CHAPTER 1: BUY BACK OF SHARES

Q.1. SAD Ltd furnishes the following information:

Particulars	Rs.
Free Reserve	7,00,000
Paid Up Capital (Face Value Rs.1000)	5,00,000
Price per share settled	1,200

Calculate: a) Maximum buyback b) No. of shares to be bought back.

Q.2. FAST Ltd. has furnished the following information:

Particulars	Rs.
Capital Reserve	4,000
Paid Up Capital	5,000
Free Reserve	12,000
Securities Premium	1,000
General Reserve	5,200
Profit and Loss Account	500
Investment Allowance (utilized) Reserve	700
No. of Shares	500
Face Value per share Rs.10	
Price Settled Rs.50 per share	

Q.3. The balance sheet of EVER-GREEN Ltd. as on 31-3-2002 is as follows:

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL:		**FIXED ASSETS:**	
Equity shares of Rs.10 each	3,00,000	Net block	8,00,000
Preference Shares of Rs.100 each.	1,00,000	Investments	1,00,000
RESERVES & SURPLUS:		**CURRENT ASSETS LOANS & ADVANCES:**	
Securities Premium A/c	1,50,000	Current Assets	7,50,000
General Reserve	1,00,000	Loans and advances	-
Profit and Loss account	1,00,000		
SECURED LOANS:		**MISCELLANEOUS**	
Debentures	8,00,000	**EXPENDITURE:**	-
UNSECURED LOANS	--		
CURRENT LIABILITIES			
Current liabilities	1,00,000		
Provisions	-		
	16,50,000		16,50,000

Keeping in view all the legal requirements, ascertain the maximum no of equity shares that EVER-GREEN Ltd can buy back @ Rs.30 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 Ever-green Ltd and prepare its balance sheet thereafter.

Q.4. The balance sheet of Victory Ltd. as on 31-3-2002 is as follows.

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL:		Fixed assets	60,00,000
Equity shares of Rs.10 each	50,00,000	Investments	50,00,000
RESERVES & SURPLUS:		Current assets	80,00,000
Securities Premium	5,00,000		
General Reserve	20,00,000		
Profit and loss account	25,00,000		
SECURED LOANS:			
Debentures	50,00,000		
CURRENT LIABILITIES & PROVISIONS:	40,00,000		
	1,90,00,00		1,90,00,00

Keeping in view all the legal requirements, ascertain the maximum no. of equity shares that 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.

Q.5. Wisdom Ltd resolved to buy back 30,000 of its fully paid equity shares of Rs.10 each at Rs12 per share. For this purpose, it issued 1,000 10% preference shares of Rs100 each at par. The Total amount was payable on application. The company has Rs.85,000 balance to the credit of the Securities Premium Account, which was to be used for buy-back. The company had sufficient balance in the General Reserve to meet the legal requirements for buy-back. Pass the necessary journal entries.

Q.6. The balance sheet of Afcons Ltd. As on 31.03.04 was as follows:

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs.10 each	5,00,000	Fixed Assets	7,50,000
Securities Premium	1,27,500	Investment	50,000
General Reserve	1,00,000	Current Assets	1,00,000
Profit & Loss A/c	1,22,500		
Debenture	8,00,000		
Current Liabilities	1,50,000		
	18,00,000		18,00,000

Calculate the offer price & maximum by back possible assuming that buyback is done. Pass the journal entries & prepare balance sheet.

Q.7. The balance sheet of Vijay Ltd. As on 31.03.02 is as follow:

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs.10 each	50,00,000	Fixed Assets	60,00,000
Securities Premium	5,00,000	Investment	50,00,000
General Reserve	20,00,000	Current Assets	80,00,000
Profit & Loss A/c	25,00,000		
Debenture	50,00,000		
Current Liabilities	40,00,000		
	1,90,00,000		1,90,00,000

Calculate offer price & buyback of shares. Keeping in view legal requirements ascertain the no. of equity shares. Pass journal entries & prepare balance sheet.

Q.8. Following Information is available from the books of a company:

1,20,000 equity shares of Rs. 10 each	12,00,000
Securities premium	70,000
General Reserves	3,50,000

The Company decided to buyback 25% of the equity share capital at Rs. 12 per share. Pass journal entries. **(October 2008)**

Q.9. Following is the-Balance Sheet of Suyog Ltd. as on 31st March 2006:

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL:		**FIXED ASSETS:**	
AUTHORISED CAPITAL		Land & Building	30,00,000
10,00,000 Equity shares of Rs.10 each	1,00,00,000	Plant & Machinery	30,00,000
		Furniture	22,00,000
ISSUED:		Investment	15,00,000
8,00,000 Equity shares of Rs.10 each, 8 paid up	64,00,000	**CURRENT ASSETS:**	
		Debtors	47,00,000
RESERVES:		Bills Receivable	10,00,000
General Reserves	10,00,000	Bank Balance	40,00,000
Profit & loss Account	50,00,000	Stock	20,00,000
Securities Premium	20,00,000		
SECURED LOANS:			
11% Debentures	20,00,000		
UNSECURED LOANS	20,00,000		
CURRENT LIABILITIES:			
Creditors	15,00,000		
Bills payable	15,00,000		
	2,14,00,000		2,14,00,000

The company decides to buy back the maximum number of equity shares as may be permitted at a price of Rs. 20 per share. Find out maximum number of shares to be bought back and pass Journal Entries and Prepare Balance Sheet after buy back. **(October 2007)**

Q.10. A company resolved to buyback 50,000 shares of Rs. 10/- each at Rs. 25/- per share. The reserves of the Company are as follows:

Securities Premium 15,00,000
General Reserves 23,00,000

Pass journal entries buyback of shares. **(March 2008)**

Q.11. The summarized Balance Sheet of Shreenath Ltd. As on 1st March 2014 is as Follows:-

Particulars	Rs.
Share Capital:	
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	28,00,000
Creditors	10,00,000
Total	1,22,00,000
Fixed Assets	67,00,000
Investments	25,00,000
Current Assets	30,00,000
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, 2014.
Assuming the buyback is actually carried out, record the journal entries in the books of Shreenath 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 Shreenath Ltd. As on 31st March, 2014. (Do not prepare the Balance Sheet) **(October 2015)**

Q.12. The Balance Sheet of MANISH Ltd. as on 31-03-2005 is as follows:

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL:		**FIXED ASSETS:**	
AUTHORIZED, ISSUED,		Net Block	40,00,000
SUBSCRIBED AND CALLED UP :		Investments	15,00,000
Equity shares of Rs. 10 each	25,00,000	**CURRENT ASSETS,**	
RESERVES & SURPLUS:		**LOANS & ADVANCES:**	
Securities Premium	5,00,000	Current Assets (including	35,00,000
General Reserves	10,00,000	Bank balance of	
Profit & loss Account	10,00,000	Rs.15,00,000)	5,00,000
SECURED LOANS:		Loans and Advances	
10% Debentures	25,00,000		
CURRENT LIABILITIES & PROVISIONS:			
Sundry Creditors	15,00,000		
Bills payable	5,00,000		
	95,00,000		95,00,000

Keeping in view all the legal requirements ascertain:
(a) Maximum number of Equity shares that Manish Ltd. can buy-back.
(b) The maximum price it can offer.

Assume that the buy-back is carried out actually at the legally permissible terms, record the entries in the journal of Manish Ltd. and prepare its Balance Sheet thereafter. **(March 2006)**

MULTIPLE CHOICE QUESTIONS:

1) A company can buy back

a) Equity shares b) Preference shares
c) Both of the above d) Equity share can be bought back

2) Equity share can be bought back

a) Out of profit only b) Out of proceeds of fresh issue only
c) Out of capital profit only d) Its free reserves or the securities premium account, or the proceeds of shares

3) If equity shares have been bought back out of reserves amount equal to the face value of equity shares bought back should be transferred to
a) Development rebate reserves
b) General reserves
c) Sinking fund
d) Capital Redemption reserves

4) On buy back of shares
a) There is reduction in the share capital to the extent of the face value of the shares bought back.
b) There is a payment from the company to the extent of the price of the shares paid to the shareholders.
c) The shareholders whose shares are bought cease to be the shareholders of the company,
d) All of the above.

5) A company may purchase his own shares
a) Its free reserves
b) Securities Premium A/c
c) The proceeds of shares
d) any or all of the above.

6) Which of the following is not a Free reserves for the purpose of buy back of shares
a) Profit and loss account
b) General reserves
c) Dividend Equalization reserves
d) Revaluation reserves

7) Which of the following is a Free reserves for the purpose of buy back of shares
a) Workmen compensation fund (after meeting liabilities)
b) Capital Redemption reserves balance c/d
c) Debenture Redemption reserve
d) Shares forfeited account

8) No company call purchase its own shares unless the buyback is of less than 25% of the
a) Total paid up capital of the company
b) Total paid up capital and reserves of the company
c) Total paid up capital and free reserves of the company
d) Total nominal capital and free reserves of the company

9) Buy back of equity shares in any financial year shall not exceed 25% of its
a) Total paid up equity capital in that financial year.
b) Total paid up capital
c) Total paid up equity capital and free reserves of the company
d) Total nominal capital and free reserves of the company

10) On buy back of shares there is a reduction in the share capital to the extent of the
a) Market value of the shares bought back
b) Face value of the shares bought back
c) Called up value of the shares bought back
d) Un-paid value of shares bought back

11)A buy back of 10% of the total paid up equity capital and reserves of the company.
a) Can be authorized by the shareholders but no special resolution need be passed for the same
b) Can be authorized by the Board but a special resolution need be passed in a general meeting to ratify the same.
c) Can be authorized by the Board but a special resolution need be passed unanimously by all the members present to ratify the same.
d) Can be authorized by the Board no special resolution need be passed in a general meeting

12)No company shall purchase its own shares unless the buyback is of less than 25% of the total
a) Authorized capital of the company
b) Paid up capital of the company
c) paid up capital and free reserves of the company
d) called up capital of the company

13)The buyback of equity shares in any financial year shall not exceed twenty five percent of its total
a) Authorized capital in that financial year
b) Paid up capital in that financial year
c) paid up capital and free reserves in that financial year
d) called up capital in that financial year

14)The micro corporation Ltd is authorized to issue 1, 00,000 shares of equity shares. It had issued 30,000 shares. It has bought back 5,000 shares. As a result of these transactions, the no. of shares (i) in authorized share capital (ii) and (iii) in issued share capital will be.
a) 1,00,000; 25,000 b) 75,000; 25,000 c) 1,00,000; 30,000 d) 75,000; 30,000

Ans: [(1-c),(2-d), (3-d), (4-d), (5-d), (6-d), (7-a), (8-c), (9-a), (10-b), (11-d), (12-c), (13-b), (14-a)]

FILL IN THE BLANKS

1) No company call purchase its own shares unless the buyback is of less than **25%** of the of the total paid up capital and free reserves of the company
2) The buyback of equity shares in any financial Year shall not exceed **twenty five** percent of its total Paid up capital in that financial year.
3) On buy back of shares there is a reduction in the share capital to the extent of the **Face** value of the shares bought back
4) Buy back of shares lead to **Increase** in the earning per share.
5) No buy back of any kind of shares shall be made out of the proceeds of an earlier issue of the **same** kind of shares.
6) No company shall purchase its own shares unless the buy back is authorized by its **article.**
7) No company shall purchase its own shares unless a **special** resolution passed in general meeting of the company authorizing the buy back.
8) A buy back of **10%** or less of the total paid equity capital and reserves of the company can be authorized by the board; and no special resolution need be passed in a general meeting.
9) Every buy back shall be completed within **Twelve** month from the date of passing the special resolution.

10) Where a company buy back its own securities it shall extinguish and physically destroy the securities so bought back within **Seven** days of the last date of completion of buy back.
11) The buy back of share may be from the existing security holder on a **Proportionate.**
12) The buy back of share may be from the **open** market.
13) The buy back of share may be from **odd** lots.
14) The buy back of shares may be by purchasing the securities issued to employees of the company pursuant to a scheme of **Stock option** or **Sweat equity.**
15) If the buy back is at discount the amount of discount is credited to **Capital Reserves.**
16) While investment allowance reserves **is not** a free reserves, investment allowance (utilized) reserves **is** a free reserves.

MATCH THE FOLLOWING

Column 'A'	Column 'B'
1) Buy Back of shares should be authorized by	a) Not known on date of issue of shares
2) Section of companies governing buy back of shares	b) Article of association
3) Section of companies governing redemption of preference shares	c) Know on date of issue of shares
4) Date of buy back of shares	d) Out of reserves and securities premium
5) Date of redemption of preference shares	e) Memorandum of association
6) Buy Back of shares	f) S. 77 A - 77B of companies act
7) Redemption of preference shares	g) Out of free reserves excluding divisible profits.
	h) S. 80 and 80 A of companies act,
	i) Only out of divisible profits

Ans.: (1-b); (2-f); (3-h); (4-a); (5-c); (6-d); (7-i).

STATE WHETHER TRUE OR FALSE

1) The buyback of shares has to be authorized by the article of association. **True**
2) After buy back of shares the debt equity ratio should not exceed 2:1. **True**
3) Buy back of shares is just the opposite of raising capital through the issue of shares. **True**
4) Buy back of shares decrease the Earning Per share (EPS) of the company. **False**
5) Buy back has to be completed within 10 months from the date of passing the special resolution. **False**
6) On buy of shares by the company there is reduction in the share capital. **True**
7) On buy of shares by the company there is reduction in the share capital to the extent of the price paid for the shares bought back. **False. (Face Value)**
8) Buy back of equity shares can be made out of proceeds of an earlier issue of preference shares. **True**
9) No company shall purchase of its own shares unless the ratio of the debts owed by the company is equal to the capital and its free reserves after such buy back. **False(Not more than twice)**
10) Only full paid up shares can be bought back. **True**
11) A company cannot buy back the shares issued to employees of the company under a scheme of stock option. **False**
12) Equity shares can be bought out of security premium account balance. **True**

13) If equity shares have been bought back out of security premium there is no need to make an) transfer to capital redemption reserves. **False**
14) Equity shares can be bought back only out of proceeds of subsequent fresh issue o preference shares. **False(earlier issue of preference shares)**
15) Capital redemption reserves account can be utilized for issuing partly paid up bonus shares **False (Fully paid up bonus shares)**
16) Where a company complete a buy back of its shares it shall not make a tight issue of the same kind of share with in a period of six months. **True**
17) Where a company completes a buy back of its shares it can make a bonus issue of the kind of share even with in a period of six months. **True**
18) If any actual profit realized in cash on sale of fixed assets or investment is directly credited to capital reserves I is taken as free reserves. **True**

CHAPTER 2: INTERNAL RECONSTRUCTION

Q.1. Following is the Balance Sheet of Trend Ltd. as on 31.12.2008:

Liabilities	Rs.	Assets	Rs.
8% Cumulative Preference of Rs.100	5,00,000	Goodwill	3,75,000
1,00,000 Equity Shares of Rs.10 each	10,00,000	Plant & Machinery	7,50,000
12% Mortgaged Debentures	5,00,000	Vehicles	3,00,000
Bank Overdraft	2,50,000	Freehold Property	4,62,500
Creditors	5,00,000	Stock in trade	1,25,000
		Debtors	1,00,000
		Profit & Loss Account	6,00,000
		Bank Balance	12,500
		Discount on Debentures	25,000
	27,50,000		27,50,000

The company framed the scheme of reconstruction by adopting Capital Reduction Method and it was approved by the Court as under:

1) Preference Shares were to be reduced to Rs.75 per share fully paid up and Equity Shares were to be reduced by Rs.7 to make them Rs.3 fully paid up.
2) Debenture holders accepted to take over Stock and Debtors at an agreed value of Stock Rs.1,00,000 and Debtors at 4% less to satisfy their 50% claim.
3) Goodwill and fictitious assets were to be eliminated.
4) Freehold Property was to be appreciated by 40%.
5) Expenses of reconstruction amounted to Rs.3,000.

Any balance of Capital Reduction should be utilised to reduce the value of Plant and Machinery and Vehicles in the ratio of 3:2. Give journal entries to implement the above scheme and also prepare the revised Balance Sheet.

Q.2. Balance Sheet of Ahmedabad Manufacturing Co. Ltd. as on 30-6-2005 was as under:

Liabilities	Rs.	Assets	Rs.
Authorised Capital:		Factory Building:	
3,00,000 Equity Shares of Rs.10 each	30,00,000	Surat 12,00,000	
30,000, 10% Preference of Rs.100	30,00,000	Baroda 16,00,000	28,00,000
Issued, Subscribed & Paid up Capital:		Plant and Machinery	5,00,000
2,00,000 Equity Shares of Rs.10 each fully paid	20,00,000	9% Government Bonds	1,50,000
		Stock	3,00,000
15,000 Preference Shares of Rs.100 each fully paid	15,00,000	Debtors	2,50,000
		Bank Balance	1,50,000
Workmen Compensation Fund:		Profit & Loss Account	3,00,000
Surat 50,000			
Baroda 30,000	80,000		
8% 'A' Debentures secured on Surat Factory Building	3,00,000		
8% 'B' Debentures secured on Baroda Factory Building	3,50,000		
Creditors	2,20,000		
	44,50,000		44,50,000

Scheme of reconstruction was approved by Court and was to be implemented as under:

1) Equity shares were to be reduced to Re.1 each.
2) Preference shares were to be reduced by Rs.20 per share.
3) Debenture holders agreed to forego their claim of interest on debentures unpaid Rs.65,000 which is included in Sundry Creditors.
4) 'B' debenture holders agreed to take over Baroda Factory building at Rs.8,00,000 and paid the balance amount due from them in cash.
5) On scrutinising it was found that Workmen Compensation Fund: Baroda disclosed that actually there was a liability of Rs.6,000 only. It was decided to reduce the balance of that Fund Account to the required amount only.
6) 9% Govt. bonds were sold in the open market at 10% more than the book value.
7) Value of Plant and Machinery was to be brought down to Rs.3,00,000.
8) Balance of Capital Reduction Account if any, should be utilized as under:
   60% to reduce the value of Surat Factory Building.
   20% to reduce the value of Stock.
   20% to be transferred to Capital Reserve.

Write journal entries and prepare the Balance Sheet after reconstruction.

Q.3. Given below is the Balance Sheet of Weak Ltd. as on 30.6.2003:

Liabilities	Rs.	Assets	Rs.
90,000 Equity shares of Rs.10 each	9,00,000	Goodwill	1,75,000
50,000, 12% Cumulative preference shares of Rs.10 each	5,00,000	Property	7,00,000
		Plant	75,000
12% Debentures (secured) by mortgage on property	6,00,000	Patents	50,000
		Investments (at cost)	1,00,000
Bank Overdraft	2,00,000	Debtors	4,50,000
Creditors	4,50,000	Stock	5,00,000
Outstanding Interest	36,000	Preliminary expenses	1,80,000
Loan from Directors	1,50,000	Profit & Loss Account	6,06,000
	28,36,000		28,36,000

Debenture holders and other Creditors of the company submitted the following scheme of re-organisation which was sanctioned by the Court:

1. Equity shares' paid up value to be reduced to Rs.3 per share.
2. Paid up value of 12% Cumulative Preference Shares to be reduced to Rs.5 per share.
3. Dividend on preference shares was in arrears for the last two years. They agreed to waive 50% of their claim of dividend and against the remaining 50% claim they were issued equity shares of the company as fully paid.
4. Accrued interest on debentures to be paid in cash. Debenture holders to take over the property of book value of Rs.1,50,000 at Rs.2,00,000 and they are to provide additional cash by loan of Rs.3,00,000 at 13% interest.
5. There was capital commitment of Rs.3,00,000 which will be cancelled by payment of 15% penalty for canceling the contract.
6. Patents, Goodwill and Preliminary expenses, accumulated loss are to be written off.
7. Stock to be written down by Rs.1,00,000. Provision for bad debts to be calculated for Rs.80,000 and remaining Property to be valued at Rs.7,50,000. Investments are to be sold for Rs.2,50,000.

You are required to prepare journal entries and prepare a Balance Sheet after completion of the scheme.

Q.4. The following is the Balance Sheet of UNHAPPY Ltd. as at 31st December, 2007:

Liabilities	Rs.	Assets	Rs.
20,000 Equity Shares of Rs.100 each fully paid	20,00,000	Anand Works	16,00,000
18,000, 7% Preference Shares of Rs.100 each, fully paid	18,00,000	Baroda Works	12,00,000
‘A’ 8% Debentures (secured on Anand Works)	3,00,000	Stocks	9,00,000
‘B’ 8% Debentures (secured on Baroda Works)	3,50,000	Debtors	5,00,000
Creditors	2,50,000	Cash at Bank	1,00,000
		Profit & Loss Account	4,00,000
	47,00,000		47,00,000

1) A scheme of Reconstruction was duly prepared and sanctioned whereby:
2) Equity shares were to be reduced to shares of Rs.10 each fully paid.
3) Preference shares were to be reduced to shares of Rs.80 each fully paid, dividend raised to 8%.
4) Debenture holders forego their interest Rs.52,000 which is included in creditors.
5) ‘B’ Debentureholders agreed to take over Baroda Works at Rs.5,00,000 and to accept an allotment of 3,000 shares in Sterling Ltd. of Rs.10 each at par. They settled their account by paying necessary amount in cash to Sterling Ltd.
6) Stock was to be written down by Rs.4,00,000 and a provision for doubtful debts created to the extent of Rs.25,000 on Debtors.
7) Any balance to be applied as to two-thirds to write down the value of Anand Works and one-third to Capital Reserve.

Required: Pass necessary journal entries to give effect to the above scheme of reconstruction. Show also the Balance Sheet after the scheme is carried out.

Q.5. The Balance Sheet of Hard Luck Ltd., on 30.6.2009 was as follows:

Liabilities		Rs.	Assets	Rs.
15,000 Equity Shares of Rs.10 each		1,50,000	Freehold Land & Building	34,000
10,000, 6% Cumulative Preference Shares of Rs.10 each		1,00,000	Plant	96,000
7% Debentures	60,000		Tools and Dies	27,300
Interest due thereon	4,200	64,200	Investments	15,000
Creditors		50,000	Stock	42,500
Bank Overdraft		20,000	Debtors	53,400
			R & D Expenditure	18,000
			Profit and Loss Account	98,000
		3,84,200		3,84,200

Scheme of Reconstruction detailed below has been agreed by all the interested parties and approved by the Court.

1) The following assets are to be revalued as shown below: Plant Rs.59,000, Tools and Dies Rs.15,000, Stock Rs.30,000 and Debtors Rs.48,700.

2) Part of the Land recorded in the books at Rs.6,000 is valued at Rs.14,000 and is to be taken over by the debentureholders in part repayment of principal. The remaining Freehold Land and Buildings are to be revalued at Rs.40,000.
3) The R & D Expenditure & the debit balance of P & L A/c is to be written off.
4) Out of the total creditors, a creditor for Rs.18,000 agreed to accept 10% Secured debentures and another creditor for Rs.10,000 accepted a payment of Re.0.85 in a rupee for immediate settlement.
5) Investments were sold off at a price of Rs.22,000.
6) The ascertained loss is to be met by writing down the Equity Shares to Re.1 each fully paid and the Preference Shares to Rs.7 each fully paid.
7) The Equity Shareholders agreed to subscribe for two new Equity Shares of Re.1 each at par for every share held. This cash is also received.
8) The costs of scheme amounted to Rs.3,500.
9) The debenture interest has also been paid.
10) The Bank Overdraft was to be cleared.

Draft necessary journal entries to give effect to the Scheme of Reconstruction.

Q.6. Following is the Balance Sheet of Sun Limited as on 31st March, 2011.

Liabilities	Rs.	Assets	Rs.
5,00,000,Equity Shares of Rs.5 each fully paid	25,00,000	Madras Works	25,00,000
4,00,000 Preference Shares of Rs.5 each fully paid	20,00,000	Delhi Works	15,00,000
6% 'A' Debentures, Secured on Delhi Works	5,00,000	Workmen Compensation Fund Investment	55,000
6% 'B' Debentures, secured on Madras Works	1,00,000	Stock	1,20,000
Workmen Compensation Fund: Madras 35,000; Delhi 20,000	55,000	Sundry Debtors	45,000
Bank Overdraft	5,00,000	Discount on Debentures: 'A' 3,500; 'B' 12,000	15,500
Sundry Creditors	2,00,000	Profit & Loss A/c	16,19,500
	58,55,000		58,55,000

On 1st April, 2011, a scheme to reduce capital implemented as under:
1) The equity shares were reduced to Re. 0.25 each.
2) The Preference shares were reduced to Rs. 3.75 each & the rate of dividend to be 5%
3) The 'A' and 'B' debenture holders waived interest payment of Rs.47,000 which was included in sundry creditors.
4) The directors were to refund Rs. 75,000 fees, they had received earlier.
5) The 'A' debenture holders formed a new company to take over the Delhi works for Rs. 7,50,000 and this price was satisfied on the same date by surrender of 'A' debentures and allotment of 50,000 fully paid shares of Rs. 5 each in the New Co.
6) The investments were valued at Rs. 35,000, stock at Rs. 60,000 & the debtors at Rs.40,000. There was no actual liability to workmen at Delhi. The assets were to be written down

accordingly; any fictitious assets were to be eliminated, only necessary reserves were to be retained and the balance available was to be written off the book value of the Madras works.

Journalise the above transactions in the books of the company and prepare the Balance Sheet after the above scheme is carried out. **(April 1996)**

Q.7. The following is the Balance Sheet of Bad-day Ltd. as on 31st December, 2000

Liabilities	Rs.	Assets	Rs.
30,000 Equity Shares of Rs.10 each fully paid	3,00,000	Goodwill	75,000
2000 12% Pref. Shares of Rs.100 each fully paid	2,00,000	Land/Building	2,50,000
11% Debentures	1,25,000	Plant/Machinery	1,37,500
Sundry Creditors	22,750	Furniture	16,250
Bank Overdraft	68,375	Stock	1,31,500
		Debtors	23,000
		Cash in Hand	375
		Profit & Loss A/c	82,500
	7,16,125		7,16,125

The preference dividend was in arrears for 5 years. The Scheme was submitted as

1) Equity Shares to be reduced to Rs. 5 each.
2) All arrears of Preference dividend to be cancelled.
3) Each Preference share to be reduced to Rs. 75 and then exchanged for one new 12% Preference share of Rs. 50 each and five equity shares of Rs. 5 each.
4) The debit balance of Profit and Loss Account to be written off. Plant/Machinery to be written-down by Rs. 47,500 and Goodwill is to be reduced as much as possible.
5) Approval of the court is obtained 1,00,000 new Equity Shares are issued at par (sufficient new Equity Shares are increasing Authorised Share Capital) payable in full on application)

The whole issue is underwritten for 2% commission and the issue was fully taken up. Expenses in connection with the scheme amounted to Rs. 3,375 and were written off. Journalise the transaction and set out new Balance Sheet. **(April 1998)**

Q.8. The balance sheet of Careless Ltd. as at 31.10.01 appeared as follows:

Liabilities	Rs.	Assets	Rs.
30,000 Equity Shares of Rs.10 each fully paid up	3,00,000	Fixed assets (Cost)	4,00,000
		(-) Depreciation Provn.	3,00,000
1,000 11% Preference Shares of Rs.100 each fully paid up	1,00,000		1,00,000
		Stock and Stores	1,20,000
11% Debentures	1,00,000	Receivables	2,90,000
Interest Accrued on debentures	22,000	Other Current Assets	40,000
Bank Overdraft	1,26,000	Profit and Loss Account	3,28,000
Unsecured loans	1,00,000		
Interest accrued on unsecured loans	30,000		
Current Liabilities	1,00,000		
	8,78,000		8,78,000

A scheme of reconstruction has been agreed amongst the shareholders and the creditors with the following salient features:

1) Interest due on unsecured loans is waived.
2) 50% of the interest due on debentures is waived.

3) The 11% Preference shareholders rights are reduced to 50% and the remaining were converted into 15% debentures of Rs.100 each.
4) Current Liabilities would be reduced by Rs.10,000 on account of the provision no longer required.
5) The equity shareholders agree to convert the existing equity shares into new ten rupee shares of total value Rs.1,00,000.
6) The debit balance in the Profit and Loss Account is to be written off totally, Rs.52,000 should be provided for doubtful debts and the value of fixed assets should be increased by Rs.80,000.
Prepare the Capital Reduction Account and Redraft the Balance Sheet of the company based on the above scheme reconstruction. **(April 2003)**

Q.9. Bad Luck Ltd. had sufficient amount of reserves to pay accumulated dividend on preference shares but there was shortage of working capital. It was also observed by the Directors of the company that some of the assets were overvalued. Directors decided to introduce the following scheme of reconstruction of Balance Sheet of the company as on 31st December, 2008, as given below:

Liabilities	Rs.	Assets	Rs.
70,000 Equity Shares of Rs.10 each	7,00,000	Goodwill	1,50,000
50,000, 13% Cumulative Preference		Building	3,00,000
Shares of Rs.10 each	5,00,000	Plant	2,30,000
Creditors	1,20,000	Furniture	1,20,000
Bills Payable	1,70,000	Debtors	4,75,000
Premium on shares	70,000	Stock	4,80,000
General Reserve	85,000	Cash on hand & at Bank	65,000
Profit & Loss Account	45,000		
Bank Overdraft	1,30,000		
	18,20,000		18,20,000

Scheme of reconstruction proposed:
1) To reduce the paid up value of equity shares to Rs.5 each.
2) To reduce the paid up value of preference shares to Rs.6 each.
3) To exchange 13% Debentures of the company for 13% Cumulative Preference shares of the Company.
4) To write off the goodwill.
5) To revalue Fixed Assets as given below: Building Rs.2,70,000, Plant Rs.2,00,000, Furniture Rs.50,000
6) To revalue Current Assets as given below: Stock: Rs.3,50,000, Debtors: Rs.4,00,000

Pass necessary journal entries also prepare Balance Sheet after reconstruction.

Q.10. The final Trial Balance of M/s.POOR Ltd. on 31.3.2003 was as follows:

Particulars	Rs.	Rs.
1,00,000, 7 ½ % Cumulative Preference Shares of Rs.20 each		20,00,000
1,50,000 Ordinary Shares of Rs.20 each		30,00,000
Securities Premium Account		6,00,000
Sundry Creditors		7,60,000
Bank Overdraft		9,20,000
Freehold Property, cost		3,00,000
Provision for depreciation on above Property	15,00,000	
Goodwill at cost	9,00,000	
Plant and Machinery, cost	33,00,000	
Provision for depreciation on Plant & Mach.		9,20,000
Stock	7,60,000	
Debtors	5,80,000	
Profit & Loss Account	13,30,000	
Preliminary Expenses	1,30,000	
	85,00,000	85,00,000

The scheme of reduction of capital was approved by the Court on the following terms:

a) The preference shares to be reduced to Rs.15 per share.
b) The ordinary shares to be reduced to Rs.2 per share.
c) Credit to be taken for the balance on the Securities Premium Accounts and Profit and Loss Account balance and all intangible assets to be written off.
d) Plant and Machinery to be revalued at Rs.10,00,000.
e) 600, 7 & 1/2% Debentures Rs.100 each to be issued for satisfying the arrears of preference dividend amounting to Rs.60,000.

You are required to: (1) Set out the journal entries necessary to record the above and
(2) Give the Balance Sheet of the company after completion of the reduction scheme.

Q.11. Following is Balance Sheet of Rohini Industrial Construction Ltd. as on 31.12.2006.

Liabilities	Rs.	Assets	Rs.
20,000 Equity Shares of Rs.100 each, fully paid	20,00,000	Virar Works	16,00,000
		Churchgate Works	12,00,000
18,000 7% Pref. Shares of Rs.100 each fully paid	18,00,000	Stock on hand	9,00,000
		Sales Ledger Adjustment A/c	5,00,000
"A" 8% Debentures (Secured on Virar Works)	3,00,000	Cash at Bank	1,00,000
"B" 8% Debentures (Secured on Churchgate works)	3,50,000	Invention Expenses	2,00,000
		Profit & Loss A/c	4,00,000
Creditors	2,50,000		
Bills Payable	2,00,000		
	49,00,000		49,00,000

A Scheme of Reconstruction was duly prepared and sanctioned whereby:

a) Equity Shares were to be reduced to Rs. Ten each fully paid.
b) Preference Shares were to be reduced to shares of Rs. 80 each fully paid, dividend being raised to 10%.
c) Debentureholders forego their interest Rs. 52,000 which is included in creditors.

d) 'B' Debentureholders agreed to take over Churchgate Works at Rs. 5,00,000 and to accept an allotment of 3,000 Equity Shares in Rohini Industrial Construction Ltd. of Rs.10 each at par. They settled their account by paying necessary amount by a crossed cheque to the company.
e) Stock on hand was to be written down by Rs. 2,00,000 and a provision for doubtful debts be created to the extent of Rs. 25,000.
f) Any balance arising out of the above points to be applied as to 2/3rd to write off the value of Virar works and 1/3rd to Capital Reserve.

Prepare: Capital Reduction A/c and Balance Sheet after the above scheme. **(April 1997)**

SURRENDERED SHARES METHOD

Q.12. The Balance Sheet of Prospect Ltd. as at 31st Dec.2008 was as follows:

Liabilities		Rs.	Assets	Rs.
8,000 Equity Shares		8,00,000	Patents and	
8% Debentures	2,00,000		Copyrights (at cost)	1,00,000
Interest	16,000	2,16,000	Sundry Fixed Assets	6,00,000
Sundry Creditors		72,000	Profit & Loss A/c	4,16,000
Provision for Income Tax		28,000		
		11,16,000		11,16,000

It was agreed to reconstruct the company & accordingly following scheme was sanctioned:
1) Each share of Rs.100 will be subdivided in to shares of Re.1 each.
2) After subdivision, each share holder shall surrender 50% of its holdings.
3) Debentureholders agree to waive 75% of their claims and against remaining 25%, they will be issued preference shares of Rs.10 each.
4) Creditors claims shall be reduced to 50% and equity shares will be issued out of Surrendered Shares Account for the balance.
5) The shares surrendered but not reissued will be cancelled.
6) Patents & Copyrights has to be written off along with P & L A/c.

Pass journal entries and Prepare Balance Sheet after the scheme.

Q.13. Following is the Balance Sheet of Unreliable Ltd. as on 30.6.02:

Liabilities	Rs.	Assets	Rs.
14,000 Equity Shares	14,00,000	Building	8,00,000
13% Debentures	10,00,000	Machinery	2,00,000
Creditors	5,00,000	Investments	1,25,000
Outstanding interest on		Stock	4,30,000
Debentures	65,000	Debtors	3,80,000
		Cash	80,000
		Profit & Loss Account	9,50,000
	29,65,000		29,65,000

Fixed assets of the company are much overvalued. Therefore, Directors of the Company decided to reconstruct the Balance Sheet. Accordingly, the following scheme was approved:
1) Debentureholders to accept modification in their claim provided they are issued shares of the company of specified amount decided.
2) Equity shares to be sub-divided into 10 equity shares of Rs.10 each fully paid.
3) 60% of sub-divided equity shares to be surrendered by the shareholders.

4) From equity shares surrendered, 50,000 shares to be converted into 13% preference shares of the company to issue to debenture holders against full settlement.
5) 30,000 equity shares to be given to creditors in full settlement from shares surrendered
6) Equity shares surrendered but not reissued are to be cancelled.

You are required to pass necessary journal entries and prepare Balance Sheet.

Q.14. The Balance Sheet of Hard Luck Ltd. as at 31st December, 2001 was as follows

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs.10 each	10,00,000	Goodwill	2,00,000
10%, Debentures of Rs.100	4,00,000	Other Assets	9,00,000
O/s Interest on Debentures	40,000	Profit and Loss A/c	5,00,000
Creditors	1,60,000		
	16,00,000		16,00,000

For the purpose of reconstruction of the company necessary resolutions are passed:
1) Equity Shares are to be subdivided in to shares of Re.1 each and each shareholder shall surrender 60% of his holdings.
2) Out of the surrendered shares, 60,000 shares will be converted into 8% Preference Shares of Rs.10 each
3) Debenture holders will reduce their claims by Rs.1,40,000 and in consideration they are to get the entire preference shares.
4) Creditors claims are to be reduced to the extent of Rs.1,00,000 and in consideration they are to receive Equity Shares amounting to Rs.40,000 from the surrendered shares.
5) Goodwill and profit and loss account are to be fully written off.
6) The remaining surrendered shares are to be cancelled.

Pass necessary journal entries and prepare revised balance sheet. **(October 1999)**

Q.15. Following balances appeared in the books of Nervous Limited as on 31st March 2009:

Debit balances	Rs.	Credit Balances	Rs.
Goodwill	2,50,000	10,000 7% Preference Shares	10,00,000
Land and Building	12,00,000	of Rs.100 each fully paid	
Plant and Machinery	11,00,000	2,00,000 Equity Shares	20,00,000
Investments	1,20,000	of Rs.10 each fully paid	
Current Assets	17,20,000	8% Debentures of Rs.100 each	10,00,000
Profit and Loss Account	8,50,000	(secured on land and building)	
		Debenture interest due	40,000
		Loan from Directors	2,00,000
		Current Liabilities	10,00,000
	52,40,000		52,40,000

Note:
(1) Claim for damages against the company pending in the court of law amounted to Rs.1,00,000.
(2) Arrears of preference dividend of Rs.70,000.

The board of directors agreed to present the realistic picture of the state of affairs of the company's position and the following scheme of reconstruction was sanctioned, approved and implemented:
(1) Preference shares were reduced to equal number of fully paid preference shares of Rs.80 each.

(2) Equity shares were reduced to equal number of fully paid equity shares of Rs.2.50 each
(3) Preference shareholders waived half of the arrears of dividend and 14,000 equity shares of Rs.2.50 each fully paid were issued to them in lieu of the balance.
(4) 8% Debentureholders took over part of the security having book value Rs.3,60,000 at Rs.5,00,000 in part satisfaction of their loan and 1,20,000 Equity shares of Rs.2.50 each fully paid were issued to them for the balance loan.
(5) Debentureholders waived their interest due on debentures.
(6) The claims for damages pending in the court of law were settled by issue of 12,000 Equity shares of Rs.2.50 each fully paid
(7) Directors converted their loan into equity shares of Rs.2.50 each fully paid
(8) All intangible assets and fictitious assets were written off.
(9) The assets were revalued as under Plant and Machinery Rs.7,00,000 and Investments Rs.1,00,000.

You are required to pass journal entries for the above scheme, prepare Capital Reduction Account and Balance Sheet of Nervous Ltd. after reconstruction. **(April 2010)**

Q.16. Following is the Balance Sheet of Fortunate Ltd. as on 31st March 2008:

Liabilities	Rs.	Assets		Rs.
7,000 8% Preference Shares of Rs.100 each	7,00,000	Goodwill		1,65,000
		Land and Building		6,00,000
80,000 Equity Shares of Rs.10 each	8,00,000	Stock		2,20,000
9% Debentures of Rs.100 each (Secured on land and Building)	3,50,000	Debtors:		
		Good	3,70,000	
Accrued Interest on Debentures	15,750	Doubtful	60,000	4,30,000
Directors Loan	70,000	Bank		2,80,000
Sundry Creditors	3,10,000	Preliminary Expenses		10,000
		Profit and Loss Account		5,40,750
	22,45,750			22,45,750

Contingent Liabilities:

(1) Arrears of preference dividend for two years
(2) Claims for damages pending in the court of law Rs.1,00,000.

The Board of Directors wish to show the realistic picture of the state of affairs of the company's position and the following scheme of reconstruction was dully approved.

(a) 8% Preference shares of Rs..100 each were to be reduced to an equal number of fully paid preference shares of Rs.60 each and Equity shares of Rs.10 each were to be reduced to an equal number of fully paid equity shares of Rs.2.50 each.
(b) Intangible assets, fictitious assets and accumulated losses to be written off.
(c) 8% Preference shareholders agreed to waive one years dividend and to accept equity shares of Rs.2.50 each fully paid for the balance of arrears of dividend.
(d) Stock to be revalued at Rs.2,00,000 and doubtful debtors to be written off.
(e) 9% Debentureholders agreed to takeover part of the security of the book value of Rs.2,00,000 for Rs.2,50,000 in part satisfaction of their claim and agreed to waive interest payable to them.
(f) Sundry creditors agreed to forego Rs.10,000 subject to the condition that the company must pay them half of the remaining amount immediately.

(g) The contingent liability for the claim for damages materialized to the extent of 50%, which the company paid immediately.
(h) The directors agreed to convert their loan into equity shares of Rs.2.50 each fully paid up.
Pass journal entries and prepare capital reduction A/c and balance sheet **(October 2009)**

Q.17. Following is the Balance Sheet of Sandeep Limited as on 31st March 2009:

Liabilities	Rs.	Assets	Rs.
10% Preference Shares of Rs.100 each	4,00,000	Goodwill	25,000
Equity Shares of Rs.10 each	10,00,000	Patents	15,000
12% Debentures	7,50,000	Furniture	35,000
Bank Overdraft	50,000	Plant and Machinery	6,00,000
Sundry Creditors	1,40,000	Land and Building	6,50,000
Bills Payable	35,000	Stock in Trade	80,000
		Sundry Debtors	90,000
		Bills Receivables	15,000
		Profit and Loss A/c	8,20,000
		Preliminary Expenses	45,000
	23,75,000		23,75,000

The preference dividend is in arrears for four years. The following scheme of capital reduction was sanctioned by the court and agreed by shareholders:
(a) The preference shares are to be reduced to Rs.50 each & equity shares to Rs.2 each, both being fully paid.
(b) Of the preference dividend in arrears ¾ th to be waived and remaining to be paid in cash.
(c) The Debentureholders to take over plant and machinery at Rs.6,50,000 in part satisfaction of their claims. The remaining claims should be converted into 14% Debentures.
(d) Creditors agreed to reduce their claim by Rs.20,000, Bills Payable to be paid immediately.
(e) Goodwill, Patents, Profit and Loss A/c and Preliminary Expenses are to be written off entirely.
(f) The following assets are to be revalued as under:
Furniture Rs.25,000, Stock in Trade Rs.68,000, Land and Building Rs.5,80,000, Sundry Debtors Rs.80,000
(g) A secured loan of Rs.1,50,000 at 12% per annum is to be obtained by mortgaging land and building for repayment of bank overdraft, bills payable and reconstruction expenses Rs.15,000.
Pass journal entries and draft the Balance Sheet after reconstruction. **(April 2007)**

Q.18. Following is the Summarized Balance Sheet of Risky Ltd. as on 31st March 2015.

Liabilities	**Rs.**	**Assets**	**Rs.**
10% Preference Shares of Rs. 10 each	4,80,000	Premises	6,40,000
Equity Shares of Rs. 10 each	8,00,000	Plant and Machinery	10,40,000
5% Debentures of Rs. 100 each	9,60,000	Investments	2,40,000
Sundry Creditors	4,00,000	Stock	2,88,000
Bank Overdraft	2,40,000	Debtors	1,92,000
Other Liabilities	3,20,000	Deposits and Advances	80,000
		Preliminary Expenses	3,20,000
		Profit and Loss Account	4,00,000
	32,00,000		32,00,000

Note: Preference Dividend is in arrears for 3 years.
A scheme of reconstruction is prepared and approved by all the authorities.
The salient Features of the scheme are:

1) Plant and Machinery having book value of Rs. 1,60,000 is obsolete. This is sold as scrap for Rs. 32,000.
2) The Depreciation on Plant and Machinery is to be provided to the extent of Rs. 80,000/-.
3) Stock includes items valued at Rs. 96,000 which are sold at a loss of 50%.
4) The present realizable value of investments is Rs. 1,12,000.
5) Arrears of Preference dividend is not payable.
6) Reconstruction expenses were Rs. 16,000.
7) The paid up value of equity shares is to be reduced to Rs. Per share and preference shares to Rs. 5 per share. However, the face value of both equity and Preference shares remain unchanged.
8) The creditors dues are settled as:
   20% immediate payment in cash
   40% amount is cancelled
   40% paid by issued of 6% debentures.
9) Other liabilities of Rs. 80,000 is to be cancelled.
10) A call of Rs.3 per share on equity shares is made and received.

Pass Journal Entries In the Books of Risky Ltd. **(October 2015)**

Q.19. Following is the summarized Balance Sheet of Mahesh Ltd as on 31/03/2016.

Liabilities	Rs	Assets	Rs
20,000 8% cumulative preference shares of RS. 100 each fully paid	20,00,000	Goodwill	500,000
400,000 Equity Shares of RS 10 each fully paid	40,00,000	Land & Building	24,00,000
8% Debentures or RS. 100 each (secured against Land & Building)	20,00,000	Plant & machinery	22,00,000
Debenture interest due	80,000	Investments	2,40,000
Loan from Directors	4,00,000	Current Assets	34,40,000
Current liabilities	20,00,000	Profit and loss Accounts	17,00,000
	104,80,000		104,80,000

Note:
(a) Claims for damages against the company pending in court of law amounted to Rs. 2,00,000.
(b) Arrears of preference dividend RS. 1,40,000.

Following Scheme of reconstruction was approved &implemented;

1. Preference shares were reduced to equal number of fully paid 8% preference shares of Rs. 80 each.
2. Equity shares were reduced to equal number of fully paid equity shares of Rs. 2.50 each.
3. Preference shareholders waived half of the arrears of dividend and 28,000 Equity Shares of Rs.2.50 each fully paid were issued to them in lieu of the balance.

4. 8% Debenture holders took over part Land & Building having book value of 7,20,000 at Rs. 10,00,000 in part satisfaction of their debts and 2,40,000 Equity Shares of Rs. 2.50 each fully paid were issued to them for the balance amount.
5. Debenture holders waived their interest due on Debentures.
6. The claims for damages pending in court of law were settled by issue of 24,000 Equity Shares of Rs. 2.50 each fully paid.
7. Directors converted their loan into equity shares of Rs. 2.50 each fully paid
8. Profit & loss debit balance and intangible assets were written off.
9. The assets were revalued as under :
   Plant and machinery Rs 14,00,000
   Investments Rs 2,00,000.

You are required to pass necessary journal entries in the books of Mahesh Ltd. **(October 2016)**

MULTIPLE CHOICE QUESTIONS

1) In internal reconstruction
a) No company is liquidated b) Only one company goes into liquidation
c) Two or more companies are liquidated d) one or more companies go into liquidation

2) A limited company may alter the share capital so as to
a) Increase in reserves capital b) Subdivides shares into share of small amount
c) Give option to preference shareholders d) None of the above

3) Reduction of share capital of a company means reduction in
a) Only called up share capital b) Subscribed and or paid up share capital
c) Only authorized capital d) Only uncalled share capital

4) Balance in capital reduction a/c is generally transferred to
a) General reserves b) Capital reserves c) Profit and loss a/c d) None of the above.

5) The existing 1,000 shares of Re.1 each are altered to 100 shares of Rs. 10 each. This is own as
a) Consolidation b) Sub-division c) Conservation in stock d) Surrender

6) The existing 1,000 shares of Rs.100 each are altered to 10,000shares of Rs. 10 each. This is known as
a) Consolidation b) Sub-division c) Conservation in stock d) Surrender

7) While granting approval to any scheme of capital reduction the court ma direct the company to add the following words to its name for such period as it thinks fit.
a) And reduced b) unlimited and reduced c) Liquidated d) limited and reduced

8) Reconstruction refers to an arrangement where by
a. A previously profitable or a weak company is reconstructed by certain measures
b. Two companies come together to form a new company
c. Assets and liabilities of the company are not valued
d. None of the above

9) The credit balance in capital reduction a/c is utilized for
a) paying off dissentient shareholders b) writing off deferred expenses
c) Issuing bonus shares d) None of the above

10) For capital reduction under internal reconstruction, authorization or approval is required from
a) Shares holders b) Article of association c) Court d) All of the above.
Ans: [(1-a), (2-b), (3-b), (4-b), (5-a), (6-b), (7-a), (8-a), (9-b), (10-d)]

FILL IN THE BLANKS

1) Splitting share of a higher denomination into shares of smaller denomination is known as **Sub-Division.**
2) Past losses and fictitious assets are wiped out by making use of credit balance in **Capital reduction** a/c under internal reconstruction.
3) Surrender shares **can** be reissued.
4) Capital reduction a/c is **Credited** to record all sacrifices by the lenders or share holders
5) Increase in the value of land will be recorded on **Credit** side of capital reduction a/c.

MATCH THE FOLLOWING

Column 'A'	Column 'B'
1) Internal reconstruction	a) S. 106 of Companies Act
2) External reconstruction	b) S. 100-105 of the Companies Act
3) Alteration of share capital	c) S. 100 of Companies Act
4) Variation of shareholders rights	d) S. 94,95 and 97 of the Companies Act
5) Reduction of share capital	e) S. 3 91 -3 93 and 3 94 A of the Companies.
6) Compromise or arrangement with the creditors	f) S. 494 of Companies Act

Ans.: (1-c); (2-f); (3-d); (4-a); (5-b); (6-e).

STATE WHETHER TRUE OR FALSE

1) A company cannot sub divide shares of larger denomination in to shares of smaller denomination. **False**
2) A company is free to reduce or extinguish the uncalled liability of its members. **False**
3) No permission from court is required for a company to write off or cancel any paid up capital which is lost or not represented by available assets. **True**
4) Cancellation of unissued capital is also a case of capital reduction. **True**
5) Only sick companies under takes capital reduction. **True**
6) Permission of a court required for a company to return capital which is excess of the requirement of the company. **True**
7) No journal entry is required for the cancellation of un issued capital. **True**
8) After the granting the scheme of capital reduction the court may order the use of words "And Reduced" after the name of the company till its winding up. **False (For specific period)**

9) In a scheme of capital reduction any arrears of preference dividend must be met out of capital reduction account. **True**
10) Consent of creditors is required if capital reduction is involved diminution of liability regarding uncalled capital or return of paid up capital. **True**
11) Consent of director is not required if capital reduction is involved writing off of paid up Capital lost or not represented by available assets. **True**
12) Any surplus in the capital reduction account after lost capital is transferred to general reserves. **False (To capital reserves account)**
13) In a scheme of reconstruction amount of shares surrendered by the shareholders is transferred to capital reduction account. **False (Share surrender account)**
14) Amount sacrificed by the share holders in a scheme of internal reconstruction are credited to capital reserves account. **False (To capital reduction account)**
15) For a company to carry out capital reduction permission us required from central government. **False (From the competent court)**
16) Security premium account can be transfer to capital reduction account. **True**
17) External reconstruction involves reduction of capital. **False**

CHAPTER 3: PERSONAL INVESTMENT ACCOUNTING

PART A: INVESTMENTS CARRYING FIXED RATE OF RETURN

Q.1. Kolkata investment hold 600 12% Debentures of Rs. 100 each in Snow Ltd, as on 1st April, 2000 at a cost of Rs. 70,000. Interest is payable on 30th June & 31st December each year. The following transactions are given for the year 2000-01: **(April 2006)**
(1) On 1st June 2000, 200 Debentures are purchased cum-interest at Rs.20,400.
(2) On 1st November 2000, 200 Debentures are purchased ex-interest at Rs. 19,200.
(3) On 30th November 2000, 300 Debentures are sold cum interest for Rs. 32,250.
(4) On 31st December 2000, 400 Debentures are sold ex-interest at Rs. 38,650.
Prepare Investment Account for the year ending 31st March 2001; at cost (applying FIFO method) or market price whichever is lower. The debentures were quoted at par on 31.03.2001.

Q.2.M/s. Investment Trust Ltd. Pune submit the following details regarding one of their Investment for the year 2001.
Opening Balance on 1.1.2001. Face value Rs. 80,000. Cost Value Rs. 81,600.

	Date	Face Value (Rs.)	
Purchases	1.3.2001	60,000	Cum Interest at Rs.95
	1.12.2001	24,000	Ex interest at Rs.99
Sales	1.7.2001	50,000	Cum Interest at Rs.102
	1.11.2001	20,000	Ex interest at par

Investment carry interest at 6% p.a. payable on every 31st March & 30th September. Investment are to be valued at cost by First-In-First-Out Method. You are required to prepare Investment Account closing it on 31st December 2001.

Q.3. On 1st July, Hind Investment Ltd. held Rs.1,00,000, 6% Debentures of Sujata Ltd. in the books at Rs.95,600. Interest is payable on 31st July and 31st January.
a) On 1st September 2000, further Rs.50,000 of the Debentures in Sujata Ltd. was brought at Rs.98 cum-interest.
b) On 1st January 2001, a further Rs. 40,000 was brought at Rs.97 ex-interest
c) On 1st March 2001, Rs.80,000 Debentures were sold at Rs.102 cum-interest
d) On 15th June 2001, Rs.60,000 Debentures were sold at Rs. 102 ex-interest.
Show the Investment Account for the year ending 30th June 2001.

Q.4.M/s Maharashtra Investment Trust Ltd. Submit the following details regarding one of their Investment for the year 2001. You are required to prepare Investment Account.
a) 1.1.2001 Opening Balance face value Rs.1,00,000 at cost Rs.90,000.
b) 1.3.2001 Purchased worth Rs. 40,000 cum-interest at 5% discount.
c) 1.7.2001 Sold worth Rs. 50,000 cum-interest at 2% premium.
d) 1.10.2001 Sold worth Rs. 30,000, Ex-interest at par.
e) 1.12.2001 Purchased worth Rs. 20,000, Ex-interest at 2% discount.
f) Investment carries interest at 6% p.a. payable on every 31st March & 30th Sept.
g) The market price of the investment on 31.12.2001 was at 3% premium

Q.5. Aavishkar Investment Company Ltd. has on 1.1.2001 Rs. 1,50,000 6% Government Loan at cost price Rs. 1,57,500. The interest on securities was received upon 30.9.2000.
(1) On 30.4.2001 the company purchased Rs.60,000 worth a loan at 105 cum-interest.
(2) On 30.6.2001 Rs. 40,000 worth of loan was sold at 106 ex-interest.
(3) On 31.7.2001 a further Rs. 50,000 worth of loan was sold at 108 cum-interest.
(4) Interest was receivable on 31st March and 30th September every year.
On 31.12.2001 the market price of above securities was 101.
Write up Investment Account for the year 2001.

Q.6. X Finance Company Ltd. holds as on 1.4.2000 Rs. 50,000 (Cost Rs.49,000) 6% Government of India Loan 1999 as investment on which interest is payable half yearly on 1st January and 1st July. The following purchases and sales were made out of these Investments during the accounting year ended 31.3.2001:
Purchases: i) On 1.8.2000 Face Value Rs.20,000 @ Rs.102 Cum-interest.
ii) On 1.12.2000 Face Value Rs.20,000 @ Rs.105 Ex-interest.
Sales: i) On 1.11.2000 Face Value Rs. 5000 @ Rs.104 Cum-interest.
ii) On 1.2.2001 Face Value Rs. 15,000 @ Rs. 102 Ex-interest.
Write up Investments as on 31.2.2001are to be valued at cost by FIFO Method.

Q.7. On 1.1.2001 Usha Investment Company Ltd. purchased Rs.10,000, 4% Government Securities at 95% Cum-Interest, the interest being payable on 31st March and 30th September every year. The expenses on the purchases amounted to Rs. 105.
On 1st May 2001 it sold Rs. 6000 Cum-Interest Securities at 93% the expenses being Rs.55. On 1st November 2001 it purchased Rs. 3000 ex-interest securities at 96% the expenses being Rs.70.
Write up Investment Account closing it on 31st December 2001.

Q.8. Rao purchased on 1st March Rs.24,000, 5% Bharat Debenture stock at 90 cum-interest, interest being payable on 30th September each year, stamp duty and expenses on purchase amounted to Rs. 20 and brokerage at 2% was charged on cost. Interest for the half year was received on the due date.
On 1st September Rs.10,000 of the stock was sold at 92 ex-interest less brokerage at 2%. On 30th September Rs. 8,000 stock was purchased at 91 ex-interest plus brokerage 2% and charges Rs.10. On 1st December Rs.6,000 stock was sold at 94 cum-interest less brokerage 2%. The market price of stock on 31st December was 91%.
Show the Investment Account for the year ended 31st December.

Q.9. On 1st January,2004, 1000 12% Debentures of Rs.100 each of Shiva Ltd. Were held as investment by Mr. Dharmesh at a cost of Rs.91,000. Interest is payable on 31st December.
On 1st April,2004, Rs.20,000 of such debentures were purchased by Dharmesh @ Rs.98 cum-interest.
On 1st September,2004, Rs.30,000 of such debentures wee sold at Rs.96 ex-interest.
On 1st December,2004, Rs.50,000 of such debentures were sold at Rs.99 cum-interest.
Interest is received on due date.
Prepare Investment Account for 12% Debentures of Shiva Ltd. In the books of Mr. Dharmesh valuing Closing stock as on 31st December,2004 applying AS-13. The debentures were quoted at Rs.93 on 31st December, 2004. **(April 2005)**

Q10. Miss Bhagawati entered into the following transactions of purchase and sales of 12% Debentures of Rs.100 each of Mansi Ltd. Interest is payable on 30th June and 31st December every year. Transactions are as under:

Date	No. of Debentures	Terms
01-04-2005	800	Opening Balance at a cost of Rs.76,000
01-06-2005	300	Sold at Rs.105 each cum-interest
01-09-2005	700	Purchased at Rs.98 each, Ex-interest
01-12-2005	400	Purchased at Rs.108 each, Cum-interest
01-02-2006	900	Sold at Rs.97 each, Ex-interest

Prepare Investment Account of 12% Debentures in the books of Bhagwati for the year ended 31st March, 2006. The Market value on 31st March, 2006 was Rs.67,500 of the said Investment. Apply AS-13. **(April 2007)**

Q.11. Mr. Mandar hold as on 1st April, 2005 Rs.75,000 (Cost price Rs.78,000) 6% Government Securities as investment on which interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year ended 31st March, 2006

Purchases	Sales
i) On 1-5-2005 Face value of Rs.30,000 @ 98 Cum-interest ii) On 1-11-2005 Face value of Rs.45,000 @ 101 ex-interest	i) On 1-8-2005 Face value of Rs.36,000 @ 97 cum-interest ii) On 1-2-2006 Face value of Rs.24,000 @ 102 Ex-interest

Market Price of investment at 1% discount on31st March,2006 Write up Investment account closing it on 31st March,2006 in the books of Mr. Mandar. Investments are to be valued at cost or market value whichever is less (Apply AS-13) **(October 2007)**

Q.12. Mr. Mehta furnishes the following information regarding his holding in 12% IDBI Bonds.

01.04.2003 Opening Balance –Nominal value of 12% bonds Rs 2,00,000, cost Rs 1,90,000. Three months interest had accumulated as interest was receivable half yearly on 30th June and 31st December.

31.08.2003 He purchased a further Rs 80,000 of the bonds at Rs 96 cum- interest.

31.10.2003 Sold 700 12% bonds of Rs 100 each at Rs 94 ex-interest.

28.02.2004 Sold 300 12% bonds of Rs 100 each at Rs 96 cum- interest.

The face value of each bond was Rs 100. Prepare 12% IDBI Bonds Account for the year ended 31.3.2004 using average cost method. **(October 2003)**

Q.13. On 1st April 2014, Mr. Mohandas held 400, 6% debentures of Rs. 100 each of Best Ltd., Cost being Rs. 36,400.

Best Ltd. pays interest on 30th June and 31st December every year.

The following other transactions were entered by Mr. Mohandas during the year ended 31st March 2015 in regard to these debentures.

Date	**No. of Debentures**	**Transaction**	**Rate (Rs.)**
1st April 2014	200	Sale	98 cum – Interest
1st October 2014	200	Purchase	104 ex – Interest
1st December 2014	400	Purchase	97 cum – Interest
1st February 2015	200	Sale	97 ex - Interest

You are required to prepare investment in 6% debentures in Best Ltd. Account for the year ended 31st March 2015, as it would appear in the books of Mr. Mohandas. Market value of his entire investment as on 31/03/2015 was Rs. 56,200. **(October 2015)**

Q.14. Following Transactions appear in the books of Mr. Joshi for 12% Government Bonds of 15 Rs. 100/- each.
Interest is payable on 30th June and 31st December every year. Transactions during the year ended 31/03/2016 are as follows:

Date	No. of Bonds	Details
01/04/2015	2400	Opening Balance at a cost of Rs. 2,28,000/-
01/06/2015	900	Sold @ Rs. 105 each cum Interest
01/09/2015	2100	Purchased @ Rs. 98 each Ex- Interest
01/12/2015	1200	Purchased @Rs. 108 each cum- Interest
01/02/2016	2700	Sold @ Rs. 97 each Ex- Interest

Prepare 12% Government Bond Account in the books of Mr. Joshi for the year ended 31/03/2016. Market value of the above investment on 31/03/2016 was Rs. 2, 03,456/-
(Figures to be rounded off to the nearest rupee) **(October 2016)**

PART B: INVESTMENTS NOT CARRYING FIXED RATE OF RETURN

Q.15. On 1.4.2006, Mr. Abhishek had 10000 equity shares (of Rs.10 each) in Rai Entertainment Ltd. At the cost of Rs.1,60,000/-
On 1.7.2006 he acquired 4000 more shares in the same company for Rs.80000
On 31.7.2006 he further acquired 6000 more shares at Rs.22 per share
On 10.8.2006 Rai Entertainment Ltd announced bonus shares to the then equity shareholders in the ratio of 1 bonus shares for every 4 shares held as on 5.8.2006. Abhishek received the bonus shares on 22.8.2006.
The directors of Rai Entertainment Ltd. Issued right shares to the equity shareholders on the following terms:

(a) Right shares to be issued to the existing shareholders as on 31.8.2006
(b) Right offered was at the rate of Rs.15 per share in the ratio of 1 share for every 5 shares held. Fully amount was payable on or before 15.10.2006
(c) Shareholders would be entitled to renounce their entitlement either wholly or in part to the outsiders.
(d) Abhishek exercised his right of option under the issue of 3000 shares and sold the balance to Mr. Raj @ Rs.4 per share. On 20.10.2006 Rai Entertainment Ltd declared the dividend @ Rs.4 per share for the year ending 31.3.2006. Abhishek received the dividend on 31.10.2006. On 10.1.2007 he sold 7000 shares @ Rs.40 per share.

Prepare Investment Account for the year ended 31.3.2007 **(October 2008)**

Q.16. On 1st April 2006 Mr. Mayur had 30000 equity shares in Jai Ltd at a book value of Rs.4,50,000 (Face value Rs.10 per share). On 22nd June 2006, he purchased another 5000 shares of the company for Rs.80000. The Directors of Jai Ltd. announced a bonus issue of equity shares in the ratio of one share for seven shares held on 16th August 2006.
On 31st August, 2006 the company made a right issue in the ratio of three shares for eight shares held on payment of Rs.15 per share. Due date for the payment was 30th September, 2006. Mr.

Mayur subscribed to 2/3rd of the right shares and sold remaining of his entitlement to Vinayak for a consideration of Rs.2 per share. On 31st October 2006 received dividends from Jai Ltd @ 20% for the year ended 31st March 2006. Dividend for shares acquired by him on 22nd June, 2006 are to be adjusted against the cost of purchase. On 15th November 2006 Mayur sold 30000 equity shares at a premium of Rs.5 per share. You are required to prepare Investments account in the books of Mr. Mayur. Assume that the books of accounts are closed on 31st March 2007 and shares valued at weighted average cost. **(April 2008)**

Q.17. Mr. Arvind entered into following transactions of purchase and sale of equity shares of Aspi Ltd. The shares have paid up value of Rs.10 per share.

Date	No. of Shares	Terms	Date	No. of Shares	Terms
01.01.02	600	Buy @ Rs.20 per share	25.07.02	2500	Bonus shares received
15.03.02	900	Buy @ Rs.25 per share	20.12.02	1500	Sale @ Rs.22 per share
20.05.02	1000	Buy @ Rs.22 per share	01.02.03	1000	Sale @ Rs.24 per share

On 15th September 2002, dividend @ Rs.3 per share was received for the year ended 31st March 2002.On 12th November 2002, the company made a rights issue of equity shares in the ratio of one share for five shares held on payment of Rs.20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of premium of Rs.3 per share. Shares are to be valued on weighted average cost basis. Prepare Investment Account for the year ended 31.3.2002 and 31.3.2003. **(October 2004)**

Q.18. On 1st April, 2000 Raj held 20,000 fully paid equity shares of Rs. 10 each in 'P' Ltd. appearing in Raj's books at Rs. 3,05,500. On 1st June 2000 he acquired 5,000 more shares in the company at an all-inclusive cost of Rs. 17 per share.
On 30th June 2000 'P' Ltd. announced a bonus issue at the rate of one fully paid equity share of Rs.10 for every five shares held. Raj received bonus shares on 4th August 2000. 'P' Ltd. also made a right issue, the terms being as follows:

1. The issue would entitle the shareholders to subscribe to one equity share of Rs. 10 in the company, for every three shares held. As on 9th August 2000, the new shares would be issued at a premium of Rs. 5 per share, the whole amount being payable by 30th September 2000.
2. The shareholders would be entitled to renounce their entitlement either wholly or in part to outsiders Raj exercised his option under the issue for 50% of his entitlements and sold the balance of his rights to another person @ Rs. 1.50 per share.
3. 'P' Ltd. declared a dividend at the rate of 20% for the year ended 31st March 2000. Raj received the dividend on 3rd October 2000.
4. On 1st December 2000 Raj sold 15,000 equity shares and received a net sum of Rs. 2,62,500. Prepare Investment A/c in Raj's ledger for the year ended 31st March 2001.

Q.19. Gray carried out during the year ended 31st March, 2001, the following transactions in the shares of White Ltd. On 1st April, 2000; he purchased 2,500 equity shares of Rs.10 each fully paid for Rs.20,000.
On 16th April, 2000; he sold 500 shares for Rs.5,600 and on 15th May, he received an Interim dividend of 2.5% from White Ltd.

At a meeting on 26th June, 2000; the company resolved:

1) By way of capitalization of reserves, to make a bonus issue of 1 fully paid share for every 8 shares held on 10th June, 2000; and
2) To give its members the right to apply for one share for every 10 shares held on 10th June, 2000; at price of Rs.10 per share, of which Rs.6 was payable on or before 26th July, 2000; and the balance of Rs.4 per share on or before 26th September, 2000.

The shares issued under (1) and (2) above were not to rank for final dividend for the year ending on 31st December, 2000.Gray received his bonus shares and took up, half his entitlement under the rights issue, paying the amounts due on 26th September, 2000; respectively. He sold the remaining rights for Rs.1.50 per share and received the proceeds on 16th August, 2000.On 10th March, 2001; Gray received a final dividend of 7.5%.On 22nd March, 2001; he sold 750 shares for Rs.4,000.Show the Investment Account in Gray's books for the year ended 31st March, 2001, transferring profits or losses on sales as they occur and the balance of Income at the end of the year.

Q.20. On 1st April 2008, Mr. Ajay had 30,000 Equity Shares in Wipro Ltd face value of the share was Rs. 10 each but his purchase price was Rs. 14 per share. On 1st July 2008, Ajay purchased 6,000 additional equity shares of the company for a price of Rs. 16 per share. On 31st July 2008 the directors of the company announced a bonus and right issue. Bonus was declared at the rate of one equity share for every six shares held. Bonus shares were received on 5th August 2008.

1. Right shares to be issued to the existing holders on 17th August 2008
2. Rights offered were at the rate of one share for every three shares held at Rs. 15 per share. Full amount was payable by 30th September 2009
3. Existing shareholders may to the extent of their entitlement, either wholly or in part, transfer their rights, to outsiders.
4. Ajay exercised his option and subscribed for 60% of his entitlement and the balance of rights, he sold to Vikas for a consideration of Rs. 1.50 per share.
5. Dividend for the year ended 31st March 2008 at the rate of 14% was declared by the company and received by Ajay on 22nd October 2008.
6. On 1st November 2008 he sold 25,000 shares at Rs. 15 per share.

Prepare Investment Account of Equity Shares in Wipro Ltd for the year ended 31st March 2009 in the books of Mr. Ajay apply AS-13. The market price of an equity share was Rs. 14 as on 31st March 2009. **(April 2009)**

Q.21. Mr. Ashok entered into following transactions of equity shares of Rs. 10/- each of Anmol Ltd.

Date	No. of shares	Details
01/04/2015	1500	Rs. 34.500 cost (opening)
15/05/2015	1000	Purchase @ Rs. 22/- per share
15/07/2015	2500	Bonus shares received
15/12/2015	1500	Sale @ Rs. 22/- per share
01/03/2016	1000	Sale @ Rs. 24/- per share

Additional Information:

1) On 1st September 2015, dividend @ Rs. 3/- per share was received for the year ended 31/3/2015.
2) On 10th November 2015, the company made a right issue of equity shares in the ratio of one share for every five shares held on payment of Rs. 20/- per share.
3) Mr. Ashok subscribed for 50% of the shares and sold remaining of his rights @ Rs. 3/- per share.

You are required to prepare Investment in Equity Shares A/c in the books of Mr. Ashok for the year ended 31/03/2016. (Round off figures to the nearest Rupee.) **(October 2016)**

MULTIPLE CHOICE QUESTIONS:

1) The current investment are valued on closing date at
   a) Market Value b) Cost of purchase
   c) Lower of cost and market price d) Higher of cost and fair value

2) If an investment is acquired in exchange of another assets say land the acquisition cost of the investment is determined by reference to:
   a) The market value of the land b) The market value of the investment acquired
   c) The lower of the two market value d) The higher of the two market values

3) Any reduction to market value of current investment from cost on valuation date is debited to
   a) Revaluation Reserve b) Profit & Loss Account
   c) Capital Reserves d) General Reserve

4) A current investment should be valued at the lower of cost and market value determined
   a) on Individual investment basis
   b) Either individual investment basis or by category of investment
   c) On an overall (or global) basis)
   d) None of the above

5) Investment in immovable properties are to be shown under
   a) Fixed Assets b) Current Assets
   c) Current Investment d) Long term investment

6) Interest on securities is paid
a) To the holder of the security on the due date in respect of his actual period of holding
b) To the holder of the security on the due date irrespective of his actual period of holding
c) To the original purchaser of the security
d) None of the above

7) When dividend actually received on the due date ,
a) The entire amount is entered in the capital column (Cr.) of the investment.
b) The entire amount is entered in the capital column (Dr.) of the investment.
c) The pro-rata amount relating to the period after the date of acquisition is entered in the income column (Cr.) of the investment a/c.
d) The pro-rata amount relating to the period before the date of acquisition is entered in the income column (Cr.) of the investment a/c.

8) When bonus shares are received
a) The nominal value of such bonus shares is entered in the nominal value column (Dr.) and no amount is entered in the capital column (Dr.) of the investment a/c.
b) The nominal value of such bonus shares is entered in the nominal value column (Dr.) and in the capital column (Dr.) of the investment a/c
c) The nominal value of such bonus shares is entered in the nominal value column (Cr.) a in the capital column (Cr.) of the investment a/c.
d) The nominal value of such bonus shares is entered in the Capital column (Dr.) and : amount is entered in the nominal value column (Dr.) of the investment a/c.

9) When the rights shares are subscribed
a) The nominal value is entered nominal value column (Cr.) and cost is entered in tit capital column (Cr.) of the investment a/c.
b) Nominal value is entered in the capital column (Dr.) of the investment a/c.
c) The nominal value is entered nominal value column (Dr.) and cost is entered in the capital column (Dr.) of the investment a/c.
d) Cost is entered in the nominal value column (Dr.) of the investment a/c

10) When the rights are Sold (without subscribing)
a) Sale proceeds are credited to the investment account.
b) Sale proceeds are debited to the investment account.
c) No entry is made in the investment account; and sale proceed are credited to profit and loss account
d) None of the above.

11) The cost of right shares is
a) Added to the cost of investment b) Subtract from the cost of investment
c) No treatment is required d) None of the above

12) Long term investment are carried at
a) Fair value b) Cost Price
c) Cost or market value which ever is less d) Market Value

13) Short term investment are carried at
a) Market value b) Cost Price
c) Cost or market value which ever is less d) None of the above

14) A Ltd acquired 2,000 equity shares of Omega Ltd on cum - right basis at Rs. 75 per share. Subsequently, Omega Ltd. Made a right issue of 1:1 at Rs. 60 per share which was subscribed for A. Total cost of investment at the year end will be Rs.
a) 2,70,000 b) 1,50,000 c) 20,000 d) 30,000

Ans: [(1-c), (2-b), (3-b), (4-d), (5-b), (6-c), (7-a), (8-c), (9-c), (10-c), (11-a), (12-b), (13-c), (14-a)]

FILL IN THE BLANKS

1) Interest is always calculated on the **Face** value of the security
2) If the security is transferred on the exact date when interest falls due the entire interest up to that due date belong to the **Seller.**
3) If the security is transferred on any date other that the due date for payment of interest the **Seller** has the right to claim the interest up to the date of transfer as his income.
4) If a security is transferred on any date other than the due date for payment of interest the purchaser has the right to claim the interest **After** the date of transfer as his income.
5) Dividend on shares accrues on the date of its **Declaration.**
6) Dividend on share is paid to the holder of the shares on the date of **Book-closure** irrespective of his actual period of holding.
7) If XYZ Ltd paid a dividend on 30-09-2008 for the year ended on 31-03-2008, dividend on 31-03-2008 will be treated as **Revenue** receipt, and on shares acquired between 01-04-2008 and 30-09-2008 will be treated as **Capital** receipt.
8) When shares are purchased cost is entered in the **Capital** column (Dr.) in the investment account.
9) When dividend is actually received on the due date the pro-rata amount relating to the period after the date of acquisition is entered in the **Income** Column (Cr.)
10) When dividend is actually received on the due date the pro-rata amount relating to the period **before** the date of acquisition, if any, is entered on the capital Column (Cr.)
11) Weighted average cost of securities on date of investment of sale

$$= \frac{\textbf{No. of securities sold}}{\text{Total No. of securities}} \times \text{Total cost of investment on date of sale}$$

MATCH THE FOLLOWING

Column 'A'	Column 'B'
1) Investment accounting	a) Equity shares
2) Fixed income bearing securities	b) Pre-acquisition dividend
3) Variable income bearing securities	c) AS 11
4) Ex-interest or Cum- interest	d) AS 13
5) Shares purchased	e) Govt. Securities purchased
	f) AS 14
	g) Debenture

Ans.: (1-d); (2-g); (3-a); (4-e); (5-b)

STATE WHETHER TRUE OR FALSE

1) Interest is always calculated on the market value of its security. **False.**
2) Interest is paid to the holder of the security on the due date, in respect of his actual period of holding. **False.**
3) If a security is transferred on the exact date when interest falls due, the entire interest up to that due date belong to the purchaser. **False.**
4) If a security is transferred on any date other than the due date for payment of interest the purchaser has the right to claim the interest up to the date of transfer as his income. **False.**

5) If a security is transferred on any date other than the due date for payment of interest the purchaser has the right to claim the interest after the date of transfer as his income. **False.**
6) Ex-interest price less accrued interest = cost of investment. **False.**
7) Total payment by purchase = ex-interest price – Accrued interest. **False.**
8) Dividend is always calculated on the face value or nominal value of the shares. **True.**
9) Dividend on shares accrues on the date of book closure by the company. **False.**
10) Dividends on shares are paid to holder of the shares on the date of declaration irrespective of his actual period of holding. **False.**
11) When bonus shares are received only the nominal value of such bonus shares is entered in the investment a/c. **True.**
12) When rights are sold (without subscribing) no entry is made in the investment account. **True.**
13) When rights are sold (without subscribing) sale proceeds are credited to the Profit & loss a/c **True.**
14) Whether the price is cum interest or ex-interest accrued interest is always calculated and entered in the income column in the investment account. **True.**
15) Profit on sale of current investment is transferred to profit & loss account; while profit on sale of long term investment is transferred to capital reserves. **False**.
16) Investment held as long term investment is always valued at cost at the year end as per AS-13. **True.**
17) Nominal value column in the investment account is only a memorandum column. **True.**

CHAPTER 4: COMPANY FINAL ACCOUNTS

Q.1. Following are extracts from the books of Modern Limited as on 31st March, 2005.

Particulars			Debit	Credit
1,00,000 Equity Shares of Rs.10 each				10,00,000
Freehold Factory Premises			7,00,000	
Leasehold Office Premises			5,00,000	
5,000, 6% Debentures of Rs.100 each				5,00,000
Bank Balance			10,500	
General Reserve				75,000
Motor Car			1,15,000	
Plant and Machinery			2,70,000	
Sinking Fund for Leasehold Premises				15,000
Sundry Debtors			2,50,000	
Computer			30,000	
Profit and Loss Account:				
Year ended 31.3.2004	22,455			
Year ended 31.3.2005	6,25,000	6,47,455		
Less: Debenture Interest		30,000		6,17,455
Goodwill			2,00,000	
Stock			1,30,000	
Cash in Hand			1,955	
			22,07,455	22,07,455

At the meeting of the Board of Directors, it was decided to provide:

1) 3% depreciation on freehold factory premises.
2) 10% bonus on the year's salary to office staff of Rs.80,000.
3) 15% bonus on the year's wages to factory workers of Rs.1,00,000.
4) 10% Sinking Fund on leasehold premises.
5) Rs.3,000 as director's fees.
6) 15% dividend for the year to shareholders (Ignore Income Tax)
7) Transfer Rs.30,000 to General Reserve Account.

Prepare Profit and Loss Account, Profit & Loss Appropriation A/c and Balance Sheet in the prescribed form as per schedule VI of the Companies Act, 1956, as on 31.3.05. **(April 1996)**

Q.2. The following is the Trial Balance of Rahul Ltd. as on 31.3.2002 (Figures in 000)

Particulars	Rs.	Particulars	Rs.
Land at cost	110	Equity Capital	150
Plant and Machinery at cost	385	(Shares of Rs.10 each)	
Debtors	46	10% Debentures op. bal	100
Stock at cost (31.3.2002)	45	(Secured against Plant	
Bank	15	& Machinery)	
Material consumed	150	General Reserve	66
Factory Expenses	40	Profit and Loss Account	35
Administration Expenses	15	Securities Premium	20
Selling Expenses	20	Sales	350
Debenture Interest	5	Creditors	25
Interim Dividend Paid	9	Provision for Depreciation	86

		(On Machinery) Suspense Account TDS Payable	 2 6
	840		840

Additional Information:

(1) The Authorised Share Capital of the company is 30,000 shares of Rs.10 each.

(2) On 31.3.2002 the company issued one bonus share for every three shares held by utilizing Securities Premium fully and balance from General Reserve Account. No entry relating to this has yet been made.

(3) The company on the advice of independent valuer, wishes to revalue the land at Rs.1,80,000.

(4) Proposed final dividend @ 10% (including on bonus issue). The provision for tax is to be made for Rs.30,000. Transfer to reserve Rs.15,000 (including statutory Reserve)

(5) Suspense Account of Rs.2,000 represents cash received for the Sale of some of the machinery on 1.4.2001. The cost of the machinery was Rs.5,000 and the accumulated depreciation thereon being Rs.4,000.

(6) Depreciation is to be provided on plant and machinery at 10% on cost.

(7) Debtors include Rs.6,000 outstanding for more than 6 months.

Prepare Profit and Loss Account for the year ended 31.3.2002 and the Balance sheet in vertical form of Raul Limited **(April 2003)**

Q.3. Savita Limited is a company registered with an authorised capital of Rs.25 lacs divided into equity shares of Rs.100 each. 50% of the shares are issued on which Rs.50 per share is called up. The following balances are extracted from its ledger as on 31.12.07:-

Particulars	Debit	Credit
Share Capital		10,00,000
Machinery (Cost Rs.20,00,000)	14,60,000	
Furniture (Cost Rs.1,75,000)	1,30,000	
Stock	8,30,000	
Debtors and Creditors	10,18,750	6,58,400
Cash on Hand	2,500	
Current Account with Bank	1,25,000	
General Reserves		5,50,000
Interim Dividend Paid	50,000	
Securities Premium		25,000
12% Secured Debentures		5,00,000
Debenture Redemption Reserve		1,00,000
<u>Profit and Loss Account</u>		
Opening Balance		2,86,900
Current Year		4,56,500
Provision for Income Tax		2,45,000
Advance Income Tax	1,90,550	
Prepayments	15,000	
	38,21,800	38,21,800

1) One of the employees who was injured while working in the company has filed a suit for damages for Rs.5,00,000. The Company has not made any provision as it has been advised that suit is likely to be decided in favour of the company.

2) One customer directly paid Rs.30,000 to one of the supplier since the intimation was received in time, effect is yet to be given.
3) The Directors propose to transfer Rs.1,00,000 to Debenture Redemption Reserve and Declare final dividend at 10% on revised share capital.

You are required to prepare Profit & Loss Appropriation A/c & a Balance sheet. **(Oct-96)**

Q.4. Sam Ltd. furnishes you with the following trial balance as on 31st March, 2010:

Particulars	Debit	Credit
Share Capital:		
Equity Shares of Rs.10 each fully paid as per last balance sheet, received in cash		50,00,000
12% Redeemable Preference Shares of Rs.100 each fully paid as per last balance sheet received in cash. (Redeemed on 31.12.2009 at a premium of 10%)		20,00,000
Payment to Preference Shareholders at the time of redemption including dividend for the period 1.4.09 to 31.12.09	23,80,000	
General Reserve as per last balance sheet		48,70,000
Cash	20,000	
Bank of India current Account	1,00,000	
Customers dues – within 6 months	40,00,000	
Customers dues – over 6 months	2,00,000	
Provision for bad debts		2,00,000
Advances (considered good)	11,50,000	
Prepaid Expenses	50,000	
Advance Payments received		60,000
Sundry Creditors		10,00,000
Fixed Assets: Cost	78,00,000	
Provision for depreciation		15,40,000
Inventory at cost	10,00,000	
Tax payments pending assessment	6,00,000	
Tax Provision pending assessment		5,50,000
Tax Liability		80,000
Surplus brought forward from last year		1,00,000
Surplus for the year (after deduction)		19,00,000
	1,73,00,000	1,73,00,000

The directors have proposed final equity dividend at 20% and appropriation of Rs. 7,00,000 to general reserve. You are asked to prepare the balance sheet of Sam Ltd. as on 31st March, 2010, giving the information required by the Companies Act, 1956 in the manner so required to the extent it is available from the above data. **(April 1998)**

Q.5. Following is the Trial Balance of Mona Ltd. as on 31st March 2010:

Particulars	Debit Rs.	Credit Rs.
Land at Cost	9,00,000	
Plant and Machinery at Cost	38,50,000	
Debtors	4,30,000	
Investments	4,80,000	
Bank	1,00,000	
Gross Profit		19,00,000
Sundry Expenses	1,00,000	
Administration Expenses	3,50,000	
Selling expenses	1,50,000	
Debentures Interest	1,00,000	
Printing and Stationery	1,20,000	
Preliminary Expenses	20,000	
Advance Income Tax (for the year ending 31-03-2010)	2,00,000	
Advance Income Tax (for the year ending 31-03-2009)	3,50,000	
Equity Share Capital (shares of Rs. 100 each, fully paid)		15,00,000
10% Debentures		10,00,000
Capital Redemption Reserve		6,70,000
Profit & Loss A/c.		3,60,000
Securities Premium		2,00,000
Creditors		2,60,000
Provision for Depreciation on Plant and Machinery		8,40,000
Suspense account		20,000
Provision for Tax (for the year ending 31-03-2009)		4,00,000
	71,50,000	71,50,000

Additional Information:

1. On 31st March, 2010, the company issued bonus shares in the ratio of 1 bonus for every 3 Equity Shares held. No entry has been passed for the same.
2. The Authorised Share Capital is 25,000 Equity Shares of Rs. 100 each.
3. Suspense Account of Rs. 20,000 represents cash received for the sale of some part of the machinery on 1st April, 2009. The cost of the machinery was Rs. 50,000 and accumulated depreciation there on being Rs. 40,000.
4. Depreciation is to be provided on Plant & Machinery at 20% p.a. on reducing balance method.
5. It is the policy of the company to write off 1/5th of preliminary expenses every year, up to 31st March, 2009 4/5th of total preliminary expenses were written off.
6. Debtors include Rs.80,000 due for more than 6 months.
7. Provision for taxation to be made for Rs.1,20,000.
8. Income tax assessment for the accounting year 2008-09 is completed on 27th March, 2010 resulting with a gross demand of Rs.3,30,000 but no effect has been given so far.

<u>Prepare:</u>

(a) Profit and Loss Account for the year ended 31st March 2010

(b) Balance Sheet as on 31.03.2010 as per the provisions of Schedule VI of the Companies Act, 1956. **(March 2011)**

Q.6. Trial Balance of K.Swapnil Ltd. as on 31st March, 2009 is as below

Particulars	Dr (Rupees)	Cr (Rupees)
16,000 equity shares of Rs. 100 each fully paid up	-	16,00,000
Securities Premium	-	15,000
General Reserve	-	50,000
Gross Profit	-	8,00,000
Discount Received	-	8,700
Creditors	-	25,800
Profit &Loss Account	-	20,000
Provisional for Taxation (Accounting Year 2007-08)	-	70,000
Interested Received (Net after TDS)	-	9,500
Land (Cost)	1,55,000	-
Building	3,00,000	-
Plant &Machinery	2,50,000	-
Furniture	1,00,000	-
Vehicles	1,50,000	-
Office Salaries	1,55,000	-
Office Rent	1,20,000	-
Establishment Expenses	58,000	-
Finance Expenses	49,000	-
Debtors	90,000	-
Interim Dividend	80,000	-
Cash On Hand	8,000	-
Bank Balance	2,00,000	-
Security Deposits	7,800	-
Advance Tax (Accounting year 2008-2009)	1,00,000	-
Investment (5% Government Securities)	2,10,000	-
Stock- Raw Materials	1,50,000	-
Stock – Work in progress	1,75,000	-
Stock – Finished Goods	1,25,000	-
Advance Tax (Accounting year 2007-2008)	80,000	-
Selling & Distribution Expenses	36,200	
	25,99,000	25,99,000

After taking into Account following adjustments, prepare Profit & loss Account for the year ended 31st March, 2009 and Balance Sheet as on the same date, as per Schedule VI.

1. Write off depreciation on fixed assets on the original cost of fixed assets as hereunder:

	COST	**RATE**
Building	Rs.4,00,000	2.5%
Plant & Machinery	Rs. 5,00,000	10%
Furniture	Rs. 2,00,000	15%
Vehicles	Rs. 3,00,000	20%

2. Market value of investments is Rs. 2,15,000 while face value is Rs. 2,00,000.
3. Provision for taxation to be made Rs. 1,00,000 for the current year.
4. Debtor included debts due for more than six month Rs. 15,000. All debts are considered to be good and unsecured.

5. The income tax assessment for the accounting year 2007-08 was completed resulting in to gross demand of Rs. 78,000 **(October 2008)**

Q.7. The following Balances have been extracted from the books of Yash Ltd as on 31st December 2011. **(April 2002)**

Particulars	Rs.	Particulars	Rs.
Land at Cost	37,250	Share Capital	2,00,000
Building		General Reserve	80,000
(Cost less depreciation)	1,50,000	Share premium	20,000
Plant (Cost less depreciation)	80,000	Gross profit	1,02,250
Furniture		Provision for taxation for 2010	15,000
(Cost less depreciation)	15,000	Bad Debt realized	1,500
Selling Expenses	12,000	6% Debentures (Unsecured)	2,00,000
Director's fees	2,400	Profit & Loss Account	
Administrative Expenses	33,000	(opening Balance)	5,000
Sinking fund Investment	40,800	Sinking fund for debenture	
Deposit	8,000	redemption	
Bad Debtors	2,000	Interest on sinking	40,800
Sundry Debtors	1,45,000	Sundry Creditors	23,000
Audit Fees	1,000	Fund Investment	2,500
Advance Payment of Income Tax		Miscellaneous Receipts	3,000
For 2010	12,000	Liabilities for expenses	4,000
For 2011	8,000		-
Closing Stock	65,000		
Cash in hand	5,600		
Cash at bank	68,000		
Debenture Interest	12,000		
	6,97,050		6,97,050

The following particulars are available:

1) Income Tax Assessment for the year 2010 has been completed on 20th December 2011 on a gross demand of Rs. 14,000 but no effect has been given in the books.
2) Provision of taxation is to be made Rs. 8,000
3) Out of sundry debtors Rs. 40,000 are due for more than six months. There is no doubtful amount
4) Depreciation written off upto last year at rate mentioned against each as follows: (by reducing balance method) Building Rs. 5,000 at 2.5% p.a.; Plant Rs. 45,000 at 15% p.a.; Furniture Rs. 5,000 at 10% p.a.
5) Market value of sinking fund investment on 31st December 2011 is Rs. 42,000

You are required to prepare the Profit and Loss Account for the year ended 31st December 2011 and Balance Sheet as on that date.

Q.8. The following balances have been extracted from the books of Sehwag Ltd as at 31st March 2012:

Particular	Dr (Rs.)	Cr (Rs.)
Administrative Expenses	2,08,000	-
Cash on hand, cash at bank	1,14,000	-
Sale of furniture	-	5,000
Long term loan	-	35,000
Interest on long term loan	7,000	-
Investment	1,00,000	-
Income on investments	-	15,000
Depreciation ob Furniture and Equipment as on 1.4.2011	-	1,30,000
Distribution costs	1,21,000	-
Furniture and Equipment at cost	3,40,000	-
Profit and Loss Account as on 1st April 2011	-	40,000
Purchase of Equipment during the year	60,000	-
Purchases	8,55,000	-
Sales	-	15,00,000
Equity share capital	-	5,00,000
Stock on 1st April 2011	70,000	-
Sundry Creditors	-	40,000
Sundry Debtors	3,90,000	-
Advance Income Tax Paid (for 2010-11)	35,000	-
TDS Payable (2011-12)	-	5,000
Provision for Tax (for 2010-11)	-	30,000
	23,00,000	23,00,000

The following additional information is provided to you:

1) The stock on 31st March 2012 was valued at Rs. 1,00,000
2) Provide Depreciation at 20% p.a. on cost of Furniture and Equipment. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal
3) The company has sold some furniture (which had original cost of Rs. 3,00,000) for Rs. 5,000 and for which depreciation of Rs. 15,000 had been set aside.
4) Market value of investment is Rs. 1,30,000
5) Long term loan is secured against hypothecation of Furniture and Equipment
6) Make a provision for income tax @ 40%
7) The company transfer Rs. 25,000 to general reserve including statutory transfers and proposes to pay a dividend @ 20%
8) The income tax assessment for the year 2010-11 has been completed during the year, determining the tax payable at Rs. 37,000
9) Ignore corporate dividend tax and previous year figures
10) The authorised capital of the company is Rs. 10,00,000 divided into equity shares of Rs. 10 each. All the shares are issued on which Rs. 5 per share is called up.

Prepare Profit and Loss Account for Sehwag Ltd for the year ended 31st March 2012 and Balance Sheet as at that date in accordance with the Companies Act 1956, giving effect to the above mentioned adjustment. **(April 2004)**

Q.9. Following is the Trial Balance of Neelam Electronics Ltd. as on 31st March 2015.

Particular	Dr.	Cr.
Cash in Hand	39,000	
Cash at bank	68,600	
Share Capital		18,40,000
9% Debentures		6,00,000
Bank Overdraft (Union Bank)		4,00,000
Investments (Long Term)	20,000	
Bills Receivable Trade	2,80,000	
Sundry debtors	11,00,000	
Sundry Creditors		4,80,000
Security Deposits (Long term)	8,000	
Profit and Loss A/c		5,80,000
Securities Premium		1,80,000
Interest on Debentures accrued and due		13,500
Goodwill	1,30,000	
Land and Building (Cost Rs. 5,00,000)	3,80,000	
Plant and Machinery (Cost Rs. 10,00,000)	6,00,000	
Furniture (Cost Rs. 1,60,000)	90,000	
Provision for Taxation		2,41,000
Advance Tax	2,00,000	
Bills Payable		60,000
General Reserve		2,00,000
Stock In Trade	16,98,900	
Capital Reserve		20,000
	46,14,500	46,14,500

Additional Information:

1) The Authorized Share Capital of the Company was Rs. 60,00,000/- divided into 6,00,000 Equity Shares of Rs. 10/- each
2) Sundry debtors, which are all unsecured and considered good, include Rs. 1,80,000 due for more than six months.
3) Investments represents 5,000 Equity Shares in X Ltd. of Rs. 10/- each, Rs. 4/- per share called and paid up.
4) Bills Receivable discounted with the bank, not matured till the balance sheet date, amounted to Rs. 15,000/-.

You are required to prepare Balance sheet of Neelam Electronics Ltd. as On 31st March 2015 as per the provisions of the Companies Act. Ignore previous year figures. **(October 2015)**

Q.10. Following is the extract of Trial Balance of Ameya Ltd. as on 31st March 2015.

Particular	Rs.	Rs.
Sales		1,20,00,000
Opening stock of Raw Materials		10,00,000
Opening stock of Finished Goods		5,00,000
Purchase of Raw Materials		27,00,000
Purchase Returns		2,00,000
Sales returns		20,00,000
Interest received on Fixed Deposits		5,00,000
Miscellaneous Income		4,00,000
Freight on Raw Materials		30,000
Salaries and Wages		4,00,000
Bonus to employees		80,000
Directors Remuneration		8,00,000
Depreciation on:		
Land and Building	5,00,000	
Plant and Machinery	3,00,000	
Furniture	1,00,000	9,00,000
Interest paid on Debentures		5,00,000
Interest on Loan from bank of Baroda		2,00,000
Repairs & maintenance expenses		80,000
Insurance Premium of office premises		30,000
Electricity charges		40,000
Rent, Rates and Taxes		20,000
Audit Fees		50,000
Advertisement Expenses		1,20,000
Sundry Expenses		10,000

Additional Information:

a) Closing Stock of Raw Material and Finished goods was Rs. 5,00,000 & Rs. 6,00,000 respectively.
b) Outstanding Electricity charges and Rent, Rates & Taxes were Rs. 10,000 & Rs. 30,000 respectively.
c) Miscellaneous income receivables was Rs. 10,000.
d) Rs. 50,000 to be provided for Bad &Doubtful Debts.
e) Prepaid Advertisement expenses were Rs.20,000.
f) Make a provision for Income Tax of Rs. 20,000.

Prepare statement of Profit and Loss for the year ended 31st March 2015 as per the provisions of the Companies Act. **(October 2015)**

Q.11. Show the presentation of the following items under appropriate **(October 2016)**
Notes to accounts forming part of Balance Sheet of Mehul Ltd as on 31/03/2016.

(a) General Reserve (opening Balance)	Rs.50,00,000
(b) Debenture Redemption Reserve (opening Balance)	Rs.10,00,000
(c) Profit & Loss Account (opening Balance)	Rs.30,00,000
(d) Net profit for the year (before Transfers & Appropriations)	Rs.40,00,000
(e) Transfer to General Reserve	Rs.10,00,000

(f) Transfer to Debenture Redemption Reserve Rs.5,00,000
(g) Proposed Equity Dividend Rs.4,00,000
(h) Interim Dividend paid Rs.1,00,000

Q.12. Following is the extract of the Trial Balance of Satya Ltd. as on 31/03/16 **(October 2016)**

Particulars	Debit (Rs)	Credit(Rs.)
Profit & Loss Account (opening)		25,00,000
Advance Income Tax (2014-2015)	1,20,000	
Provision for Income Tax (2014-2015)		1,70,000
Advance Income Tax (2015-2016)	1,30,000	

Additional information:

1) Net profit before Tax for the year ended 31/3/2016 is Rs. 6,00,000.
2) Income Tax provision to be made for the year 2015-2016 is Rs. 1,40,000.
3) No effect is given to Income Tax Assessment which is completed for 2014-15, resulting in a Gross Demand of Rs. 1,50,000.

You are required to show, how the relevant items will appear in the statement of Profit & Loss of Satya ltd. for the year ended 31/3/2016 and also in the Balance Sheet as on 31/3/2016.

Q.13. Following is the trial balance of Bharat Ltd. as on 31/03/2016 **(October 2016)**

PARTICULARS	DEBIT (Rs.)	CREDIT (Rs.)
4,00,000 Equity Shares of Rs. 10/- each		40,00,000
12% Debentures		30,00,000
Profit and Loss Account (Balance as on 01/04/2015)		2,62,500
Bills Payable		3,70,000
Creditors		4,00,000
Sales		41,50,000
General Reserve		2,50,000
Provision for Doubtful Debts		35,000
Premises	30,72,000	
Plant and machinery	33,00,000	
Opening stock of finished goods	7,50,0000	
Debtors	8,70,000	
Goodwill	2,50,000	
Cash & Bank Balance	4,81,500	
Interim Dividend	3,92,500	
Purchases of finished goods	18,50,000	
Share Issue Expenses	50,000	
Salaries	9,79,800	
General Expenses	68,350	
Advertisement Expenses	2,02,250	
Bad debts	21,100	
Interest on Debentures	1,80,000	
	12,467,500	**12,467,500**

Additional information:

1) Authorized capital of the company is 5,00,000 equity shares of Rs. 10/- each.
2) Write off 10% of share Issue Expenses.
3) Stock of finished goods on 31/03/2016 is Rs. 9,50,000/-
4) Create provision for Doubtful debts @ 5% on debtors.
5) Provide Rs. 1,80,000/- for Income Tax.
6) Depreciate plant & machinery @ 15% p.a.

From the above information prepare statement of Profit & Loss for the year ended 31/03/2016 & Balance sheet as on that date of BHARAT LTD.

MULTIPLE CHOICE QUESTIONS:

1) Which one of the following combination of accounting assumption are fundamental according to accounting standard 1:
   a) Going concern, consistency and historic cost
   b) Entity, accrual and materiality
   c) Conservatism, accounting period an prudence
   d) Going concern, consistency and accrual

2) Accounting standard 1 is
   a) Recommendatory b) Mandatory c) Optional d) No longer valid

3) Accounting policies:
   a) Are same for all concern b) Are laid down by law
   c) Change from concern to concern d) Are prescribed by AS 1

4) Purpose of accounting standard 1 is to establish a standard as to
   a) The desirable accounting policies b) The fundamental accounting assumption
   c) Disclosure of accounting policies d) Preparation of final account

5) Vide accounting standard 1, fundamental accounting assumption should
   a) Always be disclosed b) Be disclosed if not followed
   c) Be disclosed in notes to accounts d) Be disclosed in auditors report

6) Following is the example of an accounting policy
   a) Accrual b) Consistency c) Going concern d) Depreciation

7) Following is the example of an accounting policy
   a) Entity b) Consistency c) Going concern d) valuation of stock

8) Following is the example of an accounting policy
   a) Entity b) conversion of foreign currency items
   c) Going concern d) conservatism

9) Following is the example of an accounting policy
   a) Consistency b) Treatment of goodwill c) Cost d) Conservatism

10) Following is the example of an accounting policy
a) Realisation b) Materiality c) Dual aspect d) valuation of investments

11)Following is the example of an accounting policy.
a) Realisation b) Matching c) Disclosure d) valuation of fixed assets

12)Following is the example of an accounting policy
a) Going concern b) Accrual
c) Treatment of retirement benefit d) Disclosure

13)Following is the example of an accounting policy
a) Realisation b) Objectivity
c) Accounting period d) Recognition of profit on long term contract

14)A concern should select an accounting policy which enable it to
a) Show good profit
b) Presents a true and fair view of its state of affairs and profit or loss
c) Calculate the correct amount of cash in hand
d) Pay the proper amount of income tax

15)The following factor should be considered while selecting and applying the accounting policies
a) Consistency b) Prudence c) Dual aspect d) Cost

16)The following factor should be considered while selecting and applying the accounting policies
a) Going concern b) Growth of business
c) Substance over form d) Solvency

17)The following factor should be considered while selecting and applying the accounting policies
a) Inflation b) Employee morale c)Liquidity d)Materiality

18)According to AS 1 Disclosure should be made of .
a) Fundamental accounting assumption b) All accounting principles
c) All significant accounting policies d) All accounting policies

19)According to AS 1, disclosure should part of
a) The final account b) The auditors report
c) The Directors report d) The Books of accounts

20)According to AS 1, disclosure should be made
a) In relevant places b) At one place
c) In the profit and loss a/c d) In the Balance sheet

21)According to AS 1, any change in accounting policy
a) Should never be made b) is not possible
c) Should be disclosed d) Requires permission of the ICAI

22)According to AS 1 the effect of any change accounting policy on the value of any items the final accounts should
a) Be ignored b) Be discounted
c) Be reported /director report d) also be disclosed

23)According to AS 1 if the effect of any change accounting policy on the value of any items the final accounts cannot be ascertained
a) It should be ignored
b) Such fact should be disclosed
c) It should be adjusted in the net profits
d) It should be disclosed in a separate report to the management

24)According to AS 1, A change likely to have an effect no incurrent but in later years should be
a) Disclosed in such later year b) Disclosed in auditor report
c) Ignore d) Disclosed in the year in which the change is made

25)A concern has written off capital expenditure as revenue expenses by disclosing in the notes to accounts that it is the accounting policy of the concern to do so. According to AS 1,
a) Disclosure can remedy an improper entry
b) Disclosure can remedy a wrong entry
c) Any accounting policy is valid if a special resolution of shareholders is passed
d) The accounting treatment is correct

26) Which of the following should be deducted from the share capital to find out the paid up capital
a) Call in advance b) Call in arrears c) Securities premium d) Bonus

26)Dividend are usually paid on
a) Authorized capital b) Issued capital c) Paid up capital d) Reserve Capital

27)Which of the following is not shown under the head " Share capital" in the balance sheet of a company
a) Preference share capital b) Call in arrears
c) Forfeited shares d) Preference dividend

28)Which of the following items is not taken in profit and loss appropriation a/c
a) Proposed dividend b) Provision for taxation
c) Transfer to general reserves d) Transfer to dividend equalization reserves

29)Which of the following items cannot be shown as reserves?
a) Securities premium b) Capital reserves
c) Capital redemption reserves d) none of the above

30)As per the schedule VI, to the companies act 1956 ' unclaimed dividend' are to be shown as
a) Current assets b) Current Liability
c) Reserves and Surplus d) None of the above

31)Interim dividend of a company can be declared by
a) Only be shareholders b) Board of directors after the approval of stock exchange
c) Board directors d) None of the above

32)Which of the following is not an example of contingent liability?
a) Liability in respect of bills discounted b) interim dividend
c) Liability under guarantee d) All of the above

33)Which of the following is not shown under the heading 'provision' with respect balance sheet under companies' act 1956?
a) Provision for taxation b) proposed dividend
c) Provision for doubtful debts d) Unclaimed dividend

34)Which of the following is not an item under current assets, Loans and advance under part of schedule VI of the companies act, 1956?
a) Interest accrued on investment b) Bills receivable
c)Closing stock d) Preliminary expenditure not written off

35)Which of the following is not secured loan?
a) Debenture b) Fixed Deposit c) Term loan from banks d) None of the above

36)Which of the following will appear in the profit and loss account?
a) Auditors fees b) directors fees
c) Provision for taxation d) Proposed dividend

37)Advance tax that appear in the trial balance is shown
a) As a current liability in the balance sheet
b) As an expenses in the profit and loss A/c
c) Under the heads loans and advance in the balance sheet
d) Only in cash flow statement as an outflow of cash from operation

38)In terms of part I schedule VI of the companies act 1956 which of the following assets is shown under Fixed assets
a) Long term Investment b) Fixed deposit with bank
c) Loose tools d) Motor vehicles

Ans: [(1-d), (2-b), (3-c), (4-c), (5-b), (6-d), (7-d), (8-b), (9-b), (10-d), (11-d), (12-c) (13-d), (14-b), (15-b), (16-c), (17-d), (18-c), (19-a), (20-b), (21-c), (22-d), (23-b), (24-d) (25-b), (26-b), (27-c), (28-d), (29-b), (30-d), (31-b), (32-c), (33-b), (34-d), (35-d), (36-b), (37-d), (38-c), (39-d)]

FILL IN THE BLANKS

1) A financial year a company may be for a period less or more than a **calendar** Year.
2) Financial year of the company cannot exceed **15** months unless specially permitted by the registrar where it may extent up to**18** months.
3) Every balance sheet must be comply with the requirement of part **I** of schedule **VI** of the companies act, 1956 as far as possible.
4) Every Profit & Loss A/c must be comply with the requirement of part **II** of schedule **VI** of the companies act, 1956 as far as possible.
5) Interest accrued on investment is required to be shown under **Current assets** in the balance sheet of a company.
6) Loose tools are required to be shown under **Current assets** in the balance sheet of company
7) Unutilized monies from share issue are required to be shown under **Investment** in the balance sheet of a company.
8) Live stock is required to be shown under **fixed assets** in the balance sheet of a company.
9) Bills receivable are required to be shown under **Loans and Advances** in the balance sheet of company
10) Interest accrued but not due on a secured loan is required to be shown under **Current liabilities** in the balance sheet of a company.
11) Uncalled amount of partly paid shares is required to be shown under **Contingent liabilities** in the balance sheet of a company.
12) Option on un issued shares is required to be shown under **Share capital** in the balance sheet of a company.
13) Short terms loans have been defined vide schedule VI as those which are due for not **more** than 1 year as at the date of the balance sheet.
14) Arrears of fixed cumulative preference dividend are required to be shown under **Contingent liabilities** in the balance sheet of a company.
15) An item of expenditure of the company is to be shown separately if it exceeds **1%** of the total revenue of the company or Rs. **5,000** which ever is higher.
16) According to schedule VI in case any addition is made to any assets during the financial yea depreciation should be calculated on a **Pro-rata** basis from the date of such addition.
17) Interest from sinking fund investment is required under schedule VI to be credited to the **Profit and loss A/c.**
18) Dividend **is not** paid on amount paid by shareholders as call in advance.
19) Balance of unpaid dividend account remaining unclaimed for **Seven** years is to be credited to investors protection and education fund.

MATCH THE FOLLOWING

Column 'A'	Column 'B'
1) Fixed asset	a) Live stock
2) Current assets	b) Loose tools
3) Loans and advance	c) Goodwill
	d) Trademarks
	e) Bills receivable
	f) Debtors

	g) Land h) Leasehold i) Stock in trade j) Stores and spares parts k) Furniture l) Vehicle m) Advance to subsidiary n) cash with bank o) cash in hand p) work in progress q) Plant r) Interest accrued on Investment s) Deposit with port trust and electricity supply company

Ans.: (1-a,c,d,g,h,k,l,q); (2-b,e,f,I,j,n,o,p,r); (3-e,m,s)

Column 'A'	Column 'B'
1) Debenture 2) Fixed Deposit 3) Acceptance 4) Proposed dividend 5) Interest out of capital during construction 6) Due for more less than 6 months	a) Provision b) Unsecured loans c) Miscellaneous expenditure not w/o d) Sundry creditors e) Sundry Debtors f) Secured loans g) Profit & loss Account h) Current liabilities

Ans.: (1-f); (2-b); (3-h); (4-a); (5-c); (6-e)

Column 'A'	Column 'B'
1) Tax demand letter received 2) Disputed tax demand 3) Tax demand accepted exceed provision for tax 4) Provision for tax more than tax demand accepted 5) Tax demand accepted exceed tax paid 6) Tax paid exceeds accepted tax demand.	a) Debit Profit & loss appropriation A/c b) Show as current assets c) No entry d) Show as current liability e) Credit profit and loss appropriation a/c f) Show as contingent liability.

Ans.: (1-c); (2-f); (3-a); (4-e); (5-d); (6-b)

STATE WHETHER TRUE OR FALSE

1) Financial year of a company cannot exceed 12 months unless specially permitted by the registrar where it may extend up to 15 months. **False**
2) Every profit and loss account of a company must comply with the requirement of part I of schedule VI of the companies act 1956 as far as possible. **False**
3) An item of expenditure of the company is to be shown separately if it exceeds 1% of the total revenue of the company or Rs. 5,000 whichever is lower. **False**

4) Any dividend remaining unpaid after 3 years from its due date can be transferred to capital reserves. **False**
5) If the dividend is not claimed within 7 years from the date of its transfer to a special bank account the company retain it. **False**
6) If the dividend is not claimed within 7 years from the date of its transfer to a special bank account the amount is distributed among remaining share holders. **False**
7) If the dividend is not claimed with in 7 years from the date of its transfer to a special bank account the amount is transferred to registrar of companies under its general revenue account. **False**
8) If the dividend is not claimed within 7 years from the date of its transfer to a special ban account the amount is transferred to the investor education and protection fund. **True**
9) Capital profit realised in cash can be used for paying dividend. **True**
10) Dividend can be paid out of capital, but interest cannot be paid out of capital. **False**
11) One of the few assets that is usually not depreciated is goodwill. **True**
12) Future bad debts are usually estimated as percentage of debtors. **True**
13) Amount paid on forfeited shares is added to paid up capital in the balance sheet. **True**
14) Calls unpaid are added back to authorized share capital in the balance sheet. **False**
15) Sundry creditors are to be classified as (i) Amount due for more than 6 months; and (ii) Others. **False**
16) Sundry debtors are to be classified as (i) small scale industries; and (ii) Others. **False**
17) Unclaimed dividends are shown under provision in the balance sheet. **False**
18) Unexecuted contract on capital account are shown under the share capital in the balance sheet. **False**
19) Under secured loan; short term loan and other loans are to be shown separately. **False**
20) Current liabilities are deducted from current assets so as to shown the amount of net current assets in the horizontal format of balance sheet. **False**
21) The title - Source of funds and Application of funds appear in the horizontal format of balance sheet. **False**
22) Horizontal balance sheet cannot have separate schedule. **False**
23) In Fixed assets schedule, Opening net block = Opening Gross block - Opening depreciation **True**
24) In Fixed assets schedule, Closing net block = Closing Gross block - depreciation, for the year. **False**
25) In Fixed assets schedule, Closing WDV + depreciation for the year = Opening Gross block. **False**
26) Provision for bad debts is shown under provision in the balance sheet. **False**
27) Capital work in progress is shown under inventory (Current assets) in the balance sheet **False**
28) According to schedule VI the increase or decrease in the rupee liability during the year due to a change in the rate of exchange for meeting the cost of the assets should be added to or deducted from the original cost of the assets. **True**
29) According to schedule VI the names of schedule banks are to b given separately in regard to bank balance with them. **False**
30) The brokerage and discount on sales, including the trade discount, related to turnover is to be disclosed separately in the profit and loss account. **False**
31) According to schedule VI repairs to furniture and fitting are to be disclosed separately in the profit and loss account. **False**

32) Schedule XIV specific the rate of depreciation for various categories of assets on the written down value basis. **False**

33) Schedule XIV specific the rate of depreciation for various categories of assets on single shift basis. **False**

34) Dividend from subsidiary company should be shown separately if it exceed 1% of the total revenue of the company or Rs. 5,000 whichever is higher. **False**

35) The value of import by the company during the financial year calculated on F.O.B. basis is to be disclosed separately. **False**

36) The exports of goods calculated on C.I.F. basis are to be disclosed by way of a note to the profit and loss account. **False**

37) Calls in advance are shown under current liabilities in the balance sheet. **True**