Illustration 3 : X Ltd. has two separate departments—A and B. On 31st January, 2019, you are supplied with the following information regarding their transactions during January, 2019—

	Deptt. A	Deptt. B
	₹	₹
Stock on Jan. 1, 2019	21,000	19,600
Purchases	63,000	50,400
Sales	98,000	84,000
Salaries	10,000	10,000
Rent, Rates & Taxes	2,500	4,500
Misc. Expenses	310	380

Besides above there are other indirect expenses of ₹ 25,200, but these are for the last two months i.e. Dec. & Jan. Out of these expenses 2/3 are to be apportioned in the ratio of sales. The total sales of both the departments during the last months were ₹ 98,000. The remaining 1/3 of these expenses are to be apportioned equally between the two departments on monthly basis.

On that date the closing stock of both the departments could not be calculated; but the rate of Gross Profit on sales is 40% and 30% respectively for both the departments.

Prepare Departmental Trading and Profit & Loss Account on 31st January, 2019.

Illustration 7 : A firm has two departments—A & B. Department A sells goods to B at normal market price. From the particulars given below prepare Departmental Trading and Profit and Loss Account and balance sheet for the year ended 31.3.2019 :

	Deptt. A	Deptt. B
	₹	₹
Opening Stock	10,000	—
Purchases	2,30,000	20,000
Goods sold to Dept. B (at selling price)	70,000	—
Wages	10,000	16,000
Salaries (Departmental)	6,800	4,200
Closing Stock	50,000	18,000
Sales	2,30,000	1,45,000
Printing & Stationery	2,000	1,600
Machinery	—	12,000
Buildings	25,000	30,000
Debtors	10,000	9,000
Creditors	7,000	5,000
Bills Receivable	6,000	9,000
Other Balances are :		
(1) Salaries (general)	18,000	
(2) Advertisement	10,000	
(3) Cash in Hand	4,000	
(4) Bank	6,000	
(5) General Reserve	12,600	
(6) Capital	40,000	

Charge depreciation on Machinery @ 10%. Provide ₹ 50,000 for General Reserve and ₹ 10,000 for Taxation. Allocate salaries (general) and advertisement in the ratio of 3 : 2.

Solution : Departmental Trading and Profit and Loss Account

Illustration 13 : Complex Limited has three departments A, B and C. The following information is provided :

	A ₹	B ₹	C ₹
Opening Stock	3,000	4,000	6,000
Direct Materials	8,000	12,000	—
Wages	5,000	10,000	—
Closing Stock	4,000	14,000	8,000
Sales	—	—	34,000

Stocks of each department are valued at cost to the department concerned. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost.

Other expenses were :	₹
Salaries	2,000
Printing and Stationery	1,000
Rent	6,000
Interest paid	4,000
Depreciation	3,000

Allocate expenses in the ratio of departmental gross profit. Opening figures of reserves for unrealised profit on departmental stocks were as follows—

	₹
Department B	1,000
Department C	2,000

Prepare Departmental Trading and Profit and Loss Account. **(M.D.S. University, Ajmer, 2004)**

Illustration 17 : Ram & Sons has two branches at Ajmer and Jaipur. Goods are invoiced to branches at cost plus 50%. Branches remit all cash received to the H.O. and all expenses are met by H.O. From the following particulars prepare the necessary accounts on the Stock and Debtors System, to show the profit earned at the branches :

	Ajmer ₹	Jaipur ₹
Stock : Opening at Invoice Price	9,300	15,600
Debtors : Opening	6,800	8,700
Goods invoiced to Branches at Cost Price	34,000	36,000
Sales at Branches : Cash Sales	25,010	35,000
Credit Sales	31,000	30,100
Cash Collected from Debtors	30,400	29,800
Goods returned by Debtors	1,200	1,500
Goods returned by Branch to H.O.	1,500	—
Goods transferred from Jaipur to Ajmer	2,100	2,100
Surplus in Stock	—	300
Shortage of Stock	450	—
Branch Expenses	5,400	6,700
Discount allowed to Customers at Branches	200	350

Illustration 30 : The New York Branch of Fine Textiles, Delhi sent the following trial balance as at 31st December, 2019—

Name of Ledger Accounts	L.F.	Dr. Balance ($)	Cr. Balance ($)
Fixed Assets		12,000	
Stock, 1st January, 2019		5,600	
Goods from H.O.		32,000	
Sales			42,000
Expenses		2,500	
Debtors & Creditors		2,400	1,700
Cash at Bank		600	
Head Office a/c			11,400
Total		55,100	55,100

In the Head Office books the Branch Account stood as under :

New York Branch Account

Particulars	₹	Particulars	₹
To Balance c/d	4,05,000	By Cash a/c	14,38,000
To Goods sent to Branch a/c	14,63,000	By Balance c/d	4,30,000
	18,68,000		18,68,000

Goods are invoiced to the branch at cost plus 10% and the Branch has instructed to sell at invoice price plus 25%.

Fixed assets were acquired on 31st January, 2019, when $ 1 = ₹ 38. Rates of exchange were :

1st January, 2019 $ 1 = ₹ 46
31st December, 2019 $ 1 = ₹ 48
Average $ 1 = ₹ 47

Fixed assets have to be depreciated by 10% and the Branch Manager is entitled to a commission of 5% on the profit before charging such commission of the Branch (on invoice price basis).

You are required to :

Convert the Trial Balance of Branch into Indian currency and prepare Branch Trading and Profit & Loss Account and the Branch Account, proving its accuracy.

Illustration 6 : Kanu took a property on lease from Manu for ten years at a royalty of ₹ 10 per ton subject to a minimum rent of ₹ 4,000 per annum. Minimum rent paid in excess of actual royalties is recoverable during the next three years succeeding the year in respect of which such excess was paid. In the event of a strike, the minimum rent will be reduced proportionately in relation to time lost. The first year, in respect of which the minimum rent was payable expired on 31st December, 2015. The excess paid in respect of the first year was ₹ 4,000 and of the second year ₹ 1,500. In the third year the actual royalties amounted to ₹ 4,750; in the fourth year ₹ 3,500 (in consequence of strike which lasted for 73 days) and in the fifth year ₹ 7,500 only.

Write up Minimum Rent Account, Royalty Account, Short-workings Account and Manu's Account in the Ledger of Kanu

Illustration 9 : On 1st January, 2015 X obtained from Y a lease of a coal mine for 20 years, at a royalty of ₹ 10 per ton of coal raised. The minimum rent was fixed at ₹ 5,000 per annum for first two years and thereafter at ₹ 7,000 per annum. The short-workings could be recouped over the first three years of the lease. On the same day X granted a sub-lease of half of the mine to Z on a royalty of ₹ 15 per ton of coal raised, merging into a dead rent of ₹ 4,000 per annum with a right to recoup short-workings during the next two years following the year of short-workings. The output for the first five years was as follows :

Year	2015	2016	2017	2018	2019
Output (In tons) :					
By X	190	320	410	580	340
By Z	160	220	340	420	280

Payments by X and Z were made on 31st December each year. Books are closed on 31st December each year. Give necessary Ledger accounts in the books of X.

Illustration 14 : On 1st April, 2018, Ram had investments in 2,000 Equity Shares of ₹ 100 each of Bajaj Auto Ltd. at a cost of ₹ 6,00,000 which were purchased in the year 2017-18. On 1st November 2018 Ram sold 800 shares out of these shares @ ₹ 350 per share cum-dividend. Bajaj Auto Ltd. declared and paid 12% dividend on its equity shares for the financial year 2017-18 on 15th November, 2018. On 1st December, 2018 Company paid 6% interim dividend for the year 2018-19. You are requested to pass necessary journal entries, prepare necessary ledger accounts and disclose investments in the balance sheet of Ram for the year ending 31st March, 2019 assuming that brokerage @ 1.5% and security transaction tax at the applicable rate were paid by Ram on sale of 800 shares. The market quotations of equity shares of Bajaj Auto Limited on 31st March, 2019 was ₹ 306 per share.

Illustration 16 : Record the following purchases and sales of investments in the books of Anil :

Apr. 1, 2018	Purchased ₹ 5,000 Debentures in X Ltd. at 95% cum-interest and paid brokerage at 1%.
June 1, 2018	Purchased further ₹ 4,000 Debentures in X Ltd. at 97% cum-interest and paid brokerage at 1%.
August 1, 2018	Sold ex-interest ₹ 3,000 Debentures at 96%.
November 1, 2018	Sold cum-interest ₹ 3,500 Debentures at 98%.
March 31, 2019	Valued the Debentures left at 96%.

The due dates for payment of interest were 1st September and 1st March and the rate of interest was 4% per annum.

Show the necessary accounts (in columnar form) for recording the above transactions. Brokerage is charged on transaction value of securities at the time of purchase only.

Illustration 20 : 14,000 equity shares of ₹ 100 each in PQ Limited were held by Ramesh on 1st April, 2018. The average cost of these shares disclosed by his books was ₹ 108 per share. On 10th July, 2018 he further purchased 1,000 shares of PQ Limited @ ₹ 109.50 per share (inclusive of brokerage and taxes etc.). On 16th August, 2018 he received an offer, from PQ Limited, of right share entitlement @ 2 shares for every 5 shares held. The right shares were offered by the Company at ₹ 105 per share. Ramesh himself exercised his entitlement to the extent of 75% and renounced the remaining @ ₹ 3.50 per right share in favour of outsiders. On 1st November, 2018 Ramesh received dividend @ ₹ 12 per share for the year 2017-18 from PQ Limited. On 1st January, 2019 he sold 6,000 shares @ ₹ 110 per share (net of expenses, brokerage and taxes). The shares of PQ Limited were quoted @ ₹ 112 per share on 31st March, 2019.

Prepare Investment Account in columnar form in the books of Ramesh for the year 2018-19.

...not required.

Illustration 9 : M Ltd. acquired 12,000 Equity Shares in P Ltd. for ₹ 1,70,000 on 1st July, 2018. The Balance Sheets of the two Companies as at 31st March, 2019 were as follows :

Balance Sheet as on 31st March, 2019

Particulars	M Ltd. ₹	P Ltd. ₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital :		
(i) Authorised Capital	—	—
(ii) Issued & Subscribed and Fully Paid up Capital : Equity Shares of ₹ 10 each fully paid up	10,00,000	3,00,000
(b) Reserves and Surplus :		
General Reserve	4,20,000	50,000
Surplus in Statement of Profit & Loss	2,60,000	85,000
(2) Non-Current Liabilities	—	—
(3) Current Liabilities		
(a) Trade Payables :		
Bills Payables	80,000	60,000
Sundry Creditors	2,40,000	42,000
Total	20,00,000	5,37,000
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets :		
(i) Tangible Assets :		
Land and Buildings	4,00,000	1,00,000
Plant and Machinery	5,00,000	1,00,000
(ii) Intangible Assets : Goodwill	3,00,000	70,000

		₹	₹
	(b) Non-Current Investments :		
	12,000 Equity Shares in P Ltd.	1,70,000	—
	(c) Other Non-Current Assets	—	—
(2)	**Current Assets**		
	(a) Inventories : Closing Stock	2,00,000	40,000
	(b) Trade Receivables :		
	Bills Receivables	50,000	30,000
	Sundry Debtors	3,00,000	1,35,000
	(c) Cash and Cash Equivalents : Cash at Bank	80,000	62,000
	Total	20,00,000	5,37,000

Note : There is a contingent liability for bills discounted for ₹ 45,000 in case of M Ltd. The following information is also given :

(a) On April 1, 2018 the Statement of Profit and Loss of P Ltd. showed a positive balance of ₹ 40,000 out of which a dividend of 15% on the Share Capital was paid in Sept, 2018.

(b) In Sept, 2018 a bonus issue of one equity share fully paid for every two equity shares held was also made by P Ltd. out of General Reserve.

(c) Bills Payable of P Ltd. represents bills issued in favour of M Ltd. Out of these bills M Ltd. had already discounted bills of ₹ 20,000.

(d) The entire stock of P Ltd. represents goods supplied by M Ltd. at cost plus 25%.

(e) M Ltd. and P Ltd. agreed that for service rendered by M Ltd. should charge ₹ 500 per month from P Ltd. with effect from July 1, 2018. Entries for this had not been made in the books of both the companies.

Prepare the Consolidated Balance Sheet. **(MDS Univ., Pt.-I (H), 2012; M.G.S. Univ. Bikaner, 2011)**

Illustration 10 : R Ltd. acquired 75% of Equity Shares and Preference Shares in S Ltd. on 1st Octber, 2018. The Balance Sheets of both the Companies as at 31st March, 2019 are follows :

Balance Sheets as at 31st March, 2019

Particulars	R Ltd. ₹	S Ltd. ₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital :		
(i) Authorised Capital	—	—
(ii) Issued & Subscribed and Fully Paid up Capital :		
Equity Shares of ₹ 100 each fully paid up	5,50,000	1,00,000
Preference Shares of ₹ 100 each fully paid up	—	50,000
(b) Reserves and Surplus :		
General Reserve (1-4-2018)	1,75,000	60,000
Surplus in Statement of Profit & Loss	90,000	46,000
(2) Non-Current Liabilities	—	—
(3) Current Liabilities		
(a) Trade Payables : Sundry Creditors	85,000	44,000
Total	9,00,000	3,00,000
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets :		
(i) Tangible Assets :		
Land and Buildings	2,60,000	95,000
Plant & Machinery	1,40,000	76,000
(ii) Intangible Assets	—	—
(b) Non-Current Investments :		
Equity Shares in S Ltd.	2,00,000	—
(c) Other Non-Current Assets	—	—
(2) Current Assets		
(a) Inventories : Closing Stock	1,10,000	77,000
(b) Trade Receivables : Sundry Debtors	1,20,000	26,000
(c) Cash and Cash Equivalents : Cash at Bank	70,000	26,000
Total	9,00,000	3,00,000

Other Information :

(1) Statement of Profit and Loss of R Ltd. includes dividend of 3% from S Ltd. The dividend was paid for the year ended 31st March, 2018.

(2) The balance of Statement of Profit and Loss of S Ltd. as on 1st April, 2018 was ₹ 20,000 out of which dividend at the rate of 3% was paid on equity shares. The dividend on preference shares for the year 2018-19 is still payable.

(3) Creditors of R Ltd. include ₹ 12,000 for purchases from S Ltd. on which the later company made a profit of ₹ 2,000.

(4) Stock of R Ltd. includes ₹ 6,000 stock at cost purchased from S Ltd. (Part of ₹ 12,000 purchases)

(5) On the date of acquisition of shares, Land and Buildings of S Ltd. was valued at ₹ 1,15,000 and Plant & Machinery ₹ 70,000 for which no effect has been given. The Land and Buildings and Plant & Machinery of S Ltd. have been depreciated at 5% per annum.

Illustration 12 : The following Balance Sheets of H Ltd. and S Ltd. are presented to you :

Balance Sheet as at 31st March, 2019

Particulars	**H Ltd.** ₹	**S Ltd.** ₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital :		
(i) Authorised Capital	—	—
(ii) Issued & Subscribed and Fully Paid up Capital :		
Equity Shares of ₹ 100 each fully paid up	10,00,000	4,00,000
(b) Reserves and Surplus :		
General Reserve	2,00,000	—
Surplus in Statement of Profit & Loss	1,60,000	(2,00,000)
(2) Non-Current Liabilities		
(a) Long-term Borrowings :		
(i) Secured Loan :		
12% Debentures	—	2,00,000
(3) Current Liabilities		
(a) Trade Payables :		
Sundry Creditors	1,50,000	90,000
Total	15,10,000	4,90,000
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets :		
(i) Tangible Assets	7,00,000	3,00,000
(ii) Intangible Assets	—	—

(b) Non-Current Investments :		
3,000 Equity Shares in S Ltd.	2,46,000	—
12% Debentures in S Ltd. at par	1,20,000	—
(c) Other Non-Current Assets	—	—
(2) Current Assets		
(a) Inventories : Closing Stock	1,80,000	80,000
(b) Trade Receivables : Sundry Debtors	1,20,000	60,000
(c) Cash and Cash Equivalents : Cash at Bank	1,44,000	50,000
Total	15,10,000	4,90,000

H Ltd. acquired 2,400 shares on 1st April, 2018 and 600 shares on 1st July, 2018 at a cost of ₹ 1,92,000 and ₹ 54,000 respectively. The Statement of Profit and Loss of S Ltd. showed a Negative balance of ₹ 3,00,000 on 1st April, 2018. Trade creditors of S Ltd. include ₹ 40,000 for goods supplied by H Ltd. on which later company made a profit of ₹ 4,000. Half of the goods were still in stock on 31st March, 2019. Prepare Consolidated Balance Sheet as at 31st March, 2019.

Illustration 13 : From the following Balance Sheets and information prepare a Consolidated Balance Sheet as at 31st March, 2019.

Balance Sheet
as on 31st March, 2019

Particulars	H Ltd. ₹	S Ltd. ₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital :		
(i) Authorised Capital	—	—
(ii) Issued & Subscribed and Fully Paid up Capital :		
Equity Shares of ₹ 10 each fully paid up	10,00,000	2,00,000
(b) Reserves and Surplus :		
Investment Reserve	30,000	—
Surplus in Statement of Profit & Loss 1-4-2018	60,000	72,000
Profit for the year 2018-19	20,000	48,000
(2) Non-Current Liabilities	—	—
(3) Current Liabilities	—	—
Total	11,10,000	3,20,000
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets :		
(i) Tangible Assets	6,00,000	2,00,000
(b) Non-Current Investments :		
12,000 Equity Shares in S Ltd.	1,80,000	—
(c) Other Non-Current Assets	—	—
(2) Current Assets		
(a) Inventories : Closing Stock	2,00,000	80,000
(b) Trade Receivables	1,00,000	30,000
(c) Cash and Cash Equivalents : Cash at Bank	30,000	10,000
Total	11,10,000	3,20,000

H Ltd. bought 16,000 shares in S Ltd. at ₹ 15 per share when the Statement of Profit & Loss of the later stood at ₹ 44,000 and sold 4,000 out of them on 30th Sept, 2018 at ₹ 22.50 per share crediting the profit on sale to the Investment Reserve Account.

Illustration 18 : The following are the Statement of Profit & Loss of H Ltd. and its Subsidiary Company S Ltd. for the year ending 31st March, 2019 :

Statement of Profit and Loss

Particulars	H Ltd. ₹	S Ltd. ₹
I. Revenue from operations (sales)	3,80,000	3,00,000
II. Other Incomes :		
Debenture Interest	1,200	—
Interim Dividend	8,400	—
III. Total Revenue (I + II)	3,89,600	3,00,000
IV. **Expenses :**		
Cost of Material Consumed	3,00,000	2,00,000
Finance Cost Related to S Ltd.	—	2,400
Other Expenses	30,000	40,000
Total Expenses	3,30,000	2,42,400
V. Net Profit Before Tax (III – IV)	59,600	57,600
Less : Tax Expenses	28,000	24,000
Net Profit After Tax	31,600	33,600

The following information is also available to you :

(i) The issued share capital of S Ltd. consist of 8,000 Equity Shares of ₹ 10 each fully paid and 2,000 6% Preference Shares of 10 each fully paid.

(ii) S Ltd. incorporated on 1st April, 2018 S Ltd. also issued 4,000 6% Debentures of ₹ 10 each.

(iii) H Ltd. acquired 6,000 Equity Shares in S Ltd. On 1st July, 2018 and also Debentures of ₹ 20,000 on 1st April, 2018.

(iv) During the year 2018-19 S Ltd. sold to H Ltd. goods for ₹ 30,000. These goods were sold by S Ltd. at cost plus 50%.

(v) One-fourth of the above goods remained unsold with H Ltd. on 31st March, 2019.

Prepare Consolidated Statement of Profit and Loss.

Illustration 19 : The Balance Sheets of the two companies as at 31st March, 2019 are as follows :

Balance Sheet (As at 31st March, 2019)

Particulars	A Ltd.	B Ltd.
	₹	₹
I. EQUITY AND LIABILITIES :		
(1) Shareholders' Fund :		
(a) Share Capital :		
Authorised Capital : Equity Share of ₹ 10 each	1,50,000	1,25,000
Issued & Subscribed and Fully Paid up Capital :		
Equity Share of ₹ 10 each fully paid up	1,25,000	1,00,000
(b) Reserve and Surplus		
(i) Surplus : Statement of Profit & Loss	10,000	(23,000)
(2) Non-Current Liabilities	—	—
(3) Current Liabilities :		
(a) Trade Payables : Sundry Creditors	15,000	30,000
Total	1,50,000	1,07,000
II. ASSETS :		
(1) Non-Current Assets :		
(a) Fixed Assets :		
(i) Tangible	1,00,000	45,000
(ii) Intangible : Goodwill	—	27,000
(2) Current Assets : Floating Assets	50,000	35,000
Total	1,50,000	1,07,000

On 1st April, 2019 A Ltd. decided to take over the assets and liabilities of B Ltd. as from that date. The vendor's shareholders had agreed to accept shares in the purchasing company, the agreed basis being that such shares were worth ₹ 12 each and that the shares of B Ltd. were worth ₹ 6 each on 31st March, 2019. The necessary formalities were carried out and shares were issued by A Ltd. on 1st April, 2019.

Give journal entries recording the transactions in the books of the two companies and draw up Balance Sheet of A Ltd. showing the effect of the amalgamation. Assume that the authorised capital of A Ltd. was increased to the required extent.

Illustration 20 : Following are the Balance Sheets of A Ltd. and B Ltd. as at 31st March, 2019 :

Particulars		A Ltd.	B Ltd.
		₹	₹
I. EQUITY AND LIABILITIES :			
(1) **Shareholders' Fund :**			
(a) Share Capital :			
Issued & Subscribed and Fully Paid up Capital :			
Equity Share Capital (₹ 100 each)		10,00,000	6,00,000
(b) Reserve and Surplus :			
Reserve		2,00,000	1,20,000
(2) Non-Current Liabilities		—	—
(3) Current Liabilities :			
(a) Trade Payables : Sundry Creditors		3,00,000	1,80,000
	Total	15,00,000	9,00,000
II. ASSETS :			
(1) Non-Current and Current Assets :			
Sundry Assets		15,00,000	9,00,000
	Total	15,00,000	9,00,000

A Ltd. absorbs B Ltd. to start a new business on the basis of intrinsic value of shares. The purchase consideration is to be discharged in the form of fully paid equity shares. Entries are to be made at par only. A sum of ₹ 40,000 is owed by A Ltd. to B Ltd. Stock of A Ltd. includes ₹ 60,000 of goods supplied by B Ltd. at cost plus 20%.

Give Journal entries in the books of both the companies. Also prepare Balance Sheet of A Ltd. after absorption.

Illustration 23 : The Balance Sheet of the Bharat Silk Ltd. is as follows :

Balance Sheet

Particulars	Amount ₹
I. EQUITY AND LIABILITIES :	
(1) **Shareholders' Fund :**	
(a) Share Capital :	
Issued & Subscribed and Fully Paid up Capital :	
10,000 Equity Shares of ₹ 100 each fully paid up	10,00,000
(b) Reserve and Surplus :	
Statement of Profit and Loss	(2,27,650)
(2) Non-Current Liabilities :	
(a) Long-term Borrowings :	
(i) Secured Loan : 1,000 6% Debentures of ₹ 100 each	1,00,000
(b) Long-term Provisions : Employees Provident Fund	30,000
(3) Current Liabilities :	
(a) Trade Payables :	
Sundry Creditors	30,600
Total	9,32,950
II. ASSETS :	
(1) Non-Current Assets :	
(a) Fixed Assets :	
(i) Tangible :	
Freehold Premises	50,000
Plant & Machinery	7,00,000
(2) Current Assets :	
(a) Inventories :	
Stock	1,00,000
(b) Trade Receivables :	
Debtors	75,000
(c) Cash and Cash Equivalents :	
Cash at Bank	7,950
Total	9,32,950

The Company decided to go into voluntary liquidation with a view of reconstruction under the name of the New Bharat Silk Ltd. The following scheme received the approval of shareholders and creditors :

(1) Assets and liabilities to be taken over by the new company.

(2) Sundry creditors to be discharged by the new company by a cash composition of 75 paise in the rupee.

(3) 200 Debentures to be redeemed in cash at ₹ 75 per debenture for the remaining debentures 6% Debentures in the new company to be issue at par. The debentures to be discharged by the new company.

(4) Employees' Provident Fund to be maintained.

(5) 1,00,000 equity shares of ₹ 10 each credited as ₹ 6 paid up to be issued by the new company to the shareholders of the old company. The unpaid amount on the shares being payable immediately on allotment.

(6) The book values of the assets to be reduced proportionately.

Give necessary ledger accounts in the books of the old company and opening journal entries in the books of new company. Also prepare the Balance Sheet of the new company after the above scheme is carried out in full. **(M.L.S. Univ. Udaipur, 2005)**

Illustration 15 : The Balance Sheet of Alpiers Ltd. as at 31st March, 2019 was as follows :

Particulars	Amount
I. EQUITY AND LIABILITIES	₹
(1) **Shareholders' Fund :**	
(a) Share Capital :	
Authorised, Issued & Subscribed and Fully Paid up Capital :	
8,000 Equity Shares of ₹ 100 each fully paid up	8,00,000
(b) Reserve and Surplus :	
Statement of Profit & Loss	(10,70,000)
(2) **Non-Current Liabilities**	
(a) Long-term Borrowings :	
(i) Secured Loan : 6% Debentures	14,00,000
(3) **Current Liabilities**	
(a) Trade Payables : Sundry Creditors	4,50,000
(b) Other Current Liabilities :	
Accrued Interest on Debentures	70,000
Income Tax due	10,000
Total	16,60,000
II. ASSETS	
(1) **Non-Current Assets**	
(a) Fixed Assets	14,30,000
(b) Non-Current Investments	17,000
(2) **Current Assets**	
(a) Inventories : Stock-in-Trade	80,000
(b) Trade Receivables : Sundry Debtors	30,000
(c) Cash and Cash Equivalents : Cash at Bank	1,03,000
Total	16,60,000

The following scheme of reorganisation was approved by the Tribunal on 1st April, 2019 :

(1) Each equity share shall be sub-divided into twenty fully paid equity shares of ₹ 5 each.

(2) After sub-division, each shareholder shall surrender to the Company 95% of his holdings, for the purpose of re-issue to debentureholders and creditors so far as required and otherwise for cancellation.

(3) Of those surrendered 46,000 shares of ₹ 5 each shall be coverted into 8% participating preference shares of ₹ 5 each fully paid.

(4) Debentureholders total claim to be reduced to ₹ 2,30,000. This will be satisfied by the issue of 46,000 participating preference shares of ₹ 5 each fully paid to them.

(5) The liability for income-tax was satisfied in full.

(6) The claims of unsecured creditors shall be reduced by 80% and the balance shall be satisfied by allotting them equity shares of ₹ 5 each fully paid from the shares surrendered.

(7) The value of fixed assets is to be reduced to ₹ 2,30,000.

(8) Shares surrendered and not issued shall be cancelled.

Journalise the entries to be made and also prepare Balance Sheet after reorganisation.

Illustration 19 : The following is the Balance Sheet of Uneasy Ltd. as at 31st March, 2019 :

Particulars		Amount
		₹
I. EQUITY AND LIABILITIES		
(1) **Shareholders' Fund :**		
(a) Share Capital		
Authorised, Issued & Subscribed and Fully Paid up Capital :		
40,000 Equity Shares of ₹ 100 each fully paid up		40,00,000
36,000 10% Preference Shares of ₹ 100 each fully paid up		36,00,000
(b) Reserve & Surplus :		
Statement of Profit & Loss		(8,00,000)
Workmen's Compensation Fund :	₹	
Jaipur	40,000	
Bhilwara	20,000	60,000
(2) **Non-Current Liabilities**		
(a) Long-term Borrowings :		
(i) Secured Loan :		
'A' 6% Debentures (Secured on Jaipur Works)		6,00,000
'B' 6% Debentures (Secured on Bhilwara Works)		7,00,000

Contd.....

	₹
(3) **Current Liabilities**	
(a) Trade Payables :	
Sundry Creditors	5,00,000
Total	86,60,000
II. ASSETS	
(1) **Non-Current Assets**	
(a) Fixed Assets :	
(i) Tangible Assets :	
Jaipur Works	32,00,000
Bhilwara Works	24,00,000
(2) **Current Assets**	
(a) Current Investments :	
Investments for Workmen Compensation Fund	60,000
(b) Inventories : Stock-in-Trade	18,00,000
(c) Trade Receivables : Sundry Debtors	10,00,000
(d) Cash & Cash Equivalents : Cash at Bank	2,00,000
Total	86,60,000

A scheme of reconstruction was prepared and sanctioned on April 1, 2019 whereby :

(a) Equity Shares to be reduced to ₹ 10.

(b) Preference Shares to be reduced to ₹ 80, dividend being raised to 11%.

(c) The Preference shareholders agree to waive their claims for preference share dividend which is in arrears for the last four years.

(d) Debentureholders forego their interest ₹ 1,04,000 which is included in sundry creditors.

(e) Directors refund ₹ 1,00,000 out of the fees previously received by them.

(f) 'B' Debentureholders agreed to take over the Bhilwara Works at ₹ 10,00,000 and to accept an allotment of 6,000 equity shares of ₹ 10 each at par, and upon their forming a company called Lucky Ltd. to take over the Bhilwara Works, they allotted Unseasy Ltd. 36,000 equity shares of ₹ 10 each, fully paid at par.

(g) The Bhilwara Workmen Compensation Fund disclosed the fact that there were liabilities of ₹ 4,000. In consequence, the investments of the fund were realised to the extent of the balance, the investment realising a profit of 10% on book value and the proceeds used for part payment of the creditors.

(h) Stock was to be written off by ₹ 8,00,000 and a provision for doubtful debts be created to the extent of ₹ 89,600 on debtors. Any balance in Capital Reduction Account to be applied as to two-third to write off the value of Jaipur Works and one-third to Capital Reserve.

Give necessary Journal entries. Show also the Balance Sheet after the scheme has been carried out.

Solution :

Illustration 14 : On 31st March, 2019, the date of liquidation of a company, its Balance Sheet was as follows :

Balance Sheet

as at 31st March, 2019

Particulars	Amount
	₹
I. EQUITY AND LIABILITIES :	
1. Shareholder's Fund	
(a) Share Capital :	
(i) **Issued Capital :**	
3,000, 7% Preference Shares of ₹ 100 each	3,00,000
9,000 Equity Shares of ₹ 10 each	90,000
	3,90,000
(ii) **Subscribed Capital :**	
Subscribed and Fully Paid up Capital :	
3,000, 7% Preference Shares of ₹ 100 each fully paid up	3,00,000
Subscribed but not Fully Paid up Capital :	
6,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	48,000
3,000 Equity Shares of ₹ 10 each, ₹ 7 paid up	21,000
2. Non-Current Liabilities :	
(a) Long-term Borrowings :	
(i) Secured Loan : 6% Debentures of ₹ 100 each	12,00,000
3. Current Liabilities :	
(a) Trade Payables : Creditors	8,000
Bills Payable	2,000
(b) Other Current Liabilities : Outstanding Interest on Debentures	72,000
Total	16,51,000
II. ASSETS :	
1. Non-Current Assets :	
(a) Fixed Assets	
(i) Tangible : Buildings	4,00,000
Machinery	1,60,000
2. Current Assets : (a) Inventories : Stock	4,00,000
(b) Trade Receivables : Debtors	6,40,000
(c) Cash & Cash Equivalents : Cash in Hand	51,000
Total	16,51,000

Realised from assets : Building ₹ 3,50,000; Machines ₹ 2,00,000; Debtors ₹ 6,00,000; Stock ₹ 4,61,000; Liquidation expenses ₹ 2,000. Remuneration of liquidator : 1/2% on realisation of assets including cash and 1% on the amount paid to unsecured creditors. Creditors shown in the balance sheet include ₹ 2,000 preferential. Interest on debentures is to be paid only up to 31st May, 2019. Dividend on preference share is in arrears for 1 year and it has to be paid before equity share capital. Legal charges were ₹ 1,000. Prepare liquidator's final statement of account.

(R.U. B.Com., 2009)

Illustration 12 : A company went into voluntary liquidation on 1st April, 2019. Its position on this date was as follows :

	₹
20,000 Preference Shares of ₹ 10 each fully paid up	2,00,000
10,000 Equity Shares of ₹ 10 each fully paid up	1,00,000
20,000 Equity Shares of ₹ 10 each, ₹ 5 per share paid up	1,00,000
40,000 Equity Shares of ₹ 10 each, ₹ 3 per share paid up	1,20,000
Bank Loan (Raw materials as security)	76,000
Unsecured Creditors	2,03,600
Preferential Creditors	2,400

Cash ₹ 12,000; Stock of raw material ₹ 1,00,000; Other Stock ₹ 3,00,000; Other assets ₹ 2,90,000.

Realisation were as under :

Raw materials realised by bank ₹ 60,000; Other stock ₹ 1,60,000; Other assets ₹ 40,000.

Remuneration of liquidator ₹ 2,000 and 3% on the amount of those assets realised by him. Other cost and expenses ₹ 22,000, Equity shareholders have equal rights for refund of capital. Calls were made as follows :

20,000 shares @ ₹ 3 per share.

40,000 shares @ ₹ 5 per share. All these calls were duly paid off. Prepare liquidator's final statement of account. Preference shares have priority for refund of capital.

Illustration 17 : Following was the position of S Ltd. as at 31st March, 2019 :

Property ₹ 1,80,000; Machinery ₹ 60,000; Stock ₹ 20,000; and Profit & Loss Account (Dr.) ₹ 10,000, Unsecured Creditors ₹ 14,000; Income-tax 2017-18 ₹ 4,000; Mortgage loan 20,000; 5% Debentures ₹ 1,00,000; 8,000 6% Preference Shares of ₹ 10 each fully paid; and 5,200 Equity Shares of ₹ 10 each fully paid.

Debentureholders have a floating charge on all the assets of the company. A receiver has been appointed by the debentureholders. There is voluntary liquidation of the company and a liquidator has also been appointed. After taking into consideration the following information prepare receipts and payments account of the receiver and liquidator's final statement of account :

Machinery is lodged as a security against mortgage debt. Assets worth ₹ 1,60,000 were placed in the charge of the receiver who realised ₹ 1,56,000 from these assets. His remuneration is ₹ 800 and its cost is ₹ 400. Cost of Liquidation is ₹ 1,600; Liquidator's remuneration is ₹ 1000; Liquidator received ₹ 19,000 from the sale of remaining property; Legal expenses in liquidation ₹ 200; and Machinery realised ₹ 50,000.

Illustration 9 :

A gas company rebuilt its works at a cost of ₹ 15,00,000. The original cost of old works was ₹ 6,00,000. The company has constructed a new works also at an additional cost of ₹ 20,00,000. In making the replacement and construction of new works, old material of cost of ₹ 50,000 was reused and some material of old works was sold for ₹ 20,000. The costs of material, labour and overheads are respectively higher by 100%, 50% and 25% in comparison to their those costs when the old works built. The ratio of materials, labour and overheads may be taken as 6 : 3 : 1 respectively.

Pass necessary journal entries.

Illustration 10 :

Bijlee Power Supply Co. Ltd., has built a power station and the connecting lines during the year 2005. The following further particulars are furnished to you—

(i) In the year 2005, the company incurred an amount of ₹ 35,78,200, towards purchase of machinery items and ₹ 3,97,500 towards labour expenses. The company also used stores worth ₹ 7,81,300 from its existing stock which was in the godown.

(ii) Extension and replacement was carried out to the power station in the year 2019 at a cost of ₹ 15,20,000, out of which material worth ₹ 30,000 was used from existing stock for replacement purposes. The extent of replacement was estimated at 20% of original cost.

(iii) The cost of materials and wages in 2019 have gone up by 25%.

(iv) The old material discarded in the process of extension and replacement was of the value of ₹ 1,42,000.

(v) Out of the above, material valued at ₹ 75,000 was used for extension purposes and the balance not being used was sold for ₹ 67,000.

You are required to show the journal entries in respect of the above transactions for the years 2005 and 2019.