<u>Preface</u>

Dear Students,

As you are aware that the Accountancy syllabus for class XII has undergone many changes and questions relating to these changes will be included in the CBSE board exam paper of 2013. The Directorate of Education (DOE) has always strived to provide you with the necessary support & resources to guide you and excel in the examinations. DOE has once again has taken the initiative of coming out with a Supplementary Support Material for Accountancy for Class XII, which would not only help you to be acquainted with the changes in the syllabus but also understand these changes so that no problems are faced in attempting the questions.

Our team has put in lot of efforts in developing the material and has provided numerous questions for you to practice and gain confidence before the main examination. Each topic has been supplemented by 'Values' to enable you to answer 'Value based questions'. We have tried our best to incorporate the changes in a lucid manner. We hope that this Supplementary material will not only help you to develop better understanding and score good marks but also study Accountancy from a new perspective.

We wish you all the very best for your exams and future endeavors!

<u>Team Leader</u>

Rajni Rawal

<u>Members</u>

Sanjeev Kumar

Anil Kumar

Rajesh Kumar

Deletions from the Syllabus

Meaning of Private Placement of Shares and Employee Stock option Plan.

Writing Off Loss on Issue of Debentures.

Redemption of Debentures through purchase in Open Market.

Fixed Assets Turnover Ratio.

Current Assets Turnover Ratio.

Earning Per Share

Dividend Per Share.

Price Earning Ratio.

New Additions in the Syllabus

Guarantee of Profits.

Accounting for Private Placement of Shares.

Interest on Debentures.

Balance Sheet of a Company in the prescribed form with major headings and sub headings (as per Revised Schedule VI Part I of the Companies Act, 1956).

Interest Coverage Ratio.

Operating Profit Ratio.

Supplementary material of accountancy

List of chapters

Accountancy class XII

Partnership: Fundamentals

Guarantee of profits

An assurance is given to a partner that a minimum amount is given to him irrespective of profits

The firm or the partner who has given the guarantee is DEBITED

The partner to whom guarantee has been given is CREDITED.

This guarantee can be given in any one of the following forms----

(Guarantee of minimum profits to a partner by firm)

A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1 with a guarantee of minimum profits to C for ` 15,000. Total profits of the firm for the year ended on December 31, 2012 amounted ` 60,000. Prepare a profit and loss appropriation account to show the distribution of profits as per terms of partnership deed.

When Guarantee of minimum profit to a partner is given by the firm, we can solve the question in two different methods.

METHOD 1-----Out of total profits of 60,000, C has been credited with 15,000(guaranteed amount)and the balance of profit distributed among A and B in their profit sharing ratio

Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. **Cr.**

Particulars	`	Particulars	`
To A's Capital A/c (3/5 of ` 45,000)	27,000	By Profit and Loss A/c (Net Profits)	60,000
To B's Capital A/c (2/5 of ` 45,000)	18,000		
To C's Capital A/c (1/6 of ` 60,000 or `15,000 whichever is more)	15,000		
	60,000		60,000
	-------------		------------

METHOD 2

<u>C has been credited for 10,000 by the firm &</u>

<u>C has been credited with 5,000 by debiting A and B in their profit sharing ratio</u>

Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. **Cr.**

Particulars	`	Particulars	`
To A's Capital A/c **(3/6 of ` 60,000) 30,000** **Less: Deficiency** **Borne for C (3,000)** **-------**	**27,000**	**By Profit and Loss A/c** **(Net Profits)**	**60,000**
To B's Capital A/c **(2/6 of ` 60,000)** **20,000** **Less: Deficiency** **Borne for C (2,000)** **-------**	**18,000**		
To C's Capital A/c **(1/6 of ` 60,000** **10,000** **Add: Deficiency** **Recovered from A 3,000** **Add: Deficiency** **Recovered from B 2,000** **-------**	**15,000**		
	60,000 **-------------**		**60,000** **------------**

➢ **<u>Working Note:</u>**

Minimum guarantee to C = `15,000

Less: C's actual share in profits = ` 10,000

Deficiency in profits = ` 15,000 - ` 10,000 = **5,000**

This deficiency will be borne by A and B in their profits sharing ratio i.e., 3:2.

(Guarantee of minimum profits to a partner by other partners in a specific ratio)

1. A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1 with a guarantee of minimum profits to C for ˆ 15,000. Total profits of the firm for the year

ended on December 31, 2012 amounted ˆ60,000. Any excess payable to C on account of such guarantee shall be borne by A and B in equal ratio.

Prepare a profit and loss appropriation account to show the distribution of profits as per terms of partnership deed.

Solution----

<u>C has been credited by debiting firm for 10,000 &</u>

<u>C has been credited by debiting A and B in specific ratio , i.e, equal</u>

Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. **Cr.**

Particulars	**`**	**Particulars**	**`**
To A's Capital A/c **(3/6 of ` 60,000) 30,000** **Less: Deficiency** **Borne for C (2,500)** **-------**	 **27,500**	**By Profit and Loss A/c** **(Net Profits)**	 **60,000**
To B's Capital A/c **(2/6 of ` 60,000)** **20,000** **Less: Deficiency** **Borne for C (2,500)** **-------**	 **17,500**		
To C's Capital A/c **(1/6 of ˆ 60,000** **10,000** **Add: Deficiency** **Recovered from A 2,500** **Add: Deficiency** **Recovered from B 2,500** **-------**	 **15,000**		
	60,000 **-------------**		**60,000** **------------**

❖ **<u>Working Note:</u>**

Minimum guarantee to C = ˆ15,000

Less: C's actual share in profits = ˆ 10,000

Deficiency in profits = ˆ 15,000 - ˆ 10,000 = ˆ 5,000

This deficiency will be borne by A and B in **equal ratio i.e., 1:1.**

(Guarantee of minimum profits to a partner by other partner – one partner only)

A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1 with a guarantee of minimum profits to C for ˆ 15,000. Total profits of the firm for the year ended on December 31, 2012 amounted ˆ60,000. Any excess payable to C on account of such guarantee shall be borne by A.

Prepare a profit and loss appropriation account to show the distribution of profits as per terms of partnership deed.

C has been credited by debiting firm for 10,000 &

C has been credited by debiting A only for 5,000

Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. Cr.

Particulars	ˆ	Particulars	ˆ
To A's Capital A/c (3/6 of ˆ 60,000) 30,000 Less: Deficiency Borne for C (5,000) -------	25,000	By Profit and Loss A/c (Net Profits)	60,000
To B's Capital A/c (2/6 of ˆ 60,000)	20,000		
To C's Capital A/c (1/6 of ˆ 60,000 10,000 Add: Deficiency Recovered from A 5,000 -------	15,000		
	60,000 -------------		60,000 ------------

2. A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1 with a guarantee of minimum profits to C for ˆ 15,000. Total profits of the firm for the year ended on December 31, 2012 amounted ˆ60,000. Any excess payable to C on account of such guarantee shall be borne by B.

Prepare a profit and loss appropriation account to show the distribution of profits as per terms of partnership deed.

C has been credited by debiting firm for 10,000 &

C has been credited by debiting B only for 5,000

SOLUTION:

Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. Cr.

Particulars	ˆ	Particulars	ˆ
To A's Capital A/c (3/6 of ˆ 60,000)	30.000	By Profit and Loss A/c (Net Profits)	60,000
To B's Capital A/c (2/6 of ˆ 60,000) 20,000 Less: Deficiency Borne for C (5,000) -------	15,000		
To C's Capital A/c (1/6 of ˆ 60,000 10,000 Add: Deficiency Recovered from B 5,000 -------	15,000		
	60,000 -------------		60,000 ------------

❖ **<u>Working Note:</u>**

Minimum guarantee to C = ˆ15,000

Less: C's actual share in profits = ˆ 10,000

Deficiency in profits = ˆ 15,000 - ˆ 10,000 = ˆ 5,000

In 4 question deficiency will be borne by <u>A only</u>

<u>In 5 question deficiency to borne by B only</u>

(Guarantee of minimum profits to firm by partners)

3. A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1. The partnership deed provided the following:

1. Interest on Capital is to be provided @ 10% p.a.
2. Interest on drawings is to be charged @ 12% p.a.
3. Salary payable to C ˆ 2,000 per month.
4. C had guaranteed that the firm would earn a profits of ˆ 1,20,000 before charging or allowing interest and salary payable to partners.

Capital of A,B, and C at the beginning of the year were ˆ 1,00,000, ˆ 80,000 and ˆ 60,000 respectively. Drawings of the partners during the year ended on 31st March, 2012 were A: ˆ 20,000, B: ˆ 15,000 and c: ˆ 10,000.

The actual profits before interest and salary amounted to ˆ 1,10,000.

Prepare Profit and Loss Appropriation Account for the year ending on 31st March, 2012. .
Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. Cr.

Particulars	ˆ	Particulars	ˆ
To Interest on Capital: (@ 10% p.a.) A 10,000 B 8,000 C 6,000 -------	24.000	By Profit and Loss A/c (Net Profits) By C's Capital A/c By Interest on Drawings: (@12% p.a. for 6 months as the date of drawings is not given) A 1,200 B 900 C 600	1,10,000 10,000 2,700
To Salary to C (ˆ 2,000 X 12)	24,000		
To Profits transferred to Capital A/cs of: A 37,350 B 24,900 C 12,450	74,700		
	1,22,700		1,22,700

- ❖ **Note: Firm's profit is ˆ 1,10,000 (i.e., ˆ 10,000 less than the amount guaranteed by C) .**
- ❖ **As such ˆ 10,000 will be debited to C's Capital A/c and credited to Profit and Loss Appropriation A/c.**

(Actual amount of profit is more than the guaranteed amount)

1. A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1 with a guarantee of minimum profits to C for ˆ 15,000. Total profits of the firm for the year ended on December 31, 2012 amounted ˆ1,20,000. Any excess payable to C on account of such guarantee shall be borne by B.

Prepare a profit and loss appropriation account to show the distribution of profits as per terms of partnership deed. Profit and Loss Appropriation Account

For the year ending on 31ST March, 2012

Dr. Cr.

Particulars	`	Particulars	`
To A's Capital A/c (3/6 of ` 1,20,000)	60.000	By Profit and Loss A/c (Net Profits)	1,20,000
To B's Capital A/c (2/6 of ` 1,20,000)	40,000		
To C's Capital A/c (1/6 of ` 1,20,000 or `15,000 whichever is higher)	20,000		
	1,20,000		1,20,000

- **<u>Working note</u>**

<u>Share of Actual profits=20,000</u>

<u>Guaranteed amount=15,000</u>

Values Involved in above questions-

- **Financial Security,**
- **Mutual Understanding,**
- **Team Spirit.**
- **Transparency**

<u>Questions regarding Past Adjustment</u>

Q.7 Asha, Bela and Cheena were sharing profits equally. Their capitals were ` 40,000; ` 20,000 and ` 30,000 respectively. After closing the accounts for the year 2004, it was found that the interest on capital @ 10% p.a. was not allowed before distributing the profits. It was decided to pass a single adjusting entry to rectify the accounts of the year 2004. Journalise. (CBSE 2005)

Solution 7:

Journal

Date	Particulars	L.F.	Dr.(`)	Cr.(`)
2005 Jan.1	Bela's capital A/c Dr. To Asha's capital A/c (adjustment of interest on capital for the year 2004)		1,000	 1,000

Working Note:

	Asha	Bela	Cheena	Total
Interest on capital Cr.	4,000	2,000	3,000	9,000
Profit to be recovered Dr.	3,000	3,000	3,000	9,000
Adjustment	1,000	1,000	---	---
	Cr.	Dr.	---	---

Q.8 A, B, C and D are partners sharing profits & Losses in the ratio of 4:3:3:2. Their respective fixed capitals on March 31,2010 were ` 60,000, ` 90,000, ` 1,20,000 and ` 90,000. After preparing the final accounts for the year ended March 31,2010, it was discovered that interest on capital @ 12% p.a. was not allowed and interest on drawings amounting to ` 2,000, ` 2,500, ` 1,500 and ` 1,000 respectively was also not charged.

Pass the necessary adjustment Journal entry showing your workings clearly.

(CBSE 2011)

Solution 8:

Journal

Date	Particulars	L.F.	Dr.(`)	Cr.(`)
2010	A's current A/c Dr.		6,867	
Apr.1	B's current A/c Dr.		750	
	To C's current A/c			3,850
	To D's current A/c			3,767
	(Adjustment of interest on capital and interest on drawings for the year 2009-10)			

Working Note:

	A	B	C	D	Total
Interest on capital Cr.	7,200	10,800	14,400	10,800	43,200
Interest on drawings Dr.	2,000	2,500	1,500	1,000	7,000
Profit to be recovered Dr.	12,067	9,050	9,050	6,033	36,200
Total Dr.	14,067	11,550	10,550	7,033	
Adjustment	6,867	750	3,850	3,767	
	Dr.	Dr.	Cr.	Cr.	

Q.9 Ram, Shyam and Mohan are partners in a firm sharing profits and losses in the ratio of 2:1:2. Their fixed capitals were ` 3,00,000, ` 1,00,000 and ` 2,00,000 respectively. Interest on capital for the year 1996 was credited to them @ 9% p.a. instead of 10% p.a.. Showing your working notes clearly, pass necessary adjusting Journal entry.

Solution 9:

Journal

Date	Particulars	L.F.	Dr.(`)	Cr.(`)
1997 Jan.1	Shyam's current A/c Dr. Mohan's current A/c Dr. To Ram's current A/c (adjustment of interest on capital for the year 1996)		200 400	 600

Working Note:

	Ram	Shyam	Mohan	Total
1% Interest on capital Cr.	3,000	1,000	2,000	6,000
Profit to be recovered Dr.	2,400	1,200	2,400	6,000
Adjustment	600 Cr.	200 Dr.	400	

Q.10 Mohan, Vijay and Anil are equal partners, the balances in their capital accounts being ` 30,000, ` 25,000 and ` 20,000 respectively. In arriving at these figures, the profits for the year ended December 31,1992 are ` 24,000 had already been credited to partners in the proportion in which they shared profits. Their drawings were:

Mohan ` 5,000, Vijay ` 4,000 and Anil ` 3,000 in 1992.

Subsequently, the following omissions were noticed and it was decided to bring them into account.

(i) Interest on capital @ 10% p.a.
(ii) Interest on Drawings: Mohan ` 250, Vijay ` 200and Anil ` 150.

Make the necessary rectifications through a Journal entry and show your workings clearly. (CBSE 1994)

Solution 10:

Calculation of Opening Capital

	Mohan	Vijay	Anil
Closing capital	30,000	25,000	20,000
Add: Drawings	5,000	4,000	3,000
	35,000	29,000	23,000
Less: Profit already distributed	8,000	8,000	8,000
Opening capital	27,000	21,000	15,000
Interest on capital @ 10% p.a.	2,700	2,100	1,500

Table Showing Adjustment

		Mohan	Vijay	Anil	Total
Interest on capital	Cr.	2,700	2,100	1,500	6,300
Interest on drawings	Dr.	250	200	150	600
Profit to be recovered	Dr.	1,900	1,900	1,900	5,700

Total	Dr.	2,150	2,100	2,050	6,300
Adjustment		550 Cr.	---	550 Dr.	

Journal

Date	Particulars	L.F.	Dr.(`)	Cr.(`)
1993 Jan.1	Anil's capital A/c Dr. To Mohan's capital A/c (adjustment of interest on capital and interest on drawings for the year 1992)		550	 550

Q.11 X, Y and Z are partners in a firm who share profits in the ratio of 2:3:5. The firm earned a profit of ` 1,50,000 for the year ended December 31,2004. The profit by mistake was distributed among X, Y and Z in the ratio of 3:2:1 respectively. This error was noted only in the beginning of the next year.

Pass necessary Journal entry to rectify the error. (CBSE 2005)

Solution 11:

Table Showing Adjustment

		X	Y	Z	Total
Profit already distributed	Cr.	75,000	50,000	25,000	1,50,000
Profit to be distributed	Dr.	30,000	45,000	75,000	1,50,000
Adjustment		45,000 Dr.	5,000 Dr.	50,000 Cr.	

Journal

Date	Particulars	L.F.	Dr.(`)	Cr.(`)
2005 Jan.1	X's capital A/c Dr. Y's capital A/c Dr. To Z's capital A/c (adjustment of profit sharing ratio for the year 2004)		45,000 5,000	 50,000

Values Involved in questions of past adjustments:

- **Admitting errors committed**
- **Rectifying those errors**
- **Communicating the correct information**

Reconstitution of Partnership: Change in Profit Sharing Ratio

Q.12 P, Q and R are partners sharing profits equally. They decided that in future R will get 1/5 share in profits and remaining profit will be shared by P and Q equally. On the day of change, firm's goodwill is valued at ` 60,000. Give Journal entries arising on account of change in profit- sharing ratio. Also identify the value involves in adjustment of goodwill.

Solution 12:

Value involves: Reward for sacrifice
Change in share of:
P = 1/3-2/5 = 5-6/15 = - 1/15 (Gain)
Q = 1/3-2/5 = 5-6/15 = - 1/15 (Gain)
R = 1/3-1/5 = 5-3/15 = 2/15 (Sacrifice)

Journal

Date	Particulars	L.F.	Dr.(`)	Cr.(`)
	P's capital A/c Dr. Q's capital A/c Dr. To R's capital A/c (adjustment of goodwill for change in profit sharing ratio)		2,000 2,000	 4,000

Reconstitution of Partnership: Death of a Partner

Q.13 G, H and I were partners in a firm sharing profits in the ratio of 4:3:3. On March 31, 2006, their Balance Sheet was as follows:

Balance Sheet

As at March 31, 2006

Liabilities		`	Assets	`
Creditors		87,000	Buildings	1,70,000
Reserve		33,000	Machinery	1,20,000
Capitals			Stock	40,000
G	1,05,000		Debtors	45,000
H	85,000		Cash	15,000
I	80,000	2,70,000		
		3,90,000		3,90,000

H died on June 30,2006. Under the partnership agreement, the executors of a deceased partner were entitled to:

(i) Amount standing to the credit of deceased [partner's capital account at the time of death.
(ii) Interest on capital @ 12% per annum,
(iii) His share of goodwill. The goodwill of the firm on H's death was valued at ` 2,70,000.
(iv) His share in the profit till the date of the death on the basis of last year's profit. The profit of the firm for the year ended on March 31, 2006 was ` 2,40,000.

Identify the value involves in the calculation of share of profit of deceased partner.
Prepare H's capital account to be rendered to his executors.

Solution

.   H's Capital Account

Particulars	`	Particulars	`
To H's Executor A/c	1,96,450	By balance b/d	85,000
		By interest on capital	2,550
		By G's capital A/c	46,286
		By I's capital A/c	34,714
		By P&L suspense A/c	18,000
		By reserve	9,900
	1,96,450		1,96,450

Value involved in questions of Reconstitution of Partnership

Adapting to changes
Integrity
Justification
Transparency

COMPANY ACCOUNTS

IMPLEMENTATION OF SCHEDULE VI OF COMPANIES ACT

General Instructions-

- Revised Schedule VI applicable on all the companies with effect from 1st April, 2011
- In case of any controversy, Accounting Standards will prevail over the Schedule;
- Only Vertical format of Balance Sheet is prescribed;
- Prescribes minimum disclosure requirements in the Balance Sheet. All other disclosures as required by the Companies Act, 1956 shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
- Shareholding of more than 5% shares in the company now needs to be disclosed;
- Share allotments for non-cash consideration, buy back to be disclosed;
- Where the normal operating cycle cannot be identified, it is assumed to have duration of twelve months. New name for P & L Account is "Statement of Profit and Loss";
- Format for Statement of Profit and Loss has been prescribed
- Segregation of Revenue components into revenue from:

  -sale of products,

  -sale of services, and

  -other operating revenues

Equity and Liabilities

- Liabilities side of Balance Sheet is known as 'Equity and Liabilities' and shown as Part A of Balance Sheet (Vertical Form)
- Current/ Non-Current Distinction-- If entity does not have unconditional right to defer settlement of liability for at least 12 months after reporting period, it will be treated as CURRENT
- All expenses or provisions or advances or loans etc. which are accrued and payable within 12 months are current liabilities.
- **Provisions** to be shown under Long – term provisions and Short-term provisions.
- **Loss from Statement of Profit and Loss** is to be deducted from existing credit balance in Statement of Profit and Loss under 'Reserves and Surplus'.

- If the net amount after transfer, results is negative amount, it is shown as negative amount under the head Statement of Profit and Loss.

- Statement of Profit and Loss (Dr. Balance) will be disclosed under the head "Reserves and Surplus".

- Share application money pending allotment is not a part of Shareholders' Funds;

Assets

- All items of assets and liabilities are to be bifurcated between current and non-current portions and presented separately on the face of the Balance Sheet.

- Fixed assets were shown under one broad category i.e. fixed assets. Fixed assets are classified into:
  - ✓ Tangible Assets;
  - ✓ Intangible Assets;
  - ✓ Capital Work – in – progress;
  - ✓ Intangible Assets under Development.

- **Provision for Doubtful Debts** is not deducted from Trade Receivables but is shown as short-term Provisions under Current Liabilities.

- **Loose Tools** is to be classified as 'Inventory' under Current Assets.

- "Sundry Debtors" has been replaced with the term "Trade Receivables";

- Disclosure of trade receivables outstanding for a period exceeding six months from the date of bill/invoice is due for payment;

- Separate head for Intangible Assets and Intangible Assets under Development;

- Capital Advances have to be shown separately under "Loans and Advances" instead of Fixed Assets;

FORMAT OF REVISED SCHEDULE VI

The Ministry of Corporates Affairs specified the format of Schedule VI vide Notification No. S.O. 447(E), dated 28th February 2011 as follows:

Part I: Form of Balance Sheet

Name of the Company

Balance Sheet as at 31 March, 20X2				
Particulars		Note No.	**As at 31 March, 20X2**	**As at 31 March, 20X1**
			`	`
A	**EQUITY AND LIABILITIES**			
1	**Shareholders' funds**			
	(a) Share capital			
	(b) Reserves and surplus			
	(c) Money received against share Warrants			
2	**Share application money pending allotment**			
3	**Non-current liabilities**			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (net)			
	(c) Other long-term liabilities			
	(d) Long-term provisions			
4	**Current liabilities**			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c) Other current liabilities			
	(d) Short-term provisions			
	TOTAL			
B	**ASSETS**			
1	**Non-current assets**			
	(a) Fixed assets			
	(i) Tangible assets			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(v) Fixed assets held for sale			
	(b) Non-current investments			
	(c) Deferred tax assets (net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	**Current assets**			
	(a) Current investments			
	(b) Inventories			
	(c) Trade receivables			
	(d) Cash and cash equivalents			
	(e) Short-term loans and advances			
	(f) Other current assets			
	TOTAL			

General Instructions for Preparation of Balance Sheet

<u>CURRENT ASSETS</u>

1. An asset shall be classified as current when it satisfies **any of the following criteria**: (a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is expected to be realised within twelve months after the reporting date; or
(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
All other assets shall be classified as non-current.

OPERATING CYCLE

2. An operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Where the **normal operating cycle cannot be identified, it is assumed to have duration of 12 months.**

CURRENT LIABILTY

3. A liability shall be classified as current when it satisfies **any of the following criteria**: (a) it is expected to be settled in the company's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is due to be settled within twelve months after the reporting date; or
(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
All other liabilities shall be classified as non-current.
4. A receivable shall be classified as a **'trade receivable'** if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a **'trade payable'** if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A company shall disclose the following in notes to accounts:

6A. Share capital
Clauses (a) to (l) of Notes 6 A deal with disclosures for Share Capital and such disclosures are required for each class of share capital (different classes of preference shares to be treated separately).
a. The number and amount of shares authorized
b. The number of shares issued, subscribed and fully paid, and subscribed but not fully paid
c. Par value per share
d. A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period
e. The rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital
f. Shares in respect of each class in the company held by its holding capacity or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate

g. Shares in the company held by each
h. Shareholder holding more than 5 per cent shares specifying the number of shares held
i. Shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts
j. For the period of five years immediately preceding the date as at which the balance sheet is prepared : i. aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.
ii. Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
iii. Aggregate number and class of shares bought back.

k. Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date
l. Calls unpaid (showing aggregate value of calls unpaid by directors and officers)

6B. Reserves and Surplus
(i) Reserve and surplus shall classified as follows
a) Capital Reserves
b) Capital Redemption Reserve
c) Securities Premium Reserve
d) Debenture Redemption Reserve
e) Revaluation Reserve
f) Share Options Outstanding Account
g) Other Reserves (specify the nature and purpose of reserve and the amount in respect thereof)
h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves, etc.
(Additions and deductions since the last Balance Sheet to be shown under each of the specified head)
(ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.

(i) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

6C. Non-Current Liabilities
a. Long-term borrowings: • Long-term borrowings shall be classified as: (a) Bonds/debentures;
(b) Term loans;
• from banks;
• from other parties;
(c) Deferred payment liabilities;
(d) Deposits;
(e) Loans and advances from related parties;
(f) Long term maturities of finance lease obligations;
(g) Other loans and advances (specify nature).
• Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

• Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed. The word “others” used in the phrase “directors or others” would mean any person or entity other than a director.

• Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due.

Particulars of any redeemed bonds/ debentures which the company has power to reissue shall be disclosed.

• Period and amount of continuing default as on the Balance Sheet date in repayment of loans and interest shall be specified separately in each case.

b. Other Long-term liabilities
This should be classified into:
a) Trade payables; and
b) Others.
c. Long-Term Provisions
This should be classified into
a) provision for employee benefits and
b) others specifying the nature.

6D. Current Liabilities
a. Short-term borrowings; (i) (a) Loans repayable on demand
• from banks;
• from other parties.
(b) Loans and advances from related parties;
(c) Deposits;
(d) Other loans and advances (specify nature).
(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
(iv) Period and amount of default as on the Balance Sheet date in repayment of loans and interest, shall be specified separately in each case.
b. Other current liabilities

The amounts shall be classified as:
(a) Current maturities of long-term debt;

(b) Current maturities of finance lease obligations;
(c) Interest accrued but not due on borrowings;
(d) Interest accrued and due on borrowings;
(e) Income received in advance;
(f) Unpaid dividends;

(g) Application money received for allotment of securities and due for refund and interest accrued thereon;
(h) Unpaid matured deposits and interest accrued thereon;
(i) Unpaid matured debentures and interest accrued thereon;

c. Short-term provisions

The amounts shall be classified as:
(a) Provision for employee benefits;
(b) Others (specify nature).

6E. Non-Current Asset

a. Tangible assets

(i) Classification shall be given as:
(a) Land.
(b) Buildings.
(c) Plant and Equipment.
(d) Furniture and Fixtures.
(e) Vehicles.
(f) Office equipment.
(g) Others (specify nature).
(ii) Assets under lease shall be separately specified under each class of asset.

b. Intangible assets

(i) Classification shall be given as:
(a) Goodwill.
(b) Brands /trademarks.
(c) Computer software.
(d) Mastheads and publishing titles.
(E) Copyrights, and patents and other intellectual property rights, services and operating rights. (F) Recipes, formulae, models, designs and prototypes.

(h) Licenses and franchise.

(c. Non-current investments

- Non-current investments shall be classified as trade investments and other investments and further classified as:
  - Investment property;
  - Investments in Equity Instruments;
  - Investments in preference shares
  - Investments in Government or trust securities;
  - Investments in debentures or bonds;
  - Investments in Mutual Funds;
  - Investments in partnership firms

(h) Other non-current investments (specify nature)

d. Long-term loans and advances

(i) Long-term loans and advances shall be classified as:

(a)Capital Advances;

(b)Security Deposits;

(c)Loans and advances to related parties (giving details thereof);

(d)Other loans and advances (specify nature).
(ii) The above shall also be separately sub-classified as:
(a)Secured, considered good;
(b)Unsecured, considered good;
(c)Doubtful.
(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

e. <u>Other non-current assets</u>

Other non-current assets shall be classified as:
(i) Long Term Trade Receivables (including trade receivables on deferred credit terms);
(ii) Others (specify nature)
(iii) Long term Trade Receivables, shall be sub-classified as:
(i) (a) Secured, considered good;
(b)Unsecured considered good;
(c)Doubtful
(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

6F. Current Investment

a<u>. Current Investments</u>

(i) Current investments shall be classified as:
(a) Investments in Equity Instruments;
(b) Investment in Preference Shares
(c) Investments in government or trust securities;
(d) Investments in debentures or bonds;
(e) Investments in Mutual Funds;
(f) Investments in partnership firms
(g) Other investments (specify nature).

b<u>. Inventories</u>

(i) Inventories shall be classified as:
(a)Raw materials;
(b)Work-in-progress;
(c)Finished goods;

(d)Stock-in-trade (in respect of goods acquired for trading);
(e)Stores and spares;
(f)Loose tools;
(g)Others (specify nature).
(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories. Mode of valuation shall be stated.

c. <u>Trade Receivables</u>

(i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.
(ii) Trade receivables shall be sub-classified as:
(a) Secured, considered good;
(b) Unsecured considered good;
(c) Doubtful.
(iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(ii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

d. <u>Cash and cash equivalents</u>

(i) Cash and cash equivalents shall be classified as:
(a) Balances with banks;
(b) Cheques, drafts on hand;
(c) Cash on hand;
(d) Others (specify nature).
(ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
(iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.
(v) **Bank deposits with more than 12 months maturity shall be disclosed separately**.

e. <u>Short-term loans and advances</u>

(i) Short-term loans and advances shall be classified as:
(a) Loans and advances to related parties (giving details thereof);
(b) Others (specify nature).
(ii) The above shall also be sub-classified as:
(a) Secured, considered good;
(b) Unsecured, considered good;
(c) Doubtful.
(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private

companies respectively in which any director is a partner or a director or a member shall be separately stated.

f. <u>Other current assets</u> (specify nature).

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

6G. <u>Contingent liabilities and commitments</u> (to the extent not provided for)
(i) Contingent liabilities shall be classified as:
(a)Claims against the company not acknowledged as debt;
(b)Guarantees;
(c)Other money for which the company is contingently liable
(ii) Commitments shall be classified as:
(a) Estimated amount of contracts remaining to be executed on capital account and not provided for;
(b) Uncalled liability on shares and other investments partly paid
(c) Other commitments (specify nature).

Question Where will you show the following items in the Balance Sheet of a Company ?

1. Share Capital
2. Goodwill
3. Cash in hand
4. Debentures
5. Sundry debtors

SOLUTION:

Sr. No.	Items	Major Headings	Headings	Sub Headings
1	Share Capital	Equity and Liabilities	Shareholders' Funds	---------------------
2	Goodwill	Assets	Non-Current Assets	Intangible Assets
3	Cash in hand	Assets	Current Assets	Cash and cash Equivalents
4	Debentures	Equity and Liabilities	Non-Current Liabilities	Long-term Borrowings
5	Sundry debtors	Assets	Current Assets	Trade Receivables

Question
Where will you show the following items in the Balance Sheet of a Company ?

1. General Reserve
2. Patents
3. Cash at Bank
4. Bank Loan (Payable after 7 years)
   Bills Receivables

SOLUTION:

Sr. No.	Items	Major Headings	Headings	Sub Headings
1	General Reserve	Equity and Liabilities	Shareholders' Funds	Reserve and Surplus
2	Patents	Assets	Non-Current Assets	Intangible Assets
3	Cash at Bank	Assets	Current Assets	Cash and cash Equivalents
4	Bank Loan	Equity and Liabilities	Non-Current Liabilities	Long-term Borrowings
5	Bills Receivables	Assets	Current Assets	Trade Receivables

Question

Prepare a Balance Sheet of SRK Ltd. as on 31st March, 2012 from the following details:

	(ˆin '000)
Reserve and Surplus	400
Share Capital	800
8% Debentures	300
Creditors	100
Bills Payables	80
Proposed Dividend	20
Fixed Assets (tangible)	1,000
Goodwill	150
Inventories	100
Sundry Debtors	250
Cash in Hand	60
Cash at Bank	140

SRK Ltd.
Balance Sheet as at 31st March, 2012

Particulars	**Note No.**	**Figures as at the end of current reporting**	**Figures as at the end of the previous reporting**
1	2	3	4

I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital		800	
(b) Reserves and surplus		400	
(c) Money received against share warrants		--------	
(2) Share application money Pending allotment			
(3) Non-current liabilities			
(a)Long-term borrowings		300	
(b) Deferred tax liabilities (Net) (c) Other Long term liabilities (d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings		180	
(b) Trade payables			
(c) Other current liabilities		20	
(d) Short-term provisions			
TOTAL		**1,700**	

II. ASSETS			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets		1,000	
(ii) Intangible assets		150	
(iii) Capital work-in-progress			
(iv)Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets(net)			
(d) Long term loans and advances			
(e) Other non-current assets			
(2) Current Assets			
(a) Current investments		100	
(b) Inventories		250	
(c) Trade receivables		200	
(d) Cash and cash equivalents			
(e) Short term loans and advances			
(f) Other current assets			
		1,700	
Total			

Prepare a Balance Sheet of XYZ Ltd. as on 31st March, 2012 from the following details:

	(ˆin '000)
General Reserve	200
Profit and Loss Account	200
Equity Share Capital	600
Preference Share Capital	200

8% Bank Loan	200
Creditors	200
Bills Payables	60
Proposed Dividend	40
Fixed Assets (tangible)	800
Patents	130
Trade Marks	70
Inventories	300
Bills Receivables	200
Cash in Hand	110
Cash at Bank	60
Short term marketable securities	30

XYZ Ltd.
Balance Sheet as at 31st March, 2012

Particulars	**Note No.**	**Figures as at the end of current reporting**	**Figures as at the end of the previous reporting**
1	2	3	4

I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital		800	
(b) Reserves and surplus		400	
(c) Money received against share warrants		--------	
(2) Share application money Pending allotment			
(3) Non-current liabilities			
(a)Long-term borrowings		200	
(b) Deferred tax liabilities (Net) (c) Other Long term liabilities (d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings		260	
(b) Trade payables			
(c) Other current liabilities		40	
(d) Short-term provisions			
TOTAL		**1,700**	

II. ASSETS			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets		800	
(ii) Intangible assets		200	
(iii) Capital work-in-progress			
(iv)Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets(net)			
(d) Long term loans and advances			
(e) Other non-current assets			
(2) Current Assets			
(a) Current investments			
(b) Inventories		300	
(c) Trade receivables		200	
(d) Cash and cash equivalents		200	
(e) Short term loans and advances			
(f) Other current assets			
Total		**1,700**	

Values involved in presentation of Balance Sheet---

- Orderliness
- Communication of material information
- Complying with legal provisions

Accounting for issue of share capital

PRESENTATION OF SHARE CAPITAL

Question S T L Global Ltd. was formed with a nominal Share Capital of ` 40,00,000 divided into 4,00,000 shares of ` 10 each. The Company offers 1,30,000 shares to the public payable ` 3 per share on Application, ` 3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except on 200 shares held by Y. First and Final Call was not made by the Company.

How would you show the relevant items in the Balance Sheet of S T L Global Ltd.?

SOLUTION:

BALANCE SHEET OF S T L Global LTD.

as at..................

Equity and Liabilities	***Note No.***	`	`
Shareholder's Funds:			
(a) Share Capital	(1)		**14,34,000**
Assets	***Note No.***	`	`
Current Assets:			
Cash and Cash Equivalents (cash at Bank)			**14,34,000**

Notes to Accounts:

(1)Share Capital		`	`
Authorised Capital:			
4,00,000 shares of ` 10 each			**40,00,000**
Issued Capital:			
1,30,000 shares of `10 each			13,00,000
Subscribed but not Fully Paid Capital:			
1,20,000 shares of ` 10 each			
` 6 per share called-up	14,40,000		
Less: Calls in Arrears (200 shares × ` 3)		6,000	
		14,34,000	

Question--

.Shree Ganesh Jewelry House Ltd. Issued 40,000 shares of ` 10 each at a discount of 10%. Payments were to be made as—on Application ` 3; on Allotment ` 4 and on First and Final Call ` 2.

Applications were received for 36,000 shares and all were accepted. All money was duly received.

Pass necessary entries in the Books of Company and also show the Balance Sheet of the Company.

SOLUTION: Journal

		`	`
Bank A/c	Dr.	1,08,000	
To Share Application A/c			1,08,000
(Money received on application for 36,000 shares @ ` 3 per shares)			
Share Application A/c	Dr.	1,08,000	
To Share Capital A/c			1,08,000
(Transfer of application money to share capital A/c)			
Share Allotment A/c	Dr.	1,44,000	
Discount on issue of shares A/C	Dr.	36,000	
To Share Capital A/c			1,80,000
(Amount due on allotment, excluding discount)			
Bank A/c	Dr.	1,44,000	
To Share Allotment A/c			1,44,000
(Allotment money received)			
Share first and Final call A/c	Dr.	72,000	
To Share Capital A/c			72,000
(Share first and final call due)			
Bank A/c	Dr.	72,000	
To Share First and Final call A/c			72,000
(Share first and final call money received)			

BALANCE SHEET OF Shree Ganesh Jewelry House LTD.

As on…………

Equity and Liabilities	**Note No.**	`	`
Shareholder's Funds:			
1. Share Capital	**1**	**3,60,000**	

Other Current/Non-Current Assets:		
Unamortized Expenses (Share Discount)	36,000	
Current Assets:		
Cash and Cash Equivalents (Cash at Bank)	3,24,000	**3,60,000**

Notes to Accounts:

		`	`
2.	**Share Capital**		
	Authorised Capital	--------	
	Issue Capital:		
	40,000 Shares of ` 10 each		**4,00,000**
	Subscribed and fully paid:		
	36,000 Shares of ` 10 each fully paid up		**3,60,000**

Question

Cinevistaas Ltd. Issued 30,000 Preference shares of ` 100 each at a discount of 5%. Payments were to be made as — ` 25 on Application; ` 35 on Allotment and ` 35 on First and Final Call.

The applications for 28,000 shares were received and all were accepted. All the money was duly received except the first and final call on 400 shares.

Give the necessary Journal Entries and prepare Cash Book of the Company. Also give the Opening Balance Sheet of the Company.

CASH BOOK (Bank Column)

	`		`
To Preference Share		By Balance	26,46,000
Application A/c	7,00,000		
To Preference Share			
Allotment A/c	9,80,000		
To Preference Share First &			
Final Call A/c	9,66,000		
	26,46,000		26,46,000

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Preference Share Application A/c	Dr.	7,00,000	
To Preference Share Capital A/c			7,00,000
(Application money transferred to capital A/c)			
Preference Share Allotment A/c	Dr.	9,80,000	
Share Discount A/c	Dr.	1,40,000	
To Preference Share Capital A/c			11,20,000
(Allotment due and ` 5 per share debited to share discount A/c)			
Preference Share First & Final Call A/c	Dr.	9,80,000	
To Preference Share Capital A/c			9,80,000
(Amount due on first & final call A/c)			
Calls in Arrears A/c	Dr.	14,000	
To Preference Share First & Final Call A/c			14,000
(First and Final call @ `35 per share unpaid on 400 shares)			

BALANCE SHEET OF Cinevistaas LTD.

As on………………

Equity and Liabilities	**Note No.**	`	`
Shareholder's Funds:			
3. Share Capital	**1**	**27,86,000**	

Assets	**Note No.**	`	`
Other Current/Non-Current Assets:			
Unamortized Expenses (Share Discount)		1,40,000	
Current Assets;			
Cash and Cash Equivalents (Cash at Bank)		26,46,000	

Notes to Accounts:

	`	`
4. Share Capital		

Authorised:		
…….Shares of `……each	**……….**	
Issued:		
30,000 Preference Shares of ` 100 each		**30,00,000**
Subscribed but not fully paid:		
28,000 Preference Shares of ` 100 each	**28,00,000**	
Less: Calls in Arrear	**14,000**	**27,86,000**

Note: When Cash Book Entries are asked in the question, all cash transactions are to be recorded in Cash Book, other non-cash transactions should be entered in the journal.

Question .

Sibar Media & Entertainment Ltd. invited applications for 1,00,000 shares of `10 each at a discount of 6% payable as follows:

On Application	3
On Allotment	2.40
On First and Final Call	4

The applications were received for 90,000 shares and all of these were accepted. All money due were received except the first and final call on 2,000 shares which were forfeited. 1,000 shares were re-issued @ ` 9 per share as fully paid. Assuming that all requirements of law were complied with, pass Entries in the Journal of the company. Also show how these transactions will be reflected in the compnay's Balance Sheet.
Sibar Media & Entertainment Ltd.

Journal

		`	`
Bank A/c	Dr.	2,70,000	
To Share Application A/c			2,70,000
(Application money received on 90,000 shares @ ` 3 per share)			
Share Application A/c	Dr.	2,70,000	
To Share Capital A/c			2,70,000
(Application money transferred to Share Capital A/c)			
Share Allotment A/c	Dr.	2,16,000	
Share Discount A/c	Dr.	54,000	
To Share Capital A/c			2,70,000
(Allotment money due on 90,000 shares; ` 2.40 per share debited to Share Allotment A/c and ` 0.60 per share debited to Share Discount A/c)			

Bank A/c	Dr.	2,16,000	
To Share Allotment A/c			2,16,000
(Allotment money received on 90,000 shares @ ` 2.40 per share)			
Share First & Final Call A/c	Dr.	3,60,000	
To Share Capital A/c			3,60,000
(First call due on 90,000 shares at ` 4 per share)			
Bank A/c	Dr.	3,52,000	
To Share First & Final Call A/c			3,52,000
(Share first and final call received on 88,000 shares @ ` 4 per share)			
Share Capital A/c	Dr.	20,000	
To Share First & Final Call A/c			8,000
To Share Discount A/c			1,200
To Share Forfeiture A/c			10,800
(Forfeiture of 2,000 shares for non-payment of first and final call)			
Bank A/c	Dr.	9,000	
Share Discount A/c	Dr.	600	
Share Forfeiture A/c	Dr.	400	
To Share Capital A/c			10,000
(Re-issue of 1,000 shares @ ` 9 per share, ` 0.60 per share debited to Discount A/c and the balance of ` 0.40 per share charged from forfeiture A/c)			
Share Forfeiture A/c	Dr.	5,000	
To Capital Reserve A/c			5,000
(Profit on 1,000 re-issued shares transferred to Capital Reserve A/c from share forfeiture A/C)			

BALANCE SHEET OF Sibar Media & Entertainment Ltd.

As on……….

Equity and Liabilities	**Note No.**	`	`

Shareholder’s Funds:

		Note No.	`
5.	**Share Capital**	**1**	**8,95,400**
6.	**Reserve and Surplus**	**2**	**5000**
			9,00,400

Assets	**Note No.**	`	`
Other Current/Non-Current Assets:			
Unamortized Expenses (Share Discount)	4	**53,400**	
Current Assets:			
Cash and Cash Equivalents (Cash at Bank)		**8,47,000**	
		9,00,400	

Notes to Accounts:

		`	`
7.	**Share Capital:**		
	Authorised:		
	Issued Capital:		
	1,00,000 Shares of ` 10 each		**10,00,000**
	Subscribed and fully paid:		
	89,000 Shares of ` 10 each fully paid up	**8,90,000**	
	Add: Share Forfeiture A/c	**5,400**	**8,95,400**

		`
8.	**Reserves and Surplus**	
	Capital Reserve A/c	**5,000**

		`
Note (3) As profit on 2,000 shares	= ` 10,800	
Therefore, Profit on 1,000 Shares	$= \frac{10,800}{200} \times 100$	= 5,400
Less Loss on Re-issue: 1,000 Shares × ` 0.40		= 400
Transferred to Capital Reserve		5,000

(4)Share Discount: ` 0.60 per share on 89,000 Shares

Question

Daisy Systems Ltd. Issued 50,000 Equity Shares of ` 10 each, at a discount of 10%, payable as follows:

On Application	` 2.50 per share
On Allotment	` 3 per share
On First Call	` 1.50 per share
On Final Call	The balance amount

Applications were received for 65,000 shares and the Directors made pro-rata allotment to the applicants for 60,000 shares.

The Directors did not make the final Call. X did not pay allotment and first call money on 1,000 shares allotted to him while Y did not pay the First Call on his 2,000 Shares. These shares were forfeited and 2,200 of these shares were re-issued to Mr. Gupta as ` 8 paid at ` 6.50 per share, whole of Y’s shares being included in the re-issued shares. Show the journal entries to record the above transactions and prepare the Balance Sheet.

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		`	`
Bank A/c	Dr.	1,62,500	
To Equity Share Application A/c			1,62,500
(Application money received on 65,000 shares @ ` 5 per share)			
Equity Share Application A/c	Dr.	1,62,500	
To Equity Share Capital A/c			1,25,000
To Equity Share Allotment A/c			25,000
To Bank A/c			12,500
(Application money transferred to Share Capital A/c for 50,000 shares; to allotment A/c for 5,000 shares and amount returned on 2,500 shares @ ` 2.50 per share)			
Equity Share Allotment A/c	Dr.	1,50,000	
Share Discount A/c	Dr.	50,000	
To Equity Share Capital A/c			2,00,000
(Allotment due on 50,000 shares @ ` 3 per share)			
Bank A/c	Dr.	1,22,500	
To Equity Share Allotment A/c			1,22,500
(Allotment money received on 49,000 shares)			
Equity Share First Call A/c	Dr.	75,000	

To Equity Share Capital A/c			75,000
(First call due on 50,000 shares @ ` 1.50 per share)			
Bank A/c	Dr.	70,500	
To Equity Share First Call A/c			70,500
(First call received on 47,000 shares @ ` 1.5 per share)			
Equity Share Capital A/c (3,000 × ` 8)	Dr.	24,000	
To Equity Share Allotment A/c			2,500
To Equity Share First Call A/c			4,500
To Share Discount A/c			3,000
To Share Forfeiture A/c			14,000
(Forfeiture of 1,000 shares of X and 1,000 shares of Y)			
Bank A/c	Dr.	14,300	
Share Discount A/c	Dr.	2,200	
Share Forfeiture A/c	Dr.	1,100	
To Equity Share Capital A/c			17, 600
(Re-issue of 2,200 shares @ ` 6.50 per share)			
Share Forfeiture A/c	Dr.	10,500	
To Capital Reserve A/c			10,500
(Profit on the re-issue of 2,200 shares transferred to Capita Reserve A/c)			

BALANCE SHEET OF Daisy Systems LTD.

As on………..

Equity and Liabilities	**Note No.**	`	`
Shareholder's Funds:			
Share Capital	**1**	**3,96,000**	
Reserve and Surplus (Capital Reserve)		**10,500**	
		4,06,500	

Assets	**Note No.**	`	`
Other Current/Non-Current Assets:			
Unamortized Expenses (Share Discount)		49,200	
Current Assets:			
Cash and Cash Equivalents (Cash at Bank)		3,57,300	
		4,06,500	

Issue of Debentures

Q. Claris Life Sciences Ltd. issued 5,000 14% Debentures of ` 100 each at a discount of 10%. Pass the necessary journal entries in the books of the company for the issue of debentures when debentures were to be:

(i) Redeemed at par.

(ii) Redeemed at a premium of 5%.

Date	Particulars	L. F.	Dr.(`)	Cr.(`)
	Bank A/c Dr.		4,50,000	
	To Debenture Application and Allotment			4,50,000
	(Application money received on 5,000 debentures @ ` 90 each)			
	Debenture Application and Allotment Dr.		4,50,000	
	Discount on issue of debentures Dr.		50,000	
	To 14% Debentures			5,00,000
	(5,000 14% Debentures of ` 100 each issues at a discount of 10%)			
	--			
	Debenture Application and Allotment Dr.		4,50,000	
	Discount on issue of debentures Dr.		75,000	
	To 14% Debentures			5,00,000
	To Premium on redemption of debentures			25,000
	(5,000 14% debentures of ` 100 each issues at a discount of 10% but redeemable at a premium of 5%)			

Q. Kirloskar Multimedia Ltd. purchased machinery costing ` 16,72,000. It was agreed that the purchase consideration be paid by issuing 13% Debentures of ` 100 each. Assume debentures are issued (i) at par, (ii) at a premium of 10% and (iii) at a discount of 5%. Give necessary journal entries.

Journal

Date	Particulars	L. F.	Dr.(`)	Cr.(`)
	Machinery A/c Dr.		16,72,000	
	To Vendor			16,72,000
	(machinery purchased from vendor)			
	Vendor Dr.			
	To 13% Debentures		16,72,000	
	(15,960 13% debentures of ` 100 each issued at par.)			16,72,000
	Vendor Dr.		16,72,000	

	To 13% debentures A/c To securities premium (15,200 13% debentures of ` 100 each issued at a premium of 10%)			15,20,000 1,52,000
	Vendor Dr. Discount on issue of debentures Dr. To 13% debentures (17,600 13% debentures of ` 100 each issued at a discount of 5%)		16,72,000 88,000	 17,60,000

Q. Zenith Infotech Ltd. issued Debentures of ` 1,00,000 at par redeemable at the end of four years at a premium of 20%. Show the 'loss on Issue of Debentures Account' till it is written off completely. Books of Zenith Infotech Ltd.

Loss on Issue of Debentures Account

Date	Particulars	L.F.	`	Date	Particulars	L. F.	`
Year I	To premium on redemption on debentures A/c		20,000	Year I	By Profit & loss A/c By balance c/d		5,000 15,000
			20,000				20,000
Year II	To Balance b/d		15,000	Year II	By Profit & loss A/c By balance c/d		5,000 10,000
			15,000				15,000
Year III	To Balance b/d		10,000	Year III	By Profit & loss A/c By balance c/d		5,000 5,000
			10,000				10,000
Year IV	To Blanco b/d		5,000	Year IV	By Profit & loss A/c		5,000

Q. Archana Software Ltd. issues 6,000 15% Debentures of ` 100 each at a discount of 10%. The amount was payable as follows:

On Application 50

On Allotment 40

Applications for 8,000 debentures were received. Allotment was made to all the applicants on pro-rata basis. Identify the value involved in the decision of allotment.

Give Journal entries in the books of the company.

Journal

Date	Particulars	L. F	Dr.(`)	Cr.(`)
	Bank A/c Dr.		4,00,000	

	To Debenture Application A/c (Application money received on 8,000 debentures @ ` 50 each) Debenture Application Dr. To 15% Debentures To Debentures Allotment (Application money transferred to 15% Debentures account and Debentures Allotment A/c  Debenture Allotment Dr. Discount on Issue of Debenture Dr. To 15% Debentures (Allotment money due on 6,000 debentures at ` 40 each) -- Bank A/c Dr. To Debenture Allotment (Allotment money received)		 4,00,000 2,40,000 60,000 1,40,000	4,00,000 3,00,000 1,00,000 3,00,000 1,40,000

Question A Ltd. issued 5,000 10% Debenture of ` 100 each at a discount of 20%. All the amount was payable with the application. Applications were received for 4,000 Debentures only. All due amount duly received. Give the necessary journal entries in the books of A Ltd. at the time of issue of Debentures In the Books of A Ltd.

Journal

Date	Particulars	Dr. (`)	Cr. (`)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being Debenture Appllication amount received for 4,000 debentures @ ` 80 each)	3,20,000	 3,20,000
	Debenture Application and Allotment A/c Dr. Discount on issue of Debentures A/c Dr. To 10% Debentures A/c (Being application money adjusted at the time of allotment of debentures)	3,20,000 80,000	 4,00,000

Question

Give journal entries for issue of debentures in the following cases and also prepare balance sheet in each case.

I. Issued 1,000 7% debentures of Rs. 100 each at par, redeemable at par.

Solution I. Journal

Date	*Particulars*		*L.F.*	*Dr. (Rs.)*	*Cr. (Rs.)*
	Bank A/c.	Dr.		1,00,000	
	To Debentures Applications A/c.				1,00,000
	(Application money received)				
	Debentures Application A/c.	Dr.		1,00,000	
	To 7% Debentures A/c				1,00,000
	(Issue of debentures at par, redeemable at par)				

Balance Sheet of …..

As at 31st December, 2012 (assumed)

	Particulars	*Note No.*	**(Rs.)**
I	**Equity and Liabilities**		
(3)	**Non-Current Liabilities**		
	(a) Long-term Borrowings	1	1,00,000
II	**Assets**		
(2)	**Current Assets**		
	(e) Cash and Cash Equivalents	2	1,00,000

Notes to Balance Sheet

Note No.1	(Rs.)
Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	1,00,000
Note no.2	
Cash and Cash Equivalents :	
Cash at Bank	1,00,000

II. Issued 1,000 7% debentures of Rs. 100 at a Premium of 5%, redeemable at par.

Solution II Journal

Date	*Particulars*	*L.F.*	*Dr. (Rs.)*	*Cr. (Rs.)*
	Bank A/c. Dr. To Debentures Applications A/c. (Application money on 1,000 debentures @ Rs. 105 each received)		1,05,000	1,05,000
	Debentures Application A/c. Dr. To 7% Debentures A/c. To Securities Premium A/c (Debentures issued at premium repayable at par)		1,05,000	1,00,000 5,000

Balance Sheet of …..

	Particulars	*Note No.*	**(Rs.)**
I	**Equity and Liabilities**		
(1)	**Shareholders' Fund**		
	(b) Reserve and surplus	1	5,000
(3)	**Non-Current Liabilities**		
	(a) Long-term borrowings	2	1,00,000
			1,05,000
II	**Assets**		
(2)	**Current Assets**		
	(d) Cash and Cash Equivalents	3	1,05,000

Notes to Balance Sheet

Note No.1	(Rs.)
Reserve and Surplus :	
Securities Premium Reserve	5,000
Note no.2	
Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	1,00,000
Note No.3	
Cash and Cash Equivalents :	
Cash at Bank	1,05,000

III. Issued 1,000 7% debentures of Rs. 100 each at a discount of 5%, redeemable at par.

Solution III Journal

Date	*Particulars*	*L.F.*	*Dr. (Rs.)*	*Cr. (Rs.)*
	Bank A/c. Dr. To Debentures Applications A/c. (Application money on 1,000 debentures @ Rs. 95 each received)		95,000	 95,000
	Debentures Application A/c. Dr. Discount on issue of Debentures A/c. Dr. To 7% Debentures A/c. (Debentures issued at discount, repayable at par)		95,000 5,000	 1,00,000

Balance Sheet of …..

	Particulars	*Note No.*	**(Rs.)**
I	**Equity and Liabilities**		
(1)	**Shareholders' Fund**		
	(a) Long-term borrowings	1	1,00,000
II	**Assets**		
(1)	**Non-current Assets**		
	(e) Other Non-current Assets	2	5,000
(2)	**Current Assets**		
	(d) Cash and Cash Equivalents	3	95,000
			1,00,000

Notes to Balance Sheet

	(Rs.)
Note No.1	
Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	1,00,000
Note no.2	
Other Non-current Assets	
Discount on Issue of Debentures	5,000
Note No.3	
Cash and Cash Equivalents :	
Cash at Bank	95,000

IV. Issued 1,000 7% debentures of Rs. 100 each at par, redeemable at 5% Premium.

Solution IV Journal

Date	***Particulars***	***L.F.***	***Dr. (Rs.)***	***Cr. (Rs.)***
	Bank A/c. Dr.		1,00,000	
	To Debentures Applications A/c.			1,00,000
	(Application money received)			
	Debentures Application A/c. Dr.		1,00,000	
	Loss on issue of Debentures A/c. Dr.		5,000	
	To 7% Debentures A/c.			1,00,000
	To Premium on Redemption A/c.			5,000
	(Debentures issued at par, repayable at premium)			

Balance Sheet of …..

	Particulars	*Note No.*	**(Rs.)**
I	**Equity and Liabilities**		
(3)	**Non-current liabilities**		
	(a) Long-term borrowings	1	1,00,000
	(c) Other Long-term Liabilities		5,000
	Total		1,05,000
II	**Assets**		
(1)	**Non-current Assets**		
	(e) Other Non-current Assets	2	5,000
(2)	**Current Assets**		
	(d) Cash and Cash Equivalents	3	1,00,000

	Total		1,05,000

Notes to Balance Sheet	
Note No.1	(Rs.)
Non-current Liabilities :	
(a) Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	1,00,000
(b) Other long-term Liabilities	
Premium on Redemption	5,000
	1,05,000
Note no.2	
Other Non-current Assets :	
Loss on Issue of Debentures	5,000
Note No.3	
Cash and Cash Equivalents :	
Cash at Bank	1,00,000

V. Issued 1,000 7% debentures at a discount of 5%, redeemable at a Premium of 5%.

Solution V Journal

Date	***Particulars***	***L.F.***	***Dr. (Rs.)***	***Cr. (Rs.)***
	Bank A/c. Dr. To Debentures Applications A/c. (Application money on Rs. 95 each received)		95,000	 95,000
	Debentures Application A/c. Dr. Loss on issue of Debentures A/c. Dr. To 7% Debentures A/c. To Premium on Redemption A/c. (Debentures issued at discount of 5% repayable @ 5% premium)		95,000 10,000	 1,00,000 5,000

Balance Sheet of .....

	Particulars	Note No.	(Rs.)
I	**Equity and Liabilities**		
(3)	**Non-current liabilities**		
	(a) Long-term borrowings	1	1,00,000
	(c) Other Long-term Liabilities		5,000
	Total		1,05,000
II	**Assets**		
(1)	**Non-current Assets**		
	(e) Other Non-current Assets	2	5,000
(2)	**Current Assets**		
	(d) Cash and Cash Equivalents	3	1,00,000
	Total		1,05,000

Notes to Balance Sheet

	(Rs.)
Note No.1	
Non-current Liabilities :	
(a) Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	1,00,000
(b) Other long-term Liabilities	
Premium on Redemption	5,000
	1,05,000
Note no.2	
Other Non-current Assets :	
Loss on Issue of Debentures	5,000
Note No.3	
Cash and Cash Equivalents :	
Cash at Bank	1,00,000

VI. Issued 1,000 7% debentures at a premium of 5%, redeemable at a Premium of 8%.

Solution VI Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c. Dr.		1,05,000	
	To Debentures Applications A/c.			1,05,000
	(Application money on @ Rs.105 per debentures)			

	Debentures Application A/c. Dr.		1,05,000	
	Loss on issue of Debentures A/c. Dr.		8,000	
	To 7% Debentures A/c.			1,00,000
	To Securities premium A/c.			5,000
	To Premium on Redemption A/c.			8,000
	(Debentures issued at a premium of 5% repayable @ 8% premium)			

Balance Sheet of …..

	Particulars	*Note No.*	**(Rs.)**
I	**Equity and Liabilities**		
(1)	**Shareholders' Fund**		
	(b) Reserves and surplus	1	5,000
(3)	**Non-Current Liabilities**		
	(a) Long-term borrowings	2	1,00,000
	(c) Other Long-term Liabilities		8,000
	Total		1,13,000
II	**Assets**		
(1)	**Non-current Assets**		
	(e) Other Non-current Assets	3	8,000
(2)	**Current Assets**		
	(d) Cash and Cash Equivalents	4	1,05,000
	Total		1,13,000

Notes to Balance Sheet

Note No.1	(Rs.)
Reserve and Surplus :	
Securities Premium	5,000
Note no.2	
Non-current liabilities :	
(a) Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	1,00,000
(b) Other Long-term liabilities	
Premium on redemption	8,000
	1,08,000
Note No.3	
Other Non-current Assets:	
Loss on Issue on Debentures	8,000
Note No.4	
Cash and Cash Equivalents :	
Cash at Bank	1,05,000

(Issue of Debentures at Discount)

. PQR Ltd. Has issued 2,000, 10% Debentures of ˆ 100 each at ˆ 92 each. Applications were received for 2,500 debentures. The Co. has decided to make pro-rata allotment to all applicants. Full amount was payable at the time of application.

Pass necessary Journal entries in the books of PQR Ltd.

JOURNAL

Date	Particulars	L.F.	Debit ˆ	Credit ˆ
	Bank A/c Dr.		2,30,000	
	To Debenture Application and Allotment A/c			2,30,000
	(Being application money received on 2,500 debentures @ ˆ 92 per debenture)			
	Debenture Application and Allotment A/c Dr.		2,30,000	
	Discount on Issue of Debentures A/c Dr.		16,000	
	To 10% Debentures A/c			2,00,000
	To Bank A/c			46,000
	(Being application money adjusted on 2,000 debentures and extra money refunded)			

(Issue of Debentures at Discount)

XYZ Ltd. has issued 3,000, 8% Debentures of ^ 100 each at a discount of 5%. Full amount was payable at the time of application. Issue was fully subscribed by the public.

Pass necessary Journal entries in the books of XYZ Ltd.

JOURNAL

Date	Particulars	L.F.	Debit ^	Credit ^
	Bank A/c Dr		2,85,000	
	To Debenture Application and Allotment A/c			2,85,000
	(Being application money received on 3,000 debentures @ ^ 95 per debenture)			
	Debenture Application and Allotment A/c Dr		2,85,000	
	Discount on Issue of Debentures A/c Dr.		15,000	
	To 8% Debentures A/c			3,00,000
	(Being application money adjusted at the time of allotment of debentures)			

(Issue of Debentures as Collateral Security)

MUST READ IT CAREFULLY

X Ltd. Had 12,00,000, 11% Debentures outstanding on 1st April, 2008. During the year, it took a loan of Rs. 4 Lakh from canara Bank for which company deposited debentures of Rs. 5 Lakh as collateral security.

Pass journal entries and show how these transactions will appear in Balance Sheet of the company.

(C.B.S.E., 2004-C)

Solution.

First method. **No entry is passed for debentures.**

Journal

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(
2008	Bank A/c Dr. To Canara Bank's loan A/c (Loan taken from bank against collateral security of debentures worth Rs. 5 Lakhs)		4,00,000	 4,00,(

Balance Sheet of X ltd.

As at 31st March, 2012 (*assumed)*

	Particulars	Note No.	(Rs.)
I (3)	Equity and Liabilities Non-Current Liabilities (a) Long-term Borrowings	 1	 16,00,000

Notes to Balance Sheet

Note No. 1 **Long-term Borrowings :** 11% Debentures Bank Loan (Against collateral security of debentures Rs. 5,00,000	 12,00 4,00 16,00

Second method. **Entry for debentures is also passed.**

Journal

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(
	Bank A/c Dr. To Canara Bank's loan A/c (Loan taken from bank)		4,00,000	 4,00,(
	Debentures Suspense A/c. Dr. To 11% Debentures A/c. (Issue of Rs. 5,00,000 debentures issued as collateral		5,00,000	 5,00,(

	security)			

Presentation of debenture and blank loan will remain same as explained in Balance Sheet under 1st method, however, presentation of information in note will differ.

Balance Sheet of X ltd.

As at 31st March, 2012 (*assumed)*

	Particulars	Note No.	(Rs.)
I (3)	Equity and Liabilities Non-Current Liabilities (a) Long-term Borrowings	1	16,00,000

IInd method

Notes to Balance Sheet

Note No. 1 **Other Long-term Borrowings :** 11% Debentures Less : Debentures Suspense A/c. Bank Loan (Against collateral security of debentures Rs. 5,00,000	 17,00,000 5,00,000	 12,00 4,00 16,00

22. On 1st April, 2012 A Ltd. took a loan of ^ 5, 00,000 from the State Bank of India for which the company issued 8 % Debentures of ^ 6, 00,000 as collateral security. Record the issue of debentures in the books of the co. and also show how the debentures and bank loan will appear in the Balance Sheet of the company. **JOURNAL**

Date	Particulars	L.F.	Debit ^	Credit ^

	Bank A/c Dr. To Bank Loan A/c (Being loan taken from bank of 5,00,000)		5,00,000	5,00,000
	Debenture Suspense A/c Dr. To 8% Debentures A/c (Being the issuance of debentures as collateral security)		6,00,000	6,00,000

Balance Sheet of A Ltd.

As at 1st April, 2012

Particulars	Note No.	Figure as at the end of current accounting period	Figure as at the end of previous accounting period
I.EQUITY AND LIABILITIES (1) Shareholders' Funds (2) Share Application Money Pending Allotment (3) Non-Current Liabilities	1	5,00,000	____________
TOTAL		5,00,000	

Notes to Accounts:

Particulars	Figure as at the end of current accounting	Figure as at the end of previous accounting

	period	period
Note No. 1. Non Current Liabilities: Bank Loan 8% Debentures 6,00,000 **Less:** Debenture Suspense A/c (6,00,000)	 5,00,000 ________	
Total	5,00,000	

s

ABC Ltd had ` 15,00,000, 10% Debentures outstanding as on 1st April, 2012. On 1st Sept.2012 Company took a loan of ` 5,00,000 from the Punjab National Bank for which the company placed with the bank , 10%Debentures for ` 7,00,000 as collateral Security. Pass journal entries, if any. Also show how the debentures and Bank Loan will appear in the company's Balance Sheet as on 31st March,2013.

Solution: JOURNAL of ABC Ltd.

Date	Particulars	Dr. (`)	Cr. (`)
2012 1st Sept.	Bank A/c Dr. To Bank Loan A/c (Loan taken from bank of `5,00,0000)	5,00,000	 5,00,000
	Debentures Suspense A/c Dr. To 10% DebenturesA/c (Issue of Debentures as Collateral Security)	7,00,000	 7,00,000

Balance Sheet of ABC Ltd.

Notes to Accounts:

Note I.

Particulars		As on 31.03.2012 (`)	As on 01.03.2012 (`)
Long Term Borrowings			
(i) 10%Debentures	22,00,000		
Less: Debentures Suspense A/c	7,00,000	15,00,000	15,00,000
(ii) Bank Loan		5,00,000	-----------
Total		20,00,000	15,00,000

Redemption of Debentures:

Question. AB Power Ltd., an infrastructure company has outstanding 10 lac, 9% Debentures of ` 5 each due for redemption on 30st Sept.2012. Record the necessary entries at the time of redemption of debentures. Journal of AN Power Ltd.

(` in Lac)

Date	Particulars	Dr. (`)	Cr. (`)
30^{th} Sept	9%Debentures A/c Dr.	50	
	To Debentureholders' A/c		50
	(Being the amount due to Debentureholders on redemption)		
	Debentureholders' A/c Dr.	50	
	To Bank A/c		50
	(Being the amount due to Debentureholders paid)		

Note: As per SEBI Guideline, Infrastructure companies are exempted from creating Debenture Redemption Reserve.

Question Abha Ltd. Has 5,000 ; 10% Debentures of ` 20 each due for redemption on $30^{th}$ sept. 2012. Debenture Redemption Reserve has a Balance of ` 20,000 on that date. .

Record the necessary entries at the time of redemption of debentures Journal in the Books of Abha Ltd.

Date	Particulars	Dr. (`)	Cr. (`)
	Profit And Loss Appropriation A/c Dr.	30,000	
	To Debenture Redemption Reserve A/c		30,000
	(Being the required amount transferred to DRR)		
	10%Debentures A/c Dr.	1,00,000	
	To Debentureholders' A/c		1,00,000
	(Being the amount due to Debentureholders on redemption)		
	Debentureholders' A/c Dr.	1,00,000	
	To Bank A/c		1,00,000
	(Being the amount due to Debentureholders paid)		
	Debenture Redemption Reserve A/c Dr.	50,000	
	To General Reserve A/c		50,000
	(Being the DRR transferred to General Reserve)		

Note: DRR existed in the book with ` 20,000 , As per SEBI guidline DRR is required for minimum 50% of debenentures face value e.i. ` 50,000 total DRR required . So the with the difference amount (50,000-20,000) is credited.

Question Vivek Transport Ltd. Has 5,000 ; 10% Debentures of ` 20 each due for redemption on 30th sept. 2012. Debenture Redemption Reserve has a Balance of ` 80,000 on that date. . Record the necessary entries at the time of redemption of debentures.

Solution: Journal in the Books of Vivek Transport Ltd.

Date	Particulars	Dr. (`)	Cr. (`)
	Profit And Loss Appropriation A/c Dr.	20,000	
	To Debenture Redemption Reserve A/c		20,000
	(Being the required amount transferred to DRR)		

	10%Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	1,00,000	1,00,000
	Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	1,00,000	1,00,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve)	1,00,000	1,00,000

Note:1. DRR exists in the books more than 50% of the debentures face value, so it assumed that redemption is out of profit. In this case DRR is to be created upto 100% face value of Debentures. So DRR A/c is credited with the difference amount e.i. `1,00,000-`80,000=`20,000.

Question -- Rahul Ltd. redeemed ` 25,00,000 ; 12% Debentures at a premium of 5% out of Profit on 30th sept. 2012. Pass the necessary journal entries for the redemption of debentures

Solution: Journal in the Books of Rahul Ltd.

Date	Particulars	Dr. (`)	Cr. (`)
	Profit And Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	25,00,000	25,00,000

	12%Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	25,00,000 1,25,000	 26,25,000
	Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	26,25,000	 26,25,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve on the redemption of all Debentures)	25,00,000	 25,00,000

Note: 1. If in any question it is mentioned that redemption of debenture is out of profit , then the Debenture Redemption Reserve A/c should be created with the full face value(100%) of debentures. If DRR is created only with 50% of the total amount of debentures, it would mean that remaining 50% of the debentures have been redeemed out of capital.

(2) So, it would be clear if in question it is mentioned the redemption is out of profit, then an amount equal to total amount of debentures (100% of face value of debentures) to be transferred to DRR A/c. in all other case (except Companyies exempted by the SEBI) DRR would be created with the 50% of the face of the debentures.

Question Rajesh Ltd. has issued 25,000 ;10% Debentures of ` 100 each of which half the amount is due for redemption on 30th Sept. 2012 at a premium of 5%.The company has in its Debenture Redemption Reserve Account a balance of ` 5,40,000. Record the necessary journal entries at the time of Redemption of Debentures. Journal in the Books of Rajesh Ltd.

Date	Particulars	Dr. (`)	Cr. (`)

	Profit And Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	7,10,000	 7,100,000
	12%Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	12,50,000 62,500	 13,12,500
	Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	13,12,500	 13,12,500

Note: 1. In this question only half of the total debenture is to be redeemed , as per SEBI guideline A company shall create DRR equivalent to al least of 50% of the amount of debentures issued before starting the redemption of debentures So, DRR A/c is to be created with the amount ` 12,50,000 (e . i. 50% of ` 25,00,000), not related with the amount of debentures to be redeemed.

2. Debenture Redemption Reserve will be transferred to General Reserve when all the debentures are redeemed.

Question--- Pass necessary journal entries in the books of Arbind T. Ltd. in the following case for the redemption of 2,000; 10% Debentures of ` 10 each when issued at par

Debentures redeemed at par by conversion into 13% Preference shares of ` 20 each.

Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at par.
Journal in the Books of Arbind T. Ltd.

Date	Particulars	Dr. (`)	Cr. (`)

	10% Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)	20,000	 20,000
	Debentureholders' A/c Dr. To 13% Preference Share Capital A/c (amount due to Debentureholders discharged by issue of 1000 preference shares of `20 each re. i. 20,000/20)	20,000	 20,000
	10% Debentures A/c Dr. Premium of Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)	20,000 2,000	 22,000
	Debentureholders' A/c Dr. To Equity Share Capital A/c (amount due to Debentureholders discharged by issue of Equity shares at par))	22,000	 22,000
	10% Debentures A/c Dr. Premium of Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)	20,000 2,000	 22,000
	Debentureholders' A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (amount due to Debentureholders discharged by issue of Equity shares at a premium of 25% e. i. 22,000/125%=17,600	22,000	 17,600 4,400

Question -- Pass necessary journal entries in the books of M.L.B. Ltd. in the following case for the redemption of 2,000; 10% Debentures of ` 10 each when Debentures originally issued at a discount of 10%

i. Conversion into 13% Preference shares of ` 20 each.

ii. Conversion into Equity Shares of ` 25 issued at par.

Debentures redeemed at premium of 10% by conversion into 12% Debentures of ` 50issued at a par. Journal in the Books of M.L. B. Ltd.

Date	Particulars	Dr. (`)	Cr. (`)
	10% Debentures A/c Dr.	20,000	
	To Debentureholders' A/c		18,000
	To Discount on issue of Debentures A/c		2,000
	(Being the amount due on redemption)		
	Debentureholders' A/c Dr.	18,000	
	To 13% Preference Share Capital A/c		18,000
	(amount due to Debentureholders discharged by issue of 900 preference shares of `20 each re. i. 18,000/20)	20,000	
	10% Debentures A/c Dr.		18,000
	To Debentureholders' A/c		2,000
	To Discount on issue of Debentures A/c		
	(Being the amount due on redemption)	18,000	
	Debentureholders' A/c Dr.		18,,000
	To Equity Share Capital A/c		
	(amount due to Debentureholders discharged by issue of 720Equity shares of `25 at par e. i. 18000/25)	20,000	
	10% Debentures A/c Dr.		20,000
	. To Debentureholders' A/c		
	(Being the amount due on redemption)	20,000	
	Debentureholders' A/c Dr.		20,000
	To 12% Debentures A/c		
	(amount due to Debentureholders discharged by issue of400 ,12% Debentures e. i.		

	20,000/50=400)		

Values involved in issue of SHARE CAPITAL AND DEBENTURES------------

Communication of material information

Complying with legal provisions

Orderliness

Common Size and Comparative Statements

Format of Statement of Profit and Loss

Revenue from operations		xxx
Other Incomes	xxx	
Total Revenue	xxx	
Expenses:		
Cost of material		xxx
Employee benefit expense		xxx
Total Expenses		xxx
Profit before tax		xxx
Tax expense		xxx
Profit after tax		xxx

From the following information prepare a comparative income Statement of victor Ltd.

	2006 `	2007 `
Revenue from Operations	15,00,000	18,00,000
Cost of Goods Sold	11,00,000	14,00,000
Indirect Expenses	20% of Gross Profit	25% of Gross Profit
Income Tax	50%	50%

(C.B.S.E. 2008, Outside Delhi)

❖

❖ **Solution 1.** Comparative Income Statement

For the year 2006 and 2007

Particulars	2006 `	2007 `	Absolute Change `	%Change
Revenue from Operations	15,00,000	18,00,000	3,00,000	+20%
Less: Cost of Goods Sold	11,00,000	14,00,000	3,00,000	+27.27%
Gross Profit	4,00,000	4,00,000		

Less: Indirect Expenses	80,000	1,00,000	20,000	+25%
Net Profit before tax	3,20,000	3,00,000	-20,000	-6.25%
Less: Income Tax	1,60,000	1,50,000	-10,000	-6.25%
Net Profit After Tax	1,60,000	1,50,000	-10,000	-6.25%

Prepare a Comparative Income Statement of Ahmed Ltd., with the help of the following information:

	31.3.2000 `	31.3.2001 `
Revenue from Operations	5,00,000	8,00,000
Cost of Goods Sold	3,00,000	5,00,000
Direct Expenses	40,000	20,000
Indirect Expenses	30,000	40,000
Income Tax	40%	50%

(C.B.S.E. 2002)

Solution 2. Comparative Income Statement

Particular	31.3.2000 `	31.3.2001 `	Absolute Change `	%Change
Revenue from Operations	5,00,000	8,00,000	3,00,000	60,00
Less: Cost of Goods Sold	3,00,000	5,00,000	2,00,000	66.67
Gross Profit	2,00,000	3,00,000	1,00,000	50,00
Less: Indirect Expenses	30,000	40,000	10,000	33.33
Net profit before Tax	1,70,000	2,60,000	90,000	52.94
Less: Income Tax	68,000	1,30,000	62,000	91.18
Net Profit after Tax	1,02,000	1,30,000	28,000	27.45

Hint: Direct expenses are ignored since they are already included in the cost of goods sold. Prepare a Comparative Income Statement from the following information

Question--

Particulars	31.3.2009 `	31.3.2010 `
Revenues from Operations	30,00,0000	40,00,000
Cost of Goods Sold	60% of Sales	55% of Sales
Paid wages	25,000	30,000
Operating Expenses	20% of Gross Profit	25% of Gross Profit
Income Tax	40%	40%

(C.B.S.E. 20011, Set II)

Solution 3. Comparative Income Statement

for the years ended on 31st March 2009 and 2010

Particular	31.3.2009 `	31.3.2010 `	Absolute Change `	%Increase or Decrease
Revenue from Operations	30,00,000	40,00,000	10,00,000	33.33
Less: Cost of Goods Sold	18,00,000	22,00,000	4,00,000	22.22
Gross Profit	12,00,000	18,00,000	6,00,000	50.00
Less: Operating Expenses	2,40,000	4,50,000	2,10,000	87.50
Net Profit before Tax	9,60,000	13,50,000	3,90,000	40,63
Less: Income Tax @ 40%	3,84,000	5,40,000	1,56,000	40.63
Net Profit after tax	5,76,000	8,10,000	2,34,000	40.63

Note: Wages is a direct expense. It is ignored because it is already included in the cost of goods sold.

1. From the following details make out a comparative and common size statements:

Particulars	*2011 `*	*2012 `*
Revenue from operations	16,00,000	20,00,000
Cost of Goods Sold	8,00,000	10,00,000

Indirect Expenses 2,00,000 1,00,000
Tax rate 40%

Solution:

Comparative Income Statement

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Revenue from operations	16,00,000	20,00,000	4,00,000	25
Less: Cost of Goods Sold	8,00,000	10,00,000	2,00,000	25
Gross Profit	8,00,000	10,00,000	2,00,000	25
Less: Indirect Expenses	2,00,000	1,00,000	(1,00,000)	(50)
Net Profit before Tax	6,00,000	9,00,000	3,00,000	50
Less: Income Tax	2,40,000	3,60,000	1,20,000	50
Net Profit after Tax	3,60,000	5,40,000	1,80,000	50

Common Size Income Statement

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Revenue from operations	16,00,000	20,00,000	100	100
Less: Cost of Goods Sold	8,00,000	10,00,000	50	50
Gross Profit	8,00,000	10,00,000	50	50
Less: Indirect Expenses	2,00,000	1,00,000	12.5	5
Net Profit before Tax	6,00,000	9,00,000	37.5	45
Less: Income Tax	2,40,000	3,60,000	15	18
Net Profit after Tax	3,60,000	5,40,000	22.5	27

2. Prepare a comparative and common size income statement with the help of the following information:

Particulars	*2011 `*	*2012 `*
Revenue from operations	8,00,000	10,00,000
Cost of material	4,00,000	6,00,000
Employee benefit expense	1,50,000	2,00,000
Provision for Tax	1,00,000	1,30,000

Solution:

Comparative Income Statement

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Revenue from operations	8,00,000	10,00,000	2,00,000	25
Less: Cost of material	4,00,000	6,00,000	2,00,000	50
Gross Profit	4,00,000	4,00,000	0	0
Less: Employee benefit expenses	1,50,000	2,00,000	50,000	33.33
Net Profit before Tax	2,50,000	2,00,000	(50,000)	(20)
Less: Provision for Tax	1,00,000	1,30,000	30,000	30
Net Profit after Tax	1,50,000	70,000	(80,000)	(53.33)

Common Size Income Statement

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Revenue from operations	8,00,000	10,00,000	100	100
Less: Cost of material	4,00,000	6,00,000	50	60
Gross Profit	4,00,000	4,00,000	50	40
Less: Employee benefit expenses	1,50,000	2,00,000	18.75	20
Net Profit before Tax	2,50,000	2,00,000	31.25	20
Less: Provision for Tax	1,00,000	1,30,000	12.5	13
Net Profit after Tax	1,50,000	70,000	18.75	7

3. From the following information, prepare a comparative and common size income statement:

Particulars	*2011 `*	*2012 `*
Revenue from Operations	13,20,000	18,00,000
Other Incomes	1,50,000	2,00,000
Cost of material	7,00,000	11,00,000
Employee benefit expense	2,50,000	3,50,000
Tax	50%	50%

Solution:

Comparative Income Statement

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Revenue from operations	13,20,000	18,00,000	4,80,000	36.36
Less: Cost of material	7,00,000	11,00,000	4,00,000	57.14
Gross Profit	6,20,000	7,00,000	80,000	12.90
Less: Employee benefit expenses	2,50,000	3,50,000	1,00,000	40
Add: Other Incomes	1,50,000	2,00,000	50,000	33.33
Net Profit before Tax	1,00,000	1,50,000	50,000	50
Less: Provision for Tax	50,000	75,000	25,000	50
Net Profit after Tax	50,000	75,000	25,000	50

Common Size Income Statement

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Revenue from operations	13,20,000	18,00,000	100	100
Less: Cost of material	7,00,000	11,00,000	53.03	61.11
Gross Profit	6,20,000	7,00,000	46.97	38.89
Less: Employee benefit expenses	2,50,000	3,50,000	18.94	19.44
Add: Other Incomes	1,50,000	2,00,000	11.36	11.11
Net Profit before Tax	1,00,000	1,50,000	7.58	8.33
Less: Provision for Tax	50,000	75,000	3.79	4.17
Net Profit after Tax	50,000	75,000	3.79	4.16

4. Prepare a horizontal and vertical income statement of 'S Ltd', with the help of the following information:

Particulars	*2011*	*2012*
Revenue from operations	1,00,000	2,00,000
Cost of material (of revenue)	60%	70%
Employee benefit expense (of revenue)	20%	25%
Rate of income tax	50% of profit before tax	

Solution:

Comparative Income Statement

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Revenue from operations	1,00,000	2,00,000	1,00,000	50
Less: Cost of material	60,000	1,40,000	80,000	133.33
Gross Profit	40,000	60,000	20,000	50
Less: Employee benefit expenses	20,000	50,000	30,000	150
Net Profit before Tax	20,000	10,000	(10,000)	(50)
Less: Provision for Tax	10,000	5,000	(5,000)	(50)
Net Profit after Tax	10,000	5,000	(5,000)	(50)

Common Size Income Statement

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Revenue from operations	1,00,000	2,00,000	100	100
Less: Cost of material	60,000	1,40,000	60	70
Gross Profit	40,000	60,000	40	30
Less: Employee benefit expenses	20,000	50,000	20	25
Net Profit before Tax	20,000	10,000	20	5
Less: Provision for Tax	10,000	5,000	10	2.5
Net Profit after Tax	10,000	5,000	10	2.5

5. Prepare comparative and common size income statement with the help of the following information:

Particulars	*2012*	*2011*
Revenue from operations	3,00,000	2,00,000
Cost of material (of revenue)	70%	60%
Employee benefit expense (of revenue)	20%	30%
Income Tax Rate (of profit before tax)	50%	50%

Solution:

Comparative Income Statement

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Revenue from operations	2,00,000	3,00,000	1,00,000	50
Less: Cost of material	1,20,000	2,10,000	90,000	75
Gross Profit	80,000	90,000	10,000	12.5
Less: Employee benefit expenses	60,000	60,000	0	0
Net Profit before Tax	20,000	30,000	10,000	50
Less: Provision for Tax	10,000	15,000	5,000	50
Net Profit after Tax	10,000	15,000	5,000	50

Common Size Income Statement

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Revenue from operations	2,00,000	3,00,000	100	100
Less: Cost of material	1,20,000	2,10,000	60	70
Gross Profit	80,000	90,000	40	30
Less: Employee benefit expenses	60,000	60,000	30	20
Net Profit before Tax	20,000	30,000	10	10
Less: Provision for Tax	10,000	15,000	5	5
Net Profit after Tax	10,000	15,000	5	5

6. Prepare comparative and common size income statement with the help of the following information:

Particulars	*2012*	*2011*
Revenue from operations	5,00,000	4,00,000
Cost of material (of revenue)	60%	55%
Employee benefit expense (of revenue)	20%	25%
Income Tax Rate (of profit before tax)	50%	50%

Solution:

Comparative Income Statement

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Revenue from operations	4,00,000	5,00,000	1,00,000	25
Less: Cost of material	2,20,000	3,00,000	90,000	40.91
Gross Profit	1,80,000	2,00,000	20,000	11.11
Less: Employee benefit expenses	1,00,000	1,00,000	0	0

Net Profit before Tax	80,000	1,00,000	20,000	25
Less: Provision for Tax	40,000	50,000	10,000	25
Net Profit after Tax	40,000	50,000	10,000	25

Common Size Income Statement

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Revenue from operations	4,00,000	5,00,000	100	100
Less: Cost of material	2,20,000	3,00,000	55	60
Gross Profit	1,80,000	2,00,000	45	40
Less: Employee benefit expenses	1,00,000	1,00,000	25	20
Net Profit before Tax	80,000	1,00,000	20	20
Less: Provision for Tax	40,000	50,000	10	10
Net Profit after Tax	40,000	50,000	10	10

7. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11 `	2011-12 `
Equity and Liabilities			
(1) Shareholders Fund			
(a) Share Capital		15,00,000	20,00,000
(b) Reserves & Surplus		4,00,000	3,00,000
(2) Non Current Liabilities			
Long Term Borrowings		6,00,000	9,00,000
(3) Current Liabilities			
Trade Payables		2,00,000	3,00,000
Total		27,00,000	35,00,000
Assets			
(1) Non Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		15,00,000	20,00,000
(ii) Intangible Assets		6,00,000	9,00,000
(2) Current Assets			
(a) Inventories		4,00,000	3,00,000
(b) Cash and Cash equivalents		2,00,000	3,00,000
Total		27,00,000	35,00,000

Solution:

Comparative Balance Sheet

Particulars	*2011 `*	*2012 `*	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	15,00,000	20,00,000	5,00,000	33.33
(b) Reserves & Surplus	4,00,000	3,00,000	(1,00,000)	(25)
(2) Non Current Liabilities				
Long Term Borrowings	6,00,000	9,00,000	3,00,000	50
(3) Current Liabilities				
Trade Payables	2,00,000	3,00,000	1,00,000	50
Total	27,00,000	35,00,000	8,00,000	29.63
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	15,00,000	20,00,000	5,00,000	33.33
(ii) Intangible Assets	6,00,000	9,00,000	3,00,000	50
(2) Current Assets				
(a) Inventories	4,00,000	3,00,000	(1,00,000)	(25)
(b) Cash and Cash equivalents	2,00,000	3,00,000	1,00,000	50
Total	27,00,000	35,00,000	8,00,000	29.63

Common Size Balance Sheet

Particulars	*2011 `*	*2012 `*	Common Size	
			2011 `	2012 `
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	15,00,000	20,00,000	55.56	57.14
(b) Reserves & Surplus	4,00,000	3,00,000	14.81	8.57
(2) Non Current Liabilities				
Long Term Borrowings	6,00,000	9,00,000	22.22	25.71
(3) Current Liabilities				
Trade Payables	2,00,000	3,00,000	7.41	8.58
Total	27,00,000	35,00,000	100	100
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	15,00,000	20,00,000	55.56	57.14
(ii) Intangible Assets	6,00,000	9,00,000	22.22	25.71
(2) Current Assets				
(a) Inventories	4,00,000	3,00,000	14.81	8.57
(b) Cash and Cash equivalents	2,00,000	3,00,000	7.41	8.58
Total	27,00,000	35,00,000	100	100

8. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11 `	2011-12 `
Equity and Liabilities			
(1) Shareholders Fund			
(a) Share Capital		30,00,000	40,00,000
(b) Reserves & Surplus		4,00,000	6,00,000
(2) Non Current Liabilities			
Long Term Borrowings		10,00,000	12,00,000
(3) Current Liabilities			
Trade Payables		6,00,000	2,00,000
Total		50,00,000	60,00,000
Assets			
(1) Non Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		30,00,000	40,00,000
(ii) Intangible Assets		6,00,000	2,00,000
(2) Current Assets			
(a) Inventories		10,00,000	12,00,000
(b) Cash and Cash equivalents		4,00,000	6,00,000
Total		50,00,000	60,00,000

Solution:

Comparative Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	30,00,000	40,00,000	10,00,000	33.33
(b) Reserves & Surplus	4,00,000	6,00,000	2,00,000	50
(2) Non Current Liabilities				
Long Term Borrowings	10,00,000	12,00,000	2,00,000	20
(3) Current Liabilities				
Trade Payables	6,00,000	2,00,000	(4,00,000)	(66.67)
Total	50,00,000	60,00,000	10,00,000	20
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	40,00,000	10,00,000	33.33
(ii) Intangible Assets	6,00,000	2,00,000	(4,00,000)	(66.67)
(2) Current Assets				
(a) Inventories	10,00,000	12,00,000	2,00,000	20
(b) Cash and Cash equivalents	4,00,000	6,00,000	2,00,000	50
	50,00,000	60,00,000	10,00,000	20

Total				

Common Size Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Common Size	
			2011 `	2012 `
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	30,00,000	40,00,000	60	66.67
(b) Reserves & Surplus	4,00,000	6,00,000	8	10
(2) Non Current Liabilities				
Long Term Borrowings	10,00,000	12,00,000	20	20
(3) Current Liabilities				
Trade Payables	6,00,000	2,00,000	12	3.33
Total	50,00,000	60,00,000	100	100
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	40,00,000	60	66.67
(ii) Intangible Assets	6,00,000	2,00,000	12	3.33
(2) Current Assets				
(a) Inventories	10,00,000	12,00,000	20	20
(b) Cash and Cash equivalents	4,00,000	6,00,000	8	10
Total	50,00,000	60,00,000	100	100

9. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2011-12 `	2010-11 `
Equity and Liabilities			
(1) Shareholders Fund			
Share Capital		3,50,000	3,00,000
(2) Non Current Liabilities			
Long Term Borrowings		1,00,000	2,00,000
(3) Current Liabilities			
Trade Payables		1,50,000	1,00,000
Total		6,00,000	6,00,000
Assets			
(1) Non Current Assets			
Fixed Assets			
(i) Tangible Assets		4,00,000	3,00,000
(2) Current Assets			
(a) Inventories		2,00,000	3,00,000
Total		6,00,000	6,00,000

Solution:

Comparative Balance Sheet

Particulars	Mar. 31, 2011 `	Mar. 31, 2012 `	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	3,00,000	3,50,000	50,000	16.67
(2) Non Current Liabilities				
Long Term Borrowings	2,00,000	1,00,000	(1,00,000)	(50)
(3) Current Liabilities				
Trade Payables	1,00,000	1,50,000	50,000	50
Total	6,00,000	6,00,000	0	0
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets			1,00,000	33.33
(2) Current Assets	3,00,000	4,00,000		
(a) Inventories			(1,00,000)	(33.33)
Total	3,00,000	2,00,000		
	6,00,000	6,00,000	0	0

Common Size Balance Sheet

Particulars	Mar. 31, 2011 `	Mar. 31, 2012 `	Common Size	
			2011 `	2012 `
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	3,00,000	3,50,000	50	58.33
(2) Non Current Liabilities				
Long Term Borrowings	2,00,000	1,00,000	33.33	16.67
(3) Current Liabilities				
Trade Payables	1,00,000	1,50,000	16.67	25
Total	6,00,000	6,00,000	100	100

Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	3,00,000	4,00,000	50	66.67
(2) Current Assets				
(a) Inventories	3,00,000	2,00,000	50	33.33
Total	6,00,000	6,00,000	100	100

10. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11 `	2011-12 `
<u>Equity and Liabilities</u>			
(1) Shareholders Fund			
(a) Share Capital		9,00,000	7,50,000
(b) Reserves & Surplus		2,25,000	1,50,000
(2) Non Current Liabilities			
Long Term Borrowings		3,00,000	4,20,000
(3) Current Liabilities			
Trade Payables		5,55,000	5,85,000
Total		19,80,000	19,05,000
<u>Assets</u>			
(1) Non Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		11,55,000	12,45,000
(2) Current Assets			
(a) Inventories		8,25,000	6,60,000
Total		19,80,000	19,05,000

Solution:

Comparative Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	9,00,000	7,50,000	(1,50,000)	(16.67)
(b) Reserves & Surplus	2,25,000	1,50,000	(75,000)	(33.33)
(2) Non Current Liabilities				
Long Term Borrowings	3,00,000	4,20,000	1,20,000	40
(3) Current Liabilities				

Trade Payables	5,55,000	5,85,000	30,000	5.41
Total	19,80,000	19,05,000	75,000	3.79
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	11,55,000	12,45,000	90,000	7.79
(2) Current Assets				
(a) Inventories	8,25,000	6,60,000	(1,65,000)	20
Total	19,80,000	19,05,000	75,000	3.79

Common Size Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Common Size 2011 `	2012 `
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	9,00,000	7,50,000	45.45	39.37
(b) Reserves & Surplus	2,25,000	1,50,000	11.36	7.87
(2) Non Current Liabilities				
Long Term Borrowings	3,00,000	4,20,000	15.15	22.05
(3) Current Liabilities				
Trade Payables	5,55,000	5,85,000	28.04	30.71
Total	19,80,000	19,05,000	100	100
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	11,55,000	12,45,000	58.33	65.35
(2) Current Assets				
(a) Inventories	8,25,000	6,60,000	41.67	34.65
Total	19,80,000	19,05,000	100	100

11. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11 `	2011-12 `
<u>Equity and Liabilities</u>			

(1) Shareholders Fund			
(a) Share Capital		25,00,000	25,00,000
(b) Reserves & Surplus		5,00,000	6,00,000
(2) Non Current Liabilities			
Long Term Borrowings		15,00,000	15,00,000
(3) Current Liabilities			
Trade Payables		5,00,000	5,50,000
Total		50,00,000	51,50,000
<u>Assets</u>			
(1) Non Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		30,00,000	36,00,000
(b) Non Current Investments		5,00,000	5,00,000
(2) Current Assets			
(a) Inventories		15,00,000	10,50,000
Total		50,00,000	51,50,000

Solution:

Comparative Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	25,00,000	25,00,000	0	0
(b) Reserves & Surplus	5,00,000	6,00,000	1,00,000	20
(2) Non Current Liabilities				
Long Term Borrowings	15,00,000	15,00,000	0	0
(3) Current Liabilities				
Trade Payables	5,00,000	5,50,000	50,000	10
Total	50,00,000	51,50,000	1,50,000	3
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	36,00,000	6,00,000	20
(b) Non Current Investments	5,00,000	5,00,000	0	0
(2) Current Assets				
(a) Inventories	15,00,000	10,50,000	(4,50,000)	(3)
Total	50,00,000	51,50,000	1,50,000	3

Common Size Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Common Size	
			2011 `	2012 `
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	25,00,000	25,00,000	50	48.54
(b) Reserves & Surplus	5,00,000	6,00,000	10	11.65
(2) Non Current Liabilities				
Long Term Borrowings	15,00,000	15,00,000	30	29.13
(3) Current Liabilities				
Trade Payables	5,00,000	5,50,000	10	10.68
Total	50,00,000	51,50,000	100	100
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	36,00,000	60	69.90
(b) Non Current Investments	5,00,000	5,00,000	10	9.71
(2) Current Assets				
(a) Inventories	15,00,000	10,50,000	30	20.39
Total	50,00,000	51,50,000	100	100

12. From the following balance sheets, prepare a Comparative and Common Size Balance Sheet of Asha Ltd. :

Particulars	Note No.	2012 `	2011 `
1. Equity and Liabilities			
(1) Shareholders' funds			
Share Capital		7,50,000	6,00,000
(2) Current Liabilities			
Trade Payables		2,00,000	2,50,000
Total		9,50,000	8,50,000
II. Assets			
(1) Non-Current Assets			
Fixed Assets			
(i) Tangible Assets		4,00,000	5,00,000
(2) Current Assets			
a) Inventories		1,00,000	1,00,000
b) Trade receivables		3,50,000	2,00,000
c) Cash and Cash Equivalents		1,00,000	50,000
Total		9,50,000	8,50,000

Solution:

Comparative Balance Sheet

Particulars	*2011* `	*2012* `	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	6,00,000	7,50,000	1,50,000	25
(2) Current Liabilities				
Trade Payables	2,50,000	2,00,000	(50,000)	(20)
Total	8,50,000	9,50,000	1,00,000	11.76
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	5,00,000	4,00,000	(1,00,000)	(20)
(2) Current Assets				
a) Inventories	1,00,000	1,00,000	0	0
b) Trade receivables	2,00,000	3,50,000	1,50,000	75
c) Cash and Cash Equivalents	50,000	1,00,000	50,000	100
Total	8,50,000	9,50,000	1,00,000	11.76

Common Size Balance Sheet

Particulars	*Mar. 31, 2011* `	*Mar. 31, 2012* `	Common Size	
			2011 `	2012 `
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	6,00,000	7,50,000	70.59	78.95
(2) Current Liabilities				
Trade Payables	2,50,000	2,00,000	29.41	21.05
Total	8,50,000	9,50,000	100	100
Assets				
(1) Non Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	5,00,000	4,00,000	58.82	42.11
(2) Current Assets				
a) Inventories	1,00,000	1,00,000	11.76	10.53
b) Trade receivables	2,00,000	3,50,000	23.53	36.84
c) Cash and Cash	50,000	1,00,000	5.89	10.52

Equivalents Total	8,50,000	9,50,000	100	100

Values involved in Comparative Analysis and Common size statements—

Critical analysis

Decision making

Scientific temperament

Transparency

Comparative financial information for interested parties

Core Values involved in RATIO ANALYSIS—

- ❖ Transparancy
- ❖ Security—financial
- ❖ Efficiency in utilization of resourses provided by community
- ❖ Scientific and critical analysis

Accounting Ratios

Question 4.

Calculate the current ratio and quick ratio from the following particulars and also give your comments about the same:

		`
Cash		4,000
Trade Receivables		1,00,000
Inventories:	`	
Raw Materials	20,000	
Worker-in-Progress	70,000	
Finished Goods	60,000	1,50,000
Prepaid Expenses		5,000
Land and Buildings		2,50,000
Patents		18,000
Loose Tools		26,000
Goodwill		1,00,000
Bank Overdraft		55,000
Trade Payables		85,000

15% Debentures	80,000

SOLUTION 4.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets = Cash + Trade Receivables + Inventories + Prepaid Expenses

= `4,000 + 1,00+000 + 1,50,000 + 5,000

= `2,59,000

Current Liabilities = Bank Overdraft + Trade Payables

= `55,000 + 85,000

= `1,40,000

$$\text{Current Ratio} = \frac{2,59,000}{1,40,000} = 1.85 : 1$$

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Liquid Assets = Cash + Trade Receivables

= `4,000 + 1,00,000 = `1,04,000

$$\text{Quick Ratio} = \frac{1,04,000}{1,40,000} = .743 : 1$$

Comments: The ideal current ratio should be 2 : 1. But in this case the current ratio is 1.85 : 1 which is less than the idela ratio. Therefore, it can be said that the short-term financial position of the company is not satisfactory.

The ideal quick ratio should be 1 : 1. But in this case the quick ratio is .743 : 1, hence, the short-term financial position cannot be said to be satisfactory.

QUESTION 5.

Calculate (i) Debt-Equity Ratio; (ii) Total Assets to Debt Ratio; and (iii) Proprietary Ratio from the particulars given in the following balance sheet:

BALANCE SHEET

As at 31st March, 2012

Particulars		`
I. EQUITY AND LIABILITIES		
Equity Share Capital		3,00,000
Preference Share Capital		1,00,000
Reserves		50,000
Profit & Loss Balance		65,000
12% Mortgage Loan		1,80,000
Current Liabilities		1,20,000
	TOTAL	8,15,000
II. ASSETS:		
Fixed Assets		4,50,000
Share Issue Expenses		15,000
Current Assets		3,50,000
	TOTAL	8,15,000

What conclusions do you draw from the above ratios?

SOLUTION 5.

(i) Debt Equity Ratio = $\frac{\text{Debt}}{\text{Equity}}$ or $\frac{\text{Long term Loans}}{\text{Shareholder's Funds}}$

Shareholder's Funds = Equity Share Capital + Pref. Share Capital + Reserves + P & L Balance – Share Issue Exp.

= 3,00,000 + 1,00,000 + 50,000 + 65,000 – 15,000

= 5,00,000

Mortgage Loan is Long Term Loan,

Hence, Debt Equity Ratio = $\frac{1,80,000}{5,00,000} = .36:1$

Comments: This ratio indicates what proportion of funds is provided by Long-term loans in comparison to Shareholder's funds. Generally, the ratio should not be more than 2 : 1. Debt-Equity ratio of the above company is .36:1, which indicates that long-term loans are only .36 in comparison to shareholder's funds. Hence, it may be considered that the long-term financial position of the company is very sound.

(ii) Total Assets to Debt Ratio = $\frac{\text{Total Assets}}{\text{Debt}}$

$$= \frac{\text{Fixed Assets} + \text{Current Assets}}{\text{Long-term Loans}}$$

$$= \frac{4,50,000 + 3,50,000}{1,80,000} = 4.44:1$$

Comments: Total assets of this company are 4.44 times in comparison to long-term debts of the company. The higher ratio indicates the use of lower debts in financing the assets which means higher security to lenders.

(iii) Proprietary Ratio = $\frac{\text{Equity}}{\text{Total Assets}}$

$$= \frac{\text{Shareholder's Funds}}{\text{Fixed Assets} + \text{Current Assets}}$$

$$= \frac{5,00,000}{4,50,000 + 3,50,000}$$

= 0.625 or 62.5%

Comments: Shareholder's Funds of this Company are 62.5% in comparison to total assets of the company. In other words, 62.5% of the total assets of the company are funded by equity which indicates that the long-term financial position of the company is very sound.

QUESTION 6.

From the following balance sheet and other information calculate (i) Working Capital Turnover Ratio, (ii) Debt Equity Ratio and (iii) Trade Receivables Turnover Ratio.

BALANCE SHHET

As at 31st March, 2012

	Particulars		`
I.	**EQUITY AND LIABILITIES**		
	Share Capital		2,00,000
	General Reserve		80,000
	Profit and Loss		1,20,000
	Loan @ 15%		2,40,000
	Trade Payables		1,00,000
		TOTAL	7,40,000
II.	**ASSETS:**		
	Fixed Assets		3,60,000

Inventory		80,000
Trade Receivables	1,80,000	
Cash		1,00,000
Preliminary Expenses		20,000
	TOTAL	7,40,000

(i) Sales during the year amounted to `3,80,000.

(ii) Sales returns during the year amounted to `20,000.

SOLUTION 6.

(i) Working Capital Turnover Ratio = $\frac{\text{Net Sales}}{\text{Working Capital}}$

Current Assets = Cash + Inventory + Trade Receivables

= `1,00,000 + `80,000 + `2,60,000

= `3,60,000

Current Liabilities = Trade Payables

= `1,00,000

Working Capital = Current Assets – Current Liabilities

= `3,60,000 – `1,00,000 = `2,60,000

Working Capital Turnover Ratio = $\frac{3,60,000}{2,60,000} = 1.38 \text{ times}$

(ii) Debt-Equity Ratio = $\frac{\text{Debt}}{\text{Equity}}$ or $\frac{\text{Long term Loans}}{\text{Shareholder's Funds}}$

Long term Loans = Loan @ 15%

= `2,40,000

Shareholder's Funds = Share Capital + General Reserve + Profit and Loss (–) Preliminary Expenses

= `2,00,000 + `80,000 + `1,20,000 – `20,000

= `3,80,000

Debt-Equity Ratio = $\frac{2,40,000}{3,80,000} = .63:1$

(iii) Trade Receivables Turnover Ratio = $\frac{\text{Net Sales}}{\text{Trade Receivables}}$

Trade Receivables Turnover Ratio = $\frac{3,60,000}{1,80,000} = 2 \text{ times}$

QUESTION 7.

Following is the Balance of X Ltd. As on 31st March, 2012:

Particulars		`
I. EQUITY AND LIABILITIES		
Share Capital		20,00,000
Reserve		5,00,000
Profit for the year		12,00,000
10% Loans		10,00,000
Current Liabilities		8,00,000
	TOTAL	55,00,000
II. ASSETS:		
Fixed Assets		29,00,000
Current Assets		25,00,000
Underwriting Commission		1,00,000
	TOTAL	55,00,000

Find out 'Return on Capital Employed.

SOLUTION 7.

Return on Capital Employed = $\frac{\text{Profit before Interest and Tax}}{\text{Capital Empoyed}} \times 100$

Profit before Interest =

	`
Profit for the year	12,00,000
Add: Interest on Loan (10% on 10,00,000)	1,00,000
	13,00,000

Capital Employed = Share Capital + Reserves + Loans + Profit for the year

Underwriting Commission

= `20,00,000 + `5,00,000 + `10,000,000 + `12,00,000 – `1,00,000

= `46,00,000

Return on Capital Employed = $\frac{\text{`}13{,}00{,}000}{\text{`}46{,}00{,}000} \times 100 = 28.26\%$

Working Note: Capital Employed can also be calculated as under:

	`
Fixed Assets	29,00,000
Add: Working Capital (Current Assets `25,00,000	
Less Current	17,00,000
Liabilities `8,00,000)	46,00,000

QUESTION 8.

Following is the Balance Sheet of X Ltd. as on 31st March, 2012.

Particulars	`
I. EQUITY AND LIABILITIES	
Equity Share Capital: 40,000 Equity Shares of `10 each	4,00,000

12% Preference Share Capital		2,00,000
Reserves		50,000
Profit & Loss Balance		2,20,000
15% Debentures		1,00,000
Current Liabilities		2,30,000
	TOTAL	12,00,000
II. ASSETS:		
Fixed Assets		8,00,000
Underwriting Commission		20,000
Current Assets		3,80,000
	TOTAL	12,00,000

Profit for the current year before payment of Interest and Tax amounted to `3,55,000. You are required to calculate Return on Investment (R.O.I.).

SOLUTION 8.

Return on Investment (R.O.I) = $\frac{\text{Profit before Interset and Tax}}{\text{Capital Employed}} 5100$

Capital Employed = Equity Share Capital + Preference Share Capital + Reserves + P & L A/c + Debentures – Underwriting Commission

= `4,00,000 + `2,00,000 + `50,000 + `2,20,000 + `1,00,000 – `20,000

= `9,50,000

R.O.I = $\frac{3,55,000}{9,50,000} \times 100 = 37.43\%$

Note: When a Balance Sheet is given in the question, the Profit & Loss A/c balance given in it already includes the Current Year's profit. Hence, it is not added again while calculating capital employed.

Cash-Flow Statement

According to

Revised Schedule VI Part I of Companies Act, 1956

Cash-Flow Statement

QUESTION

Prepare a Cash Flow Statement from the following Balance Sheets of Gokaldas Exports Ltd.

	Particulars	Note No.	31-3-2011 `	31-3-2012 `
A.	**EQUITY AND LIABILITIES**			
	1. Shareholders' Funds			
	(a) Share Capital		4,00,000	5,00,000
	(b) Reserves and Surplus	1	2,35,000	3,25,000
	2. Non-Current Liabilities			
	(a) Long term borrowings	2	3,00,000	3,10,000
	3. Current Liabilities			
	(a) Trade Payables 80,000		95,000	
	TOTAL		10,15,000	12,30,000
B.	**ASSETS:**			
	1. Non-Current Assets			
	(a) Fixed Assets			

(i) Tangible Assets	3	5,00,000	7,00,000
(b) Non-Current Investments		70,000	56,000
(c) Other Non-Current Assets	4	20,000	15,000
2. Current Assets			
(a) Inventories		2,10,000	2,80,000
(b)Trade Receivables		1,40,000	1,14,000
(c) Cash and Cash equivalents	5	70,000	60,000
(d) Other Current Assets	6	5,000	5,000
TOTAL		10,15,000	12,30,000

Total interest paid during the year amounted to ` 37,800.

Note 1

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
General Reserve	1,25,000	1,35,000
Profit & Loss Balance	1,10,000	1,90,000

Note 2

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
12% Debentures	2,00,000	1,50,000
14% Mortgage Loan	1,00,000	1,60,000

Note 3

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
(i) Tangible Assets		
Machinery	5,00,000	7,00,000

Note 4

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
Unmortised Expenses	20,000	15,000

Note 5

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
Cash	20,000	40,000
Bank	50,000	20,000

Note 6

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
Unmortised Expenses	5,000	5,000

SOLUTION 9.

CASH FLOW STATEMENT (Indirect Method)

A. Cash flows from Operating Activities:		`	`
Net profit before taxation			
Profit as per Profit & Loss Statement		20,000	
(`60,000–`40,000)			
Adjustments for:			
Goodwill written off		30,000	
Preliminary Expenses written off		8,000	
Interest Paid		9,000	
Operating profit before working capital change		67,000	
Add: Decrease in Current Assets:			
Prepaid Expenses	2,000		
Add: Increase in Current Liabilities			
Trade Payables	15,000		
Outstanding Expenses	10,000	27,000	
		94,000	
Less: Increase in Current Assets:			
Inventories (Stock)	40,000		
Trade Receivables	70,000	1,10,000	
Net cash used in operating activities		(16,000)	(16,000)
B. Cash flows from Investing Activities:			
Purchase of Land & Buildings		(80,000)	

Purchase of Long-term Investments	(25,000)		
Net cash used in investing activities	(1,05,000)	(1,05,000)	

C. Cash flows from Financing Activities:

Issue of shares		1,00,000	
Proceeds from Public Deposits		45,000	
Interest Paid		(9,000)	
Net cash from financing activities	1,36,000	1,36,000	
Net Increase in cash and cash equivalents		15,000	
Cash and cash equivalents at the beginning of the period (See Note 1)			45,000
Cash and cash equivalents at the end of the period (See Note 1)			60,000

Note: (1) Cash and cash equivalents include cash in hand, bank balance and short-term investments. Hence cash and cash equivalents in this question will amount to:

		2011	2012
		`	`
Cash		15,000	13,000
Bank		20,000	32,000
Short-term Investments		10,000	15,000
	45,000	60,000	

QUESTION

From the following Balance Sheets of Voltamp Ltd. as on 31.3.2011 and 31.3.2012, prepare a Cash Flow Statement:

Particulars	Note No.	31-3-2011 `	31-3-2012 `
A. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		2,00,000	2,00,000
(b) Reserves and Surplus	1	1,10,000	1,75,000
2. Current Liabilities			
(a) Trade Payables 1,39,000		1,28,000	
(b) Other Current Liabilities	2	6,000	
(c) Short-term Provisions	3	35,000	45,000
TOTAL		4,90,000	5,48,000
B. ASSETS:			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	4	1,50,000	2,00,000
(i) Intangible Assets	5	40,000	30,000
(b) Other Non-Current Assets	6	23,000	16,000
2. Current Assets			

(a) Current Investments		12,000	15,000
(b) Inventories		1,80,000	2,15,000
(c)Trade Receivables		60,000	50,000
(c) Cash and Cash equivalents		8,000	10,000
(d) Short-term Loans and advances	7	10,000	5,000
(d) Other Current Assets	8	7,000	7,000
TOTAL		4,90,000	5,48,000

Note 1

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
General Reserve	1,00,000	1,00,000
Profit & Loss Balance	10,000	1,75,000

Note 2

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
Outstanding Salaries	6,000	—

Note 3

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
(c) Short-term Provisions		
Provision for Taxation	35,000	45,000

Note 4

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
Machinery	1,50,000	2,00,000

Note 5

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
Goodwill	40,000	30,000

Note 6

Particulars	As on 31.3.2011 (`)	As on 31.3.2012 (`)
Unmortised Expenses	23,000	16,000

Note 7

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
Prepaid Expenses	10,000	5,000

Note 6

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
Unmortised Expenses	7,000	7,000

Additional Information:

I. Machinery whose original cost was ` 50,000 was sold for ` 10,000 during the year. Accumulated depreciation on this machinery was ` 26,000.
II. Depreciation on Machinery charged during the year ` 20,000.
III. Dividend paid during the year @10% on Equity share Capital.

SOLUTION

CASH FLOW STATEMENT (Indirect Method)

A. Cash flows Operating Activities:

Net profit before taxation:		
Increase in Reserves & Surplus	65,000	
+Provision for Taxation for 2012	45,000	
+Dividend paid (10% on ` 2,00,000)	20,000	1,30,000
Adjustments for:		

Depreciation on Machinery	20,000		
Loss on sale of Machinery	14,000		
Goodwill written off 10,000			
Preliminary Expenses written off	4,000		
Underwriting commission			
Written off	3,000	51,000	
Operating profit before working		1,81,000	
capital changes			
Add: Decrease in Current Assets:			
Trade Receivable	10,000		
Prepaid Expenses	5,000	15,000	
		1,96,000	
Less: Increase in Current Assets:			
Inventory (Stock)	35,000		
Less: Decrease in Current Liabilities:			
Trade Payable 11,000			
Outstanding Salaries	6,000	52,000	
		1,44,000	
Payment of Tax (for 2011)		35,000	
Net cash from operating activities		1,09,000	1,09,000
B. Cash flows from Investing Activities:			
Purchase of Machinery (1)		(94,000)	
Sale of Machinery		10,000	
Net cash used in investing activities		(84,000)	(84,000)

C. Cash flows from Financing Activities:

Dividend paid	(20,000)	(20,000)
Net increase in cash and cash equivalents	5,000	
Cash and cash equivalents at the beginning of the period (Bank`8,000+Short term Investments `12,000)	20,000	
Cash and cash equivalents at the end of the period (Bank ` 10,000 + Short term Investments `15,000)	25,000	

Working Note:

1.

MACHINERY ACCOUNT

(On written down value)

	`		`
To Balanced b/d	1,50,000	By Bank (Sale)	10,000
To Bank A/c (Balancing Fig. being purchase)	94,000	By P & L A/c (Loss)	
		By Current Year's Depreciation	20,000
		By Balanced c/d	2,00,000
	2,44,000		2,44,000

QUESTION

From the following Balance Sheets of Virgo Global Media Limited, as on 31.3.2011 and 31.3.2012, prepare a Cash Flow Statement:

	Particulars	Note No.	31-3-2011 `	31-3-2012 `
A.	**EQUITY AND LIABILITIES**			
	1. Shareholders’ Funds			
	(a) Share Capital		90,000	1,30,000
	(b) Reserves and Surplus	1	50,000	85,000
	2. Current Liabilities			
	(a) Trade Payables 17,400		22,000	
	TOTAL		1,57,400	2,37,000
B.	**ASSETS:**			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets		93,400	1,66,000
	(b) Other Non-Current Assets	2	1,000	
	2. Current Assets			
	(a) Inventories		22,000	26,000
	(b)Trade Receivables		36,000	39,000
	(c) Cash and Cash equivalents		4,000	5,000
	(d) Other Current Assets	3	1,000	1,000
	TOTAL		1,57,400	2,37,000

Note 1

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
General Reserve	30,000	55,000
Profit & Loss Balance	20,000	30,000

Note 2

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
Unmortised Expenses	1,000	

Note 3

Particulars	As on 31.3.2011	As on 31.3.2012
	(`)	(`)
Unmortised Expenses	1,000	1,000

Additional Information:

I. Depreciation charged on fixed assets for the year 2011-2012 was ` 20,000.

II. Income Tax ` 5,000 has been paid during the year.

(C.B.S.E. 2011, Outside Delhi)

SOLUTION

CASH FLOW STATEMENT

For the year ended 31st March, 2012

		`	`
A. Cash flows from Operating Activities:			
Net Profit before tax:			
Profit as per Balance Sheet (`30,000 – `20,000)	10,000		
+ Income Tax Paid	5,000		
+ Transfer to Reserve	25,000		
Add: Item to be added (Non-cash items)		21,000	
Depreciation	20,000	61,000	
Preliminary Expenses written off	1,000	4,600	
Operating profit before Working Capital Changes		65,600	
Add: Increases in Trade Payables			
		7,000	53,000
Less: Increase in Inventory	4,000	58,600	
Increase in Trade Receivables	3,000	5,000	
Cash Flow from Operating Activities before Tax			(92,600)
Less: Income Tax Paid			
Cash Flow from Operating Activities after Tax		(92,600)	
B. Cash flows from Investing Activities:			40,000
Purchase of fixed assets (None 1)			1,000
Net Cash used in Investing Activities		40,000	4,000
C. Cash flows from Financing Activities			5,000
Issue of Share Capital			
Cash flow from Financing Activities			
D. Net Increase in Cash & Cash Equivalents (A + B + C)			
Add: Cash & Cash Equivalents at the Beginning of the period			
Cash & Cash Equivalents at the end of the period			

Working Note: (1)

Particulars	`	Particulars	`
To Balance b/d	93,400	By Depreciation A/c	20,000
To Bank A/c (Purchases)		By Balance c/d	1,66,000
(Balancing figure)	92,600		
	1,86,000		1,86,000

QUESTION

From the following information, prepare Cash Flow Statement:

Balance Sheet

as at 31.03.2012 and 31.03.2011

	Particulars	Note No.	31-3-2012 `	31-3-2011 `
A.	**EQUITY AND LIABILITIES**			
	1. Shareholders' Funds			
	(a) Share Capital	1	1,00,000	80,000
	(b) Reserves and Surplus	2	6,400	6,000
	2. Non-Current Liabilities			
	(a) Long-term Borrowings	3	14,000	12,000
	2. Current Liabilities			
	(a) Trade Payables 22,000		24,000	
	(b) Short-term Provisions	4	20,000	16,000
	TOTAL		1,62,400	1,38,000
B.	**ASSETS:**			
	1. Non-Current Assets			
	(a) Fixed Assets			

(i) Tangible Assets		50,000	60,000
2. Current Assets			
(a) Inventories		70,000	60,000
(b)Trade Receivables		48,000	40,000
(c) Cash and Cash equivalents	5	(6,600)	(22,600)
(d) Short-term Loans and advances		1,000	600
TOTAL		1,62,400	1,38,000

Note 1

Particulars	As on 31.3.2012	As on 31.3.2011
	(`)	(`)
Equity Share Capital	80,000 55,000	
12% Preference Share Capital	20,000	25,000

Note 2

Particulars	As on 31.3.2012	As on 31.3.2011
	(`)	(`)
General Reserve	4,000	4,000
Profit & Loss Balance	2,400	2,000

Note 3

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
15% Debentures	14,000	12,000

Note 4

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Provision for Taxation	8,400	6,000
Proposed Dividend	11,600	10,000

Note 5

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Cash	7,000	2,400
Bank Overdraft	(13,600)	(25,000)

Additional Information:

(a) Provision for tax made ` 9,400.

(b) Fixed assets sold for ` 10,000, their cost ` 20,000 and accumulated depreciation till date of sale is ` 6,000.

(c) An interim dividend paid during the year ` 9,000.

(d) Depreciation charged during the year ` 8,000.

SOLUTION

CASH FLOW STATEMENT (Indirect Method)

for the year ended 31st March, 2012

		`	`
A. Cash Flows from Operating Activities			
Net profit before taxation:			
Profit as per Balance Sheet (`2,400 - `2,000)	400		
+ Proposed Dividend for 2012	11,600		
+ Interim Dividend paid	9,000		
+ Provision for Taxation	9,400	34,000	
Adjustments for:			
Depreciation (3)	14,000		
Loss on sale of fixed assets	4,000		
Interest on Debentures	1,800	19,800	
Operating profit before working capital changes		50,200	
Less: Increase in Current Assets:			
Inventories	10,000		
Trade Receivables	8,000		
Prepaid Expenses	400		

Decrease in Current Liabilities:

Trade Payables 2,000

(20,400)

Cash generated from operating activities 29,800

Less: Income Tax paid (4) (7,000)

Net cash from Operating Activities 22,800 22,800

B. Cash Flows from Investing Activities:

Sale of Fixed assets	(10,000)	
Purchase of fixed Assets (2)	(18,000)	
Net Cash used in investing activities	(8,000)	(8,000)

C. Cash Flows from Financing Activities:

Issue of equity share capital	25,000	
Redemption of performance share capital	(5,000)	
Issue of Debentures	2,000	
Payment of proposed dividend (for 2011)	(10,000)	
Interim dividend paid	(9,000)	
Net cash from financing activities	1,200	1,200
Net Increase in cash and cash equivalents		16,000
Cash and cash equivalents at the beginning of the period (Cash `2,400 – Bank Overdraft `25,000)		(22,600)
Cash and cash equivalents at the end of the period (Cash `7,000 – Bank Overdraft ` 13,600)		(6,600)

Working Notes: (1) It is assumed that debentures have been issued at the end of current accounting period. Hence interest on debentures is 15% on ` 12,000.

(2) Fixed Assets Account (On Original Cost)

` `

To Balance b/d 82,000 By Bank (Sale) 10,000

To Bank (Balancing figure,

being purchase) 18,000 By Accumulated Depreciation A/c (Being depreciation on fixed assets sold) 6,000

By P & L A/c (Loss on 4,000

sale of fixed assets)

By Balance c/d 80,000

1,00,000 1.00.000

(3) Accumulated Depreciation Account

To Fixed Assets A/c (transfer of depreciation on fixed assets sold) 6000 By Balance b/d 22,000

By P & L A/c (Balancing figure, being current year's deprecation) 14,000

To Balance c/d 30,000

36,000 36,000

(4) Provision tax Account

` `

To Bank (balancing figure, By Balance b/d (Given) 6,000

Being payment made) 7,000 By P & L A/c (provision

made In 2012 (Given) 9,400

15,400 15,400

Question

Prepare a cash flow statement from the following:

Income Statement

(for the year ended 31st march, 2012)

	`	`
Sales	25,40,000	
Less: Cost of goods sold		20,60,000
Gross profit		4,80,000
Less: Operating expenses (including depreciation on		
Machinery ` 54,000)	1,90,000	
Goodwill written off	16,000	
Interest on Debentures	20,000	
Provision for Tax	34,000	2,60,000
Net Income		2,20,000

Particulars	**Note No.**	**31-3-2012** `	**31-3-2011** `
A. EQUITY AND LIABILITIES			
1. Shareholders' Funds			

(a) Share Capital		5,00,000	4,00,000
(b) Reserves and Surplus	1	3,96,000	1,66,000
2. Non-Current Liabilities			
(a) Long-term borrowings	2	1,50,000	2,00,000
3. Current Liabilities			
(a) Trade Payables 1,06,000		70,000	
(b) Other Current Liabilities	3		4,000
(c) Short-term Provisions	4	32,000	25,000
TOTAL		11,84,000	8,65,000
B. ASSETS:			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	6,18,000	3,60,000
(i) Intangible Assets	6	24,000	40, 000
(b) Non-Current Investments		76,000	50,000
2. Current Assets			
(a) Current Investments		8,000	10,000
(b) Inventories		2,80,000	2,33,000
(c)Trade Receivables		1,36,000	1,50,000
(d) Cash and Cash equivalents		42,000	22,000

TOTAL	11,84,000	8,65,000

Note 1

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Securities Premium	10,000	
Reserves & surplus	3,86,000	1,66,000

Note 2

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
12% Debentures	1,50,000	2,00,000

Note 3

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Outstanding Expenses		4,000

Note 4

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Provision for Taxation	32,000	25,000

Note 5

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Building	1,88,000	
Machinery	4,30,000	3,60,000

Note 6

Particulars	As on 31.3.2012 (`)	As on 31.3.2011 (`)
Goodwill	24,000	40,000

SOLUTION

CASH FLOW STATEMENT

(Indirect Method)

A. **Cash flows from operating activities:**		`	`
Net Profit before taxation:			
Net Profit ` 2,20,000 + Provision		2,54,000	
for tax `34,000)			
Adjustments for:			
Depreciation on Machinery		54,000	
Goodwill written off	16,000		
Interest on Debentures		20,000	
Operating profit before working capital	3,44,000		
Changes			
Add: Decrease in Current Assets:			
Trade Receivables	14,000		
Add: Increase in Current			
Liabilities:			
Trade Payables 14,000			
Add: Increase in Current Assets:			
Trade Payables 36,000	50,000		
		3,94,000	
Less: Increase in Current Assets:			
Inventory	47,000		
Less: Decrease in Current Liabilities:			
Accrued Expenses	4,000	51,000	

Cash generated from operating activities		3,43,000	
Payment of Tax(1)		(27,000)	
Net Cash from operating activities		3,16,000	3,16,000
B. Cash flows from Investing Activities:			
Purchase of Building	(1,88,000)		
Purchase of Machinery (2)		(1,24,000_	
Purchase of Long-term Investments		(26,000)	
Net Cash used in investing activities		(3,38,000)	(3,38,000)
C. Cash flows from Financing Activities:			
Issue of Share Capital		1,00,000	
Securities Premium		10,000	
Redemption of Debentures		(50,000)	
Payment of interest on Debentures		(20,000)	
Net Cash from financing activities		40,000	40,000
Net increase in Cash and Cash equivalents			18,000
Cash and Cash equivalents at the beginning of The period(3).		32,000	
Cash and Cash equivalents at the end of The period(3).			50,000

Notes: (1)

PROVISION FOR TAX Account

	`		`
To Bank (Balancing fig. being) Payment made)	27,000	By Balance b/d	25,000
		By P&L A/c (Provision	

To Balance c/d	32.000	Made in current year)	34,000
	59,000		59,000

(2)

MACHINERY Account

	`		`
To Balance b/d	3,60,000	ByP&LA/c (Depreciation)	54,000
To Bank (Balancing figure,		By Balance c/d	4,30,000
Being purchase)	1,24,000		
	4,84,000		4,84,000

(3)

Cash and Cash equivalents:

	31st March 2011	31st March 2012
	`	`
Cash	37,000	60,000
+Short-term Investments	10,000	8,000
	47,000	68,000
–Bank Overdraft	15,000	18,000
	32,000	50,000

Values involved in Cash flow statement----

- **Scientific and critical ability to analyse the flow of cash**
- **Communicating the material information**
- **Ability to analyse the short term financial security and stability**

- **Transparency**