CA FOUNDATION

MARATHON

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Accounting: Part 2

By – CA Nitin Goel

CA FOUNDATION MARATHON (SUPER REVISION/ONE SHOT)

ACCOUNTING

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Company Accounts: Introduction, Issue, Forfeiture & Reissue of Shares

COMPANY ACCOUNTS: INTRODUCTION, ISSUE, FORFEITURE & REISSUE OF SHARES

DEFINITION : COMPANY

Companies Act, 2013	A Company mean company which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws.
Hanay	A Company is an Artificial Person created by law, having a Separate Entity, with a Perpetual Succession and a Common Seal.

CHARACTERISTICS / FEATURES OF A COMPANY

Feature	Explanation
Artificial Person (Incorporated Association)	• A Company comes into existence by the operation of law. • A Company is granted certain rights & obligations as that of a person. Thus, company is an artificial person, incorporated under law.
Separate Legal Entity	• A Company is a separate legal entity & artificial person known by its own name. It is distinct and separate from the members who constitute it. • A Company can contract, sue & be sued in its incorporated name & capacity.
Person, not Citizen	• A Company is not a citizen either under — (a) the Constitution of India or (b) the Citizenship Act • The Constitution provides certain fundamental rights to its citizens. A Company cannot enjoy the citizenship rights and duties as are enjoyed by natural citizens
Perpetual Succession	• The shares of Company being transferable, members may change during the lifetime of the company. However, that does not change the status of the Company. • The Company goes on forever and continues to exist, till it is wound up and dissolved.
Common Seal	• Common Seal is the official signature of a Company. The Company's name is engraved on the Seal. • The Articles of Association may provide for the documents that require the signature of the Company, i.e. the Common Seal. • Now, use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company.
Ownership Vs Management	• The Board of Directors is the elected representative body of the Shareholders of the Company, and manages the affairs of the Company. • Generally, every Shareholder / Member does not participate in the day-to-day affairs of working and administration of the Company. Hence, Ownership of Company is different from that of its Management.
Right of Access	The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.

Limited Liability	The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
Transferability of Shares	The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
Maintenance of Books	A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
Periodic Audit	A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors

TYPES OF COMPANIES

TYPE	EXPLANATION
Government Company	Any company in which not less than 51% of Paid-up Capital of a Company is held by the Central Government, or State Government(s), or partly by Central Government and partly by one or more state Governments and includes a company which is a subsidiary company of such a government company.
Foreign Company	Any company or body corporate incorporated outside India which – a) has a place of business in India whether by itself or through an agent physically or through electronic mode; and b) conducts any business activity in India in any other manner.
Private company	A company which by its articles,— a) restricts the right to transfer its shares; b) except in case of One Person Company, limits the number of its members to 200. This number does not include present and former employees who are also members. Moreover, ≥ 2 persons who own shares jointly are treated as single member. c) prohibits any invitation to the public to subscribe for any securities of the company. Shares of a Private Company are not listed on Stock Exchange
Public Company	A company which is not a private company and has minimum paid capital as may be prescribed; provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles. A company which is a listed public company if it gets unlisted continues to be a public company.
One Person Company	A company which has only one person as a member
Small Company	A company, other than a public company, - a) paid-up share capital of which does not exceed 4 crore rupees or such higher amount as may be prescribed which shall not be more than 10 crore rupees; or b) turnover of which as per its last profit and loss account does not exceed 40 crore rupees or such higher amount as may be prescribed which shall not be more than 100 crore rupees

Listed Company	A company which has any of its securities listed on any recognised stock exchange.
Unlisted Company	The company, whose shares are not listed on any recognised stock exchange An unlisted company can be a public company or a private company.
Unlimited Company	A company not having any limit on the liability of its members
Company limited by Shares	Company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.
Company limited by Guarantee	A company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.
Holding Company	In relation to one or more other companies, means a company of which such companies are subsidiary companies.
Subsidiary company	A company in which the holding company: a) controls the composition of the Board of Directors; or b) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies

MAINTENANCE OF BOOKS OF ACCOUNTS (Sec 128 of Companies Act, 2013)

Books shall be kept on accrual basis and according to the double entry system of accounting. Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

PREPARATION OF FINANCIAL STATEMENTS

The Board of Directors of the company shall lay financial statements at every annual general meeting of a company which include:-

a) Balance Sheet as at the end of the period, and
b) Profit and Loss Account for that period.
   [Note: For a Company not carrying on business for profit, an Income and Expenditure Account shall be laid at that AGM, instead of the P & L Account.]
c) Cash flow statement for the financial year
d) Statement of changes in equity, if applicable; and
e) Any explanatory note annexed to, or forming part of, any document referred above

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Provisions Applicable

(1) Specific Act is Applicable
   For instance any
   a) Insurance company
   b) Banking company or
   c) Any company engaged in generation or supply of electricity or
   d) Any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company

(2) In case of all other companies

Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III

PART I – BALANCE SHEET

Name of the Company……………………

Balance Sheet as at ………………………

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	EQUITY AND LIABILITIES			
1.	Shareholder's funds			
a	Share capital			
b	Reserves and surplus			
c	Money received against share warrants			
2.	Share application money pending allotment			
3.	Non-Current Liabilities			
a	Long-term borrowings			
b	Deferred tax liabilities (Net)			
c	Other long term liabilities			
d	Long-term provisions			
4.	Current Liabilities			
a	Short-term borrowings			
b	Trade payables			
c	Other current liabilities			
d	Short-term provisions			
	TOTAL			
B.	ASSETS			
1.	Non-Current Assets			
a	PPE & Intangible Assets			
i.	Property, Plant & Equipment (PPE)			
ii.	Intangible assets			
iii.	Capital work-in-Progress			
iv.	Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	Current Assets			
a	Current investments			
b	Inventories			
c	Trade receivables			
d	Cash and cash equivalents			
e	Short-term loans and advances			
f	Other current assets			
	TOTAL			

SHARE

Meaning	Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. "Share" is the basic unit which the Capital of a Company is divided. <u>Example</u>: A company with a total Capital of ₹ 1 crore is divided into 1 Lakh units of ₹ 100 each. Each unit of ₹ 100 is called a Share of the Company.

KINDS OF SHARES RECOGNISED IN THE COMPANIES ACT, 2013

The Share Capital of a Company limited by Shares can only be of two kinds-

1. Equity Share Capital – (a) with Voting rights, or (b) with differential rights as to dividend, voting or otherwise in accordance with the prescribed Rules
2. Preference Share Capital, i.e. Priority for Dividend at Fixed Rate + Priority for repayment of Capital.

DIFFERENT TYPES OF PREFERENCE SHARE CAPITAL

1. Cumulative and Non-Cumulative Preference Shares

	Cumulative Preference Shares	Non-Cumulative Preference shares
a)	Dividend is at fixed rate/fixed amount, but keeps on accumulating until it is fully paid	Dividend is at a fixed rate/fixed amount, but does not accumulate for future years.
b)	Dividend is payable even out of future profits, if current year's profits are insufficient for that purpose.	If no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires
c)	Arrears of fixed Cumulative dividend are shown in the Balance sheet as a Contingent Liability.	There is no contingent liability

<u>Note</u>: Cumulative Preference shareholders will get voting rights if dividend remains in arrear for not less than 2 years.

2. Redeemable and Irredeemable Preference Shares

	Redeemable Preference Shares	Irredeemable Preference Shares
a)	These are issued on the condition that the company will repay the same after a fixed period or even at company's discretion. This repayment is called Redemption.	These are Preference shares, which are redeemable only at the time of winding up of the company.
b)	Companies can issue only this category of preference shares. Also, the redemption period shall be a maximum of 20 years. *<u>Exception:</u>* Infrastructure Projects	No Company limited by shares shall issue • Irredeemable Preference Shares, or • Preference Shares redeemable after the expiry of 20 years from the date of issue

3. Participating and Non-Participating Preference Shares

	Participating Preference Shares	Non-Participating Preference Shares
a)	In addition to a fixed dividend, the holders of these Shares have the right to participate in the surplus profits, if any, after the Equity Shareholders have been dividend at a stipulated rate.	Here, only a fixed rate of dividend is paid every year, without any additional rights in surplus profits.

b)	In the event of winding-up of the Company, the holders have the right to receive a pre-determined proportion of surplus, after the Equity Shareholders have been paid off towards their Capital.	In case of winding-up of the Company, the holders of these Shares are not entitled to any additional rights in the surplus on winding-up.

4. Convertible and Non-Convertible Preference Shares

	Convertible Preference Shares	Non-Convertible Preference Shares
a)	These Shares give the right to the holder to get them converted into Equity Shares at their option, and according to the terms and conditions of their issue.	There is no right to the holder, to get his holding converted into Equity Shares.

DIFFERENT TYPES OF SHARE CAPITAL

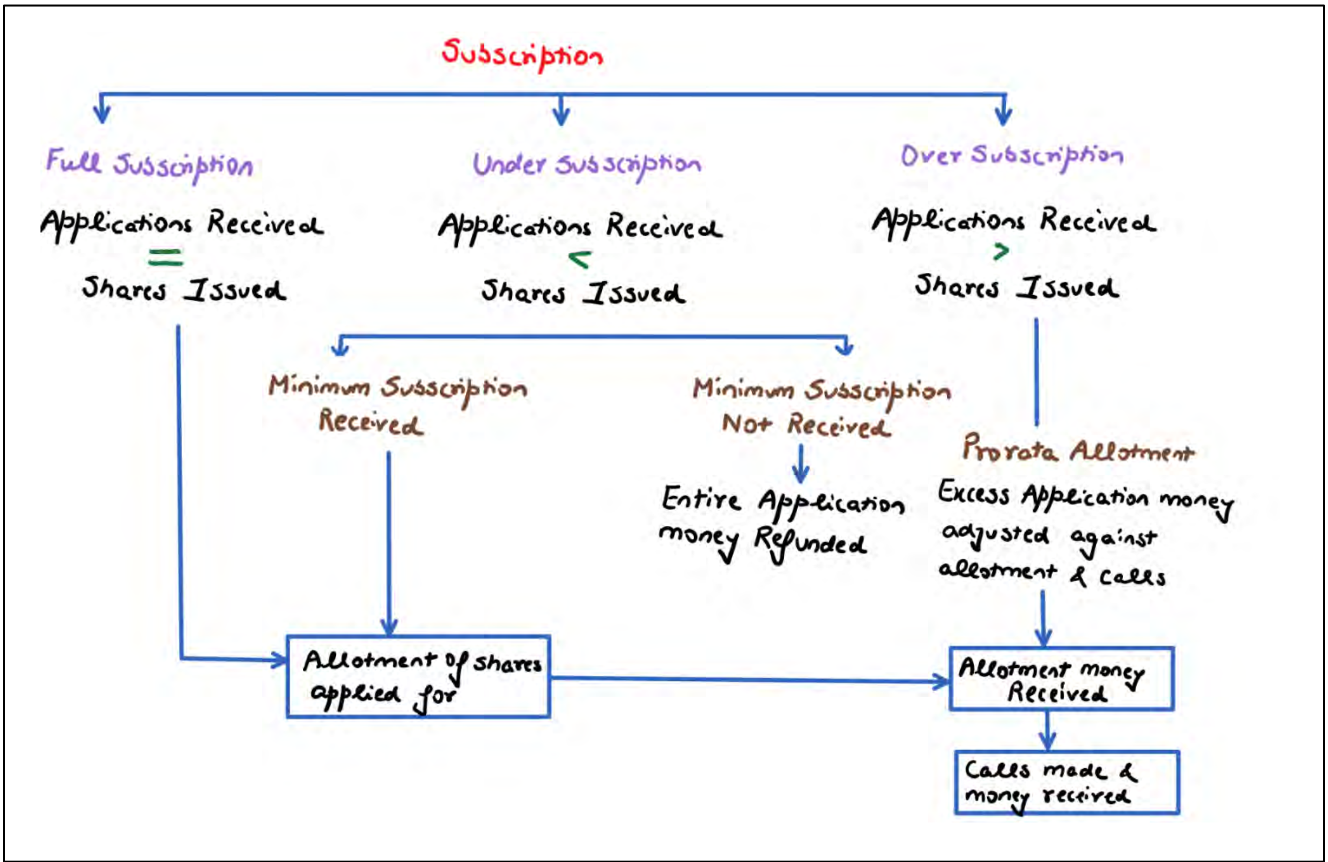
ITEM	EXPLANATION
Authorised Share Capital	• It is the amount of Share Capital which can be raised by the Company. • The Authorised Share Capital is also known as the "Registered Capital" or "Nominal Capital" and is given in the Memorandum of Association. • Authorised Capital is shown in the Balance Sheet at Nominal Value (Face Value). • *Example:* Authorised Capital=10,000 Shares of ₹ 100 each, Total=₹ 10,00,000
Issued Share Capital	• It represents that part of Authorised Share Capital which has been given or issued or offered to Shareholders. • Issued Capital includes Shares issued for- (i) Cash, and (ii) Consideration other than cash, to Promoters and Others. • Issued Share Capital is shown in Balance Sheet at Nominal/Face Value. • *Example:* Issued Capital= 9,000 Shares of ₹ 100, each, Total= ₹ 9,00,000 . Note: The remaining portion of Authorised Capital, which is not issued for cash or other consideration is called as Unissued Capital. It is not shown in the Balance Sheet.
Subscribed Share Capital	• Subscribed Capital is the part of Issued Capital which has been subscribed (i.e. applied for) by the public/ Shareholders, and allotted by the Company. • *Example:* Out of 9,000 Shares issued; 8,500 Shares are subscribed by public. Note: The remaining portion of Issued Capital, which is not subscribed, is not shown in the Balance Sheet.
Called up Share capital	• Companies generally receive the Issue Price of Shares in installments, e.g. Application stage, Allotment stage, First Call, Second Call, etc. • The portion of the Face Value of Shares which a Company has demanded or called from Shareholders is known as "Called-Up Capital". • The Balance portion which the Company has decided to call / demand in future is called as Uncalled Capital. • *Example:* Out of ₹ 100 per Share, the Company has called up ₹ 70 per Share. In such case, the Uncalled Capital is ₹ 30 per Share.
Paid-Up Capital	• It is that portion of called up capital which has been actually paid by shareholders. • The unpaid portion is called "Unpaid Calls" or "Calls in Arrears".

	• So, Paid Up Capital = Called Up Capital Less Call in Arrears. • *Example:* If out of ₹ 70 per Share Called up, only ₹ 60 has been paid by some shareholders, remaining ₹ 10 per Share constitutes Calls in Arrears.
Reserve Capital	• Company may decide by passing a resolution, that a certain portion of its Subscribed Uncalled Capital shall be called up only in the event of winding-up / liquidation of the Company. • That portion is called Reserve Capital. It is not shown in the Balance Sheet. • Reserve Capital is different from Capital reserve, Capital reserves (created out of capital profits) are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend.

DISCLOSURE REQUIREMENTS – SHARE CAPITAL OF A COMPANY

Share Capital should be disclosed in a Company's Balance Sheet as under:

Particulars	Amount
Authorised: .... Shares of ₹ ... each	
Issued:... ... Shares of ₹ ... each	
Subscribed: .... Shares of ₹ .. each (Various classes of capital should be distinguished while stating the above particulars)	
Called up & Paid Up: ... ... Shares of ₹ ... each [of the above Shares .... Shares are allotted as fully paid up for consideration other than cash, Shares are allotted as fully paid up by way of Bonus Shares] Less: Call unpaid: Add: Forfeited Shares (amount originally paid up)	Called up xxx - Calls in Arr (xx) Paid up Cap. xx



ISSUE OF SHARES AT PREMIUM (SEC. 52)

Face value = 100 — Issue — PAR 100 / Prem.) FV i.e. 120

1. Meaning: A Company can issue Shares at a premium, i.e. at a price above its Face Value. *Example*: If Share of Face Value ₹ 100 is issued at price of ₹ 120, there is premium of ₹ 20
2. Accounting Treatment: The Premium Amount is credited to the "Securities Premium Account". This Account is shown on the Liabilities Side of the Company's Balance Sheet under the heading "Reserves and Surplus"..
3. Application of Securities Premium: Securities Premium Account can be used only for —
   (a) Issuing Fully Paid Bonus Shares to Members.
   (b) Writing—off the Preliminary Expenses of the Company.
   (c) Writing off the — (i) Expenses Incurred, or (ii) Commission Paid, or (iii) Discount Allowed, on the Issue of Securities or Debentures of the Company.
   (d) Providing for the premium payable on redemption of Redeemable Preference Shares or Debentures of the Company.
   (e) For the purchase of own shares or other securities.

Note: Certain class of Companies as prescribed u/s 133 of Co.'s Act, 2013, whose financial statements comply with Accounting Standards prescribed for them, can't apply for (b) & (d).

PROVISIONS REGARDING THE ISSUE OF SHARES AT DISCOUNT (SEC. 53)

According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in case of issue of sweat equity shares (issued to employees and directors).

JOURNAL ENTRIES RELATING TO ISSUE OF SHARES

	TRANSACTION	JOURNAL ENTRY
1.	Receipt of Application	Bank A/c (Amount actually received) Dr. To Share Application A/c (Amount actually received)
2a.	Full/Under Subscription	Share Application A/c Dr. To Share Capital A/c [Shares allotted x Application Money] Face value To Securities Premium A/c* (Share allotted x Premium / share) Extra *(If Premium Amount is collected at the time of Application itself)
2b.	Over subscription	Share Application A/c Dr. (Amount received) To Share Capital A/c [Shares allotted x Application Money] To Securities Premium A/c* (Share allotted x Premium /share) To Share Allotment A/c (Adjusted with Allotment) To Share Calls -in -Advance A/c (Adjusted with Calls) To Bank A/c (Refund) *(If Premium Amount is collected at the time of Application itself)
3.	Allotment money due	Share Allotment A/c Dr. To Share Capital A/c [Shares allotted x Allotment money due] To Securities Premium A/c* (Share allotted x Premium / share) *(If the Premium Amount is at the time of Allotment)
4.	Receipt of Allotment	Bank A/c (Amount received) Dr. To Share Allotment A/c
5.	Call Money due	Share ... (First or Second or Final)... Call A/c Dr. To Share Capital A/c [Shares allotted x Call Money due]
6.	Receipt of Call	Bank A/c (Amount received) Dr. To Share ...... Call A/c

Note: If question specifically asks preparation of Cash Book, then all the entries relating to Cash/Bank Account are not passed in journal and to be shown in Cash Book only.

CALLS IN ARREARS

1. Meaning: Calls in Arrears is the money remaining unpaid by the shareholder on the calls raised by the Company in respect of the shares held by him.
2. Disclosure: Calls in Arrears always have a Debit Balance and are shown as a deduction from called up capital to arrive at paid up value of the Share Capital on Liabilities Side of the Balance Sheet.
3. Interest: The Company can recover interest on the amount of calls in arrears from the date it became due till the when the call is received at the rate of 10% p.a. (Table F).
4. Waiver of Interest: The Directors may also be empowered to waive the Interest on Calls in Arrears, subject to certain conditions laid down in the Articles.

CALLS IN ADVANCE

1. Meaning: Calls in Advance is the surplus money received by Company from the allottees, i.e. its Shareholders.
2. Calls in Advance: A Company, if permitted by its Articles, may accept from members either whole or part of amount remaining unpaid on any shares held by him as Calls in Advance.
3. No Voting Rights: The Member shall not be entitled to any voting rights on Calls in Advance, until the same becomes presently payable and duly appropriated. Shareholders are not entitled for any dividend on calls in advance.
4. Disclosure: Calls in Advance will always have Credit Balance and will be shown under the Liabilities Side (Other Current Liabilities). It is not added to the amount of Paid -Up Capital.
5. Interest: The Company is liable to pay interest on the amount of Calls in Advance from the date of receipt till the when the Call is due for payment, at the rate of 12% p.a. (Table F)

JOURNAL ENTRIES

	CALLS IN ARREARS	
1.	Transfer of non - receipt of Share Allotment/ Call Money	Calls in Arrears A/c Dr. To Share Allotment / Share …… Call A/c (This Journal Entry is optional. The amount may also be left in the Share Allotment/Share …..Calls A/c)
2.	Receipt of Calls in Arrears	Bank A/c Dr. To Calls in Arrears A/c (If this account was opened)
3.	Interest on Calls in Arrears	Shareholders' A/c Dr. To Interest on Calls in Arrears A/c
4.	Receipt of Interest on Calls in Arrears	Bank A/c Dr. To Shareholders' A/c
	CALLS IN ADVANCE	
1.	Receipt of Calls in Advance	Bank A/c Dr. To Calls in Advance A/c
2.	Adjusting Calls in Advance	Calls in Advance A/c Dr. To Particular Call A/c
3.	Interest on Calls in Advance	Interest on Calls in Advance A/c Dr. To Shareholders' A/c
4.	Payment of Interest on Calls in Advance	Shareholders' A/c Dr. To Bank A/c

Question 1: (CA Foundation June 2022) (15 Marks)

A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).

Appl. 2
All. 4 (3+1)
Ist call 2
Final call 3 (B.f.)

Solution

Journal Entries

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c Dr. (20000 x 2)		40,000	
	To Equity Share Application A/c			40,000
	(Money received on application 20,000 shares @ 2/ share)			
2	Equity Share Application A/c Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Transfer of application money on 20,000 shares to share capital)			
3	Equity Share Allotment A/c Dr. (20000 x 4)		80,000	
	To Equity Share Capital A/c 3			60,000
	To Securities Premium A/c 1			20,000
	(Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)			
4	Bank A/c Dr.		80,000	
	To Equity Share Allotment A/c			80,000
	(Allotment money received)			
5	Equity Share First Call A/c Dr. (20000 x 2)		40,000	
	To Equity Share Capital A/c			40,000
	(Being first call due on 20,000 shares at ₹ 2 per share)			
6	Bank A/c Dr.		46,000	
	To Equity Share First Call A/c			40,000
	To Calls in Advance A/c (2000 x 3)			6,000
	(Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)			
7	Equity Share Final Call A/c Dr. (20000 x 3)		60,000	
	To Equity Share Capital A/c			60,000
	(Being final call made due on 20,000 shares at ₹ 3 each)			
8	Bank A/c Dr. (17700 x 3)		53,100	
	Calls in Advance A/c Dr. (2000 x 3)		6,000	
	Calls in Arrears A/c Dr. (300 x 3)		900	
	To Equity Share Final Call A/c			60,000
	(Being final call received for 17,700 shares, calls in advance for 2,000 & calls in arrears on 300 adjusted)			
9	Interest on Calls in Advance A/c (Exp.) Dr.		240	
	To Shareholders A/c			240
	(Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)			

$6000 \times 12\% \times \frac{4}{12} = 240$

10	Shareholders A/c Dr.		240	
	To Bank A/c			240
	(Being payment of interest made to shareholder)			
Due 11	Shareholders A/c Dr.		15	
	To Interest on Calls in Arrears A/c			15
	(Being interest on calls in arrears due at the rate of 10%)			
12	Bank A/c Dr.		615	
Rec.	To Calls in Arrears A/c (200x3)			600
	To Shareholders A/c			15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)			
Due 13	Shareholders A/c Dr.		10	
	To Interest on Calls in Arrears A/c			10
	(Being interest on calls in arrears due at the rate of 10%)			
14	Bank A/c Dr.		310	
	To Calls in Arrears A/c (100x3)			300
	To Shareholders A/c			10
	(Being money received from shareholder having 100 share for calls in arrears and interest thereupon)			

Calculation of Interest on Calls in Advance & Calls in Arrears:
Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240
Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15
Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10
Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,
Note: For entry no 9&10, 11&12,13&14 combined entry can also be passed.

OVER SUBSCRIPTION & PRO RATA ALLOTMENT

Over subscription is the application money received for more than the number of shares offered to the public by a company.

Under pro-rata allotment, the excess application money received is adjusted against the amount due on allotment or calls. Surplus money after making adjustment against future calls is returned to the applicants.

For example:

A company offers to the public 1,00,000 shares for subscription. The company receives applications for 1,20,000 shares. If the shares are to be allotted on pro-rata basis, applicants for 1,20,000 shares are to be allotted 1,00,000 shares, i.e., on the 1,20,000:1,00,000 or 6:5 ratio. Any applicant who has applied for 6 shares will be allotted 5 shares.

JOURNAL ENTRIES

	TRANSACTION	JOURNAL ENTRY
1.	Receipt of Application Money	Bank A/c (Amount actually received) Dr. To Share Application A/c (Amount actually received)
2	Oversubscription	Share Application A/c Dr. (Amount received) To Share Capital A/c [Shares allotted x Application Money] To Securities Premium A/c* (Share allotted x Premium /share) To Share Allotment A/c (Adjusted with Allotment) To Share Calls in Advance A/c (Adjusted with Calls) To Bank A/c (Refund) *(If Premium Amount is collected at time of Application itself)

Question 2: (CA Foundation Jan 2021) (15 Marks)

A Limited is a company with' an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being:

(i) ₹ 2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 5,00,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

Solution

Journal of A Limited

Date	Particulars	Dr.	Cr.
2020		₹	₹
May 31	Bank A/c (Note 1 – Column 3) (560000 × 2) Dr.	11,20,000	
	To Equity Share Application A/c		11,20,000
	(Being application money received on 5,60,000 shares @ ₹ 2 per share)		
June 10	Equity Share Application A/c Dr.	11,20,000	
	To Equity Share Capital A/c (135000 × 2)		2,70,000
	To Equity Share Allotment A/c (Note 1 - Column 5)		5,50,000
	To Bank A/c (Note 1–Column 6)		3,00,000
	(Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No…..dated…)		
	Equity Share Allotment A/c (135000 × 5) Dr.	6,75,000	
	To Equity Share Capital A/c 1		1,35,000
	To Securities Premium a/c 4		5,40,000
	(Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No.dated)		
	Bank A/c (Note 1 – Column 8) Dr.	1,25,000	
	To Equity Share Allotment A/c (675000 − 550000)		1,25,000
	(Being balance allotment money received)		
Dec. 31	Equity Share Final Call A/c (135000 × 7) Dr.	9,45,000	
	To Equity Share Capital A/c		9,45,000
	(Being final call money due on 1,35,000 shares @₹ 7 per share as per Board's Resolution on…..dated….)		
	Bank A/c Dr.	9,45,000	
	To Equity Share Final Call A/c		9,45,000
	(Being final call money on 1,35,000 shares @ 7 each received)		

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
Total	**5,60,000**	**1,35,000**	**11,20,000**	**2,70,000**	**5,50,000**	**3,00,000**	**6,75,000**	**1,25,000**

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

Category (ii) Excess : 100000 − 50000 = 50000

Allotment due : 25000 × 5 = 125000

Category (iii) Excess 10L − 2L = 8L

Allotment due = 1L × 5 = 5L

FORFEITURE OF SHARES

1. Meaning: Forfeiture of Shares refers to the action taken by Company, to cancel the Shares.
2. Situation: When Shareholders fail to pay Allotment or Call Money due, the Directors may forfeit the Shares in the bonafide interests of Company & in accordance with the Articles of Association. Proper Notice should be sent to defaulting Shareholder before forfeiture.
3. Effect: The amount received is transferred to "Shares Forfeited A/c".
4. Treatment: Till Forfeited Shares are re -issued, the amount is shown as an addition to Share Capital, on the Liabilities Side of the Balance Sheet.

RE-ISSUE OF FORFEITED SHARES

1. Sale, not Allotment: Reissue of Forfeited Shares is not an allotment, it is only a Sale. So, the Company need not file a Return of Allotment with the Registrar of Companies.
2. Loss on Reissue: It should not exceed the Forfeited Amount, i.e. amount paid by Original Allottee, excluding premium, if any.)
3. Surplus: Surplus arising on Reissue of Forfeited Shares (i.e. Forfeited Amount > Loss on Reissue), should be transferred to Capital Reserve A/c.
4. Reissue at Premium: When Forfeited Shares are reissued at a price higher than its Face Value, the excess amount should be credited to Securities Premium A/c.

JOURNAL ENTRIES

	TRANSACTION	JOURNAL ENTRY
	FORFEITURE OF SHARES	
1.	Forfeiture of Shares Issued at Par	Share Capital A/c (to the extent called) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up & unpaid) (or alternatively Share Allotment A/c or Share ...... Call A/c)
2.	Forfeiture of Shares Issued at Premium - premium fully collected	Share Capital A/c (to the extent called - excluding Premium) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up & unpaid) (or alternatively Share Allotment A/c or Share ...... Call A/c)
3.	Forfeiture of Shares Issued at Premium - premium not fully collected	Share Capital A/c (to the extent called excluding Premium) Dr. Securities Premium A/c (Premium amount on Shares forfeited) Dr. To Shares Forfeited A/c (to the extent amount received) To Calls in Arrears (to the extent amount called up and unpaid (or alternatively Share Allotment A/c or Share ...... Call A/c)
	Note: When Shares are originally issued at a Premium, and the Premium has been collected in full, the Securities Premium A/c should not be reversed.	
	RE -ISSUE OF SHARES FORFEITED	
1.	Re -issue of Forfeited Shares	Bank A/c (Shares Reissued x Reissue Price) Dr. Shares Forfeited A/c (to the extent discount given) Dr. To Share Capital A/c (Shares Reissued x Paid up Value)
2.	Transfer of Share Forfeited A/c Balance on Reissued Shares	Shares Forfeited A/c Dr. To Capital Reserve A/c

Question 3: (CA Foundation Nov 2018) (7 Marks) / (RTP May 2023)

Give necessary journal entries for the forfeiture & reissue of shares:

(i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non payment of allotment money of ₹ 3 per share & final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were issued to Suresh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these 150 shares were reissued to Mahesh as fully paid for ₹ 6 per share.

(i)
App- 3 ✓
All- 3 ✗
Call 4 ✗

Appl- & All- 5 ✓
Ist call 2 ✗
7

Solution

Journal Entries

Case	Particulars		L.F.	Debit	Credit
(i)	Share Capital A/c (300*10)	Dr.		3,000	
	(300*3) To Share Allotment A/c				900
	(300*4) To Share First Call A/c				1,200
	(300*3) To Share Forfeited A/c				900
	(Being the forfeiture of 300 shares)				
	Bank A/c (300*8)	Dr.		2,400	
	Share Forfeited A/c (300*2)	Dr.		600	
	To Share Capital A/c				3,000
	(Being re-issue of shares at ₹ 8 per share paid-up as ₹ 10)				
	Share Forfeited A/c	Dr.		300	
	To Capital Reserve A/c				300
	(Being profit on re-issue tfd to Capital Reserve)				
(ii)	Share Capital A/c (200*7)	Dr.		1,400	
	(200*2) To Share Call A/c				400
	(200*5) To Share Forfeited A/c				1,000
	(Being the forfeiture of 200 shares)				
	Bank A/c (150*6)	Dr.		900	
	Share Forfeited A/c (150*4)	Dr.		600	
	To Share Capital A/c				1,500
	(Being re-issue of 150 shares at ₹ 6 per share paid-up as ₹ 10)				
	Share Forfeited A/c	Dr.		150	
	To Capital Reserve A/c				150
	(Being profit on re-issue tfd to Capital Reserve)				

$\frac{3 - (2)}{1} \times 300 = 300$

Working Note: Calculation of amount to be transferred to Capital Reserve
Case (ii)

Forfeited amount per share = ₹ 1,000/200	5
Loss on re-issue = ₹ 10 – ₹ 6	(4)
Surplus per share re-issued	1
Transferred to Capital Reserve ₹ 1 * 150	150

200 sh FF : 1000
150 : $\frac{1000}{200} \times 150 = 750$
(600)
150

$\frac{5 - (4)}{1} \times 150 = 150$

Question 4:

Y Ltd. forfeited 1,000 equity shares of ₹ 10 each, ₹ 7 called-up, issued at a premium of 20% (to be paid at the time of allotment) for non-payment of allotment money of ₹ 4 per share (including premium) and first call of ₹ 2 per share. Out of these, 600 shares were re-issued as fully paid-up for ₹ 8.50 per share.

Pass the journal entries for forfeiture and re-issue of shares.

Solution

Books of Y Ltd.

Date	Particulars		L.F.	Debit	Credit
-	Equity Share Capital A/c (1,000*7)	Dr.		7,000	
	Securities Premium A/c (1,000*2)	Dr.		2,000	
	(1,000*4) To Share Allotment A/c				4,000
	(1,000*2) To Share First Call A/c				2,000
	(1,000*3) To Share Forfeited A/c				3,000
	(Being the forfeiture of 1,000 shares ₹7 each being called up for non-payment of allotment & first call)				
-	Bank A/c (600*8.50)	Dr.		5,100	
	Share Forfeited A/c (600*1.50)	Dr.		900	
	To Share Capital A/c				6,000
	(Being re-issue of 600 shares at ₹ 8.50 per share paid-up as ₹ 10)				
	Share Forfeited A/c	Dr.		900	
	To Capital Reserve A/c				900
	(Being profit on re-issue transferred to Capital Reserve)				

Working Note: Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,000/1,000	3
Loss on re-issue = ₹ 10 – ₹ 8.50	(1.50)
Surplus per share re-issued	1.50
Transferred to capital Reserve ₹ 1.50 * 600	900

1000 → 3000

600 → $\frac{3000}{1000} \times 600 = 1800$

(900)

900

Question 5: (CA Foundation Dec 2021) (15 Marks)

Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

Ram Shyam Mohan

- (i) On Application ₹ 1 per share
- (ii) On Allotment ₹ 2 per share
- (iii) On First call ₹ 3 per share
- (iv) On Second and final Call ₹ 4 per share

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. Al the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Fashion Garments Ltd.

Solution

Journal Entries

S. No.	Particulars	L.F.	Debit	Credit
1.	Bank A/c Dr.		10,000	
	To Equity Share Application A/c			10,000
	(Money received on applications for 10,000 shares @ ₹ 1 per share)			
2.	Equity Share Application A/c Dr.		10,000	
	To Equity Share Capital A/c			10,000
	(Transfer of application money to share capital)			
3.	Equity Share Allotment A/c Dr.		20,000	
	To Equity Share Capital A/c			20,000
	(Amount due on allotment of 10,000 shares @ ₹ 2)			
4.	Bank A/c Dr.		19,800	
	To Equity Share Allotment A/c			19,800
	(Allotment money received on 9,900 shares) OR			
	Bank A/c		19,800	
	Calls in arrears A/c		200	
	To Equity Share Allotment A/c			20,000
	(Allotment Amount received except 100 shares)			
5.	Equity Share Capital A/c		300	
	To Share Forfeiture A/c			100
	To Equity Shares Allotment A/c			200
	(100 Shares of Ram forfeited) OR			
	Equity Share Capital A/c		300	
	To Shares Forfeiture A/c			100
	To Calls in arrears A/c			200
	(100 shares forfeited due to non-payment of allotment money)			
6.	Equity Share First Call A/c		29,700	
	To Equity Share Capital A/c			29,700
	First call made due on 9,900 shares at ₹ 3 per share			
7.	Bank A/c		29,250	
	To Equity Share First Call A/c			29,250
	(First call money received on 9,750 shares at ₹ 3 per share) OR			

	Bank A/c		29,250	
	Calls in arrears A/c		450	
	To Equity Share First Call A/c			29,700
	(First Call money received except 150 shares)			
8.	Equity Share Capital A/c		900	
	To Share Forfeiture A/c			450
	To Equity Share First Call A/c			450
	(150 Shares of Shyam forfeited) OR			
	Equity Share Capital A/c		900	
	To Share Forfeiture A/c			450
	To Calls in arrears A/c			450
	(150 shares forfeited due to non - payment of First call money)			
9.	Equity Share Second and Final Call A/c		39,000	
	To Equity Share Capital A/c			39,000
	(Second and Final call made due on 9,750 shares at ₹ 4 per share)			
10.	Bank A/c		38,800	
	To Equity Share Second and Final Call A/c			38,800
	(Second and Final call money received on 9,700 shares at ₹ 4 per share) OR			
	Bank A/c		38,800	
	Calls in arrears A/c		200	
	To Equity Shares Second and Final call A/c			39,000
	(Second and Final call money received except 50 shares)			
11.	Equity Share Capital A/c		500	
	To Share Forfeiture A/c			300
	To Equity Share Second and Final Call A/c			200
	(50 Shares of Mohan forfeited) OR.			
	Equity Share Capital A/c		500	
	To Shares Forfeiture A/c			300
	To Calls in arrears A/c			200
	(50 shares forfeited due to non-payment of Second and final call money)			
12.	Bank A/c		2,700	
	Share Forfeiture A/c		300	
	To Equity Share Capital A/c			3,000
	(300 shares reissued at ₹ 9 per share)			
13.	Share Forfeiture A/c		550	
	To Capital Reserve A/c (W.N.1)			550
	(Profit on re-issue transferred to Capital Reserve)			

Working Note-1:

Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Ram forfeited	₹ 100
Surplus out of 150 shares of Shyam forfeited	₹ 450
Surplus out of 50 shares of Mohan forfeited	₹ 300
	₹ 850
Less: Loss on re-issue of shares	₹ 300
Transferred to Capital Reserve	**₹ 550**

Question 6: (CA Foundation Dec 2022) (15 Marks)

PQR Limited issued 2,00,000 equity shares of, 10 each payable as ₹ 3 per share on application & ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay ·the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.

Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company.

Solution

In the books of PQR. Ltd.
Journal

S.N.	Particulars		₹	₹
1	Bank A/c	Dr	6,00,000	
	To Equity Share Application A/c			6,00,000
	(Being application money on 2,00,000 shares @ ₹ 3 per share received)			
2	Equity Share Application A/c	Dr	6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being transfer of application money to Equity Share Capital on 2,00,000 shares @ 3 per share)			
3	Equity Share Allotment A/c	Dr	10,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium A/c			4,00,000
	(Being amount due from shareholders in respect of allotment on 2,00,000 shares @ ₹ 5 per share including premium ₹ 2 per share)			
4	Bank A/c	Dr	9,75,000	
	To Equity Share Allotment A/c			9,75,000
	(Being amount received on 1,95,000 shares)			
	Or			
	Bank A/c	Dr	9,75,000	
	Calls in Arrears A/c	Dr	25,000	
	To Equity Share Allotment A/c			10,00,000
	(Being amount received against allotment on 2,00,000 share @ ₹ 5 per share)			
5	Equity Share Call A/c	Dr	8,00,000	
	To Equity Share Capital A/c			8,00,00
	(Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share)			
6	Bank A/c	Dr	7,40,000	
	To Equity Share Call A/c			7,40,000
	(Being amount received on 1,85,000 shares)			
	Or			
	Bank A/c	Dr	7,40,000	
	Calls in Arrears A/c	Dr	60,000	
	To Equity Share Call A/c			8,00,000
	(Being amount received against the call on 1,85,000 shares @ ₹ 4 per share)			

Forfeiture
5000 → All. & call
10000 → call
15000

7	Equity Share Capital A/c (15,000 x ₹ 10)	Dr	1,50,000	
	Securities Premium A/c (5000 x ₹ 2)	Dr	10,000	
	To Equity Share Allotment A/c (5000 x ₹ 5)			25,000
	To Equity Share Call A/c (15,000 x ₹ 4) App.		App + Al.	60,000
	To Forfeited Shares A/c (5000 x 3) + (10000 x 6)			75,000
	(Being forfeiture of shares for non- payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares)			
	Or			
	Equity Share Capital A/c (15,000 x ₹ 10)	Dr	1,50,000	
	Securities Premium A/c (5000 x ₹ 2)	Dr	10,000	
	To Calls in Arrears A/c (₹ 25,000 + ₹ 60,000)			85,000
	To Forfeited Shares A/c			75,000
	(Being forfeiture of shares for non- payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares)			
8	Bank A/c	Dr	90,000	
	Forfeited Shares A/c	Dr	10,000	
	To Equity Share Capital A/c			1,00,000
	(Being re-issue of 10,000 shares @ ₹ 9 each)			
9	Forfeited Shares A/c	Dr	35,000	
	To Capital Reserve A/c			35,000
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of PQR as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	19,80,000
Reserves and Surplus	2	4,25,000
Total		**24,05,000**
ASSETS		
Current assets		
Cash and Cash Equivalents	3	24,05,000
Total		**24,05,000**

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	2,00,000 Equity shares of ₹ 10 each	20,00,000	
	Subscribed, called up and paid up share capital		
200000 (15000) 10000	1,95,000 Equity shares of ₹ 10 each	19,50,000	
	Add: Forfeited shares (5000 x 6)	30,000	19,80,000
2.	**Reserves and Surplus:**		
	Securities Premium (400000 - 10000)	3,90,000	
	Capital Reserve	35,000	4,25,000

3.	**Cash and Cash Equivalents:**		
	Amount received on Share Application	6,00,000	
	Amount Received on Share Allotment	9,75,000	
	Amount Received on Share Call	7,40,000	
	Amount Received on Re-issue of Shares	90,000	24,05,000

Working Note:

1. Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of J	₹ 3	Amount forfeited per share of K	₹ 6
Less: Loss on re-issue per share	(₹ 1)	Less: Loss on re-issue per share	(₹ 1)
Surplus	₹ 2	Surplus	₹ 5

Transferred to Capital Reserve: J's Share (5,000 x ₹ 2) ₹ 10,000

K's Share (5,000 x ₹ 5) ₹ 25,000

Total **₹ 35,000**

2. Balance of Security Premium

Total Premium amount receivable on allotment = 4,00,000

Less: Amount reversed on forfeiture = (10,000)

Balance remaining = **3,90,000**

Share Forfeiture in case of Prorata Allotment

Case 1:

Shares Applied = 1000

Shares Allotted = 600

Application = 2

Allotment = 3 + 1 (Sec. Prem.)

Call = 5

No Allotment & Call. Shares Forfeited.

All. Due = 600 X 4 = 2400

Applied	Allotted	Money Rec.	Application	Allotment
1000	600	2000 (1000 X 2)	1200 (600 X 2)	800 (2000 − 1200)

600 X 3 = 1800 − 800 = 1000

Forfeiture

Share capital A/c − Dr (600 X 10)	6000	
Sec. Premium A/c − Dr (600 X 1)	600	
To Share Allotment ((600 X 4) − 800)		1600
To Share Call (600 X 5)		3000
To Share Forfeiture A/c (B.f.)		2000

Case 2:

Shares Applied = 1000

Shares Allotted = 600

Application = 2

Allotment = 1 + 1 (Sec. Prem.)

Call = 7

No Allotment & Call. Shares Forfeited.

All. Due = 600 X 2 = 1200

Applied	Allotted	Money Rec.	Application	Allotment
1000	600	2000	1200	800

800 → FV: 600 X 1 = 600, (600), X; SP: 600 X 1 = 600, (200), 400

Forfeiture

Share capital A/c − Dr (600 X 10)	6000	
Sec. Premium A/c − Dr (600 − 200)	400	
To Share Allotment ((600 X 2) − 800)		400
To Share Call (600 X 7)		4200
To Share Forfeiture A/c (B.f.)		1800

Without Prem. (2000 − 200 = 1800)

Question 7: (MTP November 2021) (June 2023)

Hemant applies for 2,000 shares of ₹ 10 each at a premium of ₹ 2.50 per share. He was allotted 1,000 shares. After having paid ₹ 3 per share on application, he did not pay the allotment money of ₹ 4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹ 2 per share, his shares were forfeited. These shares were reissued at ₹ 8 per share, his shares were forfeited.
At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.
You are required to pass journal entries to record forfeiture and reissue of shares.

Appl : 3
All : 2+2.50
First call : 2

Solution

Books of Company

Date	Particulars	L.F.	Debit	Credit
-	Equity Share Capital A/c (1000 X 7) Dr.		7,000	
	Securities Premium A/c Dr.		1,500	
	To Share Allotment A/c (4500 - 3000)			1,500
	To Share First Call A/c 1000 X 2			2,000
	To Share Forfeited A/c (B.F.) (6000 - 1000)			5,000
	(Being the forfeiture of 1,000 shares for non payment of allotment & first call)			
-	Bank A/c 1000 X 8 Dr.		8,000	
	Share Forfeited A/c 1000 X 2 Dr.		2,000	
	To Share Capital A/c 1000 X 10			10,000
	(Being re-issue of 1,000 shares at ₹ 8 per share paid-up as ₹ 10)			
	Share Forfeited A/c (5000 - 2000) Dr.		3,000	
	To Capital Reserve A/c			3,000
	(Being profit on re-issue tfd to Capital Reserve)			

Working Note: Calculation of the amount due but not paid on allotment

(a) Total No. of Shares applied	2,000
(b) Total money paid of application (2,000x 3)	6,000
(c) Excess application money (₹ 6000-(1,000x3))	3,000
(d) Total amount due on allotment (1,000x 4.50)	4,500
(e) Amount due but not paid (₹4,500- Rs.3,000)	1,500

Out of ₹ 4,500, ₹ 2,000 are for Share Capital and ₹ 2,500 are for Securities Premium Reserve. Out of excess application money of ₹ 3,000, ₹2000 are adjusted towards allotment as share capital and ₹ 1,000 are adjusted towards allotment as securities premium reserve. Therefore, Securities Premium Reserve of ₹ 1,500 (i.e. ₹ 2,500- 1,000) is not received. Hence securities Premium Reserve is debited by ₹ 1,500.

Applied	Allotted	Money Rec.	Application	Allotment
2000	1000	6000 (2000 x 3)	3000 (1000 x 3)	3000

FV 2 x1000 = 2000 - 2000 = Nil

All. Due = 1000 X 4.5 = 4500

SP 2.5 X 1000 = 2500 - 1000 = 1500

3000

Question 8: (CA Foundation July 2021) (15 Marks)

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows: -

₹ 9 per share (including premium) on application and allotment

- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share. Pass necessary journal entries for the above transactions in the books of X Limited.

Appl. & All : 4 + 5 = 9
Call : 6 = 6
10 + 5 = 15

Solution

Journal of X Ltd.

		Dr. ₹	Cr. ₹
1	Bank Account Dr.	27,00,000	
	To Share Application & Allotment A/c		27,00,000
	(Being Application money on 3,00,000 shares at ₹ 9 per share received.)		
2	Share Application & Allotment A/c Dr.	27,00,000	
	To Share Capital A/c (75,000 x ₹ 4)		3,00,000
	To Securities premium A/c (75,000 x ₹ 5)		3,75,000
	To Bank A/c (2,00,000 x ₹ 9)		18,00,000
	To Share First & Final Call A/c		2,25,000
	(Being application money transferred)		
3	Share First & Final Call A/c (75,000 x6) Dr.	4,50,000	
	To Share Capital Account		4,50,000
	(Amount First & Final Call A/c due from members as per Directors, resolution no...... dated)		
4	Bank Account A/c Dr.	2,21,625	
	Calls in arrear A/c Dr.	3,375	
	To Share First & Final Call Account		2,25,000 4.50L - 2.25L
	(Being Receipt of the amounts due on first call.)		
5	Equity share capital A/c (1125x10) Dr.	11,250	
	To Share forfeiture A/c (B.f.) (1500x9) - (1125x5)		7,875
	To Calls in arrear A/c		3,375
	(Being 1,125 shares forfeited for non payment of final call.)		
6	Bank Account A/c (1,125 x ₹ 6) Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4) Dr.	4,500	
	To Share Capital Account (1,125 x ₹ 10)		11,250
	(Being forfeited shares reissued at ₹ 4 discount)		
7	Share forfeiture A/c Dr.	3,375	
	To Capital reserve A/c (7875 - 4500)		3,375
	(Being share forfeiture transferred to capital reserve*)		

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Appl. @ ₹ 9/-	Money Transferred to Share Capital@ ₹ 4/-	Money tfd to Security Premium @₹ 5/-	Excess Appl. Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First & Final Call after adjusting excess appl. money	Money Refunded
2,00000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	2,25,000	-
3,00,000	**75,000**	**27,00,000**	**3,00,000**	**3,75,000**	**2,25,000**	**4,50,000**	**2,21,625***	**18,00,000**

* ₹ 4,50,000 less ₹ 3,375.

2. Number of shares allotted to Mr. Raj = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. Calculation of calls in arrear

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first and final call		3,375
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

Question 9: (CA Foundation June 2023) (15 Marks)

BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On Application - ₹ 3 per share
On Allotment - ₹ 5 per share (including premium)
On First and Final Call - ₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up. Pass necessary journal entries for the above transactions in the books of BP Ltd, Open call in arrears account whenever required.

160000 → 80000

$680 \rightarrow \frac{80000}{160000} \times 680 = 340$

Solution

Journal of BP Limited

Particulars		**Dr. (₹)**	**Cr. (₹)**
Bank A/c (Note 1 – Column 3)	Dr.	10,80,000	~~10,80,000~~
To Equity Share Application A/c			1080000
(Being application money received on 3,60,000 shares @ ₹ 3 per share)			
Equity Share Application A/c	Dr.	10,80,000	
To Equity Share Capital A/c			3,60,000
To Equity Share Allotment A/c (Note 1 Column 5)			4,40,000
To Bank A/c (Note 1 – Column 6)			2,80,000
(Being application money on 2,80,000 shares transferred to Equity Share Capital Account; on 1,60,000 shares adjusted with allotment and on 80,000 shares refunded)			
Equity Share Allotment A/c	Dr.	6,00,000	
To Equity Share Capital A/c			3,60,000
To Securities Premium a/c			2,40,000
(Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹4 each)			
Bank A/c (Note 1 – Column 8)	Dr.	1,60,000	
To Equity Share Allotment A/c			1,60,000
(Being balance allotment money received)			
Equity Share First and Final Call A/c	Dr.	4,80,000	
To Equity Share Capital A/c			4,80,000
(Being final call money due on 1,20,000 shares @ 4/share)			
Bank A/c	Dr.	4,78,640	
Calls in Arrears A/c	Dr.	1,360	
To Equity Share First and Final Call A/c			4,80,000
(Being final call received on 1,19,660 shares @ ₹4 each)			
Equity Share Capital A/c	Dr.	3,400	
To Calls in Arrears A/c			1,360
To Forfeited Shares A/c			2,040
(Being 340 shares forfeited for non payment of call money)			
Bank A/c	Dr.	4,420	
To Equity Shares Capital A/c			3,400
To Securities Premium A/c			1,020
(Being re-issue of 340 shares @ ₹13 each)			
Forfeited Shares A/c	Dr	2,040	
To Capital Reserve A/c			2,040
(Being profit on re-issue transferred to Capital Reserve)			

Working Note: **Calculation for Adjustment and Refund**

Category	**No. of Shares Applied**	**No. of Shares Allotted**	**Amount Rec. On Application**	**Amount Required :Application**	**Amount adjusted :Allotment**	**Refund [3 - 4 + 5]**	**Amount due on Allotment**	**Amount rec. On Allotment**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Rejected	80,000	Nil	2,40,000	Nil	Nil	2,40,000	Nil	Nil
(i)	1,60,000	80,000	4,80,000	2,40,000	2,40,000	Nil	4,00,000	1,60,000
(ii)	1,20,000	40,000	3,60,000	1,20,000	2,00,000	40,000	2,00,000	Nil
TOTAL	3,60,000	1,20,000	10,80,000	3,60,000	4,40,000	2,80,000	6,00,000	1,60,000

i. Amount Received on Application (3) = No. of shares applied for (1) x ₹ 3
ii. Amount Required on Application (4) = No. of shares allotted (2) x ₹ 3

SHARES ISSUED FOR CONSIDERATION OTHER THAN CASH

1. Meaning: A Company can issue shares for valuable Consideration other than Cash. Shares may be issued to (a) Vendors towards payment of Purchase Consideration, (b) Promoters towards reimbursement of Preliminary Expenses incurred by them for incorporation, (c) Underwriters towards payment of Underwriting Commission, etc.
2. Disclosure: Shares issued for Consideration other than Cash shall be separately disclosed in the Balance Sheet of Company, as required by Part I of Schedule III.
   Within specified time of allotment, the company must produce before the Registrar a written contract of sale of service in respect of which shares have been allotted.

JOURNAL ENTRIES

1.	Recording Purchase of Machinery, Assets etc.	Machinery / Assets A/c (in case of assets purchased) Dr. To Liabilities A/c To Vendor's A/c (Difference if any to be tfd. to Goodwill/Capital Reserve A/c)
2.	Allotment of Shares to the Vendor	Vendor's A/c Dr. To Share Capital (Nominal Value of Shares issued) To Securities Premium (if issued at Premium)

$$\text{No. of shares} = \frac{\text{Purchase consideration}}{\text{Issue Price}}$$

Company Accounts:
Issue of Debentures

ISSUE OF DEBENTURES

DEFINITION

(a) Debenture includes Debentures Stock, Bonds and any other instrument of a Company evidencing a debt, whether constituting a charge on the assets of the Company or not.
(b) It is a document issued by a Company indicating its indebtedness.
(c) Debenture is one of the most commonly used debt instruments issued by the company to raise funds for the business. The most common method of supplementing the capital available to company is to issue debentures which may either be secured or unsecured. *(Purpose for raising of debenture by the company)*

FEATURES

(a) Debt: A debenture is a bond issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.
(b) Interest: The Company pays a fixed rate of interest on Debentures, due on specific dates. Such interest is payable, irrespective of whether the Company has earned profit or not.
(c) Maturity/Redemption: Generally, Debentures are issued for specified period of time, after which they mature & have to be redeemed by the Company by paying the money. Sometimes, they may be converted into Equity Shares, after the maturity period.
(d) Creation of Charge: Most Debentures are secured by way of a charge on the assets / part of the assets of the Company. However, they may also be unsecured Debentures.
(e) Trading: Debentures may be bought or sold through the Stock Exchange, at a price above or below Face Value. Hence, Debentures may be traded, like Shares.
(f) No Voting Rights: Debenture Holders are mere lenders to Company, who are generally secured for payment. Hence they do not have any right as to voting in meetings.

DIFFERENT KINDS / TYPES OF DEBENTURES

BASED ON PRIORITY

	First Mortgage Debentures	Second Mortgage Debentures
(a)	They are ranked first and are to be paid first in priority to other Debentures which may be issued later or subsequently by the Company.	They are issued subsequent to first Debentures and rank next in matters of repayment, i.e. they can be redeemed only after First Debentures are repaid.
(b)	These constitute 1st priority in repayment	These constitute 2nd priority in repayment.

BASED ON NEGOTIABILITY

	Bearer or Unregistered Debentures	Registered Debentures
(a)	These are payable to Bearer. Interest is paid through coupons attached to Certificate. On maturity, principal is paid to the Bearer.	These are payable to Registered Holders, i.e. whose names appear on the Certificate and are entered as a Holder in Register of Debenture Holders of the Company.

(b)	These are similar to Negotiable Instruments, and are freely transferable, by mere delivery. No transfer deed is required for transfer of such debentures	They are not easily transferable. They are transferable only as per condition endorsed in it, i.e. by way of execution of transfer deed and registration with the Company.

BASED ON PERMANENCE / REDEEMABILITY

	Redeemable Debentures	Irredeemable / Perpetual Debentures
(a)	They are issued for a specified period of time upon whose expiry, company has the right to pay back the Holders and have its properties released from charge.	It is a Debenture which contains no clause to payment, or which contains a clause that it shall not be paid back.
(b)	Payment / Redemption is made at the end of the specified period.	Payment / Redemption is only upon winding-up/liquidation of company.

BASED ON CONVERTIBILITY

	Convertible Debentures	Non Convertible Debentures
(a)	They are issued with an option that they can be converted into Shares (at par or premium), after a certain period.	They do not have any option as to convertibility.
(b)	They can be fully convertible or partly convertible. In Partly Convertible debentures, the non-convertible portion is redeemed at the expiry of certain period.	They become fully payable on maturity, as specified in the terms of issue.

BASED ON SECURITY

	Secured Debentures	Unsecured / Naked Debentures
(a)	These are secured by a charge on the assets / part of the assets of the Company.	These are issued without any security. They do not create any charge on the Company's Assets.
(b)	The Charge may either be Fixed or Floating. (See Note below.)	Holders are like ordinary Unsecured Creditors and may sue the Company for recovery.
(c)	Holders of such Debentures have lower risk.	These types of debentures are very risky from the viewpoint of Investors.

Note:
A Fixed Charge is a mortgage on specific assets, e.g. Machinery, Land and Building, etc. These assets cannot be sold without the consent of Debentureholders. The sale proceeds of these assets are utilized first for repaying Debentureholders.
A Floating Charge generally covers all assets of the Company, including future assets, e.g. Stock, Receivables, Debtors, etc.

JOURNAL ENTRIES IN RESPECT OF ISSUE OF DEBENTURES (For Cash)

Issue At	Redemption At	Journal Entry
1) PAR	PAR	Bank A/c - Dr To _% Debentures A/c
2) Premium	PAR	Bank A/c - Dr To _% Debentures A/c To Securities Premium A/c
3) Discount	PAR	Bank A/c - Dr Discount on Issue A/c - Dr To _% Debentures A/c
4) PAR	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To _% Debentures A/c To Premium on Redemption A/c
5) Premium	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To _% Debentures A/c To Securities Premium A/c To Premium on Redemption A/c
6) Discount	Premium	Bank A/c - Dr Loss on Issue A/c - Dr (Disc. + Loss) To _% Debentures A/c To Premium on Redemption A/c

	Transaction	Journal Entries
1.	Receipt of Application Money	Bank A/c Dr. To Debenture Application A/c
2.	Transfer of Application Money	
(a)	Issued at par, and redeemable (i) at par, or (ii) at discount	Debenture Application A/c Dr. To…% Debentures A/c
(b)	Issued at Premium, and redeemable- (i) at par, or (ii) at discount	Debenture Application A/c Dr. To…% Debentures A/c To Securities Premium A/c
(c)	Issued at Discount, and redeemable- (i) at par, or (ii) at discount	Debenture Application A/c Dr. Discount on Issue of Deb A/c Dr. To…% Debentures A/c

(d)	Issued at par, and redeemable at premium. [Note: Here, Loss on Issue of Debentures= Premium payable on Redemption only.]	Debenture Application A/c Dr. Loss on Issue of Deb. A/c Dr. To…% Debentures A/c To Premium on Redemption of deb.
(e)	Issued at Premium, redeemable at premium. [Note: Here, Loss on issue of Debentures= Premium payable on Redemption only.]	Debenture Application A/c Dr. Loss on Issue of Deb. A/c Dr. To…% Debentures A/c To Securities Premium A/c To Premium on Redemption of deb.
(f)	Issued at Discount, and redeemable at premium [Note: Here, Loss on Issue of Debentures= Discount on Issue + Premium payable on Redemption only]	Debenture Application A/c Dr. Disc./Loss on Issue of Deb. A/c Dr. To…% Debentures A/c To Premium on Redemption of deb.

Note: In the above scheme, it is assumed that entire money is collected at the time of application itself. If the moneys are collected in installments, e.g. Application, Allotment, Calls, etc. the Journal Entries are similar to that of Issue of Shares.

- *In fact, the discount on issue of debentures is considered as incremental interest expense. The true expense (net borrowing cost) for a particular accounting period is, therefore, the total interest payment plus the discount amortised.*
- *Debenture Redemption Premium Account is a personal account which represents a liability of the company in respect of premium payable on redemption.*

Question 1: ICAI Study Material

Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of ₹50 each at premium of 10%, payable as ₹ 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

Solution

Books of Koinal Chemicals Ltd.

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		4,00,00,000	
	To Debenture Application A/c			4,00,00,000
	(Being application money received)			
2	Debenture Application A/c Dr.		4,00,00,000	
	To 10% Debentures A/c			4,00,00,000
	(Being Application money transferred to 10% debentures A/c)			
3	Debenture Allotment A/c Dr.		7,00,00,000	
	To 10% Debentures A/c			6,00,00,000
	To Securities Premium A/c			1,00,00,000
	(Being allotment money incl. premium due)			
4	Bank A/c Dr.		7,00,00,000	
	To Debenture Allotment A/c			7,00,00,000
	(Being allotment money received)			

Question 2: ICAI Study Material

Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹ 100 each at premium of 5% payable fully on application and redeemable at premium of ₹ 10.
Pass necessary journal entries at the time of issue.

Solution

Books of Country Crafts Ltd.

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		1,05,00,000	
	To Debenture Application A/c			1,05,00,000
	(Being application money received)			
2	Debenture Application A/c Dr.		1,05,00,000	
	Loss on issue of Debentures A/c Dr.		10,00,000	
	To 8% Debentures A/c			1,00,00,000
	To Securities Premium A/c			5,00,000
	To Premium on Redemption of Debentures A/c			10,00,000
	(Being Application money transferred to 8% debentures A/c)			

Question 3: ICAI Study Material

Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: ₹50 on application and ₹ 44 on allotment.
Record necessary journal entries for issue of debentures.

Solution

Books of Agrotech Limited

S.No.	Particulars	L.F.	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c Dr.		7,500	
	To Debenture Application A/c			7,500
	(Being application money received)			
2	Debenture Application A/c Dr.		7,500	
	To 9% Debentures A/c			7,500
	(Being Application money transferred to 9% debentures A/c)			
3	Debenture Allotment A/c Dr.		6,600	
	Loss on issue of Debentures A/c Dr.		1,650	
	To 9% Debentures A/c			7,500
	To Premium on Redemption of Debentures A/c			750
	(Being allotment money due)			
4	Bank A/c Dr.		6,600	
	To Debenture Allotment A/c			6,600
	(Being allotment money received)			

Working Notes:
Loss on issue of debentures
= (Amount of discount on issue + Premium payable on redemption) x No. of Debentures
= (6% of ₹100 + 5% of ₹100) x 150 lakh = (₹ 6 + ₹ 5) x 150 lakh = ₹ 1,650 lakh

Question 4: ICAI Study Material

X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2023. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2023. Excess money was refunded on the same date.
Pass necessary Journal Entries. Also show necessary ledger accounts.

Solution

Books of X Limited

Date	Particulars	L.F.	Debit	Credit
31.05.23	Bank A/c Dr.		1,08,00,000	
	To Debenture Application A/c			1,08,00,000
	(Being application money received for 1,20,000 debentures @ ₹90 each)			
09.06.23	Debenture Application A/c Dr.		18,00,000	
	To Bank A/c			18,00,000
	(Being Excess application money refunded)			
09.06.23	Debenture Application A/c Dr.		90,00,000	
	Discount on Issue of Debentures A/c Dr.		10,00,000	
	To 12% Debentures A/c			1,00,00,000
	(Being Application money transferred to 12% debentures account)			

Bank A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.05.23	To Debentures Appl. A/c	1,08,00,000	09.06.23	By Debentures Appl. A/c	18,00,000
			09.06.23	By Balance c/d	90,00,000
		1,08,00,000			**1,08,00,000**

12% Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
09.06.23	To Balance c/d	1,00,00,000	09.06.23	By Debentures Appl. A/c	90,00,000
			09.06.23	By Discount on Issue of Debentures A/c	10,00,000
		1,00,00,000			**1,00,00,000**

Debentures Application A/c

Date	Particulars	Amount	Date	Particulars	Amount
09.06.23	To Bank A/c	18,00,000	31.05.23	By Bank A/c	1,08,00,000
09.06.23	To 12% Debentures	90,00,000			
		1,08,00,000			**1,08,00,000**

Discount on Issue of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
09.06.23	To 12% Debentures	10,00,000	09.06.23	By Balance c/d	10,00,000
		10,00,000			**10,00,000**

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH

Just like shares, debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery, etc. In this case, the following entries are passed:

(a)	Assets purchased from Vendor / business taken over, etc.	Sundry Assets A/c Dr. To Sundry Liabilities A/c, (if any) To Vendor A/c
(b)	Assets purchased from Vendor, at par / premium / discount	Vendor A/c Dr. Discount on Issue of Deb. A/c (if any) To…% Debentures A/c To Securities Premium A/c (if any)
	No. of Debentures = Purchase Consideration/Issue Price	

Question 5: RTP Nov 2021

Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

(i) Debentures are issued at par

(ii) Debentures are issued at 20 % discount and

(iii) Debentures are issued at 20% premium

Solution

Journal entries

Particulars	Debit Amt.	Credit Amt.
Machinery A/c Dr.	9,90,000	
To Avneet Ltd.		9,90,000
(Machinery purchased)		
Case(i) When debentures are issued at par:		
Avneet Ltd.	9,90,000	
To 10% Debentures A/c		9,90,000
(10% Debentures issued to Avneet Ltd.)		
Case(ii) When debentures are issued at 20% discount:		
Avneet Ltd.	9,90,000	
Discount on Issue of Debentures A/c	2,47,500	
To 10% Debentures A/c		12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)		
Case(iii) When debentures are issued at 20% premium:		
Avneet Ltd. Dr.	9,90,000	
To 10% Debentures A/c		8,25,000
To Securities Premium A/c		1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)		

Workings:

(a) Number of debentures issued in case of 20% discount:

Face value	100
Less: Discount 20%	20
Value at which issued	80
₹ 9,90,000/80 = 12,375 Debentures	

$\frac{990000}{80} = 12375$

(b) Number of debentures issued in case of 20% premium:

Face value	100
Add: Premium 20%	20
Value at which issued	120
₹9,90,000/ 120 = 8,250 Debentures	

$\frac{990000}{120} = 8250$

ACCOUNTING TREATMENT OF ISSUE OF DEBENTURES AS COLLATERAL SECURITY

1. Meaning
   (a) Collateral Security means secondary or supporting security for a loan, which can be realized by the Lender, when the original loan is not paid on due date.
   (b) Companies may Issue their Own Debentures as Collateral Security for Loan or Overdraft facility taken from Bank / other Lenders.
   (c) The holder of such debentures is entitled to interest only on the amount of loan but not on the debentures.

2. Effect:
   (a) If the Company repays the loan on the due date, the Debentures will be released, along with the main security.
   (b) If the Company is not able to repay the loan or the interest thereon, the Lender will become the Debentureholders who can exercise all the rights of a debenture holder.

2. Accounting Treatment: There are two method of showing Debentures issued as Collateral Security –

Situation	Method I	Method II
Journal Entry for Issue of Debentures as Collateral Security	No Entry. It is only a Memorandum Method	Debenture Suspense A/c Dr. To...% Debentures A/c
Disclosure in the Balance Sheet till Loan is settled	The Issue of debentures and Loan Outstanding is shown as a Note under "Long Term Borrowings"	Debenture Suspense A/c will appear on the Assets Side under 'Non Current Assets' and Debentures A/c will appear on the Liabilities Side under 'Long Term Borrowings'.
Treatment after settlement of Loan	The Note given as above will be discontinued.	The Journal Entry given above will be reversed

Note: Method 1 is much more logical from the accounting point of view. Therefore, it is advised to follow Method 1.

Question 6: ICAI Study Material

X Ltd. obtains a loan from IDBI of ₹ 1,00,00,000, giving as collateral security of ₹ 1,50,00,000 (of ₹10 each), 14%, First Mortgage Debentures. Pass journal entries & show balance sheet extract as per both approaches.

Solution

Method 1

Books of X Limited

Date	Particulars	L.F.	Debit	Credit
-	Bank A/c Dr.		1,00,00,000	
	To Bank Loan A/c			1,00,00,000
	(Being a loan of ₹ 1,00,00,000 taken from bank by issuing debentures of ₹ 1,50,00,000 as collateral security)			

Balance Sheet of X Ltd.

	Particulars	Note No.	₹
I.	**Equity and Liabilities**		
	(1) Non-Current Liabilities		
	a) Long-term Borrowings	1	1,00,00,000
	Total		**1,00,00,000**
II.	**Assets**		
	(1) Current Assets		
	a) Cash and Cash equivalents		1,00,00,000
	Total		**1,00,00,000**

Notes to Accounts:

1.	**Long Term Borrowings**	
	Secured Loan: IDBI Loan	1,00,00,000
	(Collaterally secured by issue of ₹ 1,50,00,000 14% First Mortgage Debentures)	
		1,00,00,000

Method 2

Books of X Limited

Date	Particulars	L.F.	Debit	Credit
-	Bank A/c Dr.		1,00,00,000	
	To Bank Loan A/c			1,00,00,000
	(Being a loan of ₹ 1,00,00,000 taken from bank by issuing debentures of ₹ 1,50,00,000 as collateral security)			
-	Debentures Suspense A/c **Dr.**		1,50,00,000	
	To 14% First Mortgage Debentures A/c			1,50,00,000
	(Being the issue of ₹ 1,50,00,000 debentures collaterally as per Board's Resolution No…dated)			

Balance Sheet of X Ltd.

	Particulars	Note No.	₹
I.	**Equity and Liabilities**		
	(1) Non-Current Liabilities		
	a) Long-term Borrowings	1	2,50,00,000
	Total		**2,50,00,000**
II.	**Assets**		
	(1) Non-Current Assets		
	a) Other Non Current Assets	2	1,50,00,000
	(2) Current Assets		
	a) Cash and Cash equivalents		1,00,00,000
	Total		**2,50,00,000**

Notes to Accounts:

1.	**Long Term Borrowings**	
	IDBI Loan	1,00,00,000
	14% First Mortgage Debentures	1,50,00,000
		2,50,00,000
2.	**Other Non Current Assets**	
	Debenture Suspense Account	**1,50,00,000**
	(issue of ₹ 15,00,000 14% First Debentures as collateral security as per contra)	

Question 7: (CA Foundation Nov 2020) (5 Marks)

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

(i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 – ₹ 15,00,000 nominal value.

(ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.

(iii) To the banker as collateral security for a loan of ₹ 14,00,000 – ₹ 15,00,000 nominal value

You are required to pass necessary Journal Entries.

Solution

In the books of Y Company Ltd. Journal Entries

Date	Particulars	Dr.	Cr.
		₹	₹
(i)	Fixed Assets A/c Dr.	13,00,000	
	To Vendor A/c		13,00,000
	(Being the purchase of fixed assets from vendor)		
	Vendor A/c Dr.	13,00,000	
	Discount on Issue of Debentures A/c Dr.	2,00,000	
	To 12% Debentures A/c		15,00,000
	(Being the issue of debentures of ₹ 15,00,000 to vendor to satisfy his claim)		
(ii)	Bank A/c Dr.	27,00,000	
	To Debentures Application A/c		27,00,000
	(Being the application money received on 5,000 debentures @ ₹ 540 each)		
	Debentures Application A/c Dr.	27,00,000	
	Discount on issue of Debentures A/c Dr.	3,00,000	
	To 12% Debentures A/c		30,00,000
	(Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No.…dated.…)		
(iii)	Bank A/c Dr.	14,00,000	
	To Bank Loan A/c (See Note)		14,00,000
	(Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)		

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

TREATMENT OF DISCOUNT / LOSS ON ISSUE OF DEBENTURES

1. Treatment: Discount / Loss on Issue of Debentures is capital loss and to be written-off /amortized over the period between the date of issue and date of redemption.
2. Determination of write-off amount:

Situation	Amount written off is computed as under-
Debentures redeemed at lumpsum at the end of a given period	Total Amount of Discount / Loss should be written off equally over the life of Debentures, i.e. Straight Line Method is used.
Debentures redeemed in different / unequal instalments	Total Amount of Discount / Loss should be written off in the ratio of benefit derived from Debenture Loan in any particular year, i.e. Sum of Year's Digits Method is used in the case.

3. Journal Entry:

Profit and Loss Account Dr.
    To Discount / Loss on Issue of debentures A/C

Note: The unamortized amount is shown on the Assets Side of the Balance Sheet as Non-Current /Current Asset depending upon the period for which it has to be written off.

<u>Example:</u>

12%, 5,000 debentures of ₹100 each issued on 01.01.2023 at 3% discount.

Disc. = 5000 × 3
= 15000

1) *Redemption after 5 years in lumpsum*
2) *Redemption of ₹1,00,000 at the end of each year*

(1)

Year	O/s Deb.	Ratio	Amt. w/off
2023	500000	1	$15000 \times \frac{1}{5} = 3000$
2024	500000	1	3000
2025	500000	1	3000
2026	500000	1	3000
2027	500000	1	3000
		5	15000

(2)

Year	O/s Deb.	Ratio	Amt. w/off
2023	500000	5	$\frac{5}{15} \times 15000 = 5000$
2024	400000	4	4000
2025	300000	3	3000
2026	200000	2	2000
2027	100000	1	1000
		15	15000

Question 8: (CA Foundation Nov 2018) (5 Marks)/(RTP May 2020)/(Nov 2022)(Sim.)

Pure Ltd. issues 1,00,000 12% debentures of ₹ 10 each at ₹ 9.40 on 1st January,2021. Under the terms of issue the debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written off in each of the 5 years.

Solution

Total amount of discount comes to ₹ 60,000 (0.60 X 1,00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
2021	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2022	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2023	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2024	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2025	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
			60,000

ACCOUNTING TREATMENT FOR PAYMENT OF INTEREST ON DEBENTURES

1. Interest: Interest on debentures is a charge against the profits of the Company. Interest is paid at specified dates, (e.g. half-yearly or annually) on the Nominal Value of Debentures.
2. Tax Deducted at Source: The Company will pay Interest to the Debentureholders after deducting the amount of tax, as specified in the Income Tax Rules. The Company is under an Obligation to deduct tax at source and deposit tax amount with Income Tax Authorities.
3. Journal Entries:

	Transaction	Journal Entry
(a)	Interest due on Debentures after considering tax at source (TDS)	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c
(b)	Payment of interest to Debentureholders	Debentureholders A/c Dr. To Bank A/c
(c)	Remittance Tax Deducted at Source with Government	TDS Payable A/c Dr. To Bank A/c
(d)	Transfer of Interest on Debentures to P&L A/c	Profit & Loss A/c Dr. To Interest on Debentures A/c

Question 9: (CA Foundation May 2019) (5 Marks) / (RTP Nov 2023)

On 1st January 2020 Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass necessary journal entries for the accounting year 2020.

Solution

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1-1-2020	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Deb. A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2020	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
30-6-2020	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
31-12-2020	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			

31-12-2020	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
31-12-2020	Profit and Loss A/c	Dr.	60,000	
	To Discount/Loss on issue of debenture A/c			60,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)			

Question 10: RTP May 2022

On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date. XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself. Pass the journal entries in the books of XY Ltd. for the financial year 2020-21.

Solution

Journal Entries

Date	Particular	L.F	Dr.	Cr.
2020	Sundry Assets A/c Dr.		4,50,000	
April	Goodwill A/c (Bal. fig) Dr.		50,000	
	To Himalayan Ltd. A/c			4,40,000
	To Sundry Liabilities A/c			60,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 4,40,000)			
	Himalayan Ltd. A/c Dr.		4,40,000	
	To 8% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000
	(Being 4000 8% Deb.of 100 each issued at10%prem.)			
	Bank A/c Dr.		90,000	
	To Debenture Application A/c			90,000
	(Being application money received for 3000 Deb.)			
	Debenture Application A/c Dr.		90,000	
	To 8% Debenture A/c			90,000
	(Being 3000; 8% Debenture allotted)			
	Debentures allotment A/c Dr.		1,80,000	
	Loss on issue of debenture A/c Dr.		45,000	
	To 8% Debentures A/c			2,10,000
	To Premium on redemption of debentures A/c			15,000
	(Being allotment money due)			
	Bank A/c Dr.		1,80,000	
	To Debentures Allotment A/c			1,80,000
	(Being the allotment money received)			
2021	Profit and Loss A/c Dr.		45,000	
Mar,31	To Loss on issue of Debenture A/c			45,000
	(Being the Loss on issue of debenture written off)			

Company Accounts:

Redemption of Preference Shares

REDEMPTION OF PREFERENCE SHARES

Redemption of Preference Shares

[Repayment of capital to Preference shareholders at Agreed Rate]

Conditions for Redemption

* Authorised by Articles of Association
* Preference shares cannot be redeemed unless they are fully paid up.

Redemption

Money Availability

1) Existing Bank Balance
2) Sale of Investments
3) Issue of Securities (Shares, Debentures, etc.)

W/off of Premium on Redemption (If Redemption at Premium)

- Prescribed Co's & Financial statements comply with AS u/s 133
  - a) P&L A/c
  - b) General Reserve
- Other Companies
  - a) Securities Premium
  - b) P&L A/c
  - c) General Reserve

Legal Requirement (Sec 55)

(For protection of Interests of outsiders)

Issue of Shares

OR

Transfer to CRR

Redemption

Out of capital

Fresh Issue of shares

- Equity
- Preference

Out of Profits

Capitalisation of Undistributed / Divisible Profits

Transfer to CRR (Capital Redemption Reserve)

Free Reserves A/c - Dr

To CRR A/c

Free Reserves: Those which are available for distribution of dividend

Eg. General Reserve, Revenue Reserve, P&L / Surplus A/c, etc.

Capital Redemption Reserve (CRR): It can be utilised for issuing fully paid bonus shares.

It cannot be utilised for writing off losses / preliminary expenses.

Amount to be transferred to CRR:

Nominal value of Preference shares to be redeemed	XX
(-) Nominal value of Fresh shares issued	(XX)
	XX

Partly paid up Preference shares

Case 1:

Only 1 class of Preference shares given

E.g:

1000, 13% Preference shares of 100 each, 80 paid up

* Receive pending call of 20/share
* Redeem all the Preference shares

Case 2:

2 classes of Preference shares given
1 Fully paid up & 1 Partly paid up &
Ques. is silent which one to redeem

E.g.

a) 1000, 12% Pref. shares of 100 each fully paid up
b) 5000, 9% Pref. shares of 100 each, 80 paid up
Redeem the Preference shares.

* Redeem only those which are fully paid up
* Partly paid up shares not to be redeemed & will continue as such.

Pref. sh. cap.: FV = 100 Repay PAR 100
Premium 110

ACCOUNTING ENTRIES FOR REDEMPTION OF PREFERENCE SHARES

Final call

MONEY

	Transaction	Journal Entries
1.	Calling unpaid portion of Preference Share Capital, if any	Redeemable Preference Share Final Call A/c Dr. To Redeemable Preference Share Capital A/c
2.	Receipt of Final Call Amount [Also see Note below]	Bank A/c Dr. To Redeemable Preference share final call A/c
3.	Fresh issue of Share Capital for the purpose of redemption	Bank A/c Dr. To Share Capital A/c (at Face value) To Securities Premium A/c (if at premium)
4.	Sale of Investments or Current Assets for raising funds for redemption	Bank A/c Dr. Profit and loss A/c (if sold at a loss) Dr. To Investment/ Current Assets A/c To Profit and loss A/c (if sold at profit)
5.	Transfer of preference share capital & premium on redemption (if any) to preference shareholders A/c	Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Pref. Share Dr. To Preference shareholders A/c
6.	Transferring divisible profit to capital redemption reserve account	General Reserve A/c Dr. Profit and Loss A/c Dr. Other divisible profits A/c Dr. To Capital Redemption Reserve A/c (Nominal Value of PSC to be redeemed Less Nominal value of any fresh issue of share capital)
7.	Sourcing Premium payable on Redemption of Preference share	Profit and loss A/c Dr. General Reserve A/c Dr. To Premium on Redemption of Preference shares A/c
8.	Making Payment to Preference shareholders	Preference shareholders A/c Dr. To Bank A/c

Note: Non-Payment of Final Call:

1. If final Call is made on partly paid-up Preference Shares (as per Entry 1 above), but some Preference shareholders fail to pay the call amount due, those Preference Shares can be forfeited.
2. Such Forfeited Shares are generally not re-issued, since redemption of these Shares is due immediately or in the near future.

Example 1: Preference Share Capital ₹ 2,00,000. New Issue 15,000 shares of 10 each @ 10% premium.

CRR = 200000 − (15000 × 10) = 50000

Example 2: Preference Share Capital ₹ 2,00,000. Premium on Redemption 10%.
New Issue 15,000 shares of 10 each @ 10 % premium.

CRR = 200000 − (15000 × 10) = 50000

Example 3: Preference Share Capital 2,500 shares of 100 each 80 paid up
New Issue 15,000 shares of 10 each.

Find call due & retire

Pref. sh. cap. = 2500 × 100 = 250000

CRR = 250000 − (15000 × 10) = 100000

Condition on Reserve

Example 4: Preference Share Capital ₹ 65,000 Premium on Redemption 10%
Free Reserves 48,000. P&L balance to be maintained 15,000.
Find equity shares to be issued FV= 50 each issued at a premium of 13 each.

Bal. POR w/off

Maximum tfr. to CRR = 48000 − 15000 − 6500 = 26500

Face value of Pref. shares to be redeemed = 65000

Face value of Equity shares to be issued = 65000 − 26500
= 38500

No. of shares = 38500 / 50 = 770 shares

Condition on Bank

Example 5: Preference Share Capital ₹ 2,00,000 Premium on Redemption 10%.
Existing bank balance 20,000. Investment sold for 27,500.
Minimum Bank Balance to be maintained 15,000.
Find equity shares to be issued FV= 10 each issued at 25% premium.

Bank	187500
To ESC	150000
To SP	37500

Bank A/c

To Bal b/d	20000	By PSH A/c (2L+10%)	220000
To Investment	27500	By Bal c/d	15000
To ESC & SP (B.f.)	187500		

No. of shares = 187500 / 12.5 = 15000 sh.

Funds Required

For PSH	220000
Bal.	15000
	235000

Funds available

Op. Bal.	20000
Sale of Inv.	27500
	47500
Shortfall	187500

Tfr to CRR = 200000 − (15000 × 10)
= 50000

Question 1: CA Inter May 2018(10 Marks)/ICAI Study Mat. (Similar)

Dheeraj Limited had 5,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 40,000 Equity Shares of ₹ 10 each at par

(ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.

Solution

In the books of Dheeraj Limited Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issue of 40,000 equity shares of ₹ 10 each at par as per Board's resolution No……dated…..)			
	Bank A/c Dr.		2,00,000	
	To 12% Debentures A/c			2,00,000
	(Being the issue of 2,000 Debentures of ₹ 100 each as per Board's Resolution No…..dated……)			
-	10% Redeemable Preference Share Capital A/c Dr.		5,00,000	
	Premium on Redemption of Preference shares A/c Dr.		50,000	
	To Preference Shareholders A/c			5,50,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		5,50,000	
	To Bank A/c			5,50,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c Dr.		50,000	
	To Premium on Redemption of Pref. shares A/c			50,000
	(Being Premium on redemption of preference shares written off)			
	Profit & Loss A/c Dr.		1,00,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Amount to be transferred to CRR:

Nominal Value of preference shares to be redeemed =	5,00,000
Less: Nominal Value of shares issued =	(4,00,000)
Amount =	1,00,000

Note: Proceeds of fresh issue of equity shares can be used for the purpose of redemption of preference shares but not the proceeds of issue of debentures

Question 2: RTP Nov 2018

The following are the extracts from Balance Sheet of Meera Ltd. as on 31st December, 2021.
Share capital: 60,000 Equity shares of ₹10 each fully paid – ₹ 6,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid – ₹1,50,000.
Reserve & Surplus: Capital reserve – ₹ 75,000; Securities premium – ₹ 75,000; General reserve – ₹ 1,12,500; Profit & Loss A/c – ₹ 62,500.
On 1st January 2022, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve. You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

Solution

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
-	10% Redeemable Preference Share Capital A/c Dr.		1,50,000	
	Premium on Redemption of Pref. Shares A/c Dr.		15,000	
	To Preference Shareholders A/c			1,65,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c Dr.		1,65,000	
	To Bank A/c			1,65,000
	(Being amount paid on redemption of pref. shares)			
	General Reserve A/c Dr.		1,12,500	
	Profit & Loss A/c Dr.		37,500	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c Dr.		15,000	
	To Premium on Redemption of Pref. Shares A/c			15,000
	(Being premium on redemption charged to P&L A/c)			

__Note__: Securities premium & capital reserve cannot be utilized for transfer to Capital Redemption Reserve

P&L A/c & General Reserve : Free Res.

Premium on Red. w/off

1) P&L A/c
2) Gen.Res A/c

Tfr. to CRR

1) Gen.Res.
2) P&L A/c

Question 3: ICAI Study Material

The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2021). Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹ 10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000.
Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.
Pass Journal Entries to give effect to the above arrangements.

Solution

Journal Entries

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c Dr.		25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares @ 10 per share)			
2	8% Preference Share Capital A/c Dr.		1,00,000	
	Premium on Redemption of Preference shares A/c Dr.		10,000	
	To Preference Shareholders A/c			1,10,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
3	Preference Shareholders A/c Dr.		1,10,000	
	To Bank A/c			1,10,000
	(Being amount paid on redemption of pref. shares)			
4	Profit & Loss A/c Dr.		10,000	
	To Premium on Redemption of Pref. shares A/c			10,000
	(Being Premium on redemption of preference shares written off)			
5	General Reserve A/c Dr.		60,000	
	Profit & Loss A/c Dr.		10,000	
	Investment Allowance Reserve A/c Dr.		5,000	
	To Capital Redemption Reserve A/c			75,000
	(For transfer to CRR out of divisible profits)			

Working Note:

Calculation of Number of Shares:

Face value of shares redeemed		1,00,000
Less: Profit available for distribution as dividend:		
General Reserve: (80,000-20,000)	60,000	
Profit and Loss (20,000 less 10,000 set aside for premium payable on redemption of Pref. shares	10,000	
Investment Allowance Reserve	5,000	(75,000)
		25,000

No. of shares = 25,000/10 = 2,500 shares

Question 4: ICAI Study Material

The books of B Ltd. showed the following balance on 31st December, 2023:

30,000 Equity Shares of ₹ 10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2022).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.

Preference shares are redeemed on 1st January, 2024 at a premium of ₹ 2 per share. The whereabouts of the holders of 100 shares of ₹ 10 each fully paid are not known.

For redemption, 3,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column)

Solution

Journal Entries

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Bank A/c Dr.		33,000	
	To Equity Share Capital A/c			30,000
	To Securities Premium A/c			3,000
	(Being the issue of 3,000 Equity Shares @ 11 per share)			
2	12% Preference Share Capital A/c Dr.		1,80,000	
	Premium on Redemption of Preference shares A/c Dr.		36,000	
	To Preference Shareholders A/c			2,16,000
	(Being amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
3	Preference Shareholders A/c Dr.		2,14,800	
	To Bank A/c			2,14,800
	(Being amount paid on redemption of pref. shares)			
4	Profit & Loss A/c Dr.		36,000	
	To Premium on Redemption of Pref. shares A/c			36,000
	(Being Premium on redemption of preference shares written off)			
5	General Reserve A/c Dr.		1,20,000	
	Profit & Loss A/c Dr.		30,000	
	To Capital Redemption Reserve A/c			1,50,000
	(For transfer to CRR out of divisible profits)			
6	Capital Redemption Reserve A/c Dr.		1,20,000	
	To Bonus to Shareholders A/c			1,20,000
	(For CRR utilized for bonus issue)			
7	Bonus to Shareholders A/c Dr.		1,20,000	
	To Equity Share Capital A/c			1,20,000
	(For bonus shares allotted)			

FV 10 Redeem 12

18000 < 100 ×, 17900 ✓

$\frac{216000}{18000} \times 17900$ or $216000 - (100 \times 12)$

=> 214800

Question 5: ICAI Study Material

The Balance Sheet of XYZ Ltd. as at 31st December, 2021 *inter alia* includes the following:

50,000, 8% Preference Shares of ₹ 100 each, ₹ 70 paid up	35,00,000
1,00,000 Equity Shares of ₹ 100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment & the balance on 1st January, 2023. The issue was fully subscribed & allotment made on 1st March, 2022. The money due on allotment were received by 31st March, 2022.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass necessary Journal Entries (Ignore date column).

Solution

Journal Entries

S.No.	Particulars		Amount	Amount
1	8% Preference Share Final Call A/c	Dr.	15,00,000	
	To 8% Preference Share Capital A/c			15,00,000
	(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
2	Bank A/c	Dr.	15,00,000	
	To 8% Preference Share Final Call A/c			15,00,000
	(For receipt of final call money on preference shares)			
3	Bank A/c	Dr.	10,00,000	
	To Equity Share Application A/c			10,00,000
	(For receipt of application money on 50,000 equity shares @ ₹ 20 per share)			
4	Equity Share Application A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(For capitalization of application money received)			
5	Equity Share Allotment A/c	Dr.	17,50,000	
	To Equity Share Capital A/c			12,50,000
	To Securities Premium A/c			5,00,000
	(For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)			
6	Bank A/c	Dr.	17,50,000	
	To Equity Share Allotment A/c			17,50,000
	(For receipt of allotment money on equity shares)			
7	8% Preference Share Capital A/c	Dr.	50,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	2,50,000	
	To Preference Shareholders A/c			52,50,000
	(Being amount due to preference shareholders)			
8	General Reserve A/c	Dr.	2,50,000	
	To Premium on Redemption A/c			2,50,000
	(Writing off premium on redemption of preferenceshares)			

9	General Reserve A/c	Dr.	27,50,000	
	To Capital Redemption Reserve A/c			27,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 50,00,000 – 10,00,000 - 12,50,000)			
10	Preference Shareholders A/c	Dr.	52,50,000	
	To Bank A/c			52,50,000
	(For amount paid to preference shareholders)			

Question 6: ICAI Study Material

With the help of details in above question and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the final call made under Sec 55, you are asked to pass the necessary Journal Entries assuming that the shares in default are forfeited after giving proper notice. (Ignore date column).

Solution

Journal Entries

S.No.	Particulars		Amount	Amount
1	8% Preference Share Final Call A/c	Dr.	15,00,000	
	To 8% Preference Share Capital A/c			15,00,000
	(For final call made on preference shares @ ₹ 30 each to make them fully paid up)			
2	Bank A/c	Dr.	14,40,000	
	Calls in Arrears A/c		60,000	
	To 8% Preference Share Final Call A/c			15,00,000
	(For receipt of final call money on preference shares)			
3	Bank A/c	Dr.	10,00,000	
	To Equity Share Application A/c			10,00,000
	(For receipt of application money on 50,000 equity shares @ ₹ 20 per share)			
4	Equity Share Application A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(For capitalization of application money received)			
5	Equity Share Allotment A/c	Dr.	17,50,000	
	To Equity Share Capital A/c			12,50,000
	To Securities Premium A/c			5,00,000
	(For allotment money due on 50,000 equity shares @ ₹ 35 per share including a premium of ₹ 10 per share)			
6	Bank A/c	Dr.	17,50,000	
	To Equity Share Allotment A/c			17,50,000
	(For receipt of allotment money on equity shares)			
7	8% Preference Share Capital A/c	Dr.	48,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	2,40,000	
	To Preference Shareholders A/c			50,40,000
	(For amount payable to preference shareholders on redemption at 5 % premium)			
8	General Reserve A/c	Dr.	2,40,000	
	To Premium on Redemption A/c			2,40,000
	(Writing off premium on redemption of preferenceshares)			

9	General Reserve A/c	Dr.	25,50,000	
	To Capital Redemption Reserve A/c			25,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 48,00,000 – 10,00,000 - 12,50,000)			
10	Preference Shareholders A/c	Dr.	50,40,000	
	To Bank A/c			50,40,000
	(For amount paid to preference shareholders)			
11	8% Preference Share Capital A/c	Dr.	2,00,000	
	To Calls in Arrears A/c			60,000
	To Share Forfeited A/c			1,40,000
	(For 2,000 shares forfeited)			
12	Share Forfeited A/c	Dr.	1,40,000	
	To Capital Reserve A/c			1,40,000
	(For forfeited amount transferred to capital reserve)			

Question 7: (CA Inter May 2019)

The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2022 is as follows:

Particulars	₹
EQUITY AND LIABILITIES	
1. Shareholders' funds	
Share capital	5,80,000
Reserves and Surplus	96,000
2. Current liabilities	
Trade Payables	1,13,000
TOTAL	7,89,000
ASSETS	
1. Non Current Assets	
Property, Plant & Equipment & Intangible Assets	
Property, Plant & Equipment	6,90,000
Non Current Investments	37,000
2. Current Assets	
Cash and cash equivalents (bank)	62,000
TOTAL	7,89,000

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2019).

Reserves and Surplus comprises statement of profit and loss only. In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to pass Journal Entries to record the above transactions.

Solution

Journal Entries

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		75,000	
1	To Share Application A/c			75,000
	(For application money received)			
	Share Application A/c Dr.		75,000	
2	To Equity Share Capital A/c			62,500
	To Securities Premium A/c			12,500
	(For transfer of application money received)			
	8% Preference Share Capital A/c Dr.		1,30,000	
Due 3	Premium on Redemption of Pref. shares A/c Dr.		13,000	
	To Preference Shareholders A/c			1,43,000
	(Being amount due to Pref. Shareholders A/c)			
	Bank A/c Dr.		30,000	
Sale 4	Profit & Loss A/c Dr.		7,000	
	To Investments A/c			37,000
	(Being investments sold at loss)			
Payment	Preference Shareholders A/c Dr.		1,43,000	
5	To Bank A/c			1,43,000
	(Being amount paid on redemption of pref. shares)			
	Profit & Loss A/c Dr.		13,000	
6	To Premium on Red. of Pref. shares A/c			13,000
	(Being Premium on redemption written off)			
	Profit & Loss A/c Dr.		67,500	
	To Capital Redemption Reserve A/c			67,500
7	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds i.e., 1,30,000 - 62,500)			

Working Note:

Calculation of Number of Shares:

Amount payable on redemption (1,30,000 + 10% Premium)	1,43,000
Less: Sale price of investment	(30,000)
	1,13,000
Less: Available bank balance (62,000 - 24,000)	(38,000)
Funds required from fresh issue	75,000

No. of shares = 75,000/60 = 1,250 shares

Req: 143000
24000
167000

Available 62000
30000
92000

75000

Company Accounts: Accounting for Bonus Issue & Right Issue

Bonus Issue

Issuing Fully paid Bonus Shares (Sec 63)

Existing capital: 200000 equity shares of 10 each

Bonus scheme: 1 for every 4 held

Bonus shares: $200000 \times \frac{1}{4} = 50000$ shares

Value: $50000 \times 10 = 500000$

Converting partly paid shares into fully paid (Reg. 39 - Table F)

Existing capital: 200000 equity shares of 10 each, 8 paid up

Bonus scheme: Convert partly paid into fully paid

Paid up capital: $200000 \times 8 = 1600000$

Final call due = Bonus value

$= 200000 \times 2 = 400000$

Sources

- **Issuing Fully paid Bonus Shares (Sec 63)**
  - Capital Redemption Reserve (CRR)
  - Securities Premium
    - For Listed companies as per SEBI Reg. 294 Only securities Premium collected in cash can be utilised
  - Free Reserves
- **Converting partly paid Shares into fully paid (Reg. 39 - Table F)**
  - Free Reserves

Sec 2(43)

* Which are available for distribution as dividend
* Does not include unrealised gain, notional gain, revaluation gain, change in carrying amount of assets or liabilities.

* REVALUATION RESERVE cannot be utilised for issue of bonus shares

Bonus Issue

Reserve & Surplus	Issuing Fully paid Bonus Shares	Converting partly paid Shares into fully paid
1) CRR (Capital Redemption Reserve)	✓	X
2) Securities Premium		
a) In cash	✓	X
b) Without cash	X	X
3) Capital Reserve		
a) In cash	✓	✓
b) Without cash	X	X
4) General Reserve / Revenue Reserve	✓	✓
5) P&L A/c / Surplus	✓	✓

Journal Entries

Issuing Fully paid Bonus Shares

1) CRR A/c - Dr

In cash [Sec. Premium A/c - Dr

Capital Reserve A/c - Dr]

General Reserve A/c - Dr

P&L / Surplus A/c - Dr

To Bonus to shareholders A/c

2) Bonus to Shareholders A/c - Dr

To Equity Share capital A/c

Converting partly paid Shares into fully paid

1) Share Final call A/c - Dr

To Equity Share capital A/c

2) Capital Reserve A/c - Dr (In cash)

General Reserve A/c - Dr

P&L / Surplus A/c - Dr

To Bonus to shareholders A/c

3) Bonus to shareholders A/c - Dr

To Share Final call A/c

Right Issue

* Issue of rights to existing shareholders that entitles them to buy additional shares directly from company in proportion to their existing holdings.
* Right Price is generally lower than current Market Price
* Rights are often transferable, allowing holder to sell them in open market.
* Control does not get diluted

Example:

Issued & subscribed capital 100000 shares   Right Issue: 1 for every 10 held

$$\text{Total Right Shares} = 100000 \times \frac{1}{10} = 10000 \text{ shares}$$

Shareholder A holding 5000 shares may subscribe 500 shares

$$\text{Before Right Issue} = \frac{5000}{100000} \times 100 = 5\%$$

$$\underset{\text{(Opted)}}{\text{After Right Issue}} = \frac{5500}{110000} \times 100 = 5\%$$

* A may renounce his right in favour of B for a price called value of right.
(% of holding will dilute)

Value of Right = Cum Right value of Share − Ex-Right value of Share

Market Price of share before Right Issue − Market Price of share after Right Issue (Average Price)

$$\text{Ex-Right value of share} = \frac{\left(\text{No. of shares before Right} \times \text{Cum-Right Price}\right) + \left(\text{Right Shares} \times \text{Right Price}\right)}{\text{No. of shares before Right} + \text{Right shares}}$$

Example: Face value of share = 10 Cum Right Price = 50 Right Issue Price = 28

Right Issue scheme = 1 for every 10 held

$$\text{Ex-Right value of share} = \frac{(10 \times 50) + (1 \times 28)}{10+1} = 48$$

$$\text{Value of Right} = 50 - 48 = \boxed{2}$$

* Any one desirous of having confirmed allotment of 1 share from company at 28 will have to pay 20 (2 X 10) to existing shareholder holding 10 shares & willing to renounce his right of buying 1 share in favour of that person.

ACCOUNTING FOR BONUS ISSUE & RIGHT ISSUE

BONUS ISSUE

Means issue of additional shares to existing shareholders free of cost in proportion to their existing holding.

Section 63(1) A company may issue fully paid-up bonus shares to its shareholders out of—
- → its free reserves;
- → the securities premium account; or
- → the capital redemption reserve account:

Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).

Section 63(2) provides that no company shall capitalize its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—
(a) it is authorised by its articles;
(b) it has on the recommendation of Board been authorised in the general meeting of company
(c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
(d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
(e) the partly paidup shares, if any outstanding on the date of allotment, are made fully paidup.
The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Section 63(3) provides that the bonus shares shall not be issued in lieu of dividend.

As per Para 39 (i) of Table F under Schedule I to the Companies Act, 2013, a company can utilize free reserves which are available for distribution of dividend, for the purpose of converting partly paid shares into fully paid up.
A Securities Premium A/c and a Capital Redemption Reserve A/c may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, Securities premium A/c and capital redemption reserve cannot be applied towards payment of unpaid amount on any shares held by existing shareholders.

SEBI Regulations (Issue of Capital & Disclosure Requirements), 2018 Regulation 294- Restrictions on bonus issue
➢ An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof. ➢ They shall be issued at the time of conversion of such instruments on the same terms or proportion at which the bonus shares were issued. ➢ A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalised for this purpose. ➢ The bonus share shall not be issued in lieu of dividend

Question 1: ICAI Study Material

Following items appear in the trial balance of Saral Ltd. as on 31st March, 2023:

4,500 Equity shares of ₹ 100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	45,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Saral Ltd.

Solution

Journal Entries in the books of Saral Ltd.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
-	Capital Redemption Reserve A/c Dr.		70,000	
	Securities Premium A/c Dr.		40,000	
	General Reserve A/c (B.f.) Dr.		40,000	
	To Bonus to Shareholders A/c			1,50,000
	(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …)			
-	Bonus to Shareholders A/c Dr.		1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being capitalization of Profit)			

Working Note- Number of bonus shares to be issued- 4500/3 X 1 = 1500 shares

Question 2: ICAI Study Material

Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 2023

Authorised capital : 15,000 12% Preference shares of ₹ 10 each 1,50,000 Equity shares of ₹ 10 each	 1,50,000 15,00,000 16,50,000
Issued and Subscribed capital: 12,000 12% Preference shares of ₹ 10 each fully paid 1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	 1,20,000 10,80,000
Reserves and Surplus : General reserve Capital Redemption reserve Securities premium (collected in cash) Profit and Loss Account	 1,80,000 60,000 37,500 3,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.
Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue.

Solution

Journal Entries in the books of Preet Ltd.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1/4/23	Equity share Final call A/c Dr.		2,70,000	
	To Equity share capital A/c			2,70,000
	(Being final call due)			
20/4/23	Bank A/c Dr.		2,70,000	
-	To Equity share Final call A/c			2,70,000
	(Being final call received)			
	Securities Premium A/c Dr.		37,500	
	Capital Redemption Reserve A/c Dr.		60,000	
	General Reserve A/c Dr.		1,80,000	
	Profit & Loss A/c (Bal.Fig.) Dr.		60,000	
	To Bonus to Shareholders A/c			3,37,500
	(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …)			
	Bonus to Shareholders A/c Dr.		3,37,500	
	To Equity Share Capital A/c			3,37,500
	(Being capitalization of Profit)			

Extract of Balance Sheet as at 30th April, 2023 (after bonus issue)

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
Share Capital	1	18,07,500
Reserves & Surplus	2	2,40,000

Notes to Accounts

		Amount
1.	Share Capital	
	Authorised Capital	
	15,000 12% Preference shares of ₹10 each	1,50,000
	1,68,750 Equity shares of ₹10 each, fully paid	16,87,500
	Issued & Subscribed Capital	
	12,000 12% Preference shares of ₹10 each, fully paid	1,20,000
	1,68,750 Equity shares of ₹10 each, fully paid	16,87,500
	(Out of above, 33,750 equity shares were issued by way of bonus)	
	Total	18,07,500
2.	Reserves and Surplus	
	Profit and Loss Account	2,40,000
	Total	2,40,000

Working Note:

1. Number of Bonus shares to be issued- (1,35,000 shares / 4) X 1 = 33,750 shares
2. The Authorised Capital should be increased as per details given below:

Existing Issued Equity share Capital	13,50,000
Add: Issue of Bonus shares to the existing shareholders	3,37,500
	16,87,500

Question 3: CA Inter Jan 2021 (5 Marks)

Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2023:

	₹
80,000 equity shares of ₹ 10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹ 45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital redemption reserve	75,000
Securities premium	60,000
General reserve	2,10,000
Profit and loss account (Cr. Balance)	1,00,000

On 1st April, 2023, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2021. On 1st June, 2023, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. Pass necessary journal entries in the Books of Star Ltd.

Solution

Journal Entries in the books of Star Ltd.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1/4/23	Equity share Final call A/c Dr.		1,60,000	
	To Equity share capital A/c			1,60,000
	(Being final call due)			
April 23	Bank A/c Dr.		1,60,000	
	To Equity share Final call A/c			1,640,000
	(Being final call received)			
1/6/23	Capital Redemption Reserve A/c Dr.		75,000	
	Capital Reserve A/c Dr.		45,000*	
	Securities Premium A/c Dr.		60,000	
	General Reserve A/c (b.f.) Dr.		1,40,000**	
	To Bonus to Shareholders A/c			3,20,000
	(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …)			
-	Bonus to Shareholders A/c Dr.		3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Being capitalization of Profit)			

* considering it as free reserve as it has been realized

** Alternatively, different combination of profit and loss balance and general reserve may also be used.

Question 4: ICAI Study Material

Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Solution

Journal Entries

S.No.	Particulars	L.F.	Dr. Amount	Cr. Amount
(i)	Equity share Final call A/c Dr.		1,25,000	
	To Equity share capital A/c			1,25,000
	(Being final call due)			
	General Reserve A/c Dr.		1,25,000	
	To Bonus to Shareholders A/c			1,25,000
	(Being issue of bonus shares by utilization of Reserves, as per resolution dated …)			
	Bonus to Shareholders A/c Dr.		1,25,000	
	To Equity Share Final Call A/c			1,25,000
	(Being capitalization of Profit)			
(ii)	General Reserve A/c Dr.		5,00,000	
	To Bonus to Shareholders A/c			5,00,000
	(Being issue of bonus shares by utilization of Reserves, as per resolution dated …)			
	Bonus to Shareholders A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being capitalization of Profit)			

Bonus sh. = $5L \times \frac{1}{10}$ = 50000 sh.

Amt. = 50000 × 10 = 5,00,000

Question 5: CA Inter May 2023 (5 Marks)

Storek Limited has a subscribed capital of ₹ 21,00,000 in Equity Share Capital consisting of 1,50,000 shares of ₹ 10 each fully paid and 1,00,000 shares of ₹ 10 each, called up capital ₹ 6 per share. On 01.04.2023 the company decides to convert the partly paid-up shares into fully paid-up shares by way of bonus issue and holders of fully paid-up shares are also allotted fully paid-up bonus share in the same ratio.

The following figures appear in trial balance of Storek Limited as on 31.03.2023:

	(₹)
Capital Redemption Reserve	80,000
Capital Reserve	1,00,000
Securities Premium	2,20,000
General Reserve	12,50,000
Surplus (credit balance in Profit & Loss Account)	2,40,000

FV PU
150000 10 10
100000 10 6
Paidup : 6L Bonus: 4L
: 15L $\frac{4L}{6L} \times 15L$
10L

Securities Premium Account includes a premium of ₹ 75,000 for shares issued to vendors pursuant to a scheme of absorption. It was decided that there should be minimum reduction in free reserves. You are required to pass necessary Journal Entries.

Solution

Journal Entries in the Books of Storek Limited

Sr.No.	Particulars	Debit ₹	Credit ₹
(i) (a)	General Reserve A/c Dr.	4,00,000	
	To Bonus to Equity Shareholders A/c		4,00,000
	(Being transfer of ₹ 4,00,000 from General Reserve to make the partly paid-up shares fully paid up) (1,00,000 x 4)		
(b)	Equity Share Final Call A/c Dr.	4,00,000	
	To Equity Share Capital A/c		4,00,000
	(Being final call due on 1,00,000 shares @ ₹ 4 per share)		
(c)	Bonus to Equity Shareholders A/c Dr.	4,00,000	
	To Equity Share Final Call A/c		4,00,000
	(Being Bonus money applied for final call)		
(ii)(a)	Capital Redemption Reserve A/c Dr.	80,000	
	Security Premium A/c (₹ 2,20,000 – ₹ 75,000) Dr.	1,45,000	
	General Reserve A/c Dr.	7,75,000	
	To Bonus to Equity Shareholder A/c		10,00,000
	(Being bonus issue) (4,00,000 / 6,00,000 x 15,00,000)		
(b)	Bonus to Equity Shareholder A/c Dr.	10,00,000	
	To Equity Share Capital A/c		10,00,000
	(Being Bonus Shares issued to fully paid- up shareholders)		

Working Note:

Value of fully paid-up shares to partly paid-up shares = 15,00,000: 6,00,000 or 5:2.
Therefore, Bonus to be issued to fully paid up if ₹ 4,00,000 bonus issued to partly paid up will be = ₹ 4,00,000 x 5 / 2 = ₹ 10,00,000.

Note:

1. Securities premium account and capital redemption reserve account may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, securities premium account and capital redemption reserve cannot be applied towards payment of unpaid amount on any shares held by existing shareholders.
2. Question is silent on Capital Reserve whether realized in cash or not. Hence it is assumed that not realized in cash and therefore not available for free reserves in the above solution.

RIGHT ISSUE

It is an issue of rights to company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price.

- *Rights are often transferable, allowing the holder to sell them in the open market.*
- *The difference between cum-right and ex-right value of the share is the value of the right.*

In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

Advantages of Right Issue
➢ Right issue <u>enables the existing shareholders to maintain their proportional holding</u> in the company and retain their financial and governance rights. ➢ It works as a <u>deterrent to the management</u>, which may like to issue shares to known persons with a view to have a better control over the company's affairs. ➢ Right issue is a natural <u>hedge against the issue expenses</u> normally incurred by the company in relation to public issue. ➢ Right issue has an <u>image enhancement</u> effect, as public & shareholders view it positively ➢ The <u>chance of success</u> of a right issue is better than that of a general public issue and is logistically much easier to handle.
Disadvantages of Right Issue
➢ The right issue invariably leads to <u>dilution in market value</u> of the share of the company. ➢ The <u>attractive price</u> of the right issue should be <u>objectively assessed against its true worth</u> to ensure that you get a bargained deal.

Right issue has following major effects:

- Maintenance of existing shareholders' proportional holding in company and retain their financial and governance rights.
- Dilution in the value of share.
- Image enhancement
- Convenience in handling issue

Question 6: ICAI Study Material / RTP May 2020

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of right. What should be the ex-right market price of share?

Solution

Ex-right value of shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + Rights Number of shares)

= (₹ 240 x 2 Shares + ₹ 120 x 1 Share) / (2 + 1) Shares

= ₹ 600 / 3 shares = ₹ 200 per share.

Value of right = Cum-right value of the share–Ex-right value of the share

= ₹ 240 – ₹ 200 = ₹ 40 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 120 will have to pay ₹ 80 (2 shares x ₹ 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

Question 7: RTP May 2023

A company having 100,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31.
Calculate value of right & pass necessary journal entry in the books of company.

Solution

Ex-right value of shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + Rights Number of shares)

= (₹ 46 x 10 Shares + ₹ 31 x 1 Share) / (10 + 1) Shares

= ₹ 44.6 per share.

Value of right = Cum-right value of the share–Ex-right value of the share

= ₹ 46 – ₹ 44.6 = ₹ 1.4 per share.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
-	Bank A/c Dr.		3,10,000	
	To Equity Share Capital A/c			1,00,000
	To Securities Premium A/c			2,10,000
	(Being 10,000 right shares issued @31)			

Question 8: ICAI Study Material

A Ltd company having share capital of 25,000 equity shares of ₹ 10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value.
Assuming all the shareholders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

Solution

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
-	Bank A/c Dr.		62,500	
	To Equity Share Capital A/c			62,500
	(For rights share issued at par value in the ratio of 1:4 equity shares due as per Board's Resolution dated….)			

Working Note:
Number of Rights shares to be issued- 25,000/4x1= 6,250 shares

Question 9: ICAI Study Material

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2023:

	₹
Authorised capital: 50,000 12% Preference shares of ₹ 10 each 5,00,000 equity shares of ₹ 10 each	 5,00,000 50,00,000 55,00,000
Issued and subscribed capital: 50,000 12% Preference shares of ₹ 10 each 4,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	 5,00,000 32,00,000
Reserves & Surplus General Reserve Capital Redemption Reserve Securities Premium Account (collected in cash) Revaluation Reserve Profit & Loss Account	 1,60,000 2,40,000 2,75,000 1,00,000 16,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2023. Thereafter, on 1st May 2023 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2023, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2023.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

Solution

Bonus Sh. = $4L \times \frac{1}{4}$ = 1L Shares

Right Sh. = ~~4L~~ 5L × 2/5 = $\boxed{2L}$ (4L+1L)

Journal Entries in the Books of Mars Company Ltd.

2023			Dr. (₹)	Cr. (₹)
April 1	Equity Share Final Call A/c (4L × 2)	Dr.	800000	
	To Equity Share Capital A/c			800000
	(Final call on 4,00,000 equity shares made due)			
April 25	Bank A/c	Dr.	800000	
	To Equity Share Final Call A/c			800000
	(Final call money on equity shares received)			
May 1	Capital Redemption Reserve A/c	Dr.	240000	
	Securities Premium A/c	Dr.	275000	
	General Reserve A/c	Dr.	160000	
	Profit and Loss A/c (B.f.)	Dr.	325000	
	To Bonus to Shareholders A/c (1L × 10)			1000000
	(Bonus issue of one share for every 4 held, by utilising various reserves)			
	Bonus to Shareholders A/c	Dr.	1000000	
	To Equity Share Capital A/c			1000000
	(Capitalization of profit)			
June 20	Bank A/c (2L × 12)	Dr.	2400000	
	To Securities Premium A/c 2			400000
	To Equity Share Capital A/c 10			2000000
	(Being Right issue of 2 shares for every 5 shares held as per board resolution dated…)			

Company Accounts: Redemption of Debentures

Debenture Redemption Reserve

Company shall create DRR out of profits of the company available for payment of dividend & the amount credited to such account shall not be utilised by company for any purpose other than redemption of debentures.

Entry:

P&L / Surplus A/c - Dr
To DRR A/c

- After redemption of debentures, balance of DRR is transferred to General Reserve.
- In respect of partly convertible debentures, DRR shall be created in respect of non convertible portion.

Investment of DRR Amount

Company shall before 30th April of each year deposit / invest a sum not less than 15% of amount of debentures maturing during the year ending 31st March next in any one or more of prescribed modes.

Adequacy of DRR

- All India Financial Institutions (AIFI) regulated by RBI & Banking companies for public as well as privately placed Deb.
  - No DRR
  - DRRI x
- Other Financial Institutions [Sec 2(72)]
  - DRR as applicable to Registered NBFC's
  - DRRI x
- Listed companies (Other than Sr. No. 1)
  - (A) Listed NBFC's* & Housing Finance Co's** for public as well as privately placed Debentures
    - No DRR
    - DRRI ✓
  - (B) Other listed companies for public as well as privately placed Deb.
    - No DRR
    - DRRI ✓
- Unlisted companies (Other than Sr. No. 1)
  - (A) Unlisted NBFC's* & HFC's** for privately placed Deb.
    - No DRR
    - DRRI x
  - (B) Other Unlisted companies
    - DRR = 10% of Amt. of Debentures
    - DRRI ✓

* Registered with RBI

** Registered with National Housing Bank

Methods of Redemption of Debentures

1. Redemption in Lumpsum after specified period

1) Creation of DRR

P&L A/c - Dr
  To DRR A/c

2) Purchase of DRR Investment

DRR Investment A/c - Dr
  To Bank A/c

3) Receipt of Interest on DRR Inv.

Bank A/c - Dr
  To Interest on DRR Inv. A/c

4) Transfer of Interest on DRR Inv.

Interest on DRR Inv. A/c - Dr
  To P&L A/c

(Assuming Non cumulative)

5) Making Payment Due to Debentureholders

a) PAR

– % Debentures A/c – Dr

To Debentureholders A/c

b) PREMIUM

– % Debentures A/c – Dr

Premium on Redemption A/c – Dr

To Debentureholders A/c

c) DISCOUNT

– % Debentures A/c – Dr

To Debentureholders A/c

To Profit on Redemption A/c

6) Sale of DRR Investments

Bank A/c – Dr

To DRR Investments

(Any Profit/Loss to be trfd. to P&L A/c)

7) Payment

Debentureholders A/c – Dr

To Bank A/c

8) Transfer of DRR

DRR A/c – Dr

To General Reserve

9) Write off of Premium on Redemption*

P&L A/c – Dr

General Reserve A/c – Dr

To Premium on Redemption

* If not created at time of Issue

2. Redemption by Draw of lots

Entries in this method remains the same except that entries shall be passed on regular basis at the time of each redemption.

3. Redemption by Conversion

1) It means redeeming the debentures by converting them into shares.

2) A scheme for such redemption may be offered to debentureholders & those who do not accept the same may be given cash.

Entries:

1) Due: Same as earlier

2) Conversion

a) At Par

Debentureholders A/c - Dr
    To Share capital A/c

b) At Premium

Debentureholders A/c - Dr
    To Share capital A/c
    To Securities Premium A/c

REDEMPTION OF DEBENTURES

MEANING OF DEBENTURE

A debenture is an instrument issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

LEGAL PROVISIONS

- Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.
- Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.
- Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.
- If a charge has been created on any asset or the entire assets of the company, the nature of the charge & the asset(s) charged are described therein.
- Debentures are usually redeemable i.e. either redeemed in cash or convertible after a time period. Redeemable debentures may be redeemed:
    - after a fixed number of years; or
    - any time after a certain number of years has elapsed since their issue; or
    - on giving a specified notice; or
    - by annual drawing.

DEBENTURE REDEMPTION RESERVE (DRR)

A company issuing debentures may be required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures.
Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment.
In case of partly convertible debentures, DRR shall be created in respect of nonconvertible portion of debenture issue.

ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below—

- the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
- the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S.No.	Debentures Issued by	Adequacy of DRR
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required
2.	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3.	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	
a.	All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required
b.	Other listed companies for both public as well as privately placed debentures	No DRR is required
4.	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above	
a.	All unlisted NBFCs (registered with RBI u/s 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
b.	Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies are required to make DRR Investment

- All listed NBFCs
- All listed HFCs
- All other listed companies (other than AIFIs, Banking Companies and Other FIs); and
- All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

(a) in deposits with any scheduled bank, free from charge or lien;
(b) in unencumbered securities of the Central Government or of any State Government;
(c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
(d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year.

Question 1: ICAI Study Material

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) on 1-4-2021:

(a) 12 % Debentures ₹ 7,50,000

(b) Balance of DRR ₹ 25,000

(c) DRR Investment 1,12,500 represented by 10% 1,125 secured bonds of government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March each year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investments were realized at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(1) Debentures Account
(2) DRR Account
(3) DRR Investment Account
(4) Bank Account
(5) Debenture Holders Account

DRR = 750000 X 10% = 75000
− Existimg = (25000)
Shortfall 50000

DRR Inv = 750000 X 15% = 112500

Solution

12% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31/3/22	To Deb holders	750000	1/4/21	By Bal b/d	750000

DRR Account

Date	Particulars	₹	Date	Particulars	₹
31/3/22	To General Res. A/c	75000	1/4/21	By Bal b/d	25000
			1/4/21	By P&L A/c	50000

10% Secured Bonds of Govt. (DRR Investment) A/c

Date	Particulars	₹	Date	Particulars	₹
1/4/21	To Bal b/d	112500	31/3/22	By Bank A/c	112500

Bank A/c

Date	Particulars	₹	Date	Particulars	₹
31/3/22	To Bal b/d	750000	31/3/22	By Deb-holders A/c	825000
	To Int. on DRR Inv. (112500 X 10%)	11250			
	To DRR Inv. A/c	112500	31/3	By Bal c/d (B.F.)	48750

Debenture holders A/c

Date	Particulars	₹	Date	Particulars	₹
31/3/22	To Bank A/c	825000	31/3/22	By 12% Debentures A/c	750000
				By Premium on Red. A/c (750000 X 10%)	75000

Premium on Red. A/c

Date	Particulars	₹	Date	Particulars	₹
31/3	To Deb-holders	25000	31/3	By P&L A/c	25000

Question 2: ICAI Study Material

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021:

6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with scheduled bank free from any charge or lien ₹ 1,50,000, at interest 4% p.a. receivable on 31st December every year.

Bank Balance with company is ₹ 9,00,000. The Interest on debentures had been paid up to December 31, 2021. On February 28, 2022, the investments were realized at par and the debentures were paid off at 101, together with accrued interest. Write up the ledger accounts concerned.

Int on DRR Inv. A/c

To P&L A/c	1000	By Bank A/c	1000

Solution

6% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
28/2	To Deb-holders A/c	1000000	1/1/22	By Bal b/d	10,00,000

DRR Account

Date	Particulars	₹	Date	Particulars	₹
28/2	To General Res. A/c	100000	1/1/22	By Bal b/d	50000
			1/1/22	By P&L A/c (10L × 10%) − 50000	50000

DRR Investment A/c (4% Investment) (10L × 15%)

Date	Particulars	₹	Date	Particulars	₹
1/1/22	To Bal b/d	1,50,000	28/2	By Bank A/c	150000

Bank A/c

Date	Particulars	₹	Date	Particulars	₹
1/1/22	To Bal b/d	9,00,000	28/2	By Interest on deb. A/c (10L × 6% × 2/12)	10000
28/2	To Int. on DRR Inv. (150000 × 4% × 2/12)	1,000	28/2	By Deb-holders A/c	1010000
28/2	To DRR Inv. A/c	150000	28/2	By Bal c/d (B.f.)	31000

Debenture holders A/c

Date	Particulars	₹	Date	Particulars	₹
28/2	To Bank A/c	1010000	28/2	By 6% Debentures A/c	1000000
				By Premium on Red. A/c	10000

Premium on Redemption of Debentures Account

Date	Particulars	₹	Date	Particulars	₹
28/2	To Deb-holders A/c	10,000	28/2	By P&L A/c	10000

Debenture Interest Account

Date	Particulars	₹	Date	Particulars	₹
28/2	To Bank A/c	10000	28/2	By P&L A/c	10000

Question 3: ICAI Study Material

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued 2,00,000; face value and issue price ₹ 100 per debenture.

(b) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

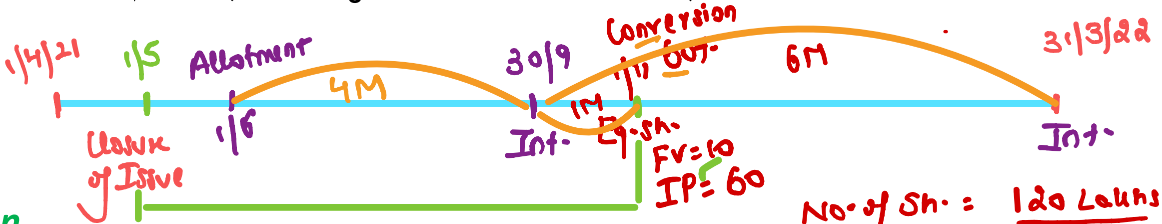
(c) Date of closure of subscription lists 1.5.2021, date of allotment 1.6.2021, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).

(d) No. of debentures applied for 2,00,000.

(e) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

15% Deb. 200000
FV = IP = 100



Solution

No. of Sh. = $\frac{120 \text{ Lakhs}}{60}$ = 2 Lakh Shares

Journal Entries

Date	Particulars		Dr.	Cr.
1/5/21	Bank A/c (2L × 100)	Dr.	2,00,00,000	
	To Debenture Application & Allotment A/c (Application money received)			2,00,00,000
1/6/21	Debenture Application and allotment A/c	Dr.	2,00,00,000	
	To 15% Debentures A/c (Allotment of debentures to applicants)			2,00,00,000
1/6/21	Debenture Redemption Investment A/c	Dr.	12,00,000	
	To Bank account (2cr × 40%) × 15%			12,00,000
	(Being investments made for redemption)			
30/9/21	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c (2cr × 15%) × 4/12 (Interest paid on debentures)			10,00,000
1/11/21	15% Debentures A/c (2cr × 60%)	Dr.	1,20,00,000	
	To Equity share Capital A/c (2L × 10)			20,00,000
	To Securities Premium A/c (2L × 50) (Conversion of 60% of debentures into shares)			1,00,00,000
31/3/22	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c (Interest paid on debentures for the half year)			7,50,000
31/3/22	Profit & Loss A/c	Dr.	17,50,000	
	To Debenture Interest (10L + 7.50L) (Being interest on debenture charged to profit & loss A/c at the year end)			17,50,000

Working notes:

Calculation of Debenture Interest for the half year ended 31st March, 2022

(2cr × 60%) × 15% × 1/12 : Oct	150000
(2cr × 40%) × 15% × 6/12 : Oct to March	600000
Total	750000

Question 4: ICAI Study Material

A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debentureholders holding 2,500 debentures did not exercise the option.
Calculate no. of equity shares to be allotted to Debentureholders exercising the option to the maximum.

Solution

Total No. of Debentures = 20000
- Option not exercised = (2500) → Cash 100%

17500

80% : 14000 Cash

20% portion convertible 3500
(17500 × 20%)

FV = 100 RV = 105

Redemption value = 3500 × 105 = 367500

Eq. Share FV = 10 IP = 15

No. of Eq. shares = $\frac{367500}{15}$ = 24500 shares

Cash
(2500 + 14000) × 105
= 1732500

Question 5: ICAI Study Material

XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue.
You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Solution

Nom. value of Deb. opted for conversion = ₹ 20000

No. of Deb. = $\frac{20000}{100}$ = 200 deb.

Convertible portion : 20%

No. of deb. to be converted into shares
200 × 20% = 40
FV = 100 RV = 105
Value = 40 × 105 = 4200
FV = 10 IP = 20
No. of Shares = $\frac{4200}{20}$ = 210 shares.

No. of deb. to be given cash
200 × 80% = 160
FV = 100 RV = 105
Value = 160 × 105 = 16800
(Cash)

Question 6: ICAI Study Material

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2023 is as under:

	Particulars	Note No	₹
I.	Equity and liabilities		
(1)	Shareholder's Funds		
(a)	Share Capital	1	2,00,000
(b)	Reserves and Surplus	2	1,20,000
(2)	Non-current liabilities		
(a)	Long term borrowings	3	1,20,000
(3)	Current Liabilities		
(a)	Trade payables		1,15,000
	Total		5,55,000
II.	Assets		
(1)	Non-current assets		
(a)	Property, Plant and Equipment	4	1,15,000
(2)	Current assets		
(a)	Inventories		1,35,000
(b)	Trade receivables		75,000
(c)	Cash and bank balances	5	2,30,000
	Total		5,55,000

Notes to Accounts

	Particulars		₹
1.	Share Capital		
	Authorised share capital:		3,00,000
	30,000 shares of ₹ 10 each fully paid		
	Issued and subscribed share capital		
	20,000 shares of ₹ 10 each fully paid		2,00,000
2.	Reserve and Surplus		
	Profit & Loss Account		1,20,000
3.	Long term borrowings		
	12% Debentures		1,20,000
4.	Property, Plant and Equipment		
	Freehold property		1,15,000
5.	Cash and bank balances		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to bonus distribution). This option was taken up by all the shareholders.

b) To issue one bonus share for every five shares held.

c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

Right No. of shares : $20000 \times \frac{1}{4} = 5000$ sh.

Bonus Existing = $20000 + 5000 = 25000$ sh.

Bonus = $25000 \times \frac{1}{5} = 5000$ sh.

Solution

Journal Entries in Books of BEE Co. Ltd

		Particulars	Dr.	Cr.
	1	Bank A/c Dr.	75,000	
		To Equity Shareholders A/c		75,000
		(Application money received on 5,000 shares @ ₹15 per share to be issued as rights shares in the ratio of 1:4)		
	2	Equity shareholders A/c Dr.	75,000	
		To Equity share capital A/c		50,000
		To Securities Premium A/c (Share application money on 5,000 shares @ ₹10 per share transferred to share capital account, and ₹5 per share to securities premium account)		25,000
	3	Securities Premium A/c Dr.	25,000	
		Profit & loss A/c Dr.	25,000	
		To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated…)		50,000
	4	Bonus to Shareholder A/c Dr.	50,000	
		To equity share capital A/c (Issue of bonus share in the ratio of 1 for 5 vide Board's resolution)		50,000
DRR	5	Profit & Loss A/c Dr.	12,000	
		To Debenture Redemption Reserve A/c (DRR created 1,20,000 * 10%)		12,000
DRR Inv.	6	Debenture Redemption Reserve Investment A/c Dr.	18,000	
		To Bank A/c (DRRI made 1,20,000 * 15%)		18,000
Due	7	12% Debentures A/c Dr.	1,20,000	
		Premium payable on redemption a/c Dr.	3,600	
		To Debenture holders A/c (Amount payable to debentures holders)		1,23,600
W/off	8	Profit & Loss A/c Dr.	3,600	
		To Premium payable on redemption A/c (Premium payable on redemption charged to profit & loss A/c)		3,600
Sale	9	Bank A/c Dr.	18,000	
		To Debenture Redemption Reserve Investment A/c (Being investment sold)		18,000
Tfr	10	Debenture Redemption Reserve A/c Dr.	12,000	
		To General Reserve (DRR transferred to general reserve)		12,000
Payment	11	Debenture holders A/c Dr.	1,23,600	
		To Bank A/c (Amount paid to debenture holders on redemption)		1,23,600

Bills of Exchange & Promissory Note

BILLS OF EXCHANGE & PROMISSORY NOTES

BILL OF EXCHANGE – MEANING AND FEATURES

Meaning:

As per Sec. 5 of the Negotiable Instruments Act, 1881, a Bill of Exchange (B/E) is —

- an instrument in writing,
- containing an unconditional order,
- signed by the Maker,
- directing a certain person,
- to pay a certain sum of money only,
- to, or to the order of a certain person or to the Bearer of the instrument.

Note: When prepared by the Maker (i.e. Seller of Goods), it is called Draft. Once it is accepted by the Acceptor (i.e. Buyer of Goods), it becomes a valid Bill of Exchange.

Parties involved:

(a) The person who makes the order is known as the Drawer (or Maker), i.e. Seller of Goods.
(b) The person who accepts the order is known as the Acceptor/ Drawee, i.e. Buyer of Goods.
(c) The person to whom the amount is payable is known as the Payee. [Note: The Drawer and Payee may be the same person. Sometimes, the Drawer may order the payment to a third party, i.e. Payee.]

Example: Ram sold goods to Laxman on credit for 50,000 on 1st January, payable after credit period of three months. On the same date, Ram draws a B/E to be paid 3 months after date and sends the draft to Laxman for acceptance. After Laxman's acceptance, this draft becomes a valid B/E (i.e. Bills Receivable for Ram and Bills Payable for Laxman). Ram needs to make payment to Krishna. In the following B/E, Ram is the Drawer, Laxman is the Acceptor, and Krishna is the Payee.

Format of Bill of Exchange

₹ 50,000 only		Chandigarh, 1st January 2023
Three months after date, pay to Sri. Krishna or his order, a sum of ₹ 50,000 only.		
To	Accepted	
Sri. Laxman	Signature of Laxman	Stamp
Signature of Ram		
43, Old Street, Delhi.		

PROMISSORY NOTE – DEFINITION AND FEATURES

Meaning:

As per Sec. 4 of Negotiable Instruments Act, 1881, a Promissory Note (P/N or Pro-Note) is –

- An instrument in writing (not being a Bank Note or a Currency Note),
- Containing an unconditional undertaking,
- Signed by the Maker,
- To pay a certain sum of Money only,
- To, or to the order of a certain person.

Note: A Promissory Note cannot be made payable to Bearer.

Format of Promissory Note

₹ 50,000 only

Laxman
43, Old Street, Delhi

There months after date, I promise to pay Ram/Krishna or his order, a sum of ₹ 50,000 only, for value received.

To
Ram
Chandigarh

Stamp

Signature of Laxman
Date: 1st January 2023

DIFFERENCE BETWEEN BILL OF EXCHANGE AND PROMISSORY NOTE

S.No.	Bill of Exchange	Promissory Note
1	A bill contains an unconditional order to pay	A promissory note contains only a promise to pay certain sum of money
2	There are generally 3 parties (Drawer, Drawee and Payee) in bill of exchange	There are 2 parties (Maker and Payee) in promissory note
3	A bill is paid by Acceptor	A promissory note is paid by maker
4	A bill is drawn by creditor	A promissory note is made by debtor
5	The drawer and payee may be same person in case of bill of exchange	In promissory note maker and payee cannot be same person
6	In a bill of exchange the liability of drawer is secondary and conditional	In a promissory note the liability of a maker is primary and absolute

It requires acceptance

It does not require acceptance

FOREIGN BILL

An instrument which is not an Inland Instrument, is deemed to be a Foreign Instrument.
Following are the examples of Foreign Bills:-

- Bill drawn in India on a person resident outside India and made payable outside India.
- Bill drawn outside India on a person resident outside India.
- Bill drawn outside India and made payable in India.
- Bill drawn outside India and made payable outside India.

CHART

Bills of Exchange

Bill at sight or Bill on presented or Bill on Demand
- When demanded then needs to make payment
- No Time Period
- No Grace Days

Bill after Date
Due Date considered from date of drawing of bill

Bill after sight
From date of Acceptance of bill

- Time Period Mentioned
- 3 Days of Grace Applicable

Due Date or Date of Maturity ⇒ Date of Drawing or Date of Acceptance (After Sight) + Term of Bill* + 3 Days of Grace

* where term of bill can be specified no. of days or months

Note: If the month in which period terminates has no corresponding day, period will terminate on last day of such month.

Date of Maturity is holiday

Public / Gazetted holiday → Preceding / Previous working day [26/1, 15/8, 2/10, Sundays]

Emergency / Sudden / Unforeseen holiday → Succeeding / next working day

DISHONOUR OF BILL OF EXCHANGE AND PAYMENT OF NOTING CHARGES

1. Dishonour: Non-payment of Bill of Exchange on the due date is called Dishonour.
2. Noting: In case of dishonour of a B/E on the due date, the fact of dishonour, and the causes of dishonour should be ascertained and recorded on the B/E itself. Otherwise, the Acceptor may prove that B/E was not properly presented to him on the due date and hence can escape from his liability.
3. Charges: Noting Charges refers to the fees paid to a Public Official known as "Notary Public", who records the fact and causes of dishonour of B/E.
4. Accounting: Noting Charges is incurred by the person presenting the B/E on the due date, and is recoverable from the person causing the dishonour, i.e. the Acceptor.

ENTRIES IN THE BOOKS OF DRAWER & DRAWEE

Bills of Exchange

A —— Sale : 10000 ——> B

B 10000	Purchases 10000
To Sales 10000	To A 10000
B/R 10000	A 10000
To B 10000	To B/P 10000

Books of DRAWER (A)

	Held Bill Till Maturity	Discounting with Bank	Endorse to Creditor	Sent to Bank for collection
1) Event	–	Bank 9800 Discount 200 To B/R 10000	Creditor/C 10000 To B/R 10000	BSFC 10000 To B/R 10000
2) Maturity a) Honour	Bank 10000 To B/R 10000	–	–	Bank 10000 To BSFC 10000
OR b) Dishonour (Noting charges 100)	B 10100 To B/R 10000 To Bank 100	B 10100 To Bank 10100	B 10100 To C 10100	B 10100 To BSFC 10000 To Bank 100

Books of DRAWEE (B)

In all 4 cases, Same entries to be passed :

Honour	Dishonour
B/P A/c - Dr 10000	B/P A/c - Dr 10000
To Bank A/c 10000	Noting charges A/c - Dr 100
	To A 10100

RETIREMENT OF BILL OF EXCHANGE

1. Reason for Retirement	2. Accounting for Retirement
• Sometimes, the Acceptor of a B/E is ready to pay the amount, even before the due date. • So, the Acceptor may request the Payee, for settling the payment before due date. • This constitutes Retirement of Bill.	• Acceptor is entitled to receive certain Interest or Discount (called Rebate) for making payment before the due date. • This Rebate on Bills Retired before due date, constitutes Income of Acceptor, and Expense of Payee. • It is a consideration of premature payment.

Example ***(ICAI Study Material)***

On 1st January, 2023, A sells goods for ₹ 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 4th March, 2023, B retires his acceptance under rebate/discount of 12% per annum. Record these transactions in the journals of A and B.

Books of A

1/1/23	B's A/c - Dr	10000	
	To Sales A/c		10000
1/1/23	B/R A/c - Dr	10000	
	To B		10000
4/3	Bank A/c - Dr	9900	
	Rebate/Disc. A/c - Dr	100	
	To B/R		10000

1/1 — 4/3 — 4/4 : 1M Rebate

$10000 \times 12\% \times \frac{1}{12} = 100$

Books of B

1/1/23	Purchases A/c - Dr	10000	
	To A		10000
1/1/23	A's A/c - Dr	10000	
	To B/P A/c		10000
4/3	B/P	10000	
	To Bank		9900
	To Disc./Rebate		100

RENEWAL OF BILL OF EXCHANGE

1. Reason for Renewal	2. Accounting for Renewal
• Sometimes, the Acceptor of a B/E is unable to pay the amount on the due date. • In such case, the Acceptor may request the Drawer for an extension of time period. • This constitutes Renewal of Bill.	• Old B/E will be cancelled. So, the earlier Journal Entry relating to acceptance of Old B/E will be reversed. • New B/E will be made out. Journal Entries are passed for recording the New B/E. • Value of New B/E = Value of Old B/E + Interest, if any.

Example

On 1st January, A sold goods to B amounting 10,000 & B accepted 3 months bill drawn by A. On maturity he was unable to meet the bill.

Case 1: He paid nothing & accepted another bill for 2 months for 10,000 with interest @12% p.a.

Case 2: He paid nothing & accepted another bill for 2 months for 10,000. However, interest @12% p.a is paid at the time of renewal of bill.

Case 3: He paid 4,000 & accepted another bill for 2 months for balance with interest @12% p.a.

Case 4: He paid 4,000 & accepted another bill for 2 months for balance. However, interest @12% p.a is paid at the time of renewal of bill.

Books of A

1/1 B 10000
To Sales 10000

1/1 B/R 10000
To B 10000

4/4 B 10000
To B/R 10000

Interest = 10000 × 12% × 2/12 = 200

Case 1

1) B 200
To Interest A/c 200

2) B/R 10200
To B 10200
(10000 + 200)

Case 2

1) B 200
To Interest 200

2) Bank 200
To B 200

Bank
To Int.

3) B/R 10000
To B 10000

Interest = 6000 × 12% × 2/12 = 120

Case 3

1) Bank 4000
To B 4000

2) B 120
To Interest 120

3) B/R 6120
To B 6120
(6000 + 120)

Case 4

1) Bank 4000
To B 4000

2) B 120
To Interest 120

3) Bank 120
To B 120

Bank 120
To Int. 120

4) B/R 6000
To B 6000

DEALING WITH INSOLVENCY OF DRAWEE

1. Meaning: Insolvency of the Drawee means that he will be unable to pay his liabilities. This means that bills accepted by him will be dishonoured on the due date.

Books of the Drawer

(a) For dishonour of B/R	Drawee A/c Dr. To Bills Receivable A/c
(b) For recording final amount, if any, received	Cash A/c Dr. (Amt actually received) Bad Debts A/c Dr. (Balancing Figure) To Drawee Account (Total Amount due)

Books of the Drawee

(a) For dishonour of B/R	Bills Payable A/c Dr. To Drawer A/c
(b) For recording final amount, if any, paid	Drawer A/c Dr. (Total Amount due) To Cash A/c (Amt actually paid) To Deficiency A/c (Balancing Figure)

Example

A draws bill on B on 1st April, 2023 for 1,00,000 for 3 months. At maturity bill returned dishonoured & noting charges 1,000. 30 paise in rupee is recovered from B's estate. Pass entries in books of both the parties.

Books of A

1/4	B/R A/c Dr	100000	
	To B		100000
4/7	B	101000	
	To B/R		100000
	To Bank		1000
4/7	Bank	30300	
	Bad debts	70700	
	To B		101000

Books of B

1/4	A	100000	
	To B/P		100000
4/7	B/P	100000	
	Noting charges	1000	
	To A		101000
4/7	A	101000	
	To Bank		30300
	To Deficiency		70700

Question 1: (ICAI Study Material)/(RTP May 2019)/(RTP Nov 2020)

Rita owed ₹1,00,000 to Siriman. On 1st October, 2023, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2023. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman.

Int: $(100000 - 50000) \times 12\% \times \frac{3}{12}$

Solution

Books of Siriman

S.No.	Particulars		L.F.	Debit	Credit
1/10 — 1	Bills receivable A/c	Dr.		1,00,000	
	To Rita A/c				1,00,000
	(Being a 3 month's bill drawn on Rita for amount due)				
3/10 — 2	Bank A/c	Dr.		99,000	
	Discount on Bills A/c	Dr.		1,000	
	To Bills Receivable A/c				1,00,000
	(Being bill discounted with bank)				
4/1 — 3	Rita A/c	Dr.		1,00,000	
	To Bank A/c				1,00,000
	(Being bill cancelled up due to Rita's inability to pay)				
4/1 — 4	Rita A/c	Dr.		1,500	
	To Interest A/c				1,500
	(Being interest due on ₹ 50,000 @ 12% for 3 months)				
4/1 — 5	Bank A/c	Dr.		51,500	
	To Rita A/c				51,500
	(Being the receipt of a portion of the amount due on the bill together with interest)				
4/1 — 6	Bills receivable A/c	Dr.		50,000	
	To Rita A/c				50,000
	(Being the new bill drawn for the balance)				
7/4 — 7	Rita A/c	Dr.		50,000	
	To Bills Receivable A/c				50,000
	(Being bill dishonored due to Rita's insolvency				
7/4 — 8	Bank A/c	Dr.		20,000	
	Bad Debts A/c	Dr.		30,000	
	To Rita A/c				50,000
	(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

Bank 51000
To Rita 51000

Rita 1500
To Int. 1500

Bank 1500
To Rita 1500

Bank 1500
To Interest 1500

Question 2: (CA Foundation May 2019) (5 Marks)/(RTP May 2020)

On 1st January 2023, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2023, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2023, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

Solution

Journal Entries in the books of Akshay

2023	Particulars	Dr. (₹)	Cr. (₹)
Jan.1	Bills receivable (No. 1) A/c Dr.	16,000	
	Bills receivable (No. 2) A/c Dr.	25,000	
	To Vishal A/c		41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2023 and bills receivable No. 2 due for maturity on 4.4.2023)		
Bill 1 Dish. Mar 4	Vishal's A/c Dr.	16,000	
	To Bills receivable (No.1) A/c		16,000
	(Being the reversal entry for bill No.1 on renewal)		
Mar 4	Bills receivable (No. 3) A/c Dr.	16,400	
	To Interest A/c (16000 x 15% x 2/12)		400
	To Vishal 's A/c		16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2023 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)		
Mar 25	Bank A/c Dr.	24,750	
	Discount A/c Dr. Rebate	250	
	To Bills receivable (No. 2) A/c		25,000
	(Being the amount received on retirement of bills No.2)		
4/3 +2M +30 May 7	Vishal's A/c Dr.	16,400	
	To Bills receivable (No. 3) A/c		16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)		
May 7	Bank A/c Dr. 50%	8,200	
	Bad Debts A/c Dr. 50%	8,200	
	To Vishal's A/c		16,400
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)		

Vishal 400
To Interest 400

B/R 16400
To Vishal 16400

Question 3: (CA Foundation Dec 2021) (10 Marks)

On 12th May, 2023 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills. On 5th June, 2023 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges. However, on 16th August, 2023 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2023 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

Solution

Journal Entries in the books of Mr. A

2023		(₹)	(₹)
May,12	B's A/c Dr.	36,470	
	To Sales account		36,470
	(Being goods sold to B on credit)		
May,12	Bills receivable (No. 1) A/c Dr.	16,470	
	Bills receivable (No. 2) A/c Dr.	20,000	
	To B's A/c		36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)		
	OR		
	Bills receivable A/c Dr.	36,470	
	To B's A/c		36,470
	(Being acceptances received from B, one for ₹ 16,470 at one month and other for ₹ 20,000 at 3 months)		
June,5	Bills for Collection A/c Dr.	36,470	
	To Bills receivable (No.1) A/c		16,470
	To Bills receivable (No.2) A/c		20,000
	(Being both the bills sent to bank for collection)		
	OR		
	Bills for Collection A/c Dr.	36,470	
	To Bills receivables A/c		36,470
	(Being B's acceptances sent for collection on due dates)		
June,15	Bank A/c Dr.	16,470	
	To Bills for Collection A/c		16,470
	(Being amount received on retirement of Bills receivable No. 1)		
	B's A/c Dr.	20,020	
	To Bills for Collection a/c		20000
	To Noting Charges or Bank Charges		20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)		
	B's A/c Dr.	480	
	To Interest a/c		480
	(Being interest due)		

Aug,16	Bank/Cash A/c Dr.	8,020	
	To B's A/c		8,020
	(Being cash received)		
Aug,16	Bills receivable (No. 3) A/c Dr.	12,480	
	To B's A/c		12,480
	(Being Bills receivable (No. 3) drawn accepted by B)		
	OR		
	Alternatively combined entry may be given for the above 2 entries		
	Bank/Cash a/c Dr.	8,020	
	Bills receivable a/c Dr.	12,480	
	To B's A/c		20,500
	(Being cash and new acceptance at 3 months received from B)		
Aug,16	Bills for Collection A/c Dr.	12,480	
	To Bills receivable (No.3) A/c		12,480
	(Being Bills receivable (No.3) sent to bank for collection)		
	OR		
	Bills for collection A/c Dr.	12,480	
	To Bills receivable A/c		12,480
	(Being new acceptance sent to bank for collection on due date)		
Oct, 1	Bank A/c Dr.	12,240	
	Rebate A/c Dr.	240	
	To Bills for Collection		12,480
	(Being amount received on retirement of Bills receivable (No.3))		

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c Dr.	8,020	
	Bills Receivable (No. 3) A/c Dr.	12,480	
	To B's A/c		20,020
	To Interest A/c		480
	(Being the ₹ 8,020 paid in cash and new bill (Bills receivable No. 3) accepted for 3 months)		

Question 4: (CA Foundation June 2023) (5 Marks)

Journalise the following transactions in the books of Karthik:

a. Karthik accepted a bill of Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.

b. Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.

c. Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.

d. Karthik's acceptance to Prem for ₹ 6,500 discharged by Ashok's acceptance to Karthik for a similar amount.

Prem
To B/P

B/P
To ~~Bank~~ B/R

B/R
To Ashok

Solution

Journal Entries in the Books of Karthik

			₹	₹
(i)	Bills Payable Account (Old)	Dr.	3,500	
	Interest Account	Dr.	75	
	To Cash A/c			1,500
	To Bills Payable Account (New)			2,075
	(Bills Payable to Balu discharged by cash payment of ₹1,500 and a new bill for ₹ 2,075 including ₹ 75 as interest)			
(ii)	(a) Gopal Account (4500+50)	Dr.	4,550	
	To Mohan Account			4,550
	(Gopal's acceptance for ₹ 4,500 endorsed to Mohan dishonoured, ₹ 50 paid by Mohan as noting charges)			
	(b) Mohan Account	Dr.	4,550	
	To Bank Account			4,550
	(Payment to Mohan on withdrawal of bill earlier received from Mr. Gopal)			
(iii)	Bank Account	Dr.	2,475	
	Discount Account Rebate	Dr.	25	
	To Bills Receivable Account			2,500
	(Payment received from Doshi against his acceptance for ₹ 2,500. Allowed him a discount of ₹25)			
(iv)	Bills Payable Account	Dr.	6,500	
	To Bills Receivable Account			6,500
	(Bills Receivable from Ashok endorsed to Prem in settlement of bills payable issued to him earlier)			

ACCOMODATION BILLS

1. Meaning:
   (a) Generally, B/E is drawn in support of a trade transaction, i.e. credit sales. However, B/E can also be utilized for raising finance (i.e. without a trade transaction).
   (b) When B/E is used for financing purposes, it is called as Accommodation Bill. (Note: An Accommodation Bill is referred to as "Kite".)

	Trade Bill	Accommodation Bill
Purpose	It is drawn and accepted for some consideration i.e. for trade purpose.	It is drawn and accepted without any consideration.
Need	It is drawn to settle a business transaction.	It is drawn to meet the financial requirements of the drawer / drawee / both temporarily.
Legal Status	The drawer can take legal action if the bill is dishonoured.	The drawer cannot take any legal action when the bill is dishonoured.
Discounting of bill	It may, or, may not be discounted with the bank.	It is always discounted with the bank.
Discounting charges	Discounting charges are borne by the drawer.	Discounting charges are divided between the drawer and drawee in the ratio of the proceeds.

Question 5: (ICAI Study Material)

X draws on Y a bill of exchange for ₹ 30,000 on 1st April, 2023 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹ 28,800. X immediately remits ₹ 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹ 42,000 for three months which is discounted by Y for ₹ 40,110. Y sends ₹ 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying -fifty paise in the rupee.

Give the journal entries in the books of X and Y.

1

		X 2/3	Y 1/3
Gross	30000	20000	10000
- Disc.	(1200)	(800)	(400)
	28800	19200	9600

2:1

5

		X 2/3	Y 1/3
Gross	42000	28000	14000
- Disc	(1890)	(1260)	(630)
	40110	26740	13370
		(20000)	
		6740	

Solution

Books of X

Date	Particulars		L.F.	Debit	Credit
01.04.2023	Bills receivable A/c	Dr.		30,000	
	To Y A/c				30,000
	(Being the acceptance received from Y for mutual accommodation)				
01.04.2023	Bank A/c	Dr.		28,800	
	Discount on Bills A/c	Dr.		1,200	
	To Bills Receivable A/c				30,000
	(Being bill discounted with bank)				
01.04.2023	Y A/c	Dr.		10,000	
	To Bank A/c				9,600
	To Discount on Bills A/c				400
	(Being 1/3rd proceeds remitted to Y)				
04.07.2023	Y A/c	Dr.		42,000	
	To Bills Payable A/c				42,000
	(Being acceptance given to Y on the failure of remittance of the amount due)				
04.07.2023	Bank A/c	Dr.		6,740	
	Discount on Bills A/c	Dr.		1,260	
	To Y A/c				8,000
	(Being receipt of amount from Y and discount amount credited to him)				
07.10.2023	Bills Payable A/c	Dr.		42,000	
	To Y A/c				42,000
	(Being acceptance to Y dishonoured due to insolvency)				
07.10.2023	Y A/c	Dr.		28,000	
	To Bank A/c				14,000
	To Deficiency A/c				14,000
	(Being amount paid @50% & balance credited to deficiency account on failure of payment)				

Books of Y

Date	Particulars		L.F.	Debit	Credit
01.04.2023	X's A/c	Dr.		30,000	
	To Bills Payable A/c				30,000
	(Being the acceptance given for the bill)				
01.04.2023	Bank A/c	Dr.		9,600	
	Discount on Bills A/c	Dr.		400	
	To X's A/c				10,000
	(Being 1/3rd proceeds of the bill after discounting received from X)				
04.07.2023	Bills Receivable A/c	Dr.		42,000	
	To X's A/c				42,000
	(Being acceptance received from X to cover the amount due from him)				
04.07.2023	Bank A/c	Dr.		40,110	
	Discount on Bills A/c	Dr.		1,890	
	To Bills Receivable A/c				42,000
	(Being bill discounted with bank)				
04.07.2023	Bills Payable A/c	Dr.		30,000	
	To Bank A/c				30,000
	(Being own acceptance due on the date met)				
04.07.2023	X's A/c	Dr.		8,000	
	To Bank A/c				6,740
	To Discount on Bills A/c				1,260
	(Being amount remitted to X after getting the bill discounted)				
07.10.2023	X's A/c	Dr.		42,000	
	To Bank A/c				42,000
	(Being X's acceptance dishonoured on insolvency)				
07.10.2023	Bank A/c	Dr.		14,000	
	Bad Debts A/c	Dr.		14,000	
	To X A/c				28,000
	(Being receipt of 50% of amount due from X)				

Question 6: (CA Foundation Nov 2020) (10 Marks)

Suresh draws a bill for ₹15,000 on Anup on 15th April, 2023 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2023 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2023. Pass necessary Journal entries for the above transactions in the books of Suresh.

		Suresh 2/3	Anup 1/3
Gross	15000	10000	5000
Disc	(300)	(200)	(100)
Net	14700	9800	4900

		Suresh 3/4	Anup 1/4
Gross	17500	13125	4375
Disc.	(400)	(300)	(100)
Net	17100	12825	4275 (B.f.)
		(10000)	
		2825	

Ratio 3:1

Solution

Books of Suresh

Date	Particulars		L.F.	Debit	Credit
15.04.2023	Bills receivable A/c	Dr.		15,000	
	To Anup A/c				15,000
	(Being acceptance received from Anup)				
18.04.2023	Bank A/c	Dr.		14,700	
	Discount on Bills A/c	Dr.		300	
	To Bills Receivable A/c				15,000
	(Being bill discounted with bank)				
18.04.2023	Anup A/c	Dr.		5,000	
	To Bank A/c				4,900
	To Discount on Bills A/c				100
	(Being 1/3rd proceeds remitted to Anup)				
18.07.2023	Anup A/c	Dr.		17,500	
	To Bills Payable A/c				17,500
	(Being acceptance given to Anup on the failure of remittance of the amount due)				
18.07.2023	Bank A/c	Dr.		2,825	
	Discount on Bills A/c	Dr.		300	
	To Anup A/c	(13125- 10000)			3,125
	(Being receipt of amount & discount credited)				
21.10.2023	Bills Payable A/c	Dr.		17,500	
	To Anup A/c				17,500
	(Being acceptance to Anup dishonoured due to insolvency)				
31.10.2023	Anup A/c	Dr.		13,125	
	To Bank A/c				6,562.50
	To Deficiency A/c				6,562.50
	(Being amount paid @50% & balance credited to deficiency account on failure of payment)				

Own Acceptance Received in form of B/R

$A \xrightarrow{\text{Sale}} B$

$B \xrightarrow{\text{Sale}} C$

A

B
  To Sales

B/R
  To B

Endorsed to C

C
  To B/R

B

Purchases
  To A

A
  To B/P

C
  To Sales

B/R
  To C

C

B/R
  To A

Purchases
  To B

Endorsed To B

B
  To B/R

Same day : Cancellation of own acceptance received in form of B/R

B/P
  To B/R

Question 7: (ICAI Study Material)

On 1st July, 2023 Gorge drew a bill for ₹1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2023, Jack purchased goods worth ₹1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹ 9,000 in full settlement of the amount due to Harry. On 1st October, 2023, Harry purchased goods worth ₹2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry, Gorge and Jack.

Books of Gorge

1/7	B/R A/c - Dr	180000	
	To Harry		180000
1/7	Purchases A/c - Dr	181000	
	To Jack		181000
1/7	Jack A/c - Dr	181000	
	To B/R		180000
	To Discount		1000
1/10	Harry A/c - Dr	200000	
	To Sales		200000
* 1/10	Bank A/c - Dr	20000	
	To Harry A/c		20000
	(200000 - 180000)		

Books of Harry

1/7	Gorge A/c - Dr	180000	
	To B/P		180000
1/9	Jack A/c - Dr	190000	
	To Sales		190000
1/9	B/R A/c - Dr	180000	
	Bank A/c - Dr	9000	
	Disc. A/c - Dr	1000	
	To Jack		190000
1/9	B/P	180000	
	To B/R		180000
1/10	Purchases A/c - Dr	200000	
	To Gorge		200000
* 1/10	Gorge A/c - Dr	20000	
	To Bank A/c		20000

Books of Jack

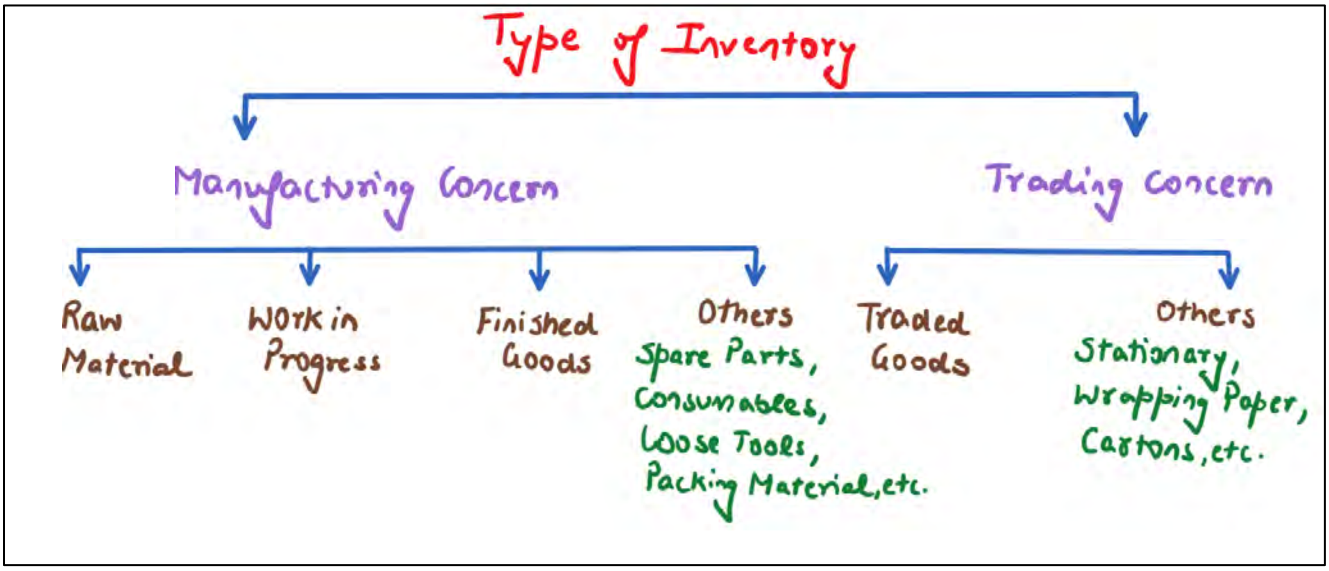
1/7	Gorge A/c - Dr	181000	
	To Sales		181000
1/7	B/R A/c - Dr	180000	
	Disc. A/c - Dr	1000	
	To Gorge A/c		181000
1/9	Purchases A/c - Dr	190000	
	To Harry A/c		190000
1/9	Harry A/c - Dr	190000	
	To B/R		180000
	To Bank		9000
	To Disc.		1000

Inventories

INVENTORIES

DEFINITION

Nature of Inventory	Description
Held for sale in the ordinary course of business, or	Finished goods
In the process of production for such sale, or	Work in progress
In the form of materials or supplies to be consumed in production process or in the rendering of services	Raw Material – incl. consumables & Loose Tools used in production process



SIGNIFICANCE OF INVENTORY VALUATION

Inventory Valuation is important / significant due to the following reasons-

Purpose	Explanation
To ascertain the true income earned by the entity during the accounting period.	See *separate note* below this table
To determine the true financial position of the entity as on the Balance sheet date.	Inventory is classified as "Current Assets". Balance sheet will disclose the correct financial position, only if Inventory is properly valued.
To analyze the liquidity of the enterprise.	Liquidity is analyzed in terms of Net Working capital (CA – CL), & Current Ratio (CA/CL). Inventory forms an important part of Current Assets
To ensure compliance with disclosure requirements under AS- 2, and applicable Statutes like Companies Act, 2013	As per AS-2, the financial Statements should disclose- (a) the accounting policies adopted in measuring inventories, (b) total carrying amount of inventories & its classification. Schedule III to the Companies Act, 2013, requires valuation of each class of goods i.e. Raw material, WIP and finished goods under broad head to be disclosed in the financial statements.

Note: Effect of wrong valuation of inventory on Profits and Balance Sheet position

Situation	Effect on Profit	Effect on Balance sheet	Effect on liquidity
Closing stock overstated	Overstated	Higher Current Assets	High
Closing stock understated	Understated	Lower Current Assets	Low
Opening stock overstated	Understated	-	-
Opening stock understated	Overstated	-	-

MEASUREMENT OR VALUATION OF INVENTORY

Inventories should be valued at – (a) Cost, or (b) Net Realizable Value, whichever is lower. This principle is governed by 'Principle of Conservative Accounting'

COMPONENTS OF COST

Meaning of Cost: The Cost of Inventories shall comprise all-

COST

- Purchase Cost
  - Purchase Price
  - + Non Refundable Taxes & Duties
  - + Freight Inwards
  - + Directly Attributable Expenditure [Eg. Transit Insurance, Buying Commission, etc.]
  - (–) Trade Discount / Rebate, etc.
- Conversion Cost
  - Direct Cost → Direct Labour
  - Indirect Cost (O/Hs)
    - Fixed Overheads
    - Variable Overheads
- Other Costs
  - Costs incurred in bringing inventories to their present location & condition [Eg. Design costs]

NET REALIZABLE VALUE

Estimated Selling Price	XX
Less: Estimated selling expenses	(XX)
Less: Estimated cost of completion	(XX)
NRV	XX

- Inventories are usually written down to Net Realizable value on an item-by-item basis (individual basis) & not on global basis
- In case of firm/committed contract of sale, NRV shall be calculated at the contract price.

Example ***(ICAI Study Material)***

Surekha Ltd deals in 3 products P, Q & R neither similar nor interchangeable. At the end of year, the Historical Cost and NRV of items of closing stock are given below. Determine the value of closing stock.

Items	Historical Cost (in Lakhs)	Net Realizable Value (in Lakhs)	Value
P	38	42	38
Q	29	29	29
R	17	14	14
	84	85	81

~~84~~

INVENTORY SYSTEMS

Inventory System refers to – (a) system of recording receipts and issues of inventory, and physical counting of actual stock available at the period end and (c) comparing physical stock as per books and records to ascertain discrepancies if any.

There are two broad Inventory system, – (1) Periodic Inventory System, and (2) Perpetual Inventory System. The salient features/ difference between these two methods are-

Particulars	Periodic Inventory System	Perpetual Inventory System
1. Meaning	This involves ascertaining inventory value by actual physical count. It is also called as Physical Inventory System	This involves ascertaining inventory value by keeping upto date records & finding the value from such Books and Records
2. COGS	Cost of Goods Sold (COGS) = Opening Inventory (Known) + Purchases during year (known) - Closing Inventory (by Physical count)	Cost of Goods Sold (COGS) is determined from the books, since each receipt and issue of materials is recorded on an immediate basis.
3. COGS v/s Stock	This system determines Inventory Value, and calculates COGS as balancing figure	This system determines COGS for every issue & determines Inventory Value as Balancing figure.
4. Treatment of Loss	COGS includes loss of goods, as goods not in stock are assumed to be sold	Closing Inventory include loss of goods as all unsold goods are assumed to be in Inventory
5. Stock taking	Stock verification takes place at the end of a financial period, say a year	Stocks are verified at regular intervals in the year, therefore also called as Continuous stock taking
6. Coverage in stock taking	All items of stock are covered in a single stretch of verification, say over two or three days	In each verification, two or three items are covered on random basis. In entire period, all items are covered on rotation basis.
7. Effect on Work	Requires closure of business for counting of inventory	Inventory can be determined without affecting the business operations
8. Control	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
9. Cost	This is simple and less costly method.	This is a relatively costly method

Note:-
Periodic inventory system is used by small enterprises where is easy to control physical inventory. This system is not considered suitable for medium or larger enterprises which generally use Perpetual Inventory system.

TECHNIQUES / FORMULA FOR INVENTORY VALUATION

Techniques of Inventory Valuation

Historical Cost Methods — AS-2

1) Specific Identification Method (Items not ordinarily interchangeable) ✓
2) First in First Out (FIFO) ✓
3) Last in First Out (LIFO) ✗
4) Simple Average ✗
5) Weighted Average ✓

Non Historical Cost Methods

1) Adjusted Selling Price / Retail Inventory Method
2) Standard cost Method

ADJUSTED SELLING PRICE / RETAIL METHOD

Sales value of cl. stock
− GP (−)
Cl. stk cost ✓

1. Applicability: This method is applicable in the following situations
   (a) Retail trade
   (b) Similar profit margins
   (c) Inventories of large numbers of rapidly changing items,
   (d) Impracticable to use other costing methods
2. Retail Method may be used for convenience if the results approximate the actual cost.
3. Measurement: Cost of Inventory = Sales Value of Inventory Less Appropriate Gross Margin%

   Note: Adjusted GP Percentage is used for inventories marked down to below its Original Selling Price. An average percentage for each Retail Departments is often used.

Cost + Profit = Sales	So, the relationship to be remembered is-
100% + 50% = 150%	(50÷100) = 1/2nd on Cost = 1/3rd on Sales = (50÷150)
100%+33 1/3%=133 1/3%	(33 1/3÷100) = 1/3rd on Cost = 1/4th on Sales = (33 1/3÷133 1/3)
100% + 25% = 125%	(25÷100) = 1/4th on Cost = 1/5th on Sales = (25÷125)
100% + 20% = 120%	(20÷100) = 1/5th on Cost = 1/6th on Sales = (20÷120)

STANDARD COST METHOD

This method is used when there is frequent change in the price per unit of the goods and goods are purchased frequently by the business e.g. crude oil. Based on the experience a standard cost is determined on the basis of frequent changes in prices and inventory is valued on that price per unit.

PHYSICAL STOCK v/s BOOK STOCK

Wherever required the following adjustments are carried out in respect of value of Physical stock, to arrive at the value of Inventory as per the Balance sheet

	Value of Physical Stocks on the Closing Date	XXX
Add	Goods in Transit, i.e. goods in respect of which the Firm has the title and ownership, but lying with the Transporter/ Carrier, pending delivery.	XXX.
Add	Goods held by other Entities on our behalf (e.g. Our stock held by Agent, Sub-Contractor, Job Worker, etc.)	XXX
Add	Goods sent on approval for which confirmation not received from customer.	XXX
Less	Any goods sold in respect of title has been transferred to the Buyer, but delivery pending at Buyer's request.	(XXX)
Less	Goods held by us on behalf of other Entities (e.g. As agent, as Sub-Contractor, as Job Worker, etc)	(XXX)
Less	Adjustments required to mark-down defectives/Obsolete items etc, to their NRV, if any.	(XXX)
	Value of Stocks as per Balance sheet	XXX

VERIFICATION OF STOCK ON OTHER THAN BALANCE SHEET DATE

Generally, Physical Stock Verification and Valuation is done at the end of the last day of the accounting year. Sometimes, in big organizations, it may not be possible to verify the stocks exactly on the last date of the accounting period. In such cases, stock is taken either few days earlier or later, according to the situation. The following adjustments are carried out in order to arrive at the Stock Value on the Balance Sheet date-

Reverse

Stock Taking after Balance Sheet date	
Value of Stocks on verification date (e.g. 6th April)	XXX
(+) Cost of Sales made during the interim period	XXX
(+) Purchase Returns during the interim period	XXX
(-) Purchases made during the interim period	(XXX)
(-) Sales Return (at cost price) during the period	(XXX)
Value of Stocks on B/S date i.e., 31st March	XXX

Trad. A/c
1/4 to 6/4

Op. Stk (1/4)	Sales 1/4 to 6/4
Purch. 1/4 to 6/4	Cl. Stk 6/4
GP	

Forward

Stock Taking before Balance Sheet date	
Value of Stocks on verification date (e.g. 25thMarch)	XXX
(+) Purchases made during the interim period (net of Ret.)	XXX
x (+) Sales Return (at Cost price) during the period	XXX
(-) Cost of Sales made during the interim period (net of Return)	(XXX)
x (-) Purchase Return during the interim period	(XXX)
Value of Stocks on B/S date i.e., 31st March	XXX

Trad. A/c
25/3 to 31/3

Op. Stk 25/3	Sales 25/3 to 31/3
Purch. 25/3 to 31/3	Cl. Stk (31/3) (B/S)
GP ✓	

SP - P = Cost

Question 1: (ICAI Study Material)

A manufacturer has the following record of purchases of a condenser, which he uses while manufacturing radio sets

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

Record of issues

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
	1,600

Find out value of inventory by following methods:

1) FIFO Method
2) LIFO Method
3) Simple Average Method
4) Weighted Average Cost Method

Also find inventory value if computed by Periodic inventory system.

Solution

a) **First-in-First out basis (FIFO)**

Calculation of the value of Inventory as on 31st December

Date	Particulars	Receipts			Issue			Balance		
		Qty.	Rate	Amt.	Qty.	Rate	Amt.	Qty.	Rate	Amt.
Dec 4	Purchase	900	50	45,000				900	50	45,000
Dec 5	Issue				500	50	25,000	400	50	20,000
Dec 10	Purchase	400	55	22,000				400	50	20,000
								400	55	22,000
Dec. 11	Purchase	300	55	16,500				400	50	20,000
								400	55	22,000
								300	55	16,500
Dec. 19	Purchase	200	60	12,000				400	50	20,000
								400	55	22,000
								300	55	16,500
								200	60	12,000
Dec 20	Issue				400	50	20,000	200	55	11,000
					200	55	11,000	300	55	16,500
								200	60	12,000
Dec 28	Purchase	800	47	37,600				200	55	11,000
								300	55	16,500
								200	60	12,000
								800	47	37,600
Dec 29	Issue				200	55	11,000	**200**	**60**	**12,000**
					300	55	16,500	**800**	**47**	**37,600**

Therefore, the value of Inventory as on 31 Dec: 1000 units = ₹ 49,600

b) Last-in-First out basis (LIFO)

Calculation of the value of Inventory as on 31st December

Date	Particulars	Receipts			Issue			Balance		
		Qty.	Rate	Amt.	Qty.	Rate	Amt.	Qty.	Rate	Amt.
Dec 4	Purchase	900	50	45,000				900	50	45,000
Dec 5	Issue				500	50	25,000	400	50	20,000
Dec 10	Purchase	400	55	22,000				400	50	20,000
								400	55	22,000
Dec. 11	Purchase	300	55	16,500				400	50	20,000
								400	55	22,000
								300	55	16,500
Dec. 19	Purchase	200	60	12,000				400	50	20,000
								400	55	22,000
								300	55	16,500
								200	60	12,000
Dec 20	Issue				200	60	12,000	400	50	20,000
					300	55	16,500	300	55	16,500
					100	55	5,500			
Dec 28	Purchase	800	47	37,600				400	50	20,000
								300	55	16,500
								800	47	37,600
Dec 29	Issue				500	47	23,500	**400**	**50**	**20,000**
								300	**55**	**16,500**
								300	**47**	**14,100**

Therefore, the value of Inventory as on 31 Dec: 1000 units valuing ₹ 50,600

c) Simple Average Cost

Simple Average per unit Cost = (50+55+55+60+47)/5 = 53.40
Closing Stock (in Units) = 1000 units
Value = 1000 * 53.40 = 53,400

d) Weighted Average Cost

Calculation of the value of Inventory as on 31st December

Date	Particulars	Receipts			Issue			Balance		
		Qty.	Rate	Amt.	Qty.	Rate	Amt.	Qty.	Rate	Amt.
Dec 4	Purchase	900	50	45,000				900	50	45,000
Dec 5	Issue				500	50	25,000	400	50	20,000
Dec 10	Purchase	400	55	22,000				800	52.50	42,000
Dec 11	Purchase	300	55	16,500				1100	53.18	58,500
Dec 19	Purchase	200	60	12,000				1300	54.23	70,500
Dec 20	Issue				600	54.23	32,538	700	54.23	37,962
Dec 28	Purchase	800	47	37,600				1500	50.37	75,562
Dec 29	Issue				500	50.37	25,185	**1000**	**50.37**	**50,377**

Therefore, the value of Inventory as on 31 Dec: 1000 units valuing ₹ 50,377

PERIODIC INVENTORY SYSTEM

1) FIFO
   Closing Stock = [(200*60)+(800*47)] = 49,600

2) LIFO
   Closing Stock = [(900*50)+(100*55)] = 50,500

3) Simple Average = Same value as earlier ie 53,400
4) Weighted Average
   Weighted average cost per unit = $\frac{(900*50)+(400*55)+(300*55)+(200*60)+(800*47)}{900+400+300+200+800}$

   $= \frac{1,33,100}{2,600}$

   = 51.19

   Closing Stock = 1,000*51.19 = 51,190

Question 2: (CA Foundation Dec 2021) (4 Marks)

The following are the details of a spare part of an Oil Mill:

Date	Quantity (units)	Price per unit
1-1-2023	Opening Inventory	Nil
1-1-2023	Purchases	10 units @ ₹ 300 per unit
15-1-2023	Issued for consumption	5 units
1-2-2023	Purchases	20 units @ ₹ 400 per unit
15-2-2023	Issued for consumption	10 units
20-2-2023	Issued for consumption	10 units

Find out the value of Inventory as on 31-3-2023 if the company follows Weighted Average Method.

Solution

Calculation of the value of Inventory as on 31-3-2023

	Receipts			Issues			Balance		
Date	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**	**Units**	**Rate**	**Amount**
		₹	₹		₹	₹		₹	₹
1-1-2023	Balance							Nil	
1-1-2023	10	300	3,000				10	300	3,000
15-1-2023				5	300	1,500	5	300	1,500
1-2-2023	20	400	8,000				25	380	9,500
15-2-2023				10	380	3,800	15	380	5,700
20-2-2023				10	380	3,800	5	380	1,900

Therefore, the value of Inventory as on 31-3-2023 = 5 units @ ₹380 = ₹1,900

Question 3: (CA Foundation July 2021) (5 Marks)

From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	5,00,000
Sales during the year	7,50,000
Opening inventory	Nil
Closing inventory at selling price	1,00,000

Solution

Sales	7,50,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale:	**8,50,000**
Less: Cost of goods available for sale	5,00,000
Gross margin	**3,50,000**

Rate of gross margin = (350000/850000)*100 = 41.18%

Cost of closing inventory = 1,00,000 less 41.18% of ₹1,00,000 = ₹ 58,820

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 58,824

OR as 41.17% in that case, the closing inventory will be valued at ₹ 58,830

Cl. stk SP 100000
P 41.18% (41180)
Cost 58820

Question 4: (ICAI Study Material)

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2023:

Goods received from suppliers (subject to trade discount and taxes)	15,75,500
Trade discount 3% and GST 11%	
Packaging and transportation charges	87,500
Sales during the year	22,45,500
Sales price of closing inventories	2,35,000

Find out the non-historical cost of inventories using adjusted selling price method.

Purchase (Gross) 1575500
− Trade Disc. 3% (47265)
1528235
+ GST 11% 168106
(GST input not available)
1696341
+ Packing 87500
1783841

Actual Sales = 2245500
+ Cl. stk (SP) = 235000
2480500
− Purchase (1783841)
GP 696659

GP(%) = $\frac{696659}{2480500} \times 100 = 28.09\%$

Cl. stock (SP) = 235000
− GP 28.09% = (66012)
Cost 168988

Question 5: (ICAI Study Material)

From the following information, ascertain the value of stock as on 31.3.2023:

Value of stock on 1.4.2022	7,00,000
Purchases during the period from 1.4.2022 to 31.3.2023	34,60,000
Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2022 a sum of ₹ 60,000 was written off a particular item which was originally purchased for ₹ 2,00,000 and was sold for ₹ 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

Solution

Alternative 1:

Statement of Valuation of Stock as on 31st March, 2023

Value of stock as on 1st April, 2022	7,00,000	
Less: Book value of Abnormal Stock (2,00,000-60,000)	(1,40,000)	5,60,000
Add: Purchases during the period from 1.4.2022 to 31.3.2023		34,60,000
Add: Manufacturing expenses during the above period		7,00,000
		47,20,000
Less: Cost of sales during the period:		
Sales	52,20,000	
Less: Sale value of abnormal stock	(1,60,000)	
	50,60,000	
Less: Gross profit @ 20% on sales ie 25/125	(10,12,000)	(40,48,000)
Stock as on 31.03.2023		**6,72,000**

Alternative 2:

Trading Account (01.04.2022 to 31.03.2023)

	Normal	Abnormal		Normal	Abnormal
To Opening Stock	5,60,000	1,40,000	By Sales	50,60,000	1,60,000
To Purchases	34,60,000	-	By Closing Stock (balancing figure)	6,72,000	-
To Manufacturing exp	7,00,000				
To Gross Profit (50,60,000*20%)	10,12,000	20,000			
	57,32,000	**1,60,000**		**57,32,000**	**1,60,000**

$50{,}60{,}000 \times \frac{1}{5}$

C = 100
P = 25) 1/4 on cost
SP 125 $\frac{25}{125} = \frac{1}{5}$ on sales

20% on cost

C = 100
P 20) 1/5 on cost
SP 120

$\frac{20}{120}$ i.e. $\frac{1}{6}$ on sales

Question 6: (CA Foundation June 2023) (5 Marks)

The Profit and Loss account of Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March 2023. Subsequently the following information was obtained from scrutiny of the books.

a. Purchases for the year included ₹ 10,500 paid for electrical fittings of the shop.
b. Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.
c. Invoices for goods amounting to ₹ 1,85,000 have been entered on 29th March 2023 but were not included in the stock.
d. Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2023.
e. Goods costing ₹ 55,000 were sent on sale or return basis in March, 2023 at a margin of profit of 33½ % on cost. Approval was given in April, 2023 but these were considered as sales in March, 2023.

Calculate. the value of stock as on 31st March, 2023 and the adjusted net profit for the year ended on that date.

Solution

Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Advertisement (samples)	25,000	By Net profit	5,75,000
To Sales (goods approved in April to be taken as April sales: (55,000 + 18,333)	73,333	By Electric fittings	10,500
To Adjusted net profit	9,57,167	By Samples	25,000
		By Stock (purchases of March not included in stock)	1,85,000
		By Sales (goods sold in March wrongly taken as April sales)	2,05,000
		By Stock (goods sent on approval basis not included in stock)	55,000
	10,55,500		**10,55,500**

Calculation of value of inventory on 31st March, 2023

	₹
Stock on 31st March, 2023 (given)	2,55,000
Add: Purchases of March, 2023 not included in the stock	1,85,000
Goods lying with customers on approval basis	55,000
Value of inventory as on 31.03.2023	**4,95,000**

Note: Figures are rounded off to the nearest Rupee.

Question 7: (ICAI Study Material)/(RTP May 2018/Nov 2019/May 2021/Nov 2023)

Inventory taking for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹ 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for ₹ 68,750, profit margin being 33.33% on cost. Purchases for the next year included in the inventory amounted to ₹ 90,000 at cost less trade discount 10%. During this period, goods were added to inventory of the mark up price of ₹ 3,000 in respect of sales returns.

After inventory taking it was found that there were certain very old slow moving items costing ₹ 11,250 which should be taken at ₹ 5,250 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 12,500 on 31st March, 2023.

Calculate the value of inventory for inclusion in the final accounts for the year ended 31st March, 2023.

C = 300
P = 100
SP 400

Value of Inventory on 31/3/23

Value of Stock on 10/4/23			16,75,000
+ Cost of Sales during period			
Sales =	68750		
- Return =	(3000)	65750	
- GP (1/4 on sales)		(16438)	49312
- Purchases during period (90000 - 10%)			(81000)
- Reduction in value (11250 - 5250)			(6000)
- Reduction in value (15500 - 12500)			(3000)
Value of stock on 31/3/23			1634312

Question 8: (CA Foundation May 2019) (5 Marks) / (RTP May 2023) (Similar)

Raj Ltd. prepared their accounts financial year ended on 31st March 2023. Due to unavoidable circumstances actual stock has been taken on 10th April 2023, when it was ascertained at ₹ 1,25,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.
(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.
(iii) Sales between 1st April 2023 to 9th April 2023 amounting to ₹ 20,000 as per Sales Day Book.
(iv) Free samples for business promotion issued during 1st April 2023 to 9th April 2023 amounting to ₹ 4,000 at cost.
(v) Purchases during 1st April 2023 to 9th April 2023 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.
(vi) Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2023 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March 2023.

Value of Stock on 10/4/23		125000
+ Cost of Sales during period		
Sales =	20000	
− GP (25/125)	(4000)	16000
− Purchase during period		
Amount	10000	
− Not received	(2000)	
− Free samples	(4000)	(4000)
+ Goods purchased but not included in stock		20000
31/3/23		157000

Purch. (8000)
Free samples 4000

Question 9: (ICAI Study Material)/(RTP May 2019/Nov 2020/May 2022/Nov 2022)

A trader prepares his account on 31st March each year. Due to some avoidable reasons, no stocktaking could be possible till 15th April 2023. On which date total cost of goods in his godown came to ₹ 50,000.

The following facts were established between 31st March and 15th April 2023.

a) Sales ₹ 41,000 (including cash sales ₹ 10,000)
b) Purchase ₹ 5,034 (including cash purchase ₹ 1,990)
c) Sales Return ₹ 1,000
d) On 15th March goods of the sale value of ₹ 10,000 were sent on sale or return basis to customer, the period of approval being four weeks. He returned 40% of the goods on 10th April approving the rest. The customer was billed on 16th April.
e) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis, 20% of the goods had been sold by 31st March, and another 50% by 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of inventory as on 31st March 2023.

Value of stock on 15/4/23 50000 → incl. 40%

\+ Cost of sales during period
Sales = 41000
− Return (1000)
40000
− GP (20%) (8000) 32000

− Purchase (5034)

− Goods held by us as agent (8000 x 30%) (2400)

\+ Stock with customer on approval basis
S.V. 10000 X 60% = 6000
− Profit 20% (1200) 4800

31/3/23 79366

Question 10: (CA Foundation Nov 2020) (10 Marks)

Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 :

(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.

(2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.

(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.

(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

Determine the value of stock on 29th February, 2020.

Solution

Statement of Valuation of Stock on 29thFebruary, 2020

		₹
Value of stock as on 23rd February, 2020		28,00,000
Add: Unsold stock out of the goods sent on consignment	2,30,000	
Purchases during the period from 23rd February, 2020 to 29th February, 2020	1,80,000	
Goods in transit on 29th February, 2020	1,20,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	6,58,000
Cost of sales during the period from 23rd February, 2020 to 29th February, 2020		**34,58,000**
Sales (₹ 13,60,000-₹ 1,60,000)	12,00,000	
Less: Gross profit	1,20,000	
		10,80,000
Value of stock as on 29th February, 2020		**23,78,000**

160000
P 1/5 (32000)

Working Notes:

1.	Calculation of normal sales:		
	Actual sales		13,60,000
	Less: Abnormal sales	1,50,000	
	Return of goods sent on approval	1,60,000	3,10,000
			10,50,000
2.	Calculation of gross profit:		
	Gross profit on normal sales 20/100 x ₹ 10,50,000		2,10,000
	Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000 - ₹ 1,50,000)		90,000
	Gross profit		**1,20,000**

Sales = 1360000
- Return = (160000)
1200000

Rem: 160000

Abnormal
Sale = 150000
Cost = 240000

Normal
Sales = 1200000 - 150000 = 1050000
P = 1/5 on Sale = (210000)
Cost = 840000

Cost = 1080000


THANK YOU