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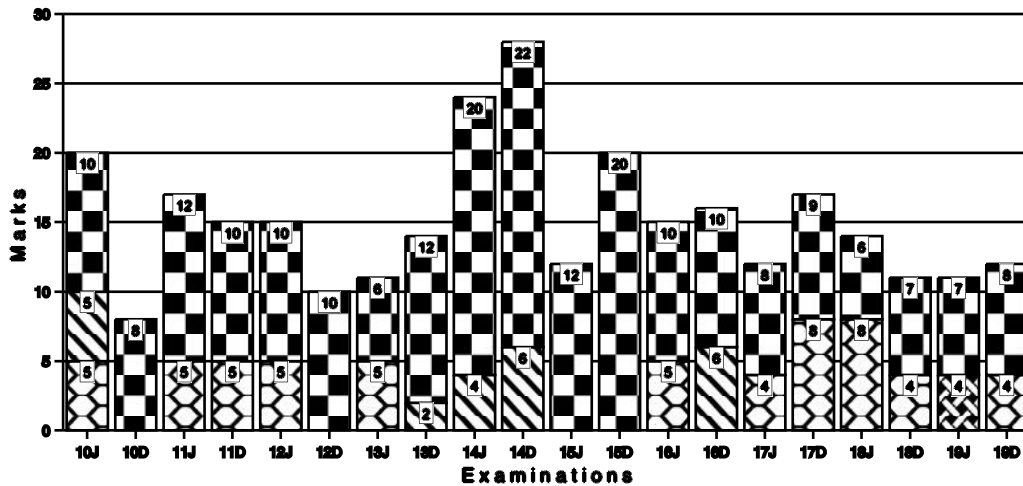
## ACCOUNTING OF SHARES AND DEBENTURES

### THIS CHAPTER INCLUDES

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| <ul style="list-style-type: none"> <li>• Issue of Shares</li> <li>• Rights Issue</li> <li>• Bonus Issue</li> <li>• Sweat Equity Shares</li> <li>• Forfeiture of Shares</li> </ul> | <ul style="list-style-type: none"> <li>• Buy-back of Shares</li> <li>• Issue and Redemption of Preference Shares and Debentures</li> <li>• Underwriting of Shares and Debentures.</li> </ul> |
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Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

### Legend



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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 discounted price 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. As per the provision of **Section 40** of the **Companies Act, 2013**.

**SHORT NOTES**

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**2008 - Dec [8]** Write a note on:

(c) Bonus shares.

**(3 marks)**

**Answer:**

**Bonus Shares:** Bonus Shares are shares issued to existing Shareholders free of Cost by Capitalizing Free Reserves. But Company can issue Bonus Shares when Articles of Association authorize the same. In case the Company issuing bonus shares is a Listed Company, the Guidelines issued by SEBI must be complied with. Only existing Shareholders are entitled to receive Bonus Shares. Bonus Shares are be issued to only those Shareholders who hold fully paid up Shares. The bonus shares shall be issued only after expiry of 12 month from the date of Public Issue or Right Issue by the Company.

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**2009 - June [8]** Write a short notes on:

(a) Escrow Account;

**(3 marks)**

(e) Reserve Capital.

**(3 marks)**

**Answer:**

**(a) Escrow Account:** An Escrow Account is an Account established by a broker, under the provisions of license law, for the purpose of holding funds on behalf of the broker's principal or some other person until the consummation or termination of a transaction, or a trust Account held in the borrower's name to pay obligations such as property taxes and insurance premiums. An escrow Account is the money held by the

mortgage company to pay your yearly property taxes and insurance premiums.

**Answer:**

**(e) Reserve Capital :** Reserve Capital is that part of Share Capital which is not called up and will be called up only in the event of Liquidation of a Company. It adds to the credibility of the Company and Lenders and Creditors may feel comfortable with such Company.

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**2009 - Dec [8]** Write a note on:

(a) Issue of Shares in consideration other than cash; **(3 marks)**

**Answer:**

**Issue of shares for consideration other than cash:**

Sometimes company issues fully paid shares to the vendors from whom it buys assets. This type of issue is called issue of shares to vendors for consideration other than cash. When such shares are issued then it must be clearly stated in Balance sheet; and must be distinguished from the issue made for cash. This may be further issued either at par or at a premium; Journal entries are:-

(i) Assets A/c –	Dr. 7,00,000	
To Vendors A/c		7,00,000
(For purchase of assets)		
(ii) Vendors A/c –	Dr. 7,00,000	
To Share Capital A/c		7,00,000
(For issue of shares)		

Often the company issues fully paid shares for consideration other than cash to promoters or any other party for furnishing technical information engineering services, plant layout, drawings and specifications; when shares allotted in such a way the journal entry is as under:

Goodwill A/c	Dr.
To Share Capital A/c	

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**2010 - June [8]** Write a short note on:

(b) Capital Redemption Reserve **(5 marks)**



**Answer :**

When a company seeks to redeem preference shares it can redeem them either out of profit or by issue of new shares, or partly by one way and partly by another way. To redeem the fully paid preference shares the company has to transfer equivalent amount from general reserve or profit and loss account to an account called Capital Redemption Reserve. The following journal entry is passed to this effect:

P & L A/c or General Reserve A/c	Dr.
To Capital Redemption Reserve A/c	

Having been passed the above journal entry the company can redeem the preference shares as follows:

Preference Share Capital A/c	Dr.
To Preference Share Holders A/c	
Preference Share Holders A/c	Dr.
To Bank A/c	

The Balance of capital redemption reserve after redemption of shares becomes a free reserve and can be utilised to issue bonus shares etc.

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**2011 - June [8]** Write a short note on:

(c) Source 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.

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**2011 - Dec [8]** Write a short note on:

(c) Conditions for buy back of shares;

**(5 marks)**

**Answer:**

**Condition for Buy - back:**

No company shall purchase its own shares or other specified securities as referred to above unless :

- (a) the buy back is authorised by its Articles.
- (b) Pass a board resolution for buy back up to 10% of the total paid up equity capital and for reserves or pass a special resolution of members of company for buy back up to 25% of total paid up capital and free reserves of the company.
- (c) the ratio of the debt owed by the company is not more than twice the capital and its free reserves after such buy-back.  
The Central Government may prescribe a higher ratio of the debt for a class or classes of companies.
- (d) all the shares or other specified securities are fully paid-up.
- (e) the buy back of the shares or other specified securities listed on any Stock Exchange is in accordance with the regulation made by the SEBI in this behalf.
- (f) Separate guidelines shall be issued with respect to unlisted specified securities.

**Notice of the meeting:** The notice of the meeting at which special resolution is proposed to be passed shall be accompanied by an explanatory statement stating :

- (a) a full and complete disclosure of all material fact.
- (b) the necessity for the buy back :
- (c) the class of security intended to be purchased under the buy back.
- (d) the amount to be invested under the buy back,
- (e) the time limit for completion of buy back [**Sec. 68 (4) of Companies Act, 2013**]

**Period for completion of buy back :** Every buy - back shall be completed within 12 months from the date of passing the special resolution.

**Modes of buy back:** The buy back of shares may be by any one or more of the following modes:

- (a) from the existing security holders on a proportionate basis through the tender offer
- (b) from the open market through
  - (i) Book Building Process,
  - (ii) Stock Exchange,
- (c) from odd-lot holders
- (d) by purchasing the securities issued to employees of the company pursuant to scheme of Stock option or sweat equity, **[Sec. 68(5)]**.

**Filing of declaration of solvency :**

A declaration of Solvency in the prescribed Form No. SH.9 verified by an affidavit and along the declaration (signed by at least two directors of the company, one of whom shall be the managing director, if any) shall be filed with the Registrar of Companies in case of listed companies also with SEBI.

The declaration of solvency is not required to be filed by an unlisted company **[Sec. 68(6)]**

**Extinguishment and physical destruction of securities:**

Where a company buys back its own securities, it shall extinguish and physically destroy the securities so bought back within 7 days of the last day of completion of buy-back. **[Sec. 68(7)]**

**Restriction on further issue of Securities within 6 months:**

When a company completes a buy-back of its share or other specified securities, the company shall not make a further issue of shares or other specified securities for a period of six months. **[Sec. 68(8)]**

**Maintenance of register :**

The company has to maintain register of the securities bought back with relevant particulars.

— Space to write important points for revision —————

**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.

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**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:**

**Please refer 2011 - June [8] (c) on page no. 21**

— 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**

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), Guidelines, 2009.

- 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.

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**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.

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- (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 Capital 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 be reflected as a Liability.

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**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.

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**2019 - Dec [5]** Write short note:

(b) Issue of shares at a premium

(4 marks)



**DISTINGUISH BETWEEN****2008 - Dec [1] {C}** (a) Distinguish between shares and stock. **(3 marks)****Answer:**

	<b>Shares</b>	<b>Stock</b>
1.	Shares may be fully or partly paid up.	Stocks are fully paid up.
2.	Shares are serially numbered.	Stocks are not numbered.
3.	Shares are always registered and non-transferable by mere delivery.	Stocks may be registered or unregistered.
4.	Shares are of equal nominal value.	Stocks may be divided into nominal amount.
5.	Shares are issued when a company is incorporated.	Stocks are not issued when companies are incorporated. Only fully paid shares can be converted into stock.

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

	<b>SHARES</b>	<b>DEBENTURES</b>
<b>Definition</b>	An instrument to acknowledge the ownership of the company.	An instrument to acknowledge the creditors of the company.
<b>Status</b>	A shareholder is the owner and a member of the company.	A debenture holder is not a member but a creditor.

**12.18****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

<b>Return</b>	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.
<b>Rate of return</b>	Dividend rate can vary depending on the profit position.	Debenture carries a fixed rate of interest.
<b>Accounting Treatment</b>	Dividend is given out of appropriate profit and not chargeable to Profit and Loss Account.	Debenture interest is chargeable to Profit and Loss Account.
<b>Redemption</b>	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.
<b>Voting rights</b>	A shareholder has voting rights.	A debenture holder can't have voting rights.
<b>Status at the time of winding up</b>	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.

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## DESCRIPTIVE QUESTIONS

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**2008 - Dec [2]** (b) Mention any five purposes for which securities premium account can be utilised. **(5 marks)**

**Answer:**

As per **Section 52** of **Companies Act, 2013**, the Securities Premium Account can be utilized for the following purposes.

- (i) For writing off preliminary expenses of the Company.
- (ii) For providing for premium payable on redemption of redeemable preference shares or debentures of the Company.
- (iii) For issuing fully paid bonus shares to the members of the Company.
- (iv) For writing off expenses of commission paid or discount allowed on issue of Sweat equity shares or debentures of the company.

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**2008 - Dec [7]** (b) State the prerequisites to be complied with by a company for issue of shares at a discount. **(5 marks)**

**Answer:**

**Prohibition to Issue the Shares at Discount:**

**Section 53** states that except as provided in **Section 54** (i.e. issue of sweat equity shares), a company shall not issue shares at a discount. Any share issued by a company at a discounted price shall be void.

When a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.

- Issue of shares at discount is prohibited except by issue of sweat equity shares.
- Any share issued by the company at a discounted price 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.**

— Space to write important points for revision —

**2009 - June [1] {C}** (e) Can dividend be declared out of Security Premium Account? **(3 marks)**

**Answer:**

Dividend cannot be declared out of Security Premium Account. Any balance in the Security Premium Account can be utilised only in the following four ways:

- (i) By writing off Preliminary Expenses.
- (ii) By writing off Discount on issue of Sweat equity shares and debentures shares.
- (iii) By writing off Premium paid on Redemption of Preference Shares.
- (iv) By issue of Fully Paid Bonus Shares.

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**2009 - June [7]** (b) Discuss the conditions of Companies Act with regard to buy-back of shares. **(5 marks)**

**Answer :**

***Please refer 2011 - Dec [8] (c) on page no. 22***

— Space to write important points for revision —

**2009 - Dec [4]** (b) Enumerate the objectives of Buy back of shares.

**(5 marks)**

**Answer:**

**The following are the objectives of buy back of shares:**

1. To return surplus cash to investors. Companies want to have back their shares since it facilitates them to manage their surplus cash. If it is paid as dividend companies will have to pay dividend tax on the distribution on the other hand; if cash is distributed through buy back, the tax burden shifts to shareholders who have to pay capital gains tax.
2. To increase underlying share value. Buy back reduces equity and enables the company to increase earnings per share, which would result on enhancing the share value. A share buy back may also be announced when share prices are depressed in the market.
3. To prevent hostile takeover bids. By eliminating surplus cash through buy back such a bid can be avoided.
4. Buy – backs also facilitate a company to maintain a target capital structure. Buy back aids a company to achieve an optimal debt equity ratio.
5. To profit from treasury operations. Companies can buy shares when the prices are low and reissue later at attractive price thus making profit. In India, treasury operation is not possible. This is because shares bought will have to be extinguished.

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**2010 - June [1] {C}** (f) What are the rates of interest in respect of the following

- (i) Calls in advance
- (ii) Calls in arrear

**(1 mark)**

**(g)** State any four purposes for which the Securities Premium Account balance may be applied by a company.

**(4 marks)**

**Answer :**

- (f)** (i) calls in advance – 12%  
(ii) calls in arrears – 10%

**Answer:**

- (g) Four purposes for which the securities premium A/c balance may be applied by a company are :
1. In paying up un-issued securities of the company to be issued to members of the company as fully paid bonus securities.
  2. To write off preliminary Expenses.
  3. To write off the expenses of or commission paid or discount allowed on any of the securities or debentures of the company.
  4. To pay premium on the redemption of preference securities or debentures of the company.

— Space to write important points for revision —

**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 2011 - June [8] (c) on page no. 21***

— 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) not less than one year has, at the date of the issue elapsed since the date on which the company was entitled to commence business;
- (d) 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 —

**2016 - Dec [5]** (b) When Underwriting Commission is payable as per Companies Act, 2013? **(6 marks)**

**Answer:**

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. As per the provision of Section 40 of the Companies Act, 2013, commission is payable if the following conditions are satisfied:



- (i) The payment of the commission is authorized by the articles;
- (ii) The commission paid or agreed to be paid does not exceed in the case of shares, five per cent of the price at which the shares are issued or the amount or rate authorized by the articles, whichever is less, and in the case of debentures, two and a half per cent of the price at which the debentures are issued or the amount or rate authorized by the articles, whichever is less;
- (iii) The amount or rate per cent of the commission paid or agreed to be paid is in the case of shares or debentures offered to the public for subscription, disclosed in the prospectus, and in the case of shares or debentures not offered to the public for subscription, disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filled in before the payment of the commission with the Registrar and, where a circular or notices not being a prospectus inviting subscription for the shares or debentures, is issued, also disclosed in that circular or notice;
- (iv) The number of shares or debentures which persons have agreed for a commission to subscribe absolutely or conditionally is disclosed in the manner aforesaid; and
- (v) A copy if the contract for the payment of the commission is delivered to the Registrar at the time of delivery of the prospectus or the statement in lieu of prospectus for registration.

———— Space to write important points for revision —————

## PRACTICAL QUESTIONS

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**2008 - Dec [7]** (a) The summarized balance sheet of A Co. Ltd. as on 30<sup>th</sup> June 2008 is as under:

Share capital :

10% redeemable preference shares of ₹ 100 each	10,00,000
Equity shares of ₹ 10 each	15,00,000
12% Debentures	7,00,000

Revenue reserves	40,00,000
Total	72,00,000
Represented by Net assets	72,00,000

The redeemable preference shares were due for redemption on 31<sup>st</sup> August 2008 and were redeemed and duly paid off. The company is permitted to redeem the debentures at any time at a premium of 10% and did so on 30<sup>th</sup> September 2008.

The company was in a reasonably liquid position but to assist in providing funds for redemption of the redeemable preference shares, a rights issue of equity shares was made. 20000 equity shares were issued for cash at a premium of ₹ 20 per share, ₹12.50 payable on application on 15<sup>th</sup> July 2008 and the balance on allotment on 31<sup>st</sup> July 2008. All cash due was received on the due dates.

During the three months ended 30<sup>th</sup> September 2008, the company traded at a profit of ₹ 2,50,000.

**Required :**

- Pass journal entries (including each transactions) showing the relevant entries in respect of the above.
- Prepare summarized balance sheet of the company as on 30<sup>th</sup> September 2008. **(10 marks)**

**Answer :**

**Journal Entries in the books of A Co. Ltd.**

S.No.	Particulars	(₹)	(₹)
1.	Bank A/c (20,000 × 12.5) Dr. To Share Application A/c (Being share Application money received)	2,50,000	2,50,000
2.	Share Application & Allotment A/c Dr. (20,000 × 30) To Equity Share Capital A/c (2,000 × 10) To Securities Premium A/c (20,000 × 20)	6,00,000	2,00,000 4,00,000
3.	Bank A/c	3,50,000	

	To Share Application Allotment A/c (20,000 × 175) (Being Share Allotment amount received)			3,50,000
4.	10% Preference shares A/c Dr. To Preference shareholders A/c (Being preference shares transferred to preference Shareholders A/c)	10,00,000		10,00,000
5.	Preference shareholders A/c Dr. To Bank A/c (Being amount of Preference Shareholders Due paid to them.)	10,00,000		10,00,000
6.	Revenue Reserve A/c Dr. To Capital redemption reserve A/c (Being ₹10,00,000 to Preference Shares redeemed with ₹2,00,000 of equity capital and hence balance is net from reserved)	8,00,000		8,00,000
7.	12% Debentures A/c Dr. Securities premium A/c Dr. To Debentures Holders A/c (Being debentures transferred to debentures holders A/c)	7,00,000 70,000		7,70,000
8.	Debentures holders A/c Dr. To Bank A/c (Being amount paid & debenture holders)	7,70,000		7,70,000
9.	Net assets A/c Dr. To Revenue Reserves A/c (Being profits earned and invested in assets)	2,50,000		2,50,000

**Balance Sheet of A Co. Ltd. (As Per Revised Schedule III)  
as on 30.09.2008**

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	17,00,000	
(b) Reserve and Surplus	2	45,80,000	
(c) Money received against share warrants			
<b>2. Share application money pending allotment</b>			
<b>3. Non - Current Liabilities</b>			
(a) Long - term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long term provisions			
<b>4. Currents Liabilities</b>			
(a) Short - term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short - terms provisions			
<b>Total</b>		<b>62,80,000</b>	
<b>II. ASSETS</b>			
<b>1. Non Current Assets</b>			
(a) PPE			
(i) Tangible assets			
(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		62,80,000
<b>2. Current Assets</b>		
(a) Current investments		
(b) Inventories		
(c) Trade receivables		
(d) Cash and cash equivalents		
(e) Short - term loans and advances		
(f) Other current assets		
<b>Total</b>		<b>62,80,000</b>

**Notes on Account:**

<b>1. Share Capital:</b>		
<b>Subscribed, Issued &amp; Paid up Capital:</b>		
1,70,000 Equity share of 10 each		17,00,000
		17,00,000
<b>2. Reserve &amp; Surplus:</b>		
Security Premium A/c		3,30,000
Reserves		34,50,000
Capital Redemption Reserve		8,00,000
		<b>45,80,000</b>

— Space to write important points for revision —

**2009 - Dec [4]** (a) The following is the balance sheet of Sachin Ltd. as on 31.03.2008:

Liabilities	₹	Assets	₹
Share Capital :		PPE :	
Authorised		Gross Block	6,00,000
20,000, 10% redeemable		Less: Depreciation	<u>2,00,000</u> 4,00,000
preference shares of ₹		Investments	2,00,000
10 each	2,00,000	Current Assets,	
		Loans & Advances :	
1,80,000 Equity Shares		Inventory	50,000
of ₹ 10 each	<u>18,00,000</u>	Debtors	50,000
	<u>20,00,000</u>		

**12.30****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

Issued, Subscribed and paid up capital :		Cash & Bank balances	<u>1,00,000</u>	2,00,000
20,000, 10% redeemable preference share of ₹ 10 each	2,00,000	Miscellaneous Expenditure to the extent not written off		40,000
20,000 equity shares of ₹ 10 each	<u>2,00,000</u>			
	<u>4,00,000</u>			
Reserve and Surplus :				
General Reserve	2,40,000			
Securities premium	1,40,000			
Profit and Loss Account	37,000			
Current Liabilities & Provision	<u>23,000</u>			
Total	<u>8,40,000</u>			<u>8,40,000</u>

For the year ended 31.3.2009, the company made a net profit of ₹ 30,000 after providing for ₹ 40,000 depreciation and writing off miscellaneous expenditure of ₹ 40,000. The following additional information is available with regard to company's operation.

- (1) The preference dividend for the year ended 31.3.2009 was paid before 31.3.2009.
- (2) Except cash & bank balances, other current assets and current liabilities on 31.3.2009, was the same as on 31.3.2008.
- (3) The company redeemed the preference share at a premium of 10%.
- (4) The company issued bonus shares in the ratio of 1 share for every two equity shares held as on 31.3.2009.
- (5) To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of ₹ 60,000 after such redemption.
- (6) Investments were sold at 90% of cost as on 31.3.2009.

Prepare

- (i) Necessary journal entries to record redemption and issue of shares.
- (ii) Cash & Bank Account.
- (iii) Balance Sheet as on 31.3.2009

**(10 marks)**

**Answer :**

**Journal Entries in the books of Sachin Ltd.**

10% Redeemable Preference share capital A/c	Dr.	2,00,000	
Premium on redemption of preference shares A/c	Dr.	20,000	
To Preference shareholders A/c			2,20,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	2,00,000	
To Capital Redemption Reserve A/c			2,00,000
(Being transfer to the latter A/c on redemption of shares)			
Bank A/c	Dr.	90,000	
Profit & Loss A/c	Dr.	10,000	
To Investments A/c			1,00,000
(Being amount realized on sale of investments of loss thereon adjusted)			
Preference Shareholders A/c	Dr.	2,20,000	
To Bank A/c			2,20,000
Security premium A/c	Dr.	20,000	
To Premium on redemption of preference shares			20,000
(Being amount of premium payable on redemption of Preference shares)			
Capital redemption reserve A/c	Dr.	1,00,000	
To Bonus to shareholders A/c			1,00,000
(Being amount adjusted for issuing bonus shares in the ratio of 1 : 2)			
Bonus to shareholders A/c	Dr.	1,00,000	
To Equity share capital A/c			1,00,000
(Being balance of farmer account transferred to latter)			

**Cash & Bank A/c**

Particulars	Amount	Particulars	Amount
To Balance b/d	1,00,000	By Preference dividends	20,000
" Cash from operations		" Preference shareholders	2,20,000
Profit 30,000		" Balance c/d	60,000
Add : dep. 40,000			
Add : misc. 40,000	1,10,000		
To Investments (Bal. Fig)	90,000		
	3,00,000		3,00,000

**Balance Sheet Sachin Ltd.**  
**As on 31.03.09 (After Redemption)**

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
<b>EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	3,00,000	
(b) Reserve and Surplus	2	2,97,000	
(c) Money received against share warrants I.			
<b>2. Share application money pending allotment</b>			
<b>3. Non - Current Liabilities</b>			
(a) Long - term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long term provisions			
<b>4. Current Liabilities</b>			
(a) Short - term borrowings			
(b) Trade payables		23,000	
(c) Other current liabilities			
(d) Short - term provisions			
<b>Total</b>		<b>6,20,000</b>	
<b>II. ASSETS</b>			
<b>1. Non Current Assets</b>			
(a) PPE	3	3,60,000	
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work - in - progress			
(iv) Intangible assets under development		1,00,000	
(b) Non - Current investment			



(c) Deferred tax assets (net)			
(d) Long term loans and advances			
(e) Other Non Current Assets			
<b>2. Current Assets</b>			
(a) Current investment			
(b) Inventories			
(c) Trade receivables		50,000	
(d) Cash and cash equivalents		50,000	
(e) Short - term loans and advances		60,000	
(f) Other current assets			
<b>Total</b>		6,20,000	

**Notes on Accounts:**

<b>1. Share Capital:</b>			
Authorized share capital		20,00,000	
		20,00,000	
<b>Issued, Subscribed &amp; Paid up</b>			
30,000 Equity share of ₹ 10 each		3,00,000	
		3,00,000	
<b>2. Reserved &amp; Surplus:</b>			
General Reserve		40,000	
Security Premium		1,20,000	
Profit & Loss (Rel - WN - 2)		37,000	
Capital Redemption Reserve		1,00,000	
		2,97,000	
<b>3. Tangible Assets:</b>			
PPE	6,00,000		
Less : Dep	2,00,000		
Less : For c/y	<u>40,000</u>	3,60,000	
		3,60,000	

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Space to write important points for revision

**12.34****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

**2009 - Dec [7]** (a) The following balances appeared in the books of Gomex Ltd. on 1.04.2008:

- (i) Debenture Redemption Fund A/c — ₹ 40,000 represented by investment at cost of an equal amount (nominal value ₹ 50,000).  
 (ii) The 12% Debentures stood at ₹ 90,000.

The company sold ₹ 30,000 investments at ₹ 90 for the purpose of Redemption of ₹ 25,000 Debentures at a premium of 2% during the year.

Show (a) 12% Debentures account, (b) Debenture Redemption Fund A/c, (c) Debenture Redemption Fund investment A/c. for the year ending 31.3.2009.

Ignore interest and brokerage etc.

**(10 marks)**

**Answer:**

**Debenture Redemption Fund A/c**

Particulars	Amount	Particulars	Amount
To General Reserve	25,000	By Balance b/d	40,000
" Premium redemption of debentures A/c	500	" Debenture Redemption fund A/c	3,000
" Balance c/d	17,500		
	43,000		43,000

**Debentures Redemption Fund Investment A/c**

	Nominal Value	Cost		Nominal Value	Cost
To Balance b/d	50,000	40,000	By Bank A/c	30,000	27,000
To Debenture redemption fund A/c— Profit on sale (B/f)	—	3,000	" Balance c/d	20,000	16,000
	50,000	43,000		50,000	43,000

**12 % Debentures A/c**

Particulars	Amount	Particulars	Amount
To Debenture holders A/c	25,000	By Balance b/d	90,000
To Balance c/d	65,000		
	90,000		90,000

— Space to write important points for revision —

**2010 - June [6]** (a) Adarsh Ltd., was formed with an authorized capital of ₹ 30,00,000 divided into equity shares of ₹ 10/- each. The company invited applications for 2,00,000 equity shares of ₹ 10/- each at a premium of 20%. The money was payable as follows:

On application ₹ 5/-, on allotment ₹ 4/- (including premium of ₹ 2/-), ₹ 2/- on first call and rest on the final call.

Applications were received for 2,40,000 shares and allotment was made as under:

- To applicants for 1,00,000 shares in full;
- To applicants for 80,000 shares — 60,000 shares were allotted;
- To the applicants for 60,000 shares, the rest of the shares were allotted.

Applicants for 1,000 shares in the (a) category and applicants for 1,200 shares falling in category (b) failed to pay the allotment monies. These shares were forfeited on their failure to pay the first call. Holders of 1,200 shares in category (c) failed to pay the first and final call and these shares were also forfeited after the final call. Of the shares forfeited 1,300 shares were re-issued @ of ₹ 8/- per share as fully paid up. The re-issued shares included 1,000 shares of category (a).

Journalise the above transactions and also show the Cash Book.

**(10 marks)**

12.36

Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)

Answer :

Working Note

	Capital	Premium
Application	5	-
Allotment	2	2
First Call	2	-
Final Call	110	2

Category	Applied	Proportion	Allotted
	2,40,000		2,00,000
	<u>1,00,000</u>	(1 : 1)	<u>1,00,000</u>
	1,40,000		1,00,000
	<u>80,000</u>	(4 : 3)	<u>60,000</u>
	60,000	(3 : 2)	40,000

Bank A/c	Dr.	12,00,000	
To Share Application A/c			12,00,000
(Being share application money received)			
Share application A/c	Dr.	12,00,000	
To Equity share capital A/c			10,00,000
To Share Allotment A/c			2,00,000
(Being application money received on 2,40,000 shares transferred to Share capital and on 40,000 shares adjusted towards amount due on allotment)			
Share Allotment A/c	Dr.	8,00,000	
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			4,00,000
(Being allotment money of ₹ 4 per share including premium of ₹ 2 per share)			
Bank A/c (w.n.1)	Dr.	5,93,900	
Calls –in arrears A/c	Dr.	6,100	
To Share Allotment A/c			6,00,000
(Being allotment money is received in full, after adjustment of excess application money)			
Share first call A/c	Dr.	4,00,000	
To Equity share capital A/c			4,00,000

(Being first call money on 2,00,000 shares @ ₹ 2 per share)

Bank A/c	Dr.	3,93,800	
Calls –in arrears A/c Dr. (W.N 2)		6,200	
To Share first call A/c			4,00,000

(Being first call money received on 1,96,900 shares @ ₹ 2 per share)

Share Capital	Dr.	17,100	
Sec. Premium	Dr.	3,800	
To Calls in Arrear A/c			9,900
To Share forfeited A/c			11,000

(Being forfeiture of 1900 shares on which first call & allotment was due as for Board's Resolution)

Share Second call A/c	Dr.	1,98,100	
To Equity share capital A/c			1,98,100

(Being second call money on 1,97,300 shares @ ₹ 1 per share)

Bank A/c	Dr.	1,96,900	
Calls in arrears A/c	Dr.	1,200	
To Shares Second Call A/c			1,98,100

(Being second call money on 1,97,300 shares @ ₹ 1 per share)

Bank A/c	Dr.	10,400	
Forfeited shares A/c	Dr.	2,600	
To Equity share capital A/c			13,000

(Being issue of 1300 forfeited shares at ₹ 8 fully paid up)

Forfeited shares A/c	Dr.	4,400	
To Capital Reserve A/c			4,400

(Being transfer of forfeited shares to Capital Reserve A/c)

**Bank A/c**

Particulars	Amount	Particulars	Amount
To Share Application A/c	12,00,000	By Bal. c/d	23,95,000
To Share Allotment A/c	5,93,900		
To Share first call A/c	3,93,800		

**12.38****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

To Share Second call A/c	1,96,900		
To Equity share capital A/c	<u>10,400</u>		
	23,95,000		<u>23,95,000</u>

Working Note for call in arrear

1. Category (A)  $100 \times 4 = 4000$ 

(No excess in Application full Allotment as made in 1:1)

Category (B) Applied 1200 shares

Allotted =  $1200 \times \frac{3}{4} = 900$  sharesApplication money received on 1200 share  $\times 5 = 6,000$ 

(-) Application money Adjusted = 4,500

Excess Application money Adjusted in Allotment 1,500

Allotment due on 900 shares  $\times 4 = 3,600$ 

(-) Excess Adjusted 1,500

Call in arrear 2,100

Total call in arrear

Category (A) + Category (B)

 $4000 + 2100 = 6100$ **W.N. 2** Call in Arrear on First call

Category

A = 1000 shares

B = 900 shares

C = 1200 shares $3,100$  shares @ 2/- per share = 6,200/-**Call in Arrear**

	Allotment	First Call	Final Call
(a)	1000	1000	--
(b)	900	900	--
(c)	<u>--</u>	<u>1200</u>	<u>1200</u>
	1900	3100	1200

Space to write important points for revision

**2010 - Dec [3]** (a) KC limited has declared 15 percent dividend on equity share capital of ₹ 20,00,000 (divided into shares of ₹ 100 each) for the year ending 31st March, 2010 and despatched dividend warrants on 18<sup>th</sup> July, 2010 by opening a separate bank account on the day. A person holding 800 equity shares did not claim the amount of his share of dividend.

What journal entries will be passed in the books of the company for declaration and the despatch of dividend warrants and transferring the unclaimed amount to Unclaimed Dividend Account? What further journal entry will be passed in the books of the company when the unclaimed amount is not claimed by the claimant within stipulated time U/S 123 of 7 years. Corporate dividend tax may be taken at 17 percent (gross)

**(8 marks)**

**Answer:**

**Journal Entries in the books of KC Ltd.**

Date	Particulars	L.F.	Amount	Amount
July 1	Proposed Equity dividend A/c Dr. Provision for corporate dividend tax A/c Dr. To Equity dividend A/c To Dividend tax A/c (Being proposed dividend and provision for corporate dividend tax transferred to actual liability account on the date of declaration of final dividend)		3,00,000 51,000	3,00,000 51,000
July 18	Separate Bank A/c Dr. To Bank A/c (Being transfer of divd. Amt. to separate account)		3,00,000	3,00,000
July 18	Equity Dividend a/c Dr. To Separate Bank A/c (Being payment of Equity dividend on 19200 Equity shares @ 15/- each)		2,88,000	2,88,000
July 18	Dividend tax a/c Dr. To Bank a/c (Being payment of corporate dividend tax)		51,000	51,000
Date of transfer i.e	Equity dividend a/c Dr.		12,000	12,000

**12.40****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

17.8.10 Date of transfer i.e	To Unclaimed dividend a/c (Being transfer of unclaimed dividend) Unpaid dividend Bank A/c Dr.		12,000	12,000
17.8.10 At the time of Expiry i.e 7 years	To Separate Bank A/c (Being transfer of unpaid dividend to Separate Bank A/c) Unclaimed divd. A/c Dr. To unpaid dividend Bank A/c (Being transfer of unclaimed dividend to the central govt. account on expiry of 7 years as per sec 205(A) (5))		12,000	12,000

— Space to write important points for revision —

**2011 - June [6]** (a) Following is the Balance Sheet of Madox Ltd. as at 31.3.2011 :

Liabilities		Assets	
1 lakh Equity shares of ₹ 10 each fully paid 5,000, 12% Redeemable	10,00,000	PPE	12,80,000
Preference Shares of ₹ 100 each	5,00,000	Current Assets	10,20,000
Securities Premium	1,00,000	Bank	3,30,000
Profit & Loss A/c	5,50,000		
Current Liabilities	4,80,000		
	<u>26,30,000</u>		<u>26,30,000</u>

On 1.4.2011, the company issued further 30,000 equity shares @ ₹ 10 per share at a premium of ₹ 5 per share. The amount payable was ₹ 6 on application, ₹ 7 on allotment including premium and the balance on First and Final Call. Application were received for 45,000 shares. Application money of 5,000 shares were refunded. Pro-rata allotment was made. The excess application money were adjusted towards allotment. Mr. X holding 3,000 shares failed to pay the allotment money and his shares were forfeited after final call and thereafter, out of these shares 2,000 shares were re-issued at a discount of ₹ 3 per share. Preference shares were redeemed at a premium of 10%. Considering the above transactions, show journal entries and the Balance Sheet in the books of Madox Ltd. **(12 marks)**



**Answer :**

Application		Allotment			Adjustment of Excess Money			
No.	Amount @ 6	Nos	Allotment money	Application money adj.	Excess application money	Against Allotment	Calls in advance	Refund
45,000	2,70,000	-	-	-	90,000	-	-	30,000
		30,000	2,10,000	1,80,000		60,000	-	-
45,000	2,70,000	30,000	2,10,000	1,80,000	90,000	60,000	-	30,000

**Allotment money received :  
Amount x failed to pay**

Share premium @ 5/-	1,50,000	Gross amount due from X (3000 x 7)	21,000
Share capital @ 2/-	<u>60,000</u>	(-) Excess application money	
Total allotment dues	2,10,000	Adjusted $\frac{60,000 \times 3,000}{30,000}$	
(-) Excess Application money adjusted	<u>60,000</u>	30,000	6,000
Net due	1,50,000	Net due from x which he failed to pay	
(-) not recd. from Mr. X	<u>1,50,000</u>		
Allotment money received	1,35,000		<u>15,000</u>

**Journal Entries in the Books of Madox Ltd.**

**Particulars Dr. ₹ Cr. ₹**

Bank A/c	Dr.	2,70,000	
To Share Application A/c			2,70,000
(Application money received)			
Share allotment A/c	Dr.	2,10,000	
Share Application A/c	Dr.	1,80,000	
To Share capital A/c			2,40,000
To Security premium A/c			1,50,000
(Shares allotted, allotment money due of application money on the shares allotted adjusted)			
Share Application A/c	Dr.	90,000	
To Bank A/c			30,000
To Share Allotment A/c			60,000
(Excess Application money adjusted/refunded)			
Bank A/c	Dr.	1,35,000	
To Share Allotment A/c			1,35,000
(Share allotment money received from all except x holding 3000 shares)			

1 <sup>st</sup> & Final Call A/c	Dr.	60,000	
To Share capital			60,000
(1 <sup>st</sup> & Final Call @ 2 due)			
Bank A/c	Dr.	54,000	
To 1 <sup>st</sup> & Final Call			54,000
(1 <sup>st</sup> & Final call reed from all except Mr. X holding 3000 shares)			
Share Capital A/c	Dr. (3000 x 10)	30,000	
Security Premium A/c	Dr. (3000 x 5)	15,000	
To Share Allotment A/c			15,000
To 1 <sup>st</sup> & Final call A/c			6,000
To Share forfeiture A/c			24,000
(3000 shares of x forfeited for non payment of allotment money & 1 <sup>st</sup> & final call)			
Bank A/c	Dr. (2000 x 7)	14,000	
Share forfeiture A/c	Dr. (2000 x 3)	6,000	
To Share Capital A/c			20,000
(2000 forfeited shares originally belonging to x reissued at a discount of ₹ 3)			
Share forfeiture A/c		10,000	
To Capital Reserve A/c			10,000
(Balance of share forfeiture A/c 2000 of X reissued (24000/3000) x 2000 = 16000 less discount allowed on reissue ₹ 6000/- transferred to capital reserve)			
12% Redeemable preference share A/c	Dr.	5,00,000	
Premium on redemption A/c	Dr.	50,000	
To Preference Share holder A/c			5,50,000
(Amount due on redemption of 5000, 12% redeemable preference shares face value of ₹ 100 each at 10% premium)			
Security Premium A/c		50,000	
Profit & Loss A/c		5,00,000	
To Premium on redemption A/c			50,000
To Capital redemption Reserve A/c			5,00,000
(Amount of face value of redeemable preference share transferred to CRR A/c & premium on redemption transferred to security premium A/c)			
Preference shares holder A/c		5,50,000	
To Bank A/c			5,50,000
(Amount paid to preference share holder)			

## (Balance Sheet of Madox Ltd.)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	12,90,000	
(b) Reserve and Surplus	2	7,53,000	
(c) Money received against share warrants			
<b>2. Share application money pending allotment</b>			
<b>3. Non - Current Liabilities</b>			
(a) Long - term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long term provisions			
<b>4. Current Liabilities</b>			
(a) Short - term borrowings			
(b) Trade payables			
(c) Other current liabilities		4,80,000	
(d) Short - term provisions			
<b>Total</b>		<b>25,23,000</b>	
<b>II. ASSETS</b>			
<b>1. Non Current Assets</b>			
(a) PPE			
(i) Tangible assets		12,80,000	
(ii) Intangible assets			
(iii) Capital work - in - progress			
(iv) Intangible assets under development			
(b) Non - Current investment			
(c) Deferred tax assets (net)			

(d) Long term loans and advances			
(e) Other Non Current Assets			
<b>2. Current Assets</b>			
(a) Current investment			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents	3	2,23,000	
(e) Short - term loans and advances			
(f) Other current assets		10,20,000	
<b>Total</b>		<b>25,23,000</b>	

**Notes on Account:**

<b>1. Share Capital:</b>		
<b>Issued, Subscribed &amp; Paid up</b>		
1,29,000 Equity share of ₹ 10 each	12,90,000	
	12,90,000	
<b>2. Reserve &amp; Surplus:</b>		
Capital Redemption Reserve	5,00,000	
Capital Reserve	10,000	
Share Forfeiture A/c	8,000	
Security Premium	1,85,000	
Profit & Loss	50,000	
	7,53,000	
<b>3. Cash &amp; Cash Equivalent:</b>		
Bank ( 3,30,000 + 4,43,000 - 5,50,000)	2,23,000	
	2,23,000	

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**2011 - Dec [5]** (a) The following balances are appearing in the Books of All Xerox Ltd. on 1-4-2011 :

	₹
Redeemable Preference Share Capital (Shares of ₹ 10 each)	2,00,000
Calls-in-Arrear	2,000
General Reserve	1,00,000
Share Premium	5,000

The preference shares are fully called up and due for redemption at a premium of 10%. Calls-in-Arrear are in respect of final call at the rate of ₹ 4 per share and these shares are held by Mr. Rahul whose whereabouts are not known.

The Board of Directors decided that 50% of the General Reserve is to be utilized for the purpose of redemption of redeemable preference share capital and to meet the further requirement of funds, further 14,500 numbers of equity shares of ₹ 10 each were issued at a premium of 20%.

The redemption of preference shares were duly carried out and subsequently the company utilized the balance of Capital Redemption Reserve Account to issue equity shares at ₹ 10 each as bonus to shareholders.

You are required to show necessary journal entries in the Books of All Xerox Ltd. **(10 marks)**

**Answer:**

**Book of All Xerox Ltd.  
Journal Entries**

		Dr.	Cr.
Date	Particulars	Amount (₹)	Amount (₹)
	Redeemable Preference Share Capital A/c Dr.	1,95,000	
	Premium on Redemption on Pref. Shares a/c Dr.	19,500	
	To Preference Shareholders A/c		2,14,500
	(Being 19,500 fully paid Red, Pref. Shares along with premium payable on redemption as per Board resolution no. dt.)		
	General Reserve A/c Dr.	50,000	
	To Capital Redemption Reserve A/c		50,000
	(Being General Reserve transferred)		

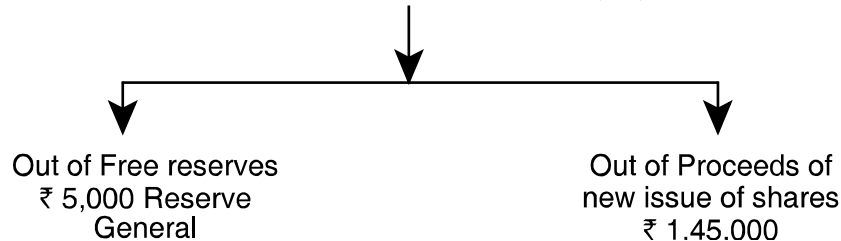
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Bank A/c To Equity Shares Capital A/c To Equity Shares Premium A/c (Being issue of 14,500 Equity shares at a premium of 20%)	Dr.	1,74,000	1,45,000 29,000
Share Premium A/c To Premium on Redemption on P.V. of Shares A/c (Being premium payable adjusted)	Dr.	19,500	19,500
Preference Shareholders A/c To Bank A/c (Being amount paid off to Pref. shareholders)	Dr.	2,14,500	2,14,500
Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Being Bonus declared and transferred to Capital Redemption Reserve account)	Dr.	50,000	50,000
Bonus to Shareholders A/c To Equity Share capital A/c (Being amount transferred to Equity Share capital)	Dr.	50,000	50,000

**Working Note:****Sources of redemption as per Sec. 55 of Companies Act, 2013:**

Nominal Value of Share Redemed ₹ 1,95,000



— Space to write important points for revision —

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

(₹ in crores)

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

The company redeemed preference shares on 1<sup>st</sup> 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

- Pass Journal entries to record the above;
- 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.
1 <sup>st</sup> 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
<b>I. EQUITY AND LIABILITIES</b>		(₹ in crore)	
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	20	
(b) Reserve and Surplus	2	280	
(c) Money received against share warrants			
<b>2. Share application money pending allotment</b>			
<b>3. Non - Current Liabilities</b>			
(a) Long - term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long term provisions			
<b>4. Current Liabilities</b>			
(a) Short - term borrowings			
(b) Trade payables			
(c) Other current liabilities		40	
(d) Short - term provisions			
<b>Total</b>		340	
<b>II. ASSETS</b>			
<b>1. Non Current Assets</b>			
(a) PPE			
(i) Tangible assets	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)			

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(d) Long term loans and advances			
(e) Other Non Current Assets			
<b>2. Current Assets</b>			
(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			
<b>Total</b>		340	

**Notes on Account:**

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

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 Space to write important points for revision
 

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

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 :**

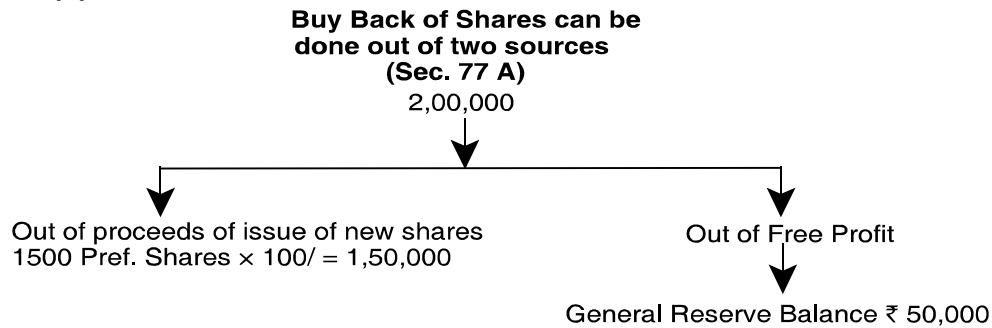
**Journal Entries in the books of wonder world Ltd.**

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

**12.52****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

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

W.N. (1)



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
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	11.10	
(b) Reserve and Surplus	2	4.60	
(c) Money received against share warrants			
<b>2. Share application money pending allotment</b>			
<b>3. Non - Current Liabilities</b>			
(a) Long - term borrowings	3	7.50	
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long term provisions			

<b>4. Current Liabilities</b>			
(a) Short - term borrowings			
(b) Trade payables-(Sundry Creditors)		5.00	
(c) Other current liabilities			
(d) Short - term provisions			
<b>Total</b>		28.20	
<b>II. ASSETS</b>			
<b>1. Non Current Asset</b>			
(a) <b>PPE</b>			
(i) Tangible assets	4	15.90	
(ii) Intangible assets			
(iii) Capital work - in - progress			
(iv) Intangible assets under development			
(b) Non - Current investment			
(c) Deferred tax assets (net)			
(d) Long term loans and advances			
(e) Other Non Current Assets			
<b>2. Current Assets</b>			
(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			
<b>Total</b>		28.20	

**Notes on Accounts:**

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

<b>Reconciliation of Share Capital:</b>		
Opening balance of equity	1,00,000	
Less - Buy back	20,000	
Add:- Issue bonus share	16,000	
Add:- Issue Preference share	<u>15,000</u>	
	<u>1,11,000</u>	
<b>2. Reserve &amp; Surplus:</b>		
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
		<u>4.60</u>
<b>3. Long term borrowings:</b>		
14 % Debenture		7.50
		<u>7.50</u>
<b>4. Tangible Assets:</b>		
Plant & Machinery		13.50
Furniture		2.40
		<u>15.90</u>

— 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)**

**12.56****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)****Answer :****Journal of X Co. Ltd.**

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

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

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

On 1<sup>st</sup> 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 To Investment A/c To Profit & Loss A/c (Being sale of investment & profit thereon)	Dr. 3,150	3,000 150

2.	Bank A/c To Bank Loan A/c (Being Loan taken from bank)	Dr.	2,000	2,000
3.	10% Redeemable Pref. Share Capital A/c Premium on redemption of Pref. Shareholder A/c To Preference Shareholder A/c (Being redemption of Pref. Share)	Dr. Dr.	2,500 250	2,750
4.	Preference Shareholder A/c To Bank A/c (Being payment of amount due to Preference Shareholder)	Dr.	2,750	2,750
5.	Securities Premium A/c To Premium on redemption of Pref. Shareholder A/c (Being use of securities premium to provide premium on redemption of Pref. Shares)	Dr.	250	250
6.	Equity Share Capital A/c Securities Premium A/c General Reserve A/c [(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	Dr. Dr. Dr.	2,000 550 1,450	4,000
7.	General Reserve A/c 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.	Dr.	4,500	4,500
8.	Equity Shareholders A/c 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	Dr.	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] [20,000 - 11,000 = 9,000]	(5,400) 14,600	(2,250) 2,750	(1,350) 2,650	9,000 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 31<sup>st</sup> 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
10% Redeemable Pref. Shares of ₹ 10 each fully Paid Up.	3,000	Cash at Bank	1,450
		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	
	<u>27,000</u>	<u>27,000</u>

On the 1<sup>st</sup> 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)	<b>Equity and Liabilities</b>		
1	<b>Shareholders' Funds:</b>		
	(a) Share Capital	1	6,300
	(b) Reserves and Surplus	2	7,930
2	<b>Non-Current Liabilities</b>		
	(a) Long Term Borrowings	3	4,870
3	<b>Current Liabilities</b>		
	(a) Trade Payables		3,800
	(b) Short Term Provisions		1,100
	<b>Total</b>		<b>24,000</b>

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

**Notes of Accounts  
(Related Notes)**

		₹ In Lakhs		
1	<b>Share Capital</b> 630 lakhs Equity Shares of ₹10 each Fully Paid up (70 lakh Equity Shares bought back)			6,300
2	<b>Reserve and Surplus</b>			
	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	<b>Long-term borrowings</b>			
	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
To Bank Loan A/c (Loan received)	870	By Balance c/d	1,450
	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 1<sup>st</sup> Feb., 2005 the Company purchased in the open market 2,000 of its own debentures @ ₹ 102 each and cancelled them immediately.
- (2) On 1<sup>st</sup> January, 2008 the Company redeemed at par debentures for ₹ 3,00,000 by draw of a lot.
- (3) On 1<sup>st</sup> 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.

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(4) Finally, as per resolution of the Board of Directors, the remaining debentures were redeemed at a premium of 3% on 1<sup>st</sup> 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.**

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



01-06-2010	Profit on cancellation of own Debenture A/c Dr. 2,200 To Capital Reserve A/c (Being transfer of profit on cancellation of own debenture to capital reserves)		2,200
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.

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

$$X = 25,000$$

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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 1<sup>st</sup> April, 2012 at ₹ 100, when the market price was ₹ 425. The options were to be exercised between 16<sup>th</sup> October, 2012 and 15<sup>th</sup> March, 2014. The employees exercised their options for 22,500 shares only. The remaining options lapsed. The company closes its books on 31<sup>st</sup> 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.

— Space to write important points for revision —

**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	<u>13,10,000 shares</u>
	<u>28,75,000 shares</u>

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.

**12.68****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

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

**Answer:****(b) (ii)****Books of Mogari Limited****Journal**

(in Lakhs)

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

**12.70****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

(ii) Bank A/c To Profit & Loss A/c To Investment A/c (Profit on sale of Investments)	Dr.	5,60,000	60,000 5,00,000
(iii) E. S. Application A/c To E. S. Capital A/c To Securities Premium A/c (Application money transferred)	Dr.	18,00,000	12,00,000 6,00,000
(iv) Debenture Application A/c To 12% Debenture A/c	Dr.	10,00,000	10,00,000
(v) Security Premium A/c General Reserve A/c To Premium on redpm. of pref. sh. A/c	Dr. Dr.	7,00,000 50,000	7,50,000
(vi) General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c	Dr. Dr.	12,50,000 5,50,000	18,00,000
(vii) 10% Redeemable P. S. Capital A/c Premium on Red. of P. S. A/c To Bank A/c	Dr. Dr.	30,00,000 7,50,000	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 3<sup>rd</sup> year. The company decides at the end of 5<sup>th</sup> 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:**

5 <sup>th</sup> 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 debentureholders)	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 To Equity share capital A/c (Being final call money due for 5,00,000 equity shares @ ₹ 2 per share)	Dr.	10,00,000	10,00,000
II	Bank A/c To Equity share final call A/c (Being final call money received for 5,00,000 equity shares @ ₹ 2 per share)	Dr.	10,00,000	10,00,000
III	Equity shareholders A/c To Bank A/c (Being amount paid on buy back of shares @ ₹ 25 per share)	Dr.	1,25,00,000	1,25,00,000
IV	Equity share capital A/c Securities premium A/c General Reserve A/c To Equity Shareholders A/c (Being cancellation of 5,00,000 equity shares on buy back)	Dr. Dr. Dr.	50,00,000 60,00,000 15,00,000	1,25,00,000
V	General Reserve A/c Profit & Loss A/c 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)	Dr. Dr.	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:**

Underwriters	No. of shares		
	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)	<u>7,000</u>
Unmarked application by public	3,000
Add: Application under firm underwriting	<u>4,200</u>
Total unmarked applications	<u>7,200</u>

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)	<u>10,000</u>
	<u>20,000</u>

— 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 1<sup>st</sup> 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 30<sup>th</sup> June and 31<sup>st</sup> 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 (Loan taken from SBI)			15,00,000
Debenture Suspense A/c	Dr.	25,00,000	
To 12% Debentures A/c (12% Debentures worth ₹ 20 Lakhs issued as collateral security for a Loan from SBI as per Board's Resolution No..... Date)			25,00,000

(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 =  $250 \times 100 \times \frac{12}{100} \times \frac{5}{12} = ₹ 1,250$ .

— Space to write important points for revision —

**2015 - Dec [3]** Answer the questions:

(a) (i) On 31<sup>st</sup> 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	148
Profit and Loss Account	340	(Face Value	
Current Liabilities	2,640	₹ 200 lakhs)	
		Current Assets	2,460
	<b>6,660</b>		<b>6,660</b>

On 1<sup>st</sup> 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.

**12.76****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

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 1<sup>st</sup> 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.

**12.78****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)****(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 31<sup>st</sup> 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

**12.80****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

6.	General Reserve A/c To Capital Redemption Reserve A/c (Refer Note) (Being creation of capital redemption reserve)	Dr.	66	66
7.	Equity Share Capital A/c Securities Premium A/c (Premium payable on buy-back) To Equity Shares Buy-back A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	16 40	56
8.	Equity Shares Buy-back A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	56	56
9.	12% Debentures A/c To Own Debentures A/c To Capital Reserve A/c (Profit on cancellation) (Being own debentures cancelled at profit)	Dr.	11.5	10 1.50
10.	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	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 <span style="float: right;">Dr.</span>	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 (Premium provided for redemption)			10,000
Profit & Loss A/c	Dr.	18,100	
To Capital Redemption Reserve A/c (Amount transferred to capital redemption reserve not covered by fresh issue)			18,100
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 (Redemption of preference shares made)			1,10,000
Preference Shareholders A/c	Dr.	1,10,000	
To Bank (Payment made)			1,10,000

— 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%			

**12.84****Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)**

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

— Space to write important points for revision —



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

<b>Authorised Capital:</b>	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>45,00,000</u>
<b>Issued and Subscribed Capital:</b>	
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
<b>Reserves and Surplus:</b>	
General Reserve	3,60,000
Securities Premium	1,00,000
Profit and Loss Account	6,00,000

On 1<sup>st</sup> April, 2017, the Company has made final call @ 2 each on 2,70,000 Equity shares. The call money was received by 20<sup>th</sup> 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 30<sup>th</sup> 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

12.90

## Scanner CMA Inter Gr. II Paper 12A (2016 Syllabus)

20-04-17	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c (For final call money on 2,70,000 equity shares received)			5,40,000
	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 (For making provision for bonus issue of one share for every four shares held)			6,75,000
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c (For issue of bonus shares)			6,75,000

**Extract of Balance Sheet as at 30<sup>th</sup> April, 2017 (after bonus issue):**

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

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 Space to write important points for revision
 

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**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)
One 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)**