1 ACCOUNTING OF SHARES AND DEBENTURES

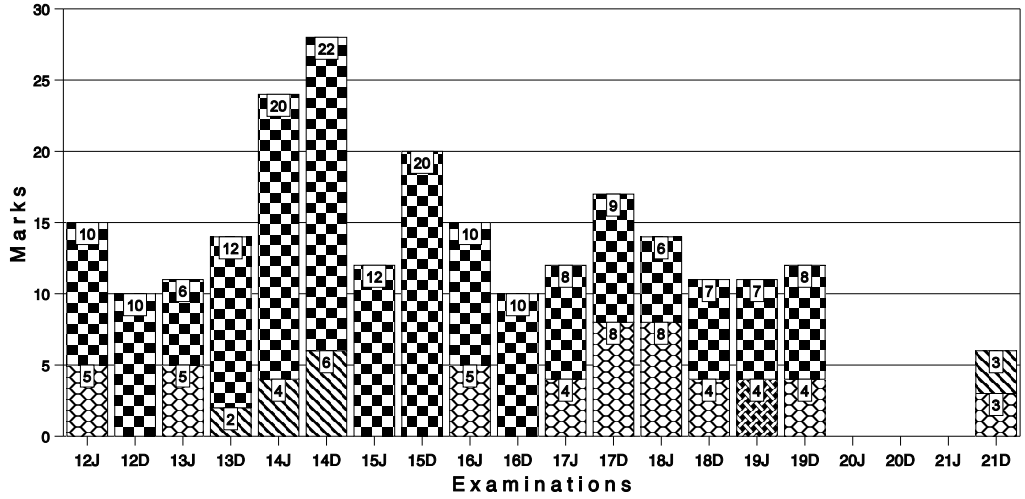
THIS CHAPTER INCLUDES

- Issue of Shares
- Rights Issue
- Bonus Issue
- Sweat Equity Shares
- Forfeiture of Shares
- Buy-back of Shares
- Issue and Redemption of Preference Shares and Debentures
- Underwriting of Shares and Debentures.

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective | Short Notes | Distinguish | Descriptive | Practical



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CHAPTER AT A GLANCE

Share capital
Share capital of a company can be classified as: (a) nominal, authorized or registered capital; (b) issued and subscribed capital; (c) called up and uncalled capital.
Share
A share is defined as a share in the share capital of a company, including stock except where a distinction between stock and shares is expressed or implied.
Two classes of shares
The **Companies Act, 2013** permits a company limited by shares to issue two classes of shares, namely equity share capital and preference share capital.
Preference share
A preference share or preference share capital is that part of share capital which carries a preferential right with respect to both dividend and capital.

Types of preference shares

Preference shares may be of various types, namely participating and non-participating, cumulative and non-cumulative shares, redeemable and irredeemable preference shares.

Equity share capital

Equity share capital means all share capital which is not preference share capital.

Sweat equity shares

Means equity shares issued by a company to its employees or directors at a discount or for consideration, other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

- Issue of sweat equity shares to be authorized by special resolution at a general meeting.
- The special resolution authorizing sweat equity shares is not valid if the allotment is made after 12 months of passing the resolution. i.e., the validity of special resolution is 12 months.
- The price of sweat equity shares is to be determined by a registered valuer.
- The company shall maintain a Register of Sweat Equity Shares in Form No. SH 3.
- Issue of sweat equity shares to employees and directors at a discount **under Section 54** is outside the scope of **Section 53.**

Rights issue

Rights issue is an issue of capital to be offered to the existing shareholders of the company through a letter of offer.

- Listed companies to inform concerned stock exchanges.
- Company to give notice to equity shareholder giving him 15-30 days to decide.

- Company can issue shares to other than existing share holder for cash or other than cash if a special resolution is obtained.
- Price to be determined by the registered valuer's report.
- The provisions of **Section 62** are applicable to all type of companies.

Bonus share

When a company is prosperous and accumulates large distributable profits, it converts these accumulated profits into capital and divides the capital among the existing members in proportion to their entitlements. Members do not have to pay any amount for such shares. A company may, if its Articles provide, capitalize its profits by issuing fully-paid bonus shares.

- Authorised by articles.
- Authorised on recommendation of the board in general meeting.
- No default in payment of interest or principle in respect of debt securities and fixed deposits and in respect of payment to employees.
- Partly paid up shares to be made fully paid up on allotment.
- Listed companies to follow SEBI regulations.
- Once announced by the board about bonus issue no company shall withdraw the same.

Issue of shares at premium [Section 52]

- Share premium to be transferred to share premium account.
- Utilisation of share premium account should be as prescribed in **Section 52.**

Issue of shares at discount [Section 53]

- Issue of shares at discount is prohibited except by issue of sweat equity shares.
- Any share issued by the company at a discount shall be void.

In Section 53 of the Companies Act, 2013,—

(i) in sub-section (2), for the words "discounted price", the word "discount" shall be substituted;

(ii) after sub-section (2), the following sub-section shall be inserted, namely:—

(2A) Notwithstanding anything contained in sub-sections (1) and (2), a company may issue shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve Bank of India under the **Reserve Bank of India Act, 1934 or the Banking (Regulation) Act, 1949.**

Issue of shares with differential voting rights [Section 43(a) (ii)]

- Articles to authorise the issue.
- Ordinary resolution to be passed and if shares are listed then approval through postal ballot.
- Not to exceed 26% of total post issue paid up equity capital including shares with differential voting rights at any point of time.
- The company not to be penalised under specified legislature in last 3 years.
- No default in filing financial statements in the last 3 years.
- No default in payment of dividend.

Issue / redemption of preference shares [Section 55]

- Issue to be authorised by special resolution.
- Explanatory statement to be annexed to the notice of general meeting containing the relevant material facts.
- No company shall issue irredeemable preference shares of redeemable preference shares with the redemption period beyond 20 years.
- Infrastructural companies may issue preference shares for a period exceeding 20 years but not exceeding 30 years.

Surrender of shares

Surrender of shares means surrender to the company on part of shareholder of shares voluntarily. It amount to reduction of capital.

Stock
Stock is always fully paid-up. These are the consolidated value of share capital. They comes into existence after conversion of shares into stock and there by the provisions of the Act governing the shares shall cease to apply to the share capital as it is converted into stock.
Forfeiture of shares
A company may if authorized by its articles, forfeit shares for non-payment of calls and the same will not require confirmation of the Tribunal and amounts to reduction of capital.
Buy-back of shares
The repurchase of shares by a company in order to reduce the number of shares on the market. Companies will buy back shares either to increase the value of shares still available (reducing supply) or to eliminate any threats by shareholders who may be looking for a controlling stake.
Issue and Redemption of Preference Shares [Section 55]
1. No company limited by shares shall, after the commencement of this Act, issue any preference shares which are irredeemable. 2. A company limited by shares may, if so authorised by its articles, issue preference shares which are liable to be redeemed within a period not exceeding twenty years from the date of their issue subject to such conditions as may be prescribed. Provided that a company may issue preference shares for a period exceeding twenty years for infrastructure projects, subject to the redemption of such percentage of shares as may be prescribed on an annual basis at the option of such preferential shareholders.
Under writing of shares and debentures
Underwriting is an agreement, with or without conditions, to subscribe to the securities of a body corporate when existing shareholders of the corporate or the public do not subscribe to the securities offered to them.

When a company goes in for an Initial Public Offer (IPO), it may face certain uncertainty about whether its Offer of shares or other securities will be subscribed in full or not. If the public issue does not get fully subscribed, the project for which the funds are being raised cannot be implemented. As per law, it is required that if the company is not able to collect 90% of the offer amount, then it needs to compulsorily return the money to those who have subscribed to the shares.
Underwriting Commission
It may be paid in cash or in fully paid-up shares or debentures or a combination of all these. It is paid on the issue price of the shares or debentures so underwritten.

SHORT NOTES

2012 - June [8] Write a short note on:

(e) Profit prior to Incorporation. **(5 marks)**

Answer:

Profit prior to incorporation:

- Sometimes a company purchases a running business from a date prior to its incorporation.
- If the company has earned any profit from the date of purchase to the date of incorporation such profit is called as profit prior to incorporation.
- Such profit cannot be said to have been earned by the company as it is not available for distribution as dividend to the shareholders.
- Such profit is treated as capital profit and is transferred to Capital Reserve Account.
- If there is any loss prior to incorporation such loss is in the nature of capital loss and is debited to Goodwill Account.
- It should be noted that, the date of incorporation and not the date of commencement of business should be taken into consideration for calculating profit or loss prior to incorporation.

2013 - June [8] Write a short note:

(a) Over/Under subscription; **(5 marks)**

Answer :

- Where the total number of shares for which applications are received is less than the number of shares issued, it is a case of under subscription.
- If the actual applications received are more than the shares offered to the public it is case of over subscription.
- In the case of under subscription as the applications received are less than those required for minimum subscription, the company cannot proceed with allotment. The entire application money has to be refunded.
- If the subscription for shares is more than what is offered to the public the Board of Directors may make allotment in full to required number of applicants and reject the other applications.
- Alternatively, they may allot shares proportionately to the applications received to all applicants which is known as pro-rata allotment.
- It is possible that they may resort to selective partial allotment by which the pro-rata allotment may be different for various ranges of share applications received.

Space to write important points for revision

2016 - June [5] (b) Write a short note on the sources of Buy Back of Shares. **(5 marks)**

Answer:

Sources to buy back:

A company may purchase its own shares or other specified securities out of-

(i) its free reserve; or

(ii) the Securities premium account; or

(iii) the proceeds of any shares or other specified securities.

However, no buy back of any kind of share or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

In case shares are bought back out of free reserves, then a sum equal to the nominal value of shares bought back shall be transferred to a reserve account to be called as the Capital Redemption Reserve Account **(Sec. 69 of Companies Act, 2013).** The detail of such transfer shall be disclosed in the balance sheet. This account, as per SEBI Guidelines, shall be allowed to be used for the issue of fully paid bonus shares.

—— Space to write important points for revision ——

2017 - June [5] Write a short note:

(b) Sweat Equity Shares **(4 marks)**

Answer:

Issue of Sweat Equity Shares [Section 54]:

Notwithstanding anything contained in **Section 53**, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:

(a) the issue is authorised by a special resolution passed by the company;

(b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(c) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

—— Space to write important points for revision ——

2017 - Dec [5] Write short notes:

(b) Right Issue of Shares **(4 marks)**

(d) Money Received against Share Warrants **(4 marks)**

Answer:

(b) Right Issue of Shares (Section 62 of Companies Act, 2013):

Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:—

(i) the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;

(ii) unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;

(iii) after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company.

(d) Money received against Share Warrants

- As per Sch. III Disclosure Requirements, it is to be shown as a separate line item on the face of Balance Sheet.
- In case of Listed Companies, Share warrants are issued to Promoters and others in terms of the Guidelines for Preferential Issues viz. SEBI (Issue of Capital and Disclosure Requirements), Regulation, 2018.
- Effectively, Share Warrants are amounts which would ultimately form part of the Shareholder's Funds. Since Shares are yet to be allotted against the same, these are not reflected as part of Share Capital, but as a separate line - item.

2018 - June [5] Write short notes:

(b) Advantages of buy-back of shares **(4 marks)**

(d) Share Application money pending allotment. **(4 marks)**

Answer:

(b) Buy-back of shares have the following advantages:

(i) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.

(ii) Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share.

(iii) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.

(iv) Buy - back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons.

(d) Share application money pending allotment:

As per Schedule III it is to be shown as a separate line item on the face of Balance Sheet. Other provisions in this respect are as follows:

(i) Share Application Money not exceeding the Issued Capital and to the extent not refundable, is to be disclosed as a separate line item after - Share Holders Funds and before - Non-Current Liabilities.

(ii) If the Company's Issued Capital is more than the Authorized Capital, and approval of increase in Authorized Capital is pending, the amount of Share Application Money received over and above the Authorized Capital should be shown under the head - Other Current Liabilities.

(iii) The amount shown as Share Application Money Pending Allotment will not include Share Application Money to the extent refundable. **For example, the amount** in excess of Issued Capita or where Minimum Subscription requirement is not met. Such amount will have to be shown separately under 'Other Current Liabilities'.

(iv) Calls Paid in Advance are to be shown under - Other Current Liabilities. The amount of interest which may accrue on such advance should also is to be reflected as a Liability.

2018 - Dec [5] Write short note:

(c) Forfeiture of Shares *vis-a-vis* reissue of Forfeited Shares **(4 marks)**

Answer:

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment thereof and fails to pay it even after his attention is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited.

Shares once forfeited become the property of the company and may be sold on such terms as directors think fit. Upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares.

The purchaser of forfeited reissued shares is liable for payment of all future calls duly made by the Company.

—— Space to write important points for revision ——

2019 - Dec [5] Write short note:

(b) Issue of shares at a premium **(4 marks)**

Answer:

Issue of Shares at a Premium [Section 52]:

A company may issue shares at a premium, i.e., at a value more than its face value. The power to issue shares at a premium need not be prescribed in the Articles of Association. Premium so received shall be credited to a separate account known as Securities Premium Account.

Section 52 of the Companies Act, 2013 gives the purposes for which share premium account may be applied by the company.

These are:

1 For the issue of fully paid bonus shares to the members of the company;
2. For writing off preliminary expenses of the company;
3. For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company; and

4. For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.
5. For the purchase of its own shares or other securities.

—— Space to write important points for revision ——

2021 - Dec [4] Write short notes on Advantages of Buyback of shares. **(3 marks) [Sec. C - Six LAQ]**

Answer:

Please refer 2018 - June [5] (b) on page no. 25

—— Space to write important points for revision ——

DISTINGUISH BETWEEN

2019 - June [5] (b) Differences between Shares & Debentures **(4 marks)**

Answer:

Difference between Shares and Debentures:

	SHARES	DEBENTURES
Definition	An instrument to acknowledge the ownership of the company.	An instrument to acknowledge the creditors of the company.
Status	A shareholder is the owner and a member of the company.	A debenture holder is not a member but a creditor.
Return	A shareholder may receive dividend only when a company makes a profit.	A debenture holder has a right to interest even if the company does not make profit.
Rate of return	Dividend rate can vary depending on the profit position.	Debenture carries a fixed rate of interest.

Accounting Treatment	Dividend is given out of appropriate profit and not chargeable to Profit and Loss Account.	Debenture interest is chargeable to Profit and Loss Account.
Redemption	In case of shares, the concept of redemption does not apply. However, as per the recent changes in the Companies Act, a company can buy back shares in accordance with the provisions in the Act.	Debentures are normally redeemable although a company can issue perpetual debentures.
Voting rights	A shareholder has voting rights.	A debenture holder can't have voting rights.
Status at the time of winding up	At the time of winding up, shareholders have the least priority regarding the return of amount due to them.	At the time of winding up, debenture holders have a priority over the shareholders regarding the return of amount due to them.

Space to write important points for revision

DESCRIPTIVE QUESTIONS

2013 - Dec [3] {C} Answer the following:

(c) What are the sources available for buy-back of shares for a Company as per Section 68 of Companies Act? **(2 marks)**

Answer:

Please refer 2016 - June [5] (b) on page no. 22

Space to write important points for revision

2014 - June [3] {C} Answer the following:

(a) What is surrender of shares? What is the accounting treatment in the books of a company for surrender of shares? **(2 marks)**

(d) State the objects of the issue of debentures according to the guidelines issued by the Controller of Capital Issues. **(2 marks)**

Answer:

(a) Surrender of Shares:

- After the allotment of shares, sometimes a shareholder is not able to pay the further calls and returns his shares to the company for cancellation.
- Such voluntary return of shares to the company by the shareholder himself is called surrender of shares.
- Surrender of shares has no separate accounting treatment but it will be like that of forfeiture of shares.
- The same entries (as are passed in case of forfeiture of shares) will be passed in case of surrender of shares.

Answer:

(d) According to the guidelines issued by the Controller of Capital Issues, the objects of the issue can be among other things:

(1) Setting up of new projects;
(2) Expansion or diversification of existing projects;
(3) Normal capital expenditure for modernization;
(4) To augment long-term resources of the company for working capital requirements;
(5) Merger /Amalgamation of companies in pursuance of schemes approved by banks, financial institutions and/or any legal authority.

Space to write important points for revision

2014 - Dec [1] Answer the question:

(e) What are the various modes of buy-back of shares by a Limited Company? **(2 marks)**

Answer:
Modes of Buy-Back
Buy-back is permissible:
(a) from the existing security holders on a proportionate basis through the tender offer; or
(b) from the open market through
  (i) Book-building process,
  (ii) stock exchange;
(c) from odd lots, that is to say, where the lot of securities of a public company whose shares are listed on a recognized stock exchange is smaller than such marketable lot as may be specified by the stock exchange: or
(d) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

Space to write important points for revision

2014 - Dec [3] Answer the question:
(a) (ii) State the conditions for issue of Sweat Equity Shares. **(4 marks)**
Answer:
Primary Market - Public Issues - Sweat Equity Shares
Securities and Exchange Board of India (Issue of Sweat Equity Share) Regulations, 2002.
Section 2 (88) Companies Act, 2013 defines Sweat Equity Shares as under: expression "sweat equity shares" means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.
The conditions for issue of such shares by a company are specified in the section of **Companies Act, 2013** as under:
(a) the issue of sweat equity shares is authorised by a special resolution passed by the company in the general meeting;

(b) the resolution specifies the number of shares, current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
(c) the sweat equity shares of a company whose equity shares are listed on a recognised stock exchange are issued in accordance with the regulations made by the Securities and Exchange Board of India in this behalf.

—— Space to write important points for revision ——

2021 - Dec [2] Where is Debenture Redemption Reserve transferred after the redemption of all Debentures? **(1 mark) [Sec. B - SAQ]**

Answer:

General Reserve Account

—— Space to write important points for revision ——

2021 - Dec [3] What is the name given to the part of capital of a company which is called up only on winding up? **(1 mark) [Sec. B - SAQ]**

Answer:

Reserve Capital

—— Space to write important points for revision ——

2021 - Dec [17] Can the balance of Securities Premium Account be utilized for making existing partly paid-up equity shares into fully paid-up? **(1 mark) [Sec. B - SAQ]**

Answer:

No.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2012 - June [7] (a) Ashok Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012:

(₹ in crores)

Sources of Funds		
Share Capital :		
Authorised		100
Issued :		
12% redeemable preference shares of ₹ 100 each fully paid	75	
Equity shares of ₹ 10 each fully paid	25	100
Reserves and surplus:		
Capital reserve	15	
Securities Premium	25	
Revenue reserves	260	300
		400
Application of Funds		
PPE : cost	100	
Less: Provision for depreciation	(100)	Nil
Investments at cost (Market value ₹ 400 cr.)	100	
Current Assets	340	
Less: Current Liabilities	(40)	300
		400

The company redeemed preference shares on 1st April, 2012. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are required to

(i) Pass Journal entries to record the above;

(ii) Prepare Balance Sheet as at 01.04.2012. **(10 marks)**

Answer :

(i) Journal Entries in the books of Ashok Ltd.

(₹ in crores)

Date	Particulars	Dr.	Cr.
1st April, 2012	12% Preference share capital A/c Dr. To Preference shareholders A/c (Being preference share capital account transferred to shareholders account)	75	75
	Preference share holders A/c Dr. To Bank A/c (Being payment made to shareholders)	75	75
	Shares buy back A/c Dr. To Bank A/c (Being 50 Lakhs equity shares bought back @ .₹ 50 per share)	25	25
	Equity share capital A/c (50 Lakhs × ₹ 10) Securities premium A/c (50 Lakhs × ₹ 40) To Shares buy back A/c (Being cancellation of shares bought back)	5 20	25
	Revenue reserve A/c Dr. To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the value of preference shares redeemed and equity shares bought back)	80	80

Balance Sheet of Ashok Ltd. as on 01.04.2012:

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I. EQUITY AND LIABILITIES		**(₹ in crore)**	
1. Shareholders' Funds			
(a) Share Capital	1	20	
(b) Reserve and Surplus	2	280	
(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		40	
(d) Short - term provisions			
Total		340	
II. ASSETS			
1. Non Current Assets			
PPE and Intangible Assets			
(i) PPE	3	Nil	
(ii) Intangible assets			
(iii) Capital work - in - progress			
(iv) Intangible assets under development		100	

(b) Non - Current investment			
(c) Deferred tax assets (net)			
(d) Long term loans and advances			
(e) Other Non Current Assets			
2. Current Assets			
(a) Current investment			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents	4	240	
(e) Short - term loans and advances			
(f) Other current assets			
Total		340	

Notes on Account:

1. Share Capital:	**(₹ in crore)**	
Issued, Subscribed & Paid up		
200 Lakh equity share of ₹ 10 each	20	
Preference share 75		
Less: Redeemable 75	Nil	
	20	
2. Reserve & Surplus:		
Capital Reserve	15	
Capital Redemption Reserve	80	
Share Premium (25 - 20)	5	
Revenue Reserve (260 - 80)	180	
	280	
3. PPE:	100	
Less: Provision for Dep.	100	
	Nil	
4. Cash and Cash equivalent:		
Current Assets	340	
Less: Redemption & Buy Back	(100)	
	240	

Space to write important points for revision

2012 - Dec [6] (a) The following was the Balance Sheet of Wonder World Ltd. as at 31.03.2012: **(₹ in lakhs)**

Liabilities	₹	Assets	₹
1 lakh Equity Shares of ₹ 10 each fully paid	10.00	Plant & Machinery	13.50
Securities Premium	3.50	Furniture	2.40
General Reserves	3.10	Investments	1.80
Profit & Loss Account	1.10	Stock	7.20
14% Debentures	7.50	Sundry debtors	2.30
Sundry creditors	5.00	Bank	3.00
	30.20		30.20

On 01.04.2012, the company decided to buy-back 20% of its equity shares at a premium of ₹ 10 per share. For this purpose, the company sold its entire investments for ₹ 2.30 lakhs and issued 15000, 12% Preference shares of ₹ 100 each at par. The amount payable was ₹ 60 on application and ₹ 40 on allotment. The issue was fully subscribed. Thereafter the company issued bonus shares of ₹ 10 at the rate of one bonus share for every five equity shares held by the equity shareholders.

Show Journal entries and Balance Sheet after the above transactions were completed. **(10 marks)**

Answer :

Journal Entries in the books of wonder world Ltd.

2012			
April 1	Bank A/c Dr. To Investments A/c To P and L A/c (Being Investments Sold)	2.30	 1.80 0.50
April 1	Bank A/c Dr. To Preference share application A/c (Being application money @ 60/- each received on 1,500 Preference Shares)	0.90	 0.90
April 1	Preference Share application A/c Dr. To 12% PSC A/c (Being allotment made)	0.90	 0.90

April 1	Preference share allotment A/c Dr. To 12% PSC A/c (Being allotment money due on 1,500 pref shares @ 40/- each)	0.60	 0.60
April 1	Bank A/c Dr. To Preference Share Allotment A/c	0.06	 0.06
April 1	ESC A/c Dr. Security Premium A/c Dr. To Equity Shareholders A/c (Being 20%Eq. Shares bought back at a premium of 10/- each as per board resolution dated.....)	2.00 2.00	 4.00
April 1	Equity Shareholders A/c Dr. To Bank A/c (Being amount paid to equity shareholders against buy back)	4.00	 4.00
April 1	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred from General Reserve to CRR A/c) [Refer W.N.1]	0.50	 0.50
April 1	Capital Redemption Reserve A/c Dr. Security Premium A/c Dr. To Bonus to Shareholders A/c (Being profits transferred to issue bonus shares in the ratio of 1:5 [Refer W.N.2]	0.50 1.10	 1.60
April 1	Bonus to Shareholders A/c Dr. To ESC A/c (Being Bonus Shares issued in the ratio of 1:5 as per board resolution dated.....)	1.60	 1.60

W.N. (1)

Buy Back of Shares can be done out of two sources (Sec. 77 A)
2,00,000

- Out of proceeds of issue of new shares
  1500 Pref. Shares × 100/ = 1,50,000
- Out of Free Profit
  - General Reserve Balance ₹ 50,000

W.N. (2) No. of Bonus Shares to be issued

$$= 80,000 \times \frac{1}{5} = 16,000 \text{ Shares}$$

Balance Sheet of Wonder World Ltd. as on 1.4.12:

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	11.10	
(b) Reserve and Surplus	2	4.60	
(c) Money received against share warrants			
2. Share application money pending allotment			
3. Non - Current Liabilities			
(a) Long - term borrowings	3	7.50	
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long term provisions			

4. Current Liabilities			
(a) Short - term borrowings			
(b) Trade payables-(Sundry Creditors)		5.00	
(c) Other current liabilities			
(d) Short - term provisions			
Total		28.20	
II. ASSETS			
1. Non Current Asset			
PPE and Intangible Assets			
(a) PPE	4	15.90	
(i) Intangible assets			
(ii) Capital work - in - progress			
(iii) Intangible assets under development			
(b) Non - Current investment			
(c) Deferred tax assets (net)			
(d) Long term loans and advances			
(e) Other Non Current Assets			
2. Current Assets			
(a) Current investment			
(b) Inventories		7.20	
(c) Trade receivables		2.30	
(d) Cash and cash equivalents		2.80	
(e) Short - term loans and advances			
(f) Other current assets			
Total		28.20	

Notes on Accounts:

	(₹ in lakh)	
1. Share Capital:		
Issued, Subscribed & Paid up:		
96,000 Equity share of ₹ 10 each	9.60	
15,000 Preference of ₹ 100 each	1.50	
	11.10	

	Reconciliation of Share Capital:		
	Opening balance of equity 1,00,000		
	Less - Buy back 20,000		
	Add:- Issue bonus share 16,000		
	Add:- Issue Preference share 15,000		
	1,11,000		
2.	**Reserve & Surplus:**		
	Capital Redemption Reserve	0.50	
	Profit & Loss	1.10	
	General Reserve (3.1 - 0.5)	2.60	
	Security Premium (3.5 - 2- 1.1)	0.40	
		4.60	
3.	**Long term borrowings:**		
	14 % Debenture	7.50	
		7.50	
4.	**PPE:**		
	Plant & Machinery	13.50	
	Furniture	2.40	
		15.90	

Space to write important points for revision

2013 - June [3] (c) X Co. Ltd. decided to buyback 10,000 equity shares of ₹ 10 each. It sold investments (Face value) ₹ 70,000 for ₹ 95,000. It bought 10,000 equity shares in the open market for ₹ 90,000 out of free reserves. The shares bought back were cancelled. The expenses of buyback were ₹ 1,000.

Pass necessary journal entries in the books of X Co. Ltd. to record the above transactions. **(6 marks)**

Answer :

Journal of X Co. Ltd.

Particulars		Dr. ₹	Cr. ₹
Bank A/c	Dr.	95,000	
To Investment A/c			70,000
To Profit on sale of investment			25,000
(Being Sale of investment)			
Equity Share Capital Account	Dr.	1,00,000	
To Equity Shareholder account			90,000
To Capital reserve account			10,000
(Being transfer of equity share capital to shareholders account and profit on purchase of own shares)			
Free reserves account	Dr.	1,00,000	
To Capital Redemption reserve account			1,00,000
(Being the nominal value of shares purchased)			
Buyback expenses account	Dr.	1,000	
To Bank			1,000
(Being Expenses of buyback)			
Profit on sale of investment account	Dr.	25,000	
To Profit and Loss Account			25,000
(Being transfer of profit on sale of investment to P&L account)			
Profit and Loss Account	Dr.	1,000	
To Buyback expenses account			1,000
(Being transfer of buyback expenses to P&L Account)			

Space to write important points for revision

2013 - Dec [4] (a) (i) The following is the Balance Sheet of Superstar Ltd. as at 31.03.2013:

Liabilities	**Amount (₹ in Lakhs)**
10% Redeemable Pref. Shares of ₹ 10 each, fully paid	2,500
Equity Shares of ₹ 10 each, fully paid	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss A/c	300
9% Debentures	5,000
Sundry Creditors	2,300
Sundry Provisions	1,000
	26,900

Assets	**Amount (₹ in Lakhs)**
PPE	14,000
Investments	3,000
Cash at Bank	1,650
Other Current Assets	8,250
	26,900

On 1st April, 2013 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹ 3,150 lakh and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass Journal Entries for all the above mentioned transactions including Cash transactions. The amount of securities premium has been utilised to the maximum extent allowed by law. **(8 marks)**

(iii) ABC Ltd. issued 40,000 Equity shares. Three Underwriters were appointed to underwrite the shares and the shares were underwritten as under:

Underwriter	No. of Shares Underwritten
X	24,000
Y	10,000
Z	6,000

The above Underwriters made application for 'firm' underwriting as under: Underwriter X for 3,200 nos. shares, Underwriter Y for 4,000 nos. shares and underwriter Z for 1,200 nos. shares.

The Company received application for 20,000 nos. shares, excluding 'firm' underwriting but including marked applications which were as under:

Underwriter	Marked application for No. of Shares
X	4,000
Y	5,000
Z	2,000

You are required to calculate the allocation of liability of the respective Underwriters.

(As per contract, the Underwriters are to be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.) **(4 marks)**

Answer:

(i) **Journal Entries**

(Amount in Lakhs)

S.N.	Particulars	Debit (₹)	Credit (₹)
1.	Bank A/c Dr.	3,150	
	To Investment A/c		3,000
	To Profit & Loss A/c		150
	(Being sale of investment & profit thereon)		

2.	Bank A/c Dr. To Bank Loan A/c (Being Loan taken from bank)	2,000	 2,000
3.	10% Redeemable Pref. Share Capital A/c Dr. Premium on redemption of Pref. Shareholder A/c Dr. To Preference Shareholder A/c (Being redemption of Pref. Share)	2,500 250	 2,750
4.	Preference Shareholder A/c Dr. To Bank A/c (Being payment of amount due to Preference Shareholder)	2,750	 2,750
5.	Securities Premium A/c Dr. To Premium on redemption of Pref. Shareholder A/c (Being use of securities premium to provide premium on redemption of Pref. Shares)	250	 250
6.	Equity Share Capital A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. [(200 x 20) - 2,000 - 550] To Equity Shareholders A/c (Being buy back of equity shares) Note: Balance of General Reserve [6,000 - 1,450] = ₹ 4,550	2,000 550 1,450	 4,000
7.	General Reserve A/c Dr. To Capital Redemption Reserve A/c [2,000 + 2,500] (Being creation of capital redemption reserve to the extent of the face value of preference share redeemed & equity shares bought back.) Note : Balance in General Reserve as on 1.4.2013 (4,550 - 4,500) = 50.	4,500	 4,500
8.	Equity Shareholders A/c Dr. To Bank A/c (Being payment of amount due to equity shareholders) Note: Cash at Bank [1,650 + 3,150 + 2,000 - 2,750 - 4,000] = 50	4,000	 4,000

(iii) Calculation of allocation of liability of the respective underwriters :

Particulars	x	y	z	Total
Gross Liability (No. of shares)	24,000	10,000	6,000	40,000
Marked Application	(4,000)	(5,000)	(2,000)	(11,000)
	20,000	5,000	4,000	29,000
Unmarked Application [24:10:6]	(5,400)	(2,250)	(1,350)	9,000
[20,000 - 11,000 = 9,000]	14,600	2,750	2,650	20,000
Firm Underwriting	(3,200)	(4,000)	(1,200)	8,400
Balance	11,400	(1,250)	1,450	11,600
Negative Adjustment [24:6]	(1,000)	1,250	(250)	-
Net Liability	10,400	-	1,200	11,600
Add : Firm Underwriting	3,200	4,000	1,200	8,400
Total Liability	13,600	4,000	2,400	20,000

Space to write important points for revision

2014 - June [4] (a) (i) The following was the summarized financial position of Chanakya Ltd. as on 31st March, 2014:

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		PPE	15,000
Equity Shares of ₹ 10 each fully paid Up	7,000	Investments	3,000
		Cash at Bank	1,450
10% Redeemable Pref. Shares of ₹ 10 each fully Paid Up.	3,000	Other Current Assets	7,550
Reserve & Surplus			
Capital Redemption Reserve	1,100		
Securities Premium	700		
General Reserve	5,800		
Profit & Loss Account	500		

Secured Loans:		
9% Debentures	4,000	
Current Liabilities:		
Trade payables	3,800	
Sundry Provisions	1,100	
	27,000	27,000

On the 1st April, 2014 the Company redeemed all its Preference Shares at Premium of 10% and bought back 10% of its Equity Shares at ₹ 11 per Shares. In order to make funds available, the Company sold all the investments for ₹ 3,200 lakhs and raised a Bank Term Loan for the balance. You are required to prepare the Balance Sheet of the Company after the redemption/buy back of shares. Assume that the securities premium account was utilised to the maximum possible extent. **(10 marks)**

Answer:

Balance Sheet of Chanakya Ltd. as on 1.4.2014:
(after Redemption and Buyback)
as per Schedule III (Extracts)

	Particulars	**Note No**	**Amount (₹ Lakhs)**
(I)	**Equity and Liabilities**		
1	**Shareholders' Funds:**		
	(a) Share Capital	1	6,300
	(b) Reserves and Surplus	2	7,930
2	**Non-Current Liabilities** (a) Long Term Borrowings	3	4,870
3	**Current Liabilities** (a) Trade Payables		3,800
	(b) Short Term Provisions		1,100
	Total		24,000

(II) (1)	**Assets** **Non Current Assets** **PPE and Intangible Assets**		
	PPE		15,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		1,450
	(b) Other Current Assets		7,550
	Total		24,000

Notes of Accounts
(Related Notes)

				₹ In Lakhs
1	**Share Capital** 630 lakhs Equity Shares of ₹10 each Fully Paid up (70 lakh Equity Shares bought back)			6,300
2	**Reserve and Surplus**			
	General Reserve	5,800		
	Less: Transfer to CRR	3,700	2,100	
	Capital Redemption Reserve	1,100		
	Add: Transfer due to buy-back of shares from Gen. res.	3,700	4,800	
	Securities premium	700		
	Less: Adjustment for premium paid on redemption of preference shares	(300)		
	Less: Adjustment for premium paid on buy back	70	330	
	P&L A/c	500		
	Add: Profit of sale of investment	200	700	7930

3	**Long-term borrowings**			
	Secured			
	9% Debentures		4000	
	Terms Loans-From Banks		870	4870

Working Note:

Bank Account

Dr. **Cr.**

Particulars	Amount (₹ Lakhs)	Particulars	Amount (₹ Lakhs)
To balance b/d	1,450	By Preference Shareholders A/c	3,300
To Investment A/c (Sale Proceeds)	3,200	By Equity Shareholders A/c	770
		By Balance c/d	1,450
To Bank Loan A/c (Loan received)	870		
	5,520		5,520

Space to write important points for revision

2014 - June [4] (b) (i) On January 1, 2004 Vardhaman Ltd. allotted 20,000, 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

(1) On 1st Feb., 2005 the Company purchased in the open market 2,000 of its own debentures @ ₹ 102 each and cancelled them immediately.

(2) On 1st January, 2008 the Company redeemed at per debentures for ₹ 3,00,000 by draw of a lot.

(3) On 1st June, 2010 the Company purchased debentures of the face value of ₹ 2,00,000 for ₹ 1,97,800 in the open market, held them as investments for one year and then cancelled them.

(4) Finally, as per resolution of the Board of Directors, the remaining debentures were redeemed at a premium of 3% on 1st Feb., 2014 when Securities Premium Account in the company's ledger showed a balance of ₹ 50,000.

Pass journal entries for the above mentioned transactions ignoring debentures redemption reserve, debenture-interest and interest on own debentures. **(10 marks)**

Answer:

Journal Entries in The Books of Vardhman Ltd.

Date	Particulars		Amount Dr.	Amount Cr.
01-01- 2004	Bank A/c	Dr.	20,00,000	
	To 9% Debenture Application A/c			20,00,000
01-01-2004	9% Debenture Application A/c	Dr.	20,00,000	
	To 9% Debenture			20,00,000
01-02-2005	Own Debenture A/c	Dr.	2,04,000	
	To Bank A/c			2,04,000
01- 02-2005	9% Debenture	Dr.	2,00,000	
	Loss on Cancellation	Dr.	4,000	
	To Own Debenture A/c			2,04,000
01-01- 2008	9% Debenture A/c	Dr.	3,00,000	
	To Debentureholder			3,00,000
01-01- 2008	Debentureholder A/c	Dr.	3,00,000	
	To Bank			3,00,000
01-06- 2010	Own Debenture A/c	Dr.	1,97,800	
	To Bank A/c			1,97,800
01-06- 2010	9% Debenture	Dr.	2,00,000	
	To Capital Reserve			2,200
	To Own Debenture A/c			1,97,800

01-06-2010	Profit on cancellation of own Debenture A/c Dr.	2,200	
	To Capital Reserve A/c		2,200
	(Being transfer of profit on cancellation of own debenture to capital reserves)		
01-02- 2014	9% Debenture A/c Dr.	13,00,000	
	Premium on redemption of debenture Dr.	39,000	
	To Debentureholder		13,39,000
01-02- 2014	Debentureholder A/c Dr.	13,39,000	
	To Bank		13,39,000
01-02- 2014	Securities Premium A/c Dr.	39,000	
	To Premium on redemption of debenture		39,000

Space to write important points for revision

2014 - Dec [1] Answer the question:

(f) X Ltd. decides to redeem 650, 15% preference shares of ₹ 100 each at 10% premium. It has General Reserve of ₹ 45,500 and securities premium of ₹ 1,000. The new equity shares of ₹ 10 each are to be issued at 25% premium for the purpose of redemption of preference shares. Calculate the minimum number of equity shares to be issued by X Ltd. **(2 marks)**

Answer:

Nominal Value of Preference Shares +Premium on Redemption = Existing Securities Premium + Divisible Profits available for redemption + Sale Proceeds of fresh issue of New Shares.

65,000 + 6,500 = 1,000 + 45,500 + X

X = 25,000

Minimum number of equity shares to be issued for redemption of preference share = Sale Proceeds of fresh issue of New Shares/ Issue Price
= 25,000/12.50
= 2000.

—— Space to write important points for revision ——

2014 - Dec [2] Answer the question:

(b) (i) Kachari Limited granted 25,000 employees stock options (face value ₹ 10) on 1st April, 2012 at ₹ 100, when the market price was ₹ 425. The options were to be exercised between 16th October, 2012 and 15th March, 2014. The employees exercised their options for 22,500 shares only. The remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries. **(4 marks)**

Answer:

Journal of Kachari Limited

01/4/12	Employee Compensation Expense A/c Dr. To Employee Stock Options Outstanding A/c (Being grant of 25000 stock options to employees at ₹100 when market price is ₹ 425)	81,25,000	 81,25,000
(16/10/12 to 15/3/14)	Bank A/c Dr. Employee stock options outstanding A/c Dr. To Equity share capital A/c To Security premium A/c (Being allotment to employees of 22500 equity shares of ₹10 each at a premium of ₹415 per share in exercise of stock options by employees)	22,50,000 73,12,500	 2,25,000 93,37,500
16/3/14	Employee stock options outstanding A/c Dr. To Employee compensation expense A/c (Being entry for lapse of stock options for 2500 Shares)	8,12,500	 8,12,500
31/3/14	Profit & Loss A/c Dr. To Employee compensation expense A/c (Being transfer of employee compensation Expense to profit and loss account)	73,12,500	 73,12,500

Note: *Employee stock options outstanding will appear in the Balance Sheet as part of Net Worth or Shareholders' Equity.*

2014 - Dec [3] Answer the question:

(a) (i) Masood Ltd. came out with an issue of 45 lakh equity shares of ₹ 10 each at a premium of ₹ 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by P, Q and R respectively.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

P	7,25,000 shares
Q	8,40,000 shares
R	13,10,000 shares
	28,75,000 shares

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

You are required to:

(1) Compute the underwriters' liability (number of shares);

(2) Compute the amount payable as due to underwriters; and

(3) Pass necessary Journal Entries in the books of Masood Ltd. relating to underwriters.

(**Note:** As per contract, the underwriters are to be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.) **(8 marks)**

(b) (ii) Mogari Limited has 10% Redeemable Preference share capital of ₹ 30,00,000 consisting of ₹ 10 shares fully paid up. The company wants to redeem these shares at 25% premium. The ledger accounts show the following balances:

Securities premium ₹ 1,00,000; General Reserve ₹ 13,00,000 and Profit & Loss Account (Cr.) ₹ 7,00,000

In order to facilitate the redemption of preference shares, the company decided the following:

1. 1,20,000 Equity shares of ₹ 10 each were issued at 50% premium.

2. 10,000, 12% Debenture of ₹100 each were issued at par.
3. Investments of book value ₹ 5,00,000 were sold at ₹ 5,60,000.

Pass the necessary journal entries to record above transactions and redemption of preference shares. **(8 marks)**

Answer:

(i) (a) Computation of liabilities of underwriters (No. of shares):

Particulars	P	Q	R
Gross liability	12,00,000	12,00,000	12,00,000
Less: Firm underwriting	1,00,000	1,00,000	1,00,000
	11,00,000	11,00,000	11,00,000
Less: Marked applications	7,25,000	8,40,000	13,10,000
	3,75,000	2,60,000	(2,10,000)
Less: Unmarked applications distributed to P and Q in equal ratio	1,12,500	1,12,500	Nil
	2,62,500	1,47,500	(2,10,000)
Less: Surplus of R distributed to P and Q in equal ratio	1,05,000	1,05,000	2,10,000
Net liability (excluding firm underwriting)	1,57,500	42,500	Nil
Add: Firm underwriting	1,00,000	1,00,000	1,00,000
Total liability (No. of shares)	2,57,500	1,42,500	1,00,000

(b) Computation of amounts payable by underwriters: (₹)

Particulars	P	Q	R
Liability towards shares to be subscribed @12 per share	30,90,000	17,10,000	12,00,000
Less: Commission (5% on 12 lakhs shares @ 10 each)	6,00,000	6,00,000	6,00,000
Net amount to be paid by underwriters	24,90,000	11,10,000	6,00,000

(c) In the Books of Masood Ltd.

Journal Entries

Particulars	Dr. (₹)	Cr. (₹)
Underwriting commission A/c Dr.	18,00,000	
To P A/c		6,00,000
To Q A/c		6,00,000
To R A/c		6,00,000
(Being underwriting commission on the shares underwritten)		
P A/c Dr.	30,90,000	
Q A/c Dr.	17,10,000	
R A/c Dr.	12,00,000	
To Equity share capital A/c		50,00,000
To Share premium A/c		10,00,000
(Being shares including firm underwritten shares allotted to underwriters)		
Bank A/c Dr.	42,00,000	
To P A/c		24,90,000
To Q A/c		11,10,000
To R A/c		6,00,000
(Being the amount received towards shares allotted to underwriters less underwriting commission due to them)		

Answer:

(b) (ii) **Books of Mogari Limited**

Journal (in Lakhs)

Particulars	Dr. (₹)	Cr. (₹)
(i) Bank A/c Dr.	28,00,000	
To E. S. Application A/c		18,00,000
To Debenture A/c		10,00,000
(Application money received on 1,20,000 equity shares @₹15 per share and on 10,000 debentures @ ₹ 10 each)		

(ii) Bank A/c	Dr.	5,60,000	
To Profit & Loss A/c			60,000
To Investment A/c			5,00,000
(Profit on sale of Investments)			
(iii) E. S. Application A/c	Dr.	18,00,000	
To E. S. Capital A/c			12,00,000
To Securities Premium A/c			6,00,000
(Application money transferred)			
(iv) Debenture Application A/c	Dr.	10,00,000	
To 12% Debenture A/c			10,00,000
(v) Security Premium A/c	Dr.	7,00,000	
General Reserve A/c	Dr.	50,000	
To Premium on redpm. of pref. sh. A/c			7,50,000
(vi) General Reserve A/c	Dr.	12,50,000	
Profit & Loss A/c	Dr.	5,50,000	
To Capital Redemption Reserve A/c			18,00,000
(vii) 10% Redeemable P. S. Capital A/c	Dr.	30,00,000	
Premium on Red. of P. S. A/c	Dr.	7,50,000	
To Bank A/c			37,50,000

Note: *Preference shares are redeemed either out of distributable profits or proceeds from fresh issue of shares or both. Hence, Preference shares of ₹ 12,00,000 redeemed through fresh issue of equity shares and remaining of ₹ 18,00,000 redeemed out of profits.*

Space to write important points for revision

2015 - June [1] Answer the question:

(a) Neel Limited issued 10,000 debentures of ₹ 10 each redeemable at the end of 10 years, but reserves the right to redeem earlier from the end of 3rd year. The company decides at the end of 5th year to redeem 2,000 debentures out of its profits. Pass necessary journal entries in the books of Neel Limited on redemption of debentures. **(2 marks)**

Answer:

Journal Entries in the books of Neel Limited on redemption of debentures:

5th Year Dec. 31	Particulars	Dr. (₹)	Cr. (₹)
I	Debentures A/c Dr. To Debentureholders A/c (Being the amount due on redemption of debentures) 2,000 × 10	20,000	20,000
II	Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the transfer of Profit to Debenture Redemption Reserve A/c as per SEBI guidelines)	20,000	20,000
III	Debentureholders A/c Dr. To Bank A/c (Being the amount paid to debenture-holders)	20,000	20,000

Space to write important points for revision

2015 - June [3] (a) Answer the question:

(ii) Vikash Ltd. resolved by a special resolution to buy-back its 5,00,000 equity shares of ₹ 10 each (paid up value ₹ 8) at a premium of ₹ 15 per share. At the time of buy-back the following balances appeared in its books:

	₹
Securities Premium Account	60,00,000
General Reserve Account	50,00,000
Profit and Loss Account (Cr.)	45,00,000

The company utilized the whole of the securities premium for buy-back purpose.

You are required to pass the necessary journal entries in the books of the company. **(4 marks)**

Answer:

Buy Back of Shares

Journal Entries in the books of Vikash Limited

I	Equity share final call A/c Dr. To Equity share capital A/c (Being final call money due for 5,00,000 equity shares @ ₹ 2 per share)	10,00,000	10,00,000
II	Bank A/c Dr. To Equity share final call A/c (Being final call money received for 5,00,000 equity shares @ ₹ 2 per share)	10,00,000	10,00,000
III	Equity shareholders A/c Dr. To Bank A/c (Being amount paid on buy back of shares @ ₹ 25 per share)	1,25,00,000	1,25,00,000
IV	Equity share capital A/c Dr. Securities premium A/c Dr. General Reserve A/c Dr. To Equity Shareholders A/c (Being cancellation of 5,00,000 equity shares on buy back)	50,00,000 60,00,000 15,00,000	1,25,00,000
V	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being transfer of General Reserve of ₹ 35,00,000 & ₹ 15,00,000 to cover the nominal amount of shares brought back to Capital Redemption Reserve A/c)	35,00,000 15,00,000	50,00,000

Space to write important points for revision

2015 - June [3] (c) Answer the question:

(ii) Seth Co. Ltd. issued 20,000 shares which were underwritten as: Ram: 12,000 shares, Raghu: 5,000 shares and Ravi: 3,000 shares. The underwriters made applications for firm underwriting as follows: Ram: 1,600 shares; Raghu: 600 shares; Ravi: 2,000 shares. The total subscriptions excluding firm underwriting (including marked applications) were 10,000 shares.

The marked applications were: Ram: 2,000 shares; Raghu: 4,000 shares; Ravi: 1,000 shares.

Show the net liability of underwriters (number of shares). **(6 marks)**

Answer:

Statement showing the liability of under writers:

			No. of shares
Underwriters	**Ram**	**Raghu**	**Ravi**
Gross liability	12,000	5,000	3,000
Less: Marked Applications (excluding firm under writing)	2,000	4,000	1,000
	10,000	1,000	2,000
Less: Unmarked applications in the ratio of gross liability (Note - 1)	4,320	1,800	1,080
Resultant liability or surplus	5,680	(800)	920
Less: Surplus of B allocated to A&C in the ratio of 12:3	(640)	800	(160)
Net liability as per agreement	5,040	Nil	760
Add: Firm underwriting	1,600	600	2,000
Total liability	6,640	600	2,760

Working Notes:

Under this method, firm underwriting is treated as "unmarked application" and it is dividend in the ratio of gross liability. Total unmarked applications are calculated as follows:

1. Calculation of Unmarked Applications:

Total subscriptions (excluding firm underwriting)	10,000
Less: Marked application (excluding firm underwriting)	7,000
Unmarked application by public	3,000
Add: Application under firm underwriting	4,200
Total unmarked applications	7,200

Unmarked Applications are allotted in the ratio of gross liability = 12:5:3

2. Total Allocation of Shares:

Unmarked Application by Public	3,000
Marked Application by Public	7,000
Total liability (6,640 + 600 + 2,760)	10,000
	20,000

Space to write important points for revision

2015 - Dec [1] Answer the questions:

(d) Mahi Ltd. taken a loan of ₹ 15,00,000 from the SBI by issuing 25000, 12% Debentures of ₹ 100 each as collateral security. Pass the necessary journal entries in the books of company. **(2 marks)**

(f) On 1st June, 2015 Suku Ltd. purchased 250 of its own 12% debentures from the open market at ₹ 97 (cum-interest) each for immediate cancellation. Face value of each debenture is ₹ 100. Debenture interest is payable on 30th June and 31st December every year. Pass necessary journal entry to record the above transaction. **(2 marks)**

Answer:

(d) Journal of Mahi Ltd.

Particulars		(₹)	(₹)
Bank A/c	Dr.	15,00,000	
To Bank Loan A/c			15,00,000
(Loan taken from SBI)			
Debenture Suspense A/c	Dr.	25,00,000	
To 12% Debentures A/c			25,00,000
(12% Debentures worth ₹ 20 Lakhs issued as collateral security for a Loan from SBI as per Board's Resolution No…… Date)			

(f)

Particulars		Dr. (₹)	Cr. (₹)
12% Debentures A/c (250 x ₹ 100)	Dr.	25,000	
Debenture Interest A/c	Dr.	1,250	
To Bank A/c (250 x ₹ 97)			24,250
To profit on Redemption of Debentures A/c (250 debentures cancelled by purchase from open market)			2,000

Accrued Interest upto 1.6.2015 = 250 x 100 x $\frac{12}{100} \times \frac{5}{12}$ = ₹ 1,250.

Space to write important points for revision

2015 - Dec [3] Answer the questions:

(a) (i) On 31st March 2015, following was the Balance Sheet of FCS Limited:

Liabilities	₹ (in lakhs)	Assets	₹ (in lakhs)
Equity Share Capital (₹ 10)	2,400	Machinery	3,600
Securities Premium	350	Furniture	452
General Reserve	930	Investments (Face Value ₹ 200 lakhs)	148
Profit and Loss Account	340		
Current Liabilities	2,640		
		Current Assets	2,460
	6,660		**6,660**

On 1st April, 2015 the company announced the buy-back of 25% of its equity shares @ 15 per share. For this purpose, it sold all of its investments for ₹ 150 Lakhs and issued 2,00,000, 14% preferences shares of ₹ 100 each at par, the entire amount being payable with application.

The issue was fully subscribed. The company achieved the target of buy-back. Later the company issued one fully paid up equity share of ₹ 10 by way of bonus shares for every four equity shares held by the equity shareholders.

Required: Show journal entries for all transactions including cash transactions. **(10 marks)**

(b) (ii) Sonic Ltd. incorporated on 1st June, 2015 issued a prospectus inviting applications for 10,00,000 equity shares of ₹ 10 each. The whole issue was fully underwritten by four underwriters:

	S	T	U	V
Underwriter	4,00,000 shares	3,00,000 shares	2,00,000 shares	1,00,000 shares

Applications were received for 9,00,000 shares of which marked applications were as follows:

	S	T	U	V
Underwriter	4,40,000 shares	1,80,000 shares	2,20,000 shares	20,000 shares

Find out the liability of each underwriter individually. **(6 marks)**

Answer:

(a) (i) **In the books of FCS Ltd.**

Journal Entries

(₹ In Lakhs)

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
1.	Bank A/c Dr. To Investments A/c (Being the Sale of investments)		150	 150
2.	Investments A/c Dr. To Profit and Loss A/c (Being the t/f of Profit on sale of Investments)		2	 2
3.	Bank A/c Dr. To 14% Preference Share Application & Allotment A/c (Being the Application money received)		200	 200

4.	14% Preference Share Application & Allotment A/c Dr. To 14% Preference Share Capital A/c (Being the Allotment of shares)		200	200
5.	Equity Shares Buy Back A/c Dr. To Bank A/c (Being the payment made to equity shareholders on buy-back)		900	900
6.	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Shares Buy Back A/c (Being the cancellation of share bought back)		600 300	900
7.	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being creation of Capital Redemption Reserve A/c to the extent of the face value of equity shares bought back)		600	600
8.	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. To Bonus Issue A/c (Being the utilisation of Capital Redemption reserve and securities premium to issue one bonus share for every four shares held)		400 50	450
9.	Bonus Issue A/c Dr. To Equity Share Capital A/c (Being the Issue of one bonus share for every four equity shares)		450	450

Note: *Amount of Bonus Issue = 25% of (2400 - 25% of 2400) = ₹ 450 lakhs.*

(b) (ii) Statement of Underwriters' Liability

Particulars	S	T	U	V	TOTAL
Gross Liability	4,00,000	3,00,000	2,00,000	1,00,000	10,00,000
Less: Marked Applications	4,40,000	1,80,000	2,20,000	20,000	8,60,000
Balance Left	(40,000)	1,20,000	(20,000)	80,000	1,40,000
Less: Unmarked Application	16,000	12,000	8,000	4,000	40,000
Applications in the ratio of gross liability	(56,000)	1,08,000	(28,000)	76,000	1,00,000
Division of surplus of S and U to T and V in the ratio of (3:1)	(56,000)	(63,000)	28,000	(21,000)	0
Net Liability	NIL	45,000	NIL	55,000	1,00,000

Space to write important points for revision

2016 - June [5] (a) The following balances were shown in the Balance Sheet of Anukula Limited as at 31st March, 2015:

	₹
8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
50,000 8% Preference Shares of ₹ 100 each ₹ 80 paid up	40,00,000
Capital Reserve	35,00,000
General Reserve	80,00,000
Securities Premium	70,00,000
Profit & Loss Account	52,00,000
12% Debentures	10,00,000
Non-Current Investment at cost	65,00,000
Cash and Bank	92,00,000

Additional Information:

(i) The company passed a resolution to buy-back 20% of its equity capital @ ₹ 35 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 28 lakhs.

(ii) The company redeemed the preference shares at a premium of 25%.

(iii) Included in its investments were 'Investments in own debentures' costing ₹ 10 lakhs (face value ₹ 11.50 lakhs). These debentures were cancelled.

You are required to pass necessary journal entries in the books of the company for above. **(10 marks)**

Answer:

(a) Journal Entries In the Books of Anukula Ltd:

(₹ in Lakhs)

	Particulars	Dr.	Cr.
1.	Bank A/c Dr. Profit and Loss A/c Dr. To Investment A/c (Being investment sold for the purpose of buy-back of Equity Shares)	28 2	 30
2.	Preference Share Final Call A/c Dr. To 8% Preference Share Capital A/c (Being call money due)	10	 10
3.	Bank A/c Dr. To Preference Share Final Call A/c (Being call money received)	10	 10
4.	8% Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being redemption of preference share capital at premium of 25%)	50 12.50	 62.50
5.	Preference Shareholders A/c Dr. To Bank A/c (Being payment made to preference shareholders)	62.50	 62.50

6.	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Refer Note) (Being creation of capital redemption reserve)	66	 66
7.	Equity Share Capital A/c Dr. Securities Premium A/c Dr. (Premium payable on buy-back) To Equity Shares Buy-back A/c (Being the amount due on buy-back of equity shares)	16 40	 56
8.	Equity Shares Buy-back A/c Dr. To Bank A/c (Being payment made for buy-back of equity shares)	56	 56
9.	12% Debentures A/c Dr. To Own Debentures A/c To Capital Reserve A/c (Profit on cancellation) (Being own debentures cancelled at profit)	11.5	 10 1.50
10.	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	12.50	 12.50

Note: Transfer to Capital Redemption Reserve A/c as:

	₹
For Redemption of P.S. Capital	50 lakhs
For Buy-back of Equity Shares	16 lakhs
Total	66 lakhs

Space to write important points for revision

2016 - Dec [7] (a) APC Ltd. has 12% redeemable preference share capital of ₹ 1,00,000 consisting shares of ₹ 100 each fully called and paid-up. The company wants to redeem them at 10% premium.

The ledger accounts show the following balances:

Securities Premium A/c: ₹ 4,000

Profit & Loss A/c: ₹ 20,000

The company wants to make a minimum fresh issue of equity shares of ₹ 10 each at 5% premium for redemption of the preference shares.

You are required to:

(i) Ascertain the amount of fresh issue to be made by the company;

(ii) Pass necessary journal entries regarding redemption of the preference shares and fresh issue. **(10 marks)**

Answer:

Calculation showing number of equity shares to be issued —

Total Liability = Preference Share Capital to be redeemed

= Profit and Loss Account balance + Securities Premium + Proceeds of fresh issue

Let, Numbers equity shares to be issued be X

∴ ₹ 1,10,000 = ₹ 4,000 + ₹ 20,000 + [1.05 X × ₹10]

Or, ₹10.5 X = ₹(1,10,000 – 4,000 – 20,000)

Or, X = ₹ 86,000 / ₹10.5

Or, X = 8,190

Hence, amount of fresh issue —

No. of shares to be issued 8,190

Equity Share Capital = 8,190 × ₹10 = ₹ 81,900

Securities Premium [₹10 × 5%] × 8,190 = ₹ 4,095

₹ 85,995

APC Ltd.

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c	Dr.	85,995	
To Equity Share Capital A/c			81,900
To Securities Premium A/c			4,095
(8190 equity shares of ₹10 each at a premium of 5%)			

Securities Premium A/c	Dr.	8,095	
Profit & Loss A/c		1,905	
To Premium on Redemption of Preference Shares A/c			10,000
(Premium provided for redemption)			
Profit & Loss A/c	Dr.	18,100	
To Capital Redemption Reserve A/c			18,100
(Amount transferred to capital redemption reserve not covered by fresh issue)			
12% Redeemable 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
(Redemption of preference shares made)			
Preference Shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Payment made)			

Space to write important points for revision

2017 - June [2] (a) A joint stock company resolved to issue 5 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. 50000 of these shares were taken up by the directors and their relatives, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by P, Q and R for a commission of 2% of the issue price. 65% of the issue was underwritten by P, while Q and R's share were 25% and 10% respectively.

Their firm underwriting was as follows:

P 15000 shares, Q 10000 shares and R 5000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with the members of the general public.

Marked applications were as follows: P 59750 shares, Q 28750 shares and R 5250 shares. Unmarked applications totaled 350000 shares.
Accounts with the underwriters were promptly settled.
You are required to prepare a statement calculating liability of the Underwriters for shares other than shares underwritten Firm and also calculate the amount due from/to the Underwriters. **(8 marks)**

Answer :

Statement Showing the Liability of underwriters:

Underwriters	P	Q	R	Total
Gross Liability	2,92,500	1,12,500	45,000	4,50,000
Less: Marked Application (excluding firm underwriting)	59,750	28,750	5,250	(93,750)
	2,32,750	83,750	39,750	3,56,250
Less: Unmarked Applications (in the ratio of gross Liability)	2,27,500	87,500	35,000	(3,50,000)
Result and Liability	5,250	(3,750)	4,750	6,250
Less: Surplus of a allocated to P & R (65:10)	(3,250)	(3,750)	(500)	—
Net Liability as per agreement	2,000	Nil	4,250	6,250
Add: Firm underwriting	15,000	10,000	5,000	30,000
Total Liability	17,000	10,000	9,250	36,250

Workings: Calculation of amount due from/to underwriters

Particulars	P	Q	R
No. of shares to be subscribed as per agreement (exc. Firm)	2,000	Nil	4,250
Amount payable @₹ 11	22,000	Nil	46,750

Underwriting commission @ 2%			
P: (292500 × 11× 2%)	64,350		
Q: (112500 × 11× 2%)		24,750	
R: (45000 × 11 × 2%)			9,900
Amount (paid)/received	(42,350)	(24,750)	36,850

Space to write important points for revision

2017 - Dec [2] (a) R Ltd. wants to buy-back 100000 equity shares of ₹ 10 each at a price of ₹ 20 each on 01.04.2017. The buy-back is allowed in its articles of association and the company has obtained necessary approval from the shareholders. The company has sufficient bank balance to make the payment for buy-back of shares.

The following information is available as on 31.03.2017:

	₹
Equity Share Capital (₹ 10 each fully paid)	50,00,000
General Reserve	60,00,000
Dividend Equalization Reserve	10,00,000
Balance of Profit and Loss (Cr.)	5,00,000
10% Debentures (₹ 100 each)	75,00,000
Bank Loan	40,00,000
Current Liabilities	66,00,000

Verify whether the buy-back plan of the company meets the conditions specified by the Companies Act 2013 as regards to the maximum amount of buy-back. Also pass necessary journal entries in the books of the company to give effect of the process, if the plan is found to be in place.

(9 marks)

Answer:

Determination of maximum buyback permissible as per Companies Act 2013:

1. **Shares Outstanding Test:** Max. Permissible Limit = 25% of Outstanding Shares

Particulars	
Total number of shares outstanding	5,00,000
25% of the shares outstanding	1,25,000

2. **Resource Test:** Max. Permissible Limit = 25% of Paid up Capital plus Free Reserves

Particulars	
Equity share capital (₹)	50,00,000
Free Reserve (₹) (General Reserve + DER +P/L)	75,00,000
Paid up Capital plus Free Reserves (₹)	125,00,000
25% of Paid up Capital plus Free Reserves (₹)	31,25,000
Buy back price per share (₹)	20
No. of shares that can be bought back (31,25,000/20)	1,56,250

3. **Debt Equity Ratio Test:** Debt after buyback cannot exceed twice the paid up capital plus free reserves.

Particulars	
Total Debt (₹) (75,00,000 + 40,00,000 + 66,00,000)	181,00,000
Minimum Equity to be maintained after buyback in the ratio 2:1 (₹)	90,50,000
Paid up capital plus free reserves before buyback (₹)	125,00,000
Future Paid up capital plus free reserves (₹) (see working note: 1) (125,00,000 - 11,50,000)	113,50,000

Maximum permissible buyback (₹) (113,50,000 - 90,50,000)	23,00,000
Buy back price per share (₹)	20
No. of shares that can be bought back	1,15,000

Summary of three test results:

	No. of Shares
Permissible Buyback as per -	
Share Outstanding Test	1,25,000
Resource Test	1,56,250
Debt-Equity Ratio Test	1,15,000
Maximum permissible buyback (least of the three)	1,15,000
Actual buyback plan	1,00,000

Since actual buyback proposed is below the permissible limit, the company can buy back 100000 shares at ₹ 20 each.

Working Note 1:

In case buyback of shares is done out of free reserves and securities premium, a company is required transfer a sum equal to the nominal value of the shares buyback to Capital Redemption Reserve A/C. Thus shareholders' fund after buyback includes CRR. Now CRR is not a free reserve. Hence it cannot form part of paid up capital plus free reserve after buyback.

Let nominal value of shares bought back is x. Then CRR after buyback is x. Moreover total premium on buyback = x (₹ 10 face value and ₹ 20 buyback price, so premium on buyback ₹ 10). So total amount to be deducted from shareholders' fund for buyback = x (capital) +x (premium) = 2x. Moreover free reserves to be reduced by x.

Total paid up capital plus free reserves after buyback = 125,00,000 – x (i.e. CRR) – 2x (i.e. buyback proceeds)

Conditionally, 125,00,000 - x - 2x = 90,50,000, or, x = 11,50,000 Nominal value of buyback = 11,50,000 (i.e. CRR)

Journal

Date	Particular	Dr. (₹)	Cr. (₹)
1.4.2017	Equity Share Buyback A/c Dr. To Bank A/c (Being buyback of 100000 shares of ₹ 10 each at ₹ 20 per share.)	20,00,000	 20,00,000
1.4.2017	Equity Share Capital A/c Dr. General Reserve A/c To Equity Share Buyback A/c (Being cancellation of shares bought back and premium on buyback provided out of General Reserve)	10,00,000 10,00,000	 20,00,000
1.4.2017	General Reserve A/c Dr. To Capital redemption Reserve A/c (Being nominal value of shares bought back transferred to CRR)	10,00,000	 10,00,000

Space to write important points for revision

2018 - June [2] (a) On 01.01.2017 Jay Ltd. had 2,000, 12% Debentures of ₹ 100 each. On 01.05.2017 the company purchased 400 own Debentures at ₹ 97 cum-interest in the open market. Interest on debentures is payable on 30th June and 31st December each year.

Required: Give the necessary journal entries assuming that the own Debentures purchased were retained as investments till 31.12.2017, on which date they were cancelled.

Assume that the company follows English Calendar Year. **(6 marks)**

Answer:

Journal of Jay Ltd.

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
May 01	Own Debentures A/c Dr. Interest on Own Debenture A/c Dr. To Bank A/c (Being the purchase of 400 debentures @ ₹ 97 cum - interest)		37,200 1,600	 38,800

June 30	Debentures Interest A/c Dr. To Interest on Own Debentures A/c To Bank A/c (Being the interest paid / credited on ₹ 2,00,000 debentures held by outsiders and by the company own debentures for 2 months).		12,000	 2,400 9,600
Dec. 31	Debentures Interest A/c Dr. To Bank A/c To Interest on Own Debentures A/c (Being the interest paid / credited on ₹ 1,60,000 debentures held by outsiders and ₹ 40,000 own debentures for six months)		12,000	 9,600 2,400
Dec. 31	Profit and Loss A/c Dr. To Debenture Interest A/c (Being the transfer of debenture interest to P & L A/c)		24,000	 24,000
Dec. 31	Interest on Own Debentures A/c Dr. To Profit and Loss A/c (Being the transfer of interest on own debentures to P & L A/c)		3,200	 3,200
Dec. 31	12% Debentures A/c Dr. To Own Debentures A/c To Capital Reserve A/c (Being the cancellation of 400 own debentures)		40,000	 37,200 2,800
Dec. 31	Profit and Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the transfer of an amount equivalent to the cash sum applied in redeeming the debentures)		37,200	 37,200

2018 - Dec [2] (a) Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017:

Authorised Capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	45,00,000
Issued and Subscribed Capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and Surplus:	
General Reserve	3,60,000
Securities Premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ 2 each on 2,70,000 Equity shares. The call money was received by 20th April, 2017. 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, 2017 after bonus issue.

(7 marks)

Answer:

Journal Entries in the books of Xeta Ltd.

		₹	₹
1-04-17	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated.)	5,40,000	5,40,000

20-04-17	Bank A/c Dr.	5,40,000	
	To Equity share final call A/c		5,40,000
	(For final call money on 2,70,000 equity shares received)		
	Securities Premium A/c Dr.	1,00,000	
	General Reserve A/c Dr.	3,60,000	
	Profit and Loss A/c Dr.	2,15,000	
	To Bonus to shareholders A/c		6,75,000
	(For making provision for bonus issue of one share for every four shares held)		
	Bonus to shareholders A/c Dr.	6,75,000	
	To Equity share capital A/c		6,75,000
	(For issue of bonus shares)		

Extract of Balance Sheet as at 30th April, 2017 (after bonus issue):

	₹
Authorised Capital	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹ 10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	3,85,000

Space to write important points for revision

2019 - June [2] (a) A company issued 1,50,000 shares of ₹ 10 each at a premium of ₹ 10. The entire issue was underwritten as follows:

A – 90000 shares (Firm underwriting 12000 shares)
B – 37500 shares (Firm underwriting 4500 shares)
C – 22500 shares (Firm underwriting 15000 shares)

Total applications received by the company (excluding firm underwriting and marked applications) were, 22500 shares.

The marked applications (excluding firm underwriting) were as follows:

A – 15000 shares; B – 30000 shares; C – 7500 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

(i) Determine the liability of each underwriter (number of shares)
(ii) Compute the amount payable or due to underwriters. **(7 marks)**

Answer:

(i) **Computation of Underwriters' Liability (Number of Shares):**

Particulars	A	B	C
Gross Liability	90,000	37,500	22,500
Less: Marked applications	(15,000)	(30,000)	(7,500)
Less: Unmarked applications in the ratio of (90:37.5:22.5)	(13,500)	(5,625)	(3,375)
Less: Firm Underwriting	(12,000)	(4,500)	(15,000)
Balance	49,500	(2,625)	(3,375)
Less: Surplus of B & C distributed to A	(6,000)	2,625	3,375
Net Liability (excluding firm underwriting)	43,500	Nil	Nil
Add: Firm Underwriting	12,000	4,500	15,000
Total Liability (number of shares)	55,500	4,500	15,000

(ii) **Computation of Amounts Payable to Underwriters:**

Particulars	₹	₹	₹
Liability towards shares to be subscribed @ ₹ 20 per share	11,10,000	90,000	3,00,000
Less: Commission @ 5% on 1,50,000 shares @ ₹ 20	(90,000)	(37,500)	(22,500)
Net Amount to be paid by Underwriters	10,20,000	52,500	2,77,500

Space to write important points for revision

2019 - Dec [2] (a) Moti Ltd. invited applications for issuing 10,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share. The amount was payable as follows:

On Application – ₹5 (including Premium)
On Allotment – ₹4
On First and Final call – ₹3

Applications for 15,00,000 shares were received. Applications for 3,00,000 shares were rejected and *pro rata* allotment was made to remaining applicants. Excess application money was utilised towards sum due on allotment. Giri who has applied for 24,000 shares failed to pay the allotment and call money. His shares was forfeited. Out of the forfeited shares, 10,000 shares were reissued for ₹ 8 per share fully paid up. Pass necessary Journal entries in the books of Moti Ltd. **(8 marks)**

Answer:

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		75,00,000	
	To Equity Shares Application A/c			75,00,000
	(Being the application money received on 15,00,000 shares)			

	Equity Shares Application A/c Dr.		75,00,000	
	To Equity Share Capital A/c (10,00,000 × ₹3)			30,00,000
	To Securities Premium Reserve A/c (10,00,000 × ₹2)			20,00,000
	To Bank A/c (3,00,000 × ₹5)			15,00,000
	To Equity Share Allotment A/c (2,00,000 × ₹5)			10,00,000
	(Being the application money adjusted)			
	Equity Shares Allotment A/c Dr.		40,00,000	
	To Equity Share Capital A/c			40,00,000
	(Being the allotment money due)			
	Bank A/c Dr.		29,40,000	
	To Equity Shares Allotment A/c			29,40,000
	Or			
	Bank A/c Dr.		29,40,000	
	Calls-in-Arrear A/c Dr.		60,000	
	To Equity Shares Allotment A/c			30,00,000
	(Being the allotment money received except on 20,000 shares) **(WN 1)**			
	Equity Shares First and Final Call A/c Dr.		30,00,000	
	To Equity Share Capital A/c			30,00,000
	(Being the First and Final Call money due)			

	Bank A/c Dr.		29,40,000	
	To Equity Shares Allotment A/c			29,40,000
	Or			
	Bank A/c Dr.		29,40,000	
	Calls-in-Arrear A/c Dr.		60,000	
	To Equity Shares First and Final Call A/c			30,00,000
	(Being the call money received except on 20,000 shares)			
	Equity Share Capital A/c Dr.		2,00,000	
	To Forfeited Shares A/c			80,000
	To Equity Shares Allotment A/c			60,000
	To Equity Shares First and Final call A/c			60,000
	Or,			
	Equity Shares Capital A/c Dr.		2,00,000	
	To Calls-in-Arrear A/c (₹60,000 + ₹60,000)			1,20,000
	To Forfeited Shares A/c			80,000
	(Being 20,000 shares forfeited due to nonpayment of allotment and call money)			
	Bank A/c (10,000 × ₹8) Dr.		80,000	
	Forfeited Shares A/c (10,000 × ₹2) Dr.		20,000	
	To Equity Shares Allotment A/c			1,00,000
	(Being 10,000 forfeited shares reissued for ₹8 per share fully paid -up)			
	Forfeited Shares A/c Dr.		20,000	
	To Capital Reserve A/c			20,000
	(Being the gain on re-issue transferred to Capital Reserve account)**(WN 2)**			

Working Note 1:
Calculation of Money Received on Allotment:

(i) Pro rata allotment = 12,00,000 : 10,00,000 = 12:10

(ii) No. of shares allotted to Giri = 24,000 × 10/12 = 20,000 shares

(iii) Money received on application from Giri (24,000 shares × ₹5)	=	₹1,20,000
Less: Amount adjusted on application (20,000 shares × ₹5)	=	₹1,00,000
Excess application money adjusted on allotment	=	**₹20,000**

(iv) **Money due from Giri on allotment:**

Money due from on allotment (20,000 × ₹4)	=	₹80,000
Less: Excess application money adjusted [as per (iii)]	=	₹20,000
Money not paid by Giri	=	**₹60,000**

(v) **Money received on allotment:**

Total amount due on allotment (10,00,000 × ₹4)	=	₹40,00,000
Less: Excess application money adjusted	=	₹10,00,000
	=	₹30,00,000
Less: Money not paid by Giri [as per (iv)]	=	₹60,000
	=	**₹29,40,000**

Working Note 2:
Calculation of amount transferred to Capital Reserve:

Amount forfeited on 10,000 shares [₹ 80,000 × 10/20]	=	₹40,000
Less: Discount on re-issue	=	₹20,000
Gain on re-issue transferred to Capital Reserve		**₹20,000**