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UNIT - I
SHARE

Share:

A company's owned is spilt up into numerous of equal parts, each such part being called as a share.

Types of shares:

Equity shares:- An equity share, normally known as ordinary share is a part ownership where each member is a fractional owner and initiates the maximum entrepreneurial liability related with a trading concern. These types of shareholders in any organization possess the right to vote.

Preference Shares:-Preference shares are shares having preferential rights to claim dividends during the lifetime of the company and to claim repayment of capital on wind up. In case of preference shares, the percentage of dividend is fixed i.e. the holders get the fixed dividend before any dividend is paid to other classes of shareholders.

Types of preference shares

Cumulative Preference Shares:

Shares having right of dividend even in those years in which it makes no profit are known as cumulative preference shares. In case the companies do not declare dividends for a particular year then they are treated as arrears and are carried forward to next year. When the arrears pertaining to dividend are cumulative in nature and such arrears are cleared before any dividend payment to equity shareholders then it is said to be as cumulative preference shares.

Non-cumulative Preference Shares:

A non-cumulative preference share does not accumulate any dividend. In case the dividend by the company is not paid then they have the right to avail dividends from the profits earned from the particular year. Dividends are paid only from the net profit of each year. In case there is no profit accumulated for a particular year then the arrears of dividends cannot be claimed in subsequent years.

Participating Preference Shares

These shares have the right to participate in surplus profits of the company during liquidation after the company had paid to other shareholders. The preferential shareholders receive stipulated rate of dividend and also participate in the additional earnings of the company along with the equity shareholders.

Non-participating Preference Shares:

Preference shares having no right to participate in the surplus profits or in any surplus on liquidation of the company are referred to as non-participating preference shares. Here, preference shareholders receive only stated dividend and nothing more.

Convertible Preference Shares:

These shares are those which are converted into equity shares at a specified rate on the expiry of a stated period. The shareholders have a right to convert their shares into equity shares within a specified period.

Non-convertible Preference Shares:

The shares that cannot be converted to equity are referred to as non-convertible shares. These can also be redeemed.

Redeemable Preference Shares:

Redeemable preference shares are referred to as shares that can be redeemed or repaid after the fixed period as issued by the company or even before that.

Non-Redeemable Preference Shares:

Non-redeemable preference shares are referred to as shares that cannot be redeemed during the lifetime of the company.

Types of share capital
Authorised/Nominal/Registered Capital:

At the time of registration of a company, the Memorandum of Association mentions the amount of capital a company is authorised to raise from the public by selling shares which is known as Authorised Capital or Normal Capital or Registered Capital.

It is the maximum amount of share capital that a company can issue. In the case of a limited company, the Memorandum shall contain the amount of Capital by which a company is proposed to be registered and the division thereof into shares of fixed amount. In short, it is the maximum amount of capital which a company will have during its lifetime—unless it is increased.

Issued Capital:

Generally, a part of the authorised capital is issued to the public for subscription which is known as issued capital, i.e., it is the nominal value of the shares which are offered to the public for subscription. Usually, a company does not issue all its capital at a time, i.e., issued capital is less than the authorised capital. If all shares are issued, issued capital and authorised capital will be the same.

Subscribed Capital:

A part of the issued capital which is subscribed by the public is known as subscribed capital. It does not necessarily mean that all the shares which have been issued will be taken over by the public.

In other words, the share capital of the number of shares which are taken over by the public is called subscribed capital, i.e., the portion of issued share capital which is paid/subscribed by the shareholder is known as subscribed capital.

Called-Up Capital:

Generally, the shareholders pay the price of the shares by installments, viz., application, allotment, First call, Final call etc. Therefore, the portion of the face value of the shares which the shareholders are called upon to pay or the company has demanded to pay is called Called-up capital.

Uncalled Capital:

The unpaid portion of the subscribed capital is called Uncalled Capital. In other words, it is the remainder of the issued Capital which has not been called. However, the company may call this amount at any time but that must be subject to the terms of issue of shares.

Paid Up Capital:
The amount actually paid by the shareholders is known as Paid-up Capital.

Reserve Capital:

According to Sec. 99 of the Companies Act, 1956, Reserve Capital is that part of uncalled capital of a company which can be called only in the event of its winding-up. A limited company may, by special resolution, determine that any portion of its share capital which has not been called-up, shall be called up, except in the event of the company being wound-up, such capital is known as Reserve Capital.It is available only for the creditors on the winding-up of the company.

What are calls in advance and arrears?

Calls in arrears is when the shareholders fail to pay the amount of share capital called up within the stipulated time. **Calls in advance** is when the shareholders pays the amount for the part of share capital that has not been called up yet.

What forfeited shares?

A forfeited share is a share in a company that the owner loses (forfeits) by failing to meet the purchase requirements. Requirements may include paying an allotment or call money owed, or avoiding selling or transferring shares during a restricted period.

Definition of 'Bonus Share'

Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns. These are company's accumulated earnings which are not given out in the form of dividends, but are converted into free shares.

What does right issue mean?

A rights offering (rights issue) is a group of rights offered to existing shareholders to purchase additional stock shares, known as subscription warrants, in proportion to their existing holdings. Rights are often transferable, allowing the holder to sell them in the open market.

Give the meaning of Issue of Shares

A company can issue its shares either at par, at a premium or even at a discount. The shares will be at par is when the shares are sold at their nominal value. Shares sold at a premium cost more than their nominal value, and the amount in excess of the face value is the premium. The issue of shares at a discount means the issue of the shares at a price less than the face value of the share.

1. S Ltd invited the public to subscribe 10,000 equity shares of Rs.100 each at a premium of Rs.10 per share. Payment was to be made as follows- on application Rs.20, on allotment 40(including premium), on first call 30, on final call 20.

Applications totaled for 13000 shares, applications for 2000 shares were rejected and allotment was made proportionately to the remaining applicants. The directors made both the calls and all the moneys were received except the final call on 300 shares which were forfeited.

Later 200 of these forfeited shares were issued as fully paid at Rs.85 per share. Journalise these transactions.

Particulars	Debit	Credit
Bank a/c Dr. To share application a/c (being application money received)	2,60,000	2,60,000
Share application a/c Dr To share capital a/c (being application money transferred to capital a/c)	2,00,000	2,00,000
Share application a/c Dr To bank a/c (being application money refunded)	40,000	40,000
Share allotment a/c Dr To share capital a/c To share premium a/c Being the allotment due	4,00,000	3,00,000 1,00,000
Bank a/c Dr Share application a/c Dr To share allotment a/c (being cash received and excess application money adjusted)	3,80,000 20,000	4,00,000
Share first call a/c Dr To share capital a/c (being the first call due)	3,00,000	3,00,000
Bank a/c Dr To share first call a/c Being the call money received	3,00,000	3,00,000
Share final call a/c Dr To share capital a/c (being the final call due)	2,00,000	2,00,000

Particulars	Debit	Credit
Bank a/c Dr To share final call a/c Being the call money received except 300 shares	2,00,000	2,00,000
Share capital DR To share final all a/c To share forfeited a/c Being 300 shares forfeited	30,000	6,000 24,000
Bank a/c Dr Share forfeited a/c Dr To share capital a/c Being 200 shares reissued	17,000 3,000	20,000
Share forfeited a/c Dr To capital reserve a/c Being the balance of 200 shares forfeited a/c transferred	13,000	13,000

Redemption of preference shares

Redemption of preference shares means returning the preference share capital to the preference shareholders either at a fixed date or after a certain time period during the life time of the company provided company must complied certain conditions.

The following are the details from the records of B Ltd. on 30.6.2017

Equity Shares Fully paid up Rs.6,00,000
Preference shares fully paid up Rs.3,00,000
General reserve Rs.2,00,000
PL account credit balance Rs.1,25,000
Share premium a/c Rs.50,000

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and P/L account. Give journal entries relating to redemption of preference shares.

Particulars	Debit	Credit
General reserve a/c Dr p/l a/c a/cDr To capital redemption reserve a/c (Being the amount transferred to CRR)	2,00,000 1,00,000	3,00,000
Share premium a/c Dr To premium on redemption a/c (Being the premium on redemption appropriated)	30,000	30,000
Preference share capital a/c Dr premium on redemption a/c Dr To redeemable preference share capital a/c (Being the share capital and premium transferred to RPS holder a/c)	3,00,000 30,000	3,30,000
Redeemable preference shareholder a/c Dr To bank a/c (Being the final payment made)	3,30,000	3,30,000

ABC Ltd has 5000, 8% Redeemable preference shares of 100 each fully paid up. When these shares became due to redemption the company issued new 6% 2500 Redeemable preference shares of each at a premium of Rs. 10 and 25,000 equity shares of Rs.10 each at a premium of Ra.2 each. The new issue was fully subscribed and paid for. Then 8 % Redeemable preference shares were redeemed. Show journal entries.

Particulars	Debit	Credit
Bank a/c Dr To 6% redeemable preference share capital a/c To redeemable preference share premium a/c (being the new 6% redeemable preference shares issued)	2,75,000	2,50,000 25,000
Bank a/c Dr To Equity preference share capital a/c To Equity share premium a/c (being the new equity shares issued)	3,00,000	2,50,000 50,000
8% redeemable preference share capital a/c Dr To 8% redeemable preference share holder a/c (being the RPSC transferred)	5,00,000	5,00,000
8% redeemable preference share capital a/c Dr To bank a/c (being the RPS holders paid)	5,00,000	5,00,000

A company has as part of its share capital 1000 redeemable preference shares of Rs.100 each fully paid up. When these shares became due for redemption, the company had Rs.60,000 in its reserve fund. The company issued necessary equity shares of Rs.25 specifically for the purpose of redemption and received cash in full. Make the necessary journal entries regarding the above transactions.

Particulars	Debit	Credit
Bank a/c Dr To equity share capital a/c (Being the fresh issue made)	40,000	40,000
Reserve fund a/c Dr To capital redemption reserve a/c (Being the amount transferred to CRR)	60,000	60,000
Redeemable preference share capital a/c Dr To redeemable preference shareholder a/c (being the capital transferred)	1,00,000	1,00,000
Redeemable preference shareholder a/c Dr To bank a/c (being the final payment made)	1,00,000	1,00,000

Issue of Debentures

Debenture

The word 'debenture' itself is a derivation of the Latin word 'debere' which means to borrow or loan. Debentures are written instruments of debt that companies issue under their common seal. They are similar to a loan certificate. Debentures are issued to the public as a contract of repayment of money borrowed from them. These debentures are for a fixed period and a fixed interest rate that can be payable yearly or half-yearly. Debentures are also offered to the public at large, like equity shares. Debentures are actually the most common way for large companies to borrow money.

Types of Debentures

Secured Debentures:

These are debentures that are secured against an asset/assets of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

Unsecured Debentures: These are not secured by any charge against the assets of the company, neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

Redeemable Debentures:

These debentures are payable at the expiry of their term. Which means at the end of a specified period they are payable, either in the lump sum or in installments over a time period. Such debentures can be redeemable at par, premium or at a discount.

Irredeemable Debentures:

Such debentures are perpetual in nature. There is no fixed date at which they become payable. They are redeemable when the company goes into the liquidation process. They can be redeemable after an unspecified long time interval.

Fully Convertible Debentures:

These debentures can be converted to equity shares at the option of the debenture holder. So if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

Partly Convertible Debentures:

Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

Non-Convertible Debentures:

As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

Thamiz Ltd offered 20,000, 10% debentures of Rs. 10 each at a premium of 5% were payable as under

on application Rs. 3

on allotment Rs. 4.50

on first and final call Rs. 3 public applied for 22,000 debentures.

The directors allotted 20,000 debentures and rejected the remaining applications. All moneys due were fully received. Give journal entries.

Particulars	Debit	Credit
Bank a/c Dr To debentures application a/c (being application money received)	66,000	66,000
Debentures application a/c Dr To debentures a/c (being the application money transferred to capital a/c)	60,000	60,000
Debentures application a/c Dr To bank a/c (being the excess application money returned)	6,000	6,000
Debenture allotment a/c Dr To debenture a/c To debenture premium a/c Being the allotment made	90,000	80,000 10,000
Bank a/c Dr To debenture allotment a/c Being the allotment money received	90,000	90,000
Debenture first and final call a/c Dr To debenture a/c Being the first and final call made	60,000	60,000
Bank a/c Dr To Debenture first and final call a/c (being call money received)	60,000	60,000

UNIT - II
FINAL ACCOUNTS OF COMPANIES

Authorised capital of G Ltd is Rs. 5,00,000. 50,000 equity shares of Rs.10 each on 31.12.2012 25,000 shares were fully called up.

Particulars	Rs.
Opening capital	50,000
Sales	4,25,000
Purchases	3,00,000
Wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance paid up to 31.3.2013	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Printing and stationery	2,400
Advertising	3,800
Bonus	10,500
Sundry debtors	38,700
Sundry creditors	35,200
Plant and machinery	80,500
Furniture	17,100
Cash and bank	1,34,700
Reserve	25,000
Loan from M.D	15,700
Bad debts	3,200
Calls in arrears	5,000
P /l a/c credit balance	6,220

Additional information:
Closing stock Rs. 91,500
Depreciation on plant and machinery furniture at 10% and 15% respectively
Wages salaries and rent outstanding amounts to Rs.5,200 Rs.1,200 and Rs. 600 respectively.
Dividend at 5% on paid up share capital is to be provided
Prepare final account of the company

Solution

1. revenue from operation - sales 4,25,000
2. other income – discount received 3,150
3. cost of goods sold
   Opening stock +purchase-closing stock
   50,000+3,00,000-91,500=2,58,500
4. Employee benefits
   Wages+outstanding 70,000+5,200=75,200
   Salary+outstanding 18,500+1,200=19,700
   Bonus 10500

Total 1,05,400

5. Finance cost ----
6. Depreciation and amortization expenses
   Machinery 80,500x10% 8050
   Furniture 17,100x15% 2565
   Total 10615
7. Other expenses
   Discount 4200
   Insurance-prepaid6720-1680 5040
   Rent +outstanding 6000+600 6600
   General expenses 8950
   Printing and stationery 2400
   Advertising 3800
   Bad debts 3200
   Total 34190

Statement of profit and loss for the year ended 31.3.2012

Particulars	Note no.	Rs
Income		
Revenue From Operation	1	42500
Other Income	2	3150
Total Revenue A		428150
Expenses		
cost of goods sold	3	258500
Employee benefits	4	105400
finance cost	5	--
depreciation and amortization expenses	6	10615
other expenses	7	34910
total expenses B		408705
Profit For The Period		19445
- Tax Expenses		--
Profit		**19445**

1. Share holders' funds
   Called up capital 250000
   Arrears 5000
   Paid up capital 245000
2. Reserve and surplus
   Reserve 25000
   P/L a/c 6220
   Current year profit 19445
   50665
   Less appropriation proposed dividend 245000x5% 12250
   Dividend tax 17% on 12250 2083----------15333
   Total 36332

   II non-current liabilities
3. Long term borrowings- loan to M.D 15700
   III current liabilities

4. Trade payable – creditors 35200
5. Other current liabilities
   Dividend tax payable 2083
   Wags o/s 5200
   Salaries o/s 1200
   Rent o/s 600 -------------- 9083
6. Short Term Provisions- Proposed Dividend 12250
   Assets
   I noncurrent assets
7. Tangible assets
   Machinery-depreciation 80500-8050 72450
   Furniture-depreciation 17100-2565 14535 --------- 86985
   II current assets
8. Inventories 91500
9. Trade receivables-debtors 38700
10. Cash and cash equivalents 134700
11. Other current assets- prepaid insurance 1680

Balance sheet of Gltd

Particulars	Note no.	Rs
Equity and liabilities		
1.shareholders' funds		
Share capital	1	24500
Reserves and surplus	2	36332
II noncurrent liabilities		
long term borrowings	3	15700
III current liabilities		
trade payable	4	35200
other current liabilities	5	9083
Short Term Provisions	6	12250
Total		353565
Assets		86985
I.Non current assets	7	
Fixed assets		
Tangible assets		
II current assets		
inventories	8	91500
trade receivables	9	38700
cash and cash equivalents	10	134700
other current assets	11	1680
TOTAL		353565

UNIT – III
UNDER WRITING

Why is it called underwriting?

Underwriting is the process through which an individual or institution takes on financial risk for a fee. The term underwriter originated from the practice of having each risk-taker write their name under the total amount of risk they were willing to accept for a specified premium.

Underwriting
STATEMENT SHOWING LIABILITY OF UNDERWRITERS
GROSS LIABILITY BASIS

Particular	No. of shares
Gross liability of each underwriters	xxx
(-) unmarked application in the ratio of gross liability	xxx
Balance left	xxx
(-) marked application	xxx
Net liability of the underwriter	xxx

FULL UNDERWRITING

1. A company issued 20000 shares of Rs.10 Each at per which were underwritten as follows X – 10000 shares Y – 6000 shares Z – 4000 shares application were received & 18000 shares which included marked application as follows X – 4000 shares ,Y – 2000 shares ,Z – 10000 sharesPrepare a statement showing how many more shares underwriters will have to take under the underwriting contract.

WORKINGS:

No. of shares issued 20000 Application received 18000
(-) application received 18000(-) marked application 16000(4000+2000+10000)
2000Unmarked application 2000

Statement showing liability of underwriters
(Gross liability basis)

Particulars	X	Y	Z	Total
Gross liability	10000	6000	4000	20000
(-) unmarked applications (5:3:2) 10000:6000:4000	1000	600	400	2000
Balance left	9000	5400	3600	18000
(-) marked applications	4000	2000	10000	16000
	5000	3400	(-)6400	-
(-) excess of Z shares (5:3)	4000	2400	6400	-
Net liability of underwriters	1000	1000	-	2000

Firm under writing:

1. Vijay ltd issued 20,000 shares which were underwritten as follows:
X -12000 Shares Y-5000 shares and Z – 3000 shares. The underwriters made applications for him underwriting as X -1600 Shares Y-600 shares and Z – 2000 shares. The total subscriptions excluding firm underwriting but including marked applications were for 10000 shares. The marked applications were as X -2000 Shares Y-4000 shares and Z – 1000 shares. You are required to show the allocation of liability of the underwriters.
Statement showing liability of underwriters
Gross liability basis

Particulars	X	Y	Z	Total
Gross liability	12,000	5,000	3,000	20,000
Less unmarked application 12:5:3	1,800	750	450	3,000
Balance	10,200	4,250	2,550	17,000
Less marked + firm under writing	3,600	4,600	3,000	11,200
	6,600	- 350	- 450	-
Less Excess of y and z to X	800	350	450	-
NET LIABLITY	5,800	-	-	5,800
ADD Firm underwriting	1,600	600	2,000	4,200
Total liablity	**7,400**	**600**	**2,000**	**10,000**

Net liability
No. of application issued 20000
Less application received 14200

Net liability 5800
Firm 4200

Total liability 10000
----

total application received 14200
less marked and firm 11200
----
unmarked application 3000
----

2. A company made a public issue of 125000 shares . The entire issue was undertaken by four parties A 30 % , B 25 % , C 25% AND D 20% respectively. A,B,C,D has agreed on firm underwriting of 4000, 6000, nil, 15000 respectively. The total subscriptions excluding firm underwriting including marked application were for 90000 shares .marked applications received were as under A- 24000 , B-20000 C- 12000 D- 24000. Ascertain the liability of the individual underwriters.

Net liability
No. of application issued 1,25,000
Less application received 1,15,000
(90+25) -------
Net liability 10,000
Firm 25,000

Total liability 35,000
----

total application received 1,25,000
less marked and firm 1,15,000
----
unmarked application 10,000

Statement showing liability of underwriters

Gross liability basis

particulars	A	B	C	D	Total
Gross liability Less unmarked application 30:25:25:20 Less marked application, firm underwriting Less excess D share 30:25:25 Less B share 30:25 Net liability Add firm underwriting	37,500 3,000 34,500 28,000 6,500 6,000 500 500 - 4000	31,25 0 2,500 28,75 0 26,00 0 2,750 5,000 -2,250 2,250 - 6,000	31,25 0 2,500 28,75 0 12,00 0 16,75 0 5,000 11,75 0 1,750 10,00 0 -	25,000 2,000 23,000 39,000 -16,000 16,000 - - - 15,000	1,25,00 0 10,000 1,15,00 0 1,05,00 0 - - - - 10,000 25,000
Total liability	4000	6,000	10,00 0	15,000	35,000

3. K ltd has issued 25000 shares. A 15,000 shares (firm underwriting 2500 shares) B 7500 shares (firm underwriting 1000 shares) c 2500 shares (firm underwriting 500 shares). Out of the total issue 22,500 shares including firm underwriting were subscribed an 8000 shares B 5000 shares c 2000 shares. Calculate the liability of each underwriter.

Statement showing liability of underwriters

Gross liability basis

Particulars	A	B	C	Total
Gross liability	15,000	7,500	2,500	25,000
Less unmarked application 12:5:3	2,100	1,050	350	3,500
Balance	12,900	6,450	2,150	21,500
Less marked + firm under writing	10,500	6,000	2,500	11,900
	2,400	450	- 350	-
Less Excess of y and z to X	233	117	350	-
NET LIABLITY	2,333	167	-	2,500
ADD Firm underwriting	2,500	1,000	500	4,000
Total liablity	**4,667**	**1,333**	**500**	**6,500**

Net liability **total application received 22500**

No. of application issued 25000 **less marked and firm 19000**

Less application received 22500 **-----------**

------- **Unmarked application 3500**

Net liability 2500 **----------**

Firm 4000

Total liability **6,500**

Profit prior to incorporation

Profit prior to incorporation is that profit which a company gets between the period of date of buying and date of incorporation. Suppose, A company buys XYZ Company on1st Jan.2010 and it has to incorporate at1st April2010. Then profit between1st Jan.2010 and1st April2010 will be profit prior to incorporation. This profit cannot be used for paying dividend to shareholders. Because current shareholder's capital is not involved for this profit, so this will be capitalized profit and it will be transferred to capital reserve account. If company gets loss prior to incorporation, it will be transferred to goodwill account.

s.no.	Nature of items	Basis of allocation	Examples
a.	Profit / loss	Sales ratio	Gross profit, gross loss
b.	Fixed expenses(incurred on the basis of time)	Time ratio or weighted time ratio	Printing stationery, rent, rates, salary, interest, insurance, depreciation, establishment, bank charges, postage, audit fees *
c.	Variable expenses (connected with sales)	Sales ratio or weighted sales ratio	Discount allowed, bad debts, commission, remuneration to sales man, advertisement, carriage outward
d.	Variable expenses(connected with purchase)	Purchase ratio	Carriage inward
e.	Expenses of company (solely incurred by the company on and after its incorporation)	Wholly to the post incorporation period.	Preliminary expenses, director's fees, debenture interest, directors salary, discount on debentures, good will return off donations given by the company audit fees
f.	Expenses of firm	Wholly to the pre incorporation period.	Partner's salary, drawings.

Profit Prior to Incorporation.

1. Weighted Sales Ratio

Incorporation date is 1.4.2007 accounting period 1.1.2007 to 31.12.2007 the sales of the firm was doubled in the after incorporation period. Find Weighted Sales Ratio?

1.1.2007 1.4.2007 31.12.2007

3:9

3:18 = 1:6

weighted sales ratio =1:6

2. A Company was incorporated on 1.5.1994 to take over a business from 1.1.1994. The accounts were made up to 31.12.1994. As usual and the trading profit and loss account the following result.

Particulars	RS	Particulars	RS
To opening stock	1,40,000	By sales	12,00,000

To purchase To gross profit	9,10,000 3,00,000	By closing stock	1,50,000
	13,50,000		13,50,000
To Rent&Taxes To Director fees To Salaries To Office expenses To Travelling commission TO Discount TO Baddebts To Audit fees To Depreciation To Debenture Interest To Net profit	18,000 20,000 51,000 48,000 12,000 15,000 3,000 8,500 6,000 4,500 1,14,00	By Gross Profit	3,00,000
	3,00,000		3,00,000

It is ascertained sales for November and December are one and half time of the average of those for the year. While those for February and April are only half the average and all remaining month having average sales.

Find the profit and pre and post incorporation period.

1. 1.1.1994 TO 1.5.1994 : 1.5.1994to 31.12.1994

4 : 8

Average sales = 12,00,000 /12 =1,00,

January -1,00,000
February – 50,000
March – 1,00,000
April – 50,000
May – 1,00,000
June – 1,00,000
July – 1,00,000
August – 1,00,000
September – 1,00,00
October – 1,00,000
November – 1,50,000
December – 1,50,000

Pre incorporation sales : post

3,00,000 : 9,00,000

3 : 9

particulars		Pre incorporation	Post incorporation	particulars	Basis	Pre incorporation	Post incorporation

To salaries To debenture interest To Depreciation To rent To directors fees To office expenses Travellers commission To discount To bad debts To audit fees TO CAPITAL RESERVE TO NET PROFIT	T T T T S S S T	17000 - 2000 6000 - 16000 3000 3750 750 2833 23667	34000 4500 4000 12000 20000 32000 9000 11250 2250 5667 90333	By gross profit	Sales	75,000	2,25,000
		75,000	2,25,000			75,000	2,25,000

UNIT – IV
VALUATION GOODWLL

Valuation of Goodwill

According to Kohler "Goodwill is the current value of expected future income in excess of normal return on investment in net tangible assets"

Different methods of valuation of goodwill:-

1. Years' Purchase of Average Profit Method:

Under this method, average profit of the last few years is multiplied by one or more number of years in order to ascertain the value of goodwill of the firm. It is also called Purchase of Past Profit Method or Average Profit Basis Method.

Average Profit = $\frac{Total\ Profits\ for\ all\ the\ years}{Number\ of\ years}$

Value of Goodwill = Average Profit x Years' Purchase

2. Years' Purchase of Weighted Average Method:

This method is the modified version of Years' Purchase of Average Profit Method. Under this method, each and every year's profit should be multiplied by the respective number of weights, e.g. 1, 2, 3 etc., in order to find out the value of product which is again to be divided by the total number of weights for ascertaining the weighted average profit. Therefore, the weighted average profit is multiplied by the years' purchase in order to ascertain the value of goodwill. This method is particularly applicable where the trend of profit is rising.

Weighted Average Profit = $\frac{Total\ Profits\ for\ all\ the\ years}{Number\ of\ years}$

Value of Goodwill = Weighted Average Profit x Years Purchase

3. Capitalisation Method:

Under this method, the value of the entire business is determined on the basis of normal profit. Goodwill is taken as the difference between the Value of the Business minus Net Tangible Assets.

Under this method, the following steps should be taken into consideration for ascertaining the amount of goodwill:

(i) Expected Average Net Profit should be ascertained;

(ii) Capitalized value of profit is to be calculated on the basis of normal rate of return;

(iii) Net Tangible Assets (i.e. Total Tangible Assets – Current Liabilities) should also be calculated;

(iv) To deduct (iii) from (ii) in order to ascertain the value of Goodwill.

Capitalized Value of Profit = Profit (Adjusted)/Normal Rate of Return x 100
Value of Goodwill = Capitalized Value of Profit – Net Tangible Assets

4. Annuity Method:

Under this method, Super-profit (excess of actual profit over normal profit) is being considered as the value of annuity over a certain number of years and, for this purpose,

compound interest is calculated at a certain respective percentage. The present value of the said annuity will be the value of goodwill.

Value of Goodwill,

$$V = \frac{a}{i}\left(1 - \frac{1}{(1+i)^n}\right)$$

Where

V = Present value of Annuity

a = Annual Super Profit

n = Number of Years

I = Rate of Interest

5. Super-Profit Method:

Super-profit represents the difference between the average profit earned by the business and the normal profit (on the basis of normal rate of return for representative firms in the industry) i.e., the firm's anticipated excess earnings. As such, if there is no anticipated excess earning over normal earnings, there will be no goodwill.

Super-Profit = Average Profit (Adjusted) – Normal Profit

Value of Goodwill = Super-Profit x Years' Purchase

6. Capitalisation of Super-Profit Method:

Under the method, to consider super-profit in place of ordinary profit against the normal rate of return.

The same is calculated as:

Value of Goodwill = Super-Profit/Normal Rates of Returns x 100

$$Value\ of\ Goodwill = \frac{Super - profit}{Normal\ Rates\ of\ Returns} \times 100$$

7. Sliding Scale Valuation Method:

Under this method, the distribution of profit which is related to super-profit may vary from year to year. In other words, in order to find out the value of goodwill, sliding scale valuation may be considered relating to super-profits of an enterprise.

Factors Affecting the Value of Goodwill

1. Locational Factor:

If the firm is centrally located or located in a very prominent place, it can attract, more customers resulting in an increase in turnover. Therefore, locational factor should always be considered while ascertaining the value of goodwill.

2. Time Factor:

Time dimension is another factor which influences the value of goodwill. The comparatively old firm will enjoy more commercial reputation than the other one since the old one is better known to its customers although both of them may have the same location advantages.

3. Nature of Business:

This is another factor which also influences the value of goodwill which includes:

(i) The nature of goods;

(ii) Risk involved;

(iii) Monopolistic nature of business;

(iv) Benefits of patents and Trademarks; and
(v) Easy access of raw materials, etc.

4. Capital Required:

More buyers may be interested to purchase a business which requires comparatively small amount of capital but rate of earning profit is high and, consequently, raise the value of goodwill. On the contrary, for a business which requires large amount, of capital but the rate of earning profit is comparatively less, no buyer will be interested to have the business and, hence, goodwill of the said firm is pulled down.

5. Trend of Profit:

Value of goodwill may also be affected due to the fluctuation in the amount of profit (i.e. on the basis of rate of return). If the trend of profit is always rising, no doubt value of goodwill will be high, and vice versa.

6. Efficiency of Management:

The efficient management may also help to increase the value of goodwill by increasing profits through proper planned production, distribution and services. Therefore, in order to ascertain the value of goodwill, it must be noted that such efficiency in management must not be stopped.

7. Other Factors:
(i) Condition of the money market;
(ii) Possibility of competition;
(iii) Government policy; and
(iv) Peace and security in the country.

1. Calculate amount of goodwill on the basis of 3 year purchase of the last years of average profits. The profits for the last 5 years are 4800,7200,10000,3000,and 5000.

Solution

Average Profit= Total Profit/Number Of Years
= 4800+7200+10000+3000+ 5000/5
=Rs.6000

Goodwill = Average Profit X Number Of Year Purchases
= 6000x3=Rs.18000

2. Calculate the average profit of the last years. Capital employed Rs.50, 000.trading results, 2002 profit- 12,200.2003 profits- 15,000. 2004 loss –Rs.2000. 2005 profit Rs.21,000 Market rate of interest on investment 8%.

Solution

Average Profit = Total Profit/Number Of Years
= 12200+15000+21000-2000/4 = Rs.11,550

3. Goodwill is to be valued at 3 years purchase of 5 years average profits. The profits for the last years of the firm were 10, 000, and 15000,15000,20000,30000. The capital employed in the business is Rs.1, 50,000 and normal rate of return is 10%. Calculate the value of goodwill on the basis of 4 years purchase of super profit.

Solution

1. Average Profit = Total Profit/Number Of Years
= 10,000+15000+15000+20000+30000/5
=Rs.18,000

2. Normal Profit= Capital Employed Normal Rate of Return
= 150000X10% =Rs.15,000

3. Super Profit= Average Profit- Normal Profit
= 18000-15000=3000

4. Goodwill = Super Profit X Number of Year Purchases
= 3200x3=9,600

4. From the following particulars relating to the business of Mr.R. Compute the value of goodwill on the basis of 3 years purchase of super profits taking the average of last 4 years. Capital invested Rs.12, 000. Market value of return on investment is 12%. Rate of risk of return on capital invested 3%. Managerial remuneration of the proprietor if employed elsewhere Rs. 30,000 p.a. trading results are profit 60,000 , profit72,000 , profit 8,000 and profit 88,000.

Solution
1. Average Profit = Total Profit/Number Of Years
= 60000+72000+8000+88000/4= 57000
Average profit = 57,000
-managerial remuneration = 30,000

Adjusted average profit = 27,000

2. Normal Profit= Capital Employed Normal Rate of Return
= 120000X15% =18,000

3. Super Profit= Average Profit- Normal Profit
= 27000-18000=9000

4. Goodwill= Super Profit X Number of Year Purchases
= 9000x3=27000

5. from the following particulars find out the value of goodwill as per annuity method. Capital employed Rs.3, 00,000. Normal rate of return is 10%. Present value of Re.1 for five years at 10% 3.78. Normal profit for five years 30,000,34,000,34000, 36,000 , 38,000. Non recurring income 1,600and Non recurring expenses Rs.1,600.

Solution
1. Average Profit = Total Profit/Number Of Years
= 30000+32000+34000+36000+38000/5
Average profit =34,000
Add nonrecurring expenses=1000
Less non recurring income=1600
Adjusted average profit= 33,400

2. Normal Profit= Capital Employed Normal Rate Of Return
= 3,00,000X10% =30,000
3. Super Profit= Average Profit- Normal Profit
= 33400-30000=3400

4. Goodwill= Super Profit x Annuity table value
= 3400 x 3.78 = 12,852

6. The net profit of a company after providing taxation for the past five years are 80,000 , 85,000 , 92,000 , 105000 ,and 1,18,000. Capital employed Rs. 8, 00,000.
Normal rate of return is 10% on capital employed. Calculate the value of goodwill on the basis of 1. Five years purchase of super profit method 2.capitalisation of super profit method.

Solution
1. Average Profit = Total Profit/Number Of Years
= 80000+85000+92000+105000+118000/5
= 96,000

2. Normal Profit= Capital Employed Normal Rate Of Return
= 8,00,000X10% =80,000

3. Super Profit= Average Profit- Normal Profit
= 96000-80000=16000

4. Year purchase of super profit = super profit x no. of year of purchase
= 16000x5=80,000

5. Capitalisation of super profit
Goodwill = super profit/ normal rate of return x 100
= 16000/10x100=1,60,000

7. The net profit of a company after providing taxation for the last 5 year are 40000, 42000, 45000, 46000 and 47000. The capital employed in the business is Rs. 4, 00,000. On which a reasonable return of 10% is expected. It is expected that the company will be able to maintain its super profit for the next five years.

1. Calculate goodwill on 5 years purchase of super profit

2. Calculate goodwill under capitalization method

3. Calculate goodwill under annuity methods of super profit taking the present value of annuity of one rupee for 5 years at 10% interest as 3.78.

Solution
1. Average Profit = Total Profit/Number of Years
= 40000+42000+45000+46000+47000/5
= 44,000
2. Normal Profit= Capital Employed Normal Rate Of Return

= 4,00,000X10% =40,000

3. Super Profit= Average Profit- Normal Profit
= 44000-40000=4000

4. 5 year purchase of super profit = super profit x no. Of years of purchase
= 4000x5=Rs.20,000

5. Capitalisation of super profit
Goodwill = super profit/ normal rate of return x 100
= 4000/10x100=Rs.40,000

6. Annuity method = super profit annuity value
= 4000x3.78=Rs.15,120

8. The balance sheet of S Ltd. as on 30.6.1998 was as follows.

Liabilities	Rs.	Assets	Rs.
10% preference share capital 20,000 equity shares of Rs.10 each Reserves (including provision for tax 20000) 9% debentures creditors	1,00,000 2,00,000 2,00,000 1,00,000 35,000	Goodwill Fixed assets Investment(5% government bonds) Current assets Preliminary expenses	20,000 3,60,000 40,000 2,00,000 15,000
	6,35,000		6,35,000

The average profit of the company after tax is 62000. Fixed assets are undervalued by 10000.normal rate of return 10%. You are required to value the goodwill of the company at 4 times the super profits.

Solution

1. Calculation of average capital employed.

Particulars		Rs.
Assets		
Fixed assets 360000+10000		370000
Current assets		200000
		570000
Less external liabilities		
Provision for tax	20000	
9% debentures	100000	
Creditors	35000	155000
Capital employed		415000
Less ½ of net profit 60000x1/2		30000
		385000

2. Calculation of adjusted average profit

Average profit = 62000
Less interest received from non business investment =2000

(40000x5%)
Adjusted average profit = 60000

3. Normal Profit = Capital Employed Normal Rate of Return
= 3,85,000X10% =38,500

4. Super Profit= Average Profit- Normal Profit
= 60000-38500=21500

5. Goodwill = super profit x no. Of years of purchase
= 21500x4=86000

Valuation of shares
Different methods of Valuation of shares

1. Net Asset Method:

This is also known as Balance Sheet Method or Intrinsic Method or Break-up Value Method or Valuation of Equity basis or Asset Backing Method. Here the emphasis is on the safety of investment as the investors always need safety for their investments. Under this method, net assets of the company are divided by the number of shares to arrive at the net asset value of each share.
Total Value of Equity shares = Net Assets – Preference share capital
Value of one Equity share = Net Assets – Preference share capital/Number of Equity shares

2. Yield Method:

Under the Net Asset Method, the weightage is given on the safety of the investment. One, who invests money on shares, always needs safety. Even if the return is low, safety is always looked upon. At the same time under the yield method, the emphasis goes to the yield that an investor expects from his investment. The yield, here we mean, is the possible return that an investor gets out of his holdings—dividend, bonus shares, right issue. If the return is more, the price of the share is also more. Under this method the valuation of shares is obtained by comparing the expected rate of return with normal rate of return
Value Per Share= Expected Rate Of Return/Normal Rate Of Return Xpaid up value per share

3. Fair Value Method:

There are some accountants who do not prefer to use Intrinsic Value or Yield Value for ascertaining the correct value of shares. They however, prescribe the Fair Value Method which is the mean of intrinsic value and Yield Value method and the same provides a better indication about the value of shares than the other methods.
Fair Value = (Intrinsic Value + Yield Value)/2

1. From the following information, calculate value per equity share.
2000, 9% preference shares of Rs. 2, 00,000
50,000 equity shares of Rs.10 each of Rs. 8 paid up Rs. 4, 00,000
Expected profit per year before tax Rs. 2, 18,000
Rate of tax 50%
Transfer to general reserve every year 20% of profit
Normal rate of earning 15%

Solution

Calculation of expected rate of return

Particulars	Rs
Profit before tax Less tax 50%on 218000 Profit before tax Less transfer to general reserve20%on 109000 Less dividend for preference shareholders 9% on 200000	2,18,000 1,09,000 1,09,000 21,800 87,200 18,000
Profit available to shareholders	69,200

Expected rate of return = profit available/paid up capital x100
=69200/400000x100=17.3

Value per share= Expected rate of return/normal rate of return x paid up value per share
= 17.3/15x8=9.22

2. Balance sheet of X Ltd as on 31.3.2013

Liabilities	Rs.	Assets	Rs.
6% preference shares of Rs. 100 each	50,000	Goodwill Machinery	10,000 1,00,000
2000 equity shares of Rs.100 each	2,00,000	Stock Debtors	30,000 60,000
Reserve fund	50,000	Cash	1,00,000
P/l a/c	20,000	Preliminary expenses	40,000
Debentures	12,000		
Creditors	8,000		
	3,40,000		3,40,000

Depreciate machinery by Rs.25, 000. Average profits for the last five years Rs.15,000. Goodwill should be calculated on the basis of 3 years purchase of average profit of last five years. Calculate the value of equity shares on the basis of net asset method.

Solution

Particulars		Rs.
Assets Goodwill 15000x3 Machinery 100000-25000 Stock Debtors Cash Less external liabilities debentures Creditors Less preferential share capital	 12000 8000	 45000 75000 30000 60000 100000 310000 20000 290000 50000
Amount available to equity shareholders		240000

Value per share= Assets available to equity shareholder/number of equity shares
=24000/2000=120

3 . On 31.12.2002 the balance sheet of a company is given below

Liabilities	Rs.	Assets	Rs.
Issued capital Rs.10 each	4,00,000	Goodwill	40,000
Reserve	90,000	Fixed assets	5,00,000
P/L a/c	20,000	Current assets	2,00,000
5% Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31.12.2002 the fixed assets were valued at Rs.3, 50,000 and the goodwill at Rs.50,000. The net profits for three years were 51600, 52000 and 51650.of which 20% was transferred to reserve. The return on investment expected is 10%.compute the value per equity shares under 1.Net asset method 2. Yield method.

Solution

1. Net assets method

Particulars		Rs.
Assets		
Goodwill		50000
Fixed assets		350000
Current assists		200000
		600000
Less : Liabilities debentures	100000	
Creditors	130000	230000
Amount available to equity shareholders		370000

No of equity shares= total value of shares/face value per share
= 400000/10=40000
Value per share= assets available to equity shareholder/number of equity shares
= 370000/40000=9.25

2. Yield method.

Average Profit=51600+52000+51650/3= 51750
Less Transfer To Reserve 20%On 51750= 10350
Profit Available To Share Holders=41400
Expected Rate of Return = Profit Available To Shareholders/Paid Up Capital X100
=41400/400000x100=10.35
Value per Share= Expected Rate of Return/Normal Rate of Return Xpaid up value per share
= 10.35/10x10=10.35

4. The balance sheet of B ltd as on 31.3.2005 is given below

Liabilities	Rs.	Assets	Rs.
4000, 10% preference shares of 100 each	400000	Sundry assets at book value	1200000
60,000 equity shares of 10	600000		

each Bills payable Creditors	 50000 150000		
	1200000		1200000

The market value of 60% of the assets is estimated to be 15% more than the book value and that of the remaining 40% at 10% less than book value.
There is an unrecorded liability of Rs.10, 000 Find out the value of equity shares on the basis of the assumption that preference shareholder have no prior claim as to payment of dividend or repayment of capital.

Solution
Sundry assets 60% of 12,00,000=720000is increased 15%=108000 (720000+108000=828000)
Sundry assets 40% of 12,00,000=4,80,00 is decreased 10%=48,000 (480000-48000=432000)

Particulars	Rs
Market value of assets Less – bills payable Creditors Unrecorded liabilities	1260000 50000 150000 10000
Amount available to equity shareholders	1050000

This amount is to be divided in the ratio of paid up capital
400000:600000
Amount available to preference shareholders = 1050000x2/5=420000
Value per share=420000/4000=105
Amount available to equity shareholders=1050000x3/5=630000
Value per share = 630000/60000=10.5

UNIT – V
AMALGAMATOIN & ABSORBTION

What is amalgamation absorption and reconstruction?

Amalgamation is when two firms come together to become one unit and they both have a share in the new firm. Absorption is when one firm completely takes over the other firm including its assets and liabilities. Reconstruction is usually done when a firm is a loss making Enterprise and it wants to turnaround.

Differences betweenFINAL ACCOUNTS OF COMPANIES

1. When two companies join and liquidate to give birth to a new company is known as Amalgamation. Absorption is a process whereby one company occupies control over the other company.
2. Amalgamation is voluntary in nature, whereas Absorption can be discretionary or hostile.
3. In amalgamation, there are minimum three companies involved, i.e. two amalgamating companies and one new company which is formed by the fusion of the two companies. Conversely, in Absorption, only two companies are involved.
4. In amalgamation, the formation of the new company is there while in absorption no such new company is formed.
5. The size of the companies going through amalgamation is more or less the same. On the contrary, one company of bigger size overpowers the company of smaller size in Absorption.
6. Amalgamation is a wider term than Absorption because the former includes the latter.

Purchase Consideration – Meaning & Methods

In case of amalgamation, purchase consideration is the agreed amount which transferee company (Purchasing company) pays to the transferor company (Vendor company) in exchange of the ownership of the transferor company. It may be in form of cash, shares or any other assets as agreed between both the companies.

Methods of Purchase Consideration:

Net asset method

Purchase consideration is equal to the total net assets of Transferor Company.
Total agreed amount of asset – Total agreed amount of liabilities

Net payment method

Payment made to the shareholders of Transferor Company in form of cash, shares or debentures.

Lump sum method

Fixed amount paid by the transferee company to the transferor company. This method does not require any calculation as the amount is decided by mutual consent of both the companies.

Intrinsic value/ Share exchange method

It is calculated by dividing the net asset value of Transferor Company by price of one share of Transferee Company.

The result figure then divided by number of existing shares of transferor company to find out the ratio.

Intrinsic value – Net asset / Number of equity shares.

1. The company B Takes over the business of company A. the value agreed for various assets is goodwill Rs.22,000. land and buildings Rs.25,000. plant and machinery Rs.24,000.stock Rs.13,000.Debtors Rs.8,000. B company does not take over cash but agrees to assume the liability of sundry creditors at Rs.5,000. calculate purchase consideration.

Solution

Agreed value of assets

Particulars	Rs
Goodwill Land and building Plant and machinery Stock Debtors Total assets Less agreed value of liabilities-creditors	22,000 25,000 24,000 13,000 8,000 92,000 5,000
Purchase consideration	87,000

2. The balance sheet of A and B Ltd as on 31.3.2005

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Sharecapital	50,000	40,000	Goodwill	5,000	2,000
General reserve	20,000	--	Buildings	17,000	10,000
p/l a/c	3,000	--	Machinery	24,000	16,000
creditors	4,000	8,000	Vehicles	5,000	7,500
bank overdraft	4,000	8,000	Stock	10,000	7,500
			Debtors	12,000	7,000
			Cash	8,000	300
			p/l a/c	--	5,700
	81,000	56,000		81,000	56,000

The above two companies wanted to amalgamate and the following scheme of valuation is proposed

An Ltdprovides 5% on debtors write off Rs.400 from stock and 33 1/3 from machinery
B Ltd- Eliminate its goodwill and p/l a/c write off Rs. 1000 on debtors as bad and provide 5% on debtors, write off 10% of machinery and Rs.1400 from stock.
Compute purchase consideration.
Solution
A Ltd

Particulars	Rs
Goodwill building machinery24000-8000 -1/3 on 24000 vehicles Stock 10000-400	5,000 17,000 16,000 5,000 9,600

Debtors 12000-600	11,400
cash	8,000
Total assets	72,000
Less agreed value of liabilities-creditors 4000	
Bank overdraft 4000	8,000
Purchase consideration	64,000

B Ltd

Particulars	Rs
building	10,000
machinery 16000-1600	14,400
vehicles	7,500
Stock 7500-1400	6,100
Debtors 7000-1000=6000-300	5,700
cash	300
Total assets	44,000
Less agreed value of liabilities-creditors 8000	
Bank overdraft 8000	16,000
Purchase consideration	28,000

3. Give journal in the books of a purchasing company. A company purchased assets of Rs.3, 50,000 and took the liabilities of Rs. 30,000. It agreed to pay the purchase price Rs. 3, 30,000 by issuing debentures of Rs.100 each at a premium of 10%.

Particulars	Debit	Credit
Business purchase a/c Dr	3,30,000	
To liquidators of vendor company a/c		3,30,000
(being business purchased)		
Assests a/c Dr	3,50,000	
Goodwill a/c Dr (b.f)	10,000	
To liabilities a/c		30,000
To business purchase a/c		3,30,000
(being assets and liabilities taken over)		
Liquidator of vendor company a/c Dr	3,30,000	
To debentures a/c		3,00,000
To debenture premium a/c		30,000

Number of debentures= total amount of Purchase Consideration/ issue price

=330000/100+10=3000 debentures

3000 at 100 debentures = 300000

3000 at 10 debenture premium =30000

3,30,000.

4. A purchasing company agrees to issue three shares of Rs.10 each paid up at market value of Rs.15 per share for every 5 shares in the vendor company. Find out the number and amount of shares to be issued by the purchasing company if the vendor company has 1,00,000 shares of Rs.10 each Rs. 5 paid up.

Solution

Number of shares= offered shares of purchase consideration/accepted shares of vendor company x total shares of vendor company

= 3/5x1,00,000=60,000 shares

Total amounts of purchase consideration
60000 shares at 15= 9,00,000
60000 at 210= 600000 share capital
60000 at 5= 3,00,000 securities premium

5. Compute purchase consideration.
1. A cash payment equivalent to Rs.3 for every Rs.10 share in G Ltd(number of shares 1,20,000)
2. The issue of 90,000 shares of Rs.10 fully paid in W ltd. having an agreed value of Rs.12 per share.
3. The issue of 5% debentures of W Ltd for 6% debentures of the G Ltd(Rs.1,00,000)at a premium of 20%.

Solution
By cash Rs.3 for 1, 20,000 shares = 3,60,000
By shares 90,000 shares at 12 =10,80,000
Purchase consideration = 14,40,000

6. The capital of A, B and C partnership firm at the date of purchase by the limited company were Rs.10, 000, Rs. 6,000, Rs 5,000. The partnership firm was converted into a limited company and assets and liabilities were sold to the company agreed to pay Rs.8,000 more than the book value and machinery which was taken at Rs 1,000 less than book value. Compute purchase consideration.

Solution
Assets- liabilities
Total capital of partners10000+6000+5000=21000
Less increase in value of liabilities 8000
Decrease in value of assets 1000—9000
Purchase consideration 12000

7. The following is the balance sheet of X Ltd, as on 31.3.2008

Liabilities	Rs	Assets	Rs
2,00,000shares of Rs.10 each	20,00,000	Land and building	10,00,000
General reserve	2,50,000	Plant &machinery	15,00,000
Dividend equalization reserve	2,00,000	Furniture	25,000
p/l a/c	51,000	Stock	6,00,000
12% debentures	10,00,000	Work-in-progress	3,00,000
Sundry creditors	3,00,000	Sundry debtors	2,50,000
		Cash at bank	1,26,000
	38,01,000		38,01,000

The company was absorbed by A ltd on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5% taking over the liability in respect of sundry creditors and a payment of Rs.7 in cash and one share of Rs.5 in A Ltd at the market value of Rs. 8 per share for every share Xltd. The cost of liquidation of Rs.15,000 is to be met by the purchasing company.

Close the books of X Ltd and pass journal entries in the books of A Ltd.
Solution

In the books of XLtd(selling company)

Particulars	Debit	Credit
Realisation a/c Dr To sundry assets a/c Being the assets transferred to realisation	38,01,000	 38,01,000
Sundry creditors a/c Dr To realisation a/c Being the liability taken over transfer to realisation a/c	3,00,000	 3,00,000
A Ltd a/c Dr To realisation a/c Being the purchase consideration due	40,50,000	 40,50,000
Bank a/c Dr Shares in A Ltd a/c Dr To A Ltd a/c Being the purchase consideration received	24,50,000 16,00,000	 40,50,000
Debenture a/c Dr Realisation a/c Dr To debenture holders a/c Being the debenture with 5% premium transferred to debenture holder	10,00,000 50,000	 10,50,000
Debenture holder a/c Dr TO Bank a/c Being the debenture holder paid	10,50,000	 10,50,000
Share capital a/c Dr General reserve a/c DR Dividend Equalisation reserve a/c Dr p/l a/c Dr TO Equity shareholders a/c Being the share capital and accumulated profit transferred	20,00,000 2,50,000 2,00,000 51,000	 25,01,000
Realisation a/c Dr TO Equity shareholders a/c Being the profit transferred to realisation	4,99,000	 4,99,000
Equity shareholders a/c Dr To bank a/c To shares in A Ltd a/c Being final settlement made	30,00,000	 14,00,000 16,00,000

Realization a/c

Particulars	Rs	Particulars	Rs
To sundry assets To debenture holder premium To equity shareholders profit	38,01,000 50,000 4,99,000	By sundry creditors By A Ltd	3,00,000 40,50,000
	43,50,000		43,50,000

A Ltd a/c

Particulars	Rs	Particulars	Rs
To Realisation a/c	40,50,000	By Bank By shares A Ltd	24,50,000 16,00,000
	40,50,000		40,50,000

Equity shareholders a/c

Particulars	Rs	Particulars	Rs
To Bank To shares A Ltd	14,00,000 16,00,000	Share capital a/c Dr General reserve a/c DR Dividend Equalisation reserve a/c Dr p/l a/c Dr	20,00,000 2,50,000 2,00,000 51,000
	30,00,000		30,00,000

Bank a/c

Particulars	Rs	Particulars	Rs
To A Ltd a/c	24,50,000	By Debenture holders By equity shareholder	10,50,000 14,00,000
	24,50,000		24,50,000

In the books of A Ltd purchasing company

Particulars	Debit	Credit
Business purchase a/c Dr To liquidators of X Ltd Being the purchase consideration due	40,50,000	 40,50,000
Land and building a/c Dr Plant &machinery a/c Dr Furniture a/c Dr Stock a/c Dr Work-in-progress a/c Dr Sundry debtors a/c Dr Cash at bank a/c Dr Goodwill a/c Dr To sundry creditors a/c To business purchase a/c Being the assets and liabilities taken over	10,00,000 15,00,000 25,000 6,00,000 3,00,000 2,50,000 1,26,000 5,49,000	 3,00,000 40,50,000
Liquidators of X Ltd a/c Dr To bank a/c To share capital 200000x5 To share premium a/c 200000x3 Being the purchase consideration paid	40,50,000	 24,50,000 10,00,000 6,00,000
Goodwill a/c Dr To bank a/ c Being the liquidation expensed paid	15,000	 15,000

Purchase consideration
For shareholders cash 200000x7=1400000
Equity share 200000x1x8=1600000
For debenture holders cash 1000000x105/100=1050000
Purchase consideration 40, 50,000

8. Following is the balance sheet of X company as on 30.6.2004

Liabilities	Rs	Assets	Rs
12,000 shares of Rs.500 each	60,00,000	Land and building	27,20,000
reserve fund	6,50,000	Plant &machinery	30,00,000
Insurance fund	1,30,000	Furniture	1,00,000
p/l a/c	20,000	Patent &trademark	4,00,000
2,600 debentures of Rs.500 each	13,00,000	Stock	20,00,000
Workman saving bank	4,00,000	Sundry debtors	6,00,000
Sundry creditors	5,00,000	Cash at bank	1,80,000
	38,01,000		90,00,000

Y company Ltd agreed to take over x Ltd on the following basis

1.Payment of cash at Rs.90 for every share in X Ltd

2. Payment of cash at Rs.550 for every debenture holder in full discharge of debentures.

3.Exchange of 4 shares of Y company on Rs.75 each (quoted in the market at Rs. 140 each) for every share in x company Ltd.

Show the necessary ledger accounts in X Ltd.

Solution

Realization a/c

Particulars	Rs	Particulars	Rs
To Land and building	27,20,000	By sundry creditors	5,00,000
To Plant &machinery	30,00,000	By workman saving bank	4,00,000
To Furniture	1,00,000		
To Patent &trademark	4,00,000	By Y Ltd purchase consideration	61,00,000
To Stock	20,00,000		
To Sundry debtors	6,00,000	By equity shareholders - loss	21,20,000
To Cash at bank	1,80,000		
To debenture holders excess payment	1,30,000		
	91,300,000		91,30,000

Bank a/c

Particulars	Rs	Particulars	Rs
To Y Ltd a/c	25,10,000	By debenture holders	14,30,000
		By equity share holders (b.f)	10,80,000
	25,10,00		25,10,000

Equity shareholders a/c

Particulars	Rs	Particulars	Rs
To realisation loss	21,20,000	By equity share capital	60,00,000
To shares in Y co.	36,00,000	By reserve fund	6,50,000
To bank a/c	10,80,000	By insurance fund	1,30,000
		By profit & loss a/c	20,000
	68,00,000		68,00,000

Debenture holder a/c

Particulars	Rs	Particulars	Rs
To bank a/c	14,30,000	By debenture a/c	13,00,000

		By realisation excess payment	1,30,000
	14,30,000		14,30,000

Y Company

Particulars	Rs	Particulars	Rs
To realisation a/c	61,10,000	By bank a/c By shares in y ltd	25,10,000 1,30,000
	61,10,000		61,10,000

Shares in Y company a/c

Particulars	Rs	Particulars	Rs
To Y company	36,00,000	By equity shareholders	36,00,000
	36,00,000		36,00,000

Purchase consideration
For share holders cash 12000x90= 10,80,000
Shares 12000 x4x75= 36,00,000
For debentures cash 2600x550=14,30,000
Purchase consideration 61,10,000

9.Kala Ltd balance sheet showed the following position on 31.3.2008

Liabilities	Rs.	Assets	Rs.
10,000 equity shares of Rs. 100 each Capital reserve Bank loan Trade creditors	10,00,000 2,00,000 2,00,000 3,00,000	Fixed Asset Current assets Bank Profit & loss a/c	8,00,000 4,00,000 2,00,000 3,00,000
	17,00,000		17,00,000

Mala Company was incorporated to take the fixed assets and 60% of the current assets at an agreed value of Rs. 9, 00,000 to be paid as Rs. 7, 40,000 in equity shares of Rs. 10 each and the balance in settlement of loan. Remaining current assets realised Rs.90,000 After meeting Rs.20,000 expenses of liquidation all the remaining cash was paid to the creditors in full settlement .

Solution

Books of Kala Ltd -selling company

Particulars	Debit	Credit
Realisation a/c Dr To Fixed assets a/c To current assets a/c Being transfer of assets to realisation except bank	12,00,000	 8,00,000 4,00,000
Mala company a/c Dr To realisation a/c Being purchase price receivable	9,00,000	 9,00,000
Shares in mala company a/c Dr Debentures in Mala company a/c Dr	7,40,000 1,60,000	

To Mala co. a/c Being purchased price received in shares and debentures		9,00,000
Bank a/c DR To Realisation a/c Being amount realised for 40% of the current assets not taken over by Mal co.	90,000	 90,000
Bank loan a/c Dr To debentures in Mala co. To realisation a/c Being payment of liquidation expenses	2,00,000	 1,60,000 40,000
Realisation a/c Dr To bank a/c Being payment of liquidation expenses	20,000	 20,000
Trade creditors a/c Dr To bank a/c To realisation a/c Being settlement of creditors by payment of all the cash available	3,00,000	 2,70,000 30,000
Equity share capital a/c Dr Capital reserve a/c DR TO Equity share holders a/c Being transfer of capital and reserve	10,00,000 2,00,000	 12,00,000
Equity shareholders a/c Dr To profit and loss a/c Being transfer of accumulated loss	3,00,000	 3,00,000
Shareholders a/c Dr To realisation a/c Being loss on realisation	1,60,000	 1,60,000

In the books of Mala Ltd – purchasing company

Particulars	Debit	Credit
Business purchase a/c Dr To liquidators of kala Ltd Being the purchase price payable	90,00,000	 90,00,000
Fixed assets a/c Dr Current assets a/c Dr 400000x60% To business purchase a/c To capital reserve a/c(b.f) Being assets taken over and the capital profit there on	8,00,000 2,40,000	 9,00,000 1,40,000
Liquidators of Kala a/c Dr To debenture a/c To share capital a/c Being the liquidation expensed paid	9,00,000	 1,60,000 7,40,000