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UNDERWRITING OF SHARES & DEBENTURES

Unit Structure

1.1 INTRODUCTION

In case of Public Ltd. companies, a minimum subscription must be received in order to name that issue as a successful one. When a company goes in for an initial public offer (IPO), it may face certain uncertainty about whether its offer of shares or other securities will be subscribed in full or not. If the public issue does not get fully subscribed, the project for which the funds are being raised cannot be implemented. As per law, it is required that if the company is not able to collect 90% of the offer amount, then it needs to compulsorily return the money to those who have subscribed to the shares. Companies in order to ensure minimum subscription take the help of the procedure called underwriting. If the whole or a certain portion of the shares or debentures of the company is not applied for by the public, the underwriters themselves apply or persuade others to apply for those shares or debentures. The underwriters, as risk-takers, are entitled to get commission at prescribed rates. Depending upon the risk assessment of the issue, the underwriters decide on their amount of commission.

1.2 UNDERWRITING

Underwriting means guaranteeing to subscribe to an agreed number of shares or debentures for a certain consideration. The public companies enter into underwriting arrangements when it goes for IPO. The person or institution who underwrites the issue is called "underwriters and the commission so paid is known as "Underwriting Commission.

1.3 UNDERWRITING COMMISSION

A commission is given to the underwriters for underwriting work, this commission is known as Underwriting Commission. This commission is found out on the issue price of the shares and debentures underwritten. Commission to the underwriters is paid on the whole of issue underwritten irrespective of the fact that whole of the issue has been subscribed by the public or not. Underwriting commission can be paid only when it is authorised by the Articles of Association

1.4 PROVISION OF COMPANIES ACT WITH RESPECT TO PAYMENT OF UNDERWRITING COMMISSION

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the following conditions which are prescribed under Companies (Prospectus and Allotment of Securities) Rules, 2014:

(a) the payment of such commission shall be authorized in the company's articles of association

(b) the commission may be paid out of proceeds of the issue or the profit of the company or both

(c) the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

(d) the prospectus of the company shall disclose –

- the name of the underwriters; – the rate and amount of the commission payable to the underwriter; and
- the number of securities which is to be underwritten or subscribed by the underwriter absolutely or conditionally.

(e) there shall not be paid commission to any underwriter on securities which are not offered to the public for subscription;

(f) a copy of the contract for the payment of commission is delivered to the Registrar at the time of delivery of the prospectus for registration.

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates. The company is free to negotiate lower rates with underwriters.

In short:

- Underwriting commission may be paid in cash or in fully paid-up shares or debentures or a combination of all these.

- Companies Act, 2013 provides that payment of commission should be authorized by Articles of Association and the maximum commission payable will be as under:

In case of shares	5% of the issue price of the share
In case of debentures	2.5% of the issue price of debenture

1.5 UNDERWRITERS, SUB-UNDERWRITERS& BROKERS

Underwriters: The person or institutions underwriting a public issue of shares and debentures are called underwriters. The underwriters may be individuals, partnership firms, joint stock companies, banks and financial institutions. Ex: ICICI, SFC's, LIC etc. A person can only act as an underwriter if he/she a certificate granted by SEBI.

Sub-underwriters: An underwriter may appoint several underwriters to work under him/her. Such underwriters are termed as sub-underwriters They have no contract with the company. They get their remuneration from the underwriters who are responsible to them.

Brokers: Brokers only help in getting the shares or debentures sold and do not offer any guarantee to take the unsubscribed shares. Consideration paid to the brokers is known as brokerage.

1.6 TYPES OF UNDERWRITING

An underwriting agreement may be of any one of the following types:

(a) **Complete Underwriting**: If the whole of the issue of shares or debentures of a company is underwritten, it is said to be complete underwriting. It may be written by:
   I. One firm/institution (or)
   II. More than one person/institution

If the full issue is underwritten by one underwriter, then his liability will be equal to the number of shares or debentures underwritten minus shares applied for.

Ex: If S Ltd. makes a public issue of 40,000 equity shares of 10 each at a premium of 490 per share and the entire issue of 40,000 equity shares is underwritten by A, B & C in the ratio of 2:2:1.

(b) Partial Underwriting: If a part of the issue of shares or debenture of a company is underwritten, it is said to be partial underwriting. Such an underwriting may be done by one underwriter or by a number of underwriters. In case of partial underwriting, the company is treated as 'underwriter' for the remaining part of the issue.

Ex: If S Ltd. makes a public issue of 40,000 equity shares of 10 each at a premium of 490 per share and the 20,000 equity shares are underwritten by A, B & C in the ratio of 2:2:1, it is called partial underwriting.

(c) Firm Underwriting: It is a firm commitment by an underwriter to take up a specified number of shares or debentures of the company irrespective of the number of shares or debentures subscribed by the public. In firm underwriting, the underwriters are committed to take up the agreed number of shares or debentures in addition to unsubscribed shares or debentures, if any. Even if the issue is over-subscribed, the underwriters are liable to take up the agreed number of shares of debentures.

Suppose a company has issued 4,00,000 shares of Rs.10 each out of which underwriting is 30,000 shares. Public subscribed for all 4,00,000 shares. As 30,000 shares are reserved for underwriters, only 4,00,000 – 30,000 i.e., 3,70,000 shares will be issued to pubic and application money of remaining 30,000 shares will be returned to the public.

Normally, an underwriter cannot set off his firm underwriting liability, but if the contract provides setting off firm underwriting out of underwriting liability, it may be done.

1.7 MARKED, UNMARKED & FIRM-UNDERWRITING APPLICATIONS

Marked Application: When shares and debentures of the company are issued to the public, whatever shares and debentures are issued by the underwriters to the public, they place a seal of their name and address on the application form; and when the form bearing seal of the underwriters is received by the company, it becomes clear to the company as how many forms are due to the efforts of a particular underwriter. Such applications bear the stamp of the underwriter and the credit for these applications are given to the individual underwriter. This is necessary in the case of such companies whose shares are underwritten by a number of underwriters.

Unmarked Application: The 'unmarked' applications are those applications which bear no stamp of an underwriter. These applications are received by the company directly from the public. When there is more than one underwriter, the unmarked applications are divided amongst Underwriters in the ratio of their gross liability.

Firm Underwriting applications:

1. **When credit for firm underwriting given to individual underwriter:** Firm underwriting shall be deducted from the gross liability first and the calculation shall be done without considering the firm underwriting and after determining the liability on account of underwriting, firm underwriting is added.

2. **When the credit for firm underwriting not given to individual underwriter:** If the credit for the firm underwriting is not to be given to individual underwriter, those shall be treated as unmarked applications.

Types of Application	**Treatment**
Marked Application	Always credited to the individual underwriter
Unmarked	Always distributed among all the underwriters
Firm Underwriting	The applications for the firm shares are either credited to individual underwriter or credited to all depending upon the conditions of underwriting agreement

Note: The distinction between marked and unmarked applications becomes immaterial when the whole issue is subscribed by only one underwriter. When the issue is fully subscribed, the distinction between marked and unmarked applications becomes immaterial.

1.8 ACCOUNTING TREATMENT FOR UNDERWRITING OF SHARES & DEBENTURES

Date	**Particulars**	**Amount**
1	**When shares & debentures are allotted to underwriters in respect to their liability** Underwriters A/c Dr.. To Share Capital A/c (or) ToDebenturesA/c To Securities Premium A/c	With the value of the shares & debentures taken up by the underwriters
2	**When commission becomes payable to the underwriters** Underwriting Commission A/c Dr.. To Underwriters A/c	With the amount of commission due on the total issue price of shares underwritten

3	**When the net amount due from the underwriters on the shares or debentures taken up by them is received** Bank A/c Dr.. To Underwriters A/c	With the net amount due
4	**When the net amount due to the underwriters for commission on the shares or debentures underwritten** Underwriters A/c Dr.. To Bank A/c	With the net amount due

1.9 LIABILITY OF THE UNDERWRITERS IN RESPECT OF UNDERWRITING CONTRACT

Statement showing Net and Total liability of underwriters:

No	Particulars	Basis	A	B
A	Gross Liability	Ratio of shares underwritten	XXX	XXX
B	Less: Marked Application (excluding firm underwriting)	Actual	XXX	XXX
C	Balance	(A – B)	XXX	XXX
D	Less: Unmarked applications allotted in the ratio of gross liability	Ratio of gross liability	XXX	XXX
E	Balance	(C – D)	XXX	XXX
F	Less: Firm Underwriting	Actual or Ratio of Gross Liability	XXX	XXX
G	Net liability as per agreement (if no balance is negative)	(E – F)	XXX	XXX
H	Add: Firm Underwriting		XXX	XXX
I	Total Liability		XXX	XXX

Statement showing the Net Amount Due From/To of Underwriters

No	Particulars	A	B
A	Total Liability (including firm underwriting) (No of shares)	**xxx**	**xxx**
B	Amount due on total liability	**xxx**	**xxx**
C	Less: amount already paid on Firms Applications	**xxx**	**xxx**
D	Amount due on net liability	**xxx**	**xxx**
E	Less: Underwriting Commission	**xxx**	**xxx**
F	Net amount due to underwriters (if D<E) Or Net amount from underwriters (if D>E)	**xxx**	**xxx**

Practical Problems

Q.1. Alpha Ltd. was incorporated on 1st April 2022 and issued a prospectus inviting applications for 500,000 equity shares at Rs. 10 each per share. The whole issue was fully underwritten by four individuals, as shown in the following:

- W: 200,000 shares
- X: 150,000 shares
- Y: 100,000 shares
- Z: 50,000 shares

Applications were received for 450,000 shares, of which the marked applications were as follows:

- W: 220,000 shares
- X: 90,000 shares
- Y: 110,000 shares
- Z: 10,000 shares

Required: Calculate the liabilities of individual underwriters. (Full Underwriting)

Solution:

Details	W	X	Y	Z	Total
No of shares underwritten	2,00,000	1,50,000	1,00,000	50,000	5,00,000
Less: Marked Application	(2,20,000)	(90,000)	(1,10,000)	(10,000)	(4,30,000)
Balance	(20,000)	60,000	(10,000)	40,000	70,000
Less: Unmarked Applications	(8,000)	(6,000)	(4,000)	(2,000)	(20,000)
Balance	(28,000)	54,000	(14,000)	38,000	50,000
Surplus of W & Y distributed to X & Z in ratio of 15:5	+28,000	(31,500)	+14,000	(10,500)	NIL
Net Liability	NIL	22,500	NIL	27,500	50,000

Number of unmarked applications =Total shares applied for – Marked Applications

= 4,50,000 – 4,30,000

= 20,000 shares

Q.2. Beta Ltd. issued 100,000 shares valued at Rs. 100 per share. The shares were underwritten as follows:

- X: 30,000 shares
- Y: 50,000 shares

The public applied for 70,000 shares.

Required: Determine the liability of X, Y, and the company (Partial Underwriting)

Solution:

	X	Y	Company	Total
Gross Liability	30,000	50,000	20,000	1,00,000
Less: Application received in the ratio of 30:50:20	21,000	35,000	14,000	70,000
Net Liability	9,000	15,000	6,000	30,000

Q.3. Deni Limited issued 10,000 shares valued at Rs. 100 each. The entire issue was underwritten as follows:

- A: 50%
- B: 30%
- C: 20%

In addition, there was firm underwriting as follows:

- A: 1,000 shares
- B: 750 shares
- C: 500 shares

The total subscription, including firm underwriting, was 8,000 shares. The subscription included the following marked applications:

- A: 1,500 shares
- B: 2,000 shares
- C: 750 shares

Required: Calculate the liability of the underwriters. (Firm Underwriting)

Solution:

	A	**B**	**C**	**Total**
Gross Liability	5,000	3,000	2,000	10,000
Less: Marked Application	(1,500)	(2,000)	(750)	(4,250)
Balance	4,500	1,000	1,250	5,750
Less: Unmarked Application (5:3:2)	(1,875)	(1,125)	(750)	(3,750)
Balance	2,625	(125)	500	2,000
Surplus of B to be distributed between A & C in ratio 5:2	(89)	+125	(36)	-
Balance	1,536	-	464	2,000
Add: Firm underwriting	1,000	750	500	2,250
Net Liability	2,536	750	964	4,250

Q.4. Sardar Limited issued to public 1,50,000 equity shares of Rs. 100 each at par. Rs. 60 per share was payable along with application and the balance on allotment. This issue was underwritten equally by Ali, Bali and Charlie for a commission of 2.5 per cent. Applications for 1,40,000 shares were received as per details:

Underwriter	Firm Application	Marked Application	Total
Ali	5,000	40,000	45,000
Bali	5,000	46,000	51,000
Charlie	3,000	34,000	37,000
Unmarked Applications			7,000
Total			1,40,000

It was agreed to credit the unmarked applications equally to Ali and Charlie. Sardar Limited accordingly made the allotment and received the amounts due from the public. The underwriters settled their accounts. Prepare a statement showing the liability of the underwriters.

Solution: Statement showing underwriters liabilities

Name of the Underwriters	Ali	Bali	Charlie	Total
Gross Liability	50,000	50,000	50,000	1,50,000
Less: Marked Applications	(40,000)	(46,000)	(34,000)	(1,20,000)
Less: Unmarked to be distributed between Ali & Charlie (1:1)	(3,500)	-	(3,500)	(7,000)
Less: Firm Underwriting	(5,000)	(5,000)	(3,000)	(13,000)
Balance	1,500	(1,000)	9,500	10,000
Surplus of Bali distributed between Ali & Charlie in ratio (1:1)	(500)	+1,000	(500)	-
Balance	1,000	-	9,000	10,000
Add: Firm Underwriting	5,000	5,000	3,000	13,000
Net Liability (no. of shares)	6,000	5,000	12,000	23,000

Amount due @ Rs. 60 per share	3,60,000	3,00,000	7,20,000	13,80,000
Less: Amount paid on firm application	(3,00,000)	(3,00,000)	(1,80,000)	(7,80,000)
Less: Underwriting Commission @ 2.5% on issue price	(1,25,000)	(1,25,000)	(1,25,000)	(3,75,000)
Net Liability (in Rs.)	(65,000)	(1,25,000)	4,15,000	2,25,000

Q.5. K Ltd. issued for subscription 25,000 shares at a premium of Rs. 10 each The issue was underwritten as follows:
A: 15,000 shares; B: 7,500 shares & C: 2,500 shares.

Firm application is as follows:
A: 2,500 shares; B: 1,000 shares & C: 500 shares.
Out of the total issue, 22,500 shares including firm underwriting were subscribed. Marked form details:
A: 8,000 shares; B: 5,000 shares & C: 2,500 shares.

Required:

- If the firm underwriting shares are treated as unmarked application, then what is the net liability of each underwriter?

- If the firm underwriting shares are treated as marked application, then what is the net liability of each underwriter?

Solution:

When firm underwriting shares are treated as unmarked application:

Particulars	A	B	C	Total
Gross Liability	15,000	7,500	2,500	25,000
Less: Marked applications	(5,500)	(4,000)	(2,000)	(11,500)
Less: Unmarked Applications*	(6,600)	(3,300)	(1,100)	(11,000)
Balance	2,900	200	(600)	2,500
Surplus of C (150:75)	(400)	(200)	+600	-
Balance	2,500	-	-	2,500
Add: Firm Underwriting	2,500	1,000	500	4,000
Net Liability	5,000	1,000	500	6,500

*Calculation of net unmarked application:

Unmarked Applications	7,000
Add: Firm underwriting	4,000
	11,000

When firm underwriting shares are treated as marked application:

Particulars	A	B	C	Total
Gross Liability	15,000	7,500	2,500	25,000
Less: Marked applications (including firm underwriting)	(8,000)	(5,000)	(2,500)	(15,500)
Less: Unmarked Applications	(4,200)	(2,100)	(700)	(7,000)
Balance	2,800	400	(700)	2,500
Surplus of C (150:75)	(467)	(233)	+700	-
Balance	2,333	167	-	2,500
Add: Firm Underwriting	2,500	1,000	500	4,000
Net Liability	4,833	1,167	500	6,500

Q.6. Sam Ltd invited applications from public for 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 5 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law. The company received applications for 70,000 shares from public out of which applications for 19,000, 10,000, 21,000and 8,000 shares were marked in favour of A, B, C and D respectively. Calculate the liability of each of the underwriters. Also ascertain the underwriting commission payable to the different underwriters.

Solution:
Statement showing the Liability of Underwriters

Details	A	B	C	D
Gross Liability	30,000	30,000	20,000	20,000
Less: Marked Applications	(19,000)	(10,000)	(21,000)	(8,000)
Less: Unmarked Applications	(5,700)	(5,700)	(3,800)	(3,800)
Balance	5,300	14,300	(4,800)	8,200
Surplus of C distributed between A, B & D in the ratio 3:3:2	(1,800)	(1,800)	+4,800	(1,200)
Balance	3,500	12,500	Nil	7,000
Add: Firm Underwriting	3,000	2,000	1,000	1,000
Total Liability	6,500	14,500	1,000	8,000

Underwriters Commission as per law:
A: 30,000 x 15 x 5% = 22,500
B: 30,000 x 15 x 5% = 22,500
C: 20,000 x 15 x 5% = 15,000
D: 20,000 x 15 x 5% = 15,000

Q.7. Rambo Ltd. came out with an issue of 45,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The promoterstook 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co; B & Coand C & Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shareswere received with marked forms for the underwriters as given below:
A & Co. 7,25,000 shares
B & Co. 8,40,000 shares
C & Co. 13,10,000 shares
Total 28,75,000 shares

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towardsshares subscription has to be paid along with application.

You are required to:
(a) Compute the underwriter's liability (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

Solution:

Total no. of shares issued	45,00,000
Less: Shares taken over by the promoter	9,00,000
Shares offered to general public	36,00,000

Statement showing the liability of underwriters

Details	**A & Co**	**B & Co**	**C & Co**
Gross Liability	12,00,000	12,00,000	12,00,000
Less: Marked Application	(7,25,000)	(8,40,000)	(13,10,000)
Less: Unmarked Applications	(75,000)	(75,000)	(75,000)
Balance	4,00,000	2,85,000	(1,85,000)
Less: Firm Underwriting	(1,00,000)	(1,00,000)	(1,00,000)
Balance	3,00,000	1,85,000	(2,85,000)
Surplus of C & Co to be allocated to A & Co and B& Co in ratio 1:1	(1,42,500)	(1,42,500)	+2,85,000
Balance	1,57,500	42,500	N
Add: Firm Liability	1,00,000	1,00,000	1,00,000
Total Liability	2,57,500	1,42,500	1,00,000

Calculation of unmarked applications:

Total Subscriptions	31,00,000
Less: Marked applications	(28,75,000)
Total Unmarked Applications	2,25,000

Statement Showing the Amount Due from (due to) Underwriters

Details	**A & Co**	**B & Co**	**C & Co**
Number of shares to be subscribed (including firm underwriting)	2,57,500	1,42,500	1,00,000
Amount payable @ Rs. 12 each	30,90,000	17,10,000	12,00,000
Less: Amount paid on firm application @ Rs. 12 each on 1,00,000 shares	12,00,000	12,00,000	12,00,000
Balance payable	18,90,000	5,10,000	Nil
Underwriting @ 5% on 12,00,000 shares @ 10 each	6,00,000	6,00,000	6,00,000
Amount received/(paid)	12,90,000	(90,000)	(6,00,000)

Journal Entries

In the books of Scorpio Ltd.

Date	**Particulars**	**Debit (INR)**	**Credit (INR)**
	Bank A/c Dr.. To Share Application A/c	36,00,000	 36,00,000
	A & Co A/c Dr.. B & Co A/c Dr. Share Application A/c To Equity Share Capital A/c To Securities Premium A/c	18,91,000 5,10,000 36,00,000	 50,00,000 10,00,000
	Underwriting Commission A/c Dr.. To A & Co A/c To B & Co A/c To C & Co A/c	18,00,000	 6,00,000 6,00,000 6,00,000
	Bank A/c Dr.. To A & Co A/c	12,90,000	 12,90,000
	B & Co A/c Dr.. C & Co A/c Dr.. To Bank A/c	90,000 6,00,000	 6,90,000

Points to be noted: Unless it has been otherwise agreed, the underwriters' liability is to be determined without taking intoconsideration the number of shares taken up 'firm' by him.In the examination if nothing is mentioned, the position should be cleared by way of a note.Students are free to adopt any assumptions in such situation.

Q.8. A entered into an underwriting agreement with B Ltd. for 60% of the issue of 15% Rs. 50,00,000 debentures with a firmunderwriting of Rs. 5,00,000. Marked applications were for Rs. 35,00,000 debentures. Calculate the liability of the underwriterand the commission payable to him.

Solution: A's liability is limited to 60% of Rs. 50,00,000 i.e., Rs. 30,00,000. Marked applications were received for Rs. 35,00,000. The issue isoversubscribed but there is a firm underwriting. Therefore, the liability of the underwriter is limited to the extent of firm underwritingi.e., Rs.5,00,000.

Commission is payable @ 2.5% of issue price. Therefore, the amount of commission will be = 2.5% of Rs. 30,00,000 = Rs. 75,000(assuming that debentures were issued at par)

EXERCISE

Objective type:

1. Define Underwriting & Underwriting Commission
2. What are the provisions of Companies Act with respect to payment of underwriting commission
3. Explain the difference between underwriters, sub-underwriters & brokers.
4. What are the different types of underwriting?
5. Explain the following terms:
   a. Marked Application
   b. Unmarked Application
6. What is Firm Underwriting?

Multiple Choice:

Select the best choice to complete each sentence or answer each question below:

1. The payment of commission to underwriter(s) is to be authorised by

   A: the board of directors

   B: the articles of association

   C: the memorandum of association

2. A share broker or merchant banker can act as a underwriter provided he holds a certificate granted by

   A: Government of India

   B: Company Law Board

   C: SEBI

3. In respect of every underwritten issue, the merchant banker(s) shall undertake a minimum obligation of

   A. 5% of the total underwriting commitment or ~ 35 lacs whichever is less

   B. 10% of the total underwriting commitment or ~ 20 lacs whichever is less

   C. 5% of the total underwriting commitment or ~ 25 lacs whichever is less.

4. As per the provision of the Companies Act, 2013, in case of shares, the commission paid or agreed tobe paid does not exceed

   A 2%

   B 2.5%

   C 5%

5. As per the provision of the Companies Act, 2013, in case of debentures, the commission paid or agreedto be paid does not exceed

   A 2%

   B 2.5%;

   C 5%

Answers: 1 - B; 2 - C; 3 - C; 4 - C; D - B

Practice Questions

1. Cybertech Ltd. issued 1,00,000 shares for public subscription and these were underwritten by A, B & C in the ratio of 25%, 30% & 45% respectively. Applications were received for 80,000 shares and of these applications for 16,000 shares had the stamp of A, those for 20,000 shares had the stamp of B and those for 24,000 shares had the stamp of C. The remaining applications did not bear any stamp. Calculate the net liability of underwriters in shares.

(Answer: A – 4,000 shares; B – 4,000 shares; C – 12,000 shares)

2. Sampada Ltd. was formed with a capital of 2,00,000 equity shares of Rs.10 each. All shares were issued to public for subscription. Issue was underwritten as follows: Ajay: 80,000 shares; Bijo: 60,000 shares & Rajat: 60,000 shares. Marked application were received in favour of Ajay for 32,000 shares, Bijo for 58,000 shares and Rajat for 42,000 shares. Applications for 30,000 shares was not marked. Calculate the net liabilities of underwriters in shares.

(Answer: Ajay – 32,000 shares; Bijo – NIL; Rajat – 6,000 shares)

3. Aadinath Co. Ltd was incorporated on 01.06.2022, issued a prospectus inviting applications for 5 lakhs equity shares of Rs.10 each. The whole

issue was fully underwritten by A, B, C & D as follows A-2,00,000. B – 1,50,000 C-1,00,000 & D50,000 shares. Applications were received for 4,50,000 shares of which marked applications were as follows: A-2,20,000: B – 1,10,000; C – 90,000; D-10,000. You are required to find out the Net liability of each underwriter and also calculate the commission received by each underwriter as per Company's Act of 2013.

(Answer: Net Liability A – Nil; B – 17,500; C – Nil; D – 32,500
Underwriters Commission A – 2,00,000*10*5% = Rs. 1,00,000
B – 1,50,000*10*5% = Rs. 75,000
C – 1,00,000*10*5% = Rs. 50,000
D – 50,000*10*5% = Rs. 25,000)

4. Meena Ltd has authorised company of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The Company issued for subscription 50,000 shares at a premium of Rs.10 each. The entire issue was underwritten as follows: A-30,000 (firm underwriting 5,000), B-15,000 (firm Underwriting 2,000), C-5,000(Firm Underwriting 500). Out of the total issue 45,000 shares including firm underwriting wee subscribed. The following were the marked applications: A-16,000, B-10,000, C-4,000. Calculate the liability of each underwriter.

(Answer: A – 9,667; B – 2,333 & C – 500)

5. A joint stock company resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Re 1 per share. One lakh ofthese shares was taken up by the directors of the company, their relatives, associates and friends, the entire amount beingreceived 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 underwrittenby 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 forshares 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 totalled 7,00,000 shares.Accounts with the underwriters were promptly settled.You are required to:

(i) Prepare a statement calculating underwriter's liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

(Answer: Liability of underwriters in shares: X – 4,000; Y – NIL; Z – 8,500

Amount Due From (Due To) Underwriters

X – (Rs. 84,700); Y – (Rs.49,500); Z – Rs. 73,700

❖❖❖❖

2

BUY BACK OF EQUITY SHARES

Unit Structure

2.0 OBJECTIVES

After studying the unit the students will able to:

- Distinguish between Redemption of Preference shares and buy back of Equityshares.
- Understand the need and objectives of Buy Back.
- Explain the Legal provision for Buy Back.
- To prepare the balance sheet post buyback

2.1 INTRODUCTION

When any company buys back its shares from the existing shareholders it is called as buy back of equity shares. Usually shares are bought back at a price higher than its market price.

Buyback is done in order to reduce the number of shares outstanding thereby increasing the share in dividend per share.

2.2 DIFFERENCE BETWEEN BUY BACK AND REDEMPTION OF SHARES

- Buy back is associated with Equity shares whereas redemption is related to Preference Shares and Debentures.

- Equity is a permanent capital of the company and has no maturity term therefore it cannot be redeemed on the other hand preference shares and debt instruments are issued with a fixed maturity term therefore they are redeemed on maturity.

- Company cannot buy back its entire equity capital but a company has to redeem the entire amount of preference capital and debt capital on its maturity date.
- Company has to follow the guidelines of SEBI and section 68 in buying back its Equity shares but the provisions of 68 are not

applicable for redemption of Preference shares or other Debt Instruments.

- Buyback of equity shares results in consolidation of capital but redemption of preference shares and debt instruments results in cancellation of such capital.

Following are the reasons for buy back:-

- To increase the dividend per share-
  Due to decrease in number of shares outstanding after buy back the share in dividend per share increases. Thus the company is able to give better returns to its equity shareholders.

- Optimum utilization of capital-
  Buyback is done using free reserves of the company. Company having sufficient amount of free reserves can only opt for buy back of equity. Company utilizes free reserves to pay off equity shareholders which helps in optimum utilization of funds and mobilization of the idle funds.

- Improve the EPS Ratio-
  Buy back leads to decrease in number of outstanding shares which further leads to improvement in companies Earnings per Share.

- To enhance the consolidation of stake in the company-
  Decrease in number of outstanding shares of a company also leads to consolidation in the stake of company which gives better returns to the remaining shareholders.

- To support the share price -
  If a company's share is underperforming in the market than buyback of share may help the company in improving its ratios and return to equity shareholders which in turn will attract the attention of investors thereby improving its market price.

- To improve the ratios of the company-
  Buyback helps the company to improve its return on equity, return of capital employed and net worth of the company. Improvement in the ratios depicts a positive image of the company in the eyes of investors and also helps in improving its performance in the market.

Advantages of Buyback:-

- Improves the EPS Ratio-
  Buy back leads to decrease in number of outstanding shares which further leads to improvement in companies Earnings per Share.

- Mode of Internal Reconstruction-
  It is one of the ways a company can use to correct its capital structure without requiring the permissions from the Company Law Board or the Court.

- Improves the ratios of the company-
  Buyback helps the company to improve its return on equity, return of capital employed and net worth of the company. Improvement in the ratios depicts a positive image of the company in the eyes of investors and also helps in improving its performance in the market.

- Increases the dividend per share-
  Due to decrease in number of shares outstanding after buy back the share in dividend per share increases. Thus the company is able to give better returns to its equity shareholders.

- Optimum utilization of capital-
  Buyback is done using free reserves of the company. Company having sufficient amount of free reserves can only opt for buy back of equity. Company utilizes free reserves to pay off equity shareholders which helps in optimum utilization of funds and mobilization of the idle funds.

- Acts as a booster-
  If a company's share is underperforming in the market than buyback of share may help the company in improving its ratios and return to equity shareholders which in turn will attract the attention of investors thereby boosting its market price.

Disadvantages of Buyback:-

- Fake Picture of a company-
  Buyback of share helps in boosting some ratios like EPS, Return on Investments and Return on Equity but this improvement in the ratio is because of the decline in number of outstanding equity shares and not because of the increase in profits of the company thus it depicts a fake picture to the investors of the company.

- Reduces the retained earnings of the company-
  Company has to use its free reserves for the purpose of buy back of shares therefore company pays off its equity shareholders from its retained earnings thereby reducing the funds of the company.

- Miss the opportunity-
  Company may miss some of the immediate market opportunities, even though if they are more profitable and revenue generating projects, due to lack of funds.

Methods of Buy Back:-

Equity shares can be bought back at either Par, Premium or Discount.

- Whenever company buys back the equity shares at a price higher than its face value it is called as buy back at premium.

- When such buy back is done at a price equal to face value it is called as buy back at par and

- When such buy back is done at a price less than the face value of shares it is called as buy back at discount.

2.3 GUIDELINES FOR BUY BACK

- **Provisions of Section 68:**
- Articles of Association-
  Articles of Association of the company should authorize such buy back of shares.

- Special Resolution-

Company willing to buy back up to 25 % of aggregate capital and reserves should pass a special resolution in shareholders meeting of the company.

- Board Resolution-

For buy back of shares up to 10% of Paid up capital and free reserves a company needs the approval from its board of directors.

- Fully Paid Shares-

Only fully paid equity shares can be brought back.

- Twelve Months-

The company should complete the process of buyback within a period of twelve months from the date of passing of special resolution.

- Maximum amount of Buy Back-

The amount to be paid in case of buy back of shares shouldnot exceed 25% of Paid up capital + Free reserves of the company

- Maximum Number of shares-

The number of shares to be brought back by the company in any financial year should not exceed 25% of it paid capital.

- Debt-Equity ratio-

Post buy back Debt-Equity ratio should not exceed 2: 1

- Issue of same class of shares-

A company cannot issue the same class of shares which it has brought back with in a period of six months from the date of completion of the buyback process.

- Destroy the shares-

Once the buyback process is complete the company should physically destroy the shares brought back by it.

- Capital Redemption Reserve-

A company should transfer a sum equal to capital value of shares bought back minus the capital value of new issue of shares to the Capital Redemption Reserve Account.

- Use of C.R.R-

Company shall use the balance in Capital Redemption Reserve Account only for the purpose of issue of Bonus Shares.

2.4 JOURNAL ENTRIES FOR BUY BACK OF EQUITY SHARES

Date	Particulars	l/f	Debit	Credit
	Conversion of Partly paid shares into fully paid:			
	Share final call A/c Dr		×××	
	To Share Capital A/c			×××
	Cash / Bank A/c Dr			
	To Share final call A/c			
			×××	
				×××
	New Issue of Shares:			
	At par			
	Cash / Bank A/c Dr		×××	
	To Share capital A/c			×××
	At Premium			
	Cash / Bank A/c Dr		×××	
	To Share capital A/c			×××
	To Securities Premium A/c			×××
	At Discount			
	Cash / Bank A/c Dr		×××	
	Discount on Issue of Shares A/c Dr		×××	
	To Share capital A/c			×××
	Sale of Investments :			
	At Profit			
	Cash / Bank A/c Dr		×××	
	To Investments A/c			×××
	To Profit & Loss A/c			×××
	At Loss			
	Cash / Bank A/c Dr		×××	
	Profit & Loss A/c Dr		×××	
	To Investments A/c			×××

	Transfer to CRR:			
	Free Reserves A/c Dr		×××	
	To Capital Redemption Reserve A/c			×××
	Buy back of shares:			
	At par			
	Equity Share capital A/c Dr		×××	
	To Equity Shareholders A/c			×××
	At Premium			
	Equity Share capital A/c Dr		×××	
	Premium on Buyback A/c Dr		×××	
	To Equity Shareholders A/c			×××
	At Discount			
	Equity Share capital A/c Dr		×××	
	To Equity Shareholders A/c			×××
	To Securities Premium A/c			×××
	Payment to Equity Shareholders:			
	Equity Shareholders A/c Dr		×××	
	To Cash / Bank A/c			×××
	Closing Premium on Redemption A/c:			
	Securities Premium A/c Dr		×××	
	To Premium on Redemption A/c			×××

Examples of Free Reserves:

- Profit & Loss Account
- General Reserve
- Securities Premium
- Sinking Fund
- Dividend Equalization Reserve

Other Reserves not available for Buy-back:

- Revaluation Reserve
- Capital Redemption Reserve
- Debenture Redemption Reserve
- Forfeited Shares Account
- Capital Reserve
- Statutory Reserve

Practical Sums

Illustration 1:

Amit &Co. Ltd., wishes to buy back 10,000 Equity Shares of ₹ 10 each. For this purpose, the company decided to issue an equivalent amount of new preference shares of ₹10 each. Assume that the company complies with the buy-back conditions.

Solution:

Journal Entries in the books of Amit & Company Limited for the year ended___.

Particulars	Debit ₹	Credit ₹
Bank Account ……………………..….Dr. To Preference Share Capital A/c [Being 10,000 Preference shares issued at par]	1,00,000	 1,00,000
Equity Share Capital A/c…………………Dr. To Equity Shareholders A/c [Being Equity Shares due for buy-back]	1,00,000	 1,00,000
Equity Shareholders A/c…………………..Dr. To Bank A/c [Being satisfied the claim of Equity Shareholders]	1,00,000	 1,00,000

Note:- Transfer to C.R.R = 0.

The entire amount of buyback is supported by way of the new issue of Equity Shares.

Illustration 2:

Maruti Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2021.

Particulars	**₹ In '000'**	**₹ In '000'**
Equity & Liabilities:		
Issued & Subscribed Capital-		
5,00,000 Equity shares of ₹ 10 each fully paid		5,000
Reserves & Surplus:		
Capital Reserve	20	
Revenue Reserve	8,000	
Securities Premium	1,000	
Profit & Loss Account	2,500	11,520
Non-Current Liabilities- 10% Debentures		400
Current Liabilities & Provisions		40
TOTAL		**16,960**

Assets:		
Fixed Assets	5,750	
Non-Current Investments	6,210	
Current Assets, Loans & Advances	5,000	
(including Cash & Bank balance)		.
TOTAL		**16,960**

The company passed a resolution to buy back 20% of its equity capital at a premium of ₹ 5 per share. For this purpose, it sold its investments of ₹30,00,000 for ₹35,00,000.

Solution:

Date	Particulars	Debit ₹ In '000'	Credit ₹ In '000'
1.	Bank A/c…………………………..Dr To Investment A/c To Profit & Loss A/c [Being Sale of Investment at Profit]	3,500	 3,000 500
2.	Equity Share Capital A/c…………..Dr Premium on Buyback A/c…………Dr To Equity Shareholders A/c [Being the amount due on Buyback of 20% Equity Capital]	1,000 500	 1,500
3.	Securities Premium A/c……………Dr To Premium on Buyback A/c [Being Premium on buyback written off with the balance in Securities Premium]	500	 500
4.	Revenue Reserve A/c………………Dr To Capital Redemption Reserve A/c [Being transferred to C.R.R to the extent buyback]	1,000	 1,000
5.	Equity Shareholders A/c …………......Dr To Bank A/c [Being Payment made for the buyback of Equity]	1,500	 1,500

Balance Sheet as at 31st March 2021. (after buyback of shares)

Particulars	**₹ In '000'**	**₹ In '000'**
Equity & Liabilities:		
Issued & Subscribed Capital-		
4,00,000 Equity shares of 10 each fully paid		4,000
Reserves & Surplus:		
Capital Reserve	20	
Revenue Reserve	7,000	
Securities Premium	500	
Profit & Loss Account	3,000	
Capital Redemption Reserve	1,000	12,520
Non-Current Liabilities- 10% Debentures		400
Current Liabilities & Provisions		40
TOTAL		**15,960**
Assets:		
Fixed Assets		
Non-Current Investments	5,750	
Current Assets, Loans & Advances	3,210	
(including Cash and bank balance)	7,000	
TOTAL		**15,960**

Illustration 3:

Following is the summarized Balance sheet of Vishal Ltd. As at 31st March, 2021.

Liabilities	Amount ₹	Assets	Amount ₹
4,00,000 Equity Shares of ₹ 10 each	40,00,000	Fixed Assets	40,00,000
		Stock	10,00,000
50,000 11.5% Preference Shares of ₹ 10 each	5,00,000	Debtors	6,00,000
		Bank	7,00,000
Revenue Reserve	4,50,000		
Profit & Loss Account	7,00,000		
Securities Premium	1,50,000		
Creditors	15,00,000		
TOTAL	**73,00,000**	TOTAL	**73,00,000**

The company bought back 1,00,000 Equity Shares at par after complying with the legal formalities.

Solution:

Journal Entries in the books of Vishal Ltd. For the year ended 31st March, 2021.

Particulars	**Debit ₹**	**Credit ₹**
Equity Share Capital A/c …………..Dr	10,00,000	
To Equity Shareholders A/c		10,00,000
[Being Equity shares due for buy back at par]		
Revenue Reserve A/c………………Dr	4,50,000	
Profit & Loss A/c…………………..Dr	5,50,000	
To Capital Redemption Reserve A/c		10,00,000
[Being transfer to C.R.R to the extent of buy back]		
Equity shareholders A/c……………Dr	10,00,000	
To Bank A/c		10,00,000
[Being payment made to the Equity Shareholders]		

Illustration 4:

The summarized Balance sheet of Uma Ltd., shows the following balances as at 31st March, 2022.

Amt. ₹.

1,00,000 Equity Shares of ₹ 10 each (₹8 Paid up)	8,00,000
Securities Premium	50,000
General Reserve	1,00,000
Capital Redemption Reserve	1,00,000
Profit & Loss Account	1,50,000

The company decided to purchase 20,000 Equity shares at 10% Discount out of the reserve. The Company made a final call for the purpose of buyback and call money was duly received. The company incurred ₹ 5,000 worth of buyback expenses. Check if the company's decision is within the frame work of section 68 and pass necessary journal entries in the books of the company.

Solution:

Journal Entries in the books of Uma Ltd., for the year ended 31st March, 2022.

Particulars	Debit ₹	Credit ₹
Equity Share Final Call A/c…………….Dr	2,00,000	
To Equity Share Capital A/c		2,00,000
[Being Final Call made for ₹ 2 per share]		
Bank A/c………………………………..Dr	2,00,000	
To Equity Share Final Call A/c		2,00,000
[Being Final Call money received]		
Equity Share Capital A/c……………….Dr	2,00,000	
To Discount on Buyback A/c		20,000
To Equity Shareholders A/c		1,80,000
Discount on Buyback A/c………………Dr	1,00,000	
To Capital Reserve A/c		1,00,000
[Being transfer of balance in Discount A/c]		
General Reserve A/c……………………Dr	1,00,000	
Profit & Loss A/c………………………Dr	1,00,000	
To Capital Redemption Reserve A/c		2,00,000
[Being transfer of Buyback amount to C.R.R. A/c]		
Equity Shareholders A/c………………..Dr	1,80,000	
To Bank A/c		1,80,000
[Being payment made for buyback of Equity share]		
Buyback Expenses A/c………………….Dr	5,000	
To Bank A/c		5,000
[Being Buyback expenses incurred & paid]		

Working Notes:

1. Maximum Number of Shares that can be bought back Under Section 68:

25 % of No. of Equity Shares outstanding in the market

= 1,00,000 *25%

= 25,000 shares

Since the company decided to buyback 20,000 Equity shares, this condition is fulfilled by the company.

2. Maximum Amount Payable on Buy back= 25% of Capital + Reserves

Equity Capital - 10,00,000

Securities Premium- 50,000

General Reserve- 1,00,000

Profit & Loss A/c- 1,50,000

TOTAL Own Fund = 13,00,000

25% =₹3,25,000.

Since Company is paying ₹. 1,80,000. The amount paid by the company on buyback is within the range of section 68.

4. Post Buy Back Debt Equity Ratio should not exceed 2:1:

Since the company does not have any Debt Capital nor does it issues any debt instrument during buyback, therefore there is no question of exceeding the Debt –Equity Ratio.

Therefore buyback is completely within the limits of Section 68.

Illustration 5:

The Balance sheet of Asians Ltd. As at 31.04.21 was as follows:

Liabilities	Amount₹	Assets	Amount₹
Equity shares of Rs.10 each	6,00,000	Fixed Assets	10,00,000
Securities Premium	1,45,000	Investments	4,00,000
General Reserve	1,00,000	Current assets	4,00,000
Profit & Loss A/c	1,50,000		
Debenture	7,00,000		
Current Liabilities	1,05,000		
TOTAL	**18,00,000**	**TOTAL**	**18,00,000**

Calculate the maximum number of number of shares to be bought back and the offer price to be paid on buy back. Assuming that the buyback is done pass necessary journal entries in the books of the company.

Solution:

Particulars	**Debit ₹**	**Credit ₹**
Equity Share Capital A/c…………..Dr Premium on Buy back A/c…………Dr To Equity Shareholders A/c [Being the amount due on Buy back of 20% Equity Capital]	1,50,000 98,750	 2,48,750
Securities Premium A/c……………Dr To Premium on Buy back A/c [Being Premium on buyback written off with the balance in Securities Premium]	98,750	 98,750
Profit & Loss A/c…………………..Dr To Capital Redemption Reserve A/c [Being transfer to C.R.R to the extent of buy back]	1,50,000	 1,50,000
Equity Shareholders A/c …………......Dr To Bank A/c [Being Payment made for the buyback of Equity]	2,48,750	 2,48,750

Working Note:

1.Maximum No. of Shares that can be bought back:

25% of Equity Shares outstanding in the Market

= 25% of 60,000

= 15,000 Shares.

2. Maximum Amount to be paid for buy back:

25% of Own Fund

Equity Capital	6,00,000
Securities Premium	1,45,000
General Reserve	1,00,000
Profit & Loss A/c	1,50,000
Total Own Fund	9,95,000
25% of 9,95,000 =	**2,48,750**

4. Post Buyback Debt –Equity Ratio**:**

Debt 7,00,000

Therefore minimum Own Fund Post Buy back Should be at least half of Debt i.e ₹ 3,50,000

Amount available for buy back = 9,95,000 – 3,50,000 = **6,45,000/-**

4. Determination of Offer Price:

Total amount payable on buyback shall be Minimum of working not no. 2 and 3 above

= ₹ 2,48,750

Offer price per share = Amount Payable on Buyback /Maximum no. of Shares to be bought back

= 2,48,750 / 15,000

= ₹ 16.58/- per share

Illustration 6:

Zoomba Ltd. resolved to buy back 3,00,000 fully paid equity shares of ₹10 each at ₹13 per share. For the purpose, it issued 10,000 13% preference shares of ₹100 each at par, the total sum being payable with applications. The company uses ₹ 9,50,000 of its balance in Securities Premium Account apart from its adequate balance in General Reserve Account to fulfill the legal requirements regarding buy-back.

Pass journal entries for all the transactions involved in the buy-back.

Solution:

Journal Entries in the books of Zoomba Ltd., for the year ended 31st March, ____.

Particulars	**Debit ₹**	**Credit₹**
Bank A/c…………………………......Dr To 13% Preference Share Capital A/c [Being issue of Preference shares at par]	10,00,000	 10,00,000
Equity Share Capital A/c……………..Dr Premium on Buyback A/c……………Dr To Equity Shareholders A/c [Being the amount due on Buyback of 20% Equity Capital]	30,00,000 9,00,000	 39,00,000

Securities Premium A/c……………….Dr To Premium on Buyback A/c [Being Premium on buyback written off with the balance in Securities Premium]	9,00,000	 9,00,000
General Reserve A/c…………………..Dr To Capital Redemption Reserve A/c [Being transferred to C.R.R to the extent of buyback]	20,00,000	 20,00,000
Equity Shareholders A/c ……….........Dr To Bank A/c [Being Payment made for the buyback of Equity]	39,00,000	 39,00,000

Working Note:

1. Transfer to Capital Redemption Reserve A/c.

= Capital Value of Buyback - Capital value of New Issue of Shares

= 30,00,000 – 10,00,000

= 20,00,000

Illustration 7:

Sanjivani Ltd., a private company, had issued capital of ₹ 40 lakh divided into equity shares of ₹ 10 each. The balance in the Security Premium Account was ₹ 2 lakh and General Reserve ₹ 6 lakh. The company decided to buy-back 1,00,000 shares of ₹ 10 each at ₹ 8 per share. The company had issued 50,000, 10% Preference Shares ₹ 10 each 3 months back for the purpose of buy-back of equity shares. Record the transaction in the Journal of the company.

Solution:

Journal Entries in the books of Sanjivani Ltd., for the year ended 31st March, _____.

Particulars	**Debit ₹**	**Credit ₹**
Bank A/c…………………………......Dr To 10% Preference Share Capital A/c [Being issue of Preference shares at par]	5,00,000	 5,00,000
Equity Share Capital A/c……………..Dr To Discount on buy back A/c ………Dr To Equity Shareholders A/c [Being the amount due on Buy back of Equity Capital at discount]	10,00,000	 1,00,000 9,00,000

Discount on buy back A/c ……………Dr To Capital Reserve A/c [Being Discount on buyback written off]	1,00,000	 1,00,000
General Reserve A/c…………………..Dr To Capital Redemption Reserve A/c [Being transfer to C.R.R to the extent of buy back]	5,00,000	 5,00,000
Equity Shareholders A/c …….............Dr To Bank A/c [Being Payment made for the buyback of Equity]	9,00,000	 9,00,000

Working Note:

1. Transfer to Capital Redemption Reserve A/c.

= Capital Value of Buy back - Capital value of New Issue of Shares

= 10,00,000 – 5,00,000

= 5,00,000

Illustration 8:

Sea Ltd., furnishes the following summarized Balance Sheet as at 31st March, 2021.

Particulars	**Amount ₹**	**Amount ₹**
Equity & Liabilities:		
3,50,000 Equity shares of ₹ 10 each	35,00,000	
2,000 12% Preference Shares of ₹100 each	2,00,000	
Reserves & Surplus:		
Capital Reserve	5,00,000	
Revenue Reserve	35,00,000	
Securities Premium	20,00,000	
Profit & Loss Account	30,00,000	
Current Liabilities & Provisions	14,00,000	
TOTAL		**1,41,00,000**

Assets: Fixed Assets Investments Current Assets	 95,00,000 31,00,000 15,00,000	
TOTAL		**1,41,00,000**

The company passed a resolution to buy back 20% of its equity capital @ ₹. 40 per share.

In accordance to support this buyback, company sold all its investments for ₹ 25,00,000.

You are required to pass necessary journal entries in the books of the company also prepare the Vertical Balance Sheet post buyback.

Solution:

Journal Entries in the books of Sea Ltd., for the year ended 31st March, 2021.

Particulars	**Debit ₹**	**Credit ₹**
Bank A/c…………………………......Dr Profit & Loss A/c……………………..Dr To Investment A/c [Being sale of investment at loss]	25,00,000 6,00,000	 31,00,000
Equity Share Capital A/c……………..Dr Premium on Buy back A/c……………Dr To Equity Shareholders A/c [Being the amount due on Buy back of 20% Equity Capital]	7,00,000 21,00,000	 28,00,000
Securities Premium A/c……………….Dr Profit & Loss A/c……………………...Dr To Premium on Buy back A/c [Being Premium on buyback written off]	20,00,000 1,00,000	 21,00,000

Profit & Loss A/c……………………...Dr	7,00,000	
To Capital Redemption Reserve A/c		7,00,000
[Being transferred to C.R.R to the extent of buy back]		
Equity Shareholders A/c ……….........Dr	28,00,000	
To Bank A/c		28,00,000
[Being Payment made for the buyback of Equity]		

Post buyback Balance sheet of Sea Ltd., as at 31st March, 2021.

Particulars	Amount ₹	Amount ₹
Equity & Liabilities:		
2,80,000 Equity shares of ₹ 10 each	28,00,000	
2,000 12% Preference Shares of ₹100 each	2,00,000	
Reserves & Surplus:		
Capital Reserve	5,00,000	
Revenue Reserve	35,00,000	
Securities Premium	NIL	
Profit & Loss Account	16,00,000	
Capital Redemption Reserve	7,00,000	
Current Liabilities & Provisions	14,00,000	
TOTAL		**1,07,00,000**
Assets:		
Fixed Assets	95,00,000	
Investments	NIL	
Current Assets	12,00,000	
TOTAL		**1,07,00,000**

I. SELF-PRACTICE

Illustration 1:

The Balance sheet of Ram Ltd. as at 31-3-2022 is as follows.

Liabilities	Amount ₹	Assets	Amount ₹
SHARE CAPITAL:		Fixed Assets	80,00,000
Equity shares of Rs.10 each	50,00,000	Investments	50,00,000

RESERVES & SURPLUS:		Current assets	60,00,000
Securities Premium	5,00,000		
General Reserve	25,00,000		
Profit and loss account	20,00,000		
SECURED LOANS:			
Debentures	40,00,000		
CURRENT LIABILITIES & PROVISIONS:	50,00,000		
TOTAL	1,90,00,000	TOTAL	1,90,00,000

Keeping in view all the legal requirements, ascertain the maximum no. of equity shares that 0 Victory Ltd. can buy back if price settled is Rs.20 per share. Assume that the buy-back is carried out actually at the legally permissible terms, record the entries in the journal of Victory Ltd. and prepare its balance sheet thereafter.

Illustration 2:

The summarized Balance Sheet of Somnath Ltd. As on 1st March 2021 is as Follows:-

Particulars	**Amount ₹**
Equity & Liabilities:	
6,00,000 Equity shares of Rs. 10Each Fully Paid	60,00,000
Securities Premium	4,00,000
Profit and Loss Account	20,00,000
13% Debentures	18,00,000
Creditors	20,00,000
TOTAL	1,22,00,000
Assets:	
Fixed Assets	70,00,000
Investments	25,00,000
Current Assets	27,00,000
TOTAL	1,22,00,000

Ascertain the maximum number of equity shares the company can buyback at the maximum possible price under the law as on 31st March, 2021. Assuming the buyback is actually carried out, record the journal entries in the books of Somnath Ltd. Also prepare Notes to accounts with respect to share Capital and Reserve & Surplus as they would appear in Notes to accounts Forming part of the Balance Sheet of Somnath Ltd. As on 31st March, 2021.

Illustration 3:

The Balance sheet of Green Tea Ltd. as on 31-3-2022 is as follows:

Liabilities	Amount₹	Assets	Amount₹
SHARE CAPITAL:		FIXED ASSETS:	
Equity shares of Rs.10 each	4,00,000	Net block	9,00,000
Preference Shares of Rs.100	1,00,000	Investments	2,00,000
each.		CURRENT	
RESERVES & SURPLUS:		ASSETS:	
Securities Premium A/c	1,50,000	Current Assets	6,50,000
General Reserve			
Profit and Loss account	1,00,000		
SECURED LOANS:			
Debentures	1,00,000		
CURRENT LIABILITIES:			
Current liabilities Provisions			
	7,00,000		
	2,00,000		
TOTAL	17,50,000	TOTAL	17,50,000

Keeping in view all the legal requirements, ascertain the maximum no of equity shares that Green Tea Ltd can buy back @ Rs.25 per share, being the current market price. Assume that the buy-back is carried out actually on the changed terms and accordingly record the entries in the journal of GreenTea Ltd and prepare its balance sheet thereafter.

II. Multiple Choice Questions

i. Equity share capital (Rs.10) Rs.10, 00,000
General reserve Rs.12, 00,000
Profit and loss account Rs. 1, 00,000
Securities premium Rs. 2, 00,000

The maximum buyback is ________.

a) Rs.45, 00,000
b) Rs. 6, 25,000
c) Rs.5, 50,000
d) Rs.3, 00,000

Answer: Rs. 6, 25,000

ii. Company can buy back________.

a) Preference shares
b) Equity shares
c) Debentures
d) Capital

Answer: Equity shares

iii. Buyback of shares can be out of________.

a) Profits only
b) Proceeds of fresh issue only
c) Capital profit only
d) Free reserve or securities Premium for proceeds of shares

Answer: Free reserve or securities Premium for proceeds of shares

iv. Which of the following is a free reserve for the purpose of buyback of shares?

a) workmen compensation fund
b) capital redemption reserve
c) debenture redemption reserve
d) forfeited shares account

Answer: forfeited shares account

v. In case of equity shares are brought back out of to reserve, amount equal to face value of equity shares bought back should be transferred to________.

a) general reserve account
b) development rebate reserve
c) sinking fund account
d) capital redemption reserve account

Answer: capital redemption reserve account

III. State Whether True or False

i. The buyback of equity shares should be authorized by Articles of Association.
ii. Buyback of equity shares can be made out of proceeds of an earlier issue of preference shares.
iii. Partly paid equity shares can be bought back.
iv. Buy back of shares increases the Earnings per Share of the company.
v. Due to buyback of shares there is reduction in the share capital.

❖❖❖❖

3

AS 14 - AMALGAMATION, ABSORPTION & EXTERNAL RECONSTRUCTION - I

Unit Structure :

3.0 OBJECTIVES

After reading this unit, learner will be able:

- To acquaint the knowledge of Amalgamation, Absorption, and External Reconstruction
- To understand the different methods of Amalgamation
- To compute the Purchase Consideration amount
- To be aware of the various methods of determining Purchase Consideration.
- To apply practically the procedures of the Amalgamation Accounting for a company.

3.1 INTRODUCTION

1. Amalgamation:

A merger of two or more companies into a single entity is known as an amalgamation. The assets and liabilities of the merging companies become part of the merged company in an amalgamation. In exchange for their shares in the merging companies, the shareholders of the merging companies receive shares in the merged company.

Example: Suppose Company A and Company B merge to form Company C. Company A and Company B shareholders receive shares in Company C in proportion to their respective shareholdings in the merging companies or as determined by the terms of amalgamation.

2. Absorption:

Absorption is a type of amalgamation in which one company absorbs another, and the absorbed company goes out of business. In exchange for their shares in the absorbed company, the absorbed company's shareholders receive shares in the absorbing company.

For instance, if Company A absorbs Company B, Company B ceases to exist. Company B shareholders receive shares in Company A in proportion to their shareholding in Company B or as determined by the terms of absorption.

3. External Reconstruction:

When a company has been making losses for several years and is facing a financial crisis, it can sell its business to another newly incorporated company. In reality, the new company is formed to take over the old company's assets and liabilities. This is known as external reconstruction. In simple words, external reconstruction refers to the sale of an existing company's business to a new company formed for the purpose. External reconstruction involves the liquidation of one company and the formation of a new one. The liquidated company is known as "Vendor Company," while the new company is known as "Purchasing Company." Vendor company shareholders become purchasing company shareholders.

3.2 ACCOUNTING STANDARD 14 ISSUED BY INSTITUTE OF CHARTERED ACCOUNTS OF INDIA

1. Scope : Accounting Standard 14 (AS-14) is a standard issued by the Institute of Chartered Accountants of India that provides guidance on amalgamation accounting. The standard applies to all companies involved in amalgamations, whether listed or unlisted, and it requires the accrual basis of accounting to be used in the preparation of financial statements.

2. Amalgamation : According to AS-14, an amalgamation is a combination of two or more companies to form a new company, pursuant to the provisions of the Companies Act, 1956 or any other applicable statute. It involves the acquisition of one company by another, and after the amalgamation, the acquired company is dissolved and ceases to exist.

3. Transferor Company : The transferor company is the company that transfers its assets, liabilities, and reserves to another company, known as the transferee company, in an amalgamation. The transferor company is also known as the vendor company.

4. Transferee Company : The transferee company is the company into which the transferor company is amalgamated, or the company that acquires the assets, liabilities, and reserves of the transferor company in an amalgamation. The transferee company is also known as the purchasing company.

AS-14 also provides guidance on the accounting treatment of amalgamations, such as accounting methods, disclosures, and financial statements for each type of amalgamation. It establishes the principles for determining the accounting policies, disclosures, and financial statements for amalgamations, and it requires the consolidated financial statements of the merging companies to provide a true and fair view of the merged entity's financial position, performance, and cash flows.

3.3 TYPES OF AMALGAMATION

AS-14, "Accounting for Amalgamations", recognizes two types of amalgamation:

1. Amalgamation in the nature of merger :

Amalgamation in the nature of merger is a type of amalgamation that satisfies all the following conditions:

a. All assets and liabilities of the transferor company become assets and liabilities of the transferee company.

b. 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.

c. The consideration for the amalgamation is discharged only by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

d. The business of the transferor company is intended to be carried on, in whole or in part, by the transferee company.

e. No adjustment is intended to be made to the book value 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.

If an amalgamation satisfies all the above conditions, it is considered to be an amalgamation in the nature of merger and is accounted for using the pooling of interests method.

2. Amalgamation in the nature of purchase :

If Amalgamationdoes not satisfy any one of the above five conditions then it willbe regarded as Amalgamation in the nature of purchase AS-14 requires different accounting treatments for these two types of amalgamations. In the case of an amalgamation in the nature of merger, the pooling of interests method is used to account for the amalgamation, while in the case of an amalgamation in the nature of purchase, the purchase method is used.

3.4 DISTINCTION BETWEEN AMALGAMATION IN THE NATURE OF MERGER AND PURCHASE

Merger	Purchase
1. Shareholders of the transferor company who own 90% of the face value of the transferee company become shareholders of the transferee company.	1. Transferor company shareholders may not become transferee company shareholders.
2. There is a genuine polling of the amalgamating companies' assets and liabilities.	2. There is no genuine polling of the amalgamation companies' assets and liabilities.
3. Shareholders' interests are also pooled.	3. There may be no pooling of shareholder interests.
4.The values of assets and liabilities, as well as reserves, represent the same values of the merging companies.	4. The assets and liabilities of the merging companies may have different values.

Amalgamation in the nature of merger is not covered in the Mumbai University T.Y.B.Com syllabus, so it will not be covered in this book.

3.5 PURCHASE CONSIDERATION

Purchase consideration is the amount paid by the transferee company (purchaser) to the transferor company (vendor) in exchange for acquiring the assets and liabilities of the transferor company in an amalgamation. AS-14 provides the following techniques for calculating the purchase consideration:

1. Net Assets Method: In this method, the purchase consideration is calculated as the excess of the fair value of the net assets acquired over the consideration paid to the transferor company. The net assets are calculated as the difference between the fair value of the assets acquired and the fair value of the liabilities assumed.

For example, if the fair value of the assets acquired from the transferor company is Rs. 20,000 and the fair value of the liabilities assumed is Rs. 12,000, the net assets would be Rs. 8,000. If the transferee company pays Rs. 10,000 to the transferor company, the net assets method would result in a purchase consideration of Rs. 2,000.

Particulars	Amount (₹)	Amount (₹)
Revised Values of Assets taken over at agreed values(excluding fictitious assets)		
Goodwill	XX	
Land & Buildings	XX	
Plant & Machinery	XX	
Furniture & Fittings	XX	
Motor vehicles	XX	
Investments	XX	
Inventories	XX	
Trade Receivable	XX	
Bills Receivable	XX	
Cash & Cash Equivalent	XX	
Bank	XX	
Total		XX
Less: Revised Values of Liabilities taken over at agreed value		
Trade Payables	XX	
Bills payables	XX	
Bank overdraft	XX	
Debentures	XX	
Total		(XX)
Purchase consideration		XX

2. Net Payment Method: The purchase consideration in this method is equal to the net payment made by the transferee company to the transferor company. The net payment is calculated as the difference between the total amount of cash or cash equivalents or any securities acquired from the transferor company and the total amount of payments made to the transferor company.

For example, if the transferee company say Nandini Ltd. buys assets and liabilities worth Rs. 75,000 from the transferor company say Ragini Ltd. and pays Rs. 40,000 in form of equity shares in transferee company, pays Rs. 30,000 in form of Preference shares in transferee company, Rs. 20,000 in form of Debentures in transferee company, Rs. 10,000 in form of cash, the net payment method results in a Rs. 25,000 purchase consideration.

Statement Showing Calculation of Purchase Consideration

Particulars	Amount	Amount
Equity Shares in Nandini Ltd.	40,000	
Preference Shares in Nandini Ltd.	30,000	
Debentures in Nandini Ltd.	20,000	
Cash	10,000	
Total		1,00,000
Less: Net Assets Taken Over		(75,000)
Purchase Consideration		25,000

3. Lumpsum Method: The transferee may provide the amount of purchase consideration directly, eliminating the need to calculate the purchase consideration.

   For example, Soma Ltd. agrees to buy out Manappa Ltd. business for ₹ 95,00,000. So the PC is ₹ 95,00,000.

4. Exchange of shares Method / Intrinsic value Method: The intrinsic value of the shares of both companies is calculated using this method, and the transferor company then issues the shares to the transferee company based on these values.

3.6 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEROR COMPANY

If Ledger Accounts are to opened :

1. Realisation A/c
2. Equity Shareholders A/c
3. Preference Shareholders A/c
4. Cash/ Bank A/c
5. Liabilities not taken over A/c
6. Transferee company's A/c
7. Equity Shares in transferee company A/c
8. Preference Shares in transferee company A/c

If Journal Entries are to be passed

Sr. No.	Particulars	Dr. Rs	Cr. Rs.
1	<u>Recording Purchase of Business</u>		
	Business Purchase A/c Dr.	XX	
	To Liquidator of transferor company		XX
	(The entry should be passed at purchase consideration amount.)		
2	<u>Recording of assets and liabilities taken over</u>		
	Sundry assets A/c Dr.	XX	
	(With Agreed values)		
	Goodwill A/c (if any) Dr.	XX	
	To Sundry Liabilities A/c		XX
	To Business Purchase A/c		XX
	To Capital Reserve A/c		XX
3	<u>Recording Discharge of purchase consideration</u>		
	Liquidator of transferor company A/c Dr.	XX	
	Discount on issue of shares A/c Dr.	XX	
	To Equity Share Capital A/c.		XX
	To Preference Share Capital A/c.		XX
	To Securities Premium A/c.		XX
4	<u>Discharge of Liabilities of Transferor Company</u>		
	Debentures of Transferor Company A/c Dr.	XX	
	Discount on issue of Debentures A/c Dr.	XX	
	To new Debentures A/c.		XX
	To Securities Premium A/c.		XX
5	<u>Recording of payment of liquidation expenses</u>		
	Capital Reserve/ Goodwill A/c. Dr.	XX	
	To Cash/Bank A/c.		XX
6	<u>Recording of Expenses incurred by the transferee company for its own formation.</u>		
	Preliminary Expenses A/c. Dr.	XX	
	To Cash / Bank A/c		XX

7	<u>Recording of Statutory Reserve of transferor company</u> Amalgamation adjustment A/c Dr. To Statutory Reserve A/c.	 XX 	 XX
8	<u>Adjusting of mutual indebtedness of transferor & transferee company</u> Sundry Creditors A/c. Dr. To Sundry Debtors A/c.	 XX 	 XX

3.7 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEREE COMPANY

Sr. No.	Particulars	Dr. Rs	Cr. Rs.
1	<u>Recording Purchase of Business</u> Business Purchase A/c Dr. To Liquidator of transferor company (The entry should be passed at purchase consideration amount.)	 XX 	 XX
2	<u>Recording of assets and liabilities taken over</u> Sundry assets A/c Dr. (With Agreed values) Goodwill A/c (if any) Dr. To Sundry Liabilities A/c To Business Purchase A/c To Capital Reserve A/c	 XX XX 	 XX XX XX
3	<u>Recording Discharge of purchase consideration</u> Liquidator of transferor company A/c Dr. Discount on issue of shares A/c Dr. To Equity Share Capital A/c. To Preference Share Capital A/c. To Securities Premium A/c.	 XX XX 	 XX XX XX

4	Discharge of Liabilities of Transferor Company Debentures of Transferor Company A/c Dr. Discount on issue of Debentures A/c Dr. To new Debentures A/c. To Securities Premium A/c.	 XX XX	 XX XX
5	Recording of payment of liquidation expenses Capital Reserve/ Goodwill A/c. Dr. To Cash/Bank A/c.	 XX	 XX
6	Recording of Expenses incurred by the transferee company for its own formation. Preliminary Expenses A/c. Dr. To Cash / Bank A/c	 XX	 XX
7	Recording of Statutory Reserve of transferor company Amalgamation adjustment A/c Dr. To Statutory Reserve A/c.	 XX	 XX
8	Adjusting of mutual indebtedness of transferor & transferee company Sundry Creditors A/c. Dr. To Sundry Debtors A/c.	 XX	 XX

3.8 PRACTICLE PROBLEMS

Illustration 1. (Payment Method)

Given below are the extracts from the Balance Sheets of Y Ltd. as at 31st March, 2019.

Particulars	Rs. (in Lakhs)
Equity Share Capital of Rs. 10 each	10.00
8% Pref. Share Capital of Rs. 100 each	2.00
Reserves and Surplus	3.00
12% Debentures of Rs. 100 each	1.00
Current Liabilities	2.20
Non-Current Assets	12.80
Current Assets	5.40

X Ltd. absorbs Y Ltd. as on that date on the following terms:

1. 12% Debentures of Y Ltd. are to be discharged by X Ltd. by issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.

2. The issue of such an amount of fully paid 9% Preference Shares in X Ltd. at 125% as is sufficient to discharge 8% Preference Shares in Y Ltd. at a premium of 20%.

3. The Equity Shareholders of Y Ltd. will receive the requisite number of Equity Shares of X Ltd. The Equity Shares of X Ltd. are to be of a nominal value of Rs. 10 each credited as Rs. 8 paid up and valued at Rs. 15 per share.

4. The transferee company shall pay the cost of absorption which amounts to Rs. 1,00,000.

Show the calculation and discharge of Purchase Consideration.

Solution.

Calculation and Discharge of Purchase Consideration

Particulars	Rs.
1920, 9% Preference Shares [(2,00,000 + 20%)/125) X Rs. 125]	2,40,000
100000 Equity Shares [100000 X 15]	15,00,000
Total Purchase Consideration	17,40,000

Note. According to AS-14, the amount paid by the purchasing company to discharge the debenture holders and the liquidation expenses the of Vendor Company are not considered as part of purchase consideration.

Illustration 2.

Calculate the amount of purchase consideration payable by Mini Limited to Maxi Limited. The Summary Balance Sheet of Maxi Limited as on March 31, 2012 is as follows:

Liabilities	Amount	Assets	Amount
Equity Share Capital (Shares of Rs. 10)	1,50,000	Goodwill	30,000
8% Pref. Share Capital (Shares of Rs. 10)	60,000	Land	35,000
Capital Reserve	8,000	Building	40,000
General reserve	14,000	Machinery	1,00,000
Profit and Loss A/c	3,000	Investment	25,000

7.5% Debentures (Rs. 100 each)	30,000	Stock	24,000
Sundry Creditors	12,000	Debtors	15,000
Outstanding Expenses	8,000	Cash & Bank	13,000
		Share Issue Expenses	3,000
Total	2,85,000	Total	2,85,000

Mini Limited decided to take over Maxi Limited by issuing 6 Equity Shares of Rs. 10 each fully paid and Rs. 6.50 in cash for every 5 Equity Shares held in Maxi Ltd. The Preference Shareholders are to be paid at premium of 15% by issue of 10% Preference Shares in Mini Ltd. Debenture holders of Maxi Ltd. will be paid 9.5% Debentures of Mini Ltd. for equal value. Realisation expenses of Rs. 7,500 are to be borne and paid by Mini Ltd to Maxi Ltd.

Solution.

Calculation of Purchase Consideration (Net Payment Method)

Payment to	**Old No.**	**Exchange Ratio**	**New No.**	**Issue Price**	**Amount**
Equity Shareholders Equity Shares Cash	15,000 15,000	5:6 5:1	18,000 3,000	10.00 6.50	1,80,000 19,500
Preference Shareholders 10% preference Shares Rs. 60000 + 15% Premium					69,000
Total Purchase Consideration					2,68,500

Note: Payment to debenture holders and payment for realization expenses will not be considered for calculation of Purchase consideration (As per AS 14)

Illustration 3. (Net Asset Method)

Homer Ltd. and Illiad Ltd. Propose to amalgamate.

Goodwill may be taken at Rs. 96,000 for Homer Ltd. and Rs. 38,000 for Illiad Ltd. The Stock of Homer Ltd. and Illiad Ltd. to be taken at Rs. 2,04,000 and Rs. 1,42,000 respectively. You are required to find out the purchase consideration receivable by both the companies on the basis of the Net Assets Method. Their financial position as on December 31, 2012 were:

Liabilities	Homer	Illiad	Assets	Homer	Illiad
Share Capital: Equity Shares of Rs. 10 each	500000	200000	Fixed Assets (at cost less depreciation)	400000	100000
Reserves and Surplus: General Reserve P & L A/c	200000 100000	20000 30000	Investment	100000	
Current Liabilities: Creditors	100000	50000	Current Assets: Stock Debtors Cash & Bank	200000 170000 30000	130000 60000 10000
Total	900000	300000	Total	900000	300000

Solution:

Purchase Consideration

Particulars	Homer (Rs)	Illiad (Rs)
Assets		
Goodwill (as given)	96,000	38,000
Fixed Assets	4,00,000	1,00,000
Investment	1,00,000	-
Stock (Agreed Value)	2,04,000	1,42,000
Debtors	1,70,000	60,000
Cash & Bank	30,000	10,000
Total	10,00,000	3,50,000
Less. Creditors	1,00,000	50,000
Net Assets / Purchase Consideration	9,00,000	3,00,000

Illustration 4

The balance sheet of Shivam Ltd as on 31st December 2020 was below.

Liabilities	Amount	Assets	Amount
Equity share capital of Rs. 10 each	150000	Goodwill	20000
11.5% Preference share capital of Rs. 100 each	50000	Building	49000
Securities Premium	10000	Plant	115000
General reserve	10000	Furniture	5000
Profit & Loss A/c	5000	Investment	10000
Workmen Compensation Fund	5000	Stock	20000
Bills Payable	6000	Debtors	15000
Creditors	8000	Bills Receivable	5000
Provident Fund	6000	Cash at Bank	10000
		Preliminary Expenses	1000
Total	250000	Total	250000

Small Limited wants to take over the business on the following terms and valuation:

Goodwill: Rs. 30000
Plant: Rs. 100000

Building: Rs. 60000
Furniture: Rs. 4000

Investment at book value.
Stock at Rs. 15000, Debtors at 10% provision, Bills receivable at par, cash is not taken over.

The purchase consideration is to be satisfied to the extent of Rs. 40000 by payment in cash, and balance is payable in equity shares of Rs. 10 each.

Solution

Calculation of Purchase Consideration

Particulars	Amt	Amt
Assets taken over		
Goodwill		30000
Building		60000
Plant		100000
Furniture		4000
Investment		10000
Stock		15000
Debtors	15000	
Less. R.D.D	-1500	13500
Bills Receivable		5000
Total (A)		237500
Liabilities Taken Over		
Workmen Compensation Fund		5000
Bills payable		6000
Creditors		8000
Provident fund		6000
Total (B)		25000
Purchase Consideration (A – B)		212500

Discharge of Purchase Consideration.

In Cash	Rs. 40000
In equity shares of Rs. 10 each	Rs. 172500
Total	Rs. 212500

Amalgamation

Illustration 5.

A Ltd. and B Ltd. carry on similar business decided to amalgamate and for this purpose a new company AB Ltd. was formed to take over assets and liabilities of both the companies. It is agreed that fully paid shares of Rs. 100 each shall be issued by the New Co. to the value of Net Assets of each of the old companies.

Summary Balance Sheet of A Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
Shares of Rs. 50 each	50000	Goodwill	5000
General reserve	20000	Land and Building	17000
Profit and Loss A/c	3000	Plant and Machinery	24000
Sundry Creditors	4000	Stock	10000
Bills Payable	4000	Debtors	12000
		Furniture & Fittings	5000
		Cash at Bank	8000
Total	81000	Total	81000

Summary Balance Sheet of B Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
800 Shares of Rs. 50 each	40000	Goodwill	2000
Bank Overdraft	8000	Land and Building	10000
Sundry Creditors	8000	Plant and machinery	16000
		Stock	7500
		Furniture and Fittings	7500
		Debtors	7000
		Cash	300
		Profit and Loss A/c	5700
Total	56000	Total	56000

The following is the accepted scheme of valuation of business of the two companies:

A Ltd:

(a) to provide for reserve for bad debts at the rate of 5% on Debtors

(b) to write off Rs. 400 from stock; and

(c) to write off 33 1/3% from plant and machinery

B Ltd:

(a) to eliminate its goodwill and profit & loss a/c balance

(b) to write off bad debts Rs. 1000 and to provide reserve of 5% on the balance of debtors;

(c) to write off Rs. 1400 from the value of stock.

You are required to pass the journal entries in the books of A Ltd. & B Ltd. giving effects to the above transactions. Also pass the journal entries in the books of AB Ltd.

Solution

Statement of Purchase Consideration (Net Asset Method)

Particulars	A Ltd.	B Ltd.	AB Ltd.
Assets:			
Goodwill	5000	-	5000
Land and Building	17000	10000	27000
Plant and Machinery	16000	14400	30400
Furniture and Fittings	5000	7500	12500
Stock	9600	6100	15700
Debtors	12000	6000	18000
Cash	8000	300	8300
Total (A)	72600	44300	116900
Less. External Liabilities			
Reserve for Bad Debts	600	300	900
Creditors	4000	8000	12000
Bills Payable	4000	-	4000
Bank Overdraft	-	8000	8000
Total (B)	8600	16300	24900
Purchase Consideration (A – B)	64000	28000	92000
Fully paid shares of Rs. 100 each AB Limited	64000	28000	92000

Note: Assets for which valuation is not given are taken at book value. Eg. Land & Building, Furniture etc.

Journal of A Limited

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Assets Tfd. Realisation A/c Dr To Goodwill To Land and Building To Plant and Machinery To Stock To Debtors To Furniture & Fixtures To Cash (being the assets transferred to close the assets a/cs on amalgamation)	81000	5000 17000 24000 10000 12000 5000 8000
2	Liabilities Tfd. Sundry Creditors A/c Dr Bills Payable A/c Dr To Realisation A/c (Being transfer of current liabilities on Amalgamation)	4000 4000	8000
3	Purchase Consideration Due AB Limited A/c Dr To Realisation A/c (Being the purchase consideration due for take-over of assets and liabilities)	64000	64000
4	Loss on Realisation Equity Shareholders A/c Dr To Realisation A/c (Being the loss on realization transferred)	9000	9000
5	Capital Tfd. Equity Share Capital A/c Dr To Equity Shareholders A/c (Being the transfer on amalgamation to close capital a/c)	50000	50000

6	Reserves Tfd. General Reserve A/c Dr Profit and Loss A/c Dr To Equity Shareholders A/c (Being transfer of reserves etc. on amalgamation)	20000 3000	23000
7	PC Received Equity Shares in AB Limited A/c Dr To AB Limited (Being the purchase consideration received from AB Ltd vide agreement)	64000	64000
8	Payment to Equity Shareholders Equity Shareholders A/c Dr To Equity Shares in AB Limited (Being the payment of purchase consideration to Equity Shareholders vide agreement of amalgamation)	64000	64000

Journal of B Limited

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Assets Tfd. Realisation A/c Dr. To Goodwill To Land and Building To Plant and Machinery To Stock To Debtors To Furniture & Fixtures To Cash (being the assets transferred to close the assets a/cs on amalgamation)	50300	2000 10000 16000 7500 7000 7500 300

2	Liabilities Tfd. Sundry Creditors A/c Dr. Bank Overdraft A/c Dr. To Realisation A/c (Being transfer of current liabilities on Amalgamation)	 8000 8000	 16000
3	Purchase Consideration Due AB Limited A/c Dr. To Realisation A/c (Being the purchase consideration due for take-over of assets and liabilities)	 28000	 28000
4	Loss on Realisation Equity Shareholders A/c Dr To Realisation A/c (Being the loss on realization transferred)	 6300	 6300
5	Capital Tfd. Equity Share Capital A/c Dr. To Equity Shareholders A/c (Being the transfer on the amalgamation to close capital a/c)	 40000	 40000
6	Reserves Tfd. Equity Shareholders A/c Dr. To Profit and Loss A/c (Being transfer of reserves etc. on amalgamation)	 5700	 5700
7	PC Received Equity Shares in AB Limited A/c Dr. To AB Limited (Being the purchase consideration received from AB Ltd vide agreement)	 28000	 28000
8	Payment to Equity Shareholders Equity Shareholders A/c Dr. To Equity Shares in AB Limited (Being the payment of purchase consideration to Equity Shareholders vide agreement of amalgamation)	 28000	 28000

Journal of AB Limited

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Takeover of A Limited (Purchase Consideration)		
	Goodwill A/c Dr	5000	
	Land and Building A/c Dr	17000	
	Plant and Machinery A/c Dr	16000	
	Furniture Fittings A/c Dr	5000	
	Stock A/c Dr	9600	
	Debtors A/c Dr	12000	
	Cash A/c Dr	8000	
	To Creditors		4000
	To Bills Payable		4000
	To Reserve for Bad Debts		600
	To Liquidator of A Ltd.		64000
	(Being the assets and liabilities taken over at agreed value)		
2	Liquidator of A Ltd. A/c Dr	64000	
	To Equity Share Capital		64000
	(Being payment of purchase consideration)		
3	Takeover of B Limited (Purchase Method)		
	Land and Building A/c Dr	10000	
	Plant and Machinery A/c Dr	14400	
	Furniture Fittings A/c Dr	7500	
	Stock A/c Dr	6100	
	Debtors A/c Dr	6000	
	Cash A/c Dr	300	
	To Creditors		8000
	To Bank Overdraft		8000
	To Reserve for Bad Debts		300
	To Liquidator of B Ltd.		28000
	(Being the assets and liabilities taken over at agreed value)		
4	Liquidator of B Ltd. A/c Dr	28000	
	To Equity Share Capital		28000
	(Being payment of purchase consideration)		

Illustration 6)

Following is the summary Balance Sheets of X Ltd. and Y Ltd.

Balance Sheets as on 31^{st} March, 2017

Liabilities	X Ltd.	Y Ltd	Assets	X Ltd.	Y Ltd.
Equity Share Capital of Rs. 10 each	7500000	4500000	Building	2500000	1550000
Export Profit reserves	300000	300000	Machinery	3250000	1700000
Profit & Loss A/c	700000	600000	Stock	2550000	1800000
General Reserves	200000	450000	Debtors	900000	1000000
12% Debentures of Rs. 100 each	500000	300000	Bank	700000	550000
Sundry Creditors	700000	550000	Share Issue Expenses	-	100000
Total	9900000	6700000	Total	9900000	6700000

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

1. Z Ltd. to have an authorized share capital of Rs. 5 crores divided into 500000 equity shares of Rs. 100 each.

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

3. The shareholders of X Ltd. and Y Ltd. to get shares in Z Ltd. in the ratio of net assets values of their respective shares.

4. 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%.

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

Assets	X Ltd.	Y Ltd
Building	2800000	1820000
Machinery	3150000	1600000

6. Sundry Creditors of X Ltd. and Y Ltd. are taken over at Rs. 650000 and Rs. 500000 respectively.
7. Statutory reserves are to be maintained for 3 years more.

You are required to:-

1. Compute purchase consideration of X Ltd. and Y Ltd.
2. Pass Journal Entries in the books of Z Ltd.
3. Prepare a balance sheet after amalgamation. Apply purchase method.

Solution.

Purchase Consideration and Settlement

Particulars	X Ltd	Y Ltd	Z Ltd (BS)
Assets Taken Over			
Building	2800000	1820000	4620000
Machinery	3150000	1600000	4750000
Stock	2550000	1800000	4350000
Debtors	900000	1000000	1900000
Bank	700000	550000	1250000
(A)	10100000	6770000	16870000
Liabilities Taken Over			
Debentures	450000	270000	720000
Creditors	650000	500000	1150000
(B)	1100000	770000	1870000
Net Assets (A – B)	9000000	6000000	15000000
Purchase Consideration (in ratio of 9:6) X Ltd. : 120000 X 9 / 15 Y Ltd. : 120000 X 6 / 15	7200000	4800000	12000000
No of Shares (@ Rs. 120 each) X Ltd. : 7200000 / 120 Y Ltd. : 4800000 / 120	60000	40000	100000

Journal of Z Ltd.

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Business Purchase A/c Dr. To Liquidator of X Ltd To Liquidator of Y Ltd. (Being the purchase of business as per agreement)	12000000	 7200000 4800000
2	Building A/c Dr Machinery A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr To 12% Debentures of X Ltd A/c To Sundry Creditors A/c To Business purchase A/c To Capital reserve A/c (Being the assets and liabilities of X Ltd. taken over recorded)	2800000 3150000 2550000 900000 700000	 450000 650000 7200000 1800000
3	Liquidator of X Ltd. A/c Dr To Equity Share Capital A/c To Securities Premium A/c (Being the purchase consideration of X Ltd. discharged)	7200000	 6000000 1200000
4	12% Debentures of X Ltd. A/c Dr Dis. on issue of debentures A/c Dr To 14% Debentures A/c (Being the issue of 12% Debentures to 14% Debenture holders of X Ltd.)	450000 50000	 500000
5	Building A/c Dr Machinery A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr To 12% Debentures of Y Ltd A/c To Sundry Creditors A/c To Business purchase A/c To Capital reserve A/c (Being the assets and liabilities of Y Ltd. taken over recorded)	1820000 1600000 1800000 1000000 550000	 270000 500000 4800000 1200000

6	Liquidator of Y Ltd. A/c Dr To Equity Share Capital A/c To Securities Premium A/c (Being the purchase consideration of Y Ltd. discharged)	4800000	 4000000 800000
7	12% Debentures of Y Ltd. A/c Dr Dis. on issue of debentures A/c Dr To 14% Debentures A/c (Being the issue of 12% Debentures to 14% Debenture holders of Y Ltd)	270000 30000	 300000
8	Amalgamation Adjst Res. A/c Dr To Export Profit Reserve A/c (X) To Export Profit Reserve A/c (Y) (Being the identity of Statutory Reserves retained)	600000	 300000 300000

Balance Sheet of Z Ltd. as at 31.03.2017 (After Amalgamation)

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	10000000
b.	Reserves and Surplus	2	5000000
2.	Non-Current Liabilities		
	Long Term Borrowings (14% Debentures)		800000
3.	Current Liabilities		
	Trade Payables		1150000
	Total		16950000
II	Assets		
1.	Non-Current Assets		
a.	Property, Plant & Equipment		
	Tangible Assets	3	9370000
b.	Other Non-Current Assets	4	80000
2.	Current Assets		
a.	Inventories		4350000
b.	Trade Receivables		1900000
c.	Cash & Cash Equivalent (Bank)		1250000
	Total		16950000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
	Equity Share Capital	
	Authorised Shares : 500000 Equity Shares of Rs. 100 each	50000000
	Issued and Fully paid up shares: 100000 Equity Shares of Rs. 100 each	10000000
2.	Reserves and Surplus	
a.	Capital Reserve (on Amalgamation)	3000000
b.	Export Profit Reserve	600000
c.	Security premium	2000000
d.	Amalgamation Adjustment Reserve	(600000)
	Total	5000000
3.	Tangible Assets	
	Building	4620000
	Machinery	4750000
	Total	9370000
4.	Other Non-Current Assets	
	Discount on issue of Debentures (Assumed, amortizable after 12 months)	80000
	Total	80000

Note:

1. Amalgamation Adjustment Reserve is treated as a separate line item under "Reserves" vide the amendment in AS 14 by the MCA
2. Alternatively, Discount on issue of debentures may be written off against Security premium.

Illustration 7

Aqua Engineers Ltd, a newly formed company acquired the business of Beeta Ltd. as on 31.03.2017. The summary Balance Sheet of Beeta Ltd. as on that date was as under:

Liabilities	Amount	Assets	Amount
Equity Shares of Rs. 10 each fully paid	150000	Goodwill	20000
General Reserve	25000	Land and Building	80000
Export Profit reserve	8000	Plant	80000
Profit and Loss A/c	18000	Investment	30000
12% Debentures	60000	Stock	40000
Sundry Creditors	37000	Debtors	50000
Provision for Tax	30000	Bills Receivable – Trade	8000
		Bank	20000
Total	328000	Total	328000

Terms of Acquisition

1. Aqua Engineers Ltd. issued 25000 equity shares of Rs. 10 each at Rs. 12 per share.

2. Aqua Engineers Ltd. paid Rs. 4 in cash for each shares 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. 3000

5. Aqua Engineers Ltd. revalued Land & Building at Rs. 100000, Plant at 10% below book value, Stock at Rs. 35000 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 per share.

7. Aqua Engineers Ltd issued 10000 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:

1. Compute Purchase Consideration
2. Prepare Realization Account, Aqua Engineers Ltd. Account, Equity Shareholders Account, Equity Shares in Aqua Engineers Account and Bank Account in the books of Beeta Ltd.
3. Prepare Balance Sheet of Aqua Engineers Ltd. after acquisition under purchase method.

Solution.

Aqua Engineers Ltd.

Statement of Purchase Consideration (Net Payment Method)

Particulars	Amount (Rs)
Equity Shares (25000 X 12)	300000
Cash (15000 X 4)	60000
Total	360000

In the books of Beeta Ltd.

Dr. Realization Account Cr.

Particulars	Amount	Particulars	Amount
To Goodwill	20000	By 12% Debentures	60000
To Land & Building	80000	By Sundry Creditors	37000
To Plant	80000	By Provision for Tax	30000
To Investment	30000	By Aqua Engineers Ltd. A/c (PC)	360000
To Stock	40000	By Equity Shares in Aqua Engineers A/c (Profit on sale of shares)	5000
To Debtors	50000		
To Bills Receivable	8000		
To Equity Shareholders A/c (Profit on Realization)	164000		
Total	492000	Total	492000

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Equity Shares in Aqua Engineers A/c	240000	By Equity Share Capital	150000
To Cash/Bank A/c	125000	By General Reserve	25000
		By Export Profit Reserve	8000
		By Profit & Loss A/c	18000
		By Realization A/c (Profit)	164000
Total	365000	Total	365000

Aqua Engineers Ltd. A/c

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Realization A/c	360000	By Equity Shares in Aqua Engineers A/c	300000
		By Cash/Bank	60000
Total	360000	Total	360000

Equity Shares in Aqua Engineers Ltd. A/c

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Aqua Engineers Ltd. A/c	300000	By Bank A/c (25000 X 1/5 X 13)	65000
To Realization A/c (Profit)	5000	By Equity Shareholders A/c (Bal)	240000
Total	305000	Total	305000

Cash/Bank Account

Dr Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	20000	By Realization	20000
To Aqua Engineers Ltd. A/c	60000	By Equity Shareholders A/c	125000
To Equity Shares in Aqua ltd.	65000		
Total	145000	Total	145000

Aqua Engineers Limited
Balance Sheet as on 31st March 2017

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	350000
b.	Reserves and Surplus	2	70000
2.	Non-Current Liabilities		
	Long Term Borrowings	3	75000
3.	Current Liabilities		
a.	Trade Payables		37000
B	Short Term provision (Provision for Tax)		30000
	Total		562000
II	Assets		
1.	Non-Current Assets		
a.	Property, Plant & Equipment		
	Tangible Assets	4	172000
	Intangible Assets (Goodwill)		183500
b.	Non-Current Investment		30000
C	Other Non-Current Assets	5	9000
2.	Current Assets		
a.	Inventories		35000
b.	Trade Receivables	6	55500
c.	Cash & Cash Equivalent (Bank)		77000
	Total		562000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
	Equity Share Capital	
	Issued and Fully paid up shares: 35000 Equity Shares of Rs. 100 each	350000
2.	Reserves and Surplus	
a.	Export Profit Reserve	8000
b.	Security premium reserve	70000
c.	Amalgamation Adjustment Reserve	(8000)
	Total	70000

3.	Long Term Borrowings	
	15% Debentures of Rs. 100 each (66000/88%)	75000
4.	Tangible Assets	
	Land & Building	100000
	Plant	72000
	Total	172000
5.	Other Non-Current Assets	
	Discount on issue of Debentures (Assumed, amortizable after 12 months)	9000
	Total	9000
6.	Trade Receivables	
a.	Debtors (50000 – 2500)	47500
b.	Bills Receivable – Trade	8000
	Total	55500

Working Notes:

Statement of Net Assets Taken Over

Particulars	Amount	Amount
Assets		
Land and Building (Given)	100000	
Plant (80000 X 90%)	72000	
Investment (Book Value)	30000	
Stock (Given)	35000	
Debtors (Book Value)	50000	
Bills Receivable (Book Value)	8000	
Bank (book Value)	20000	315000
Less. Liabilities		
12% Debentures (60000 X 110%)	66000	
Sundry Creditors (Book Value)	37000	
Provision for Tax (Book Value)	30000	
Provision for Doubtful Debts (50000 X 5%)	2500	135500
Net Assets Taken Over		179500
Less. Purchase Consideration		360000
Goodwill		180500

Dr. Cash/Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Beeta Ltd. T/o	20000	By Goodwill (Abs. Exp)	3000
To Shares issued (10000 X 12)	120000	By Beeta Ltd. (P.C)	60000
		By Balance c/d	77000
Total	140000	Total	140000

Note.

1. Alternatively, Discount on issue of debentures may be adjusted against Security Premium.

2. Amalgamation Adjustment Reserve is treated as a separate line item under "Reserve" vide the amendments in AS 14 by the MCA.

Illustration 8.

A Ltd. and B Ltd. carry on similar business decided to amalgamate and for this purpose a new company AB Ltd. was formed to take over assets and liabilities of both the companies. It is agreed that fully paid shares of Rs. 100 each shall be issued by the New Co. to the value of Net Assets of each of the old companies.

Summary Balance Sheet of A Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
Shares of Rs. 50 each	50000	Goodwill	5000
General reserve	20000	Land and Building	17000
Profit and Loss A/c	3000	Plant and Machinery	24000
Sundry Creditors	4000	Stock	10000
Bills Payable	4000	Debtors	12000
		Furniture & Fittings	5000
		Cash at Bank	8000
Total	81000	Total	81000

Summary Balance Sheet of B Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
800 Shares of Rs. 50 each	40000	Goodwill	2000
Bank Overdraft	8000	Land and Building	10000
Sundry Creditors	8000	Plant and machinery	16000
		Stock	7500
		Furniture and Fittings	7500
		Debtors	7000
		Cash	300
		Profit and Loss A/c	5700
Total	56000	Total	56000

The following is the accepted scheme of valuation of the business of the two companies:

A Ltd:

(a) to provide for reserve for bad debts at the rate of 5% on Debtors

(b) to write off Rs. 400 from stock; and

(c) to write off 33 1/3% from plant and machinery

B Ltd:

(a) to eliminate its goodwill and profit and loss a/c balance

(b) to write off bad debts Rs. 1000 and to provide a reserve of 5% on the balance of debtors;

(C) to write off Rs. 1400 from the value of stock.

You are required to prepare the Ledger Accounts in the books of A Ltd. & B Ltd. and also prepare opening balance sheet of AB Ltd.

Solution.

Statement of Purchase Consideration (Net Asset Method)

Particulars	A Ltd.	B Ltd.	AB Ltd.
Assets:			
Goodwill	5000	-	5000
Land and Building	17000	10000	27000
Plant and Machinery	16000	14400	30400
Furniture and Fittings	5000	7500	12500
Stock	9600	6100	15700

Debtors	12000	6000	18000
Cash	8000	300	8300
Total (A)	72600	44300	116900
Less. External Liabilities			
Reserve for Bad Debts	600	300	900
Creditors	4000	8000	12000
Bills Payable	4000	-	4000
Bank Overdraft	-	8000	8000
Total (B)	8600	16300	24900
Purchase Consideration (A – B)	64000	28000	92000
Fully paid shares of Rs. 100 each AB Limited	64000	28000	92000

Note: Assets for which valuation is not given are taken at book value. Eg. Land & Building, Furniture etc.

Ledger of A Limited

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Sundry Assets (transfer)	81000	By Creditors	4000
		By Bills Payable	4000
		By AB Limited (PC Due)	64000
		By Equity Shareholders (Loss on realization)	9000
Total	81000	Total	81000

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (Loss)	9000	By Equity Share Capital A/c	50000
To Equity Shares in AB Ltd. (PC received)	64000	By General Reserve Account	20000
		By Profit and Loss A/c	3000
Total	73000	Total	73000

Dr. AB Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (PC Due)	64000	By Equity Shares in AB Ltd. (P. C Received)	64000
Total	64000	Total	64000

Ledger of B Limited

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Sundry Assets (transfer)	50300	By Creditors	8000
		By Bank O/D	8000
		By AB Limited (PC Due)	28000
		By Equity Shareholders (Loss on realization)	6300
Total	50300	Total	50300

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (Loss)	6300	By Equity Share Capital A/c	40000
To P & L A/c (Dr. Bal)	5700		
To Equity Shares in AB Ltd. (PC received)	28000		
Total	40000	Total	40000

Dr. AB Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (PC Due)	28000	By Equity Shares in AB Ltd. (P. C Received)	28000
Total	28000	Total	28000

AB Limited

Balance Sheet as on 31st March 2012

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
	Share Capital	1	92000
2.	Current Liabilities		
a.	Trade Payables	2	16000
b.	Short Term Borrowings (Bank O/D)		8000
	Total		116000
II	Assets		
1.	Non-Current Assets		
	Property, Plant & Equipment		
	Tangible Assets	3	69900
	Intangible Assets (Goodwill)		5000
2.	Current Assets		
a.	Inventories		15700
b.	Trade Receivables (18000 – 900)		17100
c.	Cash & Cash Equivalent (Cash in hand)		8300
	Total		116000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
	Equity Share Capital	
	Issued and Fully paid up shares: 920 Equity Shares of Rs. 100 each	92000
2.	Trade Payables	
a.	Creditors	12000
b.	Bills Payable	4000
	Total	16000
3.	Tangible Assets	
	Land & Building	27000
	Plant& Machinery	30400
	Furniture & Fittings	12500
	Total	69900

Absorption

Illustration 9.

Premier Ltd. agreed to acquire the business of Modern Auto Ltd. as on 31st March 2012. The Summary Balance Sheet of Modern Auto Ltd. as on that date was as under:

Liabilities	Amount	Assets	Amount
Share Capital 6000 Equity Shares of Rs. 10 each fully paid up	60000	Goodwill Building	10000 30000
General Reserve	17000	Machinery	34000
Profit & Loss A/c	11000	Stock	16800
6% Debentures	10000	Book Debts	3600
Sundry Creditors	2000	UTI Bank Account	5600
Total	100000	Total	100000

The considerations payable by Premier Ltd. was agreed at as follows:

a. Cash payment equal to Rs. 2.50 per share in Modern Auto Ltd.
b. Issue of 9000 Equity Shares of Rs. 10 each of Premier Ltd. having an agreed value of Rs. 15 per share.
c. Issue of such an amount of fully paid 8% Debentures of Premier Ltd. at Rs. 96 each as is sufficient to discharge 6% Debentures of Modern Auto Ltd. at 20% premium.

While computing purchase consideration, Premier Ltd. valued building and machinery at Rs. 60000 each, stock at Rs. 14200 and Book Debts subject to 5% provision for discount. The cost of liquidation of Modern Auto Ltd. was Rs. 500

Prepare:

1. Necessary ledger Accounts in the books of Modern Auto Ltd.
2. Journalise the transactions in the books of Premier Ltd.

Solution.

In the Books of Modern Auto Ltd.

Dr. Realisation Account Cr.

Particulars		Amount	Particulars	Amount
To Assets tfd.				
Goodwill	10000		By Sundry Creditors tfd.	2000
Building	30000		By Debentures tfd.	10000
Machinery	34000		By Premier Ltd. A/c	150000

Stock 16800			
Debtors 3600			
Bank 5600	100000		
To Cash (Expenses)	500		
To Equity Shareholders A/c (Profit on Realisation)	61500		
Total	162000	Total	162000

Dr. Cash Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Premier Ltd.	15000	By Realisation A/c (Expenses)	500
		By Equity Shareholders A/c	14500
Total	15000	Total	15000

Dr. Equity Shareholders Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Cash (15000 – 500)	14500	By Equity Share Capital	60000
To Equity Shares in premier Ltd.	135000	By General reserves	17000
		By P & L A/c	11000
		By Realisation A/c	61500
Total	149500	Total	149500

Dr. Premier Ltd. Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Realisation A/c	150000	By Cash	15000
		By Equity Shares in Premier Ltd.	135000
Total	150000	Total	150000

In the Books of Premier Ltd.

Journal

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Building A/c Dr	60000	
	Machinery A/c Dr	60000	
	Stock A/c Dr	14200	
	Book Debts A/c Dr	3600	
	UTI Bank A/c Dr	5600	
	Goodwill A/c (Bal. fig) Dr	20780	
	To Provision for Discount on Debtors A/c		180
	To Creditors A/c		2000
	To Debentures in Modern Auto Ltd. A/c		12000
	To liquidators of Modern Auto Ltd. A/c		150000
	(Assets and Liabilities taken over at agreed values, difference between P.C and net assets value tfd. To goodwill)		
2	Liquidators of Modern Auto Ltd. Dr.	150000	
	To Cash		15000
	To Equity Shares Capital A/c		90000
	To Securities Premium A/c		45000
	(Purchase Consideration paid)		
3	Debentures in Modern Ltd. A/c Dr	12000	
	Discount on issue of Debentures A/c Dr	500	
	To 8% Debentures A/c		12500
	(Being Debentures taken over-discharged)		

Working Notes:

1. Purchase Consideration (Payment Basis)

Payment to	No.	Rate	Amount
Equity Shareholders			
Cash	6000	2.50	15000
Shares	9000	15.00	135000
Total			150000

2. No. of Debentures to be issued – Rs. 12000 / Rs. 96 = 125
3. Discount on issue of Debentures may be adjusted against Premium received on issue of shares.

Illustration 10.

A Ltd. absorbed B Ltd. w.e.f 31st March 2017 when their Summary Balance Sheets were as under:

Liabilities	A Ltd.	B Ltd	Assets	A Ltd.	B Ltd.
Equity Shares of Rs. 10 each fully paid	1000000	400000	Land and Building	440000	280000
11% Preference Share of Rs. 100 each fully paid	400000	400000	Plant and Machinery	840000	520000
Revaluation Reserves	40000	-	Stock	580000	320000
General Reserves	300000	100000	Sundry Debtors	240000	280000
Export profit reserves	80000	40000	Bills Receivables – Trade	260000	180000
Other Statutory reserves	100000	20000	Bank	40000	20000
15% Debentures	160000	-			
10% Debentures		240000			
Sundry Creditors	320000	400000			
Total	2400000	1600000	Total	2400000	1600000

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. 11% 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% debentures holders 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 interest.

d. All the assets and liabilities of B Ltd were taken over at book value except the following which were revalued as follows

Land and building	Rs. 300000
Plant and Machinery	Rs. 500000
Stock	Rs. 300000
Sundry Debtors	Rs. 260000
Bills Receivable	Rs. 160000
Sundry Creditors	Rs. 380000

e. Cost of absorption amounting to Rs. 10000 was paid by A Ltd.

f. Creditors of B Ltd. include Rs. 10000 payable to A Ltd.

g.

h. It was decided by directors of A Ltd. to set off goodwill and capital reserve mutually.

You are required to:

1. Compute Purchase Consideration of B Ltd.
2. Pass Journal entries in the books of A Ltd.
3. Prepare Balance Sheet after absorption of A Ltd.

Solution.

Statement of Purchase Consideration

No	Particulars	Amount
1	11% Preference Shareholders 4000 Preference Shares of Rs. 100 each at Rs. 105 each (4000 X Rs. 105)	420000
2	Equity Shareholders 64000 Equity Shares of Rs. 10 each at Rs. 11 each (40000 X 8/5) X Rs. 11	704000
3	Purchase Consideration	1124000

Journal of A Ltd.

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Business Purchase A/c Dr To Liquidator of B Ltd. (Being Business purchased)	1124000	1124000

2	Land & Building A/c Dr Plant & machinery A/c Dr Stock A/c Dr Debtors A/c Dr Bills Receivable A/c Dr Bank A/c Dr Goodwill (Bal. fig) Dr To 10% Debentures of B Ltd To Sundry Creditors To Business Purchase A/c (Being Assets and Liabilities Taken Over)	300000 500000 300000 260000 160000 20000 204000	 240000 380000 1124000
3	Liquidator of B Ltd. A/c Dr To 11% Pref. Shares Capital A/c To Equity Share Capital A/c To Security Premium A/c (20000 + 64000) (Being PC discharged)	1124000	 400000 640000 84000
4	10% Debentures of B Ltd. A/c Dr To 15% Debentures (240000 X 10/15) To Capital Reserve (Being 15% Debentures exchanged for 10% Debentures)	240000	 160000 80000
5	Amalgamation Adjustment Reserve A/c Dr To Export Profit Reserve To Other Statutory Reserve (Being Export Profits and Statutory reserve adjusted)	60000	 40000 20000
6	Goodwill A/c Dr To Bank A/c (Being payment of cost of absorption)	10000	 10000
7	Sundry Creditors A/c Dr To Sundry Debtors A/c (Being settlement of amount payable by B Ltd. to A Ltd)	10000	 10000
8	Capital Reserve A/c Dr To Goodwill A/c (Being Goodwill and Capital Reserve set off mutually)	80000	 80000

A Ltd.

Balance Sheet as at 31st March 2017 (After Amalgamation)

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	2440000
b.	Reserves and Surplus	2	604000
2.	Non-Current Liabilities		
	Long Term Borrowings (15% Debentures)		320000
3	Current Liabilities		
	Trade Payables (320000 + 380000 – 10000)		690000
	Total		4054000
II	Assets		
1.	Non-Current Assets		
	Property, Plant & Equipment		
	Tangible Assets	3	2080000
	Intangible Assets (Goodwill – 204000 + 10000 – 80000)		134000
2.	Current Assets		
a.	Inventories (580000 + 300000)		880000
b.	Trade Receivables	4	910000
c.	Cash & Cash Equivalent	5	50000
	Total		4054000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
a.	Equity Share Capital	
	Issued and Fully paid up shares: 164000 Equity Shares of Rs. 10 each	1640000
b.	Preference Share Capital	
	Issued and Fully paid up shares: 8000, 11% Preference Shares of Rs. 100 each	800000
	Total	2440000

2.	Reserves and Surplus	
a.	Security Premium	84000
b.	Revaluation Reserve	40000
c.	Export Profit Reserve (80000 + 40000)	120000
d.	Statutory Reserve (100000 + 20000)	120000
e.	General Reserve	300000
f.	Amalgamation Adjustment Reserve	(60000)
	Total	604000
3.	Tangible Assets	
	Land & Building (440000 + 300000)	740000
	Plant & Machinery (840000 + 500000)	1340000
	Total	2080000
4	Trade Receivable	
a.	Debtors (240000 + 260000 – 10000)	490000
b.	Bills Receivable (260000 + 160000)	420000
	Total	910000
5	Cash and Cash Equivalent	
	Balance with Bank (60000 – 10000)	50000

Illustration 11)

B Co. Ltd had the following Summary Balance Sheet as on 31st March 2012:

B Co. Ltd

Liabilities	B Ltd	Assets	B Ltd.
Share Capital		Fixed Assets	8300000
50000 Shares of Rs. 100 each	5000000	Current Assets	6900000
Capital Reserve	1000000	Investments	1700000
General Reserve	3600000	Goodwill	200000
Unsecured Loans	2200000		
Sundry Creditors	4200000		
Provision for Taxation	1100000		
Total	17100000	Total	17100000

B Co. Ltd is absorbed by Beesons Limited as on 31st March 2012 on which date the summary balance sheet of Beesons Limited is as follows:

Beesons Limited

Liabilities	B Ltd	Assets	B Ltd.
Share Capital		Fixed Assets	16000000
800000 Shares of Rs. 10 each	8000000	Current Assets	16800000
General Reserve	10000000		
Secured Loans	4000000		
Sundry Creditors	4600000		
Provision for Taxation	5200000		
Provision for Dividend	1000000		
Total	32800000	Total	32800000

For the purpose of the absorption the goodwill of B Co. Ltd is considered valueless. There are also arrears of depreciation in B Co. Ltd amounting to Rs. 400000. The shareholders in B Co. Ltd are allotted, in full satisfaction of their claims, shares in Beesons Limited in the same proportion as the respective intrinsic values of the shares of the two Companies bear to one another.

Show necessary ledger accounts of B Co. Ltd and prepare the opening balance sheet of Beeson Limited after absorption.

Solution.

Calculation of Purchase Consideration (Net Assets Method)

Particulars	B Co. Ltd	Beeson Ltd.
Intrinsic value of shares		
Fixed Assets	8300000	16000000
Less. Arrears of Depreciation	400000	-
Net Fixed Assets	7900000	16000000
Current Assets	6900000	16800000
Investment	1700000	-
(A)	16500000	32800000
Less. Liabilities		
Secured Loans	-	400000
Unsecured Loans	2200000	-

Sundry Creditors	4200000	4600000
Provision for Taxation	1100000	5200000
Provision for Dividend	-	1000000
(B)	7500000	14800000
Intrinsic Value (A – B) (Value of Net Assets)	9000000	18000000
Total No of Shares	50000	800000
Value per Share (Rs) (Net Assets / No. of Shares)	180	22.50

Exchange Ratio:

Thus, shareholders of B Ltd. should get shares in Beesons Ltd. worth Rs. 9000000. The value per share of Beesons Ltd is Rs. 22.50. So, the number of shares to be issued to the shareholders of B Ltd. = 9000000 / 22.50 = 400000.

In the Books of B Co. Ltd.

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Sundry Assets (Transfer)	17100000	By Sundry Liabilities (Transfer)	7500000
		By Beesons Limited (PC Due)	9000000
		By Equity Shareholders (Loss on Realisation)	600000
Total	17100000	Total	17100000

Dr. Equity Shareholders' Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (Loss Transferred)	600000	By Equity Share Capital (Transfer)	5000000
To Shares in Beesons Ltd (PC Received)	9000000	By Reserves (Transfer)	4600000
Total	9600000	Total	9600000

Dr. Beesons Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (PC Due)	9000000	By Shares in Beesons Ltd. (PC received)	9000000
Total	9600000	Total	9600000

Beesons Limited

Balance Sheet as at 31st March 2012

Sr. No	Particulars	Note No	Amount
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	1200000
B	Reserves and Surplus	2	1500000
2.	Non-Current Liabilities		
	Long Term Borrowings	3	6200000
3.	Current Liabilities		
a.	Trade Payables		8800000
b.	Short Term Provisions	4	7300000
	Total		49300000
II	Assets		
1.	Non Current Assets		
a.	Property, Plant and Equipment		23900000
b.	Non-current Investments		1700000
2.	Current Assets		23700000
	Total		49300000

Notes to accounts	Amount (Rs)
Share Capital	
Equity Share Capital	
Issued, Subscribed and fully paid:	
1200000 equity shares of Rs. 10 each (Of the above 400000 shares issued on amalgamation without consideration in cash)	12000000
Reserves and Surplus	

Security Premium	5000000
General reserves	10000000
Total	15000000
Long term borrowings	
Secured loans	4000000
Unsecured Loans	2200000
Total	6200000
Short Term Provisions	
Provision for Tax	6300000
Proposed Dividends	1000000
Total	7300000

Illustration 12.

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:

Liabilities	Amount	Assets	Amount
12000 equity shares of Rs. 10 each fully paid	120000	Goodwill	20000
General Reserve	34000	Building	60000
Profit and Loss A/c	22000	Machinery	68000
6% Debentures	20000	Closing stock	33600
Creditors	4000	Debtors	7200
		ICICI Bank Account	11200
Total	200000	Total	200000

The consideration payable was as follows:

a. Cash payment equal to Rs. 2.50 per share in Jerry Ltd.
b. Issue of 18000 Equity shares of Rs. 10 each of Tom Ltd having an 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 at 20% premium.
d. While calculating the consideration the assets were revalued as follows:
   Building and Machinery at Rs. 120000 each, Stock at Rs. 28400 and Debtors subject to 5% provision for discount.
e. Liquidation expenses agreed to be paid by Jerry Ltd. was Rs. 1000

Prepare:

1. Statement of Purchase Consideration
2. Necessary ledger accounts to close the books of Jerry Ltd.
3. Opening Journal entries in the books of Tom Ltd.

Solution

Statement of Purchase Consideration (Payment Method)

Payments to	**No.**	**Rate**	**Amount (Rs)**
Equity Shareholders			
Cash	12000	2.50	30000
Shares	18000	15.00	270000
Total			300000

Ledger Accounts to close Books of Jerry Ltd.

Dr. Realisation Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Sundry Assets:		By Sundry Liabilities:	
Goodwill	20000	Creditors	4000
Building	60000	Debentures	20000
Machinery	68000		
Stock	33600	By Tom Ltd. A/c (P.C)	300000
Debtors	7200		
Bank	11200		
To Cash (Expenses)	1000		
To Profit transferred to Equity Shareholders A/c (Bal. fig)	123000		
Total	**324000**	**Total**	**324000**

Dr. Cash Account Cr.

Particulars	Amount	Particulars	Amount
To Tom Ltd.	30000	By Realisation A/c (Expenses)	1000
		By Equity Shareholders A/c	29000
Total	**30000**	**Total**	**30000**

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Cash	29000	By Equity Share Capital	120000
To Equity Shares in Tom Ltd.	270000	By General Reserve	34000
		By Profit and Loss A/c	22000
		By Realisation A/c (Profit)	123000
Total	**299000**	**Total**	**299000**

Dr. Tom Ltd. Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (P.C)	300000	By Cash	30000
		By Equity Shares in Tom Ltd.	270000
Total	**300000**	**Total**	**300000**

Opening Journal Entries in the Books of Tom Ltd.

No	Particulars	Dr (Rs)	Cr (Rs)
1	Business Purchase A/c Dr To Liquidation of Jerry Ltd. A/c	300000	 300000
2	Building A/c Dr Machinery A/c Dr Stock A/c Dr Debtors (Gross) Dr Bank A/c Dr Goodwill A/c (Bal. fig) Dr. To Provision for discount on debtors To Creditors To Debentures (Old) To Business Purchase (Being assets and liabilities taken over at agreed values, difference transferred to Goodwill A/c)	120000 120000 28400 7200 11200 41560	 360 4000 24000 300000
3	Liquidation of Jerry Ltd. A/c Dr To Cash A/c To Equity Share Capital A/c To Security Premium A/c (Being P.C Settled)	300000	 30000 180000 90000
4	Debentures (Old) A/c Dr Discount on issue of debentures A/c Dr To 9% Debentures A/c (Being debentures taken over discharged)	24000 1000	 25000

Illustration 13.

The following is the Summary Balance Sheet of Vikrant Ltd:

Liabilities	Amount	Assets	Amount
Issued and paid up		Intangible Assets	50000
Equity Share capital	500000	Fixed Assets	420000
Statutory Reserve (to be maintained for 3 more years)	10000	Current assets	110000
Debentures	100000	Profit and Loss A/c	80000
Creditors	50000		
Total	660000	Total	660000

Virat Ltd. agreed to absorb Vikrant Ltd. on the following terms:

1. Virat Ltd. agreed to take over all the assets and liabilities
2. The assets of Vikrant Ltd. are to be considered to be worth Rs. 500000
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 shares 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.

Solution:

Purchase Consideration (PC)

Particulars	Rs	Rs
Market value of assets taken over:		500000
Less. Liabilities taken over		
Creditors	50000	
Debentures	100000	150000
		350000
Purchase consideration is to be discharged		
In Cash ¼ X Rs. 350000		87500
In Shares ¾ X Rs. 350000		262500
		350000

Working notes:

Nos of shares to be issued to the vendors co. has been calculated as under:

Amount to be paid in shares : ¾ of Rs. 350000 = 262500

Agreed value of 1 share Rs. 12

No of shares = 262500 / 12 21875 shares

In the books of Vikrant Ltd.

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Intangible Assets	50000	By Debentures	100000
To Fixed Assets	420000	By Creditors	50000
To Current Assets	110000	By Virat Ltd. (PC)	350000
To Bank (Expenses)	300	By Equity Shareholders (Loss on realization)	80300
Total	580300	Total	580300

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c	80300	By Equity Share Capital	500000
To Profit and Loss A/c	80000	By Statutory Reserve	10000
To Bank	87200		
To Shares in Virat Ltd.	262500		
Total	510000	Total	510000

Dr. Virat Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c	350000	By Bank Account	87500
		By Shares in Virat Ltd.	262500
Total	**350000**	**Total**	**350000**

Dr. Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Virat Ltd.	87500	By Realisation A/c	300
		By Equity Shareholders	87200
Total	87500	Total	87500

Dr. Equity Shares on Virat Ltd. Account Cr.

Particulars	Amount	Particulars	Amount
To Virat Ltd.	262500	By Equity Shareholders	262500
Total	262500	Total	262500

In the books of Virat Limited

No	Particulars	Dr (Rs)	Cr. (Rs)
1	Business Purchase A/c Dr. To Liquidators of Vikrant Ltd. A/c	350000	 350000
2	Fixed Assets A/c Dr Current Assets A/c Dr To Trade Creditors A/c To Debentures in Vikrant A/c To Capital Reserve A/c To Business Purchase A/c	420000 110000	 50000 100000 30000 350000
3	Liquidation of Vikrant Ltd A/c Dr To Equity Share Capital A/c To Securities Premium A/c To Bank A/c	350000	 218750 43750 87500
4	Amalgamation Adjust Reserve A/c Dr To Statutory Reserve	10000	 10000
5	Debentures in Vikrant A/c Dr To Bank A/c	100000	 100000

3.8 EXERCISE

1. What is purchase consideration? What are different methods of Amalgamation?
2. Conditions for amalgamation in the nature of purchase.
3. Explain the Term:
   a. Amalgamation;
   b. Absorption;
   c. External Reconstruction

Illustration:1

Following is Balance Sheet of Toofan Ltd as on 31st March 2023

Liabilities	Rs	Assets	Rs
Share Capital		Goodwill	1,00,000
10,000 Equity share of Rs 100	10,00,000	Machinery	2,50,000
2,000 8% Preference Shares of Rs.100 each fully paid	4,00,000	Land & Building	5,00,000
Securities Premium	2,00,000	Furniture	1,00,000
Revenue Reserves	1,00,000	Trade Receivables	4,50,000
Trade Payables	3,00,000	Inventory	4,00,000
		Cash and Bank	2,00,000
	20,00,000		20,00,000

Toofan Ltd received the following offers from Hanuman Ltd.:

1. HanumanLtd. agrees to pay ₹ 25,00,000 cash.
2. Hanuman Ltd. agrees to take over on the following terms:
   a) Equity shareholders to given 20 Equity shares fully paid of Rs.15each in Hanuman Ltd.for every 2 Equity shares of Toofan Ltd.
   b) 8% Preference shareholders of ToofanLtd. to be issued 10% Preferance shares of Rs.100 each fully paid on 1:1 basis.
   c) Sundry Creditors to be settled in cash.

3. Toofan Ltd. Received another offer Aashna Ltd.offers to take over business of Toofan Ltd.on the following terms:

   a) Assets to be revalued as follows:

Goodwill	1,50,000
Land &Building	9,00,000
Trade Receivables	4,00,000
Inventories	3,50,000
Furniture	80,000

a. Sundry creditors to be taken over subject to 5% discount.

b. 7% Preference shareholders to be issued 10% Preference shares of Rs. 100 each of same amount. Balance of purchase consideration to be discharged by issue of Equity shares of Rs.10 eachatpar.

c. Prabhu Ltd. agreed to take over Mihir Ltd. on the basis of intrinsic value of Equity share of Toofan., revaluing Goodwill at Rs.2,00,000. The entire purchase price to be paid by issue of 2,0009% Preference shares of Rs.100 each atpar and balance in Equity shares of Rs.10 each to beconsidered worth Rs. 12.50.each.

❖❖❖❖

4

INTERNAL RECONSTRUCTION

Unit Structure :

4.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the various types of reconstruction.
- Know the alternation of share capital.
- Explain the procedure of reconstruction.
- Understand the Accounting entries for reconstruction.
- Solve the practical problems on the unit.

4.1 INTRODUCTION

The term reconstruction refers to reorganising a company's financial structure and reducing the claims of both classes of shareholders and creditors against the company. It is also known as reorganisation, and it allows the existing company to continue. Sick companies (loss-making companies) can be taken over by profit-making companies; however, if huge losses exist and assets are overvalued or undervalued, the company may reduce share capital for reconstruction. External or internal reconstruction is possible.

4.2 TYPES OF RECONTRUCTION

The Company can be reconstructed internally or externally.

It means two types of reconstruction is possible:

4.2.1 External Reconstruction:

In the case of external reconstruction, a new company is formed to take over the operations of an existing loss-making company that is in a bad financial situation. The vendor company is liquidated, and the new company takes over its operations.

4.2.2 Internal Reconstruction:

In the case of internal reconstruction, the company's capital structure is reorganised in order to breathe new life into the company. It includes the modification, reduction, and reorganisation of the company's share capital.

4.3 ALTERATION OF SHARE CAPITAL

A limited company if authorized by its Articles of Association can alter the capital clause of its Memorandum of Association. As per Sec. 61 of the Companies Act 2013 a company can alter its share capital. The alteration of share capital may be in following different ways: -

a] Increase in share capital by the issue of new shares. b] Consolidation of shares:

Consolidation refers to conversion of shares of the smaller denomination into shares of larger denomination e.g: 1000 equity shares of Rs . 10 each can be consolidated into 100 shares of Rs. 100 each.

c] Subdivision of shares:

Sub division refers to conversion of shares of the largerdenomination into shares of small denomination e.g: 1000 equity shares of Rs. 100 each can be subdivided into 10000 shares of Rs. 10 each.

d] Conversion of shares into stock:

A corporation's shares can be converted into stock. Stocks can be purchased in fractions, but shares cannot. Conversion of shares into stock requires Central Government approval.

e] Surrender of shares:

In the case of a share surrender, shareholders may be required to surrender a portion of their shareholdings. Such a surrender may be made prior to immediate cancellation or for distribution to some of the company's creditors in satisfaction of their claim.

f] Cancellation of Unissued shares:

There is no need for an accounting entry to be made when a company cancels its unissued shares. The amount of unissued shares now cancelled will be deducted from the company's authorised share capital.

4.4 LEGAL ASPECTS

Internal reconstruction plans should be based on careful research and proper asset and liability valuation. It entails a compromise or arrangement reached between the company and its members or creditors. However, the following factors should be carefully considered when developing an internal reconstruction strategy:

a] Changes in share capital in any form should be considered in accordance with the provisions of the M/A & A/A, and if necessary, the company should amend the provisions in the M/A & A/A.

b] Within 30 days of passing a resolution, the company must notify the Register of Companies.

c] In some cases, SEBI sanction is required.

d] A Board Resolution is required to make the change.

4.5 CAPITAL REDUCTION (Section 66)

Reducing capital is necessary for internal reconstruction in order to cancel any paid-up share capital that is lost during business operations and is not equal to the true value of the assets.
The following are some ways that a company can reduce its share capital:
a] writing off capital loss
a] Refunding Surplus paid-up capital.

b] Lowering the members' liability for uncalled capital.

Only after each of the following conditions has been met by the company can it reduce its share capital.

Such a reduction must be permitted by the business' A/A.

The business adopts a special resolution to lower its share capital.

The corporation gets the court's approval.Only when it is approved by the court and registered with the Registrar of Companies will a capital reduction take effect. The company's name may, at its option, have the words "And Reduced" appended for the time period specified.

4.6 ACCOUNTING ENTRIES

1] When the face value of share is changed:

Share capital A/c (old) Dr.

(With paid up value of old shares)To Share Capital A/c (new)

(With paid up value of new shares)

To Capital Reduction A/c(With difference)

2] When any sacrifice is made by the creditors:

Creditors A/c (with sacrifice) Dr.

To Capital Reduction A/c

3] When there is reduction in share capital (face value ofshare is not changed)

Share Capital A/c Dr.

To Capital Reduction A/c

(With the amount of reduction).

4] When the value of any asset is appreciated:

Asset A/c (increase in value) Dr.

To Capital Reduction A/c

5] When any sacrifice is made by the Debenture Holders

Debentures A/c (increase in value) Dr.

To Capital Reduction A/c

6] When shares are consolidated:

Share Capital A/c (say Rs. 10) Dr.

To Share Capital A/c (say Rs. 100)

7] When Shares are subdivided:

Share Capital A/c (say Rs. 100) Dr.

To Share Capital A/c (say Rs. 10)

8] When capital reduction is utilised for writing off fictitious assets, losses and excess value of other assets:

Capital Reduction A/c Dr.

To P/L A/c (Dr.bal)

To Goodwill A/c

To Preliminary Expenses A/c

To Discount on Shares/Debentures A/cTo Other Assets A/c

To Capital Reserve A/c (if any balance is left)

9] When shares are converted into stock:

Share Capital A/c Dr.

To Share Stock A/c

10] When shares are surrendered:

Share Capital A/c Dr.

To Share Surrendered A/c

11] When surrendered shares are converted into preference shares:

Share Surrendered A/c Dr.

To Preference Share Capital A/c

12] When contingent liability/unrecorded liability is paid for:

Capital Reduction A/c Dr.

To Bank A/c

(**Note:** No entry is required for amount foregone against suchliability.)

13] When recorded liability is paid for:

Liability A/c Dr.

To Bank A/c

(**Note:** Any profit or loss should be transferred to Capital ReductionA/c)

14] When recorded assets are disposed off:

Bank A/c Dr.

To Assets A/c

(**Note:** Any profit or loss on sale should be transferred to CapitalReduction A/c)

15] When Reconstruction expenses are paid

Capital Reduction A/c Dr.

To Bank A/c

16] When an unrecorded asset is sold off:

Bank A/c Dr.

To Capital Reduction A/c

17] When finance is raised by issue of shares

Bank A/c Dr.

To Share Capital A/c

18] When arrears of preference dividend are cancelled:No Entry (As it is contigent liability)

19] When new debentures are exchanged for olddebentures:

Old Debentures A/c Dr.

To New Debentures A/c

20] When arrears of preference dividend are settled by issueof deposit certificates cash/shares:

Capital Reduction A/c Dr.

To Deposit Certificates/Cash/Share Certificate A/c

21] When the rate of preference dividend is changed:

Preference Share Capital (old) A/c Dr.

To Preference Share Capital A/c (new)

22] When surrendered shares are issued to creditors:

(a) Share Surrendered A/c Dr.

To Share Capital A/c

(b) Creditors A/c Dr.

To Capital Reduction A/c

Note: Profit or Loss on scheme to be transferred to capitalReduction A/c.

23] When provision for taxation, Capital Reserve, SecuritiesPremium is utilized:

Provision for Taxation A/c Dr.

Capital Reserve A/c Dr.

Securities Premium A/c Dr.

To Capital Reduction A/c

Capital Reduction Account

It is a nominal account prepared to debit all the losses and fictitious assets , credit all the incomes , surrendered amount by shareholders and appreciation of assets. Balance if any is transferred to capital reserve.

Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To P & L A/c (Loss written off)	XX	By Share Capital A/c (Amount of reduction)	XX
To Goodwill A/c (Written off)	XX	By Debentures A/c (Amountof Reduction)	XX
To Preliminary expenses A/c (Written off)	XX	By Creditors A/c (Amount ofSacrifice)	XX
To Discount on Shares/Debentures (Written off)	XX	By Assets A/c (Increase in value)	XX
To Assets A/c (Decrease in value)	XX	By Bank A/c (sale of unrecorded assets)	XX
To Bank A/c (payment of unrecorded liability)	XX		
To Bank A/c (payment of Reconstruction Expenses)	XX		
To Bank A/c (Refund of DirectorsFees)	XX		
To Capital Reserve (Balancing figure)	XX		
	XXX		**XXX**

4.7 SOLVED PROBLEMS

Illustration– 1

Following is the Balance sheet of M/s. Life Care Ltd. as on 31st March, 2015.

Balance Sheet as on 31st March, 2015.

Liabilities	**Rs.**	**Assets**	**Rs.**
50,000 – 8% Cumulative Preference Shares ofRs.10/- each.	5,00,000	Goodwill	1,00,000
40,000 – Equity Shares of Rs.10/- each.	4,00,000	Freehold Property	1,50,000
		Leasehold Property	2,40,000
		Plant & Machinery	3,00,000
		Furniture	1,00,000
		Stock	50,000
Security Premium	8,000	Debtors	1,00,000
9% Debentures	1,00,000	Preliminary Exp.	9,000
Accrued Debenture Interest	6,000	Profit & Loss A/c	2,07,000
Sundry Creditors	1,00,000		
Bank Overdraft	1,42,000		
	12,56,000		12,56,000

Note –

1) Preference dividend was in arrears for 2 years.

2) There was a contingent liability of Rs.50,000/- for workmen compensation.

Following scheme of reconstruction was approved & implemented.

a) The Preference shares were reduced to Rs.7/- per share fully paid & Equity Shares to Rs.4/- per share fully paid.

b) One new Equity share of Rs.10/- each was issued of every Rs.50/- gross preference dividend in arrears.

c) After reduction, both classes of shares were consolidated into Rs.10/- shares.

d) The balance of Securities Premium was utilized.

e) Plant & Machinery was written of down to Rs.2,00,000/-.

f) Furniture was sold at Rs.85,000/-

g) Preliminary expenses debit balance in Profit & Loss A/c, debt of Rs.15,000/- & obsolete stock Rs.18,000/- were to be written off.

h) Contingent liability for which no provision has been made was settled at Rs.25,000/-. However, the amount of Rs.11,000/- was recovered from insurance company.

i) Debenture holders agreed to Forgo principal amount by Rs.60,000/- & accrued debenture interest in full.

Pass journal entries and capital reduction account.

Solution :

Journal of Life Care Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	8% Preference Share Cap. A/c ....Dr. (50,000X10) To 8% Preference Share Capital A/c (50,000X7) To Capital Reduction A/c (50,000X3) (Being reduction in 8% Preference Capital.)	5,00,000	 3,50,000 1,50,000

2.	8% Preference Share Capital A/c ....Dr. (40,000X8) To 8% Preference Share Capital A/c (32,000X10) (Being consolidation of 8% Preference Shares.)	3,20,000	 3,20,000
3.	Equity Share Capital A/c Dr. (40,000X10) To Equity Share Capital A/c (40,000X4) To Capital Reduction A/c (40,000X6) (Being reduction in Equity Share Capital)	4,00,000	 1,60,000 2,40,000
4.	Equity Share Capital A/c ....Dr. (40,000X3) To Equity Share Capital A/c (12,000X10) (Being consolidation of Equity Shares.)	1,20,000	 1,20,000
5.	Capital Reduction A/c Dr. To Equity Share Capital A/c (8%X5,00,000X 3 X10) (Being arrears of Preference dividend paid by issue of Equity shares.)	24,000	 24,000
6.	Security Premium A/c Dr. To Capital Reduction A/c (Being Security Premium used.)	8,000	 8,000
7.	Bank A/c Dr. Capital Reduction A/c ....Dr. To Furniture A/c (Being sale of Furniture at a loss of Rs.25,000/-)	85,000 15,000	 1,00,000
8.	Capital Reduction A/c ....Dr. To Bank A/c (Being payment of contingent liability.)	25,000	 25,000

9.	Bank A/c.. Dr. To Capital Reduction A/c (Being recovery of claim from insurance company.)	11,000	 11,000
10.	9% Debentures A/c...................................Dr. Accrued Debenture interest A/c .... Dr. To Capital Reduction A/c	60,000 6,000	 66,000
11.	Capital Reduction A/c ....Dr. To Plant & Machinery A/c (3,00,000 – 2,00,000) To Preliminary Expenses A/c To Profit & Loss A/c To Sundry Debtors A/c To Stock A/c To Capital Reserve A/c (Being losses & Assets written off.)	3,91,000	 1,00,000 9,000 2,07,000 25,000 18,000 52,000

Capital Reduction Account

Dr. Cr.

Particulars	Amt.	Particulars	Amt.
To Equity Share Cap. A/c	24,000	By 8% Pref. Share Cap. A/c	
(Preference Dividend)		By Equity Share Capital A/c	1,50,000
To Furniture	15,000		
To Plant & Machinery A/c	1,00,000	By Security PremiumBy 9% Debentures	2,40,000
To Preliminary Expenses	9,000	By Accrued interest on debentures	8,000
To Profit & Loss A/c	2,07,000	By Bank (Insurance)	60,000
To Sundry Debtors A/c	25,000		
To Stock	18,000		6,000
To Bank	25,000		11,000
(Contingent liability)			
To Capital Reserve	52,000		
	4,55,000		4,75,000

Illustration – 2

Following is the Balance Sheet of Satya Ltd. as on 31st March,2015.

Balance Sheet as on 31st March 2015

Liabilities	Amt.	Assets	Amt.
Share Capital		Goodwill	3,00,000
1,50,000 Equity Shares		Land & Building	2,40,000
of Rs.10/- each fully paid	7,50,000	Equipment	2,10,000
		Sundry Debtors	2,00,970
5,000 6% Preference Shares of Rs.100/- each fully paid		Stock	3,32,440
		Investment	44,000
	5,00,000	Cash at Bank	21,000
8% Debentures	3,00,000	Profit & Loss A/c	7,51,590
Bank Overdraft	1,70,000		
Sundry Creditors	3,80,000		
(including Rs.22,000			
int. on Bank Overdraft)			
	21,00,000		21,00,000

The preference dividend is in arrears for Five years.

Following scheme of reconstruction was approved by the court.

1) Equity Shares be reduced to Rs.1.5/- each of then to be consolidated into shares of Rs.10/- each.

2) 6% Preference shares be reduced to Rs.50/- each & then to be subdivided into shares of Rs.10/- each.

3) Interest accrued but not due on 8% debentures. For half year ended 31st March 2015 has not been provided in the above Balance Sheet. The debenture holders have agreed to received30% of this interest in cash immediately & provision for the balance be made in the books of account.

4) Rs.20,000/- be paid to Preference shareholders in lieu of arrears of Preference dividend.

5) The debenture holders have also agreed to accept equal number of 9% debentures of Rs.60/- each in exchange of 8% debentures of Rs.100/- each.

6) Bank has agreed to take over 50% stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs.80,000/-.

7) Investment be sold for Rs.39,000/-.

8) Tangible Fixed assets be appreciated by 15% & provision bemade for doubtful debts of Rs.18,000/-.

Give journal entries for the above scheme of reconstruction. Prepare Capital Reduction Account in the books of Satya Ltd. & Balance sheet of the company after reconstruction.

Solution :

Journal of Satya Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Shares Capital A/c (5) Dr. To Equity Share Capital A/c (1.50) To Capital Reduction A/c (3.5) (Being 1,50,000 Equity Shares of Rs.5/- each reduced to Rs.1.50 each.)	7,50,000	2,25,000 5,25,000
2.	Equity Share Capital A/c (1.50) Dr. To Equity Share Capital (10) (Being 1,50,000 Equity shares of Rs.1.50 consolidated into shares of Rs.10/- each.)	2,25,000	2,25,000
3.	6% Preference Share Capital A/c (100) .. Dr. To 6% Preference Share Capital A/c (50) To Capital Reduction A/c (Being 6% Preference shares of Rs.100/- each reduced to shares of Rs.50/- each.)	5,00,000	2,50,000 2,50,000
4.	6% Preference Share Capital A/c Dr. To 6% Preference Shares Capital A/c (Being 6% Preference shares of Rs.50/- each subdivided into shares of Rs.10/- each.)	2,50,000	2,50,000

5.	Capital Reduction A/c Dr. To Bank A/c To Interest on Debentures A/c (Being payment of accrued interest on debentures to the extent of 30% & provided for the balance.)	12,000	 3,600 8,400
6.	Capital Reduction A/c Dr. To Bank A/c (Being paid to preference share holders in lieu of arrears of dividend.)	20,000	 20,000
7.	8% Preferences A/c (100) Dr. To 9% Debentures A/c (60) To Capital Reduction A/c (Being exchanged 8% debentures by 9% debentures.)	3,00,000	 1,80,000 1,20,000
8.	Bank Overdraft A/c Dr. Sundry Creditors A/c Dr. (Interest on Bank Overdraft)To Stock A/c To Capital Reduction A/c (Being taken over 50% of the Stock by the bank in satisfaction of bank overdraft.)	1,70,000 22,000	 1,66,220 25,780
9.	Capital Reduction A/c Dr. To Stock A/c (Being reduction in Stock.)	86,220	 86,220
10.	Bank A/c Dr. Capital Reduction A/c Dr. To Investment A/c (Being sale of investment at a loss.)	39,000 5,000	 44,000

11.	Capital Reduction A/c Dr. To Profit & Loss A/c To Provision for doubtful debts A/c To Capital Reserve A/c (Being written off profit & loss account debit balance, provided for reduction redemption reserve & transferred the remaining amount to Capital Reserve Account.)	8,65,040	7,51,590 18,000 95,470
12.	Land & Building A/c Dr. Equipment A/c Dr. To Capital Reduction A/c (Being appreciation in Land & Building &Equipment.)	36,000 31,500	67,500

Capital Reduction Account

Dr. **Cr.**

Particulars	**Amt.**	**Particulars**	**Amt.**
To Bank A/c To Int. on debentures To Bank A/c To Stock A/c To Investment A/c To Profit & Loss A/c To Provision for doubtful debts. To Capital Reserve	3,600 8,400 20,000 86,220 5,000 7,51,590 18,000 95,470	By Equity Share Capital A/c By 6% Preference Share Capital A/c By 8% Debentures A/c By Bank Overdraft & Creditors A/c By Land & Building A/cBy Equipments A/c	5,25,000 2,50,000 1,20,000 25,780 36,000 31,500
	9,88,280		9,88,280

Satya Ltd. (And Reduced) Balance Sheet as on 1st April 2015

Particulars	Notes	Rs.	Rs.
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a. Share Capital	1	4,75,000	
b. Reserves & Surplus	2	95,470	5,70,470
2. Non-Current Liabilities			
Long Term Borrowings			
			1,80,000
3. Current Liabilities			
a. Trade Payables			3,58,000
b. Other Current Liabilities	3		8,400
Total			**11,16,870**
II. ASSETS			
1. Non current Assets			
a. Fixed Assets	4		5,17,500
- i. Tangible Assets			
ii. Intangible Assets			3,00,000
(Goodwill)			
2. Current Assets		80,000	
a. Inventories	5	1,82,970	
b. Trade Receivables		36,400	2,99,370
c. Cash & Cash Equivalents			
Total			**11,16,870**

Notes to Accounts

Note – 1 Share Capital	**Number**	**Rs.**
Authorised Share Capital		
Issued, Paid Up Share Capital		
Equity Share Capital		
Equity Shares of Rs. 10/- each Preference Share Capital	22,500	2,25,000
6% Pref. Share of Rs. 10/- each	25,000	2,50,000
		4,75,000

Note – 2 Reserves & Surplus	**Rs.**	**Rs.**
Capital Reserve		95,470
(transf. from Capital Reduction A/c)		

Note – 3 Other Current Liabilities	**Rs.**	**Rs.**
Interest payable on Debentures		8,400

Note – 4 Tangible Assets	**Rs.**	**Rs.**
Land & Building	2,76,000	
Equipments	2,41,500	5,17,500

Note – 5 Trade Receivables	**Rs.**	**Rs.**
S. Debtors	2,00,970	
Less: Prov.for doubtful debts.	18,000	1,82,970

Illustration – 3

Following is the Balance sheet of Damyanti Ltd. as on 31st March,2015.

Liabilities	**Amt.**	**Assets**	**Amt.**
16,000 12% Preference Shares of Rs.10/- each fully paid up	1,60,000	Goodwill	90,000
		Patents	50,000
		Land & Building	1,50,000
		Plant & Machinery	3,00,000
14000 10% Preference shares of Rs.10/-, Rs.5/- per share paid up	70,000	Furniture	35,000
		Investment	85,000
		Sundry Debtors	3,00,000
		Bills Receivables	1,20,000
18,000 Equity Share of Rs.10/- each fully paid up	1,80,000	Bank	30,000
		Profit & Loss A/c	71,500
12% Debenture of Rs.100/- each	1,70,000		
11% Debentures of Rs.100/- each	2,80,000		
Interest due ondebenture	21,500		
Sundry Creditors	3,50,000		
	12,31,500		12,31,500

The following scheme of reconstruction was submitted & approved by the court.

1) 12% Preference Shares of the Rs.10/- each fully paid were reduced to 13% Preference Shares of Rs.10/- each, Rs.6/- per share paid up.

2) 10% Preference share of Rs.10/- each, Rs.5/- per share paid up were reduced to 13% Preference shares of Rs.10/- each, Rs.4/- per share paid up.

3) Equity Shares of Rs.10/- each fully paid were reduced to the denomination of Rs.7/- each fully paid.

4) 11% Debenture holders agreed to accept 44,800 Equity Shares of Rs.5/- each in full settlement of their claims.

5) Debentures holders agreed to Forgo the interest due on debentures.

6) Sundry Creditors agreed to Forgo 20% of their claims.

7) The company recovered as damages as sum of Rs.60,000/- which was not recorded in the books.

8) Cost of reconstruction was paid Rs.3,000/-.

9) Assets are to be revalued as under : Land & Buildings Rs.2,05,000/-, Plant & Machinery Rs.2,50,000/-, Furniture Rs.10,000/-, Investment Rs.1,05,000/-, Sundry Debtors Rs.2,77,000/-.

10) All intangible assets & accumulated losses are to be written off.

You are required to –

i) Pass journal entries in the books of Damyanti Ltd.

ii) Prepare Capital Reduction Account & Balance Sheet after reconstruction.

Solution:

Journal of Damyanti Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	12% Preference Share Capital A/c............Dr. To 13% Preference Share Capital A/c To Capital Reduction A/c (Being reduction in 12% Preference Capital.)	1,60,000	 96,000 64,000
2.	10% Preference Share Capital A/c............Dr. To 13% Preference Share Capital A/c To Capital Reduction A/c (Being reduction in 13% Preference Capital.)	70,000	 56,000 14,000
3.	Equity Share Capital A/c ....Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being reduction in Equity Share Capital.)	1,80,000	 1,26,000 54,000
4.	11% Debenture A/c................................. Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being reduction in debentures.)	2,80,000	 2,24,000 56,000
5.	Interest due on Debenture A/c .... Dr. To Capital Reduction A/c (Being interest dues on debentures cancelled.)	21,500	 21,500

6.	Creditors A/c .... Dr. To Capital Reduction A/c (Being Creditors dues reduced.)	70,000	 70,000
7.	Bank A/c .... Dr. To Capital Reduction A/c (Being damages recovered.)	60,000	 60,000
8.	Capital Reduction A/c .... Dr. To Bank A/c (Being costs of reconstruction paid.)	3,000	 3,000
9.	Land & Building A/c .... Dr. Investment A/c .... Dr. To Capital Reduction A/c (Being increase in valuations.)	55,000 20,000	 75,000
10.	Capital Reduction A/c .... Dr. To Plant & Machinery A/cTo Furniture A/c To Sundry Debtors A/c	5,01,500	 50,000 25,000 23,000
	To Goodwill A/c To Patents A/c To Profit & Loss A/c To Capital Reserve A/c		90,000 50,000 71,500 102000

Capital Reduction Account

Dr.Cr.

Particulars	Amt.	Particulars	Amt.
To Bank A/c	3,000	By 12% Preference Share Capital A/c	
To Plant & Machinery	50,000	By 10% Preference Share Capital A/c	64,000
To Furniture A/c	25,000		
To Sundry Debtors A/c	23,000	By Equity Share Capital A/c	14,000
To Goodwill A/c	90,000	By 11% Debenture A/c	
To Patents A/c	50,000	By Interest due on	54,000
To Profit & Loss A/c	71,500	debentures	56,000
To Capital Reserve A/c	10,2000	By Sundry Creditors By Bank A/c	
		By Land & Building	21,500

		A/cBy Investment A/c	70,000 60,000 55,000 20,000
	4,14,500		4,14,500

Balance Sheet of Damyanti Ltd. (And Reduced)as on 1st April, 2015

Particulars	Notes	Rs.	Rs.
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a. Share Capital	1	5,02,000	
b. Reserves & Surplus	2	1,02,000	6,04,000
2. Non-Current Liabilities			
Long Term Borrowings	3		1,70,000
3. Current Liabilities			
a. Trade Payables			2,80,000
Total			**10,54,000**
II. ASSETS			
1. Non current Assets			
a. Fixed Assets			
- i. Tangible Assets	4		4,65,000
b. Non -currentInvestments			
3. Current Assets	5		1,05,000
a. Trade Receivables		3,97,000	
b. Cash & Cash Equivalents		87,000	
			4,84,000
Total			**10,54,000**

Notes to Accounts

Note – 1 Share Capital	**Number**	**Rs.**
Authorised Share Capital		
Issued, Paid Up Share Capital		
Equity Share Capital		
Equity Shares of Rs. 7/- each	18,000	1,26,000
Equity Shares of Rs. 5/- eachPreference Share Capital	44,800	2,24,000
13 % Pref. Share of Rs. 10/- each Rs.6/- paid up	16,000	96,000
13 % Pref. Share of Rs. 10/- each Rs.4/- paid up	14,000	56,000
		5,02,000

Note – 2 Reserves & Surplus	**Rs.**	**Rs.**
Capital Reserve (transf. from Capital Reduction A/c)		1,02,000

Note – 3 Long Term Borrowings	**Rs.**	**Rs.**
12% Debentures of Rs.100/- each		1,70,000

Note – 4 Tangible Assets	**Rs.**	**Rs.**
Land & Building	2,05,000	
Plant & Machinery	2,50,000	
Furniture	10,000	4,65,000

Note – 5 Non -current Investments	**Rs.**	**Rs.**
Balance:	85,000	
Add: Increase in valuations	20,000	1,05,000

Liabilities	Rs.	Assets	Rs.
Sources of Funds 2,00,000 Equity Shares of Rs.20/- each Rs.10/- paid up	20,00,000	Application of Sources Fixed assets 15,50,000 Goodwill 50,000	16,00,000
10% Preference Shares Capital 10,000 Shares of Rs.100/- each, Rs.50/- paid up	5,00,000	Investment at cost (Market value 1,00,000)	1,10,000
Secured Loan 9% Deb. 7,00,000 (+) O/s int. 1,00,000	8,00,000	Current Assets & Loans & Advances Current Assets Stock 3,00,000 Debtors 5,00,000 B.R. 8,00,000 16,00,000 Less : Liab. S. Creditors 2,00,000	14,00,000
Loan from ICICI Ltd. 1,80,000 (+) O/s Int. 30,000	2,10,000	Profit & Loss A/c	4,00,000
	35,10,000		35,10,000

Illustration– 4

M/s. Katrina Ltd. whose Balance Sheet as at 31st March 2015 is as given below.

Preference dividend is in arrears for 1 year. Following scheme of reconstruction is approved & agreed upon

1) Preference Shareholders to give up their 50% of claims, dividend to be paid in full
2) Debenture holders agree to give up their claims to receive interest in consideration of their rate of interest being enhanced to 12% henceforth.
3) ICICI Ltd. agree to give up 80% of their interest outstanding in consideration of their claim being paid off at once.
4) Sundry Creditors would like to grant a discount 20% if they wereto be paid off immediately.
5) Balance of Profit & Loss A/c, Goodwill & 50% of the total sundry debtors to by written off.
6) Fixed Assets to be written down by Rs.50,000/-.
7) Investment to be reflected at their market value.

8) Cost of reconstruction is Rs.50,000/-.

9) To the extent required Equity Shareholders suffers on reduction of their rights.

10) The Equity shareholder bring in necessary as against theirpartly paid shares to leave working capital at Rs.30,000/-.

Pass necessary journal entries in the books of the company assuming that scheme has been put through fully & prepare the Balance Sheet after reconstruction. Ignore narration.

Solution:

In the books of Ms. Katrina Ltd.

Date	Particulars	Debit(Rs.)	Credit (Rs.)
Dec. 31 1.	Preference Share Capital A/c................ Dr. To Preference Shareholders A/c To Capital Reduction A/c	5,00,000	 2,50,000 2,50,000
2.	Capital Reduction A/c ....Dr. To Preference Shareholders A/c	50,000	 50,000
3.	9% Debenture A/c ....Dr. Interest o/s on debenture A/c ....Dr. To 12% Debentures A/c To Capital Reduction A/c	7,00,000 1,00,000	 7,00,000 1,00,000
4.	ICICI Loan A/c.................................... Dr. Outstanding interest A/c .... Dr. To Bank A/c To Capital Reduction A/c	1,80,000 30,000	 1,86,000 24,000
5.	Capital Reduction A/c ....Dr. To Profit & Loss A/cTo Goodwill A/c To Investment A/cTo Debtors A/c To Fixed Assets A/c	7,65,000	4,00,000 50,000 10,000 2,50,000 50,000
	To Bank (Expenses) A/c		5,000
6.	Creditors A/c... Dr. To Bank A/c To Capital Reduction A/c	2,00,000	 1,60,000 40,000
7.	Preference Shareholders A/c ....Dr. To Bank A/c	3,00,000	 3,00,000

8.	Equity Share Capital A/c ....Dr. To Capital Reduction A/c	4,01,000	 4,01,000
9.	Bank A/c .... Dr. To Equity Share Capital A/c	6,81,000	 6,81,000

Working Note:

Bank Account

Dr. Cr.

Particulars	**Amt.**	**Particulars**	**Amt.**
To Equity Share Capital A/c (Bal Figure)	6,81,000	By Creditors A/c By Expenses A/c By Loan Interest A/c By Preference Share Capital A/c By Closing Balance	1,60,000 5,000 1,86,000 3,00,000 30,000
	6,81,000		6,81,000

Capital Reduction Account

Dr. Cr.

Particulars	**Amt.**	**Particulars**	**Amt.**
To Preference Dividend A/c To Sundries A/c	 50,000 7,65,000	By Preference Shareholders A/c By Debenture Interest A/c By Interest A/c By Creditors A/c By Equity Share Capital A/c	2,50,000 1,00,000 24,000 40,000 4,01,000
	8,15,000		8,15,000

Balance Sheet as on 1st April, 2015

Particulars	Notes	Rs.	Rs.
I. Equity and Liabilities			
1. Shareholders' Funds			
Share Capital	1		22,80,000
2. Non-Current Liabilities			
Long Term Borrowings12% Debentures			7,00,000
Total			**29,80,000**
II. Assets			
1. Non current Assets			
a. Tangible Assets			15,00,000
b. Non Current Investments			1,00,000
2. Current Assets			
Inventories	2	3,00,000	
Trade Receivables		10,50,000	
Cash & Cash equivalents		30,000	13,80,000
Total			**29,80,000**

Notes to Accounts

Note – 1 Share Capital	Number	Rs.
Authorised Share Capital		
Issued, Paid Up Share Capital		
Equity Share Capital		
200000 Equity Shares of Rs. 20, Rs.11.4 paid up	200000	22,80,000
		22,80,000

Note – 2 Trade Receivables	Rs.	Rs.
Debtors		
Bills Receivables	2,50,000	
	8,00,000	10,50,000
		10,50,000

Illustration 5

The Balance Sheet of Three Idiots Ltd. as at 31st March 2015 was as under

Liabilities	Rs.	Assets	Rs.
10,000 Equity Shares of		Goodwill	1,00,000
Rs.50/- each fully paid	5,00,000	Other Assets	8,00,000
10%, 50,000		Profit & Loss A/c	3,00,000
Debentures of Rs.10/-			
each	5,00,000		
Interest on debenture	20,000		
Sundry Creditors	1,80,000		
	12,00,000		12,00,000

For the purpose of reconstruction of the company, necessary resolutions are passed on the following lines.

1) The Equity Shares are to be sub divided into Share of Re.1/- each & each shareholder shall re-surrender 80% of his holding.

2) Out of the surrendered shares, 1,00,000 shares will be converted to 8% Preference Shares of Rs.10/- each.

3) Debentures holders will reduced their claims by Rs.2,20,000/- & in consideration they are to get the entire Preference Shares Capital converted from Shares Surrendered.

4) Creditors claims are to be reduced to the extent of Rs.80,000/-& in consideration they are to received Equity Shares of Re.1/- each, amounting to Rs.50,000/- from the Shares surrendered.

5) Goodwill & profit & loss A/c (Dr.) are to be written off fully.

6) The remaining surrendered shares shall be cancelled.

You are required to give the journal entries for the above & prepare Balance sheet of the company after reconstruction.

Journal entries in the books of Three Idiots Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c (50) .... Dr.	5,00,000	
	To Equity Share Capital A/c (1)		5,00,000
	(Being 10,000 Equity Shares of Rs.50/- eachsub-dividend into shares of Re.1/- each.)		

2.	Equity Share Capital A/c........................ Dr. To Share Surrendered A/c (Being surrender of 80% of shares.)	4,00,000	 4,00,000
3.	Shares Surrendered A/c...........................Dr.	1,00,000	
	To 8% Preference Share Capital A/c (Being converted Rs.1,00,000/- shares surrendered into 80% Preference Shares Capital.)		1,00,000
4.	10% Debentures A/c .... Dr. Interest Debenture A/c ....Dr. To Capital Reduction A/c (Being reduction in the claim of debenture holders.)	2,00,000 20,000	 2,20,000
5.	Share Surrendered A/c .... Dr. To Equity Share Capital A/c (Being issued to Creditors out of surrenderedShares.)	50,000	 50,000
6.	Creditors A/c.. Dr. To Capital Reduction A/c (Being reduced the claim of creditors.)	80,000	 80,000
7.	Capital Reduction A/c............................ Dr. To Goodwill A/c To Profit & Loss A/c (Being written off Goodwill & Profit & LossAccount debit balance.)	4,00,000	 1,00,000 3,00,000
8.	Shares Surrendered A/c...........................Dr. To Capital Reduction A/c (Being cancelled remaining SurrenderedShares.)	2,50,000	 2,50,000
9.	Capital Reduction A/c............................ Dr. To Capital Reserve A/c (Being the balance on Capital Reduction transferred to Capital Reserve.)	1,50,000	 1,50,000

Capital Reduction Account

Dr.Cr.

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	1,00,000	By 10% Debentures A/c	2,00,000
To Profit & Loss A/c	3,00,000	By Interest A/c	20,000
To Capital Reserve A/c	1,50,000	By Share Surrendered A/c	2,50,000
		By Creditors A/c	80,000
	5,50,000		5,50,000

Three Idiots Ltd. (And reduced) Balance sheet as on 1st April , 2015

Particulars	Notes	Rs.	Rs.
I. Equity and Liabilities			
1. Shareholders' Funds			
a. Share Capital	1	2,50,000	
b. Reserves and Surplus	2	1,50,000	4,00,000
2. Non-Current Liabilities Long Term Borrowings 10% Debentures			3,00,000
3. Current Liabilities			
Trade Payables			1,00,000
Total			**8,00,000**
II. Assets			
1. Non current Assets			
Tangible Assets			8,00,000
Total			**8,00,000**

Notes to Accounts

Note – 1 Share Capital	Number	Rs.
Authorised Share Capital	-	-
Issued, Paid Up Share Capital		
Equity Share Capital		
Equity Shares of Re. 1 each	150000	1,50,000
Preference Shares of Rs. 10 each	10000	1,00,000
		2,50,000

Note – 2 Reserves & Surplus	Rs.	Rs.
Capital Reserve: (transf. from Capital Reduction A/c)		1,50,000

Illustration 6

Following is the balance sheet of Veer Ltd. as on 31st March 2015.

Liabilities	Rs.	Assets	Rs.
10,000 8% Cumulative Preference Shares of Rs.100/- each	10,00,000	Goodwill	90,000
		Patents	30,000
8,000 Equity Shares of Rs.100/- each	8,00,000	Land & Building	10,00,000
9% Debentures of Rs.100/- each (Secured on Land / Building)	7,00,000	Pant & Machinery	4,80,000
Interest payable to debenture holders	20,000	Investment (at cost)	50,000
Loan from Directors	2,00,000	Stock	4,80,000
Creditors	3,00,000	Debtors : Considered Goods 3,00,000 Considered Doubtful 70,000	3,70,000
UTI Bank Overdraft	2,80,000	Cash	5,000
		Preliminary Expenses	95,000
		Profit & Loss A/c	7,00,000
	33,00,000		33,00,000

Contingent Liabilities:

1) Claims for damages pending in the court totaling Rs.1,00,000/-

2) Arrears of Preference dividend Rs.300000/-.

The board of directors agreed to present the realistic picture of the state of affairs of the company's position & the following scheme of reconstruction was duly approved.

1) The Preference shares were to be reduced to an equal number of fully paid Preference Shares of Rs.50/- each. Equity Share to an equal number of fully paid Equity Shares of Rs.30/- each.

2) All intangible assets, including patents to be written off.

3) Stock to be revalued at Rs.4,00,000/- & debtors considereddoubtful to be written off.

4) Preference Shareholders agreed to waive half of the arrears of dividends & to receive Equity Shares in lieu of the balance.

5) Debenture holder agreed to take over part of the security of the book value of Rs.2,00,000/- for Rs.2,00,000/- in satisfaction of part of their claim & to provide further cash of Rs.1,00,000/- after deducting arrears of interest due to them on floating charge of the rest of the assets.

6) The contingent liability for claims for damage pending in the court of law materialized to the full extent. However, the company could recover Rs.80,000/- from those who were responsible for such damages & settled the rest by issuingEquity Shares.

7) The Directors agreed to convert the loan into Equity Shares. You are required to prepare –

i) Capital Reduction Account

ii) The Balance sheet after reconstruction

Solution:

In the books of Veer Ltd.

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c To Patents To Preliminary Expenses A/c	90,000 30,000 95,000	By Preference Share Capital A/c By Equity Share Capital A/c	5,00,000 5,60,000
To Profit & Loss A/c To Stock (4,80,000 - 4,00,000) To Debtors To Preference Dividend A/c To Cash A/c (damages) To Damages A/c To Capital Reserve A/c	7,00,000 80,000 70,000 1,50,000 80,000 20,000 60,000	By Cash A/c (claim recovery) By Land & Building A/c (3,00,000 - 2,00,000)	80,000 1,00,000
	12,40,000		12,40,000

Working Note:

1) Equity Shares @ Rs.30/- each

	Nos.	Amount
Original (at Reduced Value)	8,000	2,40,000
Issued against arrears of Preference Dividend	500	15,000
Issued against claim for Damages	666.67	20,000
Loan from Directors converted	6,666.67	2,00,000
Closing Balance	15,833	4,75,000

2) Cash Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Balance b/d	5,000	By Debenture interest A/c	20,000
To Damages Claim A/c	80,000	By Recovery A/c	80,000
To Debenture holders A/c	1,00,000	By Balance c/d	85,000
	1,85,000		1,85,000

3) It is assumed that the debenture holder brought in gross Rs.1,00,000/- without deducting Rs.20,000/- for arrears of interest.

4) 9% debenture holders

	Amount
Balance	7,00,000
Less : Land / Building taken over	3,00,000
	4,00,000
Add : Further Cash brought in	1,00,000
Closing Balance	5,00,000

Veer Ltd. (And reduced)

Balance Sheet as on 1st April 2015

Particulars	Notes	Rs.	Rs.
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a. Share Capital	1	9,75,000	
b. Reserves & Surplus	2	60,000	10,35,000
2. Non-Current Liabilities			
Long Term Borrowings			5,00,000
(Secured 9% Debentures)			
3. Current Liabilities			
a. Trade Payables		3,00,000	
b. Short -Term Liabilities (UTI Bank Overdraft)		2,80,000	5,80,000
Total			**21,15,000**

II. ASSETS			
1. Non current Assets			
a. Fixed Assets			
- i. Tangible Assets	3		12,80,000
b. Non Current Investment			50,000
2. Current Assets			
a. Inventories		4,00,000	
b. Trade Receivables	4	3,00,000	
c. Cash & Cash Equivalents		85,000	7,85,000
Total			**21,15,000**

Notes to Accounts

Note – 1 Share Capital	**Number**	**Rs.**
Authorised Share Capital		
Issued, Paid Up Share Capital		
Equity Share Capital		
Equity Shares of Rs. 30/- each Preference Share Capital	15,833	4,75,000
8 % Pref. Share of Rs. 50/- each	10,000	5,00,000
		9,75,000

Note – 2 Reserves & Surplus	Rs.	Rs.
Capital Reserve: Balance (transf. from Capital Reduction A/c)		60,000

Note – 3 Tangible Assets	Rs.	Rs.
Land & Building	10,00,000	
Less: Given to Debenture holders	2,00,000	8,00,000
Plant & Machinery		4,80,000
		12,80,000

Note – 4 Trade Receivables	Rs.	Rs.
Balance (Unsecured, Considered Good)		3,00,000

Illustration 7

Monaco Ltd. had adverse trading for past few years resulting in accumulated losses & over valued assets. It's Balance Sheet as on 31st March 2015 is as follows.

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	60,000
(in shares of Rs.10/- each)		Freehold Property	70,000
		Leasehold Property	1,50,000
50,000 Equity Share Capital	5,00,000	Plant	1,40,000
		Investment	80,000
40,000 Preference Share Capital	4,00,000	Stock	1,00,000
		Debtors	5,00,000
Securities Premium	30,000	Profit & Loss A/c	2,00,000
12% Debenture	1,20,000		
Accrued Interest	10,000		
Creditors	1,10,000		
Overdraft	1,30,000		
	13,00,000		13,00,000

Note : Preference dividend is unpaid for past three years.

The shareholders & the court approved the following scheme of reconstruction.

1) The paid – up value of preference shares and Equity shares was to be reduced by 50% & 85% respectively. The face value will remain unchanged.

2) The Preference dividend for one years is to be paid by allotment of Equity shares credited Rs.2/- per share. The remaining amount to be cancelled.

3) The debenture holders took over Freehold property which was mortgaged in their favour. This property realized Rs.1,40,000/-. The balance amount after adjusting principal & interest washanded over to the company.

4) The investments are sold for Rs.1,00,000/-.

5) Obsolete Stock worth Rs.25,000/- & irrecoverable debt worth Rs.15,000/- are to be written off along with goodwill & profit & loss A/c.

6) There was a claim against company not provided to the extent of Rs.1,00,000/-. This was settled for Rs.83,000/-.

7) A call @ Rs.3/- per share on revised Equity & Preference shares was made. This was paid by all shareholders.

8) The authorized capital was suitably revised from Rs.8,00,000/- to Rs.12,00,000/- which was equally divided between Equity & 8% Preference shares.

9) Remaining bank balance to be utilized to pay bank overdraft.

You are required to show journal entries & balance sheet after implementation of the scheme.

Solution:

Journal in the books of Monaco Ltd.

Sr. No.	**Particulars**	**Debit (Rs.)**	**Credit (Rs.)**
1.	8% Preference Share Capital A/c ……Dr. To Capital Reduction A/c (Being reduced Preference share by50%.)	2,00,000	 2,00,000

2.	Equity Share Capital A/c Dr. To Capital Reduction A/c (Being 50,000 Equity shares of Rs.10/-each reduced by 75%.)	4,25,000	 4,25,000
3.	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being 10,667 Equity shares of Rs.3/- each allotted to satisfy the arrears of preference dividend for 1 year.)	32,000	 32,000
4.	12% Debenture A/c Dr. Accrued Interest on Debenture A/c Dr. Bank A/c Dr. To Freehold Property A/c To Capital Reduction A/c (Being Freehold property of Rs.70,000/- taken by debenture holders, remaining amount paid by the debenture holders.)	1,20,000 10,000 10,000	 70,000 70,000
5.	Bank A/c Dr. To Investment A/c To Capital Reduction A/c (Being sold out investments at a profit of Rs.20,000/-.)	1,00,000	 80,000 20,000
6.	Capital Reduction A/c Dr. To Stock A/c To Debtors A/c To Goodwill A/c To Profit & Loss A/c (Being written off Stock, Debtors, Goodwill & Profit and Loss debit balance as agreed upon.)	3,00,000	 25,000 15,000 60,000 2,00,000
7.	Capital Reduction A/c Dr. To Bank A/c (Being settled the claim.)	83,000	 83,000
8.	Preference Share Call A/c Dr. To 8% Preference Share Capital A/c (Being made a call on 40,000 PreferenceShare @ Rs.3/- each.)	1,20,000	 1,20,000
9.	Equity Share Call A/c Dr. To Equity Share Capital A/c (Being made a call on 66,000 Equityshares @ Rs.3/- each.)	1,98,000	 1,98,000

10.	Bank A/c Dr. To Preference Share Call A/c To Equity Share Call A/c (Being collected call money.)	3,18,000	 1,20,000 1,98,000
11.	Bank overdraft A/c Dr. To Bank A/c (Being cleared Bank overdraft.)	1,30,000	 1,30,000
12.	Capital Reduction A/c Dr. To Capital Reserve A/c (Being Capital Reserve account closed)	3,00,000	 3,00,000

Capital Reduction Account

Dr. **Cr.**

Particulars	**Amt.**	**Particulars**	**Amt.**
To Equity Share Capital A/c To Stock A/c	32,000 25,000	By Preference Capital A/c By Equity Share Capital A/c	2,00,000 4,25,000
To Debtors A/c To Goodwill A/c To Profit & Loss A/c To Bank A/c To Capital Reserve A/c	15,000 60,000 2,00,000 83,000 3,00,000	By 12% Debenture A/c By Bank A/c	70,000 20,000
	7,15,000		7,15,000

Bank Account

Dr. **Cr.**

Particulars	**Amt.**	**Particulars**	**Amt.**
To Freehold Property A/c	10,000	By Capital Reduction A/c	83,000
To Investment A/c	80,000	By Bank overdraft A/c	1,30,000
To Capital Reduction A/c	20,000	By Balance c/d	2,15,000
To Preference Share Capital A/c	1,20,000		
To Equity Share Capital A/c	1,98,000		
	4,28,000		4,28,000

Monaco Ltd. (And reduced) Balance Sheet as on 1st April, 2015

Particulars	Notes	Rs.	Rs.
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a. Share Capital	1	6,25,000	9,55,000
b. Reserves & Surplus	2	3,30,000	
2. Current Liabilities			
a. Trade Payables			1,10,000
Total			**10,65,000**
II. ASSETS			
1. Non current Assets			
a. Fixed Assets			
- i. Tangible Assets	3		2,90,000
2. Current Assets	4	75,000	
a. Inventories	5	4,85,000	
b. Trade Receivables			
c. Cash & Cash Equivalents		2,15,000	7,75,000
Total			**10,65,000**

Note – 1 Share Capital	Number	Rs.
Authorised Share Capital		
Equity Share of Rs.10/- each	60,000	6,00,000
8% Preference share of Rs.10/- each	60,000	6,00,000
	1,20,000	**12,00,000**
Issued, Paid Up Share Capital		
Equity Share Capital		
Equity Shares of Rs. 10/- each Rs.5/- paid up	61,000	3,05,000
Preference Share Capital		
8 % Pref. Share of Rs. 10/- each	32,000	3,20,000
		6,25,000

Note – 2 Reserves & Surplus	Rs.	Rs.
Security Premium: Balance	30,000	
Capital Reserve:	3,00,000	3,30,000
(transf. from Capital Reduction A/c)		

Note – 3 Tangible Assets	Rs.	Rs.
Leasehold Property	1,50,000	
Plant & Machinery	1,40,000	2,90,000

Note – 4 Inventories	Rs.	Rs.
Balance	1,00,000	
Less : written off	-25,000	
		75,000

Note – 5 Trade Receivables	Rs.	Rs.
Balance	5,00,000	
Less : written off	-15,000	
		4,85,000

Illustration 9

The paid – up Capital of Fast traler Ltd. amounted to Rs.12,00,000/- consisting of 6,000 – 5% Cumulative Shares ofRs.100/- each and 60,000 Equity Shares of Rs.10/- each. The Preference dividend was in arrears for Rs.80,000/- (Contingent Liability)

The company incurred heavy losses continuously. Therefore, the Directors recommended to the shareholders the following scheme of reconstruction to provide a sum sufficient for the following purpose :

1) To write down the book value of Patents by Rs.2,00,000/-, Plant & Machinery by Rs.24,000/- and Tools & Equipments by Rs.8,000/-.

2) To write off the debit balance of Profit & Loss Account of Rs.2,96,000/-.

3) Any balance made available by the reduction of capital is to be utilized to write off "Experiment & research expenses"

4) The scheme duly approved & authorized provided the following.

i) For every 15, 5% Preference Shares, 8 – 4% Cumulative Preference Shares of Rs.100/- each & 40 Equity shares of Rs.2/- each are to be issued.

ii) For every Rs.20/- of Cumulative Preference Divided; 2 Equity shares of Rs.3/- each are to be issued.

iii) For every 10 old Equity shares, 2 new Equity shares of Rs.2/- each are to be issued.

You are required to:

Pass journal entries in the books of the company to record the above transactions. Prepare Capital Reduction Account.

Solution:

Journal of Fast Traler Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	5% Preference Share Capital A/c ………Dr. To 4% Cumulative Preference Share Capital A/c To Equity Share Capital A/c To Capital Reduction A/c (Being issued 3200, 4% Preference shares of Rs.100/- each & 24,000 Equity Shares of 5% Preference shares Capital.	6,00,000	 3,20,000 48,000 2,32,000
2.	Capital Reduction A/c.................................Dr. To Equity Share Capital A/c (Being issued 6,000 Equity shares of Rs.3/- each in settlement of arrears of Preference dividend.)	18,000	 18,000
3.	Equity Share Capital A/c Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being issued 12,000 Equity share of Rs.2/- each to the existing Equity shareholders.)	6,00,000	 24,000 5,76,000

4.	Capital Reduction A/c................................Dr.	7,96,000	
	To Patents A/c		2,00,000
	To Plant & Machinery A/c		24,000
	To Tools & Equipment A/c		8,000
	To Profit & Loss A/c		2,96,000
	To Experiment & Research Expenses A/c		2,68,000
	(Being written off Patents, Plant & Machinery, Tools & Equipments , Profit & Loss A/c, Debit balance & Experiment & Research Expenses as agreed upon.)		

Capital Reduction Account

Dr. **Cr.**

Particulars	**Amt.**	**Particulars**	**Amt.**
To Equity Share Capital A/c	18,000	By 5% Preference Share Capital A/c	2,32,000
To Patents A/c	2,00,000	By Equity Share Capital A/c	5,76,000
To Plant & Machinery A/c	24,000		
To Tools & Equipment A/c	8,000		
To Profit & Loss A/c	2,96,000		
To Experiment & Research Expenses A/c	2,62,000		
	8,08,000		8,08,000

4.8 EXERCISES

4.8.1 OBJECTIVES QUESTIONS

- **Filling the blanks.**

1) Capital Reduction is implemented as per section_____of Companies Act.

2) The scheme of Capital reduction is to be approved by__.

3) Fictitious assets are to be transferred to______________________________.

4) Balance in Capital Reduction should be transferred to_____.

5) The payment for contingent liability should be debited to_.

6) And reduced words are to be shown as in Balance sheet as per __________required.

7) XYZ Ltd. has on 31st March, 2015 1,00,000 Equity shares at Rs.10/- each. It was decided to reduced share to Rs.6/- each. The reduction is __________.

8) The Preference shareholders agree to Forgo arrears of Preference dividend Rs.1,00,000/-. The amount transferred to Capital Reduction Account is_.

9) Debtors costing of Rs.56,000/- given to Bank for bank loan of Rs30,000/-. The Capital reduction is debited by Rs._.

10) Provision for taxation is Rs.1,62,000/-. The tax liability of the company is settled at Rs.1,40,000/- & it is paid immediately. Amount credited to Capital Reduction is____________________________________.

11) The capital reduction means reduction in_________valueof shares.

12) The sub division of shares does not result in_______ofcapital.

13) The shareholders can surrender shares for _____or________.

14) _________resolution is to be passed by shareholders for approval of scheme or reconstruction.

15) The Fictitious debit balances are to be transferred to___Account.

16) The full balance of Capital is to be debited, if ____ value is reduced.

17) Shareholders not approving scheme is called _____ shareholders.

18) The expenses for forming & implementing scheme should be debited to__.

19) The scheme of internal reconstruction can be utilized to provide___ __________for the company.

(Ans –(Ans – 1) 100, 2) High court, 3) Capital reduction, 4) Capital Reserve, 5) Capital Reduction, 6) Company law, 7) 4,00,000, 8) Nil, 9) 26.000 10) 22,000 11) Paid-up Value, 12) Reduction, 13) Re-issue, cancellation, 14) Special, 15) Capital Reduction, 16) Face, 17) dissenting, 18) Capital Reduction, 19) Funds.

- **Match the following.**

1)

Group "A"	Group "B"
1) Capital Reduction	a) Profit& loss Ac (Dr.bal)
2) Fictitious Balance	b) Section 100
3) Capital Reduction Scheme	c) No reduction of Capital
4) Consolidation of Share	d) Internal Reconstruction
5) Subdivision of Share	e) No Change in Capital

(Ans : 1 – b, 2 – a, 3 – d, 4 – e, 5 – c.)

2)

Group "A"	Group "B"
1) Surrender of share	a) Credit – Capital reduction
2) Cancellation of surrendered shares	b) Unchanged Capital
3) Surplus on revaluation of assets	c) Transfer to Capital Reserve
4) Loss on revaluation ofassets	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) Balance sheet after reduction	a) Not transferable to Capital Reduction
2) Statutory Reserve	b) Transfer difference to Capital Reserve
3) Expenses of Scheme	c) Cancel present capital, raise new capital & difference toreduction
4) Reduction in paid up value of shares	d) Indicate, & reduced
5) Reduction in face value of debenture	E) Debit capital reduction account

(Ans – 1 – d, 2 – a, 3 – e, 4 – b, 5 – c.)

- **True or False.**

1) Capital Reduction & Internal reconstruction is synonym. – True

2) Consolidation of shares result in profit for a company. – False

3) Sub – division of shares result in gain for a company. – False

4) Provision for unrecorded liability indicates loss to a company. –True

5) Accounting for Internal & External reconstruction is in identical manner. – False

6) Authorised Share Capital is to be reduced to the extent of Capital Reduction. – False

7) Cancellation of contingent liability is treated as profit to the company. – False

8) Re – classification of surrendered shares should not be accounted. – True

9) The requirements of schedule VI is to be complied while preparing account after internal reconstruction. – True

10) Internal reconstruction scheme cannot be prepared to cover capital reconstruction. – False

4.8.2 PROBLEMS FOR PRACTICE

1) Following is the balance sheet of Vinayak Ltd. as on 31st March,2015.

Liabilities	**Rs.**	**Assets**	**Rs.**
60,000 10% cumulative Preference Share of Rs.10/- each fullypaid up	6,00,000	Goodwill	2,00,000
1,50,000 Equity share of Rs.10/- each, fullypaid up	15,00,000	Land & Building	19,50,000
Loans	2,22,000	Trade Debtors	2,88,000
Creditors	7,50,000	Bank Balance	1,26,000
		Plant & Machinery	70,000
		Stock	4,00,000
		Profit & Loss A/c	38,000
	30,72,000		30,72,000

Note: Preference dividend was in arrears Rs.1,20,000/-. The Board of Directors of the company decided upon the following scheme of reconstruction, which was approved by all concerned.

1) Paid up value of Equity shares shall be reduced to Rs.5/- per share, face value being Rs.10/-.

2) Preference shares are to be converted into 13% debentures of Rs.100/- each with regard to their 20% of dues (including arrears of Preference

dividend) & for the balance (including dividend arrears) preference, shares of Rs.10/- each (Rs.5/- paid up shall be issued.)

3) All Equity shareholders agreed to pay the balance amount, making shares full paid up.

4) The Plant & Machinery was revalue at Rs.1,00,000/-.

5) The value of Stock was reduced by Rs.50,000/-.

6) Land & Building shall be written down to Rs.16,50,000/-.

7) Creditors agreed to Forgo their claims by 50%.

8) Loans was fully settled for Rs.2,00,000/-.

9) Goodwill, debit balance of profit & loss Account shall be writtenoff.

10) Cost of reconstruction of Rs.2,000/- was paid. Above resolution was carried out

You are required to:

i) Pass journal entries in the books of the company.

ii) Prepare Capital Reduction Account

iii) Prepare Balance sheet after reconstruction

(Ans : Capital Reserve – Rs.2,000/-, Tally – 30,43,000/-)

2) The ledger balance of ZEE TV Ltd. include 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 Rs.100/- each, Equity Share Capital – 80,000 shares of Rs.10/- each, 'A' 10% Debentures Rs.4,00,000/-, 'B' 12% Debenture 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 Account

The company has incurred heavy losses. The following scheme of reconstruction is agreed upon.

1) 8% Preference shares are to be reduced by Rs.20/- per share, Equity shares be reduced by Rs.5/- per share.

2) To settle the claim of holders of 'A' 10% Debenture by issue of new 11% Debenture of Rs.2,00,000/-, 'A' Debenture holders agree to forgo their interest.

3) To settle the claim of holders of 'B' 12% Debenture by issue of new 13% Debenture of Rs.5,00,000/- outstanding Debenture interest on 'B' 12% Debenture holders be paid.

4) To write off Fictitious assets & debit balance of Profit & Loss Account.

5) Director refund Rs.60,000/- fees previously received by them.

6) 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 ZEE Ltd.

b) Balance sheet before reconstruction

c) Balance sheet after reconstruction.

Assume that all the formalities are duly complied.

(Ans : Balance sheet before reconstruction Tally – Rs.25,00,000/-, Balance sheet after reconstruction Tally – Rs.17,60,000/-, Capital Reduction – Rs.7,40,000/-.)

❖❖❖❖

5

LIQUIDATION OF COMPANIES

Unit Structure:

5.0 OBJECTIVES

After studying this chapter, you should be able to understand:

- The concept and meaning of liquidation and winding up of companies
- The purpose and contents of statement of affairs inluding Deficiency Account
- Special considerations in liquidation for settlement of dues
- The purpose and contents of liquidators' final statement
- Accounting treatment of settlement of liabilities, partly paid up shares in liquidators' final statement

5.1 CONCEPT AND MEANING

Winding up refers to the process of realising assets of the company and use the proceeds to pay of its debts. After such external debt is paid off, the remainder cash is utilised for repayment of its members' contribution. The winding up involves involvement of third party administrator for financial settelement of its creditors and members. Such administrators are called liquidators who are appointed for controlling the process of realisation of assets, payment of debts and distribution of surplus as per legal rights of members. The process of winding up is governed by section 2 (94A) of Companies Act, 2013 and liquidation process under Insolvency and Bankruptcy Code 2016.

Dissolution of company refers to appoint where it looses its identity as corporate entity in general sense. In legal point of view, on dissolution, company's name shall be strike off from register of companies. In simple words, dissolution of company is death of company as being artificial judiciary person, it can't have end of its life otherwise.

Many a times, winding up and liquidation are used as synonyms but there is thin line of difference between the 2. Winding up means putting an end to business operations and liquidation indicates selling of its assets and payment of obligations. Similarly, winding up and dissolution also have there own interpretations which requires thorough understanding. The major areas of differences are as follows:

- Winding up is just one of the methods of dissolution and dissolution is end result of winding up
- In winding up the legal status continues whereas in dissolution it comes to an end.
- Winding up is administered by liquidator whereas dissolution happens only through Registrar's order.

5.2 MODES OF WINDING UP

A) Compulsory Winding Up
   a) If due to inability to pay debts then governed by insolvency and Bankruptcy Code
   b) On grounds other than inability to pay debts then governed by Companies Act, 2013

B) Voluntary Winding Up
   a) Upto 31st March, 2017 – Companies Act, 2013
   b) From 1st April, 2017 – Insolvency and Bankruptcy Code

Note – To be in line with the syllabus, we will be covering only winding up under the Companies Act, 2013.

C) Winding Up by Tribunal
   a) Company Resolution
   b) Against National Interests
   c) Fraud
   d) Default in Filing FS / AR
   e) Just and Equitable

5.3 STATEMENT OF AFFAIRS

A statement of affairs is one of the most important documents which is required to be submittealong with the company's petition before the tribunal as per section 272 (5) of Companies Act, 2013. In case, petition is initiative by any entity other than company under section 274 (1), the statement of affsirs is required to be presented. In both the situations, the statement of affairs is required in prescribed form and prescribed manner.

The broad contents that are required to form the statement of affairs are as follows:

1) The details of assets having no specific charge with expected realisable value.
2) The details of assets having specific charge along with expected realisable value. In case of deficit, it should be treated as unsecured liability and surplus should be made available for disposal.
3) The details of assets mentioned in 1 and surplus arising from 2.
4) The details of preferential creditors, debentures with floating charge, unsecured creditors.
5) Details of total paid up capital indicating each class of shares

The statement of affairs should be accompanied by 8 mandatory lists prescribed in section 274 of Companies Act, 2013:

1) List A – Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list
2) List B – Assets specifically pledged and creditors fully or partly secured.
3) List C – Preferential creditors for rates, taxes, salaries, wages and otherwise.
4) List D – List of Debenture holders secured by a floating charge
5) List E – Unsecured creditors
6) List F – List of Preference shareholders
7) List G – List of Equity shareholders
8) List H – Deficiency or surplus account

Sr. no.	**Name of the List**	**Contents**
1	List A	Assets not specifically pledged (i.e. Assets not having fixed charge)
2	List B	Assets specifically pledged (i.e. Assets having fixed charge)
3	List C	Preferential Creditors
4	List D	Debenture holders secured by a floating charge

5	List E	Unsecured Creditors
6	List F	Preference Shareholders
7	List G	Equity Shareholders
8	List H	Reasons for the Surplus / deficiency as shown by the Statement of Affairs

STATEMENT OF AFFAIRS

₹	**Particulars**	₹
	Assets not Specifically Pledged (as per List A) **Assets Specifically Pledged (as per List B)**	

	(a) Estimated Realisable Value	(b) Due to Secured Creditors	(c) Deficiency Ranking as Unsecured Column	(d) Surplus carried to Last Column
	□	□	□	□

₹	Particulars	₹
	Estimated Surplus from Assets Specially Pledged Estimated total assets available for preferential creditors, debenture holders secured by floating charges and unsecured creditors **Summary of Gross Assets:** Gross realizable value of assets specifically pledged Other Assets Gross Assets	

	Liabilities **Secured Creditors(as per List B)** to the extent to which claims are estimated to be covered by assets specifically pledged **Preferential Creditors (as per List C)**	
	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors	

	Debenture holders Secured by Floating Charge (as per List D)	
	Estimated surplus as regard debenture holders	
	Unsecured Creditors (as per List E)	
	Estimated surplus as regards creditors(being diff bet gross assets & liabilities)	
	Issued and Paid up Capital (as per List G)	
	Estimated Surplus/Deficiency as regards member (as per List H)	

5.4 DEFICIENCY ACCOUNT

The deficiency account needs to be prepared in case if proceeds from realization of assets are not sufficient to pay off creditors and members' contribution. The administrator or liquidator provides specific date of beginning on which the deficiency account is prepared. On such a given date there could be surplus or deficit. The format of deficiency account is prescribed in 2 parts –

A) Deficiency and items increasing deficiency further

B) Items reducing deficiency

The format of deficiency or surplus account is as follows:

Rs.	Particulars	Rs.	Rs.
	Items Contributing to Deficiency or Reducing Surplus :		
	1. Excess (if any) of capital and liabilities over (assets as ___ 20__) (as shown by Balance Sheet) (copy annexed)		
	2. Net dividends and bonuses declared during the period from ___20__ to the date of statement.		
	3. Net trading losses (after charging items shown in note below) for the same period.		
	4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars or annex schedule)		

	5. Estimated losses now written off or for which provision has been made for purposes of preparing the statement (give particulars or annex schedule)		
______ ______	6. Other items contributing to Deficiency or reducing surplus ________________________________		____ XXX
	Items Reducing Deficiency (or Contributing to Surplus): 7. Excess (if any) of assets over capital and liabilities on the __20__ as shown on the Balance Sheet (copy annexed)		
	8. Net trading profit (after charging items shown in note below) for the period from the __20__ to the date of statement		
	9. Profit and income other than trading profit during the same period (give particulars or annex schedule).		
_____	10. Other items reducing Deficiency or Contributing to Surplus **Deficiency / Surplus as shown in Statement of Affairs**		____ XXX

5.5 SPECIAL CONSIDERATIONS IN LIQUIDATION

A) Overerriding preferential payments

In the process of winding up of company, as per provisions of section 326, following debts should be settled as matter of priority over other debts:

1) Workmen's due
2) Realisation of secured assets having charge against secured creditors, (any deficit or amount equal to woekmen's portion in the security, whichever is less.) The following payment needs to be made to security creditors in the given order as follows:

a) All remuneration including outstanding remuneration to employees
b) Acrued holiday remuneration

Note - In case, if above payments are due for 2 years prior to closure of company then they should be paid before all liabilities within 30 days from realisation of assets which do not have specific charge against other secured liabilities

The obligations payable under provision of section 326 (1) shall be settled to the extent of 100 % as priority over secured creditors and once such payment is made, then secured creditors need to be paid off. In case, if the value of assets realised is not sufficient, then the liability shall be treated in proportion for its repayment.

For the purpose of interpretations of sections 326 and 327 workmen should be treated as any employee under section 2(s) of Industrial Dispute Act, 1947. Workmen's dues includes remuneration including outstanding remuneration to employees, Acrued holiday remuneration, compensation and all dues under retirement benefits / funds maintained by the company.

B) Preferential Creditors

In the process of winding up of company, preferential creditors needs to be paid as priority over other debts under section 327 of The Companies Act. While such payments are made it should be subject to the provisions of section 326. The examples of preferential creditors are as follows:

1) Statutory tax liabilities: All kinds of taxes, cess and duties payable by company towards central government, state government or local authorities should be treated as statutory tax liability. Such payments which have become due should be paid within 12 months.

2) Employee remuneration: All types of remuneration including salaries, wages, commission etc. which are payable for time period not exceeding 4 months should be paid within 12 months immediately before the due date. The provision is subject to fulfillment of certain conditions.

3) Leave Salary: The amount accrued as holiday remuneration falling due to the employee or other person at the time of retirement or termination of employment shall be treated as leave salary and is required to be paid as priority.

4) Retirement Benefits / Funds: All amounts payable under provident fund, pension fund, gratuity fund and any other fund created by company for welfare of employees shall be covered under the heading.

5) Contributions under ESI Act: The total amount due for 12 months, prior to winding up of a company, under ESI Act or any other relevant Act shall be treated as preferential liability. The said amount is payable only when the winding up is compulsory and not voluntary.

6) Compensation

7) Investigation expenses under section 213 and 216 if payable by company

In case, if there is any advance payment made to the employee or any other person in respect to remuneration or otherwise, the employee or other person shall reserve a right in respect of that money at the time of

winding up. In case of sick leave, remuneration that falls due on medical grounds should be treated as regular remuneration.
Note – section 326 amd 327 shall not be applicable if liquidation is under Insolvency and Bankruptcy Code 2016.

C) Members liability as Contributories

According to S. 2 (26) of the Companies Act, 2013, the term “contributory” means, a person liable to contribute towards the assets of a company in the event of its being wound up. A person holding fully paid shares in a company shall be considered as a contributory but shall have no liabilities of a contributory under the Act whilst retaining rights of such a contributory.

In the event of winding up, the tribunal should make clear differenciation between contributories having their own rights and those contributories which are representatives of others. The tribunal can process the settlements of list of contributories by making calls or adjusting their rights. There are 2 separate lists prepared as far as contributories are concerned:

a) List A: It shows the details of the members who appear in the register of members on the date of winding up. These members shall have limited liability to the extent of unpaid amount of share capital.

b) List B: It shows the details of all such members who ceased to be members within 12 months from the date of beginning of winding up of a company. Such members are treated as past members. The past members are liabe to make contributions unless shares were transmitted, the contractual liability arised after ceasing to be a member or current members fail to pay all the dues.

Companies should first make contribution call to the members listed in list A. If they fail to pool the required amount then B listed contributors should be called for payment. Also the contributions can be demanded from list B members only when the realisable value of assets falls short of the liabilities and when existing shareholders fail to pay the amount due to the liquidator.

Liquidation Cost

The process of liquidation involves realization of assets and settlement of liabilities which results into many incidental expenses such as transportation, negotiation charges, administrative and logistics expenses etc. In the process of winding up, such expenses and liquidator’s remuneration gets top priority over other claims on company. The liquidation cost is paid after settlement of overriding preferential creditors and also has implications of secured creditors. The payment of liquidation cost is made in specific order which is as follows:

- Liquidation cost
- Legal Expenses
- Liquidator’s Remuneration

The above order is used for voluntary liquidation whereas in case of compulsory winding up the order is prescribed by company law tribunal.

The remuneration of liquidator may be payable as percentage of assets realized or it may be payable in terms of cash distributed to external stakeholders and members. In a situation of deficiency, remuneration may be calculated as n / 100 + n where n indicates percentage of commission.

5.6 LIQUIDATORS' FINAL STATEMENT OF ACCOUNTS

When company goes for winding up by operation of law, the liquidator has to maintain proper books in prescribed manner including entries or minutes of the resolutions passed at the time of meetings held during the process of liquidation. Any creditor or contributory reserves the rights to demand for inspection of records subject to approval from the tribnal. One of the important statements which shows summarised record of all receipts and payments is known as liquidator's statement of account. In case, when winding up process is complete, the said statement is called liquidator's final statement of account.

Following are important items which are included on receipt side of liquidator's final statement of account:

A) Net realised amount from assets sold in prescribed order
B) Surplus arising from assets realised which are pledged against the specific liabilities under the heading of "surplus from securities". (In case if there is deficit then such excess amount of liability should be treated as unsecured liability and is to be paid off in the manner presribed.)
C) Final call on partly paid up shares in case the available amount is not sufficient to pay off creditors' claim and / or claim of preference shareholders. Such calls should be made first from equity shareholders to the extent necessary and then from preference shareholders.
D) Amounts received from calls made to contributories from list A and B

Following are important items which are included on payment side of liquidator's final statement of account:

A) Legal charges (lawyers' fees, expenses related to court proceedings etc.)
B) Liquidator's remuneration
C) Liquidator's expenses
D) Claims of debenture holders including interest due upto the date of actual repayment subject to solvency of the company
E) Preferential creditors (to be paid before claim of debenture holders if there is general charge of assets)
F) Unsecured creditors
G) Preference shareholders (including arrears in dividend)
H) Equity shareholders

In case of repeyment to shareholders there may be 2 situations where shares are fully paid up or partly paid up. In case if shares are partly paid up then first call should be made to equity shareholders being owners so as to settle the claims of creditors and preference shareholders. Such amount should be called only if available cash is not sufficient. Only if it is required then preference shareholders would be called upon. Calls on partly paid up shares is required to be made under the following situation:

Steps to determine call amount

1) Calculate total loss for equity shareholders
   Total loss = total equity share capital – cash available for payments to unsecured liabilities and preference share capital
2) Determine loss per share
   Loss per share = total loss / number of equity shares
3) Determine call amount
4) Call amount = loss per share – paid up amount
   Note – In case, if loss per share is less than paid up amount then balance amount per share is refunded.

Liquidators Final Statement of Account

1. Name of the Company :
2. Nature of Proceeding :
3. Date of Commencement of the Winding up :
4. Name and address of the liquidator

Receipts	**₹ (Estimated Value)**	**₹ (Realised Value)**	**Payments**	**₹**	**₹**
To Cash/Bank			By Liquidation Expenses		
To Realisation of Assets			By Liquidator's remuneration		
1)			By Statutory Liabilities		
2)			1) Govt dues.		
To Surplus from Secured Liabilities			2)		
To proceeds of call			By Secured Liabilities		
			1) Secured Bank Loan		
			2) Debentures		
			By Preferential Liabilities		

			1) Preference Dividend 2) Interest Payments By Unsecured Liabilities By Preference Share Capital		

5.7 ILLUSTRATIONS

1. A liquidator is entiled to receive remuneration @ 2% of the assets realized 3% of Preference Creditors and 3% of the amount distributed among the unsecured creditors.

Assets realised Rs. 25,00,000 against which payment was made as follows:

Liquidation Expenses	Rs. 25,000
Preferential Creditors	Rs. 75,000
Secured Creditors	Rs. 10,00,000

Calculate remuneration payable to the liquidator. **(CS)**

Solution :

Analysis : 3% of amount distributed means 3/103 * Amount payable before remuneration.

Remuneration payable to Liquidator

Sr. No.	Particulars	Rs.
1.	2% of assets realised (2% of 25,00,000)	50,000
2.	3% of Preferential Creditors (3% of 75,000)	2,250
3.	3% of Distribution to Unsecured Creditors (Working Note 1)	39,255
	Total Remuneration	**91,505**

Note – Remuneration amount paid to unsecured creditors

Particulars	Rs.	Rs.
Amount Realised		25,00,000
Less: Paid to secured creditors	10,00,000	
Liquidation expenses	25,000	
Preferential Creditors	75,000	
Remuneration on collection of assets	50,000	
Remuneration on payment to preference creditors	2,250	11,52,250
Payable to Unsecured Creditors before remuneration		**13,47,750**

Working Note

a) Remuneration = 3 / 103 * 13,47,750
= 39,255

b) Remuneration = 2% of assets realised
2% of 25,00,000

2. A liquidator is entitled to receive remuneration at 2.5% on the Assets realised, 1.5 % on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realised for Rs. 15,00,000 against which payment was made as follows:

Liquidation Expenses	Rs. 25,000
Secured Creditors	Rs. 6,00,000
Preferential Creditors	Rs. 75,000

The amount due to Unsecured Creditors was Rs. 9,00,000. Calculate the Total Remuneration payable to Liquidator.

Solution:

A) 2.5% of assets realised = 15,00,000 * 2.5 %
= Rs. 37,500

B) 1.5 % of preferential creditors = 75,000 * 1.5%
= Rs. 1,125

C) 3% of payments to Unsecured Creditors = (15,00,000 – 25,000 – 37,500 – 1,125 – 6,00,000 – 75,000) * (3 / 103) = Rs. 22,176

Total Remuneration = A + B + C
= Rs. 60,801

3. M/s. ABC Ltd. Has gone into liquidation on 25th June, 2019. Certain creditors could not receive payments out of realisation of assets and contributions from "A" list contributories. Following are the details of certain transfers which took place in the year ended 31st March, 2019.

Shareholders	No. of Shares Transferred	Date of Ceasing to be a member	Creditors Remaining unpaid on the date of transfer
P	4,000	10-5-2018	9,000
Q	3,000	22-7-2018	12,000
R	2,400	15-9-2018	13,500
S	1,600	14-12-2018	14,000
T	1,000	9-3-2019	14,200

All the shares are of Rs. 10 each, Rs. 8 per share paid up. Show the amount to be realised from the persons listed above. Ignore remuneration to liquidator and other expenses. **(CA IPCC November 2011)**

Solution :

Statement of Liabilities of "B" List Contributories

Share holders	No. of shares transferred	Maximum liability Upto Rs. 2 Per Share (Rs.)	Division of Liability as on				Total
			22 July (Rs.)	15 Sept. (Rs.)	14 Dec. (Rs.)	9 Mar. (Rs.)	
Q	3,000	6,000	4,500	-	-	-	4,500
R	2,400	4,800	3,600	720	-	-	4,320
S	1,600	3,200	2,400	480	308	-	3,188
T	1,000	2,000	1,500	300	192	8	2,000
Total	**8,000**	**16,000**	**12,000**	**1,500**	**500**	**8**	**14,008**

Notes:

A. P transferred shares before one year preceding the date of liquidation. Hence, he cannot be held liable for any liability on liquidation.

B. Liability of T is restricted to maximum Rs. 2,000. Hence, amount payable by T on 9th March is Rs. 8 only.

C. Q will not be responsible for further debts incurred after 10th May (from the date when he ceases to be a member). R & S will not be liable for the debts incurred after the date of their transfer to shares.

Note :
Computation of Ratio for Discharge of Liabilities

Date	Cumulative Liability (Rs.)	Increase in Liability (Rs.)	Ratio of No. of Shares Held by Q, R, S & T
22July	12,000	-	30:24:16:10
15 September	13,500	1,500	24:16:10
14 December	14,000	500	16:10
9 March	14,200	200	Only T

4. Sri. "Ram" is appointed Liquidator of "C" Ltd., in Voluntary Liquidation. On 1st July. Following balances are extracted from the books on that date:

Equity & Liabilities	Rs.		Assets	Rs.
Share Capital: 12,000 Shares of Rs. 9 each	1,08,000		Machinery	60,000
Reserve for Bad Debts	19,000		Leasehold Properties	40,000
Debentures (Machinery)	55,000		Stock–in–trade	7,500
Bank Overdraft (Secured)	25,000		Book debts	75,000
Creditors (including Preferential creditors)	30,000		Investments	12,000
			Call in Arrears	1000
			Cash in hand	1,500
			Profit and Losss A/C	40,000
Total	**2,37,000**			**2,37,000**

Prepare a Statement of Affairs to be submitted to the meeting of Creditors. Following assets are valued as under by that date:

Machinery	Rs. 90,000	Investments	Rs. 9,000
Leasehold Properties	Rs.1,09,000	Stock	Rs. 3,000

Bad Debts are Rs. 2,000 and the Doubtful Debts are Rs. 5,000 which are estimated to realise Rs. 3,000. Preferential Creditors are Rs. 1,500. Telephone Rent outstanding Rs. 120. Liquidation expenses amounted to Rs 500 and Remuneration is Rs 750.

Solution:

Receipts	**Rs.**	**Payments**	**Rs.**
To Assets realized		By Liquidation Expenses	500
Cash	1,500	By Liquidator's Remuneration	750
Fixed Assets (leasehold Property)	1,09,000	By Preferential creditors	1,500
Book Debts	71,000	By Bank Overdraft	25,000
Investments	9,000	Trade Creditors	28,620
Stock	3,000	By Equity Shareholders	1,72,130
Surplus from security	35,000		
	2,28,500		**2,28,500**

Note – Sine debentures were secured againast specific asset and asset realised more amount, the excess net amount is shown as surplus in a statement. In case, asset does not fetch required amount, the difference would have been unsecured liability.

The following is the balance sheet of XY Ltd. Which is in the hands of the liquidator.

Balance Sheet as at 31.3.2018

Liabilities	Rs.	Assets	Rs.
Share Capital :			
1,000, 6% Preference Shares of Rs. 100 each, fully paid	1,00,000	Fixed Assets	2,00,000
2,000 Equity shares of Rs. 100 each	2,00,000	Stock	1,20,000
2,000 Equity shares of Rs. 100 each, Rs. 75 paid	1,50,000	Book Debts	2,40,000
Loan from Bank (on security of stock)	1,00,000	Cash	40,000
Trade Creditors	3,50,000	Profit and Loss Account	3,00,000
	9,00,000		**9,00,000**

The assets realised the following amounts (after all costs of realisation and liquidator's commission amounting to Rs. 5,000 paid out of cash in hand Rs. 40,000as per Balance Sheet):

Fixed Assets	Rs. 1,68,000
Stock	Rs. 1,10,000
Book Debts	Rs.2,30,000

Calls on partly paid shares were made but the amount due on 200 shares was found to be irrecoverable.

Prepare the Liquidator's Final Statement of Account.

(November 2018 University of Mumbai, TYBAF)

Solution:

Analysis: A call should be made on 1,800 shares shares as holders of 200 shares did not pay.

XY Co. Ltd.

Liquidators Final Statement of Account

For the year ended 31st March 2018

Receipts	Rs.	Payments	Rs.
To Assets realised		By Liquidator's Remuneration	5,000
Cash	40,000	By Trade Creditors	3,50,000
Fixed Assets	1,68,000	By Preference Shareholders	1,00,000
Book Debts	2,30,000	By Equity Share Holders (Rs. 10 per share on 2,000 shares)	20,000
Surplus from security	10,000		
To Proceeds of call on 1,800Equity shares @ Rs. 15 per share	27,000		
	4,75,000		**4,75,000**

Working Note

1. Amount Required:

Particulars	Rs.
Preference Share Capital	1,00,000
Equity Share Capital	2,00,000
Equity Share Capital partly paid (1,50,000 – 15,000)	1,35,000
	4,35,000
Less: Available Cash (40,000 + 1,68,000 + 2,30,000 + 10,000 – 5,000 – 3,50,000)	93,000
Total Deficiency	**3,42,000**

Loss per share = 3,42,000 / 3,800 = Rs. 90
Therefore a call of Rs. 15 (90 – 75) per share will be made on 1,800 shares and a return of Rs. 10 (100 – 90) will be made on the holders of 2,000 shares.

5. U Ltd. Went into voluntary liquidation on 31st March. The following balances are extracted from its books on that date:

Equity and Liabilities	**Rs.**		**Assets**	**Rs.**
Capital : 48,000 Equity Shares of Rs. 10 each, paid up Rs 5	2,40,000		Machinery	75,000
Debentures (secured by a Floating Charge)	1,60,000		Leasehold Properties	1,25,000
Bank Overdraft	40,000		Stock	5,000
Creditors	60,000		Debtors	1,30,000
			Investments	15,000
			Cash in hand	50,000
	-		Profit and Loss Account	1,00,000
Total	**5,00,000**			**5,00,000**

The following assets are valued as under:

Machinery	Rs. 80,000		Stock	Rs. 6,000
Leasehold Properties	Rs. 2,10,000		Debtors	Rs. 1,00,000
Investments	Rs. 10,000			

The bank overdraft is secured by deposit of Title Deeds of Leasehold Properties. There were Preferential Creditors Rs. 5,000 which were not included in Creditors Rs. 60,000.

Prepare a Statement Affairs to be submitted to the meeting of Members / Creditors.

Solution:

Receipts	**Rs.**	**Payments**	**Rs.**
To Cash	50,000	By Preferential Creditors	5,000
To assets realised:		By Debentures	1,60,000
Machinery	80,000	By Creditors	60,000
Investments	10,000	By Equity Shareholders	1,91,000
Stock	6,000		
Debtors	1,00,000		
To surplus from assets	1,70,000		
	4,16,000		**4,16,000**

6. The following is the Balance sheet of Suman Ltd. Which is in the hand of liquidator. Balance sheet as on 31-12-2019

Liabilities	**Rs.**		**Assets**	**Rs.**
Share Capital:			Fixed Assets	1,00,000
500, 6% Preference shares of Rs 100 each, fully paid	50,000		Stock	60,000
1000 Equity Shares of Rs 100 each fully paid	1,00,000		Book debts	1,20,000
3000 Equity Shares of Rs 50 each, Rs 25 paid	75,000		Cash	20,000
Loan from Bank (on security of stock)	50,000		Profit And Loss	1,50,000
Trade Creditors	1,75,000			
	4,50,000			**4,50,000**

The Assets realized the following amounts (after all costs of realization and liquidators remuneration amounting Rs 3000 paid out of cash in hand Rs 20,000 as per Balance sheet):

Fixed Assets	84,000
Stock	55,000
Book Debts	1,15,000

Prepare the liquidators final statement of Account. **(TYBAF, October 2019, Mumbai University)**

Solution:

Analysis: Make a call 3000 shares @25 Rs each

Suman Ltd

Liquidators Final Statement of Accounts.

Particulars	**Rs.**		**Particulars**	**Rs.**
To Assets			By Liquidators	3,000
Cash	20,000		By Creditors	1,75,000
Fixed Assets	84,000		By return to 6% Preference Shareholders	50,000
Book Debts	1,15,000		By Equity Shareholders	
To Surplus from Security	5,000		Rs 100 paid	28,400
To Proceeds of call (3000 x 25)	75,000		Rs 50 paid	42,600
	-			
	2,99,000			**2,99,000**

5.8 EXERCISES

Multiple Choice Questions

1) Voluntary winding up:

a) If period fixed for the company is expired.

b) If company passes a special resolution the company wound up voluntarily.

c) Members voluntary winding up is applicable to solvent companies only.

d) All of the above

2)Compulsory winding up:

a) If a company unable to pay its debt

b) If the number of members of company reduced below statutory limit.

c) If a company does commence its business within a year from its incorporation.

d) All of the above.

3)The first item in order of payment to be made by liquidator is:

a) Secured creditors

b) Preferential creditors

c) Liquidation expenses

d) Preferential creditors

4)Liquidator's statement of receipts and payment is know as:
a) Cash flow statement
b) Cash book
c) Liquidator's final statement of account
d) Deficiency account

5) The liquidator final statement of account is prepared
a) Only in case of creditor voluntary winding up
b) Only in case of members voluntary winding up
c) Only in case of compulsory winding up
d) Whatever may be

6) When the liquidator company has adequate cash to pay off all liabilities, the interest on liabilities will be paid
a) Up to date of commencement of insolvency
b) Up to date of actual payment
c) Up to date of payment to share holders
d) None of these

7) The Job of Realizing Assets and Paying Liabilities Is Performed by A Person
a) Liquidator
b) Auditor
c) Registrar of the Company
d) None of the above

8) At the time of liquidation of company, the liquidator has to file a statement of receipt and payment is known as
a) Statement of affairs
b) Liquidator report
c) Liquidator final statement of account
d) None of the Above

9)The deficiency shown by deficiency account will be equal to the deficiency revealed by
a) Liquidator final statement of account
b) Liquidator report
c) Statement of affairs
d) None
10)Insolvent Companies Can Be Liquidated
a) Compulsory
b) Optional
c) Order
d) All the Above

11)A Liquidator can claim the
a) Remuneration
b) Assets
c) Dividend
d) All the Above

PRACTICLE QUESTION

1. B Ltd. is to be liquidated. Their summarised Balance Sheet as at 30th September, 2020 appears as under:

Liabilities	**Rs.**	**Assets**	**Rs.**
2,50,000 Equity shares of Rs. 10 each	25,00,000	Land and buildings	5,00,000
Secured Debentures (on land and building)	5,00,000	Other fixed assets	20,00,000
Unsecured loans	20,00,000	Current assets	45,00,000
Trade creditors	40,00,000	Profit and Loss A/c	20,00,000
	90,00,000		**90,00,000**

Contingent liabilities are	Rs.
For bills discounted	1,50,000
For excise duty demands	2,50,000

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 110%

Other fixed assets 90%

Current assets Rs 40,00,000

Taking the above into account prepare the statement of affairs.

2. A liquidator is entitled to receive remuneration @ 3% of the assets realised and 5% of the amount distributed among the unsecured creditors. The assets realised Rs. 35,00,000 against which payment was made as follows:

- Liquidation expenses Rs. 25,000
- Preferential creditors Rs. 1,75,000
- Secured creditors Rs. 7,50,000

Calculate the remuneration payable to the liquidator

3 .The capital of Data Company Limited was as follows:

a. 8000 equity shares of Rs. 100 each fully paid up
b. 6000 equity shares of Rs. 100 each, Rs. 80 per share paid up
c. 2000 preference shares of Rs. 100 each fully paid (these shares have preference as to capital)
d. 2000 deferred shares of R. 100 each Rs. 80 per share paid up (these shares, under the articles are to be paid after satisfying the claims of equity shareholders)

The various creditors amounted in all to Rs. 2,00,000 including the liquidator's remuneration of Rs. 5,000. The liquidator made a call of the remaining Rs. 20 on the deferred shares which were paid in full. He also realised all the assets amounting to Rs. 3,82,000.

A call of R. 15 per hare was made on the equity shares which were partly paid up. This was paid in full with the exception of that on 200 shares.

Prepare the Liquidator's Account showing the return of money to the shareholders.

4.. The balance sheet of Badshah Ltd as on 31st December 2019 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:		Land and Building	61,000
8000 Preference shares of Rs. 9 each	72,000	Other fixed assets	3,00,000
12,000 equity shares of Rs. 1each	12,000	Stock	3,25,000
Bank loan	4,00,000	Debtors	1,00,000
Debentures	1,00,000	Profit and Loss A/c	58,000
Interest outstanding on debentures	10,000		
Creditors	2,50,000		
	8,44,000		**8,44,000**

The company went into liquidation on that date. Prepare Liquidator's Statement of Account after taking into account the following:

a. Liquidation expenses and liquidator's remuneration amounted to Rs. 3,000 and Rs. 10,000, respectively.
b. Bank loan was secured by pledge of stock

c. Debentures and interest thereon are secured by a floating charge on all the assets

d. Fixed assets were realised at book value and current assets at 75% of book values.

5. Balance sheet of Naru Ltd as on 31 December 2020 is as follows

Liabilities	**Rs.**	**Assets**	**Rs.**
Paid up Capital:		*Fixed Assets:*	
2000, 6% Preference shares of Rs. 100 each	2,00,000	Land and building	4,00,000
4,000 equity shares of Rs. 100 each fully paid up	4,00,000	Plant and machinery	4,40,000
6,000 equity shares of Rs. 100 Rs. 50 paid up	3,00,000	*Current assets:*	
Secured Loans:		Stock	2,00,000
6% bonds (on floating charge on all assets)	2,00,000	Debtors	2,00,000
Others bank loan (on mortgage of land and building)	2,00,000	Cash at bank	60,000
Current Liabilities:		*Miscellaneous expenditure:*	
Sundry creditors	1,80,000	Profit and Loss A/c	2,00,000
Income tax	20,000		
	15,00,000		**15,00,000**

The company went into liquidation on 1 January 2021.

The preference dividends were in arrears for three years. The arrears are payable on liquidation

The assets were realised as follows:

- Land and Building – 125%
- Plant and machinery- 85%
- Stock at book value
- Debtors- 80%

The expenses of liquidation amounted to Rs. 5,000.

The liquidator is entitled to a commission at 3% on all assets realised and 5% on amount distributed to unsecured creditors.

All payments are made on 30 June 2021.

Prepare Liquidator's Statement of Accounts.

6. The summarised balance sheet of Berti Ltd as on 31.3.2017, being the date of voluntary winding up is as under:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:			
100000, 12% Cumulative Preference shares of Rs. 10 each fully paid up	10,00,000	Land and building	5,00,000
50,000 equity shares of Rs. 10 each Rs. 6 per share called up and paid up	3,00,000	Plant and machinery	8,00,000
50,000 equity shares of Rs. 10 Rs. 5 per share called up and paid up	2,50,000	Stock	2,00,000
15% Debentures	7,50,000	Debtors	15,00,000
Preferential creditors	2,00,000	Profit and Loss A/c	5,00,000
Bank overdraft	3,00,000		
Trade creditors	7,00,000		
	35,00,000		**35,00,000**

The preference dividends were in arrears for two years.
The assets were realised as follows:

- Land and Building @ 150%
- Plant and machinery @ 95%
- Stock @ 75%
- Debtors Rs. 12,25,000

The expenses of liquidation amounted to Rs. 54,000.

The remuneration of the liquidator is 1.25% of the realisation. Income tax payable on liquidation is Rs. 80,500. Assuming that the final payments are made on 31.3.2018 prepare the Liquidator's Final Statement of Account.

7. Rupay Ltd went into voluntary liquidation on 31st December 2014 when their balance sheet read as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
7500, 10% Cumulative Preference shares of Rs. 100 each fully paid up	7,50,000	Land and building	3,75,000
3750 equity shares of Rs. 100 each Rs. 60 paid	2,81,250	Plant and machinery	9,37,500
11250 equity shares of Rs. 100 each Rs. 60 paid	6,75,000	Patents	1,50,000

15% Debentures secured by a floating charge	3,75,000	Stock	2,01,250
Interest outstanding on debentures	56,250	Sundry debtors	4,12,500
Creditors	4,78,125	Cash at bank	1,12,500
		P & L A/c	4,26,875
	26,15,625		**26,15,625**

The dividends on preference shares were in arrears for two years and the creditors included preferential creditors of Rs. 19,000. The assets realised were as under:

- Land and Building Rs. 7,00,000
- Plant and machinery Rs. 9,00,000
- Stock Rs. 2,50,000
- Debtors Rs. 4,00,000
- Patents Rs. 1,25,000

The expenses of liquidation amounted to Rs. 20,250. The liquidator is entitled to a commission of 2.5% on all assets realised except cash. Assuming that final payments including those on debentures were made on 30th June, 2015, prepare the Liquidator's Final Statement of Account.

8. The following is the Balance sheet of Lily Ltd as at 31st March, 2019

Liabilities	**Rs.**	**Assets**	**Rs.**
4000, 10% Preference shares of Rs. 100 each fully paid up	4,00,000	Land and building	8,00,000
4,000 equity shares of Rs. 100 each Rs. 75 per share paid up	3,00,000	Plant and machinery	7,60,000
12,000 equity shares of Rs. 100each Rs. 60 per share and paid up	7,20,000	Stock at cost	2,20,000
10% Debentures (having a floating charge on all assets)	4,00,000	Sundry debtors	4,40,000
Interest outstanding on debentures (also secured as above)	20,000	Cash at bank	1,20,000
Creditors	9,80,000	P & L A/c	4,80,000
	28,20,000		**28,20,000**

On the 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 Rs. 1,80,000 on mortgage of Land and Buildings. The assets realised were as under:
Land and Building Rs. 6,80,000
Plant and Machinery Rs. 7,20,000
Stock Rs. 2,40,000
Sundry Creditors Rs. 3,20,000

Interest accrued on loan on mortgage of buildings up to the date of payment amounted to Rs. 20,000. The expenses of Liquidation amounted to Rs. 5,000. The Liquidator is entitled to remuneration of 2% on all the assets realised (except cash at bank) and 3% on the amount distributed among equity shareholders. Preferential creditors included in sundry creditor's amount to Rs. 50,000. All payments were made on 30th June, 2019.

Prepare the Liquidator's Final statement of Account.

9. In liquidation of Unfortunate Ltd which commenced on 1 April, 2017 certain creditors could not receive payments 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 1 April, 2017:

Shareholders	*No. of shares transferred*	*Date of ceasing to be member*	*Creditors remaining unpaid and outstanding on the date of ceasing to be member (Rs.)*
A	1,000	1st May, 2017	3,000
B	1,500	1st July,2017	4,500
C	300	1st November, 2017	6,000
D	200	1st February, 2017	8,500

All the shares were of Rs. 10each, Rs. 5 paid up. Ignoring expenses, remuneration to liquidator, etc Show the amount to be realised from the various persons listed above.

10. In a winding up which commenced on 15th September, 2020 certain creditors could not receive payments 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 prior to liquidation and the amount of creditors remaining unpaid:

Shareholders	*No. of shares transferred*	*Date of ceasing to be member*	*Creditors remaining unpaid and outstanding on the date of ceasing to be member (Rs.)*
L	2,000	31.8.2020	6,000
M	1,800	20.9.2020	22,000
N	1,200	15.11.2020	27,400
O	1,000	22.2.2021	38,600
P	500	10.3.2021	42,000

All the shares were of Rs. 10each, on which Rs. 4 per share had been called and paid up. Ignoring expenses, remuneration to liquidator, etc show the amount to be realised from the various persons listed above.

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