CHAPTER 1: PROFITS PRIOR TO INCORPORATION

Q.1. The Trading and Profit and Loss Account of M/s Surya-Prakash and Co. for the year ended 31st March, 2004 is as under:

Particulars		Rs.	Particulars		Rs.
To Opening Stock		94,000	By Sales	8,60,000	
To Purchases	4,96,000		Less: Returns	(60,000)	8,00,000
Less: Returns	(10,000)	4,86,000			
To Wages		30,000	By Closing Stock		50,000
To Gross Profit c/d		2,40,000			
		8,50,000			8,50,000
To Carriage Outwards		3,200	By Gross Profit b/d		2,40,000
To Salesmen's Commission		8,000			
To Salaries		40,000			
To Depreciation		7,000			
To Director's fees		6,000			
To Preliminary Expenses		4,600			
To Discounts		4,000			
To General Expenses		5,600			
To Debenture Interest		2,800			
To Interest on P. C.		12,000			
To Rent and Rates		7,400			
To Salary to partners		24,000			
To Net Profit		1,15,400			
		2,40,000			2,40,000

In order to acquire the business of the firm, a limited company was incorporated on October 1, 2003. But, the business was taken over with effect from April 1, 2003. The purchase consideration was paid on December 31, 2003. It was ascertained that net sales to the tune of Rs.3,00,000 were made during the first six months of the trading period. Discounts allowed upto Sept.30, 2003 were Rs.1,500. Prepare a statement determining profit prior to incorporation.

Q.2. The XYZ Private Ltd. was incorporated on 31.8.2002, to take over a business as a going concern as from 1.3.2002. The Profit and Loss Account drawn on 31.12.2002, was as under:

Particulars	Rs.	Particulars	Rs.
To Management Expenses	12,000	By Gross Profit	96,000
To Rent	4,200		
To Office Expenses	5,500		
To Directors' Fees	1,000		
To Postage and Telegrams	500		
To Bad Debts	2,000		
To Free Samples	800		
To Formation Expenses	2,000		
To Debenture Interest	1,000		

To Commission and Discount	800		
To Depreciation	3,000		
To Carriage Outwards	1,600		
To Goodwill (written off)	10,000		
To Dividend on Shares	6,000		
To Net Profit	45,600		
	96,000		96,000

1) The purchase consideration was agreed at Rs.2,50,000 for assets valued at Rs.2,40,000. In lien of interest on P.C. the vendors would get 50% of the profit earned prior to incorporation.
2) Sales in pre & post incorporation periods were in the ratio of 9:7.
3) Bad debts Rs.800 are related to sales made in the pre-incorporation period.
4) Rent is paid on the basis of floor space occupied, which was doubled in the post-incorporation period. Find out the 'pre' and 'post' incorporation profits.

Q.3. Bhave Ltd. was incorporated on 1.4.09 to take over the running business as from 1.1.09. The first final accounts were to be drawn upto 31.12.09.

Particulars	Rs.	Particulars	Rs.
To Salaries (including Director's remuneration of Rs.3,000)	15,000	By Gross Profit b/d	60,000
		By Rent Received	1,200
To Rates, Taxes & Insurance	3,000	By Share Transfer fees	100
To Postage & Telegram	1,200		
To Printing & Stationery	600		
To Advertisement	1,500		
To Salesmen's Salary	1,800		
To Discount allowed	600		
To Maintenance and Up keep of Delivery Van	300		
To Commission (3% on Sales)	1,800		
To Audit fees	600		
To Depreciation on Assets	2,250		
To Debenture Interest	1,200		
To Bad debts	300		
To Provision for doubtful debts	500		
To Preliminary Expenses w/off	2,000		
To Net Profit	28,650		
	61,300		61,300

1) Sales for month of January and February are 1½ times the average sale. Sales from August to November are one half the average sales. Sale for December is twice the average sale.
2) Depreciation on assets include depreciation @ 10% p.a. on Machinery of Rs.5,000 purchased on 1.7.09.
3) There were no bad debts on Debtors of pre-incorporation period.

Q.4. M/s Everfresh Ltd. was formed to take over a running business w.e.f. 1st Apr,2002. The company was incorporated on 1st Oct,2002. The following Profit & Loss A/c has been prepared for the year ended 31st March, 2003

Particulars	Rs.	Particulars	Rs.
To Salaries	2,40,000	By Gross Profit b/d	16,00,000
To Printing and Stationery	24,000		
To Traveling Expenses	84,000		
To Advertisement	80,000		
To Misc. Trade Expenses	1,89,000		
To Rent (Office building)	1,32,000		
To electricity charges	21,000		
To Preliminary Expenses	56,000		
To Bad Debts	16,000		
To Commission to selling agents	80,000		
To Audit fees	30,000		
To Debenture Interest	15,000		
To Interest paid to vendors	21,000		
To Selling Expenses	1,26,000		
To Depreciation	48,000		
To Net Profit c/d	4,38,000		
	16,00,000		16,00,000

(a) Total sales during the year, which amounted to Rs.96,00,000 arose evenly upto the date of the certificate of incorporation, whereafter they spurted to record increase of two thirds during the rest of the year.
(b) Rent of the office building was paid @ Rs.1,20,000 per annum upto September, 2002 and thereafter it was increased by Rs.24,000 per annum.
(c) Traveling expenses include Rs.24,000 towards sales promotion.
(d) Depreciation includes Rs.3,000 for assets acquired in the post incorporation period.
(e) Purchase consideration was discharged by the company on 31st October, 2002 by issuing equity shares of Rs.10 each.
(f) Salaries include Rs.40,000 paid to the Director. There were 3 employees upto 30.9.2002 after which the number was increased by six employees. The rate of salary was the same in all cases.

Prepare the Profit and Loss Account in columnar form, showing distinctly the allocation of profits between pre and post incorporation periods, indicating the basis of allocation.

Q.5. Wide Ltd took over the business of M/s.Narrow& Sons w.e.f. 1st April, 2007. Wide Ltd.was registered on 1st September, 2007. The Profit & Loss Account for the year ended 31st March, 2008 was as under:

Particulars	Rs.	Particulars	Rs.
To Salaries	12,000	By Gross Profit b/d	75,000
To Rent and Taxes	9,600		
To Carriage Outward	7,500		
To Audit Fees	1,200		
To Travelling Expenses	6,600		

To Printing & Stationery To Electricity Charges To Commission on Sales To Depreciation To Advertising To Debenture Interest To Preliminary Expenses To Net Profit c/d	2,400 3,000 4,800 8,000 2,400 800 900 15,800		
	75,000		75,000

a) Trend of Sales during April 2007 to March 2008 was as under:

	Rs.
April, May	8,500 per month
June, July	10500 per month
August, September	12,000 per month
October, November	14,000 per month
December onwards	15,000 per month

b) Out of travelling expenses Rs.3,000 were incurred by office staff while remaining expenses were incurred by salesmen. Wide Ltd. Took over a machine worth Rs.72,000 from Narrow and Sons while it purchased a new machine on 1st February,2008 for Rs.48,000. It provided depreciation @10%p.a.

c) Audit fees are paid for the whole year. Prepare Profit and Loss account for the year ended 31st March, 2008 showing profits for pre and post incorporation periods separately.

Q.6. Big Company Ltd. Took over the business of Small and Sons, a firm w.e.f. 1st April, 2007. The company was registered on 1st Nov,2007. Profit & Loss Account for the year ended 31st March, 2008 was as under:

Particulars	Rs.	Particulars	Rs.
To Salaries To Rent and Taxes To Printing & Stationery To Audit Fees To Sundry Expenses To Carriage Outward To Advertising To Electricity Charges To Commission on Sales To Debenture Interest To Depreciation To Interest on P.C. To Net Profit c/d	2,40,000 1,80,000 96,000 30,000 24,000 90,000 63,000 72,000 1,08,000 28,000 42,000 27,000 2,60,000	By Gross Profit b/d	12,60,000
	12,60,000		12,60,000

Additional Information:

a) Sales for each of the months July, August, September, January, February and March were twice the sales for each of the months April, May, June, October, November and December.
b) Depreciation shown above, includes depreciation on Furniture worth Rs.2,40,000 @10% and on Delivery Van worth Rs.90,000 @ 20%. Both these assets were taken over from Small and Sons.
c) Big Company Ltd. Settled purchase consideration on 1st January,2008.
d) Audit Fees are payable for the whole year.

Prepare Profit and Loss Account for the year ended 31st March,2008 showing profits for pre and post incorporation periods separately.

Q.7. Abhishek Ltd. Took over the business of Karan Bros., a firm w.e.f. 1st January, 2014 The company was registered on 1st August, 2014. Details of Income and expenses for the year ended 31stDecember, 2014 is as under:

Particulars	Rs.	Rs.
Gross Profit		37,80,000
Less: Expenses:		
Salaries	7,20,000	
Rates and Insurance	5,40,000	
Printing and Stationary	2,88,000	
Audit Fees	90,000	
Director's Fees	72,000	
Carriage Outward	2,70,000	
Advertising	1,89,000	
Electricity Charges	2,16,000	
Commission on sale	3,24,000	
Debenture Interest	84,000	
Depreciation	1,26,000	
Interest on Purchase Consideration	81,000	30,00,0000
Net Profit		7,80,000

Additional Information:

1. Sales for each of the months April, May, June, October, November and December 2014 were twice the sales for each of the months January, February, March, July, August and September 2014.
2. Abhishek Ltd. settled the purchase consideration on 1st October, 2014.
3. Audit fees are payable for the entire year.

Prepare a statement for the year ended 31st December, 2014 showing profits for pre-incorporation and post incorporation periods separately.

Q.8. The Kalpana Ltd. was registered on 1.4.02, to take over business of Natu Brothers from 1.1.02. The company was granted certificate to commence business on 31.5.02. From following information calculate profit earned by the company in 'pre' and 'post' incorporation periods.

1) Sales during the period January-December, 2002, amounted to Rs.72,000. The trend of the sales was as under:

January and February	Half the average sale in each month
May, June and July, Oct	Average sales in each month.
November and December	Half the average sales in each month

2) Cost of goods sold Rs.18,000.
3) Rent and Rates Rs.4,000.
4) Salaries Rs.1,800. (There were three employees in the pre-incorporation period and four employees in the post-incorporation period)
5) Bad debts Rs.720.
6) Interest on purchase price (upto 31st July, 2002) Rs.630.
7) Expenses exclusively related to the company Rs.2,000.
8) Partner's Salaries Rs.1,500.
9) Commission on Sales Rs.480.
10) Manager's Salary Rs.10,500. (The manager whose salary was Rs.6,000 p.a. was replaced on 1.4.02 and his successor is being paid Rs.12,000 per year).
11) Provision for income-tax Rs.1,000.
12) Donation to a political party given by the company Rs.5,000.

Q.9. The partners of Maitri Agencies decided to convert the partnership into a Pvt Ltd Co called M.A.(P)Ltd., w.e.f. 1.1.2008. The consideration was agreed at Rs.1,17,00,000. However, the company could be incorporated only on 1.4.2008. Meanwhile, the business was continued on behalf of the company and the consideration was settled on that day with interest of 12% p.a. The same books of account were continued by the company which closed its accounts for the 1st time on 31.3.2009 & prepared the following summarized P & L A/c

Sales	2,34,00,000
Cost of goods sold	1,63,80,000
Salaries	11,70,000
Depreciation	1,80,000
Advertisements	7,02,000
Discounts	11,70,000
Managing Director's Remuneration	90,000
Miscellaneous Office Expenses	1,20,000
Office-cum-Showroom Rent	7,20,000
Interest	9,51,000
Total	2,14,83,000
Profit	19,17,000

The company's only borrowed a loan of Rs.50,00,000 at 12%p.a. to pay the purchase consideration due to the firm and for working capital requirements. The company was able to double the average monthly sales of the firm from 1.4.2008 but the salaries trebled from the date. It has to occupy additional space from 1.7.2008 for which rent was Rs.30,000 per month. Prepare P & L A/c in columnar form apportioning between pre & post incorporation periods.

Q.10. Enar Pvt. Ltd. was registered on 1st June, 2004 took over the business of Arti Agencies effective from 1st January, 2004. The consideration agreed is Rs. 4,80,000. Interest @ 6% p.a. is payable. The company issued for cash consideration 30,000 Equity Shares of Rs.10/- @ Rs.11/- and 7% Debentures for Rs. 2,00,000 on 30th June, 2004. The consideration was settled on same date. In addition to the items arising from above data the following items of income and expenses in the accounts for year ended 31st Dec. 2004.

Sales	Rs. 2,70,000
Cost of Sales	Rs. 1,62,000
Salaries	30,000 (incl. salary to Naru)
Depreciation	1,500
Sales Commission	@ 5% on Sales
Provision for income tax	8,000
Rent	6,000
Preliminary Expenses	1,800(written off)
Dividend (proposed)	4,500
Directors meeting fees	1,200

1) Sales for each month of July to Dec were twice the Monthly sales of Jan to June.
2) Mr. Naru was Working Partner in Firm entitled to remuneration @ Rs. 1,500 p.m. From 1st June 2004, he was MD of Co entitled to Salary @ Rs. 2,500 p.m. The remaining salary is to two clerks employed during period 1st April to 31st August.
3) Mr. Ravi owns premises. He charged rent @ Rs. 300/- per month upto 1st July, 2004 and @ Rs.700 per month thereafter.

Prepare account showing amount to be treated as Capital Reserve & Revenue Profit.

Q.11. Veekay Private Limited was incorporated on 1st August, 2005. This company agreed to take over business of M/s. Jay Vijay & Company as going concern, effective from 1st April,2005. The agreement also provided that vendors are entitled to 60% of profits for period upto 1st August, 2005.The Profit and Loss Account for year ended 31st Mar, 06:

Particulars	Rs.	Particulars	Rs.
To Stock	30,000	By Sales	3,00,000
To Materials consumed	1,20,000	By Stocks	42,000
To Factory Expenses	42,000		
To Wages	30,000		
To Gross Profit	1,20,000		
	3,42,000		3,42,000
To Salaries	30,000	By Profit	1,20,000
To Rent	9,000	By Profit on sale of Investment	20,000
To Office Expenses	6,000		
To Sales Commission	15,000		
To Bad Debts	5,000		
To Director Fees	8,000		
To Depreciation	18,000		
To Debenture Int.	8,000		
To Interest on Vendor	6,000		
To Net Profit	35,000		
	1,40,000		1,40,000

(i) Monthly Sales for Oct '05 - Mar '06 was 150% of monthly sales for Apr '05 -Sept '05.
(ii) Bad Debt is in respect of sales effected two years ago.
(iii) Investment was sold on 1st November, 2005.
(iv) Consideration to Vendors was paid on 1st October, 2005.
(v) Rent was increased from Rs. 500/- per month to Rs. 1,000/- per month effective from 1st October, 2005. Prepare Profit and Loss Account.

Q.12.ICL Ltd. was incorporated to take over the running business of BC and CI Brothers with effect from 1st April 2006, The Company was incorporated on list August 2006. The following information was available from the books of accounts, which were closed on 31st March 2007:

Particulars	Rs.	Rs.
Gross Profit	7,00,000	
Share Transfer Fees Received	10,000	7,10,000
Expenses:		
Office Salaries		2,10,000
Partner's Salaries		60,000
Advertising		63,000
Printing & Stationery		15,000
Travelling Expenses		40,000
Office Rent		96,000
Auditor's Remuneration		6,000
Director's Fees		10,000
Bad Debts		12,000
Sales Commission		49,000
Preliminary Expenses		7,000
Debenture Interest		16,000

a) Monthly sales were Rs. 5,00,000 for pre- incorporation period, while total sales for the year were Rs. 70,00,000. The sales arose evenly throughout the concerned periods.
b) Office rent was Rs. 84,000 p.a.upto 30th Sept. 2006. It became Rs. 1,08,000 p.a. thereafter.
c) Travelling Expenses included Rs.7,000 towards sales promotion.
d) Auditors' Remuneration was payable for whole year.
e) Bad Debts written off included a debt of Rs. 4,000 taken over from the vendor, while the remaining was in respect of goods sold in September 2006.
f) Depreciation includes Rs. 6,000 for asset acquired in the post incorporation period.

Prepare Profit & Loss accounts for the year ended 31st March 2007 in the columnar form showing profit/loss for the pre and post incorporation period

Q.13. The following Trial Balance was extracted from the books of M/s. Santosh Pvt. Ltd. which had taken over business of Miss Sandhya on 1st April 2003. The company was incorporated on 1st July 2003. However, no effect of conversion was given in the books which continued thereafter :-

Particulars	Rs.	Particulars	Rs.
Fixed Assets	1,10,000	Sales	12,37,500
Current Assets (Expect Closing Stock)	4,43,200	Capital of Miss Sandhya	5,50,000
Stock (1-4-2003)	1,10,000	Current Liabilities	2,23,750
Purchases	7,70,000		
Carriage Outwards	82,500		
Office Salaries	2,20,000		
Rent	36,300		
Director's Remuneration	33,000		
Advertisement expenses	1,65,000		
Travelling Expenses	41,250		
	20,11,250		20,11,250

Additional Information :

a) Stock on 31-03-2004 was valued at Rs. 4,67,500.
b) Purchase consideration of Rs. 6,87,500 to be paid by issue of 55,000 Equity Shares of Rs. 10 each and 13,750 – 5% Preference shares of Rs. 10 each.
c) Gross profit percentage is fixed.
d) Turnover is doubled in April, November and December as compared to other months.
e) Advertisement expenses to be apportioned in Pre & Post incorporation period as 3:2.
f) Provide depreciation @ 10% p.a. on fixed assets.
g) Rent on building was Rs. 2,750 p.m. upto September 2003 and thereafter it was increased by Rs. 550 pm.
h) Allocate expenses in an appropriate manner.

Prepare Trading and Profit & Loss Account for the year ended 31-03-2004 appropriating expenses

Q.14. Mahesh Ltd. was incorporated on 1st March 2002 to acquire a timber merchant's business as from 1st January 2002. The purchase consideration was agreed at Rs. 6,00,000 to be satisfied by the issue of 30,000 equity shares of Rs. 10 each and 3,000 - 6% Debentures of Rs. 100 each. The following Trading and Profit & Loss A/c. for the year ended 31st December 2002 is presented to you. Profit and Loss Account for the period 1st December 2001 to 31st March, 2003.

Particulars	Rs.	Particulars	Rs.
To Material Consumed	7,74,000	By Sales	15,00,000
To Gross Profit	7,26,000		
	15,00,000		15,00,000
To Salaries to Staff	3,40,000	By Gross Profit	7,26,000
To Office Expenses	24,000	By Interest on Investment	6,000
To Rent	21,000	By Share Transfer Fees	1,000
To Selling Expenses	66,000		
To Carriage Outwards	11,000		
To Debenture Interest	13,500		
To Director's Fees	24,000		
To Preliminary Expenses	28,700		
To Interest on P.C.	9,000		

To Loss on Sale of Furniture To Audit Fees To Net Profit	3,000 30,000 1,62,000		
	7,33,000		7,33,000

You obtain the following Information: -

a) Sales are of one commodity at a fixed price and the average of the monthly sales for the first two months was one-half of the average of the monthly sales for the reminder months of the year.
b) The shares and debentures were issued to the vendor on 1st April 2002.
c) Interest at 6% per annum was paid on the purchase consideration from 1st January 2002 to the date settlement.
d) Furniture was sold on 1st February 2002.
e) Interest on investment was in respect on investments made by the company on 1st April 2002.
f) The number of staff in the pre-incorporation period was 10 and it was increased to 15 in the post of incorporation period (Assume that rate of payment is same in all cases).
g) Rent upto 31st October was Rs. 18,000 per year after which it was increased to Rs. 36,000 per year.

Prepare Profit & Loss Account in Columnar form showing the allocation of profits between pre-incorporation and post incorporation periods.

Q.15. Sonal Ltd. was incorporated on 1.9.02 to acquire the business of Mr. Raj w.e.f 1.1.02. Accounts were maintained upto 31.12.02, on which date the following balances were extracted:

Purchases	36,000	Furniture	20,000
Purchase Returns	1,000	Sundry Debtors	22,000
Sales	82,000	Sundry Creditors	15,000
Sales Returns	2,000	Bills Receivable	8,000
Carriage Inwards	1,000	Bills Payable	7,000
Carriage Outwards	500	Interest on Purchase Consideration	4,000
Stock on 1st January, 2002	27,000	Cash at Bank	14,500
Rent	6,600	Capital Account of Raj	50,000
Formation Expenses	3,000	Directors' Fees	1,400
General Expenses	9,000		

1) Stock on 31st December, 2002, Rs.25,000.
2) Depreciation on Furniture at 15%.
3) Rent upto 30th June was Rs.6,000p.a, after which it was increased by 20%.
4) Manager's salary at Rs.4,800 p.a. is payable. (The manager became a director on formation of the company. His remuneration as director is included in Directors' fees)
5) The net turnover of sales in the post-incorporation period was Rs.40,000.
6) The P.C. was agreed at Rs.60,000 to be satisfied on 31.10.02, by the issue of 4,000 Equity Shares of Rs.10 each fully paid & 200, 12% Debentures of Rs.100 each.

Prepare the Final Accounts on 31.12.02 showing profits 'pre' and 'post' incorporation periods.

Q.16. SBT Ltd. was incorporated on 1-12-2003 with a view of acquiring the business of A with effect from 1.4.2003. The accounts were maintained as usual upto March 31, 2004 and the following balances were extracted from the books of accounts as on that date:

Particulars	Rs.	Particulars	Rs.
Stock on April 1, 2003	1,00,000	Furniture	60,000
Carriage Outwards	20,000	Debtors	70,000
Purchases	10,30,000	Creditors	1,80,000
Sales	12,50,000	Bills Receivable	28,000
Purchases Returns	30,000	Bills Payable	1,34,000
Sales Returns	50,000	Directors' Remuneration	40,000
Rent and Rates	42,000	Salaries	60,000
Preliminary Expenses	20,000	Interest on Purchase Consideration	50,000
Office Expenses	24,000		
Land and Building	8,00,000	Capital Account of A	8,00,000

Prepare the Final Accounts of SBT Ltd. considering the following adjustments:

1) Stock on March 31, 2004 Rs.3,80,000.
2) Depreciate Furniture by 10%.
3) The sales turnover for the post-incorporation period was Rs.6,00,000
4) The purchase consideration was agreed at Rs.10,00,000 to be satisfied by the issue on 31.1.2004 of 6,000 Equity Shares of Rs.100 each fully paid & 4,000, 12% Debentures of Rs.100 each to A.

Q.17. The following trial balance was extracted from the books of M/s. Diamond Pvt Ltd., which had taken over business of Mr. & Mrs. Heralal on 1-4-08. The company was incorporated on 1st July 2008. However, no effect of conversion was given in the books which continued thereafter.

Particulars	Debit	Credit
Stock on 1-4-08	40,000	
Purchases	2,80,000	
Sales		4,50,000
Carriage Outward	30,000	
Office Salaries	80,000	
Rent	13,200	
Director's Remuneration	12,000	
Preliminary Expenses	5,000	
Administrative Expenses	60,000	
Traveling Expenses	15,000	
Fixed assets	40,000	
Capital A/c of Mr. & Mrs. Heralal on 1-4-08		2,00,000
Debtors	64,800	
Creditors		50,000
Bills Receivable	20,000	
Cash	40,000	
	7,00,000	7,00,000

1) Stock on 31st March, 2009 amounted to Rs.1,70,000.
2) Purchase Consideration Rs.2,50,000 to be paid by the issue of 20,000 equity shares of Rs.20 each and 5,000 Preference Shares of Rs.10 each.
3) Gross Profit Percentage is fixed. Turnover is doubled in April, November and December.
4) Preliminary Expenses are to be written off
5) Carriage Outward and traveling expenses vary directly in proportion to sales.
6) Audit fees is Rs.12,000 for 1st April 2008 to 31st March, 2009 and is outstanding.
7) Provide depreciation @ 10%p.a. for full year by W.D.V. Method on fixed assets.
8) Rent of office building was paid @ Rs.1,000 per month upto September 2008 and thereafter it was increased by Rs.200 per month.

Prepare Trading, Profit and Loss Account for the year-ended 31.3.09 appropriating between Pre and Post incorporation & Balance Sheet as on 31.3.09.

Q.18. The Lucky Ltd was incorporated on 1st September, 2001 to acquire the business of Unlucky and Co w.e.f. 1st January, 2001. The accounts were maintained as usual upto 31.12.2001, on which date the following balances were extracted from the books:

Purchases	72,000	Purchase Returns	2,000
Sales	1,64,000	Sales Returns	4,000
Carriage Inwards	2,000	Carriage Outwards	1,000
Stock on 1-1-2001	54,000	Rent	13,200
Formation Expenses	6,000	General Expenses	18,000
Furniture	40,000	Debtors	44,000
Creditors	30,000	Bills Receivable	16,000
Bills Payable	14,000	Interest on Purchase	
Cash and Bank Balance	29,000	Consideration	8,000
Directors Fees	2,800	Capital A/c of UNLUCKY CO.	1,00,000

1) Stock on 31st December 2001 Rs.50,000.
2) Provide depreciation on Furniture @ 15% p.a.
3) Rent upto 30th June 2001 was Rs.12,000 p.a. thereafter it was increased by 20%
4) The net turnover in the post incorporation period was Rs.80,000.
5) Manager's salary Rs.9,600 p.a. is payable. (The manager became a director on formation of the company. His remuneration as director is included in directors fees).
6) The Purchase consideration was agreed at Rs.1,20,000 satisfied on 31st October, 2001 by the issue of 8,000 equity shares of Rs.10 each fully paid and 400 12% Debentures of Rs.100 each.
7) All formation expenses are to be written off.

You are required to prepare the Profit & Loss A/c for the period ended 31st Dec, 2001 showing the profit in pre and post incorporation periods & Balance Sheet of the company.

Q.19. LUCKY LTD. was incorporated on 1st July 2000 with an Authorised Capital of Rs.5,00,000 in Equity Shares of Rs.10 each to take over a going concern as from 1st April 2000. The Purchase consideration Rs.2,00,000 together with interest @ 8¾ % p.a. was satisfied on 1st October 2000 by the allotment of 17500 equity shares fully paid and balance in cash. The Trial Balance of the company on 31st March 2001 was as follows:

Particulars	Debit	Credit
Share Capital	--	2,25,000
Freehold Land	25,000	--
Building	65,000	--
Furniture	7,500	--
Salaries	12,000	--
Opening stock	85,000	--
Purchases	4,00,000	--
Sales (including pre-incorporation Rs.75,000)	--	4,50,000
Debtors	45,000	--
Creditors	--	30,000
Rent Received	--	6,000
Rent and Tax	3,000	--
Repairs	1,500	--
Directors Fees	1,200	--
Preliminary Expenses	7,200	--
Interest to Vendors	8,750	--
Cash	1,800	--
Bank	48,050	--
	7,11,000	7,11,000

Prepare Final Accounts after calculating profit before and after incorporation:

(a) Stock on 31st March, 2001 Rs.1,40,000
(b) New bad debts to be written off Rs.500
(c) Create Reserve for doubtful debts Rs.2,500
(d) Depreciate building by 5% and Furniture by 10%.
(e) 1/5 of preliminary expenses are to be written off.

Note: All the Debtors taken over from vendor are fully recovered.

Q.20. Bharat Shining Ltd. was incorporated on 1st August, 2002 to acquire the mail order business of Pramod with effect from 1st April, 2002. The purchase consideration was agreed at Rs. 3,50,000 to be satisfied by the issue of 20,000 Equity shares of Rs. 10 each fully paid & Rs. 1,50,000 Debentures on 1st October, 2002.The entries relating to transfer were not made in the books which were carried on without a break until 31st March, 2003.

On 31st March, 2003, the balances extracted from the books showed the following:

Sales	5,21,850	Directors Salary	10,000
Purchases	3,88,290	Debenture Interest	5,250
Wrapping Expenses	8,400	Fixed Assets	2,50,000
Postage	4,410	Current Assets (other than Stock)	97,450
Warehouse Rent & Rates	9,210	Current Liabilities	41,620
Packing Expenses	18,900	Preliminary Expenses	2,180
Office Expenses	6,270	Capital A/c of Pramod	2,94500
Stock on 1-4-2002	52,610	Drawings of Pramod	5,000

a) Stock on 31st March 2003 amounted to Rs. 49,460.
b) The average monthly sales for April, May & June were one-half of those for the remaining months of the year. The gross profit margin was uniform throughout year.

c) Wrapping, postage & packing expenses varied in direct proportion to sales while the office expenses were constant each month.
d) Preliminary expenses are to be written off.

You are required to prepare the Trading & Profit & Loss Account for the year ended 31st March, 2003 & the Balance Sheet as on that date.

Q.21. A Company was incorporated on 31st August, 2006 to take over the business as going concern from 1st March, 2006. Trial Balance drawn on 31st December, 2006.

Debit Balances	Rs.	Credit Balances	Rs.
Land and Building	1,50,000	Vendor's Capital	2,40,000
Plant and Machinery	50,000	Debentures	10,000
Computer	20,000	Sundry Creditors	2,400
Sundry Debtors	30,000	Bills Payable	2,000
Bank	30,000	Interest Received	5,000
Stock	25,000	Gross Profit	96,000
Management Expenses	12,000		
Rent	4,200		
Office Expenses	5,500		
Director's Fees	17,000		
Postage and Telegrams	500		
Bad Debts	2,000		
Free Samples	800		
Formation Expenses	2,000		
Debenture Interest	1,000		
Commission on Sales	800		
Depreciation	3,000		
Carriage Outwards	1,600		
	3,55,400		3,55,400

a) The Purchase consideration was settled at Rs. 2,50,000 by issuing 2,500 equity shares of Rs. 100 each.
b) Total sales for the period from 1st March, 2006 to 31st December, 2006 was Rs. 2,56,000 and out of which Rs. 1,12,000 was for the period from 1st September, 2006 to 31st December, 2006.
c) In lieu of interest on purchase consideration, the vendors would get 50% of the net profit prior to incorporation.
d) Bad Debts of Rs. 800 are related to sales made in pre-incorporation period.
e) Rent is paid on the basis of floor space occupied which was doubled in post incorporation period.
f) 40% of Goodwill and 20% of formation expenses are to be written off.

Prepare Profit and Loss Account for the period ended 31st December, 2006 showing Pre and Post incorporation Profit and Balance Sheet as on that date.

Q.22. Following Trial Balance is extracted of Shrikrishna (Pvt.) Ltd. as on 31-03-2005. The 16 company was Incorporated on 1-08-2004 to take over the business of a proprietary concern from 1-4-2004. The authorized share capital was 50,000 Equity shares of Rs. 10

each. The Purchase consideration was settled on 1-10-2004, being Rs. 1, 25,000. It was in the form of 10,000 shares of Rs. 10 each and the balance in the form of debentures of Rs. 100 each. :

Debit Balances	Rs.	Credit Balances	Rs.
Opening Stock	23,600	Sales	2,14,000
Purchases	75,800	Sundry Creditors	40,200
Carriage Inwards	5,200	Bills Payable	29,000
Salaries	24,000	Capital	1,15,000
Office Expenses	8,100	Interest on Investment	1,800
Postage & Telephones	9,000		
Printing & Stationery	9,900		
Office Rent	36,600		
Carriage Outwards	7,200		
Selling Expenses	6,900		
Director's Fees	3,200		
Interest on P.C.	5,625		
Preliminary Expenses	7,500		
Sundry Debtors	54,000		
Bills Receivable	5,375		
Fixed Assets	1,00,000		
Investments	18,000		
	4,00,000		4,00,000

a) Closing stock is valued at Rs. 11,200.
b) Fixed Assets include furniture of Rs. 10,000 purchased on 01-10-2004; Depreciation is to be charged on Fixed Assets @ 10% p.a.
c) Total sales for the post-incorporation period are three times the total sales for the pre-incorporation period.
d) Rate of Interest on debentures is 10% p.a. while on purchase consideration is 9% p.a.
e) Preliminary expenses should be written off.
f) Investments are purchased by the proprietor during 2003-04.

Prepare Trading and Profit & Loss Account for the Year ending 31-03-2005. Prepare Balance Sheet as on the same date.

CHAPTER 2: REDEMPTION OF PREFERENCE SHARES

Q.1. Ganesh Ltd. had the following balances on 31st MARCH, 1994:

Share Capital:	
Equity Shares (fully paid up)	9,00,000
Preference Shares (fully paid up)	4,50,000
General Reserve	3,00,000
Profit & Loss Account	1,87,500
Share Premium Account	75,000

The company decided to redeem the preference shares out of its General Reserve and undistributed profits. Give journal entries relating to the redemption of preference shares.

Q.2. Solve Q.1. considering that Preference Shares are redeemed at a premium of 10%.

Q.3. Sachin Ltd. has 2,500, 12% Redeemable Preference Shares of Rs.100 each fully paid. The Profit and Loss Account had a credit balance of Rs.1,00,000. The Company decided to redeem Preference Shares & for this purpose, it issued 20,000 Equity Shares of Rs.10 each. The issue was fully subscribed & paid. Pass necessary journal entries.

Q.4. Ramesh Ltd. decided to redeem 10,000 Redeemable Preference Shares of Rs.100 each at a premium of Rs.5 per share. For this purpose the company issued 1,00,000 Equity Shares of Rs.10 each at a premium of Rs.2 per share. Pass necessary journal entries.

Q.5. Ram Ltd. decided to redeem 50,000, 10% Redeemable Preference Shares of Rs.100 each at a premium of 5%. The company had the following credit balances:

Profit & Loss Account	30,00,000
General Reserve	25,00,000
Share Premium	1,50,000

It was decided to use internal resources for the purpose of redemption. Pass journal entries.

Q.6. Yash Ltd. had as part of its Share Capital 1,000 Redeemable Preference Shares of Rs.100 each fully paid up. On stipulated date of redemption, the company had Rs.60,000 in its Reserve Fund. The Preference Shares were then paid out of the Reserve Fund, balance being met by issuing Equity Shares of Rs.25 each. Record necessary entries in the books of the Company.

Q.7. The Balance Sheet of Kanyakumari Ltd. as on 31st Dec, 1994 was as follows:-

LIABILITIES	Rs	ASSETS	Rs.
10,000, 8% Redeemable Preference Shares of Rs.100 each	10,00,000	Sundry Assets	34,00,000
1,00,000 Equity Shares of Rs.10 each	10,00,000	Cash	6,00,000
Capital Reserve	5,00,000		
General Reserve	2,00,000		
Profit & Loss Account	9,50,000		
Creditors	3,50,000		
	40,00,000		40,00,000

The Preference Shares were redeemable on 31st March,1995 at a premium of 25%. For this purpose, the company decided to issue 50,000 Equity Shares of Rs.10 each at a premium of Rs.4 per share payable in full of 15.3.95. Pass necessary journal entries. Also prepare Balance Sheet after Redemption.

Q.8. Following is the Trial Balance to Nilesh Ltd. as on 31st March, 1994:

Particulars	Debit Rs.	Credit Rs
Equity share Capital (40,000 Shares of Rs.10 each)		4,00,000
General Reserve		1,50,000
Share Premium		15,000
Redeemable Preference Share Capital (2,500 shares of Rs.100 each, at Rs.75 paid per share)		1,87,500
Bank Balance	3,00,000	

It was decided to redeem the Preference Shares at 5% premium after complying legal provisions laid down in the Act. Write Journal entries for the issue of new shares and capital redemption and also give the extract of the Trial Balance after redemption.

Q.9. Balance sheet of Gautam Ltd as on 31.3.94

LIABILITIES	Rs.	ASSETS	Rs.
25,000 Equity Shares of Rs.10 each	2,50,000	<u>Fixed Assets</u>	
1,500 Preference shares of		Land & Building	1,25,000
Rs.100 fully paid up	1,50,000	Plant & Machinery	1,75,000
Capital Reserve	50,000	<u>Current Assets</u>	
General Reserve	40,000	Debtors	80,000
Profit & Loss A/c	35,000	Stock	1,20,000
Creditors	75,000	Bank	1,00,000
	6,00,000		6,00,000

Company decided to redeem its preference shares at 5% premium and issued 10,000 Equity Shares of Rs.10 each at a premium of Rs.2 per Share. They were fully subscribed and paid up. You are required to pass necessary journal entries and prepare a Balance Sheet on 1.1.95 on completion of redemption, assuming that one shareholder holding 50 shares was not traced out.

Q.10. Botham Ltd. had issued 50,000, 12% Redeemable Preference Shares of Rs.10 each, Rs.9 paid up. In order to redeem these shares now being redeemable, the company issued for cash 30,000 Equity Shares of Rs.10 each at a premium of Rs.2 per share. Out of the proceeds, the Redeemable Preference Shares were redeemed, balance being met out of the General Reserve which stood at Rs.2,50,000. Pass necessary journal entries giving effect to the above transactions.

Q.11. The summarised Balance Sheet of XYZ Ltd. as on 31.12.2009:

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs.10 each	9,00,000	Fixed Assets	20,00,000
8% Redeemable Preferences hares of Rs.10 each	9,00,000	Current Assets (including Bank Balance of Rs.2,00,000)	5,80,000
General Reserve	3,60,000.	Investments	2,70,000
Profit and Loss Account	5,40,000		
Share Premium Account	27,000		
Creditors	1,23,000		
	28,50,000		28,50,000

The Company exercises the option to redeem 8% Redeemable Preference Shares at 10% premium and for this purpose the company issued 45,000 Rights Shares of Rs.10 each at a premium of Rs.10 per share. The right shares were fully paid in cash. The company also sold out the investments at Rs.3,42,000. All payments were made to Redeemable Preference Shareholders except those holding 450 shares, who could not be found out. Pass journal entries for the above transactions & also prepare Balance Sheet after the redemption.

Q.12. Following Balance Sheet of X Ltd. is given on 30.6.2005

Liabilities		Rs.	Assets	Rs.
1,000 Equity Shares of Rs.100 each		1,00,000	Cash	65,000
9% Redeemable Preference Shares			Other Assets	2,05,000
1,000 shares of Rs.100 each				
fully called up	1,00,000			
Less : Calls in arrears	500	99,500		
(Rs.20 per share)				
Share Premium		14,000		
General Reserve		34,000		
Creditors		22,500		
		2,70,000		2,70,000

The Directors decided to forfeit the Preference Shares for non-payment of calls after giving notice to the shareholders and thereafter redeemed the Preference Shares at a premium of 10%. For the Purpose of redemption, the company made a fresh issue of Rs.100 each at a premium of 5% for such amount as was necessary, after taking into account the utilisation of available resources to the maximum extent. All the shares were subscribed and fully paid. Write Journal entries for above transactions and prepare Balance Sheet of the Company as it will appear after redemption.

Q.13. Change Ltd. had an issued Share Capital of 6,500, 7% Redeemable Cumulative Preference Shares of Rs.10 each and 22,500 Ordinary Shares of Rs.10 each. The Preference Shares are redeemable at a premium of 7½ % on 1st August, 2004. As on 31st July, 2004 the company's Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Preference share capital	65,000	Sundry Assets	3,46,000
Equity share Capital	2,25,000	Balance at Bank	47,500
Profit and Loss Account	46,000		
Sundry Creditors	57,500		
	3,93,500		3,93,500

In order to facilitate the redemption of the Preference Shares it was decided:

a) To finance part of the redemption from company's funds, subject to leaving a balance in Profit & Loss A/c of Rs.10,000, and

b) To issue sufficient number of Ordinary Shares at a premium of Rs.2.50 per share to raise the balance of funds required.

The preference shares were redeemed on the due date and the issue of Ordinary Shares was fully subscribed. You are required to pass journal entries and prepare Balance Sheet.

Q.14. The Balance Sheet of Redemption Ltd. as at 31.3.2004 was:

Liabilities		Rs.	Assets	Rs.
10,000 Equity Shares of Rs.10 each fully paid up		1,00,000	Fixed Assets	2,62,000
			Sundry Debtors	90,000
11% Redeemable Preference Shares of Rs.100 each fully called	1,00,000		Investments	30,000
			Bank	4,000
Less: Calls in arrears (@ Rs.20 per share)	6,000	94,000	Stock	30,000
10% Preference shares of Rs.10 each fully paid up (irredeemable)		1,00,000		
General Reserve		40,000		
Profit and Loss Account		20,000		
Share Premium		5,000		
Capital Reserve		30,000		
Sundry Creditors		27,000		
		4,16,000		4,16,000

Redeemable Preference Shares were due for payment on 1.4.2004 at a premium of 10%. Company sent reminders for the final call on remaining 300 Preference Shares and could collect money from shareholders holding 200 shares @ Rs.20 per share and forfeited the defaulting 100 shares. Company sold all investments and could recover 90% of the cost. Company issued adequate number of Equity shares at par to the extent, available profits were insufficient to back up the redemption. One shareholder holding 10 Redeemable Preference Shares could not be traced out and payment due to him on redemption could not be made to him. Draft journal entries, show your assumptions and prepare Balance Sheet of the Company after redemption.

Q.15. The following is the Balance Sheet of Goodluck Co. Ltd as on 31st March, 2003:

Liabilities	Rs.	Assets	Rs.
50,000 Equity shares of Rs.100 each fully paid	5,00,000	Goodwill	2,60,000
		Plant and Machinery	3,50,000
		Investments	1,00,000

5,000, 10% Preference Shares of			Stock	2,25,000
Rs.100 each fully paid	5,00,000		Bank Balance	2,66,600
Less: Calls in arrears			Debtors	2,06,400
(@Rs.25 per share)	2,000	4,98,000		
General Reserve		2,80,000		
Profit and Loss Account		50,000		
Creditors		80,000		
		14,08,000		14,08,000

The Company decided to redeem their Redeemable Preference Shares. For this purpose due notice was given to pay the calls in arrears on such shares. No amount of call was received and hence they were forfeited. Company redeemed the Preference Shares at 5% premium. It sold the investments at Rs.80,000 and such number of 14% Cumulative Preference Shares were issued so as to keep bank balance of Rs.50,000 on hand. Pass necessary journal entries and draft the Balance Sheet after redemption of preference shares.

Q.16. Spotlight Ltd. has issued Share Capital of 60,000 8% Redeemable Cumulative Preference Shares of Rs.20 each and 4,00,000 Equity Shares of Rs.10 each. The Preference Shares are redeemable at a premium of 5% on 1st January 2001.

Balance sheet as on 31.12.2000

Liabilities	Rs.	Assets	Rs.
60,000, 8% Preference		Plant and Machinery	25,00,000
shares of Rs.20 each.	12,00,000	Furniture and	9,00,000
4,00,000 Equity shares of		Fixtures	15,00,000
Rs.10 each fully paid up	40,00,000	Stock	14,00,000
Profit and Loss Account	7,00,000	Debtors	3,50,000
Sundry Creditors	11,00,000	Investments	3,50,000
		Balance at Bank	
	70,00,000		70,00,000

In order to facilitate the redemption of preference shares it was decided:

1. To sell the investments for Rs.3,00,000.
2. To finance part of redemption from company funds subject to leaving of balance of profit and loss account of Rs.2,00,000.
3. To issue sufficient equity shares of Rs.10 each at a premium of Rs.2 per share to raise the balance of funds required.

The preference shares were redeemed on due date. New Equity shares were fully subscribed. You are required to pass journal entries for the above transactions and prepare a balance sheet as on completion of redemption.

Q.17. Nilayam International Ltd. decided to redeem their preference shares as on 31.3.2000. On that date their position was as under:

Liabilities	Rs.	Assets	Rs.
4,000 equity Shares of Rs.100 each	4,00,000	Bank Balance	1,40,000
4,000, 6% Preference shares of		Other Current Assets	1,60,000
Rs.50 each (Rs.25 paid up)	1,00,000	Fixed Assets	7,00,000

2,000, 8% preference shares of Rs.100 each fully paid up.	2,00,000		
Share Premium	10,000		
Capital Redemption Reserve	90,000		
Dividend Equalisation Reserve	1,10,000		
Current Liabilities	90,000		
	10,00,000		10,00,000

The redemption was to be at a premium of 5%. The capital redemption reserve appearing in the balance sheet is the reserve brought into being as a result of a redemption which took place three years back. To enable the redemption to be carried out the company decides to issue, after carrying out the necessary formalities required under law, minimum number of new equity shares of Rs.100 each at a discount of Rs.10%. The redemption is duly carried out. Show journal entries relating to the redemption and new issue and also the Balance Sheet after redemption.

Q.18. The Balance Sheet of PQ Ltd. on 31.12.2005 was as under:

Liabilities	Rs.	Assets	Rs.
8% Preference Shares of Rs.100 .	9,00,000	Fixed Assets	20,00,000
Equity shares of Rs.10 each .	9,00,000	Current Assets	3,80,000
General Reserve	3,60,000	Investments	2,70,000
Share Premium	27,000	Bank Balance	2,00,000
Profit and Loss Account	5,40,000		
Creditors	1,23,000		
	28,50,000		28,50,000

The Preference Shares are to be redeemed at 10% premium alongwith the dividend due for 2005. The Company issued 45,000 Equity Shares of Rs.10 each at a premium of Rs.5 per share. All the shares were subscribed and cash duly received. The investments were sold for Rs.3,50,000. Payment was made to the Preference Shareholders. Give the necessary journal entries and the Balance Sheet after redemption.

Q.19. Following balances were extracted from the books of E Ltd. as at 31.12.2007

Particulars	Rs.
8% Redeemable Cumulative Preference Shares:	
1,000 shares of Rs.100 each fully called up	1,00,000
Less: Calls in arrears @ Rs.25 per share	500
	99,500
Share Premium	14,000
General Reserve	34,000
Cash at Bank	55,000

The Directors forfeited the Preference Shares for non-payment of calls after giving due notice and thereafter redeemed the Preference Shares at a premium of 10%. For the purpose of redemption of the fresh issue of Equity Shares of Rs.10 was made for such an amount as was necessary for the purpose after utilising the available sources to the maximum extent. Company also paid the amount of preference dividend. You are required to Pass necessary journal entries to record the redemption

Q.20. Tebee Limited had issued – 1,50,000 – 10% Preference shares of Rs.10/- each, redeemable at a premium of 20% on 31st December, 2005. The company has adequate balance in General Reserves. To provide funds for redemption, company-

1. Sold investments costing Rs.2,00,000 for Rs.3,00,000
2. Issued for cash 2,500 15% Debentures of Rs.100/- at par.
3. Issued – 50,000 equity shares of Rs.10/- at premium of Rs.4/- per share.

Show journal entries.

REDEMPTION BY CONVERSION METHOD

Q.21. What entries can be made for the following redemption made by the company?

1. In 2003 X Ltd. redeemed Rs.1,00,000 Preference Shares by converting them into Equity Shares issued at 25% premium.
2. In 2004 X Ltd. redeemed Rs.95,000 Preference Shares by converting them into Equity Shares issued at 5% discount.
3. In 2005 X Ltd. redeemed 10,000 Preference Shares of Rs.10 each at premium of Re.1.25 per share by converting into Equity Shares of Rs.10 each issued at 90%

Q.22. Pass necessary journal entries for the following:

a) Sun Ltd. redeemed 1,00,000 Preference shares of Rs.100 each by converting them into Equity shares issued at par at Rs.10 each.
b) Moon Ltd. redeemed 55,000 Preference Shares of Rs.100 each by converting them into Equity shares of Rs.10 each issued at 10% Premium.
c) Mars Ltd. redeemed 1,80,000 Preference shares of Rs.10 each by converting them into Equity Shares of Rs.10 each issued at 10% discount.
d) Earth Ltd, redeemed 2,00,000 Preference Shares of Rs.10 at a premium of Rs.3.50 per share by converting them into equity shares of Rs.10 issued at 10% discount.
e) Saturn Ltd. redeemed 1,00,000 Preference Shares of Rs.10 each at a premium of Rs.2.50 each converted into 12% Debentures at par.

CHAPTER 3: REDEMPTION OF DEBENTURES

ISSUE OF DEBENTURES (BASIC ENTRIES)

Q.1. What journal entries will be made in the following cases
(a) Company issued Rs.40,000, 6% Debentures at par, redeemable at par.
(b) Company issued Rs.50,000, 6% Debentures at discount of 10% redeemable at par.
(c) Company issued Rs.60,000, 6% Debentures at premium of 5% redeemable at par.
(d) Company issued Rs.70,000, 6% Debentures at par redeemable at 10% premium.
(e) Company issued Rs.80,000, 6% Debentures at discount of 5% redeemable at 5% Premium.

Q.2. On 1st January 1992, K Ltd. issued 10,000, 9% debentures of Rs. 100 each. The amount of debentures was to be redeemed in 5 equal instalments of Rs.20 each from 31st December, 1992. You are required to pass journal entries from 1992 to 1996.

Q.3. A Ltd. issued 2000, 10% debentures of Rs. 100 each on 1st July, 1990. The debentures were redeemable by drawing 5 annual lots, the 1st lot being drawn on 30th June, 1991.You are required to pass necessary entries for the year ended 1990-91 to 1994-95.

Q.4. On 1st July, 1992 X Ltd. issued 1000, 12% Debentures of Rs.100 each at par redeemable on 30th June, 1995 in lumpsum at 6% premium. Interest is paid on 31st December and 30th June every year. Pass entries in the Books of X Ltd. assuming that the year ending is 30th June.

Q.5. Pragati Publishers Ltd. issued on 1.4.91, 4,000, 14% Redeemable Debentures of Rs.100 each at par redeemable at a premium of 10% after 4 years. The company decided to set up a Sinking Fund for the redemption of the Debentures setting aside necessary amount every year and invest it in investments carrying 12% interest p.a. The Sinking Fund factor for 4 years @ 12% was Re.0.20964. On 31.3.95, the Sinking Fund investments were sold for Rs.3,15,500. You are required to pass necessary journal entries in the books of the company for the four years and also show the ledger accounts to carry out the redemption of Debentures. Ignore journal entries for payment of interest on Debentures and writing off loss on issue of Debentures.

Q.6. The Aerospace Agency Ltd. issued 2,000, 12% Debentures of Rs.500 each at a discount of 2% redeemable at a premium of 5% after 3 years from the date of issue. The company decided to set up a Sinking Fund for the purpose of redemption investing necessary funds in 14% Securities. Re.0.290697 invested annually at 14% becomes Re.1 in a period of 3 years. At the end of the third year the investments realised 6,55,000. You are required to show the journal entries in the books of the Company.

Q.7. The company issued 6% Debentures of Rs.5,00,000 on 1.1.1991. These Debentures were to be redeemed on 31.12.1994. For this purpose a Sinking Fund table was established. The investments were expected to earn 5% per annum. Sinking Fund table shows that

Re.0.232012 invested annually at 5% amounts to Re.1 in four years. Give journal entries to deal with the redemption assuming investment realised Rs.3,66,670 on 31.12.94. (Calculations to nearest rupee)

Q.8. Metal Box Co. Ltd. redeemed its 7 ½ % Debentures of the F.V. of Rs.4,00,000 on 31st March,2008. The company had created sinking fund for this purpose. Further relevant information:

Particulars	Rs.
Balance of Sinking Fund Account (1-04-2007)	3,40,000
Balance of Sinking Fund Investment Account (1-04-2007)	3,40,000
Interest on Sinking Fund Investment for the year 2007-08	17,000
Amount of annual appropriation	78,000
Sales proceeds of Sinking Fund Investments (31-03-2008)	3,51,000

Prepare Sinking Fund Account for the year 2007-08.

Q.9. On 1st April, 1994 following Ledger Accounts appear in the books of M Ltd.:-

10% Redeemable Debentures Account	30,00,000
(Redeemable on 31.3.1995 @ 10% premium)	
Sinking Fund Account	24,42,040
Sinking Fund Investment Account	24,42,000
[In 10% N.G. Bonds (1994)]	

Annual appropriation amount was fixed at Rs.4,00,000. On 31st March, 95, all investments were sold at Rs.24,60,000 & all debentures are redeemed. You are required to pass necessary entries & show the following Accounts: (i) 10% Redeemable Debentures Accounts;(ii) Sinking Fund Account; (iii) Sinking Fund Investments Account; (iv) Premium on Redemption of Debentures Account.

Q.10. The Debenture Redemption Fund of Export Industries Ltd. stood at Rs.16,000, represented by Rs.20,000 (nominal) investments. The Debentures stood in the books at Rs.50,000 and the company sold Rs.12,000 (nominal) investments at Rs.84 for the purpose of redeeming Rs.10,000 Debentures at a premium of 1%. You are required to show the ledger accounts to record the above transactions.(Ignore interest & brokerage)

Q.11. X Ltd. has issued 2,000, 9% Redeemable Debentures of Rs.100 at 10% premium, redeemable at 20% premium on 1.1.80. It redeems its 500 debentures on 1.7.88 and 300 Debentures on 1.4.89. Company has not maintained Debenture Redemption Fund Account. Redemption is carried out of profits of the Company. Show journal entries to record the transactions mentioned above and show relevant entries in Profit & Loss Appropriation A/c and in the Balance Sheet of the Co. assuming that company closed its books of accounts on 31st December every year.

Q.12. Bharat Bank Ltd., issued 50,000 15% debentures of Rs. 1,000 each at Rs. 952 per debenture. The debentures are redeemable in five annual instalments of Rs. 200 each. It is decided to write off discount in proportion to the amount of debenture finance usage over the various years. You are asked to :

(i) Prepare statement for write off discount over the five year period.
(ii) Pass appropriate journal entries in year 1 and year 2.

Assume that the redemption is out of capital.

Q.13. X Ltd., had Rs.10,00,000, 9% debentures due to be redeemed fully out of profits on 1st October 2015 at a premium of 5%. The company had a Debenture Redemption Reserve of Rs. 4,14,000. It was decided to invest the required amount of Debenture Redemption investment. Pass necessary journal entries at the time of redemption.

Q.14. Manish Ltd., issued Rs. 38,00,000, 8% Debentures of Rs. 100 each on 1st April, 2013. The terms of issue stated that the debentures were to be redeemed at a premium of 5% on 30th June, 2015. The company decided to transfer out of profits Rs. 5,50,000 to Debenture Redemption Reserve on 31st March, 2014 and Rs.4,00,000 on 31st March, 2015 and make the necessary investments in time. Pass the necessary journal entries regarding the issue and redemption of debentures (no entries for interest and loss on issue of debentures)

Q.15. S Ltd., issued 42,000, 7% Debentures of Rs. 100 each at a premium of 10% on Oct. 1, 2011 redeemable by conversion of debentures into shares of Rs. 10 each at a premium of 5% on June 30, 2015. Record necessary entries for issue and redemption of debentures.

Q.16. D Ltd., redeemed Rs. 33,00,000, 8% Debentures issued at a premium of 5% as follows : Rs. 12,00,000, 8% Debentures were converted into Equity Shares of Rs. 100 each issued at a premium of Rs. 25 per share and the balance by converting them into 8% Preference Shares of Rs. 100 each issued at a premium of Rs. 5 per share. Pass the necessary Journal entries in the books of the company. Show your workings clearly.

Q.17. X Ltd., have an outstanding balance of 30,000, 8% Debentures of Rs. 200 each on March 31, 2012 redeemable at a premium of 10%. As per terms of the redemption of debentures, the company has decided to redeem its 50% debentures by converting them into shares of Rs. 100 each at a premium of 20% on March 31, 2014. Record necessary entries regarding redemption.

Q.18. On 1st April, 2012 a Limited Company issued 5,000, 13% debentures of Rs. 100 each at par payable at 5% premium. Holders of these debentures have an option to convert their debentures into Equity Shares of Rs. 10 each at a premium of Rs. 2 per share, within three years. At the end of the third year, interest for one year had accrued and remained unpaid. On that date a debentureholder of 400 debentures notified his intention to convert his debentures into equity shares. Make necessary journal entries for issue, interest and redemption.

Q.19. B Ltd. gave notice of its intention to redeem its outstanding Rs.4,00,000, 6% Debenture Stock of Rs.100 each at Rs.102 and offered the holders the following options to apply for their redemption money's:

(a) To subscribe for 5% Cumulative Preference Shares of Rs.20 each at Rs.22.50
(b) To subscribe for 6% (new) Debenture Stock of Rs.100 each at 96%
(c) To have their holdings redeemed for Cash.

Holders of Rs.1,71,000 stock accepted the proposal (a), Holders of Rs.1,44,000 stock accepted the proposal (b) and the remaining stockholders accepted the proposal (c). Pass Journal entries to record above transactions in the books of B Ltd.

Q.20. A company gave notice of its intention to redeem its outstanding 50,000, 10% Debentures of Rs.100 each at premium of 5% & offered the holders the following option.

a) To accept 12% cumulative Preference Shares of Rs.20 each at Rs.25 per share.
b) To accept 10% Debentures stock at 96%.
c) To have their holding redeemed for cash.

Accordingly:

a. 25,000 Debenture holders accepted the proposal (a)
b. 20,000 Debenture holders accepted the proposal (b)
c. Remaining Debenture holders accepted the proposal (c)

Pass entries in the books of the company.

Q.21. Hindustan Ltd. had issued 5,000 – 12% Debentures of Rs.100 each redeemable on 31st December, 2007 at par.

The company offered three options to the debenture holders as under:

(i) 14% Preference Shares of Rs.10 each at Rs.12.
(ii) 15% Debentures of Rs.100 each at par.
(iii) Redemption in Cash.

The options were accepted as under:

Option (i) by holders of 1500 debentures.
Option (ii) by holders of 1500 debentures
Option (iii) by holders of 2000 debentures

The redemption was carried out by the company.

Pass journal entries in the books of Hindustan Ltd. without narration.

Q.22. Following is the Balance Sheet of Shamrao Ltd., as on 31st March, 2017.

Liabilities	Rs.	Assets	Rs.
30,000 Equity Share of Rs. 10 each	3,00,000	Land and Building	12,00,000
15,000 – 9% Preference Shares of Rs. 100 each	15,00,000	Plant and Machinery	12,00,000
Profit and Loss Account	12,00,000	Investments	6,00,000
Debenture Redemption Reserve	2,00,000	Stock	1,80,000
10% Debentures	2,00,000	Debtors	2,20,000
Sundry Creditors	7,10,000	Bank Balance	7,70,000
Bills Payable	60,000		
	41,70,000		41,70,000

On the above date, Preference Shares are redeemable at a premium of 10%. For this purpose, company sold off investment for Rs. 6,50,000. Subsequently, it issued 40,000 equity shares of Rs. 10 each at a premium of 10%. At the end, the company redeemed all the preference shares, as decided. The company also redeemed their 10% debentures at par.