capital Reduction A/c (Being Bank Overdraft settled after Interest Waiver of Rs. 6,500)	56,500	 50,000 6,500
7.	Securities Premium A/c Dr. To Capital Reduction A/c (Being amount of Securities Premium utilised to write off value of Sundry, Assets, by transferring to Capital Reduction A/c Account)	15,000	 15,000
8.	Capital Reduction A/c Dr. To Profit & Loss A/c To Goodwill A/c To Investments in Associated Companies (bal. fig) (See WN 2) (Being amounts written off as per Capital Reduction A/c Scheme, Balance in Capital Reduction A/c used to write off Investments in Associated Companies)	1,18,375	 68,300 22,600 27,475

2. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Profit and Loss Account (written off)	68,300	By Equity Share Capital (95p. per Share)	80,750
To Goodwill (written off)	22,600	By Securities Premium (transfer)	15,000
To Invt. in Associated Companies	27,475	By Sundry Creditors (remission)	16,125
(written off) (balancing figure)		By Interest on Bank Overdraft (waiver)	6,500
Total	**1,18,375**	**Total**	**1,18,375**

3. Cash Bank Account

Receipts	Rs.	Payments	Rs.
To balance b/d	Nil	By Bank Loan (repaid)	45,000
To Equity Share Capital (tall Money)	80,750'	By Bank Overdraft (settled)	50,000
To Equity Share Capital (Rights Issue)	50,000	By Creditors (fraction paid in cash)	75
		By balance c/d (balancing figure)	35,675
Total	**1,30,750**	**Tota1**	**1,30,750**

4. Balance Sheet of Harihara Ltd. (and reduced) on 1st July (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	Share Capital	B-1	1,50,000
(2)	**NonCurrent Liabilities:**		
	Long Term Borrowings (12% Secured Debentures)		48,300
	Total		**1,98,300**
II	**ASSETS**		
(1)	**NonCurrent Assets**		
	(a) Fixed Assets: Tangible Assets	B-2	1,01,500
	(b) NonCurrent Investments	B-3	18,525
(2)	**Current Assets:**		
	(a) Inventories – StockinTrade		23,000
	(b) Trade Receivables – Sundry Debtors		19,600
	(c) Cash and Cash Equivalents (WN 3)		35,675
	Total		**1,98,300**

Schedule B-1: Share Capital

Particulars		Rs.
Authorised:	1,50,000 Equity Shares of Re. 1 each	1,50,000
Issued, Subscribed & Paid-up:	1,50,000 Equity Shares of Re. 1 each	1,50,000
Total		**3,00,000**

Schedule B-2: Tangible Assets

Particulars	Rs.
(a) Freehold Property (Cost 50,000 less Depreciation 8,500)	41,500
(b) Plant & Machinery (Cost 1,19,000 less Depreciation 59,000)	60,000
Total	**1,01,500**

Schedule B-3: NonCurrent Investments

Particulars	Rs.
(a) In Associated Companies	
(Cost 30,000 – Write Down under Capital Reduction A/c 27,475)	2,525
(b) Other Quoted Investments	16,000
Total	**18,525**

Illustration 10: Internal Capital Reduction A/c – Sub-Division and Surrender of Shares – Journal Entries and Balance Sheet

The Balance Sheet of In Limited as at 31st March was as follows:

Liabilities	Rs.	Assets	Rs.
Authorised and Subscribed Capital:		Fixed Assets: Machineries	3,50,000
10,000 Equity Shares of Rs. 100 each	10,00,000	Current Assets:	
Unsecured Loan:		Stock	2,53,000
15% Debentures	3,00,000	Debtors	2,30,000
Accrued interest	45,000	Bank	20,000
Current Liabilities: Creditors	52,000	Profit and Loss Account	5,80,000
Provision for IncomeTax	36,000		
Total	**14,33,000**	**Total**	**14,33,000**

It was decided to reconstruct the Company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly it was decided that –

1. Each Share shall be subdivided into 10 Fully Paid Shares of Rs. 10 each.
2. After subdivision, each Shareholder shall surrender to the Company, 50% of his holdings for the purpose of reissue to Debenture holders and Creditors as necessary.
3. Out of Shares surrendered, 10,000 Shares of Rs. 10 each shall be converted into 10% Preference Shares of Rs. 10 each fully paid-up.
4. The claims of the Debentureholders shall be reduced by 50%. In consideration of the reduction, the Debentureholders shall receive Preference Shares of Rs. 1,00,000 which are converted out of shares surrendered.
5. Creditors' claims shall be reduced by 25%, and balance claim is to be settled by the issue of Equity Shares of Rs. 10 each out of shares surrendered.
6. Balance of Profit and Loss Account to be written off.
7. The shares surrendered and not reissued shall be cancelled.

You are required to show the Journal Entries giving effect to the above and the resultant Balance Sheet.

Solution: **1. Journal Entries in the books of Hindu Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c (Rs. 100) Dr.	10,00,000	
	To Share Surrendered A/c		5,00,000
	To Equity Share Capital (Rs. 10) A/c		5,00,000
	(Being subdivision of 10,000 Equity Shares of Rs. 100 each into 1,00,000 Equity Shares of Rs. 10 each and surrender of 50,000 of such subdivided shares as per approved scheme of Capital Reduction A/c dated.....)		
2.	15% Debentures A/c Dr.	1,50,000	
	Accrued Interest A/c Dr.	22,500	
	To Capital Reduction A/c		11,72,500
	(Being transfer of 50% of claims of Debenture holders to Capital Reduction A/c, in consideration of which 10% Preference Shares are being issued out of Share Surrender Account as per approved scheme of Capital Reduction A/c dated.....		
3.	Creditors A/c Dr.	52,000	
	To Capital Reduction A/c		52,000
	(Being transfer of claims of Creditors to Capital Reduction A/c in full, 25% of which is waived, and Equity Shares issued in consideration of the balance)		
4.	Share Surrendered A/c Dr.	5,00,000	
	To 10% Preference Share Capital A/c (issued to Debentureholders)		1,00,000
	To Equity Share Capital (Rs. 10) A/c (issued to Creditors)		39,000
	To Capital Reduction A/c (balancing figure) cancellation (WN 2)		3,61,000
	(Being issue of Preference and Equity Shares to discharge the claims of Debenture holders and Creditors respectively as per scheme; balance in Share Surrendered a/c being transferred to Capital Reduction A/c on cancellation)		
5.	Capital Reduction A/c Dr.	5,85,500	
	To Profit and Loss A/c		5,80,000
	To Capital Reserve A/c (WN 3)		5,500
	(Being Dr. Balance of P&L Account written off against Capital Reduction A/c and balance in Capital Reduction A/c transferred to Capital Reserve)		

2. Shares Surrendered Account

Particulars	Rs.	Particulars	Rs.
To 10% Preference Share Capital A/c	1,00,000	By Equity Share Capital (Rs. 100)	5,00,000
To Equity Share Capital A/c	39,000		
To Capital Reduction A/c (balancing figure)	3,61,000		
Total	**5,00,000**	**Total**	**5,00,000**

3. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Profit and Loss A/c	5,80,000	By 15% Debentures A/c	1,50,000
To capital Reserve A/c (balancing figure)	5,300	By Accrued Interest on Debentures A/c	22,500
		By Creditors A/c	52,000
		By Shares Surrendered A/c (transfer)	3,61,000
Total	**5,85,500**	**Total**	**5,85,000**

4. Balance Sheet of Indu Ltd. as at 31st March (after Capital Reduction A/c)

	Particulars as at 31st March		Note	Rs.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital		B1	6,39,000
	(b) Reserves and Surplus	– Capital Reserve		5,500
(2)	**Non-Current Liabilities:**			
	Long Term Borrowings	–15% Unsecured Debentures		1,50,000
(3)	**Current Liabilities:**			
	(a) Other Current liabilities	–Accrued Interest (1/2 x 45,000)		22,500
	(b) Short Term Provisions	–Provision for Income Tax		36,000
	Total			**8,53,000**
II	**ASSETS**			
(1)	**Non-Current Assets**			
	Fixed Assets: Tangible Assets	– Machinery		3,50,000
(2)	**Current Assets:**			
	(a) Inventories	– StockinTrade		2,53,000
	(b) Trade Receivables	– Sundry Debtors		2,30,000
	(c) Cash and Cash Equivalents			20,000
	Total			**8,53,000**

Schedule B-1: Share Capital

Particulars			Rs.
Authorised:	90,000 Equity Shares of Rs. 10 each	9,00,000	
	10,000 10% Preference Shares of Rs. 10 each	1,00,000	10,00,000
Issued, Subscribed & Paid-up:	53,900 Equity Shares of Rs. 10 each		5,39,060
	10,000 10% Preference Shares of Rs. 10 each	1,00,000	
	Total		**6,39,000**

Note: It is assumed that the amount of Authorised Capital remains intact at given Rs. 10,00,000, and the amount of Preference Capital (which was not earlier defined in Authorised Capital) is taken at Rs. 1,00,000, the balance being taken as Equity Capital, divided into Shares of Rs. 10 each, with reorganisation in the number of Shares.

Illustration 11: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

Kauravas Ltd. which had experienced trading difficulties decided to reorganise its finances. On 31st March, a Final Trial Balance extracted from the books of the Company showed the following position: (in Rs.)

Particulars	Dr.	Cr.
Share Capital, Authorised and Issued:		
1,500 6% Cumulative Preference Shares of Rs. 100 each		1,50,000
2,000 Equity Shares of Rs. 100 each		2,00,000
Capital Reserve		36,000
Profit and Loss Account	1,10,375	
Preliminary Expenses	1,250	
Goodwill at Cost	50,000	
Trade Creditors		42,500
Debtors	30,200	
Bank Overdraft		51,000
Leasehold Property at Cost	80,000	
Lease hold Property Provision for Depreciation		30,000
Plant and Machinery at Cost	2,10,000	
Plant and Machinery Provision for Depreciation		57,500
StockinTrade	79, 175	
Total	**5,67,000**	**6,67,000**

Approval from appropriate authorities was obtained for the following scheme for Reduction of Capital

1. Preference Shares to be reduced to Rs. 75 per Share and Equity Shares 'to be reduced to Rs. 12.50 Per Share.
2. One Rs. 12.50 Equity Share to be issued for each Rs. 100 of Gross Preference Dividend Arrears, the Preference Dividend had not been paid for three years.
3. The balance in Capital Reserve Account to be utilised.
4. Plant and Machinery to be written down to Rs. 75,000.
5. Profit and Loss Account balance and all Intangible Assets to be written off.

At the same time as the resolution to reduce Capital was passed, another resolution was approved restoring the Total Authorised Capital to Rs. 3,50,000 consisting of 1,500 6% Cumulative Preference Shares of Rs. 75 each and the balance in Equity Shares of Rs. 12.50 each. As soon as the above resolution had been passed, 5,000 Equity Shares were issued at par for cash payable in full upon application. The same were fully subscribed and paid.

You are required

1. To show the Journal Entries necessary to record the above transaction in the Company's books, and
2. To prepare the Balance Sheet of the Company, after completion of the scheme.

Solution: **1. Journal Entries in the books of Kauravas Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	6% Cum. Preference Share Capital (Rs. 100 each) A/c Dr. To 6% Cumulative Pref. Share Capital (Rs. 75 each) A/c To Capital Reduction A/c (Being 1,500 6% Cum. Preference Shares converted into equal number of 6% Cum. Preference Shares of Rs. 75 each, balance of the amount transferred to Capital Reduction A/c Account vide approved Scheme of Capital Reduction A/c dated	1,50,000	 1,12,500 37,500
2.	Equity Share Capital (Rs. 100 each) A/c Dr. To Equity Share Capital (Rs. 12.50 each) A/c To Capital Reduction A/c (Being 2,000 Equity Shares of Rs. 100 each reduced to Equity Shares of Rs. 12.50 each, balance transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated ...)	2,00,000	 25,000 1,75,000
3.	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being allotment of 270 Equity Shares of Rs. 12.50 each to Pref. Share holders as under Preference Dividend due for 3 years = Rs. 1,50,000 x 6 x 3 years = Rs. 27,000 No. of Equity Shares to be issued for every Rs. 100 Dividend due $= \frac{27,000}{100} = 270$ Equity Shares. Nominal Value of ESC issued = 270 Shares x Rs. 12.50 = Rs. 3,375)	3,375	 3,375
4,	Capital Reserve A/c Dr. To Capital Reduction A/c (Being balance of Capital Reserve transferred to Capital Reduction A/c vide Scheme of Capital Reduction A/c dated.....)	36,000	 36,000
5.	Capital Reduction A/c Dr. To Plant & Machinery A/c (Being Net Amount of Plant & Machinery reduced to Rs. 75,000 vide approved Scheme of Capital Reduction A/c dated.....) (2,10,000 – 57,500 – 75,000 = 77,500)	77,500	 77,500
6.	Capital Reduction A/c Dr. To Profit & Loss A/c To Preliminary Expenses To Goodwill (Being Dr. balance of P&L Account, Preliminary Expenses and Goodwill written off against Capital Reduction A/c Account vide approved Scheme of Capital Reduction A/c dated.....)	1,67,625	 1,10,375 7,250 50,000
7,	Bank A/c Dr. To Share Application & Allotment A/c (Being money received on 5,000 Equity Shares at Rs. 12.50 per share)	62,500	 62,500
8.	Share Application and Allotment A/c Dr. To Equity Share Capital A/c (Being allotment of 5,000 Equity Shares of Rs. 12.50 each vide Board Resln. dated.....)	62,500	 62,500

2. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital (Arrears of Dividend)	3,375	By 6% Cum. Pref. Share Capital (Rs. 100)	37,500
To Plant and Machinery (Reduction)	77,500	By Equity Share Capital (Rs. 100)	1,75,000
To Profit & Loss A/c (written off)	1,10,375	By Capital Reserve (transfer)	36,000
To Preliminary Expenses (written off)	7,250		
To Goodwill (written off)	50,000		
Total	**2,48,500**	**Total**	**2,48,500**

3. Cash / Bank Account

Receipts	Rs.	Payments	Rs.
To Equity Share Capital fresh issue	62,500	By balance b/d given	51,000
		By balance c/d (balancing figure)	11,500
Total	**62,500**	**Total**	**62,500**

4. Balance Sheet of Kauravas Ltd. (and Reduced) as on 31st March (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	Share Capital	B-1	2,03,375
(2)	**Current Liabilities:**		
	Trade Payables – Sundry Creditors		42,500
	Total		**2,45,875**
II	**ASSETS**		
(1)	**NonCurrent Assets**		
	Fixed Assets: (i) Tangible Assets	B-2	1,25,000
(2)	**Current Assets:**		
	(a) Inventories – StockinTrade		79,175
	(b) Trade Receivables – Sundry Debtors		30,200
	(c) Cash and Cash Equivalents		11,500
	Total		**2,45,875**

Schedule B-1: Share Capital

Particulars			Rs.
Authorised:	19,000 Equity Shares of Rs. 12.50 each	2,37,500	
	1,500 6% Cum. Preference Shares of Rs. 75 each	1,12,500	3,50,000
Issued, Subscribed & Paid-up:	7,270 Equity Shares of Rs. 12.50 each		90,875
	(Of the above, 270 Shares of Rs. 12.50 each issued for Arrears of Preference Dividend)		
	1,500 6% Cum. Preference Shares of Rs. 75 each		1,12,500
	Total		**2,03,375**

Schedule B-2: Tangible Assets

Particulars	Rs.
(a) Plant & Machinery (Cost 2,10,000 – Accum. Deprn. 57,500 less Decr in Revaluation 77,500)	75,000
(b) Leasehold Property (Cost 80,000 – Accum.Deprn. 30,000)	50,000
Total	**1,25,000**

Illustration 12: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

Following is the Balance Sheet of Lakshmi Ltd. as on 31st March:

Liabilities	Rs.	Assets	Rs.
8,000 – 7½% Preference Shares at Rs. 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
1,80,000 Equity Shares at Rs. 10 each fully paid	18,00,000	Furniture and Fittings	1,60,000
11% Debentures	10,00,000	Patents and Copyrights	60,000
Bank Overdraft	1,65,000	Goodwill	35,000
Loan from Director	15,000	Investments (at Cost)	65,000
Trade Creditors	6,20,000	Sundry Debtors	12,00,000
		Stock	13,00,000
		Cash in Hand	12,000
		Profit & Loss A/c	7,18,000
Total	**44,00,000**	**Total**	**44,00,000**

Due to heavy losses and overvaluation of Assets, the following scheme of Capital Reduction A/c was finalised:

(i) Preference Shareholders will surrender their 20% Shares, and they have been allotted 9% (New) Preference Shares for remaining amount.

(ii) Debentureholders having charge on Plant and Machinery would accept Plant and Machinery in full settlement.

(iii) Trade Creditors accepted to take over the Stock up to the value of Rs. 6,20,000.

(iv) Equity Shareholders are to accept reduction of Rs. 74 per share.

(v) Investment is to be valued at Market Price, i.e. Rs. 60,000.

(vi) Sundry Debtors and Remaining Stock is to be valued at 90% of their Book Value.

(vii) Directors have to forego their loan in full.

(viii) Patents and Copyrights and Goodwill have no more value.

Pass necessary Journal Entries assuming that all the legal formalities have been completed. Prepare Capital Reduction A/c Account and Balance Sheet of the Company after reduction.

Solution: **1. Journal Entries in the books of Lakshmi Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	7.5% Preference Share. Capital (Rs. 100) A/c Dr. To Capital Reduction A/c To 9% Preference Share Capital (Rs. 100) A/c (Being 20% holding of Preference Shareholders surrendered, and 9% Preference Shares issued for the balance)	8,00,000	 1,60,000 6,40,000
2.	11% Debentures A/c Dr. To Plant and Machinery A/c To Capital Reduction A/c (Being Debentureholders accepting Plant and Machinery in full satisfaction of their claim)	10,00,000	 8,50,000 1,50,000
3.	Sundry Creditors A/c Dr. To Stock (Being Sundry Creditors agreeing to take over Stock of the value of Rs. 6,20,000)	6,20,000	 6,20,000
4.	Equity Share Capital (Rs. 10) A/c Dr. To Capital Reduction A/c To Equity Share Capital (Rs. 6) A/c (Being Equity Shareholders ageing for reduction of Rs. 4 per Share, and new Share of Rs. 6 each fully paid-up issued to them)	18,00,000	 7,20,000 10,80,000
5.	Capital Reduction A/c Dr. To Investments A/c (Being Investments written down to Market Value of Rs. 60,000)	5,000	 5,000
6.	Capital Reduction A/c Dr. To Sundry Debtor, A/c To Stock A/c (Being Sundry Debtors and Stock valued at 90% of their Book Value)	1,88,000	 1,20,000 68,000
7.	Loan from Directors A/c Dr. To Capital Reduction A/c (Being Loan from Directors waived by them)	15,000	 15,000
8.	Capital Reduction A/c Dr. To Profit and loss A/c To Goodwill A/c To Patents A/c To Capital Reserve A/c (WN 2) (Being balance in Capital Reduction A/c used to write off Intangible Assets and balance transferred to Capital Reserve A/c)	8,52,000	 7,18,000 35,000 60,000 39,000

2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Investment A/c	5,000	By 7.5% Preference Share Capital A/c	1,60,000
To Sundry Debtors A/c	1,20,000	By 11% Debentures A/c	1,50,000
To Stock A/c	68,000	By Equity Share Capita] A/c	7,20,000
To Goodwill A/c	35,000	By Loan from Directors A/c	15,000
To Patents A/c	60,000		
To Profit and Loss A/c	7,18,000		
To Capital Reserve A/c (balancing figure)	39,000		
Total	**10,45,000**	**Total**	**10,45,000**

3. Balance Sheet of Lakshmi Ltd. (and Reduced) as on 31st March (after Capital Reduction A/c)

	Particulars as at 31st March		Note	Rs.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital		B-1	17,20,000
	(b) Reserves and Surplus	– Capital Reserve		39,000
(2)	**Current Liabilities:**			
	Short Term Borrowings	– Bank Overdraft		1,65,000
	Total			**19,24,000**
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: Tangible Assets	– Furniture & Fittings		1,60,000
	(b) NonCurrent investments	– Cost Rs. 65,000, taken at Market Value		60,000
(2)	**Current Assets:**			
	(a) Inventories	– StockinTrade		6,12,000
	(b) Trade Receivables	– Sundry Debtors		10,80,000
	(c) Cash and Cash Equivalents	– Cash on Hand		12,000
	Total			**19,24,000**

Schedule B-1: Share Capital

	Particulars	Rs.
Authorised:	..... Equity Shares of Rs.... each ..... Preference Shares of Rs....each	
Issued, Subscribed & Paid-up:	1,80,000 Equity Shares of Rs. 6 each 6,400 9% Preference Shares of Rs. 100 each	10,80,000 6,40,000
	Total	**17,20,000**

Illustration 13: Internal Capital Reduction A/c – Settlement of Liabilities – Cash brought in by Shareholders – Journal Entries and Balance Sheet

The Balaice Sheet of Manoj Limited as at 31st March is given below –

Liabilities	Rs.	Assets	Rs.
2,00,000 Equity Shares of Rs. 10 each, Rs. 5 paid	10,00,000	Fixed Assets	11,40,000
6,000 8% Preference Shares of Rs. 100 each	6,00,000	Patents and Copyrights	80,000
9% Debentures	6,00,000	Investments at Cost (Mkt. Value Rs. 55,000)	65,000
Add: Interest accrued on Debentures	1,08,000	Stock	4,00,000
Bank Overdraft	1,50,000	Debtors	4,39,000
Add: Interest accrued on Bank Overdraft	15,000	Bank	10,000
Current Liabilities: Creditors	69,000	Profit & Loss Account	4,08,000
Total	**25,42,000**	**Total**	**25,42,000**

Note: Preference Dividend is in arrear for one year.

The following scheme is agreed upon

1. Preference Shareholders to give up 30% of their claims, including Dividends, and desire to be paid off.
2. Debentureholders give up their claims to interest in consideration of their interest being enhanced to 12%.
3. Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once.
4. Creditors would like to grant a discount of 5% if they are paid immediately.
5. Balance of Profit & Loss Account, Patents and Copyrights, and Debtors of 7 30,000 to be written off.
6. Fixed Assets to be written down by Rs. 34,000 and Investments are to reflect their Market Value.
7. To the extent not specifically stated, Equity Shareholders suffer on reduction of their rights.
8. Cost of Capital Reduction A/c is Rs. 3,350.

Draft Journal Entries in the books of the Company assuming that the scheme has been put through fully with the Equity ,Shareholders bringing in necessary cash to pay off the parties, and to leave a Working Capital of Rs. 30,000 and prepare the Balance Sheet after Capital Reduction A/c.

Solution: 1. Cash/ Bank A/c (To compute Cash to be brought in by Equity Shareholders)

Particulars	Rs.	Particulars	Rs.
To balance b/d	10,000	By Preference Shareholders (70% x 6,48,000)	4,53,600
To Equity Share Capital (Balancing Figure)	7,00,000	By Bank Overdraft (1,50,000 + 7,500)	1,57,500
		By Creditors (95% x 69,000)	65,550
		By Capital Reduction A/c (Expenses)	3,350
		By balance c/d (Required)	30,000
Total	**7,10,000**	**Total**	**7,10,000**

2. Journal Entries in the books of Manoj Ltd.

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	8% Preference Share Capital A/c	Dr.	6,00,000	
	To Preference Shareholders A/c			4,20,000
	To Capital Reduction A/c			1,30,000
	(Being 30% of Claim given up by Preference Shareholders as per approved Capital Reduction A/c scheme dated			
2.	Capital Reduction A/c	Dr.	33,600	
	To Preference Shareholders A/c			33,600
	(Being 70% of Arrear Preference Dividend payable to Preference Shareholders now provided for, balance 30% waived as per scheme) (Rs. 6,00,000 x 8% x 70%)			
3.	8% Debentures A/c	Dr.	6,00,000	
	Interest Accrued on Debentures A/c	Dr.	1,08,000	
	To 12% Debentures A/c			6,00,000
	To Capital Reduction A/c			1,08,000
	(Being 9% Debentures converted into 12% Debentures, in consideration of waiver of interest, which is transferred to Capital Reduction A/c)			
4.	Bank Overdraft A/c	Dr.	1,50,000	
	Interest Accrued on bank Overdraft A/c	Dr.	15,000	
	To Bank a/c			1,57,500
	To Capital Reduction A/c			7,500
	(Being Bank Overdraft paid off including 50% of accrued interest as per Capital Reduction A/c Scheme, interest waived credited to Capital Reduction A/c)			
5.	Creditors A/c	Dr.	69,000	
	To Bank A/c			65,550
	To Capital Reduction A/c			3,450
	(Being Creditors' claim discharged to the extent of 95% as per Scheme, the balance of 5% waived transferred to Capital Reduction A/c)			
6.	Capital Reduction A/c	Dr.	3,350	
	To Bank A/c			3,350
	(Being expenses of Capital Reduction A/c paid)			
7.	Bank A/c	Dr.	7,00,000	
	To Equity Share Capital A/c			7,00,000
	(Being amount received on 2,00,000 Equity Shares at Rs. 3.50 per Share as per Capital Reduction A/c Scheme) (WN 1)			
8.	Preference Shareholders A/c	Dr.	4,53,600	
	To Bank A/c			4,53,600
	(Being the amount due to Preference Shareholders discharged)			

9.	Capital Reduction A/c Dr.	5,62,000	
	To Profit and Loss A/c		4,08,000
	To Patents & Copyright A/c		80,000
	To Debtors A/c		30,000
	To Investment A/c		10,000
	To Fixed Assets A/c		34,000
	(Being Debit Balance of P & L A/c, Patents & Copyrights, Value of Debtors, Investments and Fixed Assets written off as per Capital Reduction A/c Scheme)		
10.	Equity Share Capital A/c Dr.	3,00,000	
	To Capital Reduction A/c		3,00,000
	(Being balance amount reqd. in Capital Reduction A/c, provided by reducing Equity Capital, Rs. 3,00,000 over 2,00,000 Shares i.e. Rs. 1.50 per Share written off) (WN 3)		

3. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Preference Shareholders (Arrears Divd.)	33,600	By 8% Preference Share Capital (30% waived)	1,80,000
To Bank (Capital Reduction A/c Expenses)	3,350	By Accrued Interest on Debentures (wived)	1,08,000
To Profit and Loss A/c (written off)	4,08,000	By Int. on Bank Overdraft (waived)	7,500
To Patents & Copyrights (written off)	80,000	By Creditors (5% discount received)	3,450
To Debtors (written off)	30,000	By Equity Share Capital (balancing figure)	3,00,000
To Investment (reduced to Market Value)	10,000		
To Fixed Assets (written off)	34,000		
Total	**5,98,950**	**Total**	**5,98.950**

4. Balance Sheet of Manoj Ltd. (and Reduced) as at 31st March (after Capital Reduction A/c)

	Particulars as at 31st March	Note	This Year	Prev. Yr.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	Share Capital	B-1	14,00,000	
(2)	**NonCurrent Liabilities:**			
	Long Term Borrowings – 12% Debentures (Secured)		6,00,000	
	Total		**20,00,000**	
II	**ASSETS**			
(1)	**NonCurrent Assets**			
	(a) Fixed Assets: Tangible Assets (11,40,000 – Decr. on Reconstrn. 34,000)		11,06,000	
	(b) NonCurrent Investments (Cost 65,000, taken at Market Value)		55,000	
(2)	**Current Assets:**			
	(a) Inventories – Stock-In-Trade		4,00,000	
	(b) Trade Receivables – Sundry Debtors		4,09,000	
	(c) Cash and Cash Equivalents		30,000	
	Total		**20,00,000**	

Schedule B-1: Share Capital

Particulars	This Year	Prev. Yr.
Authorised: ..... Equity Shares of Rs. 10 each and... Preference Shares of ..... Each		
Issued, Subscribed & Paid-up: 2,00,000 Equity Shares of Rs. 10 each, Rs. 7 paid-up	14,00,000	
Total	**14,00,000**	

Illustration 14: Internal Capital Reduction A/c – Capital Reduction A/c, Settlement of Claims partly by Shares

The following is the Balance Sheet of Arjuna Ltd. as at 31st March.

Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Equity Shares of Rs. 10 each	500	Goodwill	15
Capital Reserve	6	Land & Building	184
12% Debentures	400	Plant & Machinery	286
Debentures Interest Outstanding	48	Furniture & Fixtures	41
Trade Creditors	165	Stock	142
Directors Remuneration Outstanding	10	Debtors	80
Other Outstanding Expenses	11	Cash at Bank	27
Provisions	33	Discount on Issue of Debentures	8
		Profit & Loss Account	390
Total	**1,173**	**Total**	**1,173**

The following scheme for Internal Capital Reduction A/c was framed, approved & implemented.

1. All the Equity Shares be converted into same number of Equity Shares of Rs. 2.50 each.
2. Directors agree to forego their Outstanding Remuneration.
3. Debentureholders agree to forego Outstanding Interest in return of their 12% Debentures being converted into 13% Debentures.
4. Existing Shareholders agree to subscribe for cash, fully paid Equity Shares of Rs. 2.50 each for Rs. 125 Lakhs.
5. Trade Creditors are given option of either to accept fully paid Equity Shares of Rs. 2.60 each tot the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs. 65 Lakhs accept **equity** Shares whereas those for Rs. 100 Lakhs accept Rs. 80 Lakhs in cash in full settlement.
6. The Assets are revalued as (in Rs. Lakhs): Land & Building – 230, Stock – 120, Plant & Machinery – 220, Debtors – 76.

Pass Journal Entries for all the above, and draft the Company's Balance Sheet immediately after the Capital Reduction A/c.

Solution: **1. Journal Entries in the books of the Company (Rs. in Lakhs)**

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10 each) A/c	Dr.	500	
	To Equity Share Capital (Rs. 2.50 each) A/c			125
	To Capital Reduction A/c			375
	(Being the conversion of 50 Lakh Equity Shares into the same number of fully paid Equity Shares of Rs. 2.50 each as per approved scheme of Capital Reduction A/c dated.....)			
2.	Directors Remuneration Payable A/c	Dr.	10	
	To Capital Reduction A/c			10
	(Being Remuneration payable waived by Directors, as per scheme of Capital Reduction A/c)			

3.	12% Debentures A/c Dr.	400	
	Debenture Interest Outstanding A/c Dr.	48	
	To 13% Debentures (New) A/c		400
	To Capital Reduction A/c		48
	(Being conversion of 12% Debentures into 13% Debentures, the Holders foregoing Outstanding Interest, as per approved Scheme of Capital Reduction A/c dated.....)		
4.	Bank A/c Dr.	125	
	To Equity Share Application and Allotment A/c		125
	(Being application money received for 50 Lakh Equity Shares of Rs. 2.50)		
5.	Equity Share Application and Allotment A/c Dr.	125	
	To Equity Share Capital (Rs. 2.50 each)		125
	(Being allotment of 50 Lakh Equity Shares of Rs. 2.50 each)		
6.	Trade Creditors A/c Dr.	165	
	To Equity Share Capital (Rs. 2.50 each) A/c		65
	To Bank A/c		80
	To Capital Reduction A/c		20
	(Being settlement of Creditors for Rs. 65 Lakhs by issue of 26 Lakh Equity Shares of Rs. 2.50 each, & Creditors for Rs. 100 Lakhs accepting Cash equal to 80% of claim in full settlement)		
7.	Capital Reserve A/c Dr.	6	
	To Capital Reduction A/c		6
	(Being Capital Reserve being used for purpose of Capital Reduction A/c Scheme)		
8.	Land & Building A/c Dr.	46	
	To Capital Reduction A/c		46
	(Being appreciation recorded in the value of Land & Building as per scheme of Capital Reduction A/c) (230 – 184 = 46)		
9.	Capital Reduction A/c Dr.	505	
	To Goodwill written off fully		15
	To Plant & Machinery (286-220)		66
	To Stock (142-120)		22
	To Debtors (80-76)		4
	To Discount on Issue of Debentures written off fully		8
	To Profit & Loss A/c written off fully		390
	(Being writing off of losses & reduction in the values of assets)		

Note: Goodwill has been written offI under the Capital Reduction A/c Scheme, in the above solution.

2. Capital Reduction A/c Account

Particulars	Rs. Lakhs	Particulars	Rs. Lakhs
To Goodwill A/c (written off)	15	By Equity Share Capital A/c	375
To Plant & Machinery A/c	66	By Directors Remuneration Outstanding A/c	10
To Stock A/c	22	By Debenture Interest Outstanding A/c	48
To Debtors A/c	4	By Trade Creditors A/c,	20
To Discount on Issue of Debentures A/c	8	By Capital Reserve A/c'	6
To Profit & Loss A/c	390	By Land & Building A/c	**46**
Total	**505**	**Total**	**505**

3. Balance Sheet of Arjuna Ltd. (and Reduced) as at 31st March (after Capital Reduction A/c) (Rs. Lakhs)

	Particulars as at 31st March		Note	Rs.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	Share Capital		B-1	315
(2)	**Non-Current Liabilities:**			
	Long Term Borrowings	– 13% Debentures (Secured)		400
(3)	**Current Liabilities:**			
	(a) Trade Payables	– Outstanding Expenses		11
	(b) Short Term Provisions			33
	Total			**759**
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets:(i) Tangible Assets		B-2	491
(2)	**Current Assets:**			
	(a) Inventories	– Stock-In-Trade (142 – 22)		120
	(b) Trade Receivables	– Sundry Debtors (80 – 4)		76
	(c) Cash and Cash Equivalents	(27 + 125 – 80)		72
	Total			**759**

Schedule B-1: Share Capital

Particulars		Rs.
Authorised:	.....Equity Shares of.....each	
Issued, Subscribed & Paid-up:	126 Equity Shares of Rs. 2.50 each (26 Lakh Shares have been issued for consideration other than cash to Creditors)	315
Total		**315**

Schedule B-2: Tangible Assets

Particulars	Rs.
(a) Land & Building (Book Value 184 + Increase under Capital Reduction A/c Scheme 46)	230
(b) Plant & Machinery (Book Value 286 - Decrease under Capital Reduction A/c Scheme 66)	220
(c) Furniture & Fixtures	
Total	**491**

Illustration 15: Internal Capital Reduction A/c – Capital Reduction A/c Asset Revaluation – Journal Entries and Balance Sheet

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

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 100 each	1,00,00,000	Fixed Assets	1,25,00,000
12% Cumulative Preference Shares of Rs. 100 each	50,00,000	Investments (Market Value Rs. 9,50,000)	10,00,000
10% Debentures of Rs. 100 each	40,00,000	Current Assets	1,00,00,000
Sundry Creditors	50,00,000	P & L A/c	4,00,000
Provision for Taxation	1,00,000	Preliminary Expenses	2,00,000
Total	**2,41,00,000**	**Total**	**2,41,00,000**

The following scheme of reorganisation is sanctioned:

1. All the existing Equity Shares are reduced to Rs. 40 each.
2. All Preference Shares are reduced to Rs. 60 each.
3. Rate of Interest on Debentures is increased to 12%. The Debentureholders surrender their Existing Debentures of Rs. 100 each and exchange the same for Fresh debentures of Rs. 70 each for every debenture held by them.
4. One of the Creditors of the Company to whom the Company overs Rs. 20,00,000, decides to forego 40% of his claim. He is allotted 30,000 Equity Shares of Rs. 40 each in full satisfaction of his claim.
5. The taxation liability of the Company is settled at Rs. 1,50,000.
6. Fixed Assets are to be written down by 30%.
7. Current Assets are to be revalued at Rs. 45,00,000.
8. Investments to be brought to their Market Value.
9. It is decided to write off the Fictitious Assets.

Pass Journal Entries and show the Balance Sheet of the Company after giving effect to the above.

Solution: **1. Journal Entries in the books of Drona Ltd.**

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (at Rs. 100 each) A/c Dr. To Equity Share Capital (at Rs. 40 each) A/c To Capital Reduction A/c (Being 1,00,000 Equity Shares of Rs. 100 each reduced to Equity Shares of Rs. 40 each and balance amount transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated.....)	1,00,00,000	 40,00,000 60,00,000
2.	12% Cum. Pref. Share Capital (at Rs. 100 each) A/c Dr. To 12% Cum. Pref. Share Capital (at 7 60 each) A/c To Capital Reduction A/c (Being 50,000 12% Cum. Pref. Shares of Rs. 100 each reduced to equal number of 12% Cum. Pref. Shares of Rs. 60 each and balance amount transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated ...)	50,00,000	 30,00,000 20,00,000
3.	10% Debentures (at Rs. 100 each) A/c Dr. To 12% Debentures (at Rs. 70 each) A/c To Capital Reduction A/c (Being 10% Debentures of Rs. 100 each converted into equal number of 12% Debentures of I 70 each and balance amount transferred to Capital Reduction A/c vide approved Capital Reduction A/c Scheme dated	40,00,000	 28,00,000 12,00,000
4.	Sundry Creditors A/c Dr. To Equity Share Capita! (at Rs. 40 each) A/c To Capital Reduction A/c (Being settlement with one of the Creditors 40% of the claim being given up and the balance discharged by the issue of 30,000 Equity shares at Rs. 40 each)	20,00,000	 12,00,000 8,00,000
5.	Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To Current Assets (Being Liability for Taxation settled)	1,00,000 50,000	 1,50,000

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
6.	Capital Reduction A/c Dr.	91,50,000	
	To Fixed Assets A/c (30% of 125 Lakhs)		3750000
	To Current Assets A/c (Given 100 (-) Tax 1.50 (-) Required 45)		53,50,000
	To Investments A/c (Cost 10 - Mkt Value 9,50)		50,000
	(Being value of Fixed Assets and Current Assets, and Investments written down as per Capital Reduction A/c Scheme)		
7.	Capital Reduction A/c Dr.	8,00,000	
	To Preliminary Expenses A/c		2,00,000
	To Profit and Loss A/c		4,00,000
	To Capital Reserve A/c (WN 2) (balancing figure)		2,00,000
	(Being Preliminary Expenses and Debit Balance of P & L A/c written off, and balance in Capital Reduction A/c transferred to Capital Reserve)		

2. Capital Reduction A/c

Particulars		Rs.	Particulars	Rs.
To Current Assets A/c	(Tax paid)	50,000	By Equity Share Capital A/c	60,00,000
To Fixed Assets A/c	(written down)	37,50,000	By 12% Cum. Pref. Share Capital A/c	20,00,000
To Current Assets A/c	(written down)	53,50,000	By 10% Debentures A/c	12,00,000
To Investments	(written down)	50,000	By Sundry Creditors A/c	8,00,000
To Preliminary Expenses	(written off)	2,00,000		
To Profit & Loss A/c	(written off)	4,00,000		
To Capital Reserve A/c	**(balancing figure)**	**2,00,000**		
Total		**1,00,00,000**	**Total**	**1,00,00,000**

3. Balance Sheet of Drona Ltd. as at 31st March (after Capital Reduction A/c)

	Particulars as at 31st March	Note	Rs.
I	**EQUITY AND LIABILITIES:**		
(1)	**Shareholders' Funds:**		
	(a) Share Capital	B-1	82,00,000
	(b) Reserves and Surplus – Capital Reserve		2,00,000
(2)	**Non-Current Liabilities:**		
	Long Term Borrowings – 12% Debentures		28,00,000
(3)	**Current Liabilities:**		
	Trade Payables – Sundry Creditors		30,00,000
	Total		**1,42,00,000**
II	**ASSETS**		
(1)	**Non-Current Assets**		
	(a) Fixed Assets: Tangible Assets		
	(125 Lakhs less 30% Decr. under Scheme)		87,50,000
	(b) Non-Current investments (Cost 10 Lakhs, taken at Market Value)		9,50,000
(2)	**Current Assets:**		
	Other Current Assets		45,00,000
	Total		**1,42,00,000**

Note: Based on the order of information provided, it is assumed that the value of Current Assets after settlement of tax liability is Rs. 45,00,000.

Schedule B-1: Share Capital

Particulars		Rs.
Authorised:	..... Equity Shares of.... each ..... Preference Shares of..... each	
Issued, Subscribed & Paid-up:	1,30,000 Equity Shares of Rs. 40 each	52,00,000
	(30,000.Equity Shares issued for non-cash consideration to Creditors)	
	50,000 12% Cum. Preference Shares of Rs. 60 each	30,00,000
Total		**82,00,000**

Illustration 16: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

Bheeshma Limited decided to Capital Reduction A/c its business as it had accumulated huge losses. The following is the Balance Sheet of the Company as on 31st March before Capital Reduction A/c:

Liabilities	Rs.	Assets	Rs.
3,00,000 Equity Shares of Rs. 10 each fully paid-up	30,00,000	Goodwill	5,20,000
1,60,000, 6% Preference Shares of Rs. 10 each fully paid-up	16,00,000	Patents	1,50,000
6% Debentures (Secured against Land & Building)	15,00,000	Land & Building	17,00,000
Bank Overdraft	5,80,000	Plant & Machinery	2,00,000
Sundry Creditors	12,00,000	Investments (at Cost)	2,20,000
Provision for Income Tax	2,00,000	Sundry Debtors	17,40,000
		Stock	17,00,000
		Profit & Loss A/c	18,60,000
Total	**80,80,000**	**Total**	**80,80,000**

Following scheme of Capital Reduction A/c approved by all interested parties and Court:

1. All Equity Shares are reduced to Rs. 3 each and Preference Shares to Rs. 7 each.
2. Debentureholders agree to take over a part of Land and Building, Book value of which is Rs. 7,00,000, towards their 50% claim. Rate of Interest of balance 50% Debentures increased to 9%.
3. Goodwill and Patents will be written off.
4. 10% of Sundry Debtors to be provided for Bad Debts.
5. Stock to be written off by Rs. 2,60,000.
6. 50% of balance Land & Building sold for Rs. 6,00,000 and remaining Land & Building valued at Rs. 6,00,000.
7. Investment to be sold for Rs. 2,00,000.
8. There are pending contracts amounting to Rs. 10,00,000. These contracts are to be cancelled on payment of Penalty at 5% of pending contract amount.
9. The Income Tax Liability of the Company is settled at Rs. 3,06,000. Provision for Income Tax will be raised accordingly.
10. 1/3rd of Sundry Creditors decided to forego their claim.
11. After making all the above adjustments, balance amount available through the Scheme, will be utilised to write off the value of Plant & Machinery to that extant.

You are required to pass the Journal Entries and draw up the Balance Sheet of the Company after Capital Reduction A/c.

Solution: **1. Journal Entries in the books of Bheeshma Ltd.**

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10 each) A/c	Dr.	30,00,000	
	To Equity Share Capital (Rs. 3 each) A/c			9,00,000
	To Capital Reduction A/c			21,00,000
	(Being 3,00,000 Equity Shares of Rs. 10 each reduced to Rs. 3 each, balance transferred to Capital Reduction A/c vide approved Capital Reduction A/c scheme)			
2.	6% Preference Share Capital (Rs. 10 each) A/c	Dr.	16,00,000	
	To 6% Preference Share Capital (Rs. 7 each) A/c			11,20,000
	To Capital Reduction A/c			4,80,000
	(Being 1,60,000 6% Preference Shares of Rs. 10 each reduced to Rs. 7 each, balance transferred to Capital Reduction A/c vide Capital Reduction A/c scheme)			
3.	6% Debentures A/c	Dr.	15,00,000	
	To Debentureholders A/c		15,00,000	
	(Being claims of 6% Debentureholders transferred to Debentureholders A/c)			
4.	Debentureholders A/c	Dr.	15,00,000	
	To Land and Building		7,00,000	
	To Capital Reduction A/c		50,000	
	To 9% Debentures A/c		7,50,000	
	(Being 50% of 6% Debentures settled and balance converted to 9% Debentures)			
5.	Capital Reduction A/c	Dr.	29,54,000	
	To Goodwill A/c			5,20,000
	To Patent A/c			1,50,000
	To Provision for Doubtful Debts			1,74,000
	To Stock A/c			2,60,000
	To Profit and Loss A/c			18,50,000
	(Being assets, Profit and Loss A/c written off vide scheme of Capital Reduction A/c.)			
6.	Bank A/c	Dr.	6,00,000	
	To Land and Building [(17,00,000 - 7,00,000) x 50%]			5,00,000
	To Capital Reduction A/c			1,00,300
	(Being 50% of the balance Land and Building sold at a profit of Rs. 1,00,000)			
7.	Land and Building A/c	Dr.	1,00,000	
	To Capital Reduction A/c		1,00,000	
	(Being Land & Building appreciated to Rs. 6,00,000 vide scheme of Capital Reduction A/c,)			
8.	Bank A/c	Dr.	2,00,000	
	Capital Reduction A/c	Dr.	20,000	
	To Investments A/c			2,20,000
	(Being investments sold at a loss of Rs. 20,000 vide scheme of Capital Reduction A/c.)			

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
9.	Capital Reduction A/c Dr. To Bank A/c (Being penalty paid on pending contracts at 5% vide Capital Reduction A/c scheme.)	50,000	50,000
10.	Capital Reduction A/c Dr. To Provision for Income Tax (Being Provision for Income Tax increased and debited Capital Reduction A/c)	1,06,000	1,06,000
11.	Provision for Income Tax A/c Dr. To Bank A/c (Being Income Tax Liability settled vide scheme of Capital Reduction A/c Scheme) Note: It is assumed that Income Tax Liability is settled immediately.	3,06,000	3,06,000
12.	Sundry Creditors A/c Dr. To Capital Reduction A/c (Being Creclitors' claim forgone to the extent of 1/3rd vide Capital Reduction A/c scheme.)	4,00,000	4,00,000
13.	Capital Reduction A/c Dr. To Plant and Machinery A/c (WN 2) (Being Plant & Machinery written off to the extent of balance in Capital Reduction A/c.)	1,00,000	1,00, 000

2. Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	5,20,000	By Equity Share Capital A/c	21,00,000
To Patents A/c	1,50,000	By 6% Preference Share capital A/c	4,80,000
To Sundry Debtors A/c	1,74,000	By 6% Debentures A/c	50,000
To Stock A/c	2,60,000	By Land and Building A/c	2,00,000
To Investments A/c	20,000	By Sundry Creditors A/c (waiver)	4,00,000
To Bank A/c (Penalty paid)	50,000		
To Provision for Income Tax (Additional)	1,06,000		
To Profit and Loss A/c (written off)	18,50,000		
To Plant and Machinery **(balancing figure)**	1,00,000		
Total	**32,30.000**	**Total**	**32,30,000**

3. Bank A/c

Particulars	Rs.	Particulars	Rs.
To Land and Building	6,00,000	By balance b/d	5,80,000
To Investments	2,00,000	By Capital Reduction A/c (Penalty)	50,000
To balance c/d **(balancing figure)**	1,16,000	By Provision for Income Tax Liability	3,06,000
Total	**9,36,000**	**Total**	**9,36,000**

4. Balance Sheet of Bheeshma Ltd. (and reduced) as on 31st March (after Capital Reduction A/c)

	Particulars as at 31st March		Note	Rs.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**	– Share Capital	B-1	20,20,000
(2)	**Non-Current Liabilities:**	– Long Term Borrowings		
		9% Debentures (Secured)		7,50,000
(3)	**Current Liabilities:**			
	(a) Short Term Borrowings	– Bank Overdraft		1,36,000
	I (b) Trade Payables	– Sundry Creditors		8,001000
		Total		**37,06,000**
II	**ASSETS**			
(1)	**Non-Current Assets**	– Fixed Assets: Tangible Assets	B-2	7,00,000
(2)	**Current Assets:**			
	(a) Inventories	– Stock-In-Trade		
		(17,00,000 - write off 2,60,000)		14,40,000
	(b) Trade Receivables	– Debtors 17,40,000		
		– Prov. for Bad Debts 1,74,000		15,66,000
		Total		**37,06,000**

Schedule B-1: Share Capital

Particulars		Rs.
Authorised: .....Equity Shares of... each &..... Preference Shares of....each		
Issued, Subscribed & Paid-up:	3,00,000 Equity Shares of Rs. 3 each	9,00,000
	1,60,000 Preference Shares of Rs. 7 each	11,20,000
	Total	**20,20,000**

Schedule B-2: Tangible Assets

Particulars		Rs.
(a) Land & Building	(Cost 5,00,000 + Incr. under Capital Reduction A/c Scheme 1,00,000)	6,00,000
(b) Plant & Machinery	(Cost 2,00,000 – Decr. under Capital Reduction A/c Scheme 1,00,000)	1,00,000
	Total	**7,00,000**

Illustration 17: Internal Capital Reduction A/c – Journal Entries and Balance Sheet

Sthaanu Limited had decided to reconstruct the Balance Sheet since it had accumulated huge losses. The following is the Balance Sheet of the Company on 31st March before Capital Reduction A/c:

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets:	
Authorised: 1,50,000 Equity Shares of Rs. 50 each	75,00,000	Goodwill	20,00,000
Subscribed and Paid-up Capital:		Building	10,00,000
50,000 Equity Shares of Rs. 50 each	25,00,000	Plant	10,00,000
1,00,000 Equity Shares of Rs. 50 each Rs. 40 paid-up	40,00,000	Computers	26,00,000
12% First Debentures	5,00,000	Investments	Nil
12% Second Debentures	10,00,000	Current Assets	Nil
Current Liabilities: Sundry Creditors	5,00,000	Profit and Loss A/c (Loss)	20,00,000
Total	**85,00,000**	**Total**	**85,00,000**

The following is the interest of 2 individuals, Sri. Nandi and Sri. Dundi in the Company –

Particulars	Nandi	Dundi
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
Total of above	**12,00,000**	**6,00,000**
Fully paid-up Rs. 50 Shares	3,00,000	2,00,000
Partly paid-up Shares (Rs. 40 paid-up)	5,00,000	5,00,000

The following scheme of Capital Reduction A/c is approved by all parties interested and also by the Court:

(a) Uncalled Capital is to he called up in full and such Shares and the other fully paid-up shams be converted into Equity Shares of Rs. 20 each.

(b) Nandi is to cancel Rs. 7,00,000 of his total debt (other than Share Amount) and to pay Rs. 2 Lakhs to the Company and to receive new 14% First Debentures for the balance amount.

(c) Dundi is to cancel Rs. 3,00,000 of his total debt (other than Equity Shares) and to accept new 14% First Debentures for the balance.

(d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c and the balance to write off the value of Computers.

You are required to draw the Journal Entries to record the same and show the Balance Sheet of the reconstructed Company.

Solution:

Note: Since only Shareholders are involved, the word "Capital Reduction" A/c is used in this Illustration. Alternatively, the term "Capital Reduction A/c" A/c may also be used.

1. Journal Entries in the books of Sthaanu Ltd.

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being the balance of Rs. 10 per Share on 1,00,000 Equity Shares called up and received as per approved Capital Reduction A/c scheme)			
2.	Equity Share Capital (Rs. 50) A/c	Dr.	75,00,000	
	To Equity Share Capital (Rs. 20) A/c			30,00,000
	To Capital Reduction A/c			45,00,000
	(Being the reduction of Equity Shares of Rs. 50 each to Shares of Rs. 20 each, as per approved Capital Reduction A/c scheme)			
3.	12% First Debentures A/c	Dr.	3,00,000	
	12% Second Debentures A/c	Dr.	7,00,000	
	Sundry Creditors A/c	Dr.	2,00,000	
	To Nandi A/c			12,00,000
	(Being the total amount due to Nandi, transferred to his account)			
4.	Bank A/c	Dr.	2,00,000	
	To Nandi A/c			2,00,000
	(Being amount received from Nandi under Capital Reduction A/c Scheme)			

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
5.	12% First Debentures A/c	Dr.	2,00,000	
	12% Second Debentures A/c	Dr.	3,00,000	
	Sundry Creditors A/c	Dr.	1,00,000	
	To Dundi A/c			6,00,000
	(Being the total amount due to Dundi, transferred to his account)			
6.	Nandi A/c	Dr.	14,00,000	
	To 14% First Debentures A/c			7,00,000
	To Capital Reduction A/c			7,00,000
	(Being cancellation of Rs. 7,00,000 out of total debt due to Nandi, and issue of 14% First Debentures for the balance amount as per approved Capital Reduction A/c scheme)			
7.	Dundi A/c	Dr.	6,00,000	
	To 14% First Debentures A/c			3,00,000
	To Capital Reduction A/c			3,00,000
	(Being cancellation of Rs. 3,00,000 out of total debt due to Dundi, and issue of 14% First Debentures for balance amount as per approved Capital Reduction A/c scheme)			
8.	Capital Reduction A/c	Dr.	55,00,000	
	To Goodwili A/c			20,00,000
	To Profit and Loss A/c			20,00,000
	To Computers A/c (balancing figure)			15,00,000
	(Being Goodwill, Profit and Loss Account written off out of Capital Reduction A/c add the balance for writing off Computers) (See WN 2)			

2. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c (written off)	20,00,000	By Equity Share Capital A/c (Reduction of Capital)	45,00,000
To P & L A/c (written off)	20,00,000	By Nandi A/c (Cancellation of Debt)	7,00,000
To Computers **(balancing figure)**	**15,00,000**	By Dundi A/c (Cancellation of Debt)	3,00,000
Total	**55,00,000**	**Total**	**55,00,000**

3. Balance Sheet of Sthaanu Limited (and Reduced) as at 31st March (after construction)

	Particulars as at 31st March		Note	Rs.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**	**–** Share Capital	B-1	30,00,000
(2)	**Non-Current Liabilities:**	**–** Long Term Borrowings:		
		14% Debentures		10,00,000
(3)	**Current Liabilities:**			
	Trade Payables	– Sundry Creditors		
		(5,00,000 - 2,00,000 - 1,00,000)		2,00,000
	Total			**42,00,000**

	Particulars as at 31st March		Note	Rs.
II	**ASSETS**			
(1)	**Non-Current Assets**	– Fixed Assets: Tangible Assets	B-2	30,00,000
(2)	**Current Assets:**			
	Cash and Cash Equivalents	– (10,00,000 + 2,00,000)		12,00,000
	Total			**42,00,000**

Schedule B-1: Share Capital

Particulars		Rs.
Authorised:	..... Equity Shares of ..... each	
Issued, Subscribed & Paid-up:	1,50,000 Equity Shares of Rs. 20 each	**30,00,000**

Schedule B-2: Tangible Assets

Particulars		Rs.
(a) Building		10,00,000
(b) Plant		10,00,000
(c) Computers	(Cost 25,00,000 - Decr. under Capital Reduction A/c Scheme 15,00,000)	10,00,000
Total		**30,00,000**

Illustration 18: Internal Capital Reduction A/c - Journal Entries and Balance Sheet

The Balance Sheet of Nakula Limited as on 31 st March was as follows:

Liabilities	Rs.	Assets	Rs.
5,00,000 Equity Shares of Rs. 10 each fully paid	50,00,000	Goodwill	10,00,000
9% 2,00,000 Pref. Shares of Rs. 100 each fully paid	20,00,000	Patents	5,00,000
10% First Debentures	6,00,000	Land and Buildings	30,00,000
10% Second Debentures	10,00,000	Furniture and Fixtures	2,00,000
Debentures Interest Outstanding	1,60,000	Plant and Machinery	10,00,000
Trade Creditors	5,00,000	Computers	3,00,000
Directors' Loan	1,00,000	Trade Investments	5,00,000
Bank O/D	1,00,000	Debtors	5,00,000
Outstanding Liabilities	40,000	Stocks	10,00,000
Provision for Tax	1,00,000	Discount on issue of Debentures	1,00,000
		Profit and Loss Account (Loss)	15,00,000
Total	**96,00,000**	**Total**	**96,00,000**

Note: Preference Dividend is in arrears for last three years.

Lakshmipathi holds 10% First Debentures for Rs. 4,00,000 and 10% Second Debentures for Rs. 6,00,000. He is also a Creditor for Rs. 1,00,000. Narayana holds 10% First Debentures for Rs. 2,00,000 and 10% Second Debentures for Rs. 4,00,000 and is also a Creditor for Rs. 50,000.

The following Scheme of Capital Reduction A/c has been, agreed upon and duly approved.

1. All the Equity Shares be converted into Fully Paid Equity Shares of Rs. 5 each
2. Preference Shares be reduced to Rs. 50 each. Preference Shareholders agree to forego their arrears of dividends in consideration of which 9% Preference Shares are to be converted into 10% Preference Shares.
3. Lakshmipathi is to cancel Rs. 6,00,000 of his total debt including Interest on Debentures and to pay Rs. 1 Lakh to the Company and to receive new 12% Debentures for balance amount.
4. Narayana is to cancel Rs. 3,00,000 of his total debt including Interest on Debentures and to accept new 12% Debentures for the balance amount.
5. Trade Creditors (other than Lakshmipathi and Narayana) agreed to forego 50% of their claim.
6. Directors Loans settled as to 60% thereof by allotment of Equity Shares and balance being waived.
7. There were Capital Commitments totalling Rs. 3,00,000. These contracts are to be cancelled on payment of 5% of the Contact Price as a penalty.
8. Directors refund Rs. 1,10,000 of the fees previously received by them.
9. Capital Reduction A/c Expenses paid Rs. 10,000.
10. Taxation Liability of the Company is settled at Rs. 80,000 and the same is paid immediately.
11. The assets are revalued as under:

Land and Building	28,00,000	Computers	1,80,000
Plant and Machinery	4,00,000	Furniture and Fixtures	1,00,000
Stock	7,00,000	Trade Investments	4,00,000
Debtors	3,00,000		

Pass Journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of Debentures. Prepare Bank Account and working of allocation of Interest on Debentures between Lakshmipathi and Narayana. Also prepare the Balance Sheet of the Company post Capital Reduction A/c.

Solution: 1. Analysis of Lakshmipathi and Narayana's interests in the Company

Particulars	**Lakshmi-pathi(l)**	**Narayana (2)**	**Total of L & N (3)**	**Total as per B/s (4)**	**Bal. share of (4-3)**
10% First Debentures	4,00,000	2,00,000	6,00,000	6,00,006	Nil
10% Second Debentures	6,00,000	4,00,000	10,00,000	10,00,000	Nil
A. Total of Debentures	10,00,000	6,00,000	16,00,000	16,00,O0O	Nil
B. Interest at 10% on the above	1,00,000	60,000	1,60,000	1,60,060	Nil
C. Trade Creditors	1,00,000	50,000	1,50,000	5,00,000	3,50,000
Total Due (A + B + C)	12,00,000	7,10,000	19,10,000		3,50,000
Less: Remission of Liability - given	6,00,000	3,00,000	9,00,000		(50%) =1,75,000
Add: Amount paid to Company now	1,00,000	Nil	1,00,000		Nil
Total Revised Due	7,00,000	4,10,000	11,10,000		1,75,000

2. Journal Entries in the Books of Nakula Ltd.

S. No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital A/c (Rs. 10 each)	Dr.	50,00,000	
	To Equity Share Capital A/c (Rs. 5 each)			25,00,000
	To Capital Reduction A/c			25,00,000
	(Being conversion of 5,00,000 Equity Shares of Rs. 10 each fully paid into same number of Fully Paid Equity Shares of Rs. 5 each as per Capital Reduction A/c Scheme)			
2.	9% Preference Share Capital A/c (Rs. 100 each)	Dr.	20,00,000	
	To 10% Preference Share Capital A/c (Rs. 50 each)			10,00,000
	To Capital Reduction A/c			10,00,000
	(Being conversion of 9% Preference Shares of Rs. 100 each into same number of 10% Preference Shares of Rs. 50 each in consideration of waiver of Preference Dividends claims, as per approved scheme of Capital Reduction A/c.)			
3.	10% First Debentures A/c	Dr.	4,00,000	
	10% Second Debentures A/c	Dr.	6,00,000	
	Trade Creditors A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	1,00,000	
	Bank A/c (amount received from Lakshmipathi)	Dr.	1,00,000	
	To 12% New Debentures A/c			7,00,000
	To Capital Reduction A/c			6,00,000
	(Being Rs. 6,00,000 due to Lakshmipathi cancelled and 12% New Debentures allotted for balance amount as per scheme of Capital Reduction A/c - refer WN 1)			
4.	10% First Debentures A/c	Dr.	2,00,000	
	10% Second Debentures A/c	Dr.	4,00,000	
	Trade Creditors A/c	Dr.	50,000	
	Interest on Debentures Outstanding A/c	Dr.	60,000	
	To 12% New Debentures A/c			4,10,000
	To Capital Reduction A/c			3,00,000
	(Being Rs. 3,00,000 due to Narayana cancelled and 12% New Debentures allotted for balance amount as per scheme of Capital Reduction A/c - refer WN 1).			
5.	Trade Creditors A/c	Dr.	1,75,000	
	To Capital Reduction A/c			1,75,000
	(Being waiver of 50% of claim by remaining Trade Creditors) (See WN 1)			
6.	Director's Loan A/c	Dr.	1,00,000	
	To Equity Share Capital A/c (Rs. 5 each)			60,000
	To Capital Reduction A/c			40,000
	(Being Directors' Loan claim settled at 60%, by issuing 12,000 Equity Shares of Rs. 5 each as per scheme of Capital Reduction A/c, the balance being waived)			
7.	Bank A/c	Dr.	1,10,000	
	To Capital Reduction A/c			1,10,000
	(Being Refund of Fees by Directors, credited to Capital Reduction A/c)			

S. No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
8.	Capital Reduction A/c Dr. To Bank A/c (Being the payment of Capital Reduction A/c Expenses 10,000 and Capital Commitment Penalty at 5% of Rs. 3,00,000 = 15,000)	25,000	 25,000
9.	Provision for Tax A/c Dr. To Bank A/c To Capital Reduction A/c (Being payment of tax for 80% of liability in full settlement)	1,00,000 20,000	 80,000
10.	Capital Reduction A/c Dr. To Goodwill A/c To Patents A/c To Profit and Loss A/c To Discount on issue of Debentures A/c To Land and Building A/c (30,00,000 - 28,00,000) To Plant and Machinery A/c (10,00,000 - 4,00,000) To Furniture and Fixtures A/c (2,00,000 - 1,00,000) To Computers A/c (3,00,000 - 1,80,000) To Trade Investments A/c (5,00,000 - 4,00,000) To Stock A/c (10,00,000 - 7,00,000) To Debtors A/c (5,00,000 - 3,00,000) (Being writing off of Intangible Items, Losses and reduction in value of assets as per approved scheme of Capital Reduction A/c)	47,20,000	 10,00,000 5,00,000 15,00,000 1,00,000 2,00,000 6,00,000 1,00,000 1,20,000 1,00,000 3,00,000 1,00,000

3. Capital Reduction A/c Account

Particulars	Rs.	Particulars	Rs.
To Bank (Expenses & Penalty)	25,000	By Equity Share Capital A/c (Rs. 10)	25,00,000
To Goodwill A/c	10,00,000	By 9% Preference Share Capital	10,00,000
To Patents A/c	5,00,000	By Sundries (Lakshmipathi settlement)	6,00,000
To Profit and Loss A/c	15,00,000	By Sundries (Narayana settlement)	3,00,000
To Discount on Issue of Debentures A/c	1,00,000	By Trade Creditors (50% waiver)	1,75,000
To Land and Building A/c	2,00,000	By Directors' Loan O/s (40% waiver)	40,000
To Plant and Machinery A/c	6,00,000	By Bank (Directors Fees Refund)	1,10,000
To Furniture and Fixtures A/c	1,00,000	By Provision for Taxation (Reduction)	20,000
To Computers A/c	1,20,000		
To Trade Investments A/c	1,00,000		
To Stock A/c	3,00,000		
To Debtors A/c	2,00,000		
Total	**47,45,000**	**Total**	**47,45,000**

4. Bank Account

Receipts	Rs.	Payments	Rs.
To Lakshmipathi A/c (amount received)	1,00,000	By Balance b/d Overdraft balance	1,00,000
To Capital Reduction A/c (Paid by Directors)	1,10,000	By Capital Reduction A/c (Expenses & Penalty)	25,000
		By Provision for Tax A/c (tax paid)	80,000
		By Balance c/d – balancing figure	5,000
Total	**2,10,000**	**Total**	**2,10,000**

5. Balance Sheet of Nakula Ltd. (and Reduced) as at 31st March (after Capital Reduction A/c)

	Particulars as at 31st March		Note	Rs.
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**	Share Capital	B-1	35,60,000
(2)	**Non-Current Liabilities:**			
	Long Term Borrowings	12% Debentures (Secured)		11,10,000
(3)	**Current Liabilities:**	Trade Payables	B-2	2,15,000
	Total			**48,85,000**
II	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Fixed Assets: a Tangible Assets		B-3	34,80,000
	(b) Non-Current Investments			4,00,000
(2)	**Current Assets:**			
	(a) Inventories	Stock-in-Trade		7,00,000
	(b) Trade Receivables	Sundry Debtors		3,00,000
	(c) Cash and Cash Equivalents	(WN 4)		5,000
	Total			**48,85,000**

Schedule B-1: Share Capital

Particulars		Rs.
Authorised: ..... Equity Shares of..... each &..... Preference Shares of..... each		
Issued, Subscribed & Paid-up:	5,12,000 Equity Shares of Rs. 5 each	25,60,000
(12,000 Equity Shares issued to	Directors against Loans due to them)	
	20,000 10% Preference Shares of 7 50 each	10,00,000
Total		**35,60,000**

Schedule B-2. Trade Payables

Particulars	Rs.
(a) Trade Creditors (Balance 50%)	1,75,000
(b) Outstanding Liabilities	40,000
Total	**1,15,000**

Schedule B-3: Tangible Assets

Particulars		Rs.
(a) Land & Building	(Cost 30,00,000 – Decr. under Capital Reduction A/c Scheme 2,00,000)	28,00,000
(b) Plant & Machinery	(Cost 10,00,000 – Decr. under Capital Reduction A/c Scheme 6,00,000)	4,00,000
(c) Furniture & Fixtures	(Cost 2,00,000 – Decr. under Capital Reduction A/c Scheme 1,00,000)	1,00,000
(d) Computers	(Cost 3,00,000 – Decr. under Capital Reduction A/c Scheme 1,20,000)	1,80,000
Total		**34,80,000**

EXERCISES

(I) Multiple Choice Questions:

1. Capital reduction is implemented per Section _____ of Companies Act.
   (a) 77 (b) 75 (c) 80 (d) 100
2. The scheme of capital reduction is to be approved by _____.
   (a) High Court (b) SEBI (c) Central Government (d) Shareholders
3. The scheme of internal Capital Reduction A/c involves _____ company.
   (a) one (b) two (c) three (d) many
4. Fictitious assets are to be transferred to _____ .
   (a) internal Capital Reduction A/c (b) security premium (c) share capital (d) capital reserve
5. Balance in Capital Reduction should be transferred to _____ .
   (a) security premium (b) capital reserve (c) share capital (d) Profit & Loss Acount
6. The cancellation of contingent liability is _____ for company.
   (a) profit (b) loss (c) no profit – no loss (d) nil
7. "And Reduced" words are to be shown as in Balance Sheet as per _____ requirement.
   (a) company law (b) AS (c) income tax (d) stock exchange
8. XYZ Ltd.. had on 31st December, 2008; 80,000 equity shares at ₹ 10 each. It was decided to reduce shares to ₹ 8 each. The reduction is _____.
   (a) ₹ 1,60,000 (b) ₹ 80,000 (c) ₹ 2,00,000 (d) ₹ 1,50,000
9. Creditors of the company are ₹ 50,00,000 one creditor for ₹ 20,00,000 decided to forego 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction. The amount transferred to capital reduction is _____ .
   (a) ₹ 8,00,000 (b) ₹ 10,00,000 (c) ₹ 4,00,000 (d) ₹ 5,00,000
10. The preference shareholders agree to forego arrears of preference dividend of ₹ 72,000. The amount transferred to Capital Reduction Account is _____ .
    (a) Nil (b) ₹ 72,000 (c) ₹ 36,000 (d) ₹ 70,000

[**Ans.:** 1. (d), 2. (a), 3. (a), 4. (a), 5. (b), 6. (c), 7. (a), 8. (a), 9. (a), 10. (a)]

(II) Fill in the Blanks:

1. The reduction and capital is permitted under _____ of Companies Act.
2. The Capital reduction means reduction in _____ value of shares.
3. The Sub-division of shares does not result in _____ of capital.
4. The Shareholders can surrender shares for _____ or _____ .
5. The internal Capital Reduction A/c results in proper valuation of _____ and _____ of companies.
6. The scheme of internal Capital Reduction A/c requires approval of _____ .
7. _____ resolution is to be passed by shareholders for approval of scheme of Capital Reduction A/c.
8. The fictitious debit balances are to be transferred to _____ Account.
9. The difference in revaluation of assets is to be transferred to _____ Account.
10. A scheme of _____ or _____ mean the scheme having same effect.
11. The full balance of capital is to be debited, if _____ value is reduced.
12. Shareholders not approving scheme is called _____ shareholders.
13. The Balance Sheet prepared after implementation of the scheme is to be suffixed by words _____.

14. The expenses for forming and implementing scheme should be debited to _____.
15. The scheme internal Capital Reduction A/c can be utilised to provide _____ for the company.
16. Capital Reduction Account is _____ by payment of Capital Reduction A/c expenses.
17. The objective of Capital Reduction A/c is to write off _____.
18. Court Confirmation Order has to be registered with the _____ of companies.
19. In _____ no new company is formed.
20. Appreciation in the value of land and building is recorded on _____ side of Capital Reduction Account.
21. Any credit balance on Capital Reduction Account after writing off losses is transferred to _____ account.
22. In re-organisation, shares surrendered are transferred to _____ A/c.
23. Payment for contingent liabiliy is debited to _____ A/c.
24. Fictitious assets are written off to _____ A/c.
25. The objective of capital reduction scheme is to w/off _____.
26. In capital Reduction all the adjustments are made in _____ A/c.
27. Capital Reduction A/c expenses are debited to _____ A/c.
28. Appreciation in land and building is credited to _____ A/c.
29. Internal Capital Reduction A/c is governed by section _____ of Companies Act.
30. Capital Reduction requires _____.
31. Amicable settlement of difference by mutual consent by parties is _____.
32. Creditors foregoing their claims in whole or in part is _____.

[**Ans.:** 1. 100, 2. paid-up value, 3. reduction, 4. re-issue-cancellation, 5. assets and liabilities, 6. court, 7. Special, 8. Capital Reduction, 9. Capital Reduction, 10. capital reduction or internal Capital Reduction A/c, 11. face, 12. dissenting, 13. and reduced, 14. capital reduction, 15. funds, (16) debited, (17) accumulated losses, (18) Registrar, (19) internal Capital Reduction A/c, (20) credit, (21) Capital Reserve, (22) share surrendered, (23) capital Reduction, (24) capital Reduction, (25) Losses, (26) Capital Reductins A/c, (27) Capital Reduction A/c, (28) Capital Reduction A/c, (29) 494, (30) court order, (31) compromise, (32) Arrangement]

(III) Match the columns

1.

	Group 'A'		**Group 'B'**
(1)	Capital reduction	(a)	Transfer to capital reduction
(2)	Flctitious balance	(b)	Section 100
(3)	Capital reduction scheme	(c)	No reduction of capital
(4)	Consolidation of share	(d)	Internal Capital Reduction A/c
(5)	Subdividion of shares	(e)	No change in capital

[**Ans.:** 1. (b); 2. (a); 3. (d); 4. (e); 5. (c)]

2.

	Group 'A'		**Group 'B'**
(1)	Surrender of shares	(a)	Credit – capital reduction
(2)	Cancellation of surrendered shares	(b)	Unchanged capital
(3)	Surplus on revaluation of asset	(c)	Transfer to capital reserve
(4)	Loss on revaluation of asset	(d)	Transfer to capital reduction
(5)	Credit balance in capital reduction	(e)	Debit capital reduction

[**Ans.:** 1. (b); 2. (a); 3. (c); 4. (e); 5. (d)]

3.

Group 'A'	Group 'B'
(1) Internal Capital Reduction A/c	(a) Compromise
(2) Creditors accepting part payment	(b) Compromise
(3) Debentureholders accepting part payment	(c) Utilised to write off preliminary expenses
(4) Internal Capital Reduction A/c	(d) No company liquidated
(5) Capital Reduction balance	(e) Special resolution by shareholders
(6) Internal Capital Reduction A/c requires	(f) Requires court-order
(7) Capital Reduction	(g) Arrangement
(8) Rearrangement of rights without any dispute	(h) Surrender
	(i) Merger
	(j) Section 494

[**Ans.:** 1. (j); 2. (a); 3. (b); 4. (d); 5. (c); 6. (e); 7. (f); 8. (g)]

(IV) State whether the following statement are True or False:

1. Capital reduction and Internal Capital Reduction A/c is synonym.
2. Capital reduction is one variety of capital restructuring.
3. Consolidation of shares result in profit for a company.
4. Sub-division of shares result in gain for a company.
5. Fictitious balances are to be transferred to Capital Reduction Account.
6. Accounting for unrecorded assets and appreciation of assets results in credit to Capital Reduction Account.
7. Provision for unrecorded liability indicates loss to a company.
8. Accounting for internal and external Capital Reduction A/c is in identical manner.
9. The reduction in paid-up value should not be coupled with reduction in face value of shares.
10. If shareholders surrender shares to the company, it is capital profit to the company.
11. Re-classification of surrendered shares should not be accounted.
12. Cancellation of contingent liability is treated as profit to the company.
13. Transfer of assets to creditors at book value is benefit to the company.
14. The expenses for scheme should be debited to preliminary expenses.
15. Statutory reserve can be utilised to set-off loss under the scheme.
16. The final accounts prepared after Capital Reduction A/c should be suffixed by words "and reduced."
17. The requirements of Schedule VI is to be complied while preparing account after Internal Capital Reduction A/c.
18. Authorised share capital is to be reduced to the extent of capital reduction.
19. Internal Capital Reduction A/c scheme cannot be prepared to cover capital Capital Reduction A/c.
20. The debit balance in capital reduction should be transferred to Goodwill Account.
21. Credit balance on Capital Reduction Account is utilised to write off accumulated losses.
22. After Internal Capital Reduction A/c, Balance Sheet of a company cannot reflect true and fair view.
23. Profit on sale of asset is credited to Capital Reduction Account.
24. A company cannot subdivide shares.
25. Only sick companies undertake capital reduction.
26. No journal entry is required for cancellation of unissued share capital.
27. Central Government premission is required for Internal Capital Reduction A/c.
28. Amount sacrified by shareholders in a scheme of Capital Reduction A/c is transferred to Capital Reserve Account.

29. Securities Premium Account can be transferred to Capital Reduction Account.
30. The object of Capital Reduction A/c is to reorganise capital of the company.
31. Internal Capital Reduction A/c is governed by section 809 of the Company Law.
32. Creditors accepting part payment of their claims is a compromise.
33. Capital Reduction A/c balance is utilised for issue of bonus shares.
34. Internal Capital Reduction A/c requires ordinary Resolution of the Board of Directors.
35. Capital Reduction requires court order.
36. Creditors foregoing the claim is an arrangement.
37. Amicable settlement of differences by mutual consent by parties is a merger.
38. A company going for Internal Capital Reduction A/c must add the words, and reduced after its name.

[**Ans.: True:** 1, 2, 6, 7, 11, 16, 17, 20, 21, 23, 25, 26, 29, 30, 32, 35, 36
False: 3, 4, 5, 8, 9, 10, 12, 13, 14, 15, 18, 19, 22, 24, 27, 28, 31, 33, 34, 37, 38]

(V) Short Questions:

1. What is Internal Capital Reduction A/c?
2. Why is Internal Capital Reduction A/c needed?
3. What is consolidation of Share Capital?
4. What is sub-dividion of Share Capital?
5. What is surrender of shares?
6. To which A/c balance on Capital Reduction A/c is transferred?
7. Why, the words and Reduced added to the name of the company after Capital Reduction A/c?
8. What is alteration of share capital?

April – 2000

(1) The summarised balance sheet of Viprada Ltd.. as at 31st March 2014 was as follows: (16)

Liabilities	Rs.	Assets	Rs.
Redeemable preference share capital of Rs. 100 each, fully paid	10,00,000	Fixed assets	50,00,000
		Cash on hand	5,00,000
Equity shares of Rs. 100 each, fully paid	50,00,000	Cash at ICICI Bank	20,00,000
Reserves	25,00,000	Other current assets	50,00,000
Creditors	20,00,000	Preliminary expenses	5,00,000
Loans	25,00,000		
Rs.	**1,30,00,000**	**Rs.**	**1,30,00,000**

The company proposed to make a fresh issue of capital to the public in June, 2000. However before doing so the directors, desire to carry out the following scheme of Capital Reduction A/c:

(i) The fictions assets shall be written off.
(ii) The fixed assets to be appreciated by 20%.
(iii) The goodwill of the company valued at Rs. 25,00,000 shall be brought into the books.
(iv) A provision of 5% shall be made against the other current assets for likely short-fall in its realisation by earmarking the requisite amount from the existing reserves.
(v) The preference shares shall be redeemed at 10% premium.
(vi) The company to issue bonus shares in the ratio of one share for every two existing equity shares out of capital reserve.
(vii) The equity capital thereafter to be sub-divided into shares of Rs. 10 each.

You are required to prepare: Capital Reduction Account. [TYBCom, April 2000, modified]

October – 2000

(2) M/s. Bhansali Ltd. whose Balance Sheet as at 31st December, 1999 is as given below. (16)

	Rs.	Rs.
Sources of Funds:		
1,00,000 Equity shares of Rs. 20 each Rs. 10 paid-up		10,00,000
8% Preference Share Capital:		
8,000 shares of Rs. 100 each, Rs. 75 paid-up		6,00,000
Secured Loans 9% Debentures		6,00,000
Outstanding interest	1,08,000	7,08,000
Loan from ICICI Ltd..	1,50,000	
Outstanding interest	15,000	1,65,000
Total Rs.		24,73,000
Application of Funds:		
Fixed Assets	11,20,000	
Goodwill	80,000	12,00,000
Investments at cost (Market value Rs. 55,000)		65,000
Current assets and loan and advances:		
Current assets:		
Stock	6,80,000	
Debtors	1,20,000	
Bills Receivable	49,000	
	8,49,000	
Less Current Liabilities:		
Sundry Creditors	69,000	
		7,80,000
Profit and Loss Account		4,28,000
Rs.		**24,73,000**

Preference dividend is in arrears for one year.

Following Scheme of Capital Reduction A/c is approved and agreed upon.

(i) Preference shareholders to give up their claims, inclusive of dividends to the extent of 30% and balance to be paid off.

(ii) Debentureholders agree to give up their claims to receive interest in consideration of their rate of interest being enhanced to 10% henceforth.

(iii) ICICI Ltd.. agree to give up 50% of their interest outstanding in consideration of their claim paid off at once.

(iv) Sundry creditors would like to grant a discount of 5% if they were to be paid off immediately.

(v) Balance of profit and loss account, Goodwill and 25% of the total sundry debtors to be written off.

(vi) Fixed assets to be written down by Rs. 14,000.

(vii) Investment to be reflected at their market value.

(viii) Cost of Capital Reduction A/c is Rs. 3,350.

(ix) To the extent required, Equity shareholders suffers on reduction of their rights.

(x) The Equity shareholders bring in necessary cash against their partly paid shares to leave working capital at Rs. 20,000. Pass necessary Journal entries in the books of the company assuming that scheme has been put through fully and prepare the Balance Sheet after Capital Reduction A/c.

April – 2001

(3) Bottomout Ltd.. was in serious financial crisis and the Directors considered it advisable to go in for a compromise scheme with its creditors. (16)

Balance Sheet of Bottomout Ltd. as on 30-4-2000

Liabilities	Rs.	Assets	Rs.
Preference Share Capital (Rs. 100 paid-up)	5,00,000	Land	80,000
Equity Share Capital (Rs. 10 paid-up)	7,00,000	Building	2,60,000
12% Debentures	2,00,000	Plant & Machinery	3,75,000
Creditors	2,80,000	Trade Mark	75,000
Bank Loan	2,15,000	Goodwill	1,50,000
		Stocks	1,60,000
		Debtors	2,73,000
		Profit & Loss	5,12,000
		Discount on Issue of Debentures	10,000
Rs.	**18,95,000**	**Rs.**	**18,95,000**

Scheme as proposed by the directors is as below:

(i) Bank agreed to waive interest amount outstanding of Rs. 15,000 included in the balance subject to immediate payment of 50% of their dues.

(ii) Land was revalued upwards by 550%; other Tangible Fixed Assets are to be written down by 20% uniformly; all intangible and fictitious assets to be written off.

(iii) Debenture holders agreed to reduce their claim by 20% provided they are paid 20% immediately and balance, being redeemed in 4 equal annual instalments.

(iv) Preference shareholders to reduce their shares to Rs. 60 paid-up.

(v) Equity shareholders to reduce their shares to Rs. 2 per share fully paid-up and subscribe to such number of shares to meet the cash requirement of the scheme and also leave a cash balance of Rs. 25,000.

Show Capital Reduction a/c and the Balance Sheet after carrying out the suggested scheme of Capital Reduction A/c.

October – 2001

(4) The summarised assets and liabilities portion of Sunrise Ltd.. as on 1-4-2001 was as under: (16)

Liabilities	Rs.	Assets	Rs.
Authorised Capital:		Goodwill	40,000
1,60,000 Equity Shares of Rs. 10 each	16,00,000	Land and Building	3,20,000
4,000 9% Preference Shares of Rs. 100 each	4,00,000	Plant and Machinery	2,40,000
	20,00,000	Investments	48,000
Issued and Paid-up:		Stock	1,08,000
80,000 Equity Shares of Rs. 10 each, 7.50 paid-up	6,00,000	Debtors	2,36,000
4,000 9% Preference Shares of Rs. 100 each fully paid	4,00,000	Cash in Hand	12,000
Unsecured Loan	1,60,000	Profit and Loss A/c	2,85,600
Sundry Creditors	96,000		
Bank Overdraft	33,600		
Rs.	**12,89,600**	**Rs.**	**12,89,600**

Note:

(i) Dividend on Preference Shares has not been declared for 2 years.

(ii) No provision has been made for sales tax liability of Rs. 19,200.

The following scheme of Capital Reduction A/c has been approved by the court

(i) Uncalled capital is to be called-up in full and Equity shares are to be reduced to Rs. 5 per share.

(ii) Sales tax liability of Rs. 18,000 is to be paid immediately.

(iii) Land and Building are to be shown is Balance sheet at full market value of Rs. 4,40,000. Goodwill is to be written off.

(iv) Trade creditors have agreed to forego 25% of their dues on the condition that 25% of net liability after remission is paid forthwith and the balance is paid within one year.

(v) Investments are to be taken over by bank in full settlement of overdraft balance.

(vi) Preference shareholders have agreed to sacrifice their right for 2 years' dividend and accept 24 fully paid Equity shares of Rs. 5 each for each fully paid Preference shares.

Give necessary Journal entries and draft the Balance sheet after such Capital Reduction A/c.

April – 2002

(5) A company's position on 31st December, 2001 was as follows: (16)

(i) 20,000 Equity Shares of Rs. 1000 each — Rs. 20,00,000

(ii) 10,000 – 6% Debentures of Rs. 100 each — Rs. 10,00,000

(iii) Interest payable on above debentures — Rs. 1,20,000

(iv) There are no Liabilities and Reserves.

An independent valuation of the assets on the above date was considered to be worth Rs. 9,60,000 only. Hence the following steps were taken with the approval of all concerned.

(a) The Face Value of the share was to reduce to Rs. 40 each, Rs. 20 per share paid-up.

(b) The total claim of Debentureholders was reduced to Rs. 5,00,000.

(c) The Debentureholders agreed to accept shares of Rs. 2,50,000 (Rs. 20 per share paid-up) in part satisfaction of their claims as referred to above and for the balance, they were allotted 8% Debentures.

(d) Assets were brought down to their revised/current value.

(e) All shareholders (including under (c) above) agreed to pay Rs. 20 per share to make the share fully paid.

You are required to: (i) Pass the journal entries in books of the company to record the above transactions. (ii) Prepare the Balance Sheet of the company after the above Capital Reduction A/c.

October – 2002

(6) The paid-up capital of Easy Go Traders Ltd. amounted to Rs. 10,00,000 consisting of 4,000 - 5% Cumulative Preference Shares of Rs. 100 each and 60,000 Equity Shares of Rs. 10 each. The preference dividend was in arrears for Rs. 60,000, (Contingent Liability). (16)

The company incurred heavy losses continuously. Therefore, the Directors recommended to the shareholders the following scheme of Capital Reduction A/c to provide a sum sufficient for the following purpose:

(a) To write down the book values of Patents by Rs. 1,40,000, Plant and Machinery by Rs. 34,000 and Tools and Equipments by Rs. 4,000.

(b) To write-off the debit balance of Profit and Loss account of Rs. 2,96,000.

(c) Any balance made available by the Reduction of Capital is to be utilised to write off 'Experiment and Research Expenses".

The scheme duly approved and authorised provided the following:

(i) For every TEN - 5% Preference Shares, SIX - 4% Cumulative Preference Shares of Rs. 100 each and FORTY Equity Shares of Rs. 2 each are to be issued.

(ii) For every Rs. 20 of accumulated preference dividend, TWO equity shares of Rs. 2 each are to be issued.

(iii) For every TEN old Equity Shares, TWO new Equity Shares of Rs. 2 each are to be issued.

You are required to: (a) Pass the journal entries in books of Company to record the above transactions and (b) Prepare Capital Reduction A/c.

April – 2003

(7) The Balance Sheet of Careless Ltd. as at 31-10-01 appeared as follows: (16)

Liabilities		Rs.	Assets		Rs.
Share Capital			**Fixed Assets:**		
30,000 Equity Shares of Rs. 10 each fully paid		3,00,000	Fixed Assets at cost	4,00,000	
1,000 11% Preference Shares of Rs. 100 each fully paid		1,00,000	*Less:* Depredation Prov.	3,00,000	1,00,000
Secured Loan:			**Current Assets:**		
11% Debentures	1,00,000		Stock & Stores		1,20,000
Interest accrued & due on debentures	22,000		Receivables		2,90,000
Bank Overdraft	1,26,000	2,48,000	Other current assets		40,000
Unsecured Loans	1,00,000		**Miscellaneous Expenditure:**		
Interest accrued & due	30,000	1,30,000	Profit & Loss Account		3,28,000
Current Liabilities & Provisions:					
Current Liabilities		1,00,000			
Rs.		**8,78,000**	**Rs.**		**8,78,000**

A scheme of Capital Reduction A/c has been agreed amongst the shareholders and the creditors with the following salient features.

(a) Interest due on unsecured loans is waived.

(b) 50% of the interest due on debentures is waived.

(c) The 11% Preference Shareholders' rights are reduced to 50% and the remaining were convened into 15% Debentures of Rs. 100 each.

(d) Current Liabilities would be reduced by Rs. 10,000 on account of the provision no longer required.

(e) The equity shareholders agree to convert the existing equity shares into new ten-rupee shares of total value Rs. 1,00,000.

(f) The debit balance in the Profit & Loss account is to be written off totally, Rs. 52,000 should be provided for doubtful debts and the value of fixed assets should be Increased by Rs. 80,000.

Prepare the Capital Reduction Account and Redraft the Balance Sheet of the company based on the above scheme of Capital Reduction A/c.

October – 2003

(8) The following is the summarised Balance Sheet of Safemoving Ltd. as on 31st March 2002: (16)

Liabilities		Rs.	Assets	Rs.
Authorised and Issued Capital			Goodwill	2,40,000
60,000 – 6% Preference Shares of Rs. 10 each		6,00,000	Land and Buildings	5,34,000
12,00,000 Equity Shares of Re. 1 each		12,00,000	Plant	5,10,000
6% Debentures	2,40,000		Investment in Subsidiary Ltd. (at cost)	1,50,000
Add: Interest	12,000	2,52,000	Stock	4,50,000
Bank Overdraft		3,30,000	Debtors	5,40,000
Directors Loan		1,50,000	Profit and Loss Account	5,28,000
Creditors		5,40,000	Advertisement Expenses	1,20,000
Rs.		**30,72,000**	**Rs.**	**30,72,000**

Notes:

(i) There is a contingent liability for damages Rs. 60,000.

(ii) Preference shares are cumulative and dividends are in arrears for three years.

A capital reduction scheme setting the following terms was duly approved:

(a) The preference shares to be reduced to Rs. 8 per share and the Equity share to 25 paisa each and to be consolidated as shares of Rs. 10 each and Re. I each fully paid respectively. The preference shareholders, waive two-third of the dividend in arrears and receive equity shares for the balance. The authorised capital to be restored to 60,000 preference shares of Rs. 10 each and 12,00,000 equity shares of Re. I each.

(b) The shares in Subsidiary Ltd.. are sold to an outsider for Rs. 3,00,000.

(c) All intangible and fictitious assets are to be eliminated and bad debts of Rs. 42,000 and obsolete stock of Rs. 60,000 is to be written-off.

(d) The debentureholders to take over one of the company's properties (Book value Rs. 1,08,000) at a price of Rs. 1,20,000 in part satisfaction of the debentures and to provide further cash Rs. 90,000 on a floating charge. The arrears of interest are paid.

(e) Directors refund Rs. 20,000 of the few previously received by them.

(f) The contingent liability materialised in the -sum stated but the company recovered Rs. 30,000 of these damages in action against one of its directors which was debited to his loan account of Rs. 48,000 and the balance of loan was paid in cash on his resignation.

(g) The remaining directors agreed to take equity shares in satisfaction of their loans.

Pass journal entries and Revised Balance Sheet in the books of the company.

April – 2004

(9) The Directors of Hopeful Ltd.. decided to recommend to the shareholders certain steps to put the affairs of the company back on the rails. On 30th June the Balance Sheet of the company was as under: (16)

Liabilities	Rs.	Assets		Rs.
Share Capital:		**Fixed Assets:**		
Authorised: 1,00,000 Equity Shares of Re. 1 each	1,00,000	Goodwill at Cost		22,600
Issued and Paid-up:		Building at Cost	50,000	
85,000 Equity Shares of Re. 1 each fully paid-up	85,000	*Less:* Depreciation	8,500	41,500
Reserves and Surplus:		Computer at cost	1,19,000	
Securities Premium	15,000	***Less:*** Depreciation	59,000	60,000
Loan from Bank	60,000	Investments in Shares		46,000
Current Liabilities:		**Current Assets:**		
Creditors	64,000	Stock		23,000
Bank Overdraft (inducing interest)	57,000	Debtors		19,600
		Profit and Loss Account		68,300
Rs.	**2,81,000**	**Rs.**		**2,81,000**

The scheme of Capital Reduction A/c as approved by the competent authorities was as under:

(1) The issued equity shares were reduced to 6 paise each paid-up; the unpaid value of the share was subsequently called up by the company and paid by all the shareholders.

(2) The balance of unissued capital was allotted to the bank in part discharge of the loan; the balance due was paid in cash.

(3) The Authorised Capital of the company is to be increased by another 50,000 shares and these are to the issued to the existing shareholders as rights issue at Re. 1 each. The amount due from the shareholders was realised.

(4) Creditors are to give up 25% of their claims and the balance due to them to be converted into 12% secured debentures of Rs. 100 each.

(5) Interest of Rs. 7,000 on Bank Overdraft to be waived by the Bank and the balance overdraft to be paid off.

(6) All amounts available including the securities premium to be utilised to write off losses and goodwill fully and the investment in shares to the maximum possible extent.

Show the Journal entries to record the above, and also draw the Balance Sheet of the company after the scheme is fully implemented. All workings should form part of your answer.

October – 2004

(10) The Ledger Balances of Feel Bad Ltd.. include: (16)

Building Rs. 6,10,000; Furniture Rs. 2,00,000; Computer Rs. 3,00,000; Debtors Rs. 3,00,000; Preliminary Expenses Rs. 20,000; Cash at Bank Rs. 80,000; Bills Receivable Rs. 2,50,000; Stock Rs. 40,000; 8% Preference Share Capital - 2,000 shares of Rs. 100 each; Equity Share Capital - 80,000 shares of Rs. 10 each, 'A' 10% Debentures Rs. 4,00,000, 'B' 12% Debentures Rs. 5,00,000; Outstanding Interest for one year on Debentures Rs. 1,00,000; Creditors Rs. 4,00,000; Bills Payable Rs. 50,000; Outstanding Audit Fees Rs. 50,000; Profit & Loss A/c ?

(1) The company has incurred heavy losses. The following scheme of Capital Reduction A/c is agreed upon.

(2) 8% Preference shares are to be reduced by Rs. 20 per share, Equity shares be reduced by Rs. 5 per share.

(3) To settle the claim of holders of 'A' 10% Debentures by issue of new 11% Debentures of Rs. 2,00,000, 'A' Debentureholders agree to forgo their interest.

(4) To settle the claim of holders of 'B' 12% Debentures by issue of new 13% Debentures of Rs. 5,00,000, Outstanding debenture interest on 'B' 12% Debentureholders be paid.

(5) To write off fictitious assets and debit balance of Profit and Loss A/c.

(6) Directors refund Rs. 60,000 fees previously received by them.

(7) Computer was to be written down by Rs. 20,000.

You are required to show: (a) Journal entries to record the above transactions in books of Feel Bad Ltd.. (b) Balance Sheet before Capital Reduction A/c. (c) Balance Sheet after Capital Reduction A/c.

Assume that all the formalities are duly complied.

April – 2005

(11) Following is the Balance-sheet of M/s SIDDHANT LTD. as on 31-03-2004. (16)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each	10,00,000	Fixed Assets	21,00,000
12% Cumulative Preference Shares of		Stock	20,00,000
Rs. 100 each	7,00,000	Sundry Debtors	15,00,000
10% Debentures	3,00,000	Bank	1,10,000
Sundry Creditors	36,00,000	Preliminary Expenses	40,000
Prevision for Tax	5,00,000	Profit and Loss Account	3,50,000
Rs.	**61,00,000**	**Rs.**	**61,00,000**

Note: Preference dividend for 3 years was in arrears.

Following scheme of Capital Reduction A/c was approved:

(1) Write off Fixed Assets by 20%, Sundry Debtors by 15%, and reduce the value of stock to 55% of its bookvalue,
(2) Preference shareholders to forego arrears of preference dividend.
(3) Directors to give temporary loan of Rs. 5,00,000 to Company.
(4) The Company settled tax liability to the extent of Rs. 5,40,000 and to meet the expenses of Capital Reduction A/c amounted to Rs. 10,000.
(5) Sundry Creditors to give a remission of 20% of their claims and a company to allot 11% Preference shares of Rs. 100 each fully paid-up in settlement of the balance amount.
(6) 10% debentures to be converted into 13% Debentures of Rs. 1,60,000 in full settlement of their claim.
(7) Equity shares to be reduced to Rs. 2 each fully paid-up and 12% Cumulative Preference shares to be reduced to 1,00,000 Cumulative Preference shares of Rs. 2 each fully paid-up.
(8) Write off debit balance in Profit and Loss Account and Preliminary expenses.

Draft journal entries and prepare Capital Reduction Account and Balance sheet after Capital Reduction A/c.

October – 2005

(12) The summarised Balance Sheet of M/s. KETAN Ltd. as on 31st Dec., 2004 is as under: (16)

Liabilities	**Rs.**	**Assets**	**Rs.**
10% Preference shares of Rs. 10 each	5,00,000	Goodwill	2,00,000
Equity Shares of Rs. 10 each	10,00,000	Land & Building	10,00,000
10% Conv. Debentures of Rs. 100 each	4,00,000	Furniture	1,25,000
Bank Overdraft	3,20,000	Investments	4,00,000
Sundry Creditors	3,00,000	Stock	2,80,000
Bills Payable	50,000	Debtors	2,20,000
Provision for tax	1,00,000	Bills receivables	25,000
		Profit & Loss Account	4,20,000
Rs.	**26,70,000**	**Rs.**	**26,70,000**

The scheme of Capital Reduction A/c as approved by the court was as under

(1) Each existing Equity share will be written down from Rs. 10 to Rs. 4.
(2) Each existing 10% Preference share is to be written down from Rs. 10 to Rs. 8 of which Rs. 4 will be represented by 12% Preference Share and Rs. 4 by Equity share.
(3) Each convertible debenture is to be exchanged for Rs. 50 of non-convertible 100/0 debentures, Rs. 35 of 12% Preference shares and Rs. 15 of Equity Shares.
(4) The IDBI has agreed to apply for Rs. 5,00,000 of Equity Shares paying cash in full on application.
(5) The reduction of capital and reserves are to be applied in eliminating fictitious assets and balance to be used in writing down the Land and Building and Investment in the ratio of 3:1.

Give journal entries regarding reduction, prepare Capital Reduction Account and resulting summarised Balance Sheet as on 1-1-2005.

April – 2006

(13) Following is the Balance Sheet of PARADISE Ltd. as on 31-3-2005: (16)

Liabilities	Rs.	Assets	Rs.
Share Capital:		**Fixed Assets:**	
10% Preference Shares of Rs. 10 each	2,40,000	Promises	3,20,000
Equity Shares of Rs. 10 each	4,00,000	Plant and Equipments	5,20,000
		Investment	1,20,000
Secured Loans:		**Current Assets, Loans & Advances:**	
15% Debentures of Rs. 100 each	4,80,000	Stock	1,44,000
Current Liabilities and Provisions:		Debtors	96,000
Sundry Creditors	2,00,000	Deposits and Advances	40,000
Bank Overdraft	1,20,000	**Miscellaneous Expenses:**	
Other Liabilities	1,60,000	Publicity campaign exp.	1,60,000
		Profit & Loss Account	2,00,000
Rs.	**16,00,000**	**Rs.**	**16,00,000**

It is observed that the new product launched by the company has not succeeded even after three years of marketing. The management is of the opinion that the assets and liabilities are not valued correctly and also finds it difficult to raise finance. To overcome the situation a scheme of Capital Reduction A/c is prepared by the Directors and approved by all authorities.

The salient features of the scheme are:

(1) Plant and Equipments having book value of Rs. 80,000 is obsolete. This is sold as scrap for Rs. 16,000.

(2) The auditors have pointed out that depreciation on plant is not provided to the extent of Rs. 40,000.

(3) Stock includes items valued at Rs. 48,000 which is sold at a loss of 50%.

(4) The present realisable value of investments is Rs. 56,000.

(5) Dividend on Preference shares is in arrears for three years. This amount is not payable.

(6) All losses and fictitious assets are to be written off.

(7) The expenses paid for forming and implementing scheme is Rs. 8,000.

(8) The paid-up value of Equity share is to be reduced to Rs. 2 per share and Preference shares to Rs. 5 per share. However, the face value remains unchanged.

(9) The creditors due are settled as:
   (i) 20% immediate payment in cash. (ii) 40% amount is cancelled. (iii) 40% paid by issue of 16% Debentures.

(10) Other current liabilities include Rs. 40,000 payable to Directors towards remuneration. This liability is to be cancelled.

(11) A call of Rs. 3 per share on Equity Share is made and received.

(12) Bank overdraft is paid off to the extent possible.

You are required to show. (1) Journal Entries for above scheme of Capital Reduction A/c and (11) Balance Sheet after Capital Reduction A/c.

October – 2006

(14) Following is the Balance Sheet of PARAMOUNT LTD. as on 31-3-2005: (16)

Liabilities	Rs.	Assets	Rs.
Share Capital:		**Fixed Assets:**	
6,000 - 8% Preference Shares of Rs. 100 each	6,00,000	Goodwill	60,000
50,000 Equity Shares of Rs. 10 each	5,00,000	Patents and Trademarks	40,000
Reserves and Surplus:		Building	3,00,000
Capital Reserves	50,000	Plant and Machinery	3,00,000
Secured Loans:		Furniture	1,00,000
5% Debentures of Rs. 100 each	3,00,000	**Current Assets, Loans & Advances:**	
Debenture Interest Due	50,000	Stock	1,50,000
Current Liabilities and Provisions:		Sundry Debtors	75,000
Sundry Creditors	1,80,000	Bank	1,00,000
		Cash 25,000	
		Miscellaneous Expenses:	
		Discount on Debentures	30,000
		Profit & Loss Account	5,00,000
Rs.	**16,80,000**	**Rs.**	**16,80,000**

Note: Preference dividend is in arrears for three years.

The following scheme of Capital Reduction A/c was prepared and duly approved by the court.

(1) The Preference Shares shall be converted into equal Number of 9% Preference Shares of Rs. 50 each.

(2) The equity shares shall be reduced to Rs. 3 each. However the face value will remain the same.

(3) 5% Debentures shall be converted into equal number of 6% Debenture, of Rs. 75 each. The debentureholders also agreed to waive 50% of the accrued interest.

(4) Arrears of preference dividend is to be reduced to one year's dividend which is paid in cash.

(5) The sundry creditors agreed to waive 30% of their claims and to accept Equity shares for Rs. 30,000 in part settlement of their renewed claims.

(6) The assets are to be revalued as under:

Building	Rs. 3,50,000
Plant and Machinery	Rs. 2,50,000
Furniture	Rs. 80,000
Stock	Rs. 1,00,000
Sundry Debtors	Rs. 70,000

(7) Intangible assets and fictitious assets are to be written off.

Pass journal entries, prepare Capital Reduction Account and Balance Sheet after Capital Reduction A/c in the books for Paramount Ltd.

April – 2007

(15) The following is the Balance Sheet of Sandeep Limited on 31st March, 2006. (16)

Liabilities	Rs.	Assets	Rs.
Issued and Subscribed Capital		Goodwill	25,000
10% Preference Share of Rs. 100 each	4,00,000	Patents	15,000
Equity Share of Rs. 10 each	10,00,000	Furniture	35,000
12 % Debentures	7,50,000	Plant and Machinery	6,00,000
Bank Overdraft	50,000	Land and Building	6,50,000
Sundry Creditors	1,40,000	Stocke-in-Trade	80,000
Bills Payable	35,000	Sundry Debtors	90,000
		Bills Receivable	15,000
		Profit and Loss A/c	8,20,000
		Preliminary Expenses	45,000
Rs.	**23,75,000**	**Rs.**	**23,75,000**

The preference dividend is in arrear for four years. The following scheme of capital reduction was sanctioned by the court and agreed by shareholders:

(a) The preference shares are to be reduced to Rs. 50 each and equity shares to Rs. 2 each, both being fully paid.

(b) Of the preference dividend in arrears three-fourth to be waived and remaining to be paid in cash.

(c) The Debentureholders to take over plant and machinery at Rs. 6,50,000 in part satisfaction of their claim. The remaining claim should be converted into 14% debentures.

(d) Creditors agreed to reduce their claim by Rs. 20,000. Bills payable to be paid immediately.

(e) Goodwill, Patents, Profit and Loss A/c and Preliminary Expenses are to be written off entirely.

(f) The following assets are to be revalued as under: Furniture Rs. 25,000, Stock-in-Trade Rs. 68,000, Land and Building Rs. 5,80,000, Sundry Debtors Rs. 80,000.

(g) A secured Loan of Rs. 1,50,000 at 12% per annum is to be obtained by mortgaging Land and Building for repayment of bank overdraft, bills payable and Capital Reduction A/c expenses Rs. 15,000.

Pass journal entries to record above scheme and draft the balance sheet of Sandeep Limited after Capital Reduction A/c.

October – 2007

(16) Following is the Balance Sheet of Delta Ltd. as on 31st March, 2006. (16)

Trial Balance as on 31-03-2006

Liabilities	Rs.	Assets	Rs.
15,000 11.5% Preference Shares of Rs. 10 each fully paid-up	1,50,000	Goodwill	80,000
		Patents	54,000
13,000 10% Preference Shares of Rs. 10 each, Rs. 5 per share paid-up	65,000	Land and Buildings	1,75,000
		Plant and Machinery	3,25,000
20,000 Equity Shares of Rs. 10 each full paid-up	2,00,000	Furniture	15,000
12% Debenture of Rs. 100 each	1,50,000	Investments	75,000
I I% Debentures of Rs. 100 each.	3,00,000	Sundry Debtors	3,15,000
Interest due on debentures	19,500	Bills Receivables	1,00,000
Sundry Creditors	4,50,000	Bank	20,000
		Profit and Loss A/c	1,75,500
Rs.	**13,34,500**	**Rs.**	**13,34,500**

The following scheme of Capital Reduction A/c was submitted and approved by the court:

(a) 11.5% Preference Shares of Rs. 10 each fully paid were reduced to 14% Preference Shares of Rs. 10 each, Rs. 6 per share paid-up.

(b) 10% Preference Shares of Rs. 10 each, Rs. 5 per share paid-up, were reduced to 13% Preference Shares of Rs. 10 each, Rs. 3 per share paid-up.

(c) Equity Shares of Rs. 10 each fully paid were reduced to the denomination of Rs. 5 each fully paid.

(d) 11% Debentureholders agreed to accept 50,000 equity shares of Rs. 5 each in full settlement of their claims.

(e) Debentureholders agreed to forego the interest due on debentures.

(f) Sundry Creditors agreed to forego 10% of their claims.

(g) The Company recovered as damages a sum of Rs. 50,000 which was not recorded in the books.

(h) Cost of Reconstructon was paid Rs. 2,250.

(i) Assets are to be revalued as under

	Rs.
Land and Buildings	2,50,000
Plant and Machinery	2,75,000
Furniture	10,000
Investments	90,000
Sundry Debtors	3,00,000

(j) All intangible assets and accumulated losses are to be written off.

You are required to: (i) Pass Journal Entries in the Books of Delta Ltd. (ii) Prepare Capital Reduction A/c and Balance Sheet after Capital Reduction A/c.

April – 2008

(17) Following is the Balance Sheet of M/s Careless Ltd. as on 31st March, 2007. (16)

Balance Sheet as on 31-03-2007

Liabilities	Rs.	Assets	Rs.
40,000 8% Cumulative preference		Goodwill	1,10,000
Shares of Rs. 10 each	4,00,000	Freehold Property	1,20,000
30,000 Equity shares of Rs. 10 each	3,00,000	Leasehold Property	2,44,000
Securities Premium	10,000	Plant and Machinery	3,20,000
9% Debentures	1,20,000	Furniture	80,000
Accrued debemture interest	5,400	Stock	60,000
Sundry Creditors	1,70,000	Debtors	1,20,000
Bank 0verdraft	1,92,000	Preliminary Expenses	5,000
		Profit and Loss Account	1,38,400
Rs.	**11,97,400**	**Rs.**	**11,97,400**

Note: (a) Preference dividend was in arrears for four years. (b) There was a contingent liability of Rs. 20,000 for workmen compensation.

Following scheme of Capital Reduction A/c was approved and implemented:

(a) The Preference shares were reduced to Rs. 7.50 per share fully paid and Equity shares to Rs. 2 per share fully paid.

(b) After reduction, both classes of shares were consolidated into Rs. 10 shares.

(e) One new Equity shares of Rs. 10 each was issued for every Rs. 40 of gross preference dividend in arrears.

(d) The balance of securities premium was utilised.

(e) Plant and Machinery was written down to Rs. 2,80,000.
(f) Furniture was sold for Rs. 64,000.
(g) Goodwill, preliminary expenses, debt balance in Profit and Loss account; debts of Rs. 17,200 and obsolete stock of Rs. 20,000 were to be written off.
(h) Contingent liability for which no provision has been made was settled at Rs. 14,000 however the amount of Rs. 12,600 was recovered from Insurance Company.
(1) Debentureholders agreed to forego principal amount by Rs. 30,000 and accrued debenture interest in full.

Pass journal entries, prepare capital reduction account and balance sheet after Capital Reduction A/c.

October – 2008

(18) Following is the Balance Sheet of Unmesh Ltd. as on 31-3-2007: (16)

Balance Sheet as on 31st March 2007

Liabilities	Rs.	Assets	Rs.
6,000 10% Cumulative preference		Goodwill	2,00,000
Shares of Rs. 100 each fully paid-up	6,00,000	Land and Building	19,50,000
15,000 Equity Shares of Rs. 100 each,			
fully paid-up	15,00,000	Plant and Machinery	70,000
Loans	2,22,000	Stock	4,00,000
Creditors	7,50,000	Trade Debtors	2,88,000
		Bank Balance	1,26,000
		Profit and Loss A/c	38,000
Rs.	**30,72,000**	**Rs.**	**30,72,000**

Note: Preference Dividend was in arrears Rs. 1,20,000. The Board of Directors of the Co. decided upon the following scheme of Capital Reduction A/c, which was approved by all concerned.

(a) Paid-up value of equity shares shall be reduced to Rs. 50 per share, face value being Rs. 100.
(b) Preference shares are to be converted into 13% debentures of Rs. 100 each with regard to their 80% of dues (including arrears of preference dividend) and for the balance (including dividend arrears) equity shares of Rs. 100 each (Rs. 50 paid-up) shall be issued.
(c) All equity shareholders agreed to pay the balance amount making shares fully paid-up.
(d) The Plant and Machinery was revalued at Rs. 90,000.
(e) The value of stock was reduced by Rs. 1,00,000.
(f) Land and Building shall be written down to Rs. 15,50,000.
(g) Creditors agreed to forego their claims by 10%.
(h) Loan was fully settled for Rs. 2,00,000.
(i) Goodwill, Debit balance of Profit and Loss account shall be written off.
(j) Cost of Capital Reduction A/c Rs. 5,000 was paid.

You are required to:

(i) Pass journal entries in the books of the company.
(ii) Prepare Capital Reduction account.
(iii) Prepare Balance Sheet after Capital Reduction A/c.

April – 2009

(19) Following is the Balance Sheet of Satyaraj Ltd. as on 31st March 2008.

Liabilities	Rs.	Assets	Rs.
Share Capital:		Goodwill	3,40,000
1,60,000 Equity Shares of Rs. 5 each fully paid	8,00,000	Land & Building	2,60,000
4,000 6% cumulative Preference shares of Rs. 100 each fully paid	4,00,000	Equipments	2,50,000
		Sundry Debtors	2,40,970
8% Debentures (Rs. 100 each)	4,00,000	Stock	3,30,340
Bank Overdraft	1,50,000	Investment	45,450
Sundry Creditors (including Rs. 20,000, interest due on Bank overdraft)	3,40,360	Cash at Bank	20,240
		Profit and Loss Account	6,03,360
Rs.	**20,90,360**	**Rs.**	**20,90,360**

Preference dividend is in arrears for five years. Following scheme of Capital Reduction A/c was approved by the court.

(a) Equity Shares be reduced to Rs. 1.25 each and then to be consolidated into shares of Rs. 10 each.

(b) 6% Preference shares be reduced to Rs. 40 each and then to be subdivided into shares of Rs. 10 each.

(c) Interest accrued but not due on 8% Debentures for half year ended 31st March 2008 has not been provided in the above Balance Sheet. The debentureholders have agreed to receive 40% of this interest in cash immediately and provision for the balance be made in the books of account.

(d) Rs. 24,000 be paid to Preference Shareholders in lieu of arrears of preference dividend.

(e) The debentureholders have also agreed to accept equal number of 9% debentures of Rs. 60 each in exchange of 8% debentures of Rs. 100 each.

(f) Bank has agreed to take over 50% of stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs. 1,20,000.

(g) Investments be sold for Rs. 40,000.

(h) Tangible Fixed Assets be appreciated by 20%, Goodwill be written off in full and provision be made for doubtful debts of Rs. 20,000.

Give journal entries for the above scheme of Capital Reduction A/c. Prepare Capital Reduction Account in the books of Satyaraj Limited and Balance Sheet of the Company after Capital Reduction A/c.

October – 2009

(20) Following is the Balance Sheet of Fortunate Ltd. as on 31st March 2008.

Liabilities	Rs.	Assets		Rs.
Share Capital:		Goodwill		1,65,000
7000, 8% Cumulative Preference Shares of Rs, 100 each	7,00,000	Land & Building		6,00,000
80,000 Equity shares of Rs. 10 each	8,00,000	Stock		2,20,000
9% Debentures of Rs. 100 each		Debtors:		
(Secured on Land & Building	3,90,000	Good	3,70,000	
Accrued Interest on Debentures	15,750	Doubtful	60,000	4,30,000
Directors Loan	70,000	Bank		2,80,000
Sundry Creditors	3,10,000	Preliminary Expenses		10,000
		Profit & Loss A/c		5,40,750
Rs.	**22,45,750**	**Rs.**		**22,45,750**

Contingent Liabilities:

(1) Arrears of cumulative preference dividend for two years.

(2) Claims for damages pending in the court of law Rs. 1,00,000.

The Board of directors, wish to show the realistic picture of the state of affairs of the company's position and the following scheme of Capital Reduction A/c was duly approved.

(a) Preference Shares of Rs. 100 each were to be reduced to an equal number of fully paid preference shares of Rs. 60 each and Equity shares of Rs. 10 each were to be reduced to an equal number of fully paid equity shares of Rs. 2.50 each.

(b) Intangible and fictitious assets, accumulated losses to be written off.

(c) 8% Preference shareholders agreed to waive one year's dividend and to accept equity shares of Rs. 2.50 each fully paid for the balance of arrears of dividend.

(d) Stock to be revalued at Rs. 2,00,000 and doubtful debtors to be written off.

(e) 9% Debentureholders agreed to take over part of the security of the book value of Rs. 2,00,000 for Rs. 2,50,000 in part satisfaction of their claim and agreed to waive interest payable to them.

(f) Sundry creditors agreed to forego Rs. 10,000 subject to the condition that the company must pay them half of the remaining amount immediately.

(g) The contingent liability for the claim for damages materialised to the extent of 50%, which the company paid immediately.

(h) The directors agreed to convert their loan into equity shares of Rs. 2.50 each fully paid.

You are required to:

(i) Pass Journal Entries and prepare Capital Reduction A/c in the books of Fortunate Ltd.

(ii) Prepare Balance Sheet of the company after Capital Reduction A/c,

April – 2010

(21) Following balances appeared in the books of Nervous Ltd. as on 31st March, 2009: (20)

Debit Balances	Rs.	Credit Balances	Rs.
Goodwill	2,50,000	10,000 7% Cumulative Preference shares of Rs. 100 each fully paid	10,00,000
Land and Building	12,00,000	2,00,000 Equity Shares of Rs. 10 each fully paid	20,00,000
Plant and Machinery	11,00,000	8% Debenture of Rs. 100 each	
Investments	1,20,000	(secured on Land & Building)	10,00,000
Current Assets	17,20,000	Debenture interest due	40,000
Profit and Loss Account	8,50,000	Loan from Directors	2,00,000
		Current Liabilities	10,00,000
Rs.	**52,40,000**	**Rs.**	**52,40,000**

Note:.

(1) Claim for damages against the company pending in the court of law amounted to Rs. 1,00,000.

(2) Arrears of preference dividend Rs. 70,000.

The Board of Directors agreed to present the realistic picture of the state of affairs of the company's position and the following scheme of Capital Reduction A/c was sanctioned, approved and implemented.

(a) Preference Shares were reduced to equal number of fully paid Preference Shares of Rs. 80 each.

(b) Equity Shares were reduced to equal number of fully paid Equity Shares of Rs. 2.50 each

(c) Preference Shareholders waived half of the arrears of dividend and 14,000 equity shares of Rs. 2.50 each fully paid were issued to them in lieu of the balance.

(d) 8% Debentureholders took over part of the security having book value of Rs. 3,60,000 at Rs. 5,00,000 in part satisfaction of their loan and 1,20,000 Equity Shares of Rs. 2.50 each fully paid were issued to them for the balance loan.

(e) Debentureholders waived their interest due on Debentures.
(f) The claims for damages pending in the court of law were settled by issue of 12,000 Equity shares of Rs. 2.50 each fully paid.
(g) Directors converted their loan into equity shares of Rs. 2.50 each fully paid.
(h) All intangible and fictitious assets were written off.
(i) The assets were revalued as under: Plant and Machinery Rs. 7,00,000, Investment Rs. 1,00,000.

You are required to prepare:

(i) Necessary Journal Entries to record the above scheme of Capital Reduction A/c in the books of Nervous Ltd.
(ii) Capital Reduction Account in the books of Nervous Ltd., and
(iii) Balance Sheet of Nervous Ltd. after Capital Reduction A/c.

October – 2010

(22) Following balances appeared in the books of Anmol Ltd. as on 31-03-2009. (16)

10,000 Equity shares of Rs. 100 each, Rs. 80 per share paid-up
5,000 100% Preference shares of Rs. 100 each fully paid-up
4,000 – 13% Debentures of Rs. 100 each
4,000 – 12% Debentures of Rs. 100 each

Outstanding interest on above Debentures for one year Rs. 52,000 and Rs. 48,000 respectively.

Sundry creditors – Rs. 4,00,000,	Bank Overdraft – Rs. 1,00,000,
Goodwill – Rs. 2,00,000,	Land – Rs. 3,00,000,
Building – Rs. 7,00,000,	Plant and Machinery – Rs. 4,00,000,
Computer –Rs. 2,00,000,	Stock – Rs. 3,00,000,
Debtors – Rs. 1,00,000.	

The company has suffered heavy losses in the past.

Hence the following scheme of Capital Reduction A/c was agreed by the shareholders and sanctioned by the court and implemented by the company.

(a) The existing equity shareholders paid Rs. 20 per share in cash to make their shares fully paid-up and then agreed to reduce them to Rs. 20 each fully paid.
(b) 10% Preference shares were reduced by Rs. 40 each, however face value remained unchanged.
(c) The claim of 13% Debentureholders along with outstanding interest was settled by issue of 4,000 – 14% Debentures of Rs. 100 each.
(d) The claim of 12% Debentureholders along with outstanding interest was settled by issue of 4,200 - 12.5% Debentures of Rs. 100 each.
(e) The assets were revalued as under:

Land – Rs. 5,00,000,	Building – Rs. 4,00,000,
Plant and Machinery – Rs. 2,50,000	Computer – Rs. 1,20,000,
Stock – Rs. 2,50,000.	

(f) Fictitious and intangible assets were written off.

You are required to:

(i) Prepare Balance Sheet of Anmol Ltd. before Capital Reduction A/c.
(ii) Pass necessary journal entries to record the above scheme of Capital Reduction A/c in the books of Anmol Ltd.
(iii) Prepare Balance Sheet of Anmol Ltd. after Capital Reduction A/c.

April – 2011

(22) The Balance Sheet of Dirty Ltd. as at 31st March, 2010 appeared as follows:

Liabilities	Rs.	Assets	Rs.
60,000 Equity Shares of Rs. 10 each, fully paid	6,00,000	Goodwill	1,67,000
2,000 9% Preference Shares of Rs. 100 each fully paid	2,00,000	Land and Building	3,00,000
11% Debentures	4,00,000	Plant and Machinery	2,15,000
Interest accrued on above debentures	44,000	Investments	75,000
Unsecured loans	2,60,000	Stock	2,10,000
Interest accrued on above unsecured loans	30,000	Sundry Debtors	3,10,000
Current Liabilities	1,66,000	Bank	45,000
		Preliminary Expenses	25,000
		Profit and Loss A/c	3,53,000
Total	**17,00,000**	**Total**	**17,00,000**

A scheme of Capital Reduction A/c has been agreed amongst the shareholders and the creditors, and approved by the court with the following salient features.

(a) Equity Shares are to be reduced to Rs. 3 each fully paid.

(b) 9% Preference shareholders have agreed to accept 12% Debentures of Face Value of Rs. 1,20,000, issued at par, in full satisfaction of their claims.

(c) Interest due on unsecured loans is paid at 40% discount.

(d) Interest accrued on 11% Debentures is paid at 50% discount.

(e) 40% of current liabilities are to be reduced to 75% and balance 60% to be reduced to 80%.

(f) 20% of stock is obsolete which is sold at 40% of books value.

(g) Goodwill, Preliminary Expenses and Debit Balance in the Profit and Loss account is to be written off, Rs. 33,000 should be provided for doubtful debts and the value of Fixed Assets should be appreciated by 10%.

(h) Cost of Capital Reduction A/c paid Rs. 16,820.

Prepare the Capital Reduction Account and Redraft the Balance Sheet of the company assuming that above scheme of Capital Reduction A/c has been implemented by the company.

October – 2011

(24) You are furnished with following information in respect of Navneet Ltd. which had undergone Internal Capital Reduction A/c. (16)

(A) Balance Sheet of Navneet Ltd. as on 31 st March 2010
(before Internal Capital Reduction A/c)

Liabilities	Rs.	Assets	Rs.
50,000 Equity Shares of Rs. 10 each, fully paid	5,00,000	Fixed Assets	5,60,000
3,000 – 8% Preference Share of Rs. 100 each, fully paid	3,00,000	Patents	40,000
9% Debentures	3,00,000	Investments (Market value Rs. 27,500)	32,500
Accrued Interest on Debenture	54,000	Sundry Debtors	60,000
Bank Overdraft	70,000	Other Current Assets	1,64,500
Interest on above 0verdraft	7,000	Profit & Loss A/c	4,14,000
Sundry Creditors	40,000		
Total	**12,71,000**	**Total**	**12,71,000**

Dr. **(B) CAPITAL REDUCTION ACCOUNT** **Cr.**

Journal Entry No.	Particulars	Rs.	Journal Entry No.	Particulars	Rs.
6	To Bank A/c	18.500	1	By Equity Share Capital	
	(Capital Reduction A/c expenses)			(50,000 x 7)	3,50,000
7	To Profit & Loss A/c	4,14,000	2	By 8% Preference Share	
7	To Patents	40,000		Capital (3,000 x 30)	90,000
8	To Investments	5,000	3	By Debenture Interest	54,000
9	To Sundry Debtors	15,000	4	By Interest on Bank overdraft	3,500
9	To Fixed Assets	10,000	5	By Sundry Creditors	5,000
	Rs.	**5,02,500**		**Rs.**	**5,02,500**

Dr. **(B) BANK ACCOUNT** **Cr.**

Journal Entry No.	Particulars	Rs.	Journal Entry No.	Particulars	Rs.
8	To Investment A/c	27,500		By Balance b/d	70,000
11	To Equity Share Call A/c	3,50,000	2	By 8% Preference Share	
	(50,000 x 7)			Capital A/c (3000 x 70)	2,10,000
			4	By Interest on Bank Overdraft	3,500
			5	By Creditors	35,000
				By Capital Reduction A/c	18,500
				(Capital Reduction A/c Exp.)	
				By Balance c/d	40,500
	Rs.	**3,77,500**		**Rs.**	**3,77,500**

You are required to:

(1) Pass necessary Journal Entries from which above accounts are prepared, and

(2) Prepare Revised Balance Sheet of the company after Capital Reduction A/c.

April – 2012

(25) Following is the Balance Sheet of Virat Ltd. as on 31-03-2011. (15)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each, fully paid-up	10,00,000	Goodwill	4,00,000
15% Preference Shares Rs. 10 each fully paid-up	5,00,000	Land	3,00,000
15% Debentures	4,00,000	Plant and Machinery	1,80,000
Interest accrued on above debentures	60,000	Furniture and Fittings	2,00,000
Unsecured Loans	1,00,000	Stock	90,000
Bank overdraft	40,000	Sundry receivables	53,000
Sundry payables	75,000	Profit and Loss Account	9,77,000
Payable to Directors	25,000		
Rs.	**22,00,000**	**Rs.**	**22,00,000**

A Scheme of Capital Reduction A/c has been agreed amongst all the stakeholders of Virat Ltd. and approved by court, which is as follows:

(1) Intangible and fictitious assets are to be fully written off.
(2) Land is revalued at 500% more than the book value.
(3) There was an unrecorded asset of Rs. 10,000 which was sold for Rs. 60,000.
(4) Equity Shares are to be reduced by Rs. 4 each fully paid-up.
(5) 5% Preference Shares are reduced to Rs. 4 each fully paid-up.
(6) Debentureholders waived 50% of the outstanding interest on debentures.
(7) 30% of the Sundry payables are reduced to the extent of 30% of book value.
(8) Directors waived 90% of the amount payable to them by the company.
(9) Stock and Sundry receivables are reduced by 20% and 10% of their book values, respectively.
(10) Plant and Machinery is reduced to 70% of its book value.
(11) Furniture and Fittings to be reduced by 70%
(12) 40% of the unsecured loans are reduced by 60%.

You are required to prepare only capital reduction account assuming that the above scheme of Capital Reduction A/c has been implemented by the company.

October – 2012

(26) Following is the Balance Sheet of Ajay Ltd. as on 31st March, 2011. (15)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each fully paid-up	8,00,000	Goodwill	4,50,000
9% Preference Shares of Rs. 10 each fully paid-up	4,00,000	Land	3,00,000
10% Debentures	5,00,000	Plant and Machinery	4,00,000
Interest accrued on above debentures	50,000	Furniture and Fittings	2,10,000
Unsecured loans	75,000	Stock	60,000
Bank overdraft	15,000	Debtors	80,000
Sundry Creditors	60,000	Profit & Loss Account	4,00,000
Rs.	**19,00,000**	**Rs.**	**19,00,000**

A scheme of Capital Reduction A/c has been agreed amongst all the stakeholders of Ajay Ltd. and approved by the court, which is as follows:

(i) Intangible and fictitious assets are to be fully written off.
(ii) Equity shares are to be reduced to Rs. 4 each fully paid-up.
(iii) Debentureholders waived 50% of the outstanding interest on debenture.
(iv) 80% of the unsecured loans are reduced by 40%.
(v) Directors gave Rs. 30,000 to the company on non-refundable basis.
(vi) Plant and Machinery is reduced to Rs. 1,20,000.
(vii) Stock and Debtors are reduced by Rs. 15,000 and 20% of the book value, respectively.
(viii) Furniture and fittings to be reduced by Rs. 63,000.
(ix) Land is appreciated by 300%.
(x) There was an unrecorded asset which was sold for Rs. 20,000.
(xi) Preference shares are reduced to Rs. 6 each.
(xii) 50% of the sundry creditors are reduced to the extent of 50% of their book value.

You are required to:

Prepare only capital reduction account assuming that the above scheme of Capital Reduction A/c has been implemented by the company.

April – 2013

(27) Following is the Balance Sheet of M/s. SONAM Limited as on 31st March, 2012: (15)

Balance-Sheet as on 31/03/2012

Liabilities	Rs.	Assets	Rs.
10% Preference shares of Rs. 10 each	5,00,000	Goodwill	2,00,000
Equity shares of 10 each	10,00,000	Land and Building	10,00,000
10% Debentures	2,00,000	Investments	5,00,000
Sundry Creditors	2,00,000	Stock	4,00,000
Other Liabilities	7,00,000	Publicity campaign expenses	4,00,000
		Preliminary expenses	1,00,000
Total	**26,00,000**	**Total**	**26,00,000**

The scheme of Capital Reduction A/c approved by the authority was as under:

(a) Each Equity Share will be written down from, Rs. 10 to Rs. 6 fully paid-up.

(b) Each 10% Preference share is to be written down from Rs. 10 to 8 fully paid-up. These Preference shares are to be converted into 12% Preference shares of Rs. 2 each and remaining into Equity shares of Rs. 6 each fully paid-up.

(c) 10% Debentureholders agreed to waive 20% of their rights.

(d) Assets were revalued as: Land and Building Rs. 12,00,000
Stock to be reduced by 20%.

(e) Creditors dues are settled as follows:
(i) 30% immediate payment
(ii) 50% paid by issue of 10% Debentures
(iii) 20% amount cancelled.

(f) All Intangible and Fictitious Assets are to be written off.

(g) 10,000 Equity Shares of Rs. 6 each were issued to public for cash.

You are required to prepare:

(i) Capital Reduction Account
(ii) Balance Sheet of Sonam Limited after Capital Reduction A/c.

October – 2013

(28) Balance Sheet of Bimar Ltd. as on 31/03/2013 is as follows:

Liabilities	Rs.	Assets	Rs.
Equity Share Capital of Rs. 100 each fully paid-up	9,00,000	Goodwill	1,30,000
12% Preference Share Capital of Rs. 100 each fully paid-up	6,00,000	Land & Building	7,55,000
16% Bank Loan	2,00,000	Plant & Machinery	2,35,000
Outstanding Interest on Bank Loan	10,000	Furniture & Fittings	3,10,000
Sundry Creditors	62,000	Stock	98,000
Income Tax Payable	45,000	Sundry Debtors	71,000
		Bank Balance	8,000
		Preliminary Expenses	45,000
		Profit & Loss A/c	1,65,000
Total	**18,17,000**	**Total**	**18,17,000**

Internal Capital Reduction A/c Scheme of Bimar Ltd. as approved by Court is implemented as follows:

(a) Fictitious and Intangible Assets are written off.
(b) Equity shareholders reduced their claim by Rs. 30 per share.
(c) Preference shareholders reduced their claim to Rs. 80 per share.
(d) Bank waived 40% of the outstanding interest on bank loan.
(e) Land and Building is appreciated by 20%.
(f) Sundry creditors reduced their claim to 85%.
(g) Plant and Machinery is depreciated by by 25%.
(h) Furniture and Fittings are revalued at Rs. 2,89,000.
(i) Stock is depreciated by 180/6.
(j) R.D.D. is provided 0 3% on Sundry Debtors.
(k) Directors advanced Rs. 35,000 to the company on non-refundable basis.
(1) Capital Reduction A/c expenses amounted to Rs. 14,000.

Prepare Capital Reduction Account in the books of Bimar Ltd.

April – 2014

(29) Following is the summarised Balance Sheet of Aayushi Ltd. as on 31st March, 2013: (15)

Liabilities	**Rs.**	**Rs.**
10% Preference shares of Rs. 100 each	8,00,000	
Equity share of Rs. 10 each	20,00,000	
12% Debentures	15,00,000	
Bank overdraft	1,00,000	
Bills payable	70,000	
Creditors	2,80,000	
Total		**47,50,000**
Assets		
Patents	30,000	
Goodwill	50,000	
Furniture	70,000	
Land and Building 13,00,000		
Plant and Machinery 12,00,000		
Closing Stock 1,60,000		
Bills receivable 30,000		
Debtors	1,80,000	
Profit and Loss Account (Debit balance)	16,40,000	
Preliminary Expenses	90,000	
Total		**47,50,000**

Note: Preference dividend is in arrears for four years.

The following scheme of Capital Reduction was sanctioned by the court and agreed by the shareholders:

(a) The preference shares are to be reduced to Rs. 50 each and equity shares to Rs. 2 each both being fully paid.

(b) Of the preference dividend in arrears, three-fourth to be waived and remaining to be paid immediately.

(c) The debenture holders to take over plant and machinery at Rs. 13,00,000 in part satisfaction of their claim. The remaining claim should be converted into 15% debentures.

(d) Bills payable to be settled immediately. Creditors forego their claim of Rs. 40,000.

(e) The Assets are to be revalued as under:

Furniture	Rs. 50,000
Stock	Rs. 1,36,000
Land and Building	Rs. 11,60,000
Debtors	Rs. 1,60,000

(f) A secured loan of Rs. 3,00,000 at 12% interest p.a. to be obtained by mortgaging Land and Building for repayment of Bank overdraft and payment of bills payable and Capital Reduction A/c expenses of Rs. 30,000.

(g) Write off goodwill, patents, P and L A/c. (Dr. Balance) and preliminary expenses entirely.

Pass necessary Journal entries in the books of Aayushi Ltd. and also prepare Capital Reduction Account.]

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CHAPTER 3

UNDERWRITING OF SHARES AND DEBENTURES

BASIC CONCEPTS

- Underwriting contracts are basically of two types:
  - Wholly underwritten if one person is responsible to subscribe all the issue.
  - Partially underwritten, when some part of the issue is considered to be underwritten by company.
- Firm underwriting signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public.
- Underwriting Commission:
  (1) No underwriting commission is payable on the shares taken up by the promoters, employees, directors, business associates, etc.
  (2) Commission is payable on the whole issue underwritten.
  (3) In case of shares, the commission paid or agreed to be paid should not exceed 5% of the price at which the shares are issued.
  (4) In case of debentures, the commission paid or agreed to be paid should not exceed 2.5% of the price at which the shares are issued.
  (5) Accounting Entries

1. For Commission due		
Commission Account		Dr.
	To Underwriter Account	
2. For payment of Commission		
Underwriter Account		Dr.
	To Bank Account	[Cheque]
	To Share Capital Account	[Shares]
	To Debentures Account	[Debentures]

- **When the Issue is Fully Underwritten [without Firm Underwriting]**

Method 1

Under this method, all unmarked applications are divided between the underwriters in the ratio of **gross liability** of individual underwriter. For determining the liability of individual underwriter, the following steps are followed:

Step 1 Compute gross liability (if it has not been given) of individual underwriter on the basis of agreed ratio.

Step 2 Subtract marked applications from gross liability of respective underwriters.

Step 3 Determine the number of unmarked applications. (Unmarked application = Total applications received less marked applications). Divide unmarked applications between different underwriters in the **ratio of gross liability.** If the resultant figures are all positive or zero, then stop here. Now these figures represents the net liability of each underwriter.

If some of the resultant figures are negative, then continue to Step 4.

Step 4 Add all negative figures and divide the resultant between the underwriters having positive figures in the ratio of gross liability.

Repeat Step 4 unless all figures are positive. Now, these figures represent the net liability of each underwriter.

Method 2

Under this method, all unmarked applications are divided between the underwriters in the ratio of **gross liability less marked applications.** For determining the liability of individual underwriter, the following steps are followed:

Step 1 Compute gross liability in the usual manner (if it has not been given).

Step 2 Subtract marked applications from gross liability of respective underwriters. If some of the resultant figures are negative, then add all negative figures and divide their sum in the ratio of gross liability.

Step 3 Determine the number of unmarked applications. Divide unmarked applications between different underwriters in the **ratio of gross liability less marked applications,** i.e., the resultant figures of Step 2. If the resultant figures of Step 3 are **all positive or zero**, then stop here. Now, these figures represent the net liability of each underwriter.

If some of the resultant figures are negative, then continue to Step 4.

Step 4 Add all negative figures and divide their sum between the underwriters having positive figures in the same **ratio of Step 3. Repeat Step 4** unless all figures are non-negative. Now, these figures represent the net liability of each underwriter.

❖ **When the Issue** is **Fully Underwritten [with Firm Underwriting]**

There are two alternative ways:

(i) The benefit of firm underwriting is not given to individual underwriter, or

(ii) The benefit of firm underwriting is given to individual underwriter.

(i) The benefit of firm underwriting is not given to individual underwriter:

For determining the liability of individual underwriter, the following steps are followed:

Step 1 Compute gross liability in the usual manner (if it has not been given).

Step 2 Subtract marked applications (excluding firm underwriting) from gross liability of respective underwriters. If some of the resultant figures are found negative, then add all negative figures and divide the resultant in the ratio of gross liability.

Step 3 Determine the number of unmarked applications as follows:

Total subscriptions (excluding firm underwriting)	xxxxxxxxxx
Less: Marked applications (excluding firm underwriting)	xxxxxxxxxx
Unmarked applications by public	**xxxxxxxxxx**
Add: Applications under firm underwriting	xxxxxxxxxx
Total unmarked applications	**xxxxxxxxxx**

Divide the above calculated unmarked applications in the ratio of **gross liability.**

If the resultant figures of Step 3 are all positive or zero, then it represents **net liability** as per agreement. After this step, go to Step 5 (skip Step 4).

If some of the resultant figures are negative, then continue to Step 4.

Step 4 Add all the negative figures and divide the resultant between the underwriters having positive figures in the ratio of **gross liability.** Repeat Step 4 unless all figures are non negative. Now, these figures represent **the net liability** as per agreement. After this step, go to Step 5.

Step 5 Add firm underwriting with the **net liability** as per agreement. The resultant figures represent **total liability.**

Here,

(1) Firm underwriting is treated as unmarked applications and divided in the ratio of gross liability.

(2) The liability of underwriter consists of:

(a) Net liability as per agreement; and

(b) Firm underwriting.

(ii) The benefit of firm underwriting is given to individual underwriter

For determining the liability of individual underwriter, the following steps are followed:

Step 1 Compute gross liability in the usual manner (if it has not been given).

Step 2 Subtract marked applications (excluding firm underwriting) from gross liability of respective underwriters. If some of the resultant figures are found negative, then add all negative figures and divide their sum in the ratio of gross liability.

Step 3 Determine the number of unmarked applications as follows:

Total subscriptions (excluding firm underwriting)	xxxxxxxxxx
Less: Marked applications (excluding firm underwriting)	xxxxxxxxxx
Unmarked applications by public	xxxxxxxxxx

Divide the above calculated unmarked application in the **ratio of gross liability.**

Step 4 Subtract "firm underwriting" of individual underwriter from the respective figures of Step 3.

If the resultant figures of Step 4 are all positive or zero, then that represents net liability as per agreement. After this step, go to Step 6 (skip Step 5).

If some of the resultant figures are negative, then continue to Step 5.

Step 5 Add all negative figures and divide it between the underwriters having positive figures in the ratio of gross liability. Repeat Step 5 unless all figures are non-negative. Now, these figures represent the net liability as per agreement. After this step, go to Step 6.

Step 6 Add firm underwriting with the net liability as per agreement. The resultant figures represent total liability.

Here,

(1) Firm underwriting is not treated as unmarked applications.

(2) Firm underwriting is credited to individual underwriters separately.

(3) The liability of Underwriter consists of:

(a) Net liability as per agreement; and

(b) Firm underwriting.

Question 1

Explain the term "Firm" underwriting. Also give the accounting entries relating to firm underwriting in the books of (i) the company and (ii) the underwriter.

Answer

'Firm' underwriting signifies a definite commitment to take up a specified number of shares by an underwriter irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up by him under the "firm" commitment, i.e., the underwriter is obliged to take up:

1. the number of shares he has applied for 'firm'; and

2. the number of shares he is obliged to take up on the basis of the underwriting agreement.

For example, A underwrites 60% of an issue of 10,000 shares of ₹ 10 each of XY Co. Ltd. and also applies for 1,000 shares, 'firm'. The underwriting commission is agreed to at the rate of 2.5 per cent. In

case there are marked applications for 4,800 shares, he will have to take up 2,200 shares, i.e., 1,000 shares for which he applied 'firm' and 1,200 shares (6,000 – 4,800) to meet his liability under the underwriting contract. If, on the other hand, the underwriting contract has provided that an abatement would be allowed in respect of shares taken up under 'firm' underwriting, the liability of A in the above mentioned case would only be for 1,200 shares in total as he will be exempt to buy his committed shares.

The accounting entries in relation to firm underwriting of 1,000 shares in the above example are given below:

Entries in the books of XY Co. Ltd. (Company)

Particulars		Dr. ₹	Cr. ₹
1. A's Account	Dr.	10,000	
To Equity Share Capital Account			10,000
(Being allotment of underwritten equity shares in pursuance of firm underwriting contract, vide Board's resolution)			
2. Underwriting Commission on Issue of Shares Account	Dr.	250	
To A's Account			250
(Being underwriting commission due to the underwriter under the firm underwriting contract)			
3. Bank Account	Dr.	9,750	
To A's Account			9,750
(Being money received in full settlement of account from underwriter)			

Entries in the books of A (Underwriter)

Particulars		Dr. ₹	Cr. ₹
1. Underwriting Account	Dr.	10,000	
To XY Co. Ltd. Account			10,000
(Being the liability to take up necessary number of shares of the company in pursuance of firm underwriting contract recorded)			
2. XY Co. Ltd. Account	Dr.	250	
To Underwriting Account			250
(Being underwriting commission income credited to underwriting account)			
3. XY Co. Ltd. Account	Dr.	9,750	
To Bank Account			9,750
(Being balance money paid to the company in full settlement of account)			

Question 2

Write a short note on Firm underwriting and Partial underwriting along with firm underwriting.

Answer

In firm underwriting, the underwriter agrees to subscribe upto a certain number of share debentures irrespective of the nature of public response to issue of securities. He gets these securities even if the issue is fully subscribed or over-subscribed. These securities are taken by the underwriter in addition to his liability for securities not subscribed by the public. Under partial underwriting along with firm

underwriting, unless otherwise agreed, individual underwriter does not get the benefit of firm underwriting in determination of number of shares/debentures to be taken up by him.

Question 3

A joint stock company resolved to issue 10 lakh equity shares of ₹10 each at a premium of ₹1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows:

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public,

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totaled 7, 00, 000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

(i) Prepare a statements calculating underwriters' liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

Answer

(i) Statement showing underwriters' liability for shares other than shares underwritten firm

Particulars	X	Y	Z	Total
Gross liability (Issued shares – Purchased by promoters, directors, etc.) (9,00,000 shares in the ratio of 65 : 25 : 10)	5,85,000	2,25,000	90,000	9,00,000
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500
Less: Allocation of unmarked applications (including firm underwriting, i.e., 7,00,000) in the ratio of 65 : 25 : 10	(4,55,000)	(1,75,000)	(70000)	7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio of 65 : 10	*(6,500)*	7,500	(1,000)	—
Additional shares to be purchased by X and Z	4000	—	8,500	12,500

Particulars	₹	₹	₹
Additional liability for additional shares @ ₹ 11	44,000	—	93,500
Underwriting commission payable on Gross Liability (Shares underwritten as Gross liability × ₹ 11 × 2%)	(1,28,709)	(49,500)	*(1*9,800)
Net Amount payable	(84,700)	(49,500)	—
Net Amount receivable	—	—	73,700

(ii) Journal Entries

Particulars		Dr. ₹	Cr. ₹
Bank A/c	Dr.	11,00,000	
To Equity Shares Application A/c			11,00,000
(Being application money received on 1 lakh equity shares purchased by directors, etc. @ ₹ 11 per share)			
Bank A/c	Dr.	97,62,500	
To Equity Share Application A/c			97,62,500
(Application money received on 8,87,500 equity shares @ ₹ 11 per share from general public and underwriters for shares underwritten firm)			
Equity Share Application A/c	Dr.	1,08,62,500	
X' s A/c	Dr.	44,000	
Z's A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities Premium A/c			
(Allotment of 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share)			
Underwriting Commission A/c	Dr.	1,98,000	
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
(Amount of underwriting commission payable to X, Y and Z @ 2% on the amount of shares underwritten)			
Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	
Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

Question 4

Scorpio Ltd. came out with an issue of 45,00,000 equity shares of ₹10 each at a premium of ₹2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co., B & Co. and C & Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

Particulars	*Shares*
A & Co.	*7,25,000*
B & Co.	*8,40,000*
C & Co.	*13,10,000*
Total	*28,75,000*

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application. You are required to:

(a) Compute the underwriters' liabilities (number of shares);

(b) Compute the amounts payable or due to underwriters; and

(c) Pass necessary journal entries in the books of Scorpio Ltd. relating to underwriting,

Answer

(a) **Computation of liabilities of underwriters (No. of shares):**

Particulars	A & Co.	B & Co.	C & Co.
Gross liability (Total Issue – Shares Purchased by promoters, directors, employees, etc.)	12,00,000	12,00,000	12,00,000
Less: Firm underwriting	(1,00,000)	(1,00,000)	(1,00,000)
	11,00,000	11,00,000	11,00,000
Less: Marked applications	(7,25,000)	(8,40,000)	(13,10,000)
Unmarked applications	3,75,000	2,60,000	(2,10,000)
Less: Unmarked applications distributed to A & Co. and B & Co. in equal ratio	(1,12,500)	(1,12,500)	Nil
Total unmarked applications	2,62,500	1,47,500	(2,10,000)
Less: Surplus of C & Co. distributed to A & Co. and B & Co. in equal ratio	(1,05,000)	(1,05,000)	2,10,000
Net liability (excluding firm underwriting)	1,57,500	42,500	Nil
Add: Firm underwriting	1,00,000	1,00,000	1,00,000
Total liability (No. of shares)	2,57,500	1,42,500	1,00,000

Total Subscriptions received for 31,00,000 shares out of which marked shares were 28,75,000/-. Hence, unmarked shares received were 2,25,000 shares which will be distributed between A & Co. and B & Co. only equally (agreed ratio underwriting) C & Co. has already exceeded the underwriting limit, hence will not be required to absorb unmarked shares.

No. of shares purchased by Underwriters collectively will be 5 lakh shares as under:

Total Shares Issued	45,00,000
Less: Purchased by Promoters, etc.	9,00,000
Shares offered to the Publilc	36,00,000
Total Subscription received	31,00,000
Shares purchased by Underwriters including firm commitment	5,00,000

(b) **Computation of amounts payable by underwriters:**

	& ₹	& ₹	& ₹
Liability towards shares to be subscribed @ 12 per share	30,90,000	17,10,000	12,00,000
Less: Commission (on Gross Liability) (5% on FV 7 10 each on 12 lakhs shares	(6,00,000)	(6,00,000)	(6,00,000)
Net amount to be paid by underwriters	24,90,000	11,10,000	6,00,000

(c) **In the Books of Scorpio Ltd.**
Journal Entries

Particulars		Dr. ₹	Cr. ₹
Underwriting Commission A/c	Dr.	18,00,000	
To A & Co. A/c			6,00,000
To B & Co. A/c			6,00,000
To C & Co. A/c			6,00,000
(Being underwriting commission on the shares underwritten)			
A & Co. A/c	Dr.	30,90,000	
B & Co. A/c	Dr.	17,10,000	
C & Co. A/c	Dr.	12,00,000	
To Equity Share Capital A/c			50,00,000
To Share Premium A/c			10,00,000
(Being shares including firm underwritten shares allotted to underwriters)			
Bank A/c	Dr.	42,00,000	
To A & Co. A/c			24,90,000
To B & Co. A/c			11,10,000
To C & Co. A/c			6,00,000
(Being the amount received towards shares allotted to underwriters less underwriting commission due to them)			

Question 5

Gemini Ltd. came up with public issue of 30,00,000 Equity shares of ₹10 each at ₹15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio.

Applications were received for 27,00,000 shares.

The marked applications were received as under:

A	*8,00,000 shares*
B	*7,00,000 shares*
C	*6,00,000 shares*

Commission payable to underwriters is at 5% on the face value of shares.

(i) Compute the liability of each underwriter as regards the number of shares to be taken up.

(ii) Pass journal entries in the books of Gemini Ltd. to record the transactions relating to underwriters.

Answer

(i) Computation of liability of underwriters in respect of shares

Particulars	(In shares)		
	A	B	C
Gross liability (Total Issue – Promoters, etc.) in agreed ratio of 3 : 2 : 1	15,00,000	10,00,000	5,00,000
Less: Unmarked applications (Subscribed shares – marked shares) in 3 : 2 : 1	(3,00,000)	(2,00,000)	(1,00,000)
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000
Less: Marked applications actually received	(8,00,000)	(7,00,000)	(6,00,000)
Shortfall/surplus in marked shares	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A and B in 3 : 2 ratio	(1,20,000)	(80,000)	2,00,000
Net liability for underwriting shares	2,80,000	20,000	Nil

(ii) Journal Entries in the books of Gemini Ltd.

Particulars		₹	₹
A's Account	Dr.	42,00,000	
B's Account	Dr.	3,00,000	
To Share Capital Account			30,00,000
To Securities Premium Account			15,00,000
(Being the shares to be taken up by the underwriters)			
Underwriting Commission Account	Dr,	15,00,000	
To A's Account			7,50,000
To B's Account			5,00,000
To C's Account			2,50,000
(Being the underwriting commission due to the underwriters)			
Bank Account	Dr.	34,50,000	
To A's Account			34,50,000
(Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)			
B's Account	Dr.	2,00,000	
To Bank Account			2,00,000
(Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)			
C's Account	Dr.	2,50,000	
To Bank Account			2,50,000
(Being the underwriting commission paid to C)			

Note: C had sold in excess of the underwriting obligation and hence he will not be required to purchase any shares but will get commission for underwriting.

Question 6

'X' Ltd., issued 1,00,000 equity shares of ₹ 10 each at par. The entire issue was underwritten as follows:

A – 60,000 shares (Firm underwriting 8,000 shares)

B – 30,000 shares (Firm underwriting 10,000 shares)

C – 10,000 shares (Firm underwriting 2,000 shares)

The total applications including firm underwriting were for 80, 000 shares.

The marked applications were as follows:

A – 20,000 shares; B – 14,000 shares; C – 6,000 shares.

The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter.

Answer

Statement showing liability of underwriters*

Particulars	No. of shares			
	A	B	C	Total
Gross Liability (Total Issue – purchase by promoters, etc.)	60,000	30,000	10,000	1,00,000
Less: Firm underwriting	(8,000)	(10,000)	(2,000)	(20,000)
	52,000	20,000	8,000	80,000
Less: Marked applications	(20,000)	(14,000)	(6,000)	(40,000)
	32,000	6,000	2,000	40,000
Less: Unmarked applications (total application less firm underwriting less marked applications) in gross liability ratio (Unmarked Applications = 80,000 – 20,000 – 40,000)	(12,000)	(6,000)	(2,000)	(20,000)
Net Liability	20,000	—	—	20,000
Add: Firm underwriting	8,000	10,000	2,000	20,000
Total liability of underwriters	28,000	10,000	2,000	40,000
Total Liability in amount @ ₹ 10/-	2,80,000	1,00,000	2,00,000	4,00,000

*The solution is given on the basis that 'the benefit of firm, underwriting is given to individual underwriter..

Question 7

Delta Ltd. issued 25,00,000 equity shares of ₹ 10 each at par. 7,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P, Q and R in the ratio of 2 : 3 : 4 with firm underwriting of 50,000, 60,000 and 70,000 shares each respectively. Total subscription received 13,88,000 shares including marked application and excluding firm underwriting. Marked applications were as follows:

P 3,00,000

Q 3,50,000

R 4,50,000

Unmarked and surplus applications to be distributed in gross liability ratio.

Ascertain the liability of each underwriter.

Answer

Calculation of liability of underwriters

Particulars	(In shares)			
	P	**Q**	**R**	**Total**
Gross liability (Total Issue – Issued to Promoters, etc.)	4,00,000	6,00,000	8,00,000	18,00,000
Less: Firm underwriting	(50,000)	(60,000)	(70,000)	(1,80,000)
	3,50,000	5,40,000	7,30,000	16,20,000
Less: Marked applications received	(3,00,000)	(3,50,000)	(4,50,000)	(11,00,000)
	50,000	1,90,000	2,80,000	5,20,000
Less: Unmarked applications (in gross liability ratio 4 : 6 : 8)	(64,000)	(96,000)	(1,28,000)	(2,88,000)
Balance	(14,000)	94,000	1,52,000	2,32,000
Excess of P distributed to Q and R in ratio (3 : 4)	14,000	(6,000)	(8,000)	—
Net liability (other than firm underwriting)	—	88,000	1,44,000	2,32,000
Add: Firm underwriting	50,000	60,000	70,000	1,80,000
Total liability of underwriters including firm underwriting	50,000	1,48,000	2,14,000	4,12,000
Total liability in amount @ ₹ 10 each	5,00,000	14,80,000	21,40,000	41,20,000

Question 8

ABC Ltd. came up with public issue of 3,00,000 Equity Shares of ₹10 each at ₹15 per share. P, Q and R took underwriting of the issue in ratio of 3 : 2: 1 with the provisions of firm underwriting of 20,000, 14,000 and 10,000 shares respectively.

Applications were received for 2,40,000 shares excluding firm underwriting. The marked applications from public were received as under:

P – 60,000

Q – 50,000

R – 60,000

Compute the liability of each underwriter as regards the number of shares to be taken up assuming that the benefit of firm underwriting is not given to individual underwriters.

Answer

Calculation of liability of each underwriter (in shares) assuming that the benefit of firm underwriting is not given to individual underwriters

(Number of shares)

	P	Q	R	Total
Gross Liability (Total Issue – Issued to Promoters, Directors, etc.)	1,50,000	1,00,000	50,000	3,00,000
Less: Marked applications (excluding firm underwriting)	(60,000)	(50,000)	(60,000)	(1,70,000)
Balance	90,000	50,000	(10,000)	1,30,000
Less: Surplus of R allocated to P and Q in the ratio of 3 : 2	(6,000)	(4,000)	10,000	—
Balance	84,000	46,000	—	1,30,000
Less: Unmarked applications including firm underwriting (Refer W.N.)	(57,000)	(38,000)	(19,000)	(1,14,000)
Net Liability	27,000	8,000	(19,000)	16,000
Less: Surplus of R allocated to P and Q in the ratio of 3 : 2	(11,400)	(7,600)	19,000	—
	15,600	400	—	16,000
Add: Firm underwriting	20,000	14,000	10,000	44,000
Total Liability	35,600	14,400	10,000	60,000

Working Note:

Applications received from public	2,40,000 shares
Add: Shares underwritten firm (20,000 + 14,000 + 10,000)	44,000 shares
Total applications	2,84,000 shares
Less: Marked applications (60,000 + 50,000 + 60,000)	(1,70,000 shares)
Unmarked applications including firm underwriting	1,14,000 shares

Question 9

A company issued 1,50,000 shares of ₹10 each at a premium of ₹ 10. The entire issue was underwritten as follows:

X – 90,000 shares (Firm underwriting 12,000 shares)

Y – 37,500 shares (Firm underwriting 4,500 shares)

Z – 22,500 shares (Firm underwriting 15,000 shares)

Total subscriptions received by the company (excluding firm underwriting and marked applications) were 22,500 shares.

The marked applications (excluding firm underwriting) were as follows:

X – 15,000 shares

Y – 30,000 shares

Z – 7,500 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

(i) Determine the liability of each underwriter (number of shares);
(ii) Compute the amounts payable or due from underwriters; and
(iii) Pass Journal Entries in the books of the company relating to underwriting.

Answer

(i) Computation of total liability of underwriters in shares

Particulars	(In shares)			
	X	**Y**	**Z**	**Total**
Gross liability	90,000	37,500	22,500	1,50,000
Less: Marked applications (excluding firm underwriting)	(15,000)	(30,000)	(7,500)	(52,500)
	75,000	7,500	15,000	97,500
Less: Unmarked applications in the ratio of gross liabilities of 12 : 5 : 3 (excluding firm underwriting)	(13,500)	(5,625)	(3,375)	(22,500)
	61,500	1,875	11,625	75,000
Less: Firm underwriting	(12,000)	(4,500)	(15,000)	(31,500)
	49,500	(2,625)	(3,375)	43,500
Less: Surplus of Y and Z adjusted in X's balance (2,625 + 3,375)	(6,000)	2,625	3,375	—
Net liability	43,500	—	—	43,500
Add: Firm underwriting	12,000	4,500	15,000	31,500
Total liability	55,500	4,500	15,000	75,000

(ii) Calculation of amount payable to or due from underwriters

Particulars	X	Y	Z	Total
Total Liability in shares	55,500	4,500	15,000	75,000
Amount receivable @ ₹ 20 from underwriter (in ₹)	11,10,000	90,000	3,00,000	15,00,000
Less: Underwriting Commission payable @ 5% of ₹ 20 (in ₹)	(90,000)	(37,500)	(22,500)	(1,50,000)
Net amount receivable (in ₹)	10,20,000	52,500	2,77,500	13,50,000

(iii) Journal Entries in the books of the company (relating to underwriting)

No.	Particulars		₹	₹
1	X A/c		Dr.	11,10,000
	Y A/c		Dr.	90,000
	Z A/c		Dr.	3,00,000
	To Share Capital A/c			7,50,000
	To Securities Premium A/c			7,50,000
	(Being allotment of shares to underwriters)			
2	Underwriting Commission A/c	Dr.	1,50,000	
	To X A/c			90,000
	To Y A/c			37,500
	To Z A/c			22,500
	(Being amount underwriting commission payable)			
3	Bank A/c	Dr.	13,50,000	
	To X A/c			10,20,000
	To Y A/c			52,500
	To Z A/c			2,77,500
	(Being net amount received by underwriters for shares allotted less underwriting commission)			

EXERCISE

1. Noman Ltd. issued 80,000 Equity Shares which were underwritten as follows:

Mr. A	48,000 Equity Shares
Messrs B & Co.	20,000 Equity Shares
Messrs C Corp.	12,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows:

Mr. A	6,400 Equity Shares
Messrs B & Co.	8,000 Equity Shares
Messrs C Corp.	2,400 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 40,000 Equity Shares.

The marked applications were as under:

Mr. A	8,000 Equity Shares
Messrs B & Co.	10,000 Equity Shares
Messrs C Corp.	4,000 Equity Shares

(The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.)

You are required to show the allocation of liability. Workings will be considered as a part of your answer.

(Hints: *Total liability of Mr. A – 27,200 shares, M/s. B & Co. – 8,000 shares and C Corpn. – 4,800 shares)*

CHAPTER 4

LIQUIDATION OF COMPANIES

In law, **liquidation** is the process by which a company (or part of a company) is brought to an end, and the assets and property of the company redistributed. Liquidation is also sometimes referred to as **winding up** or **dissolution,** although dissolution technically refers to the last stage of liquidation. The process of liquidation also arises when customs, an authority or agency in a country responsible for collecting and safeguarding customs duties, determines the final computation or ascertainment of the duties or drawback accruing on an entry.

Liquidation may either be compulsory (sometimes referred to as a *creditors' liquidation)* or voluntary (sometimes referred to as a *shareholders' liquidation,* although some voluntary liquidations are controlled by the creditors, see below).

COMPULSORY LIQUIDATION

The parties who are entitled by law to petition for the compulsory liquidation of a company vary from jurisdiction to jurisdiction, but generally, a petition may be lodged with the court for the compulsory liquidation of a company by:

(a) the company itself
(b) any creditor who establishes a *prima facie* case
(c) contributories
(d) the Secretary of State (or equivalent)
(e) the Official Receiver

GROUNDS

The grounds upon which one can apply for a compulsory liquidation also vary between jurisdictions, but the normal grounds to enable an application to the court for an order to compulsorily wind up the company are:

(a) The company has so resolved.
(b) The company was incorporated as a public company, and has not been issued with a trading certificate (or equivalent) within 12 months of registration.
(c) It is an "old public company" (i.e., one that has not re-registered as a public company or become a private company under more recent companies legislation requiring this).
(d) It has not commenced business within the statutorily prescribed time (normally one year) of its incorporation, or has not carried on business for a statutorily prescribed amount of time.
(e) The number of members has fallen below the minimum prescribed by statute.
(f) The company is unable to pay its debts as they fall due.
(g) It is just and equitable to wind up the company.

In practice, the vast majority of compulsory winding up applications are made under one of the last two grounds.

An order will not generally be made if the purpose of the application is to enforce payment of a debt which is bonafide disputed.

A "just and equitable" winding up enable the ground to subject the strict legal rights of the shareholders to equitable considerations. It can take account of personal relationships of mutual trust and confidence in small parties, particularly, for example, where there is a breach of an understanding that all of the members may participate in the business, or of an implied obligation to participate in management. An order might be made where the majority shareholders deprive the minority of their right to appoint and remove their own director.

THE ORDER

Once liquidation commences (which depends upon applicable law, but will generally be when the petition was originally presented, and not when the court makes the order), dispositions of the company's property are generally void, and litigation involving the company is generally restrained.

Upon hearing the application, the court may either dismiss the petition, or make the order for winding up. The court may dismiss the application if the petitioner unreasonably refrains from an alternative course of action.

The court may appoint an official receiver, and one or more liquidators, and has general powers to enable rights and liabilities of claimants and contributories to be settled. Separate meetings of creditors and contributories may decide to nominate a person for the appointment of liquidator and possibly of supervisory liquidation committee.

VOLUNTARY LIQUIDATION

Voluntary liquidation occurs when the members of the company resolve to voluntarily wind up the affairs of the company and dissolve. Voluntary liquidation begins when the company passes the resolution, and the company will generally cease to carry on business at that time (if it has not done so already). If the company is solvent, and the members have made a statutory declaration of solvency, the liquidation will proceed as a members' voluntary winding up. In such case, the general meeting will appoint the liquidator(s). If not, the liquidation will proceed as a creditor's voluntary winding up, and a meeting of creditors will be called, to which the directors must report on the company's affairs. Where a voluntary liquidation proceeds by way of creditor's voluntary liquidation, a liquidation committee may be appointed.

Where a voluntary winding up of a company has begun, a compulsory liquidation order is still possible, but the petitioning contributory would need to satisfy the court that a voluntary liquidation would prejudice the contributories.

In addition, the term liquidation is sometimes used when a company wishes to disinvest itself of some of its assets. This is used, for instance, when a retail establishment wishes to close stores. They will sell to a company that specialises in store liquidation instead of attempting to run a store closure sale themselves.

MISCONDUCT

The liquidator will normally have a duty to ascertain whether any misconduct has been conducted by those in control of the company which has caused prejudice to the general body of creditors. In some legal systems, in appropriate cases, the liquidator may be able to bring an action against current directors or shadow directors for either wrongful trading or fraudulent trading.

The liquidator may also have to determine whether any payments made by the company or transactions entered into may be voidable as a transaction at an undervalue or an unfair preference.

PRIORITY OF CLAIMS

The main purpose of a liquidation where the company is insolvent is to collect in the company's assets, determine the outstanding claims against the company, and satisfy those claims in the manner and order prescribed by law.

The liquidator must determine the company's title to property in its possession. Property which is in the possession of the company, but which was supplied under a valid retention of title clause will generally have to be returned to the supplier. Property which is held by the company on trust for third parties will not form part of the company's assets available to pay creditors.

Before the claims are met, secured creditors are entitled to enforce the extent that they are subject to their claims against the assets of the company to the subject to a valid security interest. In most legal systems, only fixed security takes precedence over all claims; security by way of floating charge may be postponed to the preferential creditors.

Claimants with non-monetary claims against the company may be able to enforce their rights against the company. For example, a party who had a valid contract for the purchase of land against the company may be able to obtain an order for specific performance, and compel the liquidator to transfer title to the land to them, upon tender of the purchase price.

After the removal of all assets which are subject to retention of title arrangements, fixed security, or are otherwise subject to proprietary claims of others, the liquidator will pay the claims against the company's assets. Generally, the priority of claims on the company's assets will be determined in the following order:

(1) Firstly, the costs of the liquidation are met out of the company's remaining assets.

(2) Secondly, the preferential creditors under applicable law are paid.

(3) Thirdly, in many legal systems, the claims of the holders of a floating charge will be paid; other claims may also fit into this layer.

(4) Fourthly, if there is anything left, the unsecured creditors are paid out *pari passu* in accordance with their claims. In many jurisdictions, a portion of the assets which would otherwise be caught by a floating charge are reserved for the unsecured creditors.

(5) In the very rare instances where the unsecured creditors are repaid in full, any surplus assets are distributed between the members in accordance with their entitlements.

Unclaimed assets will usually vest in the state as *bona vacantia.*

DISSOLUTION

Having wound up the company's affairs, the liquidator must call a final meeting of the members (if it is a members' voluntary winding up), creditors (if it is a compulsory winding up) or both (if it is a creditors' voluntary winding up). The liquidator is then usually required to send final accounts to the Registrar and to notify the court. The company is then dissolved.

However, in most jurisdictions, the court has a discretion for a period of time after dissolution to declare the dissolution void to enable the completion of any unfinished business.

STRIKING OFF THE REGISTER

In some jurisdictions, the company may elect to simply be struck off the Register as a cheaper alternative to a formal winding up and dissolution. In such cases, an application is made to the Registrar, and they may strike off the company if there is reasonable cause to believe that the company is not carrying on business or has been wound up and, after enquiry, no case is shown why the company should not be struck off.

However, in such cases, the company may be restored to the Register if it is just and equitable so to do (for example, if the rights of any creditors or members have been prejudiced).

In the event, the company does not file an annual return or annual accounts, and the company's file remains inactive, in due course, the Registrar at Companies House will strike the company off the register.

Liquidation – Winding Up – Preferential Payments – Official Liquidator – Indian Company Law.

WINDING UP – A BRIEF

The Companies Act, 1956 contain elaborate provisions as to when a Company is to be wound up, the procedure for initiating winding up proceedings, the role of the managerial personal if the company is wound

up by the Company Court and the liquidation process to be conducted by the Official Liquidator appointed by the Company Court. It is generally understood that the Company faces winding up proceedings when its financial position is not good or it has become insolvent. In most of the cases, it may be true that only insolvent companies are wound up in accordance with the provisions of the Companies Act, 1956. But, it is also true that a Company may be wound-up due to the serious difference of opinion among the groups in the Company and it is on the ground "just and equitable". But, when the company is not insolvent, then, the differences among the groups may normally lead to approaching Company Law Board under section 397/398 of the Companies Act, 1956. At the same time, a Company with valuable properties and the scope for expansion of business is wound up at times. We see few cases where the winding up proceedings are long fought in the Court by preferring appeals and convincing the court with some revival scheme. There are cases where the Company which has faced serious winding up proceedings reviving well later.

OFFICIAL LIQUIDATOR AND HIS RESPONSIBILITIES

I want to deal with the issue of Official Liquidator's responsibilities in the conduct of liquidation process and inherent difficulties. Once official liquidator is appointed by the Company Court, then, in accordance with the provisions of the Companies Act, 1956, the official liquidator gets the information from the managerial personel and takes charge of all the properties of the Company. The Official Liquidator also entertains the claims from the creditors of the Company and the Liquidator himself adjudicates the claims and makes proportionate payments with the permission of Company Court. It is a complicated and risky process without any option. The office of the Official Liquidator is burdened with many liquidation proceedings and often the Court appoints an expert liquidator to ease the burden on the Official Liquidator attached to the High Courts. There is a provision in the proposed Companies' bill for the appointment of company law experts or the experts as liquidators of the Company so as to speed up the entire issue. It's a good move actually as otherwise the shareholders of a Company or creditors of the Company may feel as if they are not supported by law and I have heard the expression of few of creditors of a Company in Liquidation and their enormous problems in the course. The office of the official liquidator is not computerised at present and even if the office is computerised fully, liquidation is a complicated exercise to be done and it is better to take experts as liquidators and these experts may be supported by the staff of the Official Liquidator attached to the concerned High Courts.

Normally, when the Company is wound up and the Official Liquidator is appointed, then, the Official Liquidator will realise money out of the properties of the Company and discharges the liability of the Company to the workmen, creditors, secured creditors, tax and other payments to the government and other organisations. The Companies Act, 1956 contain detailed provisions as to how the payments are to be made by the Liquidator and also about preferential payments. We have many precedents on the issue of preferential payments and I don't want to deal with those in detail.

RULES GOVERNING THE PAYMENTS DURING LIQUIDATION PROCESS

Dealing with the issue of making payments during liquidation process, the Madras High Court, in *In re Manasuba and Co. (P.) Ltd., (1973) 43 Com Cases* 245, was pleased to observe that "section 529 of the Companies Act, among other things, provides that in the winding up of an insolvent company the same rules shall prevail and be observed with regard to the respective rights of secured and unsecured creditors as are in force for the time being under the law of insolvency with respect to the assets of persona adjudged insolvent. While exercising jurisdiction under section 529, the company court would observe the well established rules unless which regulate the affairs in insolvency proceedings and the tests which would apply for deciding whether a particular asset has vested in the official assignee for distribution among the general body of creditors would equally apply for determining whether the asset would vest in the official liquidator for distribution and payment of dividend pro rata without any claim for preferential payment. Normally, in the winding up of an insolvent company, just as in an insolvency, a secured creditor will be out of the scope of

liquidation and he will be entitled to enforce the security and realise the same to obtain full satisfaction of the secured debt and it is only the surplus which will go into the hands of the official liquidator. It is settled law that where a fiduciary relationship is established between the company and a third party and money are paid by the third party to the company in a situation in which the company occupies a fiduciary relationship is established between the company and a third party and moneys are paid by the third party to the company in a situation in which the company occupies a fiduciary relationship, with an obligation to either use the money for a specified purpose or to retain or keep it with the company to meet certain contingencies, the said sum would be impressed with a fiduciary character and would not form part of the general assets of the company. Property thus held by an insolvent company in a fiduciary capacity, burdened with certain fiduciary obligations, is treated a property held in trust for a specific purpose under the insolvency laws. Such property or money held for a specific purpose is by law treated as clothed with a species of trust governed by the same principles and rules which apply to property held in express trust. Section 529 of the Companies Act of 1956, which has taken the place of section 229 of the fact of 1913, corresponds to section 317 of the English Act. In the matter of preferential payments and claims for priority resting upon a fiduciary relationship, the Companies Act of 1956, merely provides that the provisions of the bankruptcy law would be observed. Cases in England and in India have taken the uniform view that property deposited with the bankrupt for a specific purpose would come under the category of trust property and would not vest in the official assignee as bankrupt's property either because there is a specific trust with regard to the same or because the property was entrusted to the bankrupt, the later being clothed with a fiduciary obligation with regard to the property. In order that the property may be exempted from vesting under the aforesaid provision, it is not necessary that an express trust should have been constituted and it is sufficient if the entrustment involves obligations on the bankrupt in the nature of a quasi or constructive trust".

SECURED CREDITORS AND THEIR STEPS

The Companies Act, 1956 provides for a preferential payment to the secured creditor and for making a payment, their due is to be ascertained by the Official Liquidator normally. But, there can be a special law like Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, enabling the secured creditors or the Financial Institutions to proceed with their recovery process overriding other laws. In such a case, it becomes the responsibility of the Official Liquidator to represent the Company before the concerned forums like Debt Recovery Tribunal. We cannot say that the Financial Institutions or especially public financial institutions are good and will not commit any illegalities or irregularities. We are seeing many cases where serious allegations are being made against the Public Financial Institutions too. Under such circumstances, the Official Liquidator, in the interest of the workmen and shareholders, should effectively represent the Company before the forums like Debt Recovery Tribunal. But, the Official Liquidator may be handicapped with the relevant information and facts to fight with the secured creditors in many cases. Other shareholders and creditors may not be normally allowed to represent the Company when the Official Liquidator is appointed. This is an interesting area to be looked into during the liquidation process. It is true that when the Official Liquidator or his office is efficient and listens to the other creditors and shareholders of the Company, then, the Official Liquidator may be able to effectively discharge his responsibility before the Company Court and also before other forums like Debt Recovery Tribunals under special law. But, we cannot ignore the practical difficulties, limitations and complications in the course.

Right of the Secured Creditors and Liquidator's Responsibility

It is seen that, in most of the cases, the banks or Public Financial Institution are the secured creditors. And, for realising their claim, they will resort to special laws like Recovery of Debts due to Financial Institutions Act, 1993 and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Stating that the official liquidator is mandated to represent the workers in order to get their lawful stake from and out of the realisation of the money, the High Court of Madras, in *V.K. Seshasayee and another Vs. Official Liquidator (2005), 127 Comp Case (Mad),* was pleased to observe that "as a determination of the claim of the secured creditors before the Debt Recovery Tribunal was going on, it is was necessary for the

official liquidator in the interest of the workmen to participate in the proceedings before the Tribunal. The official liquidator was to represent effectively in the proceedings before the Tribunal for distribution of the sale consideration to the secured creditors and workers and shareholders of the company". Dealing with the scope of the issue, the Supreme Court of India, in *Industrial Credit and Investment Corporation of India Vs. Srinivas Agencies, 1996(5) IT 405: 1996(4) SCC 165: 1996(3) Supreme 40,* was pleased to observe that "it may be pointed out that sections 529 and 529A of the Act do contain provisions insofar as the priority of secured creditor's claim is concerned. Of course, the Company Court would not transfer the proceeding to it merely because of its convenience ignoring the difficulties which may have to be faced by the secured creditor, who may be at a place far away from the seat of the Company Court. The need to protect the company from unnecessary litigation and costs have, however, to be borne in mind by the Company Court." Further, the court went on observing that "we are, therefore, of the view that the approach to be adopted in this regard by the company court does not deserve to be put in a strait-jacket formula. The discretion to be exercised in this regard has to depend on the facts and circumstances of each case. While exercising this power, we have no doubt that the Company Court would also bear in mind the rationale behind the enactment of Recovery of Debts Due to the Banks and Financial Institutions Act, 1993, to which reference has been made above. We make the same observation regarding the terms which a Company Court should like to impose while granting leave. It need not be stated that the terms to be imposed have to be reasonable, which would, of course, vary from case to case. According to us, such an approach, would maintain the integrity of that secured creditor who had approached the Civil Court or desires to do so, and would take care of the interest of other secured creditors as well which the Company Court is duty bound to do. The company court shall also appraise itself about the fact as to whether dues of workmen are outstanding; if so, extent of the same. It would be seen whether after the assets of the company are allowed to be used to satisfy the debt of the secured creditor, it would be possible to satisfy the workmen's dues *pari passu.*"

Liquidation, being the responsibility of the Official Liquidator, is a risky process and needs expertise. Going by the experience, the Official Liquidator and their office attached to the High Courts, had their own difficulties or limitations in effectively completing the liquidation process. The new Companies Bill contains a provision for appointing experts as Liquidators and it is to be seen as to how the liquidation is done in future. It's a very complicated area under Indian Company Law needing many reforms.

TYPES OF LIQUIDATION

(1) Compulsory liquidation (By the order of the court): In this case, the liquidator would be appointed by the court and would be called as an official liquidator.

(2) Voluntary liquidation (By Shareholders): In this case, the shareholders would decide at their meeting (extraordinary) that the company has to be wound up by passing a special resolution. The shareholders would appoint the liquidator who would prepare a statement which would consist of the estimated realisable value of assets and estimated payments towards liabilities. This statement is termed as 'Liquidators' Statement of Affairs'. On the basis of this statement, the directors of the company would make a declaration of solvency. A copy of this statement has to be submitted to the court for obtaining its permission. Once the permission is granted, the liquidation would commence.

On the completion of the liquidation proceedings, the liquidator would call a final meeting of the shareholders. At this meeting, a statement of accounts would be submitted to the shareholders. This statement would summarise the actual amounts realised from the sale of the assets and the amounts paid towards expenses and liabilities. This statement is called as "Liquidators' Final Statement of Account." A copy of this statement has to be submitted to the ROC. On the submission, the company's name would be deleted and the company is said to be liquidated.

Conclusion:

(1) Liquidator's Statement of Affairs:
   (a) Prepared before the commencement of liquidation.
   (b) On an Estimated Basis.

(2) Liquidator's Final Statement of Account:
   (a) Prepared after the completion of the liquidation
   (b) On an Actual Basis.

NOTES:

(1) Legal order of payments: When the amounts are realised from the disposal of assets it should be applied towards the payment of expenses and liabilities in a specified order which is as follows:

Step 1: Legal Expenses

Step 2: Liquidator's Remuneration

Step 3: Liquidation Expenses

Step 4: Secured Creditors:

It would only include liabilities which are secured by a specific charge, hypothecation or mortgage. The specific asset should be given as a security against the liability. For the purpose of liquidation, secured loans would not include the liabilities which are secured by a floating charge.

Note:

If the amount realised from the sale of the asset exceeds the secured liability, then the surplus can be utilised towards the payment of other liabilities. Alternatively, if there is a deficiency, then the balance would be treated as unsecured and it would be paid along with all other unsecured liabilities in step 7.

Step 5: Preferential Creditors: (Unsecured Creditors)

(a) The payment of Government dues for taxes provided they have arisen within the period of 12 months before the date of liquidation.

(b) The payment of wages and salaries to employees and workers (not directors and officers) for a maximum period of 4 months. The salaries and wages should have arisen within a period of 12 months before the date of liquidation. However, the amount payable to an individual should not exceed ₹ 20,000.

(c) The payment of provident fund, gratuity and pension as per the provision of the relevant acts.

(d) Any leave salary which is payable to the employees and workers.

(e) Compensation paid as per the provisions of the Workmen Compensation Act and Industrial Disputes Act.

(f) Cost of investigation as per the provisions of Secs. 235 or 237 of the Companies Act, 1956.

Note: All preferential creditors rank equal.

Step 6: The amount of those liabilities which are secured by a floating charge, for e.g., Debentures and Interest accrued up to the date of liquidation.

Step 7: The payment of unsecured creditors together with the deficiency of secured creditors which arose in step 4.

Step 8: Interest on liabilities with floating charge from the date of liquidation to the date of repayment.

Step 9: Preference shareholders (Preference share capital + Arrears of dividend up to the date of liquidation).

Step 10: Equity shareholders.

(2) Cash deficit: If there is a cash deficit and the shares are partly paid, then the liquidator can make a call on such shares and utilise the amount received towards the payment of the liabilities. If there are partly paid equity shares and partly paid preference shares, then firstly the liquidator would make a call on the partly paid equity shares.

(3) Cash Surplus: (Which is to be distributed amongst equity shareholders).

(a) If all the shares are fully paid, then the amount payable per share can be calculated in the following manner.

$$\text{Amount payable per share} = \frac{\text{Cash available}}{\text{Total number of shares}}$$

(b) If the shares have different paid-up values, then the amount payable per share can be calculated by using following methods.

Cash available	XXX
Add: Notional call on partly paid shares	XXX
Total cash	XXX

Note: The actual call or refund will be the net amount.

(4) Contributory: A contributory is a shareholder of the company which is in liquidation. The shareholders is termed as a contributory since a contribution may have to be made by the shareholder in order to enable the liquidator to pay off the liabilities. The liability of the contributory would be limited to the extent of the uncalled amount on the shares.

In the case of a company which is not in liquidation, the share liability to pay the amounts in respect of the call is contractual in nature. In the event of the shareholder making a default in respect of the call, than the company can forfeit the shares and subsequently it can be reissued. In the case of a company which is in liquidation. The liquidator has a legal right against the contributories to recover the amount uncalled in respect of the shares. However, if the present contributory is insolvent, then amount would be recovered from the past contributory of shares. All the present contributories would be included in List A and all the past contributories would be included in List B.

Rules and Regulations for Ascertaining the Liability of the Transferrer of Shares.

(a) The transferrer of shares would be liable if the transfer has taken place within a period of 12 months before the date of liquidation.

(b) The transfer should not have taken place on the death of the transferor (transmission).

(c) The past contributory (i.e., transferor) would be liable to contribute the minimum of the following:

(i) Outstanding Liability as on the date of transfer of shares or

(ii) Amount unpaid on the shares.

The past contributory cannot be made liable for any liabilities that arises after the date of transfer of shares.

(d) If there are more than one transferor of shares, then the liability will have to be allocated on the basis of the ratio of the number of shares transferred. The allocation of the liability should be compared with maximum liability and the amount that would be contributed would be the least.

Liquidator's Statement of Account

Receipts	Estimated Realisable Value	Realised Value	Payments		Amount
Cash Bank		X	Legal Expenses		X
			Liquidators' Remuneration		X
Assets Realised:		X	Liquidation Expenses		X
(It would include only those assets			**Liabilities secured**		
which have not been given as			**by Floating charge:**		
a specific security)			Principal	X	
Surplus from securities		X	Interest	X	X
Calls in arrears		X	**Creditors:**		
Calls from contributories		X	Preferential	X	
on _____share @ ₹_____			Others	X	X
			Preference Shareholders:		
			on_____ share @ ₹_____		
			Equity Shareholders:		X
			on _____ share @ ₹ _____		
			on _____ share @ ₹ _____		
		X			X

Format of Liquidators' Statement of Affairs

_____Ltd. (in liquidation)

Liquidator's statement of affairs as on_____

					Estimated Realisable Value
List A Assets not specifically pledged					XX
					XX
					XX
List B Assets specifically pledged					
Assets	**Estimated Realisable Value (a)**	**Due to Secured Creditors (b)**	**Deficiency Ranking as Unsecured (c)**	**Surplus Transfered to the Last Column (d)**	
—	XX	XX	—	XX	
—	XX	XX	—	—	
	XX	XX	XX	XX	XX
Estimated amount available for meeting liabilities.					XX
Summary of Gross Assets					
(1) Estimate Realisable value of assets specifically pledged				XX	
(2) Other Assets				XX	
			Gross Assets	XX	

Gross Liabilities		
XX	Secured Creditors (As per list B)	—
	Estimated total amount available for preferential creditors, liabilities, secured by a floating charge and other unsecured creditors.	XX
XX	**List 'C'**	
	Preferential Creditors	(X)
	Estimated total amount available for liability secured by floating charge and unsecured Creditors.	
XX	**List 'D'**	
	Creditors secured by floating charge	(X)
	Estimated total amount available for other unsecured creditors.	X
XX	**List 'E'**	
	Other unsecured creditors + Deficiency as per 'List B'	(X)
	Estimated total amount available for Equity Shareholders.	X
XX	**List 'F'**	
	Preference share capital + Arrears of Preference dividend	(X)
	Estimated total amount available to Equity Shareholders.	X
XX	**List 'G'**	
	Equity Share Capital (less calls irrecoverable)	(X)
	Estimated Surplus/Deficiency as regards contributories/members (List H).	X

LIST H – DEFICIENCY STATEMENT

In event of liquidation, if the liquidator's statement of affairs is showing any deficiency, the liquidator is required to explain this deficiency by preparing an explanatory statement called "List H – deficiency statement". In this statement, he is required to cover all major financial factors contributing to/reducing the deficiency in last minimum 3 years. (If the company is getting liquidated within 3 years of incorporation, then all the factors from the date of incorporation till date). This statement is prepared in following format.

Items contributing to deficiency or reducing the surplus:

(1)	Excess of Capital and Liabilities over Assets years ago as shown by B/S		X
(2)	Net Dividends/Bonuses declared during the period.		X
(3)	Net Trading losses during the period.		X
(4)	Losses other than trading losses which have been written off during period for which provision has been made in the books of accounts.		X
(5)	Estimated losses now/w/off for which provision has been made while preparing the statement of affairs.		X
(6)	Other items contributing to deficiency or reducing surplus.		X
		(A)	X
Items increasing surplus or reducing deficiency.			
(7)	Excess of Assets over Capital and Liabilities ..... years ago as shown by the B/S		X
(8)	Net trading profit during the period.		X
(9)	Profit and incomes other than trading profits during the period.		X
(10)	Other items reducing the deficiency or contributing to surplus		X
		(B)	X
Estimated deficiency as per the statement of affairs (A – B)			XX

Illustration 1:

Particulars	(₹)	Particulars	(₹)
Share Capital		Land and Building	25,000
8,000 Preference shares of ₹ 10 each	80,000	Other Fixed Assets	2,00,000
12,000 Equity shares of ₹ 10 each	1,20,000	Stock	5,25,000
Bank Loan	4,00,000	Debtors	1,00,000
8% Debentures	1,00,000	Profit and Loss A/c	58,000
Interest outstanding on			
Debentures	8,000		
Creditors	2,00,000		
	9,08,000		**9,08,000**

The company went into liquidation on that date. Prepare Liquidator's statement of account after taking into account the following:

(1) Liquidation expenses and liquidator's remuneration amounted of ₹ 3,000 and ₹ 10,000 respectively.
(2) Bank Loan was secured by hypothecation of stock.
(3) Debentures were repaid on 30/06/2010.
(4) Fixed Assets were realised at book values and current assets at 90% of book value.

Solution:

Liquidators of Final Statement of Accounts

Receipts		(₹)	Payments		(₹)
Cash		—	**Legal Expenses:**		
Assets Realised:			Liquidator's Remuneration		10,000
Land and Building	25,000		Liquidation Expenses		3,000
Other Fixed Assets	2,00,000		Liabilities with Floating charge		
Debtors	90,000	3,15,000	Debentures	1,00,000	
Surplus from Securities:			Interest (8,000 + 2,000)	1,000	1,10,000
Stock (4,72,500 – 4,00,000)		72,500	**Creditors:**		
Calls in Areas:			Preferential	—	
Call from Contributories:			Others	2,00,000	2,00,000
on Shares @ ₹			**Preference Shareholders:**		
			on 800 shares @ ₹ 8.0625		64,500
			Equity Shareholders in shares @ ₹		—
		3,87,500			**3,87,500**

Working Note on Cash:

Particulars		(₹)	(₹)
Add:	Assets Realised		
	Land and Building	25,000	
	Other Fixed Assets	2,00,000	
	Stock	4,74,500	
	Debtors	90,000	7,87,500
			7,87,500
Less:	Legal Expenses		—
Less:	Liquidator's Remuneration		(10,000)
			7,77,500
Less:	Liquidation Expenses		(3,000)
			7,74,500
Less:	Bank Loan		(4,00,000)
			3,74,500
Less:	Preferential Creditors		—
Less:	Liability with Floating Charge:		
	Debenture	1,00,000	
	Interest up to Liquidation date	8,000	(1,08,000)
			2,66,500
Less:	Other Unsecured Creditors		(2,00,000)
			66,500
Less:	O/s Debentures Interest (3 months)		(2,000)
			64,500
Less:	Preference shareholders (Maximum)		64,500
			0

Illustration 2:

Suraj Ltd. was placed in voluntary liquidation on 31st March, 2010 when its Balance sheet was as follows:

Receipts	(₹)	Payments	(₹)
Issued Share Capital		Freehold Factory	5,80,000
5,00,000 Equity shares to ₹ 10 each		Plant and Machinery	2,89,000
fully paid less calls in arrear		Motor Vehicles	57,500
amounting to ₹ 25,000	4,75,000	Stock	1,86,000
6,000 5% Cumulative preference shares		Debtors	74,000
of ₹ 100 each fully paid	6,00,000	Profit and Loss A/c	2,14,000
Shares Premium Account	50,000		
5% Debenture Account	1,00,000		
Interest on Debentures	2,500		
Bank Overdrafts	58,000		
Creditors	1,15,000		
	14,00,500		**14,00,500**

The preference dividends are in arrears from 31.3.2007 onwards.

The Company's articles provided that on liquidation, out of the surplus assets remaining after payment of liquidation costs and outside liabilities, there shall be paid firstly all arrears of preference dividend, secondly the amount paid up on the preference shares together with a premium thereon of ₹ 10 per share, and thirdly any balance then remaining shall be paid to the equity shareholders.

The Bank overdraft was guaranteed by the directors who were called upon by the bank to discharge their liability under the guarantee. The directors paid the amount to the Bank.

The liquidator realised the assets as follows:

Particular	₹
Freehold Factory	7,00,000
Plant & Machinery	2,40,000
Motor Vehicles	59,000
Stock	1,50,000
Debtors	60,000
Calls in Arrears	25,000

Creditors were paid less discount of 5%. The debentures and accrued interest were repaid on 30th June, 2010.

Liquidation costs were ₹ 3,820 and the liquidator's remuneration was 2% on the amounts realised.

Prepare the liquidator's statement of account.

Solution:

Liquidators of Final Statement to Accounts

Receipts		(₹)	Payments		(₹)
Cash		—	Legal Expenses		—
Assets Realised:			Liquidator's Remuneration		24,680
Freehold Factory	7,00,000		Liquidator's Expenses		3,820
Plant and Machinery	2,40,000		**Liability with Floating Charge:**		
Motor Vehicles	59,000		Debenture	1,00,000	
Stock	1,50,000		Interest (2500 + 1250)	3,750	1,03,750
Debtors	60,000		**Creditors:**		
Surplus from Securities:			Preferential	—	
Calls in Arrears		25,000	Others	4,67,750	4,67,750
Calls from Contributories.			**Preference shareholders**		
on shares @ ₹			on 6,000 shares @ ₹ 130		7,80,000
			Equity Shareholders		
			on 50,000 share @ ₹ 3.09		1,54,500
		12,34,000			**12,34,000**

Working Note on Cash:

Particulars		(₹)	(₹)	
Add:	Assets Realised:			
	Freehold Factory	7,00,000		
	Plant and Machinery	2,40,000		
	Motor Vehicles	59,000		
	Stock	1,50,000		
	Debtors	25,000	12,34,000	
	Call in Arrears	25,000	12,34,000	
Less:	Legal Expenses		—	
Less:	Liquidator's Remuneration (14,34,000 × 2%)		(24,680)	
			12,09,320	
Less:	Liquidation Expenses		(3,820)	
			12,05,500	
Less:	Secured Liability		—	
Less:	Preferential Creditors		—	
Less:	**Liability with Floating Charge**			
	Debenture	1,00,000		
	Interest up to Liquidation date	2,500	(1,02,500)	
			11,03,000	
Less:	Other Unsecured Creditors (58,000 + 1,09,250)		(1,67,250)	
			9,35,750	
Less:	O/s Debentures Interest (3 months)		(1,250)	
			9,34,500	
Less:	Preference shareholders (Maximum)			
	Four years dividend Preference capital @ 110 (1,20,000 + 6,60,000)		7,80,000	
			1,54,500	→ ESH

Illustration 3:

J & K Assets Ltd. went into voluntary liquidation on April, 1, Sheet read as follows:

Particulars			(₹)
Plant			2,00,000
Stock			1,00,000
Debtors			1,50,000
Cash at Bank			3,000
			4,53,000
Less:	5% Debentures	60,000	
	Creditors	1,03,000	1,63,000
			2,90,000
Represented by:			1,20,000
	12,000 10% Preference shares of ₹ 10 each		2,00,000
	20,000 ordinary shares of ₹ 10 each		3,20,000
Less:	Deficiency on Profit & Loss Account		30,000
			2,90,000

The dividends on the Preference shares had been paid up to 31st, March 2007. The liquidator sold the plant and stock for ₹ 2,75,000 and realised all the debts except one of ₹ 25,000 which proved to be irrecoverable. He admitted the claim of all creditors 75,000 of which were preferential.

Expenses of liquidation amounted to ₹ 1,600 and the Debentures were repaid on 30th, September 2008, The liquidator's remuneration was at the rate of 2% on the amounts realised (except cash) and 2% on the amount distributed to the ordinary shareholders.

Prepare the Liquidator's Final Account ignoring income tax.

Solution:

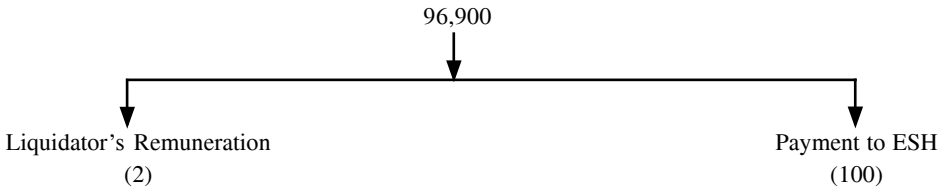
More Assts Ltd.

Liquidator's Final Statement of Account

Receipts		(₹)	Payments		(₹)
Cash		3,000	Legal Expenses		—
Assets Realised:			Liquidator's Remuneration		
Plant and Stock	2,75,000		(8,000 + 1,900)		9,900
Debtors	1,25,000	4,00,000	Liquidation Expenses		1,600
Surplus from Security		—	**Liability with Floating charge:**		
Calls in Arrears		—	Debentures	60,000	
Calls from Contributories		—	Interest	1,500	61,500
on shares @ ₹			**Creditors:**		
			Preferential	5,000	
			Others	98,000	1,03,000
			Preference shareholders		
			on 12,000 shares @ ₹		1,32,000
			Equity shareholders		
			on 20,000 share @ ₹ 4.75		95,000
		4,03,000			**4,03,000**

Working Note:

Particulars		(₹)	(₹)	
Cash			3,000	
Add:	Assets Realised			
	Plant and Stock	2,75,000		
	Debtors	1,25,000	4,00,000	
			4,03,000	
Less:	Legal Expenses		—	
Less:	Liquidator's Remuneration (4,00,000 × 2%)		(8,000)	
			3,95,000	
Less:	Liquidation Expenses		(1,600)	
			3,93,400	
Less:	Secured Liabilities		—	
Less:	Preferential Creditors		(5,000)	
			3,88,400	
Less:	Liabilities with Floating charges			
	Debenture	60,000		
	Interest up to Liquidation	—	(60,000)	
			3,28,400	
Less:	Other Unsecured Creditors		(98,000)	
			2,30,400	
Less:	O/s debenture Interest (6 months)		(1,500)	
			2,28,900	
Less:	Preference shareholders (1,20,000 + 12,000)		(1,32,000)	
			96,900	→ 102



102 → 96,900
2 = ?
= 1,900

Illustration 4:

The following is the Balance Sheet of M/s. Uncomfortable Limited as on 31st March, 2010.

Liabilities		(₹)	Assets	(₹)
Share Capital			Land and Building	2,00,000
Authorised and Subscribed:			Plant and Machinery	5,00,000
4,000 6% preference shares of			Patents	80,000
₹ 100 each	4,00,000		Stock and cost	1,10,000
2,000 Equity Shares ₹ 100 each			Sundry Debtors	2,20,000
₹ 75 per share paid up	1,50,000		Cash at Bank	60,000
6,000 Equity share of ₹ 100			Profit and Loss Account	2,40,000
each, ₹ 60 per share paid up	3,60,000			
		9,10,000		
5% Debentures (have floating				
charge on all assets)		2,00,000		
Interest outstanding on				
Debenture also secured as above		10,000		
Creditors		2,90,000		
		14,10,000		**14,10,000**

On that date, the Company went into liquidation. The dividends on preference shares were in arrears for two years. The arrears are payable on liquidation as per the Articles of the Company. Creditors include a loan of ₹ 1,00,000 on Mortgage of Land and Buildings. The assets realised are as under.

Particulars	(₹)
Land and Buildings	2,40,000
Plant and Machinery	4,00,000
Patents	60,000
Stock	1,20,000
Sundry Debtors	1,60,000

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to commission of 3% on all assets realised and a commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount of ₹ 30,000. All payments were made on 30th September, 2010. Prepare the Liquidator's Statement of Account.

Solution:

Uncomfortable Ltd.
Liquidator's Final Statement of Account

Receipts		(₹)	Payments		(₹)
Cash		60,000	Legal Expenses		—
Assets Realised:			Liquidator's Remuneration		
Plant and Machinery	4,00,000		(29,400 + 600 + 3200)		33,200
Patents	60,000		Liquidation Expenses		24,800
Stock	1,20,000		**Liability with Floating Charges:**		
Sundry Debtors	1,60.000	7,40,000	Debenture	2,00,000	
Surplus from Security:			Interest (10,000 + 5,000)	15,000	2,15,000
Land & Building		1,40,000	**Creditors:**		
Calls in Arrears:			Preferential	30,000	
Calls from Contributories on shares @ ₹		—	Others	1,60,000	1,90,000
			Preference shareholders		
			on 4,000 shares @ ₹ 112		4,48,000
			Equity shares holders		
			on 2,000 shares @ ₹ 15.25		30,500
			on 6,000 shares @ ₹ 0.25		1,500
		9,40,000			**9,40,000**

Note: When liquidator's remuneration is on payment to unsecured creditors, the term unsecured creditors includes preferential creditors.

Working Note (1):

Particulars	(₹)	(₹)
Cash		6,000
Assets Realised:		
Land and Building	2,40,000	
Plant and Machinery	4,00,000	
Patents	60,000	
Stock	1,20,000	
Sundry Debtors	1,60,000	9,80,000
		10,40,000
Less: Legal Expenses		—
Less: Liquidator's Remuneration (3% × 9,80,000)		(29.400)
		10,10,600
Less: Liquidation Expenses		(21,800)
		9,98,800
Less: Secured Loans		(1,00,000)
		8,88,800
Less: Preferential Creditors	30,000	
Liquidator's Remuneration (2%)	600	30,6001
		8,58,200
Less: Liability with Floating Charges:		
Debentures	2,00,000	
Interest up to liquidation date	10,000	(2,10,000)
		6,48,200
Less: Other Unsecured Creditors	1,60,000	
Remuneration (2%)	3,200	(1,63,200)
		4,85,000
Less: Outstanding Debenture Interest (6 months)		(5,000)
		4,80,000
Less: Preference shareholders (4,00,000 + 48,000)		4,80,000
	ESH	← 32,000

Working Note (2):

Distribution to ESH:		(₹)
Cash Available		32,000
Add: National Call		
Group I (2,000 × 25)	50,000	
Group II (6,000 × 40)	2,40,000	2,90,000
	Total Cash	3,24,000

Refund per share = $\frac{3,22,000}{8,000}$ = 40.25

Actual Refund	(₹)
Group I – Net Refund (2,000 × 15.25)	30,500
Group II – Net Refund (6,000 × 0.25)	1,500
	34,000

Illustration 5:

Slow Limited went into voluntary liquidation on 31/03/2010. The balances in its books on that date were:

Liabilities	(₹)	Assets	(₹)
Share Capital:		Land	50,000
Authorised and Subscribed:		Building	2,00,000
5,000 6% preference shares		Plant and Machinery	6,25,000
to ₹ 100 each fully paid	5,00,000	Stock	1,37,500
2,500 equity shares of ₹ 100 each		Sundry Debtors	2,75,000
₹ 75 paid up ₹ 7,500 Equity shares		Cash at Bank	75,000
of ₹ 100 each ₹ 60 paid up	4,50,000	Profit and Loss A/c	1,10,000
5% Debentures (secured by a floating			
charges on all assets)	2,50,000		
Interest due on Debentures	12,500		
Bank Overdraft	1,00,000		
Unsecured Creditors	2,00,000		
Taxes due to Government within 12 months	12,500		
Salaries and wages due for 4 months			
for workers	60,000		
	17,72,500		**17,72,500**

The liquidator is entitled to a remuneration of 5% on all assets realised except cash and 1% on the amount distributed to Unsecured Creditors other than Preferential Creditors.

Bank Overdraft is secured by deposit of title deed of land and building which realised ₹ 3,00,000. Other assets realised the following sums:

Particulars	(₹)
Plant and Machinery	5,00,000
Stock	1,50,000
Sundry Debtors	2,00,000

Expenses of liquidation amounted to ₹ 27,250.

Prepare liquidator's final statement of account. Liquidator realised all assets on 1/7/2010 and discharged his obligation on the same date. Dividend on preference shares were in arrears for two years.

Solution:

Slow Ltd.

Liquidators Final Statement of Account

Receipts		(₹)	Payments		(₹)
Cash		75,000	Legal Expenses		—
Assets Realised:			Liquidator's Remuneration		
Plant & Machinery	5,00,000		(57,500 + 2,000)		59,500
Stock	1,50,000		Liquidation Expenses		27,250
Sundry Debtors	2,00,000	8,50,000	**Liability with Floating Charges:**		
Surplus from Security:			Debenture	2,50,000	
Land and Building			Interest (12,500 + 3,125)	15.625	2,65,625
(3,00,000 – 1,09,000)		2,00,000	**Creditor:**		
			Preferential	72,500	
Calls in Arrears		—	Others	2,00,000	2,72,500
			Preference shareholders		
Call from Contributories			on 5,000 shares @ ₹ 112		5,60,000
on 7,500 shares @ ₹ 9,737.5		73,031.25	Equity shareholders on 2,500 shares		
			@ ₹ 5,262.5		13,156.25
		11,98,031.25			**11,98,031.25**

It is assumed that outstanding salary per person is less than ₹ 20,000. Hence, entire outstanding salary ₹ 60,000 is taken as preferential creditors.

Working Note (1):

Particulars		(₹)	(₹)
Cash			75,000
Add:	Assets Realised:		
	Land & Building	3,00,000	
	Plant and Machinery	5,00,000	
	Stock	1,50,000	
	Sundry Debtors	2,00,000	11,50,0004
			12,25,000
Less:	Legal Expenses		—
Less:	Liquidator's Remuneration (5% × 11,50,000)		(57,500)
			11,67,500
Less:	Liquidator Expenses		(27,250)
			11,40,250
Less:	(Bank Overdraft) Secured Liability		(1,00,000)
			10,40,250
Less:	Preference Creditors		(72,500)
			9,67,750
Less:	Liability with Floating Charges:		—
	Debtors	2,50,000	
	interest	12,500	(2,62,500)
			7,05,250
Less:	Other Unsecured Creditors:	2,00:000	
	Liquidator Remuneration	2,000	(2,02,000)
			5,03,750
Less:	Outstanding Debenture Interest (3 months)		(3,125)
			5,00,125
Less:	Shareholders:		
	Group I (2500 × 25)	62,500	
	Group II (7500 × 40)	3,00,000	3,62,500
Less:	Preference shareholders		(5,60,000)
	(5,00,000 + 60,000)	ESH	← 3,02,625

$$\text{Refund per share} = \frac{3,02,625}{10,000} = 30.2625$$

Actual Refund/Call:

Group I: Net Refund @ 5.2625

Group II: Net Call @ 9.7375

Illustration 6:

Given below is the Position as on April 1,2010 of Arvind Mills Ltd., on which date it goes into liquidation:

Particulars		(₹)	(₹)
(1)	**Share Capital:**		
	(a) 10,000 Preference Shares of ₹ 10 each fully paid	1,00,000	
	(b) 5,000 Equity Shares of ₹ 10 each fully called 50,000		
	Less: Calls in arrears on 1,000 shares @ Re. 1 per share 1,000	49,000	
	(c) 10,000 Equity shares of ₹ 10 each ₹ 5 per share paid	50,000	
	(d) 20,000 Equity Shares of ₹ 10 each ₹ 3 per share paid	60,000	2,59,000
(2)	**Secured Loan from Bank:**		
	Against pledge of stock of raw material		38,000
(3)	**Unsecured Dues:**		
	Preferential	1,200	
	Others	1,01,800	1,03,000
			4,00,000
(4)	Cash and Bank		5,000
(5)	Stock of raw materials		50,000
(6)	Other stocks		1,50,000
(7)	Others assets		1,45,000
(8)	Profit and Loss Account (Debit Balance)		50,000
			4,00,000

Realisations were:

(a) Stock of raw materials ₹ 30,000;

(b) Other stocks ₹ 80,000;

(c) Remaining assets ₹ 20,000

The liquidator is entitled to a fixed remuneration of ₹ 1,000 plus 3% of the gross amounts realised by him. Other costs and charges amounted to ₹ 11,000. Equity shares carry the same rights, regardless of the amount paid, as far as capital repayment is concerned.

Show the Liquidator's final statement of account.

Solution:

Arvind Mills Ltd.
Liquidator's Final Statement of Account

Receipts		(₹)	Payments		(₹)
Cash		5,000	Legal Expenses		—
Assets Realised			Liquidator's Remuneration		
Other Stock	80,000		(44,000 + 3,000)		4,000
Other Asset	20,000	1,00,000	Liquidation Expenses		11,000
Surplus from Security			**Liabilities with Floating charges:**		
Calls in Arrears			Debenture	—	
Calls from Contributories:			Interest	—	
on 10, 000 shares @ ₹	3	30,000	**Creditors:**		
on 20,000 shares @ ₹	5	1,00,000	Preferential	1,200	
			Others (1,01,800 + 8,000)	1,09,800	1,11,000
			Preference Shareholders:		
			on 10,000 shares @ ₹ 10		1,00,000
			Equity shareholders:		
			on 4,000 shares @ ₹ 2		8,000
			on 1,000 shares @ ₹ 1		1,000
		2,35,000			**2,35,000**

Working Note (1):

Particulars		(₹)	(₹)
Cash			5,000
Add:	**Assets Realised:**		
	Other Stock	80,000	
	Other Assets	20,000	1,00,000
Less:	Legal Expenses		—
Less:	Liquidator's Remuneration (1,000 + 3,000 – 3% of lakh)		(4,000)
			1,01,000
Less:	Liquidation Expenses		(11,000)
			90,000
Less:	Secured Liability		—
Less:	Preferential Creditors		(1200)
			88,800
Less:	Liabilities with Floating charges		88,000
Add:	National Call:		
	Group I (4,000 shares)	—	
	Group II (1,000 × 1)	1,000	
	Group III (10,000 × 5)	50,000	
	Group IV (70,000 × 7)	1,40,000	1,91,000
			2,79,800
Less:	Other unsecured creditors (1,01,800 + 8,000)		(1,09,800)
			1,70,000
Less:	Outstanding debenture interest for delayed period		—
			1,70,000
Less:	Preference shareholders		(1,00,000)
		ESH	→ 70,000
	Refund per share $= \frac{70,000}{35,000}$ = ₹ 2		
	Actual Refund Call:		
	Group I Refund @ ₹ 2 = 8,000		
	Group II Refund @ ₹ 1 = 1,000		
	Group III Call @ ₹ 3 = 30,000		
	Group IV Call @ ₹ 6 = 1,20,000		

Illustration 7:

The following is the Balance Sheet of RNA Builders Ltd. as 31st March, 2010.

Liabilities		(₹)	Assets	(₹)
Share Capital:			Land and Buildings	1,20,000
Issued: 11% preference shares of			Sundry Current Assets	3,95,000
₹ 10 each		1,00,000	Profit and Loss Account	38,500
10,000 equity shares of ₹ 10 each			Cash/Bank Balance	1,000
fully paid up		1,00,000	Debenture issue expenses not written off	1,000
5,000 equity shares of ₹ 10 each,				
₹ 7.30 per share paid up		37,500		
13% Debentures		1,50,000		
Mortgage Loan		80,000		
Bank Overdraft		30,000		
Creditors for Trade		32,000		
Income tax arrears: (assessments				
concluded in January 2008)				
Assessment year 2006-07	21,000			
Assessment year 2007-08	5,000	26,000		
		5,55,000		**5,55,000**

Mortgage loan was secured against land and buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver and this was followed by a resolution for members' voluntary winding up. The receiver for the debenture holders brought the land and buildings to auction and realised ₹ 1,50,000. He also took charge of Sundry assets of the value of ₹ 2,40,000 and realised ₹ 2,00,000. The Liquidator realised ₹ 1,00,000 on the sale of the balance of sundry current assets. The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company and on the Bank raising a demand, the Directors paid off the dues from their personal resources. Costs incurred by the Receiver were ₹ 3.000 and by the Liquidator ₹ 2,800. The receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for period after 31st March, 2008 and interest for the last half year was due to the debenture holders.

Prepare the accounts to be submitted by the Receiver and the Liquidator.

Solution:

In this question, debenture holders have appointed a receiver who has taken charge of various assets, has realised them and must have paid payments up to the stage of debenture holders. The work done by the receiver will be recorded by the Receiver himself by preparing. **'Receivers Receipts and Payment Accounts',** for which no legal format is prescribed.

Receiver's Receipts and Payments A/c

Receipts	(₹)	Payments	(₹)
To Balance b/d	1,000	By Legal Expenses	—
To Land and Building	1,50,000	By Receiver's Expenses	3,000
To Sundry Assets	2,00,000	By Secured liability (Mort. Loan)	80,000
		By Preference Creditors (Income Tax)	26,000
		By Liability with floating charge (Debenture + Interest for 6 months)	
		By Balance (Liquidator)	8,2,250
	3,51,000		**3,51,000**

RNA Builders Ltd.
Liquidator's Final Statement of Accounts

Receipts	(₹)	Payments		(₹)
Cash	82,250	Legal Expenses		—
Assets Realised:		Liquidator's Remuneration		3,000
Sundry Current Assets	1,00,000	Liquidator's Expenses		2,800
Surplus from Security	—	**Liability with floating charges:**		
Calls in Arrears	—	Debenture	—	
Calls from Contributories:		Interest	—	
on 5,000 shares @ ₹ 2.17	10,850	**Creditors:**		
		Preference	—	
		Others	62,000	62,000
		Preference shareholders:		
		on 10,000 shares @ ₹ 12.20		1,22,000
		Equity shareholders:		
		on 10,000 share @ ₹ 0.33		3,300
	1,93,100			**1,93,100**

Working Note:

Particulars	(₹)	(₹)
Cash		82,500
Add: Assets Realised:		
Sundry Current Assets		1,09,000
		1,82,250
Less: Liquidator's Remuneration (3%)		(3,000)
		1,79,250
Less: Liquidation Expenses		(2,800)
		1,76,450
Less: Other Unsecured Creditors (30,000 + 32,000)		62,000
		1,14,450
Add: Notional Call (Group II – 5,000 × 2.50)		12,500
Less: Preference share holders (1,00,000 + 22,000)		(1,22,000)
	ESH	← 4,950
Refund per share = $\frac{4,950}{15,000}$ = ₹ 0.33		
Actual Refund/Call:		
Group I: Refund @ 0.33		
Group II: Call @ 2.17		

*Contributory and Past Contributory *(Refer initial pages of this chapter)*

Illustration 8:

Zinta Ltd. went into voluntary liquidation on 31st March, 2010. The following extracted from its books on that date.

Liabilities	(₹)	Assets		(₹)
Capital: 50,000 equity shares of ₹ 10 each	5,00,000	Buildings		1,50,000
Debentures (secured by a floating charge)	2,00,000	Plant & Machinery		2,10,000
Creditors	40,000	Stock in Trade		95,000
Bank overdraft	30,000	Book debts	75,000	
		Less: Provision	10,000	65,000
		Calls in arrears		1,00,000
		Cash on hand		10,000
		Profit and Loss Account		1,40,000
	7,70,000			**7,70,000**

Plant and Machinery and Buildings are valued at ₹ 1,50,000 and ₹ 1,20,000 respectively. On realisation, losses of ₹ 15,000 are expected on stock. Book Debts will realise ₹ 70,000. Calls in arrears are expected to realise 90%. Bank overdraft is secured against Buildings. Preferential Creditors for taxes and wages are ₹ 6,000 and Miscellaneous Expenses outstanding ₹ 2,000. Prepare a Statement of Affairs to be submitted to the meeting of creditors.

Solution:

Zinta Ltd. (in Liquidation)
Liquidator's Statement of Affairs A/c as on 31/03/2010

					Estimated Realisable Value
List A: Assets Not Specifically Pledged					
	Plant & Machinery				1,50,000
	Stock				80,000
	Debtors				70,000
	Calls in Arrears				90,000
	Cash on Hand				10,000
					4,00,000

List B: Assets Specifically Pledged

Assets	Estimated Realisable Values (a)	Secured Creditors (b)	Deficiency (c)	Surplus (d)	
Building	1,20,000	30,000	—	90,000	
	1,20,000	30,000	—	90,000	90,000

Estimated amount available tor meeting all liabilities				4,90,000
Summary of Gross Assets:				
(a)	Estimated Realisable Values of Assets Specifically Pledged		1,20,000	
(b)	Other Assets		4,00,000	
	Gross Assets		5,20,000	
	Gross Liabilities			
30,000	Secured Creditors (As per list 'B')			—
	Estimated amount available for preferential creditors, liabilities with floating charge and other unsecured creditors			4,90,000
	List C: Preferential Creditors			
6,000	Creditors for Taxes and Wages			(6,000)
	Estimated amount available for liabilities with floating charge and other unsecured creditors.			4,84,000
	List D: Liabilities with Floating Charge			
2,00,000	Debentures			(2,00,000)
	Estimated amount available for other unsecured creditors			2,84,000
36,000	**List E: Other Unsecured Creditors**			
	Creditors		34,000	
	Outstanding Miscellaneous Expenses		2,000	(36,000)
	Estimated amount available for shareholders			2,48,000
	List F: Preference Capital + Arrears of Dividend			—
	Estimated amount available for Equity shareholders			2,48,000
	List G: Equity Share Capital (Calls irrecoverable)			(4,96,000)
	Net Deficiency as regards the members (List H)			2,42,000

Illustration 9:

Parle Ltd. is to be liquidated. Their summarised Balance Sheet as at 31st March, 2010 appears as under:

Liabilities	(₹)	Assets	(₹)
2,50,000 equity shares ot ₹ 10 each	25,00,000	Land and Buildings	5,00,000
Secured debentures (on land and bldg.)	10,00,000	Other Fixed Assets	20,00,000
Unsecured Loans	20,00,000	Current Assets	45,00,000
Trade creditors	35,00,000	Profit and Loss A/c.	20,00,000
	90,00,000		**90,00,000**

Contingent Liabilities are:

For Bills discounted 1,00,000

For excise duty demand 1,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:

Land and Buildings 11,00,000

Other Fixed Assets 18,00,000

Current Assets 35,00,000

Taking the above into account, prepare the statement of affairs.

Solution:

Parle Ltd. (in Liquidation)
Liquidators Statement of Affairs A/c as on 31/03/2010

						Estimated Realisable Vvalue
List A: Assets not Specifically Pledged						
	Other Fixed Assets					18,00,000
	Current Assets					35,00,000
						53,00,000
List B: Assets Specifically Pledged						
	Assets	**Estimated Realisable Values (a)**	**Secured Creditors (b)**	**Deficiency (c)**	**Surplus (d)**	
	Land & Building	11,00,000	10,00,000	—	1,00,000	
		11,00,000	10,00,000	—	1.00,000	1,00,000
Estimated amount available for meeting all liabilities						54,00,000
Summary ot Gross Assets:						
(a)	Estimated realisable values of Assets Specifically Pledged				11,00,000	
(b)	Other Assets				53,00,000	
			Gross Assets		64,00,000	
	Gross Liabilities					
	10,00,000	Secured Creditors (As per List B)				—
		Estimated amount available tor Preferential creditors, liabilities with floating charges and other unsecured creditors				54,00,000
		List C: Preferential Creditors				
	1,50,000	Excise Duty Demand				(1,50,000)
		Estimated amount available for liability with floating charges and other unsecured creditors.				52,50,000
		List D: Liabilities with Floating Charges				—
		Estimated amount available for other unsecured creditors				52,50,000
		List E: Other Unsecured Creditors				
	(56,00,000)	Unsecured Loans			20,00,000	
		Trade Creditors			35,00,000	
		Bills Discounted			1,00,000	(56,00,000)
		Estimate amount available for Shareholders				(3,50,000)
		List F: Preference of Capital Arrears of Dividend				—
		Estimated amount available for Equity shareholders				(3,50,000)
		List G: Equity shareholder (Calls Irrecoverable)				(25,00,000)
		Net Deficinecy as regards the members (List H)				28,50,000

Illustration 10:

The following information was extracted from the books of Satyam Limited Company on 31st March, 2008 on which date a winding up order was made:

	(₹)
Equity share capital – 2,000 shares of ₹ 100 each	2,00,000
6% Preference share capital – 3000 shares of ₹ 100 each	3,00,000
Calls in arrear on equity shares (estimated to realised to ₹ 2,000)	4,000
5% First Mortgage Debentures secured by a floating charge on the whole of the asset of the company (interest paid to date)	2,00,000
Creditors having a first mortgage on the Freehold Land & Buildings	85,000
Creditors having a second charge on Freehold Land & Buildings	90,000
Trade Creditors	2,70,000
Bill discounted (of these bills for ₹ 15,000 are expected to be dishonoured)	40,000
Unclaimed Dividends	6,000
Bills payable	10,000
Income tax due	25,000
Outstanding Salaries and Wages (for five months)	40,000
Bank overdraft secured by second charge on the whole of the assets of the company	20,000
Cash in hand	1,200
Debtors (of these ₹ 60,000 are good, ₹ 15,000 are doubtful estimated to realise ₹ 5,000 and the rest bad)	90,000
Bills of Exchange (considered good)	35,000
Freehold Land and Buildings (estimated to realise ₹ 1,65,000)	1,50,000
Plant and Machinery (estimated to produce ₹ 90,000)	1,20,000
Fixtures and Fittings (estimated to produce ₹ 8,000)	12,000
Stock in trade (estimated to produce 25% less)	80,000
Patents (estimated to produce ₹ 45,000)	70,000

On 31st March, 2003 the company's share capital stood at the same figure as on 31st March, 2008 but, in addition, there was a General Reserve of ₹ 65,000. In 2004-2005 the company earned a profit ₹ 85,000 but thereafter it suffered trading losses totaling in all ₹ 4,67,000.

In 2005-2006 a speculation loss of ₹ 91,000 was incurred. Preference dividend was paid for 2004 2005 and 2005-2006 and on equity shares, a dividend of 10% was paid in 2004-2005 only. Excise authorities imposed a penalty of ₹ 60,000 in 2005 for evasion of excise and income tax authorities imposed a penalty of ₹ 1,60,200 for evasion of tax.

Prepare the Statement of Affairs and the Deficiency Account.

Solution:

Satyam Ltd. (in Liquidation)
Liquidator's Statement of Affairs A/c as on 31/03/2008

						Estimated Realisable Value
List A: Assets Not Specifically Pledged						
	Calls in Arrears					2,000
	Cash in Hand					1,200
	Debtors					65,000
	Bills of Exchange					35,000
	Plant and Machinery					20,000
	Fixtures and Fittings					8,000
	Stock					60,000
	Patents					45,000
						3,06,200

List B: Assets Specifically Pledged

Assets	Estimated Realisable Values (a)	Secured Creditors (b)	Deficiency (c)	Surplus (d)
Freehold	1,65,000	1,75,000	10,000	—
Land & Building	1,65.000	1,75,000	10,000	—

Estimated amount available for meeting all liabilities				3,06,200
Summary of Gross Assets				
(a)	Estimated Realisble Values of Assets Specifically Pledged		1,65,000	
(b)	Other Assets		3,06,200	
		Gross Assets	4,71,200	
	Gross Liabilities			
	1,65,000	Secured Creditors (As per List B)		
		Estimated amount available for preferential creditors, liabilities with floating charge and other unsecured creditors		3,06,200
	57,000	**List C: Preferential Creditors**		
		Income Tax due	25,000	
		Outstanding salaries and wages	32,000	(57,000)
		Estimated amount available for liability with floating charges and other unsecured creditors		2,49,200
	2,20,000	**List D: Liabilities with Floating Charges**		
		5% Debentures	2,00,000	
		Bank O/D	20,000	(2,20,000)
		Estimated amount available for other unsecured creditors		29,200

3,19,000	**List E: Other Unsecured Creditors**	15,000	
	Trade Creditors	2,70,000	
	Unclaimed Dividend	6,000	
	Bills Payable	10,000	
	Outstanding wages	8,000	
	Deficiency from List 'B'	10,000	(3,19,000)
	Estimated amount available for shareholders		(2,89,800)
3,00,000	**List F: Preference Capital Share + Arrears of Dividend**		(3,00,000)
	Estimated amount available for Equity shareholders		(5,89,800)
98,000	**List C: Equity Shareholder (Calls irrecoverable)**		(1,98,000)
	Net Deficiency as regards the members (List H)		7,87,800

List 'H' – Deficiency Statement

Particulars		(₹)
Factors Contributing to Deficiency:		
(1) Excess of Capital and Liabilities over Assets 5 years ago		
(2) Dividend/Bonus declared in last 5 years (Preference 36,000 + Equity Dividend 19,600)		55,600
(3) Net Trading losses in last 5 years (4,67,000 – 85,000)		3,82,000
(4) Losses other than trading losses in last 5 years (91,000 + 60,000 + 1,60,200)		3,11,200
(5) Losses/Liabilities now provided in Statement of Affairs (Contingent Liability)		15,000
(6) Other factors (Losses on assets except calls in arrears) = 25,000 (Drs) + 30,000 (P & M) + 4,000 (E & F) + 20,000 (Stk) + 25,000 (Patents)		1,04,000
	(A)	8,67,800
Factors Reducing the Deficiency:		
(7) Excess of Assets over Capital and Liabilities 5 years ago (GR)		65,000
(8) Net trading Profit during 5 years		
(9) Profits other than trading profits during 5 years		
(10) Other factors (Profits on Realisation of Assets (Land and Building)		15,000
	(B)	80,000
Net Deficiency as per Statement of Affairs (A – B)		7,87,800

Illustration 11:

The following balances were extracted from the books of Sudden Death Limited, on 31st March, 2008, on which date a winding up order was made:

Particulars	(₹)
Share Capital:	
Equity Shares – 20,000 shares of ₹ 10 each ₹ 8 per share called up	1,60,000
Preference Shares – 2,000 shares of ₹ 100 each fully paid	2,00,000
Calls in arrears – Equity Shares – Estimated to realise ₹ 600	1,000
15% Debenture is secured by first floating charge on the assets	2,00,000
Bank Overdraft secured by a second floating charge on the assets	1,00,000
Fully secured Creditors (secured against Plant & Machinery)	60,000
Investments (estimated to realise ₹ 60,000)	80,000
Plant & Machinery – secured to creditors – estimated to realise ₹ 80,000	1,20,000
Land and Buildings – estimated to realise ₹ 80,000	40,000
Outstanding Rent and Taxes	4,000
Outstanding Wages and Salaries	3,000
Bills payable	24,000
Sundry Creditors	60,000
Bills receivable – estimated to realise ₹ 2,000	6,000
Debtors – estimated to realise 60%	1,40,000
Bills Discounted – ₹ 30,000 likely to rank ₹ 8,000	
Contingent Liability likely to accrue	6,000
Stock in trade – estimated to produce ₹ 38,000	60,000
Cash in hand and at Bank	3,200

Entry for accrued salary of ₹ 4,000 and rent of ₹ 2,000 has still to be made in the books. Prepare a Statement of Affairs and a Deficiency Account.

Solution:

Since, no Information is available about the past performance for preparation of deficiency statement, it is assured that the company is getting liquidated in the 1st year of incorporation and the profit and loss for the year by comparing assets and liabilities.

Balance Sheet as on 31/03/2008

Liabilities	(₹)	Assets	(₹)
Equity Share Capital	1,60,000	Calls in Arrears (R.V. = 600)	1,000
Preference Share Capital	2,00,000	Investment (R.V. = 60,000)	80,000
15% Debenture (1st floating charge)	2,00,000	Plant and Machinery (R.V. 80,000)	1,20,000
Bank 0/0 (2nd floating charge)	1,00,000	Land and Building (R.V. 80,000)	40,000
Secured Creditors (against P & M)	60,000	Bills Receivable (R.V. = 2,000)	6,000
Outstanding Rent & Taxes	4,000	Debtors (R.V. = 84,000)	1,40,000
Outstanding Salaries & Wages	13,000	Stock (R.V. = 38,000)	60,000
Bills Payable	24,000	Cash in Hand	3,200
Sundry Creditors	60,000	Profit and Loss A/c	3,60,800
	8,11,000		**8,11,000**

Contingent + Unrecorded Liabilities:

	(₹)
Bills Discounted Dishonoured	8,000
Contingent Liability	6,000
Outstanding Salary	4,000
Outstanding Rent	2,000

Sudden Death Ltd. (in Liquidation)
Liquidator's Statement of Affairs A/c as on 31/03/2008

					Estimated Realisable Value
List A : Assets Not Specifically Pledged					
Calls in Arrears					600
Investments					60,000
Land & Building					80,000
Bills Receivable					2,000
Debtors					84,000
Stock					38,000
Cash in Hand					3,200
					2,67,800

List B: Assets Specifically Pledged

Assets	Estimated Realisable Value (a)	Secured Creditors (b)	Deficiency (c)	Surplus (d)	
Plant and Machinery	80,000	60,000	—	20,000	
	80,000	60,000	—	20,000	20,000

Estimated amount available for meeting all liabilities				2,87,800
Summary of Gross Assets				
(a) Estimated Realisable Values of Assets Specifically pledged		80,000		
(b) Other Assets		2,67,800		
	Gross Assets	3,47,800		
Gross Liabilities				
60,000	Secured Creditors			
	Estimated amount available for preferential creditors, liabilities with floating charges and other unsecured creditors			2,87,800
7,000	**List C: Preferential Creditors**			
	Outstanding Salaries and Wages	3,000		
	Outstanding Salary	4,000		(7,000)
	Estimated amount available for liabilities with floating charge and other unsecured creditors			2,80,800

2,00,000	**List D: Liability with Floating charges**		
	15% Debentures	2,00,000	
	Bank Overdraft	1,00,000	(3,00,000)
	Estimated amount available for other unsecured creditors		(19,200)
	List E: Unsecured Creditors		
	Outstanding Rent & Taxes	4,000	
	Bills Payable	24,000	
	Sundry Creditors	60,000	
	Bill Discounted Dishonoured	8,000	
	Contingent Liability	6,000	
	Outstanding Rent	2,000	(1,04,000)
	Estimated amount available for shareholders		(1,23,200)
2,00,0000	**List F: Preference Capital + Arrears of Dividend**		(2,00,000)
	Estimated and available for Equity shareholders		(3,23,200)
	List G: Equity shareholders' amount increasable (1,60,000 – 400)		(1,59,600)
	Net Deficiency as regards the member (List H)		482,800

List 'H' – Deficiency Statement

			(₹)
Factors Contributing to Deficiency:			
(1)	Excess of Capital and Liabilities over Assets 1 year ago		—
(2)	Dividend/Bonus declared in 1 year		—
(3)	Net Trading Losses in 1 year		3,00,000
(4)	Losses other than trading losses in 1 year		—
(5)	Losses/Liabilities provided in statement of affairs (8,000 + 6,000 + 4,000 + 2,000)		20,000
(6)	Other Factors (losses on assets except calls in arrears)		
	[20,000 (invest) + 40,000 (P&M) + 4,000 (B/R) + 56,000 (Drs) + 22,000]		1,42,000
		(A)	5,22,800
Factors Reducing to Deficiency:			
(7)	Excess of Assets over Capital and Liabilities 1 year		—
(8)	Net Trading Profit in 1 year		—
(9)	Profit other than trading profits during 1 year		—
(10)	Other Factors (profits on realisation of all assets)		40,000
		(B)	40,000
	Net Deficiency as per Statements of Affairs (A – B)		4,82,800

Illustration 12:

Limited went into voluntary liquidation and the proceedings commenced on 2nd July, 2008. Certain creditors could not receive payment out of the realisation of assets and out of the contributions from the contributories of the A list. The following details of share transfers are made available to you.

Name of the transferror	No. of shares transferred	Date ot transferror ceasing to be member	Creditors remaining unpaid and outstanding at the time of the transferor ceasing to be member (₹)
A	1,000	1 st May, 2006	6,000
B	1,250	15th Aug., 2007	8,000
C	500	1st Oct., 2007	10,750
D	2,000	1st Dec., 2007	13,000
E	250	1st April, 2008	15,000

All the shares were of ₹ 10 each, on which ₹ 5 per share had been paid up. Ignoring other details like liquidator's expenses etc., you are required to work out the liability of the individual contributories listed above.

Solution:

Note: Mr. 'A' is not required to contribute anything because the period of one year has already expired since the date of transfer of his shares and liability of other past contributories are determined as under:

Date of Transfer	Liability to be Allocated	R	C	D	E	Ratio
		1250 Shares	1500 Shares	2000 Shares	250 Shares	
15/08/2007	8,000	2,500	1,000	4,000	500	5:2:8:1
1/1012007	2,750	—	500	2,000	250	2:8:1
1/1212007	2,250	—	—	2,000	250	8:1
1/04/2008	2,000	—	—	—	2,000	8:1
Allocated Liabilities		2,500	1,500	8,000	3,000	Full
Maximum (unpaid calls)		6,250	2,500	10,000	1,250	
Final Liabilities		2,500	1,500	8,000	1,250	

Illustration 13:

In a liquidation which commenced on 1st April, 2008, certain creditors could not receive payment out of the realisation of the assets and out of contribution from "A" list contributories. The following are the details of certain transfers which took place after 1st April, 2007.

Shareholders	No. of shares transferred	Date ot ceasing to be member	Creditors remaining unpaid and outstanding on the date of ceasing to be member (₹)
A	1,000	1st May, 2007	6,000
B	1,500	1st July, 2007	7,500
C	300	1st Nov., 2007	8,000
D	200	1 st Feb., 2008	9,500

All the shares were of ₹ 10 each, ₹ 6 paid up. Ignoring expenses, remuneration to liquidator, etc. show the amount to be realised from the various persons listed above.

Solution:

Note: Mr. 'A' is not required to contribute anything because the period of one year has already expired since the date of transfer of his shares and liability of other past contributories are determined as under:

Date of transfer	Liability to be allocated	R	C	D	E	Ratio
		1,000 Shares	**1,500 Shares**	**300 Shares**	**200 Shares**	
1/05/2007	6,000	2,000	3,000	600	400	10:18:3:2
1/07/2007	1,500	—	1,125	225	150	15:3:2
1/11/2007	500	—	—	300	200	3:2
1/02/2008	1,500	—	—	—	1,500	Full
Allocated Liabilities		2,000	4,125	1,125	2,250	
Maximum (unpaid calls)		4,000	6,000	1,200	800	
Final Liabilities		2,000	4,125	1,125	800	

LIQUIDATOR'S STATEMENT OF AFFAIRS

This is an estimate prepared by the liquidator at the beginning of liquidation. In order to help the directors to declare solvency of the company and it shows realisable value of all assets and total payments to be made for all liabilities and this statement is prepared in the format prescribed in the Companies Act as under. (Refer format of Liquidator's Statement of Affairs)

QUESTIONS FOR SELF-PRACTICE

(1) Theory Questions:

(1) What is the difference between compulsory liquidation and voluntary liquidation?
(2) What is dissolution and how it is taking place as per Companies Act?
(3) What do you mean by official liquidator and what are his responsibilities?
(4) Explain the right of the secured creditors and liquidator's responsibilities.
(5) What are the different steps taken for liquidation process?
(6) Explain the accounting treatment for liquidation process.

OBJECTIVE QUESTIONS

(II) Multiple Choice Questions:

(1) Equity shareholders are.
  (a) Priority claimant
  (b) Second claimant
  (b) Last claimant
  (c) No claimant
(2) Preference creditors are.
  (a) Taxes
  (b) Dues to government
  (c) Wages and salaries payable
  (d) All of the above
(3) Voluntary transfer is made by the company within.
  (a) One year
  (b) Two years
  (c) Three years
  (d) Five years
(4) Liquidator's statement is prepared under section.
  (a) 143

(b) 153
(c) 156
(d) 173

(5) Liquidation is also sometimes referred to as.
(a) Winding up
(b) Dissolution
(c) Winding up or dissolution
(d) None of the above

(6) Liquidation may either be.
(a) Compulsory
(b) Voluntary
(c) Compulsory or voluntary
(d) None of the above

(7) Petition may be lodged with the court for the compulsory liquidation of a company by.
(a) Any creditor
(b) Contributories
(c) Secretary of State (or equivalent)
(d) All of the above

(8) Normal grounds to enable an application to the court for an order to compulsorily wind up the company, as a public company, and has not been issued with a trading certificate (or equivalent) within.
(a) 12 months of registration
(b) 15 months of registration
(c) 18 months of registration
(d) 6 months of registration

(9) The court may appoint _____ and has general powers to enable rights and liabilities of claimants and contributories to be settled.
(a) an official receiver
(b) one or more liquidators
(c) a & b
(d) None of the above

(10) The Companies Act, _____ contain elaborate provisions as to when a Company is to be wound up, the procedure for initiating winding up proceedings.
(a) 1947
(b) 1956
(c) 1965
(d) 2001

[Ans.: (1-c), (2-d), (3-a), (4-c), (5-c), (6-c), (7-d), (8-a), (9- c), (10-b)]

(III) True or False:

(1) A company is created by law.
(2) Liquidation is the process of law to end life of a company.
(3) A solvent company cannot be liquidated.
(4) Liquidator is a person who liquidates the company.
(5) A creditor cannot present a petition of liquidation.
(6) Voluntary liquidation takes place with the help of court.
(7) Preferences shareholders enjoy the priority right over equity shareholders.
(8) Government taxes are preferential liability.
(9) Equity shareholders are paid before preference shareholders.

[Ans.: (1-T), (2-T), (3-F), (4-T), (5-F), (6-F), (7-T), (8-T), (9-F)]

(IV) Mach the Columns:

Column 'A'	Column 'B'
(1) Liquidation	(a) Estimated realisable value
(2) Section 433	(b) Legal expenses
(3) Preferential creditors	(c) Last claimants
(4) Equity shareholders	(d) Account of winding up
(5) Liquidator's final statement of A/c	(e) Compulsory winding up
	(f) Dissolution of a company
	(g) Applicable in construction contract

[Ans.: (1-f), (2-e), (3-b), (4-c), (5-d)]

Column 'A'	Column 'B'
(1) Liquidator's Final Statement	(a) Legal expenses
(2) Equity Shareholders	(b) Last Claimants
(3) Preferential Creditors	(c) Form-7
(4) Section 433	(d) 2006
(5) Liquidation	(e) Account of winding up
	(f) Compulsory winding up
	(g) Dissolution of a company

[Ans.: (1- e), (2-b), (3-a), (4-f). (5-g)]

(V) Practical Questions:

(1) Balco Ltd. was placed in voluntary liquidation on 31st December, 2010, when its Balance Sheet was as follows:

Liabilities	(₹)	Assets	(₹)
Issued Share Capital		Freehold Factory	5,80,000
50,000 Equity Shares of ₹ 10 each		Plant and Machinery	2,89,000
fully paid less calls in arrears		Motor Vehicles	57,500
amounting to ₹ 25,000	4,75,000	Stock	1,86,000
6,000 5% per cent Cumulative		Debtors	74,000
Preference Shares of ₹ 100 each fully paid	6,00,000	Profit and Loss A/c	2,14,000
Security Premium A/c	50,000		
5% Debenture A/c	1,00,000		
Interest on Debentures	2,500		
Bank Overdraft	58,000		
Creditors	1,15,000		
	14,00,500		**14,00,500**

The Preference dividends was in arrears from 2007 onwards.

The Company's article provide that on liquidation, out of the surplus assets remaining after payment of liquidation costs and outside liabilities. They shall be paid firstly all arrears of preference dividend, secondly, the amount paid up on the preference shares together with a premium thereon of ₹ 10 per share, and thirdly any balance then remaining shall be paid to the equity shareholders. The Bank Overdraft was guaranteed by the directors who were called upon by the Bank to discharge their liability under the guarantee. The directors paid the amount to the Bank. The liquidator realised the assets as follows:

Freehold Factory	₹	7,00,000
Plant and Machinery	₹	2,40,000
Motor Vehicles	₹	59,000
Stock	₹	1,50,000
Debtors	₹	60,000
CalIs in Arrears	₹	25,000

Creditors were paid less discount of 5%. The debentures and accrued interest were repaid on 31st March, 2011.

[Ans.: 12,34,0001

(2) Enron Ltd. was placed in voluntary liquidation on 31st December, 2010, when its a Balance Sheet was as follows:

Liabilities	(₹)	Assets	(₹)
Share Capital:		Land and Building	3,86,000
12% Cumulative Preference Shares		Plant and	8,21,000
10,000 Shares of ₹ 100 each fully paid up	10,00,000	Stock-in-Trade	1,84,000
Equity Share Capital:		Book Debts	13,37,000
5,000 Equity Shares of ₹ 100 each ₹ 60 per share called and paid up		Profit and Loss A/c	3,72,000
5,000 Equity Shares of ₹ 100 each ₹ 50 per share called and paid-up	3,00,000		
Paid-up Share Capital	2,50,000		
	15,50,000		
15% Debentures	4,00,000		
Preferential Creditors	1,05,000		
Bank Overdraft	3,03,000		
Trade Creditors	7,42,000		
	31,00,000		**31,00,000**

The Preference dividends was in arrears for two years. By 31st March, 2011, the assets realised as follows:

Land and Building	₹	9,84,000
Plant and Machinery	₹	7,12,000
Stock	₹	1,63,000
Debtors	₹	1,91,000
Expenses of Liquidation	₹	54,000

The remuneration of the liquidation is 3% of realization. Income tax payable on liquidation is ₹ 44,500. Assuming that the final payments are made on 31st March, 2011, prepare the Liquidator's Final Statement of Accounts.

[Ans.: 30,70,000]

(3) From the following information relating to Moon Final Statement of Accounts.

(a) Share Capital:
  (i) 1,000 6% preference shares of ₹ 100 each fully paid.
  (ii) 40,000 A equity shares of ₹ 10 each fully paid.
  (iii) 30,000 B equity shares of ₹ 100 each, ₹ 8 paid-up.
  (iv) 20,000 C equity shares of ₹ 5 each, ₹ 3 paid-up.

(b) Debentures of ₹ 50,000.

(c) Creditors.
  Preferential Creditors ₹ 20,000.
  Unsecured Creditors ₹ 20,000.

The Preference dividends are in arrears for two years. The assets realised ₹ 3,20,000. Cost of Liquidation ₹ 4,000. The remuneration of the liquidation is fixed at 5% of realisation.

[Ans.: 3,40,000]

(4) A Textile Company passed a Special Resolution for voluntary winding up on 31st March, 2010 when its Balance Sheet stood as under.

Liabilities	(₹)	Assets	(₹)
Share Capital:		Plant and Machinery	4,00,000
5,000 Equity Shares of ₹ 100 each fully paid	5,00,000	Furniture and Fittings	1,000
1,000 equity shares of ₹ 100 each ₹ 75		Stock in Trade	50,000
per share called up and paid up	75,000	Debtors	1,50,000
1,000, 6% Cumulative Preference		Cash in hand	5,000
Shares of ₹ 100 each fully paid 7%		Profit and Loss A/c	4,21,000
Debentures	1,00,000		
Secured on Plant and Machinery	1,00,000		
Unsecured Creditors	2,52,000		
	10,27,000		**10,27,000**

Dividend on preference shares remained unpaid for full one year. Interest (payable annually on 31st December) on debentures was paid up to 31st December, 2009.

Unsecured creditors include ₹ 2,000 of preferential creditors.

Plant and Machinery realised ₹ 3,60,000.

Stock ₹ 1,00,000.

Debtors ₹ 1,40,000.

Furniture and Fittings realised nothing.

The expenses of winding up amounted to ₹ 19,500.

The liquidator's remuneration is to be at 4% on realisation of assets and 2% on distribution among unsecured creditors excluding preferential creditors.

The winding up was completed on 30th June, 2010, when debentures were repaid.

The necessary call was made and received in full from all shareholders.

You are required to prepare Liquidators Final Statement of Account.

[Ans.: 5,06,500]

(5) The following is the Balance Sheet of DK Ltd. as on 31st March, 2010.

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Share Capital		Land & Building	1,05,000
1,000, 7% Preference Shares of ₹ 100 each	1,00,000	Machinery	85,000
2,000 Equity Shares of ₹ 75 each fully paid	1,50,000	Furniture	25,000
Debentures	1,20,000	Stock	78,000
Sundry Creditors	1,40,000	Debtors	87,000
		Cash	20,000
		Profit and Loss A/c	1,10,000
	5,10,000		**5,10,000**

The company went into voluntary liquidation as on above date.

(a) The preference dividend was in arrears for four years and it was to be paid.

(b) Sundry creditors include ₹ 7,000 as preferential creditors and ₹ 3,000 as secured creditors on mortgage of current assets.

(c) Fixed Assets realised ₹ 1,05,000 and Current Assets realised ₹ 45,000.
(d) The liquidator was entitled to a fixed remuneration of ₹ 3,000.
(e) The liquidation expenses amounted to ₹ 4,300.

Prepare the Liquidator's Final Statement of Accounts if the debenture holders were paid on 30th June, 2010.

(6) SK Ltd went into voluntary liquidation as on 31st March, 2010.

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Subscribed Capital:		Goodwill	40,000
19,500 Equity Shares of ₹ 10 each fully paid	1,95,000	Patents	10,000
Sundry Creditors		Freehold Building	48,000
Preferential:	24,200	Plant	65,500
Partly Secured (against Freehold Property)	55,310	Stock in Trade	56,800
Unsecured	99,790	Sundry Debtors	64,820
Bank Overdraft (Unsecured)	12,000	Bills Receivable	2,500
		Profit and Loss A/c	98,680
	3,86,300		**3,86,300**

The liquidator realised the assets as follows:

Freehold Factory.	₹	35,000
Plant and Machinery	₹	51,000
Bills Receivable	₹	2,500
Stock	₹	39,000
Debtors	₹	58,500
Expenses of Liquidation	₹	1,000

The liquidator's remuneration is to be at 2.5% on realisation of assets and 2% on the amount unsecured creditors. Prepare the Liquidator's Final Statement of Accounts.

(7) The following information was extracted from the books of A limited company on 31st March, 2001 on which date a winding up order was made:

Particulars	(₹)
Equity Share Capital 20,000 Shares of ₹ 10 each	2,00,000
14% Preference Share Capital 30.000 Shares of ₹ 10 each	3,00,000
Calls in arrears on Equity Shares (estimated to realise ₹ 2,000)	4,000
14% First Mortgage Debentures secured by a floating charge on the whole of the assets of the company (interest paid to date)	2,00,000
Creditors having a first mortgage on the Freehold Land and Buildings	85,000
Creditors having a second charge on Freehold Land and Buildings	90,000

Particulars	(₹)
Trade Creditors	2,70,000
Bills Discounted (of these, bills for ₹ 15,000 are expected to be dishonoured)	46,000
Unclaimed Dividends	UM
Bills Payable	10,000
Income tax due	25,000
Salaries and Wages (for five months)	40,000
Bank Overdraft secured by a second charge on the whole of the assets of the company	20,000
Cash in hand	1,200
Debtors (of these ₹ 60,000 are good; ₹ 15,000 are doubtful, estimated to realise ₹ 5,000 and the rest bad)	90,000
Bills of exchange (considered good)	35,000
Freehold Land and Buildings (estimated to realise ₹ 1,65,000)	1,50,000
Plant and Machinery (estimated to produce ₹ 90,000)	1,20,000
Fixtures and Fittings (estimated to produce ₹ 8,000)	12,000
Stock in trade (estimated to produce 25% less)	80,000
Patents (estimated to produce RI. 45)	70,000

On 31st March, 1995, the company's share capital stood at the same figures as on 31st March, 2001, but in addition, there was a General Reserve of ₹ 65,000. In 1995-96 the company earned a profit of ₹ 1,43,000 but thereafter, it suffered trading losses totaling in all ₹ 4,67,000. In 1997-98, a speculation loss of ₹ 91,000 was incurred. Preference dividend was paid for 1995-96 and 1996-97 and on equity shares, a dividend of 15% was paid for 1995-96 only.

Excise authorities imposed a penalty of ₹ 1,60,000 for evasion of excise and income-tax authorities imposed a penalty of ₹ 60,400 for evasion of tax. Prepare the Statement of Affairs and the Deficiency Account.

(8) The Ultra Optimist Ltd. went into liquidation. Its assets realised ₹ 3,50,000 excluding amount realised by sale of securities held by the secured creditors. The following was the position:

Particulars	(₹)
Share Capital: 10,000 shares of ₹ 10 each	
Secured Creditors (securities realised ₹ 40,000)	35,000
Preferential Creditors	6.000
Unsecured Creditors	1,40,000
Debenture, having a floating charge on the assets of the company	2,50,000
Liquidation Expenses	5,000
Liquidators Remuneration	7,500

Prepare the Liquidator's Final Statement of Account.

(9) A company went into liquidation on 31st March, 2001 when the following balance sheet was prepared:

Liabilities	(₹)	Assets	(₹)
Share Capital:		Goodwill	50,000
Subscribed and paid up capital 19,500		Leasehold Property	48,000
shares of ₹ 10 each	1,95,000	Plant and Machinery	65,500
Sundry Creditors:		Stock	56,800
Preferential	24,200	Sundry debtors	64,820
Partly secured	55,310	Profit and loss	98,680
Unsecured	99,790		
Bank overdraft (unsecured)	12,000		
	3,86,300		**3,86,300**

The liquidator realised the assets as follows:

	(₹)
Leasehold Property which was used in the first insurance to pay the partly secured creditors prorata	35,000
Plant and Machinery	51,000
Stock	39,000
Sundry Debtors	58,500
Stock	2,500

The expenses of liquidation amounted to ₹ 1,000 and the liquidator's remuneration was agreed at 2.5% on the amount realised, including cash, and 2% on the amount paid to the unsecured creditors.

You are required to prepare the Liquidator's Final Account showing the distribution.

(10) The following information is given to you:

Balance Sheet of A Ltd. on March 31, 2001

Liabilities	(₹)	Assets	(₹)
Share Capital:			
2,000 14% Preference shares of ₹ 100, fully paid-up	2,00,000	Land & Buildings	1,00,000
1,000 Equity shares of ₹ 100 each, ₹ 75 paid	75,000	Machinery & Plant	2,50,000
300 Equity shares of ₹ 100 each, ₹ 60 paid	1,80,000	Patents	40,000
14% Debentures having a floating charges on all assets	1,00,000	Stock at cost	55,000
Interest Outstanding	14,000	Sundry Debtors	1,10,000
Creditors	1,45,000	Cash at Bank	75,500
		Profit & Loss Account	83,500
		Sundry Debtors	1,10,000
Total	**7,14,000**	**Total**	**7,14,000**

The Company went into liquidation on the above date.

The preference dividends were in arrear for two years. The arrears are payable automatically on liquidation. Creditors include a loan for ₹ 50,000 on the mortgage of Land and Building. The assets were realised as follows:

Particulars	(₹)
Land and Buildings	1,20,000
Machinery and Plant	2,00,000
Patents	30,000
Stock	60,000
Sundry Debtors	80,000

The expenses of liquidation amounted to ₹ 10,900. The liquidator is entitled to a commission of 3% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹ 15,000. Assume the payment was made on September 30, 2001. Prepare the Liquidator's Statement of Account.

(11) Miniature Ltd. went into voluntary liquidation on 31st January, 2001. The balances in its books on that day were:

Liabilities	(₹)	Assets	(₹)
Issued Capital:		Furniture at cost	9,360
14% Preference shares of ₹ 10 each,		Investment at cost	2,21,000
fully paid-up	1,30,000	Cash at Bank	11,700
6,500 Equity Shares of ₹ 10 each		Life Insurance Policy received from	16,900
₹ 5 paid-up	32,500	a debtor	
14% Debentures	26,000	Sundry Debtors	1,04,000
Loan from Bank (guaranteed by Directors)	39,000	Profit and Loss Account	4,680
Sundry Trade Creditors	1,07,000		
Income Tax	17,590		
Employee's Salaries for 1 month	15,590		
Total	**3,67,640**	**Total**	**3,67,640**

The Bank called upon the Directors to implement their guarantee. The preference dividend had been paid up to 30th September, 1998. There were no arrears of debenture interest. The amount owing to the Government for income-tax was in respect of assessment years 1999-2000 and 2000-2001 of ₹ 3,250 and ₹ 14,300 respectively. The Company closes its accounts on 31st March each year.

The Liquidator admitted an amount of ₹ 2,730 for salaries in lieu of notice. The rent was paid up to 31st January, 2001. The premises were held under a lease with annual tenancy. The landlord agreed to waive his right to notice on the Liquidator undertaking to pay him two month's rent, i.e., ₹ 650 and to vacate the premises by 31st March, 2001 which he did.

One of the creditors for ₹ 13,000 was under a contract to deliver certain goods to the company in March, 2001 and the Company had contract to supply the same goods to Basic Ltd. who were included in Sundry Debtors at ₹ 6,500. The creditors refused to make delivery but admitted a claim made by the Liquidator for damages at ₹ 1,625. Basic Ltd. made a claim for loss against the Company for ₹ 975 which was admitted by Liquidator.

Furniture was sold for ₹ 7,800. Investments were found to be valueless. Sums owing by Debtors were all collected and the insurance policy was surrendered for ₹ 15,600 after the Liquidator had paid a premium of ₹ 585. A shareholder holding 2,600 equity shares failed to pay the call made by the Liquidator. Legal costs came to ₹ 780 and liquidator remuneration to ₹ 6,500. Prepare Liquidator's Final Statement of Account.

(12) X-ray Ltd. is a private company, the member's holding being:

Particulars	X	R	A	Y	Total
Equity Shares ₹ 10 each	—	7,200	5,400	5,400	18,000
14% Preference Shares (₹ 10 each)	20,000	5,000	—	—	25,000

The company's balance sheet on 30th September, 2000 was as follows:

Liabilities	(₹)	Assets	(₹)
Share Capital:		Freehold Property	1,20,000
Equity	1,80,000	Leasehold Property	3,00.000
Preference	2,50,000	Plant	1,20,000
Revenue Reserve	3,33,000	Motors	30,000
14% Debentures	2,00,000	Investment — Trade	30,000
Trade Creditors	2,00,000	Quoted	41,000
Liability for Income Tax	50,000	Stock	1,40,000
Director's Loans : X	50,000	Debtors	1,50,000
Y	40,000	Cash at Bank	3,72,000
Total	**13,03,000**	**Total**	**13,03,000**

Dividends on Preference shares were paid up to 30th September 1999. Under the Articles, arrears of preference dividend were automatically payable in the event of the company being wound up. Also holders of preference shares are entitled to participate equally with equity shareholders in surplus assets up to ₹ 2 per share.

On 1st October, 2000, it was decided to take the company into liquidation. R, A and Y decided to form a partnership to carry on the business previously carried on by the company. They agreed that the partnership capital should be ₹ 4,50,000 to be provided in the same ratio as that of equity shares held by them. They also agreed that they would bring into the firm, as loan, any cash received by them. X agreed to lend to the firm the amount which he would receive by way of capital on his preference shares.

The liquidator was given power to distribute assets in specie. R, A and Y agreed to take the assets so distributed, bringing them into the firm at the values placed on them by the liquidator.

The liquidation was completed on 31st March, 2001; liquidator dealt with the assets as follows:

(i) Freehold property distributed at a valuation of ₹ 1,80,000.

(ii) Leasehold property sold for ₹ 4,15,000.

(iii) Plant distributed at ₹ 92,500.

(iv) One motor sold for ₹ 7,500; the other distributed at ₹ 25,000.

(v) Quoted investments sold for ₹ 81,000.

(vi) Trade Investments distributed at 55,000. (vii) Stock distributed at book values; and

(viii) Debtors realised in full subject to bad debts of ₹ 3,500.

The creditors were repaid subject to a discount of ₹ 1,000; other liabilities were paid off on 31st March, 2001.

The liquidator's remuneration was agreed at 1% on the assets converted into cash and in addition, 2% on total return of capital of contributories. Liquidation expenses totaled ₹ 2,000.

Prepare the Liquidator's Statement of Account and show the distribution among R, A and Y.

(13) The following is the Balance Sheet of Y Limited as at 31st March, 1999:

Liabilities	(₹)	Assets	(₹)
Share Capital:		**Fixed Assets:**	
2,000 Equity Shares of ₹ 100 each,		Land and Buildings	4,00,000
₹ 75 per share paid-up	1,50,000	Plant & Machinery	3,80,000
6,000 Equity Shares of ₹ 100 each,		**Current Assets:**	
₹ 60 per share paid-up	3,60,000	Stock at cost	1,10,000
2,000 10% Preference Shares of		Sundry Debtors	2,20,000
₹ 100 each, fully paid-up	2,00,000	Cash at Bank	60,000
10% Debentures (having a floating		Sundry Debtors	2,20,000
charge on all assets)	2,00,000	Profit & Loss Account	2,40,000
Interest accrued on Debentures			
(also secured as above)	10,000		
Sundry Creditors	4,90,000		
Total	**14,10,000**	**Total**	**14,10,000**

On that date, the company went into voluntary liquidation. The dividends on preference shares were in arrears for the last two years. Sundry Creditors include a loan of ₹ 90,000 on mortgage of Land and Buildings. The assets realised were as under:

Particulars	(₹)
Land and Buildings	3,40,000
Plant and Machineries	3,60,000
Stock	1,20,000
Sundry Debtors	1,60,000

Interest accrued on loan on mortgage of buildings up to the date of payment amounted to ₹ 10,000. The expense of Liquidation amounted to ₹ 4,600. The Liquidator is entitled to a remuneration of 3% on all the assets realised (except cash at bank) and 2% on the amounts distributed among equity shareholders. Preferential creditors included in sundry creditor's amount to ₹ 30,000.

All payments were made on 30th June, 1999. Prepare the liquidator's final statement of account.

(14) In liquidation which commenced on 1st April, 2001, certain creditors could not receive payment out of the entire realisation of the assets and out of contribution from "A" list contributories. The following are the details of certain transfers which took place after 1st April, 2000:

Shareholders	**Number of shares transferred**	**Date of ceasing to be member**	**Creditors remaining unpaid and outstanding on member ₹**
A	1,000	1 st May, 2000	6,000
B	1,500	1st July, 2000	7,500
C	300	1st Nov., 2000	8,000
D	200	1st Feb., 2001	9,500

All the shares were of ₹ 10 each, ₹ 6 paid up. Ignoring expenses, remuneration to liquidator, etc., show the amount to be realised from the various persons listed above.

(15) Pessimist Ltd. has gone into liquidation on 10th May, 2001. The details of members, who have ceased to be members within one year 'B' contributories, are given below. The debts that could not be paid out of realisation of assets and contribution from present members 'A' contributories) are also given with their datewise break-up. Shares are of ₹10 each ₹ 6 per share paid-up.

You are to determine the amount realisiable from each person.

Shareholders	**Number of shares transferred**	**Date of transfer**	**Proportionate debts**
P	1,000	20/04/2000	3,000
Q	1,200	15/05/2000	5,000
R	1,500	18/09/2000	9,200
S	800	24/12/2000	10,500
T	500	12/03/2001	11,000

(16) In a winding up of a company, certain creditors remained unpaid. The following persons had transferred their holding sometime before windinq up:

Name	**Date of transfer**	**No. of shares transferred**	**Amount due to creditors on the date of transfer**
	1998		
P	January 1	1,000	7,500
Q	February 15	400	12,500
S	March 15	700	18,000
T	March 31	900	21,000
U	April 5	1,000	30,000

The shares were of ₹ 100 each, ₹ 80 being called up and paid-up on the date of transfers.

A member R, who held 200 shares died on 28th February, 1998 when the amount due to creditors was ₹ 15,000. His shares were transmitted to his son X.

Z was the transferee of shares held by T, Z paid ₹ 20 per share as calls in advance immediately on becoming a member.

The liquidation of the company commenced on 1st February, 1998 when the liquidator made a call on the present and the past contributories to pay the amount.

You are asked to quantify the maximum liability of the transferors of shares mentioned in the table, when the transferees:

(i) Pay the amount due as 'present' member contributories.

(ii) Do not pay the amount due as 'present' member contributories.

Also quantify the liability of X to whom shares were transmitted on the demise of his father R.

(17) The balance sheet of Bubble Ltd. as on 31/3/2011 was as follows:

Liabilities	**(₹)**	**Assets**	**(₹)**
Share Capital:		Land and building	25,000
8,000 Preference shares of ₹ 10 each	80,000	Other fixed assets	2,00,000
12,000 Equity shares of ₹ 10 each	1,20,000	Stock	5,25,000
Bank loan	4,00,000	Debtors	1,00,000
8% Debentures	1,00,000	Profit and Loss A/c	58,000
Interest outstanding on debentures	8,000		
	9,08,000		**9,08,000**

The company went into liquidation on that date. Prepare Liquidator's statement after taking into account the following:

(a) Liquidation expenses and liquidator's remuneration amounted of ₹ 3,000 and ₹ 10,000 respectively.

(b) Bank loan was secured by hypothecation of stock.

(d) Debentures were repaid on 30/06/2011.

(d) Fixed assets were realised at book values and current assets at 90% of book value.

(18) DB Ltd. was placed in voluntary liquidation on 31st March, 2011 when its Balance sheet was as follows:

Liabilities	**(₹)**	**Assets**	**(₹)**
Issued share capital		Freehold factory	5,80,000
50,000 Equity shares of ₹ 10 each fully		Plant and machinery	2,89,000
paid less calls in arrear amounting to		Motor vehicles	57,500
₹ 25,000	4,75,000	Stock	18,600
6,000 5% Cumulative preference shares of	6,00,000	Debtors	74,000
₹ 100 each fully paid			
Share premium account	50,000	Profit and Loss	2,14,000
5% debentures	1,00,000		
Interest on debentures	2,500		
Creditors	1,15,000		
	14,00,500		**14,00,500**

The preference dividends are in arrears from 31/3/08 onwards.

The company's Articles provided that on liquidation, out of the surplus shall be remaining after payment of liquidation costs and outside liabilities, there shall be paid firstly all arrears of preference dividend, secondly the amount paid up on the preference shares together with a premium thereon of ₹ 10 per share, and thirdly any balance then remaining shall be paid to the equity shareholders.

The bank overdraft was guaranteed by the directors who were called upon by the bank to discharge their liability under the guarantee. The directors paid the amount to the bank.

Particulars	(₹)
Freehold factory	7,00,000
Plant and machinery	2,4 0,000
Motor vehicles	59,000
Stock	1,50,000
Debtors	60,000
Calls in arrears	25,000

Creditors were paid less discount 5%. The debentures and accrued interest were repaid on 30th June, 2011.

Liquidation costs were ₹ 3,820 and the liquidator's remuneration was 2% on the amounts realised.

Prepare the liquidator's statement of account.

(19) Few Assets Ltd. went into voluntary liquidation on March 31st 2011. At that date, the balance sheet read as follows:

Particulars			(₹)
Plant			2,00,000
Stock			1,00,000
Debtors			1,50,000
Cash at bank			3,000
			41,53,000
Less :	5% Debentures	60,000	
	Creditors	1,03.00	1,63,000
			2,90,000
Represented by:			
12,000 10% preference shares of ₹ 10 each			1,20,000
20,000 ordinary shares of ₹ 10 each			2,00,000
			3,20,000
Less: Deficiency on Profit and Loss A/c			30,000
			2,90,000

The dividends on the preference shares had been paid upto March, 2010. The liquidator sold the plant and stock for ₹ 2,75,000 and realised all the debts expect one of ₹ 25,000 which proved to be irrecoverable. He admitted the claim of all creditors ₹ 5,000 of which were preferential.

Expenses of liquidation amounted to ₹ 1,600 and the debentures were repaid on 30th September, 2011. The liquidator's remuneration was at the rate of 2% on the amounts realised (expect cash) and 2% on the amount distributed to the ordinary shareholders.

Prepare the liquidator's final account ignoring income tax.

(20) The following is the balance sheet of M/s Unfortunate Limited as on 31st March, 2011:

Liabilities		(₹)	Assets	(₹)
Share Capital:			Land and building	2,00,000
Authorised and subscribed:			Plant and machinery	5,00,000
4,000 6% preference shares			Patents	80,000
of ₹ 100 each	4,00,000		Stock at cost	1,10,000
2,000 Equity shares ₹ 100 each,			Sundry debtors	2,20000
₹ 75 per share paid up	1,50,000		Cash at bank	60,000
6,000 Equity shares of ₹ 100			Profit and loss account	2,40,000
each ₹ 60 per share paid up	3,60,000	9,10,000		
5% debentures (have floating				
charges on all assets)		2,00,000		
Interest outstanding on debentures also				
secured as above		10,000		
Creditors		2,90,000		
		14,10,000		**14,10,000**

On that date, the company went into liquidation. The dividends on preference shares were in arrears for two years. The arrears are payable on liquidation as per the Articles of the company. Creditors include a loan of ₹ 1,00,000 on mortgage of land and buildings. The assets realised are as under:

Particulars	(₹)
Land and Buildings	2,40,000
Plant and Machinery	4,00,000
Patents	60,000
Stock	1,20,000
Sundry debtors	1,60,000

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to commission of 3% on all assets realised and a commission of 2% on amounts distributed to unsecured creditors. Preferential creditors amount to ₹ 30,000. All payments were made on 30th September, 2011.

Prepare the liquidator's statement of account.

(21) Given below is the position as on April 1, 2011 of Ganges Silk Mills Ltd. on which date it goes into liquidation:

Sr. No.	Particulars	₹	₹
1	**Share Capital:**		
	(a) 10,000 Preference Shares of ₹ 10 each fully paid	1,00,000	
	(b) 5,000 Equity shares of ₹ 10 each fully called 50,000		
	Less: Calls in arrears on 1,000 shares @ ₹ 1 (1,000) per share	49,000	
	(c) 10,000 Equity shares of ₹ 10 each ₹ 5 per share paid	50,000	
	(d) 20,000 Equity Shares of ₹ 10 each ₹ 3 per share paid	60,000	2,59,000
2	**Secured loan from bank:**		
	Against pledge of stock of raw material		38,000
3	**Unsecured dues:**		
	Preferential	1,200	
	Others	1,01,800	1,03,000
			4,00,000
4	Cash and Bank		5,000
5	Stock of raw materials		50,000
6	Other stocks		1,50,000
7	Other assets		1,45,000
8	Profit and Loss Account (Debit Balance)		50,000
			4,00,000

Realizations were:

(a) Stock of raw materials : ₹ 30,000
(b) Other Stock : ₹ 80,000
(c) Remaining assets : ₹ 20,000

The liquidator is entitled to a fixed remuneration of ₹ 1,000 Plus 3% of the gross amounts realised by him. Other costs and charges amounted to ₹ 11,000. Equity shares carry the same right, regardless of the amount paid as far as capital repayment is concerned.

Show the Liquidator's Final Statement of Account.

(22) The following is the Balance Sheet of Confidence Builders Ltd. as at 31st March, 2011.

Liabilities		(₹)	Assets	(₹)
Share Capital:		1,00,000	Land and Building	1,20,000
Issued: 11% preference shares of ₹ 10 each			Sundry Current Assets	3,95,000
fully paid-up		1,00,000	Profit and Loss Account	38,500
5,000 equity shares of ₹ 10 each			Cash/Bank Balance	1,000
₹ 7.50 per share paid-up		37,500	Debenture issue expenses	
13% Debentures		1,50,000	not written off	1,000
Mortgage Loan		80,000		
Bank Overdraft		30,000		
Creditors for Trade		32,000		
Income Tax arrears:				
(assessment concluded in Jan., 2008)				
A. Y. 2009-10	21,000			
A. Y. 2010-11	5,000	26,000		
		5,55,000		**5,55,000**

Mortgage loan was secured against land and building. Debentures were secured by a floating charge on all the other assets. The company was unable to meet payments and therefore the debentureholders appointed a Receiver and this was followed by a resolution for members' voluntary winding up. The Receiver for the debentureholders brought the land and building to auction and realised ₹ 1,50,000. He also took charge of sundry assets of the value of ₹ 2,40,000 and realised ₹ 2,00,000. The Liquidator realised ₹ 1,00,000 on the sale of balance of sundry current assets. The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company and on the Bank raising a demand, the Directors paid off the dues from their personal resources. Costs incurred by the Receiver were ₹ 3,000 and by the Liquidator ₹ 2,800. The receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for period after 31st March, 2009 and interest for last half year was due to the debentureholders.

Prepare the accounts to be submitted by the Receiver and the Liquidator.

(23) M Co. Ltd. went into voluntary liquidation on 31st March, 2011. The following balances are extracted from its books on that date:

Liabilities	(₹)	Assets		(₹)
Capital: 50,000 equity shares of ₹ 10 each	5,00,000	Buildings		1,50,000
Debentures (secured by a floating charges)	2,00,000	Plant and machinery		2,10,000
Creditors	40,000	Stock in trade		95,000
Bank Overdraft	30,000	Book debt	55,000	
		Less: Provision	10,000	65,000
		Calls in arrears		1,00,000
		Cash on hand		10,000
		Profit and Loss Account		1,40,000
	7,70,000			**7,70,000**

Plant and Machinery and Buildings are valued at ₹ 1,50,000 and ₹ 1,20,000 respectively. On realisation, losses of ₹ 15,000 are expected on stock. Book Debts will realise ₹ 70,000, Calls in arrears are expected to realise 90%. Bank overdraft is secured against Buildings. Preferential. Creditors for taxes and wages are ₹ 6,000 and Miscellaneous Expenses outstanding ₹ 2,000. Prepare a Statement of Affairs to be submitted to the meeting of creditors.

(24) Insol Ltd. is to be liquidated. Their summarised Balance Sheet as at 31st March, 2011 appears as under:

Liabilities	(₹)	Assets	(₹)
2,50,000 equity shares of ₹ 10 each	25,00,000	Land and Building	5,00,000
Secured debentures (on land & building)	10,00,000	Other Fixed Assets	20,00,000
Unsecured Loans	20,00,000	Current Assets	45,00,000
Trade Creditors	35,00,000	Profit and Loss A/c	20,00,000
	90,00,000		**90,00,000**

Contingent liabilities are:

For Bills discounted	1,00,000
For excise duty demand	1,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:

Land and Buildings	11,00,000
Other Fixed Assets	18,00,000
Current Assets	35,00,000

Taking the above into account, prepare the statement of affairs.

(25) The following balances were extracted from the books of Sudden Death Limited on 31st March, 2011 on which date, a winding up order was made:

Particulars	(₹)
Share Capital	
Equity shares: 20,000 shares of ₹ 10 each ₹ 8 per share called up	1,60,000
Preference shares: 2,000 shares of ₹. 100 each fully paid	2,00,000
Calls in arrears: Equity Shares: Estimated to realise ₹ 600	1,000
15% debenture is secured by first floating charge on the assets	2,00,000
Bank Overdraft secured by a second floating charges on the assets	1,00,000
Fully secured creditors (Secured against Plant & Machinery)	60,000
Investments (estimated to realise ₹ 60,000)	80,000
Plant & machinery: secured to creditors : estimated to realise ₹ 80,000	1,20,000
Outstanding Rent & Taxes	4,000
Outstanding Wages & Salaries	3,000
Bills Payable	24,000
Sundry Creditors	60,000
Bill Receivable: estimated to realise ₹ 2,000	6,000
Debtors: estimated to realise 60%	1,40,000
Bills Discounted: ₹ 30,000 likely to rank ₹ 8,000	
Contingent Liability likely to accrue	6,000
Stock in trade: estimated to produce ₹ 38,000	60,000
Cash in hand and at bank	3,200
Land & Building estimated to realise ₹ 80,000	40,000

Entry for accrued salary of ₹ 4,000 and rent of ₹ 2,000 has still to be made in the books. Prepare a Statement of Affairs and Deficiency Account.

(26) Bad Luck Limited went into Voluntary liquidation and the proceedings commenced on 2nd July, 2011. Certain creditors could not receive payment out of the realisation of the assets and out of the contributions from the contributories of the A list. The following details of share transfers are made available to you.

Name of the transferor	Number of shares transferred	Date of transferor ceasing to be member	Creditors remaining unpaid and outstanding at the time of the transferor ceasing to be a member (₹)
A	1,000	15th May, 2009	6,000
6	1,250	15th August, 2010	8,000
C	500	1st Oct., 2010	10,750
D	2,000	1st Dec., 2010	13,000
E	250	1st April, 2011	15,000

All the shares were of ₹ 10 each, on which ₹5 per share had been paid-up. Ignoring other details like liquidator's expenses, etc., you are required to work out the liability of the individual contributors listed above.

(27) In a liquidation which commenced on 1st April 2011, certain creditors could not receive payment out of the realisation of the assets and out of contribution from "A" list contributories. The following are the details of certain transfer which took place after 1st April, 2010:

Shareholders	**Number of shares transferred**	**Date of transteror ceasing to be member**	**Creditors remaining unpaid and outstanding on the date of ceasing to be a member (₹)**
A	1,000	1st May, 2010	6,000
B	1,500	1st July, 2010	7,500
C	300	1st Nov., 2010	8,000
D	200	1st Feb., 2011	4,500

All the shares were of ₹ 10 each, ₹ 6 paid up. Ignoring expenses, remuneration to liquidator, etc., show the amount to be realised from the various persons listed above.

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CHAPTER

5 BUYBACK OF EQUITY SHARES

1. INTRODUCTION

Buyback of shares means that any company may purchase their own shares or other specified securities. According to Section 77A(1) of the Companies Act, 1999, a company may purchase its own shares or other securities out of:

(i) Its free reserves or

(ii) The securities premium account or

(iii) The proceeds of any shares or other specified securities. Specified securities include employees' stock option or other securities as may be notified by the Central Government from time to time. Buyback of shares of any kind is not allowed out of fresh issue of shares of the same kind. In other words, if equity shares are to be bought back, preference shares or debentures may be issued for buyback of equity shares. Companies are allowed to buyback their own shares if they fulfil certain conditions as given in Section 77A(2) of the Companies Act, 1999.

No company shall purchase its own shares or other specified securities unless:

(a) The buyback is authorised by its articles.

(b) A special resolution has been passed in general meeting of the company authorising the buyback.

(c) The buyback is for less than 25% of the total paid-up capital and free reserves of the company.

(d) It also provides that buyback shall not exceed 25% of total paid-up capital.

(e) The debt-equity ratio should not be more than 2:1 after such buyback.

(f) All the shares or other specified securities for buyback are fully paid up.

(g) The buyback of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India (SEBI) in this behalf.

(h) The buyback in respect of shares or other specified securities other those specified in clause.

(i) The buyback should be completed within 12 months from the date of passing the special resolution.

SEBI GUIDELINES

The following are the important points:

1. Buyback of shares cannot be from any person through negotiated deals whether on or after stock exchange or through spot transactions or through private management. Therefore, a company is required to make public announcement in at least one National Daily all with wide circulation where registered office of the company is situated.
2. Public announcement among other things specify the following:
   (j) Specified date, *i.e.,* the date of the dispatch of the offer letter shall not be less than earlier than 30 days but not later than 42 days.
   (k) SEBI shall be informed by the company within seven working days from the date of public announcement.
   (l) The offer for buyback shall remain open to the members for a period of not less than 15 days but not exceeding 30 days. However, the opening date for the offer shall not be earlier than 7 days or later than 30 days from the specified date.

(m) The company shall complete the verification of offers within 15 days from the date of closure and shares lodged shall be deemed to have been accepted unless communication of rejection is made within 15 days from the date of closure.

3. The following Entries are Required in the Buyback of Shares

1. Entry for assets sold for buyback:

Bank A/c	Dr.	
Profit & Loss A/c	Dr.	(In Case of Loss)
To Assets A/c		
To Capital Reserve A/c		(In case of Profit)

2. Entry for issue of debentures or other securities for the purpose of buyback:

Bank A/c	Dr.
Discount on Issue A/c	Dr.
To Debentures A/c	
To Other Securities A/c	
To Security Premium A/c	

3. Entry for the cancellation of shares bought back:

Equity Share Capital A/c	Dr.
Free Reserves or Securities Premium A/c	Dr.
To Shareholders A/c	

4. Entry for transfer of nominal value of shares bought back to CRR:

General Reserves A/c	Dr.
Or Profit & Loss A/c	Dr.
Or Any Other Reserve A/c	Dr.
To Capital Redemption Reserve	

5. Entry for making the payment of buyback shares:

Shareholders A/c	Dr.
To Bank A/c	

6. Entry for expenses incurred in buyback of shares:

Buyback Expenses A/c	Dr.
To Bank A/c	

7. Entry for transfer of buyback of expenses to P & L A/c:

Profit & Loss A/c	Dr.
To Expenses A/c	

4. Advantages of Buyback of Shares

1. The buyback facility enable the companies to manage their cash effectively. Many companies in this country are faced with a problem of surplus cash without having any idea of where to invest them. It would be better for them to return surplus cash to shareholders rather than to go on spending simply for want to alternative.
2. Companies having large amount of free reserves are free to use funds to acquire shares and other specified securities under the buyback process.
3. Buyback shares is helpful to reduce its share capital.
4. Buyback of shares is helpful to improvement in the values of shares.

5. Avoid high financial risk and ensure maximum return to the shareholders.
6. Buyback of shares helps the promoters to formulate an effective defence's strategy against hostile takeover bids.

5. Disadvantages of Buyback of Shares

1. All the control of buyback of shares is in the hands of promoters, which resulting in weak position of minority shareholders of a company.
2. The promoters, before the buyback, may understand the earnings by manipulating accounting policies and highlight other unfavourable factors affecting the earnings.
3. High buyback of shares may lead to artificial manipulation of stock prices in the stock exchange. Confusion is much more.

6. Legal Provisions of Buyback of Equity Shares under Indian Companies Act, 1956

The provisions regulating buyback of shares are contained in Section 77A, 77AA and 77B of the Companies Act, 1956. These were inserted by the Companies (Amendment) Act, 1999. The Securities and Exchange Board of India (SEBI) framed the SEBI (Buyback of Securities) Regulations, 1999 and the Department of Company Affairs framed the Private Limited Company and Unlisted Public Company (Buyback of Securities) Rules, 1999 pursuant to Section 77A(2)(f) and (g) respectively.

6. (A) Objectives of Buyback

Shares may be bought back by the company on account of one or more of the following reasons:

(i) To increase promoter's holding
(ii) Increase earnings per share
(iii) Rationalise the capital structure by writing off capital not represented by available assets
(iv) Support share value
(v) To thwart takeover bid
(vi) To pay surplus cash not required by business

In fact, the best strategy to maintain the share price in a bear run is to buyback the shares from the open market at a premium over the prevailing market price.

6. (B) Resources of Buyback

A Company can purchase its own shares from:

(i) free reserves where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased shall be transferred to the capital redemption reserve and details of such transfer shall be disclosed in the balance sheet; or
(ii) securities premium account; or
(iii) proceeds of any shares or other specified securities. A Company cannot buyback its shares or other specified securities out of the proceeds of an earlier issue of the same kind of shares or specified securities.

6. (C) Conditions of Buyback

(a) The buyback is authorised by the Articles of association of the company;
(b) A special resolution has been passed in the general meeting of the company authorising the buyback. In the case of a listed company, this approval is required by means of a postal ballot. Also, the shares for buyback should be free from lock-in period/non-transferability. The buyback can be made by a Board resolution if the quantity of buyback is less than ten per cent of the paid-up capital and free reserves.

(c) The buyback is of less than twenty-five per cent of the total paid-up capital and fee reserves of the company and that the buyback of equity shares in any financial year shall not exceed twenty-five per cent of its total paid-up equity capital in that financial year;

(d) The ratio of the debt owned by the company is not more than twice the capital and its free reserves after such buyback;

(e) There has been no default in any of the following:
  (i) Repayment of deposit or interest payable thereon or
  (ii) Redemption of debentures, or preference shares or
  (iii) Payment of dividend, if declared, to all shareholders within the stipulated time of 30 days from the date of declaration of dividend or
  (iv) Repayment of any term loan or interest payable thereon to any financial institution or bank;

(f) There has been no default in complying with the provisions of filing of Annual Return, Payment of Dividend, and form and contents of Annual Accounts;

(g) All the shares or other specified securities for buyback are fully paid-up;

(h) The buyback of the shares or other specified securities listed on any recognised stock exchange shall be in accordance with the regulations made by the Securities and Exchange Board of India in this behalf; and

(i) The buyback in respect of shares or other specified securities of private and closely held companies is in accordance with the guidelines as may be prescribed.

6. (D) Disclosures in the Explanatory Statement

The notice of the meeting at which special resolution is proposed to be passed shall be accompanied by an explanatory statement stating:

(a) a full and complete disclosure of all material facts;

(b) the necessity for the buyback;

(c) the class of security intended to be purchased under the buyback;

(d) the amount to be invested under the buyback; and

(e) the time-limit for completion of buyback.

6. (E) Sources from Where the Shares will be Purchased

The securities can be bought back from:

(a) existing security holders on a proportionate basis;

Buyback of shares may be made by a tender offer through a letter of offer from the holders of shares of the company or

(b) the open market through:
  (i) book building process;
  (ii) stock exchanges or

(c) odd lots, that is to say, where the lot of securities of a public company, whose shares are listed on a recognized stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange; or

(d) purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

6. (F) Filing of Declaration of Solvency

After the passing of resolution but before making buyback, file with the Registrar and the Securities and Exchange Board of India a declaration of solvency in Form 4A. The declaration must be verified by an affidavit to the effect that the Board has made a full inquiry into the affairs of the company as a result of which

they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year of the date of declaration adopted by the Board, and signed by at least two directors of the company, one of whom shall be the managing director, if any:

No declaration of solvency shall be filed with the Securities and Exchange Board of India by a company whose shares are not listed on any recognized stock exchange.

6. (G) Register of Securities Bought Back

After completion of buyback, a company shall maintain a register of the securities/shares so bought and enter therein the following particulars

(a) the consideration paid for the securities bought back,
(b) the date of cancellation of securities,
(c) the date of extinguishing and physically destroying of securities and
(d) such other particulars as may be prescribed

Where a company buys back its own securities, it shall extinguish and physically destroy the securities so bought back within seven days of the last date of completion of buyback.

6. (H) Issue of Further Shares after Buyback

Every buyback shall be completed within twelve months from the date of passing the special resolution or Board resolution as the case may be.

A company which has bought back any security cannot make any issue of the same kind of securities in any manner whether by way of public issue, rights issue up to six months from the date of completion of buyback.

6. (I) Filing of Return with the Regulator

A company shall, after the completion of the buyback file with the Registrar and the Securities and Exchange Board of India, a return in Form 4C containing such particulars relating to the buyback within thirty days of such completion.

No return shall be filed with the Securities and Exchange Board of India by an unlisted company.

6. (K) Prohibition of Buyback

A company shall not directly or indirectly purchase its own shares or other specified securities –

(a) through any subsidiary company including its own subsidiary companies; or
(b) through any investment company or group of investment companies; or

6. (L) Procedure for Buyback

(a) Where a company proposes to buyback its shares, it shall, after passing of the special/Board resolution make a public announcement at least one English National Daily, one Hindi National daily and Regional Language Daily at the place where the registered office of the company is situated.
(b) The public announcement shall specify a date, which shall be "specified date" for the purpose of determining the names of shareholders to whom the letter of offer has to be sent.
(c) A public notice shall be given containing disclosures as specified in Schedule I of the SEBI regulations.
(d) A draft letter of offer shall be filed with SEBI through a merchant banker. The offer shall then be dispatched to members of company.
(e) A copy of Board resolution authorising the buyback shall be filed with the SEBI and stock exchange.
(f) The date of opening of the offer shall not be earlier than seven days or later than 30 days after the specified date.

(g) the buyback offer shall remain open for a period of not less than 15 days and not more than 30 days.

(h) a company opting for buyback through the public offer or tender offer shall open an escrow account.

6. (M) Penalty

If a company makes default in complying with the provisions of the company or any officer of the company who is in default shall be punishable with imprisonment for term which may extend to two years; or with fine which may extend to fifty thousand rupees or both. The offence are of course compoundable under Section 621A of Companies Act, 1956.

5.1. Sources for Buyback

Section 77A(1) – Section 77A(1) of the Act provides that buyback of shares can be financed only out of:

(a) free reserves — where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased is required to be transferred to the capital redemption reserve and details of such transfer should be disclosed in the balance sheet; or

(b) securities premium account; or

(c) proceeds of any shares or other specified securities.

It is provided that no buyback of any kind of shares or other specified securities can be made out of the proceeds of the same kind of shares or same kind of other securities as it will frustrate the purpose sought to be achieved by an issue and will make no sense. It can, however, be used for buyback of another kind of security.

5.2. Pre-requisites of a Valid Buyback

Section 77A(2) – Section 77A(2) of the Companies Act provides that a company can buyback its shares only when:

(a) It is authorized by its Articles of Association. If no such provision exists, the Articles should be amended following the procedure laid down in Section 31.

(b) A special resolution has been passed in general meeting of the company authorizing the buyback.

(c) Buyback of the total paid-up capital and the free reserves has been made by the Board of Directors by means of a Board resolution passed at its meeting not exceeding 10% of the total paid-up equity capital and free reserves of the company and the Board exercises this power only if it had not made an offer for the buyback of the share on its authority during the preceding 365 days.

(d) The overall limit to which buyback of securities may be resorted to by a company is restricted to 25% of the company's paid-up capital and free reserves.

(e) The buyback debt-equity ratio is within the permissible 2:1 ratio. The Central Government is empowered to relax the debt-equity ratio in respect of a class of companies but not in respect of any particular company.

(f) The impugned shares/securities must be fully paid-up.

(g) The buyback of the shares or other specified securities listed on any recognised stock exchange is in accordance with the SEBI (Buyback of Securities) Regulations, 1998.

(h) The buyback in respect of shares or other specified securities other than those listed on any recognized stock exchange shall additionally comply with the provisions of the Private Limited Company and Unlisted Public Company (Buyback of Securities) Rules, 1999.

Section 77A(3) – According to Section 77A(3) the notice containing the special resolution should be passed and should be accompanied by an explanatory statement stating:

(a) All material facts, fully and completely disclosed;

(b) The necessity for buyback;

(c) The class of security intended to be purchased by the buyback;

(d) The amount to be invested under buyback;

(e) The time limit for completion of buyback.

The company is also required to pass a special resolution in its general meeting after following the procedure laid down in Sections 171, 172 and 173.

5.3. Time Limit of Completion of Buyback

Section 77A(4) – Section 77A(4) provides that every buyback is required to be completed within 12 months from the date of passing the special resolution or the Board resolution, as the case may be or where the resolution is passed through postal ballot, the date of declaration of the result of the postal ballot, as the case may be.

5.4. Modes of Buyback

Section 77A(5) – Section 77A(5) read with Regulation 4 of SEBI (Buyback of Securities) Regulations, 1998, states that the securities can be bought back from:

(a) Existing security-holders on a proportionate basis, *i.e.,* via tender offer. A tender offer is made when the number of shares to be bought back is large. Such an offer is a fixed price offer, i.e., the company fixes a particular price for the maximum number of shares it is willing to purchase and sends a letter of offer to all the non-promoter shareholders. It also fixes an outer time limit for accepting the offer. The offer price is usually fixed at a premium in order to encourage shareholders to surrender their shares. The company accepts the shares on a proportionate basis if the offer is oversubscribed. The Company is allowed to buyback its shares on a proportionate basis in accordance with the provisions of Chapter III of the SEBI Regulations (Regulation 6). But if offer is undersubscribed, the company may either accept whatever is tendered or extend the time limit.

(b) through open market:

(i) book building process in accordance with Regulation 17 — The book building process is a mechanism of price discovery which helps to determine market price of securities. If the book building option is used, a draft prospectus has to be filed with SEBI. The prospectus should contain all the details of the offer, except the price at which the securities will be offered (a price band is specified). The copy of the draft prospectus is filed with SEBI and is circulated among institutional buyers by a leading merchant banker acting as the book runner. Institutional investors specify the price as well as the volume of shares they intend to buy. The book runner, on receiving the above information, determines the price at which the offer is to be made to the public.

(ii) Stock exchanges in accordance with Regulation 15 — In an open market purchase, a company can buy its shares directly from the stock market through brokers. Open market purchases are resorted to when the number of shares to be bought back is relatively small. The company has to fix the maximum price for an open market offer; stipulate the number of shares it intends to purchase, and announce the closing date of buyback of shares.

(c) odd lots, *i.e.,* where the lot of securities of a public company, whose shares are listed on a recognized stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange. The shares of all the companies are presently traded at the stock exchanges in compulsory dematerialised form only and in case of demat shares, the market lot for all the companies is only one share. Hence, this mode of buyback has become more or less redundant in the present scenario.

(d) the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity. Out of the various methods enumerated above, only open market purchase method and tender offer method are being resorted to by the companies for buyback and among these two, open market purchase method is most sought after because of its cost advantage.

5.5. Other Formalities for Buyback

Section 77A(6) — A declaration of solvency is required to be filed by the company with the Registrar and SEBI in the prescribed form Rule 5C and Form No. 4A of the General Rules and Forms before the buyback is implemented to guarantee its solvency for at least a year after the completion of buyback. However, a company whose shares are not listed on the Stock Exchange is not required to file this declaration with SEBI.

Section 77A(7) — A company after the completion of buyback is required to physically extinguish and destroy its securities within 7 days of the last day on which the buyback process is completed.

Section 77A(8) — A company buying back its securities is prohibited from making a further issue of securities within a period of 6 months. It may, however, make a bonus issue and discharge its existing obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.

Section 77A(9) — A company is also required to maintain a register containing the particulars of the bought back securities, including the consideration paid for them, the date of cancellation, the date of physically extinguishing and physically destroying securities and such other particulars as may be prescribed. Section 77A(9) also states that such particulars are required to be entered in the register of buyback of securities within 7 days of the date of completion of buyback.

Section 77A(10) — On completion of the buyback process, the company shall within a period of 30 days file with SEBI and the Registrar a return containing the particulars prescribed. A private company and a public company whose shares are not listed on a recognized stock exchange should file the return of buyback with the Registrar only. Non-compliance with the above mentioned requisites is a punishable offence under Section 77A(11) of the Companies Act.

Section 77AA — Section 77AA deals with transfer of certain sums to capital redemption reserve account. Where a company purchases its own shares out of free reserves, then a sum equal to nominal value of the shares purchased has to be transferred to the Capital Redemption Reserve Account referred to in clause (d) of the proviso to subsection (1) of Section 80 and its details are required to be disclosed in the balance sheet. According to Section 77AA, such a transfer of capital redemption reserve account will not be required when buyback of securities is other than shares. According to Section 77AA, the Central Government may, from time to time, notify other securities as specified securities and such notified securities may not be shares.

5.6. Restrictions on the Modes of Buyback

Section 77B — Section 77B restricts modes of Buyback. The companies are restricted to Buyback its shares,

(a) Through any subsidiary company including its own subsidiary company.
(b) Through any investment companies or group of investment companies.
(c) If a default has been made by it in respect of:
    (i) Repayment of deposit or interest payable thereon, or
    (ii) Redemption of debentures or preference shares, or
    (iii) Payment of dividend to any shareholder, or
    (iv) Repayment of any term loan, or
    (v) Interest payable thereon to any financial institution or bank.
(d) In case it has not complied with the provisions of sections 159, 207 and 211 of the Act.
(e) Moreover, a listed company is prohibited from buying back its securities through negotiated deals, spot transactions, private arrangements and insider dealings u/s Regulations 4(2) and 4(3).

5.7. Rules and Regulations of Securities and Exchange board of India

Procedure for buyback of securities of a company listed on a stock exchange is explained in Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998. In case of buyback of equity shares or other specified securities of a Private Limited Company and Unlisted Public Limited Company, which are not listed on any recognized stock exchange, the Private Limited Company, and Limited Company (Buyback of Securities) Rules, 1999 are applicable.

The various provisions for the procedure of buyback under SEBI (Buyback of Securities) Regulations 1998 are as follows:

5.7.1 Tender Offer

A company may buyback its shares from its existing shareholders on proportionate basis in accordance with the following provisions:

Regulation 7

The explanatory statement annexed to the notice under Section 173 of the Companies Act shall contain the following disclosures:

(a) The maximum price at which the buyback of shares shall be made and whether the Board of Directors of the company are being authorised at the general meeting to determine subsequently the specific price at which the buyback may be made at appropriate time;

(b) If the promoter intends to offer their shares:

  (I) the quantum of shares proposed to be tendered, and

  (II) the details of their transactions and their holdings for the last six months prior to the passing of the resolution for buyback including information of number of shares acquired, the price and date of acquisition.

Regulation 8

(1) The company which has been authorised by a special resolution or a resolution passed by the Board of Directors at its meeting shall before buyback of shares or other specified securities make a public announcement in at least one English National Daily, one Hindi National Daily and a Regional language daily all with wide circulation at the place where the Registered office of the company is situated and shall contain all the material information as specified in Schedule II.

(2) The public announcement shall specify a date, which shall be the 'specified date' for the purpose of determining the names of the security holders to whom the letter of offer shall be sent.

(3) The specified date shall not be later than thirty days from the date of the public announcement.

(4) The Company shall within seven working days of the public announcement file with the Board a draft letter of offer containing disclosures as specified in Schedule III through a merchant banker who is not associated with the company.

(5) The draft letter of offer referred to in sub-regulation (4) shall be accompanied with fees specified in Schedule IV.

(6) The letter of offer shall be dispatched not earlier than twenty-one days from its submission to the Board under sub-regulation (4). Provided that, if within twenty-one days from the date of submission of the draft letter of offer, the Board specifies modifications, if any, in the draft letter of offer, (without being under any obligation to do so) the merchant banker and the company shall carry out such modifications before the letter of offer is dispatched to the security holders.

(7) The company shall file along with the draft letter of offer, a declaration of solvency in the prescribed form and in a manner prescribed in sub-section (6) of Section 77A of the Companies Act.

Buyback Offer Procedure under Tender Offer

Regulation 9

(1) The offer for buyback shall remain open to the members for a period not less than fifteen days and not exceeding thirty days.

(2) The date of the opening of the offer shall not be earlier than seven days or later than thirty days after the specified date.

(3) The letter of offer shall be sent to the security holders so as to reach the security holders before the opening of the offer.

(4) In case the number of shares or other specified securities offered by the security holders is more than the total number of shares or other specified securities to be bought back by the company, the acceptances per security holder shall be equal to the acceptances tendered by the security holders divided by the total acceptances received and multiplied by the total number of shares or other specified securities to be bought back.

(5) The company shall complete the verifications of the offers received within fifteen days of the closure of the offer and the shares or other specified securities lodged shall be deemed to be accepted unless a communication of rejection is made within fifteen days from the closure of the offer.

Escrow Account

Regulation 10

(1) The company shall as and by way of security for performance of its obligations under the regulations, on or before the opening of the offer deposit in an escrow account such sum as specified in sub-regulation (2).

(2) The escrow amount shall be payable in the following manner —

  (i) If the consideration payable does not exceed ₹ 100 crores – 25% of the consideration payable;

  (ii) If the consideration payable exceeds ₹ 100 crores – 25% upto ₹ 100 crores and 10% thereafter.

(3) The escrow account referred in sub-regulation (1) shall consist of —

  (a) Cash deposited with a scheduled commercial bank or;

  (b) Bank guarantee in favour of the merchant banker; or

  (c) Deposit of acceptable securities with appropriate margin, with the merchant banker, or

  (d) A combination of (a), (b) and (c) above.

(4) Where the escrow account consists of deposit with a scheduled commercial bank, the company shall, while opening the account, empower the merchant banker to instruct the bank to issue a banker's cheque or demand draft for the amount lying to the credit of the escrow account, as provided in the regulations.

(5) Where the escrow account consists of bank guarantee, such bank guarantee shall be in favour of the merchant banker and shall be valid until thirty days after the closure of the offer.

(6) The company shall, in case the escrow account consists of securities, empower the merchant banker to realise the value of such escrow account by sale or otherwise and if there is any deficit on realisation of the value of the securities, the merchant banker shall be liable to make good any such deficit.

(7) In case the escrow account consists of bank guarantee or approved securities, these shall not be returned by the merchant banker till completion of all obligations under the regulations.

(8) Where the escrow account consists of bank guarantee or deposit of approved securities, the company shall also deposit with the bank in cash a sum of at least one per cent of the total consideration payable, as and by way of security for fulfilment of the obligations under the regulations by the company.

(9) On payment of consideration to all the security holders who have accepted the offer and after completion of all formalities of buyback, the amount, guarantee and securities in the escrow, if any, shall be released to the company.

(10) The Board in the interest of the security holders may in case of non-fulfilment of obligations under the regulations by the company forfeit the escrow account either in full or in part.

(11) The amount forfeited under sub-regulation (10) may be distributed pro rata amongst the security holders who accepted the offer and balance, if any, shall be utilised for investor protection.

Payment to Security Holders

Regulation 11

(1) The company shall immediately after the date of closure of the offer open a special account with a bankers to an issue registered with the Board and deposit therein, such sum as would, together with ninety per cent of the amount lying in the escrow account make up the entire sum due and payable as consideration for buyback in terms of these regulations and for this purpose, may transfer the funds from the escrow account.

(2) The company shall within seven days of the time specified in sub-regulation (5) of Regulation 9 make payment of consideration in cash to those security holders whose offer has been accepted or return the shares or other specified securities to the security holders.

Extinguishment of Certificate

Regulation 12(1)

The company shall extinguish and physically destroy the security certificates so bought back in the presence of a Registrar to Issue or the Merchant Banker and the Statutory Auditor within fifteen days of the date of acceptance of the shares or other specified securities. Provided that the company shall ensure that all the securities bought back are extinguished within seven days of the last date of completion of buyback.

5.7.2 Buyback through Stock Exchange

Regulation 15

A company shall buyback its shares or other specified securities through the stock exchange as provided hereunder:

(a) The special resolution shall specify the maximum price at which the buyback shall be made;

(b) The buyback of the shares or other specified securities shall not be made from the promoters or persons in control of the company;

(c) The company shall appoint a merchant banker and make a public announcement as referred to in Regulation 8;

(d) The public announcement shall be made at least seven days prior to the commencement of buyback;

(e) A copy of the public announcement shall be filed with the Board within two days of such announcement along with the fees as specified in Schedule IV;

(f) The public announcement shall also contain disclosures regarding details of the brokers and stock exchanges through which the buyback of shares or other specified securities would be made;

(g) The buyback shall be made only on stock exchanges having nationwide trading terminals;

(h) The buyback of shares or other specified securities shall be made only through the order matching mechanism except 'all or none' order matching system;

(i) The company and the merchant banker shall submit the information regarding the shares or other specified securities bought- back to the stock exchange on a daily basis and publish the said information in a national daily on a fortnightly basis and every time when an additional five per cent of the buyback has been completed. Provided that where there is no buyback during a particular period, the company and the Merchant Banker shall not be required to publish the details in a national daily.

(j) The identity of the company as a purchaser shall appear on the electronic screen when the order is placed.

Extinguishment of Certificates

Regulation 16

(1) Subject to the provisions of sub-regulations (2), the provisions of Regulation 12 pertaining to extinguishment of certificates shall be applicable *mutatis mutandis.*

(2) The company shall complete the verification of acceptances within fifteen days of the pay-out.

5.7.3 Buyback through Book Building

Regulation 17 – 17(1) A company may buyback its shares or other specified securities through the book-building process as provided hereunder:

(a) The special resolution passed by the Board of Directors at its meeting as referred to in Regulation 5A shall specify the maximum price at which the buyback shall be made.

(b) The company shall appoint a merchant banker and make a public announcement as referred to in Regulation 8.

(c) The public announcement shall be made at least seven days prior to the commencement of buyback.

(d) Subject to the provisions of sub-clause (i), (ii) and the provisions of Regulation 10, shall be applicable ——

  (i) The deposit in the escrow account shall be made before the date of the public announcement.

  (ii) The amount to be deposited in the escrow account shall be determined with reference to the maximum price as specified in public announcement.

(e) A copy of the public announcement shall be filed with the Board within two days of such announcement along with the fees as specified in Schedule IV.

(f) The public announcement shall also contain the detailed methodology of the book-building process, the manner of acceptance, the format of acceptance to be sent by the security holders pursuant to the public announcement and the details of bidding centres.

(g) The book building process shall be made through an electronically linked transparent facility.

(h) The number of bidding centres shall not be less than thirty and there shall be at least one electronically linked computer terminal at all the bidding centres.

(i) The offer for buyback shall remain open to the security holders for a period not less than fifteen days and not exceeding thirty days.

(j) The merchant banker and the company shall determine the buyback price based on the acceptances received.

(k) The final buyback price, which shall be the highest price accepted shall be paid to all holders whose shares or other specified securities have been accepted for buyback.

(2) The provisions of sub-regulation (5) of Regulation 9 pertaining to verification of acceptances and the provisions of Regulation 11 pertaining to opening of special account and payment of consideration shall be applicable *mutatis mutandis.*

Extinguishment of Certificates

Section 18

The provisions of Regulation 12 pertaining to extinguishment of certificates shall be applicable *mutatis mutandis.*

9 Maximum amount which a company can spend for a buyback can be calculated as follows:

The maximum amount for buyback will be lowest of following three:

A. Free reserves (including security premium):

General reserve	xxx	
Add: Profit and Loss A/c balance	xxx	
Add: Any other free reserve	xxx	
Add: Securities Premium A/c	xxx	
(A)		XXX

B- 25% of total paid-up capital + free reserve including security premium:

Equity share capital (paid up)	xxx	
Add: Preference share capital (paid up)	xxx	
Add: Free reserves + Securities premium	xxx	
TOTAL		XXX
(B) = TOTAL × 25/100		

C. After buyback, total paid-up capital + Free reserve including securities premium should be at least ½ or more of the total loans (secured + unsecured):

Total paid-up capital + Free reserves including securities premium (From B)	xxx
Less: ½ of total loan (secured + unsecured)	xxx

The lowest of the above three (A/B/C) is the maximum amount that the company can spent for buyback.

Problem No. 1

Maximum number of shares to be bought back at a given price **April, 2010 (Old Course)**

The following balances appeared in the books of Aryan Ltd.

1,00,000 Equity Shares of ₹ 10 each	₹	10,00,000
General Reserve	₹	2,00,000
Profit & Loss Account	₹	8,00,000

Ascertain the maximum number of equity shares, Aryan Ltd. can buyback at a price of ₹ 20 each.

Solution

Aryan Ltd.:

Maximum number of shares the company can buyback:

1. 25% of Paid-up Equity Share Capital 25,000
2. Maximum amount payable on buyback:

25% of Paid-up Share Capital and Free Reserves

Equity Share Capital	10,00,000
General Reserves	2,00,000
Profit & Loss Account	8,00,000
	20,00,000
25%	5,00,000

Price payable per Equity Share = ₹ 20

Therefore, maximum number of shares $= \frac{5,00,000}{20}$

= 25,000

Conclusion:

Therefore, maximum number of shares the company can buyback

= least of the above

= 25,000

Problem No. 2

Maximum number of shares that can be bought back **October, 2009**

Yuvraj Ltd. furnishes the following information:

60,000 Equity Shares of ₹ 100 each fully paid-up.

General Reserve	₹	36,00,000
Profit & Loss Account (Cr.)	₹	40,00,000
Securities Premium	₹	4,00,000
Secured Loan	₹	40,00,000
Unsecured Loan	₹	20,00,000

Keeping in view all the legal requirements, ascertain the maximum number of equity shares that can be bought back by the company at a price of ₹ 250 per share.

Solution

Calculation of maximum no. of buyback of shares

General Reserve	₹	36,00,000
Profit & Loss Account	₹	40,00,000
Free Reserves	₹	76,00,000
Add: Securities Premium	₹	4,00,000
	₹	80,00,000
Equity Share Capital (Paid up)	₹	60,00,000
Own Fund	₹	1,40,00,000

A. 25% of own fund $= 1,40,00,000 \times \frac{25}{100}$

$= 35,00,000$

B. Own Funds after buyback of shares
= (Own Funds – 50% of Long-term Loan)
= [1,40,00,000 – 50% (40,00,000 + 20,00,000)]
= (1,40,00,000 – 30,00,000)
= 1,10,00,000

C. 25% of Equity Share Capital
= 60,00,000 × 25%
= ₹ 15,00,000

Maximum Number of Shares @ Nominal Value
= 15,00,000 ÷ 100
= 15,000

D. Maximum Number of Shares that shall be bought back at offer price

$$= \frac{\text{Minimum of A and B}}{\text{Offer Price}}$$

$$= \frac{35,00,000}{250}$$

= 14,000 shares

Problem No. 3

Short Question **March, 2009**

X Ltd. furnishes the following information:

80,000 Equity Shares of ₹ 10 each, ₹ 7 per share paid-up: ₹ 5,60,000.

General Reserve: ₹ 80,000. Profit & Loss Account: ₹ 6,00,000,

Securities Premium: ₹ 1,20,000. Bank Loan (Secured) ₹ 3,00,000.

Unsecured Loan: ₹ 1,00,000.

Keeping in view the legal requirements, ascertain the maximum number of equity shares that can be bought back by the company at a price of 40 per share.

Solution

Paid-up Capital		₹	8,00,000
Free Reserves			
General Reserve	₹ 80,000		
Profit & Loss Account	₹ 6,00,000		
Securities Premium	₹ 1,20,000	₹	8,00,000

Own Fund	₹ 16,00,000	
25% of ₹ 16,00,000	= 4,00,000	... (i)
Own Fund after Buyback:		
50% of Long-term Loan		
50% of 4,00,000 (3,00,000 + 1,00,000)	= 2,00,000	
16,00,000 – 2,00,000	= 14,00,000	... (ii)
25% of Equity Share Capital (fully paid up)		
25% of 8,00,000	= 2,00,000	
No. of Shares at Face Value	$= \frac{2,00,000}{10} = 20,000$	
Amount of 20,000 shares at ₹ 40 per share	= (20,0000 × 40)	
	= 8,00,000	... (iii)
Maximum Buyback	$= \frac{\text{Least of (i), (ii) and (iii)}}{\text{Offer Price}}$	
	$= \frac{4,00,000}{40} = 10,000$ shares	

The company can buyback 10,000 shares at ₹ 40 per share.

Problem No. 4

Buyback of a premium **October, 2008**

Following information is available from the books of a Company:

1,20,000 Equity Shares of ₹ 10 each: ₹ 12,00,000.

Securities Premium: ₹ 70,000.

General Reserves: ₹ 3,50,000. The company decided to buyback 25% of the equity share capital at ₹ 12 per share. Pass Journal Entries without narration.

Solution

Journal

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Equity Shareholders A/c (30,000 × 10)	Dr.	3,00,000	
	Premium on Buyback of Shares A/c (30,000 × 2)	Dr.	60,000	
	To Equity Shareholders A/c			3,60,000
2	Securities Premium A/c	Dr.	70,000	
	General Reserve A/c	Dr.	2,30,000	
	To Capital Redemption Reserve A/c			3,00,000
3	General Reserve A/c	Dr.	60,000	
	To Premium on Buyback of Shares A/c			60,000
4	Equity Shareholders A/c	Dr.	3,60,000	
	To Bank A/c			3,60,000

Problem No. 5

Buyback out of profits **March, 2008**

A company buyback 50,000 shares of ₹ 10 each at ₹ 25 per share.

The reserves of the company are as follows:

Securities Premium: ₹ 15,00,000. General Reserves: ₹ 23,00,000.

Pass Journal Entries in the books of a company without narration for buyback of shares.

Solution

Journal

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Equity Share Capital A/c	Dr.	5,00,000	
	Premium on Buyback of Shares A/c	Dr.	7,50,000	
	To Equity shareholders A/c			12,50,000
2	Securities Premium A/c	Dr.	5,00,000	
	To Capital Redemption Reserve A/c			5,00,000
3	Securities Premium A/c	Dr.	7,50,000	
	To Premium on Buyback of Shares A/c			7,50,000
4	Equity Shareholders A/c	Dr	12,50,000	
	To Bank A/c			12,50,000

Problem No. 6

Calcuation of maximum number of shares that can be bought back **October, 2007**

Following is the Balance Sheet of Suyog Ltd. as on 31st March, 2009.

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Share Capital:		**Fixed Assets:**	
Authorised:	——?	Land & Building	30,00,000
10,00,000 Equity Shares of ₹ 10		Plant & Machinery	30,00,000
each issued:	1,00,00,000	Furniture	22,00,000
Issued:		**Investments**	15,00,000
8,00,000 Equity Shares of ₹ 10		**Current Assets:**	
each ₹ 8 paid-up	64,00,000	Debtors	47,00,000
Reserves:		Bill Receivables	10,00,000
General Reserve	10,00,000	Bank Balance	40,00,000
Profit & Loss A/c	50,00,000	Stock	20,00,000
Securities Premium	20,00,000		
Secured Loans:			
11% Debentures	20,00,000		
Unsecured Loans	20,00,000		
Current Liabilities:			
Creditors	15,00,000		
Bills Payable	15,00,000		
	2,14,00,000		**2,14,00.000**

The company decides to buyback the maximum number of equity shares as may be permitted at a price of ₹ 20 per share.

Find out maximum number of shares to be bought back and pass Journal Entries and prepare Balance Sheet after buyback.

Solution

1. Calculation of limit of 25% of own funds

Particulars		₹	₹
A. Sources			
(a) **Free Reserves**			
General Reserve		10,00,000	
Profit & Loss		50,00,000	
		60,00,000	
(b) Securities Premium Account Balance		20,00,000	
		80,00,000	
B. Paid-up Capital (Equity)	64,00,000		
Add: Final Call	16,00,000	80,00,000	
C. Total Own Funds (A + B)		1,60,00,000	
D. Maximum amount of buyback of all shares/securities 25% of Own Funds			40,00,000

2. Calculation of minimum own funds remaining after buyback:

Particulars	₹	₹
Debts = Debentures + Unsecured Loans = 40,00,000		
A. Calculate Minimum Own Funds = Debt ÷ 2 = ₹ 40,00,000 ÷ 2 so as to satisfy the Debt Capital Ratio of 2 : 1	20,00,000	
B. Calculate required post-buyback Own Funds (1,60,00,000 – 20,00,000)		1,40,00,000

3. Calculation of limit of 25% of equity capital during year:

Particulars	₹
A. Maximum Nominal Value of Equity Shares which could be bought back during the year = 25% of Total Paid up Equity Share Capital (25% × 80,00,000)	20,00,000
B. Maximum No. of Equity shares that can be bought back at par (20,00,000 ÷ ₹ 10)	2,00,000

4. Calculate maximum possible buyback amount:

Particulars	₹
2,00,000 shares × ₹ 20 offer price	40,00,000

Conclusion:

Keeping in view all legal conditions, Suyog Ltd. you can back 2,00,000 equity shares at a price of ₹ 20 each including premium of 10 per share.

Journal

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Equity Share Capital A/c	Dr.	5,00,000	
	Premium on Buyback of Shares A/c	Dr.	7,50,000	
	To Equity Shareholders A/c			12,50,000
2	Securities Premium A/c	Dr.	5,00,000	
	To Capital Redemption Reserve A/c			5,00,000
3	Securities Premium A/c	Dr.	7,50,000	
	To Premium on Buyback of Shares A/c			7,50,000
4	Equity Shareholders A/c	Dr.	12,50,000	
	To Bank A/c			12,50,000

Journal of Suyog Ltd.

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Equity Share Final Call A/c	Dr.	16,00,000	
	To Equity Share Capital A/c			16,00,000
	(Being amount payable on final call on equity shares)			
2	Bank A/c	Dr.	16,00,000	
	To Equity Share Final Call A/c			16,00,000
	(Being amount received on final call on equity shares)			
3	Equity Share Capital A/c	Dr.	20,00,000	
	Premium on Buyback of Shares A/c	Dr.	20,00,000	
	To Equity Shareholders A/c			40,00,000
	(Being amount payable on buyback of 2,00,000 equity shares of ₹10 each at a premium of ₹10 each)			
4	Profit & Loss A/c	Dr.	20,00,000	
	To Capital Redemption Reserve A/c			20,00,000
	(Being the amount equal to nominal value of shares bought back and capital redemption reserve created)			
5	Equity Shareholders A/c	Dr.	40,00,000	
	To Bank A/c			40,00,000
	(Being the payment made to equity shareholders on buyback)			
6	Securities Premium A/c	Dr.	20,00,000	
	To Premium on Buyback of Shares A/c			20,00,000
	(Being the premium on buyback adjusted)			

Balance Sheet as on 31st March, 2009

Particulars	Notes	₹	₹
Equity & Liabilities Shareholders Funds			
Share Capital	1	60,00,000	
Reserves & Surplus	2	60,00,000	1,20,00,000
Non-Current Liabilities			
Long-term Borrowings	3		40,00,000
Current Liabilities			
Trade Payabills	4		30,00,000
Total			**1,90,00,000**
Non-Current Assets			
Fixed Assets	5		82,00,000
Non-Current Investements			15,00,000
Current Assets			
Inventories		20,00,000	
Trade Receivables		57,00,000	
Cash & Cash Eanivalents		1,60,000	93,00,000
Total			**1,90,00,000**
Notes to Accounts			
I. Share capital:			
Authorised			10,00,000
Issued, Subscribed & Paid-up			
6,00,000 shares of ₹ 10 each			60,00,000
			60,00,000
II. Reserves & Surplus			
General Reserve			10,00,000
Plc A/c		50,00,000	
Less: Trans. to CRR		20,00,000	30,00,000
CRR		NIL	
Add: Trans. Fr. Plc.		20,00,000	20,00,000
			60,00,00
III. Long-Term Borrowings:			
11% Debentures			20,00,000
Unsecured Loans			20,00,000
			40,00,000
IV. Trade Payables			
Creditors			15,00,000
Bills Payable			15,00,000
			30,00,000
V. Fixed Assets			
Buildings			30,00,000
Plant & Machine			30,00,000
Furniture			30,00,000
			82,00,000

Problem No. 7

Determination of maximum number of equity shares **October, 2006**

Following is the Balance Sheet of Indica Ltd. as on 31st December, 2008.

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Share Capital		**Fixed Assets:**	
Authorised:		Land & Building	40,00,000
10,00,000 Equity Shares of ₹ 10 each	1,00,00,000	Plant & Machinery	22,00,000
Issued, Subscribed & Called up:		Furniture	20,00,000
8,00,000 Equity Shares of ₹ 10		**Investments**	20,00,000
each, ₹ 8 per share paid-up	64,00,000	**Current Assets, Loan & Advances:**	
Reserves & Surplus:		Debtors	42,00,000
Profit & Loss A/c	50,00,000	Bill Receivables	10,00,000
Securities Premium A/c	30,00,000	Bank Balance	45,00,000
Secured Loans:		Stock	20,00,000
10% Debentures	30,00,000		
Unsecured Loans	10,00,000		
Current Liabilities & Provisions			
Sundry Creditors	20,00,000		
Bills Payable	10,00,000		
Provision for Tax	5,00,000		
	2,19,00,000		**2,19,00,000**

Keeping in view the legal requirement, ascertain the maximum number of equity shares that Indica Ltd. can buyback @ ₹ 20 per share.

Pass Journal Entries to record buyback and prepare a Balance Sheet thereafter.

Solution

Journal of Indica Ltd.

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Bank A/c (8,00,000 × 2)	Dr.	16,00,000	
	To Equity Share Capital A/c			16,00,000
	(Being final call received)			
2	Equity Share Capital A/c	Dr.	20,00,000	
	Premium on Buyback A/c	Dr.	20,00,000	
	To Equity Shareholders A/c			40,00,000
	(Being 2,00,000 equity shares brought back)			
3	Securities Premium A/c	Dr.	20,00,000	
	To Premium on Buyback A/c			20,00,000
	(Being premium on buyback adjusted)			
4	Equity Shareholders A/c	Dr.	40,00,000	
	To Bank A/c			40,00,000
	(Being equity shareholder paid off)			
5	Profit & Loss A/c	Dr.	20,00,000	
	To Capital Redemption Reserve A/c			20,00,000
	(Being amount transferred to capital redemption reserve)			

Balance Sheet
as on 31st December, 2008

Liabilities	(₹)	Assets	(₹)
I. Share Capital:		**I. Fixed Assets:**	
Authorised:	——?—	Land & Building	40,00,000
Issued, Subscribed &, Paid-up:		Plant & Machinery	22,00,000
6,00,000 Equity Shares of		Furniture	20,00,000
₹ 10 each	60,00,000	**II. Investments**	20,00,000
II. Reserves & Surplus:		**III. Current Assets, Loans**	
Securities Premium	10,00,000	**& Advances**	
Capital Redemption Reserve	20,00,000	**(a) Current Assets:**	
Profit & Loss A/c	30,00,000	Debtors	42,00,000
III. Secured Loans:		Bills Receivable	10,00,000
10% Debentures	30,00,000	Stock Inventories	20,00:000
Bank Loan	10,00,000	Bank (45,00,000 +	
IV. Current Liabilities		16,00,000 – 40,00,000)	21,00,000
& Provisions:		**(b) Loans & Advances**	Nil
(a) Current Liabilities:		**IV. Misc. Expenditures**	Nil
Creditors	20,00,000		
Bills Payable	10,00,000		
(b) Provisions:			
Provision for Tax	5,00,000		
	1,95,00,000		**1,95,00,000**

Working Note

Least of the following can be buyback amount:

(i) Fee Reserve = Securities Premium + Profit & Loss A/c
= 30,00,000 + 50,00,000
= 80,00,000

(ii) 25% of Own Fund = 25% (Share Capital + Call in Arrears + Free Reserve)
= 25% (64,00,000 + 16,00,000 + 80,00,000)
= 40,00,000

(iii) Own Fund = 50% of Borrowed Funds
= 50% of 40,00,000
= 20,00,000

(iv) Maximum No. of Shares = Maximum number of shares that can be bought back

$$= \frac{40,00,000}{20 \text{ (given)}}$$

= 2,00,000 shares

Number of shares bought back do not exceed 25% of issued shares, i.e.,
8,00,000 × 25% = 2,00,000 shares.

Problem No. 8

Buyback out of profits **March, 2006**

The Balance Sheet of Manish Ltd. as on 31st March, 2009 is as follows:

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Share Capital		**Fixed Assets:**	
Authorised, Issued,		Net Block	40,00,000
Subscribed and called-up:		**Investments**	15,00,000
Equity Shares of ₹ 10 each	25,00,000	**Current Assets, Loans & Advances:**	
Reserves & Surplus:		Current Assets	
Securities Premium	5,00,000	(Including Bank Balance	
General Reserve	10,00,000	₹ 15,00,000)	35,00,000
Profit & Loss A/c	10,00,000	Loans & Advances	5,00,000
Secured Loan:			
10% Debentures	25,00,000		
Current Liabilities & Provisions:			
Sundry Creditors	15,00,000		
Bills Payable	5,00,000		
	95,00,000		**95,00,000**

Keeping in view all the legal requirements, ascertain:

(i) Maximum number of equity shares that Manish Ltd. can buyback.

(ii) The maximum price it can offer.

Assume that the buyback is carried out actually on the legally permissible terms, record the entries in the Journal of Manish Ltd. and prepare its Balance Sheet thereafter.

Solution

Calculation of maximum possible buyback:

1. Calculation of limit of 25% of own funds:

(i) Sources:

(a) Free Reserves

General Reserves	₹ 10,00,000
Profit & Loss Account	₹ 10,00,000
	₹ 20,00,000
(b) Securities Premium Account Balance	₹ 5,00,000
	₹ 25,00,000
(ii) Paid up Capital (Equity)	₹ 25,00,000
Total Own Fund	₹ 50,00,000
(iii) Maximum amount of Buyback of all Shares Securities	
25% of Own Funds (25% × 50,00,000)	₹ 12,50,000

2. Calculation of minimum own funds remaining after buyback:

(i) Minimum Own Funds = Debt ÷ 2

= ₹ 25,00,000 ÷ 2

= ₹ 12,50,000

so as to satisfy the Debt Capital Ratio of 2 : 1.

(ii) Required Post Buyback Own Funds

= Own Funds before Buyback less Minimum Own Funds
= 50,00,000 – 12,50,000
= 37,50,000

3. Calculation of limit of 25% of equity capital during the year:

(i) Maximum nominal value of equity shares, which could be bought back during financial year.
25% of Total Paid-up Equity Share Capital = (25% × 25,00,000)
= 6,25,000

(ii) Maximum number of equity shares that can be bought back = 6,25,000÷ ₹ 10
= 62,500

4. Calculation of maximum possible offer price:

(i) The least of (1) and (2) amounts above is ₹ 12,50,000

(ii) Maximum number of equity shares that can be bought back vide (3) (i) and (ii) above
= 62,500

(iii) Maximum possible offer price $= \frac{\text{Least Amount as in (i)}}{\text{Max. No. of Equity Shares as in (ii)}}$

$= \frac{12,50,000}{62,500}$

= ₹ 20

Conclusion: Keeping in view all legal conditions, Manish Ltd. can buyback 62,500 equity shares at a price of ₹ 20 each including premium of ₹ 10 per share.

Journal of Manish Ltd.

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Equity Share Capital A/c	Dr.	6,25,000	
	Premium on Buyback of Shares A/c.	Dr.	6,25,000	
	To Equity Shareholders A/c			12,50,000
	(Being amount payable on buyback of 62,500 equity shares of ₹ 10 each at a premium of ₹ 10 each)			
2	General Reserve A/c	Dr.	6,25,000	
	To Capital Redemption Reserve A/c			6,25,000
	(Being the amount equal to nominal value of shares bought back of general reserve transferred to capital redemption reserve)			
3	Equity Shareholders A/c	Dr.	12,50,000	
	To Bank A/c			12,50,000
	(Being the payment made to equity shareholders on buyback)			
4	Securities Premium A/c	Dr.	5,00,000	
	General Reserve A/c	Dr.	1,25,000	
	To Premium on Buyback of Shares A/c			6,25,000
	(Being the premium on buyback adjusted from profits)			

Balance Sheet as on 31st March, 2009

Liabilities			(₹)	Assets			(₹)
I.	**Share Capital:**			**I.**	**Fixed Assets:**		
	Authorised:		——–?		Net Block		40,00,000
	Issued Subscribed & Paid-up			**II.**	**Investments**		15,00,000
	1,87,500 Equity Shares of ₹ 10 each		18,75,000	**III.**	**Current Assets,**		
II.	**Reserves & Surplus:**				**Loans & Advances:**		
	Capital Redemption				**(a) Current Assets:**		
	Reserve	6,25,000			Bank	2,50,000	
	General Reserve	2,50,000			Other	20,00,000	22,50,000
	Profit & Loss A/c	10,00,000	18,75,000		**(b) Loans & Advances:**		5,00,000
III.	**Secured Loan:**			**IV.**	**Misc. Expenditure**		Nil
	10% Debentures		25,00,000				
IV.	**Unsecured Loan**		Nil				
V.	**Current Liabilities & Provisions:**						
	(a) Current Liabilities						
	Creditors	15,00,000					
	Bills Payable	5,00,000	20,00,000				
	(b) Provisions		Nil				
			82,50,000				**82,50,000**

Problem No. 9

Maximum buyback

The Balance Sheet of AFCONS Ltd. as on st March, 2009 was as follows.

Balance Sheet

Liabilities	(₹)	Assets	(₹)
Equity Shares of ₹ 10 each	4,00,000	Net Block of Fixed Assets	7,50,000
Preference Shares of ₹ 100 each	1,00,000	Investment	50,000
Securities Premium	1,27,500	Current Assets	10,00,000
General Reserves	1,00,000		
Profit & Loss Account	1,22,500		
Debentures	8,00,000		
Current Liabilities	1,50,000		
	18,00,000		**18,00,000**

Keeping in view the legal requirement, ascertain the maximum number of equity shares that AFCONS Ltd. buyback @ ₹ 25 per share.

Pass Journal Entries to record buyback and prepare a Balance Sheet thereafter.

Solution

In the Books of AFCONS Ltd.

A. Maximum possible buyback at an offer price of ₹ 25 per share

1. Calculation of limit of 25% of Own Funds:

(i)	Sources			
	(a) Free Reserves			
	General Reserves	1,00,000		
	Profit & Loss Account	1,22,500	2,22,500	
	(b) Securities Premium Account Balance		1,27,500	
			3,50,000	
(ii)	Paid-up Capital			
	Equity Share Capital	4,00,000		
	Preference Share Capital	1,00,000	5,00,000	
(iii)	Total Own Funds (A + B)		8,50,000	
(iv)	25% of Own Funds (25% × 8,50,000)			**2,12,500**

2. Calculation of minimum Own Funds remaining after buyback:

(i)	Minimum Own Funds	8,50,000	
	Less: 50% of Debentures of ₹ 8,00,000	4,00,000	
(ii)	Calculation of required post-buyback own funds		
	= Own Funds before buyback less minimum own funds (8,50,000 less 4,00,000)		**4,50,000**

3. Calculation limit of 25% Equity Capital during year

$$= \left[\frac{\text{25\% of paid-up Equity Capital}}{\text{Nominal Value per Equity Capital}} \times \text{Offer Price} \right]$$

$$= \left[\frac{1,00,000}{10} \times 25 \right]$$

2,50,000

Conclusion

$$\text{Maximum Possible Buyback} = \left[\frac{\text{Least of the above 1 \& 2 \& 3}}{\text{Offer Price}} \right]$$

$$= \frac{2,12,500}{25} = 8,500 \text{ Equity Shares}$$

So, 8,500 equity shares of ₹ 10 each can be bought back at a premium of ₹ 15 each.

B. **Journal**

Sr. No.	Particulars		Dr. ₹	Cr. ₹
1	Equity Share Capital A/c	Dr.	85,000	
	Premium on Buyback of Shares A/c	Dr.	1,27,500	
	To Equity Shareholders A/c			2,12,500
	(Being amount payable on buyback of 8,500 equity shares of ₹ 10 each at a premium of ₹ 15 per share).			
2	Profit & Loss A/c	Dr.	85,000	
	To Capital Redemption Reserve A/c			85,000
	(Being the amount equal to nominal value of shares bought back out of Profit & Loss A/c transferred to Capital Redemption Reserve A/c			
3	Securities Premium A/c	Dr.	1,27,500	
	To Premium on Buyback of Shares A/c			1,27,500
	(Being premium on buyback of shares adjusted)			
4	Equity Shareholders A/c	Dr.	2,12,500	
	To Bank A/c			2,12,500
	(Being the payment made on buyback)			

C. **Balance Sheet as on 31st March, 2009**
(After Buyback)

Liabilities		(₹)	Assets		(₹)
I. Share Capital:			**I. Fixed Assets:**		
Preference Shares of ₹ 100 each		1,00,000	Net Block		7,50,000
Equity Shares of			**II. Investments**		50,000
₹ 10 each	4,00,000		**III. Current Assets,**		
Less : Buyback	85,000	3,15,000	**Loans & Advances**		
II. Reserves & Surplus:			**(a) Current Assets**	10,00,000	
Capital Redemption Reserve		85,000	*Less:* Payment		
Securities Premium	1,27,500		to Shareholders	2,12,500	7,87,500
Less : Premium on			**(b) Loans & Advances**		
Buyback	1,27,500	Nil	**IV. Misc. Expenditure**		
General Reserves		1,00,000	**(Not Written off)**		Nil
Profit & Loss A/c	1,22,500				
Less: Capital Redemption					
Reserve	85,000	37,500			
III. Secured Loans:					
Debentures		8,00,000			
IV. Unsecured Loans		Nil			
V. Current Liabilities & Provisions:					
(a) Current Liabilities		1,50,000			
(b) Provisions		Nil			
		15,87,500			**15,87,500**

THEORY QUESTIONS

(1) Write a note on Buyback of Shares.
(2) What do you mean by buyback? Is it different from redemption?
(3) Explain, in brief, the legal provisions regarding buyback of shares as per the Companies Act, 1956.
(4) What are the restrictions on the power of the company to buyback its shares, according to the provision of the Companies Act, 1956?
(5) Explain the conditions which a company has to comply with, as per the provision of the Companies Act, regarding (a) sources of buyback and (b) the maximum limit for buyback.
(6) Enumerate the sources available for buyback of shares.
(7) What is the maximum limit upto which a company can buy its shares? Explain and illustrate.
(8) Write a short note on Debt-Capital Ratio after buyback.
(9) Write a short note on buyback of shares.

OBJECTIVE QUESTIONS

(I) MULITPLE CHOICE QUESTIONS

(1) Which of the following statements show the position after buyback of shares?
  (i) There is a reduction in the share capital to the extent of the face value of the shares bought back.
  (ii) There is a payment from the company to the extent of the price of the shares paid to the shareholders.
  (iii) The shareholders whose shares are bought cease to be the shareholders of the company.
  (a) (i) and (ii) (b) (ii) and (iii)
  (c) All of the above (d) None of the above

(2) Which of the following are the main objectives of buyback of equity shares?
  (i) To reduce the earnings per share (EPS)
  (ii) to reduce the share capital
  (iii) To bring in additional cash in business
  (a) (i) and (ii) (b) (ii) and (iii)
  (c) All of the above (d) None of the above

(3) Which of the following statements is true?
  (a) Buyback is governed by S. 77A to 77B of the Companies Act
  (b) Buyback is governed by S. 80 of the Companies Act
  (c) Buyback is governed by S. 117C of the Companies Act
  (d) Buyback is governed by S. 100 to 104 of the Companies Act

(4) Which of the following statement is true?
  (a) Redemption of preference shares is known as Buyback
  (b) Redemption of debentures is known as Buyback
  (c) Purchase of own debentures is known as Buyback

(5) Which of the following statements is true?
  (a) S. 80 states that premium payable on buyback should be provided out of the profits of the company or out of the company's security premium account
  (b) Companies Act is silent about how premium payable on Buyback should be provided
  (c) Companies Act states that buyback cannot be made at a premium
  (d) None of the above

(6) Which of the following statements is true?
  (a) Buyback can be out of free reserves + securities premium
  (b) Buyback can be only out of free reserves; it cannot be out of securities premium
  (c) Buyback can only be out of security premium + capital reserves
  (d) None of the above

(7) Which of the following statements is true?
   (a) Buyback date is not known on the date of issue
   (b) Buyback date is known on the date of issue
   (c) Buyback date cannot be beyond 10 years from the date of issue
   (d) None of the above

(8) Which of the following statements is true?
   (a) The buyback must be authorized by the memorandum of association of the company
   (b) The buyback must be authorized by the articles of association of the company
   (c) The buyback must be authorized by the auditors of the company
   (d) The buyback must be authorized by the central government

(9) Which of the following statements is true?
   (a) The buyback must be authorized by an ordinary resolution passed in general meeting
   (b) The buyback must be authorized by a resolution passed unanimously in a board meeting
   (c) The buyback must be authorized by a resolution passed with the consent of all members present in the meeting
   (d) The buyback must be authorized by a special resolution passed in general meeting

(10) According to S. 77A, Buyback should be.
   (a) less than twenty-five per cent of the total nominal capital and free reserves of the company
   (b) less than twenty-five per cent of the total issued and free reserves of the company
   (c) less than twenty-five per cent of the total paid-up and free reserves of the company
   (d) less than twenty-five per cent of the total paid-up capital and free reserves of the company

(11) According to S. 77A, buyback of equity shares in any financial year.
   (a) shall not exceed twenty-five per cent of its total paid-up equity capital and free reserves in that financial year
   (b) shall not exceed twenty-five per cent of its total paid-up equity capital less free reserves in that financial year
   (c) shall not exceed twenty-five per cent of its total paid-up equity capital in that financial year
   (d) shall not be less than twenty-five per cent of its total paid-up equity capital in that financial year

(12) According to S. 77A.
   (a) the ratio of the debt owed by the company should not be more than twice the capital and its free reserves after such buyback
   (b) the ratio of debt owed by the company should not be more than twice the capital and its free reserves before such buyback
   (c) the ratio of the debt owed by the company should not be less than half the capital and its free reserves before such buyback

(13) According to S. 77A, before buyback, all the shares.
   (a) must be fully paid-up
   (b) must be fully issued and subscribed to the extent of the authorized capital
   (c) must be held by the same shareholders at least for one year
   (d) none of the above

(14) According to S. 77A, every buyback shall be.
   (a) completed within twelve months from the date of passing the special resolution
   (b) completed within twelve months from the date of authorization by the Article of Association
   (c) completed with in twelve months from the date the shares becoming fully paid-up
   (d) completed not before twelve months from the date of passing special resolution

(15) According to S. 77A, the following methods can be adopted for buyback.
   (a) buyback from the existing security-holders on a proportionate basis
   (b) buyback from the open market
   (c) buyback from odd lots

(a) only (i) and (ii) (b) only (i) and (iii)
(c) only (ii) and (iii) (d) all of the above

(16) Before making a buyback, the company shall.
(a) file with the Registrar and the Securities and Exchange Board of India a prospectus
(b) file with the Registrar and the Securities and Exchange Board of India a statement in lieu of prospectus
(c) file with the Registrar and the Securities and Exchange Board of India a declaration of insolvency
(d) file with the Registrar and the Securities and Exchange Board of India a declaration of solvency

(17) Where a company buyback its own securities.
(a) it shall extinguish and physically destroy the securities so bought back within thirty days of the last date of completion of buyback
(b) it shall hold the securities so bought back in its physical custody for seven years from the last date of completion of buyback
(c) it shall re-issue the securities so bought back within seven days of the last date of completion of buyback
(d) it shall extinguish and physically destroy the securities so bought back within seven days of the last date of completion of buyback

(18) A company can buyback.
(a) equity shares
(b) preference shares
(c) Both the shares
(d) None of the above

(19) Equity shares can be bought back.
(a) out of profits only
(b) out of proceeds of fresh issue only
(c) out of capital profits only
(d) its free reserves; or the securities premium account; or the proceeds of shares

(20) A company may purchase its own shares out of.
(a) Its free reserves only
(b) The securities premium account only
(c) The proceeds of any shares only
(d) Any or all of the above

(II) FILL IN THE BLANKS

(1) No company shall purchase its own shares unless the buyback is of less than _____ per cent of the total paid-up capital and free reserves of the company.

(2) Buyback of equity shares in any financial year shall not exceed _____ per cent of its total paid-up equity capital in that financial year.

(3) On buyback of shares, there is a reduction in the share capital to the extent of the _____ of the value of shares bought back

(4) Buyback of shares leads to (increase/decrease) in the earnungs per share (EPS).

(5) No buyback of any kind of shares shall be made out of the proceeds of an earlier issue of the (same/ Different) kind of shares.

(6) No company shall purchase its own shares unless the buyback is authorized by its _____ (articles/ memorandum).

(7) No company shall purchase its own shares unless a special resolution has been passed in (General/Board) meeting of the company authorizing the buyback.

(8) A buyback of _____ per cent or less of the total paid-up equity capital and reserves of the company can be authorized by the Boards; and no special resolution need be passed in a general meeting.

(9) Every buyback shall be completed within _____ months from the date of passing the special resolution.

(10) Where a company buybacks its own securities, it shall extinguish and physically destroy the securities so bought back within _____ days of the last date of completion of buyback.
(11) The buyback of shares may be from the existing security-holders on a _____ basis.
(12) The buyback of shares may be from the (open/stock/commodities) market.
(13) The buyback of shares may be from _____ lots.
(14) The buyback of shares may be by purchasing the securities issued to employees of the company pursuant to a scheme of _____ or _____ .
(15) If the buyback is at discount, the amount of discount is credited to _____ A/c.
(16) While Investment Allowance Reserve (is/is not) a free reserve, Investment Allowance (Utilised) Reserve (is/is not) a free reserve.

(III) MATCH THE FOLLOWING COLUMNS

[A]

Column A	Column B
(1) After buyback of share	(a) No provision on Companies Act
(2) Main objective of buyback of equity shares	(b) Special resolution passed in general meeting
(3) Buyback is governed	(c) Shareholders whose shares are bought cease to be the shareholders of the company
(4) How premium payable on buyback should be provided	(d) Ordinary resolution passed in general meeting
(5) Sources of buyback	(e) Less than twenty-five per cent of the total paid-up capital and free reserves of the company
(6) Buyback dates	(f) Increases in earnings per share (EPS)
(7) Buyback must be authorized by	(g) Free reserves + securities premium
(8) According to S. 77A, quantum of Buyback should be	(h) Cannot be beyond 10 years from the date of issue
	(i) Less than twenty-five per cent of the total nominal capital and free reserves of the company
	(j) S. 77A to 77B of the Companies Act
	(k) Not known on the date of issue
	(l) S. 80 of the Companies Act

[B]

Column A	Column B
(1) Buyback of shares should be authorized by	(a) Not known on date of issue of shares
(2) Sections of Companies governing Buyback of Shares	(b) Articles of Association
(3) Sections of Companies governing Redemption of Preference Shares	(c) Known on date of issue of shares
(4) Date of Buyback of Shares	(d) Out of free reserves and security premium
(5) Date of Redemption of Pref. shares	(e) Memorandum Association
(6) Buyback of Shares	(f) S. 77A-77B of Companies Act
(7) Redemption on Preference Shares	(g) Out of free reserves excluding divisible profits
	(h) S. 80 and 80A of Companies Act
	(i) Only out of divisible profits

(IV) STATE WHETHER TRUE OR FALSE

(1) The buyback of shares has to be authorized by articles of association.
(2) After buyback of shares, the debt-equity ratio should not exceed 2 : 1.
(3) Buyback of shares is just the opposite of raising capital through the issue of shares.
(4) Buyback of shares decreases the Earning Per Share (EPS) of the company.
(5) Buyback has to be completed within 10 months from the date of passing the special resolution.
(6) On the buyback of shares by the company, there is reduction in share capital.
(7) On the buyback of shares by the company,there is a reduction in share capital to the extent of the price paid for the shares bought back.
(8) Buyback of equity shares can be made out of the proceeds of an earlier issue of Preference share.
(9) No company shall purchase its own share unless the ratio of the debt owed by the company is equal to the capital and it's free reserves after such buyback.
(10) Only fully paid shares can be bought back.
(11) A company cannot buyback the shares issued to employees of the company under a scheme of stock option.
(12) Equity shares can be bought back out of security premium account balance.
(13) If equity have been bought back out of security premium, there's no need to make any transfer to capital redemption reserves.
(14) Equity shares can be bought back only out of the proceeds of subsequent fresh issue of preference shares.
(15) Capital redemption reserve account can be utilized for issuing partly paid bonus shares.
(16) Where a company completes a buyback of its shares, it shall not make a rights issue of the same kind of shares within a period of six months.
(17) Where a company completes a buyback of its shares, it can make a bonus issue of the same kind of shares even within a period of six months.
(18) If any actual profit realized in cash on sale of fixed asset or investment is directly credited to capital reserves, it is taken as free reserves.

PRACTICE PROBLEMS

Q.1. The balance sheet of Shivani Ltd. as on 31st March 2004 was as follows:

Liabilities	Amt. ₹	Assets	Amt. ₹
Equity shares of ₹ 10 each	4,00,000.00	Fixed assets	7,50,000.00
Preference shares of ₹ 100 each	1,00,000.00	Investment	50,000.00
Securities premium	1,27,500.00	Current assets	10,00,000.00
General reserve	1,00,000.00		
Profit and loss account	1,22,500.00		
Debentures	8,00,000.00		
Current liabilities	1,50,000.00		
Total	**18,00,000.00**	**Total**	**18,00,000.00**

Keeping in view the legal requirements, ascertain the maximum number of equity shares that AFCONS Ltd. can buyback @ ₹ 25 per share.

Pass journal entries to record the buyback and prepare balance sheet after buyback.

Q.2. The balance sheet of Ujjwala Ltd. as on 31-03-2005 is as follows:

Liabilities	Amt. ₹	Assets	Amt. ₹
Share capital:		**Fixed assets**	
Authorised, issued, subscribed and		Net block	40,00,000.00
called-up:		Investment	1,500,000.00
Equity shares of ₹ 10 each	25,00,000.00	Current assets loans & advance	
Reserve & Surplus:		Current assets (including bank	
Security premium	5,00,000.00	balance of ₹ 15,00,000)	3,500,000.00
General reserves	10,00,000.00	Loans and advanced	5,00,000.00
Profit & Loss account	10,00,000.00		
Secured Loans:			
10% Debenture	25,00,000.00		
Current Liabilities and Provisions:			
Sundry creditors	15,00,000.00		
Bills payable	5,00,000.00		
Total	**95,00,000.00**	**Total**	**95,00,000.00**

Keeping in view all the legal requirement the ascertain, maximum number of equity shares that Manish Ltd. can buyback.

The maximum price it can offer.

Assume that the buyback is carried out actually at the legally permissible terms, record the entries in the journal of Ujjwala Ltd. and prepare its balance sheet thereafter.

Q.3. Following is the balance sheet of Sagar Ltd. as on 31-12-2004:

Liabilities	Amt. ₹	Assets	Amt. ₹
Share capital:		**Fixed Assets:**	
Authorised:		Land and Building	40,00,000.00
10,00,000 equity shares ₹ 10 each	1,00,00,000.00	Plant and Machinery	22,00,000.00
Issued, subscribed and called up;		Furniture	20,00,000.00
8,00,000 equity shares of ₹ 10 each,		Investment	20,00,000.00
₹ 8 per share paid-up	64,00,000.00	**Current Assets Loans and Advances:**	
Reserve and surplus:		Debtors	42,00,000.00
Profit and Loss account	50,00,000.00	Bills receivables	10,00,000.00
Security premium account	30,00,000.00	Bank balance	45,00,000.00
Secured loans:		Stock	20,00,000.00
10% debentures	30,00,000.00		
Unsecured loan	10,00,000.00		
Current liabilities and provisions:			
Sundry creditors	20,00,000.00		
Bills payable	10,00,000.00		
Provision for tax	5,00,000.00		
Total	**2,19,00,000.00**	**Total**	**2,19,00,000.00**

Keeping in view the legal requirement ascertain the maximum number of equity share that India Ltd. can buyback @Rs per share.

Pass journal entries to record the buyback and prepared a balance sheet thereafter.

Q.4. Following is the summarised balance sheet of Rajendra Ltd. as on 31 March, 2103:

Liabilities	Amt. ₹	Assets	Amt. ₹
40,000 equity shares of ₹ 100 each		**Fixed Assets:**	1,20,00,000.00
fully paid	40,00,000.00	Investment	88,00,00.00
20,000, 10% redeemable preferences		Stock	14,00,000.00
shares of ₹ 100 each fully paid	20,00,000.00	Debtors	14,00,000.00
Capital redemption reserve	4,00,000.00	Bank balance	4,00,000.00
Security premium	3,20,000.00		
General reserve	8,00,000.00		
Profit and Loss account	4,00,000.00		
11% debentures	40,00,000.00		
Creditors	41,60,000.00		
Total	**1,60,80,000.00**	**Total**	**1,60,80,000.00**

On the same date, it was decided to buyback the maximum number of equity shares at the maximum price possible under the law.

In case shortage of fund, of bank overdraft was to be arranged.

The company decided to utilize profit and loss account to be arranged.

Pass journal entries for the above transactions and prepare the balance sheet after buyback in revised schedule VI format.

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