ACCOUNTANCY
PRINCIPLES & PRACTICE
II

For Commerce Degree Examination of Calcutta, Burdwan, North Bengal and other Indian Universities.

[ADVANCED ACCOUNTANCY—PASS & HONOURS]

(WITH BENGALI VERSION)

DWIJENDRA LAL SARKAR M. Com.
LECTURER, COMMERCE DEPARTMENT, RAJA PEARY MOHAN COLLEGE, UTTARPARA ; FORMERLY LECTURER, VIDYASAGAR EVENING COLLEGE, CALCUTTA AND JANGIPUR COLLEGE, MURSHIDABAD.

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PREFACE
(Vol. II)

It is indeed a great pleasure to me to be able to present the Second Volume of my book, Accountancy—Principles & Practice, to students and teachers of the subject. The endearing reception accorded by teachers and students alike to the first volume has encouraged me to venture on the present volume.

I shall take this opportunity in thanking most sincerely Dr. Prasad Kumar Ghosh, M.A. (Com.), M.A. (Econ.), Ph.D., Reader, Delhi University; Dr. Anil Kumar Mukherjee, M.A. (Com.), D.Litt., of Commerce Department, Calcutta University; Sri K. L. Chatterjee, M.A. (Com.), F.C.A., Principal, City College of Commerce & Business Administration, Calcutta; Sri G. D. Roy, M.A. (Com.), Principal, Rishi Bankim Chandra College, Naihati; Sri Naresh Chandra Bhowmick, M.A. (Com.), Vice-Principal, A. C. College, Jalpaiguri; Sri Balai Sengupta, M.A. (Com.), Vice-Principal, Rishi Bankim Chandra College, Naihati; Sri Ram Krishna Guha Roy, B.Com., B.A. (Hons.), A.C.A., I.C.W.A., of Ferguson & Co.; Sri Priya Ranjan Chowdhury, M.Com., M.A. (Econ.), I.C.W.A., Lecturer, Chandannagore College, Hooghly; Sri Narayan Ganguli, M.A., A.C.A., Lecturer, City College, Calcutta; Sri Milan Datta, M.Com., Lecturer, Goenka College of Commerce & Business Administration, Calcutta, Prof. Parimal Ghosal, M.A. (Com.), of Sibnath Shastri College, Calcutta; Prof. Santi Ranjan Sen, M.A. (Com.), Head of the Department of Commerce, City College, Calcutta; Sri Nirmal Kanti Roy, M.Com., LL.B., Head of the Department of Commerce, Haripal College, Hooghly, and others who have taken great pains to go through the first volume of my book and have given their valuable opinions and suggestions.

This volume fully covers the entire Accountancy (Advanced) syllabus for B.Com. Examinations—both Pass & Honours—of Calcutta, Burdwan, North Bengal and other Indian Universities. In planning this volume I have also adopted the same line as in the first. Basic principles and fundamental procedures of Accountancy are presented in the form of Tables, Charts, Diagrams and Notes so that the students can grasp the subject without much avoidable labour. Every chapter contains precise discussions with adequate illustrations graded to enable the students to proceed from easy to complex problems. For students who want to answer Questions on Accountancy in Bengali, a Bengali Version of the English Text of all the Chapters has been added at the end of this volume.

I acknowledge my indebtedness to the authors of different books on the subject both Indian and Foreign from which I have taken ideas on many topics.

I offer my thanks to those friends and colleagues who have encouraged me at every stage with their valuable suggestions in this venture. But they are not individually named lest there be any omission. I am indebted to the publisher, Sri Haradhan Basak, M.Com., of the Alpha Publishing Concern but for whose hard labour, this book would never have appeared in print.

Any similarity of names to those of persons and business and other institutions which might be found in this book is wholly fortuitious.

I shall be grateful if mistakes, omissions, inaccuracies and deficiencies likely to be noticed by the readers are brought to my notice. I regret to admit that inspite of my best efforts a few printing mistakes remain in the book.

I shall consider myself amply rewarded if the book is found suitable by those for whom it is intended.

All suggestions for further improvement of this book will be accepted with all humility

D. L. Sarkar.

SYLLABUS

for the

Bachelor of Commerce Examination
(Three Year Degree Course)

ADVANCED ACCOUNTANCY—PASS

More difficult questions on the subject prescribed for Compulsory Paper may be set.

1. Amalgamation, Absorption and Reconstruction of Companies.
2. Reduction of Capital.
3. Departmental and Branch Accounts.
4. Miscellaneous Accounts :—

    (i) Royalty Accounts.
    (ii) Hire Purchase Accounts.
    (iii) Instalment - Payment—Purchase Accounts.
    (iv) Goods on Sale or Return, Including Investment Accounts, Bank Accounts, Packages Accounts.

ADVANCED ACCOUNTANCY—HONOURS

(In addition to the subjects prescribed for Advanced Accountancy in the Pass Course, Elective Subject No. 1, Paper I and Compulsory Paper on Accountancy in the Honours Group of subjects.)

(i) Valuation of Company shares (excluding holding Companies).

(ii) Principles of Double Accounts (Capital accounts and General Balance Sheets specially of electricity undertaking).

(iii) Simple cases of holding companies and consolidated balance sheets.

CONTENTS

PART—III

হিসাবশাস্ত্র-সুত্র ও প্রয়োগ

সূচীপত্র (২য় খণ্ড)

CHAPTER XXII

COMPANIES (ADVANCED)

(A) Revisional Problems

(Redemption of Preference Shares, Redemption of Debentures, Issue of Bonus Shares, Payment of Dividend etc.)

demption of Preference Shares :

ustration I

Vanities Ltd. have part of their share capital in 3,000, 5% Redeemable eference Shares of Rs. 100 each. According to the Articles of Association the Company the shares are to be redeemed at a premium of 5%. The serve of the company shows a credit balance of Rs. 2,00,000. The directors cide to utilise 50% of the reserve in redeeming the shares and the balance is be met from the proceeds of fresh issue of sufficient number of shares of ι. 10 each. The premium is to be met from the year's Profit & Loss Approiation Account.

You are required to give the Journal and the Ledger entries on complen of the above transactions. (C. U. B. Com (Adv.) 1957)

lution

In the Books of Vanities Ltd.

Journal Entries

Particulars	L. F.	Dr.	Cr.
		Rs.	Rs.
Profit & Loss Appropriation A/c ... Dr. To Premium on Redemption of Preference Shares A/c (Being the provision for the premium payable on redemption.)		15,000	15,000
5% Preference Share Capital A/c ... Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders' A/c (Being the amount payable to shareholders on redemption of Preference Shares.)		3,00,000 15,000	3,15,000
Bank A/c ... Dr. To Ordinary Share Capital A/c (Being the amount received from issue of 20,000 Ordinary Shares of Rs. 10 each.)		2,00,000	2,00,000
Preference Shareholders' A/c ... Dr. To Bank A/c (Being the amount paid to preference shareholders.)		3,15,000	3,15,000
Reserve Fund A/c ... Dr. To Capital Redemption Reserve Fund A/c (Being the amount transferred to Capital Redemption Reserve Fund out of general reserve.)		1,00,000	1,00,000

Ledger Accounts

Dr. **5% Redeemable Preference Shares A/c** Cr.

	Rs.		Rs.
To Preference Shareholders' A/c	3,00,000	By Balance c/d	3,00,000

Dr. **Premium on Redemption of Preference Shares A/c** Cr.

	Rs.		Rs.
To Preference Shareholders' A/c	15,000	By P & L Appropriation A/c	15,000

Dr. **Preference Shareholders' A/c** Dr.

	Rs.		Rs.
To Bank Account	3,15,000	By 5% Preference Share Capital A/c	3,00,000
		By Premium on Redempation of Preference Shares A/c	15.000
	3,15,000		3,15,000

Dr. **Reserve Fund A/c** Cr.

	Rs.		Rs.
To Capital Redemption Reserve Fund A/c	1,00,000	By Balance b/d	2,00,000
To Balance c/d	1,C0,000		
	2,00,000		2,00,000
		By Balance b/d	1,00,000

Dr. **Capital Redemption Reserve Fund A/c** Cr.

	Rs.		Rs.
To Balance c/d	1,00,000	By Reserve Fund A/c	1,00.000
		By Balance b/d	1,00,000

Dr. **Ordinary Share Capital A/c** Cr.

	Rs.		Rs.
To Balance c/d	2.00,000	By Bank Account	2,00,000
		By Balance b/d	2,00,000

Illustration 2

The following is the Balance Sheet of S & Co., Ltd. as on 31st December, 1964 :

	Rs.		Rs.
Share Capital :		Fixed Assets	5,20,000
Authorised :		Current Assets	3,22,000
70,000 Equity Shares of Rs. 10 each	7,00,000		
20,000 6% Redeemable Preference Shares of Rs. 10 each	2,00,000		
	9,00,000		
Issued :			
39,000 Equity Shares of Rs. 10 each fully paid	3,90,000		
16,000 6% Redeemable Preference Shares of Rs. 10 each fully paid	1,60,000		
	5,50,000		
Reserves & Surplus :			
Profiit & Loss Account	2,00,000		
Current Liabilities :			
Sundry Creditors	92,000		
	8,42,000		8,42,000

The Preference Shares were redeemed on January 1, 1965, at a premium of Rs. 2 per share, the whereabouts of the holders of 1,200 such shares not being known. At the same time, a bonus issue of Equity Shares was made at par, 1 share being issued for every 3 shares held, out of the Capital Redemption Reserve Account.

Draw up the Journal Entries to record the above transactions in the books of S & Co. Ltd. and show the Balance Sheet as it would appear after such transactions have been completed. (C. U. B. Com. Hons. 1965, Part II)

Solution

Journal Entries

Date	Particulars		L. F.	Dr. Rs.	Cr. Rs.
1965 Jan. 1	6% Redeemable Preference Share Capital A/c	Dr.		1,60,000	
	Premium on Redemption of Preference Shares A/c	Dr.		32,000	
	To Preference Shareholders' A/c				1,92,000
	(Being the transfer of the amount to the Redeemable Preference Shareholders' Account pending repayment.)				
	Profit & Loss Account ...	Dr.		1,92,000	
	To Premium on Redemption of Preference Shares A/c				32,000
	To Capital Redemption Reserve A/c				1,60,000
	(Being the provision for redmption of Preference shares and premium on redemption out of Profit & Loss A/c.)				

Journal Entries (Contd.)

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
	Preference Shareholders' A/c ... Dr. To Bank Account (Being the Preference Shareholders except 1,200 of them, are paid off.)		1,77,600	1,77,600
	Capital Redemption Reserve A/c ... Dr. To Bonus to Shareholders' A/c (Being the sanction of issue of Bonus Shares at par in the ratio of 1 Share being issued for 3 shares held, out of the Capital Redemption Reserve A/c.)		1,30,000	1,30,000
	Bouus to Shareholders' A/c ... Dr To Equity Share Capital A/c (Being the issue of 13,000 Bonus Shares of Rs. 10 per share)		1,30,000	1,30,000

S. & Co., Ltd.

Balance Sheet *as at January 1, 1965*

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	5,20,000
Authorised :		Current Assets	1,44,400
70,000 Equity Shares of Rs. 10 each	7,00,000		
20,000 6% Redeemable Preference Shares of Rs. 10 each	2,00,000		
	9,00,000		
Issued and Subscribed :			
52,000 Eqity Shares of Rs. 10 each fully paid	5,20,000		
Reserves and Surplus :			
Profit & Loss Account	8,000		
Capital Redemption Reserve Account	30,000		
Current Liabilities :			
Sundry Creditors	92,000		
Sundry Members	14,400		
	6,64,400		6,64,400

Note : The Amount of Current Assets in the new Balance Sheet will be (Rs. 3,22,000 minus the amount of Rs. 1,77,600 paid to Preference Shareholders) i.e. Rs. 1,44,400.

Illusration 3

The Balance Sheet of a Company as at 31st December, 1957 was as follows :

	Rs.		Rs.
Authorised & Issued Capital :			
400 6% Redeemable Preference Shares of Rs. 100 each, fully paid	40,000	Sundry Assets	1,20,000
		Cash	40,000
6,000 Ordinary Shares of Rs. 10 each fully paid	60,000		
Share Premium Account	5,000		
Profit and Loss Account	28,000		
Current Liabilities	27,000		
	160,000		160,000

By the terms of Issue, the Preference Shares were redeemable at a premium of 5 per cent on the following 1st January and it was decided to arrange the redemption as far as possible, out of the company's resources, subject to leaving a balance of Rs. 5000 in the Profit and Loss Account. It was also decided to raise the balance of the funds required by the issue of a sufficient number of Ordinary Shares at a premium of Rs. 2·50 per share.

Show the necessary journal entries giving effect to the above transactions and draw up the Balance Sheet after the redemption. (C. U. M. Com. 1958)

Solution

Journal Entries

Date	Particulars	L. F.	Dr.	Cr.
			Rs.	Rs.
(i)	Profit and Loss Account ... Dr.		23,000	
	Share Premium Account ... Dr.		5,000	
	To Premium on Redemption of Preference Shares A/c			2,000
	,, Capital Redemption Reserve A/c			26,000
	(Being transfer of the amount from the Profit & Loss A/c and the Share Premium A/c to partly provide for redemption of 6% Prerence Shares at 5% premium.)			
(ii)	Bank Account ... Dr.		14,000	
	To Ordinary Share Capital A/c			11,200
	To Share Premium A/c			2,800
	(Being 1,120 Ordinary Shares of Rs. 10 each issued at a permium of Rs. 2·50 per share to provide fund for redemption of 6% Preference Shares.)			
(iii)	6% Redeemable Preference Share Capital A/c ... Dr.		40,000	
	Premium on Redemption of Prefence Shares A/c Dr.		2,000	
	To Preference Shareholders' A/c			42,000
	(Being the amount payable to preference shareholders.)			
(iv)	Preference Shareholders' A/c ... Dr.		42,000	
	To Bank Account			42,000
	(Being amount paid.)			

Balance Sheet *as at 1. 1.58*

Liabilities		Rs.	Assets	Rs.
	Rs.			
6,000 Ordinary Shares of Rs. 10 each	60,000		Sundry Assets	1,20,000
1,120 Ordinary Shares of Rs. 10 each	11,200		Cash at Bank	12,000
		71,200		
Share Premium A/c		2,800		
Capital Redemption Reserve A/c		26,000		
Profit and Loss Account		5,000		
Current Liabilities		27,000		
		1,32,000		1,32,000

Illustration 4

Zenith Enterprisers Ltd. had, as part of their Share Capital, 1,000 Preference Shares (Redeemable) of Rs. 100 each fully paid up. The Company desirous of redeeming these shares, issued 5,000 Equity Shares of Rs. 10 each at a premium of 5%. The Shares were issued specifically for the redemption of Preference Shares. The balance required for the redemption was to be met from the Reserve Fund of the Company standing in the books at Rs. 1,00,000. The Preference Shares were to be redeemed at a premium of 10%.

You are required to journalise the above transactions and give the Ledger Accounts and the Cash Book recording the above transactions.

(C. U. M. Com. 1960)

Solution

Journal Entries

			Dr. Rs.	Cr. Rs.
(i)	Redeemable Preference Share Capital A/c ... Dr.		1,00,000	
	Premium on Redemption of Preference Shares A/c Dr.		10.000	
	To Preference Shareholders' A/c			1,10,000
	(Being redemption of 1,000 Preference Shares of Rs. 100 each at a premium of 10%.)			
(ii)	Reserve Fund A/c ... Dr.		57.500	
	Share Premium A/c ... Dr.		2,500	
	To Capital Redemption Reserve A/c			50,000
	,, Premium on Redemption of Shares A/c.			10,000
	(Being provision for redemption of Preference Shares out of Reserve Fund and provision for the premium payable on redemption out of Share Premium A/c.)			

Dr. **Cash Book** (Bank Column Only) Cr.

	Rs.		Rs.
To Equity Share Capital A/c	50,000	By Prefereuce Shareholders A/c	
,, Share Premium A/c	2,500	(Being payment on redemption of 1,000 Preference Shares of Rs. 100 each at a premium of 10%)	1,10,000
(Being amounts received on issue of 5,000 Equity Shares of Rs. 10 each at a pemium of 5%)			

Redemption of Debentures :

By Purchase in the open market :

Debentures may be purchased in the open market at par or at discount or at premium. *In practice, however, the purchase will be made at a time when the market is most favourable,* that is, when the market price is low. The difference between the nominal value and purchase price of the debentures will be either profit or loss which will have to be accounted for through "Profit and loss on Redemption of Debentures Account."

The debentures may be bought cum-interest or ex-interest. It is called **cum-interest** when purchase price includes interest and nothing is payable for interest for the period from the previous date of payment of interest to the date of purchase. But for accounting purpose, the purchaser has to calculate the interest to the date of transaction. This amount is debited to interest account and the remaining amount is taken to be real purchase price.

If interest for the period from the previous date of payment of interest to the date of purchase of debenture is required to be paid by the purchaser in addition to the settled purchase price, it is called **ex-interest.**

If neither cum-interest nor ex-interest is mentioned, it will always be taken to be as cum-interest.

Debentures are always debited with full nominal value.

The credit balance of "Profit and Loss on Redemption of Debentures A/c" will be transferred to (Capital) Reserve A/c and the debit balance of "Profit & Loss on Redemption of Debentures A/c" will be written off to revenue.

Illustration 5

X & Co. Ltd. has Rs. 10,000 6% Debentures of Rs. 100 each. The Company buys for cancellation the following Debentures :

1968

April, 1 Rs. 5,000 6% Debentures of Rs. 100 each at 98 cum-interest ; brokerage and expenses Rs. 10.

Oct. 1 Rs. 5,000 6% Debentures of Rs. 100 each at 98 ex-interest ; brokerage and expenses Rs. 10.

The dates of payment of interest being 30th June and 31st December, calculate interest in months and ignore income tax.

Give the Journal Entries and Ledger Accounts. Strike a half-fyearly balance.

Solution

Notes : (1) Interest @ 6% for 3 months (from 1st. January to 31st March) on Rs. 5,000 is Rs. 75/-. This amount is included in the purchase price. So, it will have to be apportioned and debited to *Interest on Debentures A/c.*

(2) Interest @ 6% for 3 months (from 1st July to 30th September) on Rs. 5000 is Rs. 75/-. This amount will have to be paid by the Company in addition to the purchase price.

(3) The brokerage and expenses paid, will have to be added to the cost of the Debentures.

1st half year : **Journal Entires**

			Dr.	Cr.
			Rs,	Rs.
1968 Apl. 1	Debentures A/c ... Dr. Interest on Debentures A/c ... Dr. To Bank A/c To Profit & Loss on Redemption of Debentures A/c (Being the purchase of Rs. 5,000 6% Debentures @ 98 cum-interest and brokerage and expenses Rs. 10.)		5,000 75	 4,910 165
June30	Interest on Debentures A/c ... Dr. To Bank A/c (Being the interest on Debentures for 6 months paid.)		150	 150
,,	Profit & Loss A/c ... Dr. To Interest on Debentures A/c (Being the amount charged to revenue.)		225	 225
,,	Profit & Loss on Redemptien of Debentures A/c Dr. To Reserve A/c (Being the profit on redemption transferred to Reserve Account.)		165	 165
,,	Profit and Loss Appropriation A/c ... Dr. To Reserve A/c (Being the transfer of the amount to Reserve on redemption of Rs. 5,000Debentures,)		4,910	 4,910

2nd half year : **Journal Entries**

			Dr.	Cr.
			Rs.	Rs.
Oct. 1	Debentures A/c ... Dr. Interest on Debentures A/c ... Dr. To Bank A/c To Profit & Loss on Redemption of Debentures A/c (Being the purchase of Rs. 5,000 6% Debentures @ 98 ex-interest and brokerage and expenses Rs. 10)		5,000 75	 4,985 90
Dec. 31	Profit & Loss on Redemption of Debentures A/c ... Dr. To Reserve A/c (Being the Profit on redemption transferred to Reserve A/c.)		90	 90
,,	Profit & Loss A/c ... Dr. To Interest on Debentures A/c (Being the amount charged to revenue.)		75	 75
,,	Profit & Loss Appropriation A/c ... Dr. To Reserve A/c (Being the transfer of the amount to Reserve on redemption of Rs. 5,000Debentures.)		4,910	 4,910

Dr. **6% Debentures A/c** Cr.

Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.
1968 Apl. 1	To Bank A/c			1968 Jan. 1	By Balance b/d	10,000
	Cost	4,900				
	Brokerage etc.	10				
		4,910				
	To Profit & Loss on Redemption	90	5,000			
June 30	To Balance c/d		5,000			
			10,000			10,000
Oct. 1	To Bank A/c			July 1	By Balance b/d	5,000
	Cost	4,900				
	Brokerage etc.	10				
		4,910				
	To Profit and Loss on Redemption	90	5,000			
			5,000			5,000

Dr. **Interest on Debentures A/c** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1968 Apl. 1	To Profit and Loss on Redemption of Debentures A/c	75	1968 June 30	By Balance transferred to P/L A/c	225
June 30	To Bank A/c	150			
		225			225
Oct. 1	To Bank A/c	75	Dec. 31	By Balance transferred to P/L A/c	75
		75			75

Dr. **Profit & Loss on Redemption of Debentures A/c** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1968 June 30	To Balance transferred to Reserve A/c	165	1968 Apl. 1	By Debenture A/c	90
				By Interest on Debenture A/c	75
		165			165
Dec. 31	To Balance transferred to Reserve A/c	90	Oct 1	By Debenture A/c	90
		90			90

Illustration 6 *(Redemption by Purchase in the open market)*

On 1st January, X Ltd. has Rs. 12,000 6% Debentures. In accordance with the powers under the deed, the Directors acquire in the open market for immediate cancellation Debentures as follows :

March 1, Rs. 2,000/- at Rs. 98

August 1, Rs. 4,000/- at Rs. 100¼

December 15, Rs. 1000/- at Rs. 98½ (ex-interest)

Debenture interest is payable halfyearly, 30th June and 31st December. Show the Ledger Accounts of (i) Debentures and (ii) Debenture Interest, strike a balance half-yearly. Ignore Income Tax.

(C. U. B. Com. (Hons.) 1965)

Solution

Dr. **6% Debentures Account** Cr.

		Rs.	Rs.			
1968 Mar. 1	To Bank A/c	1,960		19... Jan. 1	By Balance b/d	12,000
	To Profit and Loss on Redemption	40	2,000			
June 30	To Balance c/d		10,000			
			12,000			12,000
Aug. 1	To Bank A/c		4,010	July 1	By Balance b/d	10,000
Dec. 15	To Bank A/c	985		Aug 1	By Profit & Loss on Redemption of Debentures A/c	10
	To Profit & Loss on Redemption	15	1,000			
Dec. 31	To Balance c/d		5,000			
			10,010			10,010

Dr. **Interest on Debentures Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
19... Mar. 1	To Profit & Loss on Redemption of Debentures A/c (two months' interest on Rs. 2000)	20·00	19... June 30	By Balance transferred to P/L A/c	320·00
June 30	To Bank A/c	300·00			
		320·00			320·00
Aug. 1	To Profit & Loss on Redemption of Debentures A/c (one month's interest on Rs. 4,000)	20·00	Dec. 31	By Balance transferred to Profit & Loss A/c	197·50
Dec. 15	To Bank A/c (5½ months' interest on Rs. 1000)	27·50			
Dec. 31	To Bank A/c (6 months' interest on Rs. ,5000)	150·00			
		197·50			197·50

Note : Though not wanted the *Profit and Loss on Redemption of Debentures A/c* is also given in the interest of the students.

Dr. **Profit & Loss on Redemption of Debentures A/c** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
19... June 30	To Reserve A/c	60·00	19... Mar. 1	By Debentures A/c	40·00
				By Interest on Debenture A/c	20·00
		60·00			60·00
Aug. 1	To Debentures A/c	10·00			
	To Balance c/d	10·00	Aug. 1	By Interest on Debenture A/c	20·00
		20·00			20·00
Dec. 31	To Reserve A/c	25·00	Aug. 1	By Balance b/d	10·00
			Dec. 15	By Debentures A/c	15·00
		25·00			25·00

Illustration 7 *(Redemption out of Sinking fund)*

The authorised Capital of a Company consists of 4,00,000 Equity shares of Rs. 10 each. Out of these 1,20,000 shares have been issued as fully paid.

The Company has an outstanding 6 per cent Debenture Loan of Rs. 12,00,000 redeemable at 102 per cent, and interest has been paid up to date on December 30, 1962. On that date the balance of the Debenture Redemption Reserve Account is Rs. 10,00,000 and that of the corresponding Investment Account is Rs. 10,00,000 (at cost) of which the market value is Rs. 9,00,000.

The Dircetors resolve to redeem the Debentures on January 1, 1963 and the holders are given an option to receive payment either wholly in cash or wholly in fully paid Equity Shares at the rate of 8 shares for every Rs. 100 of Debentures.

75 per cent of the holders decide to exercise the option for taking shares in repayment and cash for the rest is procured by realising an adequate amount of invesments at the prevalent market value.

Draw up Journal (including cash book) Entries to give effect to the above transactions. (C. U. B. Com. Hons. (Adv.) 1963)

Solution **Journal Entries** Dr. Cr.

Date	Particulars	L. F.	Rs.	Rs.
1963 Jan. 1	6% Debentures A/c ... Dr.		12,00,000	
	Premium on Redemption of Debentures A/c ... Dr.		24,000	
	To Debentureholders' A/c			
	(Being the total sum payable to the Debentureholders.)			12,24,000
	Debenture Redemption Reserve A/c Dr.		24,000	
	To Premium on Redemption of Debentures A/c			
	(Being the premium on redemption of debentures adjusted against Debenture Redemption Reserve A/c)			24,000
	Debentureholders' A/c ... Dr.		9,18,000	
	To Equity Share Capital A/c			7,20,000
	To Share Premium A/c			1,98,000
	(Being 75% of the claims of the Debentureholders satisfied by issue of 72,000 equity share of Rs. 10 each in the ratio of 8 equity shares for 1 debenture.)			
	Bank A/c ... Dr.		3,06,000	
	Debenture Redemption Reserve A/c Dr.		34,000	
	To Investments A/c			
	(Being the amount received on realisation of investments and the loss on sale adjusted.)			3,40,000
	Debentureholder's A/c ... Dr.		3,06,000	
	To Bank A/c			
	(Being the rest of the claim of the debentureholders paid,)			3.06,000
	Debenture Redemption Reserve A/c ... Dr.		9,42,000	
	To General Reserve A/c			
	(Being the Balance in Debenture Redemption Reserve transferred to General Reserve A/c after redemption.)			9,42,000

Issue of Bonus Shares :

Illustration 8 (Bonus applied for making partly paid up shares fully paid up and for issuing fully paid up Bonous shares.)

The authorised Capital of a Company is Rs. 12,00,000 divided into 12,000 Equity Shares of Rs 100 each, out of which 8,000 shares have been subscribed and on these Rs. 75 per share has been paid up.

The Company has the following undisposed of balances :

(a) Rs. 2, 30,000 (Cr.) in the Profit and Loss Account and (b) Rs. 85,000 in the General Reserve.

The Company has decided in general meeting to capitalise the necessary parts of the above balances (i) by paying as bonus Rs. 25 per share on the partly paid shares in order to make them fully paid, and then (ii) by issuing 1,000 fully paid equity shares at par as bonus at the rate of one fully paid share for eight shares already subscribed and paid for. The balance of the Profit and Loss Account is first to be exhausted and then the General Reserve is to be drawn upon. Give the Journal entries to give effect to the above transactions, (C. U. B. Com. Hons. 1965)

Solution **Journal Entires** **Dr.** **Cr.**

Date	Particulars	L. F.	Rs	Rs.
	Profit & Loss Account Dr. To Bonus to Shareholders' A/c (Being the sanction of bonus to shareholders @ Rs. 25 per share for 8000 shares as per resolution dated...)		2,00,000	2,00,000
	Share Final Call A/c Dr. To Equity Share Capital A/c (Being the final call @Rs. 25 per share made on 8,000 shares of Rs. 100 each as per resolution dated ..)		2,00,000	2,00,000
	Bonus to Shareholders' A/c ... Dr. To Share Final Call A/c (Being the Bonus to Shareholders applied towards meeting the final calls @ Rs, 25 per share on 8,000 shares.)		2,00,000	2,00,000
	Profit & Loss Account ... Dr. General Reserve Account ... Dr. To Bonus to Shareholders' A/c (Being the sanction of the issue of 8,000 Bonus Shares of Rs. 100 each to the existing shareholders in the ratio of 1 share for every 8 shares held as per resolution dated ... ...)		30,000 70,000	1,00,000
	Bonus to Shareholders' A/c ... Dr. To Equity Share Capital A/c (Being the issue of 8000 Bonus shares of Rs. 100 each)		1,00,000	1,00,000

Illustration 9 *(Redemption of Debentures. adoption of the new valuation of the assets and issue of Bonous Shares.)*

The capital of a Limited Company consisted of 12,500 5% Preference Shares of Rs. 10 and 25,000 Equity Shares of Rs. 10 each and the Company has accumulated out of profits a Reserve Fund of Rs. 1 Lakh. It further issued 5,000 Equity Shares during the year at a premium of Rs. 15 per share and the whole amount has been realised. At the end of the year, an independent valuation of its assets increased the Balance Sheet figures as follows :

	Rs.
Land and Buildings by	3, 25, 000
Plant and Machinery by	1, 50, 000
Permanent way by	1, 25, 000
and reduced the amount of the following :	
Goodwill by	75, 000
Concession Rights by	50,000

It was decided (i) to redeem 15,000 Debentures of Rs. 100 each at 5% premium, (ii) to adopt the new valuation and (iii) to allot one Bonus Share of Rs 10 each as fully paid up for every Equity Share.

Make Journal Entries.

(C. U. B. Com. Hons (Adv.) 1966)

Solution **Journal Entries** Dr. Cr.

Date	Particulars		L. F.	Rs.	Rs.
	Land & Buildings A/c ...	Dr.		3,25,000	
	Plant & Machinery A/c ...	Dr.		1,50,000	
	Permanent way A/c ...	Dr.		1,25,000	
	To Capital Reserve A/c				
	(Being the appreciation in the value of the sundry assets.)				6,00,000
	Capital Reserve A/c ..	Dr.		1,25,000	
	To Goodwill A/c				75,000
	To Concessional Rights				50,000
	(Being Goodwill and Concessional Rights partly written off out of Capital Reserve)				
	Debentures A/c ..	Dr		15.00,000	
	Premium on Redemption of Debentures A/c ...	Dr.		75,000	
	To Debentureholders' A/c				
	(Being the total sum payable to the Debentureholders.)				15,75,000
	Share Premium A/c ..	Dr.		25,000	
	Capital Reserve A/c ..	Dr.		50,000	
	To Premium on Redemption of Debentures A/c				75,000
	(Being premium payable on redemption of Debentures provided out of share premium and Capital Reserve.)				
	Debentureholders' A/c ...	Dr.		15,75,000	
	To Bank A/c				
	(Being the amount paid to Debenture holders.)				15,75,000

Journal Entries (Contd.)

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
	Capital Reserve A/c ... Dr. To Bonus to Shareholders' A/c (Being the sanction of the issue of bonus shares at par to the shareholders in the ratio of one share for each share held as per resolution dated ...)		3,00,000	3,00,000
	Bonus to Shareholders' A/c ... Dr. To Equity Share Capital A/c (Being the issue of 30,000 Bonus Shares of Rs. 10 each.)		3,00,000	3,00,000

Illustration 10 *(Bonus to shareholders, Issue of Debentures, Interim dividend, adjustment of accrued interest and outstanding Royalties.)*

Music Publishers Ltd. carried out the following transaction in the year ended December 31, 1965. Give appropriate Journal Entries (including cash received or paid). Also give narrations but ignore tax.

1965

Jan. 1 A bonus share dividend of Rs. 5 per share was declared on existing 40,000 Equity Shares of Rs. 10 each. from General Reserve, and applied in payment of the uncalled liability of Rs. 5 per share, making the shares fully paid.

Feb. 28 Received application money for 50,000 5% Debentures of Rs. 100 each (to be issued at a discount of 2½%) at the rate of Rs. 50 per Debenture (subject to the above discount).

March 1 Accepted applications for and issued 40,000 5% Debentures (at 97½%) *pro rata* to amounts applied for. On Feb. 28, excess application monies being retained.

May 31 Received balance payable (in full) on 40,000 5% Debentures.

July 2 Paid royalties to composers for half-year to 30th June—Rs. 50,000.

Aug. 31 Paid interim dividend on 40, 000 Equity Shares for 1965 @ 10% actual—Rs. 40,000.

Dec. 31 Accrued Debenture interest—Rs. 1,50,000
Accrued royalties to composers, Rs. 60,000.

(C. U. B. Com. (Hons) 1966)

Solution **Journal Entries**

Date	Particulars	L. F.	Dr. Rs.	Cr Rs.
1965 Jan. 1	General Reserve A/c ... Dr. To Bonus to shareholders' A/c (Being the sanction of bonus out of General Reserve at the rate of Rs. 5 per share on 40,000 Equity Shares of Rs. 10 each as per resolution dated......)		2,00,000	2,00,000
	Equity Share Final Call A/c ... Dr. To Equity Share Capital A/c (Being the final call @ Rs. 5 per share made on 40,000 shares of Rs. 10 each as per resolution dated......)		2,00,000	2,00,000
	Bonus to Shareholders' A/c ... Dr. To Equity Share Final Call A/c (Being the bonus to shareholders applied towards meeting the final calls @ Rs. 5 per share on 40,000 shares.)		2,00,000	2,00,000
Feb. 28	Bank A/c ... Dr. To 5% Debentures Application A/c (Being the Debenture Application money received on 50,000 5% Debentures @ Rs. 50 per Debenture.)		25,00,000	25,00,000
Mar. 1	5% Debenture Application A/c ... Dr. To 5% Debentures A/c (Being the transfer of Debenture Application money for 40,000 5% Debentures alloted, @ Rs. 50 per Debenture as per resolution dated......)		20,00,000	20,00,000
	5% Debenture Allotment A/c ... Dr. Discount on Issue of Debentures A/c Dr. To 5% Debentures A/c (Being the allotment of 40,000 5% Debentures at Rs, 50 per Debenture and adjustment of discount @ 2½% as per resolution dated.....)		19,00,000 1,00,000	20,00,000
	5% Debenture Application A/c ... Dr. To 5% Debenture Allotment A/c (Being the adjustment of application money for 10,000 Debentures @ Rs. 50 per Debenture towards part-payment of allotment money.)		5,00,000	5,00,000
May 31	Bank A/c ... Dr. To 5% Debenture Allotment A/c (Being Debenture Allotment money received in full.)		14,00,000	14,00,000
July 2	Royalties A/c ... Dr. To Bank A/c (Being the amount paid for royalties to the composers)		50,000	50,000
Aug. 31	Interim Dividend A/c ... Dr. To Bank A/c ... (Being the payment of interim dividend.)		40,000	40,000
Dec. 31	Debenture Interest A/c ... Dr. To Debentureholders' A/c (Being accrued debenture interest provided for.)		1,50,000	1,50,000
	Royalties A/c ... Dr. To Outstanding Liabilities A/c (Being the adjustment for outstanding royalties to the composers.)		60,000	60,000

Illustration 11 (Issue of Shares, Conversion of Share Capital, Issue of Bonus Shares, Payment of dividend.)

On June 1, 1960 New Co. Ltd., was incorporated with an authorised Capital of Rs. 2,00,000 divided into 20,000 Equity shares of Rs. 10 each. On that day A, B, C, D, E, F and G, the subscribers to the memorandum, each paid Rs. 10 for one Equity Share. On July 1, 1960, the following allotments were made at par for cash, paid the same day—A : 3,999 shares ; B : 2,999 shares ; C : 1,999 shares ; D : 1,999 shares ; E : 1,999 shares ; F : 999 shares ; G : 999 shares

On January 15, 1964, the existing issued Equity shares were converted into 6% Non-cumulative Preference Shares of Rs. 10 each and renounceable allotment letters in respect of one two-rupee new Equity Share for every one Preference Share held were issued to the shareholders by way of capitalisation of unappropriated profits.

On June, 1, 1965, the Preference shares were converted in two-rupee Equity Shares of an equivalent total nominal value.

On December 31, 1965, a dividend of 30 Paysa per share was declared and paid on two-rupee Equity Shares in issue at that date.

Draw up Journal Entries (including Cash items) to give effect to the above transactions in the books of New Co. Ltd. Ignore taxation. Wherever necessary, the Share Capital clause of the memorandum was suitably amended.

(C. U. B. Com (Hons.) 1966)

Solution **Journal Entries** Dr. Cr.

Date	Particulars	L. F.	Rs.	Rs.
1960 June 1	Bank A/c ... Dr. To Equity Share Capital A/c (Being 7 shares of Rs. 10 each allotted to the subscribers as per resolution dated ... and cash received in full.)		70	70
July 1	Bank A/c ... Dr. To Equity Share Capital A/c (Being 14,993 shares of Rs, 10 each allotted as per resolution dated ... and cash received in full.)		1,50,000	1,50,000
1964 Jan 15	Equity Share Capital A/c Dr. To 6% Non-Cumulative Preference Share Capital A/c (Being the conversion of 15,000 Equity Shares of Rs. 10 each into 15,000 6% Non-cumulative Preference Shares of Rs. 10 each as per resolution dated ...)		1,50,000	1,50,000

Solution **Journal Entries** (Contd.)

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
1964 Jan. 15	Profit & Loss Appropriation A/c Dr. To Bonus to Shareholders' A/c (Being the sanction of issue of 15,000 Bonus Shares of Rs. 2 each to the existing shareholders in the ratio of 1 share for every share held as per resolution dated ...)		30,000	30,000
,,	Bonus to Shareholders' A/c Dr. To Equity Share Capital A/c (Being the issue of 15,000 Bonus Shares of Rs. 2 each.)		30,000	30,000
1965 June 1	6% Non-cumulative Preference Share Capital A/c Dr. To Equity Share Capital A/c (Being the conversion of 15000 6% Non-comulative Preference Shares of Rs. 10 each into 75,000 Equity Shares of Rs. 2 each as per resolution dated ...)		1,50,000	1,50,000
Dec. 31	Profit & Loss Appropriation A/c Dr. To Dividend A/c (Being the declaration of dividend at 30 paysa per share on 90,000 shares of Rs. 2/- each as per resolution dated ...)		27,000	27,000
	Dividend A/c ... Dr. To Bank A/c ... (Being the dividend paid.)		27,000	27,000

Illustration 12 (Dividend, Bonus Shares, Issue of Shares, Redemption of Debentures)

The Balance sheet of A B Ltd. as at 31st December, 1965 is given below :

	Rs.		Rs.
Share Capital :		**Fixed Assets :**	
Authorised		Freehold Property	1,00,000
30,000 Equity Shares of		**Current Assets, Loans**	
Rs. 10 each	3,00,000	**and Advances :**	
Issued and paid up		Stock-in-Trade	1,20,000
20,000 Equity Shares of Rs. 10 each	2,00,000	Sundry Debtors	80,000
Reserves and Surplus :		Cash & Bank	
Profit & Loss A/c (Cr.)	1,40,000	Balances	2,20,000
Secured Loans :			
6% Debentures	1,20,000		
Unsecured Loans :	Nil		
Current Liabilities and Provisions :			
Sundry Creditors	60,000		
	5,20,000		5,20,000

At the annual general meeting it was resolved :

(i) To pay a dividend of 10 per cent.

(ii) To issue one Bonus Share for every four shares held.

(iii) To give existing shareholders the option to purchase one Rs. 10 share at Rs. 14 for every four shares held prior to the bonus distribution.

(iv) To repay the Debentures at a premium of 4%.

All the shareholders took up the option in (iii) above. Draft the appropriate Journal Entries and draw up the Balance Sheet after the above transactions have been given effect to. Ignore taxation.

(C. U. B. Com. (Hons.) 1966)

Solution **Journal Entries** Dr. Cr.

Date	Particulars	L. F.	Rs.	Rs.
	Profit & Loss Appropriation A/c Dr. To Dividend A/c (Being the declaratian of dividend @ 10% on 20,000 shares of Rs. 10 each.)		20,000	20,000
	Dividend A/c ... Dr. To Bank A/c (Being the dividend paid)		20,000	20,000
	Profit & Loss Appropriation A/c Dr. To Bonus to Shareholders' A/c (Being the sanction of issue of 5,000 Bonus Shares of Rs. 10 each to the existing shareholders' in the ratio of 1 Share for every 4 Shares held as per resolution dated ...)		50,000	50,000
	Bonus to Shareholdes' A/c ... Dr. To Equity Share Capital A/c (Being the issue of 5,000 Bonus Shares of Rs. 10 each.)		50,000	50,000
	Bank A/c ... Dr. To Equity Share Capital A/c To Share Premium A/c (Being 5,000 Equity Shares of Rs. 10 each issued at Rs. 14 each for cash as per resolution dated ....)		70,000	50,000 20,000
	6% Debentures A/c ... Dr. Premium on Redemption of Debentures A/c ... Dr. To Debentureholders' A/c (Being the total sum payable to the Debentureholders)		1,20 000 4 800	1,24,800

Solution

Journal Entries (Contd.)

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
	Share Premium A/c ... Dr. To Premium on Redemption of Debentures A/c (Being the premium Payable on redemption of Debentures provided out of Share Premium A/c.)		4,800	4,800
	Debentureholders' A/c ... Dr. To Bank A/c (Being the amount paid to the Debentureholders.)		1,24,800	1,24,800

A. B. Limited

Balance Sheet *as at*.

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		**Fixed Asset :**	
Authorised		Freehold Property	1,00,000
30,000 Equity Shares of Rs. 10 each	3,00,000	*Current Assets, Loan & Advance :*	
Issued and paid up Capital			
30,000 Equity Shares of Rs. 10 each	3,00,000	Stock-in-Trade	1,20,000
		Sundry Debtors	80,000
Reserve and Surplus :			
Profit & Loss A/c (cr)	70,000	Cash & Bank Balances	1,45,200
Share Premium A/c	15,200		
Current Liabilities & Provisions :			
Sundry Creditors	60,000		
	4,45,200		4,45,200

Notes : (i) The amount of Cash & Bank Balances is ascertained thus :

	Rs.	Rs.
Cash and Bank Balance as per old Balance Sheet		2,20,000
Add Cash received by issue of Equity Shares		70,000
		2,90,000
Less Dividend paid in cash	20,000	
Cash paid to Debentureholders	1,24,800	
		1,44,800
∴ Cash & Bank Balance in hand		1,45,200

(B). Right Shares

1. Issue of Right of Shares :

When shares are issued by a company after the first issue, these are to be offered to the existing shareholders in proportion to their existing equity share holdings unless the company has resolved otherwise by a special resolution. This type of issue is called the*Right Issue* (Sec. 81).

2. Valuation of Right :

If the market value of the shares of a company is high, the right to buy more shares is valuable. This right itself can be sold. The person buying this right will be entitled to purchase the fresh shares issued by the company. For the valuation of the *Right Shares* the market value or the estimated value of the existing shares is to be taken into consideration. The value of right is actually the proportionate excess of market value of a share over its issue price.

3. Methods of Valuation :

The value of right can be ascertained in either of the following methods :-

(a) First Method :

[Market value—(Market value of the existing holdings *Plus* Issue price of the Right Share × No. of shares available against the existing holdings) ÷ Total No. of shares including the Right Shares.]

(b) Second Method :-

$$\frac{\text{No. of Rights offered}}{\text{Total No. of holdins including Right}} \times (\text{Market Value} - \text{Issue Price})$$

Illustration 13

A company offers to its existing shareholders the right to buy one share of Rs. 20 each at Rs. 25 for every three shares of Rs. 20 each already held. The market value of a share of the company is Rs. 30. Calculate the value of the right.

Solution by 1st method :

$30-(30\times3+25\times1)\div4=30-(90+25)\div4=30-\frac{115}{4}$

$=30-28{\cdot}75$

$=$Rs. 1·25 (the value of the Right)

Solution by second method :

$\frac{1}{4}\times(30-25)$

$=\frac{1}{4}\times5$

$=$Rs. 1·25 (the value of the right)

Illustration 14

A company offers to its existing shareholders the right to buy one share of Rs. 10 each at Rs. 12 for every three shares of Rs. 10 each already held. The market value of a share of the company is Rs. 15. Calculate the value of the right.

Solution by 1st method—

$$15-(15\times3+12\times1)\div4=15-\tfrac{57}{4}=15-14{\cdot}25$$
$$={\cdot}75 \text{ paise (the vale of the right).}$$

Solution by 2nd method —

$$\tfrac{1}{4}\times(15-12)=\tfrac{1}{4}\times3={\cdot}75 \text{ paise (the value of the right).}$$

Illustration 15

The face value of the Equity Shares of a company is Rs. 10 and the current market price is Rs. 17. The company issues 'right' shares at the rate of 3 Equity Shares for every five existing Equity Shares held, the 'right' shares being priced at Rs. 13.

Calculate the value of the right.

(C. U. B. Com Hons. (Adv.) 1963)

Solution

(a) By first method —

$$17-(17\times5+13\times3)\div8=17-(85+39)\div8$$
$$=17-\tfrac{124}{8}=17-15{\cdot}50=\text{Rs. }1{\cdot}50 \text{ (value of the right)}$$

(b) *By second method—*

$$\tfrac{3}{8}\times(17-13)=\tfrac{3}{8}\times4=\tfrac{12}{8}=\text{Rs. }1{\cdot}50 \text{ (value of right)}$$

4. *Recording transactions relating to the issue of Right Shares :*

Transactions relating to the issue of Right Shares are recorded in the books of accounts of the company in the same way as the transactions relating to the issue of general shares are recorded.

(C) Underwriting of Shares and Debentures

1. **Underwriting Commission :** The commission payable to the underwriters is known as *Underwriting Commission.* Sec. 76 of the Companies Act limits such commission to 5% of the *Issue Price* of shares and $2\frac{1}{2}$% of the *Issue Price* of debentures. A company cannot pay any commission on issue of shares or debentures unless it is permitted by its articles. Commission can not be paid on shares or debentures which are not offered to the public for subscription. The issue of shares and debentures may be underwritten wholly or partly by one or more than one underwriter.

2. **Marked Applications :** Application forms issued by underwriters or brokers are stamped with their names. Such applications are called *Marked Applications.* Those application forms which are not stamped are called *Unmarked Applications.*

3. **Brokerage :** A broker gets commission subject to the limits prescribed by sec. 76 on the shares subscribed through him, but is under no obligation to take up any share that may remain unsold.

4. **Over-riding Commission :** The underwriters may enter into separate agreements with sub-underwriters in order to distribute the risk of underwriting. The principal underwriters are generally paid an additional commission. This commission is called *over-riding* commission.

5. **Commission on placing of Shares :** Sometimes a commission is paid to persons who first take up the entire issue of shares and then place those shares for sale to the public. This commission is called the *Commission on placing of Shares*. This commission is generally paid in cash. But sometimes it is satisfied by fully paid shares or partly in cash and partly in fully paid shares.

6. **Underwriter's Liability :** When an underwriter underwrites the entire issue, the shares or debentures left unsubscribed by the puplic will have to be taken up by the underwriter himself. If the public subscribe for the whole of the shares, the underwriter does not have to take up any shares. When there are sub-underwriters, the liability of the principal underwriter shall be distributed in between himself and the sub-underwriters. When an uuder-writer underwrites only a part of the issue, his liability will be shares under-written by him less applications received through him. For the remaining part of the issue company itself should be treated as an underwriter. As the underwriters are liable only for the short-subscription, the shares subscribed by the public directly will also be applied in reducing the liability of the underwriters. If all the shares are subscribed the underwriter will have no liability even though the applications received through the underwriter is less than the shares under-written. Where there are number of underwriters, if the applications received through one underwriter (i. e. No. of marked applications) exceed his liability, the excess will be distributed amongst other underwriters in the ratio of their *gross liability* or in the ratio of *shares underwritten*. The *gross liability* of each under-writer is ascertained by applying the ratio in which the shares are underwritten by him to the total number of underwritten shares.

7. **Firm Underwriting :** Sometimes underwriters request that they be allotted a certain number of shares and debentures irrespective of their potential liability under the underwriting agreement. That is they want to subscribe for the shares and debentures, whatever the response of the public to the issue may be. This is regarded as *firm underwriting*. In such a case the under-writers will have to subscribe both for shares or debentures *underwritten firm* and for shares and debentures they have taken under underwriting contract. In other words the ultimate liability of each underwriter is the net liability for short-subscription together with firm applications when, however, the under-writing agreement provides for relief to be given for firm applications, the number of shares to be taken up by each underwriter as per terms of contract will be reduced by the number of shares taken *firm*.

8. **Journal Entry for Underwriting Commission or Brokerage :**

(i) For Commission on Issue of shares payable to underwriter or Broker :

Commission on Issue of Shares A/c Dr.
To Underwriter's or Broker's A/c

(ii) For Commission on Issue of Debenrures payable to Underwriter or Broker :

Commission on Issue of Debentures A/c Dr.
To Underwriter's or Broker's A/c

(iii) For Discount, Commission, Expenses etc. on Issue of Debentures :

Cost of Issue of Debentures A/c Dr.
To Commission on Issue of Debentures A/c
To Discount on Issue of Debentures A/c

Illustration 16 *(Underwriting of the entire Issue)*

Kali stores Ltd. made an issue of 5,000 8% Debentures of Rs. 100 each at 95. The whole of the issue was underwritten by M/s. Agarwal & Co. 4,500 Debentures were applied for and allotted. The underwriters discharged their liability and were paid their commission, what was at the rate of 2% on the nominal value of the Debentures. Give journal entries and show the Balance Sheet of the company.

Solution **Journal Entries** Dr. Cr.

Date	Particulars	L. F.	Rs.	Rs.
	Bank A/c ... Dr Discount on Issue of Debentures A/c ... Dr To 8% Debentures A/c (Being cash received on 4,500 8% Debentures of Rs. 100 each issued @ Rs. 95 per Debenture.)		4,27,500 22,500	 4,50,000
	M/s. Agarwal & Co. A/c ... Dr. Discount on Issue of Debentures A/c ... Dr. To 8% Debentures A/c (Being 500 8% Debentures of Rs. 100 each issued to M/s. Agarwal & Co. @ Rs. 95 per Debenture.)		47,500 2,500	 50,000
	Commission on Issue of Debentures A/c ... Dr. To M/s. Agarwal & Co. A/c (Being underwriting Commission allowed to M/s. Agarwal & Co. @ 2% on Rs. 5,00,000 8% Debentures.)		10,000	 10,000
	Cost of Issue of Debentures A/c ... Dr. To Discount on Issue of Debentures A/c To Commission on Issue of Debentures A/c (Being discount and commission transferred to Cost of Issue of Debentures A/c.)		35,000	 25,000 10,000
	Bank A/c ... Dr. To M/s. Agarwal & Co. A/c (Being amount due from M/s. Agarwal & Co. received.)		37,500	 37,500

Kali Stores Ltd.

Balance Sheet *as at......*

Liabilities	Rs.	*Assets*	Rs.
Secured Loan :		**Current Assets :**	
5,000 8% Debentures of Rs. 100 each	5,00,000	Cash at Bank	4,65,000
		Miscellaneous Expenditures : Cost of Issue of Debentures	35,000
	5,00,000		5,00,000

Illustration 17 *(Partial Underwriting)*

A Co. Ltd. issued 2,000 6% Debentures of Rs. 100 each at a premium of 10%. Fifty per cent of this issue was underwritten by M/s. Anthony & Co. @ 2½% on the issue price of the Debentures. Applications were received for 1,600 Debentures. Journalise the transactions assuming all moneys due have been received.

Solution

Note : In this case M/s Antony & Co. has underwritten only 50% of the *Issue*. For the remaining 50% A Co. Ltd. should be treated as an underwriter. As no information is available, 50% of the application for 1,600 Debentures (i.e. 800) should be taken as marked in favour of the underwriter. The liability of the underwriter will, therefore, be (1,000—800) 200 Debentures.

Journal Entries

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
	Bank A/c ... Dr.		1,76,000	
	To 6% Debentures A/c			1,60,000
	To Premium on issue of Debentures A/c			16,000
	(Being cash received on 1,600 Debentures of Rs. 100 each issued @ Rs. 110 per Debenture.)			
	M/s. Antony & Co, A/c ... Dr.		22,000	
	To 6% Debentures A/c			20,000
	To Premium on Issue of Debentures A/c			2,000
	(Being 200 6% Debentures of Rs. 100 each issued to M/s. Antony & Co. @ Rs. 110 per Debenture as per agreement.)			
	Commission on Issue of Debentures A/c ... Dr.		2,750	
	To M/s Antony & Co. A/c			2,750
	(Being underwriting commission @ 2½% on 1,000 Debentures issued at Rs. 110 per Debenture.)			
	Bank A/c ... Dr.		19,450	
	To M/s. Antony & Co. A/c			19,450
	(Being the amount due from M/s. Antony & Co. received.)			

Illustration 18 *(Firm Underwriting)*

Calcutta House Building Association, Ltd. issue 1,00,000 Ordinary Shares of Rs. 100 each. P. Q. R and S underwrite the entire issue in the proportions of 40%, 30%, 20% and 10% respectively in consideration of a commission of 4%. They also apply firm for shares as follows : P for 4,000 shares ; Q for 3,000 shares ; R for 2,000 shares and S for 1,000 shares. Besides the firm application of the underwriters, the public apply for 60,000 shares.

Show the number of shares to be taken up by each of the underwriters, and also the commission received by each. (C. U. B. Com. (Adv.) 1956)

Solution

Shares applied for by the public			60,000 shares
Shares covered by "Application firm"			
	P ...	4,000 shares	
	Q ...	3,000 ,,	
	R ...	2,000 ,,	
	S ...	1,000	10,000
Total shares applied for			70,000

The balance of (1,00,000 – 70,000) or 30,000 shares remaining unapplied for, will have to be taken up by the 4 underwriters in the ratio of 4 : 3 : 2 : 1

∴ Unapplied shares will be taken up by underwriters as follows :

P will take up $\frac{4}{10}$ of 30,000 or 12,000 shares
Q ,, ,, ,, $\frac{3}{10}$ of 30,000 or 9,000 ,,
R ,, ,, ,, $\frac{2}{10}$ of 30,000 or 6,000 ,,
S ,, ,, ,, $\frac{1}{10}$ of 30,000 or 3,000 ,,

30,000

∴ P's Total holding = 12,000+4,000 (applied firm) or 16,000 shares
Q's ,, ,, = 9,000+3,000 (,, ,,) or 12,000 ,,
R's ,, ,, = 6,000+2,000 (,, ,,) or 8,000 ,,
S's ,, ,, = 3,000+1,000 (,, ,,) or 4,000 ,,

Commission receivable on the total issue = $\frac{4}{100}$ of 1,00,00,000 or Rs. 4,00,000

The underwriters will share commission as shown below :

P will get $\frac{40}{100}$ of Rs, 4,00,000 or Rs. 1,60,000
Q ,, ,, $\frac{30}{100}$ of Rs. 4,00,000 or Rs. 1,20,000
R ,, ,, $\frac{20}{100}$ of Rs. 4,00,000 or Rs. 80,000
S ,, ,, $\frac{10}{100}$ of Rs. 4,00,000 or Rs. 40,000

Total Rs. 4,00,000

Illustration 19

A company issues 20,000 shares of Rs. 10 each. The entire issue is underwritten as follows :

A — 12,000 shares ; B — 5,000 shares ; and C — 3,000 shares. The firm underwriting were as follows :

A — 1,600 shares ; B — 600 shares and C — 2,000 shares. Altogether 14,200 applications including firm underwriting were received. The marked applications were :

A — 2,000 shares ; B — 4,000 shares ; and C — 1,000 shares. Calculate the liablity of each underwriter.

(Adapted C. A. Final)

Solution

(a) When shares underwritten firm set off against the liability of underwriters

Underwriters		Marked applications		Applications firm	Total
A	...	2,000	+	1,600	= 3,600
B	...	4,000	+	600	= 4,600
C	...	1,000	+	2,000	= 3,000
Total	...	7,000		4,200	11,200

Now, unmarked applications are :—

(Total applications 14,200 − 11,200) = 3,000

The liability of the underwriters will be as under :-

	A	B	C	Total
Gross liability	12,000	5,000	3,000	20,000
Less 3,000 Unmarked applications allocated in the ratio of gross liability i.e. 12 : 5 : 3.	1,800	750	450	3,000
Balance	10,200	4,250	2,550	17,000
Less Total of marked and firm applications	3,600	4,600	3,000	11,200
Net Liability	6,600	+350	+450	5,800
Credit for over-subscription of B and C (i.e 350+450)	−800	—	—	—
Shares lo be taken up as per agreement	5,800	×	×	5,800
Add Firm Applications	1,600	600	2,000	4,200
Total Shares to be taken up	7,400	600	2,000	10,000

(b) When shares underwritten firm not set off against the liability of Underwriters.

Unmarked applications = (14,200 − 7,000) = 7,200

	A	B	C	Total
Gross Liability	12,000	5,000	3,000	20,000
Less 7,200 unmarked applications allocated in the ratio of gross liability i.e. 12 : 5 : 3.	4,320	1,800	1,080	7,200
Balance	7,680	3,200	1,920	12,800
Less marked applications	2,000	4,000	1,000	7,000
Balance	5,680	+800	920	5,800
Credit for B's over-subscription to A and C in the ratio of gross liability i.e. 12 :3.	640	−800	160	—
Net Liability	5,040	×	760	5,800
Add Firm Applications	1,600	600	2,000	4,200
Total Shares to be taken up ...	6,640	600	2,760	10,000

(D) Pre-incorporation Profit & Loss

(i) *Pre-incorporation Profit* :

A company comes into existence only after its registration or incorpration. It can not, therefore, earn any profit prior to its date of incorporation. But, some times, it happens that a new company is formed to take over a running business from a date prior to the date of its incorporation. The profit earned from the date of purchase upto the date of incorporation (in case of a private company) and upto the date of commencement of business (in case of public company) is *Capital profit*. This profit is called *Pre-incorporation profit* or *profit prior to incorporation*. The pre-incorporation profit belongs to the vendor and the profit earned after incorporation i.e. Post-incorporation profit belongs to the Company. But by virtue of an agreement with the vendor, the Company may be entitled to such profit. Pre-incorporation profit may be adjusted with the goodwill or may be transferred to Capital Reserve. Pre-incorporation profit may also be utilised in writing down preliminary expenses, discount on issue of shares and debenturs etc. Pre-incorporation profit is not available for dividend. But post-incorporation profit is revenue profit and available for devidend.

If the vendor or selling Company claims an interest on the outstanding purchase consideration, the amount is to be set off against pre-incorporation profit. If the selling company claims some estimated profit instead of interest, the amount is to be considered in purchase consideration. The excess, if any, or pre-incorporation profit will be transferred to Capital Reserve and deficiency, if any, will be adjusted with Goodwill.

The total profit for the year (i.e. the year of the purchase of the business) is to be divided into 'Pre' and 'Post' incorporation profit. Proper allocation of 'pre' and 'post' incorporation profits can only be made by preparation of a Profit & Loss A/c on the date of incorporation. But this means taking stock and closing books of accounts. Taking stock and closing books of accounts in the intervening period prove to be most inconvenient. Therefore, the normal practice is to prepare profit and loss Account only at the end of the year and then to allocate the profits on some equitable basis between two periods—(i) upto incorporation and (2) after incorporation.

The allocation is made on the following basis :

(a) Trading Account is to be prepared for the entire accounting period.

(b) Gross profit should be allocated according to the ratio of turnover (sales) for the two periods. When exact sales are not available, gross profit may be distributed between the two periods on time basis,

(c) **Profit and Loss A/c will be divided into two parts i.e. Pre-incorporation and Post-incorporation periods with the corresponding gross profits.**

(d) **Expenses relating to sales such as commission, carriage, discount allowed, bad debts, advertisement, brokerage etc. should be allocated in the ratio of sales.**

(e) Standing charges such as rent, salaries, interest, taxes. depreciation, insurance, printing & stationery, telephone, postage, general expenses etc. should be allocated on time basis.

(f) Preliminary expenses, Directors' fees, Interest on debentures, Commission to managing agents, Auditor's fees etc. should be charged wholly to the post-incorporation period.

(g) Interest on purchase consideration is charged to pre-incorporation period. If purchase consideration is paid sometimes after incorporation or commencement date, proportionate amount should be charged to Post-incorporation period.

(h) Partners' salaries, interest on capitals etc. should be charged to Pre-incorporation period.

(ii) *Pre-incorporation Loss* :

Pre-incorporation loss may be either (i) added to goodwill or (2) set off against post-incorporation profit or (3) carried forward with post-incorporation loss or (4) deducted from Capital Reserve.

Where a pre-incorporation loss occurs and interest is payable on purchase consideration, the loss would be increased by the amount of the interest paid.

Illustration 20

Devanath Limited was registered on 1st April, 1948 as a private Limited Company, to take over the business of Messrs. Devanath as on the 1st January, 1948.

The following balances have been taken from the books of Devanath Ltd. as on the 31st December 1948 :—

	Rs.
Sales (Sales for the Company period amounted to Rs. 2,00,000)	2,50,000
Gross Profit (For the company period amounted to Rs. 60,000)	1,00,000
Director's Fees	1,200
Preliminary Expenses	5,000
Rent	3,600
Debenture Interest	2,600
Salaries	6,000
Insurance Premium	500
Audit Fees	1,000
Depreciation of Plant	750

You have been asked to ascertain the Net Profit relating both to the Pre-incorporation and the Company periods. (C.U.B. Com. (Adv) 1949)

Solution

Devanath Ltd.

Dr. **Profit & Loss Account** for the year ended 31st Dec. 1948. **Cr.**

Particulars	Pre-incorporation period	Company period	Particulars	Pre-incorporation period	Company period
	Rs.	Rs.		Rs.	Rs.
To Salaries	1,500·00	4,500·00	By Gross Profit b/d	40,000·00	60,000·00
„ Rent	900·00	2,700·00			
„ Insurance Premium	125·00	375·00			
„ Directors' Fees	—	1,200·00			
„ Preliminary Expenses	—	5,000·00			
„ Debenture Interest	—	2,600·00			
„ Audit Fees	—	1,000·00			
„ Depreciation of Plant	187·50	562·50			
„ Net Profit	37,287·50	42,062·50			
	40,000·00	60,000·00		40,000,00	60,000·00

Notes : (1) Company period means Post-incorporation period.

(2) Directors' fees, Preliminary expenses, Debenture interest, and Audit fees should be charged wholly to the Post-incorporation period.

(3) Rent, insurance premium, salaries, and depreciation are allocated on time basis i.e. $\frac{1}{4}$th for Pre-incorporation period and $\frac{3}{4}$ths for Post-incorporation period.

Illustration 21

A. B. C Ltd. was incorporated on 1st April, 1959 to take over as a going concern the partnership business of X and Y with effect from 1st January of the same year, from which date all profits of the business were to belong to the Company. The agreed purchase price was paid to the vendors on 30th April, 1959 with interest, which was due from 1st January to the date of payment.

The following is a list of items to be included in the Profit and Loss Account for the year to 31st December, 1959 :

	Rs.		Rs.
Wages	22,400	Interest paid to Vendors	1,220
General Expenses	3,684	Directors' Fees	2,675
Vendors' Salary	1,850	Depreciation of Motor Vans	460
Rent & Rates	764	Gross Profit	42,000
Commission on Sales	2,100		
Bad Debts	367		

The following additional information is avaibale :

(a) Sales during the year were—January to March Rs. 60,000 ; April to December Rs. 1,50,000. Gross Profit was earned at a uniform rate of 20 p. c. on sales throughout the year. The rate of Commission on sales was 1 per cent,

(b) Salary paid to Vendors was for their service in managing the business upto 31st March, 1959.

(c) Bad Debts written off comprised a debt of Rs. 177 taken over from the Vendors and an amount of Rs. 190 against goods sold in July, 1959.

(d) Wages and General Expenses are equally spread over the year, assuming that all months are of equal length.

(e) Two three-wheeler vans were taken over from the vendors at an agreed value of Rs. 1,500 and a new one was purchased for Rs. 1,200 on 1st May, 1959. The rate of depreciation is 20 per cent per annum.

Prepare a Profit and Loss Account in columnar form distinguishing between the periods prior to and after the incorporation of the Company.

(C. U. B. Com. (Adv.) 1963)

Profit and Loss Account

Dr. *for the year ended 31st December, 1952* Cr.

Particulars	Pre-incorporation period	Post-incorporation period	Particulars	Pre-incorporation period	Post-incorporation period
	Rs.	Rs.		Rs.	Rs.
To Wages	5,600	16,800	By Gross Profit b/d @ 20% on Sales	12,000	30,000
„ General Expenses	921	2,763			
„ Vendors' Salary	1,850	—			
„ Rent & Rates	191	573			
„ Commission on Sales	600	1,500			
„ Bad Debts	177	190			
„ Depreciation on Motor Vans	75	385			
„ Directors' fees	—	2,675			
„ Interest paid to Vendors	915	305			
„ Net Profit	1,671	4,809			
	12,000	30,000		12,000	30,000

Notes : (1) Wages and general expenses are allocated on time basis i.e. ¼th for pre-incorporation and ¾ths for post-incorporation period.

(2) Depreciaticn on Rs. 1,500 @ 20% is Rs. 300. This is allocated on time basis i.e. ¼th (Rs. 75) for 'pre' and ¾ths (Rs. 225) for 'post' incorpotation period. Depreciation on Rs. 1,200 @ 20% for

the period from 1st May 1959 to 31st December 1959 (i.e. 8 months) is Rs. 160. This amount will be charged to post-incorporation profit.

(3) Interest on purchase consideration was paid to vendors on 30th April 1959. From 1st January 1959 to 1st April 1959 (i.e. 3 months) is 'pre' and from 1st April 1959 to 30th April 1959 (i.e. 1 month) is 'post'-incorporation period. So interest is allocated on time basis i.e. in the ratio of 3 : 1 between the two periods.

Illustration 22

'A' Co. Ltd. was incorparated on 1st May, 1963 to take over the business of 'X' Co. Ltd. as a going concern as from 1st January, 1963. The Profit and Loss Account for the year ending 31st December, 1963 is as follows :—

'A' Co. Ltd.

Dr. **Profit and Loss Account** **Cr.**

	Rs.		Rs.
To Rent and Taxes	12,000	By Gross Profit b/d	1,55,000
,, Insurance	3,000		
,, Electricity charges	2,400		
,, Salaries	36,000		
,, Director's Fees	3,000		
,, Auditor's Fees	1,600		
,, Commission	6,000		
,, Advertisement	4,000		
,, Discount	3,500		
,, Office Expenses	7,500		
,, Carriage	3,000		
,, Bank charges	1,500		
,, Preliminary Expenses	6,500		
,, Bad Debts	2,000		
,, Interest on Loan	3,000		
,, Net Profit	60,000		
	1,55,000		1,55,000

The total turnover for the year ending 31st December, 1963 was Rs. 5,00,000 divided into Rs. 1,50,000 for the period up to 1st May, 1963 and 3,50,000 for the remaining period,

Ascertain the profits earned prior to incorporation of the Company.

(C.A. Inter. May 1964)

Solution

'A' Co. Ltd.

Dr. **Profit & Loss A/c.** for the year ended 31st December, 1963 Cr.

Particulars	Pre-incorporation	Post-incorporation	Particulars	Pre-incorporation	Post-incorporation
	Rs.	Rs.		Rs.	Rs.
To Rent & Taxes	4,000	8,000	By Gross Prfit b/d (allocated in the ratio of sales i.e. 3 : 7)	46,500	1,08,500
,, Insurance	1,000	2,000			
,, Electric Charges	800	1,600			
,, Salaries	12,000	24,000			
,, Directors' fees	—	3,000			
,, Auditors' fees	—	1,600			
,, Office Expenses	2,500	5,000			
,, Bank Charges	500	1,000			
,, Interest on Loans	1,000	2,000			
,, Commission	1,800	4,200			
,, Advertisement	1,200	2,800			
,, Discount	1,050	2,450			
,, Carriage	900	2,100			
,, Bad Debts	600	1,400			
,, Preliminary Expenses	—	6,500			
,, Net Profit c/d	19,150	40,850			
	46,500	1,08,500		46,500	1,08,500

Notes : (1) Rent & Taxes, Insurance. Electricity charges, Salaries, Office Expenses, Bank charges, and Interest on loans are allocated on time basis i.e. $\frac{1}{3}$ for 'Pre' and $\frac{2}{3}$ds for 'Post' incorporation periods.

(2) Commission, Advertisement, Discount, Carriage, and Bad Debts are allocated in the ratio of sales (i.e. 3 : 7) between Pre and Post incorporation periods.

(3) Directors fees, Auditors' fees and Preliminary Expenses are charged wholly to the Post-incorporation period.

(E) Management and Managerial Remuneration

1. Company Management :

The shareholders are the proprietors of a company. But, in practice, they have nothing to do with its management. They elect from amongst themselves some representatives and the management of the company is vested in them. These representatives are called individually *Directors* and collectively *Board of Directors.* The Board exercises over-all control and supervision over the affairs of the company. It is the ultimate executive authority in all affairs of the Company.

5

A public company and a private Company subsidiary to a public Company must have at least *three* directors, while a private Company not being a subsidiary to a public Company must have at least *two* directors.

An individual director can also act as the manager, or the managing or wholetime director of the company and can exercise all those powers as delegated to him by the Board of Directors.

Besides directors, a Company may have Managing Agent or Secretary and Treasurer or Manager. But according to section 197A of Companies Act a company can not be managed at the same time by more than one of the following :—

(1) Managing or wholetime Director

(ii) Managing Agent

(iii) Secretary & Treasurer and

(iv) Manager.

2. Managerial Remuneration :

Remuneration payable by a public Company or a private Company which is a subsidiary of a public Company, to its directors, managing agents, secretaries & treasurers or managers for services rendered by them in managing the affairs of the Company, is termed as *Managerial Remuneration.*

(a) *Overall maximum remuneration* :

Section 198 puts an overall maximum limit of 11% of the net profits of the Company on the total remuneration payable to the managerial personnels i.e. directors, managing or wholetime director or managing agent or secretaries & treasurers or managers—to all of them taken together.

In computing the net profits for this purpose directors' remuneration should not be deducted from the gross profit. In calculating the maximum limit i.e. 11% of the net profits, fees payable to the directors for attending any Board or Committee meeting and any amount paid to a technical adviser who is also a director should not be included. Remuneration, however, will include all sorts of perquisites (such as rent free accommodation, free motor car, free passage, free education of children, pensionary benefits etc.) allowed to the managerial personnels.

(b) *Overall minimum remuneration* :

If a Company has no profits or the profits are insufficient in any financial year, a minimum remuneration upto Rs. 50,000 may be paid to the managerial personnels with the approval of the Central Government. The Central Government has the power to increase the minimum remuneration in appropriate cases

3. Remuneration of Directors :

The remuneration of directors is to be determined by the articles or by the resolution of the company subject to section 309 of the Companies Act. A director may get his remuneration by monthly payment. He may receive fees for attending Board or Committee meetings. Besides he may get commission on net profits of the company.

If there is only one managing or wholetime director, his commission can not exceed 5% of the net profit. Where there are more than one managing or whole time director the commission can not exceed 10% of the net profit for all of them together. Other directors (i.e. not whole time or managing directors) may get their remuneration either by way of salary or by way of commission. The commisson of all such directors can not exceed 1% of the net profits if the company has a wholetime/managing director or a managing agent or secretaries & treasurers or a manager. The commission payable to all such directors can not exceed 3% of the net profits in other cases (i.e. if the company has no managing/wholetime director or managing agent or secretaries & treasurers or manager.)

The provisions of section 309 do not apply to private company unless it is a subsidiary of a public company.

Any amount paid to a technical adviser, who is also a director, is not to be included in the remuneration of a director.

According to sections 310 and 311 any increase in the remuneration of the directors requires the approval of the Central Government.

In calculating the commission of the directors, the net profit of the company are to be computed according to the sections 349, 350 and 351 except that the directors' remuneration is not to be deducted from the gross profits.

4. Remuneration of Managing Agent and Secretaries & Treasurers :

According to section 348 the remuneration of the managing agents shall not exceed 10% of the annual net profits of the company. Under section 352 additional remuneration may be allowed to them if approved by a special resolution and also by the Central Government.

Any payment made by way of remuneration to any partner when the managing agent is a firm, to any director when the managing agent is a public company, to any director and member when the managing agent is a private company, shall be deemed to be included in the remuneration of the managing agent.

According to section 354, a managing agent is not entitled to any office allowance, but he may be reimbursed actual expenses incurred by him on behalf of the managed company provided it is sanctioned by the Board of Directors or by the company in general meeting.

Under section 198 an amount not exceeding Rs. 50,000 can be paid as remuneration to the managing-agent if there are no profits or the profits are insufficient, with the approval of the Central Government.

The managing agents can not draw their remuneration until the accounts of the company for the related year have been audited and laid before the company in general meeting. However, the minimum remuneration (i.e. not exceeding Rs. 50,000), if approved, may be paid in such instalments as specified in the articles or in a resolution or in agreement between the managing agents and the campany.

For calculating the remuneration of the managing agents, the net profits of the company are to be computed according to the provisions of the sections 349, 350 and 351.

Sections 356-360 govern the appointment of managing agents as selling and buying agents and payment of remuneration for that.

According to section 381 the remuneration of the *secretaries & treasurers* is to be calculated in the same manner as that of the managing agent, except that it must not exceed $7\frac{1}{2}\%$ of the net profits of the company computed under sections 349, 350 and 351.

Slab System or Sliding scale :

The remuneration of the managing agent and the secretaries & treasurers is made payable on a slab system introduced in 1959 by an order of the Central Government. The sliding scale is given below :—

	Managing Agents	Secretaries & Treasurers
On first Rs. 10 lakh of net profit	10%	$7\frac{1}{2}\%$
,, next ,, 10 ,, ,, ,, ,,	9%	$6\frac{3}{4}\%$
,, ,, ,, 10 ,, ,, ,, ,,	8%	6%
,, ,, ,, 10 ,, ,, ,, ,,	7%	$5\frac{1}{4}\%$
,, ,, ,, 10 ,, ,, ,, ,,	6%	$4\frac{1}{2}\%$
,, ,, ,, 25 ,, ,, ,, ,,	$5\frac{1}{2}\%$	$4\frac{1}{8}\%$
,, ,, ,, 25 ,, ,, ,, ,,	5%	$3\frac{3}{4}\%$
On Balance i.e. over Rs. 1 crore	4%	3%

5. Remuneration of Manager :

According to section 387 a manager of a company may receive his remuneration by way of monthly payment and/or by way of specified percentage of net profits of the company computed under section 349, 350 and 351. His total remuneration can not exceed 5% of the net profits without the approval of the Central Government.

6. Computation of the net profits :

Managerial remuneration is connected with the net profits of the company. So computation of net profits is important. The net profits of a company are ascertained according to sections 349—351. The net profits are determined in the following manners :

(a) *To be added with profits :*

Bounties and subsidies received from any Government or any public authority unless the Central Government otherwise directs.

(b) *Not to be added with profits :*

(i) Premium on shares and debentures issued by the Company.

(ii) Profits on sales of forfeited shares by the Company.

(iii) Profits of a capital nature including profits from the sale of the whole or a part of the undertaking of the Company.

(iv) Profits from the sale of any immovable property or fixed assets of a Company.

Provided that where the amount for which any fixed asset is sold exceeds its written down value as per section 350, credit should be given for so much of the excess as is not higher than the difference between the original cost and the written down value of that fixed asset.

(a) *To be deducted from profits :*

(i) All the usual working charges.

(ii) Directors' remuneration.

(iii) Bonus or commission paid or payable to the Company's staff engaged on a whole-time or on a part-time basis.

(iv) A tax on excess or abnormal profits.

(v) Any tax on business profits.

(vi) Interest on debenture issued by the Company.

(vii) Interest on mortgages executed by the Company and on loans and advances secured by a charge on its fixed or floating assets.

(viii) Interest on unsecured loans and advances.

(ix) Repairs to movable or immovable property, not being of a capital nature.

(x) Outgoings (donations to charitable funds etc.)

(xi) Depreciation as specified in section 350.

It is the normal depreciation calculated under the Indian Income Tax Act for the financial year for which net profits are to be ascertained. Normal depreciation includes extra and multiple shift allowances but excludes any special, initial or other depreciation or any development rebates.

If any asset is sold, discarded, demolished or destroyed before it is completely written off, the excess of the written down value over its sale proceeds (or scrap value) has to be written off in the year of sale, demolition, destruction etc.

(xii) Any revenue loss arising after the commencement of this Act in so far as it has not been taken into account in computing the net profits of that year or any subsequent year preceding the year in respect of which the net prfits are to be computed.

(xiii) Any compensation or damage payable on account of a legal liability including a liability arising from a breach of contract.

(xiv) Any insurance premium paid against the risk of meeting any liability such as is referred to in clause (xiii)

(xv) Debts considered bad and written off or adjusted during the year of accounts.

(d) *Not to be deducted from profits* :

(i) Remuneration payable to the Managing Agents.

(ii) Income tax, super tax or any other tax payable by the Company on its income.

(iii) Any compensation, damages or payments made voluntarily by the Company.

(iv) Loss of a capital nature not including any excess referred to in section 350.

Profit Sharing arrangement :

According to Section 351 if there is a profit sharing arrangement between two or more Companies under the same managing agent, the profits paid should be excluded from the profits of the Company making payment and included in the net profits of the Company receiving the payment in calculating the remuneration of the managing agent.

A *statement* showing how profits have been ascertained will have to be attached with the Profit & Loss Acccount of the Company for the purpose of managerial remuneration.

Commission to any officer or employee :

If any commission or remuneration based on net profit is payable to any officer or employee of a Company, the net profit shall be ascertained in the manner set out in sections 349, 350 and 351. The commission payable to any staff is to be computed after deducting such commission from the net profit.

Illustrtion 23

Calculate the commission payble to the Managing Agent according to section 348 of the Companies Act.

Profit and Loss Account of a Company

For the year ended 31st December 1968

	Rs.		Rs.
To Salaries & Wages	5,00,000	By Gross Profit b/d	40,00,000
,, Directors' fees	1,00,000	,, Profit on sale of Company's machine	2,00,000
,, Repairs	50,000	,, Bounties & Subsidies received from Govt.	8,00,000
,, Depreciation	3,50,000		
,, Working Charges	1,00,000		
,, Provision for tax	3,00,000		
,, Interest on Debentures	1,00,000		
,, Proposed Dividends	2,00,000		
,, Development Rebate	1,00,000		
,, Balance c/d	32,00,000		
	50,00,000		50,00,000

Solution

		Rs.
Gross Profit as per Profit & Loss A/c		10,00,000
Add Bounties & Subsidies		8,00,000
		48,00,000
	Rs.	
Less Salaries & Wages	5,00,000	
Directors' fees	1,00,000	
Repairs	50,000	
Depreciation	3,50,000	
Working Charges	1,00,000	
Interest on Debentures	1,00,000	
		12,00,000
Profits under Section 349		**36,00,000**

Remuneration of the Managing Agent on Sliding Scale

	Rs.
On Rs. 10,00,000 @ 10%	1,00,000
On Rs. 10,00,000 @ 9%	90,000
On Rs. 10,00,000 @ 8%	80,000
On Rs. 6,00,000 @ 7%	42,000
	3,12,000

Illustrtion 24 *(Commission to Managing Agents)*

From the following Profit and Loss Account of A B C Ltd. (a manufacturing Concern) for the year ended 31st December, 1963, calculate the Managing Agents remuneration in terms of the Companies Act, 1956. Managing Agent is entitled to a commission of 10% on the net profits of the company.

	Rs.		Rs.
Salary & Wages including Bonus	2,00,000	Gross Profit	4,80,000
Rent, Rates & Taxes	10,000	Bounties & Subsidies received from Govt.	5,000
Repairs & Renewals	15,000	Premium on Issue of Shares/Debentures	12,500
Insurance	3,750	Profit on sale of Forfeited Shares	500
Miscellaneous Expenses	23,250	Profit on sale of fixed assets	80,000
Voluntary Compensation	6,000		
Bad Debts	2,500		
Interest on Bank Overdraft	13,650		
Interest on Debentures	7,500		
Dirertor's fees	4,500		
Loss on sale, of investments	12,500		
Depreciation on fixed assets	18,350		
Donation	30,000		
Income tax	1,31,000		
Net Profit for the year	1,00,000		
	Rs. 5,78,000		Rs. 5,78,000

Note :	(1)	Original cost of the fixed assests sold	Rs. 1,00,000
		Written down value of the fixed assets sold	30,000
		Sale proceeds of fixed assets	1,10,000
	(2)	Donation allowable under Sec. 293 of Companies Act. 1956	25,000

(C. U. B. Com. *(Hons.)* Part II 1965)

Solution

		Rs.
Gross Profit as per Profit& Loss Account		4,80,000
Add Bounties & Subsidies received from Govt.		5,000
		4,85,000
	Rs.	
Less Salary & Wages including Bonus	2,00,000	
Rent, Rates & Taxes	10,000	
Repairs & Renewals	15,000	
Insurance	3,750	
Miscellaneous Expenses	23,250	
Voluntary Compensation	6,000	
Bad Debts	2,500	
Interest on Bank Overdraft	13,650	
Interest on Debentures	7,500	
Director's fees	4,500	
Depreciation on fixed assets	18,350	
Donations	25,000	3,29,500
		1,55,500
Add Profit on Sale of fixed assets (See note below)		70,000
		2,25,500

So, Managing Agent's Remuneration at 10% on Rs, 2,25,500= Rs. 22,550

Note : Where the amount for which any fixed asset is sold exceeds its written down value as per section 350, credit should be given for so much of the excess as is not higher than the difference between the original cost and written down value.

Here the fixed assets purchased for Rs. 1,00,000 written down to Rs. 30,000 by writing off depreciation is sold for Rs. 1,10,000. So the managing agents will get commission on Rs. 70,000 (Rs. 1,00,000—Rs. 30,000) i.e. excluding the profit over original cost.

Illustration 25 *(Commission to Directors and Managing Agents)*

Calculate the commission payble to Directors and Managing Agents.

Dr. **Profit and Loss Account** for the year ended 31st December, 1968 Cr.

	Rs.		Rs.
To Depreciation	30,000	By Gross Profit b/d	20,00,000
„ Directors' fees	5,000	By Profit on sale of Buildings	60,000
„ Expenses for share issue	1,000		
„ Loss on sale of assets	4,000		
„ Development Rebate	10.000		
„ Provision for taxation	5,00,000		
„ Balance c/d	15,10,000		
	20,60,000		20,60,000

The Directors are entitled to 10% commission on net profits. The Managing Agents are entitled to 10% commission calculated on sliding scale.

Note : The Cost of Building was Rs. 3,00,000. Written down value of the Building was Rs. 2,60,000. It was sold at Rs. 3,20,000.

Solution

		Rs
Profit as per profit & Loss Account		15,10,000
Add back :	Rs.	
Expenses for share issue	1,000	
Loss on Sale of assets	4,000	
Development Rebate	10,000	
Provision for taxation	5,00,000	
		5,15,000
		20,25,000
Less Capital profit on sale of Building (i.e. Rs. 3,20,000 – Rs. 3,00,000)		20,000
Net profit under section 309 and 198		20,05,000
Overall Managerial Remuneration @ 11% of Rs. 20,05,000 (under section 198) ...		2,20,550
Directors' Commission @ 1% of Rs. 20,05,000 ...		20,050

Managing Agents' Commission :

Net Profits	Rs. 20,05,000	
Less Directors 'Commission	Rs. 20,050	
Commission by sliding scale on	Rs. 19,84,950	
On Rs. 10,00,000 @ 10% = Rs.	1,00,000	
On Rs. 9,84,950 @ 9% = Rs.	88,645·50	1,88,645·50

Illustration 26 *(Commission to Managing Director and other Directors)*

Mr. Dinda is the Managing Director of X Co. Ltd. He is entitled to 5% of the net profits as his remuneration. Other directors are entitled to 1% of the net profit of the Company. Profits of the Company for the year ended 31st December, 1968 amount to Rs. 25,00,000 after charging depreciation Rs. 5,00,000. Development Rebate Reserve Rs. 4,00,000, provision for income tax Rs. 6,00,000, but before charging the remuneration of the Managing Director and other Directors. Depreciation under Sec. 350 of the Companies Act 1956 amount to Rs. 10,00,000. The Sur Tax amounts to Rs. 6,00,000. Calculate the remuneration of the Managing Director and other Directors.

Solution

			Rs.
	Profit as per Profit and Loss Account		25,00,000
		Rs,	
Add back :	Depreciation	5,00,000	
	Development Rebate Reserve	4,00,000	
	Provision for Income Tax	6,00,000	15,00,000
			40,00,000
Less :	Depreciation under Sec. 350,	10,00,000	
	Sur Tax	6,00,000	16,00,000
	Profit under Section 198 :		24,00,000
Managing Director's Commission :			
	5% of the net profits Rs. 24,00,000 =		1,20,000
Other Directors' Commission :			
	1% of the net profits Rs. 24,00,000 =		24,000

(F) Payment of Interest out of capital

According to section 205 of the Companies Act dividend can not be paid except out of profits. But there are Companies which would require heavy initial capital and would not be able to earn profit for a fairly long time during its initial stage. Section 208 allows such Companies to pay interest to its share-holders even in the absence of profits during the initial period of construction on certain conditions.

1. Conditions for payment of interest :

(1) Shares are issued to finance the constructions of works or buildings or the provision of plant which can not be made profitable for a lengthy period.

(2) The payment of interest is authorised by articles or by special resolution.

(3) The sanction of the Central Government is obtained for such payment.

(4) The rate of interest must not exceed 4% per annum or such other rate as the Central Government may, by notification in the Official Gazette, direct.

(5) Interest will be paid on so much of the share capital as is for the time being paid up.

(6) The payment of interest shall be made only for such period as may be fixed by the Central Government ; but the period shall in no case extend beyond the half year next after the half year during which the work or building is completed or the plant provided.

Example : The construction of a plant is over on 15th April, 1968. So interest can not be paid after 31st December. 1968.

(7) The interest paid shall not be deducted from the amount paid up on shares.

The Central Government may order an enquiry at the expense of the Company before sanction is given.

2. **Treatment in Accounts :**

Such interest is treated as part of the cost of construction and added to the cost of related works or buildings or plants i.e. these are not taken to Profit & Loss Account but debited to the related Asset Account. The amount of capital on which and the rate at which such interest is paid is to be shown clearly. But According to Schedule VI of the Companies Act 1956 the interest so paid is to be shown under the head '**Miscellaneous Expenses**' on the assets-side of the Company Balance Sheet.

3. **Interest on Loan raised for Capital purposes :**

If loans (like debentures) are raised for capital purposes, interest on such loans may be paid out of Capital. Such interest will, however, be charged to the related Asset Account. Section 208 is not applicable to the payment of such interest.

Illustration 27

The Gouhati Gas Co. Ltd. undertook to construct a Gas plant for which it issued 5,00,000 Equity Shares of Rs. 10 each. Rs. 5 per share was paid up. The Company got the necessary sanction from the Central Government to pay interest on its shares out of Capital @ 4% per annum. The plant was constructed in the course of two years at a cost of Rs. 20,00,000. Show how the payment of interest will be shown in the Company Balance Sheet.

Solution

The Gauhati Gas Co. Ltd.

Balance Sheet as at......

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		**Fixed Assets**	
Authorised Capital :		Plant	20,00,000
5,00,000 shares of Rs. 10 each	50,00,000		
		Miscellaneous Expenses :	
Issued & Subscribed Capital :		Interest paid on Share Capital of	
5,00,000 shares of Rs. 10 each	50,00,000	Rs. 25,00,000 @ 4% for 2 years.	2,00,000
Paid up Capital :		**Current Assets, Loans & Advances :**	
5,00,000 shares of Rs. 10 each, Rs.5		*(A) Current Assets :*	
per share being paid up	25,00,000	Cash	3,00,000
	25,00,000		**25,00,000**

(G) Divisible Profits

1. What are Divisible Profits :

Profits available for distribution to the shareholders of a Company are known as *Divisible profits*. Divisible profits are now determined by Section 205 of the Companies Act and by certain case-laws. Requirements of the Company's memorandum and articles in this connection are also to be complied with. The *principles* which determine the divisibe profits are stated below :

(1) No dividend shall be paid except out of profit for that year or out of profit for any previous year or years or out of both or out of moneys provided by the Central or State Governments for payment of dividend in pursuance of a guarantee given.

(2) Unless the Central Government specially allows otherwise, the divisible profit is to be ascertained after providing for *depreciation* under setion 350 or by any other method giving similar effect in the long run.

(3) Provision for depreciation on *fixed assets* is to be made not only for the current year but also for arrears of depreciation of the previous years which fall after the commencement of the Companies (Amendment) Act 1960. If in previous years there is loss after providing for depreciation, the loss or depreciation whichever is less is to be set off against current or past profits before the payment of dividend.

(4) Provision for depreciation on floating or *Current assets* is to be made.

(5) If a loss is sustained in a particular year, the past profit or general reserve, if any, will first be applied against the loss and only the balance, if any, will be available for dividend.

(6) *Past Losses* must be set off against General Reserve, if any. In the absence of any General Reserve current profits may be distributed without making good past losses.

(7) If the *goodwill* of a Company is written down out of profits, it may be written up to its true value by crediting profit and loss account. *Fixed assets* previously written down may also be written-up upto its reasonable value.

(8) In certain circumstances *Capital profits* may be distributed as dividend provided such profits are realised, surplus remains after revalutoin of all assets and the articles permit such distribution. But Capital Redemption Reserve, Premium on issue of shares and profit on forfeiture of shares can not be distributed as dividend even if, the articles permit.

(9) The Directors have the absolute power to set aside out of the profits of a Company any amount as reserve before declaring dividend.

2. Profit & Loss Appropriation Account :

The account showing the disposal of profits is called the Profit & Loss Appropriation Account. The amount of profit brought forward from the previous year and the profit of the current year are shown on the credit side of this account. Amounts set aside as General Reserve, Dividend Equalisation Fund, Sinking Fund for Redemption of Debenture, Dividends and Balance, if any, are shown on the debit side of this account.

3. Dividend :

Dividend is a share of a company's profit divided amongst its share-holders in proportion to their respective shareholdings. Dividend is declared by the Board of Directors in the annual general meeting of the company separately for the different classes of shareholders. The dividend can not exceed the amount which is recommended by the the Boad of Directors. Dividend may be paid either on face values or on paid up values of the shares held. In the absence of any indication in the articles the rate of dividend applies to the paid up values of shares. Dividend must be paid within 42 days from the date of declaration either to a registered share-holder or to his order or to his banker in cash, cheques or warrants pay-able on demand. *Unclaimed dividends* became time-barred after three years. The Board of Directors may apply dividend payable to a shareholder towards call money due from him. No dividend can bear any interest against the company. Dividends on shares having *calls in arrear* should be calculated on the amount actually paid and *calls in advance* should not be taken as part of paid up capital for the purpose of dividend. On payment of dividend Cash or Bank A/c is credited and respective Dividend A/cs. are credited.

Sometimes, in order to ensure funds to pay the dividend, the necessary amount is trasferred to a special *Dividend Bank Account* and the Banker is ins-tructed to honour dividend warrants against that account.

4. Interim Dividend :

Sometimes directors are authorised by the articles to pay dividend for the current year, before the close of the Company's accounting year. Such a dividend is called *interim dividend.* Interim dividend is declared entirely at the responsibility of the directors· If it is subsequently found that the profits of the Company are not sufficient to cover the amount paid as interim dividend, the directors will have to make good the amount. On payment of interim dividend, it is kept in *suspense* so long as the final dividend is not declared

5. Income Tax deductible at source :

Income tax at the prescribed rates is to be deducted at the time of pay-ment of dividend. This tax is in addition to the tax payable by the Company on its profits. The taxes so deducted must be paid to the Income Tax Depart-ment within a week from the date of payment of dividend. The shareholders are issued *Tax Deduction Certificates* which enable them to get proper refunds from the Income Tax Department while paying Income Tax on their individual incomes. If a Company declares *tax free dividends*, it will have to pay the tax due on such dividends.

6. Scrip Dividend :

Some Companies previously used to distribute dividends to its shareholder in the form of shares of other companies, which were held as investment. Such dividend was called *Scrip Dividend.* But now payment of dividend except in cash or cheque or warrant is prohibited

7. Transactions Relating to Dividend :

Transactions	Journal Entries
1. On declaration of Dividend : (a) On Ordinary Shares : (b) On Preference Shaers :	(a) Profit & Loss Appropriation A/c ... Dr. To Ordinary Share Dividend A/c (b) Profit & Loss Appropriation A/c ... Dr. To Preference Share Dividend A/c
2. On deduction of Income Tax on Dividend at source : (a) On Ordinary Share Dividend : (b) On Preference Share Dividend :	(a) Ordinary Share Dividend A/c ... Dr. To Income Tax Deducted at Source A/c (b) Preference Share Dividend A/c ... Dr. To Income Tax Deducted at Source A/c
3. On Transfer of an amount to special Dividend Bank Account : (a) For Ordinary Share Dividend : (b) For Preference Share Dividend :	(a) Ordinary Share Dividend Bank A/c ... Dr. To Bank A/c (b) Preference Share Dividend Bank A/c Dr. To Bank Account
4. On Payment of dividend : (a) Ordinary Share Dividend : (b) Preference Dividend :	(a) Ordinary Share Dividend A/c ... Dr. To Ordinary Share Dividend Bank A/c (b) Preference Share Dividend A/c ... Dr. To Preference Share Dividend Bank A/c
5. On payment of Income Tax to Income Tax Department :	Income Tax Deducted at Source A/c ... Dr. To Bank Account
6. On Payment of Interim Dividend : (a) Ordinary Interim Dividend : (b) Preference Interim Dividend :	(a) Ordinary Interim Dividend A/c ... Dr. To Bank Account (b) Preference Interim Dividend A/c Dr. To Bank Account
7. On adjustment of Interim Dividend with Final Dividend : (a) Ordinary Share Dividend : (b) Preference Share Dividend :	(a) Ordinary Share Dividend A/c ... Dr. To Ordinary Interim Dividend A/c (b) Preference Share Dividend A/c ... Dr. To Preference Interim Dividend A/c
8. On creation of Dividend Equalisation Fund :	Profit & Loss Appropriation A/c ... Dr. To Dividend Equalisation Fund A/c
9. On drawing an amount from the Fund :	Dividend Equlisation Fund A/c ... Dr. To Profit & Loss Appropriation A/c

Illustration 28 *(Calculation of dividend and deduction of tax)*

A Company has issued 10,000 ordinary shares of Rs 10 each on which Rs. 8 per share has been paid-up. The company declares dividend at the rate of 10%. Income Tax is deductible (supposed) at the rate of 25%. Calculate Dividend and the Income Tax.

Solution

Paid up Capital (i.e. 10,000 × 8) = Rs. 80,000
Dividend on Rs. 80,000 @ 10 = Rs. 8, 000
Income Tax @.25% on Rs 8,000 = Rs. 2,000

Illustration 29 *(Calculation of dividend and deduction of tax)*

A Company issued 10,000 ordinary shares of Rs. 25 each on which Rs. 20 per share was paid up on 1st January, 1968 and the call of Rs. 5 per share was made and paid on 1st July, 1968. The Company declares a divinend at the rate of 10% on 31st December, 1968. Income Tax is deductible (supposed) at the rate of 25%. Calculate the Dividend and the Income Tax.

Solution

From 1st January to 30th June (i.e. for ½ year) paid up Capital is Rs. 2,00,000 (i.e. 10,000 × 20).
From 1st July to 31st December (i.e for ½ year) paid up Capital is Rs. 2,50,000 (i.e. 10,000 × 25)

∴ *Dividend will be—*
@ 10% on Rs. 2,00,000 for ½ year = Rs 10,000
@ 10% on Rs 2, 50,000 for ½ year = Rs 12,500

Rs. 22,500

Now, *Income Tax wil be* :
@ 25% on Rs. 22,500 = Rs. 5,625

Illustration 30 *(Tax free dividend)*

A Company declares a dividend at the rate of 12% free of tax on Rs. 1,00,000. Calculate the amount to be provided by the Company in the Profit and Loss Account of the related year.

Solution

The amount of dividend payable to shareholders :
@ 12% on Rs. 1,00,000 = Rs. 12,000

The amount to be paid by th Company as tax :
@ 25% (supposed) on Rs. 12,000 = Rs. 3,000

∴ Amount to be provided in the Profit & Loss Account :
(Dividend Rs. 12,000 + Income Tax Rs. 3,000) = Rs. 15,000

Illustration 31 *(Interim Dividend)*

A Company pays interim dividend @ 6% on its Capital of Rs. 5,00,000 divided into 50,000 shares of Rs. 10 each. At the end of the year it declares a final dividend of 10%. Calculate the total dividend during the year.

Solution

(a)	Interim dividend will be : @ 6% on Rs. 5,00,000	=	Rs. 30,000	
(b)	Final dividend will be : @ 10% on Rs. 5,00,000	=	Rs. 50,000	
(c)	Total dividend will be			Rs. 80,000

Illustration 32 *(Profit & Loss Appropriation Account)*

X & Co. had a credit balance of Rs. 20,000 in its Profit & Loss A/c on 1st January, 1968. During 1968 its profit was Rs. 1,60,000. The Income Tax for the year amounted to Rs. 50,000. The Company decided to transfer Rs. 20,000 to Sinking Fund for Redemption of Debentures, Rs. 12,000 to General Reserve and to pay a dividend @ 10% for the year 1968. The paid up Capital of the Company was Rs. 4,00,000 divided into 40,000 shares of Rs. 10 each. Give the Profit & Loss Appropriation Account.

Solution

Dr. **Profit & Loss Appropriation Account** **Cr.**

figures for the previous year		Rs.	figures for the previous year		Rs.
	To Sinking Fund for Redemption of Debentures	20,000		By Balance b/d	20,000
	TO General Reserve	12,000		By Profits for the current year (less provision for taxation)	1,10,000
	To Proposed Dividend	40,000			
	To Balance c/d	58,000			
		1,30,000			1,30,000

Illustration 33 *(Divisible Profits)*

The position of a Company in different years is as follows :

Year	*Depreciation Charged*	*Net Profit or Net Loss*
	Rs.	Rs.
1965	30,000	40,000 (loss)
1966	40,000	50,000 (profit)
1967	25,000	15,000 (loss)
1968	35,000	20,000 (profit)

The Company wants to know the amount of divisible profits in its hand as at 31st December 1968. Calculate the divisible profits.

Solution

Notes :(1) 1965 : The loss or depreciation whichever is less is to be set off against current or past profits before the payment of dividend. Here depreciation Rs. 30,000 being less, is to be provided.

(2) 1967 : Here loss Rs. 15,000 being less, is to be provided.

Now, Divisible Profits as at 31st December, 1968 will be :

		Rs.	
Profit for 1966		50,000	
Profit for 1968		20,000	
	Rs.	70,000	
Less Depreciation (1965)	30,000		
,, Loss (1967)	15,000	45,000	
			Rs. 25,000

(H) Capital Reorganisation

(Alteration and Reduction of Capital)

A Company may reorganise its Capital by following means :

(1) By alteration of share capital and/or

(2) By reduction of share capital.

(I) Alteration of share Capital (Sections 94—98) :

A Company, if authorised by its articles, can alter its share capital in any one or more of the following ways.

(a) By increasing the share capital.

(b) By consolidation and subdivision of shares.

(c) By converting fully paid shares into stock or stock into shares, and

(d) By decreasing the share capital i.e. cancellation of unissued shares.

If authorised capital is increased, the company must file notice of the increase with the Registrar within fifteen days of the resolution. In case of increase or decrease of authorised share capital necessary changes shall be made in authorised capital in the Balance Sheet of the Company. For alteration of share capital in any other way, the company must file notice of alteration with the registrar within thirty days of the resolution.

In case of subdivision of shares, care must be exercised to see that the proportion between the amount paid and unpaid on every reduced share is same as it was in case of undivided shares.

Journal Entries relating to Alteration of Share Capital

Transactions	Journal Entries
(1) For increase of Share Capital. Note : Necessary changes will be made in the Authorised Capital in the next Balance Sheet.	No Journal Entry. Note : When new shares are issued journal entries will be on the same lines as for the original issue.
(2) For consolidation of shares : Note : Share Capital A/c with old details is to be closed and another Share Capital A/c with new details is to be opened.	Share Capital A/c (old) ... Dr. To Share Capital A/c (new)
(3) For subdivision of shares : Note : Share Capital A/c with old details is to be closed and another Share Capital A/c with new details is to be opened.	Share Capital A/c (old) ... Dr. To Share Capital A/c (new)
(4) For Conversion of shares into stock : (a) *at par :* (b) *at a premium :* (c) *at a discount :*	(a) Equity Share Capital A/c ... Dr. To Equity Stock A/c (b) Equity Share Capital A/c ... Dr. To Equity Stock A/c To Equity Stock Premium A/c (c) Equity Share Capital A/c ... Dr. Equity Stock Discount A/c ... Dr. To Equity Stock A/c
(5) For conversion of stock into shares : Note : Entries will be reverse to those relating to conversion of shares into stock.	Equity Stock A/c ... Dr. To Equity Share Capital A/c
(6) For decrease of Share Capital i.e. cancellation of unissued shares : Note : Necessary change shall be made in the Authorised Capital in the next Balance Sheet.	No Journal Entry

Illustration 34 *(Consolidation)*

A limited company having a share capital of Rs. 50,000 divided into 5,000 shares of Rs. 10 each resolve to consolidate the shares into 500 shares of Rs. 100 each. Give the journal entry.

Solution *Journal Entry*

Share Capital A/c (Rs. 10) Dr. Rs. 50,000
To Share Capital A/c (Rs. 100) Rs. 50,000

(Being the consolidation of 5,000 shares of Rs. 10 each into 500 shares of Rs. 100 each as per resolution dated...)

Illustration 35 *(Sub-division)*

A limited company having a share capital of Rs. 5,00,000 divided into 5,000 shares of Rs. 100 each of which Rs. 75 per share called and paid up, resolves to sub-divide the shares into 50,000 shares of Rs. 10 each of which Rs. 7·50 per share paid up. Give the journal entry.

Solution *Journal Entry*

Share Capital A/c (Rs. 100) Dr. Rs. 3,75,000

To Share Capital A/c (Rs. 10) Rs 3,75,000

(Being the sub-division of 5,000 shares of Rs. 100 each of which Rs. 75 per share paid up, into 50,000 shares of Rs. 10 each of which Rs. 7·50 per share paid up as per resolution dated...)

Illustration 36 *(Conversion into Stock)*

A Ltd. Company resolves to convert its 1,00,000 equity shares of Rs. 10 each fully paid into Rs. 10,00,000 worth of stock. Give tne journal entry.

Solution *Journal Entry*

Equity Share Capital A/c Dr. Rs. 10,00,000

To Equity Stock A/c Rs. 10,00,000

(Being the conversion of 1,00,000 equity shares of Rs. 10 each into Rs. 10,00,000 worth of stock as per resolution dated...)

(2) Reduction of Share Capital :

Reduction of Share Capital is governed by sections 100—105 of the Companies Act. A Company, if authorised by its articles, may reduce its share capital by special resolution and confirmation of the Court for the following purposes :

(a) to reduce liability in respect of unpaid capital ;

(b) to pay off paid up capital which is in excess of the needs of the Company ;

(c) to write off (cancel) any paid up capital which is lost or unrepresented by available assets.

Before confirming the special resolution of the Company for reduction of capital, the Court will consult the affected creditors and after being fully satisfied it will confirm the reduction on such terms and conditions as it thinks fit. The Court may direct the Company to add the words **"and reduced"** to its name for any specified period. The order of the Court is to be registered with the Registrar.

After the reduction of capital the memorandum and the articles are to be suitably altered.

Capital reduction is also known as *Internal Reconstruction.*

Journal Entries relating to reduction of Capital

Transactions	Journal Entries
(1) On reduction of members' liability on uncalled capital (i.e. when uncalled capital on shares is cancelled) :	Share Capital A/c (Partly paid) ... Dr. To Share Capital A/c (fully paid).
(2) On refund of paid up Capital : (a) for the amount to be refunded : (b) for actual payment of the amount :	(a) Share Capital A/c ... Dr. To Shareholders' A/c (b) Sundry Shareholders' A/c ... Dr. To Cash A/c
(3) (a) For writing off or cancelling any paid up capital :	(a) Share Capital A/c ... Dr. To Capital Reduction A/c
(b) When description of the shares is totally changed with the reduction of capital :	(b) Share Capital A/c (old) ... Dr. To Share Capital A/c (new) To Capital Reduction A/c
(c) For writing off any assets :	(c) Capital Reduction A/c ... Dr. To Assets A/cs *(With the amount proposed to be written off.)*
(d) On provision for bad and doubtful debts :	(d) Capital Reduction A/c ... Dr. To Provision for Bad and Doubtful Debts A/c
(e) For increase of liabilities :	(e) Capital Reduction A/c ... Dr. To Liabilities A/cs.
(f) For decrease of liabilities : Note : An entry reverse to that relating to increase of liabilities is to be passed.	(f) Liabilities A/cs ... Dr. To Capital Reduction A/c
(g) For expenses on account of reduction of capital :	Capital Reduction A/c ... Dr. To Cash A/c
(h) For writing off fictitious assets (i.e. P & L A/c (Dr. Balance), Discount, Underwriting Commission, Preliminary Expense, Goodwill, Useless Patents & Trademarks etc.) :	Capital Reduction A/c ... Dr. To Profit & Loss A/c To Discount A/c To Underwriting Commission A/c To Preliminary Expenses A/c To Goodwill A/c To Patents & Trade marks A/c
(i) On transfer of the credit balance (if any) of Capital Reduction A/c to Capital Reserve A/c :	Capital Reduction A/c ... Dr. To Capital Reserve A/c

Illustration 37 *(When uncalled capital on shares is cancelled)*

X Co. Ltd. passed a special resolution and obtained the necessary sanction of the court to reduce the uncalled liability on its shares on the basis of the following Balance Sheet,

Balance Sheet

	Rs.		Rs.
Authorised Capital:			
50,000 Equity Shares of Rs. 10 each	5,00,000	Land & Buildings	2,50,000
2,000 6% Preference Shares of Rs. 100 each	2,00,000	Plant & Machinery	1,50,000
	7,00,000	Furniture & fixtures	60,000
Issued & Paid up Capital:		Sundry Debtors	40,000
40,000 Equity Shares of Rs. 10 each of which Rs. 8 per share paid up	3,20,000	Stock-in-trade	55,000
1,000 6% Preference Shares of Rs. 100 each of which Rs. 80 per Share paid up	80,000	Cash at Bank	45,000
Sundry Creditors	2,00,000		
	6,00,000		6,00,000

The Company cancelled the uncalled capital on equity and preference shares. It also passed a resolution to restore the authorised share capital to its orignal figure. Give the necessary journal entries and draw a revised Balance Sheet.

Solution

Journal Entries

	Rs.	Rs.
Equity Share Capital A/c (partly paid) Dr.	3,20,000	
To Equity Share Capital A/c (fully paid)		3,20,000
(Being the reduction of the face value of equity shares of Rs. 10 each to Rs. 8 per share as per Board's resolution and sanction of the court.)		
6% Preference Share Capital A/c (partly paid) Dr.	80,000	
To 6% Preference Share Capital A/c (fully paid)		80,000
(Being the reduction of face value of Preference shares of Rs. 100 each to Rs. 80 per share as per Board's resolution and sanction of the court.)		

(Revised) **Balance Sheet**

	Rs.		Rs.
Authorised Capital:			
62,500 Equity Shares of Rs. 8 each ...	5,00,000	Land & Buildings	2,50,000
2,500 6% Preference Shares of Rs. 80 each ...	2,00,000	Plant & Machinery	1,50,000
	7,00,000	Furniture & Fixtures	60,000
Issued & Paid up Capital:		Sundry Debtors	40,000
40,000 Equity Shares of Rs. 8 per share fully paid ...	3,20,000	Stock-in-trade	55,000
1,000 6% Preference Shares of Rs. 80 per share fully paid ...	80,000	Cash at Bank	45,000
Sundry Creditors:	2,00,000		
	6,00,000		6,00,000

Illustration 38 *(Refund of paid up capital)*

The following is the Balance Sheet of Sound Trading Corporation as on 31st December, 1962 :

Liabilities	Rs.	*Assets*	Rs.
Nominal Capital :		Goodwill	50,000
50,000 Equity Shares of Rs. 10 each	5,00,000	Free hold premises	6,00,000
50,000 5% Free of Tax Preferenee Shares of Rs.10 each	5,00,000	Plant & Machinery	1,00,000
	10,00,000	Stock	40,000
Issued Capital :		Sundry Debtors	70,000
45,000 Equity Shares of Rs. 10 each fully paid	4,50,000	Cash at Bank	3,00,000
45,000 5% Free of Tax Preference Shares of Rs. 10 each fully paid	4,50,000		
	9,00,000		
Sundry Creditors	10,000		
Profit & Loss A/c	2,50,000		
	11,60,000		11,60,000

The Shareholders resolved that the credit balance of P/L A/c should be ealt with as follows :—

(1) Preference Dividend to be paid,

(2) The Equity Shareholders to receive a dividend at the rate of 10 per cent Free of Tax.

(3) A return of capital (subject to recall) to be made to the Shareholders —Preferenfce Shareholders to receive Rs. 1·25 per share and the equity shareholders Rs. 2·50 per share.

A holder of Rs. 1,000 Preference Shares gave the necessary notice to the ompany and the Balance Sheet immediately after the scheme has been carried ut showing the treatment of the sum the Preference Shareholders refused to ccept.

(Institute of Bankers, 1963)

Solution **Journal Entries**

	Dr.	Cr.
	Rs.	Rs.
Profit & Loss Appropriation A/c ... Dr To Preference Share Dividend A/c (Being the declaration of preference dividend @ 5% on 45,000 preference shares of Rs. 10 each.)	22,500	22,500
Profit & Loss Appropriation A/c ... Dr. To Ordinary Share Dividend A/c (Being declaratien of ordinary dividend @ 10% free of tax on 45,000 ordinary shares of Rs. 10 each.)	45,000	45,000
Preference Share Dividend A/c ... Dr. Ordinary Share Dividend A/c ... Dr. To Cash A/c (Being the dividend paid)	22,500 45,000	67,500
Preference Share Capital A/c ... Dr. To Preference Shareholders' A/c (Being reduction of paid up capital @ Rs. 1·25 per share on 45,000 preference shares of Rs. 10 each as per Board's resolution and sanction of the court.)	56,250	56,250
Ordinary Share Capital A/c Dr. To Ordinary Shareholders's A/c (Being reduction of paid up capital @ Rs. 2·50 per share on 45,000 ordinary shares of Rs. 10 each as per Board's resolution and sanction of the Court.)	1,12,500	1,12,500
Preference Shareholders' A/c ... Dr. To Cash A/c To Suspense A/c (Being the amount paid to the preference shareholders less amount not accepted on shares amounting to Rs. 1000)	56,250	56,125 125
Ordinary Shareholders' A/c ... Dr. To Cash A/c (Being the amount paid to the ordinary shareholders.)	1,12,500	1,12,500

Note : The amount of Cash at Bank is ascertained thus :

	Rs.	Rs.
Cash at Bank as per old Balance Sheet		3,00,000
Less Dividend paid	67,500	
ammount paid to ordinary shareholders	1,12,500	
amount paid to preference shareholders	56,125	2,36,125
∴ **Cash at Bank as per revised Balance Sheet**		63,875

(Revised) **Balance Sheet of Sound Trading Corporation**

Liabilities	Rs.	*Assets*	Rs.
Authorised Capital :		Goodwill	50,000
50,000 Equity Shares of Rs. 10 each ...	5,00,000	Freehold Premises	6,00,000
50,000 5% Free of Tax Preference Shares of Rs. 10 each ...	5, 00,000	Plant & Machinery	1,00,000
	10,00,000	Stock	40,000
Issued & Paid up Capital :		Sundry Debtors	70,000
45,000 Equity Shares of Rs. 10 each of which Rs. 7·50 per share paid up ...	3,37,500	Cash at Bank	63,875
45,000 5% Free of Tax Preference Shares of Rs. 10 each of which Rs, 8·75 per share paid up ..	3,93,750		
Sundry Creditors	10,000		
Suspense Account	125		
Profit & Loss A/c	1,82,500		
	9,23,875		9,23,875

Illustration 39 (Writing off paid up capital which is lost or unrepresented by avaialble assets)

3. The Balance Sheet of Calco Ltd. as on 31st December, 1968 stands as under :

	Rs.		Rs.
Auorisedht Capital :			
10,000. Shares of Rs. 100 each	10,00,000	Fixed Capital Assets (at cost)	14,30,000
Issued Capital :		Stock-in-trade	80,000
		Sundry Debtors	30,000
8,000 Ordinary Shares of Rs. 100 each	8,00,000	Investments	17,000
		Cash at Bank	13,000
Debentures	13,80,000	Profit & Loss A/c	10,70,000
Liabilities :			
For goods supplied Rs. 4,50,000			
For Income tax Rs. 10,000	4,60,000		
	26,40,000		26,40,000

The Company being in a bad way, an arrangement on the following lines has been mutually agreed upon :

(i) The Ordinary Shareholders are prepared to have their capital reduced to 5 per cent of their present holding.

(ii) The Debentureholders are agreeable to have their claim reduced to 50 percent which is to be satisfied half by the issue of 7 per cent Mortgage Debentures, and half by the issue of 8 per cent Preference Shares of Rs. 100 each.

(iii) The unsecured Trade creditors are prepared to forego 20% of their dues in exchange for ordinary shares of the like amount.

(iv) The assets are to be reduced to the revalued figures as under :

			Rs.
Fixed Capital Assets	...	...	11,00,000
Stock-in-trade	...	...	50,000
Debtors	...	...	20,000
Investments	...	...	7,000

Show the ledger accounts and other entries for the completion of the Scheme and prepare the final Balance Sheet.

(C.U.B. Com. (Adv.) 1951—Adapted)

Solution

Note : The reduction of the claims of creditors and debentureholders should be credited to Capital Reduction Account. The name of the account then may be "Reorganisation Account" or Reconstruction Account."

Journal Entries

		Dr.	Cr.
		Rs.	Rs.
Ordinary Share Capital A/c ... Dr.		7,60,000	
Debentures A/c ... Dr.		6,90,000	
To Capital Reduction A/c			14,50,000
(Being the reduction of Rs. 95 per share on 8,000 ordinary shares and 50% of the debentures as per Broard's resolution and sanction of the court.)			
Capital Reduction A/c ... Dr.		14,50,000	
To Fixed Assets A/c			3,30,000
To Stock-in-Trade A/c			30,000
To Provision for Bad Debts A/c			10,000
To Investment A/c			10,000
To Profit & Loss A/c			10,70,000
(Being the revaluation of assets and the losses written off out of Capital Reduction A/c as per Board's resolution and sanction of the court.)			
Debentures A/c ... Dr.		6,90,000	
To 7% Mortgage Debentures A/c			3,45,000
To 8% Preference Share Capital A/c			3,45,000
(Being the claims of ihe debentureholders satisfied half by issue of 7% Mortgage Debentures and half by issue of 8% Preference Shares as per agreement with them.)			
Trade Creditors' A/c ... Dr.		90,000	
To Ordinary Share Capital A/c			90,000
(Being 900 ordinary shares of Rs. 100 each fully paid allotted to Unsecured trade creditors in exchange of foregoing 20% of their dues as per agreement with them.)			

Ledger

Capital Reduction Account

Dr. Cr.

	Rs.		Rs.
To Fixed Capital Assets A/c	3,30,000	By Equity Share Capital A/c	7,60,000
„ Stock-in-Trade A/c	30,000	„ Debentures A/c	6,90,000
„ Provision for Bad Debts A/c	10,000		
„ Investment A/c	10,000		
„ Profit & Loss A/c	10,70,000		
	14,50,000		14,50,000

Debentures Account

Dr. Cr.

	Rs.		Rs.
To Capital Reduction A/c	6,90,000	By Balance b/d	13,80,000
„ 7% Mortgage Debentures A/c	3,45,000		
„ 8% Pref. Share Capital A/c	3,45,000		
	13,80,000		13,80,000

Fixed Assets Account

Dr. Cr.

	Rs.		Rs.
To Balance b/d	14,30,000	By Capital Reduction A/c	3,30,000
		„ Balance c/d	11,00,000
	14,30,000		14,30,000
To Balance b/d	11,00,000		

Stock-in-Trade-Account

Dr. Cr.

	Rs.		Rs.
To Balance b/d	80,000	By Capital Reduction A/c	30,000
		„ Balance c/d	50,000
	80,000		80,000
To Balance b/d	50,000		

Sundry Debtors' Account

Dr. Cr.

	Rs.		Rs.
To Balance b/d	30,000	By Capital Reduction A/c	10,000
		„ Balance c/d	20,000
	30,000		30,000
To Balance b/d	20,000		

Dr. Investment Account Cr.

		Rs.			Rs.
To Balance b/d		17,000	By Capital Reduction A/c		10,000
			,, Balance c/d		7,000
		17,000			17,000
To Balance b/d		7,000			

Dr. Profit & Loss Account Cr.

		Rs,			Rs.
To Balance b/d		10,70,000	By Capital Reduction A/c		10,70,000
		10,70,000			10,70,000

Dr. Trade Creditors Account Cr.

		Rs.			Rs.
To Equity Share Capital A/c		90,000	By Balance b/d		4,50,000
,, Balance c/d		3,60,000			
		4,50,000			4,50,000
			By Balance b/d		3,60,000

Dr. Equity Share Capital Account Cr.

		Rs.			Rs.
To Capital Reduction A/c		7,60,000	By Balance b/d		8,00,000
,, Balance c/d		1,30,000	,, Trade Creditors A/c		93,000
		8,90,000			8,90,000
			By Balance b/d		1,30,000

Dr. 8% Preference Share Capital Account Cr

		Rs.			Rs,
To Balance c/d		3,45,000	By Debentures A/c		3,45,000
			By Balance b/d		3,45,000

Dr. **7% Mortgage Debentures Account** Cr.

		Rs.				Rs.
To Balance c/d		3,45,000		By Debenture A/c		3,45,000
				By Balance b/d		3,45,000

CALCO LTD. *(and reduced)*

Balance Sheet as at December, 31, 1968

Liabilities	*Rs.*	Rs.	*Assets*	*Rs.*	Rs.
SAARE CAPITAL :			FIXED ASSETS :		
Authorised :			Assets	14,30,000	
1,31,000 Ordinary Shares of Rs. 5 each		6,55,000	*Less* amount written off	3,30,000	11,00,000
			INVESTMENTS :		
3,450. 8% Preference Shares of Rs. 100 each.		3,45,000	Investments	17,000	
		10,00,000	*Less* amount written off	10,000	7,000
Issued & Subscribed :			CURRENT ASSETS, LOANS AND ADVANCES :		
8,000 Ordinary Shares of Rs. 5 each fully paid	40,000		*A. Current Assets* :		
18,000 Ordinary Shares of Rs. 5 each fully paid issued in consideration otherwise than Cash	90,000	1,30,000	*Stock-in-Trade*		50,000
			Sundry Debtors	30,000	
			Less Provision for Bad Debts	10,000	20,000
3,450 8% Preference Shares of Rs. 100 each fully paid issued in consideration otherwise than Cash		3,45,000	Cash at Bank		13,000
SECURED LOANS :					
7% Mortgage Debentures		3,45,000			
CURRENT LIABILITIES AND PROVISIONS :					
A. Current Liabilities :					
Trade Credttors		3,60,000			
B. Provisions :					
For Income Tax		10,000			
		11,90,000			11,90,000

ıstration 40 *(writing off paid up Capital unrepresented by available assets)*

The following is the Balance Sheet of Remfry & Co. Ltd. as on 31st ıcember, 1961 :

	Rs.		Rs.
thorised Capital :		Goodwill	70,000
6,000 Shares of		Land and Buildings	80,000
Rs. 100 each	6,00,000	Plants and	
		Machinery	1,50,000
ued and Subscribed Capital :		Stock	50,000
2,000 Shares of Rs. 100		Sundry Debtors	43,000
each fully paid	2,00,000	Cash at Bank	2,500
200 5% Debentures of		Preliminary Expenses	4,500
Rs. 1,000 each		Profit and Loss A/c	
fully paid	2,00,000	(Debit Balance)	1,00,000
Sundry Creditors	50,000		
Bills Payable	5,000		
Bank Overdraft	45,000		
	5,00,000		5,00,000

The folloming scheme of reconstruction was duly approved and opted :

(a) Without altering the number of shares in the Authorised Capital · Issued and Subscribed Capital, the face-value and the paid up value of each are be reduced to Rs. 50 ;

(b) The existing Debentures be converted into 100 7½% Debentures of ı. 1,000 each fully paid ;

(c) Assets be revalued as under :—Land and Buildings Rs. 72,000 ; Plant ıd Machinery Rs. 1,40,000 ; Stock Rs. 45,000 ; Sundry Debtors subject to Bad Debt Reserve of Rs. 2,500 ;

(d) Goodwill, Preliminary Expenses and the Debit Balance of Profit and ›ss Account be completely written off.

Show Journal entries in the books of th Company and also the Balance eet giving effect to the scheme of reconstruction.

(C.U.B. Com. (Adv.) 1963.)

Solution

Journal Entries

	Rs.	Rs.
Share Capital A/c ... Dr.	1,00,000	
5% Debentures A/c ... Dr.	1,00,000	
To Capital Reduction A/c		2,00,000
(Being the reduction of face Value and paid up Value of each share by Rs. 50 and 5% Debentures by Rs. 1,00,000 as per Board's resolution and sanction of the court.)		
5% Debentures A/c ... Dr.	1,00,000	
To 7½% Debentures A/c		1,00,000
(Being the claims of ths debenture holders satisfied by issue of 7½ Debentnrs as per agreement with them.)		
Capital Reduction A/c ... Dr.	2,00,000	
To Good will A/c		70,000
To Preliminary Expenses A/c		4,500
To Profit & Loss A/c		1,00,000
To Land & Buildings A/c		8,000
To Plant & Machinery A/c		10,000
To Stock A/c		5,000
To Reserve for Bad Debts A/c		2,500
(Being the revaluation of assets and the losses and expenses written ofi out of Capital Reduction A/c as per Board's resolution and sanction of the court.)		

Balance Sheet of Remfry & Co. *(and Reduced.)*

as on 31st December, 1961

	Rs.			Rs.
Authorised Capital :		**Fixed Assets :**		
6,000 shares of Rs. 50 each.	3,00,000	Land & Buildings		72,000
		Plant & Machinery		1,40,000
Issued & Subscribed Capital :		**Current Assets :**	Rs.	
2,000 shares of Rs. 50 each fully paid	1,000·00	Stock		45,000
Secured Loans :		Sundry Debtors	43,000	
		Less : Reserve for Bad Debts	2,500	
100 7½% Debentures of Rs. 1,000 each fully paid	1,00,000	Cash at Bank		40,500
				2,500
Current Liabilities :				
Sundry Creditors	50,000			
Bills Payable	5,000			
Bank Overdraft	45,000			
	3,00,000			3,00,000

Capital Reduction Scheme

(i.e. Internal Reconstruction Scheme)

1. **Its meaning** : Sometimes companies become unable to pay dividend on share capital, even if, they earn profits. This state of affairs is brought about mainly by overcapitalisation. In such circumstances the companies usually introduce capital reduction scheme. The shareholders, debentureholders and creditors make some sacrifice for common good. In other words the liabilities of the company are rearranged.

2. **Its objects** : Every scheme of capital reduction has one or more of the following objects :—

(a) Simlification of the capital structure for raising further capital ;
(b) Elimination of past accumulated losses ;
(c) Payment or conversion of onerous liabilities and pressing loans ;
(d) Reduction of fixed charges and
(e) Distribution of dividend on share capital.

3. **Its Conditions** : A scheme of Capital reduction or internal reconstruction must fulfil certain conditions.

Some of the conditions are :

(i) The assets of the company for which such scheme is to be carried out are over valued. It has huge accumulated loss. The profit of lhe company is insufficient for distribution.

(ii) The crisis of the company is just over and the company expects fair return in near future.

(iii) The name of the company still retains some goodwill value.

(iv) The company is in a position to provide sufficient working capital either by making calls, or by issuing fresh shares, or by arranging overdraft etc.

(v) The company should be able to pay off or convert onerous liabilities and pressing loans.

(vi) The existing control should remain.

(vii) The ordinary shareholders should bear the major loss arising out of capital reduction. Other parties i.e. preference shareholders, creditors, debentureholders etc. may also sacrifice to some extent. The sacrifice of each group is to be passed by $\frac{3}{4}$ths majority of the group.

4. **Its working** : (a) The amount of loss to be wiped off is to be calculated by adding up past accumulated losses, fictitious assets, overvaluation of assets, under-provision of liabilities etc. The total loss may be reduced by profit on revaluation of assets or excess-provision of liabilities.

(b) Sacrifice must by allocated on fair and equitable basis amongst different parties i.e. ordinary shareholders, preference shareholders, debentureholders, creditors.

ustration 41 *(Capital Reduction Scheme)*

The summarised Balance Sheet of Broad Co. Ltd. as at 31st December,)63 was as follows :—

	Rs.		Rs.
Authorised Capital :		*Goodwill*	3,00,000
		Fixed Assets	
5% Cum. 1st Pref. Shares of Rs. 100 each	6,00,000	at cost *less* depreciation	4,12,320
6% Cum. 2nd Pref. Shares of Rs. 100 each	2,00,000	*Floating Assets*	3,35,330
Equity Shares of Rs. 10 each	5,00,000	*Profit & Loss A/c*	2,00,000
	Rs. 13,00,000		
Issued and Paid up Capital :			
5% Cum. 1st Pref. Shares	4,00,000		
6% Cum. 2nd Pref. Shares	2,00,000		
Equity Shares	4,00,000		
	10,00,000		
Sundry Liabilities	2,47,650		
	Rs. 12,47,650		Rs. 12,47,650

The dividend on the 1st Preference Shares had been paid regularly until :wo years ago and the dividend on the 2nd Preference Shares until four years ago.

You are required to set out your views in the form of a report to the Directors, suggesting a Capital Reduction Scheme for their consideration, giving reasons for the suggestions you make.

(C. U. M. Com. 1964)

Solution

To

The Directors
Messrs Broad Co. Ltd.
Calcutta-4

Gentlemen,

As requested we have the pleasure in submitting hereunder our suggestions for a scheme of reduction of capital of your company to be put before the various classes of shareholders. In drafting the proposed scheme it has been assumed that :—

(a) The first preference share shall be preferential as to repayment of capital over all other classes of shares.

(b) The second preference shares shall be preferential as to repayment of capital over the equity shares and that

(c) Reserves have been drawn upon in certain years to meet the preference dividend.

(1) Losses etc. to be written off :

		Rs.
(a)	The amount of goodwill	3,00,000
(b)	The debit balance of P/L A/c	2,00,000
(c)	The amount of loss (assumed) due to revaluation of floating assets	30,000
	∴ Total amount ...	5,30,000

Therefore, the capital of the Company is to be written down by this amount i.e. Rs. 5,30,000

(2) Allocation of loss between different classes of Shareholders :

As neither class of the preference shares carries the right to participate in any surplus arising in the event of the winding up of the Company and both classes of preference shares are entitled to return of capital on a winding up, in priority to the equity shares, the loss will have to be borne mainly by the ordinary shareholders. The ordinary shareholders have also sacrificed more than is apparant on the face of the Balance Sheet as the reserves built up in past years out of divisible profits are utilised for the payment of dividends to the preference shareholders.

But, it should be borne in mind that some advantages will accrue to the preference shareholders if the losses of the Company are written off. They will have the prospect of immediate dividends and market value of their shares will be improved. If reduction is not made the preference shareholders will get no dividend until the debit balance of the P/L A/c is completely written off. In addition, if it is decided to eliminate goodwill out of future profits before declaring dividends, the resumption of dividend will be delayed further. So, the preference shareholders may be asked to make some capital sacrifice.

Preference shareholders do not carry any right to dividend unless the dividend is earned. So, in the event of winding up of the Company, they will not get their arrear dividends. Therefore, the preference shareholders may be asked to forego their claim of arrear dividends.

(3) *Re-organisation of Capital* :

The following proposals for reorganisation of capitals are therefore submitted :—

		Rs.
(i)	40,000 Equity Shares of Rs. 10 each to be written down by Rs. 9 per share ...	3,60,000
(ii)	2,000 6% Cum. Second Preference Shares of Rs. 100 each to be written down by Rs. 75 per share	1,50,000
(iii)	4,000 5% Cum. First Preference Shares of Rs. 100 each to be written down by Rs. 5 per share	20,000
		5,30,000

(4) *Compensation to the Preference Shareholders* :

In order to compensate the loss in earnings of the preference shareholders, it is suggested that the rate of dividend be increased to 5½% on 1st Preference Shares and to 8% on 2nd Preference Shares. For providing sufficient working-capital and to enable the Preference Shareholders to partcipate in the management of the Company, fresh equity shares may be issued to them for cash consideration.

(5) (Revised) *Balance Sheet after reduction*

Liabilities	Rs.	*Assets*	Rs.
Authorised Capital :			
6,000 5½% First Preference Shares of Rs. 95 each ...	5,70,000	**Fixed Assets** :	4,12,320
2,000 8% Second Preference Shares of Rs. 25/- each ...	50,000	Floating Assets	3,05,330
50,000 Equity Shares of Re. 1/- each	50,000		
	6,70,000		
Issued and paid up Capital :			
4,000 5½% First Preference Shares of Rs. 95 each ...	3,80,000		
2,000 8% 2nd Preference Shares of Rs. 25 each ...	50,000		
40,000 Equity shares of Rs. 1/-each	40,000		
Current Liabilities :			
Sundry Creditors	2,47,650		
	7,17,650		7,17,650

We shall be glad to give you any further information you may require.

Yours faithfully

Chartered Accountant

EXERCISE

(A) *Issue of Right Shares :*

1. The face value of the Equity Shares of a Company is Rs. 15 each and the current market price is Rs. 20 .The Company issues right shares at the rate of two Equity Shares for four existing Equity Shares held, the right shares being priced at Rs. 17. Calculate the value of the right.

(**Ans :** Value of right is Re 1/-)

2. A Company offers to its existing shareholders the right to buy one share of Rs. 25 each at Rs. 30 for every two shares of Rs. 25 each already held. The market value of a share of the Company is Rs. 36.

Calculate the value of the rights.

(**Ans :** Vaule of right is Rs. 2/-)

(B) *Underwriting Commission :*

3. The X & Y Co. Ltd. made an issue of 5,000 4 per cent Debentures of £ 10 each at £9-10s. per Debenture. The whole issue is underwritten by A.B. & Co. for a commission of 5 per cent on the nominal value. Applications were received for 4,500 Debentures which were duly alloted and paid for. The remaining 500 Debentures were alloted to A.B. & Co. under the terms of their underwriting agreement.

Write up the Debenture Account in the Company's Ledger, the Account of A.B & Co., and the "Cost of Debenture Issue" Account. Also show the Company's Journal (C.A)

4. S. Co. Ltd. issued 12,000 6% Debentures of Rs. 100 each at a discount of 4%. Eighty per cent of the issue is underwritten by M/s. Bhatia & Co. for a commission at the rate of 2% on the nominal value of the Debentures. Applications were received for 10,000 Debentures. Journalise the transactions assuming all moneys due have been received. Also show the Balance Sheet of the Company.

5. The Bengal Iron Company, Limited issued $7\frac{1}{2}$ per cent Preference Shares of the face value of five crores of rupees at par and 6 per cent Debentures of the face value of three crores of Rupees at a discount of 10 per cent. Messrs. S.D. & Co. underwrite the whole of the issue for a commission of four per cent on the Preference Shares and of five per cent on Debentures. Preference Shares of the value of four crores of rupees and Debentures of the value of two crores of rupees are taken up and paid for by the public. The balance is alloted to the underwriters under the terms of the underwriting agreement.

Prepare the Ledger Accounts where these transactions will be found recorded ; what amount will the underwriters have to pay to the Company ? How will these figures appear in the Balance Sheet of the Company ? How will they appear in the Balance Sheet ten years after such issue, if the Debentures are redeemable in 30 years ? (G.D.A)

6. The following underwriting takes place :

A 6,000 shares ; B 2,500 shares and C 1,500 shares. In addition there is firm underwriting : A, 800 shares, B 300 shares and C 1,000 shares.

The share issue is 10,000. Total subscriptions including firm underwriting was 7,100 shares and the forms included the following marked forms :

A 1,000 shares ; B 2,000 shares ; and G 500 shares,

Show the allocation of liability of the underwriters. (C.A.)

(Ans : (a) When applications firm set off against the libility of underwriters :
A—3,700 ; B-300 ; C—1,000 ; Total—5,000

(b) When application firm not set off against the liability of underwriters :—A - 3,320 ; B - 300 ; C - 1,380 ; Total-5,000

(C) *Underwriters' Account*

7. A Company underwrote 5,000 Rs. 10 Shares in a new issue made by B.C. Co. Ltd. The underwriting commission was 5 per cent payable as to 50 per cent in fully paid shares and 50 per cent in cash. In addition to these shares the company made a firm application for a further 1,000 shares.

The issue was not fully subscribed and the company had to take up 20 per cent of the shares underwritten.

Prepare the necessary accounts in the books of the underwriting Company.
(Agra University, B. Com. 1958)

(D) *Per-incorporation Profit*

8. A Ltd. company was incorporated on 1st July 1947 for the purpose of purchasing an established private business as from 1st April 1947. The fully paid capital of the company consisted of Rs 2,00,000 in Rs 10 shares. 500 6% Debentures of Rs 100 each were also issued and fully paid.

The account for the year ended 31st March, 1948 disclosed the following particulars :-

Sales for the year Rs. 3,21,040 ; Sales for 1st April-1st July 1947 Rs. 80,260 ; Gross profit for the year Rs. 41,280

Managing Directors' Salary, Directors' fees, Preliminary Expenses written off and Secretary's Salary Rs. 5,800.

Bad Debts Rs. 1,489 of which Rs. 402 related to 1st April-1st July 1947,
Interest on debentures Rs. 2,000
Depreciation on Machinery and Plant etc. Rs. 2,520,
Advertising and General Expenses Rs. 5,840.

You are required to prepare a statement giving views as to the proper apportionment of the profit, of the company as between profit available for distribution and profit prior to incorporation.

(Bombay University ; B. Com.)

(**Ans** : Profit prior to incorporation Rs. 7,828 ; Profit after incorporation Rs. 15,803)

9. John Simpson Private Ltd. which was incorporated on 1st May, 1960, acquired the business of John Simpson with effect from 1st January, 1960. The accounts of the Company were closed for the first time on 30th September, 1960 disclosing a gross profit of Rs. 84,000. The Establishment expenses were Rs. 21,330, Director's fees Rs. 15,000 per month, and Preliminary expenses Rs. 2,250, Rent upto 30th June was Rs. 150 per month, but thereafter it was increased to Rs. 375 per month. Included in the Director's fees was salary to the manager at Rs. 750 per month. He was appointed a Director at the time of incorporation of the Company.

Prepare a statement showing profits prior and subsequent to incorporation assuming that the net sales were Rs. 12,30,000, the monthly average of which for the first four months of 1960 being half that of the remaining period. The bnsiness earned profits at a uniform rate. (C.A. Inter. Nov. 1961)

(**Ans** : Profit prior to incorporation Rs. 10,920 and profit after incorporation Rs. 36,975)

(E) *Managerial Remuneration* :

10. The following is the Account of the Happy Company (India) Ltd.

Profit & Loss Account for the year ended 31st December, 1966.

	Rs.		Rs.
To Administrative, selling and finance expenses	5,76,628	By Balance from Trading A/c	38,35,414
,, Managing Agents' allowance	18,000	,, Interest on Investments	19,964
,, Director's remuneration	23,484	,, Scrip fee	37
,, Debenture Sinking Fund	4,800		
,, Investment Revaluation Reserve	9,800		
,, Depreciation on fiixed assets	4,69,713		
,, Provision for taxation	11,40,000		
,, General Reserve	5,00,000		
,, Balance carried down	11,12,990		
	38,55,415		38,55,415
		By Balance 1.12.65	3,12,632
		,, Balance b/d	11,12,990
			14,25,622

The Managing Agents are to get 10% Commission (on sliding Scale) subject to a minimum of Rs. 18,000 per annum and other directors are to get 1% on net profit.

Show the computation of managerial remuneration.

(C U. B. Com.(Hons.) 1967

11. X and Y, are appointed the Office Manager and Factory Manager respectively of A,B,C Ltd. on Januray 1, 1964. Their terms of appointment included amongst other things the payment of a commission on the following basis :

X = a Commission of 5% on the net profit after charging the commission of Y.

Y = a Cammission of 4% on the net profit after charging the commission of X.

The Profit and Loss Account of 1964 disclosed a net profit of Rs. 10,00,000. After providing for above commission to X and Y the Company decided to provide Rs. 5,00,000 for Income Tax, Rs. 2,00,000 for Reserve and to declare a dividend of 8% on the paidup capital of Rs. 30,00,000. The Balance of Profit and Loss Account on ist January, 1964 was Rs. 30,000

You are required to ascertain the Commission payable to X and Y and to show the profit and Loss Appropriation A/c for 1964. (C.A.)

Note : (1) Computation of commission to X and Y—

on every Rs. 109, X will get Rs. 5 and Y Rs. 4.

∴ On Rs. 10,00,000, X will get Rs 45,872, and Y Rs. 36,697

(2) The commission payable to any staff is to be computed after deducting such commission from the net profit.

(F) *Payment of Interest out of Capital* :

12. Eastern India Construction Co. Ltd. undertook to construct a Railway Line. The Company issued 20,00,000 shares of Rs. 10 each for this purpose and called up Rs. 5 per share. All the call moneys were realised. The Company obtained necessary sanction from the Central Government to pay interest @ 3% per annum. The Railway Line was constructed in the course of 3 years at a cost of Rs. 75,00,000. Give the Balance Sheet of the Company showing the interest paid on capital.

(G) *Alteration of Share Capital* :

13 A Ltd. Company having a share capital of Rs. 5,00,000 divided into 50,000 shares of Rs. 10 each resolve to consolidate the shares into 5,000 shares of Rs. 100 each. Give the journal entry.

14. X Co. Ltd. having a share capital of Rs. 25,00,000 divided into 25,000 shares of Rs. 100 each of which Rs. 75 per share called and paid up, resolves

to subdivide the shares into 2,50,000 shares of Rs. 10 each of which Rs. 7·50 per share paid up. Give the journal entry.

15. Y Ltd. Company resolves to convert its 2,00,000 equity shares of Rs. 10 each fully paid into Rs. 20,00,000 worth of stock. Give th journal entry.

(H) *Capital Reduction :*

16. A Company has a paid-up share capital of Rs. 6,40,000 divided into 80,000 Equity Shares of Rs. 10/- each, Rs. 8 per share paid-up. The profit & Loss Account shows a credit Balance of Rs 2,80,000

The company decides to reduce the paid-up share capital to Rs. 6 per share paid-up by paying off the necessary amount out of the accumulated profits. Give the appropriate journal entries.

(C.U. B. Com. (Adv.) Hons. – 1964)

17. The Balance Sheet of Hind Ltd. as on 31st December, 1964 is given below :

Balnace Sheet as at 31st December, 1964

Liabilities	Rs.	*Assets*	Rs.
Paid up Capital		Land & Buildings	95,000
15,000 Equity Shares of		Machineries	35,000
Rs. 10 each	1,50,000	Stock	25,000
1,500 preference shares of		Sundry Debtors	40,000
Rs. 100 each	1,50,000	Cash at Bank	5,000
Sundry Creditors	50,000	Profit & Loss A/c	1,50,000
	3,50,000		3,50,000

It was resolved that the Equity and Preference Shares be reduced to same number of shares each of Rs. 4 and Rs. 40 repectively and that the amount that realised be utilised in (a) writing down the stock by Rs. 10,000, (b) writing off the adverse balances of the Profit & Loss A/c and in reducing the Machinery by Rs. 10,000, (c) the balance left was to be used in raising a Reserve against Sundry Debtors.

Give the journal entries recording the above transactions in the books of the company. Give also the Balance Sheet of the company after reduction of capital.

(Burdwan University, B. Com, (Adv.) 1965)

(Ans : Total of Balance Sheet Rs, 1,70,000)

18. The following is the Balance Sheet of Careless Trading Corporation Ltd., as on 30th June, 1956 :

Capital & Liabilities	Rs.	*Assets & Properties*	Rs.
Authorised Capital :		Goodwill	20,000
50,000 preference shares cf		Leasehold premises	1,07,000
Rs. 10 each	5,00,000	Plant & Machinery	60,000
50,000 ordinary shares of		Patents	1,73,900
Rs. 10 each	5,00,000	Preliminary Expenses	2,000
	10,00,000	Stock	34,000
		Debtors	56,000
Issued Capital :		Cash in hand	100
25,000 preference shares of		Profit & Loss A/c	1,23,000
Rs. 10 each	2,50,000	(Debit Balance)	
25,000 ordinary shares of			
Rs. 10 each fully paid	2,50,000		
	5,00,000		
Sundry Creditors	40,000		
Bank Overdraft	36,000		
	5,76,000		5,76,000

The Company proved unsuccessful and resolutions were passed to carry out the following scheme of reduction of capital :

(1) That the preference shares be reduced to an equal number of fully paid shares of Rs. 5 each.

(2) That the ordinary shares be reduced to an equal number of fully paid shares of Rs. 2·50 each.

(3) That the amount so available be utilised towards wiping off losses and the reduction of assets as follows :

Preliminary Expenses, Goodwill, and Profit and Loss A/c to be written off entirely ; Rs. 27,000 to be written off Leasehold Premises ; Rs. 14,000 to be written off Stock ; Rs. 6,000 to be reserved for Doubtful Debts.

20% to be written off Plant and Machinery, and the balance available to be written off Patents.

Make the Journal Entries in the Books of the Company and prepare a Balance Sheet giving effect to the above.

(Institute of Bankers, 1957)

(Ans : Total of the Balance Sheet Rs. 2,63,500)

19. The following is the Balance Sheet of a Limited Company as on 31.12.1958.

	Rs:			Rs.
Authorised and Issued Capital :		Goodwill		30,000
25,000 Equity Shares of Rs. 10 each. fully paid	2,50,000	Land & Building		1,30,000
25,000 7% Cumulative Preference Shares of Rs. 10 each, fully paid	2,50,000	Plant & Machinery		1,05,000
6% Debentures (giving a floating charge on assets)	1,50,000	Patents		75,000
Interest on Debentures	18,000	Stock		1,10,000
Bank Overdraft	30,000	Debtors		1,40,000
Creditors	14,500	Cash at Bank		2,500
		Profit & Loss A/c (Debit Balance)	1,65,000	
		Less Profit	45,000	1,20,000
	7,12,500			7,12,500

The Preference dividends are in arrears for three years.

The working of the Company for the year 1968 having shown considerable improvement, the Directors decide upon a scheme of reconstruction with a reduction of capital. With a view to assist the scheme,the Debentures-holders have agreed to accept fully-paid Equity Shares for half the amount of the interest due to them and forego the balance and to accept further Debentures for Rs. 60,000 for cash to help repayment of Bank Overdraft and to provide working capital. Preference Share-holders are also agreeable to forego half the amount of their accumulated dividend, to accept fully-paid Equity Shares for the remaining half and to reduce the future rate of dividend to 6%

Draft the Balance Sheet of the Company after re-organisation on the basis of the following additional information :—

(a) To write off Goodwill ; (b) To write off accumulated Losses ; (c) To depreciate Plant & Machinery by 10% ; (d) To write down Patents by Rs. 45,000 ; (e) To provide 5% for Doubtful Debts ; (f) To depreciate Stock by 10%. (C.U. B. Com., (Adv). 1960)

(Ans. Total of Balance Sheet, Rs. 5,19,000)

20. Below is the Balance Sheet of the Blank Co. Ltd. on 31st December 1943 :—

		£		£
Nominal Capital :—			Patents at cost	1,14,663
1,00,000 Preference Shares of £1 each	1,00,000		Leasehold works	3,820
1,00,000 Ordy. Shares of £ 1 each	1,00,000		Machinery & Plant	4,120
			Sundry Debtors	1,241
		2,00,000	Stock on hand	4,921
Issued Capital :—			Advertising Suspense	2,000
74,720 Pref. shares fully paid	74,720		Preliminary Expenses	406
42,633 Ordy. shares fully paid	42,633		Profit & Loss Account	1,482
		1,17,353	Cash in hand	28
Sundry Creditors		14,000		
Bank Overdraft		1,328		
		1,32,681		1,32,681

The Company proved unsuccessful and resolutions were passed to carry out the following scheme of reconstruction :—

(1) That the £ 1 preference shares be reduced to an equal number of fully paid shares of 10 sh. each. (2) That the £ 1 ordinary shares be reduced to an equal number of fully paid shares of 6 sh. 8d. each. (3) That the amount thus rendered available for the reduction of the assets be apportioned as follows :—

Preliminary Expenses ; Profit and Loss Account ; and Advertising Suspense Account to be written off entirely ; £ 1,200 off the Leasehold works ; £ 1,400 off the stock ; 20 per cent off the Machinery and Plant, and the balance available to be written off patents. Prepare Balance Sheet giving effect to the above.

(London Chamber of Commerce)

(**Ans** : *Total of the Balance Sheet £ 66,899)*

21. Victoria Industries Ltd. decides to write off its accumulated losses by reducing its capital. The following Balance Sheet as an 31st December, 1946 is drawn up for the consideration of directors :—

	Rs.		Rs.
Authorised Capital :		Land & Buildg. (cost)	4,00,000
25,000 Ordy. Shares of		Plant & Machinery (cost)	5,00,000
Rs. 100 each	25,00,000	Furniture (cost)	25,000
Issued Capital :		Stock at cost	2,90,000
20,000 Ordy. Shares		Book Debts (good)	2,95,000
Rs. 75 paid	15,00,000	,, (doubtful)	1,00,000
Forfeited Shares A/c	1,40,000		
6% Debentures	5,00,000	Stores	1,00,000
Liabilities for goods	1,35,000	Goodwill (cost)	50,000
Liabilities for expenses	65,000	Development expenses	50,000
Security Deposit	1,00,000	Cash Balances	10,000
		Profit and Loss A/c	6,20,000
	24,40,000		24,40,000

With appropriate sanction, the authorised, issued and paid up Capital is reduced to 20,000 Ordinary Share of Rs. 30 each.

The accumulated Losses, Goodwill, Development Expenses, 10% depreciation on Land and Buildings, 15% on plant and Machinery and 20% on Furniture were written off and a Reserve of Rs. 50,000 was created for Bad Debts

Show the necessary Journal Entries, Capital Reduction Account, and the Balance Sheet after the scheme is completed (Agra University M. Com. 1947)

(**Ans** : *Total of the Balance Sheet Rs. 15,50,000, Capital Reduction A/c Rs. 1,50,000)*

22. The Balance Sheet of Exchange Traders Ltd. as at 31.12.55 :—

Capital & Liabilities :—	Rs.	Property and Assets :—		Rs.
Authorised & Issued Share Capital—		Goodwill (at cost)		90,000
20,000, 5% pref. shares of		Land & Buildings		
Rs. 10/- each	2,00,000	at cost	2,70,000	
50,000 ordy. shares of		Less Depn.	35,000	
Rs. 10/- each	5,00,000			2,35,000
Share Premium	70,000	Plant & Machinery		
Loan (unsecured)	80,000	at cost	2,15,000	
Liabilities for :		Less Depn.	78,000	
Purchases & Expenses	92,000			1,37,000
		Stock-in-Trade		2,07,000
		Sundry Debtors		75,000
		Cash at Bank		7,200
		Preliminary Exp.		41,500
		Profit & Loss A/c		1,49,300
	9,42,000			9,42,000

A Scheme for reduction of capital was suggested on the following lines :—

(a) Preference Share to be reduced by Rs. 2·50 per share but Preference Shareholders would receive also one Ordinary Share of Rs. 5/- each for every 10 Preference Shares held.

(b) Ordinary Shares to be reduced by Rs. 5/- per share.

(c) Land and Building to be reduced to Rs. 2,10,000/-, Plant and Machinery to Rs, 1,30,000/- and Sundry Debtors to Rs.62,000/-

(d) Stock-in-Trade to be taken at Rs. 1,25,000.

(e) Share Premium Account, Goodwill Account and Fictitious Assets to be written off.

(i) Describe the procedure that should be followed in getting the scheme approved.

(ii) Show the Journal entries necessary to record this scheme when finally approved and show also the revised Balance Sheet of the Company after reduction.

(C.U. M. Com. 1957)

(Ans : Total of the Balance Sheet Rs. 5,82,000)

23. Messrs. Mehta & Co. promoted a joint stock Company in 1926. The Company was not successful on account of abormal depression in trade. On 31st December, 1936, their Balance Sheet stood as follows :—

Liabilities	Rs.	*Assets*	Rs.
Nominal Capital :—		Land & Buildings	1,80,000
10,000 Shares of		Machinery	3,00,000
Rs. 100 each	10,00,000	Furniture	10,000
Paid up Capital :—		Stock	90,000
8,000 Shares of		Debtors	80,000
Rs. 100 each	8,00,000	Goodwill	50,000
Loan from Mehta & Co.	2,00,000	Cash	10,000
Creditors	2,00,000	P&L A/c	4,80,000
	Rs. 12,00,000		Rs. 12,00,000

After carrying out necessary formalities the following scheme has been agreed upon by the persons concerned :

(1) The Rs. 100 shares to be reduced to Rs. 50 each. (2) The 2,000 shares which were unissued are now to be issued as fully paid (i.e. at Rs. 50 each) to Messrs. Mehta & Co. in full settlement of their loan. (3) The Creditors accept Rs. 1,50,000 in fully paid debentures in full settlement of their debts. (4) The amount thus rendered available is to be utilised towards writing-off Goodwill and loss on Profit & Loss A/c entirely and the balance to be written off the Machnery A/c. Give the necessary Journal entries to carry out the above scheme and prepare the Balance Sheet of the Company after completion of scheme.

(Bombay University)

(**Ans** : Total of the Balance Sheet Rs. 6,50,000)

24. Ura Ltd has made losses for a mumber of years.

The items of the Balance Sheet at December 31, 1955, were :

		£
Authorised and Issued-capital—		
1,00,000 Ordinary Shares of £ 1 each fully paid	...	1,00,000
25,000 6 per cent Preference Shares of £ 1 each fully paid	...	25,000
Debentures	...	20,000
Creditors	...	15,000
Bank Overdraft	...	31,000
		£ 1,91,000
Patents	...	10,000
Freehold Buildings... ...	...	25,000
Plant & Machinery... ...	...	55,000
Stock	...	20,000
Debtors	...	25,000
Profit & Loss A/c	...	51,000
Preliminary Expenses ...	...	5,000
		£ 1,91,000

Resolutions were passed to—

(a) reduce the Ordinary Shares to 2s. each fully paid.

(b) reduce the Preference Shares to 10s. each fully paid.

(c) write off—

(i) debit balance of Profit & Loss A/c

(ii) preliminary expenses

(d) reduce the values of the following assets to the amounts shown :

Patents	... ...	£1
Stock	... ...	£15,000
Plant & Machinery	...	£25,000

Prepare the necessary Journal Entries and a Balance Sheet giving effect to these resolutions.

(Institute of costs & works Accountants, England, Inter June 1957)

(Ans : Total of the revised Balance Sheet £90,001)

25. The following is the Balance Sheet of the Hind Mata Manufacturing Company Limited as on 31st December, 1964.

Liabilities		*Assets*		Rs.
Capital :		Goodwill		30,000
25,000 Equity Shares of Rs.		Freehold land &		
10 each fully paid	2,50,000	Building		1,30,000
25,000 7% Preference Shares		Plant & Machinery		1,05,000
of Rs. 10 each fully paid	2,50,000	Plants		75,000
		Stock-in-trade		1,10,000
	5,00,000	Sundry Debtors		1,40,000
6% Debentures giving a floating		Cash at Bank		2,500
charge on the assets	1,50,000	Profit & Loss A/c		
Interest on Debentures unpaid	18,000		Rs. 1,65,000	
Bank Overdraft	30,000	Less Profit	45,000	
Sundry Creditors	14,500			1,20,000
	7,12,500			7,12,500

The Preference Dividends are in arrears for 3 years.

The working of the company for the year 1964 has shown considerable improvement yielding a net profit of Rs. 45,000 which profit is likely to be maintained even in the near future, the Directors decide upon a Scheme of Reconstructon with a reduction of capital so that regular payment of dividends may be maintained in the future.

With a view to assisting in the scheme, the Debentureholders have agreed to accept equity shares for half the amount of the interest due to them and forego the balance and to accept further Debentures for Rs. 60,000 for each giving a floating charge to help to-wards repayment of Bank Overdraft and to provide working capital

While the Preference Shares do not give any preference as to refund of capital any arrear of dividend has a first charge on any surplus in case of winding up. The Preference Shareholders are agreeable to forego half the amount of their accumulated dividend, to accept Equity Shares for the remaining half and to reduce the future rate of dividend to 6%

Draft a suitable scheme as would help to reorganise on the following lines :—

(1) To write off goodwill
(2) To Write off Accumulated Loss
(3) To Depreciate Plant & Machinery by 10%
(4] To write down Plants by Rs. 45,000
(5) To provide 5% for Doubtful Debts
(6) To Depreciate Stock by 10%

(Institute of Bankers, 1965)

(Ans : Total of Balance Sheet Rs. 5,19,000)

(I) *Capital Reduction Scheme* :

26. The following is the Balance sheet of Lintus Stores, Ltd, on the 31st December, 1959 :—

Capital and Liabilities		Assets & Properties	
Capital :		Fixed Assets	Rs.
800 ordinary shares of 100 each fully paid	80,000	Goodwill	30,000
		Machinery	90,000
400, 6% Cumulative Preference Shares of Rs. 100 each fully paid	40,000	Current Assets :	
		Stock	20,000
		Sundry Debtors	26,000
		Cash in hand	4,000
Current Liabilities	1,00,000	Profit & Loss A/c	50,000
	Rs. 2,20,000		Rs. 2,20,000

Draft a suitable report to the Directors of the Company suggesting a scheme for reduction of capital which would help to reorganise the company on the following lines :—

(a) To write off the Profit and Loss Account and the goodwill
(b) To depreciate Plant and Machinery by 10 per cent.

(C.U. M.Com. 1960)

27. following is the Balance Sheet of N.D. Ltd. as at 31st December, 1957 :—

Liabilities		Assets	Rs.
Share Capital :		Goodwill	25,000
Authorised and Issued		Freehold Property	
10,000 6% cum. pref. shares		at cost	90,000
of Rs. 10 each fully paid up	1,00,000	Plant and Machinery	
		at cost Less : Depn.	
20,000 equity shares of Rs. 10		written off	85,000
each fully paid up	2,00,000	Investment (Market	
	3,00,000	value Rs. 86,000)	80,500
		Stock	35,000
Creditors	75,000	Debtors	40,000
Bank Overdraft	15,000	Cash at Bank	500
General Reserve	70,000	Profit & Loss A/c	1,04,000
	4,60,000		4,60,000

Prepare a Capital Reduction Scheme which in your opinion would be necessary and redraft the Balance Sheet after incorporating your proposals for submission to the Board of Directors. The cumulative preference dividends are in arrears for two years.

(C.A. Final—November 1968)

28. Swastika Limited has passed throug heavy depression and losses. The Directors now feel that the business has now turned the corner and therefore request you to advise as to the basis on which a scheme of reduction of capital should be put up before the different classes of shareholders.

The Balance Sheet of the Company as at 30th June, 1961 was as follows :—

Capital & Liabilities	*Rs*	*Assets & Properties*		*Rs.*
Share Capital		Fixed Assets at cost		7,30,000
Authorised and Issued		Stocks		1,75,000
50,000, 6% cum pref. shares of Rs. 100 each	5,00,000	Investments at cost		60,000
		Cash		5,000
80,000 Eqnity Shares of Rs. 10 each	8,00,000	Profit & Loss A/c :		
Reserves	36,000	Loss b/f Rs.	4,93,000	
Bank Overdrafts	37,000	*Less* Profit		
Sundry Creditors	42,000	for the year	48,000	4,45,000
	14,15,000			14,15,000

The market value of the Investments was Rs. 73,000. The Preference Dividend was in arrears for five years.

Set out your views in the from of a report to the Directors, giving reasons for the suggestions you make. (C.U. M. Com. 1961)

(I) Purchase of a Business, Conversion etc.

1. What is Purchase of a Business :

Sometimes a limited Company already in operation *takes over* some other business trading more less on same lines. Again private businesses are frequently *converted* into limited Companies in order to secure the advantages enjoyed by such a company. In some cases limited liability companies are *newly formed* with the express purpose of taking over the business of an established concern which may be a proprietorship or a partnership. The company acquiring the business is called the *purchaser* and the person who sells the business to the company is called the *vendor* and the amount payable for the business is known as *purchase consideration*.

2. Determination of Purchase Consideration :

The purchase consideration is determined as per agreement. It is usually calculated as follows :

The assets including goodwill taken over at agreed valuations are added and liabilities taken over at agreed valuations are deducted to get the *net tangible assets*. The amount of the net tangible assets is taken as *purchase consideration*. The purchase consideration may also be agreed at a lump sum.

Where the purchase consideration is greater than the amount of net tangible assets, the difference is taken to be *Goodwill*. Where the purchase consideration is less than the amount of net tangible assets, the difference is transferred to *Capital Reserve* in the books of the new company.

Purchase consideration may be paid partly in cash and partly by the allotment of shares and debentures of the new company. The shares may be allotted as fully paid or partly paid and they may be issued at par or at premium.

Notes : (1) Fictitious assets having no realisable value should be ignored in determining the purchase consideration. Such assets are debit balance of Profit & Loss Account, Preliminary Expenses, Goodwill if of no value, Revenue Expenditure temporarily capitalised, etc.

(2) Amounts such as capital, reserves (except bad debt reserve), credit balance of Profit & Loss Account, etc. should not be taken into account.

(3) When business is taken over as a going concern, cash and goodwill may be presumed to be taken over.

(4) Debtors and Creditors taken over only for collection and payment shall not be considered in purchase consideration.

(5) Distinction between provision and reserve should be carefully followed.

3. Closing Journal Entries in the books of the Vendor :

Transactions	*Journal Entries*		
(1) On transfer of all assets at book vlaues to Realisation A/c :	Realisation A/c ... To All Assets A/c	...	Dr.
(2) On transfer of all liabilities at book values to Realisation A/c :	SundryLiabilities A/c ... To Realisation A/c	...	Dr.
(3) For Bad Debts Reserve and Depreciation Fund A/c :	Reserve for Bad Debts A/c Depreciation Fund A/c ... To Realisation A/c	... ...	Dr. Dr.
(4) (a) When some assets not taken over by purchasing Company and those assets are realised by vendor : (b) For the amount of loss on realisation of these assets : (c) For the amount of profit on realisation of these assets	(a) Cash or Bank A/c To Related Assets A/c (b) Realisation A/c To Related Assets A/c (c) Bank A/c To Realisation A/c	... ...	Dr. Dr. Dr.
(5) (a) When some liabilities are discharged by the vendor : (b) For loss on discharge of liability : (c) For profit on discharge of liability :	(a) Related Liability A/c To Bank A/c (b) Realisation A/c To Liability A/c (c) Liability A/c To Realisation A/c	... ...	Dr. Dr. Dr.
(6) (a) For payment of Realisation Expenses : (b) (i) When Realisation Expenses are paid but to be borne by the purchasing Company ; (ii) On receipt of Realisation Expenses from the purchasing Company	(a) Realisation A/c To Cash or Bank A/c (b) (i) Purchasing Company A/c To Cash or Bank A/c (ii) Cash or Bank A/c To Purchasing Company A/c	... ...	Dr. Dr. Dr:
(7) For the amount of purchase consideration payable by purchasing Company :	Purchasing Company A/c To Realisatioh A/c	...	Dr.
(8) The Balance of Realisation A/c will be either Profit or loss : (a) For profit on realisation : (b) For Loss on realisation :	(a) Realisation A/c To Proprietor's Capital A/c Or Partners' Capital A/c Or Shareholders' A/c (as the case may be) (b) Proprietors' Capital A/c Or Partners' Capital A/c Or Shareholders' A/c To Realisation A/c	... ...	Dr. Dr. Dr. Dr.
(9) On receipt of the amount of purchase consideration from the purchasing Company :	Cash or Bank A/c Shares A/c Debentures A/c To Purchasing Company's A/c	... ...	Dr. Dr. Dr.

(10) On transfer of General Reserve, Credit balance of Profit & Loss A/c, Debenture Redemption Fund, Dividend Equalisation Fund, etc. to Shareholders' A/c :	General Reserve A/c ... Dr. Profit & Loss A/c (Cr) ... Dr. Debenture Redemption Fund ... Dr. Dividend Equalisation Fund ... Dr. To Shareholders' A/c
(11) On transfer of Share Capital A/c and Capital Reserve to Shareholders' A/c :	Share Capital A/c ... Dr. Capital Reserve A/c ... Dr. To Shareholders' A/c
(12) On transfer of fictitious assets such as Debit balance of P/L A/c, Preliminary Expenses etc. to Shareholders' A/c :	Shareholders' A/c ... Dr. To (related) Fictitious Assets A/c
(13) On distribution of Cash, Bank, Shares, Debentures etc. to Shareholders :	Shareholders' A/c ... Dr. To Cash or Bank A/c To Shares A/c To Debentures A/c (with the amount of respective assets received by them)

4. **Journal Entries in the books of the Purchasing Company :**

Transactions	*Journal Entries*
(1) On taking over of assets and liabilities :	Various Assets A/cs (*with agreed amounts*) Dr. To Various Liabilities A/cs (*with agreed amounts*) To Vendors' A/c (*with purchase Price*) (or Bnsiness Purchase A/c)
(2) Where the purchase consideration is greater than net tangible assets :	The difference is to be debited to goodwill A/c
(3) Where the purchase consideration is less than the net tangible assets :	The difference is to be credited to Capital Reserve A/c
(4) If the vendor is entitled to interest on purchase price:	Interest A/c ... Dr. To Vendors' A/c (*with the amount of Interest due*)
(5) (a) If realisation expenses are to be borne by purchasing Company : (b) On payment of the expenses :	(a) Goodwill A/c ... Dr. Or Preliminary Expenses A/c ... Dr. To Vendor's A/c (b) Vendors' A/c ... Dr. To Bank or Cash A/c
(6) For the payment of purchase consideration :	Vendor's A/c ... Dr. (or Business Purchase A/c Dr.) To Share capital A/c To Debentures A/c To cash or Bank A/c (what is given)

Illustration 42 *(Purchase of a sole proprietorship bussiness)*

P, a manufacturer, has accepted an offer from the New Manufacturing Co. Ltd. to acquire his business as from January 1, 1966.

The purchase price is to be based on P's Balance Sheet as at 31st December, 1965, subject to an agreed figure of Rs. 1,00,000 for the Goodwill and a valuation of the fixed assets and the stock. The other items are to be taken over at book figures. P is to retain the balance at the bank to guarantee the debtors and to assume responsibility for any undisclosed liabilities.

The purchase price is to be discharged, so far as possible, by the issue of Rs. 10 shares, fully paid, in the New Manufacturing Co. Ltd. at an agreed market price of Rs. 15 per share. These shares are to be issued only in multiples of 1,000 shares and balance is to be paid in cash.

P's Balance Sheet as at December 31, 1965 is given below :

Liabilities	*Rs.*	*Assets*	*Rs.*
Sundry Creditors	36,470	Fixed Assets :	
Outstanding expenses	2,750	Freehold Property	1,04,620
Capital Account	3,99,160	Plant & Machinery	1,52,740
		Current Assets :	
		Stock	1,16,770
		Sundry Debtors	52,200
		Balance at Bank	12,050
	4,38,380		4,38,380

The Freehold Property was valued at Rs. 1,68,700, the Plant & Machinery at Rs. 2,46,050 and the Stock at Rs. 1,26,750.

Expenses of the share issue were Rs. 1,700 and were paid by the Company. The purchase price was discharged on February 1, 1966.

(a) Calculate the number of shares to be issued by the Company.

(b) Draw up the journal entries in the Company's book to record the above transactions, indicating those relating to cash

(North Bengal University, B. Com. Part II, 1966)

Solution

Calculation of Purchase Consideration :

Assets taken over by the New Manufacturing Co. Ltd. :—

	Rs.	Rs.
Goodwill	1,00,000	
Freehold Property	1,68,700	
Pant & Machinery	2,46,050	
Stock	1,26,750	
Sundry Debtors	52,200	6,93,700
Less Liabilities taken over by the New Manufacturing Co. Ltd :—		
Sundry Creditors	36,470	
Outstanding Expenses	2,750	39,220
Amount Payable to P as Purchase Price :		6,54,480

Discharge of Purchase Consideration :

Shares of Rs. 10 each will be issued to P only in multiples of 1,000 shares. The market price of each share is Rs. 15. So, 43,000 shares of Rs. 10 each can be issued to P at the market price of Rs. 15 per share. The total value of 43,000 shares @ Rs. 15 per share is Rs. 6,45,000 (i.e. 43,000 x 15).

The Balance of Rs. 9,480 (i.e. Rs. 6,54,480—Rs. 6,45,000) will be paid to P in cash.

In the Books of the New Manufacturing Co. Ltd. (i.e. Purchasing Company)

Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
1966 Jan. 1	Goodwill A/c ...	Dr.	1,00,000	
	Freehold Property A/c ...	Dr.	1,68,700	
	Plant & Machinery A/c ...	Dr.	2,46,050	
	Stock A/c	Dr.	1,26,750	
	Sundry Debtors A/c	Dr.	52,200	
	To Sundry Creditors A/c			36,470
	To Outstanding Expenses A/c			2,750
	To P's (Vendor's) A/c			6,54,480
	(Being P's Assets and Liabilities taken over as per agreement)			
Feb. 1	P's (Vendor's) A/c ...	Dr.	6,54,480	
	To Share Capital A/c (43.000 shares of Rs. 10 each)			4,30,000
	To Share Premium A/c (@ Rs. 5 on 43,000 shares)			2,15,000
	To Cash A/c			9,480
	(Being the issue of 43,000 shares of Rs. 10 each at Rs. 15 per share fully paid and payment of the Balance in cash in discharge of purchase consideration)			
„	Preliminary Expenses A/c	Dr.	1,700	
	To Cash A/c			1,700
	(Being expenses on issue of shares paid.)			
„	Share Premium A/c ...	Dr	1,01,700	
	To Goodwill A/c			1,00,000
	To Preliminary Expenses A/c			1,700
	(Being Goodwill and Preliminary Expenses written off ont of Share Premium)			

Note : Assumed that the fictitious assets i.e. goodwill and preliminary expenses are written off out of share premium.

Illustration 43 *(Purchase of the business of a firm)*

S. Ltd. was formed on 1st January, 1969 with Authorised Capital of 12,000 Equity Shares of Rs. 50 each and 4,000 Preference Shares of Rs. 100 each to acquire the partnership business of B and C at an agreed price of Rs. 2,00,000

The assets and liabilities of the business taken over were as given below :—

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	25,000	Freehold Premises	1,00,000
Capital Accounts :		Plant & Machinery	80,000
B 1,25,000		Stock	20,000
C 75,000		Sundry Debtors	25,000
	2,00,000		
	2,25,000		2,25,000

The purchase consideration was to be discharged on 15th January, 1969 by the issue of 1,000 Preference Shares of Rs. 100 each as fully paid up and 1,000 Equity Shares of Rs. 50 each as Rs. 25 per share paid up and the balance to be paid up by cash.

The remaining Preference Shares and 7,000, Equity Shares were issued on 15th January, 1969 to the public and were fully paid up.

You are requested to journalise the transactions in the books of S. Ltd. assuming that the purchase consideration was fully paid off.

Give also the opening Balance Sheet of the company resulting from the above transactions, as on 15th January, 1969.

Solution

In the Books os S. Ltd. (Purchasing Company)

Journal Entries

			Dr.	Cr.
			Rs.	Rs.
1969 Jan, 1	Freehold Premises A/c ... Dr.		1,00,000	
	Plant & Machinery A/c ... Dr.		80,000	
	Stock A/c ... Dr.		20,000	
	Sundry Debtors A/c ... Dr.		25,000	
	To Sundry Creditors A/c			25,000
	To B & C (Vendors) A/c			2,00,000
	(Being the assets and liabilities of B & C taken over as per agreement)			
Jan. 15	B & C's (Vendors') A/c ... Dr.		1,25,000	
	To Preference Share Capital A/c			1,00,000
	To Equity Share Capital A/c			25,000
	(Being Issue of 1,000 Preference Shares of Rs. 100 each as fully paid up and 1,000 Equity Shares of 50 each of which Rs. 25 per share paid up in part satisfaction of the purchase consideration as per Board's resolution)			
Jan. 15	Preference Share Application & Allotment A/c Dr.		3,00,000	
	To Preference Share Capital A/c			3,00.000
	(Being application and allotment moneys @ Rs. 100 per share due on 3,000 Preference shares as per Board's resolution.)			
Jan. 15	Equity Share Application & Allotment A/c Dr.		3,50,000	
	To Equity Share Capital A/c			3,50,000
	(Being application and allotment moneys @ Rs. 50 per share due on 7,000 Equity Shares as per Board's resolution.)			

Dr. **Cash Book** (with Bank Column only) Cr.

1969		Rs.	1969		Rs.
Jan. 15	To Pref. Share Application & Allotment A/c (Being application & allotment moneys on 3,000 preference shares received.)	3,00,000	Jan. 15	By B & C's (Vendors') A/c (Being the amount paid to the vendors' firm in full satisfaction of purchase consideration.	75,000
,,	To Equity Share Application & Allotment A/c (Being the application and allotment money on 7,000 equity shares received)	3,50,000	,,	By Balance cld.	5,75,000
		6,50,000			6,50,000
,,	To Balance b/d	5,75,000			

Balance Sheet of S. Ltd. as on 15th January, 1969

Liabilities	Rs,	*Assets*	Rs.
Authorised Capital :		**Fixed Assets :**	
4,000 Pref. shares of Rs. 100 cach	4,00,000	Freehold Premises	1,00,000
12,000 Equity shares of Rs. 50 each.	6,00,000	Plant & Machinery	80,000
	10,00,000		
Issued & Subscribed Capital :		**Current Assets :**	
a) 1,000 Pref. shares of Rs, 100 each issued to Vendors for consideration other than cash	1,00,000	Stock	20,000
		Sundry Debtors	25,000
		Cash at Bank	5,75,000
(b) 3,000 Pref. Share of Rs. 100 each fully called and paid up	3,00,000		
(c) 1,000 Equity shares of Rs. 50 cach issued as Rs. 25 per share paid up for cosideration other than cash	25,000		
(d) 7,000 Equity shares of Rs. 50 each fully called up & paid up	3,50,000		
Sundry Creditors	25,000		
	8,00,000		8,00,000

lustration 44 *(Purchase of the business of a company and adjustment of goodwill.)*

On January 1, 1963, Century Dealers Ltd. is taken over by New Enterprise td. registered with an authorised capital of Rs. 40,00,000 divided into 4,00,000 quity Shares of Rs. 10 each.

At December 31, 1962 the Balance Sheet of Century Dealers Ltd. stood as follows :

	Rs.	Rs.		Rs.
Authorised, Subscribed, and paid-up Capital :			Goodwill	2,00,000
50,000 Equity Shares of Rs. 20 each	10,00,000		Land & Buildings	2,80,000
10,000 6% Preference Shares of Rs. 100 each	10,00,000		Plant & Machinery	6,60,000
		20,00,000	Furniture & Fittings	24,000
General Reserve		8,00,000	Investments	4,00,000
Profit & Loss A/c (cr.)		1,00,000	Stores & Spare parts	1,32,000
Loan from Bank		50,000	Stock-in-Trade	6,80,000
Sundry Creditors for goods		1,60,000	Sundry Debtors (Good)	6,76,000
Sundry Liabilities for expenses		40,000	Cash & Bank balance	78,000
			Preliminary Expenses	20,000
		31,50,000		31,50,000

The terms of taking over are as follows :

All the assets (including Goodwill and cash) and liabilities of the old company are to be taken over by the new campany at the book values except that—

(a) Plant & Machinery is to be reduced by 10%, (b) Furniture & Fittings are to be reduced by 20%, (c) Investments are to be rated up by 5% (d) Stock-in-trade is to be revalued at a 4% higher figure. The Purchase consideration is to be met by 3 Equity shares (fully paid) in the new company for each Equity Share in the old company ; 12 Equity Shares (fully paid) in the new company for each preference share in the old company and Rs. 2,10,000 in cash.

In the books of the Century Dealers Ltd. draw up, the Business Realisation Account and Sundry Members Account.

Also show the opening entries in the books of the New Enterprise Ltd.

(C.U. B. Com. (Adv.) 1963—Adapted)

Solution **In the Books of Century Dealers Ltd. (Vendor)**

Calculation of Purchase Consideration :

		Rs.
(i)	1,50,000 equity shares of Rs. 10 each fully paid being @ 3 shares in New Enterprise Ltd. for 1 share in Century Dealers Ltd.	15,00,000
(ii)	1,20,000 equity shares of Rs. 10 each fully paid being @ 12 equity shares in New Enterprise Ltd. For 1 Preference share in Century dealers Ltd. ...	12,00,000
(iii)	Cash	2,10,000
		29,10,000

Dr. **(Business) Realisation Account** Cr.

	Rs.		Rs.
To Goodwill	2,00,000	By Loan from Bank	50,000
,, Land & Buildings	2,80,000	,, Sundry creditors	1,60,000
,, Plant & Machinery	6,60,000	,, Sundry liabilities	40,000
,, Furniture & Fittings	24,000	,, New Enterprises Ltd. A/c (Purchase consideration)	29,10,000
,, Investments	4,00,000		
,, Stores & Spare parts	1,32,000		
,, Stock-in-trade	6,80,000		
,, Sundry Debtors	6,76,000		
,, Cash at Bank	78,000		
,, Balance c/d	30,000		
	31,60,000		31,60,000
To Premium on Redemption of Preference Shares	2,00,000	By Balance b/d	30,000
		,, Net loss on realisation—transferred to Equity Shareholders' A/c	1,70,000
	2,00,000		2,00,000

Note : All assets taken over except Preliminary Expenses are transferred to Realisation Account at book values.

Sundry Members A/c (Equity Shares)

Dr. (i.e. Ordinary Shareholders' A/c) Cr

	Rs.		Rs.
To Preliminary Expenses A/c	20,000	By Equity Share Capital A/c	10,00,000
,, Loss on Realisation	1,70,000	,, General Reserve A/c	8,00,000
,, Cash A/c	2,10,000	,, Profit & Loss A/c	1,00,000
,, Equity Shares in New Enterprise Ltd.	15,00,000		
	19,00,000		19,00,000

Sundry Members' A/c (Pref. Shares)

Dr. (i.e. Preference Shareholders' A/c) Cr.

	Rs.		Rs.
To Equity Shares in New Enterprise Ltd.	12,00,000	By Pref. Share Capital A/c	10,00,000
		,, Premium on Redemption of Preference Shares	2,00,000
	12,00,000		12,00,000

Notes : (1) It is assumed that Preference Shares are non-participating.

(2) As Preference Shares are redeemed @ 12 Equity Shares of Rs. 10 each for

1 Preference Share of Rs. 100 each, the preference shareholders' premium on redemption will be Rs. 2,00,000 which amount is credited to the Preference Shareholders' A/c.

In the Books of New Enterprise Ltd.

Value of goodwill has been arrived at thus :

The total value of assets taken over :

		Rs.	Rs.
Goodwill		2,00,000	
Land & Buildings		2,80,000	
Plant & Machinery	6,60,000		
Less Depreciation	66,000	5,94,000	
Furniture & Fittings	24,000		
Less Depreciation	4,800	19,200	
Investments	4,00,000		
Add Appreciation	20,000	4,20,000	
Stores & spare parts		1,32,000	
Stock-in-trade	6,80,000		
Add Appreciation @ 4%	27,200	7,07,200	
Sundry Debtors		6,76,000	
Cash & Bank Balance		78,000	31,06,400

Less Liabilities Undertaken :

Loan from Bank	50,000	
Sundry Creditors	1,60,000	
Sundry Liabilities for expenses	40,000	2,50,000
Net value of business taken over :		28,56,400

The Purchase consideration is Rs. 53,600 (i.e. Rs. 29,10,000 – Rs. 28,56,400) more than the net value of business acquired. This amount is taken as increased value of Goodwill of the business acquired. So in the new company's book goodwill will be shown at a higher figure of Rs. 2,53,600.

Opening Journal Entries

		Dr.	Cr.
		Rs.	Rs.
Sundry Assets A/c ... Dr.		31,60,000	
	Rs.		
Goodwill	2,53,600		
Land & Buildings	2,80,000		
Plant & Machinery	5,94,000		
Furniture & Fittings	19,200		
Investments	4,20,000		
Stores & spare parts	1,32,000		
Stock-in-trade	7,07,200		
Sundry Debtors	6,76,000		
Cash & Bank Balance	78,000		
To Loan from Bank			50,000
,, Sundry creditors for goods			1,60,000
,, Sundry Liabilities for Expenses			40,000
,, Century Dealers Ltd. A/c			29,10,000
(Being the assets and liabilities of Century Dealers Ltd. taken over as per agreement)			
Cash A/c ... ... Dr.		2,00,000	
To Share Capital A/c			2,00,000
(Being issue of 20,000 shares of Rs. 10 each fully paid)			
Century Dealers Ltd A/c ... ... Dr.		29,10,000	
To Equity Share Capital A/c			27,00,000
,, Cash A/c			2,10,000
(Being the issue of 2,70,000 shares of Rs. 10 each as fully paid and payment of Rs. 2,10,000 in full satisfaction of purchase consideration.)			

Note : Assumed that 20,000 shares of Rs. 10 each are issued to the public to pay the amount of cash to the vendor.

Illustration 45 *(Purchase of the business of a Company & Calculation af Capital Reserve)*

The New Co. Ltd. was formed to take over the business of the Old Co. Ltd. of which the Balance Sheet stood as follows :

Capital & Liabilities	Rs.	*Property & Assets*	Rs.
Capital :			
40,000 Equity shares ofRs. 10 each fully paid	4,00,000	Land & Building	1,75,000
Reserve	1,00,000	Plant & Machinery	1,25,000
Sundry Creditors	80,000	Furniture & Fixture	10,000
Profit & Loss A/c	20,000	Sundry Debtors	2,15,000
		Stock	45,000
		Cash in hand & at Bank	30,000
	6,00,000		6,00,000

The Purchase consideration was Rs. 1,00,000 payable in cash ; Rs. 1,00,000 by the allotment of 1,000 4% Debentures of Rs. 100 each ; and three fully paid shares of Rs 10 each of the New Co. Ltd. in exchange of four fully paid shares of Rs 10 each of the Old Co. Ltd.

The assets are to be taken over at their book values. The nominal capital of the New Co. Ltd was Rs. 5,00,000 divided into 50,000 Equity Shares of Rs. 10 each. Out of this, 30,000 shares had been allotted to the public and the Application Money (Rs 2·50 per share) and Allotment Money (Rs 2·50 per share) had been received in cash in full. On the due date the cash consideration was paid, the stipulated Debentures were issued as fully paid and the vendor's shares were allotted. The Preliminary Expenses amounted to Rs. 10,000.

Give the Journal Entries to open the Books of the New Co. Ltd. and draw up the opening Balance Sheet (Burdwan University, B.Com. (Adv.) 1966)

Solution

(1) *The purchase consideration is ascertained thus* :

	Rs.
(i) Amount payable in cash :	1,00,000
(ii) 1,000 4% Debentures of Rs. 100 each :	1,00,000
(iii) 3 shares of Rs. 10 each of the New Company for 4 shares of the Old Company issued : (i.e. $\frac{40,000}{4} \times 3 = 30,000$ shares of Rs. 10 each will be issued)	3,00,000
∴ Purchase Consideration	5,00,000

(2) *Capital Reserve is ascertained thus :*

Total Assets	Rs. 6,00,000	
Less liabilities	80,000	
Net tangible assets =	5,20,000	
Less Purcahse consideration	5,00,000	
∴ Capital Reserve		20,000

Journal Entires in the books of the New Co. Ltd.

		Dr. Rs.	Cr. Rs.
Land & Buildings A/c ...	Dr.	1,75,000	
Plants & Machinery A/c ...	Dr.	1,25,000	
Furniture & Fixtures A/c ...	Dr.	10,000	
Sundry Debtors A/c ...	Dr.	2,15,000	
Stock A/c ...	Dr,	45,000	
Cash in hand and at Bank A/c ...	Dr.	30,000	
To Sundry Creditors A/c ...			80,000
„ Old Co. Ltd. (vendors) A/c ...			5,00,000
„ Capital Reserve A/c ...			20,000
(Being the assets and liabilities of Old Co. Ltd. taken over as per agreement.)			

	Rs.	Rs.
Cash or Bank A/c ... Dr. To Ordi. Share Application A/c (Being application money @ Rs. 2.50 per share received on 30,000 shares.)	75,000	75,000
Ordi. Share Application A/c Dr. To Ordi. Share Capital A/c (Being the transfer of the application money @ Rs. 2·50 per share for 30,000 shares allotted, to Share Capital A/c.)	75,000	75,000
Ordi. Shares Allotment A/c ... Dr. To Ordi. Share Capital A/c (Being the allotment of 30,000 shares @ Rs. 2·50 per share as per Board's resolution.	75,000	75,000
Cash or Bank A/c ... Dr. To Ordi. Share Allotment A/c (Being allotment money received @ Rs. 2·50 per share on 30,000 shares.)	75,000	75,000
Old Co. Ltd. (Vendors') A/c ... Dr. To Cash A/c „ Ordinary Share Capital A/c „ 4% Debentures A/c (Being the payment of Rs. 1,00,000 in Cash, and issue of 30,000 shares of Rs. 10 each fully paid and 1,000 4% Debentures of Rs. 100 each to the Old Co. Ltd. in settlement of purchase consideration.)	5,00,000	 1,00,000 3,00,000 1,00,000
Preliminary Expenses A/c ... Dr. To Bank A/c (Being preliminary expenses paid.)	10,000	10,000
Capital Reserve A/c ... Dr. To Preliminary Expenses A/c (Being preliminary expenses written off against Capital Reserve.)	10,000	10,000

Balance Sheet of the New Co. Ltd. as at.

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		**Fixed Assets :**	
Authorised:		Land & Buildings	1,75,000
60,000 ordinary shares of Rs. 10 each ...	6,00,000	Plant & Machinery	1,25,000
Issued & Paid-up Capital :		Furniture & Fixtures	10,000
(i) 30,000 ordinary shares of Rs, 10 each of which Rs. 5 per share called up and paid up.	1,50,000	**Current Assets :**	
(ii) 30,000 ordinary shares of Rs. 10 each issued for consideration other than cash.	3,00,000	Stock	45,000
Reserve & Surplus :		Sundry Debtors	2,15,000
Capital Reserve	10,000	Cash in hand and at Bank.	70,000
Secured Loans :			
4% Debentures	1,00,000		
Current Liabilities :			
Sundry Creditors	80,000		
	6,40,000		6,40,000

Note : Cash in hand and at Bank is ascertained as follows :

		Rs.	
As per Old Co. Ltd's Balance Sheet		30,000	
Add Issue of shares in cash		1,50,000	
		1,80,000	
Less Cash paid to vendors Rs.	1,00,000		
Preliminary expenses	10,000	1,10,000	Rs. 70,000

Illustration 46 *(Adimission, Retirement, & Conversion)*

Bose and Sen are partners sharing profits 3 : 2. On the 30th June, 1960, they admit Gupta as a partner, and the new profit ratio is 2 : 2 : 1. Gupta brought in fixtures Rs. 3,000 and cash Rs. 10,000, the goodwill being (a) Bose and Sen Rs. 20,000 and (b) Gupta, Rs. 10,000, but neither figure is to be brought into the books.

On 31st December, 1960 the pertnership is dissolved, Bose retiring and the other two prtners forming a Limited Company with equal Capitals, taking over all remaining assets and liabilities, Goodwill being agreed at Rs. 40,000 and brought into the books of the limited company. Bose agrees to take over the business car at Rs. 3,700. Plant was sold for Rs. 3,000 being in excess of requirements.

The profits of the two preceding years were Rs. 17,200 and Rs. 19,000 respectively and it was agreed that for the half year ended 30th June, 1960 the net profit was to be taken as equal to the average of the two preceding years and current year.

No entries had been made when Gupta entered, except for cash.

From the following Trial Balance, and the infromation given above show the ledger entries in the books of the firm and the limited company, no new books opened by the latter. Bose agrees to leave Rs. 50,000 on loan to the company, secured by 6 per cent debentures :

Trial Balance, 31st December, 1960	Dr.	Cr.
	Rs.	Rs.
Bose — Drawings and Capital	6,000	35,000
Sen — Drawings and Capital	5,000	20,000
Gupta—Drawings and Capital	2,800	10,000
Debtors and Creditors	31,000	12,000
Plant (Book value of plant sold, Rs. 4,000)	23,000	
Fixtures	7000	
Motor car	2,700	
Stock at 31st December, 1960 ...	13,000	
Cash at Bank ...	16,300	
Profit & Loss Account for the year ...	——	29,800
	1,06,800	1,06,800

Solution (C.U. M. Com. 1961)

Note : No new books of accounts are opened by the new company,

Goodwill Adjustment Account

Dr. Cr.

		Bose	Sen	Gupta			Bose	Sen	Gupta
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1960 June 30	To Contra	($\frac{2}{5}$)12,000	($\frac{2}{5}$)12,000	($\frac{1}{5}$) 6,000	1960 June 30	By Contra	($\frac{3}{5}$) 12,000	($\frac{2}{5}$) 8,000	10,000
Dec. 31	,, Balance trans. to Partners' Capital A/cs.	16,000	12,000	12,000	Dec. 31	,, Goodwill A/c	($\frac{2}{5}$) 16,000	($\frac{2}{5}$) 16,000	($\frac{1}{5}$) 8,000
		28,000	24,000	18,000			28,000	24,000	18,000

Capital Accounts

Dr. Cr.

		Bose	Sen	Gupta			Bose	Sen	Gupta
1960		Rs.	Rs.	Rs.	1960		Rs.	Rs.	Rs.
Dec. 31	To Drawings A/c	6,000	5,000	2,800	Jan. 1	By Balance b/d	35,000	20,000	—
Dec. 31	,, Motor car	3,700	—	—	June, 30	,, Cash	—	—	10,000
Dec. 31	,, Six percent Debentures	50,000	—	—	,,	,, Fixtures	—	—	3,000
Dec. 31	,, Cash	7,620	7,580	—	,,	,, P/L Appro. A/c (Profit upto 30th June)	13,200	8,800	—
Dec. 31	,, Share Capital A/c	—	31,340	31,340	Dec. 31	,, Goodwill Adjustment A/c	16,000	12,000	12,000
					,,	,, P/L Appro. A/c (Profit from 30th June to 31st Dec.)	3,120	3,120	1,560
					,,	,, Cash	—	—	7,580
		67,320	43,920	34,140			67,320	43,920	34,140

Dr. **Profit & Loss Appropriation Account** **Cr.**

			Rs.			Rs.
1960 June 30	To Partners' Capital A/c	Rs.		1960 Dec. 31	By Profit & Loss A/c— Net profit	29,800
	Bose $\frac{3}{5}$	13,200				
	Sen $\frac{2}{5}$	8,800	22,000			
Dec. 31	To Partners' Capital A/c					
	Bose $\frac{2}{5}$	3,120				
	Sen $\frac{2}{5}$	3,120				
	Gupta $\frac{1}{5}$	1,560	7,800			
			29,800			29,800

Note : Profit upto 30th June 1960 calculated as follows :

Profits for preceding years = Rs. 17,200 + Rs, 19,000 = Rs. 36,200

Add profit for the current year ... Rs. 29,800

Rs. 66,000

$\therefore$ Average profit will be Rs. $\frac{66,000}{3}$ = Rs. 22,000

The profit for the half year ending 30th June, 1960 will be equal to this average.

Dr. **Cash Book** **Cr.**

		Rs.			Rs.
1960 Dec. 31	To Balance b/d	16,300	1960 Dec. 31	By Bose's Capital A/c	7,620
	To Plant A/c (sold)	3,000	,,	,, Sen's Capital A/c (to adjust share Capital)	7,580
	To Gupta's Capital A/c (to adjust share Capital)	7,580	,,	,, Balance c/d	11,680
		26,880			26,880

Illustration 47 *(A Conversion Scheme)*

Ramesh and Ishan are partners sharing profits and losses in the proportion of 3 : 1 after providing interest on capital at 5% per annum and salary of Rs. 4,800 to Ramesh and of Rs. 4,200 to Ishan per annum. But as from 1st october 1965 they decide to change their profit sharing ratio to 5 : 2, other conditions being the same. The Balance Sheet as at 30th September, 1965 is given below :—

		Rs.		Rs.
Trade Creditors	...	27,600	Cash Balances	17,400
Loan : Ishan	...	12,000	Trade Debtors	39,000
Capital :			Stock in hand	44,400
Ramesh	...	54,600	Furniture & Fixture	4,800
Ishan	...	34,200	Plant & Machinery	22,800
		1,28,400		1,28,400

They also decide to convert the firm into a private limited company on the understanding that the relative position of the partners on the new basis shall be preserved. It is further agreed that the private limited company will take over at the book values all the assets except the plant and machinery which is to be taken at Rs. 30,000 and goodwill at Rs. 33,600.

You are requested to submit a report containing your recommendations to carry out the desired arrangements and to show the opening Balance Sheet of the new company. Ignore all expenses.

(C. U. M. Com. 1965)

Solution

The Partners
Messrs. Ramesh & Ishan
Calcutta-4

Dear Sirs,

As requested we have the pleasure in submitting hereunder the proposed scheme for conversion of your partnership business into a private limited company.

Suggested Scheme

1. The capitals of the partners are not proportionate to their respective share in profits and losses. If there were heavy profits or losses on revaluation of the assets some cash adjustments might be necessary between the partners. In order to retain the similar position in the proposed company the following adjustments are recommended.

2. The capital accounts after adjustment of goodwill and profit on revaluation of assets will be as follows :

		Ramesh Rs.	*Ishan* Rs.
	Present Capital ...	54,600	34,200
Add	Share of profit on revaluation of Plant & Machinery in the ratio of 3 : 1 (Rs. 30,000 – Rs. 22,800) = Rs. 7,200 ...	5,400($\frac{3}{4}$)	1,800($\frac{1}{4}$)
,,	Share of goodwill i. e. Rs. 33,600 in the ratio of 3 : 1 ...	25,200($\frac{3}{4}$)	8,400($\frac{1}{4}$)
		85,200	44,400
Less	Capitals in new profit sharing ratio i. e. 5 : 2 ...	85,200	34,080
	∴ Surplus Capital held by Ishan over Ramesh	X	10,320

3. In the event of liquidation Ishan should receive out of the realisation of the assets an amount of Rs. 10,320 before Ramesh receives anything. So, it is proposed to issue to Shri Ishan 1,032 6% Preference Shares of Rs. 10 each fully paid. It is also suggested to issue 11,928 Ordinary Shares of Rs. 10 each fully paid to the partners—Ramesh 8,520 shares and Ishan 3,408 shares.

4. The proposed company may be registered with an authorised capital of (a) 15,000 ordinary shares of Rs. 10 each and (b) 5,000 6% preference shares of Rs. 10 each.

5. Ishan may be compensated by issuing 120 6% Debentures of Rs. 100 each to him for his outstanding loan of Rs. 12,000.

6. It is suggested that Sri Ramesh and Sri Ishan should be appointed wholetime directors and paid a monthly salary of Rs. 800 and Rs. 700 respectively.

7. The Balance Sheet of the proposed company is enclosed herewith for your ready reference.

We hope you will find the suggested scheme in order. We shall be glad to give you any further information you may require.

Yours faithfully
Chartered Accountants

Balance Sheet of the Company as at 1.10.1965

Liabilities	Rs.	*Assets*	Rs.
Authorised Capital :		**Fixed Assets :**	
15,000 ordinary shares of Rs. 10 each	1,50,000	Plant & Machinery	30,000
5,000 6% preference shares of Rs. 10 each	50,000	Furniture & Fixtures	4,800
	2,00,000	Goodwill	33,600
		Current Assets Loans & Advances :	
Issued & Paid up Capital :		Stock-in-hand	44,400
11,928 ordinary shares of Rs. 10 each	1,19,280	Trade Debtors	39,000
1,032 6% preference shares of Rs. 10 each	10,320	Cash Balances	17,400
Secured Loans :			
6% Debentures	12,000		
Current Liabilities & Provisions :			
Trade Creditors	27,600		
	1,69,200		1,69,200

EXERCISE

Purchase of Sole proprietorship business :

1. C. Dutta's Balance Sheet at Dec. 31, 1957 was as follows

	Rs.		Rs.
Sundry Creditors	10,000	Property	1,00,000
Bills payable	40,000	Plant & Machinery	50,000
Capital	3,15,000	Stock	1,50,000
		Sundry Debtors	60,000
		Bank	5,000
	Rs. 3,65,000		Rs. 3,65,000

A Limited Company was formed to purchase the business for the sum of Rs. 4,00,000 payable as follows : 5% Debentures Rs. 1,00,000 ; 8% Preference Shares Rs. 1,00,000 ; Equity Shares Rs. 1,50,000 ; and the balance in cash, the company agreeing to take over all liabilities.

The registered capital of the company was Rs. 5,00,000 divided into 20,000 Pref. Shares and 30,000 Equity Shares of Rs. 10/- each.

5,000 Pref. Shares and 5,000 Equity Shares were offered for subscription to the public. The Preference Shares were issued at par payable Rs. 2·50 on application, Rs. 2·50 on allotment, and the balance one month after allotment. The Equity Shares were issued at Rs. 12·50 per share payable Rs. 2·50 on application, Rs. 5 on allotment (including Rs. 2·50 as premium) and Rs. 5 one month after allotment.

The issued capital was fully subscribed, and the shares and debentures including the vendor's were allotted. All calls were duly paid except the amount due on allotment and final instalment on 50 Equity Shares which were forfeited.

The company paid the vendor the amount due to him in cash, and also Rs. 7,000 for Preliminary Expenses.

Record the above transactions in the company's ledger, and prepare a Balance Sheet showing the position of the company.

(C. U. B. Com. (Comp) 1942—Adapted)

(Ans : Balance Sheet Total—Rs. 5,12,000)

2. The Handloom Products Ltd. was formed to acquire the business of Kapadawala & Co., whose Balance Sheet at the date of purchase was agreed as follows :—

	Rs.		Rs.
Creditors	2,500	Cash in hand	175
Capital	13,000	Cash at Bank	825
		Debtors	3,100
		Stock-in-trade	5,000
		Fixtures etc.	500
		Machinery	3,900
		Leasehold Premises	2,000
	15,500		15,500

The agreement entered into provided that the purchase price should be Rs. 18,000 payable as to Rs. 12,000 in Cash and as to Rs. 6,000 by the allotment of 600 fully paid shares of Rs. 10 each in the Company. The Nominal Capital of the Company was Rs. 30,000 of which 2,000 shares of Rs. 10 each were allotted on 1st July, 1958 payable as to Rs. 5 on application, Rs. 5 on allotment.

Show the opening Journal Entries of the Handloom Products Ltd.

(Institute of Bankers, 1959)

(Ans ; The amount of goodwill Rs. 5,000 being excees of purchase consideration over net value of assets acquired.)

Purchase of partnership firm :

3. Careful and Painstaking Ltd., is a company formed to take over the partnership business of Sleeper and Idler with effect from January 1, 1955 on which date the Balance Sheet of the firm stood as follows :

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors		15,72,200	Leasehold Land		60,000
Bills Payable		2,36,000	Buildings		1,20,000
Outstanding Liabilities for expenses		19,500	Furniture & Fittings		8,000
Loan from Bank		3,69,000	Plant & Machinery		3,75,000
Capital Accounts :			Sundry Debtors		10,14,000
	Rs.		Bills Receivable		5,83,000
Sleeper	30,000		Stock-in-hand		90,000
Idler	25,000			Rs.	
		55,000	Cash in hand	200	
			Cash at Bank	1,500	
					1,700
		22,51,700			22,51,700

The assets are to be taken over at the following values :—

Leasehold Land, as per Balance Sheet ; Buildings at Rs. 40,000 ; Furniture and Fittings at Rs. 4,000 ; Plant & Machinery at 2,50,000 ; Sundry Debtors at 75 per cent ; Bills Receivable at Rs. 4,00,000 ; Stock at Rs. 75,000.

Regarding liabilities, Sundry creditors have made a compromise at 50 per cent ; Holders of Bills Payable have agreed to forego 25 per cent of their claims ; Outstanding liabilities are settled at 50 per cent. Loan from Bank is to be paid in full.

The purchase consideration has been fixed at Rs. 40,000, half to be paid in cash and half in fully paid shares of the company at par.

The company has been registered with an authorised capital of Rs. 25,00,000 divided into 25,000 Equity Shares of Rs. 100 each.

10,000 shares (including shares payable to vendor) have been issued at par. They have been called in full and all calls due have been received. The Preliminary Expenses in connection with the formation of the company amount to Rs. 25,000 and share selling commission to Rs. 12,000.

Show the opening Balance Sheet of the Company with the assets and liabilities as stipulated.

(C. U. B. Com. (Compartmental) 1955)

(**Ans** : Total of Balance Sheet : Rs. 25,88,200)

4. Set out below is the Balance Sheet as on 31st December 1943, of Messrs Black and White who are equal partners :

		£		£
To Capital :			By Land and Buildings	22.065
" J. Black	30,000		" Machinery & Plants	12,800
" W. white	20,000		" Stock	10,760
		50,000	" Sundry Debtors.	4,250
" Sundry Creditors		3,700	" Cash at Bank	2,750
			" Investments	1,075
		53,700		53,700

A Limited Company with a Nominal Capital of £ 1,00,000 in ordinary shares of £1 each, was formed to acquire and carry on the business. The vendors guranteed the debts, and agreed to pay off the creditors. The company took over the whole concern with the exception of the cash and investments, the purchase price being agreed at £ 60,000. The vendors were paid as to £ 50,000 in fully paid ordinary shares and as to the balance in cash. The balance of the share capital was taken up by the public and fully paid up. Show the entries to close books of the old firm and to open those of the new company,

(London chamber of commerce)

5. H. Dutt, J. Boseck and R. Kapoor carrying on the same class of business, decided to combine and form into a private limited company on 1.10.62 by taking over their assets and liabilities at their book values. The capital of the company was to be Rs. 6,00,000 in Rs. 10/- equity shares, all of which are to be issued as fully paid shares to their vendors in proportion to the interests handed over.

On 30.9.62 the book values of various assets and liabilities were as follows :

	H. Dutt	J. Boseck	R. Kapoor
	Rs.	Rs.	Rs.
Stock	80,250	72,465	1,50,500
Sundry Debtors	54,225	1,38,700	2,66,410
Bills Receivable	23,730	23,750	—
Bank Overdraft	--	18,850	–
Cash at Bank	13,425	—	62,650
Sundry Creditors	30,000	87,725	2,40,730
Bills Payable	45,000	—	1,02,780
Reserve Account	—	—	50,000

Rs. 7,900 was paid by the company as preliminary expenses. Show the opening journal entries of the company and draft the Balance Sheet as at 1.10,62. (C.U. M.Com. 1962)

(**Ans** : Balance Sheet total Rs. 11,06,285)

Purchase of the business of a Company :

6.The Balance Sheet of the Poona Beauty Products Limited as at 31st December 1965 was as under :—

Capital :	Rs.		Rs.
12,000 Equity Shares of Rs. 50		Land & Building	5,00,000
each fully paid	6,00,000	Plant & Machinery	2,00,000
Sundry Creditors	1,50,000	Trading Stock	70,000
Bank Overdraft	1,30,000	Sundry Debtors	1,00,000
		Profit & Loss A/c (Dr.)	10,000
	3,80,000		3,80,000

The Company went into liquidation and sold its assets to the Poona Modern Elegant Preparations Limited for Rs. 7,65,000 which were agreed to be paid by the latter Company in the following manner :

(i) Rs. 2,85,000 in cash which could enable the Poona Beauty Products Ltd. to discharge its Sundry Creditors and Bank Overdraft and to meet the cost of winding up of Rs. 5,000.

(ii) Rs. 4,80,000 in the form of allotment of 48,000 Equity Shares of Rs. 10 each fully paid in the Poona Modern Elegant Preparations Limited.

Pass the necessary Journal Entries for (a) closing the books of the Poona Beauty Products Limited and (b) recording the purchase transactions in the books of the Poona Modern Elegant Preparations Limited.

(Institute of Bankers, 1966)

7. Light Ltd. takes over the business of Dark Ltd. as from 1st June, 1949, on the following terms :—(a) Assets and Liabilities are to be taken over at their book values, (b) 4% Debentures of Rs. 100 each of Dark Ltd. are to be replaced by 5% Debentures of Rs. 100 each of Light Ltd, at 1% premium. (c) 2 shares of Light Ltd. of Rs. 10 each at par to be given in exchange for 3 shares of Dark Ltd. of Rs. 5 each. The following is the Balance Sheet of Dark Ltd. on which the taking over is to be effected

Capital	Rs.		Rs.
40,000 shares of Rs. 5 each	2,00,000	Plant & Machinery	2,50,00
4% Debentures of Rs. 100 each	1,00,000	Land & Buildings	1,20,000
		Furniture & Fixtures	25,000
Reserve Fund	20,000	Debtors	15,000
Creditors	2,90,000	Stock	1,80,000
Profit & Loss A/c	10,000	Investments	25,000
		Cash Balance	5,000
	6,20,000		6,20,000

Close the books of Dark Ltd. and show the opening entries in the books of Light Lid. (C.U. B. Com. (Adv.) 1950)

(**Ans** : Profit on realisation Rs. 36,670)

8. "A" Co. Ltd. decides to sell its business to the "B" Co. Ltd. as on 31st December, 1962.

On that date the Balance Sheet was as follows :—

Liabilities	Rs.	*Assets*	Rs.
Paid up Capital		Freehold property	1,50,000
20,000 Equity Shares		Plant & Tools	15,000
of Rs. 10 each	2,00,000	Stock-in-trade	35,000
5% First Mortgage Debentures	1,00,000	Sundry Debtors (all good)	40,000
Sundry Trade Creditors	30,000		
Reserve Fund	50,000	Bills Receivable	20,000
Profit & Loss A/c	20,000	Goodwill	40,000
		Cash in hand and at Bank	1,00,000
	4,00,000		4,00,000

The "B" Co. Ltd., agreed to take over the assets (exclusive of Goodwill add cash) at the amount stated in the above Balance Sheet, to discharge thereout the liabilities to Trade Creditors and to pay Rs. 1,00,000 for Goodwill.

The purchase price was to be discharged by the allotment to the "A" Co. Ltd. of 12,000 Equity Shares of Rs. 10 each in the Capital of the "B" Co. Ltd. at Rs. 12·50 per share and the balance in cash.

The "A" Co. Ltd went into voluntary liquidation and Mr. Straightforward was appointed Liquidator. The expense of the liquidation amounted to Rs. 3,000.

Close the books of "A" Co. Ltd. and show what the shareholders will receive in all. (Institute of Bankers, 1963)

9. The Anglo-Egyptian Co. Ltd. decides to sell its business to the British & Colonial Co. Ltd. as on 31st December 1943 :—

On that date its Balance Sheet was as follows ;—

Laibilities	£	*Assets* :	£
Paid up Capital 20,000 share of £ 1 each	20,000	Freehold Property	15,000
5% First Mortgage Debentures	10,000	Plant and Tools	1,500
Sundry Trade Creditors	3,000	Stock-in Trade	3,500
Reserve Fund	5,000	Sundry Debtors (all good)	4,000
Profit & Loss Account	2,000	Bills Receivable	2,000
		Goodwill	4,000
		Cash in hand and at Bank	10,000
	40,000		40,000

The B & C Co. Ltd. agreed to take over the Assets (exclusive of Goodwill and cash) at the amounts stated in the above Balance sheet to discharge thereout the liabilities to Trade Creditors, and to pay £ 10,000 for Goodwill.

The purchase price was to be discharged by the allotment to the A. & Co. Ltd. of 12,000 shares of £ 1 each in the capital to the B & C Co. Ltd. at 25s. per share and the blance in cash.

The A. & Co. Ltd. went into voluntary liquidation and X was appointed liquidator. The expenses of liquidator amounted to £ 300.

Write up and close the books of the A. & Co. Ltd. and show what the shareholders will receive in all.

(Chartered Accountants)

(**Ans** : Profit on Realisation £ 5,700 ; Shareholders to receive : £ 15,000 in Shares and £ 17,700 in cash).

10. Smallfry Ltd. entered into an agreement with Giant Ltd. whereby the latter undertook to acquire the Goodwill and Assets, apart from cash, of the former as on December 31, 1965. A summary of Smallfry Ltd.'s Balance Sheet on that date was as follows :

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		Buildings, Plant and	
In Shares of Rs. 10 each	6,60,000	Machinary	6,30,000
General Reserve including		Goodwill	60,000
profit & Loss Account	1,08,000	Stock on hand	1,15,000
6% Debentures	1,20,000	Sundry Debtors	27,000
Sundry Creditors	12,000	Cash at Bank	68,000
	9,00,000		9,00,000

For the purpose of acquisition, the Buildings, Plant and Machinary were valued at Rs. 8,20,000 and stock on hand at Rs. 1,20,000. The Sundry Debtors were taken over at their book values subject to an allowance of 5% in respect of any debts that might prove to be doubtful. Smallfry Ltd. were to discharge liabilities other than the Debentures. In consideration of the acquisition, Giant Ltd. undertook :—

(a) to issue 80,000 of their Rs. 10 Equity Shares, fully paid, at Rs. 12 per share ; (b) to issue, in discharge of the 6% Debentures of Smallfry Ltd. at a premium of 5%, Debentures at a discount of 4% as would be sufficient for the purpose ; (c) to pay cash equivalent to Rs. 2 per share in respect of the shares in Smallfry Ltd.

Give the Journal Entries to record the above mentioned transactions in the books of Giant Ltd. and state what course you would suggest as regards the discount on the 5% Debentures issued.

(C.U. B. Com. (Adv.) 1966)

(Ans : Purchase Consideration—Rs. 12,18,000.)

11. D Ltd. was formed to take over the business of G. Ltd. on and from 1st January, 1960, on the basis of the latter's summarised Balance Sheet as under :

	Rs.		Rs.
Share Capital	80,000	Goodwill	10,000
General Reserve	15,000	Plant & Machinery	75,600
Profit & Loss A/c	4,500	Stock	28,350
$5\frac{1}{2}$% Debentures	24,000	Debtors	29,050
Creditors	18,170		
Bank Overdraft	1,330		
	1,43,000		1,43,000

The agreement provided that :—

(a) D Ltd. should issue to G. Ltd. 6,000 Equity Shares of Rs. 10 each, fully paid, at an agreed value of Rs 12·50 per share. (b) D Ltd. should pay Rs. 50,550 in cash to G. Ltd. (c) D. Ltd. should issue such an amount of 5% Debentures at a discount of 4% as would be sufficient to discharge the existing Debentures of G. Ltd. at par. (d) G. Ltd. should discharge its own liabilities. (e) The Plant & Machinery of G. Ltd. should be valued at Rs. 80,000 stock at Rs. 27,500 and Debtors at book value, subject to a provision of Rs. 500 for bad and dubtful debts.

Show the Journal Entries in the Books of D. Ltd. and prepare its opening summarised Balance Sheet.

(C.U. B. Com. (Adv) 1964-adapted)

(Ans : Purchase Consideration Rs. 1,49,550 ; Balance Sheet total Rs. 1,50,500)

Conversion Scheme :

12. Sen and Bose are in partnership as wholesale dealers, sharing profits and losses in proportion of 3/5 and 2/5 respectively. They also decide to allow interest on capital and loan at 5% per annum and that Sen will receive a salary of Rs. 400 per month and Bose of Rs. 350 per month.

Balance Sheet as on 30th June, 1963

Capital and Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	40,000	Goodwill	4,000
Loan—Sen	16,000	Cash at Bank	5,000
Capital Accounts :		Sundry Debtors	36,000
Sen	60,000	Stock	93,000
Bose	29,000	Furniture	7,000
	1,45,000		1,45,000

They now decide to share profits and losses in proportion of 4/7 and 3/7 from 1st July, 1963, other provisions continuing. They, also decide to convert, the firm into a private limited company on the understanding that the relative position of the partners on the new basis should be preserved. Value of goodwill is agreed at Rs. 14,000.

You are required to submit your recommendation in the form of a report to the partners to carry out the desired arrangement. Show also the commencing Balance Sheet of the new company. Preliminary expenses of the company and realisation expenses of the firm may be ignored.

(C. U. M. Com. 1963)

13. Rudra and Iyer are in partnership as wholesale dealers, sharing profits and losses in proportion of three-fifths and two-fifths respectively. They also decide to allow interest on capital at 5% per annum and that Rudra will receive a salary of Rs. 800 per month and Iyer of Rs. 700 per month.

The following is their Balance Sheet as on 30-9-62 :

	Rs.		Rs.
Sundry Creditors	23,000	Bank Balance	4,000
Loans and Advances	10,000	Sundry Debtors	37,000
Capital Accounts :		Stock	32,500
Rudra	45,500	Plant & Machinery	21,200
Iyer	28,500	Furniture & Fixtures	12,300
	1,07,000		1,07,000

They now decide to share profits and losses in proportion of four-seventh and three-seventh from 1-10-62, other provisions continuing. They also decide to convert the firm into a Private Ltd. Co. on the understanding that the relative position of the partners on the new basis should be preserved. Goodwill is agreed at Rs. 14,000.

You are required to submit your recommendation in the form of a report to the partners to carry out the desired arrangement. Show also the commencing Balance Sheet of the new company. Preliminary expenses of the company and the realisation expenses of the firm may be ignored.

(C. U. M. Com. 1962)

14. The following is the Summarised Balance Sheet of M/s. Sur, Sen, and Sarkar Co. as on 31st August, 1961 :—

	Rs.		Rs.
Sundry Creditors	2,000	Fixed Assets	
Loan Account—		*Less* Depreciation	90,000
Sen	10,000	Goodwill	10,000
General Reserve	8,000	Floating Assets	75,000
Capital Account—			
Sur	70,000		
Sen	60,000		
Sarkar	25,000		
	1,75,000		1,75,000

Sur, Sen and Sarkar are sharing profits in the ratio 2 : 2 : 1 after providing for the following : (a) Salary of Rs. 2,000 and Rs. 3,000 to Sen and Sarkar each year. (b) Interest on loans. (c) Interest on capital @ 4%.

They now decide to form a private limited company to take over the business as from 1st September, 1961. The assets and liabilities are to be taken over by the company at book values with the exception of goodwill which is to be taken over at Rs. 51,000. The partners now request you to suggest the allocation of capital and interest of the partners in the new company so as to preserve as far as practicable the same rights as between themselves as obtained in the partnership.

(C. U. M. Com. 1961)

(J) Amalgamation, Absorption & Reconstruction

1. Amalgamation :

When a new company is formed to take over the business of two or more companies engaged generally in the same line of production or business activities, it is called *Amalgamation*. The constituent companies go into liquidation and shares of the newly formed company are issued to the liquidators of the amalgamating companies by way of consideration.

2. Absorption :

When an existing company buys out the business of other existing companies, it is called *absorption*. In this case the absorbed company is liquidated and shares would be issued to the liquidator of this company by way of purchase consideration.

3. Reconstruction :

Reconstruction is of two types—*internal* and *external*. Internal reconstruction means capital reduction which is already discussed. External reconstruction means formation of a new company to take over the business of an existing company which is then liquidated. When a company is over-capitalised or suffers heavy loss it requires external reconstruction. The newly formed company will issue shares and debentures by way of purchase consideration, which would be distributed amongst the shareholders, debentureholders, creditors etc.

4. Purchase Consideration :

The element of purchase of business is present in each of the cases of amalgamation, absorption and reconstruction (external). So, purchase consideration is required to be determined in each of these cases. The determination of purchase consideration is same as already discussed in the previous chapter (Purchase of Business, Conversion etc.).

5. Mutual Indebtedness (Inter-Company Owings) :

Mutual indebtedness, that is, amounts owing by the selling company to the purchasing company or vice versa will be eliminated at the time of amalgamation, absorption or purchase of business.

It should be noted that the purchasing company will take over the entire stock of the vendor company. This stock may include the goods sold by purchasing company to the vendor company. On re-acquisition of this stock by the purchasing company, the profit must be eliminated. By this goodwill or capital reserve as the case may be, will automatically be adjusted.

If any portion of the goods purchased by the purchasing company from the vendor company remains unsold, the unrealised profit charged by the vendor company will have to be eliminated by debiting Goodwill or Capital Reserve, as the case may be, and crediting Stock Account.

6. **Inter-Company holdings :**

(a) When shares are already held by the vendor company in the purchasing company, these shares can not be taken over with the other assets as it is illegal under Companies Act to acquire one's own shares. In such a case the shares already held by the vendor compamy are to be deducted from the number of shares that would have been otherwise allotted to the selling company.

(b) When shares are already held by the purchasing company in the vendor company the purchase consideration has to be adjusted for the shares held. As purchasing company which is also a shareholder of the vendor company, can not be paid in terms of its own shares, only the shares to be given to the outside shareholders should be issued by the purchasing company to the liquidator of the selling company.

(c) When Shares are held by tbe purchasing company in the selling company and the selling company in the purchasing company, it is called *crossholding.*

7. **Treatment in Accounts :**

Accounting treatment is same as in the case of business purchase already discussed. In each of the cases of amalgamation, absorption and reconstruction where the procedure for the liquidation of a company is needed, a Realisation Account is opened in the books of the liquidated company and all assets and liabilites are transferred to this account. Employees' Provident Fund, Superannuation Fund, Pension Fund etc. are also transferred to this account if these liabilities are taken over by the purchasing company. Then Realisation Account is credited and Purchasing company is debited with the agreed amount of purchase consideration. The balance of Realisation Account is transferred to Shareholders' Account.

Equity Share Capital, Reserves and Surplus, and accumulated loss will be transferred to the Shareholders' Account.

Note : The accounting procedure suggested above is not actually followed in practice. The liquidator opens his own set of books and maintains accounts in his own procedure which is different from normal Double Entry System.

(a) *Journal Entries to close the books of the Company going into liquidation* will be same as discussed in relation to purchase of business.

(b) *Journal Entries in the books of the Purchasing Company* :

(1) On taking over of assets and liabilities :	Various Assets A/cs ... Dr. (*with agreed amounts*) To Various Liabilities A/c (*with agreed amounts*) To Liquidator of old company A/c (*with purchase price*)
(2) When the purchase consideration is greater than net tangible assets :	The difference is to be debited to goodwill A/c.
(3) When the purchase consideration is less than net tangible assets :	The difference is to be credited to Capital Reserve A/c.
(4) If the purchasing company agrees to bear the expenses of liquidation of the vendor company.	Good will or Capital Reserve A/c Dr. To Cash or Bank A/c Note : This entry need not be passed if the amount of expenses is included in the purchase consideration.
(5) On payment of purchase consideration to the Vendor Company :	Liquidator of the Vendor Company A/c ... Dr. To Share Capital A/c To Cash or Bank A/c To Debentures A/c (what is given)

Alternative method of recording the transactions in the books of the purchasing company i.e. when a **Business Purchase Account is opened** :

Transactions	*Journal Entries*
(1) For the full amount of purchase consideration :	(1) Business Purchase A/c ... Dr. To Liquidator of Old Co. A/c
(2) For the various assets taken over :	(2) Various Assets A/cs ... Dr. To Business Purchase A/c
(3) For the various liabilities taken over :	(3) Business Purchase A/c ... Dr. To Various Liabilities A/cs
(4) To transfer the balance of Business purchases A/c : (i) If credit balance (ii) If Debit balance	 (i) Business Purchase A/c Dr. To Capital Reserve . (ii) Goodwill A/c Dr. To Business Purchase A/c
(5) On payment of the purchase consideration :	(5) Liquidator of Old Co. A/c Dr. To Cash or Bank A/c ,, Equity Share Capital A/c ,, Pref. Share Capital A/c ,, Debentures A/c (as the case may be)

Illustration 48 (*Opening entries and amalgamated Balance Sheet :*)

Two companies with similar business decide to amalgamate on the basis of their respective Balance Sheets as shown below, and form themselves into a new company called Indo-Pakistan Manufacturing Corporation Ltd. Show by working what amount of shares in the Indo-Pakistan Manufacturing Corporation Ltd. will be due to the shareholders of the old companies and give the opening entries and the Balance Sheet of the Indo-Pakistan Manufacturing Corporation Ltd.

Hindustan Manufacturing Co. Ltd.

Balance Sheet

	Rs.		Rs.
Share Capital			
10,000 Shares of Rs .20		Land & Buildings	1,20,000
each, fully paid	2,00,000	Plants & Machinery	60,000
Sundry Creditors	35,000	Stock	80,000
Reserve Fund	44,000	Debtors	50,000
Dividend Reserve	30,000	Cash at Bank	5,000
Profit & Loss Appropriation A/c	6,000		
	3,15,000		3,15,000

Pakistan Manufacturing Corporation Ltd.

Balance Sheet

	Rs.		Rs.
Share Capital :			
12,000 Shares of Rs. 20		Land & Building	1,10,000
each fully paid	2,40,000	Plant & Machinery	80,000
Creditors	80,000	Stock	50,000
Bank Overdraft	20,000	Debtors	40,000
		Profit & Loss A/c (Loss)	60,000
	3,40,000		3,40,000

The Goodwill of the Hindustan Manufacturing Co. Ltd. was valued at Rs. 40,000 and that of the Pakistan Manufacturing Corporation Ltd. was taken at nil. (Institute of Bankers, 1960)

Solution.

(1) *Purchase consideration is arrived at as follows :*

Assets acquired	Hindustan Manufacturing Co. Ltd.		Pakistan Manufacturing Corpn Ltd.
	Rs.		Rs.
Land & Buildings	1,20,000		1,10,000
Plant & Machinery	60,000		80,000
Stock	80,000		50,000
Debtors	50,000		40,000
Cash at Bank	5,000		—
Goodwill	40,000		—
	3,55,000	*Less :* Sundry Creditors	2,80,000
Less : Sundry Creditors	35,000	& Bank Overdraft	1,00,000
∴ **Purchase Consideration**	3,20,000		1,80,000

(a) Hindustan Manufacturing Co. Ltd. will receive from new company (3,20,000 ÷ 20) 16,000 shares of Rs. 20 each fully paid for its 10,000 shares. Therefore, the ratio of the two shares will be 10,000 : 16,000 i.e. 5 : 8. For every 5 shares in Hindustan Manufacturing Co. Ltd. 8 shares of the new company will be issued.

(b) Pakistan Manufacturing Corpn. Ltd. will receive from new company (1,80,000 ÷ 20) 9,000 shares of Rs. 20 each fully paid for its 12,000 shares. Therefore, the ratio of the two shares will be 12,000 : 9,000 i.e. 4 : 3. For every 4 shares in the Pakistan Manufacturing Corpn. Ltd. 3 shares of the new company will be issued.

(2) *Opening Entries in the books of the Indo-Pakistan Manufacturing Co. Ltd.* :

				Rs.	Rs.
Land & Buildings A/c	...	Dr.		2,30,000	
Plant & Machinery A/c	...	Dr.		1,40,000	
Stock A/c	...	Dr.		1,30,000	
Debtors A/c	...	Dr.		90,000	
Cash at Bank A/c	...	Dr.		5,000	
Goodwill A/c	...	Dr.		40,000	
To Sundry Creditors					1,15,000
,, Bank Overdraft					20,000
,, Liquidator of HindustanManufacturing Co. Ltd					3,20,000
,, Liquidator of Pakistan Manufacturing cropn. Ltd.					1,80,000
(Being the assets and liabilities taken over and purchase consideration therefor as per agreement)					
Liquidator of Hind. Manuf. Co. Ltd.		Dr.		3,20,000	
Liquidator of Pakistan Manuf. Corpn. Ltd.		Dr.		1,80,000	
To Share Capital A/c					5,00,000
(Being 16,000 and 9,000 shares of Rs. 20 each issued as fully paid to the liquidators of the old companies in full satisfaction of purchase consideration.)					

Balance Sheet of Indo-Pakistan Manuf. Co. Ltd.

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		**Fixed Assets**	
		Goodwill	40,000
Authorised :	...	Land and Building	2,30,000
		Plant & Machinery	1,40,000
Issued & Subscribed :			
		Current Assets :	
25,000 shares of Rs. 20 each fully paid allotted to vendors for consideration other than cash.	5,00,000	Stock	1,30,000
		Debtors	90,000
		Cash at Bank	5,000
Current Liabilities :			
Sundry Creditors	1,15,000		
Bank Overdraft	20,000		
	6,35,000		6,35,000

Illustration 49 (Closing and opening entries and amalgamated Balance Sheet)

A new company C Ltd. is formed to take over two other existing companies, A Ltd and B Ltd., the Balance Sheets of which at the date of taking over were as follows :

A Ltd.'s Balance Sheet

Liabilities	Rs.	*Assets*	Rs.
Capital :		Freehold Premises	76,000
20,000 ordinary shares of		Furniture & Fittings	12,000
Rs. 10 each	2,00,000	Sundry Debtors	60,000
Sundry Creditors	10,000	Stock in hand	20,000
Bills Payable	16,000	Profit & Loss A/c (Dr.)	78,000
Bank Overdraft	20,000		
	2,46,000		2,46,000

B Ltd.'s Balance Sheet

Liabilities	Rs.	*Assets*	Rs.
Capital :		Freehold Premises	1,84,000
25,000 ordinary shares		Furniture & Fittings	8,000
of Rs. 10 each	2,50,000	Sundry Debtors	40,000
Sundry creditors	20,000	Stock in hand	24,000
Bills payable	18,000	Profit & Loss A/c (Dr.)	62,000
Bank Overdraft	30,000		
	3,18,000		3,18,000

The Freehold Premises and the Furniture and Fittings are taken over at book values ; Sundry Debtors at 25% and Stock at Rs. 6,000 and Rs. 8,000 respectively for A and B. The liabilities are to be paid in full by C Ltd.

The appropriate purchase considerations are to be satisfied by fully paid shares of C Ltd.

Give the necessary Journal Entries in the books of the three Companies to give effect to the above taking over and draw up the opening Balance Sheet of C Ltd. which is floated with a Nominal Capital of 1,00,000 Ordinary Shares of Rs. 10 each of which 30,000 shares fully paid, are issued in the first instance to satisfy the purchase consideration as well as to arrange for working capital. (C. U. B. Com. (Adv.) 1955)

Solution

(a) The purchase considerations are arrived at thus :

	A. Ltd.	B. Ltd.
Sundry Assets :	Rs.	Rs.
Freehold Premises	76,000	1,84,000
Furniture & Fittings	*12,000*	*8,000*
Sundry Debtors	15,000	10,000
Stock in hand	6,000	8,000
	1,09,000	2,10,000
Less liabilities (Creditors, B/P and Bank Overdraft)	46,000	68,000
	63,000	1,42,000

In the books of A Ltd.

Journal Entries

			Dr.	Cr.
			Rs.	Rs.
(1)	Realisation A/c ... Dr. To Freehold Premises A/c ,, Furniture & Fittings A/c ,, Sundry Debtors A/c ,, Stock in hand A/c (Being the assets transferred to Realisation A/c.)		1,68,000	 76,000 12,000 60,000 20,000
(2)	Sundry Creditors' A/c ... Dr. Bills Payable A/c ... Dr. Bank. Overdraft A/c ... Dr. To Realisation A/c (Being the liabilities transferred to Realisation A/c)		10,000 16,000 20,000	 46,000
(3)	C. Ltd. A/c ... Dr. To Realisation A/c (Being the amount of purchase consideration)		63,000	 63,000
(4)	Shares in C. Ltd. A/c ... Dr. To C. Ltd. A/c (Being 6,300 ordinary shares of Rs. 10 each fully paid received from C Ltd. in full satisfaction of the purchase consideration)		63,000	 63,000
(5)	Share Capital A/c ... Dr. To Shareholders' A/c (Being the transfer of Share Capital A/c to Shareholders' A/c.)		2,00,000	 2,00,000
(6)	Shareholders' A/c ... Dr. To Profit & Loss A/c (Dr.) To Realisation A/c (Loss) (Being the balances of the latter accounts transferred to Shareholders' A/c.) Note : (Total Assets Rs. 1,68,000) minus (Purchase consideration Rs. 63,000+total liabilities Rs. 46.000)=loss on Realisation Rs. 59,000.		1,37,000	 78,000 59,000
(7)	Shareholders' A/c ... Dr. To Shares in C Ltd. A/c (Being shares in C Ltd. allotted to shareholders pro-rata.)		63,000	 63,000

In the Books of B Ltd.

Journal Entries

	Particulars			Dr.	Cr.
				Rs.	Rs.
(1)	Realisation A/c	...	Dr.	2,56,000	
	To Freehold Premises A/c				1,84,000
	,, Furniture & Fittings A/c				8,000
	,, Sundry Debtors A/c				40,000
	,, Stock in hand A/c				24,000
	(Being the assets transferred to Realisation A/c.)				
(2)	Sundry Creditors A/c	...	Dr.	20,000	
	Bills Payable A/c	...	Dr.	18,000	
	Bank Overdraft A/c	...	Dr.	30,000	
	To Realisation A/c				68,000
	(Being the liabilities transferred to Realisation A/c.)				
(3)	C. Ltd. A/c	...	Dr.	1,42,000	
	To Realisation A/c				1,42,000
	(Being the amount of purchase consideration.)				
(4)	Shares in C Ltd. A/c	...	Dr.	1,42,000	
	To C Ltd. A/c				1,42,000
	(Being 14,200 oridnary shares of Rs. 10 each fully paid received from C Ltd. in full satisfaction of the purchase consideration.)				
(5)	Share Capital A/c	...	Dr.	2,50,000	
	To Shareholders' A/c				2,50,000
	(Being Share Capital A/c transferred to Shareholders' A/c)				
(6)	Shareholders' A/c	...	Dr.	1,08,000	
	To Profit & Loss A/c (Dr.)				62,000
	To Realisation A/c (Loss)				46,000
	(Being the balances of the latter accounts transferred to Shareholders' A/c.)				
	Note : (Total Assets Rs. 2,56,000) minus (Purchase consideration Rs. 1,42,000+total liabilities Rs. 68,000)=Loss on Realisation Rs. 46,000.				
(7)	Shareholders' A/c	...	Dr.	1,42,000	
	To Shares in C Ltd. A/c				1,42,000
	(Being the Shares in C Ltd. allotted to shareholders pro-rata.)				

In the Books of C Ltd. (i.e. new company)

Journal Entries

	Particulars			Dr.	Cr.
				Rs.	Rs.
(1)	Freehold Premises A/c	...	Dr.	2,60,000	
	Furnitures & Fittings A/c	...	Dr.	20,000	
	Sundry Debtors A/c	...	Dr.	25,000	
	Stock-in-hand A/c	...	Dr.	14,000	
	To Sundry Creditors A/c				30,000
	,, Bills Payable A/c				34,000
	,, Bank Overdraft A/c				50,000
	,, Liquidator of A Ltd. A/c				63,000
	,, Liquidator of B Ltd. A/c				1,42,000
	(Being the assets and liabilities of A Ltd. and B Ltd. taken over as per agreement.)				

			Rs.	Rs.
(2)	Liquidator of A Ltd. A/c ... Dr.		63,000	
	Liquidator of B Ltd. A/c ... Dr.		1,42,000	
	To Share Capital A/c			2,05,000
	(Being 6,300 shares of Rs. 10 each and 14,200 shares of Rs. 10 each issued as fully paid to the liquidators of A Ltd. and B Ltd. respectively in full satisfaction of purchase consideration.)			
(3)	Bank A/c ... Dr.		95,000	
	To Sundry Equity Shareholders' A/c			95,000
	(Being cash received in full along with applications on 9,500 shares of Rs. 10 each)			
(4)	Equity Shareholders' A/c ... Dr.		95,000	
	To Share Capital A/c			95,000
	(Being the allotment of 9,500 Shares of Rs. 10 each as per Board's resolution.)			

Balance Sheet of C Ltd. as at...

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		**Fixed Assets :**	
Authorised :		Freehold Premises	2,60,000
1,00,000 Ordinary Shares of Rs. 10 each	10,00,000	Furniture & Fittings	20,000
Issued & Subscribed :		*Current Assets :*	
30,000 ordinary shares of Rs. 10 each of which 20,500 shares are issued for consideration otherwise than cash	3,00,000	Stock-in-hand	14,000
Current Liabilities :		Sundry Debtors	25,000
Sundry Creditors	30,000	Cash at Bank	95,000
Acceptances (B/P)	34,000		
Bank Overdraft	50,000		
	4,14,000		4,14,000

Illustration 50 *(Inter-company holding—cross holding)*

Two Companies Sur Ltd. and Sen Ltd. decide to amalgamate to form Sur Sen Ltd. on 1st July with an authorised capital of Rs. 5,00,000.

The following are the Summarised Balance Sheets of the two companies as at 30th June, 1965 :

Sur Ltd.

	Rs.		Rs.
Share Capital in Rs. 10 shares fully paid	2,00,000	**Sundry Assets**	2,26,000
Reserves	25,000	**Investment at cost**	
Profit & Loss A/c	15,000	1,000 Shares in Sen Ltd.	14,000
	2,40,000		2,40,000

Sen Ltd.

	Rs.		Rs.
Share **Capital** in Rs. 10 shares fully paid	1,60,000	**Sundry Assets**	1,00,000
		Investment at cost—	
		2,000 Shares in Sur Ltd.	24,000
		Profit & Loss A/c	36,000
	1,60,000		1,60,000

Assets of Sur Ltd. and Sen Ltd. are to be taken over by the new company at their book values.

Show the distribution and issue of shares of Sur Sen Ltd. to the Shareholders of the two companies thus amalgamated. Ignore all expenses and fractions. (C. U. M. Com. 1965)

Solution

(a) Holding of Sur Ltd in Sen Ltd $= \frac{1}{16}$th of the total shares of Sen Ltd.

$\therefore$ The value of the shares of Sur Ltd. is Rs. 2,26,000 *Plus* $\frac{1}{16}$th of the value of the shares in Sen Ltd.

(b) Holding of Sen Ltd. in Sur Ltd. $= \frac{1}{10}$th of the total shares in Sur Ltd.

$\therefore$ The value of the shares of Sen Ltd. is Rs. 1,00,000 *Plus* $\frac{1}{10}$th of the value of the shares in Sur Ltd.

Now, the value of the holding of each of the companies may be arrived at as follows :

Let *m* denote Sur Ltd and *n* denote Sen Ltd.

$\therefore$ $m = 2,26,000 + \frac{1}{16}$ n.

$n = 1,00,000 + \frac{1}{10}$ m.

Now, let us find the value of n

$n = 1,00,000 + \frac{1}{10}$ m

Or $10n = 10,00,000 + m$ (both sides multiplied by 10)

Or $10n = 10,00,000 + 2,26,000 + \frac{1}{16}$ n (putting the value of m)

Or $10n = 12,26,000 + \frac{1}{16}$ n

Or $160n = 1,96,16,000 + n$ (both sides multiplied by 16)

Or $159n = 1,96,16,000$

$\therefore$ $n = \frac{1,96,16,000}{159} = 1,23,371$ approx.

Therefore, the value of Sen Ltd's holding in Sur Ltd is (1,23,371 – 1,00,000) = **Rs. 23,371**

Now, Let us find the value of m

$m = 2,26,000 + \frac{1}{10} n$

Or $m = 2,26,000 + \frac{1}{10} \times 1,23,371$ (putting the value of n)

Or $m = 2,26,000 + 7,711$ (approx.)

$\therefore$ $m = 2,33,711$

Therefore, the value of Sur Ltd's holding in Sen Ltd. is (2,33,711 − 2,26,000) = Rs. 7,711

Amount due to Outside Shareholders on amalgamation :

Sur Ltd.	Rs.	*Sen Ltd.*	Rs.
Sundry Assets	2,26,000	Sundry Assets	1,00,000
Add value of $\frac{1}{10}$th holding in Sen Ltd.	7,711	Add value of $\frac{1}{10}$th holding in Sur Ltd.	23,371
	2,33,711		1,23,371
Less amount due to Sen Ltd. ($\frac{1}{10}$th)	23,371	Less amount due to Sur Ltd. ($\frac{1}{10}$th)	7,711
Due to outsiders : ...	2,10,340	Due to outsiders : ...	1,15,660

Distribution of Share in the new Sur Sen Ltd :

	Amount Rs.	No. of Shares
Sur Ltd.	2,10,340	21,034 Shares of Rs.10 each.
Sen Ltd.	1,15,660	11,566 Shares of Rs.10 each.
	3,26,000	

Amalgamated Balance Sheet of Sur Sen Ltd. as at 1st July, 1965.

Liabilities	Rs.	*Assets*	Rs.
Authorised Capital : 50,000 Shares of Rs. 10 each ...	5,00,000	Sundry Assets	3,26,000
Issued and Paid up Capital : 32,600 Shares of Rs. 10 each ...	3,26,000		
	3,26,000		3,26,000

Illustration 51 *(Amalgamation—a scheme)*

A. Ltd. and B.Ltd. carrying on business of a similar nature desire to amalgamate. The summarised Balance Sheets of two companies as on 31st December, 1961 were as fallows :

	A Ltd. Rs.	B Ltd. Rs.		A Ltd.	B Ltd
Paid up Capital :			Fixed Assets	1,20,000	1,12,500
Equity Shares of Rs. 100 each	1,50,000	75,000	Floating Assets	67,500	73,500
4% Pref. Shares of Rs. 100 each	–	52,500			
Capital Reserve	–	3,000			
4% Debentures (Secured by floating charge)	–	22,500			
Liabilities :					
For Goods Supplied	25,000	15,000			
For Expenses	9,500	14,000			
For other finance	—	1,000			
Profit & Loss A/c	3,000	3,000			
	1,87,500	1,86,000		1,87,500	1,86,000

The annual net profits of both the Companies are fairly stable.

You are requested to give a scheme of merger you would recommend stating detailed reasons for the basis of your recommendations. Give the financial position of the business assuming that your recommendations were carried out. (C.U. M. Com. 1962)

Solution

Report on the scheme of amalgamation (merger)

1. **Statement of Capital employed :**

It is evident from the Balance Sheets that the financial positions of both the companies are almost similar :

		A Ltd. Rs.		B Ltd. Rs.
Fixed assets		1,20,000		1,12,500
Floating assets		67,500		73,500
		1,87,500		1,86,000
Less Liabilities :				
For Goods supplied	25,000		15,000	
For Expenses	9,500		14,000	
For Other finance	—	34,500	1,000	30,000
		1,53,000		1,56,000

2. Ascertainment of the Values of the Equity Shares :

	A Ltd.	B Ltd.
	Rs.	Rs.
Equity Share Capital	1,50,000	75,000
Profit & Loss A/c (cr.)	3,000	3,000
Capital Reserve	—	3,000
	1,53,000	81,000

(a) The number of Equity Shares of A Ltd. is 1,500

∴ The value of each of its share will be 1,53,000 ÷ 1,500 = Rs. 102

(b) The number of equity share of B Ltd. is 750.

∴ The value of each of its share will be 81,000 ÷ 750 = Rs. 108

3. Profit-earning Capacity and Valuation of Goodwill :

(i) A Ltd. earns Rs. 3,000 on 1,500 equity shares of Rs. 100 each. Therefore, the rate of dividend in this company is 2% (i.e. Rs. 3,000 ÷ 1,500)

(ii) After paying 4% 525 preference shares of Rs. 100 each the balanee of profit in B. Ltd. is Rs. 900 (i.e. Rs. 3,000 – Rs. 2,100) which is earned on 750 equity shares of Rs. 100 each. Therefore, the rate of dividend in this Company is 1·2% (i.e. Rs. 900 ÷ 750).

As profit earning capacity of both the Companies is considered much lower than the rate of normal earning, the question of goodwill does not arise.

4. Purchase Consideration to be paid :

An amount of Rs. 1,53,000 will be paid as purchase consideration to the equity shareholders of A Ltd. B. Ltd. will receive Rs. 1,56,000 as purchase consideration. The new company will issue equity shares of Rs. 10 each to the liquidators of the old companies for distribution amongst the equity shareholders.

A Ltd. will be given 15,300 equity shares of Rs. 10 each. Its shareholders will get 51 shares in the new Company for every 5 shares held.

B. Ltd. will be issued 525 4% preference shares of Rs. 100 each to maintain the interest of its preference shareholders and 225 4% debentures of Rs. 100 each to satisfiy the interest of the debentureholders. B. Ltd. will also be given 8,100 equity shares of Rs. 10 each. Its shareholders will get 54 shares in the new company for every 5 shares held.

5. Balance Sheet of the amalgamated Company

Liabilities	Rs.	Assets.	Rs.
Authorised Capital :	...	**Fixed Assets :**	2,32,500
Issued & Paid up Capital :		**Floating Assets**	1,41,000
525 4% Preference Shares of Rs. 100 each	52,500		
23,400 Equity Shares of Rs. 10 each	2,34,000		
Secured Loan :			
4% Debentures (having a floating charge)	22,500		
Current Liabilities :			
For goods supplied	40,000		
For Expenses	23,500		
For Other Finance	1,000		
	3,73,500		3,73,500

Illustration 52 *(Absorption—Journal Entries and Ledger A/cs in the books of the absorbed Company)*

The W. Company Ltd. is absorbed by the U. Company Ltd. the consideration being—

(i) assumption of the liabilities.

(ii) discharge of the debenture debt at a premium of 5 per cent, by the issue of 6 per cent. Debentures in the U. Co. Ltd.

(iii) payment in cash of Rs. 3/- per share, and exchange of three shares of Re. 1/- each in the U. Co. Ltd. at an agreed value of Rs. 1·50 per share for every share in the W. Co. Ltd.

Below is given the Balance Sheet of the W. Co. Ltd. as at the date of transfer :—

Balance Sheet as at 31st. March

Liabilities	Rs.	Assets	Rs.
Share Capilal .		Goodwill	25,000
60,000 Shares of		Land & Buildings	75,000
Rs. 5/. each	3,00,000	Plant & Machinery	2,20,000
General Reserve	32,000	Patent	5,000
Profit & Loss A/c (balance)	13,000	Patterns & Drawings	2,500
Accident Insurance Fund	5,000	Stock-in-trade	1,06,000
5% Debentures	1,50,000	Sundry Debtors	45,000
Sundry Creditors	20,000	Investments	5,000
		Cash at Bank & in hand	36,500
	5,20,000		5,20,000

Close the books of the Company by giving necessary Journal entries,

(C.U. B. Com.(Adv.) 1959)

Solution

The purchase consideration is ascertained thus :

	Rs.
(i) Discharge of Rs. 1,50,000 debentures @ a premium of 5%	1,57,500
(ii) Payment in Cash for 60,000 Shares @ Rs. 3 per Share	1,80,000
(iii) For 1 Share in W Co. Ltd. 3 Shares of Re. 1 each in U. Co. Ltd. are issued @ Rs. 1·50 per share. i.e. 60,000, × 3 = 1,80,000 shares @ Rs. 1·50 per share issued	2,70,000
	6,07,500

In the Books of W. Company Ltd-

Journal Entries

			Dr. Rs.	Cr. Rs.
Realisation A/c	...	Dr.	5,20,000	
To Goodwill A/c				25,000
,, Land & Building A/c				75,000
,, Plant & Machinery A/c				2,20,000
,, Patents A/c				5,000
,, Patterns & Drawings A/c				2,500
,, Stock-in-trade A/c				1,06,000
,, Sundry Debtors A/c				45,000
,, Investments A/c				5,000
,, Cash at Bank and in hand A/c				36,500
(Being the assets taken over transferred to the Realisation A/c.)				
Sundry Creditors A/c	...	Dr.	20,000	
To Realisation A/c				20,000
(Being the liability taken over transferred to Realisation A/c.)				
U Company Ltd. A/c		Dr.	6,07,500	
To Realisation A/c				6,07,500
(Being the purchase price agreed to be paid by the purchasing company for absorption.)				
Realisation A/c	...	Dr.	7,500	
To Debentureholders' A/c				7,500
(Being the premium payable to the debentureholders' transferred.)				
Realisation A/c	...	Dr.	1,00,000	
To Shareholders' A/c				1,00,000
(Being profit on realisation transferred to Shareholders' A/c.)				
Share Capital A/c	...	Dr.	3,00,000	
General Reserve A/c	...	Dr,	32,000	
Profit & Loss A/c	...	Dr.	13,000	
Accident Insurance Fund A/c	...	Dr.	5,000	
To Shareholders' A/c				3,50,000
(Being the transfer of the credit balances standing to the former accounts.)				
Cash A/c	...	Dr.	1,80,000	
Shares in U Co. Ltd. A/c	...	Dr.	2,70,000	
6% Debentures in U Co. Ltd. A/c	...	Dr.	1,57,500	
To U. Company Ltd. A/c				6,07,500
(Being cash, shares and debentures received from the U. Co. Ltd. in full satisfaction of the purchase consideration.)				

			Rs.	Rs.
5% Debentures A/c To Debentureholders' A/c (Being the transfer of the amount to the debentureholders' A/c.)	...	Dr.	1,50,000	1,50,000
Debentureholders' A/c To 6% Debentures in U. Co. Ltd. A/c (Being the distribution of the debentures received from U. Co. Ltd. amongst the debentureholders)	...	Dr.	1,57,500	1,57,500
Shareholders' A/c To Cash A/c ,, Shares in U. Co. Ltd. A/c (Being the distribution of cash and shares received from U. Co. Ltd. amongst the shareholders pro-rata.)	...	Dr.	4,50,000	1,80,000 2,70,000

Ledger Accounts

Dr. **Realisation Account** Cr.

	Rs.		Rs.
To Sundry Assets A/cs	5,20,000	By Sundry creditors A/c	20,000
,, Debentureholders' A/c	7,500	,, U Co. Ltd. A/c	6,07,500
,, Shareholders' A/c— Profit on realisation transferred.	1,00,000		
	6,27,500		6,27,500

Dr. **Debentureholders' Account** Cr.

	Rs.		Rs.
To 6% Debentures in U. Co. Ltd. A/c	1,57,500	By Realisation A/c	7,500
		,, 5% Debentures A/c	1,50,000
	1,57,500		1,57,500

Dr. **Shareholders' Account** Cr.

	Rs.		Rs.
To Cash A/c	1,80,000	By Realisation A/c	1,00,000
,, Shares in U Co. Ltd. A/c	2,70,000	,, Share Capital A/c	3,00,000
		,, General Reserve A/c	32,000
		,, Profit & Loss A/c	13,000
		,, Accident Insurance Fund A/c	5,000
	4,50,000		4,50,000

Illustration 53 *(Absorption—closing and opening entries)*

The folloing is the Balance Sheet of Darjeeling Ltd :

Balance Sheet as at 30th June, 1966

Liabilities		Rs.	*Assets*	Rs.
Capital :			Goodwill	20,000
15,000 Equity Shares of Rs. 10 each	1,50,000		Plant & Machinery	1,50,000
10,000 6% Cumulative Preference Shares of Rs. 10 each	1,00,000	2,50,000	Stocks	80,000
			Sundry Debtors	1,20,000
			Cash at Bank	8,900
			Profit & Loss A/c	40,100
			Preliminary Expenses	5,000
500 5% Debentures of Rs. 100 each		50,000	Commission and Brokerage on Shares	4,000
Bank Overdraft		20,000		
Employees' Profit Sharing A/c		14,000		
Sundry Creditors		91,500		
Interest Accrued on Debentures		2,500		
Contingent liability : Arrear of cumulative preference dividend Rs. 12,000				
		4,28,000		4,28,000

With a view to avoid competition, Darjeeling Ltd. was absorbed by Chatterjee Ltd. as from 1st July, 1966 on the following terms :

Chatterjee Ltd. —

(i) to pay the Debentureholders at a premium of 10% by issue of its 6% Cumulative Preferenee Shares of the face value of Rs. 10 each ;

(ii) to issue one equity share of Rs. 10 each and make a payment of Rs. 4 in cash in exchange for every two equity shares in Darjeeling Ltd.

(iii) Sundry Creaditors to receive 90% of the sums due to them in fully paid equity shares of Rs. 10 each in Chatterjee Ltd. in full settlemet of all their claims ;

(iv) Preferene Shareholders to be issued 5% Debentures in Chatterjee Ltd. These shares are preferential as to capital and dividend in the event of winding up.

Pass the journal entries to close the books of Darjeeling Ltd. and also the **opening entries** in the books of Chatterjee Ltd.

(North Bengal University, B. Com. Adv. (Part II) 1967—adapted)

Solution

Purchase consideration is ascertained thus :

		Rs.	Rs.
(1)	Debentureholders to receive 6% cumulative preference shares for the following amounts :		
	(i) Face value of the debentures	50,000	
	(ii) Premium payable to the debentureholders ...	5,000	
	(iii) Interest accrued on debentures ...	2,500	57,500
(2)	Preference shareholders to receive 5% debentures for the following amounts :		
	(i) Face value of the preference shares ...	1,00,000	
	(ii) Arrear dividend ...	12,000	1,12,000
(3)	Equity shareholders to receive :		
	(i) Cash payment @ Rs. 4 for every two shares held i.e. $7,500 \times 4$	=	30,000
	(ii) Payment by issue of shares @ one share of Rs. 10 each for every two shares held i.e. $7,500 \times 10$	=	75,000
			2,74,500

Closing Journal Entries in the books of Darjeeling Ltd.

		Dr. Rs.	Cr. Rs.
Realisation A/c ...	Dr.	3,78,900	
To Goodwill A/c			20,000
„ Plant & Machinery A/c			1,50,000
„ Stock A/c			80,000
„ Sundry Debtors A/c			1,20,000
„ Cash at Bank A/c			8,900
(Being the transfer of the assets taken over)			
Bank Overdraft A/c ...	Dr.	20,000	
Employees Profit Sharing A/c ...	Dr.	14,000	
Sundry Creditors A/c ...	Dr.	91,500	
To Realisation A/c			1,25,500
(Being the transfer of the liabilities taken over)			
Chatterjee Ltd. A/c ...	Dr.	2,74,500	
To Realisation A/c			2,74,500
(Being the purchase price agreed to be paid for absorption by Chatterjee Ltd.)			
Realisation A/c ...	Dr.	12,000	
To Preference Shareholders' A/c			12,000
(Being arrear of cumulative preference dividend payable)			

Closing Journal Entries in the books of Darjeeling Ltd. (contd.)

		Dr.	Cr.
		Rs.	Rs.
Realisation A/c ... Dr. To Debentureholders' A/c (Being the premium payable to the debentureholders.)		5,000	5,00
Realisation A/c ... Dr. To Equity Shareholders' A/c (Being the profit on realisation transferred to Equity Shareholders A/c)		4,100	4,10
Equity Shareholders' A/c ... Dr. To Profits & Loss A/c ,, Preliminary Expenses A/c ,, Commission & Brokerage on Shares A/c (Being the transfer of the credit balances standing to the former accounts')		49,100	 40,10 5,00 4,00
5% Debentures A/c ... Dr. Interest Accrued on Debentures A/c ... Dr. To Debentureholders' A/c (Being the balances transferred to the Debentureholders' A/c		50,000 2,500	 52,50
Equity Share Capital A/c ... Dr. To Equity Shareholders' A/c (Being the transfer of the amount of equity Share Capital)		1,50,000	1,50,00
Preference Share Capital A/c ... Dr. To Preference Shareholders' A/c (Being the transfer of the amount of preference Share Capital)		1,00,000	1,00,00
Cash A/c ... Dr. 6% Cumulative Pref. Shares in Chatterjee Ltd. A/c ... Dr, Equity Shares in Chatterjee Ltd. ... Dr. 5% Debenture in Chatterjee Ltd. ... Dr. To Chatterjee Ltd. A/c (Being cash shares and debentures received from Chatterjee Ltd. in full satisfaction of the purchase consideration.)		30,000 57,500 75,000 1,12,000	 2,74,50
Debentureholders' A/c ... Dr. To 6% Cumulative Pref. Shares in Chatterjee Ltd A/c (Being the distribution of preference shares of Chatterjee Ltd. amongst the debentureholders.)		57,500	57,50
Preference Shareholders' A/c ... Dr To 5% Debentures in Chatterjee Ltd. A/c (Being the distribution of debentures of Chatterjee Ltd. amongst the preference shareholders.)		1,12,000	1,12,00
Equity Shareholders' A/c ... Dr. To Equity Shares in Chatterjee Ltd. ,, Cash A/c (Being the distribution of cash and shares received from Chatterjee Ltd.		1,05,000	 75,00 30,00

Opening Journal Entries in Chatterjee Ltd.

		Dr.	Cr.
		Rs.	Rs.
Plant & Machinery A/c	... Dr.	1,50,000	
Stock A/c	... Dr.	80,000	
Sundry Debtors A/c	... Dr.	1,20,000	
Cash at Bank A/c	... Dr.	8,900	
Goodwill A/c	... Dr.	31,950	
To Sundry Creditors A/c (*90% of the amount*)			82,350
,, Bank Overdraft A/c			20,000
,, Employees' Profit Sharing A/c			14,000
,, Liquidator of Darjeeling Ltd. A/c			2,74,500
(Being the assets and liabilities taken over from Darjeeling Ltd. as per agreement) Note: Difference between the purchase consideration and net assets is debited to Goodwill A/c			
Sundry Creditors' A/c	... Dr.	82,350	
To Equity Share Capital A/c			82,350
(Being the issue of equity shares in settlement of their claim.)			
Liquidator of Darjeeling Ltd. A/c	.. Dr.	2,74,500	
To Cash A/c			30,000
,, 5% Debentures A/c			1,12,000
,, 6% Pref. Share Capital A/c			57,500
,, Equity Share Capital A/c			75,000
(Being cash paid and shares and debentures issued to the liquidator of Darjeeling Ltd. in full satisfaction of purchase consideration.)			

Illustration 54 *(Reconstruction)*

The following is the Balance Sheet of X Co. Ltd. as on 31st December 1968.

	Rs.		Rs.
Authorised Capital :			
1,200 Shares of Rs. 100 each	1,20,000	Land & Buildings	50,000
		Plant & Machinery	30,000
Issued Capital :		Furniture	10,000
1,200 Shares of Rs. 100 each	1,20,000	Stock-in-trade	24,000
		Book Debts	15,000
6% Debentures	20,000	Cash in hand	2,000
Sundry Creditors	5,000	Profit & Loss A/c	14,000
	1,45,000		1,45,000

It was decided to reconstruct the company and for this purpose X Co. (1969) Ltd. was formed with an authorised capital of Rs. 1,20,000 divided into 600 5% preference shares of Rs. 100 each and 600 ordinary shares of Rs. 100 each to take over the assets and liabilities of the X Co. Ltd on the following terms :

(i) That debentureholders in X Co. Ltd. are to accept 200 preference shares ;

Closing Journal Entries in the books of Darjeeling Ltd. (contd.)

Particulars		Dr. Rs.	Cr. Rs.
Realisation A/c ... Dr. To Debentureholders' A/c (Being the premium payable to the debentureholders.)		5,000	5,000
Realisation A/c ... Dr. To Equity Shareholders' A/c (Being the profit on realisation transferred to Equity Shareholders A/c)		4,100	4,100
Equity Shareholders' A/c ... Dr. To Profits & Loss A/c ,, Preliminary Expenses A/c ,, Commission & Brokerage on Shares A/c (Being the transfer of the credit balances standing to the former accounts')		49,100	40,100 5,000 4,000
5% Debentures A/c ... Dr. Interest Accrued on Debentures A/c ... Dr. To Debentureholders' A/c (Being the balances transferred to the Debentureholders' A/c		50,000 2,500	52,500
Equity Share Capital A/c ... Dr. To Equity Shareholders' A/c (Being the transfer of the amount of equity Share Capital)		1,50,000	1,50,000
Preference Share Capital A/c ... Dr. To Preference Shareholders' A/c (Being the transfer of the amount of preference Share Capital)		1,00,000	1,00,000
Cash A/c ... Dr. 6% Cumulative Pref. Shares in Chatterjee Ltd. A/c ... Dr, Equity Shares in Chatterjee Ltd. ... Dr. 5% Debenture in Chatterjee Ltd. ... Dr. To Chatterjee Ltd. A/c (Being cash shares and debentures received from Chatterjee Ltd. in full satisfaction of the purchase consideration.)		30,000 57,500 75,000 1,12,000	2,74,500
Debentureholders' A/c ... Dr. To 6% Cumulative Pref. Shares in Chatterjee Ltd A/c (Being the distribution of preference shares of Chatterjee Ltd. amongst the debentureholders.)		57,500	57,500
Preference Shareholders' A/c ... Dr. To 5% Debentures in Chatterjee Ltd. A/c (Being the distribution of debentures of Chatterjee Ltd. amongst the preference shareholders.)		1,12,000	1,12,000
Equity Shareholders' A/c ... Dr. To Equity Shares in Chatterjee Ltd. ,, Cash A/c (Being the distribution of cash and shares received from Chatterjee Ltd.		1,05,000	75,000 30,000

Opening Journal Entries in Chatterjee Ltd.

		Dr.	Cr.
		Rs.	Rs.
Plant & Machinery A/c	... Dr.	1,50,000	
Stock A/c	... Dr.	80,000	
Sundry Debtors A/c	... Dr.	1,20,000	
Cash at Bank A/c	... Dr.	8,900	
Goodwill A/c	... Dr.	31,950	
To Sundry Creditors A/c (*90% of the amount*)			82,350
,, Bank Overdraft A/c			20,000
,, Employees' Profit Sharing A/c			14,000
,, Liquidator of Darjeeling Ltd. A/c			2,74,500
(Being the assets and liabilities taken over from Darjeeling Ltd. as per agreement) Note: Difference between the purchase consideration and net assets is debited to Goodwill A/c			
Sundry Creditors' A/c	... Dr.	82,350	
To Equity Share Capital A/c			82,350
(Being the issue of equity shares in settlement of their claim.)			
Liquidator of Darjeeling Ltd. A/c	.. Dr.	2,74,500	
To Cash A/c			30,000
,, 5% Debentures A/c			1,12,000
,, 6% Pref. Share Capital A/c			57,500
,, Equity Share Capital A/c			75,000
(Being cash paid and shares and debentures issued to the liquidator of Darjeeling Ltd. in full satisfaction of purchase consideration.)			

Illustration 54 *(Reconstruction)*

The following is the Balance Sheet of X Co. Ltd. as on 31st December 1968.

	Rs.		Rs.
Authorised Capital :			
1,200 Shares of Rs. 100 each	1,20,000	Land & Buildings	50,000
		Plant & Machinery	30,000
Issued Capital :		Furniture	10,000
1,200 Shares of Rs. 100 each	1,20,000	Stock-in-trade	24,000
		Book Debts	15,000
5% Debentures	20,000	Cash in hand	2,000
Sundry Creditors	5,000	Profit & Loss A/c	14,000
	1,45,000		1,45,000

It was decided to reconstruct the company and for this purpose X Co. (1969) Ltd. was formed with an authorised capital of Rs. 1,20,000 divided into 600 5% preference shares of Rs. 100 each and 600 ordinary shares of Rs. 100 each to take over the assets and liabilities of the X Co. Ltd on the following terms :

(i) That debentureholders in X Co. Ltd. are to accept 200 preference shares ;

(ii) That shareholders of X Co. Ltd. are to receive one ordinary share in the new company for every two shares held by them in the old company ;

(iii) That the cost of liquidation Rs. 1,500 is to be paid by the X Co. (1969) Ltd.

Assuming the balance of preference shares is issued payable in cash, you are asked (a) to give the closing journal entries in the books of old company and (b) to give the initial Balance Sheet of the new company.

Solution

(a) *Purchase Consideration is as shown below :*

		Rs.
(1)	Shareholders of old company to receive 1 ordinary share in the new company for 2 ordinary shares held in the old company i.e. 600 shares of Rs, 100 each of the new company for 1,200 shares in the old company :	60,000
(2)	Liquidation expenses to be paid by the new Company :	1,500
	Purchase Consideration :	61,500

(*b*) *Capital Reserve is ascertained thus* :

	Rs.	
Total Assets (excluding Dr. Balance of P/L A/c) :	1,31,000	
Less Liabilities (Creditors and Debentures)	25,000	
Net tangible assets ...	1,06,000	
Less Purchase Consideration	61,500	
Capital Reserve		Rs. 44,500

Closing Journal Entries is in the books of old Company (i.e. X Co. Ltd.)

			Dr. Rs.	Cr. Rs.
(1)	Realisation A/c ... Dr.		1,31,000	
	To Land & Buildings A/c			50,000
	,, Plant & Machinery A/c			30,000
	,, Furniture A/c			10,000
	,, Stock-in-Trade A/c			24,000
	,, Book Debits A/c			15,000
	,, Cash in hand A/c			2,000
	(Being the assets taken over by X Co (1969) Ltd. at book values as per agreement transferred.)			
(2)	6% Debentures A/c ... Dr.		20,000	
	Sundry Creditors A/c ... Dr.		5,000	
	To Realisation A/c			25,000
	(Being the liabilities taken over by X Co. (1969) Ltd. transferred)			

		Rs.	Rs.
(3)	X Co. (1969) Ltd. A/c ... Dr. To Realisation A/c (Being the purchase price agreed to be paid by X Co. (1969) Ltd.	61,500	61,500
(4)	Realisation A/c ... Dr. To Cash A/c (Being liquidation expenses paid)	1,500	1,500
(5)	Shareholders' A/c ... Dr. To Realisation A/c (Loss on realisation transferred to Shareholders' A/c)	46,000	46,000
(6)	Share Capital A/c ... Dr. To Shareholders' A/c (Being the balance standing to the credit of Share Capital A/c transferred.)	1,20,000	1,20,000
(7)	Shareholders' A/c ... Dr. To Profit & Loss A/c (Being the debit balance of P/L A/c transferred to the Shareholders' A/c	14,000	14,000
(8)	Shares in X Co. (1969) Ltd. A/c ... Dr. Cash A/c ... Dr. To X. Co. (1969) Ltd. A/c (Being shares and cash received from X Co. (1969) Ltd. in full satisfaction.)	60,000 1,500	61,500
(9)	Shareholders' A/c ... Dr. To Shares in X Co. (1969) Ltd A/c (Being the distribution of the shares amongst the shareholders of the old company.)	60,000	60,000

Balance Sheet of X Co. (1969) Ltd. as at...

Capital & Liabilities	Rs.	*Assets & Property*	Rs.
Authorised Capital		*Fixed Assets*	
600 ordinary shares of Rs. 100 each.	60,000	Land & Buildings	50,000
600 5% perference shares of Rs. 100 each	60,000	Plant & Machinery	30,000
	1,20,000	Furniture	10,000
Issued & Paid up Capital		*Current Assets, Loan & Advances* :	
600 ordinary shares of Rs. 100 each issued to the shareholders of the vendor company fully paid for consideration other than cash;	60,000	Stock-in-trade	24,000
600 preference shares of Rs. 100 each of which 200 shares are issued to the debentureholders and 400 shares are issued for cash	60,000	Book Debts	15,000
	1,20,000	Cash in hand.	40,500
Reserves & Surplus : Capital Reserve	44,500		
Current liabilities : Sundry Creditors	5,000		
	1,69,500		1,69,500

Illustration 55 *(Reconstruction)*

The books of Orient Co. Ltd. contained the following balances at 30th June, 1969—

	Dr.	Cr.
Share Capital :		
15,000 shares of Rs. 10 each		1,50,000
Sundry Creditors		1,10,000
Patents	1,20,000	
Plant & Machinery	40,000	
Stock in trade	30,000	
Sundry Debtors	50,000	
Cash in hand	2,000	
Preliminary Expenses	7,000	
Profit & Loss A/c	11,000	
	2,60,000	2,60,000

The Company being unable to raise further capital and the patents standing in the books at a figure largely in excess of their value the following scheme was submitted to the shareholders and creditors :—

(a) The Company to go into voluntary liquidation and a new Company Orient Co. (1969) Ltd. to be formed with a Nominal Capital of Rs. 2,00,000/- to take over the assets and liabilities.

(b) Liability to the creditors to be discharged by the new Company as follows :—25 paise in the Rupee by payment in cash and 50 paise in the Rupee by 6 per cent Debentures in the new Company.

(c) 15,000 shares of Rs. 10/- each, Rs. 5 per share paid, to be issued to the shareholders of the old Co., the balance of Rs. 5/- per share being payble on allotment.

(d) The expenses of liquidation to be paid by the new Company as part of the purchase consideration. This amounted to Rs. 1,500/-

(e) The patent to be written off as far as practicable.

Assuming that the scheme has been approved and sanctioned, you are asked :—

(i) To prepare Realisation Account of Orient Co. Ltd.

(ii) To give Journal Entries for opening the books of Orient Co. (1969) Ltd. and

(iii) To prepare balance Sheet on completion of this scheme.

Solution

Purchase consideration is ascertained thus :

		Rs.
(i)	15,000 shares of Rs 10 each, Rs. 5 per share paid, to be issued to the shareholders of the old company (Orient Co Ltd.) :	75,000
(ii)	Liquidation expenses to be paid by the new company (Orient Co. (1969) Ltd.) :	1,500
	∴ Purchase Consideration	76,500

In the books of Orient Co. Ltd. (Old Company)

Dr. Realisation Account Cr.

	Rs.		Rs.
To Patents A/c	1,20,000	By Sundry Creditors	1,10,000
,, Plant & Machinery A/c	40,000	,, Orient Co. (1969) Ltd. A/c	76,500
,, Stock-in-trade A/c	30,000	,, Loss on Realisation transferred to Shareholders' A/c	57,000
,, Sundry Debtors A/c	50,000		
,, Cash in hand A/c	2,000		
,, Cash A/c (liquidation expenses)	1,500		
	2,43,500		2,43,500

Opening Journal Entries in the books of Orient Co. (1969) Ltd. (New Company)

		Rs.	Rs.
Patents A/c ... Dr.		1,20,000	
Plant & MachineryA/c ... Dr.		40,000	
Stock-in-trade A/c ... Dr.		30,000	
Sundry Debtors A/c ... Dr.		50,000	
Cash in hand A/c ... Dr.		2,000	
To Sundry Creditors A/c			1,10,000
,, Liquidator of Orient Co. Ltd. A/c			76,500
,, Capital Reserve A/c			55,500
(Being the assets and liabilities taken over from vendor company as per agreement : Rs. 55,500 being the difference of net assets and purchase consideration credited to Capital Reserve A/c.)			
Creditors' A/c ... Dr.		1,10,000	
To 6% Debentures A/c			55,000
,, Cash A/c			27,500
,, Capita Reserve A/c			27,500
(Being the creditors discharged by payment of 25 paise in the rupee in cash and the issue of 6% debentures @ 50 paise in the rupee, the balance being profit transferred to Capital Reserve)			
Liquidator of Orient Co. Ltd. A/c ... Dr.		76,500	
To Equity Share Capital A/c			75,000
,, Cash A/c			1,500
(Being 15,000 equity shares of Rs. 10 each issued as Rs. 5 per share paid, to the vendor and payment of the liquidation expenses as per agreement)			

			Rs.	Rs.
Equity Share Allotmen' A/c:	...	Dr.	75,000	
To Equity Share Capital A/c				75,000
(Being allotment money @ Rs. 5 per share due on 15,000 shares)				
Cash A/c	...	Dr.	75,000	
To Equity Share Allotment A/c				75,000
(Being allotment money received on 15,000 shares @ Rs. 5 per share.)				
Capital Reserve A/c	...	Dr.	83,000	
To Patents A/c				83,000
(Being Capital Reserve applied to write off patents)				

Balance Sheet of Orient Co. (1969) Ltd. as at...

Liabilities	Rs.	*Assets*	Rs.
Share Capital:		*Fixed Assets*:	
		Plant & Machinery	40,000
		Patents	37,000
Authorised:			
20,000 Equity Shares of Rs. 10 each	2,00,000	*Current Assets*:	
		Stock-in-trade	30,000
		Sundry Debtors	50,000
Issued & Subscribed Capital:		Cash in hand	48,000
15,000 shares of Rs. 10 each issued to the Vendors as Rs. 5 per share paid for consideration other than cash.	75,000		
Rs. 5 per share on 15,000 shares subsequently called up and paid up.	75,000		
Secured Loans:			
6% Debentures	55,000		
	2,05,000		2,05,000

EXERCISE

(A) *Amalgamation* :

1. A and B have for several years carried on separate business in adjoining premises. Summaries of their respective Balance Sheets as on 31st December, 1968 are as follows :

	A	B		A	B
	Rs.	Rs.		Rs.	Rs
Creditors	566	783	Property	800	50(
Capital	3,227	2,280	Plant	1,575	1,32
			Stock	763	65
			Debtors	176	23
			Bank	479	35(
	3,793	3,063		3,793	3,06

They agreed to amalgamate their businesses as on 1st January, 1969 by elling them to A B Ltd. of which the authorised capital is Rs. 15,000 in ordinary shares of Re. 1 each.

The project was punctually effected and further details are as follows :—

(a) That the company should not take over Creditors, Debtors or Bank Balances.

(b) That for goodwill A should receive Rs. 2,030 and B Rs. 1,000.

(c) That the other fixed assets should be taken at twice their book values payable in cash.

(d) That stock in trade should be paid in cash at book value.

(e) That the company should have an initial cash balance of Rs. 1,000 for working capital.

(f) That to provide the company with the money required to carry out the arrangement A & B should subscribe for the necessary number of shares at par A taking twice as many shares as B. You are required to

(i) Show in journal form the entries necessary to record the transactions (including cash transactions) in the company's books.

(ii) Set out the opening Balance Sheet of A B Ltd.

(R. A. Final-adapted)

(Ans : Balance Sheet total Rs. 13,839)

2. A Co. Ltd. and B Co. Ltd. decide to amalgamate. A new company C. Co. Ltd. is formed with an authorised capital of Rs. 50,00,000 divided into 2,50,000 Equity Shares of Rs. 20 each, to take over the amalgamated companies with effect from January 1, 1965, when their Balance Sheets stood as follows :—

Liabilities	A Co. Ltd.	B. Co. Ltd.
Issued Capital :—	Rs.	Rs.
(i) 1,00,000 Equity Shares of Rs. 20 each, fully paid	20,00,00C	
(ii) 50,000 Equity Shares of Rs. 20 each, fully paid		10,00,000
Reserve & Surplus :—		
Reserve Fund	5,80,000	3,50,000
Profit & Loss A/c	2,20,000	1,50,000
Current Liabilities for trade	1,90,000	95,000
,, ,, ,, expenses	10,000	5,000
	30,00,000	16,00,000

Assets		
Fixed Assets :—Goodwill	3,80,000	1,20,000
Land & Building	10,00,000	5,00,000
Plant & Machinery	6,00,000	3,90,000
Patents	1,70,000	...
Current Assets :—Stock	2,60,000	1,80,000
Book Debts	4,20,000	3,50,000
Cash in Hand and at Bank	1,70,000	60,000
	30,00,000	16,00,000

Calculate the amount payable to each company and draw up the amalgamated Balance Sheet of the new company assuming that the payment is made wholly by means of fully paid shares of C. Company Ltd.

(C. U. B. Com. (Adv.) 1965)

(**Ans** : C. Co. Ltd's Balance Sheet Total—Rs. 46,00,000 ; Amount payable to A Co. Ltd. Rs. 28,00,000 & B. Co. Ltd. Rs. 15,00,000).

3. The X Co. Ltd. and the Y Co. Ltd. agree to combine and form a new company, X and Y Co. Ltd with a capital of Rs. 20,00,000 divided into 200,000 Equity Shares of Rs. 10 each. The new company is to take up the whole of the assets and liabilities of both the companies on a consideration of issue to X Co. Ltd. of Rs. 10,00,000 and to Y Co. Ltd. of Rs. 8,00,000 in fully paid Rs. 10 Shares.

The new company is to pay the liquidation expenses of the vendor companies viz X Co. Ltd. Rs. 12,000, and Y Co. Ltd. Rs. 10,000 as also its own formation expenses, Rs. 15,000—these amounts being charged to the Capital Reserve Account.

On date of amalgamation, the balance in the books of the Vendor Companies are as follows :—

	X Rs.	Y Rs.
Issued, Subscribed and paid up Capital	9,00,000	7,00,000
Reserve Fund	1,00,000	80,000
Creditors	75,000	60,000
Profit & Loss A/c (Cr.)	40,000	35,000
Goodwill	1,00,000	85,000
Land and Buildings	2,50,000	2,00,000
Plant & Machinery	6,70,000	5,30,000
Debtors	50,000	35,000
Stock-in-trade	20,000	10,000
Bank Balance	25,000	15,000

The amalgamation is duly completed, the various assets and liabilities ing taken over at their book values.

Give the journal entries to close the books of X Co. Ltd. and Y Co. Ltd. ; o give the opening entries and the Balance Sheet of new company.

(C. U. B. Com. (Adv.) 1943)

ns : New Co. Balance Sheet Total—Rs. 19,53,000)

4. On January 1, 1956, Z. Co., Ltd is formed with an authorised capital Rs. 8,00,000 divided into 80,000 Ordinary (Equity) Shares of Rs. 10 each, to ke over the business of X Co. Ltd. and Y Co. Ltd., whose Balance Sheets at e date of taking over were as follows :—

apital & Liabilities	X Co. Ltd.	Y Co. Ltd.	Property & Assets	X Co. Ltd.	Y Co. Ltd.
	Rs.	Rs.		Rs.	Rs.
pital :			Goodwill	20,000	30,000
Fully paid Ordinary			Land & Buildings	50,000	80.000
Shares of Rs. 10 each	3,00,000	4,00,000	Plant & Machinery	90,000	1,20,000
neral Reserve	10,000	20,000	Sundry Debtors	1,65,000	1,80,000
ndry Creditors	30,000	25,000	Stock in hand	30,000	40,000
itstanding Liabilities	27,000	15,000	Cash at Bank and		
ofit & Loss A/c			in hand	35,000	50,000
Balance (Cr.)	23,000	40,000			
	3,90,000	5,00,000		3,90,000	5,00,000

All assets (except cash) and liabilities are to be taken over at their book alues except that nothing is to be paid for Goodwill. The purchase consi-erations are (a) 2 fully paid Ordinary Shares of Z Co. Ltd. for 3 fully paid rdinary Shares of X Co. Ltd. and (b) 3 fully paid Ordinary Shares of Z Co, td. for 4 fully paid Ordinary Shares of Y Co. Ltd.

Give Journal Entries to close the books of X Co. Ltd and Y Co. Ltd and raw up the opening Balance Sheet of Z Co. Ltd. Sufficient Shares (fully paid) f Z Co. Ltd are to be issued so that the Shareholders of the Companies taken ver are paid in full and a working cash balance of Rs. 50,000 is left in hand.

(Gauhati University, M. Com., 1956)

Ans. : Balance Sheet Total Rs. 8,05,000)

5. The following are the Balance Sheets of A Co. Ltd. and B. Co. Ltd.

A. Co. Ltd.

	Rs,		
apital, 5,000 Shares of Rs. 1(ch	50,000	Buildings	15,000
00 6% Debentures of Rs. 100 each	10,000	Machinery	55,000
Reserve Fund	17,000	Stock	8,000
Dividend Equalisation Fund	2,000	Debtors	7,000
Employees' Prov. Fund	1,500	Cash	1,500
Trade Creditors	5,000		
Profit & Loss Account	1,000		
	86,500		86,500

Omega Co. Ltd.

	Rs.			Rs.
Authorised Capital :		Land & Buildings		1,50,000
80,000 Shares of		Plant & Machinery		1,50,000
Rs. 10 each	8,00,000	Stock in trade		2,00,000
		Patents		50,000
Issued Capital :		Sundry Drs.	6,00,000	
80,000 Shares fully paid	8,00,000	*Less.* Reserve	50,000	
Liabilities :				5,50,000
For Goods Supplied	4,00,000			
,, Expenses	50,000	Cash in hand		50,000
		Profit & Loss Account		1,00,000
	12,50,000			12,50,000

The two companies decided to amalgamate on the following terms :—

(a) The assets and liabilities with the exception of the investments to be taken over by a new company called Alpha Omega Co. Ltd.

(b) The shareholders agreed to accept fully paid ordinary share in the new company at par in satisfaction of their present holdings on the basis of the revaluation shown below. The preference shareholders of Alpha Co. Ltd. were to be satisfied as shown hereunder. The assets were revalued as follows :—

	Alpha Co. Ltd. Rs.	Omega Co. Ltd. Rs.
Land & Buildings	14,00,000	1,20,000
Plant & Machinery	5,00,000	1,20,000
Stock in trade	2,50,000	2,00,000
Patents	10,00,000	60,000
Sundry Debtors	4,50,000	3,00,000
Goodwill	2,00,000	Nil

The preference shareholders in the Alpha Co. Ltd. had a preference as to capital but no right to share in surplus assets, and agreed to accept 8% preference shares of Rs.10 each, Rs.7·50 paid, in the new company in satisfaction of their holdings.

The new Company was duly formed with an authorised captial of Rs. 50,00,000 in shares of Rs. 10 each.

The 4% Government Loan was realised at 98 per cent net.

You are required to close the books of the old companies by means of ledger accounts and to give the Balance Sheet of the new company.

(G.D.A.—adapted)

(Ans : Alpha-Omega Co. Ltd's Balance Sheet Total Rs. 51,00,000)

(B) *Amalgamation Scheme :*

8. It is proposed to form a new company for the purpose of amalgamating the business of Aich Ltd., Bose Ltd. and Chandra Ltd. and you are supplied with the following figures as at 31st July, 1961 :—

	Aich Ltd.	Bose Ltd.	Chandra Ltd.	Total
Fixed Assets *Less* Depreciation	1,03,500	28,200	35,700	1,67,400
Floating Assets				
Stock-in-trade	4,500	11,250	10,200	25,950
Investment in $3\frac{1}{2}$% G. P. Notes	15,000	6,600	—	21,600
Sundry Debtors *less* Reserve	18,900	9,150	8,700	6,750
Cash Balance	16,200	7,200	495	23,895
Total Assets ...	1,58,100	62,400	55,095	2,75,595
Capital (paid up)	81,000	30,000	48,000	1,59,000
Sundry Creditors	4,500	6,600	1,200	12,300
Profit & Loss A/c (Balance)	72,600	25,800	5,895	1,04,295
Total Capital & Liabilities ...	1,58,100	62,400	55,095	2,75,595
Profit for the year ended 31st July, 1961	24,300	12,000	9,600	
Profit for the year ended 31st July, 1960	20,250	10,500	12,000	
Profit for the year ended 31st July, 1959	22,275	11,250	13,200	

You are requested to suggést and to report as to the basis upon which the amalgamation may be effected. (C. U. M. Com. 1961)

9. The following are the Balance Sheets of Sen Co. Ltd. manufacturers and Roy Co. Ltd. who own a number of retail shops in the state :—

	Sen Co. Ltd. Rs.	Roy Co. Ltd Rs.		Sen Co Ltd. Rs.	Roy Co. Ltd. Rs.
Authorised Capital			Goodwill	—	62,500
Ordinary shares of Rs. 10 each	10,00,000	6,00,000	Land and Buildings	5,50,000	3,20,500
Issued and paid up capital Ordinary Shares of Rs. 10 each, Rs. 7·50 per. share paid up	6,75,000	—	Plant and Machinery & Furniture	1,33,625	60,250
Ordinary Shares of Rs. 10 each fully paid	—	5,00,000	Stock	52,000	1,27,000
Premium on Shares	84,375	—	Sundry Debtors	20,950	6,625
5% Debenture	—	50,000	Cash	23,275	2,125
Debenture Interest	—	2,500	Advertisement Suspense	8,750	
Reserves	15,000	—			
Profit & Loss A/c	8,925	300			
Sundry Creditors	5,300	26,200			
	7,88,600	5,79,000		7,88,600	5,79,000

It is proposed to form a new company S. R. Co. Ltd. with 1,00,0[illegible] Equity Shares of Rs. 10 each and 50,000 6% Preference Shares of Rs. 10 each to take over the business of these companies. The Directors of Sen Co. Ltd., request you to consider the following proposals for amalgamation and seek your advice.

(a) Assets and Liabilities are to be taken over by the new company at book values.

(b) The new company will issue two equity shares and one preference share fully paid for every three shares in Sen Co. Ltd. and two equity shares and two preference shares fully paid for every five shares in Roy Co. Ltd.

(c) The new company will discharge the debentures with accrued interest in Roy Co. Ltd. by the issue of 7% Debentures at Rs. 103 and will pay the expenses of amalgamation estimated at Rs. 20,000.

Submit a report to the Directors criticising the proposals as stated above and pointing out of them what further information is required in this connection to complete your criticism.

(C. U. M. Com. 1963)

(c) Absorption :

10. The following is the Balance Sheet of the Saurastra Trading Co. Ltd. which is absorbed by the Maha Gujarat Commercial Corporation Ltd. on the undernoted terms :—

(a) The 1st Mortgage Debentureholders to be repaid at a premiun of 10%.

(b) The Seco nd Mortgage Debentures to be discharged at a premium of 5% by the issue of 7%. First Mortgage Debentures in the Maha-Gujarat Commercial Corportion Ltd.

(c) The other liabilities with the exception of workmen's deposits are also to be taken over.

(d) The Saurastra Trading Co. Ltd. to pay off their workmen's deposits.

(e) The Shareholders are to be paid Rs. 6. in cash per share, and three fully paid shares of Rs. 10 each valued at the market price of Rs. 15 per share in exchange for every two shares in the Saurastra Trading Co. Ltd.

Balance Sheet of the Saurastra Co. Ltd.

Liabilities	Rs:	*Property & Assets*	Rs.
Share Capital :—		Goodwill	3,00,000
20,000 shares of Rs. 20 each fully paid	4,00,000	Patent and Rights	60,000
Debentures :—		Land & Buildings	1,40,000
7% 2nd Mortgage Debentures	1,20,000	Plant & Machinery	1,70,000
		Stock	1,30,000
7½% 2nd Mortgage Debentures	1,60,000	Sundry Debtors	44,000
Debenture Redemption Fund	50,000	Debentures Redemption Fund Investment	50,000
Reserve Fund	90,000	Cash at Bank	54,000
Employees Saving Bank Deposits with Interest	18,000		
Sundry Creditors	60,000		
Profit&Loss Appropriation A/c (Balance)	50,000		
	9,48,000		9,48,000

Show how the purchase consideration would be arrived at, and give the entries relating to the purchase in the books of Maha-Gujarat Commercial Corporation Ltd., assuming that the patent rights & Land & Buildings are valued by them at Rs. 90,000 and Rs. 2,00,000 respectively. (Institute of Bankers, 1960)

(Ans : Purchase consideration Rs. 4,20,000)

11. The following is the Balance Sheet of Atmaram as at December 31, 1961 :—

Liabilities	Rs,	*Assets*	Rs.
Capital	1,00,000	Sundry Fixed Assets	40,000
Reserve	80,000	Investments	60,000
Loan from Bank	50,000	Stock-in-trade	25,000
Sundry Creditors	30,000	Sundry Debtors	1,15,000
		Cash in hand & at Bank	20,000
	2,60,000		2,60,000

On the basis of the above balance sheet, Hindustan Ltd., takes over Atmaram's business on the following stipulations :—

Sundry Fixed Assets at Rs. 45,000 ; Investments at Rs. 50,000 ; Stock-in-trade at Rs. 30,000 ; Sundry Debtors at Rs.1,00,000 and Cash & Bank balance at the Balance Sheet figure. Sundry creditors agree to reduce their claims by 10% before the business is transferred.

The purchase consideration has been fixed at Rs. 1,80,000 in the Company's fully paid shares of Rs. 10 each.

In order to give effect to the above transactions, draft Journal Entries in the Sole Trader's Books and show the opening Journal Entries in the Company's Books. (Institute of Bankers, 1962)

(Ans : Amount paid for goodwill Rs. 12,000)

12. The Assets of the National Steel Company, Limited are purchased by the Hindusthan Iron & Steel Company Limited. The purchase consideration was as follows :—

(1) A payment in cash at Rs. 90 for every share in the National Steel Company, Limited.

(2) A further payment in cash at Rs. 550 for every Debenture in National Steel Company Limited, which the Debentureholders have agreed to accept in full discharge of their Debentures.

(3) An exchange of four shares of the Hindusthan Iron and Steel Company, Limited, of Rs. 75 each (quoted in the market at Rs. 140 each) for every share in the National Steel Company, Limited.

The Balance Sheet of the National Steel Co. Ltd. stood as follows when given over :—

	Rs.		Rs.
Capital			
6,000 Shares of Rs. 500		Land & Buildings	11,00,000
each	30,00,000	Machinery&Plant	15,50,000
1,300 Debentures of		Furniture & Fitting	2,60,000
Rs. 500 each	6,50,000	Patents	2,40,000
Sundry Creditors	2,50,000	Work-in-Progress	8,15,000
Workmen's Savings Bank	2,00,000	Stock of Goods	1,85,000
Insurance Fund	65,000	Sundry Debtors	2,65,000
Reserve Fund	2,75,000	Cash at Bank	85,000
Profit & Loss A/c	60,000		
	45,00,000		45,00,000

Make the necessary closing and opening entries in the Journal of the purchased & purchasing companies respectively. (G.D.A.)

13. With a view to reducing establishment expenses and generally to effect economy in working, the A Company Limited, was taken over by B. Company Limited, as from 1st January 1944, upon the following terms :—

(1) The B Company to assume the liabilities and take over the assets at Book values,

(2) The B Company to discharge the debentures in A Company at 105 per cent by the issue of new debentures at 6 per cent in the B Company.

(3) The B. Co. to pay the shareholders in the A. Co. Rs. 10 per share and to give three Rs. 10 shares in the B. Co. for every Rs. 20 share in A Co. The Rs. 10 shares were considered as being at par.

The following Balance Sheet of the A Co. was prepared on 31st December, 1943 :—

	Rs.		Rs.
Capital :—			
Nominal 50,000 shares of Rs. 20 each	10,00,000	Goodwill	7,00,000
		Freehold Land & Buildings	3,13,000
Issued 47,500 shares of Rs. 20 each fully paid	9,50,000	Machinery & plant	64,200
		Fixture & Fittings	17,000
5% Debentures	2,40,000	Sundry Debtors	2,19,800
Reserve Fund	3,00,000	Stock	93,200
Sundry Creditors	1,53,000	Investments	2,93,000
Profit & Loss A/c (balance)	99,200	Cash at Bank and in hand	42,000
	17,42,200		17,42,200

You are required to give the entries necessary to close off the books of the A Co., and to show how the acquisition of the new business would be recorded in the books of the B. Co.

(Bombay University, B. Com.)

14. With a view to reducing the establishment expenses and generally to effect economy in working the Iris Company Ltd. agreed to take over the Orient Company Ltd. as a going concern, both companies being engaged in the same trade.

The Iris Co. Ltd. was to pay the debentures and liabilities of the Orient Co. Ltd. and take over the assets, the consideration being the issue by the Iris Co. Ltd. of 4,00,000 fully paid shares of Re. 1 each, and the payment of Rs. 30,000 in cash to the Orient Co. Ltd. The Iris Co. Ltd. was to pay the liquidation expenses, which amounted to Rs. 14,000.

The balance in the books of the respective companies, as on the date of absorption, are given below :—

	Iris Rs.	Orient Rs.	Iris Rs.	Orient Rs.
Authorised Capital :				
Iris Co. Ltd. 20,00,000, shares of Re. 1 each				
Orient Co. Ltd. 7,50,000 shares of Re. 1 each				
Issued Capital			15,00,000	5,00,000
Uupaid Calls	5,000	1,000		
5% Debentures			5,00,000	1,00,000
Land & Buildings	10,33,300	3,56,820		
Goodwill	3,00,000	50,000		
Sundry Debtors & Creditors	72,400	39,840	83,420	43,620
Bank Balances	1,68,420			20,000
Stock	1,79,260	78,520		
Plant & Machinery	3,87,680	1,64,390		
Bills Receivable	36,210			
Profit & Loss A/c			98,850	26,950
	21,82,270	6,90,570	21,82,270	6,90,570

Assume that the absorption was duly effected but that the unpaid calls and book debt of Rs. 4,000 due to the Orient Co. Ltd. proved irrecoverable.

Prepare the accounts showing the absorption of the Orient Co. Ltd. and the Balance Sheet of Iris Co. Ltd. after the absorption. (R. A. Final, 1945)

(Ans : Loss on Realisation in the books of Orient Co. Ltd. Rs. 95,950; Iris Co. Ltd.'s Balance Sheet Total after absorption Rs. 27,20,890)

15. The following is the Balance Sheet of Dilip Co., Ltd.

as at 31 December, 1958

	Rs.		Rs.
Capital :			
4,000 shares of Rs. 100 each	4,00,000	Buildings	1,70,000
General Reserve	50,000	Plant & Machinery	4,00,000
Surplus in Profit&Loss A/c	5,600	Investments	50,600
5 per cent Debentures	2,50,000	Sundry Debtors	1,40,500
Sundry Creditors	80,500	Stock	80,700
Proposed Dividend	24,000	Cash at Bank	16,500
Provision for Taxation	48,200		
	8,58,300		8,58,300

Dilip & Company Limited was absorbed by Nanak & Co., Ltd. at the above mentioned date on the following terms and conditions :

Nanak & Co., Ltd. to—

(i) .acquire all assets except investments which were sold off by Dilip & Co., Ltd. for Rs. 45,500.

(ii) assume all liabilities except provision for taxation.

(iii) discharge the Debenture Debt at a discount of 5 per cent by issue of 7 per cent Debentures in Nanak & Co., Ltd.

(iv) issue to the shareholders of Dilip & Co. Ltd. two shares of Rs. 60, each in Nanak & Co., Ltd. at the market rate of Rs. 65 per share and a payment in cash of Rs. 2 in exchange for one share in Dilip & Co., Ltd.

(v) pay the cost of absorption Rs. 1,500.

Plant aed Machinery taken over was depreciated by the absorbing company to the extent of 5 per cent and a provision for doubtful debts equal to 3 per cent was made on Sundry Debtors.

Dilip & Co., Ltd. sold off in the open market one fourth of the shares received from Nanak & Co., Ltd. at the average rate of Rs. 63 per share.

Show the Journal Entries to record the above transactions in the books of Dilip & Co., Ltd. and the opening Journal entries in the books of Nanak & Co., Ltd. (C.A. Final, May 1959 & C.U. B. com. (Hons.) 1966)

(D) *Reconstruction* :

16. The following is the Balance Sheet of A Co. Ltd. as on 31st December, 1957 :—

Nominal Capital :—		Land & Buildings	45,000
1,000 shares of Rs 100 each	1,00,000	Plant & Machinery	20,000
		Furniture	5,000
Issued Capital :-		Stock	25,000
1,000 shares fully paid	100,000	Book Debts	15,000
6% Debentures	20,000	Cash	1,000
Sundry Creditors	3,000	Profit & Loss A/c	12,000
	1,23,000		1,23,000

It was decided to reconstruct the company, and for this purpose a new company was formed with a nominal capital of Rs. 1,00,000 divided into 500, 5% Preference Shares of Rs. 100 each and 500 Equity Shares of Rs 100 each to take over the assets and liabilities of the A Company, Ltd. on the following basis :

[a] That debentureholders in the A Co. Ltd. are to accept 200 preference shares :

[b] That shareholders of A Co. Ltd are to receive an equity share in the new company for every two shares held by them in the old company.

[c] That the cost of liquidation [Rs. 1,500] is paid by the new company.

Assumiug that the balance of the Preference Shares is issued payble in cash, you are required [a] to close the books of the old company, and [b] to give the initial Balance Sheet of the new company.

[Allahabad University, B. Com. 1938]

(Ans : Balance Sheet Total Rs. 1,39,500.

17. The following is the Balance Sheet of Comet Ltd. as at 31st March, 1956 :—

	Rs.		Rs.
Authorised & Issued Cap.		Patents	1,50,000
50,000 ordy. shares of		Freehold property	2,00,000
Rs. 10 each fully paid up	5,00,000	Stock.in-trade	1,70,000
60,000, 6% pref. shares of		Debtors	2,60,000
Rs. 5 each fully paid up	3,00,000	Cash & Bank	6,000
4% Debentures Stock	2,00,000	Profit & Loss A/c	4,06,000
Sundry Creditors	1,60,000		
Accrued Int. on Debentures	32,000		
	11,92,000		11,92,000

The following scheme of reconstruction was passed and sactioned :

(a) A new company by the name of Rocket Ltd. to be formed and to take over the entire business of Comet Ltd.

(b) One ordinary share of Rs. 5 per share paid up is to be given in exchange for every two ordinary shares of Comet Ltd.

(c) One 4% preference share of Rs. 100 each is to be given in exchange of 30 preference shares of Comet Ltd.

(d) The debenture stock will be discharged together with the amount of interest accrued by issue of ordinary shares of Rs. 10 each fully paid.

(e) The creditors will receive 50% of their dues in cash and 25% preference shares of Rs. 100 each and the balance to be foregone.

(f) The ordinary shares issued as Rs. 5 per share paid up are to be made fully paid up by receiving cash from the holders.

(g) The Authorised Capital of the new company is to be Rs. 8,00,000 divided into 60,000 ordinary shares of Rs. 10 each and 2,000 4% pref. shares of Rs 100 each.

Show Journal Entries closing the books of Comet Ltd. and the opening Balance Sheet of Rocket Ltd. utilising any profit on taking over to write down the value of the Patents. The Preliminary Expenses amounted to Rs. 6,000/-.

[C. U. M. Com. 1956]

(Ans : Purchase consideration Rs. 6,77,000 ; Loss on Realisation Rs. 4,75,000 [pref. shareholders Rs. 1,00,000, equity shareholdes Rs. 3,75,000] ;Shares to pref. shareholders Rs. 2,00,000 ; Shares to equity shareholders Rs. 1,25,000 ; Rocket Ltd.'s Balance Sheet Total Rs. 7,22,000.)

18. The Balance Sheet of the Kanpur Silk Mills Co. Ltd. is as under :—

	Rs.		Rs.
Capital : 10,000 shares of Rs. 100 each fully paid	10,00,000	Premises	50,000
1,000 5% Debentures of Rs. 100 each	1,00,000	Plant	7,00,000
Creditors	30,600	Stock	1,00,000
Employees' Provident Fund	30,000	Debtors	75,000
		Cash	7,950
		Profit & Loss A/c	2,27,650
	11,60,600		11,60,600

The Company decides to go into voluntary liquidation with a view to reconstruction under the name of the New Kanpur Silk Mills Co. Ltd. The following scheme received the approval of shareholders and creditors.

(1) Assets and liabilities to be taken over by the new company.

(2) Sundry trade creditors to be discharged by cash payment of 75 paise in the rupee.

(3) 200 debentures to be redeemed at 75% ; for the balance 6% debentures in the new company to be issued at par.

(4) 1,00,000 shares of Rs. 10 each credited as Rs. 6 paid up to be issued by the new company to the shareholders of the old company, the unpaid amount on the shares being payable immediately on allotment.

(5) Employees' Provident Fund to be maintained.

(6) The book values of the assets to be reduced proportionately. Give journal entries for closing the books of the old company and the Balance Sheet of the new company after the above scheme is carried out in full.

(Allahabad University, B. Com.)

(Ans : Loss on realisation Rs. 4,00,000 ; New Company's Balance Sheet Total Rs. 11,10,000).

(K) Valuation of Shares

1. When Valuation is necessary :

Valuation of shares becomes necessary in the following circumstances :

(i) When shares are sold by one shareholder to another.

(ii) When two or more companies amalgamate.

(iii) When a shareholder dies and his shares are to be valued for estate duty purposes.

(iv) When loans are raised on the security of the shares of a company.

(v) When a company is reconstructed and there are dissentient share holders.

(vi) When shares of one class are to be converted into shares o another class.

(vii) When a company acquires the shares in a company unde section 395.

(viii) When the assets of a finance and investment trust company are t be valued.

2. Methods of Valuation :

There are two principal methods of valuation of shares, namely—

(i) Asset-backing method or *Intrinsic Value basis* or Net assets basis or Capita valuation basis or Equity basis or Realisation basis.

(ii) Market value method or *Yield basis* or Income basis or Annuity basi or Earning capacity valuation method.

Sometimes the arithmetic mean of the intrinsic value and market value taken to determine the value of shares. This value is called the **fair value.**

3. Asset-Backing Method or Intrinsic Value basis :

Under this method the assets and liabilities should be revalued first, the the net asset is to be ascertained. The available net assets represent net asset for equity shareholders.

Net Assets = Realisable Assets—Outside Liabilities.

(i) *If there is no preference share Capital :*

$$\text{Value of each equity share} = \frac{\text{Net Assets}}{\text{No. of Equity Shares}}$$

(ii) *If there is preference share capital which is non-participating :*

(a) $$\text{Value of each equity share} = \frac{\text{Net Assets—Pref. Share Capital}}{\text{No. of Equity Shares}}$$

(b) Value of each preference share = Par value.

(iii) *If there is preference share capital which is participating :*

(a) Value of each equity share =

$$\text{Par value} + \text{Par value} \times \left[\frac{\text{Net Assets—Total Capital (Pref. \& Equity)}}{\text{Total Capital (Pref. \& Equity)}}\right]$$

(b) Value of each preference share =

$$\text{Par value} + \text{Par value} \times \left[\frac{\text{Net Assets—Total Capital (Pref. \& Equity)}}{\text{Total Capital (Pref. \& Equity)}}\right]$$

Asset-Backing or Intrinsic Value method may, again, be of two types :—

(i) Break-up basis i.e. not taking into account the value of goodwill and

(ii) Going on basis i.e. taking into account the value of goodwill.

4. **Market Value Method or Yield basis :**

Under this method value of shares is calculated on the basis of earning of the concern. According to this method a share is valued as follows :—

(i) $$\text{Value of each share} = \frac{\text{Rate of dividend or earning}}{\text{Normal rate of return}} \times \text{paip up value of shares}$$

Another way of valuing shares under this method is as given below :

(ii) The annual profits available for distribution to shareholders are capitalised at a rate which is considered reasonable having regard to the risk involved. The capitalised value of the profits thus calculated gives the total value of all the shares and by simple division the value of each share is ascertained.

Dividend on equity shares should be calculated after deducting from the available profits depreciation, taxation, desirable reserves and preference dividend etc.

Illustration 56 *(Asset-backing method or Intrinsic value basis)*

The following is the summarised Balance Sheet of the **Naidu Co. Ltd.** for the year ended 31st December, 1968 :—

Balance Sheet as at 31st December, 1968.

Liabilities	Rs.	*Assets*		Rs.
Issued & Paid up Capital :		Goodwill		3,00,000
50,000 Equity Shares of		Land & Building		1,20,000
Rs. 10 each fully paid	5,00,000	Plant & Machinery		68,000
General Reserve	4,00,000	Furniture & Fittings		12,000
6% Debentures	2,00,000	Investments		1,85,000
Loan from Bank	60,000	Stock-in-trade		1,40,000
Sundry Creditors	80,000	Sundry Debtors		
Profit & Loss Appro. A/c	20,000		Rs. 3,65,000	
		Less Reserve Rs.	2,000	3,63,000
		Cash & Bank Balance		62,000
		Preliminary Expenses		10,000
	12,60,000			12,60,000

Calculate the value of each share on asset-backing method or intrinsic value basis.

(Institute of Bankers 1962—Adapted)

Solution

(i) *Break up basis i.e. excluding goodwill :—*

Assets as revalued :		Rs.
Land & Building		1,20,000
Plant & Machinery		68,000
Furniture & Fittings		12,000
Investments		1,85,000
Stock-in-trade		1,40,000
Sundry Debtors		3,63,000
Cash & Bank Balances		62,000
		9,50,000
Less Outside liabilities	Rs.	
6% Debentures	2,00,000	
Loan from Bank	60,000	
SundryCreditors	80,000	3,40,000

∴ Net Assets ... ... Rs. 6,10,000

Value of each equity share $= \dfrac{\text{Net Assets}}{\text{Number of Equity Shares}}$

$$\text{Rs.} = \frac{6,10,000}{50,000} = \text{Rs. } 12{\cdot}20$$

Notes : (1) Preliminary Expenses being fictitious assets are excluded from total assets. (2) In asset backing method on brake-up basis, goodwill is not taken into account.

(ii) Going-on basis i.e. including goodwill :

Assets as revalued :		Rs.
Goodwill		3,00,000
Land & Building		1,20,000
Plant & Machinery		68,000
Furniture & Fittings		12,000
Investments		1,85,000
Stock-in-trade		1,40,000
Sundry Debtors		3,63,000
Cash & Bank Balance		62,000
		12,50,000
Less Outside liabilities :		
	Rs.	
6% Debenture	2,00,000	
Loan from Bank	60,000	
Sundry Creditors	80,000	
		3,40,000

∴ Net Assets ... ... Rs. 9,10,000

Value of each equity share $= \dfrac{\text{Net Assets}}{\text{Number of Equity Shares}}$

$$= \text{Rs. } \frac{9,10,000}{50,000} = \text{Rs. } 18{\cdot}20$$

Illustration 57 *(Asset-backing method or Intrinsic value basis)*

The following is the summarised Balance Sheet of a company as at December 31, 1962 :—

Liabilities :	Rs.	*Assets* :	Rs.
Share Capital :		Fixed Assets	38,00,000
10,000 5% pref. shares of		Investments	10,25,000
Rs. 100 each, fully paid	10,00,000	Current Assets :	
2,00,000 equity shares of		Stock-in-trade	5,72,000
Rs. 10 each, fully paid	20,00,000	Sundry Debtors	
Reserves & Surplus :		Less Provision	12,78,000
General Reserve	15,00,000	Cash and Bank Balance	2,25,000
Profit & Loss A/c (Cr.)	12,00,000		
Secured Loan :			
6% Debentures	8,00,000		
Current Liabilities :			
Sundry Creditors	2,75,000		
Liabilities for Expenses	1,25,000		
	69,00,000		69,00,000

For purposes of valuation of shares, Fixed Assets are to be depreciated by 10 per cent. Investments are to be taken at Rs. 10,80,000 and Sundry Debtors are to be further reduced by 5 per cent.

Interest on Debentures is accrued due for 9 months and preference dividend for 1962 is also due ; neither of these have been provided for in the Balance Sheet.

Calculate the value of each Equity Share. (C.U, B.Com (Adv.) Hons. 1963)

Solution

Total assets as revalued :		Rs.
Fixed assets		34,20,000
Investments		10,80,000
Stock-in-trade		5,72,000
Sundry Debtors		12,14,100
Cash and Bank Balance		2,25,000
		65,11,100
Less outside liabilities :	Rs.	
6% Debentures	8,00,000	
Outstanding Interest on Debentures	36,000	
Sundry Creditors	2,75,000	
Liabilities for expenses	1,25,000	12,36,000
Net assets available for total Capital :		52,75,100

Net assets available for total Capital (b/f)		52,75,100	
Less Pref. Share Capital	10,00,000		
Pref. Share Dividend	50,000		
		10,50,000	
∴ *Net Assets available for Equity Capital :*			Rs. 42,25,100

$$\text{Value of each equity share} = \frac{\text{Net Assets}}{\text{No. of Equity Shares}}$$

$$= \text{Rs. } \frac{42,25,100}{2,00,000} = \quad \ldots \quad \text{Rs. } 21{\cdot}13$$

∴ Intrinsic value of 1 equity share = Rs. 21·13

Note : Assumed that the preference shares are preferential as to capital in the event of winding up without any right to participate in the surplus.

Illustration 58 *(Asset-backing method or Intrinsic value basis)*

The following is the summarised Balance Sheet of Bengal Traders Ltd. as at December 31st, 1951 :—

Capital & Liabilities		*Property & Assets*	
Capital :		Goodwill	50,000
20,000 Ordinary Shares of		Sundry Fixed Assets	9,65,000
Rs. 45/- each fully paid	9,00,000	Sundry Current Assets	5,00,000
1,000 4 p. c. Cum. Pref.			
Shares of Rs. 100 each			
fully paid	1,00,000		
Loans at 6 p.c.	75,000		
5 p.c. Debentures	2,60,000		
Current Liabilities	1,80,000		
	15,15,000		15,15,000

Interest on Loans and Debentures and Dividends on Preference Shares are all outstanding for one year and have not been shown as such in the Balance Sheet. The Preference Shares are preferential regarding repayment of capital at 10 p.c. premium.

The assets independently valued show that the Fixed Assets are worth Rs. 12,00,000 and the Current Assets Rs. 6,00,000. Compute the value of each Ordinary Share.

(C. U. B.Com. (Adv.) 1952)

Solution

Total assets as revalued :			Rs.
Goodwill	...	...	50,000
Fixed assets	...	...	12,00,000
Current Assets	...	...	6,00,000
			18,50,000

Less Outside liabilities :	Rs.		
Loans @ 6%	75,000		
5% Debentures	2,60,000		
Current liabilities	1,80,000		
Outstanding interest on debentures	13,000		
Outstanding interest on loans	4,500		
		5,32,500	
∴ *Net assets available for total Capital :*		13,17,500	
Less Pref. Share Capital	1,00,000		
Pref. dividend for the year	4,000		
Premium on Redemption of Pref. Shares	10,000	1,14,000	
∴ Net assets available for Equity Capital :			Rs. 12,03,500

$$\text{Value of each equity share} = \frac{\text{Net assets}}{\text{No. of Equity Shares}}$$

$$= \frac{12,03,500}{20,000} = \text{Rs. } 60{\cdot}18$$

∴ Intrinsic value of each equity share = Rs. 60·18

Illustration 59 *(Intrinsic value)*

A agrees to buy from B on 31st December, 1968 a number of shares of a private limited company at a price to be calculated by you. They have further agreed that the assets of the company other than its goodwill, will be taken at Balance Sheet values and goodwill at one year's purchase of the profits available for distribution to equity shareholders calculated on the average of last three years' profits.

The profits for the last three years before providing for debenture interest and dividend on preference shares, amounted to Rs. 72,000, Rs. 65,000 and Rs. 70,000 respectively.

The Balance Sheet of the company on 31st December, 1968 was as follows :—

Share Capital :	Rs.		Rs.
1,000 6% cumulative preference shares of Rs. 100 each	1,00,000	Goodwill at cost	30,000
2,000 ordinary shares of Rs. 100 each	2,00,000	Land & Building	1,50,000
6% Debentures	50,000	Plant & Machinery	90,000
Sundry Creditors	40,000	Investments	50,000
Debenture Sinking Fund	10,000	Stock	60,000
Profit & Loss A/c	80,000	Sundry Debtors	70,000
		Cash at Bank	30,000
	4,80,000		4,80,000

The preference shares are preferential as to capital in the event of winding up but without right to participate in surplus.

Show your calculation of the price per share.

Solution

(i) *Goodwill is valued thus* :

Total profits for the last three years Rs. (72,000+65,000+70,000) = Rs. 2,07,000

	Rs.	Rs.
Less 3 years' debenture interest	9,000	
3 years' preference dividend	18,000	27,000
		Rs. 1,80,000

Annual average profit $= \text{Rs. } \frac{1,80,000}{3} = \text{Rs. } 60,000$

∴ The value of goodwill = Rs. 60,000

(ii) *Total assets as revalued :*

	Rs.	Rs.
Goodwill		60,000
Land & Building		1,50,000
Plant & Machinery		90,000
Investments		50,000
Stock		60,000
Debtors		70,000
Cash at Bank		30,000
		5,10,000
Less outside liabilities :		
6% Debentures	50,000	
Creditors	40,000	90,000
Net assets available for total capital :		4,20,000
Less Preference Capital		1,00,000
Net assets available for equity capital :		Rs. 3,20,000

Value of each equity share $= \frac{\text{Net Assets}}{\text{No. of Equity Shares}} = \text{Rs. } \frac{3,20,000}{2,000} = \text{Rs. } 160$

Intrinsic value of each share = 160

Illustration 60 *(Market value method or yield basis)*

A company having equity shares of Rs. 20 each fully paid has declared a dividend of 30%. In this class of companies a dividend of 20% on the paid up capital is considered to be normal.

Calculate the value of each equity share on the yield basis.

Solution

Value of each equity share=

$$\frac{\text{Rate of dividend or Earning}}{\text{Normal rate of Return}} \times \text{Paid up value of shares}$$

$$= \frac{30}{20} \times 20 = \underline{\text{Rs. } 30}$$

$\therefore$ Value of each equity share=Rs. 30

Illustration 61 *(Market value method or yield basis)*

The issued capital of a limited company consists of 60,000 shares of Rs. 100 each fully paid. In this class of companies 10% on the paid up capital is considered to be the normal rate of profit. The profit of the company available for the distribution to shareholders in a particular year is Rs.8,40,000 and the company is expected to earn like amount in future.

Calculate the value of each share.

Solution

	Profit available for distribution	Rs. 8,40,000
	Normal rate of profit	10%
$\therefore$	Capitalised value of profits on the basis of 10% return is as follows :	
	$\text{Rs. } \frac{100 \times 8,40,000}{10}$	= Rs. 84,00,000

$\therefore$ The value of each equity share will be= $\text{Rs, } \frac{84,00,000}{60,000}$

$= \underline{\text{Rs. } 140}$

Illustration 62 *(Yield basis)*

10. Sri Das holds 5,000 Equity Shares in Hindusthan Ltd., the nominal and paid up capital of which consists of :—

(i) Rs. 20,000/- Equity Shares of Re 1/- each

(ii) Rs. 10,000/- 5 per cent Preference Shares of Re 1/- each.

(Note : The Preference Shares do not participate further in the profits.)

It is ascertained :

(a) The normal annual net profit of such a company is Rs. 5,000/- and

(b) The normal return by way of dividend on the paid up value of Equity Share Capital for the type of business carried out by the company is 8 per cent.

Sri Das requires you to value his share-holdings based upon above figures.

(C. U. B.Com. (Adv.) Hons. 1965)

Solution

(i) *1st method :*

	Rs.
Net profits for the year	5,000
Less Preference dividend @5% on Rs. 10,000	500
Profits available for distribution :	4,500

∴ The rate of earning $= \frac{4,500}{20,000} \times 100 = 22{\cdot}5\%$

Value of each equity share =

$$\frac{\text{Rate of earning}}{\text{Normal rate of Return}} \times \text{paid up value of share}$$

$$= \frac{22{\cdot}5}{8} \times 1 = \text{Rs. } \frac{22{\cdot}5}{8}$$

Value of each equity share $= \text{Rs. } \frac{22{\cdot}5}{8}$

∴ ,, ,, 5,000 ,, ,, $= \text{Rs. } \frac{22{\cdot}5}{8} \times 5,000$

$= \text{Rs. } 14,062{\cdot}50$

2nd method :

	Rs.
Net Profits for the year	5,000
Less Preference dividend @5% on Rs. 10,000	500
Profits available for distribution :	4,500

∴ Capitalised value of profits on the basis of 8% return is as follows :

$$\text{Rs. } \frac{100 \times 4,500}{8} = \text{Rs. } \frac{4,50,000}{8}$$

∴ The value of each equity share will be $\text{Rs. } \frac{4,50,000}{8 \times 20,000}$

∴ ,, ,, ,, 5,000 ,, ,, ,, ,, $\text{Rs. } \frac{4,50,000 \times 5,000}{8 \times 20,000}$

Value of Sri Das' holdings : $= \text{Rs. } 14,062{\cdot}50$

Illustration 63 *(Fair value)*

The Articles of Association of a Private Company provided for the fixation of the "fair value" of the Shares thereof after the close of each financial year, based *on the average of intrinsic and market values*. Prepare a Memorandum Statement showing details of calculation of the *fair value* of the Company's Shares according to the following summarised Balance Sheet as on 31st December, 1963.

Capital & Liabilities		Rs.	*Property & Assets*		Rs.
Capital :—25,000 fully paid shares of Rs. 10 each		2,50,000	Fixed Assets, at cost :—	Rs.	
General Reserve		75,000	Buildings	40,000	
Depreciation Reserves :	Rs.		Furniture	1,500	
Buildings	5,000				41,500
Investments	22,500		Stock, at Market price		2,25,000
		27,500	Investments, at cost		1,90,000
Sundry Creditors		24,000	Sundry Debtors (considered good)		1,50,000
Bad Debts Reserve		10,000	Cash & Bank Balances		35,000
Profit & Loss :—	Rs.				
B/f	40,000				
For the year	2,15,000				
		2,55,000			
	Rs.	6,41,500			6,41,500

The following additional particulars are available :—

(i) The company's prospects for 1964 are equally good ;

(ii) Buildings are now worth Rs. 1,75,000 ;

(iii) Companies doing similar business earn a profit of 15% on the market value of their shares ;

(iv) Profit for the past three years have recorded an increase of Rs. 25,000 per annum. (C. U. B.Com. (Adv.) 1965)

Solution

Intrinsic value of each share :

Assets as revalued :	Rs.	Rs.
Buildings		1,75,000
Furniture		1,500
Stock		2,25,000
Investments		1,90,000
Sundry Debtors		1,50,000
Cash & Bank Balance		35,000
		7,76,500
Less Depreciation of investment	22,500	
Bad Debts Reserve	10,000	32,500
		7,44,000
Less Creditors		24,000

Net assets available for equity capital : Rs. 7,20,000

Value of each equity share $= Rs.\frac{7,20,000}{25,000} = Rs.\ 28{\cdot}8$

Market value of each share :

	Rs.
Profits available for distribution	2,15,000
Normal rate of earning	15%

∴ Capitalised value of profits on the basis of 15% return is as follows :

$$\text{Rs. } \frac{100 \times 2,15,000}{15} = \text{Rs. } \frac{43,00,000}{3}$$

∴ The value of each equity share $= \text{Rs. } \frac{43,00,000}{3 \times 25,000} = \text{Rs. } \underline{57 \cdot 3}$

Fair value is the arithmetic mean of intrinsic value and market value.

∴ *Fair value of each share* $= \text{Rs. } \frac{28 \cdot 8 + 57 \cdot 3}{2} = \text{Rs. } \frac{86 \cdot 1}{2} = \text{Rs. } \underline{43}$

[Note ; According to Mr. Batliboi rate of earning should be calculated on the basis of *'net trading income'* on *'effective capital'* used in the business. He suggests the elimination of non-trading income like interest etc. from the net profit and non-trading assets like investments etc. from the net operative capital in order to get the rate of earning.

According to this view, market value of each share will be as follows :

		Rs.
Book value of the assets		6,41,500
Less non-trading asset—investments		1,90,000
		4,51,500
	Rs.	
Less Depreciation on Buildings	5,000	
Reserve for Bad-Debts	10,000	
		15,000
		4,36,500
Less Creditors		24,000
Effective Capital used in the business :		4,12,500

Profit earned during the year : Rs. 2,15,000

$$\text{Rate of earning} = \frac{2,15,000 \times 100}{4,12,500} = 52 \cdot 1\%$$

$$\text{Value of each share} = \frac{\text{Rate of earning}}{\text{Normal rate of return}} \times \text{paid up value of share}$$

$$= \frac{52 \cdot 1}{15} \times 10 = \text{Rs. } \underline{34 \cdot 7}$$

∴ The fair value of a share will be Rs. $\frac{28 \cdot 8 + 34 \cdot 7}{2}$

$$= \text{Rs. } \underline{31 \cdot 75}$$]

Illustration 64 *(Intrinsic value and market value)*

The following informations are obtained from the books of Sunrise Company, Ltd., as on 30th April, 1961 :

		Rs.
Capital :—		
10,000 Ordinary Shares of Rs. 10 each fully paid up		1,00,000
10,000 Ordinary Shares of Rs. 10 each Rs. 7·50 per Share paid up		75,000
10,000 Ordinary Shares of Rs. 10 each Rs. 5 per Share paid up		50,000
General Reserve	...	1,35,000
Liabilities to Sundry Parties	...	55,000
Fixed Assets less Depreciation	...	1,67,000
Commission on Issue of Shares	...	6,000
Preliminary Expenses	...	9,000
Floating Assets	...	2,33,000

It is estimated that the normal average profit less tax of the company will be maintained at Rs. 36,000 and the expected rate for capitalisation purpose is 8%. Calculate the values of each type of Share by the Asset-backing method and also by the earning-capacity method.

(C. U. M. Com. 1961)

Solution

(a) **Asset-backing method :**

		Rs.
Assets as revalued :		
Fixed Assets		1,67,000
Floating Assets		2,33,000
		4,00,000
Less liabilities (creditors)		55,000
Total capital employed :		3,45,000
Add Notional Calls :	Rs.	
(i) 10,000 ordinary shares @ Rs. 2·50 each	25,000	
(ii) 10,000 ordinary shares @ Rs. 5 each	50,000	
		75,000
		4,20,000

∴ Value of each ordinary share $= \text{Rs. } \frac{4,20,000}{30,000} = \text{Rs. } 14$

(i) Value per fully paid share of Rs. 10 each = Rs. 14

(ii) Value of each share of which Rs. 2·50 remain unpaid = (Rs. 14 − 2·50) = Rs. 11·50

(iii) Value of each share of which Rs. 5 remain unpaid = (Rs. 14 − 5) = Rs. 9

(b) **Earning-capacity method** :

Normal average profit	Rs. 36,000
Expected rate of earning	8%

∴ Capitalised value of profit on the basis of 8% expected return is as follow :

$$\text{Rs. } \frac{100 \times 36,000}{8} = \text{Rs. } 4,50,000$$

∴ (i) Value of each fully paid share = Rs. $\frac{4,50,000}{30,000}$ = Rs. 15

(ii) Value of each shares $\frac{2}{3}$ of which paid = $15 \times \frac{2}{3}$ = Rs. 10

(iii) Value of each share $\frac{1}{2}$ of which is paid = $15 \times \frac{1}{2}$ = Rs. 7·50

EXERCISE

1. The Balance Sheet of Prosperous Ltd. showed the following position on 30th June, 1957

Liabilities	Rs.	*Assets*	Rs.
Capital : 2,000 shares of Rs. 20 each (fully paid up)	40,000	Goodwill	5,000
Reserve Fund	5,000	Fixed Assets	50,000
Sundry Creditors	29,500	Floating Assets	21,000
Profit & Loss A/c	2,500	Cash	1,000
	77,000		77,000

The average annual profit of the company for the past four years is Rs. 3,500. The company's shares are not quoted in the market. An investor desires to value his 100 shares in the company on the interest yield basis as well as on the intrinsic value basis. He finds that his investment in a similar other company which is equally progressive gives him a return of 10% per annum. For the purpose of finding out the intrinsic value of each share, Goodwill of the company is to be taken at twice the average of the last four years' profits. Show the respective values of the shares

(C.U. M. Com. 1967)

(**Ans** : Intrinsic value of each share Rs. 24·75 ; value of each share on the basis of super profit method Rs. 6·66)

2. Given below is the Balance Sheet of Imperial Manufacturing Co. Ltd. :—

	Rs.		Rs.
Capital :		Land (at cost)	2,21,000
8,800 Shares of Rs. 250		Buildings (at cost)	11,73,000
each fully paid	22,00,000	Machinery etc. (at cost)	20,58,000
Reserve Fund	8,24,000	Furniture & Dead Stock	5,000
Workmen's Savings A/c	2,27,000	Stock in trade	26,00,000
Provident Fund A/c	54,000	Debenture Charges	25,000
Depreciation Fund A/c -	4,63,000	Book Debts	3,35,000
Creditors	38,86,000	Investments	17,00,000
Profit & Loss A/c	36,12,000	Cash	31,49,000
	1,12,66,000		1,12,66,000

Depreciation Fund is in excess by Rs. 54,000 than the amount of actual depreciation. Find out the intrinsic value of the share.

(Bomby Uuiversity)

(Ans : Value of each share Rs. 757·40)

3. It is provided in the Articles of Association of a private company that on the death of a shareholder his shares shall be purchased by the remaining shareholders at a price to be settled by the auditors on the basis of the last Balance Sheet. It is further provided that goowill shall be taken for this purpose to be of the value of two years' purchase of the average annual profits for the last five years. The Balance Sheet is as follows :

	Rs.		Rs.
Capital			
2,000 shares of Rs. 100		Goodwill	55,000
each fully paid	2,00,000	Investment at cost	1,75,000
Reserve Fund	75,000	Stock	2,20,000
6% Debentures	1,50,000	Debtors	1,30,000
Sundry Creditors	1,50,000	Cash at Bank	20,000
Profit & Loss A/c	25,000		
	6,00,000		6,00,000

The profits for the last five years were Rs. 10,000, Rs. 15,000, Rs. 20,000, Rs. 25,000 and Rs. 30,000.

The Market value of the investment on the date of the above Balance Sheet was only Rs. 1,10,000.

State with details of working the price to be paid per share.

(Bombay University, B. Com. 1932)

(Ans : Value of each share Rs. 110)

4. A Shareholder of a private limited company desired on the 15th September 19... to sell his 100 shares and you are required as auditor and in terms of the provisions of the Articles of Association of the company to certify the fair value of its shares. The following particulars were available from the Balance Sheet as on 30th June :—

	Rs.		Rs.
Capital (1,000 shares)	5,00,000	Cash Balance	15,000
Buildings at cost	1,00,000	Investments	3,00,000
Reserve	2,00,000	Profit for the year	1,75,000
Machinery at cost	1,00,000	Book Debts (good)	2,00,000
Depreciation Reserve	50,000	Do (Doubtful)	50,000
Stock at market rate	3,00,000	Bank Balance	35,000
Debentures	1,00,000	Profit B/f	50,000
Creditors	50,000		

The prospects for 1947-48 are equally good. The market value of Buildings and Machinery on 15th Septmber, 1947 showed appreciation to the extent of Rs. 25,000 and Rs. 1,00,000 respectively. It was also ascertained that similar companies paid 14% dividend. The results of the previous five years showed increase in profits. (R.A. Final—1943)

(Ans : Value of each share Rs. 768)

5. From the following Balance Sheet of Unit Traders Ltd., compute the intrinsic and yield value of its shares :—

Balance Sheet as at 31-3-60

Capital :	Rs.		Rs.
10,000 shares of		Goodwill	1,00,000
Rs. 100 each	10,00,000	Buildings	5,00,000
General Reserve	5,00,000	Plant & Machinery	4,00,000
Profit & Loss A/c	1,25,000	Other Fixed Assets	2,00,000
Creditors	30,000	Stock-in-trade	4,00,000
Current Liabilities	60,000	Sundry Debtors	50,000
		Cash & Bank balances	65,000
	17,15,000		17,15,000

You are furnished with the following further information :—

(a) Goodwill should be valued at Rs. 5,00,000 ;

(b) Buildings, Plant and Machinery and Stock-in-trade should be revalued at Rs. 6,00,000, Rs. 5,00,000 and Rs. 4,25,000 respectively ;

(c) The company declares a dividend of 60% on its capital for the last few years while the nominal yield on the market value of similar shares is 25%. (C. U. M. Com. 1960)

(Ans : Intrinsic value of each share Rs. 225 ; Value of each share on yield basis Rs. 106·67)

6. The following is the summarised Balance Sheet of Green Ltd. as at 31st March, 1964 :—

	Rs.		Rs.
Authorised Capital :		**Fixed Assets** at cost	
50,000 Equity Shares of Rs. 10 each	5,00,000	less depreciation	2,25,000
		Floating Assets	2,53,000
Issued, Subscribed and **Paid up Capital :**		**Preliminary Expenses**	12,000
10,000 Equity Shares of Rs. 10 each, fully paid	1,00,000		
10,000 Equity Shares of Rs. 10 each, Rs. 8 per share paid up	80,000		
10,000 Equity Shares of Rs. 10 each, Rs. 6 per share paid up	60,000		
15,000 Equity Shares of Rs. 10 each, Rs. 5 per share paid up	75,000		
	3,15,000		
General Reserve :	80,000		
Sundry Liabilities	95,000		
	4,90,000		4,90,000

The normal average profit of the company is estimated at Rs. 54,000 and the estimated rate for capitalisation purpose is 10%

Calculate the value of each kind of Equity Share both by the asset-backing method and by the earning-capacity method. (C. U. M. Com. 1964)

(**Ans** : Intrinsic value of each Rs.	10	paid up	share	Rs. 11·51
,, ,,	8	,,	,,	9·51
,, ,,	6	,,	,,	7·51
,,	5	,,	,,	6·51
ch Rs.	10	paid up	shares	Rs. 17·14
,, ,,	8	,,		13·71
,, ,,	6	,,		10·28
,, ,,	5	,,		8·57)

7. The authorised and paid up Capital of Sarbani Ltd. is 1,000 5% preference shares of Rs. 100 each and 20,000 equity shares of Rs. 15 each, Rs. 10 per share called up and paid up. Sri S. Sarkar holds 200 preference shares and 3,000 equity shares in this company. The normal annual profit of this company is Rs. 36,000 and the normal return on the equity shares is 8%.

Sri Sarkar requests you to value his holdings under these circumstances.

If however, the preference shares are entitled to participate in any surphes and there remains a general reserve of Rs. 69,000, find out also the value of the equity shares in that case. (C. U. M.Com. 1963)

(Ans : (1) When Preference Share is non-participating :—
Value of 3,000 equity shares Rs. 58,125
Value of 200 pref. shares fully paid Rs. 20,000
(2) When Preférence Share is participating :—
Goodwill on the purchase of 4 years super profit is Rs. 60,000.
Value of 3,000 equity shares Rs. 33,060
Value of 200 preference shares Rs. 33,066.)

8. The following is the Balance Sheet of Aruna Private Ltd. as at 30th June, 1962 :—

Capital :	Rs,	Rs.	*Fixed Assets*	Rs.	Rs
Authorised—			Goodwill at cost	50,000	
3,500, 5% First Preference Shares of Rs. 100 each	3,50,000		Freehold Properties valued at	2,75,000	
3,500,6% Second Preference Shares of Rs. 100 each	3,50,000		Plant and Machinery at cost less depreciation	3,23,000	6,48,000
5,000 Equity Shares of Rs. 10 each	50,000	7,50,000			
Issued—			*Current Assets*		
3,200, 5% First Preference Shares of Rs. 100 each	3,20,000		Sundry Debtors Less Reserve and Bad debt.	1,62,000 10,000	1,52,000
2,000, 6% Second Preference Shares of Rs. 100 each	2,00,000		Bills Receivable		11,000
5,000 Equity Shares of Rs. 10 each	50,000	5,70,000	Stock		1,67,000
Capital Reserve	2,50,000		Cash and Bank Balances		75,000
Debenture Redemption Reserve Fund	50,000				
Profit & Loss A/c	68,000	3,68,000			
6% Debenture (Redeemable 31st Dec. '62 being part of an issue of Rs. 2,00,000 the balance of which the Co. has the power to re-issue before 10.12.62)		50,000			
Sundry Creditors		65,000			
		10,53,000			10,53,000

In recent years, profits made enabled the Company to pay dividends on the Preference Shares only but no dividend has been paid on Equity Shares. The directors now recommend the following dividends for the year to 30·6·62.

Dividend on 1st Preference Shares—in full
Dividend on 2nd Preference Shares—in full
Dividend on Equity Shares—at 50%

It is expected that these recommendations will be accepted by the members at the Annual General Meeting. The Articles of Association provide that the price at which shares shall change hands in any year shall be the price fixed by the members at the last Annual General Meeting of the Company. You are now asked by the directors to advice them as to the value of each class of shares for submission to the Annual General Meeting.

Both 1st and 2nd Preference Shares carry priority rights only as to the repayment of Capital over Equity Shares in a winding up and they do not carry any right to share in the surplus. Submit your report giving your reasons therefor and showing how you arrive at the values you suggest.

(C. U. M. Com. 1962)

(L) Holding Company

1. What is a Holding Company :

A *Holding Company* means "any company which directly or indirectly, through the medium of another company, holds more than half of the equity share capital of other companies or controls the composition of the Board of Directors of other companies."

2. What is a Subsidiary Company :

Any company, more than half of the equity share capital of which is held or whose Board of Directors is controlled by a Holding Company is known as a *Subsidiary Compauy.*

According to Section 4 of the Companies Act 1956 as amended in 1960, a company is said to be the subsidiary of another company if :—

(i) the latter controls the composition of the Board of Directors of the former ; or

(ii) the latter holds more than half the nominal value of the equity share capital of the former, or otherwise exercises or controls more than half the voting power of the former ;

(iii) the former company is a subsidiary of any other company which is itself a subsidiary of the latter company.

***Illustrations* :**

(i) If X Ltd. acquires 75% of the equity shares of Y Ltd., then X Ltd. becomes the Holding Company in respect of its Subsidiary Y Ltd. Incidentally X Ltd. becomes entitled to 75% of all the assets of Y Ltd.

(ii) If Y Ltd. is a Subsidiary of X Ltd. and Z Ltd. is a Subsidiary of Y Ltd., then Z Ltd. will also be deemed to be a subsidiary of X Ltd.

3. *Presentation of Accounts of Subsidiary Companies by Holding Company :*

The different sections relating to the preparation of final accounts of the company apply to the holding as well as subsidiary companies. Sections 212, 213 and 214 of the Companies Act govern the presentation of accounts of subsidiary companies by holding companies.

The following must be attached to the Balance Sheet of a Holding Company :—

(i) A copy of the recent Balance Sheet, Profit & Loss A/c, Report of the Board of Directors and Auditor's Report of its subsidiary.

(ii) A statement indicating the extent of holding company's interest in the subsidiary at the end of the accounting year of the subsidiary.

(iii) A statement showing the net gross amount of the subsidiary's profits or losses so far as they concern members of the holding company separately for the current year and for previous years and the extent of profits already dealt with in the holding company's accounts and not so dealt with.

(iv) A statement showing transactions and changes during the period between the end of the financial year of the subsidiary company and the end of the financial year of holding company, if the two financial years do not coincide.

4. **Minority Interest :**

Where a holding company does not acquire the entire share capital of a subsidiary company, but owns only more than 50% of it, the subsidiary company is known as partly-owned subsidiary. In such a case, the other shareholders are called minority shareholders. The interest of these shareholders is called *minority interest* which should be shown as a liability in the consolidated Balance Sheet.

5. **Consolidation of Balance Sheet and Profit & Loss A/c :**

According to English Companies Act, a holding company is required to prepare, in addition to its normal Final Accounts, a consolidated Balance Sheet and a consolidated Profit & Loss A/c of the holding company and its subsidiaries. But Indian Companies Act does not require the preparation of consolidated or group accounts. Really speaking, it is desirable to present consolidated accounts of the holding and its subsidiary companies for the purpose of providing the shareholders of the holding company with a clear and composite picture. The consolidated accounts comprise a consolidated Balance Sheet and a consolidated Profit & Loss A/c.

6. **Rules for the Preparation of Consolidated Balance Sheet :**

(i) *Date of Balance Sheets :* Balance Sheets of all companies (holding as well as subsidiary) must be made up to the same date. Where the Balance Sheet of any subsidiary company is made up to a different date, proper adjustments must be made to ascertain the exact position on the date of consolidation.

(ii) *Assets & Liabilities :* The assets of the holding company and the subsidiaries should be aggregated and so also their liabilities. All assets and liabilities should be classified and valued uniformly.

(iii) *Minority Interest :* (a) Minority interest (the portion of interest held by outsiders) should be calculated by taking the nominal value of the minority shares and adding thereto the poportionate share of Reserves, Profit & Loss A/c and other items of undistributed profits and deducting therefrom the proportionate share of losses, if any.

(b) In case the outside interest is not in ordinary shares but in preference shares which have no right to share in any surplus on liquidation, only their nominal value plus dividend outstanding shall be the minority interest.

Minority interest has to be shown as a liability in the consolidated Balance Sheet.

(iv) *Subsidiary Company's share capital :* This should not be shown in the consolidated Balance Sheet.

(v) *Investment in the shares of the Subsidiary Company :* Investment in the shares of the subsidiary company (which is shown on the assets side of the Balance Sheet of the holding company) shall be eliminated altogether.

(vi) *Inter-Company Indebtedness :* Inter-Company indebtedness including bills drawn by one on other still pending should be eliminated.

(vii) *Cash and other assets in transit :* For the purpose of reconciling the balances as in the Current Accounts of holding company and subsidiary company, adjustment should be made in respect of cash and other assets in transit.

(viii) *Goodwill and Capital Reserve :* If the price paid is more than the par value of shares acquired, the difference is *Goodwill.* If the price paid is less than par value of the shares acquired, the difference is *Capital Reserve.*

Profits accumulated in the subsidiary company up to the date of acquisition are capital profits and the holding company's share should be deducted from goodwill in the consolidated Balan ce Sheet.

The goodwill in the consolidated Balance Sheet should be the total of the figures for goodwill in each component Balance Sheet minus any Capital Reserve in any one of the Balance Sheets.

(ix) *Unrealised Profits :* Unrealised profits from inter-company transactions should be adjusted to the extent of holding company's share.

(x) *Current Profits :* Holding company's share of current profits should be added to the profits of the holding company or to appropriate reserves.

(xi) *Consolidated Reserve :* Holding company's General Reserve as per Balance Sheet and holding company's share of subsidiary company's post acquisition reserve should be taken into consideration to ascertain the amount of *Consolidated Reserve.*

Illustration 65 *(Minority Interest, Capital Profits, Goodwill, Mutual Indebtedness-Debtors & Creditors)*

On 1st July, 1968 P Ltd. bought 1,400 shares of Rs. 10 each, fully paid, in Q Ltd. at Rs. 20 each. The following is the Balance Sheet of each company on 31st Dec. 1968 in a condensed form :—

	P. Ltd. Rs.	Q. Ltd. Rs.		P. Ltd. Rs.	Q. Ltd. Rs.
Share Capital	60,000	16,000	Buildings	55,000	10,000
General Reserve on 1.1.1968	12,000	5,000	Sundry Assets	18,000	24,000
Creditors	17,000	10,200	Debtors	16,000	6,000
Profit & Loss A/c :			Investment—		
Balance on 1.1.1968	9,000	2,000	1,400 shares of Rs. 10 each of Q Ltd. bought		
Net profit for 1968	19,000	6,800	@ Rs. 20 per share	28,000	
	1,17,000	40,000		1,17,000	40,000

The Debtors of P Ltd. Rs. 2,000 due from Q Ltd. Prepare the Consolidated Balance Sheet as at 31st December, 1968.

Solution

Before proceeding to draw up the Consolidated Balance Sheet, let us calculate the following :

(i) *Minority Interest* (i.e. outside shareholders' $\frac{1}{8}$th interest in Q Ltd.) :

		Rs.	
Share Capital	...	2,000	
General Reserve	...	625	
Profit & Loss A/c			
Balance on 1.1.'68	...	250	
Profit for the year '68	...	850	
			Rs. 3,725

(ii) *Capital Profits* (i. e. Holding Company's (P. Ltd.) share of profits accumulated in Subsidiary Company (Q Ltd.) on the date of acquisition) :

		Rs.	
Reserve	...	5,000	
Profit & Loss A/c			
Balance on 1.1.'68	...	2,000	
Profit up to 1st July, 1968 (i.e. half of the profit for the year)		3,400	
		10,400	
Less $\frac{1}{8}$th share of the outside shareholders		1,300	
			Rs. 9,100

(iii) *Goodwill :*

Purchase Price of Shares		28,000	
Less Par value of Shares		14,000	
		14,000	
Less Capital Profit		9,100	
∴ Value of goodwill		...	Rs 4,900

(iv) *Sundry Debtors :*

		Rs.	
P Ltd.	...	16,000	
Q Ltd.	...	6,000	
		22,000	
Less mutual indebtedness		2,000	
			Rs. 20,000

(v) *Sundry Creditors :*

P Ltd.	...	17,000	
Q Ltd.	...	10,200	
		27,200	
Less mutual indebtedness		2,000	
			Rs. 25,200

(vi) *Trading Profit for the year 1968*

P Ltd.		19,000	
Q Ltd. :—	Rs.		
Profit from 1.7.68 to 31.12.68	3,400		
Less $\frac{1}{8}$th share applicable to outside shareholders	425		
		2,975	
			Rs. 21,975

Consolidated Balance Sheet of P Ltd. and its Subsidiary Q Ltd. as on 31st December, 1968

Liabilities	Rs.	*Assets*		Rs.
Share Capital	60,000	Goodwill (ii & iii)		4,900
Minority Interest in Q. Ltd. (i)	3,725	Buildings	Rs.	
General Reserve	12.000	P. Ltd	55,000	
Sundry Creditors (v)	25,200	Q. Ltd.	10,000	
Profit & Loss A/c—				65,000
Balance on 1.1.1968	9,000	Sundry Assets		
Net Profit for 1968 (vi)	21,975	P. Ltd.	18,000	
		Q. Ltd.	24,000	
				42,000
		Sundry Debtors (iv)		20,000
	1,31,900			1,31,900

Illustration 66 *(Capital Reserve, Loss attributable to outside shareholders)*

The summarised Balance Sheets of a holding company, H. Ltd., and i subsidiary, S Ltd., are given below as at December 31, 1954, when H Ltd acquired 75 per cent of the Shares of S Ltd. for Rs. 1,60,000.

	H. Ltd. Rs.	S. Ltd. Rs.		H. Ltd. Rs.	S. Ltd. Rs.
Capital : 50,000 shares of Rs. 10 each	5,00,000	—	Investments in 15,000 shares of S. Ltd. at cost	1,60,000	—
20,000 shares of Rs. 10 each	—	2,00,000	Sundry Assets	4,70,000	2,66,00(
Creditors	50,000	30,000			
Profit & Loss Account	80,000	36,000			
	6,30,000	2,66,000		6,30,000	2,66,00(

On June 30, 1955, the corresponding summarised Balance Sheets were given below :

	H. Ltd. Rs.	S. Ltd. Rs.		H. Ltd. Rs.	S. Ltd. Rs.
Capital : 50,000 shares of Rs. 10 each	5,00,000	—	Investments in 15,000 shares of S. Ltd. at cost	1,60,000	—
20,000 shares of Rs. 10 each	—	2,00,000	Sundry Assets	4,81,000	2,28,00(
Creditors ...	45,000	40,000	Profit & Loss A/c	—	12,00(
Profit & Loss A/c	96,000	—			
	6,41,000	2,40,000		6,41,000	2,40,00(

Prepare a consolidated Balance Sheet of the two companies as at June 3 1955.

(Gauhati University, M. Com., 195

Solution

Before proceeding to draw up the consolidated Balance Sheet, let us calculate the following :—

(i) *Minority Interest* (i.e. outside shareholders' $\frac{1}{4}$th interest in S. Ltd.) :

Share Capital		Rs. 50,000

(ii) *Goodwill :*

	Rs.	
Purchase price of shares	1,60,000	
Less Par value of shares	1,50,000	
∴ Value of goodwill :		Rs. 10,000

(iii) *Capital profits :* (i.e. H Ltd's share of profits accumulated in S Ltd. on the date of acquisition) :

	Rs.	
Profit up to 31st Dec. 1954	36,000	
Less $\frac{1}{4}$th share of the outside shareholders	9,000	
	27,000	
Less Goodwill ...	10,000	
∴ Capital Reserve :		Rs. 17,000

(iv) *Profit & Loss A/c :*

H. Ltd.	96,000	
Less Loss on account of S. Ltd. ...	36,000	
		Rs. 60,000

(v) *Net Loss attributable to outside Shareholders :*

Loss applicable to outside shareholders	12,000	
Less profit at the date of accquisition applicable to outside shareholders	9,000	Rs. 3,000

Note : The profit of S Ltd. on the date of acquisition was Rs. 36,000 as shown in its Balance Sheet dated 31.12.54. But finally the company incurred loss to the extent of Rs. 12,000 as shown in its Balance Sheet dated 30.6.55. It means this company suffered a loss of Rs. 48,000 during the period from 1st January, 1955 to 30th June, 1955. Therefore, loss applicable to H. Ltd. is Rs. 36,000 ($\frac{3}{4}$th of the loss) and to outside shareholders is Rs. 12,000 ($\frac{1}{4}$th of the loss).

Consolidated Balance Sheet of H. Ltd. and its Subsidiary S. Ltd. as on 30th June, 1955

Liabilities		Rs.	*Assets*		Rs.
Share Capital		5,00,000	Sundry Assets	Rs.	
Minority Interest in S Ltd.		50,000	H. Ltd.	4,81,000	
Capital Reserve		17,000	S. Ltd.	2,28,000	
Sundry Creditors :	Rs.				7,09,000
H. Ltd.	45,000		Outside Shareholders Net Loss attributable to them		3,000
S. Ltd.	40,000				
		85,000			
Profit & Loss A/c		60,000			
		7,12,000			7,12,000

Illustration 67 (*Unrealised Profits, Mutual Indebtedness—Bills*)

From the Balance Sheet and information given below, prepare a consolidated Balance Sheet :

Balance Sheet as at 31st December, 1965

	H. Ltd. Rs.	S. Ltd. Rs.		H. Ltd. Rs.	S. Ltd. Rs.
Share Capital : Re. 1 fully paid Shares :	10,000	2,000	Sundry Assets	8,000	1,200
Profit & Loss A/c	4,000	1,200	Stock	6,100	2,400
Reserve	1,000	600	Debtors	1,300	1,700
Creditors	2,000	1,200	Bills Receivable	100	
Bills Payable		300	1,500 shares in S. Ltd. at cost	1,500	
	17,000	5,300		17, 00	5,300

(a) All the profits of S. Ltd. has been earned since the shares were acquired by H. Ltd., but there was already the Reserve of Rs. 600 at that date.

(b) The bills accepted by S. Ltd. are all in favour of H. Ltd. who discounted Rs. 200 of them.

(c) Sundry Assets of S Ltd. are undervalued by Rs. 200

(d) The Stock of H. Ltd. includes Rs. 500 bought from S Ltd. at a profit to the latter of 25% on cost.

(C. U. B. Com. (Hons.) Rev. Reg. 1965 & (Hons.) old. Reg. 1966)

Solution

Before proceeding to draw up the consolidated Balance Sheet let calculate the following :—

(i) *Minority Interest* (i.e. outside shareholders' ¼th interest in S Ltd.) :

	Rs.	
Share Capital	500	
General Reserve	150	
Profit	300	
Undervaluation of assets	50	Rs. 1,

(ii) *Capital Profits* (H Ltd's share of profit accumulated in S. Ltd. on the date of acquisition) :

	Rs.	
General Reserve	600	
Undervaluation of assets	200	
	800	
Less $\frac{1}{4}$th share of outside shareholders	200	Rs. 600

Note : This profit should consequently be treated as belonging to *Capital Reserve.*

(iii) *Trading profit for the year :*

H Ltd.		4,000	
S Ltd.—$\frac{3}{4}$th of its profit	Rs. 900		
Less Unrealised profit on stock	Rs. 75	825	Rs. 4,825

Notes : (1) Unrealised profit on stock ofRs. 500 is Rs. 100 (i.e. $\frac{1}{5}$ of the amount Rs. 500). H. Ltd.'s share of this profit (i.e. $\frac{3}{4}$ of Rs. 100) is Rs. 75 which amount is to be adjusted.

(2) H. Ltd. remains liable to outsiders for Rs. 200 worth of bills already discounted.

Consolidated Balance Sheet of H Ltd. and Its Subsidiary S Ltd. as at 31st December, 1965

Liabilities		Rs.	*Assets*			Rs.
			Sundry Assets :	Rs.		
Share Capital		10,000	H. Ltd.	8,000		
Minority Interest in S. Ltd.		1,000	S. Ltd. (revalued)	1,400		
Reserve		1,000				9,400
Capital Reserve		600	Stock :	Rs.		
Sundry Creditors :	Rs.		H. Ltd.	6,100		
H. Ltd.	2,000		Less unrealised profits	75		
S. Ltd.	1,200				6,025	
		3,200	S. Ltd.		2,400	
Bills Payable		200				8,425
Profit & Loss A/c.		4,825	Debtors :			
			H. Ltd.		1,300	
			S. Ltd.		1,700	
						3,000
		20,825				20,825

Illustration 68

The following are the summarised Balance Sheets of A. Co. Ltd. and its subsidiary B. Co. Ltd at 30.6.64 :

	A. Co. Ltd.	B. Co. Ltd		A. Co. Ltd.	B. Co. Ltd.
	Rs.	Rs.		Rs.	Rs.
Authorised Capital			**Land and Buildings**		
Share of Rs. 10 each	3,00,000	2,00,000	At cost *less* depreciation	52,800	36,000
Issued Capital :			**Plant and Machinery**		
Fully paid shares	2,70,000	2,00,000	At cost *less* depreciation	1,03,740	4,760
General Reserve	60,000	—	**Fixture and Fittings**		
Profit and Loss A/c	66,366	40,000	At cast *less* depreciation	11,500	1,140
Debentures	56,000	—	**Investment :**		
Sundry Creditors :			In 15,000 shars in B. Co. Ltd.	1,72,500	—
A. Co. Ltd.	—	19,330	**Stock-in-trade**	61,920	90,000
Others	28,700	44,670	**Sundry Debtors :**		
			B. Co. Ltd.	20,410	—
			Others	35,470	1,20,000
			Bill Receivable	—	7,008
			Cash	22,726	45,092
	4,81,066	3,04,000		4,81,066	3,04,000

The shares in B. Co Ltd. were acquired on 1st July, 1960 when the balance at the credit of their Profit & Loss Account was Rs. 12,000 and a plant then standing in their books at Rs. 2,400 was revalued at Rs. 2,000 but no adjustment was then made in the books of B. Co. Ltd. Between 1st July, 1960 and 30th June, 1964 depreciations amounting to 20% in all has been written off such plant. Cash amounting to Rs. 1,080 was in transit from B. Co. Ltd. on 30.6.64

You are required to prepare the consolidated Balance Sheet showing the position on 30.6.64.

(C.U. M. Com. 1964)

Solution

Before proceeding to draw up the consolidated Balance Sheet let us calculate the following :—

(i) *Minority Interest* [i.e. outside shareholders' $\frac{1}{4}$th interest in B Co. Ltd] :

	Rs.	
Share Capital	50,000	
Pre-acquisition profits	3,000	
Post-acquisition profits	7,000	
	60,000	
Less loss due to revaluation	100	
	59,900	
Add Depreciation	20	Rs. 59,920

(ii) *Capital Profits* [i.e. A. Co. Ltd.'s share of profits accumulated in B. Co. Ltd. on the date of acquisition] :

Profit & Loss A/c [$\frac{3}{4}$ [	9,000	
Less loss due to revaluation [$\frac{3}{4}$]	300	Rs. 8,700

(iii) *Goodwill* :

Purchase Price of shares	1,72,500	
Less Par Value of shares	1,50,000	
	22,500	
Less Capital Profits	8,700	
∴ Value of Goodwill :		Rs. 13,800

(iv) *Plant & Machinery of B Co. Ltd :*

Balance as per Balance Sheet	4,760	
Less loss due to revaluation	400	
	4,360	
Add Depreciation	80	Rs. 4,440

(v) *Sundry Debtors* :

(a) A Co. Ltd :	Rs.		
(i) B. Co. Ltd.	20,410		
(ii) From Others	35,470	Rs.	
		55,880	
(b) B Co. Ltd :			
(i) From Others		1,20,000	
		1,75,880	
Less : Inter-Company Indebtedness	19,330		
Cash in transit	1,080	20,410	Rs. 1,55,470

(vi) *Sundry Creditors :*

	Rs.	Rs.	
(a) **A Co. Ltd,**			
(i) Others		28,700	
(b) **B Co. Ltd.**			
(i) A Co. Ltd.	19,330		
Add Remittance in-transit	1,080		
	20,410		
(ii) Others	44,670	65,080	
		93,780	
Less Inter-Company Indebtedness		20,410	Rs. 73,370

Consolidated Balance Sheet of A Co. Ltd. and its Subsidiary B Ltd. as at 30th June, 1964

Liabilities		Rs.	*Assets*		Rs.
Share Capital :			**Fixed Assets :**		
Authorised : shares of Rs. 10 each		3,00,000	Good will		13,800
			Land & Buildings :		
			A Co. Ltd.	52,800	
Issued : Fully paid shares		2,70,000	B Co. Ltd.	36,000	
					88,800
Reserves & Surplus :			Plant & Machinery :		
			A. Co. Ltd.	1,03,740	
General Reserve		60,000	B. Co. Ltd.	4,440	
Profit & Loss A/c :	Rs.				1,08,180
A. Co. Ltd.—	66,366				
Post-acquisition profit of B. Co. Ltd. available to A. Co. Ltd.	21,060		Fixtures & Fittings :		
			A Co. Ltd.	11,500	
			B Co. Ltd.	1,140	
		87,426			12,640
Secured Loans :					
5 % Debentures		56,000	**Current Assets :**		
Current Liabilities :			Stock-in-trade :		
Creditors : A Co. Ltd.	28,700		A Co. Ltd.	61,920	
B Co. Ltd.	44,670		B Co. Ltd.	90,000	
		73,370			1,51,920
Minority Interest		59,920			
			Sundry Debtors :		
			A. Co. Ltd.	35,470	
			B. Co. Ltd.	1,20,000	
					1,55,470
			Bills Receivable		7,008
			Cash & Bank Balance :		
			A Co. Ltd.	22,726	
			B Co. Ltd.	45,092	
			In-transit	1080	
					68,898
		6,06,716			6,06,716

EXERCISE

1. The following are the Balanee Sheets of H. Ltd. and S Ltd. as at 31st December, 1962 :—

Liabilities	H, Ltd. Rs.	S. Ltd. Rs.	*Assets*	H. Ltd. Rs.	S. Ltd. Rs.
Share Capital in shares of Rs. 100 each	5,00,000	2,00,000	Goodwill	40,000	30,000
			Land & Buildings	2,00,000	1,30,000
General Reserve on 1. 1. 62	1,00,000	60,000	Plant & Machinery	1,60,000	90,000
Profit & Loss A/c	1,40,000	90,000	Investments (1,500 shares in S Ltd. at cost)	2,40,000	
Bills Payable		40,000	Stock in trade	1,00,000	90,000
Creditors	80,000	50,000	Debtors	20,000	75,000
			Cash at Bank	60,000	25,000
	8,20,000	4,40,000		8,20,000	4,40,000

The Profit & Loss A/c of S Ltd. showed a credit balance of Rs. 50,000 on 1st January, 1962. A dividend of 15% was paid in October, 1962 for the year 1961. This dividend was credited to Profit & Loss A/c by H Ltd. H Ltd. acquired the shares in S Ltd. on 1st July 1962. The Bills Payable of S Ltd. were all issued in favour of H. Ltd. which company got the Bills discounted.

Included in the creditors of S Ltd. is Rs. 20,000 for goods supplied by H. Ltd. Included in the stock of S Ltd. are goods to the value of Rs. 8,000 which were supplied by H Ltd. at a profit of $33\frac{1}{3}$ per cent on cost.

In arriving at the value of S Ltd. shares, the Plant & Machinery which then stood in books at Rs. 1,00,000 was revalued at Rs. 1,50,000. The new value was not incorporated in the books. No changes in these assets have been made since that date. Prepare the consolidated Balance Sheet of H Ltd. as at 31st December, 1962.

(C.A. Final 1963 & C.U. B. Com.(Hons.) 1966)

(Ans : Minority Interest Rs. 98,750, Goodwill Rs. 17,500, Profit & Loss A/c Rs. 1,42,250, consolidated Balance Sheet total Rs. 9,91,000.)

2. The A & Co. Ltd. acquired 40,000 shares in the B & Co. Ltd. as at 1st January, 1960 at a total cost of Rs. 4,00,000. The Balance Sheets at 31st December, 1960, when accounts of both companies were prepared and audited, were as under :—

The A & Co. Ltd.

Balance Sheet as at 31st December, 1960

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		Land and Buildings	5,15,00
Authorised and Issued :		Plant & Machinery	1,50,00
15,000 Equity Shares of Rs. 50 each fully paid	7,50,000	Debtors	3,00,0C
Creditors (x)	75,000	Stock (y)	1,70,0C
General Reserve	4,75,000	Investments	4,00,0(
Profit & Loss A/c (z)	4,00,000	Cash at Bank	1,65,0C
	17,00,000		17,00,0(

(x) Includes Rs. 30,000 for purchase from the B & Co. Ltd. on whic the latter company made a profit of Rs. 7,500.

(y) Includes Rs. 15,000 stock at cost purchased from the B & Co. Ltd part of Rs. 30,000 purchases. [see Note (x)]

(z) Includes Interim Dividend at the rate of 16 percent per annum fr of tax, from the B & Co. Ltd.

The B. Co. Ltd.

Balance Sheet as at 31st December, 1960

Liabilities :	Rs.	*Assets*	Rs.
Share Capital :		Land & Buildings	1,50,0
Authorised & Issued :		Plant & Machinery	1,35,0
50,000 Equity Shares		Stock	1,01,0
of Rs. 5 each fully paid	2,50,000	Debtors	79,0
Creditors	80,500	Cash at Bank	55,0
General Reserve as at 1st January, 1960	10,000		
Profit & Loss A/c	1,80,000		
	5,20,500		5,20,5

Note : The Balance of Profit & Loss Account at 1st January, 1960 w Rs. 1,40,000, an interim dividend of 16 per cent per annum free of tax havi been paid during the year in respect of the year ended 31st December, 1960.

Prepare a consolidated Balance Sheet as at 31st December, 1960.

(C.U. M. Com. 196

(**Ans** : Goodwill Rs. 80,000 ; Final P/L A/c Balance Rs. 4,29,0(Minority Interest Rs. 88,000 ; the total of the consolidated Balar Sheet Rs. 18,67,500)

3. Major Ltd. acquired all the shares of Minor Ltd. on 1st January, 1959 at a total cost of Rs. 2,24,000. The Balance Sheets of the two companies as at 31st December, 1959, were as under :—

Major Ltd.

Balance Sheet as at 31st December, 1959

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		Land and Buildings	2,06,000
Authorised and Subscribed		Plant and Machinery	60,000
3,000 Equity Shares of		Stock (2)	68,000
Rs. 100 each fully paid	3,00,000	Debtors	56,000
Creditors (1)	30,000	Investments	2,24,000
General Reserve	1,90,000	Cash at Bank	66,000
Profit and Loss Account (3)	1,60,000		
	6,80,000		6,80,000

Notes :—

(1) Creditors include Rs. 12,000 for purchases from Minor Ltd., on which the latter company made a profit of Rs. 3,000.

(2) Stock includes Rs. 6,000, being stock at cost purchased from Minor Ltd., part of Rs. 12,000 mentioned in note (1) above.

(3) Profit and Loss Account figure is arrived at after crediting interim dividend @ 10 per cent p. a. from Minor Ltd. (ignore income tax).

Minor Ltd.

Balance Sheet as at 31st, December, 1959

Liabilities	Rs.	*Assets*	Rs.
Share capital :		Land and Buildings	60,000
Authorised and Subscribed :		Plant and Machinery	54,200
10,000 Equity Shares of		Stock	40,400
Rs. 10 each, fully paid	1,00,000	Debtors	31,600
Creditors	32,200	Cash at Bank	22,000
General Reserve as on 1-1-59	4,000		
Profit and Loss A/c	72,000		
	2,08,200		2,08,200

Notes :—

(1) The balance of the Profit and Loss Account on 1-1-59 was Rs. 56,000.

(2) An interim dividend of 10 per cent p. a. (free of tax) had been paid during the year.

Prepare a consolidated Balance Sheet making the necessary adjustments.

(I.C·W.A.—Final)

(**Ans** : Goodwill Rs. 64,000 ; Profit and Loss A/c Rs. 1,74,500 ; Consolidated Balance Sheet Total Rs. 7,14,700)

4. The following are the Balance Sheets of H. Co. Ltd. and its subsidiary S. Co. Ltd. as at 30. 9. 62 :—

Authorised Capital	H. Co. Ltd. Rs.	S. Co. Ltd. Rs.	*Land & Buildings*	H. Co. Ltd Rs.	S. Co. Ltd. Rs.
Shares of Rs. 10 each	8,00,000	7,50,000	Cost less depreciation	1,30,000	90,000
Issued Capital			*Plant & Machinery* Cost less depreciation	2,59,350	11,900
Shares of Rs. 10 each fully Paid	6,75,000	5,00,000	*Fixtures & Fittings* Cost less depreciation	30,750	3,850
5% Debentures	1,40,000		*Investments in S. Co. Ltd.* 37,500 Shares of Rs. 10/-	4,31,250	—
Sundry Creditors					
H. Co. Ltd.	—	48,325			
Trade Accounts	71,750	1,11,675	*Stock in hand*	1,54,800	2,25,000
General Reserve	1,50,000		*Bills Receivable*	—	17,520
Profit & Loss A	1,65,915	1,00,000	*Sundry Debtors*		
			S. Co. Ltd.	51,025	
			Trade Accounts	88,675	3,00,000
			Cash Balance	56,815	1,11,730
	12,02,665	7,76,000		12,02,665	7,76,000

The following informations are given :—

(i) On the date of acquiring these shares in S. Co. Ltd. by H. Co. Ltd. there was a balance of Rs. 50,000 at the credit of the Profit and Loss A/c of S. Co. Ltd.

(ii) For the purpose of fixing the price of these shares in S. Co. Ltd for Rs. 4,31,250 on that day the land and buildings which stood in the books at Rs. 1,70,000 were revalued at Rs. 1,90,000.

(iii) Goods were sold to S. Co. Ltd. by H. Co. Ltd. at cost plus 25% Stock of Rs. 2,25,400 of S. Co. Ltd. on 30. 9. '62 included goods purchased from H. Co. Ltd for Rs. 76,960. Goods sold to S. Co. Ltd on 28. 9. '62 which reached H. Co. Ltd. on 4. 10. '62.

You are requested to draft the Consolidated Balance Sheet as at 30. 9. '62 to be presented to the shareholders of H. Co. Ltd. (C. U. M.Com. 1962)

(**Ans.** : Goodwill Rs. 3,750, Minority Interest Rs. 1,52,647, Consolidated Balance Sheet Total Rs. 14,82,036).

5. Following are the Balance Sheets of Senior Company Ltd. and its subsidiary Junior Company Ltd. :—

Balance Sheets as at 31st December, 1961

Senior Company Ltd.

	Rs.			Rs.
Share Capital :		Building at cost		1,44,000
Authorised, Issued and		Plant and Machinery		
Subscribed : 24,000 shares			Rs.	
of Rs. 10 each	2,40,000	At cost	80,000	
General Reserve & Surplus	50,000	Less Depn.	20,000	
Profit and Loss A/c	24,000			60,000
Creditors	30,000	Investment in shares of Junior Co. Ltd. at cost—		
		4,000 shares of Rs. 10 each		50,000
		Stock in trade		36,000
		Debtors		44,000
		Cash and Bank Balance		10,000
	3,44,000			3,44,000

Junior Company Ltd.

	Rs.			Rs.
Share Capital :		Building at cost		50,000
Authorised, Issued and		Plant and Machinery		
Subscribed : 6,000 shares				
of Rs. 10 each	60,000	At cost	30,000	
General Reserve and Surplus	12,000	Less Depn.	10,000	
Profit and Loss Account	18,000			20,000
Creditors	10,000	Stock in trade		6,000
		Debtors		14,000
		Cash and Bank Balance		10,000
	1,00,000			1,00,000

At the time when Senior Company Ltd. acquired 4,000 shares of Junior Company Ltd., the latter company had Rs. 10,000 in undistributed profit and Reserve Account and this amount was not distributed since the date of acquisition.

Prepare a Consolidated Balance Sheet. Interest of the outside shareholders of the Junior Co. Ltd. is to be shown separately in the Consolidated Balance Sheet. (I.C.W.A.—Final)

(**Ans.** : Goodwill Rs. 3,333 ; Minority Interest Rs. 30,333 ; Profit and Loss A/c Rs. 36,000 ; Consolidated Balance Sheet Total Rs. 3,97,333)

6. You are requested to prepare from the following data the consolidated Balance Sheet of a group of companies :

Balance Sheets as at 31-12-1958

	A. Ltd. Rs.	B. Ltd. Rs.	C. Ltd. Rs.		A. Ltd. Rs.	B. Ltd. Rs.	C. Ctd. Rs.
Share Capital	1,25,000	1,00,000	60,000	Fixed Assets	28,000	55,000	37,500
Reserves	18,000	10,000	7,200	Investments :			
Profit & Loss A/c	16,000	2,000	5,100	(at cost)			
C Ltd. Balance	3,300	—	—	Shares in B Ltd.	85,000	—	—
Sundry Creditors	7,000	5,000	—	Shares in C Ltd.	18,000	—	—
A. Ltd. Balance	—	7,000	—	Shares in C Ltd.	—	53,000	—
				Stock-in-trade	12,000	—	—
				B Ltd. Balance	8,000	—	—
				Sundry Debtors	18,300	16,000	31,500
				A Ltd. Balance			3,300
	1,69,300	1,24,000	72,300		1,69,300	1,24,000	72,300

Notes :—(i) B Ltd. & C Ltd. are subsidiaries of A Ltd.

(ii) The Share Capital of all companies is divided into shares of Rs. 100 each.

(iii) A Ltd. held 750 shares of B Ltd.

(iv) A Ltd. held 150 shares of C Ltd.

(v) B Ltd. held 400 shares of C Ltd.

(vi) All the investments were made on 30-6-1958.

(vii) On the date of purchase of shares in subsidiary companies the position was as follows :

		B Ltd. Rs.	C Ltd. Rs.
Reserve Fund	...	9,000	6,000
Profit & Loss A/c	...	1,000	840
Sundry Creditors	...	4,000	—
Fixd Assets	...	55,000	36,840
Stock-in-trade	...	4,000	—
Sundry Debtors etc.	...	55,000	30,000

(viii) Dividends have not been declared by any company during the year ended 31. 12. 1958, and neither are any proposed.

(ix) The whole of the stock-in-trade of B Ltd. as at 30-6-1958 (Rs. 4,000) was later sold to A Ltd. for Rs. 4,400 and remained unsold as at 31-12-1958.

(x) Included in the current account of B Ltd. is an amount of Rs. 320 being interest credited to A Ltd.

(xi) Cash-in-transit from B Ltd. to A Ltd. was Rs. 1,000 as at the close of business on 31-12-1958. (C. A. Final 1959)

(**Ans.** Goodwill Rs. 12,230, Minority Interest : B Ltd. Rs. 28,910, C Ltd. Rs. 6,025, Consolidated Balance Sheet Total Rs. 2,11,230.)

* It is Rs 25,000

7. On the 1st July, 1963 the Strong Co. Ltd. bought 5,500 share of Rs. 10 each, fully paid in the Weak Co. Ltd. for Rs. 20 each. At that time it was estimated that the tangible assets and liabilities of the Weak Co. Ltd. might be taken at book valuation except the buildings etc., which were undervalued by Rs. 25,200. Each company prepared a Balance Sheet as on 31st December, 1963 *Which can be condensed as follows :—

Liabilities	Strong Co. Ltd.	Weak Co. Ltd.	*Assets*	Strong Co. Ltd.	Weak Co. Ltd.
	Rs.	Rs,		Rs.	Rs.
Capital	2,00,000	60,000	Buildings	1,50,000	65,000
Reserve	50,000	6,000	Sundry Assets	50,000	11,000
Sundry Creditors	15,000	10,000	Sundry Debtors	20,000	15,000
Profit & Loss A/c :			Shares in B Ltd.	1,10,000	
Balance b/f	25,000	3,000			
Profit for the year	40,000	12,000			
	3,30,000	91,000		3,30,000	91,000

The debtors of the Strong Co. Ltd. included Rs. 5,000 due from the weak Co. Ltd.

Prepare a consolidated Balance Sheet, showing your workings clearly in the form of Journal entries or otherwise. (I.C.W.A—Final)

(**Ans** : Goodwill Rs. 18,333 ; Minority Interest Rs. 8,833 ; Profit and Loss A/c Rs. 70,500 ; consolidated Balance Sheet total Rs. 349,333.)

Note : The balance of Rs. 3,000 in the Reserve A/c of Weak Co Ltd. has been assumed to be pre-acquisition reserve.

8. From the following Balance Sheets of H. Ltd. and its subsidiary S. Ltd. as at 31st December, 1962, prepare a consolidated Balance Sheet :

Balance Sheets as at 31st December, 1962

	H. Ltd.	S. Ltd.		H. Ltd.	S. Ltd.
	Rs.	Rs		Rs.	Rs.
Authorised, Issued and Paid up Capital :			Goodwill at cost	60,000	40,000
6% Preference Shares of Rs. 100 each	1,50,000	80,000	Fixed assets at cost less Depn :		
			Buildings	1,00,000	50,000
			Plant & Machinery	1,20,000	30,000
Equity Shares of Rs. 10 each	2,00,000	40,000	Furniture & Fittings	12,000	5,000
			Investments in S. Ltd. at cost :		
5% Debentures	—	50,000	200 Preference Shares	24,000	—
Sundry Creditors	92,000	60,000	3000 Equity Shares	33,000	—
Due to S. Ltd.	3,000	—	Stock in trade	80,000	70,000
Bills Payable :			Sundry Debtors *less* Reserve		
Drawn by H. Ltd,	—	10,000	for Doubtful Debts	70,000	16,000
Others	25,000	5,000	Bills Receivable : S. Ltd.	3,000	—
Reserve	50,000	20,000	Others	11,000	7,000
Profit & Loss Account	23,000	11,000	Amount due		
			for H, Ltd.	—	5,000
			Cash Balances	30,000	23,000
	5,43,000	2,76,000		5,43,000	2,76,000

On the date when H. Ltd. acquired shares in S. Ltd., latter's Reserve stood at Rs. 15,000 and its Profit and loss Account had a credit balance of Rs 8,000. Preference Dividends have been regularly paid upto 30th June, 1962 and Equity Dividends upto 31st December, 1961. Dividends received by H. Ltd have been correctly recorded in that Company's books. Of the first dividend on Equity Shares paid since that date of acquisition of the shares, H. Ltd credited Rs. 3,000 to the "Equity Shares in S. Ltd. Account." Debenture Interests are paid to date. At the date of acquisition of the shares, Plants and Machinery standing at Rs. 24,000 in S. Ltd.'s books were revalued at Rs. 20,000 but no adjustment was made in the books. Between that date and 31st December, 1962 depreciation amounting to 40% in all have been written off such Plant. H. Ltd. remitted Rs. 2,000 on 30th December, 1962 but was received by S. Ltd. on 4th January, 1963.

(C.U.M. Com. 1963

(Ans: Goodwill Rs. 95,750, Minority Interest Rs. 78,350, consolidated Balance Sheet total Rs. 7,49,350)

9. The following are the Balance Sheets of Messrs. Calcutta Co. Ltd and its subsidiary London Co. Ltd. as at 31st March. 1960. You are required to prepare a consolidated Balance Sheet of Messrs. Calcutta Co. Ltd. and its subsidiary Messrs. London Co. Ltd. as at that date—

Liabilities	Calcutta Co. Ltd.	London Co. Ltd.	*Assets*	Calcutta Co. Ltd.	London Co. Ltd
	Rs.	Rs.		Rs.	Rs.
Capital (In shares of Rs. 100) each)	5,00,000	3,00,000	Fixed Assets	2,00,000	3,00,000
Reserve	1,00,000	1,20,000	Current Assets	1,00,000	1,50,000
Profit & Loss A/c	50,000	60,000	Stock-in-trade	40,000	42,000
Creditors	30,000	20,000	Bill Receivable	Nil	8,000
Bills Payable	10,000	Nil	Investments : 2,000 shares in London Co. Ltd. at cost	3,50,000	
	6,90,000	5,00,000		6,90,000	5,00,000

You are further informed that—

(a) The shares of London Co. Ltd. were purchased on 1st April, 1959 when the balance in the Profit and Loss Account and General Reserve were Rs. 10,000 and Rs. 80,000 respectively. No dividend is declared since.

(b) Fixed assets whose book value was Rs. 4,00,000 on the date of acquisition were revalued at Rs. 5,00,000. But it was not passed in the books. There was no addition or dismantling during the year ended 31st March, 1960.

(c) All bills payable of Calcutta Co. Ltd. had been drawn by London Co. Ltd.

(d) Included in the stock of London Co. Ltd goods valued at Rs. 10,000 which had been purchased from Calcutta Co. Ltd. and that company made a clear profit of 25% on cost. (C. U. M.Com.)

(Ans : Goodwill Rs. 23,333 ; Minority Interest Rs. 1,85,000 ; Consolidated Balance Sheet Total Rs. 9,29,000)

10. The following are the summarised Balance Sheets of Sri Chemicals Ltd. and of Jaya Minerals Ltd. as at 30th September, 1965 :

	Sri Chemicals Ltd.	Jaya Minerals Ltd.		Sri Chemicals Ltd	Jaya Minerals Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital			Freehold Premises	2,06,000	60,000
			Plant & Machinery	60,000	54,200
Authorised & Issued Rs. 10			Stock	68,000	40,400
shares fully paid	3,00,000	1,00,000	Debtors	80,000	31,600
General Reserve as			Investment in 9,000 shares of		
on 1. 10. 64	1,90,000	4,000	Jaya Minerals Ltd.	2,00,000	—
			Cash	66,000	22,000
Profit and Loss A/c	1,60,000	72,000			
Creditors	30,000	32,200			
	6,80,000	2,08,200		6,80,000	2,08,200

Sri Chemicals Ltd. acquired shares in Jaya Minerals Ltd. on 1. 10. 64 when the balance on their Profit and Loss Account was Rs. 56,000.

Other informations given are :—

(a) An interim dividend of 10% per annum was paid out of 1964-65 profits this year by Jaya Minerals Ltd. No final dividends were proposed.

(b) Sundry Creditors of Rs. 30,000 as per Balance Sheet of Sri Chemicals Ltd. on 30. 9. 65 included a sum of Rs. 12,000 payable to Jaya Minerals Ltd. for credit purchases on which latter company made a profit of Rs. 3,000.

(c) Sri Chemicals Ltd.'s stock of Rs. 68,000 included Rs. 6,000 of goods at cost being unsold balance of the above noted purchases from the subsidiary company.

Prepare a consolidated Balance Sheet as at 30. 9. 65 showing in detail necessary adjustments. (C. U. M.Com. 1965)

(Ans : Goodwill Rs. 56,000, Minority Interest Rs. 17,600, consolidated Balance Sheet total Rs. 7,30,850.)

11. The following are the summarised Balance Sheets of Holkar Ltd. and Sunrise Ltd. as at 31st October 1966 :

	Holkar Ltd.	Sunrise Ltd.		Holkar Ltd.	Sunrise Ltd
	Rs.	Rs.		Rs.	Rs.
Share Capital :			*Freehold Premises*	2,56,000	90,000
			Machinery	60,000	81,300
Rs. 10 shares			*Stock*	68,000	60,600
each fully paid	3,00,000	1,50,000	*Sundry Debtors*	56,000	47,400
			Cash	60,000	33,000
General Reserve	1,90,000	6,000	*Investment in*		
Profit & Loss A/c	1,60,000	1,08,000	*shares of Sunrise Ltd.*		
Sundry Creditors	30,000	48,300	*at cost*	1,80,000	—
	6,80,000	3,12,300		6,80,000	3,12,300

Holkar Ltd. acquired 12,000 shares of Sunrise Ltd. on 1.11.65 at the total cost of Rs. 1,80,000. On scrutiny of the Balance Sheet of Holkar Ltd. as at 30-10-66, the following details are obtained :

(a) Profit and Loss Account includes the interim dividend at the rate of 10% per annum free of tax from Sunrise Ltd.

(b) Stock includes Rs. 6,000 of stock at cost purchased from Sunrise Ltd.

(c) Sundry Creditors include Rs. 18,000 for purchases from Sunrise Ltd. on which the latter company made a profit of Rs. 4,500.

It is further stated that on 1.11.65 the Profit and Loss Account of Sunrise Ltd. stood at Rs. 76,000 and the General Reserve at Rs. 4,500. No final dividends are yet proposed to be declared by Sunrise Ltd.

(C. U. M.Com. 1966)

(**Ans :** Capital Reserve Rs. 4,400, Minority Interest Rs. 52,800, consolidated Balance Sheet total Rs. 7,93,100)

(M) Liquidation Or Winding up

1. Meaning of Liquidation :

A Company may be liquidated for the purposes of amalgamation, absorption and reconstruction. But in all of these cases the company continues to exist in another form. In actual liquidation the business of the company is closed or the affairs of the company are really wound up. As a company comes into existence through a legal process, so it may go out of existence only through some legal procedure. Liquidation proceedings are applicable to insolvent companies too.

2. Types of Liquidation :

Liquidation

- (i) Voluntary (sec. 484—521)
  - (a) Members' (sec. 489—498)
  - (b) Creditors' (sec 499—509)
- (ii) Voluntary but under the supervision of the court (sec. 522—527)
- (iii) Compulsory (Sec. 433—483)

(1) Voluntary Liquidation : A company may be voluntarily wound up :—

(i) When the period (if any) fixed for its duration expires ; or the event (if any) on the occurance of which the company is to be dissolved, occurs and the company in general meeting has passed a resolution to wind up ; or

(ii) if the company resolves by special resolution that the company be wound up voluntarily.

(a) Members' Voluntary Liquidation : If the majority of the directors of a company file a declaration with the Registrar that the assets of the company are sufficient to discharge the liabilities, the voluntary liquidation is called *Members' Voluntary Liquidation :*

(i) Creditors Voluntary Liquidation : It takes place in case of an insolvent company. If a declaration as stated above is not filed with the Registrar, the liquidation is called *Creditors' Voluntary Liquidation.*

(2) Voluntary Liquidation under the supervision of the Court : When a company is being wound up voluntarily the court may order that the winding up will continue subject to its supervision on such terms and conditions as laid down by the Court. Such liquidation is called *Voluntary Liquidation under the supervision of the Court.*

(3) Compulsory Liquidation : A company may be wound up by the court—

(a) if the company has by special resolution resolved that the company be wound up by the court ;

(b) if default is made in filing statutory report or in holding statutory meeting ;

(c) if the company does not commence its business within a year from it incorporation, or suspends its business for a whole year ;

(d) if the number of members falls below seven or in case of a privat company below two ;

(e) if the company is unable to pay its debts ; and

(f) if the Court is of the opinion that it is just and equitable that th company should be wound up.

3. **Liquidator :** A liquidator is a person appointed for the purpose o conducting the proceedings in winding up of a company and performing suc duties relating thereto as may be imposed on him. In voluntary liquidation liquidator is appointed by the members in general meeting. In the case of compulsory liquidation, the liquidator is appointed by the Court and is calle *Official Liquidator.*

4: **Statement of Affairs :** In order to facilitate the work of th liquidator, a statement of affairs of the company must be submitted to hi within 21 days from the date of the winding up order in Form No. 5 prescribed by the Supreme Court in the Company's (Court) Rules, 195 The statement is to be prepared and verified by the directors, and by th manager, secretary or other chief officers. This statement must contain th following particulars :—

(i) the assets of the company, stating separately the cash in hand and a bank and the negotiable instruments held by the company ;

(ii) the debts and liabilities of the company ;

(iii) particulars of creditors stating separately the amount of secured an unsecured debts.

(iv) the debts due to the company and the names, addresses an occupations of the persons from whom they are due and the amount likely to b realised therefrom.

(v) such other information as may be prescribed by the Central Govern ment or as the official liquidator may require.

This statement is open to the inspection of the creditors and contributorie

5. **Contributory :** A contributory means every person liable to contribu to the assets of a company in the event of its being wound up. The holder o fully paid up shares is a contributory when disbursements are being made to th shareholders,

On winding up it is necessary to settle lists of contributories. Present members i.e. members at the commencement of winding up are included in the *"A" list*. Their liability will be the amount remaining unpaid on the shares held by them. In case of a company limitea by guarantee, the contribution shall be limited to guarantee.

Past members i.e. who have ceased to be members within one year of the commencement of the winding up, will be placed on the *"B" list*. Each list must distinguish between those who are liable personally and those who are liable as personal representatives.

6 Liquidator's Final Statement of Accounts :

The liquidator's duty is to realise assets and disburse the amounts among those who are entitled to receive it. He is to maint in a proper Cash Book for recording the receipts and payments and from time time he is to submit an abstract of Cash Book to the Court in case of compulsory liquidation and to the members of the company in case of voluntary liquidation. On the affairs of the company being finally would up, he prepares his *Final Statement of Accounts*. It is only a statement although presented in the form of an account. No double entry principle is involved in preparation of this statement. It is simply an abstract of Cash Book since liquidation started.

FORM NO. 156

(See Rule 329)

Companies Act 1956

* Here state whether the winding-up is a *member's* or *creditors' voluntary winding-np* or a *winding-up under the supervision of the Court*. If under the supervision of the Court, mention the number of the petition in which the order was made and the date of the order.

Liquidator's Statements of Account of the Winding-up

(Members'/Creditors' Voluntary Winding-up)

Pursuant to Section 497/509

1. Name of the Company.....................Ltd.
2. Nature of proceeding :
3. Date of commencement of the winding-up :
4. Name and address of the Liquidators' :

Statement showing how the winding-up has been conducted and the property of the company has been disposed of from..................19 (commencement of winding-up) to........................19 (close of winding-up).

Receipts.	Estimated value Rs.	Value realised. Rs.	Payments.		Payments. Rs.
Assets :			Legal Charges		
Cash at Bank ...			Liquidators remuneration :		
Cash in hand ...			where applicable—		
Marketable Securities ...			%on Rs.. ...realised		
Bills Receivable ...			%on Rs......distributed		
Trade Debtors ...			Total ..		
Loans and Advances ...			(By whom fixed.........)		
Stock-in-Trade ...			Auctioneers' and valuers' charges		
Work in Progress ..			Costs of possession and maintenance of estate ...		
Leasehold Property ...			Costs of notices in Gazette and newspapers ...		
Plant and Machinery ..			Incidental outlay (establishment charges and other expenses of liquidation) ...		
Furniture, Fittings, Utensils, etc.			*Total costs and charges*		
Patents, Trade Marks, etc.			(i) Debentureholders *		
Investments other than Marketable Securities ...			Payment of Rs.. ...Per Rs. Debenture		
Surplus from Securities ...			Payment of Rs......Per Rs. Debenture		
Unpaid calls at Commencement of winding-up ..			Payment of Rs......Per Rs. Debenture		
Amounts received from calls on contributories made in winding-up ...			(ii) Creditors :—		
Receipts per Trading Account other Property, viz.,			.........Preferential		
....			.... Unsecured :		
....			Dividend(s)...P. in the rupee on Rs,		
Total			(The estimate of the amount expected to rank for dividend was Rs......)		
Less Payments to reedem Securities ...			(iii) Returns to Contributories :		
Costs of execution ...			......P. per rupee......† share...		
Payments per Trading Account ...			......P. per rupee......† share...		
			......P. per rupee......† share...		
			Add Balance		

* State the number; Preferential Creditors need not be separately shown if all creditors have been paid in full.

† State nominal value and class of Share.

(1) The following assets estimated to be of the value of Rs......have proved to be unrealisable :—

(Give details of the assets which have proved to be unrealisable).

(2) Amount paid into the companies liquidation account in respect of—

(a) Unclaimed dividends payable to creditors in the winding-up Rs.............................

(b) Other unclaimed distributions in the winding-up Rs.............................

(c) Moneys held by the Company in trust in respect of dividends or other sum due before the commencement of the winding-up to any person as a member of the company. Rs.............................

(3) Add here any remarks the Liquidator thinks desirable :—

Dated this..... ....day of.................... ....19......

I declare that the above statement is true and contains a full and accurate account of the winding up from the commencement to the close of the winding-up.

Dated this,....... ....day of.................................19...   (Sd.)
Liquidator.

7. **Order of Disbursements by Liquidators :**

The payments to be made by liquidator would be in following order :—

(1) Secured creditors, (2) Law charges, (3) Liquidator's remuneration, (4) Cost of liquidation, (5) Preferential creditors, (6) Debentures or other creditors covered by floating charges, (7) Preference Shares and (8) Equity Shares.

8. **Preferential Creditors :** These are creditors who have priority claim over all other unsecured creditors in a winding-up. These preferential payments are as follows :—

(a) All Government and local authority dues due and payable within twelve months before the date of commencement of winding-up.

(b) Wages or salary of any employee in respect of services rendered to the company and due for a period not exceeding four months within the twelve months next before the date of commencement of winding up and any compensation payable to any workman under the Industrial Disputes Act 1947 provided the amount payable to one claimant will no t exceed Rs. 1,000.

(c) All accrued holiday remuneration·payable to an employee before or on accouut of winding up.

(d) All amounts due under the Estate Insurance Act in respect of contribution payable during the twelve months next before the date of commencement of winding-up.

(e) All amounts due as compensation under Workmen's Compensation Act, 1923.

(f) All sums due to any employee from a provident fund, a pension fund, a gratuity fund, or any other fund for the welfare of the employees maintained by the company.

(g) The expenses of investigation in so far as they are payable by the company.

The foregoing debts shall rank equally among themselves and be paid in full, unless the assets are insufficient to meet them, in which case they shall abate in equal proportions.

9. **Liquidator's Remuneration :** The liquidator's remuneration usually consists of two parts—a percentage on the amount collected and a percentage on the amount distributed.

Illustration 69 *(Liquidator's Final Statement of Account)*

A limited company went into voluntary liquidation with liabilities amounting to Rs. 30,000 and assets eventually realised Rs. 1,78,000. The capital of the company consisted of 10,000 Preference Shares of Rs. 10 each on which

Rs. 7 was called and paid up. The holders of 8,000 Preference Shares had however paid up the full Rs. 10 in advance of calls. There were also 10,000 ordinary shares of Rs. 10 each on which Rs. 9 per share had been called; holders of 2,000 shares had, however only paid Rs. 8 per share, while the holders of 4,000 shares had paid up the full Rs. 10 in advance of calls. Assuming that the preference shares have no prior rights as to capital, show in form of liquidator's Accounts of Receipts and Payments, how you would divide the available balance among the shareholders assuming that the costs of the winding-up amount to Rs. 2,000 and that calls in arrear are duly collected.

(C.U. B.Com.)

Solution

Liquidator's Final Statement of Account

	Rs.		Rs.
To Assets Realised	1,78,000	By Liquidation Expenses	2,000
,, Call in arrears on ordi. shares (2,000 ordi. shares @ Re. 1 each)	2,000	,, Creditors	30,000
		,, Call in Advance on pref. shares (8,000 pref. shares @ Rs. 3 each)	24,000
		,, Call in Advance on ordi. shares. (4,000 ordi. shares @ Re. 1 each)	4,000
		,, Refund of ordi share capital (10,000 ordi-shares @ Rs. 2 each)	20,000
		,, Refund of ordi & pref. share capital (10,000 Ordi & 10,000 pref, shares @ Rs. 5 each)	1,00,000
	1,80,000		1,80,000

Illustration 70 *(Liquidator's Final Statement of Account)*

X Co. Ltd. went into voluntary Liquidation on 31st March, 1968, when the following Balance Sheet was prepared :—

Capital & Liabilities	Rs.	*Property & Assets*	Rs.
5,000 Preference Shares of Rs. 10 each fully paid	50,000	Freehold Propery & Assets	75,000
20,000 Ordinary Shares of Rs. 10 each, Rs. 5 per share paid up	1,00,000	Plant & Machinery	20,000
		Stock	10,000
		Sundry Debtors	7,500
		Cash	500
Sundry Creditors	98,725	P/L A/c	1,35,725
	2,48,725		2,48,725

* So much to be received in cash .

The assets were realised as follows :—

	Rs.
Freehold Property	50,000
Plant	5,000
Stock	2,500
Sundry Debtors	5,000

The expenses of liquidation amounted to Rs. 1,250. Of Sundry Creditors Rs. 3,725 represented Preferential Creditors. The liquidator was paid 5% on realisation of Assets and 2½% on the amount paid to unsecured creditors. He made necessary calls on the Ordinary Shares and the unsecured creditors were paid in full.

Prepare the final statement of account to be submitted by the liquidator.

(C. U. B.Com.—Adapted)

Solution

Liquidator's Final Statement of Account

		Rs.		Rs.
To Cash in hand as per Balance Sheet		500	By Liquidation Expenses	1,250
Assets Realised :	Rs.		,, Liquidator's Remuneration	5,500
Freehold Property	50,000		,, Preferential Creditors	3,725
Plant	5,000		,, Unsecured Creditors	95,000
Stock	2,500		,, Refund of Pref. Share Capital (5,000 pref. shares @ Rs. 2·30 per share)	11,500
Debtors	5,000	62,500		
,, Call on Ordi. Shares (on 20,000 shares @ Rs. 2·70 each)		54,000	,, Balance c/d	25
		1,17,000		1,17,000

Note : (i) Liquidator's Remuneration : 5% on Rs. 62,500 and 2½% on Rs. 95,000 = (Rs. 3,125 + Rs. 2,375) = R. 5,500

For the purpose of calculation of liquidator's remuneration unsecured creditors include preferential creditors unless otherwise stated. In this case it is assumed that unsecured creditors do not include preferential creditors.

(ii) Assumed that the right of return of capital is pari-passu between both classes of shares.

Illustration 71 *(Liquidator's Final Statement of Account)*

The following is the Balance Sheet of XY Ltd. which is in the hands of the liquidator :—

XY Ltd.

Balance Sheet as at 31.12.63

	Rs.		Rs.
Share Capital :		*Fixed Assets*	2,00,000
1,000 6% Preference Shares of Rs. 100 each fully paid	1,00,000	*Stock*	1,20,000
2,000 Equity Shares of Rs. 100 each fully paid	2,00,000	*Book Debts*	2,40,000
2,000 Equity Shares of Rs. 100 each called Rs. 75	1,50,000	*Cash-in-hand*	40,000
Loan from Bank (on security of stock)	1,00,000	*Profit and Loss A/c*	3,00,000
Trade Creditors	3,50,000		
	9,00,000		9,00,000

The assets realised the following amounts (after all costs of realisation and liquidator's commission amounting to Rs. 5,000 paid out of Cash in hand Rs. 40,000 as per Balance Sheet) :

	Rs.
Fixed Assets	1,68,000
Stock	1,10,000
Book Debts	2,30,000

Calls on partly paid shares were made but the amount due on 200 shares were found to be irrecoverable.

Prepare Liquidator's Final Statement of Receipts and Payments.

(C.U. M. Com. 1964)

Solution

Liquidator's Final Statement of Account

	Rs.	Rs.		Rs.
To Cash in hand as per Balance Sheet		40,000	By Secured Creditors (Bank Loan)	1,00,000
,, Assets Realised :			,, Liquidator's Remuneration	5,000
	Rs.		,, Trade Creditors	3,50,000
Fixed Assets	1,68,000		,, Refund of Pref. Share Capital (1,000 shares of Rs. 100 each)	1,00,000
Stock	1,10,000			
Book Debts	2,30,000		,, Refund of Ordi. Share Capital (2,000 shares of Rs. 100 each @ Rs. 10 (i.e. Rs. 100—90) per. share.)	20,000
		5,08,000		
,, Calls on Equity Shares (1,800 sqares @ Rs. 15 (i.e. Rs. 90—75) per share)		27,000		
		5,75,000		5,75,000

Deficiency Statement

	Rs.		Rs.
Cash Rs. 40,000 Assets Rs. 5,08,000	5,48,000	Bank Loan Rs. 1,00,000 Liquidator's Remuneration Rs. 5,000 Trade Creditors Rs. 3,50,000	4,55,000
		Balance	93,000
	5,48,000		5,48,000
1,000 6% Pref. Shares of Rs. 100 each fully paid	1,00,000	Available Assets	93,000
2,000 Equity Shares of Rs. 100 each fully paid	2,00,000	Deficiency	3,42,000
(2000-200) = 1,800 Equity Shares of Rs. 100 each paid Rs. 75 per share	1,35,000	∴ Loss per Equity Share = $\frac{3,42,000}{(4,000-200)} = \frac{3,42,000}{3,800} =$ Rs. 90	
	4,35,000		4,35,000

Illustration 72

On 31st December, 1964 X. Co. Ltd. went into voluntary liquidation. Its Balance Sheet as on that date was as under :—

Liabilities	Rs.	*Assets*	Rs.
Share Capital :			
2,000 6% Cumulative Pref. Shares of Rs. 100 each	2,00,000	**Goodwill**	2,50,000
1,000. 7% Non-cumulative Pref. Shres of Rs. 100 each	1,00,000	**Building**	2,80,000
5,000 Equity Shares of Rs. 80 each fully paid	4,00,0(0	**Machinery**	3,55,000
12,500 Equity Shares of Rs. 40 per share called and paid up	5,00,000	**Stock**	4,85,000
	12.00,000	**Sundry Debtors**	3,62,000
Sundry Creditors	9,95,000	**Cash in hand**	3,000
Bank Overdraft (having a floating charge on the assets)	25,000	**Profit & Loss A/c**	4,85,000
	22,20,000		22,20,000

Note – (*a*) Dividends on Cumulative Preference Shares are two years in arrear and dividends on Non-Cumulative Preference Shares are four years in arrear.

(b) Sundry Creditors include :

(i) Outstanding income-tax demanded but not paid Rs. 2,50,000.

(ii) Municipal rates Rs. 4,000.

(iii) Wages of factory workers Rs. 10,000.

(iv) Loans fully secured by Mortgage on Buildings Rs. 2,00,000. The Liquidator realised the assets as follows :—

	Rs.
Buildings	2,25,000
Machinery	1,00,000
Stock	3,00,000
Sundry Debtors	3,00,000

The Liquidator, by way of his own remuneration, is entitled to 3% of the amount realised from the sale of assets and 2% of the amount distributed to the unsecured creditors. Liquidation expenses amounted to Rs. 5,000.

Prepare the Liquidator's final statement of account, showing the distribution. (C. U. M. Com. 1965)

Solution

Liquidator's Final Statement of Account

		Rs.			Rs.
To Cash Balance b/d		3,000	By Secured Loan (By mortgage on building)		2,00,000
,, Assets Realised :	Rs.		,, Liquidation Expenses		5,000
Buildings	2,25,000		,, Liquidator's Remuneration :	Rs.	
Machinery	1,00,000		(i) 3% on 9,25,000 —	27,750	
Stock	3,00,000		(ii) 2% on 7,95,000 —	15,900	
Debtors	3,00,000	9,25,000			43,650
To Call on 12,500 Equity Shares @ Rs. 36·61 (i.e. 76·61 - 40) per share		4,57,600 (approx.)	,, Preferential Creditors :		
			Income Tax	2,50,000	
			Municipal Rates	4,000	
			Wages	10 000	
					2,64,000
			,, Bank Overdraft (having floating charge)		25,000
			,, Unsecured Creditors		5,31,000
			,, Refund of Pref. Share Capital (2,000 6% Cum. Pref. Shares and 1,000 7% Cum. Pref. Shares of Rs. 100 each)		3,00,000
			,, Refund of Equity Share Capital (5,000 shares @ Rs. 3.39 (i.e. 80—76·61) per share)		16,950
		13,85,600			13,85,600

Deficiency Statement

		Rs.			Rs.
	Rs.			Rs.	
Cash	3,000		Secured Loan	2,00,000	
Assets	9,25,000	9,28,000	Liquidation Expense	5,000	
			Liquidator's Remuneration	43,650	
			Pref. Creditors	2,64,000	
			Bank Overdraft	25,000	
					5,37,650
			Balance		3,90,350
		9,28,000			9,28,000
Unsecured Creditors		5,31,000	Available Assets		3,90,350
Preference Shares :—			Deficiency		13,40,650
2,000 6% cum.	2,00,000				
1,000 7% cum.	1,00,000		∴ Loss per Equity Share—		
		3,00,000	$\frac{13,40,650}{17,500}$		
Equity Shares :—			$=76{\cdot}61$ (approxi.)		
5,000 shares of Rs. 80 each fully paid	4,00,000				
12,500 shares of Rs. 80 each paid Rs. 40 per share	5,00,000				
		9,00,000			
		17,31,000			17,31,000

Note : As profit is not earned, consideration for arrear dividend on cumulative preference shares does not arise.

EXERCISE

1. The Liquidator of Hind Ltd. realised Rs. 2,43,600 of the Company's assets and paid off the preferential creditors, amounting to Rs. 73,600 and also paid the Bank which was a creditor for Rs. 4,27,000 secured by floating charge on the remaining assets which produced Rs. 4,92,400.

The Bank was paid off.

The Ordinary Share Capital consisted of 24,000 shares of Rs. 100 each, Rs. 80 per share paid up ; and 6,000 ordinary shares of Rs. 60 per share paid up ; 2,000 preference shares of Rs. 100 each fully paid. Liquidation expenses amounted to Rs. 15,000. Liquidator's remuneration Rs. 20,400

Write up the Liquidator's Cash Account. (C. U. M. Com. 1966)

2. A Limited Company went into voluntary liquidation with liabilities amounting to Rs. 90,000 and the assets eventually realised Rs. 5,34,000. The capital of the Company consisted of 30,000 preference shares of Rs. 10 each of which Rs. 7 per share was called and paid up. Holders of four-fifth of the total number of preference shares had, however, paid up the full share value of Rs. 10 in advance of calls. There were also 30,000 ordinary shares of Rs. 10 each on which nine-tenths of the share amount had been called. Holders of one-fifth of the total number of ordinary shares had, however, paid only Rs. 8 per share, while the holders of two-fifths of the total number of ordinary shares had paid up the full Rs. 10 in advance of calls.

Show in the form of Liquidator's Accounts all the receipts and payments, assuming the cost of winding-up amounts to Rs. 6,000. (C. U. M. Com. 1961)

3. A Liquidator of a company in voluntary liquidation, having paid all the creditors in full, found that he had a surplus in hand. The statement of affairs disclosed the following facts :—

10,000 $6\frac{1}{8}\%$ 'A' Cumulative Preference Shares of Rs. 100 each fully paid (having preference as to capital and dividend)—Dividend outstanding Rs. 62,500.

10,000 $5\frac{1}{2}\%$ 'B' Non-Cumulative Preference Shares of Rs. 100 each fully paid (having preference as to capital only).

10,000 Equity Shares of Rs. 10 each, Rs. 5 paid up on each share.

Describe briefly how should the liquidator deal with this surplus.

(Institute of Bankers, 1960)

4. The Balance Sheet of Asco Ltd. as at 31st December, 1962.

Liabilities	Rs.	*Assets*	Rs.
Share Capital :		Land & Building	1,00,000
Authorised and Subscribed—		Machinery	2,50,000
2,000 6% preference shares		Patents	40,000
of Rs. 100 each	2,00,000	Stock	50,000
1000 equity shares of		Sundry Debtors	1,15,000
Rs. 100 each, Rs. 75 paid	75,000	Cash at Bank	30,000
3,000 equity shares of		Profit & Loss A/c	1,20,000
Rs. 100 each Rs. 60			
paid	1,80,000		
5% Debentures having a			
floating charge on			
all assets	1,00,000		
Interest Outstanding	5,000		
Creditors	1,45,000		
	7,05,000		7,05,000

The company went into liquidation on the above date. The preference dividends were in arrears for two years. Creditors include a loan for Rs. 50,000 on the mortgage of Land and Buildings. The assets were realised as follows :—

	Rs.
Land and Buildings	1,20,000
Machinery	2,00,000
Patents	30,000
Stock	60,000
Sundry Debtors	80,000

The expenses of liquidation amounted to Rs. 10,900. The liquidator is entitled to a commission of 3 per cent on amounts distributed among unsecured creditors. Preferential creditors amount to Rs. 15,000. Prepare the Liquidator's Final Statement of Account. (C. U. M. Com. 1963)

5. A Company went into liquidation on 31st December, 1965, when the following Balance Sheet is prepared :

Capital		Rs.	*Assets*	Rs.
Authorised Capital :			Goodwill	50,000
30,000 shares of Rs. 10 each		3,00,000	Leasehold Property	48,000
			Plant &Machinery	65,500
Subscribed and paid up capital : 19,500 ordinary shares of Rs. 10 each		1,95,000	Stock	56,800
Sundry creditors :	Rs.		Sundry Debtors	64,820
Preferential	24,200		Cash	2,500
Partly secured	55,310		Profit & Loss A/c	98,680
Unsecured	99,790	1,79,300		
Bank Overdraft (unsecured)		12,000		
		3,86,300		3,86,300

	Rs.
Leasehold property which was used in the first instance to pay the partly Secured Creditors prorata	35,000
Plant & Machinery	51,000
Stock	39,000
Sundry Debtors	58,500
Cash	2,500

The expenses of liquidation amounted to Rs. 1,000 and the liquidator's remuneration was agreed at $2\frac{1}{2}\%$ on the realisations and 2% on the payments to the unsecured creditors.

You are required to prepare the liquidator's final accounts showing the distribution. (C. A.)

6. On 31st January, 1965, a compulsory order for winding-up was made against X Co. Ltd., the following particulars being disclosed :

	Book value Rs.	Estimated to produce Rs.
Cash on hand ...	... 100	100
Debtors ...	... 4,000	3,600
Land & Buildings ...	... 60,000	48,000
Furniture & Fixtures ...	... 20,000	20,000
Unsecured creditors ...	... 20,000	
Debentures :		
Secured on Land & Buildings	... 42,000	
Secured by Floating Charge	... 10,000	
Preferential creditors	... 6,000	
Share Capital (3,200shares of Rs. 100 each)	3,20,000	

Estimated liability for bills discounted was Rs. 6,000—estimated to rank at Rs. 6,000. Other contingent liabilities were Rs. 12,000—estimated to rank at Rs. 12,000

The Company was formed on the 1st day of January, 1965, and has made losses of Rs. 3,13,900

Prepare Statement of Affairs and Deficiency Account. (C.A.)

7. The following was the Balance Sheet of a company when it went into liquidation on 31st December, 1965 :

Liabilities		Rs.	*Assets*	Rs.
Authorised Capital : 25,000 shares of Rs, 10 each		2,50,000	Goodwill	25,000
Subscribed Capital : 12,000 shares of Rs. 10 each		1,20,000	Leasehold property	28,000
Sundry Creditors	Rs.		Plant & Machinery	35,500
Preferential	7,800		Stock-in-trade	48,500
Secured	25,200		Sundry Debtors	36,200
Unsecured	66,500	99,500	Cash	300
Overdraft from Bank (unsecured)		2,500	Profit & Loss A/c—Balance	48,500
		2,22,000		2,22,000

	Rs.
Leasehold property which was sold by secured creditors themselves	22,500
Plant & Machinery	28,000
Stock-in-trade	43,700
Sundry Debtors	32,500
Cash	300

The expenses of liquidation amounted to Rs. 600 and the liquidator's remuneration was agreed at $2\frac{1}{2}\%$ on the amount realised and 5% on the amount paid to unsecured creditors other than preferential creditors.

You are required to prepare the liquidator's account showing the distribution. (C. A.)

CHAPTER XXIII

INSOLVENCY

1. **What is Insolvency :** It means the state of affairs under which a person can not meet his liabilities and commitments out of his own assets. The *person* who is unable to pay his debts in full and against whom the court has made an order of adjudication on application either of a creditor or of the debtor himself, is legally called an *insolvent*. The words, *insolvent* and *insolvency*, are used as synonymous with the words, *bankrupt* and *bankruptcy*, respectively. A *firm*, in similar circumstances, may be declared insolvent. But insolvency proceedings are not applicable to a *company*. In case of a company *liquidation proceedings* are applied for winding up its affairs.

2. **Acts governing insolvency proceedings :** In India insolvency proceedings are governed by *two Acts*—(i) *Presidency Towns Insolvency Act, 1909* and (ii) *Provincial Insolvency Act, 1920*. The former Act governs insolvency proceedings in the city of Calcutta, Bombay and Madras, while the latter all other parts of India.

3. **Official Assignee and Receiver :** The official, who takes the charge of the property of the insolvent after the order of adjudication is called *Official Assignee* in Presidency Towns and *Receiver* in other parts of India,

4. **Statement of Affairs and Deficiency Account :** After the adjudication order being passed, the insolvent is required to submit (i) *Statement of Affairs* as on the date of receiving order and (ii) *Deficiency Account* to show how he has arrived at the state of deficiency. Different High Courts in India have prescribed different forms for the purpose. Calcutta High Court has prescribed forms for these statements exactly like those of the English Act. But Bombay High Court has slightly altered the form—three schedules i.e. D, E & F are omitted and Deficiency Account is to be shown in a blank sheet.

5. **Schedules or Lists to show the different kinds of liabilities and assets :**

(a) *The liabilities are set out in 7 schedules or lists as per Calcutta Rules as shown below :*

	Schedule or *List*		*Nature of liability Contained*
(i)	**A**	...	Unsecured Creditors
(ii)	**B**	...	Fully Secured Creditors
(iii)	**C**	...	Partly Secured Creditors
(iv)	**D**	...	B/R discounted or Accommodation Bill
(v)	**E**	...	Contingent Liability
(vi)	**F**	...	Creditors for Rent
(vii)	**G**	...	Preferential Creditors

Note : As per Bombay rules, liabilities are set out in the following schedules :—

(i) **A** ...	Unsecured Creditors, B/R, Contingent Liability.	(iii) **C** ...	Partly Secured Creditors
(ii) **B** ...	Fully Secured Creditors.	(iv) **D** ...	Creditors for rent and Preferential Creditors.

(b) *The assets are set out in three schedules or lists as per Calcutta Rules as shown below* :

Schedule or List		*Nature of Assets Contained*
(i) **H**	...	Property (all assets excepting Debtors and B/R)
(ii) **I**	...	Book Debts (distinguishing between good, doubtful or bad)
(iii) **J**	...	Bills Receivable.

Note : Under Bombay Rules these schedules are **E, F & G** respectively.

(c) The deficiency is the difference between assets estimated to realise and the liabilities expected to rank for dividend. The deficiency is explained in "**Deficiency Account**" which is called **Statement "K"** as per Calcutta Rules and **Statement "H"** as per Bombay Rules.

6. Order of distribution of available amounts : The Official Assignee or Receiver will realise the assets and distribute the available amounts in the following order :

(i) Fully secured creditors will be paid in full and partly secured creditors to the extent of cover against securities.

(ii) Realisation expenses and remuneration of Official Assignee or Receiver.

(iii) Preferential creditors.

(iv) Unsecured creditors.

7. Preferential Creditors : Preferential creditors include the following :—

(i) Debts due to Government or local authority ;

(ii) Salary of any clerk etc. for services in last four months—not exceeding Rs. 300 per head ; in case of Provincial Insolvency Act the limit is only Rs. 20.

(iii) Wages of servants etc. for services in last four months—not exceeding Rs. 100 per head ; in case of Provincial Insolvency Act the limit is Rs. 20.

(iv) Rent for one month ; in case of Provincial Insolvency Act, there is no preferential right for rent.

These debts shall rank equally between themselves. If the property of the insolvent is insufficient, they shall abate in equal proportion.

8. T he Prescribed Forms of Statement of Affairs and Deficiency Account :

(a) Statement of Affairs

(As required by the Presidency Towns Insolvency Act, 1909)

To the Insolvent—you are required to fill up carefully and accurately t sheet and the several sheets, A, B, C, D, E, F, G and H, showing the st of your affairs on the day on which the order of adjudication was made aga you, viz., the.........day of.........19.......

Such sheets when filled up, will constitute your schedule and must verified by oath or solemn affirmation.

Gross Liability	*Liabilities* (as stated and estimated by Debtor).	Expected to Rank	*Assets* (as stated and estimated by Debtor).	'Book values.	I rr Pr
	Unsecured Creditors as per list A— Creditors fully secured as per list B— *Less* Estimated value of Securities Surplus *Less* Amount Carried to List C— Balance to *Contra* Creditors partly Secured as per List C— *Less* estimated value of Securities Creditors for rent, taxes, Salaries, Wages etc , payable in full as per List D – *Less* Deducted *Contra*		Property as per List E, viz. (a) Cash at Bank (b) Cash in hand (c) Cash with Solicitors (d) Stock-in-Trade (e) Machinery (f) Fixtures, Fittings, Utencils (g) Furniture (h) Life Policies (i) Other Property Book Debts as per List F— Good Doubtful Bad Estimated to Produce Bills of Exchange as per List G Estimated to produce Surplus from securities with fully Secured Creditors *Contra* *Deduct* creditors for Preferential Debts *Contra* Deficiency explained in Statement H		

I...........residing at...........make oath and say that the above statem and several lists hereto annexed, marked A, B, C, D, E, F, G, H, are to best of my knowledge and belief, a full, true and complete statement o affairs on the date of the above mentioned order of adjudication n against me.

Note : As per Bombay rules, liabilities are set out in the following schedules :—

(i) **A**	...	Unsecured Creditors, B/R, Contingent Liability.
(ii) **B**	...	Fully Secured Creditors.
(iii) **C**	...	Partly Secured Creditors
(iv) **D**	...	Creditors for rent and Preferential Creditors.

(b) *The assets are set out in three schedules or lists as per Calcutta Rules as shown below* :

Schedule or List	*Nature of Assets Contained*
(i) **H**	Property (all assets excepting Debtors and B/R)
(ii) **I**	Book Debts (distinguishing between good, doubtful or bad)
(iii) **J** ...	Bills Receivable.

Note : Under Bombay Rules these schedules are **E, F & G** respectively.

(c) The deficiency is the difference between assets estimated to realise and the liabilities expected to rank for dividend. The deficiency is explained in "**Deficiency Account**" which is called **Statement "K"** as per Calcutta Rules and **Statement "H"** as per Bombay Rules.

6. Order of distribution of available amounts : The Official Assignee or Receiver will realise the assets and distribute the available amounts in the following order :

(i) Fully secured creditors will be paid in full and partly secured creditors to the extent of cover against securities.

(ii) Realisation expenses and remuneration of Official Assignee or Receiver.

(iii) Preferential creditors.

(iv) Unsecured creditors.

7. Preferential Creditors : Preferential creditors include the following :—

(i) Debts due to Government or local authority ;

(ii) Salary of any clerk etc. for services in last four months—not exceeding Rs. 300 per head ; in case of Provincial Insolvency Act the limit is only Rs. 20.

(iii) Wages of servants etc. for services in last four months—not exceeding Rs. 100 per head ; in case of Provincial Insolvency Act the limit is Rs. 20.

(iv) Rent for one month ; in case of Provincial Insolvency Act, there is no preferential right for rent.

These debts shall rank equally between themselves. If the property of the insolvent is insufficient, they shall abate in equal proportion.

8. The Prescribed Forms of Statement of Affairs and Deficiency Account :

(a) Statement of Affairs

(As required by the Presidency Towns Insolvency Act, 1909)

To the Insolvent—you are required to fill up carefully and accurately this sheet and the several sheets, A, B, C, D, E, F, G and H, showing the state of your affairs on the day on which the order of adjudication was made against you, viz., the.........day of.........19......

Such sheets when filled up, will constitute your schedule and must be verified by oath or solemn affirmation.

Gross Liability	*Liabilities* (as stated and estimated by Debtor).	Expected to Rank	*Assets* (as stated and estimated by Debtor).	Book values.	Estimated to Produce.
	Unsecured Creditors as per list A— Creditors fully secured as per list B— *Less* Estimated value of Securities Surplus *Less* Amount Carried to List C— Balance to *Contra* Creditors partly Secured as per List C— *Less* estimated value of Securities Creditors for rent, taxes. Salaries, Wages etc , payable in full as per List D – *Less* Deducted *Contra*		Property as per List E, viz. (a) Cash at Bank (b) Cash in hand (c) Cash with Solicitors (d) Stock-in-Trade (e) Machinery (f) Fixtures, Fittings, Utencils (g) Furniture (h) Life Policies (i) Other Property Book Debts as per List F— Good Doubtful Bad Estimated to Produce Bills of Exchange as per List G Estimated to produce Surplus from securities with fully Secured Creditors *Contra* *Deduct* creditors for Preferential Debts *Contra* Deficiency explained in Statement H		

I...........residing at...........make oath and say that the above statement and several lists hereto annexed, marked A, B, C, D, E, F, G, H, are to the best of my knowledge and belief, a full, true and complete statement of my affairs on the date of the above mentioned order of adjudication made against me.

(b) Deficiency Account

(K or H Statement)

	Rs.	Rs.		Rs.	Rs.
Excess of assets over liabilities on.....			Net loss arising from carrying on of business from.. .. to......date of adjudication		
Net profit arising from carrying on business from...... to .....after meeting usual trade expenses			Bad Debts—as per List F.		
Income or profit from other sources since...			Expenses incurred since... other than usual business expenses viz. Household Expenses		
Deficiency as per Statement of Affairs			Other Losses :		
			Speculation Loss :		
			Loss on Realisations : Stock-in-Trade Freehold Property Plant & Machinery Fixtures & Fittings Others		

Illustration 1

A filed his petition in bankruptcy on 31st Dec., 1968. His books showed that he owed Rs. 50,000 to trade creditors ; Rs. 30,000 to creditors holding lien on stock-in-trade for Rs. 8,000 ; Rs. 10,000 mortgage on works ; and Rs. 1,000 for Salaries, Wages and Rates. Bills of Exchange for Rs. 10,000 had been discounted with his bankers and it was estimated that there was a liability of Rs. 3,000 in respect of them.

His assets were : consignment Rs. 20,000 estimated to realise Rs. 2,000 ; good book debts Rs. 18,000, doubtful debts Rs. 6,000 estimated to realise Rs. 3,000 ; bad debts Rs. 15,650 ; Works Cost Rs. 1,00,000 (depreciated out of Profit and Loss to Rs. 75,000) estimated to realise Rs. 50,000 ; Furniture and Fittings Rs. 2,000, estimated to realise Rs. 1,000 : Stock-in-Trade Rs. 25,000, estimated to realise Rs. 8,000 ; Cash Rs. 1,350.

He commenced business on 1st January, 1964 with a capital of Rs. 90,000. After charging annually Rs. 5,000 for depreciation of Works and Rs. 5,500 for interest on capital, the trading shows profits of Rs. 6,500 in 1964, and Rs. 5,000 in 1965 and losses of Rs. 6,000 in 1966, Rs. 7,000 in 1967, and Rs. 9,500 in 1968. He lost Rs. 14,500 in speculation while his drawings averaged Rs. 4,000 a year.

Draw up his Statement of Affairs and Deficiency Account.

(Delhi University, B. Com. Hons. 1951—Adapted*)*

Solution

Statement of Affairs of A

(as on 31st Dec., 1941)

Gross Liability.	Liabilities	Expected to Rank.	Assets	Estimated to Produce
Rs.		Rs.		Rs
53 000	Unsecured creditors as per List A ...	53,000	Property as per List E :	
			Cash	1,350
10,000	Fully secured creditors as per List B Rs. 10,000		Consignment Rs 20,000	2,000
	Estimated value of securities (works) 50,000		Furniture and Fittings Rs. 2,000	1,000
			Total as per List E :	4,350
	Balance thereof as per contra Rs. 40,000		Book Debts as per List F : Good ... 18,000; Doubtful 6,000; Bad ... 15,650; 39,650	
30,000	Partly secured creditors as per List C ... 30,000; *Less* estimated value of securities (Stock) 8,000; Rs. 22,000			
	Estimated to rank .	22,000	Estimated to produce	21,000
1,000	Preferential creditors as per List D deducted as per contra .. Rs. 1,000		Surplus from securities in the hands of fully secured creditors as per contra ..	40,000
				65,350
			Deduct preferential creditors as per contra	1,000
				64,350
			Deficiency explained in Deficiency A/c (List H)	10,650
94,000		75,000		75,000

Deficiency Account

	Rs.		Rs.
Excess of Assets over Liabilities on 1st Jan. 1964 ...	90,000	Net Loss from Business : For 1966 ... .. 500; For 1967 ... 1,500; For 1968 4,000	6,000
Net Profit from Business for 1964 ... 12,000; for 1965 ... 10,500	22,500	Bad Debts	18,650
Deficiency as per Statement of Affairs	10,650	Expenses incurred other than trade expenses : Drawings	20,000
		Other Losses on : Stock ... 17,000; Consignment ... 18,000; Works ... 25,000; Furniture & Fittings ... 1,000; Bills Discounted ... 3,000; Speculation ... 14,500	78,500
	1,23,150		1,23,150

EXERCISE

1. Prepare a Statement of Affairs and Deficiency Account on 10th October of William Corby.

Cash in hand Rs. 85 ; Book Debts Rs. 3,472 (estimated to produce Rs.2,869) ; unfinished contract in hand (estimated to produce Rs. 3,000 over and above the cost of completing it) ; plant, tools, etc., cost Rs. 1,880, (estimated to realise Rs. 500) ; Office furniture (estimated to realise Rs. 25) ; Stock-in-Trade valued at Rs. 1,900 ; Investments valued at Rs. 6,200, of which deposited with bankers as security for loan Rs. 5,460. Life Policies for Rs. 2,000 of the estimated surrender value of Rs. 1,470 subject to advances made by insurance company amounting to Rs. 1,420 ; Unsecured creditors on trade account Rs.4,140 ; Unsecured creditors for cash advanced Rs. 5,308 ; W. Smith for two months' wages due to him as clerk Rs. 30 ; A. Compton, six months' salary due to him at Rs. 15 per month ; Rent recoverable Rs. 45 ; Bankers for loan partly secured, Rs. 10,134 (estimated value of securities held by bankers, Rs. 7,460 (*viz*., Investments, Rs. 5,460, and Lease Rs. 2,000) ; Capital Account on 1st January, as shown by the books, Rs. 189 ; Loss on Trading from 1st January to 10th October, Rs. 374 ; Loss on Sale of Investments made on 13th June, Rs, 200 ; Drawings Rs. 750. *(Chartered Accountants)*

(**Ans** : Deficiency Rs. 3,118 ; Total of Deficiency A/c Rs. 3,307)

2. The liabilities of A who is adjudicated bankrupt on 1st January, 1932 were as under : Unsecured Creditors Rs. 12,500, Creditors to the amount of Rs. 7,000 hold 6 per cent Debentures in an Oil Mill Co., of the face value of Rs. 10,000 belonging to the bankrupt, the market quotation for those debentures being Rs. 8,500. Creditors for Rs. 11,000 hold 700 shares of Standard Bank, Ltd. The shares are of the denomination of Rs. 20 each on which Rs. 5 are paid. The market value of these shares is Rs. 11 each. The Creditors have a second charge on the Debentures of the Oil Mill Co., mentioned above. Of the accommodation bills of Rs. 5,000 endorsed by debtor Rs. 950 is expected to rank against the estate for dividend. Debtor's own acceptances not included in any of the above liabilities are Rs. 300. Rates and Taxes amount to Rs. 70. Wages Rs. 30 and Sheriff's charges Rs. 20.

The Bankrupt's assets were as under :—

	Rs.
Cash in hand	25
Cash at Bank	275
Cash with Solicitors	20
Stock	800
Debtors (Good)	2,500
Debtors (Doubtful estimated to produce Rs. 5,200) ...	7,200
Debtors (Bad)	4,000

The bankrupt held the following investments which had not been charged or mortgaged : 50 ordinary shares of Rs. 10 each of Bombay Brewary Co. Ltd., which he had purchased at Rs. 90 each but which were now quoted in the market at Rs. 4 each ; Rs. 3,000, 7 per cent Debentures of Rs. 10 each bought in July, 1927, at 4 per cent premium in a Jute Co., which were now quoted at 10 per cent premium.

The Debtor's Capital on 1st January, 1928 was Rs. 9,120, his household expenses during 1928 to 1932 amounted to Rs. 7,000 in all. The profits during 1928, 1929, 1930 and 1931 were Rs. 1,700, 1,900, 1,500 and 700 respectively, and the loss during 1932 Rs. 2,900.

Prepare the Debtor's Statement of Affairs and the Deficiency Account.

(C. U. B. Com. 1933)

(**Ans :** Deficiency Rs. 3,350 ; Total of Deficiency A/c Rs. 22,650)

3. Jnanendra Mukherji became bankrupt. From the following particulars prepare his Deficiency Account and Statement of Affairs :—

Unsecured Creditors : Trade Debts Rs. 8,500, Household Debts Rs. 160. Trading Profits and Losses : First year Profit Rs. 2,000 ; Second year Loss Rs. 1,000 ; Third year Loss Rs. 600 ; Fourth year Profit Rs. 3,000 ; Fifth year Loss Rs. 2,300.

Yearly Drawing Rs. 800.

Fully Secured Creditors (holding securities cost 11,280 estimated to produce Rs. 10,000) Rs. 7,000 ; Liability on Bills discounted (of which Rs. 100 is expected to rank), Rs. 1,060 ; Creditors for rent Rs. 150 ; Creditors for rates Rs. 30.

Book Debts (Good, Rs. 1,100 ; Doubtful Rs. 1,000 expected to produce Rs. 600 ; Bad Rs. 100) Rs. 2,200 ;

Bills Receivable (Good) Rs. 650.

Cash in hand Rs. 15.

Stock (estimated to produce Rs. 1,750) Rs. 2,100.

Capital at commencement of first year Rs. 6,333.

Household Furniture (estimated to produce Rs. 550) Rs. 700.

Office Furniture (estimated to produce Rs. 100) Rs. 160.

(C. U. B. Com. 1935).

(**Ans :** Deficiency Rs. 1,175 ; Total of Deficiency A/c Rs. 12,898)

4. Prepare Statement of Affairs and Deficiency Account of Messers. Raye and Rowe on 31st December, 1938 :

The firm commenced business on 1st January, 1934 with a Capital of Rs. 25,000. The trading after charging interest on Capital at Rs. 1,000 a year, resulted in a profit for the first year of Rs. 602, and in losses in the subsequent respective years of Rs. 370, Rs. 450, Rs. 500, and Rs. 700. The drawings of the partners were Rs. 900 a year and Rs. 1,500 had been expended during five years upon patent and experiments and the date of the insolvency stood in the books at that sum. Unsecured Creditors Rs. 15,050 ; Creditors fully secured Rs. 19,080 (holding security as stated by the books of the value of Rs. 18,100 but which is estimated to produce Rs. 6,000), Creditors for Wages, Taxes, etc., Rs. 500 ; Bills Receivable Discounted, Rs. 2,060 (upon which it is estimated there will be a liability of Rs. 280) ; Stock in Trade Rs. 10,100 (which is estimated to realise Rs. 8,000), Book Debts : Good Rs. 7,860, Doubtful and bad Rs. 650 (estimated to realise Rs. 178) ; Land and Buildings Rs. 8,000 (estimated to realise Rs. 5,000)*; Machinery and Plant Rs. 12,500 (estimated to realise Rs. 5,500) ; Cash in hand Rs. 2. (C. U., B. Com. 1940).

(**Ans** : Deficiency Rs. 2,370 ; Total of Deficiency A/c Rs. 32,972)

5. Prepare a Statement of Affairs of Henry Lawson from the following : Cash in hand, Rs. 10 ; Debtors : Good Rs. 500, Bad Rs. 50 and Doubtful Rs. 1,000 estimated to realise Rs. 750 ; creditors unsecured, Rs. 2,600 ; creditors partially secured Rs. 1,200 (estimated value of security Rs. 800) ; Creditors fully secured Rs. 1,900 (estimated value of security Rs. 2,400) ; Landlord for Rent Rs. 270, the yearly rent being Rs. 240 ; Works Manager for salary Rs. 150, his yearly salary being Rs. 360 ; Liabilities on Bills Discounted, Rs. 650 all of which are expected to be met on maturity ; Stock-in-trade (cost Rs. 850) estimated to realise Rs. 180. There is a liability in respect of a contract which the debtor cannot complete owing to the failure, amount unknown, but estimated at Rs. 300. Bills receivable on hand Rs. 75, estimated to produce Rs. 20.

(Chartered Accountants)

(**Ans** : Deficiency Rs. 1,760)

6. A receiving order was made against A. Boot on June 25th. The following are the balances of his books at the date :—

			Rs.	Rs.
Unsecured Creditors	...	...		3,940
Capital Account, A Boot	...	...		700
J. Smith, Loan Account	...	...		564
W. Jopp, Loan Account	...	...		12,654
Stock	...	...	4,113	
Fixture and Fittings	...	...	250	
H. Finlay (rent one year)	...	...		350
H. Jones, Manager (150 per annum)		...		100
Collector Rates and Taxes	...	...		85
Cash in hand and at branches		...	110	
Horses, Carts, etc.	...	...	251	
Bills Receivable	...	...	169	
Sundry Debtors	...	...	2,446	
Cash at Bank	...	...	356	
Freehold and other property		...	5,000	
Policy of Insurance (Surrender value)		...	1,778	
Profit and Loss		...	776	
Drawing Account, A. Boot		...	1,219	
Interest on Loans		...	1,925	
Contingent Liability on Bills Discounted, Rs. 358 (not expected to rank)		...		
			18,393	18,393

On January 1st previous, there was a surplus of assets of Rs. 700. J. Smith holds a first charge on the policy of insurance. W. Jopp holds a second charge thereon and also a charge on the freehold leasehold property. The stock for the purposes of Statement is valued at Rs. 3,500, Of the Book Debts Rs. 291 are doubtful and are estimated to produce Rs. 100 ; Rs. 287 are bad. The loss on trading between January 1st and June, 25th was Rs. 776.

Make out the Statement of Affairs and Deficiency Account.

(Chartered Accountants)

(**Ans** : Deficiency Rs. 4,311 ; Total of Deficiency A/c Rs. 5,011)

7. From the following information prepare the Statement of Affairs and Deficiency Account of an insolvent debtor :—

Unsecured creditors, Rs. 15,050 ; Creditors partly secured Rs. 19,080 (holding security of the value of Rs. 18,100 which is estimated to realise only Rs. 6,000) ; Preferential creditors Rs. 500 ; Bills Receivable discounted Rs. 2,060 (upon which it is estimated that there will be a liability of Rs. 280) ; Stock-in-Trade Rs. 10,010 (estimated to realise Rs. 8,000) Book Debts : Good, Rs. 7,860 ; Doubtful and Bad Rs. 650 (estimated to realise Rs. 178) ; Land and Buildings Rs. 8,000 (estimated to realise Rs. 5,000) ; Machinery and Plant Rs. 12,500 (estimated to realise Rs. 5,500) ; Cash in hand Rs. 2.

He started business five years ago with a capital of Rs. 25,000. The trading after charging interest on capital at Rs. 1,000 per year resulted in a profit of Rs. 602 for the first year and losses of Rs. 370, Rs. 450, Rs. 500 and Rs. 700 for the subsequent years. His drawings were at the rate of Rs. 900 a year and Rs. 1,590 had been expanded during the five years upon patents and experiments, which figure at the date of insolvency stood in the books.

(Allahabad University B. Com. 1941)

(**Ans** : Deficiency Rs. 2,370, Total of Deficiency A/c Rs. 30,952)

CHAPTER XXIV

DOUBLE ACCOUNT

1. **Its meaning :** Double Account is a system of presentation of the Final Accounts of public utility concerns like Railways, Tramways, Electric Supply Companies, Gas Companies, Water Works etc. These concerns are generally created by special statutes. The statute generally imposes upon a public utility concern a form for the presentation of its Final Accounts, which is in the system of Double Account. Under Double Account System the Balance Sheet is bifurcated into Capital A/c and General Balance Sheet. The form of one concern may differ from that of another concern in details, but the general principle of bifurcation is same in all the cases.

2. **Its features :** The main features of Double Account System are as follows :

(1) The Balance Sheet is divided into two parts—

(a) Capital Account or Receipts and Expenditures on Capital Account and

(b) General Balance Sheet.

(a) **Capital Account or Receipts & Expenditures on Capital Account :**

The capital items are shown in this part. Receipts on Shares, Stock, Debentures, Loans etc. are shown on the right-hand side. Payments such as acquisition of fixed and permanent assets are shown on the left-hand side. The Balance of this account (the totals of both sides in case of an Electric Supply Company) is taken up to the General Balance Sheet.

(b) **General Balance Sheet :**

The balance of first part i.e. Capital Account and all other floating assets and liabilities are shown in the General Balance Sheet.

(2) Under Double Account System the revenue items are shown in two parts i.e. (a) Revenue A/c and (b) Net Revenue A/c—

(a) **Revenue Account :** The gross takings are charged with expenses of operation in the Revenue A/c. This account is written up exactly like Profit & Loss A/c. The only difference between Profit & Loss A/c and Revenue A/c is that financial charges like interest etc. are not shown in the Revenue A/c like Profit &Loss A/c, but are shown in the Net Revenue A/c. The balance of the Revenue A/c is taken to Net Revenue A/c.

(b) **Net Revenue A/c :** The Net Revenue A/c is almost like Profit & Loss Appropriation A/c. The only difference between Profit & Loss Appropriation

A/c and Net Revenue A/c is that financial charges like interest on loan, mortgage, debentures etc. are shown in Net Revenue A/c. The balance of this account is carried forward to the General Balance Sheet.

(3) **Treatment of Depreciation** : Under this system the fixed assets are always shown at cost. Depreciation is not shown as a deduction from fixed assets. A Depreciation Fund is created by debiting Revenue A/c. This fund is shown on the liabilities side of the General Balance Sheet.

(4) **Allocation of Expenditures** Allocation of expenditure between capital and revenue is to be made on general principles in certain circumstances. Revenue expenditure on fixed assets i.e. repairs, renewals etc. are to be charged to Revenue A/c. Capital expenditure i.e. additions, extensions etc. are shown in the Capital Account.

3. Prescribed Forms For Electricity Undertakings :

Form No. III
Capital Account
for the year ending... ..

Capital Expenditure	Expenditure up to the Previous year	Expenditure during the year	Total Expenditure till the end of the Current year	Capital Receipts	Receipts up to the Previous year	Receipts during the year	Total Receipts up to the end of the Current year
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
1. To Preliminary Expenses				1. By Ordinary Shares			
2. „ Land including Law Charges				2. „ Preference Shares			
3. „ Buildings				3. „ Debentures			
4. „ Plant				4. „ Mortgage and Bonds			
5. „ Mains				5. „ Calls in Advance			
6. „ Transformers, Motors etc.				6. „ Other Receipts			
7. „ Meters							
8. „ General Stores							
9. „ Special items							
Total Expenditure Rs.				Total Receipts Rs.			
Total Balance of Capital A/c				Total Balance of Capital A/c			

Form No. IV
Revenue Account
for the year ended.....

A. Generation	Rs.	Rs.		Rs.	Rs.
1. To Fuel			1. By Sale of energy for lighting		
2. „ Oil, Waste, Water and Engine-room Stores			2. „ Sale of energy for power		
3. „ Proportion of salary of engineers, supervisors and officers			3. „ Sale of energy under special contracts		
4. „ Wages and gratuities			4. „ Public lighting		
5. „ Repairs and Maintenance			5. „ Rental of meters and other apparatus on consumers' premises		

Revenue Account (Contd.)

	Rs.	Rs.		Rs.	Rs.
B. Distribution			6. By Rents receivable		
1. To Proportion of salaries of Engineers, etc.			7. „ Transfer fees		
2. „ Wages and gratuities			8. „ Other items		
3. „ Repairs, maintenance and renewals of Mains			9. „ Miscellaneous Receipts		
4. „ Repairs, etc. of Transformers			10. „ Sale of ashes		
5. „ Repairs, etc. of meters, switches, cut-outs and other apparatus on consumers' premises			11. „ Reconnection and Disconnection Fees		
C. Public Lamps					
1. To Attendance and repairs					
2. „ Renewals, etc.					
D. Rent, Rates & Taxes					
1. To Rents Payable					
2. „ Rates and Taxes					
E. Management Expenses					
1. To Directors' remuneration					
2. „ Management					
3. „ General Establishment charges					
4. „ Auditor of the Company					
5. „ Auditor appointed under the Act					
F. Law Charges					
To Law Expenses					
G. Depreciation					
1. To Depreciation of Lease					
2. „ Depreciation of Buildings					
3. „ Depreciation of Plants					
4. „ Depreciation of Mains					
5. „ Depreciation of Meters etc.					
H. Special Charges					
To Bad Debts, etc.			Total Income		
Total Expenditure			Balance carried to Net Revenue		
Balance carried to Net Revenue					
Rs.			Rs.		

Form No. V

Net Revenue Account

for the year ended......

	Rs.		Rs.
1. To Interest on Debenture to date		1. By Balance from last A/c *Less* Dividend paid „ Contribution to Reserve Fund	
2. „ Interest on Mortgages and Bonds to date		2. „ Balance brought from Revenue A/c (Form IV)	
3. „ Interest on Temporary Loans to date		3. „ Interest on Money on Deposit	
4. „ Dividends on Preference Shares			
5. „ Income-tax			
6. „ Balance available to Dividends on Ordinary Shares			
Rs.		Rs.	

Form No. VIII

General Balance Sheet as at

Liabilities	Rs.	*Assets*	Rs.
1. To Capital Account (Form III)		1. By Capital Account (Form III)	
2. ,, Sundry Creditors for Capital Expenditure		2. ,, Stores in hand	
3. ,, Sundry Creditors on Open Accounts		3. ,, Sundry Debtors	
4. ,, Net Revenue Account (Form V)		4. ,, Preliminary Expenses	
5. ,, Reserve Fund Account (From VI)		5. ,, Securities held	
6. ,, Depreciation Fund Account (Form VII)		6. ,, Special Items (To be specified)	
7. ,, Special Items		7. ,, Cash at Bankers	
		8. ,, Cash in hand	
Rs.		Rs.	

Illustration 1 *(Water works)*

Make out from the following Trial Balance as on 31st December, 1957, of the Brahmaputra Valley Co. Ltd., (1) Capital Account, (2) Revenue Account, (3) Net Revenue Account, (4) Reserve Fund Account and (5) General Balance Sheet. The Reserve Fund is to be raised to Rs. 5,000 and National War Loan Stock increased to a like amount at par, to be known in future as Reserve Fund Investments.

Dr. Balances

	Rs.
Expended on purchase of land	30,000
Expended on construction of works	10,23,300
Expended on mains and service pipes	1,19,200
Expended on meters	10,500
Expended on Parliamentary Expenses	20,000
Sundry Debtors	480
Debtors for Water Rates due	12,420
Stores on hand	3,400
Investments—National War Stock at par	2,500
Cash in hand	600
Cash at Bank	33,530
Salaries	6,000
Printing	500
Incidental Expenses	370
Maintenance of Pumping Stations	17,050
Maintenance of Reservoirs	5,000
Maintenance of Filter beds	1,500
Repairs to mains	2,200
General Repairs	1,550
Director's Fees	4,000
Auditor's Fees	500

	Rs.
Rates and taxes	25,000
Interest on Debenture Stock to date	10,000
Dividend on Preference Shares to date	12,000
Interim Dividend on Equity Shares, 1st August, 1957	30,000
Cr. Balances	
6,00,000 Equity Shares of Re. 1 each	6,00,000
2,00,000 Preference Shares of Re. 1—6%	2,00,000
Debenture Stock 5%	2,00,000
Premium on shares	2,00,000
Sundry Creditors	8,410
Reserve Fund	2,580
Water-Rents	1,46,670
General Rents	3,500
Transfer fees	240
Unclaimed Dividend	200
Balance Net Revenue Account, 1st January, 1957	10,000

(National Union of Teachers)

Solution

Brahmaputra Valley Co. Ltd.

Dr. **Revenue Account** for the year ended 31st December, 1957 Cr.

	Rs.		Rs.
To Salaries	6,000	By Water Rents	1,46,670
" Printing	500	" General Rents	3,500
" Incidental Expenses	370	" Transfer fees	240
" Maintenance of Pumping Stations	17,050		
" Maintenance of Reservoirs...	5,000		
" Maintenance of Filter Beds	1,500		
" Repairs to Mains	2,200		
" General Repairs	1,550		
" Directors' fees	4,000		
" Auditors' fees	500		
" Rates & Taxes	25,000		
" Balance carried to Net Revenue A/c	86,740		
	1,50,410		1,50,410

Net Revenue Accunt for the year ended 31st December, 1957

	Rs.		Rs.
To Pref. Share Div.	12,000	By Balance b/d	10,000
" Ord. Share Interim Div.	30,000	" Revenue A/c	86,740
" Interest on Debentures	10,000		
" Reserve Fund	2,420		
" Balance—Net profit transferred to Balance Sheet	42,320		
	96,740		96,740

Dr. **Reserve Fund Account** Cr.

To Balance c/d	Rs, 5,000	By Balance b/d	Rs. 2,580
		„ Net Revenue A/c	2,420
	5,000		5,000
		By Balance bld	5,000

Dr. **Capital Account** for the year ended 31st December, 1957 Cr.

To Expenditure	Rs.	To Receipts	Rs.
Purchase of Land	30,000	6,00,000 Equity Shares of Re 1 each	6,00,000
Construction of Works	10,23,300	2,00,000 Pref. Shares of Re 1 each—6%	2,00,000
Mains & Service Pipes	1,19,200	Debenture Stock—5%	2,00,000
Meters	10,500	Premium on Shares	2,00,000
Parliamentary Expenses	20,000	Balance carried to General Balance Sheet	3,000
	12,03,000		12,03,000

General Balance Sheet as at 31.12.1957

	Rs.		Rs.	Rs.
Sundry Creditors	8,410	Capital A/c– Balance		3,000
Reserve Fund	5,000	Sundry Debtors		480
Unclaimed Dividends	200	Debtors for Water Rates Due		12,420
Net Profit—Balance of Net Revenue A/c	42,320	Stores on hand		3,400
		Reserve Fund Investments (National War Stock)		5,000
		Cash Balance :	Rs.	
		Cash in hand	600	
		Cash at Bank	33,530	
			34,130	
		Less Cost of Investment purchased	2,500	31,630
	55,930			55,930

Illustration 2 *(Electricity Undertaking)*

Provide for the undermentioned depreciation, and prepare a Revenue Account, Capital Account and Balance Sheet from the following Trial Balance. A call of £1 per share was payable on the 31st December and arrears are subject to interest at 5 per cent per annum.

Depreciation to be provided for on : Buildings 2½ per cent, Machinery 7½ per cent, Mains 5 per cent, Transformers etc. 10 per cent, Meters and Electrical Instruments 15 per cent.

THE DYNAMO ELECTRIC LIGHTING CO. LTD.

Trial Balance 30th June...

Amount last 30th June			
	Capital Nominal, 10,000 Shares of £10 each, Subscribed 5,000 Shares of		
20,000	£10 each, £5 paid ...		25,000
15,000	Debentures of 6 per cent interest ...		15,000
1,000	Depreciation Fund ...		1,000
	Calls in arrears ...	1,000	
9,300	Freehold Land ...	9,300	
4,000	Buildings ...	5,000	
6.000	Machinery at Station ...	10,000	
5,000	Mains ...	8,000	
1,000	Transformers, Motor, etc. ...	2,000	
500	Meters ...	1,500	
300	Electrical Instruments ...	400	
	General Stores (Cables, Mains &		
1,600	Lamp in Stock) ...	2,350	
250	Office Furniture ...	250	
	Coal and Fuel ...	1,900	
	Oil, Waste and Engine Room Stores	750	
	Coal, Oil, Waste etc. in Stock	100	
	Wages at Station ...	3,000	
	Repairs and Replacements ...	500	
	Rates and Taxes ...	300	
	Salaries of Secretary, Manager etc.	1,500	
	Directors' Fees	1,000	
	Stationery, Printing & Advertisement	600	
	Incidental Expenses	100	
	Law Charges	200	
	Sales by Meter	—	8,750
	Sales by Contract	—	5.000
	Meter Rents	—	300
	Sundry Creditors	—	1,000
	Sundry Debtors	3,000	—
	Cash in hand and at Bank	3,300	—
		£ 56,050	£ 56,050

(Chartered Accountants)

Solution

The Dynamo Electric Lighting Co. Ltd.

Revenue Account

for the year ended 30th June......

	£	£		£	£
A. Generation			1. By Sale of Energy for lighting		8,750
1. To Coal & Fuel	1,900		2. ,, Sale of Energy for Power		–
2. ,, Oil Wastage etc.	750				
3. ,, Wages at Station	3,000				
4. ,, Repair & Replacements	500	6,150	3. ,, Sale of Energy under special contracts		5,000
B. Distribution		—			
C. Public Lamps		—	4. ,, Public Lighting		—
D. Rent, Rates & Taxes			5. ,, Meter Rents		300
1. To Rates & Taxes		300	6. ,, Rents Receivable		—
E. Management Expenses			7. ,, Transfer Fees		—
1. To Directors' Fees	1,000				
2. ,, Salaries of Secretary, Manager etc.	1,500		8. ,, Other Items		—
3. ,, Stationery, Printing & Advertisement	600		9. ,, Miscellaneous Receipts		—
4 ,, Incidental expenses	100	3,200	10. ,, Sale of Ashes		—
F. Law Charges			11. ,, Reconnections & Disconnections fees		—
1. To Law charges		200			
G. Depreciation					
To Depreciation of					
1. Buildings @ 2½%	125				
2. Machinery @ 7½%	750				
3. Mains @ 5 %	400				
4. Transformers @ 10%	200				
5. Meters @ 15%	225				
6. Electrical Instruments @ 15%	60	1,760			
H. Special Charges		—			
Total Expenditure		11,610			
To Balance carried to Net Revenue A/c		2,440			
		14,050	**Total Income**		14,050

Net Revenue Account *for the year ended 30th June......*

	£		£
To Interest on Debentures @ 6% on £ 15,000 for 1 yr.	900	By Balance from last Account	–
,, Balance carried over to General Balance Sheet	1,565	,, Interest due on Calls in Arrear on £ 1,000 for 6 months from January to June @ 5%	25
		,, Balance from Revenue Account	2,440
	2,465		2,465

Capital Account

for the year ending 30th June......

Capital Expenditure	Expenditure up to the previous year	Expenditure during the year	Total Expenditure till the end of the current year	Capital Receipts	Receipts up to the previous year	Receipts during the year	Total Receipts up to the end of the Current year
	£	£	£		£	£	£
1. To Freehold Land	9,300	–	9,300	1. By Share Capital	20,000	* 4,000	24,000
2. To Buildings	4,000	1,000	5,000	2. ,, 6% Debenture	15,000	—	15,000
3. To Machinery at Station	6,000	4,000	10,000				
4. To Mains	5,000	3,000	8,000				
5. To Transformers, Motors etc.	1,000	1,000	2,000				
6. To Meters	500	1,000	1,500				
7. To Electrical Instruments	300	100	400				
8. To General Stores (Cables Mains & Lamps in Stock.)	1,600	750	2,350				
9. To Office Furniture	250	—	250				
Total Expenditure £	27,950	10,850	38,800				
To Balance c/d			200				
			39,000		35,000	4,000	39,000

* After deduction of Calls in Arrear £ 1,000

General Balance Sheet as at 30th June...

Liabilities		£	*Assets*	£
1. To Capital A/c *(Amount Received)*		39,000	1. By Capital A/c *(Amount Expended)*	38,800
2. To Sundry Creditors on Open Accounts		1,000	2. By Stores in hand	100
3. To Net Revenue A/c—Balance		1,565	3. By Sundry Debtors	3,000
4. To Depreciation Fund			4. By Interest on Calls in Arrear	25
(i) As per last B/s	1,000		5. Cash at Bank and in hand	3,300
(iii) During the year	1,760			
		2,760		
5. To Interest on Debentures *(Outstanding)*		900		
		45,225		45,225

EXERCISE

1. The under mentioned particulars have been collected from the books of Nabagram Electric Corporation Ltd. for the year ended 31st December, 1954 :—

	Rs.
50,000 Ordy. Shares of Rs. 10 each	5,00,000
20,000 Pref. Shares of Rs. 100 ,,	20,00,000
Expended on Purchase of Land	10,00,000
,, ,, Building	8,05,000
,, ,, Mains and Service Pipes	75,000
,, ,, Distributing Stations	50,000
,, ,, Meters	30,000
,, ,, Transformers	12,000
,, ,, Public Lamps	20,000
,, ,, Elec. Instruments	15,000
,, ,, Parliamentary Expenses	5,000

During the year 1955, the following further expenses were incurred : Building, Rs. 20,000, Meters Rs. 10,000, Transformers Rs. 12,000 and Public Lamps, Rs. 5,000.

You are asked to give the Capital Account for the year ended 31st December, 1955. Prepare also a General Balance Sheet as on the 31st December, 1955 out of imaginary figures. (C. U. B. Com. (Adv.) 1957)

(Ans : Capital A/c (Cr. Balance) Rs. 4,41,000.)

2. The figures given below relate to the Bharat Mining Co. Ltd. for the year-ending 31st December, 1937. Prepare Capital Account and General Balance Sheet on Double Account System and then exhibit the same figures in a Balance Sheet on the Single Account System. Nominal Capital Rs. 25,00,000.

	Rs.
11,00,000 Equity Shares of Re. 1 each fully paid	11,00,000
6,00,000, 6% Preference Shares of Re. 1 each fully paid	6,00,000
Debentures 5%	3,00,000
Bills Payable	60,000
Sundry Creditors	90,000
Land acquired	85,000
Shaft Sinking	11,10,000
Plant & Machinery	3,50,000
Wagons	1,35,000
Office Building	30,000
Workmen's Cottages	90,000
Depreciation Fund	2,00,000
Reserve Fund	1,50,000
Balance to credit of Profit & Loss Account	2,50,000
Stock on hand	1,20,000
Investments	1,70,000
Sundry Debtors	3,50,000
Cash in hand and at Bank	3,00,000
Short Workings Account	10,000

The above figures include an issue of 1,00,000 Preference Shares during the year 1957 and the following amounts were also spent during the same period— Shaft sinking Rs. 60,000; Machinery Rs. 50,000; Wagons Rs. 30,000; Workmen's Cottages Rs. 10,000. (National Union of Teachers)

(Ans: Capital A/c (cr. Balance) Rs. 2,00,000; Total of General Balance Sheet Rs. 9,50,000; Total of Balance Sheet under Single Account Rs. 27,50,000.)

3. The following balances were extracted from the books of the Urban Electric supply Co. Ltd. as on 31st December, 1956. Prapare a Revenue and Appropriation Account and Balance Sheet in the form prescribed under the Electricity Act :—

Power purchased	2,83,397
Distribution Expenses	46,658
Rates and Taxes	15
General Establishment Charges	30,407
Management Expenses	17,730

	Rs.
Sale of Electricity	4,19,434
Meter Rent, Reconnection Fee, etc.	27,546
Depreciation	18,758
Income Tax	18,244
Repaires and Maintenance of Building	526
Contribution towards Contingency Reserve	3,143
Interest paid and accrued	6,089
Plant & Machinery	5,59,968
Public lighting	81,665
General Equipment	15,367
Capital—paid up	3,55,000
Bills Payable	896
Sundry Creditors—consumers	2,636
Sundry creditors—others	119
Consumers' Security Deposit	1,87,566
Depreciation Reserve balance	1,28,785
Contingency Reserve—balance as on 1st Jan.	6,902
Services advances	7,957
Unpaid wages	18
Income Tax Reserve	18,244
Interest payable	11,905
Stores in hand	48,852
Sundry Debtors for supply of electricity	39,219
Advances to staff	10,045
Cash at Bank	7,334
Cash in hand	1,492

(C.A. Final)

(**Ans** : Capital A/c (Dr. Balance) Rs. 3,02,000 ; Revenue A/c (Cr. Balance) Rs. 43,400 ; Net Revenue A/c (Cr. Balance) Rs. 22,013 ; Total of General Balance Sheet Rs. 6,16,399)

4. From the following particulars for the year ended December 31, 1952 prepare, under the Double Account System, the (i) Receipts and Expenditure on Capital Account and (ii) General Balance Sheet of an Electric Supply Company :—

	Rs.	Rs.
Capital :		
Authorised : 10,000 Ordy. Shares of Rs. 1,000 each Rs. 1,00,00,000.		
Issued, Subscribed & Paid-up : 6,000 Ordy. Shares of Rs. 1,000 each, Rs, 800 per share paid up		48,00,000
6% Debentures.		14,00,000
Depreciation Fund		5,00,000
Buildings	12,00,000	
Freehold Lands	9,00,000	
Plant & Machinery	23,35,000	
Mains	4,60,000	
Sundry Machine Parts	50,000	
Meters	40,000	
Instruments & Appliances	64,000	
Stock of General Stores	3,76,000	
Office Furniture	30,000	
Fuel	45,000	
Sundry Machine Room Materials (Lubricants, Jute waste etc)	10,000	
Sundry Creditors		1,70,000
Sundry Debtors	3,50,000	
Investments	9,00,000	
Cash in hand & at Bank	7,90,000	
Balance transferred from Net Revenue Account		6,80,000
	75,50,000	75,50,000

(C.U. B. Com. (Adv.) 1953)

(**Ans** : Capital A/c (Cr. Balance) Rs. 7,45,000 ; Tolal of General Balance Sheet Rs. 75,50,000)

5. The following are the balances on 31st December 1955 in the Books of the Guntur Power & Light Limited :

	Dr. Rs.	Cr. Rs.
Lands on December 31st, 1954	60,000	
Land—sexpended during 1955	2,000	
Machinery to December 31st, 1954	2,40,000	
Machinery expended during 1955	2,000	
Mains, including cost of laying	80,000	
Mains—expended during 1955	20,400	
Ordinary Shares		2,19,600
Debentures		80,000
Sundry Creditors		400
Depreciation Account		1,00,000
Sundry Debtors for current supplied	16,000	
Other Debtors	200	
Cash	2,000	
Cost of generation of electricity	14,000	
Cost of distribution electricty	2,000	
Ret, Rates & Taxes	2,000	
Management	4,800	
Depriciation	8,000	
Sale of current		52,000
Rent of Meters		2,000
Interest on Debentures	4,000	
Interim Dividend	8,000	
Balance—Net Revenue Account December 31, 1954		11,400
	4,65,400	4,65,400

From the obove Trial Balance prepare Capital Account, General Balance Sheet, Revenue Account and Net Revenue Account of the company.

(C.U. B. Com. (Adv.) Hons. 1966)

(**Ans** : Capital A/c (Dr. Balance) Rs. 1,04,800; Balance of Revenue A/c (Cr.) Rs. 23,200; Net Revenue A/c (Cr. Balance) Rs. 22,600; Total of General Balance Sheet Rs. 4,22,600.)

CHAPTER XXV

BANK ACCOUNTS

1. **Functions of a Bank :** Some of the important functions of a Bank are as follows :

(a) Accepting deposits from public.

(b) Advancing funds to the public on security or without it at interest.

(c) Discounting bills of exchange payable at a future date.

(d) Collecting cheques, bills of exchange, dividend warrants etc. on behalf of constituents and others.

(e) Issuing letters of credit, travellers' cheques, Circular Notes etc.

(f) Receiving valuables for safe custody purpose.

(g) Remitting Funds within the country or abroad.

(h) Guaranteeing, insuring, underwriting, any loan or issue of shares, stock or debentures etc.

(i) Acting as agent and referee for its customers.

2. **Raising of Funds by a Bank :** A Bank generally raises its funds in the following manner :—

(a) By issue of shares and debentures.

(b) By accumulation of profits.

(c) By accepting deposits from the public.

(d) By acting as agent of the government or local authority.

3. **Main Sources of Income of a Bank :** The main sources of income of a Bank are as follows :—

(a) Interest on loans and overdrafts.

(b) Discounts on bills discounted.

(c) Interest on securities and investments.

(d) Fees for keeping current accounts.

(e) Commission for financial services rendered.

(f) Profit on overseas exchange transactions·

4. **Main Revenue Expenditures of a Bank :** The main revenue expenditures of a Bank are as follows :—

(a) Interest payable on deposits.

(b) Administrative expenditures.

(c) Expenses in connection with maintenance of premises and equipments etc.

(d) Payment of taxes etc.

5. **Books maintained by a Bank :** A Bank would usually maintain the following books :—

(A) *Cash Book :*

(i) Daily Counter Receipts Book, (ii) Daily Counter Payments Book, (iii) Sectional Cash Book, (iv) Cash Balance Book and (v) General Cash Book.

(B) *Day Books and Journals :*

(i) Bills Discounted Book, (ii) Bills Payable Book, (iii) Transfer Journal and (iv) Journal Proper.

(C) *Ledger :*

(i) Current Accounts Ledger (ii) Deposit Ledger, (iii). Loan Ledger, (iv) Agency Ledger, (v) Investment Ledger, (vi) Private Ledger, (vii) Savings Account Ledger, (viii) General Ledger.

(D) *Memorandum Books :*

(i) Bill Journal or Diary, (ii) Short Bills Book, (iii) Securities Register, (iv) Safe Custody Register, (v) Standing Orders Book, and (vi) Specimen Signatures Register.

6. Forms of the Books used by a Bank :

(A) Forms of Cash Books :—

(1) Daily Counter Receipts Cash Book

Date	Account	Name of Depositor	Notes			Rupees		Small Coins		Amount	
						Paper	Coins	Rs.	P.	Rs.	P.

(2) Daily Counter Payments Cash Book

Date	Cheque No.	Account	Name of Payee	Notes			Rupees		Small Coins		Amount	
							Paper	Coins	Rs.	P.	Rs.	P.

Receipts (3) *Sectional Cash Book* Payments

Date	Parti-culars	Current		S. B.		F. D.		Date	Parti-culars	Current		S. B.		F. D.		Pay Order	
		Rs.	P.	Rs.	P.	Rs.	P.			Rs	P.	Rs.	P.	Rs	P.	Rs.	P.

Dr. (4) *Cash Balance Book* Cr.

Date	Particulars	Amount		Date	Particulars	Amount	
		Rs.	P.			Rs.	P.

Dr. (5) **General Cash Book** Cr.

Date	Particulars	Amount		Date	Particulars	Amount	
		Rs.	P.			Rs.	P.

(B) Forms of Day Books & Journals :—

(1) *Bills Discounted Book*

No.	Seller	Acceptor	Drawer	Where payable	Amount of Bill		Due Date	Date Disc.	Days to run	Rate of Discount	Amount of Discount		Remarks
					Rs.	P.					Rs.	P.	

(2) Bills Payable Book

No. of Bill	Date of Acceptance	Drawn by or Accepted for	To Whom Payable	Where Payable	Date of Bill	Term of the Bill	Due Date	Ledger Folio	Amount		C.B. Folio	How disposed of
									Rs.	P.		

(3) Transfer Journal

Date	Particulars	No. & Name of A/cs	L. F.	Debit Amount		Credit Amouut	
				Rs.	P.	Rs.	P.

(4) Journal Proper

Date	Particulars	L. F.	Debit Amount		Credit Amount	
			Rs.	P.	Rs.	P.

(C) Forms of Ledgers :—

(1) Current Account Ledger

Date	Details	Folio	Debit		Credit		Nature of Balance	Balance		No. of Days	Product	Rate	Interest	
			Rs.	P.	Rs.	P.		Rs	P.				Rs.	P.

Dr. *(2) Deposit Ledger* Cr.

Date	Particulars	J.F.	Interest		Amount		Date	Particulars	J.F.	Interest		Amount	
			Rs.	P.	Rs.	P.				Rs.	P.	Rs.	P

(3) Loan Ledger

Date	Amount		C.B. or Journal Folio	Security	Face Value		Market Value		Interest		Date of Repay ment	Amount Repaid		Balance	
	Rs.	P.			Rs.	P.	Rs.	P.	Rs	P.		Rs.	P	Rs	P.

(4) Agency Ledger

Date	Details	Debit		Credit		Nature of Balance		Balance		No. of Days	Products	Rate	Interest	
		Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.				Rs	P

Dr. *(5) Investment Ledger* Cr.

Date	Parti-culars	Nominal		Income		Capital		Date	Parti-culars	Nominal		Income		Capital	
		Rs.	P.	Rs.	P.	Rs.	P.			Rs.	P.	Rs.	P.	Rs.	P

Dr. (6) *Private Ledger* Cr.

Date	Particular	Folio	Amount	Date	Particulars	Folio	Amount

(7) *Savings Account Ledger*

Date	Details	Folio	Debit		Credit		Balance		No of Months	Product	Rate	Interest	
			Rs	P	Rs	P	Rs.	P				Rs	P

(8) *General Ledger*

Date	Particulars	Folio	Amount		Date	Particulars	Folio	Amount	
			Rs	P				Rs.	P.

(D) Forms of Memorandum Book :—

(1) *Bill Journal or Diary*

Date	No.	Drawer	Drawee	From Whom Received	Date	Tenor	Due Date	Date of Collection	How Collected	C.B Folio	Amount
										Rs	P.

(2) *Short Bills Book*

Or

(Bills for Collection Book)

No.	Date Received	From Whom Received	Drawer	Acceptor	Date of Bill	Due Date	Where Payable	Amount		Date Paid
								Rs.	P.	

(3) *Securities Register*

Date	From Whom Received	Nature of Security	Face Value		Market Value		Loan or Over-draft		Date Returned or sold	Value Received		C B Folio
			Rs.	P.	Rs.	P.	Rs.	P.		Rs.	P.	

(4) *Safe Custody Register*

Date	Sr. No.	Particulars	From Whom Received	Date of Delivery	Signature of the custodian	Signature of Recepient	Remark

(5) *Standing Orders Book*

This book will contain all standing orders properly indexed.

(6) *Speciman Signatures Register*

This is usually a card-ledger properly indexed.

7. **Final Accounts of a Bank :** A Bank is now required to prepare its Profit & Loss A/c and Balance Sheet for every financial year in the prescribed forms, set out in the third schedule of the Banking Regulation Act, 1949. It should be noted that a Bank's stock-in-trade being cash, there is no problem of stock taking and no Trading A/c need be prepared.

Explanation of Some Items appearing in the Final Accounts of a Bank :

(1) **Cash Reserve** : A scheduled bank is to maintain a reserve equal to 3% of time deposits as well as demand deposits with the Reserve Bank of India. A non-scheduled bank is required to maintain a similar balance either in cash or as deposit with the Reserve Bank of India. Every banking company, again, must continuously maintain in cash, gold or unencumbered approved securities valued at a price not exceeding the current market price, an amount not less than 28% of the total of its time and demand liabilities in India.

(2) **Money at call and Short Notice** : This is short-term advance made by a bank to other banks or bill-brokers at a low rate of interest against some securities. These advances are repayable on demand or at short notice. This item is shown on the assets side of the Balance Sheet under a separate heading.

(3) **Current Account (or Current Deposit Account) :** Deposits on current accounts are banker's liability. It is to be shown on the liabilities side of the Balance Sheet under the heading "Deposits and Other Accounts."

(4) **Savings Bank Account (or Savings Deposit Account)** : Deposits on savings bank account are liability of a bank. It is to be shown on the liabilities side of the Balance Sheet under the heading "Deposits and Other Accounts."

(5) **Fixed Deposit Account (or Deposit Account) :** Money kept in a fixed deposit account is generally payable after the expiry of a specified period. This is also a liability of the bank. It appears on the liability side of the Balance Sheet under the heading "Deposits and Other Accounts."

(6) **Cash Credits** : It means an arrangement between a bank and its customer whereby a customer is allowed, on his depositing some securities, to draw on the bank within a fixed limit. Cash credit appears on the assets side of the Balance Sheet under the heading "Advances."

(7) **Bills Discounted and Purchased** : This item denotes the total of bills discounted or purchased, which have not yet matured. It appears on the assets side of the Balance Sheet under the heading "Advances."

(8) **Rebate on Bills Discounted :** On the date of Balance Sheet some of the bills discounted may not mature. The unexpired portion of the discounting charge (i.e. discount) can not be taken as income earned for the related year. It is treated as an income received in advance and carried forward to the next

year by debiting Discount A/c and Crediting Rebate on Bills Discounted A/c. It appears on the liabilities side of the Balance Sheet under the heading "Other Liabilities."

(9) **Customer's Liability for Acceptances and Endorsements** : A bank generally accepts and endorses bills on behalf of its customers. It means that a bank shoulders liability for its customers. But the bank obtains counter indemnities from its customers for the liability taken for them. This item, therefore, appears on both sides of the Balance Sheet.

(10) **Now-Banking Assets** : Immovable properties acquired by a bank not for its own use, must be disposed of within seven years from the date of acquisition. Such non-banking assets will be shown on the assets side of the Balance Sheet. Profit or loss on sale of such assets is to be separately shown in the Profit & Loss A/c of the bank.

(11) **Bad Debts and Provision for Bad Debts** : These two items are not shown specifically in the published accounts of the banks, but are deducted from the total of the incomes. This is done so that the general public do not lose confidence in the banks. But existence of provision for bad and doubtful debts is to be suitably indicated in the published accounts of the bank. So Profit & Loss A/c contains on its income side, the heading, "Income (less provision made during the year for bad and doubtful debts and other usual or necessary provisions.)" In the Balance Sheet the item "Loans, Cash Credit & Overdrafts" is accompanied by the words "other than bad and doubtful debts for which provision has been made to the satisfaction of the auditors."

(12) **Provision for Income Tax** : The provision for income tax is deducted from income. It is not shown as a separate item in the Balance Sheet, but included in the items "Current Accounts & Contingency Accounts."

(13) **Loss on Investments, Gold and Silver** : It is deducted from income and not shown as a separate item in the Profit & Loss A/c.

(14) **Interest on Doubtful Debts** : Interest on doubtful debts should be debited to related Loan A/c but should not be credited to Interest A/c. It should be credited to Interest Suspense A/c. For the amount of interest received in cash the Interest Suspense A/c should be transferred to Interest A/c. The remaining amount should be closed by transfer to the Loan A/c.

(15) **Statutory Reserve** : According Sec. 17 of the Act, at least 20% of the profits prior to declaration of dividend must be transferred to the Reserve Fund. It is only with the sanction of the Reserve Bank that a bank can stop such transfer. This Reserve Fund should be shown separately from other reserves.

THIRD SCHEDULE

Form B

Form of Profit and Loss Account

Profit and Loss Account for the year ended,...December, 19.

EXPENDITURE	Rs.	INCOME *(Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions.)*	Rs.
1. Interest paid on deposits, borrowings, etc. 2. Salaries and allowances and Provident Fund (showing separately salaries and allowances to managing director, manager or chief executive officer.) 3. Directors' and Local Committee members' fees and allowances. 4. Rent, taxes, insurance, lighting etc. 5. Law Charges. 6. Postage, telegrams and stamps. 7. Auditor's fees. 8. Depreciation on and repairs to the banking company's property. 9. Stationery, printing, advertisement etc. 10. Loss from sale of or dealing with non-banking assets. 11. Other expenditure. 12. Balance of Profit.		1. Interest and discount. 2. Commission, exchange and brokerage. 3. Rents. 4. Net profit on sale of investments, gold and silver, land, premises and other assets (not credited to Reserves or particular Fund or Account). 5. Net Profit on revaluation of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account). 6. Income from non-banking assets and profit from sale of or dealing with such assets. 7. Other receipts. 8. Loss (if any).	
Total Rs.		Total Rs.	

THIRD SCHEDULE

Form A

Form of Balance Sheet

Capital and Liabilities	Rs.	Rs.	Property and Assets	Rs.	Rs.
1. **Capital** : Authorised Capital : ......Shares of Rs.... each Issued Capital : ......Shares of Rs.... each Subscribed Capital : ......Shares of Rs.... each Amount called up at Rs. ......per share *Less* Calls unpaid *Add* Forfeited shares			1. **Cash** : In hand and with Reserve Bank of India (including foreign currency notes) 2. **Balance with other Banks** : (showing whether on deposit or current account) : (i) In India (ii) Outside India 3. **Money at Call and Short Notice** :		

Form of Balance Sheet (Contd.)

Capital and Liabilities	Rs.	Rs.	Property and Assets	Rs.	Rs.
			(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members		
			(ix) Due from banking companies		
			6 **Bills For Collection being Bills Receivable** *(per contra)* :		
			7. **Constituents' Liabilities For Acceptances, Endorsements and other Obligations** *(per contra)* :		
			8. **Premises** *less* **Depreciation** :		
			9. **Furniture and Fixtures** *less* **Depreciation** :		
			10. **Other Assets** : including silver (to be specified) :		
			11. **Non-Banking Assets**, acquired in satisfaction of claims (stating mode of valuation) :		
			12. **Profit and Loss** :		
Total Rs.			**Total Rs.**		

Illustration I ***(Interest on Doubtful Debts)***

Banomali Talapatra is a Debtor of Zenith Bank of India Ltd. The Loan Ledger of the Bank shows that there is an unsecured loan of Rs. 2,00,000 (bearing interest @ 6% p. a.) in his name on 31st December, 1960. It was feared that the debt would be altogether bad but ultimately 75 p. per rupee of the loan was realised on 31st December, 1961 and was accepted by the Bank in full settlement.

You are asked to show (i) the Loan Account of Talapatra and (ii) the Interest Suspense Account. (C. U. B.Com (Adv.) 1962—Adapted)

Solution

Notes : (1) Interest on doubtful debts should be debited to related Loan A/c but should not be credited to Interest A/c. It should be credited to *Interest Suspense A/c*. For the amount received in cash, the Interest Suspense A/c should be transferred to Interest A/c. The remaining amount should be closed by transfer to the Loan A/c.

(2) Banks usually close books for internal purposes, on 30th June.

(3) Assumed that interest is payable half-yearly i.e. on 30th June and 31st December.

Dr. Loan Account (Talapatra) Cr.

		Rs			Rs.
1961 Jan 1	To Balance b/d	2,00,000	1961 June 30	By Balance c/d	2,06,000
June 30	,, Interest Suspense A/c (Interest @ 6% for ½ year)	6,000			
		2,06,000			2,06,000
1961 July 1	To Balance b/d	2,06,000	1961 Dec 31	By Cash A/c	1,59,000
				,, Interest Suspense A/c	3,000
				,, Bad Debts	50,000
Dec. 31	,, Interest Suspense A/c	6,000			
		2,12,000			2,12,000

Dr. Interest Suspense A/c Cr.

		Rs.			Rs.
19 1 June 30	To Balance c/d	6,000	1961 June -30	By Loan Account (Interest @ 6% for ½ year)	6,000
		6,000			6,000
1961			1961 July 1	,, Balance b/d	6,000
Dec. 31	To Loan Account—Transfer	3,000	Dec -31	,, Loan Account	6,000
	,, Interest A/c	9,000			
		12,000			12,000

Illustration 2 *(Bank Final Accounts)*

The following is the Trial Balance of A Bank Ltd. as on 31st December, 1959

			Dr.	Cr.
			Rs.	Rs.
Share Capital Account : Authorised and Paid-up :				
10,000 shares of Rs. 100 each, Rs. 50 paid up	...			5,00,000
Reserve Fund	...			8,00,000
Fixed Deposit Account	...			30,00,000
Savings Bank Deposits	...			20,00,000
Current Accounts and Unadjusted Contingency	...			1,10,00,000
Money at call and Short Notice—in India	..		1,00,000	
" " " " " " —outside India	...		50,000	
Bills discounted and purchased—in India	...		4,50,000	
" " " " —outside India	...		1,00,000	
Investments at cost				
Central and State Government and Trust Securities	...		50,00,000	
Shares :				
Ordinary—Fully paid	...		5,00,000	
Preference— " "	...		1,00,000	
Preference Shares—partly paid (calls to be made Rs. 25,000)	..		50,000	
Debentures	...		2,00,000	
Gold	...		12,00,000	
Pakistan Government Securities	...		5,00,000	
Reserve for Buildings	...			5,00,000
Interest and Discount	...			6,50,000
Commission, Brokerage and Postage	...			60,000
Rents	...			20,000
Interest on Deposits, Current Accounts, etc.	...		2,00,000	
Salaries (including Rs. 3,000 to General Manager)	...		2,15,000	
Postage and Telegrams	...		5,000	
Rent, Rates and insurance, etc.	...		11,000	
Legal Charges	...		500	
Directors' Fees	...		2,500	
Auditors' Fees	...		1,500	
Miscellaneous Receipts	...			61,000
Premises at cost	...		50,00,000	
Additions to Premises	...		10,00,000	
Depreciation Fund on Premises	...			40,00,000
Repairs to Premises	...		60,000	
Stationery, Printing and Advertisements	...		72,000	
Stamps	...		3,000	
Other Expenses of the Business	...		15,000	
Cash in hand	...		62,000	
Cash with Reserve Bank in India	...		12,00,000	
Cash with Pakistan State Bank	...		5,00,000	
Cash with Other Banks in India	...		6,00,000	
Unclaimed Dividends	...			12,000
Unexpired Discounts	...			25,000
Loans, Advances, Overdrafts and Cash Credits :				
In India ...		50,00,000		
In Pakistan ...		8,00,000	58,00,000	
Branch Adjustments	...		9,00,000	
Silver	...		1,00,000	
Advance Payment of Tax	...		60.500	
Interest accrued on Investments	..		1,25,000	
Interim Dividend on Share Capital	...		25,000	
Non-banking Assets acquired in satisfaction of claims.	...		10,000	
Borrowed from Banks in India	...			1,25,000
" " " " Pakistan	...			15,000
Bills Payable	...			10,00,000
Profit and Loss Account	...			1,50,000
Dividend Equalisation Fund	...			3,00,000
			2,42,18,000	2,42,18,000

The Bank had Bills for collection for its constituents Rs. 1,50,000 including Rs. 50,000 in Pakistan as on 31st December, 1959; also acceptances and endorsements for them amounted to Rs. 2,00,000 on that date. There was a claim of Rs. 1,00,000 against the Bank not acknowledged as debts. Liabilities on bills rediscounted was £ 1,200 on foreign bills and Rs. 50,000 on Indian bills. Liabilities on account of Outstanding Forward Exchange Contracts amounted to Rs. 10,00,000, The Directors decided to reserve Rs. 1,000 more for unexpired discounts. Bonus to staff to be provided for Rs. 42,000 including bonus to General Manager for Rs. 5,000. The Directors decided to transfer Reserve for Building to Depreciation Fund Account as new premises have been completed. Out of loans to clients in Pakistan, a loan to the extent of Rs. 5,000 is considerd bad and the Directors have passed a resolution to write it off. All other loans and debts are considered good.

You are required to prepare Profit and Loss Account and Balance Sheet as at 31st December, 1959, as required by the Banking Companies Act, 1949.

(C. U. B. Com. (Hons.) 1966)

Solution

Profit & Loss A/c

for the year ended 31st December, 1959

Expenditure		Rs.	Income (less provision made during the years for bad and douldful debts and other usual or necessary provisions)	Rs.
To Interest paid on Deposits, Current A/cs. etc. ...		2,00,000	By Interest & Discount	6,50,000
To Salaries (including Rs. 3,000 to General Manager)		2,15,000	By Commission, Brokerage & Postage	60,000
Bonus to staff	37,000		By Rents ...	20,000
Bonus to General Manager	5,000		By Miscellaneous Receipts ...	61,000
		42,000		
To Directors' fees ..		2,500		
To Rent, Rates, Insurance etc.		11,000		
To Law charges ...		500		
To Postage & Telegrams etc.		5,000		
To Auditor's Fees ...		1,500		
To Repairs to the Premises		60,000		
To Stationery, Printing & Advertisement		72,000		
To Other Expense		15,000		
To Bad Debts written off		5,000		
To Reserve for Unexpired Discount ...		1,000		
To Balance, being Profit		1,60,500		
		7,91,000		7,91,000
To Interim Dividend		25,000	By Profit & Lass A/c— Balance b/f ...	1,50,000
To Balance c/d ... (Transferred to Balance Sheet)		2,85,500	By Profit for the current year ...	1,60,500
		3,10,500		3,10,500

A Bank Ltd.

Balance Sheet as at 31st December, 1959

Capital & Liabilities		Rs.	Rs.
1. **Share Capital :**			
Authorised Capital :			
10,000 shares of Rs. 100 each			10,00,000
Issued and Paid up Capital :			
10,000 shares of Rs. 100 each, Rs. 50 per share paid up			5,00,000
2. **Reserve Fund and Other Reserves :**			
Statutory Reserve		8,00,000	
Depreciation Fund on Premises	40,00,000	[illegible]	
Add Reserve for Buildings	5,00,000	45,00,000	
Dividend Equalisation Fund		3,00,000	56,00,000
3. **Deposits and Other Accounts :**			
Fixed Deposit Accounts		30,00,000	
Savings Bank Deposits		20,00,000	
Current Accounts and unadjusted contingency		1,10,00,000	1,60,00,000
4. **Borrowing from other Banks :**			
Borrowed from Banks in India		1,25,000	
,, ,, ,, ,, Pakistan		15,000	1,40,000
5. **Bills Payable**			10,00,000
Carried Over			2,32,40,000

Property & Assets		Rs.	Rs.
1. **Cash :**			
In hand		62,000	
With Reserve Bank of India		12,00,000	12,62,000
2. **Balances with other Banks on Current Accounts :**			
With Pakistan State Bank		5,00,000	
,, other Banks in India		6,00,000	11,00,000
3. **Money at call and Short Notice**			
In India		1,00,000	
Outside India		50,000	1,50,000
Investments (at cost) :			
(i) Central and State Government and Trust Securities		50,00,000	
(ii) Ordinary Shares fully paid		5,00,000	
(iii) Preference Shares fully paid		1,00,000	
(iv) Preference Shares partly paid		50,000	
(v) Debentures		2,00,000	
(vi) Pakistan Government Securities		5,00,000	63,50,000
5. **Advances :**			
(i) Loans, Advances, Overdrafts and Cash Credits			
In India	50,00,000		
In Pakistan	8,00,000		
	58,00,000		
Less Bad Debts	5,000	57,95,000	
(ii) Bills Discounted and Purchased :			
Payable in India	4,50,000		
Payable outside India	1,00,000	5,50,000	63,45,000
Carried Over			1,52,07,000

A Bank Ltd.

Balance Sheet as at 31st December, 1959 (Contd.)

Capital & Liabilities	Rs.	Rs.	Property & Assets	Rs.	Rs.
Brought forward		2,32,40,000	Brought forward		1,52,07,000
6. Bills for Collection, being Bills Receivable as per contra :			6. Bills Receivable, being Bills for collection as per contra :		
Payable in India	1,00,000		Payable in India	1,00,000	
Payable in Pakistan	50,000	1,50,000	Payable in Pakistan	50,000	1,50,000
7. Other Liabilities :			7. Constituents' Liabilities for Acceptances, Endorsements and other Obligations as per contra		2,00,000
(i) Unclaimed Dividend	12,000				
(ii) Unexpired Discounts 25,000					
Add During the year 1,000	26,000				
(iii) Bonus to Staff (including Rs. 5,000 to G.Manager)	42,000	80,000	8. Premises :		
			Cost as per last Balance Sheet	50,00,000	
8. Acceptances. Endorsements and other obligations as per contra		2,00,000	Additions during the year	10,00,000	60,00,000
9. Profit and Loss Account :			9. Other Assets		
Balance as per last Balance Sheet :	1,50,000		Gold	12,00,000	
Less Appropriations :			Stamps	3,000	
Interim Dividend	25,000		Branch Adjustments	9,00,000	
			Silver	1,00,000	
	1,25,000		Advance Payment of Tax	60,500	
Add Profit brought forward			Interest Accrued on Investments	1,25,000	23,88,500
from P & L Account	1,60,500	2,85,500			
10. Contingent liabilities :			10. Non-Banking Assets :		
(i) Claim not acknowledged as debt	1,00 000		Non-banking assets acquired in satisfaction of claims		10,000
(ii) Liabilities on Foreign bills discounted	£ 1,200				
(iii) Liabilities on Indian bills discounted	50,000				
(iv) Liabilities on Account of Forward Exchange Contracts	10,00,000				
(v) Unpaid calls on Preference Shares purchased	25,000				
		2,39,55,500			2,39,55,500

EXERCISE

1. Bengal National Bank Ltd. was registered with 50,000 shares of Rs. 25 each, of which 40,000 shares were issued to the public and all those shares were taken up and Rs. 20 per share were called up and paid up.

From the undermentioned particulars you have been asked to give the Balance Sheet of the Bank as at 31st December, 1948.

		Rs.			
Reserve Fund		2,50,000	Cash Balances :		
Reserve for Bad & Doubtful Debts		30,000	at H. O & Branches	1,50,000	
Liability for expenses		20,000	With other Bank	4,50,000	6,00.000
Investments at cost		3,00,000			
Loans, Overdrafts & Cash Credits		36,50,000			
Furniture	20,000		Profit & Loss A/c (Cr.)		1,75,000
Less Depreciation	1,000	19,000			
Buildings	2,40,000				
Less Depreciation	24,000	2,16,000			
Rebate on Bills not yet due		10,000			
Fixed Deposits		20,00,000			
Current Accounts		15,00,000			

The following additional imformation has been supplied :

	Rs.
Acceptances & Endorsements on behalf of Customers	95,000
Undistributed Profits	50,000
Profits & Loss A/c—Profit during the year	1,25,000

Give the Balance Sheet of the bank in the prescribed form of the Act.

(C.U. B. Com (Adv.) 1949—Adapted)

(Ans : Balance Sheet total Rs. 48,80,000)

2. The following is the latest Balanee Sheet, as at 31st March, of Homi who is the sole proprietor of a small but select outfitting business. His turnover for the year was Rs. 8,00,000, his gross profit Rs. 2,00,000 and his net profit Rs. 1,25,000.

Liabilities	Rs.	*Assets*	Rs.
Sundry creditors :—		Sundry Debtors :—	
Bills Payable	20,000	Bills Receivable	50,000
Open Accounts	15,000	Open Accounts	50,000
Bank Overdraft	5,000	Stock-in-hand	85,000
Capital	3,60,000	Furniture & Fixtures	15,000
		Premises	2,00,000
	4,00,000		4,00,000

Homi approaches you as a bank manager for an overdraft of Rs. 50,000 to enable him to modernise his shop. He is averse to mortgaging his property but offers to pledge the Bills Receivable and to mortgage to you his Life Policy, which is not included in the Balance Sheet and which has a surrender value of Rs. 10,000. What would you do ? (Institute of Bankers, 1967)

3. From the following balances of the Janta Commercial Bank Ltd., as at 31st December, 1963, prepare Profit and Loss Account and Balance Sheet. The Authorised Capital consists of 20,000 shares of Rs. 100 each. The whole Capital has been subscribed, but only 50 per cent has been called up. The Bank has accepted Rs. 2,00,000 worth of Bills (without consideration) on behalf of customers, the securities lodged against these amounting to Rs. 3,00,000. Provide Rs. 8,000 for depreciation on Buildings, Rs. 3,500 on Furniture, Rs. 25,000 for Investment Reserve Fund and Rs. 20,000 by way of Bad Debts Reserve. An ad interim dividend at the rate of 7 per cent per annum was paid for half-year ending 30th Jnne, 1963. Profit as per previous Balance Sheet was Rs. 1,80,333. In the item of interest, exchange, etc. is included a sum of Rs. 5,900 for Rebate on Bills discounted.

	Rs.		Rs.
Paid up Capital	10.00,000	Interest, exchange etc.	3,12,223
Buildings (cost Rs. 3,00,000)	2,05,000	Investments (at cost)	2,78,125
		Investments Reserve Fund	35,000
Balance of Profit & Loss Appro. A/c (1st Jan. 1963)	40,333	Loans to customers	50,00,000
		Liabilities for expenses	46,894
		Cash credits & Overdrafts	34,00,520
Advertising	1,650	Postage & Telegrams	1,156
Current Accounts	34,12,829	Unexpired Insurance	437
Cash with other Banks	16,05,125	Printing & Stationery	3,390
Directors' and Auditors' Fees	5,980	Stamps on hand	189
		Rents, Rates, & Insurance	8,507
Cash at Head Office and Branches	4,16,324	Reserve Fund	2,65,000
		Salaries	52,150
Furniture & Fixtures (cost Rs. 50,000)	37,280	Reserve for Bad Debts etc.	40,000
Fixed Deposit	58,98,554		

(I.C.W.A.—Final)

(Ans : Profits Rs. 1, 76,990 ; Balance Sheet total Rs. 1,10,71,500)

4. The following balances appeared in the books of the Janta Bank Ltd., on June 30, 1957 :—

	Rs.
Capital authorised and issued—40,000 shares of Rs. 5 each, Rs. 3 paid ...	1,80,000
Loans on Securities, advances to customers, etc.	12,18,860

Bank Buildings at cost, less amounts written off		30,890
Profit & Loss A/c—balance at June 30, 1956—Cr.		15,230
Reserve Fund	...	1,00,000
Cash on hand and balances with Reserve Bank of India		4,26,590
Balances with other banks and money at call		5,28,490
Bills discounted	...	7,90,000
Dividend paid, February 1, 1957, free of tax	...	6,000
Deposit, Current & other accounts including contingency reserve		36,51,800
Profit on banking operations for the year after charging all expenses including taxation and making provisions for contingencies	...	47,450
Union Govt. securities at cost	...	8,50,270
Corporation Debentures and other investments at cost		55,460
Outstanding on account of customers' endorsement, guarantees, acceptances, confirmed credit, etc.	...	2,86,380

The bank held among its investments 5,000 shares of Rs. 5 paid in Industrial Finance Corporation Ltd. The market value of the bank's investments was in excess of cost. Directors' remuneration charged against profit on banking operations amounted to Rs. 5,650.

The Directors propose out of the above profit for the year :

(1) to provide a further Rs. 10,000 for contingencies ;

(2) to transfer Rs. 20,000 to Reserve Fund ;

(3) to write Rs. 5,000 off Bank Buildings ;

(4) to declare a final dividend of Rs. 6,000 free of tax, payable on August 1, 1957 ;

(5) to carry forward the balance to the next account.

You are required to prepare a Balance Sheet at June 30, 1957, and a Profit & Loss A/c for the year ended June 30, 1957. (Institute of Bankers, 1958)

(Ans. : Profit for the year Rs. 21,680 ; Balance Sheet total Rs. 42,09,940)

5. From the following Ledger Balances of Urban Banking Corporation Ltd. extracted on 31st December, 1961, you are required to prepare Profit & Loss A/c for the year ending 31st December, 1961, and Balance Sheet as at that date :—

			Rs
(1)	Share Capital Account (Authorised and paid up 6,000 shares of Rs. 100 each, Rs. 50 paid up)		3,00,000
(2)	Interest and Discount received		8,50,000
(3)	Premium on shares	... ...	1,00,000
(4)	Balance with Reserve Bank of India		14,50,000
(5)	Commission, Brokerage and Exchange received		2,80,000

(6)	Balance with other Banks in India	5,50,000
(7)	Interest paid on Deposits, etc.	3,50,000
(8)	Money at call and short notice	2,50,000
(9)	Saving Bank Deposits	20,00,000
(10)	Rents, Rates and Insurance Premium paid	25,000
(11)	Current Accounts, Contingency Accounts etc.	45,00,000
(12)	Law charges paid	10,000
(13)	Shares and Debentures purchased	3,65,000
(14)	Miscellaneous Receipts from Constituents	20,000
(15)	Cash in hand on 31-12-61	82,000
(16)	General Reserve Fund	2,00,000
(17)	Rents received from tenants occuping the Bank premises	50,000
(18)	Fixed Deposits	60,00,000
(19)	Salaries Allowances etc. paid	2,75,000
(20)	Bills discounted and purchased	8,50,000
(21)	Postage telegrams and stamps	65,000
(22)	Bills payable	7,00,000
(23)	Securities of the Central and State Governments purchased	23,00,000
(24)	Directors' fees and allowances	28,000
(25)	Advance Payment of Tax	1,25,000
(26)	Auditors' fees	12,000
(27)	Bank Premises (Cost Rs. 20,00,000) ...	16,50,000
(28)	Unclaimed Dividend ...	15,000
(29)	Depreciation	50,000
(30)	Unexpired discounts	35,000
(31)	Miscellaneous expenses	20,000
(32)	Repair to Bank Premises	74,000
(33)	Stationery, Printing & Advertisements	46,000
(34)	Profit and Loss A/c (Credit Balance on 1. 1. 61.)	50,000
(35)	Loans, Overdrafts & Cash credits	60,23,000
(36)	Branch Adjustments (Debit Balance)	4,75,000
(37)	Interest Accrued on Investments	25,000

(I. C. W. A.—Final)

(**Ans.** : Profit Rs. 2,45,000 ; Balance Sheet total Rs. 1,41,45,000)

6. From the following Trial Balance of the Excellent Bank Ltd. prepare the Balance Sheet and Profit and Loss Account. You are requested to provide the following :—

		Rs.
1.	Reserve for Taxation ...	5,00,000
2.	Transfer to Reserve Fund ...	15,00,000
3.	Transfer to Dividend Equalisation Fund	5,00,000

Trail Balance on 31st Dec. 1951

	Rs.
Current Deposits ...	4,55,00,000
Savings Bank Accounts ...	1,45,20,000
Fixed and Time Deposits ...	3.71,80,000
Sundry Creditors Account ...	4,55,000
Debts due to banks secured by investments ...	1,22,00,000
Bills Receivable ...	2,21,00,000
Customers' Liability for acceptances ...	1,11,68,000
Rebate on Bills Discounted ...	15,000
Branch Adjustment (credit) ...	45,55,000
Reserve·Fund ...	1,00,00,000
Dividend Equalisation Fund ...	25,00,000
Capital : 2,00,000 shares of Rs. 100 each Rs. 50 per share paid ...	1,00,00,000
Interst and Discounts Received ...	58,00.000
Exchange and Commision (Cr.) ...	17,00,000
General Charges Recovered ...	55,000
Profit and Loss A/c, Balance on 1st Jan. 1951 ...	8,52,000
Cash in hand ...	4,87,500
Cash with Banks ...	68.69,500
Money at Call ...	15,00,000
Bills for collection ...	2,21,00,000
Liability for customers' acceptences ...	1,11,68,000
Investment in Government securities ...	4,52,00,000
Investment·in shares ...	47,00,000
Interest accrued on Investments ...	8,75,000
Cash Credits and Loans ...	4,41,00,000
Bills purchased and Discounted ...	3,31,00,000
Furniture, Fixture and Equipment ...	5,00,000
Depreciation ...	5,00,000
Interest paid ...	12,00,000
Exchange and Commission paid ...	1,00,000
Salaries ...	24,00,000
Directors' Fees ...	1,00,000
Stationery and Advertisements ...	4,00,000
Miscellaneous Expenses ...	3,00,000
Land and Building ...	30,00,000

(C.A. Final)

(Ans : Profit Rs. 25,55,000 ; Balance Sheet total Rs. 17,36,00,000)

CHAPTER XXVI

INSURANCE

(A) Accounts of Insurance Companies

1. Classification of Insurance Business : Insurance business is groupped into two main categories—

(a) Life Insurance business and

(b) General Insurance business.

General Insurance includes the following :—

(i) Fire Insurance,

(ii) Marine Insurance,

(iii) Accident Insurance

(iv) Burglary Insurance

(v) Fidelity Insurance

(vi) Workmen's Compensation Insurance

(vii) Consequential Loss Insurance etc.

2. Regulating Acts : On 1st September, 1956, the Life Insurance Corporation of India was established under sec 3 of the Life Insurance Corporation Act, 1956. Life insurance business in India can now be carried on only by the Life Insurance Corporation of India. The Insurance Act, 1938, as amended in 1950 and Marine Insurance Act, 1963 regulate the Insurance business inIndia. So far as life insurance ·business is concerned, Insurace Act is supplemented by the Life Insurance Corporation Act, 1956. The varicus provisions of Insurance Act, 1938, regarding preparation of Final Accounts continue to appply to all types of insurance.

3. Some Important Terms :

(i) *Insurable Interest*—The interest which the assured possesses in the subject matter of a contract of Insurance is known as Insurable Interest.

(ii) *Assurance*—Life Insurance in called *Assurance* as it covers an event which is bound to take place, i.e. death or attainment of a specified age, as it is a continuing guarantee provided premiums are paid, and as it is a contract to pay a definite sum upon the happening of a certain event.

(iii) *Policy*—The stamped document in which the contract of insurance is embodied is called a *Policy*.

(iv) *Annuity*—It means the total amount paid to an annuitant during a year under an Annuity Policy.

(v) *Whole Life Policy*—This type of policy matures only on the death of the insured.

(vi) *Endowment Policy*—This type of policy matures on the policyholder reaching a specified age or on his death whichever is earlier.

(vii) *Re-Insurance*—It is a practice amongst Companies to reinsure a part of the risk with another Insurance Company in order to cover itself against a large risk. Re-insurance can be for part of the amount or for some of the risks. The Re-insurance Company will pay a commission on the premium received.

(viii) *Double Insurance*—When a person insures his property with more than one Company, without any fraudulent intent, it is called *Double Insurance*. If there is loss, he can recover on all the policies provided that the total amount realised does not exceed the actual loss suffered by him.

(ix) *Surrender value*—It is the amount which the assurers i.e. Insurance Companies are prepared to pay to the assured in total discharge of the contract in case the assured wishes to surrender his claim in such policy. Surrender value, in other words, is the present cash value of the policy.

(x) *Claim*—It means the amount payable by the Insurance Company In case of a whole life policy, the amount payable on the death of a policyholder is called *claim by death*. The amount payable on the policyholder reaching the specified age is called *claim by maturity*. Claim includes bonus.

(xi) *Bonus*—It is the share of profit which a policyholder gets from the Life Insurance Company. Bonus may be *Reversionary* i.e. it would be payable along with the claim. It may be *Cash* i e. bonus would be payable immediately Bonus may be utilised by the policyholder in adjusting premium due from him. In that case it is known as *Bonus in Reduction of Premium*.

4. Books of Accounts for Life Insurance Business : The following are the books generally kept by a Life Insurance Business :—(i) Proposal Register, (ii) New Premium Cash Register, (iii) Renewal Premium Cash Register, (iv) Agency and Branch Cash Book (v) Petty Cash Book, (vi) Claims Cash Book, (vii) General Cash Book, (viii) Agency Credit Journal, (ix) Agency Debit Journal, (x) Register of Policyholders (xi) Register of Claims Advised, (xii) Lapsed & Cancelled Policies Books, (xiii) Chief Journal (xiv) Commission Book, (xv) Agency Ledger, (xvi) Policy Loan Ledger, (xvii) Investment Ledger, (xviii) General Ledger, (xix) Register of Insurance Agents.

5. Preparation of Final Accounts of Life Insurance Business : At the end of every financial year a Trial Balance is prepared from the General Ledger. From that Trial Balance a *Revenue Account* and a *Balance Sheet* are drawn in Forms D and A respectsvely, of the Indian Insurance Act, 1938.

Revenue Account : The Revenue Account is to be prepared in Form D of the Act. This Account does not exhibit the profit or loss of a life insurance business. It simply indicates the excess of income over expenditure, which is transferred to the *Life Assurance Fund*.

Items appearing on the Credit Side of Revenue A/c : (*i*) Life Assurance Fund as at commencement, (2) Premiums received less premiums paid for re-insurance, (3) Consideration for annuities granted, (4) Interest, Dividend, Rent less Income Tax, (5) Fines for getting lapsed policies revived, (6) Registration Fees, (7) Other incomes and gains, etc. All the incomes must be adjusted for outstanding items.

Items appearing on the Debit Side of Revenue A/c : (1) Claims including outstanding less re-insurance, (2) Annuities paid and due, (3) Surrenders, (4) Bonus in cash, (5) Bonus in Reduction of Premium, (6) Commission, (7) Expenses of Management, (8) Income Tax on Profits, (9) Bad Debts (10) Other Expenditures (11) Balance of Life Assurance Fund at close etc.

6. Ascertainment of Profit of Life Insurance Business :

The true profit or loss of a Life Insurance Business can only be ascertained by "*Actuarial Valuation*"* This valuation shall take place once at least in two years'. The Life Insurance Corporation of India gets the valuation done every two years. So, it can not ascertain its profit every year. The object of the actuarial valuation is to estimate the *present value* of the total future premium receivable on the existing policies and also the *present value* of total liabilities on these policies. The excess of the present liability on the existing policies over the present value of the total future premiums receivable is known as *Net Liability*. The Net Liability is set against the Life Assurance Fund. The excess of Life Assurance Fund over Net Liability would be *profit* of the Life Insurance Business. If the Net Liability exceeds the Life Assurance Fund, there will be *loss*.

Valuation Balance Sheet—The profit or loss shown by actuarial valuation is shown in a statement known as *Valuation Balance Sheet* which is shown below :—

Valuation Balance Sheet of............as at........ ......19......

Net Liability under business as shown in the summary and valuation of Policies.	Balance of Life Assurance Fund as shown in the Balance Sheet.
	Deficiency, if any.
Surplus, if any.	

7. **Treatment of Profits ascertained by actuarial valuation :** If there is profit a dividend may be declared and the remainder may be allocated towards bonus to the policyholders. Previously policyholders were entitled to $92\frac{1}{2}\%$ of the profit, but after nationalisation their share of profit has been raised to 95%. In order to find out the share of policyholders, interim bonus paid, if any, should be added back to the profit. Any expenses still to be met should be deducted from the profit.

8. **Ascertainment of Profit of General Insurance Business (i.e. Business other than Life) :** In case of marine, fire, accident and other insurances, the contracts are only for one year. So, there is no question of future liability. But a provision must be made for unexpired risks on the policies unmatured at the time of closing. The minimum reserve required is 40% of the net premiums. The Executive of the General Insurance Council has however recommended that in case of marine insurance the provision against unexpired risk should be 100% of net premiums and in case of other general insurance business the provision should be 50% of the net premiums. A Revenue A/c in prescribed form is to be prepared, which will reveal profit or loss unlike Life Insurance Revenue A/c.

Items appearing on the Credit Side of Revenue A/c :

(1) Provision against unexpired risk at the beginning of the year, (2) Premiums less re-insurance, (3) Interest and Dividend less Income Tax, (4) Other incomes, if any.

Items appearing on the Debit Side of Revenue A/c :

(1) Claims less covered by reinsurance, (2) Commission paid to agent, (3) Expenses of Management, (4) Other expenses and losses, (5) Provision against unexpired risks required at the end of the year.

If credit side is heavier, there is *profit*. On the other hand, if debit side is heavier, there is *loss*.

The profit or loss revealed by Revenue A/c is transferred to Profit & Loss A/c. Expenses, losses, gains and incomes not applicable to any particular insurance business will be shown in this account.

9, **Prescribed Forms for Revenue A/c, Profit & Loss A/c, Profit & Loss Apporpriation A/c and Balance Sheets for all types of Insurance Business :**

Notes : Notes as given in the prescribed Forms of the Act are not shown here.

FORM D

Form of Revenue Account Applicable to Life Insurance Business

Revenue Account of......for the year ended in respect of Business.

	Business within India	*Business out of India (a)*	*Total*		*Business within India*	*Business out of India*	*Total*
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Claims under Policies (including provision for claims due or intimated), less re-insurances				Balance of Fund at the beginning of of the year.			
By death				Premiums, *less* Re-insurances :— Ftrst year's premiums. Where the maximum premiums paying period is (*g*)			
By maturity				two years..........			
Annuities. *less* Reinsurances				three years			
Surrenders including surrenders of Bonus *less* reinsurances.				four years..............................			
Bonuses in Cash, *less* Reinsurances.				five years..			
Bonuses in Reduction of Premiums, *less* Reinsurances.				six years			
Expenses of Management (*b*)				seven years...........			
1. (*a*) Commission to Insurance agents *less* that on reinsurances.				eight years			
(*b*) Allowances and Commission other than commission included in sub-item (*a*) preceding				nine years.................			
2. Salaries, etc. other than to agents and those contained in item No. 1				twelve years or over including throughout life.			
3. Travelling expenses.							
4. Directors' fees.							

FORM B

Form of Profit and Loss Account

Profit and Loss Account of *for the year ended* 19

	Rs.		Rs.
Indian Central Taxes on the Insurer's Profits not applicable to any particular Fund or Account.		Interest, Dividends and Rent not applicable to any particular fund or Account.	
Expenses of Management not applicable to any particular Fund or Account		*Less*—Income-tax thereon	
Loss on Realisation of Investments not charged to Reserves or any particular Fund or Account.		Profit on realisation of Investments not credited to Reserves or any particular Fund or Account.	
Depreciation of Investments not charged to Reserve or any particular Fund or Account.		Appreciation of Investments not credited to Reserves or any particular Fund or Account.	
Loss transferred from Revenue Accounts (details to be given)		Profit transferred from Revenue Accounts (details to be given).	
		Transfer Fees.	
Other Expenditure to be specified		Other incomes to be specified.	
Balance for the year carried to Appropriation Account		Balance being loss for the year carried to Appropriation Account.	

FORM C

Form of Profit and Loss Appropriation Account

Profit and Loss Appropriation Account *for the year ended* 19......

	Rs.		Rs.
Balance being loss brought forward from last year.		Balance brought forward from last year Rs...... *Less*—Dividends since paid in respect of last year (to be specified and if free of tax to be so stated).	
Balance being loss for the year brought from Profit and Loss Account as in Form B.		Balance for the year brought from Profit and Loss Account as in Form B.	
Dividends paid during the year on account of the current year to be specified and if free of tax to be so stated.		Balance being loss at end of the year as shown in the Balance Sheet.	
Transfers to any particular Funds or Account (details to be given).			
Balance at end of the year as shown in the Balance Sheet.			

Note : Form A is applicable for preparation of Balance Sheets of all types of Insurance Businesses.

FORM A

Form of Balance-Sheet

Balance Sheet of *as at* 19......

		Life and Annuity Business (1)	*Other Classes of Business* (2)	*Total*		*Life and Annuity Business* (1)	*Other Classes of Business*	*Total*
		Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Shareholders' Capital (each class to be stated separately).					**Loans :**			
Authorised :	Rs.				On Mortgages of property within the States.			
......shares of Rs .....each					On Security of municipal and other public rates			
					On Stocks and shares			
Subscribed : ......shares of Rs......each					On Insurer's Policies within their surrender value			
					On personal security.			
Called up :					To Subsidiary Companies (other than Reversionary) *(f)*			
......shares of Rs......each Less unpaid calls					Reversions and life Interests Purchased			
					Loans on Reversions and life Interests			
					Debentures stocks of Subsidiary Reversionary Companies *(f)*			
					Ordinary Stocks and Shares of Subsidiary Reversionary Companies *(f)*			
Reserve of Contingency Accounts *(a)*					Loans to subsidiary Reversionary Companies *(f)*			
Investment Reserve Account					**Investments :**			
					Deposit with the Reserve Bank of India (securities to Be specified)			
Profit and Loss Appropriation Account					Indian Government Securities			

FORM A (Contd.)

	Life and Annuity Business (1)	*Other Classes of Business* (2)	*Total*
	Rs.	Rs.	Rs.
Balances of Funds and Accounts :			
Life Insurance Funds—			
(*i*) Business in India			
(*ii*) Business outside India			
Fire Insurance Business Account			
Marine Insurance Business Account			
Miscellaneous Insurance Business Account (*m*)			
Other accounts, if any to be specified (*l*)			
Pension or Superannuation Accounts (*b*)			
Debenture Stock per cent			
Loans and advances (*c*) :			
Bills payable (*c*)			
Estimated Liability in respect of outstanding claims, whether due or intimated (*d*)			
Annuities due and unpaid (*d*)			
Outstanding Dividends			

	Life and Annuity Business (1)	*Other Classes of Business* (2)	*Total*
	Rs.	Rs.	Rs.
State Government Securities			
British, British Colonial and British Dominion Government Securities—			
Foreign Govt. Securities			
Indian Municipal Securities			
British and Colonial Securities			
Foreign Securities			
Bonds Debentures, Stocks and other Securities whereon interest is guaranteed by the Indian Govt. or a State Govt.			
Bonds, Debentures, Stocks and other Securities where on interest is guaranteed by the British or any Colonial Govt.			
Bonds, Debentures, Stocks and other Securities whereon interest is guaranteed by any Foreign Govt.			
Debentures of any Railway in India			
Debentures of any Railway out of India			
Preference or guaranteed Shares of any Railway in India			
Preference or guaranteed Shares of any Railway out of India			
Railway Ordinary Stocks (*i*) in India, (*ii*) out of India			
Other Debentures and Debenture Stocks of companies incorporated. (*i*) in India, (*ii*) out of India			
Other guaranteed and preference stocks and shares of companies incorporated, (*i*) in India, (*ii*) out of India			

FORM A (Contd.)

	Life and Annuity Business (1)	*Other Classes of Business* (2)	*Total*		*Life and Annuity Business* (1)	*Other Classes of Business* (2)	*Total*
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Amounts due to other Persons or Bodies carrying on Insurance Business				Other Ordinary Stocks and Shares of companies incorporated (*i*) in India, (*ii*) out of India			
Sundry Creditors including outstanding and accruing expenses and Taxes (*c*)				Holdings in Subsidiary Companies (*f*)			
Other sums owning by the Insurer (particulars to be given) (*c*)				House property, (*i*) in India, (*ii*) out of India			
Contingent Liabilities (to be specified)				Freehold and Leasehold ground rents and rent charges			
				Agent's Balances			
				Outstanding Premiums (*g*) (*d*)			
				Interest, Dividends and Rents outstanding (*d*)			
				Interest, Dividends and Rents accruing but not due (*d*)			
				Amounts due from other persons or bodies carrying on Insurance Business (*b*)			
				Sundry Debtors (*i*)			
				Bills Receivable			
				Cash			
				At Bankers on Deposit Account			
				At Bankers on Current Account and in hand			
				At call and short notice (*j*)			
				Other Accounts (to be specified) (*k*)			

Illustration 1 *(Life Insurance Revenue A/c ; Valuation Balance Sheet)*

The Quinquennial valuation of Northern India Life Insurance Co, Ltd. having a paid up capital of Rs. 5,00,000 disclosed a net liability of Rs. 46,50,000 on all their policies and contracts in force on 31. 12. 1950.

From the figures set out below, prepare the Revenue Account for the five years ended 31. 12. 1950 and a valuation Balance Sheet as on that date showing the surplus for the Shareholders and Policyholders :

	Rs.
Life Insurance Fund on 1st January '46	50,00,000
Premiums	25,80,000
Interests, Dividends & Rents ...	15,20,000
Fines for revival of lapsed Policies ...	1,250
Consideration for annuities granted ...	·85,000
Claims ...	2,80,000
Reinsurances (Irrecoverable) ...	2,000
Expenses of Management ...	2,30,000
Commission ...	1,15,000
Bonuses in reduction of Premium	3,550
Annuities ...	1,14,000
Surplus on revaluation of reversions	9,000
Surrenders ...	1,70,000
Income-Tax ...	2,40,000
Bonus in Cash ...	1,12,500

(Patna University, B. Com. 1952)

Solution

The Northern Life Insurance Co. Ltd.
Revenue A/c for the year ended 31st Dec. 1950
(In respect of Life Business)

	Rs.		Rs.
1. Claims under Policies :	2,80,000	1. Life Insurance Fund at the beginning	50,00,000
By Death		2. Premiums :	25,80,000
By Maturity		(i) 1st year Premiums	
2. Annuities	1,14,000	(ii) Renewal Premiums	
3. Surrenders	1,70,000	(iii) Single Premiums	
4. Bonuses in Cash	1,12,500	3. Consideration for Annuities Granted	85,000
5. Bonuses in Reduction of premiums	3,550	4. Interest, Dividends and Rents	15,20,000
6. Expenses of Management :	3,45,000	5. Registration Fees	—
(i) Commission (Rs. 1,15,000)		6. Other Incomes :	
(ii) Salaries etc,		Fines for Revival of lapsed Policies	1,250
(iii) Travelling Expenses		Surplus on Revaluation of reversions	9,000
(iv) Directors' Fees			
(v) Auditor's Fees			
(vi) Medical Fees			
(vii) Law Charges			
(viii) Advertisements			
(ix) Printing & Stationery			
(x) Other Expenses of Management			
(xi) Rent of Offices			
7. Bad Debts	—		
8. Taxes (Income)	2,40,000		
9. Other Expenditures	—		
10. Re-insurances (Irrecoverable)	2,000		
11. Life Insurance Fund at the end	79,28,200		
	91,95,250		91,95,250

Valuation Balance Sheet

as at 31st Dec. 1950

	Rs.		Rs.
Net Liability under business as shown in the summary and Valuation of Policies	46,50,000	Balance of Life Insurance Fund as shown in the Balance Sheet	79,28,200
Surplus, if any	32,78,200	Deficiency, if any	—
	79,28,200		79,28,200

Illustration 2 *(Life Insurance Revenue A/c & Balance Sheet)*

From the following figures relating to the Devonshire Life Assurance Co. compile its Revenue Account and Balance Sheet for the year ending 31st December, 1951, in the prescribed form, Shareholders' Capital, Rs. 2,50,000 in 2,500 shares of Rs. 100 each, with Rs. 10 paid up on each :—

	Rs.		Rs.
Shareholders' undivided Profits	33,786	Mortgages in India	1,72,332
Life Assurance Fund on 1st Jan. 1951, including paid up capital and undivided Profits	18,25,412	Loans on Company's Policies	90,152
Claims by death	93,067	Freehold Ground Rent	12,18,310
Claims matured by Survivance	47,466	Claims admitted but not paid	5,846
Surrenders	8,636	Claims announced but not admitted	22,846
Commission	8,224	Government Securities	1,47,259
Premium	1,34,872	Railway Shares etc.	74,145
Interest, Dividends & Rents received	72,563	Houses Property	1,05,292
Management Expenses	25,860	Agents' Balances outstanding	19,976
Dividends to Shareholders	3,265	Outstanding Interest & Rents receivable	16,968
Fines and Fees	201	Outstanding Premiums— Head Office	1,465
Income-tax	3,525	Sundry Creditors	142
Written off Securities upon Revaluation	17,089	Cash in-hand and at Bank	5,994
		Furniture & Fittings	2,857

(National Union of Teachers—Adapted)

Solution

Devonshire Life Insurance Co. Ltd.

Revenue A/c for the year ended December 31, 1951

(In respect of Life Business)

	Rs.		Rs.
1. Claims under Policies :		1. Life Insurance Fund at the Beginning	17,66,62
By Death	93,067	2. Premiums :	1,34,87
By Maturity	47,466	(i) 1st year Premiums	
2. Annuities	—	(ii) Renewal Premiums	
3. Surrenders	8,636	(iii) Single Premiums	
4. Bonuses in Cash	—	3 Consideration for Annuities Granted	—
5. Bonuses in Reduction of Premiums	—	4. Interest, Dividends & Rents	72,56
6. Expenses of Management :	34,084	5. Registration Fees	—
(i) Commission (Rs. 8,224)		6. Other Income :	
(ii) Salaries etc.		Fines & Fees	20
(iii) Travelling Expenses			
(iv) Directors' Fees			
(v) Auditor's Fees			
(vi) Medical Fees			
(vii) Law Charges			
(viii) Advertisements			
(ix) Printing & Stationery			
(x) Other Expenses of Management			
(xi) Rent for Offices			
7. Bad Debts	—		
8. Taxes (Income)	3,525		
9. Other Expenditure	—		
10. Depreciation of Securities (Written off)	17,089		
11. Life Insurance Fnud at the end	17,70,395		
	19,74,262		19,74,26

Balance Sheet

as at December 31, 1951

Liabilities	Rs.	*Assets*	Rs.
1. Shareholders' Capital : 2,500 shares of Rs. 100 each, Rs. 10 paid up	25,000	1. Loans :	
		(i) On mortgage of property	1,72,332
2. Reserve or Contingency A/cs :	—	(ii) On security of municipal and other public rates	—
3. Profit & Loss Appro. A/c Balance :		(iii) On stocks and shares	—
On 1.1.1951 Rs. 33,786		(iv) On insurer's policies within their surrender values ..	90,152
Less Div. Paid Rs. 3,265	30,521	(v) On personal security	—
		(vi) To subsidiary Co's.	—
4. Balance of Funds A/cs : Life Insurance Fund	17,70,395	(vii) On reversion and life Interest ...	—
5. Debenture Stock	—		
6. Loans & Advances	—	2. Investments :	
7. Bills Payable	—	(i) Deposits with Reserve Bank of India ...	—
8. Estimated Liability in respect of outstanding claims, whether due or intimated ...	28,692	(ii) Government Securities	1,47,259
		(iii) Municipal Securities	—

Balance Sheet (Contd.)

9. Annuities due and Unpaid	—	(iv) Bonds, Debentures and Stocks whereon interest is guaranteed by the Govt. ...	—
10. Outstanding Dividends	—	(v) Railway Securities ...	74,145
11. Amounts due to other persons or Bodies Carrying on Insurance Business.	—	(vi) Securities of Companies ...	—
12. Sundry Creditors	142	(vii) Holdings in Subsidiary Companies ...	—
13. Other sums owing by the Insurer	—	(viii) Ground Rent & Rent charges ...	12,18,310
14. Contingent Liabilities	—	3. Agents Balances ...	19,976
		4. Outstanding Premiums ...	1,465
		5. Interest, Rent & Dividend Outstanding ...	16,968
		6. Int , Div., and Rent accruing but not due ...	—
		7. Amounts due from other persons and bodies carrying on Insurance Business ...	—
		8. Sundry Debtors ...	—
		9. Bills Receivable ...	—
		10. Cash :	
		(a) At Bank on Deposit A/c	—
		(b) At Bank on Current A/c and in hand ...	5,994
		(c) At call and Short notice	—
		11. Other Accounts :	
		Furniture & Fittings ...	2,857
		House Property ...	1,05,292
	18,54,750		18,54,750

Notes : (1) Life Insurance Fund at the beginning is ascertained as shown below :

Life Insurance Fund including paid up capital and undivided profits ...		Rs. 18,25,412	
Less Paid up capital	Rs. 25,000		
Undivided profits	Rs. 33,786		
		Rs. 58,786	
			Rs. 17,66,626

(2) Estimated Liability in respect of outstanding claims, whether due or intimated :

Claims admitted but not paid	Rs. 5,846	
Claims announced but dot admitted	Rs. 22,846	
		Rs. 28,692

Illustration 3 *(Revenue A/c, Profit & Loss A/c and Balance Sheet of Fire & Marine Business)*

From the following particulars of Inquilab Zindabad Insurance Co. Ltd. prepare separate Revenue A/cs of Fire and Marine Business and Profit & Loss A/c for the year ended 31st Dec. 19......, and a Balance Sheet as at that date :—

	Rs.	Rs.
Share Capital (4,000 Shares of Rs. 100 each)	...	4,00,000
Claims admitted but not paid :—		
Fire	...	4,620
Marine	...	9,808
Creditors	...	44,962
Due to Re-insurers :—		
Fire	...	2,471
Marine	...	4,143
Premium received :—		
Fire	...	3,56,418
Marine	...	8,59,960
Investments	4,06,980	
Freehold Premises	3,06,412	
Leasehold	12,604	
Agents' Balances	46,212	
Sundry Debtors	17,918	
Interest and Dividends		19,512
Income-Tax on above	4,513	
Other Receipts		807
Claims paid & outstanding—		
Fire	1,02,412	
Marine	2,61,512	
Expenses of Management—		
Fire	96,512	
Marine	1,42,218	
Commission—		
Fire	34,921	
Marine	62,857	
Interest accrued	919	
Office Furniture	14,761	
Preliminary Expenses	90,212	
Cash and Bank Balances	1,01,738	
	17,02,701	17,02,701

Provision for Unexpired risk is to be made at 40% of the Premium received.

(C. A. Final)

Solution

Inquilab Zindabad Insurance Co. Ltd.
Revenue A/c for the year ended 31st December, 19.
(In respect of Fire Business)

	Rs.	Rs.		Rs.
Claims less Reinsurances paid	97,792		Premium less Reinsurance	3,56,418
Add outstanding at the end of the year	4,620		Loss transferred to Profit & Loss A/c	19,994
		1,02,412		
Commission		34,921		
Expenses of Management		96,512		
Reserve for unexpired Risks (40% of Premium)		1,42,567		
		3,76,412		3,76,412

Revenue A/c for the year ended 31st December, 19......
(In respect of Marine Business)

	Rs.	Rs.		Rs.
Claims less Reinsurances paid	2,51,704		Premiums less Reinsurances	8,59,960
Add outstanding	9,808			
Commission		62,857		
Expenses of Management		1,42,218		
Profit transferred to Profit & Loss A/c		49,389		
Reserve for unexpired Risks (40% of Premium)		3,43,984		
		8,59,960		8,59,960

Profit & Loss Account for the year ended 31st December, 19......

	Rs.		Rs.	Rs.
Loss transferred from Fire Revenue Account	19,994	Interest, Dividends & Rents not applicable to any particular Fund or Account	19,512	
Balance being Profit at the end of the year as shown in the Balance Sheet	45,201	*Less* Income-Tax thereon	4,513	
				14,999
		Profit transfered from Marine Revenue Account		49,389
		Other Receipts		807
	65,195			6,5195

Balance Sheet as at 31st December, 19......

Liabilities	Rs.	*Assets*	Rs.
Shareholders' Capital—		Investment	4,06,980
		Freehold Premises	3,06,412
Authorised—		Leasehold	12,604
...Shares of Rs. 100 each	—	Agents' Balances	46,212
		Interest accrued	919
		Sundry Debtors	17,918
Subscribed—		Cash and Bank Balances	1,01,738
...Shares of Rs. 100 each	—	Office Furniture	14,761
		Preliminary Expenses	90,212
Called & Paid-up :—			
4,000 Shares of Rs. 100 each	4,00,000		
Reserve or Contingency A/cs—			
Profit & Loss A/c Balance	,201		
Balances of Funds & Accounts—			
Fire Insurance Business Account	42,567		
Marine Insurance Bussiness Account	3,43,984		
Estimated Liability in respect of outstanding Claims whether due or intimated	14,428		
Amounts due to other persons or carrying on Insurance business	6,614		
Sundry Creditors	44,962		
	9,97,756		9,97,756

(B) Assignment of Life Insurance Policies

In some cases a debtor assigns his life policy in favour of his creditor in full settlement of claim. If there is any short-payment, it will be his profit. Where there is no Policy A/c, it will have to be raised by crediting Proprietor's A/c. On the date of assignment Policy A/c and Creditor's A/c will be closed and short-payment, if any, will be taken as profit. Where Policy Reserve A/c is maintained, it will have to be adjusted with Policy A/c.

In the books of the Creditor Policy A/c will be recorded at surrender value and Debtor's A/c will be closed. The short-payment will be written off as bad-debts. If the creditor decides to keep up the policy, he may follow any of the methods of treatment of life policy as discussed earlier.

Journal Entries relating to Life Policy taken over in satisfaction of Debt :

Transactions	*Journal Entries*
1. On assignment of policy in settlement of debt :	Policy on Debtor's Life A/c Dr. To Debtor's A/c
2. For short-payment, if any :	Bad Debt A/c......Dr. To Debtor's A/c
3. If policy is maintained by paying premium :	Policy on Debtor's Life A/c Dr. To Cash or Bank A/c *(With the amount of Premium)*
4. For difference, if any, between the debit balance of Policy on Debtor's Life A/c and Surrender Value at the close of the year :	The amount of difference will be transferred to the P/L A/c and the balance of the Policy A/c will be carried down to the next year at Surrender Value.
5. On maturity of the Policy on Debtor's Life :	Cash or Bank A/c Dr. To Policy on Debtor's Life A/c
6. For closing the Policy on Debtor's Life A/c.	Policy on Debtor's Life A/c will be closed by transferring the difference, if any, to P/L A/c.

Illustration 4 *(Assignment of Insurance Policy)*

X owes Rs. 15,000 to Y for goods purchased. Being unable to meet this liability, X assigns his Life Policy of Rs. 25,000 to Y, on February 5, 1949 and obtains a complete discharge. Premium on the Policy, payable on 10th January each year (including days of grace) is Rs. 1,375 per annum. In view of X's old age, Y decides to pay the annual premium and keep the policy alive.

X dies on 7th March, 1952 and the policy money is received by Y on 25th march, 1952.

Y closes his accounts on 31st March every year.

The Surrender Values of the Policy were :

(a) Rs. 10,385 at the date of assignment ; (b) Rs. 10,400 on March 31 1949 ; (c) Rs. 11,147 on March 31, 1950 ; (d) Rs. 12,011 on March 31, 1951.

In Y's books show the Ledger Account of X and Life Policy Account o X and calculate the net profit or loss of Y on the policy.

(C. U. B. Com. (Adv.)1952

Solution

In the Books of Y

Dr. **X's Account** Cr.

1948		Rs.	1949		Rs.
April, 1	To Balance b/d	15,000	Feb. 5	By Policy on X's Life A/c „ Bad Debts A/c	10,38 4,61
		15,000			15,00

Dr. **Policy on X's Life A/c** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1949 Feb. 5	To X's A/c „ Profit and Loss A/c	10,385 15	1949 Mar. 31	By Balance c/d	10,40
		10,400			10,40
1949 April 1	To Balance b/d	10,400	1950 Mar. 31	By Profit and Loss A/c „ Balance c/d	62 11,14
1950 Jan. 10	To Bank A/c—Premium	1,375			
		11,775			11,77
1950 April 1	To Balance b/d	11,147	1951 Mar. 31	By Profit and Loss A/c „ Balance c/d	51 12,01
1951 Jan. 10	To Bank A/c—Premium	1,375			
		12,522			12,52
1951 April 1	To Balance b/d	12,011	1952 Mar. 25	By Bank A/c—Policy money received on maturity.	25,00
1952 Jan. 10	To Bank A/c—Premium	1,375			
Mar. 31	To Profit & Loss A/c—Profit transferred.	11,614			
		25,000			25,00

(C) Fire claims for Stock

In order to ascertain loss of stock by fire, the following procedure may be adopted :—

(1) Calculate the ratio or percentage of gross profit on turn over.

(2) Ascertain the amount of sales from the beginning of the year up to the date of fire.

(3) Ascertain the amount of purchases from the beginning of the year up to the date of fire.

(4) Calculate the amount of estimated gross profit.

(5) On the basis of sales, purchases, opening stock, and estimated gross profit, a Memorandum Trading A/c from the beginning of the year up to the date of fire may be compiled.

(6) The balancing figure in the Memorandum Trading A/c will be the estimated value of stock on the date of fire.

(7) Salvage retained by insured, if any, should be deducted from the stock on the date of fire, to get the claim.

1. **Preparation of Memorandum Trading Account** : A Memorandum Trading A/c may be prepared as follows :—

Dr. **Memorandum Trading A/c** Cr.

	Rs.		Rs.
To Opening Stock A/c	......	By Sales A/c	
,, Purchases A/c	......	,, Stock Destroyed by Fire A/c	
,, Various Expenses A/c	......	*(Balancing Figure)*	
,, Estimated Gross Profit	......		
	......		

2. **Journal Entries relating to Fire claims for Stock :**

Transactions	*Journal Entries*
1. To incorporate the stock destroyed by fire in the books of accounts :	Stock Destroyed by Fire A/c ... Dr. To Trading A/c *(With the estimated Value)*
2. On admission of claim by Insurance Company :	Insurance Company A/c ... Dr. To Stock Destroyed by Fire A/c *(With the amount admitted)*
3. On payment of claim by Insurance Company :	Cash or Bank A/c ... Dr. To Insurance Company A/c
4. For the amount of loss not admitted :	Fire Loss A/c ... Dr. To Stock Destroyed by Fire A/c *(With the difference between estimated Value and amount admitted.)*

Illustration 5 *(Fire claims for stock)*

Fire occured in the premises of A & Company on 1st Sept. 1955 and stock of the value of Rs. 1,01,000 was salvaged and the business books and records were saved. The following information was obtained :

	Rs.
Purchases for the year ended 31-3-55	7,00,000
Sales for the year ended 31-3-55	11,00,000
Purchases from 1-3-55 to 1-9-55	2,40,000
Sales from 1-3-55 to 1-9-55	3,60,000
Stocks on 31st March, 1954	3,00,000
Stocks on 31st March, 1955	3,40,000

Further information is also given that the stock on 31-3-55 was overvalued by Rs. 20,000.

Calculate the amount of the claim to be presented to the Insurance Company in respect of losses. Rate of gross profit based on the year ended 31-3-55. (C. U. B. Com. (Adv.) 1966)

Solution :

Trading Account

Dr. for the year ended 31st March, 1955 Cr.

	Rs.		Rs.
To Opening Stock	3,00,000	By Sales	11,00,000
,, Purchases	7,00,000	,, Closing Stock	3,20,000
,, Balance c/d—Gross Porfit	4,20,000	(3,40,000—20,000)	
	14,20,000		14,20,000

Rate of Gross Profit on Sales $= \frac{4,20,000 \times 100}{11,00,000} = 38{\cdot}18$ (approx.)

Memorandum Trading A/c

Dr. for the period ended 1st September, 1955 Cr.

	Rs		Rs,
To Opening Stock	3,20,000	By Sales	3,00,000
,, Purchases (2,40,000 × 5/6)	2,00,000	(3,60,000 × 5/6)	
,, Gross Profit	1,14,540	,, Closing Stock	3,34,540
@ 38 18% on Rs 3,00,000)		(Balancing Figure)	
	6,34,540		6,34,540

Notes : (i) Purchases for 6 months (i.e. from 1-3-55 to 1-9-55) ... Rs. 2,40,000

∴ Purchases for 5 months (i.e. from 1-4-55 to 1-9-55) =Rs. 2,40,000×5

=Rs. 2,00,000

(ii) Sales for 6 months (i.e. from 1-3-55 to 1-9-55) ... Rs. 3,60,000

∴ Sales for 5 months (i.e. from 1-4-55 to 1-9-55) =Rs. 3,60,000×5

Rs. 3,00,000

Statement of claims

Closing Stock	Rs. 3,34,540	
Less Salvage	Rs. 1,01.000	
∴ Net Claim		Rs. 2,33,540

(D) Marine Insurance Claims

Illustration 6 *(Marine Insurance Claims)*

The Indian Jalajan Co. Ltd. insure their fleet of vessels for the year 1955 at a valuation of Rs. 50 lakhs. The terms settled are a premium of 6%, a brokerage of 5%, a discount of 10% and a charge of 1% for collection of claims.

The following claims arise during the year : (i) Damage to Bhagirathi agreed at Rs. 10,000. (ii) Total Loss of Godavari agreed at Rs. 3,00,000.

The brokers collect the above claims and pay net proceeds to the company.

In the books of the company, show the Journal Entries for the above transactions and also the Brokers' Account in the Ledger.

(C.U. B. Com. (Adv.) 1956)

Solution

Calculation :

Gross Premium @ 6% on Rs. 50,00,000 = Rs. 3,00,000
Brokerage @ 5% on Rs. 3,00,000 = Rs. 15,000
(Gross Premium Rs. 3,00,000—Brokerage Rs. 15,000) = Rs. 2,85,000
Discount @ 10% on Rs. 2,85,000 = Rs. 28,500
∴ Premium to be paid to Broker will be as follows :
Rs. 3,00,000—Rs. 28,500 = Rs. 2,71,500

In the books of the Company

Journal Entries

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
(1)	Insurance A/c ... Dr. To Brokers A/c (Being premium due to Brokers Less discount @ 10%)		2,71,500	2,71,500
(2)	Brokers' A/c ... Dr. Commission A/c ... Dr. To Repairs A/c Being damage to Bhagirathi accepted and collection charge @ 1% allowed)		9,900 100	10,000
(3)	Brokers' A/c ... Dr. Commission A/c ... Dr. To S. S. Godavari A/c (Being amount for damage to S. S. Godavari accepted and collection charge @ 1% allowed,)		2,97,000 3,000	3,00,000

Brokers A/c

Dr.	Rs.	Cr.	Rs.
To Cash A/c (Paid to Brokers)	2,71,500	By Insurance A/c	2,71,500
" Repairs	9,900	" Cash A/c (Paid by Brokers)	9,900
" S. S. Godavari A/c	2,97,000	" Cash A/c (Paid by Brokers)	2,97,000
	5,78,400		5,78,400

EXERCISE

(A) Accounts of Insurance Company :

1. The undermentioned particulars have been extracted from the books of Alpha Assurance Co. Ltd. You have been asked to prepare the Revenue Account for the year ended 31st December, 1966 from those particulars.

Claims paid and outstanding : By Death Rs. 3,00,700 ; By Maturity Rs. 2,50,100 ; Annuities granted Rs. 20,000 ; Surrenders Rs. 25,000 ; Bouus in Reduction of Premium Rs. 4,000 ; Management Expenses : Commission Rs. 2,10,000 ; Salaries Rs, 50,000 ; Travelling expenses Rs. 3,000 ; Directors' Fees Rs. 10,000, Auditors' fees Rs. 5,000 ; Miscellaneous Expenses Rs. 7,500 ; ·Life Fund at the beginning of the year Rs. 20,00,750 ; Premium Rs. 15,00,600 ; Consideration for Annuities Granted Rs. 80,000 ; Interest and Dividends less. Income Tax Rs. 2,65,000 ; Policy Renewal and other fees Rs. 2,500.

The following adjustments are required :

(i) Re-insurance Premium Rs. 40,000 ; (ii) Outstanding Premium Rs. 50,000 ; (iii) Depreciation to Furniture Rs. 750.

(North Bengal University, B. com, Part II (Adv.) 1967)

(Ans : Life Insurance Fund at the end of the year Rs. 29,72,800)

2. On 31st December, 1956, the books of the Janata Insurance Co. Ltd. contained the following particulars in respect of fire Insurance :

		Rs.
Reserve for unexpired risk on 31st Dec. 1955		5,00,000
Additional Reserve on 31st December, 1955	...	1,00,000
Claim paid	...	6,40,000
Estimated liability in respect of outstanding claims :		
On 31st Dec. 1955	...	65,000
On 31st Dec. 1956	...	90,000
Expenses of managements (including Rs. 30,000 legal expenses paid in connection with claims)	...	2,80,000
Re-insurance Premiums	...	75,000
Re-insurance Recoveries	...	20,000
Premiums	...	11,20,000
Interest and Dividends	...	65,520
Income Tax on above	...	6,000
Profit on Sale or Investments	...	11,000
Commission	...	1,52,000

Prepare the Fire Insurance Revenue Account for the year 1956, reserving

50 per cent of the premiums for unexpired risks and keeping an additional reserveof Rs. 1,00,000. (Institute of Bankers, 1957)

(**Ans.** : Profit for the year Rs. 15,500)

3. The Revenue Account of a Life Assurance Company showed its Life Fund at Rs. 75,00,975, but it was subsequently discovered that the undermentioned items were inadvertently left out of the account :

(i) Claims intimated but not yet admitted—Rs. 75,000 ; (ii) bonuses in reduction of premium—Rs. 37,000 ; (iii) Outstanding premiums—Rs. 25,000 ; (iv) Surrenders - Rs. 15,000 ; (v) transfer fees—Rs. 500.

You are asked to journalise the entries in the books of the company and to show the Life Fund at its correct figure. (Gauhati University; B.Com. 1955)

(**Ans** : Life Fund Rs. 73,99,475)

4. From the undermentioned balances prepare the Revenue Account of the Everest Life Assurance Co. Ltd., —

Claims paid & outstanding :		Rs.	Life Fund at the	Rs.
By death	1,50,750		beginning of the	
Maturity	1,45,250		year (1.1.43)	7,50,000
		2,96,000	Premium (Net)	4,50 ,000
Surrenders including			Interest less	
Surrenders of Bonuses		50,000	Income Tax	20,000
Bonus in Reduction of Premium		2,000		
Expenses of Management		25,000		
Fund at the close of the year		8,47,000		
		12,20,000		12,20,000

The following adjustments a required :—

(i) Outstanding Premiums s 25,000/-, (ii) Depreciation of Furniture —Rs 1,000/- ; (iii) Outstanding rent on account of office premises Rs. 600/- and (iv) Transfer fee receipt Rs. 100/-

(C U. B.Com (Adv.) 1947)

(**Ans** : Life Fund at the end of the year Rs. 8,70,500)

(B) **Assignment of Policy :**

5. A debtor owing Rs. 50,000 being unable to repay the debt, assigns in favour of his creditor a Life Policy for Rs. 60,000 having a surrender value of Rs. 45,000. The creditor realises the surrender value immediately.

Show necessary accounts and close them in the creditors' books.

(C.U. B. Com. (Adv.) 1963)

Ans : Bad Debts Rs. 5,000 ,)

6. Raman was indebted to Kamal for Rs. 52,000. Being unable to make the payment of the debt in cash, on 1st Jaunary, 1956, he assigned his Life Assurance Policy, the value of which on maturity would amount to Rs. 80,000 and the surrender value at the date af assignment was Rs. 30,000. The annual premium was Rs. 5,500 payable on 31st December every year.

Raman was 55 years of age on 1st January, 1956 and died on 2nd January, 1960. After the assignment Kamal continued to pay the premium to keep the Policy in force. The surrender value of the Policy was as under :—

		Rs.
On 31st December, 1956	...	32,000
On 31st December, 1957	...	34,500
On 31st December, 1958	...	40,000
On 31st December, 1959	...	50,000

On the death of Raman the money payable under the policy was recieved by Kamal on 20th January, 1960.

Show the necessary Ledger Accounts in the books of Kamal

(I.C.W.A.—Final)

(Ans : Policy on Raman's Life A/c—Cr. Balance Rs. 30,000 (transferred to P/L A/c))

7. Bhagirathi purchased goods from Dasarathi during the last five years. Owing to financial difficulties he could not pay his outstanding dues to the extent of Rs. 16,000. He agreed to assign his Life Assurance Policy on 1st January, 1958, in full discharge of his liabilities. The policy was for Rs. 25,000 without profit payable on 1st July, 1965, or on death, if earlier. The annual prmium was Rs. 1,050. Dasarathi kept the policy alive by paying annual premium on 1st July, 1958, and thereafter. The surrender value of the policy as at 31st December, 1958, was Rs. 10,500; at 31st December, 1959, was Rs. 11,900; at 31st December, 1960, was Rs. 13,600; at 31st December, 1961 was Rs. 16,000. Bhagirathi died on 5th August, 1962, and the policy money was duly paid by the Insurance Company on 31st August, 1962.

Show the necessary Ledger Accounts in the books of Dasarathi.

(I. C. W. A.—Final)

(Ans. : Policy on Bhagirathi's Life A/c—Cr. Balance Rs. 7,950 (transferred to P/L A/c.))

8. Siva Ram, being unable to pay Ganapati & Co. his debt of Rs. 2,500 makes an assignment to him on 1st January, 1941, of a life policy for Rs. 4,000 (without profits). The annual premium to keep the policy in force is Rs. 200,

payable on 31st December and Ganapati & Co. electing to pay the annual premiums when they became due, pays first premium on 31st December, 1941. The surrender values of the policy were as follows: 31st December, 1940 Rs. 1,440; 31st December, 1941 Rs. 1,530; 31st December, 1942 Rs. 1,660 and 31st December, 1943 Rs. 1,820. Shiva Ram dies on the 1st December, 1944 when the policy money Rs. 4,000 is paid. Show the entries recording the transactions in Ganapati & Co.'s books.

(C. A.—Final)

(Ans.: Policy on Shiva Ram's Life—Cr. Balance Rs. 2,180 (transferred to P/L A/C.))

(C) **Fire Claims :**

9. A Fire occured at the premises of a trader on May 31, destroying a great part of his stock which at January 1, appeared in the books at Rs. 60,000. The value of the stock salvaged was Rs. 13,500. The gross profit on sales was 30 percent and sales amounted to Rs. 1,53,000 from January, 1 to date of fire, while for the same period the purchases amounted to Rs. 1,03,500.

Prepare a statement of claim for submission to the Insurance Company.

(Ans: Closing Stock on the date of fire Rs. 56,400; Net Claim Rs. 42,900.)

10. A owns two Godowns, Godown No. 1 was completely destroyed by fire. The cost of stock lying in Godown No. 2 at that time was Rs. 21,900. The following particulars are also available :

	Rs.
Total Opening Stock of both Godowns at cost	45,660
Total Purchases	2,81,340
Total Sales (at a gross profit of $33\frac{1}{3}\%$ on sales)	4,20,600

Prepare a statement showing the value (at cost) of the Stock in Godown No. 1 for the purpose of preferring a claim on the Insurance Company.

(C. U. B. Com. (Adv.) 1963)

(Ans: Stock on the date of fire Rs. 46,600; Net Claim Rs. 24,700.)

11. A fire occured on 15th April, 1944 and destroyed the business premises of J & Co. The books of accounts and stock amounting to Rs. 18,000 were saved and the following information were available from the books :—

	Sales Rs.	Gross profit Rs.
Year-ended 31. 12. 39	8,60,000	2,15,000
,, 31 12. 40	7,10,000	2,13,000
,, 31. 12. 41	6,00,000	2,00,000
,, 31 12. 42	5,50,000	1,87,000
,, 31. 12. 43	4,80,000	1,60,000

The Stock on 31. 12. 43 was valued at Rs. 97,000. The Purchases, Sales and Wages from 1.1.44 to 14.4.44 were ascertained at Rs. 75,000, Rs. 1,59,000 and Rs. 30,000 respectively.

You are required to prepare a statement in support of your claim against the Insurance Company together with any comments you may deem necessary to make. (C. U. B.Com. (Adv.) 1960)

(Ans. : Stock on the date of fire Rs. 91,445 ; Claim from Insurance Co. Rs. 73,445.)

12. On the night of the 30th April, 1964, a fire destroyed the greater part of the Premises of Sitalpur Company Ltd. Stock to the value of Rs. 3,724 and the books were saved from the fire. The average rate of gross profit earned by the Company in the past three years was 25 per cent on turnover.

The Stock at 1st January, 1964, was valued at Rs. 19,720. Sales during the period 1-1-64 to 30-4-64 amounted to Rs. 26,500, purchases to Rs. 15.632 and productive wages to Rs. 4,572.

Prepare a statement in support of a claim for loss of stock to be made on the Insurance Company. (I.C.W.A.—Final)

(Ans. : Insurance claim Rs. 16,325.)

CHAPTER XXVII

INVESTMENT ACCOUNTS

1. Investment Ledger : Some concerns such as Bank, Insurance Company etc. possess various types of investments viz. Govt. Securities, Bond, Shares, Debentures etc. In these concerns and in other institutions where investment transactions are numerous, it is necessary to keep an *Investment Ledger* where each type of investment will be recorded in a separate account maintained in it.

2. Investment Account : An Investment A/c is generally maintained in three columns viz. (i) Nominal, (ii) Income or Interest and (iii) Capital or Principal.

(i) *Nominal Column*—It gives the face value of the security.

(ii) *Income or Interest Column*—It gives the amount of interest receivable or payable.

(iii) *Capital or Principal Column*—It gives the amount paid for the security proper and includes the brokerage and stamp duty,

3. Ruling of Investment Account maintained in the Investment Ledger :

(Name of the Investment A/c)

Dr. (Interest payable on......) Cr.

Date	Particulars	Nominal		Income		Capital		Date	Particulars	Nominal		Income		Capital	
		Rs.	P.	Rs.	P.	Rs.	P.			Rs.	P.	Rs.	P.	Rs.	P.

4. Cum-interest (or Cum-dividend) & Ex-interest (or Ex-dividend) :

Investments may be purchased or sold either cum-interest (or cum-dividend) or ex-interest (or ex-dividend). If purchased or sold cum-interest, the interest falling due on the next date will be received by the buyer. It means in case of cum-interest sales, the contract price consists of the capital and accrued interest thereon.

When purchased or sold ex-interest, the interest will be received by the seller. It means the price quoted for sale is for the bare security only without interest.

"Normally, shares are bought and sold *Cum-dividends*, since the registered holder of shares only has the right to receive dividend even though a part of it may relate to the period before he acquired them (sec. 206, Companies Act 1956)."

"The buyer of an investment normally acquires the right to the next dividend i.e. it is cum-dividend unless the investment is purchased ex-dividend."

5. Rules for filling up the Columns of Investment A/c when sold or purchased Cum-interest (or Cum-dividend) :

(1) Nominal Column—

The face value or nominal value of investment purchased or sold will be recorded on debit and credit sides respectively.

(a) *At the time of purchase* : (a) Investment A/c ... Dr.
To Cash A/c

(b) *At the time of sale* : (b) Cash A/c ... Dr.
To Investment A/c

(2) Income Column—

(a) *At the time of purchase* : Net Interest (i.e. gross interest from the previous date of receipt of interest to the date of transaction minus income tax) is to be recorded on the *debit side* against the entry "To Cash A/c"

(b) *At the time of sale* : Net Interest is to be recorded on the *credit side* against the entry "By Cash A/c",

(c) *At the time of receiving interest* : (c) Cash A/c ... Dr.
To Investment A/c

(3) Capital Column—

Actual cost of the investment is recorded in this column as shown below :—

(a) *At the time of purchase :* Record on the *debit side* against the entry "To Cash A/c" :—

Cost of the investment	...
Add Brokerage etc.	...
	...
Less Accrued Interest	...
∴ **Capital cost**	...

(b) *At the time of sale* : Record on the *credit side* against the entry "By Cash A/c" :—

Cost of the investment	...
Add Brokerage etc.	...
	...
Less Accrued Interest	...
∴ **Capital cost**	..

6. **Rules for filling up the columns of Investment A/c when sold or purchased ex-interest (or ex-dividend) :**

(1) **Nominal Column**—It will be filled up in the same way as in the previous case.

(2) **Income Column**—

(a) *At the time of purchase :* Record on the *credit side* the Net Interest (i.e. gross interest from the date of transaction to the next date of receipt of interest) with the words "By Transfer (contra)",

(b) *At the time of sale* : Record on the *debit side* the Net Interest with the words "To transfer (contra)".

(c) *At the time of receiving Interest* : Cash A/c ... Dr.
To Investment A/c

(3) **Capital Column**—

(a) *At the time of purchase* ; (i) Record on the *debit side* the actual cost plus brokerage etc. against the entry "To Cash A/c". and (ii) debit Investment A/c with the words "To Interest (contra)."

(b) *At the time of sale* : (i) Record on the *credit side* the actual cost *minus* brokerage etc. against the entry "By Cash A/c". and (ii) credit Investment A/c with the words "By Interest (contra)".

7. **Closing of an Investment A/c :**

(a) At the end of the financial year, the balance in the *Nominal-Column* will be equal to the total of the face-values of investments in hand.

(b) The accrued interest (i.e. interest due from the previous date of receipt to the last date of the accounting year) is to be calculated on the total face-value and then to be recorded in the *Income Column* on the credit side against "Balance c/d"

(c) The proportionate capital cost of the balance of investments is to be recorded in the *Capital Cloumn* on the credit side against "Balance c/d."

(d) The difference between the two *Income-Coloums* represents income earned during the related period. This income is transferred to *Interest A/c.*

(e) The difference between the two *Capital-Columns* represents the profit or loss on sale of investments. This amount of profit or loss is transferred to "*Profit or Loss on Sale of Investment A/c.*"

Illustration 1 *(Cum-Interest)*

On March 1, 1954 an investor purchases Rs. 50,000 4% Debentures (face value Rs. 100) @ Rs. 102·25, brokerage and charges amounting to Rs. 256·25, interest being payable on June, 1 and December, 1. On 1st August, 1954 he purchases further Rs. 60,000 such Debentures @ Rs. 102·125, brokerage and other charges amounting to Rs 313·50.

Draw up the investment A/c for 1954. Ignore income tax and calculate interest in months and to the nearest paisa. (C.U. B. Com (Adv.) 1955)

Solution

Notes : (1) If neither cum-int. nor ex-int. is mentioned, it will always be taken to be as cum-interest.

(2) Capital cost of 500 Debentures purchased on March 1,1954 is shown below :—

		Rs.
Cost of 500 Debentures of Rs. 100 each @ 102·25		51,125·00
Add Brokerage etc.	...	256·25
		51,381·25
Less Accrued Interest for 3 months i.e. Dec. 53 and Jan. and Feb. 1954 @ 4%		500·00
∴ **Capital Cost**	...	50,881·25

(3) Capital cost of 600 Debentures purchased on Aug. 1, 1954 is shown below :—

Cost of 600 Debentures of Rs. 100 each @ 102·125		61,275·00
Add Brokerage etc.	...	313·50
		61,588·50
Less Accrued interest for 2 months i.e. July and Aug. '54 @ 4%		400·00
∴ **Capital Cost**	...	61,188·50

(4) Assumed that the financial year is closed on 31st December.

(5) Accrued interest on Rs. 1,10,000 for 1 month i.e. Dec. 54 @ 4% will be Rs. 366·67.

4% Debenture A/c

Dr. Interest Payable : June, 1 & Dec. 1. Cr.

Date	Particulars	Nominal	Income	Capital	Date	Particulars	Nominal	Income	Capital
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1954 Mar. 1	To Cash A/c (cost of 500 Debentures @ 102·25 cum-int. plus brokerage etc.)	50,000	500	50.881·25	1954 June. 1	By Cash A/c (Int. on Rs. 50,000 for 6 months from Dec. 1 '53 @ 4%)	—	1,000·00	—
Aug. 1	To Cash A/c (Cost of 600 Debentures @ 102·125 cum-int. plus brokerage etc.)	60,000	400	61,188·50	Dec. 1	By Cash A/c (Int. on Rs. 1,10,000 for 6 months @ 4%)	—	2,200·00	—
Dec. 31	To Interest A/c —transfer	—	2,666·67	—	Dec. 31	By Balance c/d	1,10,000	366·67	1,12,069·75
		1,10,000	3,566·67	1,12,069·75			1,10,000	3,566·67	1,12,069·75
1955 Jan. 1	To Balance b/d	1,10,000	366·67	1.12,069·75					

Illustration 2 *(Ex-interest)*

National Insurance Ltd. buys 3% Debentures, 1980 of the nominal value of Rs. 2,00,000 on 1st March, 1964 at Rs. 96 ex-int. (inclusive of brokerage and stamp duty). It sells on 16th September, 1964 Rs. 1,50,000 out of it at Rs. 97 (net) ex-int. The market value of it on 31st December, 1964 is 98 (cum-int). Interest is payable on 1st April and 1st October. Assuming income tax of 25 paise in the rupee deducted at source and the books of the company are closed on 31st December, show "3% Debenture (1980) A/c" in the Investment Ledger.

Solution

3% Debenture (1980) 'c

Dr. (Interest payable : April, 1 & Oct. 1) Cr.

Date	Particulars	Nominal	Income	Capital	Date	Particulars	Nominal	Income	Capital
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1964 Mar. 1	To Cash A/c (Purchase)	2,00,000·00	—	,92,000·00	1964 Mar. 1	By Transfer contra (1)	—	375·00	—
	To Interest contra (1)	—	—	375·00	Sept. 16	By Cash A/c (Sale)	1.50,000.00	—	1,45,500·00
Sept. 16	To Transfer contra (2)	—	140·62	—		By Interest contra (2)	—	—	140·62
Dec. 31	To Interest A/c —Transfer	—	2,765·63	—	Oct. 1	By Cash A/c (Interest)	—	2,250·00	—
"	To Profit or Loss on Sale of Investment A/c	—	—	1,984·37	Dec. 31	By Balance c/d	50,000·00	281·25	48,718·75
		2,00,000·00	2,906·25	1,94,359·37			2,00,000·00	2,906·25	1,94,359·37
1965 Jan. 1	To Balance b/d	50,000·00	281·25	48,718·75					

Notes : (1) Net Interest at the time of purchase is calculated as follows :

	Rs.	Rs.
Gross interest on Rs. 2,00,000 for 1 month i.e. from 1st March to 1st April @ 3%	500·00	
Less Income tax @ 25 paisa in the rupee i.e. $\frac{1}{4}$ of Rs. 500 ...	125·00	
∴ **Net Interest** ...		375·00

(2) Net Interest at the time of sale is calculated as follows :

Gross interest on Rs. 1,50,000 for $\frac{1}{2}$ month i.e from 16th Sept. to 1st Oct. @ 3% ...	187·50	
Less Income tax @ 25 paisa in the rupee i.e. $\frac{1}{4}$ of Rs. 187·50 ...	46·88	
∴ **Net Interest** ...		140·62

(3) Interest received on Oct. 1, 1964 :

Interest on Rs. 2,00,000 @ 3% for $\frac{1}{2}$ year	3,000·00	
Less Income tax @ 25 paisa in the rupee i.e. $\frac{1}{4}$ of Rs. 3,000 ...	750·00	
∴ **Interest received** ...		2,250·00

(4) Calculation of Accrued Interest i e. interest due from previous date of receipt (i.e. 1st Oct. 1964) to the date of closing (i.e. 31-12-54) :

Interest receivable on Rs. 50,000 for 3 months (i.e Oct. to Dec.) @ 3% ...	375·00	
Less Income tax @ 25 paisa in the rupee i.e. $\frac{1}{4}$ of Rs. 375 ...	93·75	
∴ **Accrued Interest** ...		281·25

(5) Valuation of Investment (Debenture) at the date of closing :

Market value of 500 Debentures of Rs. 100 each @ 98 (cum-int.) ...	49,000·00	
Less Interest Accrued as in (4) ...	281·25	
∴ **Value of Investment** ...		48,718·75

Illustration 3 *(Cum-Int. & Ex-Int.)*

Unique Investment Corporation has the following transactions in 6% State Govt. Stock between 1st September, 1963 and 31st Jnly, 1965 and all these transactions are cum-interest excepting those marked Ex-Interest. Interest is payable half yearly on 1st February and on 1st August. The accounting period ends on 30th June every year.

1st September,	1963—Purchased	Rs. 10,000 stock	@ 101·50
1st October,	1963—Purchased	Rs. 25,000 stock	@ 101
1st November,	1963—Sold	Rs. 15,000 stock	@ 103·25
1st December,	1963—Purchased	Rs. 5,000 stock	@ 103
15th January,	1964—Sold	Rs. 10,000 stock	@ 105 Ex-Interest
1st March,	1964—Sold	Rs. 4,000 stock	@ 102·50
15th July,	1964—Purchased	Rs. 5,000 stock	@ 101·25 Ex-Interest
1st November,	1964—Purchased	Rs. 5,000 stock	@ 102
15th January,	1965—Sold	Rs. 15,000 stock	@ 103
1st July,	1965—Purchased	Rs. 2,000 stock	@ 102

Write up the Investment Account in the books of the the Corporation showing the profits and losses on the transactions using the average cost method and also showing the amount of interest for each accounting period duly realised.

(C.U. M. Com. 1965)

Solution

Note : Valuation of Investment on closing date by average cost method :

(a) *On 30.6.1964* : Cost of Rs. 40,000 stock is Rs. 40,150.

∴ Cost of Rs. 11,000 stock will be Rs. $\frac{40,150 \times 11}{40} = \frac{44,165}{4}$

∴ Value of Rs. 11,000 stock = Rs. 11,041·25

(b) *On 30.6.1965* : Cost of Rs. 21,000 stock is Rs. 21,141·25

∴ Cost of Rs. 6,000 stock = Rs. $\frac{21,141 \cdot 25}{21} \times 6 = \frac{42,282 \cdot 50}{7}$

∴ Value of Rs. 6,000 stock = Rs. <u>6,040·36</u>

6% State Government Stock
Interest Payable : Feb. 1 & Aug. 1

Dr. Cr.

Date	Particulars	Nominal	Income	Capital	Date	Particulars	Nominal	Income	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
1963 Sept. 1	To Cash A/c (Purchase of Stock @ 101·50 Cum-Int.)	10,000	50·00	10,100·00	1963 Nov. 1	By Cash A/c (Sale of Stock @ 103·25 Cum-Int.)	15,000	225·00	15,262·50
Oct. 1	„ Cash A/c (Purchase of Stock @ 101 Cum-Int.)	25,000	250·00	25,000·00	1964 Jan. 15	„ Cash A/c (Sale of stock @ 105 Ex-Int.)	10,000	—	10,500·00
Dec. 1	„ Cash A/c (Purchase of Stock @ 101 Cum-Int.)	5,000	100·00	5,050·00		„ Interest contra (1) (Int. on Rs. 10,000 @ 6% for ½ month)	—	—	25·00
1964 Jan. 15	„ Transfer Contra (1)	—	25 00	—	Feb. 1	„ Cash A/c (Int. on Rs. 25,000 @ 6% for ½ year)	—	750·00	—
June 30	„ Interest A/c —transfer	—	845·00	—	Mar 1	„ Cash A/c (Sale of stock @ 102·50 Cum-Int.)	,000	20·00	4,080·00
„	„ Profit or Loss on Sale of Investment A/c	—	—	758 75	June 30	„ Balance c/d	11.000	275·00	11,041·25
		40.000	1,270 00	40,908·75			40 000	1,270·00	40,908·75
1964 July 1	To Balance b/d	'1,000	275·00	11,041 25	1964 July. 15	By Transfer Contrs (2)	—	12·50	—
July 15	„ Cash A/c (Purchase of Stock @ 101·25 ex-int)	5,000		5 062 50	Aug. 1	„ Cash A/c (Int. on Rs. 11,000 for ½ yr. @ 6%)	—	330·00	—
„	„ Interest Contra (2)	—	—	12·50	1965 Jan. 15	„ Cash A/c (Sale of stock @ 103 Cum-Int.)	15,000	412·50	15,037·50
Nov. 1	„ Cash A/c (Purchase of Stock @ 102 Cum-Int)	5,000	75·00	5,025·00	Feb. 1	„ Cash A/c (Int. on Rs. 6,000 @ 6% for ½ yr.)	—	180·00	—
1965 June, 30	„ Interest A/c —transfer	—	735 00	—	June. 30	„ Profit or Loss on Sale of Investment A/c	—	—	63·39
					June. 30	„ Balance c/d	6,000	150·00	6,040·36
		21,000	1,085 00	21,141·25			21,000	1,085·00	21,141·25
July. 1	„ Balance b/d	6,000	150	6,040·36					
„	„ Cash A/c	2,000	50	1,990·00					

EXERCISE

1. Prepare the necessary accounts relative to the undermentioned investments :

On 1st June, 1937, Roy purchased £ 5,000 New Zealand 3 per cent (1945) Stock at $85\frac{1}{2}$ plus 2s.6d. per cent brokerage and £ 2.5s. stamp, etc. On 3rd April, 1939, Roy sold £ 4,000 of the stock at 90 and paid £ 6. 7s.6d expenses. Interest upon the stock is payable half-yearly on 1st April and 1st October.

(C. U. B. Com. (Adv.) 1940)

(Ans : Balance as on 1. 1. 1940 : (i) Nominal Column (Dr.) £ 1,000 ; (ii) Income Column (Dr.) £5 – 12s. – 6d. and (iii) Capital Column (Dr.) £ 851—1s. – 6d.)

2. During the year ended 31st December, 1963, Safe Investments Ltd., purchased and sold investments, inter alia, as under :

31st January :	Purchased Rs. 5,000 Alta Ltd. 5 per cent Debentures at 97 per cent brokerage and stamps duty amounting to Rs. 128. Interest is payable on the Debenture on 1st July and 1st January.
1st March :	Purchased 5,000 Rs. 10, 6 per cent cumulative preference shares in Zeta Ltd. at Rs. 9.50 brokerage and stamp duty being Rs. 121. Dividends are payable 30th June and 31st December.
1st July :	Sold Rs. 3,000 Alta Ltd. Debentures at 99 per cent less brokerage, etc. Rs. 18.
1st October :	Purchased a further 2,000 Rs. 10 6 per cent Cumulative Preference Shares in Zeta Ltd., at Rs. 9 costs being Rs. 60.

Write up the Ledger Accounts of the two investments for the year 1963.

(I. C. W. A.—Final)

(Ans : Final Balance (Dr.) in the 5% Debentures A/c : Nominal column Rs. 2,000 ; Income column Rs. 50 ; Capital column Rs. 1,982·87. Final Balance (Dr.) in the 6% Cumulative Preference Shares A/c : Nominal col. Rs. 70,000, Income col. Nil, Capital col. Rs. 64,881.)

CHAPTER XXVIII

PACKAGES & EMPTIES

Bottles, tins, cartons, wooden boxes, barrels, drums, cylinders and other packin g materials used in sending goods to the customers may be *non-returnable* or *returnable*. The customers may or may not be charged out for such packages or containers. The accounting treatment for packages or containers depends on the policy of the individual concern.

Treatment of Packages etc. in Accounts

1. Where packages are non-returnable :

(a) **If packages are not charged out**—In this case the charge for packages is included in the sale price of the goods. A separate **Packages A/c** is maintained. This account is debited with (i) Opening Stock of Packages and (ii) purchases. It is credited with closing stock of packages. The difference between the two sides is taken as the *expense* of packing materials and debited to Trading or Manufacturing A/c if it is considered as a part of the cost of goods or to the Profit & Loss A/c if it is treated as distribution expenses.

Illustration 1

		No.	Rate	Amount Rs.
(1)	Opening stock of packages	2,000	Re. 1 per unit	2,000
(2)	Cash purchases in the year	1,000	,, 1 ,, ,,	1,000
(3)	Closing stock of packages	1,500	, 1 ,, ,,	1,500

Give the Packages A/c.

Solution

Dr. **Packages A/c** Cr.

Date	Particulars	Rate	Quantity	Amount	Date	Particulars	Rate	Quantity	Amount
				Rs					Rs.
	To Opening Stock	1	2,000	2,000		By Profit & Loss A/c (Difference taken as distribution expense)	1	1,500	1,500
	,, Cash A/c (Purchases)	1	1,000	1,000		By Closing stock	1	1,500	1,500
			3,000	3,000				3,000	3,000

(b) **If pakages are charded out** :—In this case cost of containers charged out to customers should be entered in a separate column in the Sales Day Book. The periodical total of this column is credited to **Packages A/c** opened as in I (a). The balance of this account being either a profit or loss for the related period, will be transferred to the Profit & Loss A/c.

Illustration 2

		Rs.
(1)	Opening stock of 500 containers costing Rs. 2 each	1,000
(2)	Cash purchase of 300 containers @ Rs. 2 each	600
(3)	Closing stock of 100 containers @ Rs. 2 each	200

Customers are charged out at Rs. 3 for each of the container. Give the Packages A/c.

Solution

Dr. **Packages A/c** Cr.

Date	Particulars	Rate	Quantity	Amount	Date	Particulars	Rate	Quantity	Amount
		Rs.		Rs.			Rs.		Rs.
	To Opening stock	2	500	1,000		By Customers' A/c	3	700	2,100
	,, Cash A/c (Purchase)	2	300	600		,, Closing stock	2	100	200
	,, Profit & Loss A/c – Profit transferred			700					
			800	2,300				800	2,300

2. When packages are returnable :

(a) **If package are not charged out**—In this case separate columns are to be provided in the Sales Day Book and in Customer's A/c to record the identification numbers of the packages. Opening and closing stock of packages will be divided between *packages in hand* and *packages with customers.* Stock will be valued at cost less adequate depreciation.

A **Packages A/c** will be opened to record opening stock, purchases, closing stock etc. as in 1 (a) above. The difference between the two sides of Packages A/c will be transferred to the Profit & Loss A/c.

Note : Stock in hand means stock in godown or in warehouse.

Illustration 3

Rs

(1) Opening stock of packages costing Rs. 10 each

(a) In hand 100 units— Rs. 1,000

(b) With customers 200 units— Rs. 2,000

3,000

		Rs.
(2)	Purchased in cash during the year 200 units at Rs. 10 each	2,000
(3)	20 units are destroyed during the year	
(4)	Closing stock of packages valued @ Rs. 9 each	
	(a) In hand 200 units	
	(b) With customers 280 units	

Give the Packages A/c.

Solution

Dr. **Packages A/c** **Cr.**

Date	Particulars	Rate	Quantity	Amount	Date	Particulars	Rate	Quantity	Amount
		Rs.		Rs.			Rs.		Rs.
	To Stock (Opening)					By Stock (closing)			
	In hand	10	100	1,000		In hand	9	200	1,800
	With Customers	10	200	2,000		with customers	9	280	2,520
	„ Bank A/c	10	200	2,000		„ Profit & Loss A/c—loss transferred		20	680
			500	5,000				500	5,000

(b) **If packages are charged out**—In this case, the packages are generally charged at a price in excess of cost. When packages are returned, the customers are given credit at a price somewhat lower than the price charged. A time limit is always imposed after which packages are not returnable.

If the returnable period in respect of packages lying with the customers has expired, those packages will be treated as *packages sold out.* Where returnable period has not expired at the date of annual closing of accounts, the packages will be taken as *stock with customers.*

Packages on hire=(Packages sent out to the customers during the year *less* packages sold to the customers during the year)

Hire Charge—It is the difference between the price at which customers are charged when packages are sent out to them, and the price at which they are given credit when packages are returned within returnable period.

Total hire charge=(Packagas on hire × hire charge per unit)

How to ascertain the No. of packages sold or packages not returnable during the year—

(1) Packages sold=(Opening stock with customers + packages sent out during the year)—(packages returned by customers +closing stock with customers).

(2) Alternatively, the No. of packages sold or not returnable or retained may be ascertained by preparing a *Memorandum Customers' A/c.*

Dr. **Memorandum Customers' A/c** Cr.

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
	To Balance b/d (Opening stock) ,, Packages sent out				By Packages Returned ,, Packages sold (*Balancing figure*) ,, Balance c/d (Closing stock)		

Recording Transactions relating to packages charged out—In order to record transactions relating to the packages charged out, the following accounts are to be opened :—

(i) *Packages Stock A/c*—It contains all entries relating to stock of packages.

(ii) *Packages Reserve A/c* (or *Packages Suspense A/c*)—It records the movements of packages to and from customers.

How to record these transactions :

(1) For total opening stock of packages both in hand and with customers :	Packages Stock A/c ... Dr. To (Opening) Stock A/c
(2) For opening stock of returnable packages with the customers :	(Opening) Stock A/c ... Dr. To Packages Reserve A/c *(With returnable prices)*
(3) For purchases during the year :	Packages Stock A/c ... Dr. To Cash or Bank A/c or Suppliers' A/c
(4) For packages sent out to customers :	Customers' A/c ... Dr. To Packages Reserve A/c *(With Invoice or charged out price)*
(5) For packages returned by customers within returnable time :	Packages Reserve A/c ... Dr. To Customers' A/c *(With Returnrble price)*
(6) For packages sold to customers, or packages not returnable, or packages retained by customers :	Packages Reserve A/c ... Dr. To Packages Stock A/c *(With Invoice or sale or charged out price)*
(7) For Hire-charges i.e. for difference between Invoice Price and Returnable Price :	Packages Reserve A/c ... Dr. To Packages Stock A/c *(with hire charge)*

How to record these transactions (Contd.) :

(8) For packages destroyed completely :	Only the No. of packages destroyed will be included in the Quantity Column on the credit side of the Packages Stock A/c
(9) For packages sold for scrap :	Cash or Bank A/c ... Dr To Packages Stock A/c *(with amount received)*
(10) For total closing stock of packages both in hand and with customers :	(Closing) Stock A/c ... Dr. To Packages Stock A/c *(with cost price)*
(11) For closing stock of packages with the customers if returnable period has not expired :	Packages Reserve A/c ... Dr. To Closing Stock of Packages with customers. *(with returnable price)*
(12) For Profit as revealed by Packages Stock A/c :	Packages Stock A/c ... Dr. To Profit & Loss A/c
(13) For loss as revealed by Packages Stock A/c	Profit & Loss A/c ... Dr. To Packages Stock A/c

Notes : (1) The closing stock of packages as recorded in the Packages Stock A/c will be shown as an asset in the Balance Sheet.

(2) The closing Stock of packages with the customers will be shown by way of deduction from the Sundry Debtors in the Balance Sheet.

Illustration 4

A firm sells its goods in containers bought at Rs. 10 each. Customers are charged at Rs. 12 per container and are credited at Rs. 8 for each container if returned within a given period. For stock purposes at account closing time the containers are valued at Rs. 7 each.

From the following information, draw up the Containers Stock Account and Containers Reserve Account :—

Number of containers in hand at January 1, 1962	4,500
With customers at January 1, 1962 (all returnable)	3,600
With customers at December 31, 1962	2,900
Purchased during the year	6,000
Sent to customers during the year	10,000
Returned by customers during the year	6,800

(C. U. B. Com. (Adv.) 1963)

Solution

Notes : (1) The No. of containers sold to customers during the year 1962 is ascertained thus :—

		No.
Containers with the customers on 1st Jan. 1962		3,600
Add containers sent to customers during the year		10,000
		13,600
Less containers returned during the year	6,800	
Returnable containers with customers	2,900	
		9,700
∴ Containers sold to customers		3,900

		No.
(2)	Containers out on hire during the year :—	
	Containers sent out to customers	10,000
	Less containers sold to customers	3,900
	∴ Containers on hire ...	6,100

(3) Hire charge i.e. profit on hire will be :—
6,100 × Rs. 4 (i.e. Invoice Price Rs. 12—Returnable Price Rs. 8)
=Rs. 24,400.

(4) Closing stock of Containers in hand (i.e. in godown) is ascertained thus :—

		No.	
Total opening stock of containers :			
In hand	...		4,500
with customers	...		3,600
Add purchase during the year	...		6,000
			14,100
Less containers sold to customers		3,900	
containers with the customers at the end of year		2,900	
			6,800
∴ Closing stock in hand	...		7,300

Dr. **Containers Stock A/c** Cr.

Date	Particulars	Rate	Quantity	Amount	Date	Particulars	Rate	Quantity	Amount
1962		Rs.		Rs.	1962		Rs.		Rs.
Jan. 1	To Stock b/d (Opening)				Dec. 31	By Containers Reserve A/c (Containers sold to customers)	12/-	3,900	46,800
	(a) In hand	7/-	4,500	31,500					
	(b) With Customers	7/-	3,600	25,200	,,	By Containers Reserve A/c (Profit on hire)	—	—	24,400
Jan. 1 to Dec. 31	To Cash A/c (Containers purchased)	10/-	6,000	60,000	,,	By Stock c/d			
						(a) In hand	7/-	7,300	51,100
Dec. 31	To Profit & Loss A/c (Profit on sale and on hire)			25,900		(b) With Customers	7/-	2,900	20,300
			14,100	1,42,600				14,100	1,42,600
1963									
Jan. 1	To Stock b/d (Opening)								
	(a) In hand	7/-	7,300	51,100					
	(b) With Customers	7/-	2,900	20,300					

Containers Reserve A/c

Dr. Cr.

Date	Particulars	Rate	Quantity	Amount	Date	particulars	Rate	Quantity	Amount
1962		Rs.		Rs	1962		Rs.		Rs.
Jan 1 To Dec 31	To Customers' A/c (Containers returned)	8/-	6,800	54,400	Jan. 1	By Balance b/d (Containers with Customers)	8/-	3,600	28,800
Dec. 31	To Containers Stock A/c (sold to customers)	12/-	3,900	46,800	Jan 1 to Dec 31	By Customers' A/c (Containers sent to customers)	12/-	10,000	1,20,000
"	To Containers Stock A/c (Profit on hire)	—	—	24,400					
	To Balance c/d (containers with Customers)	8/-	2,900	23,200					
			13,600	1,48,800				13.600	1,48,800
					1963 Jan. 1	By Balance b/d (Containers with customers)	8/-	2,900	23,200

Illustration 5

Jindal (P) Ltd. deliver goods to customers in packages costing Rs. 6 each but charging them out at Rs. 12 each and crediting them if returned within returnable period at Rs. 8 each.

On 1st January, 1968 there were 4,000 packages in hand (i.e. in godown) and 8,400 packages with the customers (all returnable). From 1st January to 31st December, 1968, 6,000 packages were purchased at Rs. 10 each, 12,800 were sent out to customers, 9,200 were returned by customers, 120 were destroyed in an accident in the godown and 200 were sold as scrap for Rs. 400.

On 31st December, 1968, 7,600 packages of the old lot were with the customers (all returnable).

Show the Packages Stock A/c and the Packages Reserve A/c in the ledger of the Company.

Solution

Notes : (1) The No. of packages sold to customers during the year 1968 is ascertained thus :—

			No.
	Packages with customers on 1st January, 1968		8,400
Add	Packages sent to customers during the year		12,800
			21,200
Less	Packages returned during the year	9,200	
	Returnable packages with the customers	7,600	
			16,800
	∴ Packages sold to customer ...		4,400

(2) Packages out on hire during the year is ascertained thus :—

Packages sent out during the year	12,800
Less Packages sold to customers	4,400
∴ Packages on hire ...	8,400

(3) Hire charge i.e. profit on hire will be :—

8,400 × Rs. 4 (i.e. Invoice Price Rs. 12 – Returnable Price Rs. 8)
= Rs. 33,600

(4) Closing stock of packages in hand (i.e. godown) is ascertained as follows :

Total opening stock of packages :

			No.
	In hand		4,000
	with customers		8,400
Add	purchase during the year		6,000
			18,400
		No.	
Less	packages destroyed	120	
	packages sold for scrap	200	
	packages sold to customers	4,400	
	packages with the customers at the end of year	7,600	
			12,320
	∴ Closing stock in hand ...		6,080

Packages Stock A/c

Dr. Cr.

Date	Particulars	Rate	Quantity	Amount	Date	Particulars	Rate	Quantity	Amount
		Rs.		Rs			Rs.		Rs.
1968 Jan. 1	To Stock b/d : (Opening) (a) In hand	6/-	4,000	24,000	1968 Dec. 31	By Packages Destroyed	—	120	—
	(b) With Customers	6/-	8,400	50,400	"	By Cash A/c (packages sold for scrap)	—	200	400
Jan. 1 to Dec. 31	To Cash A/c (Packages purchased)	10/-	6,000	60,000	"	By Pakages Reserve A/c (packages sold to customers)	12/-	4,400	52,800
Dec. 31	To Profit & Loss A/c (Profit on sale and on hire excluding loss if any)	—	—	58,480	"	By Packages Reserve A/c (Profit on hire)	—	—	33,600
					"	To Stock c/d (Closing) (a) In hand Old	6/-	80	480
						New	10/-	6,000	60,000
						(b) With Customers	6/-	7,600	45,600
			18,400	1,92,880				18,400	1,92,880
1969 Jan. 1	To Stock b/d (Opening) (a) In hand Old	6/-	80	480					
	New	10/-	6,000	60,000					
	(b) With Customers	6/-	7,600	45,600					

Packages Reserve A/c

Dr. Cr.

Date	Particulars	Rate	Quantity	Amount	Date	Particulars	Rate	Quantity	Amount
		Rs		Rs			Rs.		Rs.
1968 Jan. 1 to Dec. 31	To Customers' A/c Packages returned)	8/-	9,200	73,600	1968 Jan 1	By Balance b/d (Packages with coustomers)	8/-	8,400	67,200
Dec. 31	,, Package Stock A/c (Packages sold to customers)	12/-	4,400	52,800	Jan. 1 to Dec. 31	,, Customers' A/c (Packages sent to customers)	12/-	12,800	1,53,600
"	,, Packages Stock A/c (Profit on hire)	—	—	33,600					
"	,, Balance c/d (packages with customers)	8/-	7,600	60.800					
			21,200	2,20,800				21,200	2,20,800
					1969 Jan. 1	By Balance b/d (Packages with customers)	8/-	7,600	60,800

EXERCISE

1. On January 1, 1952 a trader had a stock of packages valued at Rs., 15,000; out of these, packages costing Rs. 3,000 were in the hands of customers. When packages are sent out to customers they are charged at $33\frac{1}{3}\%$ above the cost price. When packages are ruturned, credit for full charged value is given. During 1952, packages costing Rs. 60,000 have been despatched to customers and they have been given credit for Rs. 78,000 on account of returns. Packages costing Rs. 1,200 have been retained by the customers. At the end of the year, the stcok of packages in the hands of the trader, besides those in the hands of the customers are valued at Rs. 13,500.

Write up the necessary Ledger Accounts in the trader's books.

(C.U. B. Com. (Adv.) 1953)

(**Ans** : Total profit on packages Rs. 3,100)

2. P sells his goods in containers costing Rs. 15 each. Cotainers are charged out at Rs. 18 each to customers and credited at Rs. 12 each if returned in good condition within three months. For stock taking purposes, all containers in the factory and in the hands of customers are valued at Rs. 10 each.

On January 1, 1964 there were 5,000 containers in the factory and 9,000 in the hands of customers for less than three months.

During the year ended December 31, 1964, 7,000 containers were purchased by P, 14,000 were charged out to customers and 13,000 were returned by them within the required period ; 400 containers, sound but no longer suitable for P's goods, were sold for Rs. 1,000.

On December 31, 1964 there were in the hands of customers 8,000 containers capable of being returned within the required period.

For the year ended December 31, 1964 prepare (i) Containers Stock Account, and (ii) Containers Suspense Account. (C.U. B. Com. (Adv.) 1965)

(**Ans** : Containers sold to customers 2,000; containers on hire 12,000; Hire charge—Rs. 72,000 i.e. on 12,000 containers @ Rs. 6 each; Net Profit Rs. 50,000).

Note : (Profit on hire Rs. 72,000—(Loss on sale Rs. 19000+loss on sale of unsound containers Rs. 3,000)=Rs. 50,000 (net profit)

3. In case of returnable containers, the two accounts usually opened are (a) Containers' Stock Account, and (b) Containers' Suspense Acconnt. What are the items respectively debited and credited in the Containers' Stock Account and Suspense Account?

(C.U. B. Com. (Adv.) 1964)

4. Durgapur Chemicals Ltd. deliver goods to customers in drums (which are valued in books @ Rs. 30) charging them out at Rs. 60 each, customers are credited with Rs. 40 if the drums are returned.

	Drums
Stock in hand on 1st Jan. 1964	2,000
Drums with customers on 1st Jan. 1964	4,200
Purchases at Rs. 50 each	3,000
Drums sent out to customers	6,400
Drums returned by customers	4,600
Drums destroyed in accident	60
Drums sold as scrap for Rs. 1,000	100

On 31st December, 1964 3,800 drums were with the customers who could return them.

Show the relevant accounts in the books of the Company.

(Burdwan University, B. Com. (Adv.) 1964)

Ans : Packages sold to customers 2,200 ; Packages on hire 4,200 ; Hire charge on 4,200, @ Rs. 20 each = Rs. 84,000).

Note : Profit on sale Rs. 66,000 plus profit on hire Rs. 84,000 minus loss on sale of drums for scraps etc. Rs. 3,800 = Rs. 1,46,200.

5. The Accounts of K. Biscuit Co. show that on 1st. January, 1964 they had a stock of packges, valued at cost Rs. 1,200 of which Rs. 200 was in the hands of customers. It is their practice to charge packages at cost plus 20 per cent, giving credit for the full value if returned. During the year ended 31st December, 1964, packages costing Rs. 2,000 have been sent to customers at Rs. 2,400 and credit given for returns Rs. 1, 920. Packages charged at Rs. 120 were retained by customers. On 31.12.64 the stock of packages apart from those in the hands of customers was valued at Rs. 540 (after providing for depreciation)

Show the Packages Account and Packages Suspense Account in the books of K. Biscuit Co.

(I.C. W.A—Inter, January, 1965)

Ans : Packages sold Rs. 120 ; packages with the customers at cost at the end of year Rs. 500 ; loss on packages Rs. 40)

6. Hindusthan Chemicals Ltd. supply their products in drums which cost them Rs. 50 each and are charged out to the customers at Rs. 100 each. If the drums are returned within one month a credit of Rs. 80 each is allowed. All drums are valued for stock purposes at Rs. 40 each.

On 1st January, 1965, the Stock of drums in the godown was 760 and there were 350 drums in the hands of the customers (all returnable).

During 1965, 180 drums were purchased, 2,000 drums were sent out to the customers and 1,750 drums were returned by the customers within the period allowed.

On 31st December, 1965, 450 drums were with the customers who could return them. Stock-taking in the godown disclosed a shortage of 3 drums.

You are required to prepare the Drums Stock Account and the Drums Reserve Account for the year 1965 in the books of Hindusthan Chemicals Ltd.

(I.C.W.A.—Inter, January, 1966)

Ans : Drums sold 150 ; Drums on hire 1,850, Hire charge on 1,850 drums @ Rs 20 each = Rs. 37,000 ; Net profit on drums Rs. 44,080)

(**Note** : Profit on sale Rs. 7,200 plus profit on hire Rs. 37,000 minus loss for shortage Rs. 120 = Rs. 44,080)

7. A Company purchases packages for Rs. 4 each, charges them to customers at Rs. 5 each and credits customers with Rs. 2·50 each in respect of packages returned within 3 months. The packages are valued for stock-taking at Rs. 2 each. From the following particulars write up the Ledger Accounts for the year ended 31st December :—

	Nos.
Packages in stock—1st January	1,000
Packages in customes' hands—1st Jaunary	1,600
Packages purchased during the year	1,500
Packages charged to customers	4,400
Packages returned by customers	3,600
Packages in customers' hands on 31st December in respect of which the return period had not expired.	2,000

(I.C.W.A.—Inter)

Ans : Packages sold 400 ; packages on hire 4,000 ; hire charge on 4,000 packages @ Rs. 2·50 each = Rs. 10,000 ; Net profit on packages Rs. 8,200)

Note : Profit on hire Rs. 10,000 minus Loss on sale of packages Rs. 1,800 = Net profit Rs. 8,200)

8. Vegetable Products Ltd. executes orders in special containers which are separately charged for but are returnable. It purchases these containers at Rs. 18 each and charges its customers at Rs. 24 each. When containers are returned by customers, credit is given to them at Rs. 15 per container.

On 1st April, 1959, Vegetable Products Ltd. had 600 containers in stock and 400 in hands of customers (all returnable). During the year, 1,000 containers were purchased. In the course of the year, 1,800 containers were sent out to customers and 1,100 were received back from them.

On 31st March, 1960, 500 containers were in the hands of customers (all returnable).

You are reqired to draw up the Containers Stock Account and Containers Suspense Account.

(I.C.W.A.—Inter)

Ans : Containers sold 600 ; Containers on hire 1,200 ; Hire charge on 1,200 containers @ Rs. 9 each = Rs. 10,800 ; Net profit on Containers Rs. 14,400)

(**Note :** Profit on sale Rs. 3,600 plus profit on hire Rs. 10,800 = Net profit Rs. 14,400)

9. Hind Biscuits Co Ltd. supply their products in cotainers which cost them Rs. 5 each, and are charged out to customers at Rs. 10 each. If the containers are returned within two months, a credit of Rs. 8 each is allowed. All containers are valued for stock purposes at Rs. 4 each.

On 1st January, 1963 the stock in the godown was 15,200 containers and there were in the hands of the customers 7,000 containers for which the return period had not expired.

During 1963, 3,600 new containers were purchased. 40,000 containers were invoiced to customers 35,000 containers were returned within the period allowed, 1,950 container were broken in godown, 3,000 were not returned by customers but were duly paid for.

On 31st December, 1963 there were no containers in the hands of the customers which were not paid for and for which the return period had expired. Stock taking in the godown disclosed a shortage of 50 containers.

You are required to prepare the Containers Stock Account and Containers Suspense Account for the year 1963 in the books of Hind Biscuits Co. Ltd.

(C.U. M. Com. 1964)

Ans : Containers sold 3,000 ; Containers in hand at end 11,800 ; Containers with customers at end 9,000 ; Containers on hire 37,000 ; Hire charge on 37,000 cotainers @ Rs. 2 each = Rs. 74,000; Net profit on containers Rs. 80,400)

10. S. Bose sold his goods in boxes, which he charged out to his customers at 50 P. each. Customers were credited with 35 P. for each box returned within two months.

In his annual accounts the stock of boxes in his factory and all returnable boxes in the hands of the customers invoiced within two months were valued at 10 P. each and on December 31, 1964, the number of such boxes were 20,000 and 50,000 respectively.

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During the year ended 31st December, 1965 the following transactions in boxes took place :

(a) 60,000 boxes were purchased at 16 P. each.

(b) 1,00,000 boxes were charged to customers.

(c) 90,000 boxes were returned by customers.

(d) 2,000 boxes out of those returned were useless and sold as scrap for Rs. 80.

(e) On 31st. December, 1965, 40,000 boxes invoiced after 31st. October, 1965, were in the hands of customers.

Show the necessary accounts in the books of S. Bose.

(C.U. M.Com. 1966)

(**Ans** : Cases sold 20,000 ; Cases on hire 80,000 ; Hire charge @ 15p. each= Rs. 12,000 ; Net profit on cases Rs. 19, 880).

(**Note** : Profit on sale Rs. 8,000 plus profit on hire Rs. 12,000 minus loss for scrap Rs. 120=Rs. 19,880.)

CHAPTER XXIX

ACCOUNTS FROM INCOMPLETE RECORDS

Sometimes it is found that the accounting records of a trader are incomplete and inadequate. He may be ignorant of proper system of keeping books of accounts or his books of accounts and records may be lost by fire or flood etc., or he may not intentionally keep proper books of accounts to evade tax. In such circumstances, it is often required to prepare a statement of profit or loss of a business for a period and also a balance sheet as at the end of that period.

In compiling accounts from inadequate and incomplete records the following procedure should be followed :—

(a) The position as regards **assets and liabilities as at the beginning of the period** under review is to be ascertained. The excess of assets over liabilities is the Capital nvested by the trader.

(b) A **Cash Account** should be prepared and the Cash in hand and the Cash at Bank should be verified.

(c) In preparing the Cash Account, it is required to distinguish between (i) payments made for Cash Purchases and payments made to Creditors and (ii) receipts for cash sales and receipts from Sundry Debtors.

(d) It is necessary to ascertain the **amounts owing by the debtors** at the end of the period. In doing so, due consideration should be given to (i) Discounts allowed, (ii) Bad debts written off, (iii) Bad debts recovered. (iv) Returns inward, (v) Interest charged, (vi) Bills Receivable dishonoured etc.

(c) **Amounts owing to creditors** at the end of the period is to be determined. For that purpose items like (i) Discounts received, (ii) Returns outwards, (iii) Bills Payable dishonoured etc., should be noted.

(f) **Total Debtors Account** and **Total Creditors Account** are to be prepared to ascertain credit sales and purchases respectively. Cash Sales and Purchases can be ascertained form Cash Book.

(g) Necessary adjustments in the **nominal items** are to be made so that correct trading result is ascertained and accrued incomes and outstanding expenses are taken into account.

(h) The final step is the **ascertainment of the values of the assets and liabilities** for the preparation of Balance Sheet as at the end of the period.

Illustration 1

A Trader had not kept proper books of accounts, but from the following details you are required to ascertain the profit or loss for the year ended December 31, 1964 and also a Statement of Affairs as at that date :

	January 1, 1964	December 31, 1964
	Rs.	Rs.
Stock	16,500	19,600
Creditors	15,000	14,500
Debtors	11,400	10,500
Bank Overdraft	20,700	20,100
Cash in hand	200	1,200
Furniture	1,500	1,500
Motor Car	2,000	2,000
Bills Receivable	16,000	15,200

The drawings during the year amounted to Rs. 2,500. Depreciate Furniture by 10% and Motor Car by 20%. As regards debtors, it is ascertained that Rs. 500 are irrecoverable. A Reserve of 5% is to be made.

(North Bengal University, B. Com. 1966).

Solution

Capital as on 1-1-64 (i. e., Opening Capital) :

	Rs.	Rs.	
Stock	16,500		
Debtors	11,400		
Cash in hand	200		
Furniture	1,500		
Motor Car	2,000		
Bills Receivable	16,000		
		47,600	
Less—Creditors	15,000		
Bank Overdraft	20,700	35,700	
∴ Capital as on 1-1-64 is			Rs. 11,900

Capital as on 31-12-64 (i. e., Closing Capital) :

	Rs.		
Stock	19,600		
Debtors	10,500		
Cash in hand	1,200		
Furniture	1,500		
Motor Car	2,000		
Bills Receivable	15,200		
		50,000	
Less—Creditors	14,500		
Bank Overdraft	20,100	34,600	
∴ Capital as on 31-12-64 is			Rs. 15,400

Statement of Profit and Loss

For the year ended December 31, 1964

		Rs
Closing Capital		15,400
Add—Drawings during the year		2,500
		17,900
Less—Opening Capital		11,900
∴ **Gross Profit**		6,000
Less—Depreciation on :	Rs	
Furniture @ 10%	150	
Motor Car @ 20%	400	
Bad Debts	500	
Reserve for Bad Debts	500	1,550
∴ **Net Profit**		4,450

Note : Reserve for Bad Debts is calculated on Rs 10,000 i e (Debtors Rs 10,500 -irrecoverable Debts Rs 500) @ 5%

Statement of Affairs

as at 31st December, 1964

Capital and Liabilities	Rs	Rs	*Property and Assets*	Rs	Rs
Creditors		14,500	Motor Car	2,000	
Bank Overdraft		20,100	*Less*—Depreciation	400	
					1,600
Capital	11,900		Furniture	1,500	
Add—Profit	4,450		*Less*—Depreciation	150	
					1,350
	16,350		Debtors	10,500	
Less—Drawings	2,500	13,850	*Less*—Bad Debts	500	
				10,000	
			Less—Reserve for Bad Debts	500	
					9,500
			Bills Receivable		15,200
			Stock		19,600
			Cash in hand		1,200
		48,450			48 450

***Illustration* 2**

S and H keep only a Cash Book and a Personal Ledger. From these books and by enquiries the following information is obtained ;—

	Rs.
Cash Balance on 1-1-1965	11,195
S's drawings for the year ended 31-12-1965	15,000
H's drawings for the year ended 31-12-1965	3,520
Total payments to Trade Creditors	98,472
Total payments of Wages	33,110
Total payments of Salaries	6,160
Total Receipts from Trade Debtors	1,58,210
Total Business Expenses	4,500
Cash Balance on 31-12-1965	8,643
Stock on hand 1-1-1965	10,752
Stock on hand 31-12-1965	9,863
Trade Debtors on 1-1-1965	14,688
Trade Debtors on 31-12-1965	28,516
Trade Creditors on 1-1-1965	15,635
Trade Creditors on 31-12-1965	16,203
Furniture on 1-1-1965 as well as on 31-12-1965 at cost	18,320
Building on 1-1-1965 as well as on 31-12-1965 at cost	70,680
Reserve for Repairs and Replacements on 1-1-1965	16,000
Reserve for Repairs and Replacements on 31-12-1965	20,000

Wages and Salaries for December, 1965 are outstanding and amount to Rs. 3,005 and Rs. 560 respectively. Of the business expenses paid, Rs. 746 is in respect of the the quarter ending 31-3-1966.

The Partners each had the same fixed amount of capital invested in the firm throughout the year, and they share profits and losses equally. However, by agreement, every year a Reserve for Repairs and Replacements of Rs. 4,000 is to be made before crediting Partners with their shares of the year's profit or loss. Prepare the firm's Trading and Profit and Loss Account for the year ended 31-12-1965 and its Balance Sheet as on that date.

Show all your workings by way of appropriate notes.

(Burdwan University, B. Com. (Adv.) Hons. 1966).

Solution

Balance Sheet
as at January 1, 1965

Liabilities	Rs	Rs.	*Assets*	Rs.
Creditors		15,635	Cash	11,195
Reserve for Repair and Replacements		16,000	Debtors	14,688
Capitals—Being the excess of assets			Stock	10,752
S	47,000		Furniture	18,320
H	47,000	94,000	Buildings	70,680
		1,25,635		1,25,635

Total Debtors' Account

Dr.		Rs		Cr.		Rs.
1965			1965			
Jan 1	To Balance b/d	14,688	Dec 31	By Cash		1,58,210
	,, *Credit Sales*	1,72,038		,, Balance c/d		28,516
		1,86,726				1,86,726

Total Creditors' Account

Dr.		Rs		Cr.		Rs.
1965			1965			
Dec 31	To Cash	98,472	Jan 1	By Balance b/d		15,635
	,, Balance c/d	16,203		,, *Credit Purchases*		99,040
		1,14,675				1,14,675

S and H
Trading and Profit & Loss Account
for the year ended 31st December, 1965

Dr.		Rs	Cr.	Rs
To Opening Stock		10,752	By Sales	1,72,038
,, Purchases		99,040	Closing Stock	9,863
,, Wages		36,115		
,, Gross Profit c/d		35,994		
		1 81 901		1,81,901
To Salaries		6,720	By Gross Profit b/d	35,994
,, Business Expenses		3,754		
,, Reserve for Repair		4,000		
,, Net Profit :—	Rs			
S ½	10,760			
H ½	10,760	21 520		
		35 994		35,994

Balance Sheet of S and H
as at 31st December, 1965

Liabilities		Rs.	*Assets*	Rs
Outstanding—	Rs.		Cash	8,643
Wages	3,005		Debtors	28,516
Salaries	560	3,565	Prepaid Expenses	746
			Stock	9,863
Sundry Creditors		16,203	Furniture	18,320
Reserve for Repairs and			Building	70,680
Replacements		20,000		
Capitals—				
S	47,000			
Add—Profits	10,760			
	57,760			
Less—Drawings	15,000	42,760		
H	47,000			
Add—Profits	10,760			
	57,760			
Less—Drawings	3,520	54,240		
		1,36,768		1,36,768

Illustration 3

Mr. Mathur Submits to you the following figures relating to his business for the year ended 31st December, 1965. You are required to prepare a Trading and Profit & Loss A/c. for the year ended 31st December, 1965 and a Balance Sheet as on that date. Any difference in Cash Balance is to be taken as his personal drawings.

	Rs.
Deposits into Bank	26,070
Personal Dividend deposited into business cash	600
Personal payments out of Bank	2,250
Payments to Trade Creditors	23,850
Withdrawn from Bank	23,250
Received from Debtors	35,100
Paid for Wages	3,900
Paid for delivery charges	1,800
Paid for salaries	600
Paid for Rent and Rates	405
Paid for general charges	730
Interest credited by Bank	30

The Assets and Liabilities were as follows :-

	1st Jan., 1965 Rs.	31st Dec., 1965 Rs.
Stock	1,800	2,250
Bank Balances	2,400	3,000
Cash in hand	90	60
Trade Debtors	2,250	3,150
Trade Creditors	3,600	4,200

(I. C. W. A.—Inter. January, 1966).

Solution

Notes :

(a) Capital as on 1-1-1965 (i.e., Opening Capital) :

	Rs.
Stock	1,800
Bank Balances	2,400
Cash in hand	90
Trade Debtors	2,250
	6,540
Less—Trade Creditors	3,600
∴ Capital as on 1-1-1965	2,940

(b) Personal Drawing is ascertained thus

Drawing in Cash (Difference)	1,605
Less—Dividend paid in Cash	600
	1,005
Add—Payment out of Bank	2,250
∴ Personal Drawing	3,255

Dr. Cash Book Cr.

	Rs.		Rs.
To Balance b/d (1-1-1965)	90	By Bank (Deposit)	26,070
,, Personal Dividend	600	,, Trade Creditors	23,850
,, Bank (withdrawal)	23,250	,, Wages	3,900
,, Debtors	35,100	,, Delivery Charges	1,800
		,, Salaries	600
		,, Rent and Rates	405
		,, General Charges	750
		,, Drawings (Difference)	1,605
		,, Balance c/d	60
	59,040		59,040
To Balance b/d	60		

Dr. **Total Debtors Account** **Cr.**

	Rs.		Rs.
To Balance b/d	2,250	By Bank	35,100
,, Credit Sales (Balancing figure)	36,000	,, Balance c/d	3,150
	38,250		38,250
To Balance b/d	3,150		

Dr. **Total Creditors Account**

	Rs		Rs
To Bank	23,850	By Balance b/d	3,600
,, Balance c/d	4,200	,, Credit Purchase (Balancing figure)	24,450
	28,050		28,050
		By Balance b/d	4,200

Trading and Profit & Loss Account

Dr.

	Rs.		Rs.
To Opening Stock	1,800	By Sales	36,000
,, Purchases	24,450	,, Closing Stock	2,250
,, Wages	3,900		
,, Gross Profit—transferred to Profit and Loss A/c.	8,100		
	38,250		38,250
To Salary	600	By Gross Profit	8,100
,, Rent and Rates	405	,, Bank Interest	30
,, General Charges	750		
,, Delivery Charges	1,800		
,, Net Profit—Transferred to Capital A/c.	4,575		
	8,130		8,130

Mr. Mathur

Balance Sheet as at 31st December, 1965

Liabilities	Rs	Rs	*Assets*	Rs
Trade Creditors		4,200	Cash in hand	60
Capital	2,940		Cash at Ban	3,000
Add—Net Profit	4,575		Trade Debtors	3,150
			Stock	2,250
	7,515			
Less—Drawing	3,255	4,260		
		8,460		8,460

Illustration 4

U. N. Tidy did not keep a complete set of double entry records, but was able to provide you with the following information on December 31, 1965 :

	Jan. 1 Rs.	Dec. 31 Rs.
Trade Debtors	1,628	1,860
Rates paid in advance	—	50
Trade Creditors	860	924
Rent owing to landlord	—	250
Expenses unpaid	120	150
Stock-in-trade	2,160	2,465
Machinery	4 500	5,050

Tidy pays all cash received into the bank and makes all payments by cheque and the following figures are available summarising the details shown on statements of accounts from his bank :

	Rs.		Rs.
Balance at Bank, Jan. 1	262	Payments to creditors	17,016
Loan from A. B. C.	1,000	Wages	2,667
Cash Sales	16,656	Rent	750
Cash received from debtors	8,162	Rates	250
		Sundry Expenses	1,626
		New Machinery	1,000
		Personal drawings	2,080
		Balance at Bank, Dec. 31	691
	26 080		26,080

Further details which came to light showed that a debtor who owed Rs. 420, died leaving no assets behind. Discount of Rs. 315 had been allowed on the receipts from debtors, and discount of Rs. 654 had been deducted from the payments made to creditors.

You are required to prepare Trading and Profit & Loss Account for the year ended 31st December, 1965, and a Balance Sheet as at that date.

(C. U. B. Com. Hons. 1967).

Solution

Total Debtors' Account

Dr. Cr.

		Rs.			Rs.
1965					
Jan. 1	To Balance b/d	1,628		By Bank	8,162
	,, *Credit Sales*	9,129		,, Discount	315
				,, Bad Debts	420
			1965		
			Dec 31	,, Balance c/d	1,860
		10,757			10,757

Total Creditors' Account

Dr. Cr.

		Rs.			Rs
			1965		
	To Bank	17,016	Jan 1	By Balance b/d	860
	,, Discount	654		,, Credit Purchases	17,734
1965					
Dec. 31	,, Balance c/d	924			
		18,594			18,594

Balance Sheet

as at January 1, 1965

Liabilities	Rs.	*Assets*	Rs.
Expenses Outstanding	120	Cash at Bank	262
Trade Creditors	860	Trade Debtors	1,628
Capital	7,570	Stock	2,160
		Machinery	4,500
	8,550		8,550

U. N. Tidy

Trading and Profit & Loss Account
For the year ended 31st December, 1965

Dr. **Cr.**

	Rs		Rs	Rs
To Opening Stock	2,160	By Sales—		
,, Purchases	17,734	Cash	16,656	
,, Wages	2,667	Credit	9,129	25,785
,, Gross Profit c/d	5,689			
		,, Closing Stock		2,465
	28,250			28,250
To Rent	1,000	By Gross Profit b/d		5,689
,, Rates	200	Discont Received		654
,, Sundry Expenses	1,656			
,, Discount Allowed	315			
,, Bad Debts	420			
,, Depreciation	450			
,, Net Profit (Transferred to Capital)	2,302			
	6,343			6,343

U. N. Tidy

Balance Sheet
as at 31st December, 1965

Liabilities		Rs	*Assets*		Rs.
Expenses Outstanding		150	Cash at Bank		691
Rent owing to Landlord		250	Rates paid in Advance		50
Loan from ABC		1,000	Trade Debtors		1,860
Creditors		924	Stock		2,465
	Rs			Rs	
Capital	7,570		Machinery	4,500	
Add—Net Profit	2,302		*Additions*	1,000	
	9,872			5,500	
Less—Drawings	2,080	7,792	*Less*—Depreciation	450	5,050
		10,116			10,116

Illustration 5

You are given (1) the Balance Sheet of Raj Kumar on 31st March, 1964, (2) a Cash Account for the year ended 31st March, 1965 and (3) additional information. You are required to prepare a Trading and Profit & Loss Account for the year ended 31st March, 1965 and a Balance Sheet as on that date.

Balance Sheet as at 31-3-1964

	Rs.		Rs
Creditors	20,000	Cash	5,000
Bills Payable	40,000	Bank	10,000
Capital	1,00,000	Bills Receivable	20,000
		Debtors	25,000
		Stock-in-Trade	20,000
		Furniture	10,000
		Plant	70,000
	1,60,000		1,60,000

Cash Account for the year ended 31-3-1965

	Rs.	Rs		Rs.	Rs.
Balance—			Drawings		12,000
Cash	5,000		Wages		20,000
Bank	10,000	15,000	Payment to Creditors		35,000
Cash Sales		35,000	Bills paid		60,000
Collection from Debtors		80,000	Sundry Expenses		30,000
Bills Receivable		75,000	Rent, Rates & Taxes		20,000
			Balance—		
			Cash	3,000	
			Baflk	25,000	28,000
		2,05,000			2,05,000

Additional information :

Debtors on 31st March 1965	40,000
Creditoss on 31st March, 1965	25,000
Bills Receivable on 31st March, 1965	30,000
Bills Payable on 31st March, 1965	50,000
Stock-in-Trade on 31st March, 1965	30,000
Bills Receivable in hand dishonoured during the year	5,000
Bills Payable dishonoured	2,000
Bills Receivable endorsed	15,000
Bills Receivable as endorsed dishonoured	2,000
Discount Allowed	1,000
Discount Received	2,000

(C. A. Inter- -May, 1965).

Solution

Bills Receivable Account

Dr.	Rs		Cr. Rs
To Balance b/d	20,000	By Cash	75,000
Sundry Debtors	1,05,000	,, Sundry Debtors (Bills dishonoured)	5,000
		,, Creditors (Bills endorsed)	15,000
		,, Balance c/d	30,000
	1,25,000		1,25,000

Bills Payable Account

Dr.	Rs		Cr. Rs
To Cash	60,000	By Balance b/d	40,000
,, Creditors (B/P dishonoured)	2,000	,, Sundry Creditors	72,000
,, Balance c/d	50,000		
	1,12,000		1,12,000

Total Debtors' Account

Dr.	Rs		Cr. Rs.
To Balance b/d	25,000	By Cash	80,000
,, Bills Receivable A/c (Bills dishonoured)	5,000	,, Discount Allowed	1,000
,, Creditors A/c (B/R endorsed dishonoured)	2,000	,, Bills Receivable A/c	1,05,000
,, *Credit Sales*	1,94,000	,, Balance c/d	40,000
	2,26,000		2,26,000

Total Creditors' Account

Dr.	Rs.		Cr. Rs.
To Cash	35,000	By Balance b/d	20,000
,, Bills Receivable A/c. (Bills endorsed)	15,000	,, Bills Payable A/c.— (Bills dishonoured)	2,000
,, Discount Received	2,000	,, Sundry Debtors A/c. (Bills Receivable endorsed dishonoured)	2,000
,, Bills Payable A/c.	72,000	,, *Credit Purchases*	1,25,000
,, Balance c/d	25,000		
	1,49,000		1,49,000

Trading and Profit & Loss Account for the year ended 31st March, 1965

Dr.	Rs.	Cr.	Rs.	Rs.
To Opening Stock	20,000	By Sales—		
,, Purchases	1,25,000	Cash	35,000	
,, Wages	20,000	Credit	1,94,000	2,29,000
,, Gross Profit c/d	94,000	,, Closing Stock		30,000
	2,59,000			2,59,000
To Sundry Expenses	30,000	By Gross Profit b/d		94,000
,, Rent, Rates and Taxes	20,000	,, Discount Received		2,000
,, Discount Allowed	1,000			
,, Net Profit (transferred to Capital A/c.)	45,000			
	96,000			96,000

Balance Sheet as at 31st March, 1965

Liabilities		Rs.	*Assets*	Rs.
Creditors		25,000	Cash in hand	3,000
Bills Payable		50,000	Cash at Bank	25,000
Capital	Rs. 1,00,000		Bills Receivable	30,000
Add—Net Profit	45,000		Debtors	40,000
	1,45,000		Stock-in-Trade	30,000
Less—Drawings	12,000	1,33,000	Furniture	10,000
			Plant	70,000
		2,08,000		2,08,000

Illustration 6

A retail tradesman asks you to prepare accounts of his business for the year ended 31st December, 1963 and on investigation you find that while records of business takings and payments have been kept, they have not been reconciled with cash in hand. From time to time Cash has been paid into banking account and cheques thereon have been drawn both for business and private purposes.

From the following information obtained from the records and from your client, prepare accounts at 31st December, 1963. During the year cash amounting to Rs. 1,000 was stolen from the safe during the night. No record has been kept of amounts taken from Cash for living and personal expenses and a difference in Cash amounting to Rs. 365 is treated as private expenses.

	Rs.
Cash paid into Bank	7,500
Private dividends paid into Bank	100
Private payments out of Bank	1,300
Business payments out of Bank	6,100
Cash takings (Sales)	12,500
Payments for goods by Cash and Cheque	8,000
Wages	2,000
Delivery expenses	350
Rent and Rates	100
Lighting	50
General Expenses	230

The Assets and Liabilities at the beginning and end of the period are as follows :

	Opening	*Closing*
	Rs.	Rs.
Stock	1,000	750
Bank balance	400	600
Cash in hand	15	20
Trade Debtors	700	1,000
Trade Creditors	1,365	1,500
Investments	2,500	2,500

(C. U., B. Com. (Adv.) Hons. 1967).

Solution

Notes :

(a) Total payments from Bank and Cash is Rs. 8,000.
Business payments from Bank is Rs. 6,100. The balance of Rs. 1,900 is, therefore payment from Cash.

(b) Difference in cash amounting to Rs. 365 is shown as drawing from Cash.

Cash Book
(with Bank and Cash Columns)

Dr.	Bank Rs.	Cash Rs.	Cr.	Bank Rs.	Cash Rs.
To Balance b/d	400	15	By Bank—Contra (being Cash paid into Bank.)		7,500
,, Cash—Contra (being Cash paid into Bank)	7,500		,, Drawings (being Drawings made from Bank and Cash.)	1,300	365
,, Sundry Debtors (being the amount received from Debtors.)		12,500	,, Sundry Creditors (being the amount paid to Creditors from Bank and Cash.)	6,100	1,900
,, Sales (for Cash)		1,000	,, Wages (being Wages paid.)		2,000
,, Dividends (being Private Dividends Paid into Bank.)	100		,, Delivery Expenses (being Delivery Expenses paid.)		350
			,, Rent and Rates (being Rent and Rates paid.)		100
			,, Lighting (being Lighting Expenses paid.)		50
			,, General Expenses (being General Expenses paid.)		230
			,, Loss by theft from Safe		1,000
			,, Balance c/d	600	20
	8,000	13,515		8,000	13,515

Total Debtors' Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d	700	By Cash	12,500
,, *Credit Sales*	12,800	,, Balance c/d	1,000
	13,500		13,500

Total Creditors' Account

Dr.	Rs.	Cr.	Rs.
To Bank	6,100	By Balance b/d	1,365
,, Cash	1,900	,, *Credit Purchases*	8,135
,, Balance c/d	1,500		
	9,500		9,500

Trading and Profit & Loss Account
for the year ended 31st December, 1963

Dr.				Cr.
	Rs			Rs.
To Opening Stock	1,000	By Sales—		
,, Purchases	8,135		Rs.	
,, Wages	2,000	Cash	1,000	
,, Gross Profit c/d	3,415	Credit	12,800	13,800
		,, Closing Stock		750
	14,550			14,550
To Rent and Rates	100	By Gross Profit b/d		3,415
,, Lighting	50			
,, Delivery Expenses	350			
,, General Expenses	230			
,, Loss by theft	1,000			
,, Net Profit— (transferred to Capital A/c)	1,685			
	3,415			3,415

Balance Sheet
as at January 1, 1963

Liabilities	Rs	*Assets*	Rs
Sundry Creditors	1,365	Cash in hand	15
Capital	3,250	Cash at Bank	400
		Investments	2,500
		Sundry Debtors	700
		Stock	1,000
	4,615		4,615

Balance Sheet
as at 31st December, 1963

Liabilities		Rs	*Assets*	Rs
Sundry Creditors		1,500	Cash in hand	20
	Rs		Cash at Bank	600
Capital	3,250		Investments	2,500
Add Net Profit	1,685		Sundry Debtors	1,000
Add Private Dividend	100		Stock	750
	5,035			
Less Drawings	1,665	3,370		
		4,870		4,870

Illustration 7

Marcar does not maintain proper books of account or bank account. From the following information, prepare Trading and Profit & Loss Account for the year ended 31st December, 1967, and a Balance Sheet as on that date :—

	On 31-12-66 Rs.	On 31-12-67 Rs.
Debtors	9,000	12,500
Stock	4,900	6,600
Furniture	500	750
Creditors	3,000	2,250

Analysis of other transactions are :—

	Rs.
Cash collected from Debtors	30,400
Cash paid to Creditors	22,000
Salaries	6,000
Rent	750
Office Expenses	900
Drawings	1,500
Fresh Capital introduced	1,000
Cash Sales	750
Cash Purchases	2,500
Discount Received	350
Discount Allowed	150
Returns Inward	500
Returns Outward	400
Bad Debts	100

He had Rs. 2,500 Cash at the beginning of the year.

(I. C. W. A., Jan., 1968).

Solution

Statement of Affairs
as at January, 1, 1967

Liabilities	Rs.	*A*	Rs.
Creditors	3,000	Cash in hand	2,500
Capital—being the excess of assets over liabilities	13,900	Debtors	9,000
		Stock	4,900
		Furniture	500
	16,900		16,900

Dr. Total Debtors' Account Cr.

		Rs.			Rs.
1967				By Cash	30,400
Jan. 1	To Balance b/d	9,000		,, Discount	150
	,, *Credit Sales*	34,650		,, Returns Inward	500
				,, Bad Debts	100
			1967 Dec. 31	,, Balance b/d	12,500
		43,650			43,650

Dr. Total Creditors' Account Cr.

		Rs.			Rs.
	To Cash	22,000	1967		
	,, Discount	350	Jan 1	By Balance b/d	3,000
	,, Returns Outward	400		,, *Credit Purchases*	22,000
1967 Dec. 31	,, Balance c/d	2,250			
		25,000			25,000

Dr. Cash Account Cr.

		Rs.			Rs.
1967					
Jan. 1	To Balance b/d	2,500		By Creditors	22,000
	,, Debtors	30,400		,, Cash Purchases	2,500
	,, Additional Capital	1,000		,, Salaries	6,000
	,, Cash Sales	750		,, Rent	750
				,, Office Expenses	900
				,, Drawings	1,500
				,, Furniture (Addition)	250
			1967 Dec. 31	,, Balance c/d	750
		34,650			34,650

Marcar
Trading and Profit & Loss Account
for the year ended 31st December, 1967

Dr.							Cr.
			Rs.				Rs.
To Opening Stock			4,900	By Sales—			
,, Purchases—					Rs.	Rs.	
	Rs.	Rs.		Cash		750	
Cash		2,500		Credit	34,650		
Credit	22,000			*Less* Returns	500	34,150	34,900
Less Returns	400	21,600	24,100				
				,, Closing Stock			6,600
,, Gross Profit c/d			12,500				
			41,500				41,500
To Salaries			6,000	By Gross Profit b/d			12,500
,, Rent			750	,, Discount Received			350
,, Office Expenses			900				
,, Discount Allowed			150				
,, Bad Debts			100				
,, Net Profit— (transferred to Capital A/c.)			4,950				
			12,850				12,850

Marcar
Balance Sheet
as at 31st December, 1967

Liabilities		Rs.	*Assets*	Rs.
Creditors		2,250	Cash in hand	750
	Rs.		Debtors	12,500
Capital	13,900		Stock	6,600
Additions	1,000			
			Furniture	750
	14,900			
Add Profit	4,950			
	19,850			
Less Drawings	1,500	18,350		
		20,600		20,600

Illustration 8

X started a small grocer's shop on 1st January, 1958, with a capital of Rs. 4,000. The rent of the shop was Rs. 50 per month and he employs a salesman at Rs. 60 per month. He purchased fixtures for Rs. 200 out of his Capital before he started the business.

Being unable to keep proper accounts he approached a chartered accountant for advice. The accountant suggested as follows :

(a) The balance of Capital in hand is to be deposited in a current account of a bank.

(b) All purchases are to be paid by cheque from that current account.

(c) All cash sales and collections from the debtors are to be deposited in the current account on the following day.

(d) A savings account is to be opened with a cheque for Rs. 200 drawn on the current account and deposits of Rs. 200 to be made on the first working day on each of the following months.

(e) All expenses other than those to be drawn from current accounts are to be met out of this savings account.

(f) A petty cash box is to be maintained for payment of carriage in and cartage only and is to be reimbursed from the current account in round sums as and when necessary.

(g) All sales are to be recorded in a challan which will be given over to the customer on his paying up. In case of cash sales this will be given up immediately and in case of credit sales this will be kept in uptill payment is made.

(h) On 31st December every year he will compile the following :

(i) A stock inventory by valuing the stock in hand at cost or market price whichever is lower.

(ii) The total of challans held by him on that date.

(iii) Bank balances as per current and savings accounts.

(iv) Balance in his petty cash box as also cash held on account of cash sales and credit collections for the day to be deposited the next day.

On 31st December, 1958, his stock was valued at Rs. 2,841, his bank balances were : current account Rs. 3,145 and savings account Rs. 231. His petty cash balance was Re. 1 and cash on account of cash sales and credit collections for being deposited on the next day Rs. 129.

He has drawn Rs. 760 during the year for his personal expenses from the savings bank account and the total of his challans in hand was Rs. 826 of which one for Rs. 26 is unrealisable. The rent and salary for the month of December, 1958, are to be paid in January, 1959.

Assuming depreciation at 10% p. a. on his fixtures and a 2% Reserve for Doubtful Debts on the rest of the challans (barring the one which is unrealisable), prepare his P. & L. A/c. for the year ended 31st December, 1958, and a Balance Sheet as at that date (in Pro forma). [C. U. B. Com. Adv. (Hons.) 1966].

Solution

Note : For preparation of the Profit & Loss Account and the Balance Sheet it is necessary to prepare the various Ledger Accounts with assumptions in respect of the missing information.

Dr. **X's Capital Account** **Cr.**

	Rs.		Rs.
To Balance c/d	4,000	By Sundries	4,000
		By Balance b/d	4,000

Dr. **Fixtures Account** **Cr.**

	Rs.		Rs.
To Capital	200	By Depreciation	20
		,, Balance c/d	180
	200		200
To Balance b/d	180		

Dr. **Petty Cash** **Cr.**

	Rs.		Rs.
To Current Account	1,000	By Carriage (assumed)	982
		,, Balance c/d	18
	1,000		1,000
To Balance b/d	18		

Dr. **Cash (for Depositing) Account** **Cr.**

	Rs.		Rs.
To Debtors	129	By Balance c/d	129
To Balance b/d	129		

Dr. **Drawings Account** **Cr.**

	Rs		Rs
To Savings Account	760	By Balance c/d	760
To Balance b/d	760		

Dr. **Salaries Account** **Cr.**

	Rs		Rs
To Current Account	660	By P & L Account	720
,, Outstanding Expenses	60		
	720		720

Dr. **Rent Account** **Cr.**

	Rs		Rs.
To Current Account	550	By P & L Account	600
,, Outstanding Expenses	50		
	600		600

Dr. **Outstanding Expenses Account** **Cr.**

	Rs		Rs.
To Balance c/d	110	By Salaries	60
		,, Rent	50
	110		110
		By Balance b/d	110

Dr. **Bad Debts Account** **Cr.**

	Rs.		Rs.
To Debtors	26	By P. & L. Account	26

Dr. **Purchases Account** **Cr.**

	Rs.		Rs.
To Current Account	30,000	By P. & L. Account	30,000

Dr. **Depreciation Account** **Cr.**

	Rs.		Rs.
To Fixtures	20	By P. & L. Account	20

Dr. **Reserve for Doubtful Debts Account** **Cr.**

	Rs.		Rs.
To Balance c/d	16	By P & L Account	16
		By Balance b/d	16

Dr. **Miscellaneous Expenses Account** **Cr.**

	Rs.		Rs.
To Current Account	6,045	By P & L Account	7,454
,, Savings Account	1,409		
	7,454		7,454

Dr. **Savings Account** **Cr.**

	Rs		Rs
To Current Account	2,400	By Drawings	760
		,, Miscellaneous Expenses (assumed)	1,409
		,, Balance c/d	231
	2,400		2,400
To Balance b/d	231		

Dr. **Current Account** **Cr.**

	Rs		Rs
To Capital	3,800	By Savings A/c	2,400
,, Debtors' challans (assumed)	40,000	,, Purchases (assumed)	30,000
		,, Salaries	660
		,, Rent	550
		,, Petty Cash (assumed)	1,000
		,, Miscellaneous Expenses (assumed)	6,045
		,, Balance c/d	3,145
	43,800		43,800
To Balance b/d	3,145		

Dr. **Debtors (Challans) Account** **Cr.**

	Rs		Rs.
To Sales	40,955	By Current A/c	40,000
		,, Cash (for depositing)	129
		,, Balance c/d	826
	40,955		40,955
To Balance b/d	826	By Bad Debts	26
		,, Balance c/d	800
	826		826
To Balance b/d	800		

Mr. X

Trading and Profit & Loss Account

Dr. **for the year ended 31st December, 1958** **Cr.**

	Rs.		Rs.
To Purchases	30,000	By Sales	40,955
,, Carriage	982	,, Closing Stock	2,841
,, Gross Profit c/d	12,814		
	43,796		43,796
To Salaries	720	By Gross Profit b/d	12,814
,, Rent	600		
,, Miscellaneous Expenses	7,454		
,, Bad Debts	26		
,, Reserve for Doubtful Debts	16		
,, Depreciation	20		
,, Net Profit—transferred to Capital A/c.	3,978		
	12,814		12,814

Balance Sheet of Mr. X
as at 31st December, 1958

Capital and Liabilities	Rs.	Rs.	*Property and Assets*	Rs.	Rs.
Capital	4,000		Furniture	200	
Add Profit for the year	3,978		*Less* Depreciation	20	180
	7,978		Closing Stock		2,841
Less Drawings	760	7,218	Debtors	800	
			Less Res. for Doubtful Debts	16	784
Outstanding Expenses		110			
			Bank Balances :		
			Current A/c.	3,145	
			Savings A/c.	231	3,376
			Cash Balances :		
			Petty Cash	18	
			Cash (for depositing)	129	147
		7,328			7,328

Illustration 9

A. Sen requests you to prepare Profit & Loss Account for the year ended 31st December, 1963 and Balance Sheet as at that date from the following information :

A. Sen purchased the business on 1st January, 1963 paying Rs. 12,500 to the previous owner and taking over Furniture Rs. 2,400, Stock Rs. 6,400, Lease of Shop Rs. 1,200, Sundry Debtors Rs. 3,500 and Creditors Rs. 2,100. On the same date he paid Rs. 2,000 into a bank account to provide separate funds for business. He had not had a complete set of double entry records in operation, but had maintained records of cash transactions, sales and purchases.

Cash Receipts

	Rs.
Debtors	24,700
Cash Sales	2,540
ad of creditor's account overpaid	150
	27,390

Cash Payments

	Rs.
Addition to Furniture	600
Creditors	17,770
Commission to travellers	1,200
General Administrative charges	970
Rent (Paid upto 31-10-63)	1,400
	21,940

Credit Sales	26,250
Purchases	18,220
Stock on 31-12-63	5,250

(b) Show Journal entries to institute a set of double entry records as from 1st January, 1964. (C. U. M. Com. 1964).

Solution

Statement of Affairs
as at 1st January, 1963

	Rs		Rs.
Sundry Creditors	2,100	Goodwill	1,100
Capital as on 1-1-63	14,500	Furniture	2,400
		Stock	6,400
		Lease Shop	1,200
		Sundry Debtors	3,500
		Bank	2,000
	16,600		16,600

Note : Value of Goodwill is ascertained thus :,

Assets taken over (Furniture Rs. 2,400+Stock Rs. 6,400+Lease of Shop Rs. 1,200+ Debtors Rs. 3,500)−(Sundry Creditors Rs. 2,100)=Rs. 13,500−Rs. 2,100=Rs. 11,400.

Total Value paid Rs. 12,500−Assets taken over Rs. 11,400=Goodwill Rs. 1,100.

Dr. Cash Book Cr.

	Rs.		Rs.
To A. Sen's Capital A/c.	2,000	By Furniture	600
,, Debtors A/c.	24,700	,, Creditors	17,770
,, Sales A/c.	2,540	,, Commission	1,200
,, Creditor's A/c. (Refund)	150	,, General Administrative Charges	970
		,, Rent	1,400
		,, Balance c/d	7,450
	29,390		29,390
To Balance b/d	7,450		

Dr. Total Debtors Account Cr.

	Rs.		Rs
To Balance b/d	3,500	By Cash	24,700
,, Sales	26,250	,, Balance c/d	5,050
	29,750		29,750
To Balance b/d	5,050		

Dr. Total Creditors Account Cr.

	Rs.		Rs.
To Bank	17,770	By Balance b/d	2,100
		,, Bank (Refund)	150
,, Balance c/d	2,700	,, Purchases	18,220
	20,470		20,470
		By Balance b/d	2,700

Trading and Profit & Loss Account

		Rs			Rs
To Opening Stock		6,400	By Sales :	Rs.	
,, Purchases		18,220	Cash	2,540	
,, Commission		1,200	Credit	26,250	28,790
,, General Adm Charges		970			
,, Rent	1,400		,, Closing Stock		5,250
Add Outstanding	280	1,680			
,, Net Profit—transferred to Capital A/c		5 570			
		34 040			34,040

A. Sen

Balance Sheet as at 31st December, 1963

Liabilities		Rs	*Assets*		Rs
Sundry Creditors	Rs	2,700	Goodwill	Rs	1,100
Outstanding liability		280	Furniture	2 400	
Capital	14,500		*Added* during the year	600	3,000
Add Net Profit	5,570	20 070			
			Lease of Shop		1,200
			Sundry Debtors		5,050
			Stock		5,250
			Cash at Bank		7,450
		23,050			23,050

Illustration 10

A small trader keeps the following records for the business transactions :—

(i) A Bank account in which he deposits all his collections and makes payment by cheques only except for petty payments which he meets from his personal withdrawals.

(ii) A purchase book in which he enters all his purchase invoices and cancels them as and when payment is made.

(iii) A sales book in which he enters all his sales bills and marks them off as and when cash is received. At the end of each year, he prepares a Profit & Loss Account on cash basis. As he is desirous of admitting a partner in his business, he requests you to prepare his Profit & Loss Account for the year ending 31st December, 1960 and the Balance Sheet as on that date. You are furnished with the following information for the said purpose.

The passbook reveals the following payments :—

	Rs.
Paid for purchses including Rs. 2,600 in respect of the previous period for which a sum of Rs. 370 is still outstanding	25,800
Salary and wages	6,820
Rent, Stationery, Insurance	5,160
Addition to Furniture	1,200
Advertisement including Rs. 350 for the quarter ending 31st March, 1961	1,400
Repairs to Premises	640
Personal withdrawals out of which he has paid Rs. 570 for cooli and cartage, postage and Misc. expenses in connection with business	4,000

He had stock of Rs. 12,600 on hand at the beginning of the year. This included some old unsaleable items which he disposed off for Rs. 750 but he had not deposited the sale proceeds in his bank account. The stock at end amounted to Rs. 9,200. Cash received for sales amounted to Rs. 47,800 of which Rs. 7,100 were collections in respect of the previous year. Outstanding debtors at the end of the year were Rs. 9,650. His purchase book for the year discloses that invoices of the total value of Rs. 2,170 have not been cancelled. He had a bank balance of Rs. 1,250 as on 31st December, 1960. The trader values the furniture and fittings at the end of the period at Rs. 6,250. Expenses outstanding amount to Rs. 640. No other information is available with the trader.

(C. A. 1962 & C. U. M. Com. 1963).

Solution

Statement of Affairs as at 1-1-1961

Liabilities	Rs.	*Assets*		Rs.
Sundry Creditors	2,970	Stock		12,600
Bank Over Draft	1,530	Debtors		7,100
Capital (Balancing figure)	20,250		Rs.	
		Furniture	6,250	
		Less Additions during the year	1,200	5,050
	24,750			24,750

Dr. Total Debtors Account Cr.

	Rs.		Rs.
To Balance b/d	7,100	By Bank	47,800
,, *Credit Sales* (Balancing figure)	50,350	,, Balance c/d	9,650
	57,450		57,450

Note : *Total Sales :* Credit Sales Rs. 50,350
Add Cash Sales Rs. 750 Rs. 51,100

Dr. **Total Creditors Account** **Cr.**

	Rs.			Rs.
To Bank	25 800	By Balance b/d	2,600	
,, Balance c/d	2,170	*Add* Outstanding	370	2,970
		,, *Credit Purchases* (balancing figure)		25,000
	27,970			27,970
		By Balance b/d		2,170

Dr. **Bank Account** **Cr.**

		Rs.			Rs.
To Sundry Debtors	47,800		By Balance b/d-Bank Overdraft (balancing figure)		1,530
Add Sale proceeds of unsaleable items	750	48,550	,, Sundry Creditors		25,800
			,, Salaries and Wages		6,820
			,, Rent, Stationery and Insurance		5,1 60
			,, Furniture		1,200
			,, Advertising		1,400
			,, Repairs		640
			,, Petty Disbursements		570
			,, Drawings	4,000	
			Less Petty Expenses	570	
				3,430	
			Add Sale proceeds not banked	750	4,180
			,, Balance c/d		1,250
		48,550			48,550
To Balance b/d		1,250			

Trading and Profit & Loss Account
for thr year ended 31-12-1961

Dr.		Rs.		Cr. Rs.
To Opening Stock		12,600	By Sales	51,100
,, Purchases		25,000	,, Stock-in-hand	9,200
,, Gross Profit c/d		22,700		
		60,300		60,300
To Salaries		6,820	By Gross Profit b/d	22,700
,, Rent, Stationery and Insurance		5,160		
,, Advertising Expense	1,400			
Less Paid in Advance	350	1,050		
,, Repairs to Premises		640		
,, Petty Expenses		570		
,, Outstanding Expenses		640		
,, Net Profit—Transferred to Capital Account		7,820		
		22,700		22,700

Balance Sheet
as at 31st December, 1961

Capital and Liabilities		Rs.	*Property and Assets*	Rs.
Capital as on 1-1-61	20,250		Stock	9,200
Add Net Profit	7,820		Furniture	6,250
			Sundry Debtors	9,650
	28,070		Prepaid Advertising Expenses	350
Less Drawings	4,180	23,890	Cash at Bank	1,250
Sundry Creditors		2,170		
Outstanding Expenses		640		
		26,700		26,700

Note : Drawing is ascertained thus :

Personal withdrawals	Rs. 4,000		
Less Petty expenses paid	,, 570		
	Rs. 3,430		
Add Sale proceeds received	Rs. 750	Rs. 4,180	

Illustration 11

A. Basu carries on a small business, but does not keep a full set of books of account. Cash Book, Debtors' Ledger and Purchase Ledger are accurately written up and, in addition, a statement of Assets and Liabilities is prepared by Basu at the close of each year. He banks all receipts and makes payments by cheque.

From the following information prepare Profit & Loss Account for the year ended 31st December, 1960, and a Balance Sheet as at that date :—

Receipts for the year ended 31st December, 1960	Rs.	*Payments for the year ended 31st December, 1960*	Rs.
From Sundry Debtors	34,000	Wages	15,450
From Cash Sales	7,100	Salaries	1,200
Paid in by A. Basu	4,200	Light and Power	960
Refund of Creditor's		Rent	2,600
Account over paid	250	New Plant bought	1,500
		Telephone	200
		Drawings	5,000
	45,550	Interest	140
		Sundry Expenses	5,140
		Sundry Creditors	16,050
			48,240

Assets and Liabilities	31-12-59 Rs.	31-12-60 Rs.
Sundry Creditors	4,210	7,150
Sundry Debtors	7,280	9,320
Bank	750	1,940
Stock	9,500	8,000
Plant	11,000	11,140

(C. U. M. Com. 1961).

Solution

Dr. **Cash Book** (Bank Column only) **Cr.**

	Rs.		Rs.
To Balance b/d	750	By Wages	15,450
,, Debtors	34,000	,, Salaries	1,200
,, Sales	7,100	,, Light and Power	960
,, Creditors	250	,, Rent	2,600
,, A. Basu's Capital A/c.	4,200	,, Plant	1,500
,, Balance c/d (Overdraft)	1,940	,, Telephone	200
		,, Drawings	5,000
		,, Interest	140
		,, Sundry Expenses	5,140
		,, Sundry Creditors	16,050
	48,240		48,240

Notes :

(1) Total Sale is calculated thus :—

(a) *Credit Sales :*

	Rs.	Rs.
Closing Debtors	9,320	
Add Cash received from Debtors ..	34,000	
	43,320	
Less Opening Debtors	7,280	36,040
(b) *Cash Sales*		7,100
.. Total Sale :		43,140

(2) Total Purchase is calculated thus :—

(a) *Credit Purchase* ·

Closing Creditors	7,150	
Add Cash paid to Creditors .	16,050	
	23,200	
Less Opening Creditors	4,210	
	18,990	
Less Refund of the amount Overpaid ..	250	18,740
(b) *Cash Purchases*		Nil
∴ Total Purehase :		18,740

Capital as on 1-1-60 is ascertained thus :

	Rs.		
Sundry Debtors	7,280		
Bank	750		
Stock	9,500		
Plant	11,000	28,530	
Less Sundry Creditors		4,210	
∴ Capital as on 1-1-60			24,320

Trading and Profit & Loss Account
Dr. for the year ended 31st December, 1960 Cr.

		Rs.		Rs.
To Opening Stock		9,500	By Sales	43,140
,, Purchases		18,740	,, Closing Stock	8,000
,, Wages		15,450		
,, Balance—Gross profit c/d		7,450		
		51,140		51,140
To Salaries		1,200	By Gross Profit b/d	7,450
,, Light and Power		960	,, Balance—Net Loss transferred to Capital Account	4,150
,, Rent		2,600		
,, Telephone		200		
,, Interest		140		
,, Sundry Expenses		5,140		
,, Depreciation :	Rs.			
Plant—Old balance	11,000			
Add Cost of new plant	1,500			
	12,500			
Less Closing balance	11,140	1,360		
		11,600		11,600

Balance Sheet of A. Basu
as at 31st December, 1960

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		7,150	Plant	11,140
Bank Over Draft		1,940	Sundry Debtors	9,320
A. Basu's Capital A/c :	Rs.		Closing Stock	8,000
Opening Balance	24,320			
Add Capital paid in	4,200			
	28,520			
Less Drawing	5,000			
	23,520			
Less Net Loss	4,150	19,370		
		28,460		28,460

Notes

(1) Assumed that the Closing Bank Balance is Credit (i.e., Overdraft) and shown as liability.

(2) This Closing Bank Balance may also be assumed as debit. In that case the difference between the Credit Column and Debit Column of the Cash Book i.e., Rs. 3,880 will have to be shown as a Suspense Account on the Liabilities Side of the Balance Sheet.

Illustration 12

A fire in the office of Pioneer Trading Ltd., took place in the evening of 31st March, 1962 as a result of which the cash book and the nominal ledger kept in the cupboard were destroyed. The cash box containing cash representing the day's taking for 31st March, 1962 was also destroyed.

The Insurance Company requests you to ascertain the amount of cash lost in the fire.

The following is the summary of Balance Sheet as on 31st December, 1961.

	Rs.			Rs.
Share Capital ;				
Authorised and Issued	60,000	Office Furniture at cost	14,616	
Reserve & Balance of Profit and Loss A/c.	85,028	*Less* Depreciation	7,204	7,412
Trade Creditors	14,140	Stock-in-trade at cost		75,742
Unpaid dividend	6,000	Trade Debtors		71,212
		Balance at Bank		10,802
	1,65,168			1,65,168

From the records and documents that were saved, the following information was obtained :—

Balances at the close of business on 31st March, 1962 :

Trade Debtors Rs. 1,19,612 ; Trade Creditors Rs. 31,610 ; Bank Balance after adjusting outstandings Rs. 14,822.

Transactions from 1st January to 31st March, 1962 were found to be :

	Rs.
Cash and Credit sales less Return	8,21,154
Expenses	2,03,124
Wages and Salaries	90,634
Office furniture purchased	1,300
Dividend paid	6,000
Goods purchased less Return	4,69,212

Depreciation provided Rs. 360.

All receipts have been banked except those for 31st March, 1962.

Stock in trade on 31st March, 1962 valued at cost was Rs. 53,816.

You are required to prepare :—

(a) A statement showing the computation of the amount of cash lost in fire.

(b) Trading and Profit & Loss Account for three months ending 31st March, 1962 and a Balance Sheet as on that date. (C. U. M. Com. 1962).

Solution

Cash Book

Dr.	Rs.		Rs. Cr.
To Balance at Bank	10,802	By Cash paid to Creditors	4,51,742
,, Cash collected from Debtors	7,72,754	,, Expenses	2,03,124
		,, Wages and Salaries	90,634
		,, Office furniture	1,300
		,, Dividend	6,000
		,, Bank Balance on 31-3-62	14,822
		,, Balance being Cash lost by fire	15,934
	7,83,556		7,83,556

Notes : (1) Cash collected from Debtors is ascertained thus

	Rs.
Opening Balance of Sundry Debtors ..	71,212
Add Cash and Credit Sales (less return)	8,21,154
	8,92,366
Less Closing Balance of Debtors ..	1,19,612
∴ Cash received	7,72,754

(2) Cash paid to Creditors is ascertained thus :

Opening Balance of Sundry Creditors ..	14,140
Add Cash and Credit Purchases (less return)	4,69,212
	4,83,352
Less Closing Balance of Creditors ..	31,610
∴ Cash paid	4,51,742

Pioneer Trading Ltd.
Trading and Profit & Loss Account
for three months ended 31st March, 1962

Dr.	Rs.		Rs. Cr.
To Opening Stock	75,742	By Sales	8,21,154
,, Purchases	4,69,212	,, Closing Stock	53,816
,, Wages and Salaries	90,634		
,, Expenses	2,03,124		
,, Depreciation	360		
,, Net profit—transferred to P/L Appro. A/c.	35,898		
	8,74,970		8,74,970

Pioneer Trading Ltd.

Balance Sheet as at 31st March, 1962

Liabilities			*Assets*		
		Rs.		Rs.	Rs.
Share Capital :			Furniture	7,412	
Authorised and Issued		60,000	*Added* during the year	1,300	
Trade Creditors		31,610			
Reserve & Profit and Loss A/c. :	Rs.			8,712	
			Less Depreciation	360	8,352
	85,028				
	35,898	1,20,926	Trade Debtors		1,19,612
			Stock-in-Trade		53,816
			Bank Balance		14,822
			Cash lost in fire		15,934
		2,12,536			2,12,536

EXERCISE

1. Sri Deb Roy keeps his books on the Single Entry System. His statement of assets and liabilities as at 31st December, 1965 is as follows :

Liabilities		*Assets*	
	Rs.		Rs.
Sundry Creditors	65,000	Land and Buildings	20,000
Loan	56,000	Furniture and Fixtures	3,000
Sundry other liabilities	13.400	Plant and Machinery	55,000
		Stock	9,200
		Sundry Debtors	75,500
		Cash	8,300
	1,35,000		1,71,000

His drawings during the year amounted to Rs. 3,000. Land and Buildings are to be depreciated by 2%, Furniture and Fixtures by 5% and Plant and Machinery by 10%. Sundry Debtors are to be recuded by 2%. He has used Rs. 800 worth of stock of his business for his private purposes. During the year 1965, he sold some of his household furniture for Rs. 1,000 and paid into his bank account of the business.

His Capital at the beginning of the year was Rs. 30,000.

Draw up the Statement of Profit and Loss for the year ended 31st December, 1965 and the Balance Sheet as at that date.

(Burdwan University, B. Com. 1967).

(**Ans :** Net Profit for the year ended 31st December, 1965 Rs. 1,240 ; Balance Sheet total Rs. 1,62,840).

2. R. Sharma was a retail tobacconist and also resided on the premises. He had not kept his books on the double entry principle nor had he balanced his cash book, but you are able to ascertain the following particulars :

	1-1-1962	31-12-1962
	Rs.	Rs.
Cash in hand	30	50
Cash at Bank	1,000	1,500
Sundry Debtors	1,750	2,500
Sundry Creditors	3,410	3,750
Govt. Loan (Securities)	6,250	6,250
Stock-in-trade	2,500	1,870
Transactions during 1962 :		
Salaries		1,500
General Trade Charges		3,500
Stationery and Wrapping papers		870
Rent		700
Electricity		250
Cash Receipts		31,250
Payments through Bank and by Cash for goods		20,000
Payments into Bank—Business		18,750
Payments into Bank—Personal		250
Payments out of Bank—Business		15,250
Payments out of Bank—Personal		3,250
Personal Cash payments		910
Stock taken for personal use		150

You are required to prepare accounts for the year ended 31st Dec., 1962 and Balance Sheet at that date.

(I. C. W. A.—Inter (July) 1963).

(Ans : Net profit Rs. 2,540 ; Balance Sheet total Rs. 12,170)

3. You are instructed by Ramji Lal, who keeps his books by Single Entry, to prepare a Trading and Profit & Loss Account for the year ended 30th September, 1943, together with a Balance Sheet as at that date.

Upon analysing the Cash Book for the year, you find the following , viz. :

	Rs.
Bank Overdraft at 1st October, 1942	8,000
Interest on above and bank charges	200
Ramji Lal's drawings	4,000
Manager's Salary	2,000
Salaries and Wages	15,000
Other Business Expenses	15,800
Paid to Trade Creditors	30,000
Balance at Bankers, 30th September, 1943	4,850
Balance in hands of Cashier	150
Received from Trade Debtors	50,000

Received from Cash Sales	30,000
Ramji Lal Capital at 1st October, 1942	70,000
His Stock on hand at 1st October, 1942	18,000
His Stock on hand at 30th September, 1943	20,440
His Creditors on 1st October, 1942	16,000
His Creditors on 30th September, 1943	11,000
His Debtors on 1st October, 1942	44,000
His Debtors on 30th September, 1943	60,000
His Furniture on 1st October, 1942	2,000
His Furniture on 30th September, 1943	2,000
His Business Premises on 1st October, 1942	30,000
His Business Premises on 30th September, 1943	30,000

You are to allow 5 per cent Interest on the Balance of Capital at 1st October, 1942, to reserve Rs. 3,000 for Doubtful Debts, and to charge 5 per cent depreciation on Business Premises and Furniture. (Delhi University, B. Com. 1961)

4. Ram Chandram keeps his books by single entry. You are required to prepare a Profit & Loss Account of the business for the year ended 31st December, 1957 and a Balance Sheet as at that date.

His Capital on 1st January, 1957, was Rs. 1,40,000 ; Debtors Rs. 85,000 ; Stock Rs. 40,000 ; Furniture Rs. 5,000 ; Land and Buildings Rs. 70,000 and Creditors Rs. 48,000. On 31st December, 1957, his Debtors were Rs. 60,000 ; Stock Rs. 35,000 ; Furniture Rs. 5,000 ; Land and Buildings Rs. 70,000 and Creditors Rs. 16,000.

Upon analysing his Cash Book for the year, you find the following :

	Rs.
Bank overdraft on 1-1-57	12,000
Interest on above and bank charges	500
Personal Drawings	6,000
Salaries to staff	26,000
General Charges	23,000
Paid to Trade Creditors	75,000
Received from Trade Debtors	98,000
Received from Cash Sales	50,000
Balance on 31-12-57 at Bank	4,875
Balance on 31-12-57 with Cashier	625

You are to charge 5% depreciation on Furniture ; Reserve Rs. 500 for doubtfu debts and allow 5% interest on opening Capital. (Delhi Univ., B. Com. 1958)

5. From the following particulars extracted from the books of Mr. Lazy kept unde Single Entry System, you are required to find out the figures for credit sales and credi purchases by showing the Total Debtors' Account and Total Creditors' Account. Shov also the Bills Receivable Account and Bills Payable Account.

	Rs.
Total Debtors on 1st January	4,425
Total Creditors on 1st January	2,691

Bills Receivable on 1st January	1,600
Bills Payable on 1st January	500
Cash received from Debtors	17,235
Discount allowed to customers	174
Bad Debts written off	255
Returns Inward	345
Bills Receivable accepted by Customers	2,880
Cash paid to Creditors	8,934
Discount allowed by Creditors	129
Cash received against Bills Receivable	3,000
Returns to suppliers	156
Bills Payable accepted	1,920
Payments made against Bills Payable	1,400
Total Debtors on 31st December	4,167
Total Creditors on 31st December	2,835

(I. C. W. A.—Inter, July, 1965).

(**Ans**: Credit Sales Rs. 20,631 ; Credit purchase Rs. 11,283).

6. The partnership of Bose and Ghose sharing Profits and Losses in the proportion of $\frac{3}{5}$ and $\frac{1}{4}$ was formed on 1st January, 1964 with the following Assets and Liabilities : -

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	12,345	Cash at Bank	14,195
Bose's Capital	35,000	Sundry Debtors	8,500
Ghose's Capital	11,000	Stock	24,450
		Motor Van	6,000
		Furniture	5,200
	58,345		58,345

The partnership *did not employ double entry book-keeping* but maintained written records for cash and other transactions.

The summary of the cash transactions for the year ended 31st December, 1964 was as follows :—

	Rs.
Balance on 1st January, 1964	14,195
Collections from customers	22,140
Cash Sales	20,724
Interest collected for six months on 5% tax free G. P. Notes of the face value of Rs. 10,000 cost of which was Rs. 9,700. These were introduced by Ghose on 1-4-64	250
Cash purchases	6,000
Payment to Creditors	18,550
Insurance	1,500
Rent at Rs. 200 per month	2,000
Salaries (after deducting Income Tax at source Rs. 500)	11,000

Payment against Income-tax deducted from salaries	410
Miscellaneous Expenses	1,400
Bose's Drawings	5,200
Ghose's Drawings	4,100
Proceeds of a Bill Receivable for Rs. 10,000 on discounting	9,900

Furniture to be depreciated at 10 per cent and Motor Van at 20 per cent per annum.

At close of business on 31st December, 1964, Closing Stock was Rs. 28,890, Sundry Debtors Rs. 14,510, Sundry Creditors Rs. 16,234 and Bills Payable Rs. 4,000.

You are required to prepare the Profit & Loss Account for the year 1964 and the Balance Sheet as at 31st December, 1964. (C. U. M. Com. 1965).

(Ans : Credit purchase Rs. 26,439 ; Credit Sales Rs. 38,150 ; Net Profit : Ghosh Rs. 4,210, Bose Rs. 8,420 ; Cash in hand Rs. 17,049, Balance Sheet total Rs. 79,754).

7. A retail tradesman asks you to prepare accounts of his business for the year ended 31st December, 1965, and on investigation you find that while records of business takings and payments have been kept, they have not been reconciled with cash in hand. From time to time cash has been paid into a banking account, and cheques thereon have been drawn both for business and private purposes.

From the following information, prepare Profit & Loss Account for the year ended 31st December, 1965 and Balance Sheet as at 31st December, 1965.

No record has been kept of amounts taken from cash for living and personal expenses, and a difference in the cash amounting to Rs. 3,650 is treated as private expenditure.

	Rs.
Cash paid into Bank	75,000
Private Dividend paid into Bank	1,000
Private payments out of Bank	13,000
Business payments out of Bank	61,000
Cash takings	1,25,000
Payments for goods by cash and cheque	80,000
Wages	20,000
Delivery Expenses	3,500
Rent and Rates	1,000
Lighting and heating	500
General Expenses	2,300

The Assets and Liabilities at the beginning and end of the period are as follows :

	Opening Rs.	Closing Rs.
Stock	10,000	7,500
Bank Balance	4,000	6,000
Cash in hand	150	200
Trade Debtors	7,000	10,000
Trade Creditors	13,650	15,000
Investment	25,000	25,000

(C. U. M. Com. 1966).

(Ans : Net Profit Rs. 17,850 ; Balance Sheet total Rs. 48,700).

CHAPTER XXX

DEPARTMENTAL ACCOUNTS

1. **Its Meaning :** Commercial undertakings dealing in different kinds of commodities are usually divided into several departments or divisions. It is desirable to know which department is making profit and which department is losing. The system of accounting employed to ascertain the financial results of each department or type of product is called *Departmental Accounting.*

2. **Its advantages :** It is advantageous to prepare a Trading and Profit & Loss Account for each department. If only one Trading and Profit & Loss Account is prepared for the whole undertaking, losses in one department would be covered by profits in other department. The proprietors would not be able to know the state of affairs of each particular department individually. Departmental Accounting enables a trader to become more cautious about the expenses and to take care as to the working of each department. The results of each deprtment may be compared with those of other departments and of the same department over a number of years.

3. **Analytical Books of Accounts :** For the preparation of Trading and Profit & Loss Accounts on departmental basis details of purchases, sales, wages, salaries, etc., of different departments must be available. For this purpose the subsidiary books are generally ruled with analysis columns for each department. The Ledger Accounts are also ruled with corresponding departmental columns so that figures of each department are recorded in their relative columns. Departmental columns are only required for nominal accounts, as it is from these figures that departmental results may be obtained.

(*i*) *Ruling of the subsidiary books :*

(a) Departmental Purchases Day Book

Date	Particulars	Inv. No.	L. F.	Total	Dept. A	Dept. B	Dept. C
				Rs.	Rs.	Rs.	Rs.

(b) **Departmental Sales Day Book**

Date	Particulars	Inv No	L F	Total	Dept A	Dept B	Dept. C
				Rs	Rs	Rs	Rs

(c) **Departmental Returns Outwards Day Book**

Date	Particulars	Dr Note No	L F	Total	Dept A	Dept B	Dept C
				Rs	Rs	Rs	Rs

(d) **Departmental Returns Inwards Day Book**

Date	Particulars	Cr Note No	L F	Total	Dept. A	Dept B	Dept C
				Rs	Rs	Rs	Rs

(ii) ***Posting from subsidiary books*** ·

The periodical totals of the departmental columns of the subsidiary books will be posted in the Purchases, Sales, Return Inwards and Return Outwards Accounts respectively in the General Ledger.

(iii) *Rulings of the Ledger Accounts*

Dr. Sales Accounts Cr.

Date	Particulars	Folio No	Total	A	B	C	Date	Particulars	Folio No	Total	A	B	C
			Rs	Rs	Rs	Rs				Rs	Rs	Rs	Rs.

Dr. Purchases Accounts Cr.

Date	Particulars	Folio No	Total	A	B	C	Date	Particulars	Folio No	Total	A	B	C
			Rs	Rs	Rs	Rs				Rs	Rs	Rs	Rs

Dr. Returns Inwards Accounts Cr.

Date	Particulars	Folio No	Total	A	B	C	Date	Particulars	Folio No	Total	A	B	C
			Rs	Rs	Rs	Rs				Rs	Rs	Rs	Rs

Dr. Returns Outwards Accounts Cr.

Date	Particulars	Folio No	Total	A	B	C	Date	Particulars	Folio No	Total	A	B	C
			Rs	Rs.	Rs	Rs				Rs	Rs	Rs.	Rs

4. **Allocation of Expenses :** There are some expenses which are incurred specifically for a particular department such as, salaries paid to the employees of "A" Department. Expenses that can be allocated direct to any department must be charged thereto.

Expenses which can not be directly allocated to any department, should be apportioned between different departments on some reasonable basis as given below :—

Basis of Allocation	Expenses
1. Sales or Turnover of each deptrament:	Selling commission, Bad Debts, Discount Allowed, Advertisement, Sales Tax, Carriage Outward etc.
2. Floor-Space occupied by each department :	Rent, Rates, Taxes, Depreciation of Buildings, Insurance on Buildings, Repairs, Lease etc.
3. Volume of Space used by each department :	Lighting, Heating etc. **Note :** Amount spent on each department may be found out by means of separate meters or on the basis of number of points.
4. Asset-Values of each department :	Depreciation of Plant and Machinery. **Note :** In the absence of any indication it may be allocated on the ratio of sales or wages.
5. Value of subject-matter insured :	Insurance premium. **Note :** Insurance on goods should be allocated according to the value of stock of each department.
6. Number of workers or employees of each department :	Welfare expenses, Canteen expenses, Recreation expenses etc.
7. Output of each department :	Supervison expenses, packing charges etc.
8. Gross profit of each department :	Income-Tax etc.

Notes :

(i) Expenses which can not be allocated on a reasonable basis, such as interest on capital, debenture interest, bank-charges, law charges, income tax, office expenses, manager's salary etc., should be debited to General Profit & Loss Account. Alternatively these items may be apportioned on some *arbitray ratio.*

(ii) *Discounts received* may be allocated according to the value of goods purchased for each department.

5. **Inter-departmental Transactions :** Goods are often transferred from one department to another. In case of such transfer the supplying department is credited and the receiving department is debited. These transfers may be at *cost* or at *loaded or selling price.* If it is at cost no adjustment is necessary regarding the unsold stock of the receiving department. If it is at selling price and goods received are fully sold out, then also no provision is necessary. But, if goods are supplied at selling price and a portion of the goods supplied remains unsold, the unrealised profit is to be eliminated

by creating a provision for such unrealised profits. The provision will equal the profit loaded on the goods supplied.

Calculation of the amount of provision or reserve :

If the amount of inter-departmental stock included in the closing stock of a department is known and the profit (i.e., load) is a fixed percentage of cost or selling price, the amount of provision can be easily calculated. When, however, the amount of such stock is not known, it may be calculated on the basis of the ratio of purchases from outside and departmental transfers received.

Service by one department to another department :

Sometimes one department renders service to another department. In such a case, department giving the service will be credited and the department receiving the service will be debited.

Illustration 1 (*Departmental Trading A/c, calculation of rate of profit, cost price, valuation of purchase and closing stock*).

Prepare Departmental Trading Accounts from the following particulars assuming that the rate of gross profit is same in each case :

	Department A Units Rs.	Department B Units Rs.	Department C Units Rs.
Purchases (at a total cost of Rs. 1,00,000)	1,000	2,000	2,400
Stocks on 1st January 1, 1965	120	80	152
Sales	1,020	1,920	2,496
	@ Rs. 20 each	@ Rs. 22·50 each	@ Rs. 25 each

(North Bengal University, B. Com. (Adv.) 1966).

Solution

Notes : (1) *Calculation of rate of profit* :

Purchases for A, B & C Depts=(1,000+2,000+2,400)=5,400 units.

Purchase price i. e., cost price of 5,400 units= Rs. 1,00,000

Selling price of 5,400 units will be :—

1,000 units of A Dept. @ Rs. 20 each=	Rs.	20,000
2,000 units of B. Dept. @ Rs. 22·50 each=	Rs.	45,000
2,400 units of C. Dept. @ Rs. 25 each	Rs.	60,000
∴ Total selling price of 5,400 units—	Rs.	1,25,000

Total gross profits on 5,400 units=(Total Selling Price—Total Cost price)
=Rs. 1,25,000—Rs. 1,00,000=Rs. 25,000

∴ (i) Rate of profit on cost price= $\frac{25,000 \times 100}{1,00,000} = 25\%$

and (ii) Rate of profit on Selling Price= $\frac{25,000 \times 100}{1,25,000} = 20\%$

(2) *Calculation of cost price of the units purchased :*

Rate of gross profit on cost price is 25%

. When the Selling Price is Rs 125, the Cost price will be Rs 1))

(A) When the Selling Price is Rs 20, the cost price will be $\frac{100}{125} \times 20$ – Rs 16

(B) When the Selling Price is Rs 22 50, the cost price will be $\frac{100 \quad 22\ 50}{125}$ Rs 18

(C) When the Selling Price is Rs 25, the cost price will b $\frac{100 \quad 25}{125}$ Rs 20

(3) *Valuation of purchases @ cost price*

(a) 1 000 units of A Dept @ Rs 16 each –Rs 16,0))
(b) 2,000 units of B Dept @ Rs 18 each –Rs 36,000
(c) 2 400 units of C Dept @ Rs 20 each Rs 48 000

(4) *Valuation closing stock @ cost price*

Closing Stock of A Dept (1,000 120) 1 020 100 units
Closing Stock of B Dept (2,000 | 80) 1,920 –160 units
Closing Stock of C Dept (2,400 | 152) -2,496– 56 units

Now, value of 100 units @ Rs 16 each=Rs 1 600
value of 160 units @ Rs 18 each =Rs 2,880
value of 56 units @ Rs 20 each=Rs 1,120

(5) *Valuation of opening stock @ cost price*

Value of 120 units @ Rs 16 each=Rs 1,920
Value of 80 units @ Rs 18 each=Rs 1,440
Value of 152 units @ Rs 20 each –Rs 3,040

Dr. Departmental Trading Account Cr

	A	B	C		A	B	C
	Rs	Rs	Rs		Rs	Rs	Rs
To Stock, Jan 1, 1965	1,920	1,440	3,040	By Sales	20,400	43,200	62,40(
,, Purchases	16 000	36,000	48,000	, Closing Stock	1,600	2,880	1,12
,, Gross Profit c/d	4 080	8,640	12,480				
	22 000	46,080	63,520		22,000	46,080	63 5:

Illustration 2 (*Departmental Trading and P/L A/c, Inter-departmental Transactions at cost, allocation of expenses etc.*)

From the under mentioned information and instructions, prepare Departmental Trading and Profit & Loss Account in columnar form of the three Departments of the Outfitting Supply Stores Ltd.

	Tailoring	Ladies' Wear	Outfitting
	Rs.	Rs.	Rs.
Stock 1st January, 1968	41,280	33,975	93,721
Stock on 31st Dec. 1968	32,840	43,828	81,626
Purchases for the year	2,10,342	75,296	1,39,109
Returns (Purchases)	14,382	5,629	1,823
Sales for the year	4,00,173	1,54,085	3,62,189
Returns (Sales)	Nil	3,259	11,217
Wages	72,823	30,084	24,613

Goods were transferred from one department to another at cost price as follows :—

Tailoring to ladies' wear Rs. 389 and to outfitting Rs. 6,679.

Ladies' wear to Tailoring Rs. 5,315 ; Outfitting to Tailoring Rs. 4,271 and to Ladies' Wear Rs. 5,801.

Apportion equally Stationery Rs. 921, Postages Rs. 663, General charges Rs. 39,627, Insurance Rs. 1,785 and Depreciation Rs. 5,400.

Allocate the following further expenditure as you think best and append notes stating the basis selected for each item :—Establishment Rs. 63,395, Bad Debts Rs. 19,823, Advertising Rs. 7,293 and Income-tax Rs. 11,028.

Rent and Taxes Rs. 45,437 is to be split up in proportion to space occupied i. e., Tailoring 4, Ladies' Wear 2, Outfitting 3, other space 2.

Approximate apportionment is all that is necessary ; charge any odd balances to Outfitting Department.

(G. D. A.—*Adapted*).

Solution

Notes : (i) Establishment, Bad Debts, and Advertising are apportioned on the basis of net sales (i.e., 8 : 3 : 7).

(ii) Income tax has been apportioned on the basis of Gross Profit (i. e., 2 : 1 : 3).

(iii) Rent and Taxes apportioned as Tailoring $\frac{4}{9}$th Ladies' Wear $\frac{2}{9}$th and Outfitting $\frac{3}{9}$th.

Departmental Trading and Profit & Loss A/c.

For the year ending 31st December, 1968

	Tailoring	Ladies Wear	Out fitting	Total		Tailoring	Ladies Wear	Out fitting	Total
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Stock, Jan. 1, 1968	41,280	33,975	93,721	1,68,976	By Sales less Returns	4,00,173	1,50,826	3,50,972	9,01,971
,, Purchases less Returns	1,95,960	69,667	1,37,286	4,02,913	,, Goods to other Dept.	7,068	5,315	10,072	22,455
,, Goods from other Dept.	9,586	6,190	6,679	22,455	,, Closing stock on Dec. 31, 1968	32,840	43,828	81,626	1,58,294
,, Wages	72,823	30,084	24 613	1,27,520					
,, Gross Profit c/d	1,20,432	60,053	1,80,371	3,60,856					
	4,40,081	1,99,969	4,42,670	10,82,720		4,40,081	1,99,969	4,42,670	10,82,720
To Stationery	307	307	307	921	By Gross Profit b/d.	1,20,432	60,053	1,80,371	3,60,856
,, Postage	221	221	221	663					
,, General Charges	13,209	13,209	13,209	39,627					
,, Insurance	595	595	595	1,785					
,, Depreciation	1,800	1,800	1,800	5,400					
,, Establishment	28,176	10,566	24,653	63,395					
,, Bad debts	8,811	3,304	7,708	19,823					
,, Advertising	3,241	1,215	2,837	7,293					
,, Income-tax	3,676	1,838	5,514	11,028					
,, Rent & Taxes	20,193	10,096	15,148	45,437					
,, Net Profit	40,203	16,902	1,08,379	1,65,484					
	1,20,432	60,053	1,80,371	3,60,856		1,20,432	60,053	1,80,371	3,60,856

Illustration 3 (*Departmental Final Account*)

The following Trial Balance for the year ended 30th June, 1958 was extracted from the books of Shri Hindustani :

	Dr. Rs.	Cr. Rs.
Capital on 1st July 1957—		
Shri Hindustani		1,00,000
Drawings—		
Shri Hindustani	20,000	
Stock 1st July, 1957—		
Department A	11,400	
Department B	9,800	
Purchases—		
Department A	39,600	
Department B	37,400	
Sales—		
Department A		74,000
Department B		66,300
Inter-Departmental Transfers—		
Department A	..	2,500
Department B	2,500	
Returns Inwards—		
Department A	3,500	
Department B	2,800	
Wages & Salaries	16,500	
Advertising & Catalogues	8,700	
Dividends on Share in Hindustan Handicraft Ltd.	..	1,050
Shares in Hindustan Handicraft Ltd.	23,000	
Sundry Debtors	49,200	
Sundry Creditors	..	29,740
Carriage Inwards	2,400	
Rent, Rates, Taxes & Lighting	18,300	
Furniture & Fixtures	15,000	
Sundry Expenses including Printing, Stationery, Commission, Postage, Telephone, Insurance etc. ..	7,400	
Bank Balance	6,840	
Provision for Bad & Doubtful Debts as on 1st July, 1957	..	750
	2,74,340	2,74,340

You are required to prepare Departmental Trading and Profit & Loss A/cs. and a Balance Sheet after making the following adjustments :

(1) Write off bad debts amounting to Rs. 1,200 and thereafter increase the provision for doubtful debts to 5 per cent of the book debts outstanding.

Rs. 2,000 of Sundry Debtors and Rs. 1,600 of Bills Receivable are bad and are to be written off, and a Reserve for Bad and Doubtful Debts @ 1½% is to be made on Sundry Debtors.

Stock at December 31, 1955 amounted to : Dept. I Rs. 60,000 ; Dept. II—Rs. 50,000 and Dept. III—Rs. 65,000.

Depreciate Land and Buildings by 2½% ; Furniture and Fixtures by 10% and Transport Vehicles by 20%.

Allocate the undivided expenses and charges in proportion to the total of the Opening Stock and Purchases for each department, except in the case of depreciation on Transport Vehicles which is to be allocated in the proportion of 2 : 1 : 1. Prepare the departmental Trading, Profit and Loss Accounts for the year ended December 31, 1955 and a Balance Sheet as at that date.

(C. U. B. Com. (Adv.) 1956).

WHOLESALE TRADERS LIMITED

Trading and Profit & Loss Account for the year ended 31-12-1955

	Dept. I Rs.	Dept. II Rs.	Dept. III Rs.	Total Rs.		Dept. I Rs.	Dept. II Rs.	Dept. III Rs.	Total Rs.
To Opening Stock	70,000	40,000	60.000	1,70.000	By Sales	18,60,000	9,15,000	13,80,000	41,55,000
,, Purchases	14,10,000	7,00,000	10,50.000	31,60.000	,, Closing Stock	60,000	50,000	65,000	1,75,000
,, Wages	2,80,000	1,30,000	2,10,000	6,20.000					
,, Carriage Inwards	5.600	2,800	4.200	12,600					
,, Gross Profit c/d.	1,54,400	92,200	1,20,800	3,67.400					
	19,20.000	9.65.000	14,45,000	43,30.000		19,20.000	9,65.000	14,45,000	43,30,000
To Salaries	24,000	12,000	18,000	54,000	By Gross Profit b/d.	1,54,400	92,200	1,20,800	3,67,400
,, Rates and Taxes	800	400	600	1.800					
,, Printing and Stationery	6,000	3,000	4,500	13,500					
,, Charges general	16.400	8.200	12.300	36.900					
,, Advertisement	3,600	1,800	2,700	8,100					
,, Travelling Expenses	2,800	1,400	2,100	6,300					
,, Debenture Interest 9,000 *Add* Outstanding 9,000	8,000	4,000	6,000	18.000					
,, Bad Debts	1,600	800	1.200	3,600					
,, Reserve for Doubtful Debts	1,760	880	1.320	3,960					
,, Depreciation : $2\frac{1}{2}$% of Land & Bldg. 4,500 10% on furniture etc. 7,200	5,200	2,600	3,900	11,700					
20% on vehicles	13,000	6,500	6,500	26,000					
,, Net profit transferred to Profit & Loss Appr. A/c.	71,240	50,620	61,680	1,83,540					
	1,54,400	92,200	1,20,800	3,67,400		1,54.400	92.200	1.20.800	3,67,400

EXERCISE

1. On December 31, 1954 the Trial Balance ot the World Wide Trading Company, Ltd., having three Department A, B and C stood as follows :—

Trial Balance

		Dr. Rs.	Cr. Rs.
1,00,000 Ordinary Shares of 10 each fully paid			10,00,000
6% Debentures			6,00,000
Purchases	A	25,00,000	
	B	17,00,000	
	C	23,00,000	
Wages	A	1,12,000	
	B	1,08,000	
	C	1,09,000	
Sales	A	..	30,00,000
	B	..	20,00,000
	C	..	27,00,000
Stock at Jan. 1, 1954			
	A	2,00,000	
	B	1,00,000	
	C	3,00,000	
Land & Buildings		3,50,000	
Furniture & Fittings		24,000	
Advertisement		56,000	
Insurance		18,000	
Carriage Inward		14,000	
Carriage Outward		6,000	
Office Salaries		2,80,000	
Directors' fees		4,000	
Rates & Taxes		2,000	
Discount Received		..	3,000
Discount Allowed		1,000	
Cash in hand		17,000	
Cash at Bank		3,43,000	
Charges General		1,31,000	
Sundry Debtors		4,65,000	
Bills Receivable		2,80,000	
Sundry Creditors		..	83,000
Bills Payable		..	32,000
Profit & Loss A/c.		..	20,000
Debenture Int. to June 30, 1954		18,000	
		94,38,000	94,38,000

The closing stock as on December 31, 1954, was A Rs. 1,80,000 ; B Rs. 1,06,000 ; C Rs. 2,90,000.

Write off Rs. 400 as Bad Debts and make a Reserve of 1% on Debtors. Depreciate Land and Buildings by $2\frac{1}{2}$% and Furniture and Fittings by 8%.

Allocating the unallocated expenses in the proportion of 2 : 1 : 2 over the three departments A, B and C respectively, draw up the Trading and Profit & Loss Account for the year ended December 31, 1954 and a Balance Sheet as at that date.

(C. U. B. Com. (Adv.) 1955).

(Ans : (i) Gross Profit : A—Rs. 3,62,400, B—Rs. 1,95,200, C—Rs. 2,75,400.
(ii) Net Profit : A—1,43,714, B—Rs. 85,856, C—Rs. 56,714.
(iii) Balance Sheet total Rs. 20,39,284).

2. The proprietor of a large retail stores wishes to ascertain approximately the net profit of the A, B and C Departments separately for the three months ended 31st March, 1958. It is found impracticable actually to take stock on that date, but an adequate system of departmental accounting is in use, and the normal rates of gross profit for the three departments concerned are respectively 40%, 30% and 20% on turnover before charging the direct expenses. The indirect expenses are charged in proportion to departmental turnover.

The following are the figures for the department :—

	A	B	C
	Rs.	Rs.	Rs.
Stock on 1-1-1938 . ..	6,000	7,000	3,000
Purchases for the period . ..	7,000	6,500	4,700
Sales for the period . ..	12,000	10,000	6,000
Direct expenses for the period ..	2,020	1,450	710

The total indirect expenses for the period (including those relating to other departments) where Rs. 4,200 on the total turnover of Rs. 84,000.

Prepare a statement showing the approximate net profit, making a Stock Reserve of 10% for each department on the estimated value on 31st March, 1938.

(Agra University, B. Com. 1938).

(Ans : (i) Gross Profit : Dept. A—Rs. 4,800, Dept. B—Rs. 3,000, Dept. C—Rs. 1,200 ;
(ii) Net Profits : A—Rs. 1,600, B—Rs. 400, Net loss— Dept. C—Rs. 100).

3. The following balances as at December 31, 1948 are extracted from the books of a firm which runs two departments :—

	Dept. I	Dept. II	General
	Rs.	Rs.	Rs.
Opening Stock at Jan. 1, 1948 :—			
Materials	7,000	5,000	
Finished Products	18,000	15,000	
Purchase	2,30,000	1,90,000	
Purchases Returns	2,000	1,000	
Manufacturing Wages	1,80,000	1,60,000	
Other Manufacturing Charges ..	35,000	32,000	
Sales	6,33,000	4,92,000	
Sales Returns	3,000	2,000	

	Dept. I Rs.	Dept. II Rs.	General Rs.
Sundry Debtors	..	..	1,90,000
Sundry Creditors	..	..	1,73,000
Plant & Machinery	..	..	2,40,000
Freeholds	..	..	80,000
Buildings & Structures	..	..	1,20,000
Furniture and Fittings	..	..	48,000
Office and Selling Expenses ..	..	..	1,28,000
Cash in Hand and at Bank as on Dec. 31, 1948	..	..	1,18,000

Plant and Machinery is to be depreciated by 10% ; Building and Structures by 2% ; Furniture and Fittings by 5% ; Freeholds are to be written off by Rs. 8,000. Out of the Sundry Debtors, write off Rs. 2,000 as bad and make a Reserve for Bad and Doubtful Debts at 2% ; Further a General Reserve of Rs. 1,00,000 is to be created.

The stock on hand on December 31, 1948 were :—
Materials :—Dept. I Rs. 6,000 ; Dept. II—Rs. 6,000 ;
Finished Products : Dept I.—Rs. 20,000 ; Dept. II—Rs. 18,000.

All unallocated expenditure is to be distributed in the ratio of the net sales of each department.

Prepare in a columnar form Manufacturing, Trading and Profit & Loss Accounts of the two departments and Balance Sheet of the combined business as a whole as on the 31st December, 1948.

(C. U. B. Com. (Comp.) 1949).

(Ans : (i) Cost of production : Dept. I—Rs. 4,63,350 ; Dept. II—Rs. 3,95,050 ;
(ii) Gross Profits : Dept. I—Rs. 1,68,650 ; Dept. II—Rs. 97,950 ;
(iii) Net Profits : Dept. I—Rs. 92,060 ; Dept. II—Rs. 38,380 ;
(iv) Balance Sheet Total Rs. 8,03,440).

Note : The list of balances does not contain Capital. A trial balance is prepared from the given balances. The balancing figure Rs. 5,00,000 is taken as the capital.

4. A, B and C carry on business in partnership as Oil Engine Dealers and Repairers, their business being divided into two parts (1) Engine Department and (2) Repairs Department.

The following were the Ledger Balances on 31st December, 1943 :—

	£		
Engine Purchase & Carriage	8,000	Life Policy—Surrender Value,	
„ Fitters' Wages & Expenses	1,500	31st Dec., 1942	300
„ Stock 31st Dec., 1942	2,000	Bank Interest and Commission	
„ Sales	12,000	(Dr.)	20

	£		£
Repairs—Purchases	5,000	Office Expenses	120
,, Stock 31st Dec., 1942	800	Discount (Dr.)	250
,, Wages & Expenses	2,000	Office Furniture	150
,, Sales	10,000	A—Drawing A/c. (Dr.)	100
Sundry Debtors	4,000	B— ,, ,, (Cr.)	120
,, Creditors	2,200	C— ,, ,, (Cr.)	200
Salaries	500	C—Loan Account (at 5%)	500
Rent, Rates & Taxes	300	A—Capital Account in Credit	500
Fuel and Light	50	B—Capital A/c. in Credit	500
Insurance Fire and Workmen's		C ,, ,, ,, ,,	500
Compensation	140	Cash in hand	25
Life Insurance Premium	35	,, at Bank	1,230

Stock 31st December, 1943—Engines £ 2,100 ; Repairs £ 950

Surrender Value of Life Policy, 31st December, 1943, £ 325.

Interest on Capital at 5% per annum. The profits were divided : A 7/20ths, B—6/20ths and C—7/20 ths.

Make out a Trading Account for each of the two Departments, and the firm's Profit and Loss Account of 1943, and Balance Sheet as on 31st Dec. 1943.

(Chartered Accountants).

(**Ans :** (i) Gross Profit : Engine Dept.—£ 2,600 ; Repairs Dept.—£ 3,150 ;
(ii) Net Profit of the firm : £ 4,260 ; Balance Sheet total £ 8,780).

Note : Life Policy is shown at surrender value in the Balance Sheet.

5 On 30th June, 1950, the Balance Sheet of Chatterjee was as follows :—

Liabilities	Rs.	**Assets**	Rs.
Sundry Creditors	10,000	Cash at Bank	5,000
Chatterjee A/c.	30,000	Sundry Debtors	15,000
		Stock-in-Trade	7,500
		Furniture & Fittings	2,500
		Plant & Machinery	10,000
	40,000		40,000

There are four departments of the business viz., A, B, C and D. It is not practicable for stock to be taken until 31st December, 1950. An interim Account is, therefore, required at 30th September, 1950. From the following particulars you are required to prepare Trading and Profit & Loss Account for the four departments and thereafter to draw up a Balance Sheet as at 30th September, 1950.

Dept.	Opening Stock	Purchases	Sales	Departmental Charges
	Rs.	Rs.	Rs.	Rs.
A	2,500	3,000	6,000	1,000
B	3,500	2,500	3,500	750
C	1,000	2,000	3,000	350
D	500	1,000	500	300

The rate of gross profit on sales in each department is to be taken as : A—40%, B—30%, C—25% and D—20% respectively.

The General and Indirect Expenses are Rs. 1,000. Chatterjee's Drawings amounted to Rs. 1,000. Depreciate Plant and Machinery at 10% per annum and Furniture and Fittings at 4% per annum.

The Debtors at 30th September, 1950 amounted to Rs. 8,500 and the Creditor Rs 7,500 while Cash at Bank is Rs. 9,100. No interest is charged on Chatterjee's Capital.

(C. A. First—Nov. 1951)

(**Ans :** (i) Gross Profits : Dept. A—Rs. 2,400, Dept. B—Rs. 1,050 ; Dept. C—Rs. 750 ; Dept. D—Rs. 100.
(ii) Net Profits : A—Rs. 812, C—Rs. 105 ;
Net Loss : B—Rs. 43, D—Rs. 249 ;
(iii) Balance Sheet total—Rs. 37,125).

Note : Indirect and General Expenses and Depreciation are apportioned on the basis of sales.

6. A concern has two departments, X and Y. From the following particulars prepare the consolidated Trading Account and Departmental Trading Accounts for the the year ending December 31, 1960 :—

	X	Y
	Rs.	Rs.
Opening Stock (at cost)	20,000	12,000
Purchases	92,000	68,000
Carriage	2,000	2,000
Wages	12,000	8,000
Sales	1,40,000	1,12,000
Purchased goods transfered		
by 'Y' to 'X'	10,000	
by 'X' to 'Y'		8,000
Finished goods transferred		
by 'Y' to 'X'	35,000	
by 'X' to 'Y'		40,000
Return of finished goods		
by 'Y' to 'X'	10,000	
by 'X' to 'Y'		7,000
Closing Stock :—		
(i) Purchased goods	4,500	6,000
(ii) Finished goods	24,000	14,000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the finished stock (closing) at each department represented finished goods received from the other department.

(C. A—Inter).

(**Ans :** Gross Profits : Dept. X—Rs. 41,000, Dept. Y—Rs. 40,950).

7. The following balances as on 31st December, 1961, are extracted from the books of Ratanlal whose business consists of two departments Hosiery and Boot :—

	Hosiery	Boot	Total
	Rs.	Rs.	Rs.
Sales (Finished Goods)	2,00,000	3,00,000	5,00,000
Purchases (Raw Materials)	70,000	1,88,500	2,58,500
Manufacturing Wages	40,000	50,000	90,000
Stock (Raw Materials) 1st January	20,000	25,000	45,000
Stock (Finished) 1st January	5,000	7,500	12,500
Purchases Returns (Raw Materials) . .	3,000	2,000	5,000
Sales Returns (Finished Goods)	6,00	9,00	1,500
Works Overhead	....	....	54,000
Sundry Debtors	....	....	75,000
Sundry Creditors	...	....	45,000
Plant and Machinery	..	....	22,500
Furniture and Fittings	...	....	4,500
Salaries	....	....	30,000
Office Expenses	..	....	18,000
Capital—Ratanlal	...	....	1,06,000
Cash at Bank	....	....	35,000
Cash in hand	....	....	3,500
Drawings	. .	...	6,000

Plant & Machinery is to be depreciated @ 10%, Furniture & Fittings @ 5%. Debts standing in the books at Rs. 500 are to be written off as bad and a Reserve at 2% is to be made for doubtful debts.

Works overhead (including Depreciation on Plant & Machinery) is to be allocated in the ratio of manufacturing wages. Depreciation on Furniture and other debits to P. & L. A/c. are to be allocated in the ratio of turnover of the two departments. The stocks on 31st December were :—

	Hosiery	Boot
	Rs.	Rs.
Raw Materials ..	28,000	30,000
Finished Goods ..	Nil	5,000

Prepare Manufacturing A/c, Trading A/c, and Profit & Loss A/c. for the year ended 31st December, 1961 for the two departments separately as well as for the entire business in columnar from and a Balance Sheet as on that date.

(I. C. W. A.—Inter).

(**Ans :** *Cost of production* :—Hosiery Rs. 1,24,000, Boot—Rs. 2,62,750 ;
Gross Profit :—Hosiery—Rs. 70,400, Boot—Rs. 33,850 ;
Net Profit :—Hosiery —Rs. 50,314, Boot—Rs. 3,721 ;
Balance Sheet Total—Rs. 1,99,035).

8. From 1st January, 1964 Ramesh & Co. have been running three departments A, B and C and the following particulars have been taken from their books on 31st December, 1964 :—

	Rs.		Rs.
Opening Stock—Jan. 1		Goods to other departments	
A department	36,000	A	6,000
B ,,	24,000	B	4,000
C ,,	20,000	C	6,000
Purchases		Stocks in Hand on 31st Dec.	
A department	1,20,000	A	49,000
B ,,	1,00,000	B	14,000
C ,,	95,000	C	18,000
Goods from other departments		Printing and Stationery	2,400
A	8,000	Carriage outwards	6,000
B	5,000	Salaries	24,000
C	3,000	Rent and Rates	18,000
Direct Wages		Bad Debts	3,600
A	54,000	Discount Allowed	8,400
B	48,000	Advertisement	12,000
C	35,000	Miscellaneous Expenses	6,600
Sales		Carriage Inwards	
A	2,44,000	A	3,000
B	1,96,000	B	2,000
C	1,44,000	C	2,000
		Drawings	8,000

Inter-departmental supplies have been made during the year by each department at market price and the stocks at close valued as at cost to A department include Rs. 4,000 worth goods supplied by B. Miscellaneous expenses include Rs. 600 on account of supplies to the partner for personal expenses.

You are required to prepare Departmental Trading and Profit & Loss Account apportioning general unallocated expenses on the basis of turnover (i.e., Sales plus transfers).

(C. A. Final).

(Ans : Gross Profit : Dept. A—Rs. 78,000 ;
Dept. B—Rs. 35,000 ;
Dept. C—Rs. 13,000 ;
Net Profit : Dept. A—Rs. 44,500 ;
Dept. B—Rs. 7,500 ;
Net Loss : Dept. C—Rs. 7,100).

CHAPTER XXXI

BRANCH ACCOUNTS

1. Its Purpose :

Though branches are legally parts of the head office, yet it is desirable to know the distinct working result of each of the branches separately. A method of *branch accounting* is devised to ascertain the results of each of the branches of a business separately and to exercise adequate check and control over the branches by the head office.

2. Supply of Goods by Head Office to the Branch :

Goods supplied by head office to branches may be charged (i) at cost price, (ii) at a fixed percentage on cost price and (iii) at selling price. Goods supplied to a branch must not be treated as sale but a mere transfer of goods from head office to branch. The value of such goods should be debited to related branch and credited to "*Goods sent to Branch A/c.*" At the end of the year this account is transferred either to the credit of "*Trading A/c*" in case of manufacturing concerns or to the credit of "*Purchases A/c*" in case of trading concerns. Thus the value of goods is to be shown in the Trading A/c as an item quite distinct from sale.

A tabular *Branch Supply Book* is maintained by the head office to record the supply of goods to branch as given below :

(*1*) *When goods supplied at cost price :*

Branch Supply Book

Date	Particulars	L.F.	Total	Nagpur	Burnpur	Durgapur
			Rs.	Rs.	Rs.	Rs.

(*b*) *When goods supplied at inflated price :*

Branch Supply Book

Date	Particulars	Total		Madras		Bombay	
		Cost Price	Invoice Price	Cost Price	Invoice Price	Cost Price	Invoice Price
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.

3. Classification of Branch Accounts :

For the purpose of accounting, branches may be classified as follows :

(A) Branches selling goods (supplied by head office at cost) for cash only ;

(*B*) Branches selling goods (supplied by head office at cost) for cash and credit ;

(*C*) Branches selling goods (supplied by head office either at fixed percentage on cost or at selling perice) for cash or credit ;

(*D*) Independent or Autonomous Branches selling goods (both supplied by head office and purchased locally) for cash and credit ; and

(*E*) Foreign Branches.

A. First Type of Branch—Branch selling Head Office goods for cash only :

In this type of branch, the head office purchases goods and forwards them to the branch at cost price. The branch is allowed to make cash sales only. The sale proceeds are deposited every day with a local bank or remitted direct to the head office. The expenses of the branch are entirely met by the head office. As to periodical expenses, the branch would usually make a bill and send it to head office which would pay the amount. The branch managers are generally given an imprest sum for petty expenses. The periodical petty expenses would be reimbursed by the head office. The branches supply necessary information to the head office by periodical returns.

(i) **Records at Branch** : The branch is not generally required to maintain account books. The branch will however maintain (1) *a Stock book or a Stock register* and (2) *a petty cash book.* These books serve purely a memorandum purpose.

The stock book is used to record goods received, goods returned, goods sold and the balance of stock. The branch will forward to the head office a periodical stock statement which will show for each item, the opening stock, goods received during the period, goods sold during the period, breakages or losses and closing stock.

(ii) **Records at Head office** :

The head office ascertains the profit or loss made at the branch. For this a Branch Account is opened, which is *debited* with (1) opening branch stock, (2) opening branch cash, (3) goods sent to branch (4) cash sent for expenses and *credited* with (1) cash received from branch, (2) goods returned from branch, (3) closing branch stock and (4) closing branch cash. The difference in the two sides will be either profit or loss which will be transfered to the General Profit & Loss A/c of the business.

(1) Journal Entries for branch transactions in the books of the head office :

Transactions	*Journal Entries*	
1. For opening stock in the hands of the branch :	Branch A/c To Branch Stock A/c	*Dr.*
2. For opening balance of cash in the hands of the branch :	Branch A/c To Cash at Branch A/c	*Dr.*

3. For goods sent to branch by head office :	Branch A/c *Dr.* To Goods Sent to Branch A/c
4. For goods returned by branch to head office :	Goods Sent to Branch A/c *Dr.* To Branch A/c
5. For advancing an imprest sum to the branch :	Branch Imprest A/c *Dr.* To Cash or Bank A/c
6. For expenses of branch met by head office :	Branch A/c *Dr.* To Cash or Bank A/c
7. For goods sold by branch in cash :	Cash or Bank A/c *Dr.* To Branch A/c
8. For closing stock in the hands of the branch :	Branch Stock A/c *Dr.* To Branch A/c
9. For closing balance of petty cash in the hands of the branch :	Petty Cash at Branch A/c *Dr.* To Branch A/c
10. For Profit of the Branch :	Branch A/c *Dr.* To (General) Profit & Loss A/c
11. For Loss of the Branch	(General) Profit & Loss A/c *Dr.* To Branch A/c
12. To close Goods Sent to Branch A/c.	Goods Sent to Branch A/c *Dr.* To Trading A/c (manufacturing concerns) or Purchases A/c (trading concern)

(2) Ledger Accounts in Head Office Book :

The following accounts are generally opened in the ledger of the head office :— 1. Branch A/c, 2. Goods Sent to Branch A/c, 3. Branch Imprest A/c, 4. Branch Stock A/c, 5. Petty Cash at Branch A/c, etc.

Branch Stock A/c and Cash at Branch A/c will appear in the Balance Sheet of the head office and will be transferred to the books of the next year and a reverse entry will be passed at the beginning of the year.

Goods Sent to Branch A/c will be transferred either to the Trading A/c or to the Purchases A/c.

Notes : (i) Where cash transactions with branches are numerous, the *Cash Book* may be so ruled as to have a separate column for each branch on the debit as well as on the credit side. The monthly totals of the branch columns will have to be posted to their respective accounts.

(ii) Sometimes a *Branch Cash or Bank A/c* is opened to deal with cash transactions in branch. In such cases necessary debit or credit will be given to this account instead of Cash or Bank A/c.

(iii) In some cases a *Branch Remittances A/c* is opened for cash remittances from branch. This account is debited on receipt of cash from branch. Subsequently the amount is transferred to Branch A/c.

Illustration 1 *(Branch selling head office goods for cash only)*

The Bombay Textiles Ltd. opened a branch at Calcutta on 1st January, 1965.

From the following particulars prepare all the accounts affected for 1965 and the Calcutta Branch Account for 1966 in the books of the Head Office :

	1965 Rs.	1966 Rs
Goods sent to Calcutta	45,000	1,35,000
Cash sent to Branch for :		
Rent	6,000	6,000
Salaries	4,800	6,800
Other expenses	2,000	3,000
Cash received from Branch	70,000	1,60,000
Stock on 31st December	7,000	26,000
Petty Cash in hand on 31st Dec.	120	260

(I. C. W. A—Inter, January, 1967,)

Solution

In the books of Head Office i.e. Bombay Textiles Ltd.

Dr. **Calcutta Branch A/c** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
1965 Jan.1	To Goods sent to Branch A/c	45,000	1965 —	By Cash A/c	70,000
—	„ Cash A/c : Rs. Rent 6,000; Salaries 4,800; Other Expenses 2,000	12,800	Dec.31	„ Branch Stock A/c —closing Stock	7,000
Dec.31	„ General Profit & Loss A/c —Profit transferred	19,320		„ Petty Cash at Branch A/c	120
		77,120			77,120
1966 Jan.1	To Branch Stock A/c —opening Stock	7,000	1966 —	By Cash A/c	1,60,000
—	„ Goods sent to Branch A/c.	1,35,000	Dec.31	„ Branch Stock A/c —closing Stock	26,000
—	„ Cash A/c : Rs. Rent 6,000; Salaries 6,800; Other Expenses 3,000	15,800	„	„ Petty Cash at Branch A/c	260
Dec.31	„ General Profit & Loss A/c —Profit transferred	28,460			
		1,86,260			1,86,260

Dr. **Goods Sent to Branch A/c** Cr.

		Rs.			
1965			1965		
Dec.31	To Purchases A/c —Balance Transferred	45,000	—	By Calcutta Branch A/c	45,000
		45,000			45,000
1966					
Dec.31	To Purchases A/c —Balance Transferred	1,35,000	1966	By Calcutta Branch A/c	1,35,000
		1,35,000	—		1,35,000

Dr. **(Calcutta) Branch Stock A/c** Cr.

		Rs.			Rs.
1965			1965		
Dec.31	To Calcutta Branch A/c	7,000	Dec.31	By Balance c/d	7,000
		7,000			7,000
1966			1966		
Jan.1	To Balance b/d	7,000	Jan.1	By Calcutta Branch A/c	7,000
Dec.31	„ Calcutta Branch A/c	26,000	Dec.31	„ Balance c/d	26,000
		33,000			33,000

Dr. **Petty Cash at (Calcutta) Branch A/c** Cr

		Rs.			Rs.
1965			1965		
Dec.31	To Calcutta Branch A/c	120	Dec.31	By Balance c/d	120
		120			120
1966			1966		
Jan.1	To Balance b/d	120	Jan.1	By Calcutta Branch A/c	120
Dec.31	„ Calcutta Branch A/c	260	Dec.31	„ Balance c/d	260
		380			380

B. Second Type of Branch—Branch selling only Head Office Goods for cash and credit :

In this type of branch, the head office purchases goods and forwards them to branch at cost price. The branch is allowed to sell the goods for cash and credit.

(i) **Record at Branch** : This type of branch maintains (1) a **Stock Book**, (2) a **Sales Day Book**, (3) a **Cash Book** and (4) a **Debtors' Ledger**. These books of the branch serve purely a memorandum purpose.

The Cash Book is used to record cash sales, cash receipts from debtors, the expenses of the branch, remittances to the head office, the opening and closing cash balances.

Stock Book will reveal the closing stock at the hand of the branch. Sales Day Book will show the credit sales.

In the Debtors' Ledger individual customers' accounts will be debited with credit sales and credited with cash received from them. It will finally show the closing balances of debtors.

(ii) **Record at Head Office :** In the head office branch transactions may be recorded in two methods as stated below :

(A) *Where transactions are not numerous :* Branch transactions will be recorded exactly in the same way as in the case of first type of branch if the transactions are not very large.

(1) Journal Entries for branch-transactions in the books of the head office

Transactions	*Journal Entries*	
1. For opening stock in the hands of the branch:	Branch A/c To Branch Stock A/c	Dr.
2. For opening branch debtors:	Branch A/c To Branch Debtors' A/c	Dr.
3. For opening cash balance in the hands of the branch:	Branch A/c To Branch Cash A/c	Dr.
4. For goods sent to branch by head office:	Branch A/c To Goods sent to Branch A/c	Dr.
5. For goods returned by branch to head office:	Goods sent to Branch A/c To Branch A/c	Dr.
6. For advancing an imprest sum to the branch:	Branch Imprest A/c To Cash or Bank A/c	Dr.
7. For expenses of branch met by head office:	Branch A/c To Cash or Bank A/c	Dr
8. For goods sold by branch in cash:	Cash or Bank A/c To Branch A/c	Dr.
9. For cash realised from trade debtors and sent to head office:	Cash or Bank A/c To Branch A/c	Dr.
10. For closing stock in the hands of the branch :	Branch Stock A/c To Branch A/c	Dr
11. For closing balance of cash in the hands of the branch:	Petty Cash at Branch A/c To Branch A/c	Dr
12. For closing branch debtors:	Branch Debtors' A/c To Branch A/c	Dr
13. For the profit as revealed by Branch A/c:	Branch A/c To (General) Profit & Loss A/c	Dr.

Journal Entries far branch-transactions in the books of head office (Contd.)

14. For the loss as revealed by Branch A/c.	(General) Profit & Loss A/c To Branch A/c	*Dr.*
15. To close goods sent to Branch A/c.	Goods sent to Branch A/c To Trading A/c or Purchases A/c	*Dr.*

(2) Ledger Accounts in Head Office Books :

The following accounts are generally opened in the ledger of the head office :—

1. Branch Account, 2. Goods sent to Branch A/c., 3. Branch Imprest Account, . Branch Stock A/c, 5. Petty Cash at Branch A/c 6. Branch Debtors' A/c.

Branch Cash or Bank A/c and Branch Remittances A/c may also be opened s discussed earlier.

Branch Debtors' A/c will be shown as an asset in the Balance Sheet.

Notes :

(1) No entry will be made for credit sales by branch in the books of the head ffice.

(2) No entry for discounts allowed by branch, bad debts written off by branch r returns made to branch by branch debtors will be made in the head office book.

(3) A Bill of Exchange received by branch will be sent to the head office. 'he journal entry will be :—

Bills Receivable A/c .... Dr.
To Branch A/c

llustration 2 *(Branch selling Head Office goods for cash and credit)*

From the following particulars relating to Darjeeling Branch for the year nding 31st December, 1966, prepare the Branch Account in the books of the Head ffice in Siliguri.

	Rs.
Stock at Branch on Jan. 1, 1966	8,900
Branch Debtors on Jan. 1, 1966	4,700
Petty cash at Branch on Jan. I, 1966	20
Goods Sent to Branch during the year	28,400
Cash sales during the year	15,800
Credit Sales during the year	40,400
Cash received from Debtors	37,900
Cash sent to Branch for expenses :	
Rent	2,000
Salaries	6,000
Petty cash	1,000
Stock at Branch on Dec. 31, 1966	5,400
Petty cash at Branch on Dec. 31, 1966	30
Goods returned by Branch	800
Branch Debtors on Dec. 31, 1966.	[illegible]

(North Bengal University, B. Com. (Part II) Adv. 1967—Adapted)

Solution **In the books of the Head Office in Siliguri**

Darjeeling Branch A/c

Dr. *Cr.*

Date	Particulars	Rs.	Date	Particulars	Rs.
1966			1966		
Jan.1	To Branch Stock A/c —opening balance	8,900	—	By Cash A/c: Rs. Cash Sales 15,800 From Debtors 37,900	53,700
,,	,, Branch Debtors A/c —opening balance	4,700		,, Goods Sent to Branch A/c—Return by branch	800
,,	,, Petty Cash at Branch A/c—opening balance	20	Dec.31	,, Branch Stock A/c —closing Stock	5,400
—	,, Goods sent to Branch A/c	28,400	,,	,, Branch Debtors A/c —closing balance	7,200
—	,, Cash A/c : Rs. Rent 2,000 Salaries 6,000 Petty cash 1,000	9,000	,,	,, Petty Cash at Branch A/c—closing balance	30
Dec.31	,, General Profit & Loss A/c–Profit transferred	16,110			
		67,130			67,130

Notes : (1) The closing balance of Branch Debtors are ascertained thus :

	Rs.	
Opening Branch Debtors	4,700	
Add Credit Sales during the year	40,400	
	45,100	
Less Amount received from Branch Debtors	37,900	
∴ Closing Branch Debtors :		Rs. 7,200

(2) The amount of petty expenses is ascertained thus :

	Rs.	
Opening Balance of Petty Cash	20	
Add amount sent to Branch	1,000	
	1,020	
Less Closing Balance	30	
∴ Petty Expenses during the year :		Rs. 990

Illustration 3 ***(Branch selling Head Office goods for Cash and Credit)***

The Sell-Well Corporation of Bombay has a branch at Nagpur which is supplied with all goods from Bombay. The Branch keeps its own Sales Ledgers, receives cash from the customers and remits the whole of the cash received daily to the Head Office. The expenses of the Branch are paid by cheques from the Head Office, but the imprest of Rs. 200 is kept with the Branch Manager for meeting petty disbursements. From the follwing particulars for the year ended 31st March, 1960, prepare the Nagpur Branch A/c in the Head Office Books :—

	Rs.	Rs.
Stock of Goods at Branch on 1st April, 1959	...	4,000
Sundry Debtors on 1st April, 1959	...	8,000
Petty Cash with Branch Manager on 1st April, 1959	...	200
Goods supplied to Branch during the year	...	80,000
Goods returned from the Branch	...	2,000
Remittances from the Branch :—		
Cash Sales	8,000	
Received from Sundry Debtors	80,000	88,000
Cheques sent to Branch for :—		
Rent	960	
Salaries	1,920	
Telephone Charges	600	
Sundry Expenses	250	3,730
Stock on 31st March, 1960	...	8,000
Sundry Debtors on 31st March, 1960	...	12,000
Petty Cash Balance on 31st March, 1960	...	90

(Institute of Bankers, 1960)

Solution

In the books of the Head Office

Nagpur Branch Account

Dr. *Cr.*

1959		Rs.	1959		Rs.
Apl. 1	To Branch Stock A/c —opening balance	4,000	—	By Goods sent to Branch A/c—Returns by branch	2,000
,,	,, Branch Debtors A/c —opening balance	8,000	—	,, Cash A/c : Rs. Cash Sales 8,000 From Debtors 80,000	88,000
,,	,, Petty Cash at Branch A/c—opening balance	200	1960 Mar. 31	,, Branch Stock A/c —closing stock	8,000
—	,, Goods sent to Branch A/c	80,000	,,	,, Branch Debtors A/c —closing balance	12,000
—	,, Bank A/c : Rs. Rent 960 Salaries 1,920 Telephone charges 600 Sundry Expenses 250	3,730	,,	,, Petty Cash at Branch A/c —closing balance	90
1960 Mar. 31	,, General Profit & Loss A/c —profit transferred	14,160			
		1,10,090			1,10,090
1960 Apl. 1	To Branch Stock A/c —opening balance	8,000			
	,, Branch Debtors A/c —opening balance	12,000			
	,, Petty Cash at Branch A/c —opening balance	90			

(B) Where transactions are numerous : Stock and Debtors System or Elaborate Record of Branch Transactions :

Where branch transactions are not numerous, it is possible to record them in one Branch A/c as already discussed above. Where the branch transactions are very large an elaborate record of these transactions in the books of the head office will be very useful. This system of recording branch transact'ons is called Stock Debtors System. Under this system the head office does not open Branch A/c in its books. It keeps separate accounts relating to different branch transactions. The following accounts are usually opened in the books of the head office under this system :—

1. Branch Stock A/c, 2. Branch Debtors A/c, 3. Branch Cash A/c, 4. Goods Sent to Branch A/c, 5. Branch Expenses A/c, 6. Branch Profit & Loss A/c, 7. Branch Fixed Assets A/c etc.

Branch Stock A/c -This account will be *debited* with opening branch stock and goods sent to branch. It will be *credited* with credit sales and cash sales by branch, goods returned by branch and branch closing stock. The balance of this account will be either gross profit or gross loss which will be transferred to Branch Profit & Loss A/c.

Branch Profit & Loss A/c—This account ascertains the net profit or net loss of the branch at the end of the year. It starts with gross profits or gross loss transferred from Branch Stock A/c. All items of expenses and losses are shown on its debit side and all items of incomes on its credit side.

The net Profit or net Loss is transferred to the General Profit & Loss A/c.

Journal Entries under Stock and Debtors' System :

Transactions	*Journal Entries*	
1. When goods are sent to branch:	Branch Stock A/c To Goods Sent to Branch A/c	*Dr.*
2. When goods are returned by branch:	Goods Sent to Branch A/c To Branch Stock A/c	*Dr.*
3. When goods are sold at branch: (i) For cash: (ii) For credit:	 (i) Branch Cash A/c To Branch Stock A/c (ii) Branch Debtors A/c To Branch Stock A/c	 *Dr.* *Dr.*
4. When debtors return goods to branch:	Branch Stock A/c To Branch Debtors A/c	*Dr.*
5. When debtors return goods directly to head office:	Goods Sent to Branch A/c To Branch Debtors A/c	*Dr.*

Trrnsaction	*Jourual Entries*
6. When cash received from branch debtors:	Branch Cash A/c ... *Dr.* To Branch Debtors A/c
7. When discounts are allowed to branch debtors:	Branch Discounts A/c .... *Dr.* To Branch Debtors A/c
8. For branch bad debts, if any:	Branch Bad Debts A/c *Dr.* To Branch Debtors A/c
9. When expenses are incurred for branch:	Branch Expenses A/c *Dr.* To Branch Cash A/c
10. When goods are lost by fire etc:	Fire Loss A/c *Dr.* To Branch Stock A/c
11. When goods are lost in transit:	Loss in Transit A/c *Dr.* To Branch Stock A/c
12. For Loss on Pilferage of goods:	Loss on Pilferage of Goods A/c *Dr.* To Branch Stock A/c
13. For Loss on Pilferage of cash:	Loss on Pilferage of Cash A/c *Dr.* To Branch Stock A/c
14. If loss is insured and claim is admitted by the Insurance Company:	Insurance Claim A/c *Dr.* To Fire Loss A/c or Loss in Transit A/c or Loss on Pilferage A/c (as the case may be)
15. On realisation of the insurance claim:	Branch Cash A/c *Dr.* To Insurance Claim A/c
16. For closing Branch Stock A/c: (i) For gross profit: (ii) For gross Loss:	(i) Branch Stock A/c *Dr.* To Branch Profit & Loss A/c (ii) Branch Profit & Loss A/c *Dr.* To Branch Stock A/c
17. To close Branch Expenses A/c, Branch Discount A/c, Branch Bad Debts A/c, Fire Loss A/c, Loss in Transit A/c, Loss on Pilferage A/c, etc:	Branch Profit & Loss A/c *Dr.* To Branch Expenses A/c „ Branch Discount A/c „ Branch Bad Debts A/c „ Fire Loss A/c „ Loss in Transit A/c „ Loss on Pilferage A/c

Transaction	*Journal Entries*	
18. For closing Branch Profit & Loss A/c:		
(i) If there is net Profit:	(i) Branch Profit & Loss A/c To General Profit & Loss A/c	*Dr.*
(ii) If there is net Loss:	(ii) General Profit & Loss A/c To Branch Profit & Loss A/c	*Dr.*
19. To close the Goods Sent to Branch A/c:	Goods Sent to Branch A/c To Trading A/c or urchases A/c	*Dr.*
20. If branch cash balance is remitted to head office:	Cash A/c To Branch Cash A/c	*Dr.*

Illustration 4 (*Stock and Debtors System i.e. detailed Accounts in Head Office Ledger*)

Bengal Chemicals Ltd. Calcutta has a branch at Bombay. Goods are invoiced by the head office to the branch at cost price and all branch expenses are met by head office. The branch sells goods for cash and credit and remits cash daily to the head office. From the following particular prepare datailed accounts in the head office ledger showing the profit or loss of the branch for the year ended 31st December, 1968.

	Rs.
Stock at Branch on 1st January, 1968	4,000
Cash at Branch on 1st January, 1968	1,000
Debtors at Branch on 1st January, 1968	7,500
Goods sent to Branch during the year	37,600
Cash Sales	28,000
Credit Sales	25,000
Cash received from debtors	24,000
Expenses paid by head office :	
Salary	3,000
Establishment	4,900
Cash at Branch on 31st December, 1968	3,000
Stock at Branch on 31st December, 1968	7,000
Debtors at Branch on 31st December, 1968	8,500

Solution

In the books of the Head Office i.e. Calcutta.

Note : Figures in brackets are given to indicate the steps or entries to be completed

Dr. (Bombay) Branch Stock A/c Cr.

		Rs.			Rs.
1968			1968		
Jan.1	To Balance b/d	4,000		By Branch Cash A/c (Cash Sales) (2)	28,000
—	,, Goods sent to Branch A/c (1)	37,600		,, Branch Debtors A/c (Credit Sales) (3)	25,000
Dec.31	,, Branch P/L A/c (4) —Gross profit transferred	18,400	Dec.31	,, Balance c/d	7,000
		60,000			60,000
1969					
Jan.1	To Balance b/d	7,000			

Dr. Goods Sent to Branch A/c Cr.

		Rs.			Rs.
1968			1968		
Dec.31	To Trading A/c —Balance transferred	37,600		By Branch Stock A/c (1)	37,600
		37 600			37,600

Dr. (Bombay) Branch Debtors A/c Cr.

		Rs.			Rs.
1968			1968		
Jan.1	To Balance b/d	7,500		By Branch Cash A/c (5)	24,000
—	,, Branch Stock A/c (3)	25,000	—		
			Dec.3	,, Balance c/d	8,500
		32,500			32,500
1969					
Jan.1	To Balance b/d	8,500			

Dr. (Bombay) Branch Cash A/c Cr.

		Rs.			Rs.
1968			1968		
Jan.1	To Balance b/d	1,000	—	By Bank A/c (amount sent by branch)	50,000
	,, Branch Stock A/c (2)	28,000	Dec.31	By Balance c/d	3,000
Dec.31	,, Branch Debtors A/c (5)	24,000			
		53,000			53,000
1969					
Jan.1	To Balance b/d	3,000			

Dr (Bombay) Branch Expenses A/c Cr.

1968			Rs.	1968		Rs.
—	To Bank A/c :	Rs.		Dec.31	By Branch P & L A/c (6)	
	Salary	3,000			--Gross Profit transferred	7,900
	Establishment	4,900				
		——	7,900			
			7,900			7,900

Dr. (Bombay) Branch Profit & Loss A/c Cr,

1968		Rs.	1968		Rs.
Dec.31	To Branch Expenses A/c (6)	7,900	Dec.31	By Branch Stock A/c (4) - gross profit	18,400
,,	,, General P/L A/c— Net Profit transferred	10,500			
		18,400			18,400

C. **Third Type of Branch—Branch selling goods marked at selling price :**

Sometimes goods are invoiced to the branch at selling price so that the branch staff can not know how much profit is being made by head office. It, again, facilitates stock control at branch. The selling prices are generally made up by loading a fixed percentage on cost.

In order to calculate the difference between the cost price and loaded price (i.e. marked selling price,) the '*cost price percentage*' is to be reduced to '*invoice-price percentage*' as shown below :

	Percentage loaded to cost	*Percentage or proportion to be deducted from selling price.*
(1)	10% or $\frac{1}{10}$ th of cost price	$9\frac{1}{11}$% or $\frac{1}{11}$ th of selling price
(2)	20% or $\frac{1}{5}$ th ,, ,, ,,	$16\frac{2}{3}$% or $\frac{1}{6}$ th ,, ,, ,,
(3)	25% or $\frac{1}{4}$ th ,, ,, ,,	20% or $\frac{1}{5}$ th ,, ,, ,,
(4)	$33\frac{1}{3}$% or $\frac{1}{3}$ rd ,, ,, ,,	25% or $\frac{1}{4}$ th ,, ,, ,,
(5)	50% or $\frac{1}{2}$,, ,, ,,	$33\frac{1}{3}$% or $\frac{1}{3}$ rd ,, ,, ,,

Alternatively, the following formula may be employed to find out the cost price :—

$$\text{Cost Price} = \text{Invoice Price} - \frac{\text{Percentage on Cost}}{(100 + \text{Percentage on cost})} \times \text{Invoice Price}$$

(i) *Record at Branch* : The record of the transactions in the branch books will be on the same lines as in case of first and second type of branches.

(*ii*) *Record at Head Office* :

(1) Memorandum Branch stock A/c ;

The head office should keep a *Memorandum Branch Stock A/c* to ascertain the value and quantity of stock at the hand of the branch. This account is kept for each branch separately. It is, however, not part of the ledger. All entries in this account will have to be made at marked selling price. It is debited with the value of goods sent to branch and credited with total sales at the branch and returns from branch. If there is any change in price, the difference in the value of stock due to the change, is to be calculated. The Memorandum Branch Stock A/c will be debited in case of increase in price and credited in case of decrease in price. Loss due to normal evaporation, breaking into dust, spoilage in dealing out, leakage etc. should be credited to Memorandum Branch Stock A/c. The balance of this account will represent the stock-in-hand at branch.

Note :

If, branch closing stock is not given, it can be ascertained by preparing a Memorandum Branch Stock A/c.

Illustration 5 *(Memorandum Branch Stock Account)*

Broadway Shoes Ltd. of Kanpur has a branch in Ambala. Goods sent to the branch are invoiced at selling price i.e. Cost plus $33\frac{1}{3}$ per cent. From the following particulars you are required to prepare the Branch Stock Account as it would appear in the Head Office Book :

	Rs.
Stock on 1. 1. 65 at invoice price	15,000
Stock on 31. 12. 65 at invoice price	12,000
Goods sent to Ambala during the year at invoice price	1,00,000
Sales at Branch :	
on credit	22,000
For cash	75,000
Returns to Head office at invoice price	5,000
Invoice value of goods lost by fire not covered by Insurance	1,000

(I. C. W. A—Inter, July, 1966)

Solution

Dr. **Memorandum (Ambala) Branch Stock A/c** *Cr.*

		Rs.			Rs.	Rs.
1965 Jan. 1	To Balance b/d	15,000	1965	By Sales :		
	„ Good sent to Branch	1,00,000		Cash	75,000	
				Credit	22,000	97,000
			—	„ Good sent to Branch —Returns		5,000
			—	„ Fire loss		1,000
			Dec.31	„ Balance c/d		12,000
		1,15,000				1,15,000
1965 Jan. 1	To Balance b/d	12,000				

(2) Different Methods of dealing with loading in the books of the Head Office :

(a) **First Method i.e. by reducing selling price to cost price :** Under this method the opening branch stock, the closing branch stock, and the goods sent to branch are to be reduced to cost price first and then the Branch A/c will be written up. The debits and credits will be on similar lines as discussed in connection with the first two types of branches. The head office will keep accounts of the branch in the same way in which the accounts of the first and second type of branches are kept.

Illustration 6 *(By reducing selling price to cost price)*

An Oil Mill in Kanpur has a sale branch in Allahabad. All goods sent to branch are charged at cost price *plus* 33⅓ per cent. All cash received by branch is to be paid daily to the head office. From the following particulars prepare the Allahabad Branch A/c in the books of the head office in Kanpur.

	Rs.
Stock at Branch on 1st January, 1968	12,000
Branch Debtors on 1st January, 1968	1,500
Goods sent to Branch during the year	80,000
Cash received from Branch	1,24,000
Cash sent to branch for expenses :—	
Rents, Rates & Taxes	3,200
Salaries & Wages	4,800
Branch Debtors on 31st December, 1968	1,600
Branch stock on 3 1st December, 1968	14,800

Solution

In the books of the head office

Note : The opening branch stock, closing branch stock and goods sent to branch are reduced to cost by deducting ¼ th or 25% the invoice price.

Dr. **(Allahabad) Branch A/c** *Cr.*

1968		Rs.	1968		Rs.
Jan.1	To Branch Stock A/c —opening balance	9,000	— Dec.31	By Cash A/c	1,24,000
,,	,, Branch Debtors A/c —opening balance	1,500		,, Branch Debtors A/c —closing balance	1,600
—	,, Goods sent to Branch A/c	60,000	,,	,, Branch Stock A/c —closing balance	11,100
	,, Cash A/c : Rs. Rents, Rates & Taxes 3,200 ,, Salaries & Wages 4,800	8,000			
Dec.31	,, General Profit & Loss A/c—profit transferred.	58,200			
		1,36,700			1,36,700

(b) Second Method—Double Column Ledger Method i.e. double money columns on either side of the Branch A/c :

Under this method a Branch A/c is prepared with double money columns on either side—one for recording the selling prices and the other for cost prices. The cost prices of opening branch stock, closing branch stock, goods sent to branch, and goods returned by branch are to be recorded in "*cost price column*". For other items the figure would be the same in both the columns. The "*selling price columns*" are of memorandum nature. But these columns provide an account of the goods sent to branch as to its excess or deficit. The difference between the two *"cost price columns"* will give the profit or loss made by branch.

The debits and credits will be on similar lines as in first and second types of branches. The head office will keep the accounts of the branch in the same way as in the cases of these branches.

Illustration 7 *(Double Column Ledger Method)*

Cuttak Rice Mill has a sale branch at Bhubaneswar. All goods sent to branch are charged at cost price *plus* 33⅓ per cent. All cash received by branch is to be paid daily to the head office. From the following particulars prepare the Bhubaneswar Branch Account under Double Column Method in the books of the head office in Cuttack.

	Rs.
Stock at Branch, 1st January, 1968	12,000
Branch Debtors, 1st January, 1968	1,500
Goods sent to Branch during the year	80,000
Cash received from Branch	77,000
Branch expenses paid by Head office :	
Salaries & wages	4,800
Rent & other expenses	3,200
Branch Debtors, 31st December, 1968	1,600
Branch Stock, 31st December, 1968	14,800

Solution

In the Ledger of Head Office
(Bhubaneswar) Branch A/c

Dr. **Cr.**

		Invoice Price	Cost Price			Invoice Price	Cost Price
1968		Rs.	Rs.	1968			
Jan. 1	To Branch Stock A/c —opening balance	12,000	9,000	Dec. 31	By Cash A/c	77,000	77,000
					„ Branch Debtors —closing balance	1,600	1,600
„	„ Branch Debtors A/c —opening balance	1,500	1,500	„	„ Branch Stock A/c —closing balance	14,800	11,100
	„ Goods sent to Branch A/c	80,000	60,000	„	„ Breakage (balancing figure)	100	
	„ Cash A/c : Salaries & Wages		4,800				
	Rent & other expenses		3,200				
Dec. 31	„ General Profit & Loss A/c —Profit transferred		11,200				
		93,500	89,700			93,500	89,700

(C) Third Method i.e. by passing adjusting entries in respect of items which are recorded at selling price instead of cost price :

In order to ascertain the actual profit or loss of each branch, some adjusting entries are necessary at the balancing time in respect of several items such as (1) opening branch stock, (2) goods sent to branch, (3) closing branch stock and (4) goods returned by branch, which are already posted to the Branch A/c at selling price instead of cost price.

The difference between cost price and selling price of each of goods sent to branch and goods returned by branch is to be adjusted with "*Goods sent to Branch A/c*". The difference between cost price and selling price of each of opening branch stock and closing branch stock is to be adjusted with an account called "*Stock Reserve A/c*". This account is carried forward from year to year.

It is to be noted that different authors have given different names to the "*Stock Reserve* A/c" such as "*Difference in Value of Branch stock A/c*", "*Stock Suspense* A/c", "*Stock Adjustment A/c*" etc.

Adjusting Entries in the Books of the Head office :

Transactions	*Journal Entries*
1. For adjustment in the value of opening branch stock:	Stock Reserve A/c *Dr.* To Branch A/c (with the amount of difference between cost price and selling price)
2. For adjustment in the value of goods sent to branch:	Goods sent to Branch A/c *Dr.* To Branch A/c (with the amount of difference between cost price and selling price)
3. For adjustment in the value of goods returned by branch:	Branch A/c *Dr.* To Goods sent to Branch A/c (with the amount of difference between cost price and selling price)
4. For adjustment in the value of closing branch stock:	Branch A/c *Dr.* To Stock Reserve A/c (with the amount of difference between cost price and selling price)

For other branch transactions the entries will be same as given in the case of first two types of branches.

The Branch Stock A/c will be shown as an asset in the Balance Sheet of the head office after deduction of Stock Reserve A/c.

Branch Stock A/c and Stock Reserve A/c will be transferred to Branch A/c in the next trading period.

Illustration 8 *(Dealing with load by passing adjusting entries)*

Shyambazar Chemical Co. sends goods to its branch at Patna at 25% above cost. The following particulars are available from the Shyambazar Books as on 31st December, 1968 :

	Rs		Rs.
Stock at Patna (opening)	5,000	Rent	150
Debtors ,,	4,000	Goods returned by branch	450
Petty Cash in hand	25	Salary	2,500
Goods supplied to Branch	55,000	Postage and Stationery	150
Remittance from Branch :		Petty Cash Expenses	35
Cash Sales	25,000		
Received from Debtors	20,000		

The Branch expenses at Patna were met by cheques sent by the Head Office.

On 31st December, 1968 the stock at Patna amounted to Rs 6,000. Debtors Rs. 30,000 and petty cash Rs. 15.

You are required to prepare the Patna Branch Account and Stock Reserve A/c at H. O. Books. Give also the Journal Entries necessary for arriving at the correct branch profit in Head Office Books.

(C. U. B. Com. (Adv.) 1948—Adapted)

Solution

Note : (*a*) The load i.e. difference between the cost price and the selling price is ascertained thus :

	Items	Load i.e. difference between cost price and selling price	cost price.
		Rs.	Rs.
(1)	Opening Branch Stock.	$\frac{1}{5}$ of 5,000= 1,000	(5,000—1,000) =4,000
(2)	Goods sent to Branch.	$\frac{1}{5}$ of 55,000=11,000	(55,000—11,000)=44,000
(3)	Goods returned by Branch.	$\frac{1}{5}$ of 450= 90	(450—90) =360
(4)	Closing Stock.	$\frac{1}{5}$ of 6,000= 1,200	(6,000—1,200) =4,800

(*b*) The amount of petty cash paid by head office is ascertained thus :

	Rs.
Closing Balance of petty cash at Branch	15
Add Petty cash expenses during this year	35
	50
Less Opening Balance of petty cash at Branch	25

∴ Amount paid by head office : Rs. 25

In the books of the Head office

Adjusting Journal Entries		*Dr.*	*Cr.*
		Rs.	Rs.
(1) Stock Reserve A/c	*Dr.*	1,000	
To (Patna) Branch A/c			1,000
(Being adjustment for load on the opening branch stock)			
(2) Goods sent to Branch A/c	*Dr.*	11,000	
To (Patna) Branch A/c			11,000
(Being adjustment for load on goods sent to branch)			
(3) (Patna) Branch A/c	*Dr.*	90	
To Goods sent to Branch A/c			90
(Being adjustment for load on the goods returned by branch)			
(4) (Patna) Branch A/c	*Dr.*	1,200	
To Stock Reserve A/c			1,200
(Being adjustment for load on the closing branch stock)			

Patna Branch A/c

Dr.					Cr.
1968		Rs.	1968		Rs.
Jan. 1	To Branch Stock A/c(1) —opening balance	5,000		By Goods sent to Branch A/c—Returns (3)	450
	„ Branch Debtors A/c —opening balance	4,000		„ Cash A/c : Rs. Cash Sales 25,000 From Debtors 20,000	45,000
	„ Petty Cash at Branch A/c —opening balance	25			
	„ Goods sent to Branch A/c(2)	55,000	Dec. 31	To Branch Stock A/c(4) —closing balance	6,000
	„ Bank A/c : Rs. Rent 150 Salary 2,500 Postage & Stationery 150 Petty Expenses 25	2,825		„ Branch Debtors A/c —closing balance	30,000
				„ Petty Cash at Branch A/c —closing balance	15
				„ Stock Reserve A/c(1) —Adjustment for opening stock	1,000
Dec. 31	„ Goods sent to Branch A/c(3) —Adjustment for returns	90		„ Goods sent to Branch A/c(2) – Adjustment for goods sent to branch	11,000
	„ Stock Reserve A/c(4) —Adjustment for closing stock	1,200			
	„ General Profit & Loss A/c —profit transferred	25,325			
		93,465			93,465
1969 Jan 1	„ Branch Stock A/c	6,000			
	„ Branch Debtors A/c	30,000			
	„ Petty Cash at Branch A/c	15			

Dr. **Stock Reserve A/c** Cr.

1968		Rs.	1968		Rs.
Dec. 31	To Patna Branch A/c - Transfer	1,000	Jan. 1	By Balance b/d	1,000
			Dec. 31	,, Patna Branch A/c	1,200
,,	,, Balance c/d	1,200			
		2,200			2,200
			1969 Jan. 1	By Balance b/d	1,200

Note : Figures in brackets show corresponding adjusting entries for load in the Branch A/c.

Illustration 9 (*Dealing with load by passing Adjusting Entries*)

Goods are invoiced by Head office at cost plus 25% and branch sales are partly cash and partly credit.

From the following particulars draw up the Branch Account in the Head Office Books

	Rs.
Stock of goods at Branch at January 1, 1960	3,500
Stock of goods at Branch at December 31, 1960	3,750
Goods sent to Branch	2,75,000
Goods returned to Head Office	15,000
Cash sales for the year	60,000
Credit sales for the year	3,46,000
Returns from customers	8,000
Discounts and Allowances to customers	12,000
Bad Debts	1,000
Cash received from customers	3,29,000
Sundry Debtors on January 1, 1960	48,000
Sundry Debtors on December 31, 1960	44,000
Establishment and Sundry other Branch Expenses	85,000

(C. U. B. Com. (Adv.) 1961)

Solution

Notes : (1) Figures in brackets indicate the corresponding adjusting entries for **load** in the Branch A/c.

(2) Items like Return from Debtors, Bad Debts, Discounts and Allowances etc. will not be shown in the Branch A/c in this method. The amount of closing Branch Debtors is ascertained after taking these items into considerations as shown below :—

		Rs.	
Opening Branch Debtors		48,000	
Add Credit sales		3,46,000	
		3,94,000	
Less :	Rs.		
Bad Debts	1,000		
Discounts etc.	12,000		
Returns from customer	8,000	21,000	
		3,73,000	
Less :			
Amount Received from Debtors		3,29,000	
Closing Branch Debtors :			Rs. 44,000

Dr. **Branch A/c** Cr.

1960		Rs.	1960		Rs.
Jan.1	To Branch Stock A/c (1) —opening balance	3,500	1960	By Bank A/c : Rs. Cash Sales 60,000 From Debtors 3,29,000	3,89,000
„	„ Branch Debtors A/c —opening balance	48,000		„ Goods sent to Branch A/c—Returns by Branch (3)	15,000
	„ Good sent to Branch A/c (2)	2,75,000	Dec.31	„ Branch Stock A/c (4) —closing balance	3,750
	„ Bank A/c : (Establishment & other expenses)	85,000	„	„ Branch Debtors A/c —closing balance	44,000
Dec.31	„ Goods sent to Branch A/c (3)—Adjustment for returns by Branch	3,000	„	„ Stock Reserve A/c (1) —Adjustment for opening stock	700
„	„ Stock Reserve A/c (4) —Adjustment for closing stock	750	„	„ Goods Sent to Branch A/c—Adjustment for goods sent to Branch (2)	55,000
„	„ General Profit & Loss A/c—Profit transferred	92,200			
		5,07,450			5,07,450

(*D*) **Fourth Method—Stock and Debtors system** :

Under this system Head Office does not open Branch A/c in its books. It keeps separate accounts relating to different branch transactions. The following accounts are usually maintained in the books of the Head Office under this system :—

1. Branch Stock A/c 2. Branch Debtors' A/c 3. Branch Cash A/c 4. Goods sent to Branch A/c 5. Branch Expenses A/c 6. Branch Discount A/c 7. Branch Adjustment A/c 8. Branch Profit & Loss A/c 9. Stock Reserve A/c 10. Loss in transit of Goods A/c 11. Loss on Pilferage A/c 12. Branch Fixed Assets Accounts etc.

Branch Stock A/c—It helps to exercise an effective control over the branch stock. The balance of this account will represent stock in hand with branch at selling price.

Branch Adjustment A/c—The adjustment for loading on opening branch stock, goods sent to branch, goods returned by branch and closing branch stock are shown in this account. As regards pilferage, leakage, spoilage, wastage etc. the load included in it is to be shown in this account. The difference between the two sides of this account will be the gross profit or gross loss which will be transferred to Branch Profit & Loss A/c.

Branch Profit & Loss A/c—It ascertains the net profit or net loss of the branch at the end of the year. It starts with gross profit or gross loss transferred from Branch Adjustment A/c. All items of expenses and losses are shown on its debit side and all incomes on credit side. The net profit or net loss is transferred to the General Profit & Loss A/c.

Journal Entries in the books of head office under Stock and Debtors system :

Transactions	*Journal Entries*
1. (a) When goods are sent to branch at selling price:	(a) Branch Stock A/c Dr. To Goods Sent to Branch A/c (*with selling price*)
(*b*) For adjustment of the load on goods sent to branch:	(b) Goods sent to Branch A/c Dr. To Branch Adjustment A/c (*with load*)
2. (a) When goods are returned by branch:	(a) Goods Sent to Branch A/c Dr. To Branch Stock A/c (*with selling price*)
(b) For adjustment of load on goods returned by branch:	(b) Branch Adjustment A/c Dr. To Goods Sent to Branch A/c (*with load*)
3. (a) When Debtors return goods directly to head office:	(a) Goods Sent to Branch A/c Dr. To Branch Debtors A/c (*with selling price*)
(b) For adjustment of load on goods returned by debtors:	(b) Branch Adjustment A/c Dr. To Goods Sent to Branch A/c (*with load*)
4. (a) For goods lost in transit:	(a) Loss in Transit A/c Dr. To Branch Stock A/c (*with selling price*)
(b) For adjustment of load on goods lost in transit:	(b) Branch Adjustment A/c Dr. To Loss in Transit A/c (*with load*)
5. (a) For Loss on pilferage of goods:	(a) Loss on Pilferage of Goods A/c Dr. To Branch Stock A/c (*with selling price*)
(b) For adjustment of load on goods lost by pilferage:	(b) Branch Adjustment A/c Dr. To Loss on Pilferage of Goods A/c (*with load*)
6. (a) For goods lost by fire:	(a) Fire Loss A/c Dr. To Branch Stock A/c (*with selling price*)
(b) For adjustment of load on goods lost by fire:	(b) Branch Adjustment A/c Dr To Fire Loss A/c (*with load*)
7. (a) For normal leakage, evaporation, wastage, breakage etc. (or when Branch Stock A/c does not agree)	(a) Loss by Leakages etc. A/c Dr To Branch Stock A/c (*Full amount at selling price*)
(b) For adjustment of load on goods lost by leakages etc.	(b) Branch Adjustment A/c Dr. To Loss by Leakages A/c (*with load*)

8. For adjustment of load on closing stock: Notes: (1) The Stock Reserve A/c will be carried forward to the next period and then transferred to the credit of the Branch Adjustment A/c. (2) *Alternatively*, a credit balance equal to the load on closing stock may be left in the Branch Adjustment A/c and only the remaining balance is treated as profit.	Branch Adjustment A/c *Dr.* To Stock Reserve A/c (*with load i.e. difference between cost price and invoice price*)
9. For closing the Branch Adjustment A/c: (a) For Gross Profit: (b) For Gross Loss:	(a) Branch Adjustment A/c *Dr.* To Branch Profit & Loss A/c (b) Branch Profit & Loss A/c *Dr.* To Branch Adjustment A/c
10. To close Loss in Transit A/c, Loss on Pilferage A/c, Fire Loss A/c, Loss by Leakages etc. A/c etc.:	Branch Profit & Loss A/c *Dr.* To Loss in Transit A/c „ Loss on Pilferage A/c „ Fire Loss A/c „ Loss by Leakages etc. A/c
11. For closing Branch Profit & Loss A/c.: (a) If there is net profit: (b) If there is net loss:	(a) Branch Profit & Loss A/c *Dr.* To General Profit & Loss A/c (b) General Profit & Loss A/c *Dr.* To Branch Profit & Loss A/c

Note : Other journal entries in the books of the head office will be same as given in second type of branch under Stock and Debtor system.

Illustration 10. (*Stock and Debtors System*)

Ballygunge Chemicals Ltd., has a branch office at Madras. On 1st April, 1955 the Head Office sent to Madras Branch goods costing Rs. 80,000 adding 20% to cost. On 30th June, 1955, it was found that the branch sold goods for cash amounting to Rs 50,000. Goods of the value of Rs. 2,000 (invoice price) were returned to the Head Office. Cash received from Debtors as on 30 th June amounted to Rs 50,000, discounts allowed to them amounted to Rs 1,250. The opening and closing balances of Stock and Debtors of the Branch were : Stock Rs. 50,000 and Rs 75,000 respectively and Debtors Rs 75,000 and Rs. 50,000 respectively. The Cash sales monies and collections from the Debtors were promptly sent to the Head Office by the branch. The expenses of the branch amounting to Rs. 3,000 were met by the Head Office by bank drafts.

You have been asked to record the above transactions in the books of the Head Office.

(C. U. B. Com. (Adv.) 1957)

Solution

Accounts in the Books of the Head Office

Madras Branch Stock A/c

Dr. *Cr.*

1955		Rs.	1955		Rs.
Apl.1	To Balance b/d (1)	60,000		By Goods sent to Branch A/c —Returns (3)	2,000
	,, Goods sent to Branch A/c (2)	96,000			
June, 30	,, Branch Adjustment A/c (5)	12,250	June	,, Branch Cash A/c —cash sales	50,000
				,, Branch Debtors A/c —credit sales (4)	26,250
				,, Balance c/d	90,000
		1,68,250			1,68,250
July.1	To Balance b/d	90,000			

Notes : (1) Load on stock is adjusted through Stock Reserve A/c.

(2) In order to ascertain invoice price ⅛ of the cost price is to be added to goods sent to branch, opening and closing branch stock.

(3) Figures in brackets will indicate the corresponding entries.

Goods Sent to (Madras) Branch A/c

Dr. *Cr.*

1955		Rs.	1955		Rs.
	To Madras Branch Stock A/c (3)	2,000		By Madras Branch Stock A/c (2)	96,000
	,, Madras Branch Adjustment A/c (6)	16,000		,, Madras Branch Adjustment A/c (7)	333
	,, (General) Trading A/c	78,333			
		96,333			96,333

(Madras) Branch Adjustment A/c

Dr. *Cr.*

1955		Rs.	1955		Rs.
	To Goods Sent to Branch A/c (7)	333	Apl.1	By Stock Reserve A/c (1)	10,000
June, 30	,, Stock Reserve A/c (8)	15,000	June, 30	,, Goods Sent to Branch A/c (6)	16,000
,,	,, Branch Profit & Loss A/c—balance transferred (9)	22,917	,,	,, Madras Branch Stock A/c (5)	12,250
		38,250			38,250

Dr. **Stock Reserve A/c** Cr.

1955		Rs.	1955		Rs.
Mar. 31	To Balance c/d	10,000	March 31	By Madras Branch Adjustment A/c	10,000
		10,000			10,000
Apl.1	,, Madras Branch Adjustment A/c—Transfer (1)	10,000	Apl.1	By Balance b/d	10,000
June, 30	,, Balance c/d	15,000	June, 30	By Madras Branch Adjustment A/c (8)	15,000
		25,000			25,000
			July,1	By Balance b/d	15,000

Dr. **(Madras) Branch Debtors A/c** Cr.

1955		Rs.			Rs.
Apl 1	To Balance b/d	75,000	1955 June30	By Cash A/c	50,000
	,, Branch Stock A/c —credit sales (4)	26,250		,, Discount Allowed A/c (10)	1,250
		1,01,250	,,	,, Balance c/d	50,000
July,1	To Balance b/d	50,000			1,01,250

Dr. **(Madras) Branch Discount Allowed A/c** Cr.

		Rs.			Rs.
1955	To Branch Debtors A/c (10)	1,250	1955 June30	By Branch P/L A/c (11)	1,250
		1,250			1,250

Dr. **(Madras) Branch Expenses A/c** Cr.

		Rs	1955		Rs.
1955	To Bank A/c	3,000	June30	By Branch P/L A/c (12)	3,000
		3,000			3,000

Dr. **Madras Branch Profit & Loss A/c** *Cr.*

		Rs.			Rs.
1955 June30	To Discount Allowed A/c (11)	1,250	1955 June30	By Madras Branch Adjustment A/c (9)	22,917
	„ Branch Expenses A/c (12)	3,000			
	„ General Profit & Loss A/c —Profit transferred	18,667			
		22,917			22,917

Illustration 11 *(Stock & Debtors System)*

A, B, C & Co. carry on a merchanting business. The ratio of gross profits to sales was 25%. The Head Office of the firm was in Calcutta and there was a Branch at Ranchi. No books were kept at Ranchi for credit of Head office and all disbursements for Ranchi were made by Head Office.

At 1st April, 1965 (the commencement of the financial year) the following balances stood in the Head Office books, after the books had been closed :

	Rs.
Ranchi Branch Stock A/c (at selling price)	4,000
Ranchi Branch Stock Adjustment A/c (*Cr.*)	1,000
Ranchi Branch Debtors' Total A/c	10,000

During the year ended 31st March, 1966, the following Ranchi transactions were recorded :

Goods invoiced pro-forma to Ranchi from Head Office at selling price	1,20,000
Cash Salss	5,000
Credit Sales	1,00,000
Cash received from Debtors	96,000
Discount allowed to Debtors	2,460
Ranchi Expenses paid	25,000

The Branch Manager took stock on March 31, 1966 at selling price which amounted to Rs. 16,000

There was a fire during the year and certain uninsured goods were destroyed. You are required to draw up :

(a) Branch Stock A/c, (b) Branch Stock Adjustment A/c, (c) Branch Debtors A/c and (d) Branch Profit & Loss A/c

(C. U. B. Com. (Adv.) 1967)

Solution

Notes : (1) $\frac{1}{4}$th of the selling price is taken to be the load.

(2) For adjustment of load on closing stock a credit balance equal to the load on closing stock is left in the Branch Adjustment A/c and only the remaining balance is treated as profit.

(3) The amount of load on goods lost or destroyed will be debited to Branch Adjustment A/c and the remaining amount to Branch Profit & Loss A/c.

(4) Figures in brackets indicate the corresponding entries.

Accounts in the books of the Head Office :

Dr. **Ranchi Branch Stock A/c** Cr.

		Rs.			Rs.
1965 Apl.1	To Balance b/d (1)	4,000	1965	By Branch Cash A/c —Cash Sales	5,000
	,, Good Sent to Branch A/c (2)	1,20,000		,, Branch Debtors A/c Credit sales (3)	1,00,000
			1966 Mar.31	,, Loss by Breakages etc. A/c (4) (balancing figure)	3,000
			,,	,, Balance c/d (5)	16,000
		1,24,000			1,24,000
1966 Apl.1	To Balance b/d	16,000			

Dr. **Ranchi Branch Stock Adjustment A/c** Cr.

		Rs.			Rs.
1966 Mar. 31	To Loss by Breakages etc. A/c (6) (25% on Rs. 3,000)	750	1965 Apl.1	By Balance b/d (1) (25% on Rs. 4,000)	1,000
,,	,, Balance c/d (5) (25% on closing stock Rs. 16,000)	4,000		,, Goods Sent to Branch A/c (2) (25% on Rs. 1,20,000)	30,000
,,	,, Branch Profit & Loss A/c —Gross profit transferred (7)	26,250			
		31,000			31,000

Dr. **Loss by Breakages etc. A/c** Cr.

		Rs.			Rs.
1966 Mar.31	To Branch Stock A/c (4)	3,000	1966 Mar.31	By Branch Stock Adjustment A/c (6)	750
			,,	,, Branch Profit & Loss A/c (8)	2,250
		3,000			3,000

Dr. **(Ranchi) Branch Debtors A/c** **Cr**

		Rs.			Rs.
1965 Apl.1	To Balance b/d	10,000	1966 Mar.31	By Cash A/c	96,000
	„ Branch Stock A/c —Credit sales (3)	1,00,000		„ Branch Discount A/c (9)	2,460
				„ Balance c/d	11,540
		1,10,000			1,10,000
1966 Apl.1	To Balance b/d	11,540			

Dr. **Ranchi Branch Profit & Loss A/c** **Cr.**

		Rs.			Rs.
1966 Mar.31	To Loss by Breakages etc. A/c (8)	2,250	1966 Mar.31	By Branch Stock Adjustment A/c —Gross Profit (7)	26,250
„	„ Branch Discount A/c (9)	2,460	„	„ General Profit & Loss A/c —Net loss transferred	3,460
„	„ Branch Expenses A/c	25,000			
		29,710			29,710

Ilustration 12 *(Stock & Debtors System)*

The Shoe Trading Co, Ltd. invoices goods to its Delhi Branch at cost plus 25 percent. Both cash and credit sales are effected by the Branch. Branch expenses are paid direct from Head Office. The following are the details of the transactions for the six months ended 30 th September, 1960 ;—

	Rs.
Goods received from Head Office, at invoice prices	20,000
Returns to Head Office at invoice prices	500
Stock at 1st April, 1960 at invoice prices	5,000
Credit Sales for the half year	11,000
Cash sales for the half year	10,800
Debtors as at 1st April, 1960	3,800
Cash received—Ledger Accounts	11,600
Discounts allowed to customers	160
Bad Debtors written off	300
Returns from customers at selling prices	200

Rent, Rates etc.	240
Salaries & wages	800
Sundry expenses	120
Stock as at 30th September, 1960, at invoice prices	4,000
Sundry Debtors as at 30th September, 1960	2,540

Record the above transactions in the Head Office Ledger and close off the Accounts concerned at 30th September, 1960.

(C. U. M. Com 1961)

Solution

In the books of the Head Office

Note : The items marked at invoice price are reduced to cost price first and then the ledger accounts are drawn. The cost prices are calculated by reducing $\frac{1}{5}$th from selling prices as shown below ;

Items	*Invoice Price or Selling price* Rs.	*Cost Price* Rs.
Opening Branch Stock	5,000	4,000
Goods Sent to Branch	20,000	16,000
Goods Returned to Head Office	500	400
Closing Branch Stock	4,000	3,200

Dr. **(Delhi) Branch Stock A/c** Cr.

1960		Rs.	1960		Rs.
Apl. 1	To Balance b/d	4,000		By Goods Sent to Branch A/c —Returns (2)	400
	„ Goods Sent to Branch A/c (1)	16,000		„ Branch Cash A/c —Cash sales	10,800
	„ Branch Debtors A/c —Return by customers to Branch (4)	200		„ Branch Debtors A/c —Credit sales (3)	11,000
June,30	„ Branch Profit & Loss A/c —Gross Profit transferred (5)	5,200	June,30	„ Balance c/d	3,200
		25,400			25,400
1960 July, 1	To Balance b/d	3,200			

Dr. **Goods Sent to Branch A/c** *Cr.*

1960		Rs.	1960		Rs.
	To Branch Stock A/c (2)	400		By Branch Stock A/c (1)	16,000
	,, (General) Trading A/c	15,600			
		16,000			16,000

Dr. **(Delhi) Branch Debtors A/c** *Cr.*

		Rs.			Rs.
1960 Apl. 1	To Balance b/d	3,800	1960	By Branch Stock A/c —Returns (4)	200
	,, Branch Stock A/c —Credit sales (3)	11,000		,, Cash A/c	11,600
				,, Branch Discount A/c (6)	160
				,, Branch Bad Debts A/c (7)	300
			June,30	,, Balance c/d	2,540
		14,800			14,800
1960 July, 1	To Balance b/d	2,540			

Note : Figures in brackets indicate the corresponding entries.

Dr. **(Delhi) Branch Expenses A/c** *Cr.*

			Rs.			Rs.
1960	To Cash A/c :	Rs.		1960 June 30	By Branch Profit & Loss A/c (8)	1,160
	Rent, Rates etc.	240				
	Salaries & Wages	800				
	Sundry Expenses	120	1,160			
			1,160			1,160

Dr, **(Delhi) Branch Discount A/c** *Cr.*

		Rs.			Rs
1960	To Branch Debtors A/c (6)	160	1960 June,30	By Branch Profit & Loss A/c (9)	160
		160			160

Dr. (Delhi) Branch Bad Debts A/c Cr.

		Rs.			Rs.
1960	To Branch Debtors A/c (7)	300	1960 June,30	By Branch Profit & Loss A/c (10)	300
		300			300

Dr. (Delhi) Branch Profit & Loss A/c Cr.

		Rs.			Rs.
1960 June 30	To Branch Expenses A/c (8)	1,160	1960 June 30	By Branch Stock A/c (5)	5,200
	,, Branch Discounts A/c (9)	160			
	,, Branch Bad Debts A/c (10)	300			
	,, General Profit & Loss A/c –Net Profit transferred	3,580			
		5,200			5,200

Illustration 13 *(Stock & Debtors System)*

Bombay Traders Ltd. sends goods to its Madras Branch at cost plus 25 per cent. From the following particulars you are required to show the Branch Stock Account, Branch Stock Adjustment Account, and Branch Profit & Loss A/c in the Head Office Books :

	Rs.
Opening Stock at branch at invoice price	20,000
Goods sent to branch at invoice price	80,000
Loss in transit at invoice price	10,000
Pilferage at invoice price	4,000
Sales	1,22,000
Expenses	32,000
Closing Stock at Branch at invoice price	24,000
Recovered from Insurance Company against loss in transit	6,000

(I. C. W. A—Inter, January, 1968)

Dr. **Madras Branch Stock A/c** *Cr.*

	Rs.		Rs.
To Balance b/d (1)	20,000	By Loss in Transit A/c (3)	10,000
„ Goods Sent to Branch A/c (2)	80,000	„ Loss on Pilferage A/c (4)	4,000
„ Branch Adjustment A/c (5)	60,000	„ Branch Cash A/c —Sales	1,22,000
		„ Balance c/d (8)	24,000
	1,60,000		1,60,000
To Balance b/d	24,000		

Note: Though not wanted Loss in Transit A/c and Loss on Pilferage A/c are given in the interest of the students.

Dr. **Madras Branch Loss in Transit A/c** *Cr.*

	Rs.		Rs.
To Branch Stock A/c (3)	10,000	By Branch Stock Adjustment A/c (6) (20% of Rs. 10,000)	2,000
		„ Branch Profit & Loss A/c (9)	8,000
	10,000		10,000

Dr. **Madras Branch Loss on Pilferage A/c** *Cr.*

	Rs.		Rs.
To Branch Stock A/c (4)	4,000	By Branch Stock Adjustment A/c (7) (20% of Rs. 4,000)	800
		„ Branch Profit & Loss A/c (10)	3,200
	4,000		4,000

Dr. **Madras Branch Stock Adjustment A/c** Cr.

	Rs.		Rs.
To Loss in Transit A/c (6)	2,000	By Stock Reserve A/c (1) (20% of opening stock Rs. 20,000)	4,000
„ Loss on Pilferage A/c (7)	800	„ Goods Sent to Branch A/c (2) (20% of Rs. 80,000)	16,000
„ Stock Reserve A/c (8) (20% of closing stock Rs. 24,000)	4,800	„ Branch Stock A/c (5)	60,000
„ Branch Profit & Loss A/c—Gross profit transferred (11)	72,400		
	80,000		80,000

Dr. **Madras Branch Profit & Loss A/c** Cr.

	Rs.		Rs.
To Branch Expenses A/c	32,000	By Branch Stock Adjustment A/c (11)	72,400
„ Loss in Transit A/c (9)	8,000	„ Recovery against Loss in Transit A/c	6,000
„ Loss on Pilferage A/c (10)	3,200		
„ General Profit & Loss A/c —Profit transferred	35,200		
	78,400		78,400

). Fourth Type of Branch—Independent or Autonomous Branch :

Record at Branch :

An independent or autonomous branch keeps a separate set of double entry books of accounts to record its income, expenses, purchase, sales, assets and liabilities. The branch maintains a *Head Office A/c* which is in the nature of a *Capital A/c* of an ordinary business. Transactions between the branch and the head office will be passed through this account.

Journal Entries for some of the transactions with the head office will be as follows :

(1) When goods are received by the branch form the head office :	Goods Supplied by Head Office A/c Dr. To Head Office A/c
(2) When cash is received from the head office :	Bank A/c Dr. To Head Office A/c
(3) When goods are returned by the branch to the head office :	Head Office A/c Dr. To Goods Returned to Head Office A/c
(4) When money is remitted to head office by branch	Head Office A/c Dr. To Bank A/c

Remittances Account —Where the remittances made by the branch to the head office are numerous, it is better to open a separate *Remittances Account* in the books of the branch, which will be transferred to the debit of the Head Office Account at the time of balancing.

All other transactions of the branch relating to purchases, sales, maintenance, distribution, assets, liabilities etc. are recorded according to double entry principles and suitable accounts are opened in the ledger of the branch.

At periodical intervals, the branch will perpare the Trial Balance, Trading A/c, Profit & Loss A/c and Balance Sheet. If a profit is made, it will be credited to the Head Office A/c and if there is a loss it will be debited to the Head Office A/c. A copy of the Trial Balance, Trading A/c, Profit & Loss A/c and Balance Sheet will be sent to the head office for incorporation of branch transactions in the head office books.

Record at Head Office : A Branch Account will be opened in the books of the head office. All transactions between the head office and the branch will be passed through this account.

Journal entries for some of the transactions with the branch will be as follows :

(1) For goods sent to branch :	Branch A/c To Goods Sent to Branch A/c	*Dr.*
(2) For money sent to branch :	Branch A/c To Cash or Bank A/c	*Dr.*
(3) For goods returned by branch to the head office :	Goods Sent to Branch A/c To Branch A/c	*Dr.*
(4) For money remitted by branch to head office :	Cash or Bank A/c To Branch A/c	*Dr.*

Remittances Account -Where the remittances made by the branch to the head office are numerous, a separate Remittances Account may be opend in the books of the head office. It will be credited with all remittances received from branch. It will be transferred to the credit of the Branch Account at the time of balancing.

Depreciation on Branch Assets : Where the accounts of the branch fixed assets permanently kept in the books of the head office, the branch should be charged with the depreciation on such assets. The entry in respect of depreciation will be :—

(*a*) In the head office books—
Branch A/c *Dr.*
To Related Assets A/c

(*b*) In the branch books—
Depreciation A/c *Dr.*
To Head Office A/c

or

Branch Profit & Loss A/c *Dr.*
To Head office A/c

Head Office Expenses : When head office charges proportionately for any service rendered to the branch, the entry will be :—

(*a*) In the head office books—
Branch A/c Dr.
To Profit & Loss A/c (or Salary A/c)

(*b*) In the branch books—
Head Office Expenses A/c Dr.
To Head Office A/c

Inter-Branch Transactions : Inter-branch transaction should be treated by the branches concerned as one with the head office. The necessary journal entries will be as follows :—

(1) In the books of the sending or selling branches :	Head Office A/c Dr. To Goods Supplied to H. O. A/c
(2) In the books of the receiving or buying branches :	Goods Received from Head Office A/c Dr. To Head Office A/c
(3) In the books of the head office	Receiving Branch A/c Dr. To Sending Branch A/c

Reconciliation of Head Office Account and Branch A/c :

Usually the balance of Head Office A/c in the books of the branch will agree with the balance of the Branch A/c in head office books. One will be debit and the other is credit balance. But there may be exceptions when the agreement will not take place. This disagreement may be due to goods or remittances in transit.

On the date of closing of the accounts, the items in transit are to be brought into books. Adjustment entries are to be passed by the branch or head office which originaly sent the cash or goods. But the rule as to who will pass these entries is not hard.

(1) When goods or cash sent by the branch to head office are in transit :

Entries in the books of branch :—

(i) for cash in transit :	Cash in Transit A/c Dr. To Head office A/c
(ii) for goods in transit :	Goods in Transit A/c Dr. To Head office A/c

(2) When goods or cash sent by head office to branch are in-transit :

Entries in the books of head office :—

(i) for cash in transit :	Cash in Transit A/c Dr. To Branch A/c
(ii) for goods in transit :	Goods in Transit A/c Dr. To Branch A/c

Incorporation of Branch Trial Balance in Head Office Books :

On receipt of Branch Trial Balance, Branch Trading A/c, Branch Profit & Loss A/c and Branch Balance Sheet, the head office will proceed to prepare a consolidated Balance Sheet of branch and head office. The process involved in the preparation of consolidated Balance Sheet is called *incorporation of branch trial balance.* After incorporation of branch trial balance in head office books, the Branch A/c will be closed.

Journal Entries for the incorporation of Branch Trial Balance :

Transactions	*Journal Entries*	
1. For all items appearing on the debit side of the Branch Trading A/c :	Branch Trading A/c To Branch A/c	*Dr.*
2. For all items appearing on the credit side of the Branch Trading A/c :	Branch A/c To Branch Trading A/c	*Dr.*
3. For gross profit as shown in the Branch Trading A/c :	Branch Trading A/c To Branch Profit &Loss A/c	*Dr.*
4. For gross loss as shown in the Branch Trading A/c :	Branch Profit & Loss A/c To Branch Trading A/c	*Dr.*
5. For all items appearing on the debit side of Branch Profit & Loss A/c (i.e. expenses)	Branch Profit & Loss A/c To Branch A/c	*Dr.*
6. For all items appearing on the credit side of Branch Profit & Loss A/c (i.e. incomes) :	Branch A/c To Branch Profit & Loss A/c	*Dr.*
7. For net profit as shown by Branch Profit & Loss A/c :	Branch Profit & Loss A/c To General Profit & Loss A/c	*Dr.*
8. For net loss as shown by Branch Profit & Loss A/c :	General Profit & Loss A/c To Branch Profit & Loss A/c	*Dr.*
9. For all items of assets as shown by Branch Balance Sheet :	Individual Branch Assets A/cs To Branch A/c	*Dr.*
10. For all items of liabilities as shown by Branch Balance Sheet :	Branch A/c To Individual Liabilities A/cs	*Dr.*

Calcutta Medical Stores Ltd. has a branch office at Bangalore. Show the Final Accounts and Head Office A/c in the Branch Ledgers from the following Trial Balance of Branch Books ;—

Trial Balance of the Bangalore Branch

		Dr.	Cr.
Motor Car	..	5,500	—
Furniture & Fixtures	..	1,440	—
Sundry Debtors	..	21,500	—
Sundry Creditors	..	—	4,220
Stock, January 1, 1968	..	15,000	—
Purchases from Head Office	..	57,120	—
Sales	..	—	79,500
Discounts Received	..	—	380
Cash in hand	..	2,620	—
Rent, Rates & Taxes	..	1,860	—
Sundry Expenses	..	1,300	—
Depreciation	..	680	—
Carriage Inwards	..	1,640	—
Head Office Account	..	—	67,700
Wages & Salaries	..	7,380	—
Bad Debts	..	640	—
Remittances to Head Office	..	33,600	—
Discounts Allowed	..	1,520	—
		1,51,800	1,51,800

Stock, 31st December, 1968 Rs. 16,500

Solution

In the books of Bangalore Branch
Trading and Profit & Loss A/c
for the year ended 31st, December, 1968

Dr.	Rs.		Cr. Rs.
To Opening Stock	15,000	By Sales A/c	79,500
„ Purchases from H.O. A/c	57,120	„ Closing Stock	16,500
„ Carriage Inwards A/c	1,640		
„ Gross Profit c/d	22,240		
	96,000		96,000
„ Rent, Rates & Taxes A/c	1,860	By Gross Profit b/d	22,240
„ Sundry Expenses A/c	1,300	„ Discounts Received A/c	380
„ Depreciation A/c	680		
„ Wages & Salaries A/c	7,380		
„ Bad Debts A/c	640		
„ Discounts Allowed A/c	1,520		
„ Net Profit—transferred to Head Office A/c	9,240		
	22,620		22,620

Balance Sheet as at 31st December, 1968

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	4,220	Motor Car	5,500
Head Office A/c	43,340	Furniture & Fixtures	1,440
		Sundry Debtors	21,500
		Closing Stock	16,500
		Cash in hand	2,620
	47,560		47,560

Dr. **Head Office A/c** *Cr,*

	Rs.		Rs.
To Remittance to H. O. A/c	33,600	By Balance b/d	67,700
,, Balance c/d	43,340	,, Profit & Loss A/c	9,240
	76,940		76,940
		By Balance b/d	43,340

Note : Head Office A/c is taken as Capital A/c. The net profit is credited to Head Office A/c which may be subdivided at the Branch Ledger into two parts viz— (1) *Head Office A/c* and (2) *Head Office Current A/c*. In such a case the opening balance is credited to Head Office A/c and all subsequent receipts from or remittances to head office are passed through Head Office Current A/c. The profit or loss at the branch is however credited to Head Office A/c.

Illustration 15 (*In-corporatian Entries and Branch A/c in head office book*)

The following Trial Balance as at 30th September, 1963, of the Calcutta Branch of J. Advani & Co. was received by the Head office at Bombay. You are required to give the journal entries necessary to enable the Head Office to incorporate the figures of the Branch Trial Balance into its own books. Show also the Branch Account in the Head Office Ledger.

ılcutta Branch Trial Balance as at 30. 9. 1963

	Dr.	Cr.
Stock, October 1, 1962	9,000	—
Goods from Head Office	51,000	—
Purchases	33,000	—
Wages	6,000	—
Sales	—	1,08,000
Sundry Debtors	12,000	
Sundry Creditors	—	3,000
Head Office Account	—	30,000
Salaries	6,000	
Rent, Rates & Taxes	3,000	
Advertisement	2,000	
Stationery & Printing	600	
Postage	400	
Discount	2,700	
Cash at Bank	15,000	
Cash in hand	300	
	1,41,000	1,41,000

Stock on 30th September, 1963, Rs. 24,000

(I C. W A –Inter, January, 1964)

Solution

In the Books of the Head Office

Journal Entries

		Dr. Rs	Cr. Rs.
(1)	Branch Trading A/c .. Dr To Calcutta Branch A/c (Being incorporation of the following items of the Branch Trial Balance in the head office book : Rs. Stock, October 1, 1962 9,000 Goods from Head Office 51,000 Purchases 33,000 Wages 6,000 99,000)	99,000	99,000
(2)	Calcutta Branch A/c Dr. To Branch Trading A/c (Being incorporation of the following items of the Branch Trial Balance in the head office book : Rs. Sales 1,08,000 Stock on 30th Sept. '63 24,000 1,32,000)	1,32,000	1,32 000

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Journal Entries (Contd.)

		Dr.	Cr.
		Rs.	Rs.
(3)	Branch Trading A/c *Dr.* To Branch Profit & Loss A/c (Being the gross profit transferred)	33,000	33,000
(4)	Branch Profit & Loss A/c *Dr.* To Calcutta Branch A/c (Being incorporation of the following items of the Branch Trial Balance in the head office book : Rs. Salaries 6,000 Rent, Rates & Taxes 3,000 Advertisement 2,000 Stationery & Printing 600 Postage 400 Discount 2,700 14,700)	14,700	14,700
(5)	Branch Profit & Loss A/c *Dr.* To General Profit & Loss A/c (Being the net profit transferred to General Profit & Loss A/c)	18,300	18,300
(6)	Branch Debtors A/c *Dr.* " Cash in Bank A/c *Dr.* " Cash in Hand A/c *Dr.* " Closing Stock *Dr.* To Calcutta Branch A/c (Being incorporation of branch assets into head office book)	12,000 15,000 300 24,000	51,300
(7)	Calcutta Branch A/c *Dr.* To Branch Creditors A/c (Being incorporation of branch liabilities into head office book)	3,000	3,000

Dr. **Calcutta Branch A/c** *Cr.*

	Rs.		Rs.
To Balance b/d	30,000	By Branch Trading A/c	99,000
" Branch Trading A/c	1,32,000	" Branch P & L A/c	14,700
" Branch Creditors A/c	3,000	" Branch Assets A/cs	51,300
	1,65,000		1,65,000

Note : The Branch A/c in head office ledger will, now be closed. It will show no balance as all the items of Branch Trial Balance are incorporated in the head office ledger.

Illustration 16 *(Inter-branch transactions)*

A Head Office in Madras has three branches in Ahmedabad, Bangalore and Calcutta who work independently of each other but are under the control of the Head Office. The Branches buy and sell goods at cost price from one another under intimation to the Head Office and the branches are not allowed by the Head Office to open accounts of the co-branches in their books.

The following schedule shows the transactions that have taken place amongst the branches during a given period.

Buying Branches	Selling Branches		
	Ahmedabad Rs.	Bangalore Rs.	Calcutta Rs.
Ahmedabad	—	12,000	11,000
Bangalore	10,000	—	18,000
Calcutta	14,000	15,000	—

Pass Journal Entries in the books of individual branches as well as head office to record the above transactions.

(I C W.A—Inter, July, 1964)

Solution

Journal Entries

(*1*) *In the books of Ahmedabad Branch*—

			Dr. Rs.	Cr. Rs.
	For buying ..			
	Goods Received from Head Office A/c	Dr	23,000	
	To Head Office A/c			23,000
	(Being purchase of goods from Bangalore and Calcutta Branches.)			
	For selling ..			
	Head Office A/c	Dr.	24,000	
	To Goods Supplied to H.O A/c			24,000
	(Being supply of goods to Bangalore and Calcutta Branches at cost price.)			

(2) *In the books of Bangalore Branch*—

			Dr. Rs.	Cr. Rs.
	For buying : ..			
	Goods Received from Head Office A/c	Dr.	28,000	
	To Head Office A/c			28,000
	(Being purchase of goods from Ahmedabad and Calcutta Branches.)			
	For selling : ..			
	Head Office A/c	Dr.	27,000	
	To Goods Supplied to H.O. A/c			27,000
	(Being supply of goods to Ahmedabad and Calcutta Branches at cost price.)			

(3) *In the books of the Calcutta Branch—*

			Dr.	Cr.
			Rs.	Rs.
	For buying : Goods Received from Head Office A/c To Head Office A/c (Being purchase of goods from Ahmedabad and Bangalore Branches.)	Dr.	29,000	29,00
	For selling : Head Office A/c To Goods Supplied to H.O. A/c (Being supply of goods to Ahmedabad and Bangalore Branches at cost price.)	Dr.	29,000	29,00

(4) *In the books of the Head Office-*

			Dr.	Cr.
			Rs.	Rs.
1.	Bangalore Branch A/c Calcutta Branch A/e To Ahmedabad Branch A/c (Being supply of goods by Ahmedabad Branch to other Branches.)	Dr. Dr.	10,000 14,000	 24,00
2.	Ahmedabad Branch A/c Calcutta Branch A/c To Bangalore Branch A/c (Being supply of goods by Bangalore Branch to other Branches.)	Dr. Dr.	12,000 15,000	 27,00
3.	Ahmedabad Branch A/c Bangalore Branch A/c To Calcutta Branch A/c (Being supply of goods by Calcutta Branch to other Branches.)	Dr. Dr.	11,000 18,000	 29,00

Illustration 17 *(Journal Entries)*

A firm of engineers in Delhi, whose accounting year ends on 31st Decembe has two branches—one at Agra and the other at Lucknow—at which a complet set of baoks is maintained.

(a) Goods valued Rs. 3,200 were transferred from Lucknow to the Agra Branc under instruction from the Head Office.

(b) Depreciation of the fixed assets of Agra Branch is Rs. 300. The accounts c these assets are kept in Head Office book.

(c) A remittance of Rs. 5,000 made by Agra Branch to the Head Office on 30th Dec, 1968 was received in Delhi on 2nd Jan. 1969.

(d) The Agra Branch collected Rs. 2,000 from an Agra customer of the Head Office.

(e) The Lucknow Branch paid Rs. 4,000 for some machinery purchased by the Head Office in Lucknow.

Give the journal entries in Head Office books.

Solution

Journal Entries in the books of Head Office

			Dr. Rs.	*Cr.* Rs.
(a)	Agra Branch A/c To Lucknow Branch A/c (Being supply of goods by Lucknow Branch to Agra Brahch)	Dr.	3,200	3,200
(b)	Agra Branch A/c To Agra Branch Fixed Assets A/cs. (Being the Branch Fixed Assets depreciated)	Dr.	300	300
(c)	(i) No entry will be made in Head Office books. On receipt of cash, the Head Office will debit Cash A/c and credit Agra Branch A/c. (ii) Agra Branch will, however, pass the adjustment entry on Dec. 31 1968 in its books.			
(d)	Agra Branch A/c To Debtor's A/c (Being the amount collected by Agra Branch from a H. O. Customer)	Dr.	2,000	2,000
(e)	Machinery A/c To Lucknow Branch A/c (Being machinery] purchased by branch for H. O.)	Dr.	4,000	4,000

Illustration 18 *(Branch A/c after posting incorporation entries)*

A Bombay Merchant has a Branch in Madras. The Ledger Balances of t Branch for the year ended 31. 3. 1965 were as follows :

	Rs.		Rs.
Interest Received	2,500	Purchases	9,000
Sales	30,000	Goods from Head Office	14,000
Creditors	1,200	Sundry Expenses	400
Bank (Dr.)	3,300	H. O. Account	22,000
Machinery	16,000	Stock (1. 4. 64)	15,000
Debtors	4,000		

Closing Stock Rs. 7,000

You get the following information from the Head Office :

(i) The Head Office sent goods to branch Rs. 1,000 on 31. 3. 65, which the branch received on 3. 4. 65.

(ii) Branch Furniture Account in the Head Office books had the Balances of Rs. 800 and Rs. 10,000 respectively.

(iii) Branch Account in Head Office books had a balance of Rs. 23,000.

Prepare Branch Trading and Profit & Loss Account after depreciating Furniture 5% and Machinery 10%

Also give the Branch Account in Head Office books after posting incorporation entries to that account.

(Burdwan University, B. Com., (Adv.) 1966—Adapted)

Solution

Journal Entries

			Dr. Rs.	Cr. Rs.
1965 Mar.31	Goods in Transit A/c To Madras Branch A/c (Being goods sent by H. O. are in transit)	Dr.	1,000	 1,000
,	Madras Branch A/c To Branch Furniture A/c To Branch Machinery A/c (Being depreciation on branch assets charged)	Dr.	1,040	 40 1,000
,,	Madras Branch Profit & Loss A/c To Madras Branch A/c (Being amount of depreciation transferred to Branch P & L A/c	Dr.	1,040	 1,040

Madras Branch Trading and Profit & Loss A/c

Dr.					Cr.
1965		Rs.	1965		Rs.
Mar.31	To Opening Stock (1.4.64)	15,000	Mar.31	By Sales	30,000
	,, Goods from H.O.	14,000		,, Closing Stock (31.3.65)	7,000
	,, Purchases	9,000		,, Gross Loss c/d	1,000
		38,000			38,000
1965 Mar.31	To Gross Loss b/d	1,000	1965 Mar.31	By Interest Received	2,500
	,, Depreciation : Rs. Furniture 40 Machinery 1,000	1,040			
	,, Sundry Expenses	400			
	,, Net Profit—transferred to General P. & L. A/c	60			
		2,500			2,500

Madras Branch A/c

Dr.					Cr.
1965		Rs.	1965		Rs.
Mar.31	To Balance b/d	23,000	Mar.31	By Branch Trading A/c : Rs. Opening Stock 15,000 Good from H. O. 14,000 Purchases 9,000	38,000
	,, Branch Assets A/c: (Depreciation) Rs. Furniture 40 Machinery 1,000	1,040		,, Branch P & L A/c : Rs. Depreciation 1,040 Expenses 400	1,440
	,, Branch Trading A/c : Rs. Sales 30,000 Closing Stock 7,000	37,000		,, Branch Assets A/cs : Rs. Bank 3,300 Debtors 4,000 Stock 7,000 Machinery 10,000	24,300
	,, Branch P. & L. A/c : (Int. Received)	2,500		,, Goods in Transit A/c	1,000
	,, Branch Creditors A/c	1,200			
		64,740			64,740

Illustration 19 *(Incorportion Entries, Trading and P & L A/c and Branch A/c)*

The following is a list of balances in the Bombay Branch books as on 31st December, 1955 :—

	Rs.
Head Office Account (Calcutta)	2,08,000
Sales	2,25,676
Purchases	2,61,604
Wages and Salaries	43,868
Freight and Insurance	26,608
General Expenses	31,248
Bank Balance (Dr.)	12,641
Cash in hand	1,563
Debtors	1,06,462
Creditors	50,318

Stocks at Bombay on 31st December, 1955 were valued at Rs. 1,48, 500. Head Office Account balance includes Rs. 5,000/- being remittance-in-transit as on December 31, 1955

Show Journal Entries incorporating the above intems, Branch Trading and Profit & Loss A/c and Bombay Branch A/c in the books of the Calcutta Head Office.

(C.U.B.Com. (Adv.) 1958—Adapted)

Solution

In the Books of the Calcutta Head Office

Incorporation Journal Entries

			Dr. Rs.	Cr. Rs.
1,	Branch Trading A/c	Dr.	2,88,212	
	To Bombay Branch A/c			2,88,212
	(Being incorporation of following items of the Branch Trial Balance in the head office books :			
	Purchase Rs. 2,61,604			
	Freight & Insurance Rs. 26,608			
	Rs. 2,88,212			
2.	Bombay Branch A/c	Dr.	3,74,176	
	To Branch Trading A/c			3,74,176
	(Being incorporation of following items of the Branch Trial Balance in the head office books :			
	Sales Rs. 2,25,676			
	Closing Stock Rs. 1,48,500			
	Rs. 3,74,176)			
3·	Branch Trading A/c	Dr.	85,964	
	To Branch P & L A/c			85,964
	(Being gross profit transferred)			

Incorporation Journal Entries (Contd.)

			Dr.	Cr.
			Rs.	Rs.
4.	Branch P & L A/c	Dr.	75,116	
	To Bombay Branch A/c			75,116
	(Being incorporation of the following items of the Branch Trial Balance in the head office books : Salary & wages Rs. 43,868 General Expenses Rs. 31,248 Total Rs. 75,116			
5.	Branch P & L A/c	Dr.	10,848	
	To General P & L A/c			10,848
	(Being the net profit transferred to General P & L A/c			
6.	Branch Debtors A/c	Dr.	1,06,462	
	„ Stock (closing) A/c	Dr.	1,48,500	
	„ Cash in hand A/c	Dr.	1,563	
	„ Bank A/c	Dr.	12,641	
	„ Remittance in Transit A/c	Dr.	5,000	
	To Bombay Branch A/c			2,74,166
	(Being incorporation of branch assets into head office books.)			
7.	Bombay Branch A/c	Dr.	50,318	
	To Branch Creditors A/c			50,318
	(Being incorporation of branch liability into head office books.)			

Bombay Branch Trading and Profit & Loss A/c

for the year ended 31st December, 1955

Dr.	Rs.	Cr	Rs.
To Purchases	2,61,604	By Sales	2,25,676
„ Freight & Insurance	26,608	„ Closing Stock	1,48,500
„ Gross Profit —Transferred to Branch P & L A/c	85,964		
	3,74,176		3,74,176
To Salary & Wages	43,868	By Gross Profit b/d	85,964
„ General Expenses	31,248		
„ Net Profit —transferred to General P & L A/c	10,848		
	85,964		85,964

Dr. **Bombay Branch A/c** **Cr.**

	Rs.		Rs.
To Balance b/d	2,13,000	By Branch Trading A/c	2,88,212
,, Branch Trading A/c	3,74,176	,, Branch P & L A/c	75,116
,, Branch Liability (Creditors)	50,318	,, Branch Assets A/c	2,74,166
	6,37,494		6,37,494
To Branch Sundry Assets A/cs	2,74,166	By Branch Creditor A/c	50,318

Notes : (1) Head Office A/c shows a credit balance of Rs. 2,08,000. It includes Rs. 5,000 remittance in transit. So, on that date the Branch A/c should show a debit balance of Rs. 2,13,000

(2) On the opening day reverse entries will be passed in respect of branch assets and liabilities.

E. Fifth Type of Branch—Foreign Branch :

A foreign branch is generally an autonomous branch. It will have to keep a complete set of accounts in its books. Accounts will be maintained in the same way as outlined in case of other branches. At the end of financial year, it will send its trial balance and inventory of closing stock to the head office for incorporation. But the trial balance of the branch is prepared in the currency of the country in which the branch is situated. So, it has to be converted into the currency of the head office before it can be use for accounting purposes.

A Few Exchange Rates : Current exchange rates as at the end of June 1969, are given below for the guidance of the students—

Foreign Currency		*Indian Currency* Rs.	*Foreign Currency*		*Indian Currency* Rs.
£ 1 (U. K.)	=	18·00	Yen 1 (Japan)	=	48·00
$ 1 (U. S. A.)	=	7·50	MK. 1 (Germany)	=	1·87
Rble. 1 (U. S. S. R.)	=	1·33	Fc. 1 (France)	=	1·52

Methods of Conversion : The methods followed for conversion are as follows :

(1) *First Method* :If the rate of exchange between the country of head office and that of branch is more or less *constant, a fixed rate* may be adopted for conversion. In such a case all the balances of the branch trial balance will be converted at fixed rate excepting the following items :—

(a) Remittances from the branch to head office—this will be converted at the actual amount received at the head office.

(b) Head Office Account Balance—this will be converted at the equivalent amount as shown by the Branch A/c in the head office book.

Any difference in the *converted trial balance* due to such conversion will be transferred to "Difference in Exchange A/c" which will ultimately be written off to Branch Profit & Loss A/c.

(2) *Second Method :* If the rate of exchange is highly *fluctuating*, conversion of branch trial balance at a fixed rate would result in showing fictitious profits or losses, So, the different items of branch trial balance must be converted at appropriate rates .

Rules of conversion when rate of exchange is fluctuating

Items	*Rates of conversion*
1. Fixed Assets :	at the rate of exchange on the date of acquisition.
2. Additions to Fixed Assets :	at the rate of exchange on the date of acquisition ; if frequent additions are made, average rate of exchange is to be employed.
3. Fixed Liabilities :	at the rate prevailing either on the date the liability was incurred or on the date of payment.
4. Opening Stock :	at the rate of exchange prevailing at the close of the last period.
5. Closing Stock :	at the rate prevailing at the last date of the year i.e. on the closing date.
6. Current Assets and Liabilities :	at the rate prevailing at the last date of the year.
7. Expenses, Incomes and other revenue items :	at the average rate prevailing through out the year.
8. Prepaid expenses	at the rate prevailing on the closing date.
9. Remittances from branch :	at the actual amount received at the head office.
10. Head Office Account Balance :	at the equivalent amount as shown by the Branch A/c in the head office book.

Illustration 20 *(Conversion of Trial Balance of a Foreign Branch)*

The firm P and Q with its Head Office in Calcutta has a branch in London. At the end of each year (Dec.,31) a Trial Balance sent by the Branch in Sterling Currency is converted into Rupee Currency at the Head Office.

The following Trial Balance for the year has been compiled at the branch as on 31st December, 1952.

Dr. Particulars	£	S	d	Cr. Particulars	£	S	d
Bills Receivable	1,953	17	8	Sundry Creditors	97	10	—
Sundry Debtors	3,890	16	8	Sales	18,333	6	8
Purchases	11,000	—	—	Head Office A/c	7,859	2	2
Furniture & Fittings (Jan. 1)	1,000	—	—				
Furniture & Fittings (Purchased on May 10)	175	—	—				
Stock (Jan. 1)	1,837	10	—				
Establishment Charges	3,208	6	8				
Rent, Rates & Taxes	366	13	4				
Sundry Office Expenses	1,375	—	—				
Depreciation on Furniture & Fittings	128	6	8				
Remittances to H. O.	1,468	10	6				
Cash in hand & at Bank	766	13	4				
	27,169	18	10		2 7,19	18	10

The Stock in hand on December 31, 1952 was £ 2,108-6s-8d.

The rates of exchange were :

From December 31, 1951 to June 30, 1952, 1s 9d to the Rupee.

From July 1, 1952 to December 31, 1952, 1s. 11d. to the Rupee.

In the Calcutta books, the balances of the London Branch A/c and of the Remittances of the London Branch A/c appear as Rs. 84,148 and Rs. 15,009 respectively.

The original furniture and fittings were bought when the rate of exchange was 1s. 8d. to the Rupee.

Convert the above Trial Balance into Rupee Currency.

(C. U. B. Com. (Adv.) 1953)

Solution

In the Books of P & Q, Calcutta (Head Office)
London Branch Trial Balance (as converted)
as at 31-12-1952

Particulars	Rate of conversion (Per Rupee)	Debit £ s d	Debit Rs.	Credit £ s d	Credit Rs.
	.S d.				
1. Stock (Jan. 1)	1— 9	1,837—10—0	21,000	......	....
2. Purchases	1 -10	11,000— 0 0	1,20,000	......	...
3. Sales	1 -10	...	..	18,333— 6 8	2,00,000
4. Sundry Credstors	1—11	..... .	.	977—10—0	10,200
5. Head Office A/c Balance	Actual amount	. . .	..	7,859 – 2—2	84,148
6. Bills Receivable	1—11	1,953— 1 8	20,380	......	....
7. Sundry Debtors	1—11	3,890–16 8	40,600	......	....
8. Furniture & Fittings (Jan. 1) (i.e. original)	1— 8	1,000— 0 -0	12,000	....	....
9. Furniture & Fittings (Purchased on May 10)	1— 9	175— 0 0	2,000	.. ..	....
10. Establishment charges	1—10	3,208— 6--8	35,000	......	....
11. Rent, Rates & Taxes	1—10	366—13--4	4,000	... ..	. .
12. Sundry Office Expenses	1—10	1,375— 0—0	15,000	......	....
13. Depreciation on : Furniture & Fittings	1—10	128— 6—8	1,400	.....	....
14. Remittance to H.O.	Actual amount	1,46 —10—6	15,009	.. ..	...
15. Cash in Hand & at Bank	1—11	766—13—4	8,000	......	. ..
16. Difference-in-Exchange	....	... ..	..	......	41
		27,169—18—10	2,94,389	27,169—18—10	2,94,389

17. Stock £ 2,108-6s-8d on December, 31 converted @ 1s—11d per rupee will be *Rs. 22,000*

Notes : (1) Average Rate of Exchange$=\frac{\text{1s-9d}+\text{1s-11d}}{2}=$ ***1s. 10d.***

(2) The difference in the converted Trial Balance will be transferred to "Difference in Exchange A/c."

Illustration 21 (*Conversion of Trial Balance of a foreign branch and preparation of Branch Final A/cs in H. O. books*)

On 31st Dec. 19..., the following balances appeared in the books of the Calcutta Branch of an English Firm having its head office in London:

	Rs.	Rs.
Stock, 1st January 19...	6,300	—
Purchases	37,500	—
Sales	—	56,250
Sundry Debtors	19,500	—
Sundry Creditors	—	13,000
Bills Receivable ...	5,200	—
Bills Payable	—	4,550
Wages & Salaries ...	2,400	—
Rent, Rates & Taxes ...	1,800	—
Sundry Charges ..	750	—
Fixtures & Furniture ..	2,455	—
Cash at Bank ..	14,495	—
Head Office A/c ..	—	16,600
	90,400	90,400

Stock on 31st December 19.. . was Rs. 16,250. Calcutta Branch A/c in the book of London Head Office showed a debit balance of £ 1,340 on 31st December of the related year. Fixtures and Furniture appeared in the H. O. books at @ £ 175. The rate of exchange on 31st December of the previous year was Rs. 14 and on 31st December of the related year Rs. 13. The average rate for the related year was Rs. 12.

Convert the Branch Trial Balance in H.O. currency and prepare the Branch Trading and P & L A/c as well as Balance Sheet in the books of the Head Office.

Solution

In the books of the Head Office (London)

Calcutta Branch Trial Balance (as converted)

as at 31st December 19........

Prticulars	Rate per £	Debit		Credit	
		Rs.	£	Rs.	£
	Rs.				
1. Stock, 1st January.	14	6,300	450— 0	—	—
2. Purchases	12	37,500	3,125— 0	—	—
3. Sales	12	—	-	56,250	4,687—10
4 Sundry Debtors	13	19,500	1,500 – 0	—	—
5. Sundry Creditors	13	—	--	13,000	1,000— 0
6. Bills Receivable	13	5,200	400– 0	—	—
7. Bills Payable	13	--	—	4,550	350— 0
8. Wages & Salaries	12	2,400	200— 0	–	—
9. Rent, Rates & Taxes	12	1,800	150— 0	—	—
10. Sundry Charges	12	750	62 10	—	—
11. Furniture & Fixtures	atH.O figure	2,455	175— 0	—	—
12. Cash at Bank	13	14,495	1,115— 0	--	—
13. Head Office A/c	atH.O. figure of Branch A/c	—	—	16,600	1,340— 0
14. Difference in Exchange	—	—	200— 0	—	—
		90,400	7,377—10	90,400	7,377—10
15. Stock, 31st December 19........	13	16,250	1,250	—	—

Calcutta Branch Trading and Profit & Loss A/c
for the year ended 31st Dec. 19.. .

Dr. *Cr.*

	£		£
To Opening Stock	450— 0	By Sales	4,687—10
,, Purchases	3,125— 0	,, Closing Stock	1,250— 0
,, Gross Profit c/d	2,362—10		
	5,937—10		5,937—10
To Wages & Salaries	200— 0	By Gross Profit b/d	2,362—10
,, Rent, Rates & Taxes	150— 0		
,, Sundry Charges	62—10		
,, Difference in Exchange	200— 0		
,, Net Profit c/d	1,750— 0		
	2,362—10		2,362—10

Balance Sheet of Calcutta Branch
as at 31st December, 19....

Dr. *Cr.*

Liabilities	£	£	*Assets*	£
Sundry Creditors		1,000	Furniture & Fixtures	175
Bills Payable		350	Sundry Debtors	1,500
H. O. Account :			Bills Receivable	400
Balance	1,340		Closing Stock	1,250
Add Net Profit	1,750	3,090	Cash at Bank	1,115
		4,440		4,440

Note : If the amount of difference in exchange is large it should be shown in the Balance Sheet.

EXERCISE

A. **Branches selling only H. O. Goods supplied at Cost :**

1. A trading firm has a retail branch which is supplied with goods from the head office and which keeps its own Sales ledger and remits all cash received daily to the head office, the branch expenses being paid by the head office by weekly Cheques.

From the following particulars draw up the Branch Account as would appear in the Head Office books for the six months ending 31st Dec. 1939 :—

		Rs.
Six month's credit Sales	..	2,485
Cash Sales	..	1,460
Returns Inwards	..	30
Cash received on Ledger Accounts	.	2,387
Debtors on 1st July, 1939	..	1,345
Stock on 1st July, 1939	..	840
Stock on 31st Dec. 1939	..	1,280
Goods received from Head Office	..	2,276
Bad Debts at the Branch	..	65
Wages and Sundry Expenses		415
Rent, Rates and Taxes	..	402

(Agra University, B. Com. 1940)

(**Ans** : Branch Profit Rs. 1, 197 ; Branch Closing Debtors Rs. 1,348)

Notes : (1) Returns Inwards means returns by customers to the branch.

(2) Items like Returns by Customers, Bad Debts, Discounts, Allowances etc. will not be shown in the Branch A/c in this method.

(3) Closing Branch Debtors are ascertained thus : (Opening Branch Debtors Rs. 1,345+Credit Sales Rs. 2,485)–(Bad Debts Rs. 65+Returns from Customers Rs. 30)–Cash Received from Debtors Rs. 2,387=Rs. 1,348

2. The London and Westminister Grocery Co. Ltd. has a retail Branch at Manchester which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger Accounts and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are

drawn for by Chaque weekly from the Head Office, upon the imprest system. Fro the undermentioned particulars supplied by the Branch Manager, show how t Branch Account would appear in the Head Office books and prepare a Profit Loss A/c for the Branch Shop for the six months to 31st December, 1937 :-

	£		£
Six months' Credit Sales	2,387	Stock—31st December, 1937	1,1[illegible]
Returns Inwards	20	Debtors—1st July, 1937	1,22[illegible]
Cash received on Ledger A/cs	2,384	Goods Received From H. O	2,17[illegible]
		Rent, Taxes etc. paid	37[illegible]
Cash Sales	1,214		
		Wages & Sundry Expenses	39[illegible]
Stock Ist July, 1937	720		

(London Chamber of Commerce)

(Ans : Branch Net Profit Rs. 1,033)

3. At the close of the financial year on 31st March, 1937, the following summary of the transactions between Head Office at Calcutta and the Branch at Bombay was extracted from the Calcutta books :—

	Rs
Balance due by Branch at 1st April'36	18,750/-
Cash received from Branch	29,800/-
Goods returned by Branch	700/-
Goods supplied to Branch	25,000/-
Expenses paid on behalf of Branch	5,000/-

On 15th April, 1937, the Branch Profit & Loss Account was received at Calcutta and showed a Net Profit of Rs. 4,000/-

Show the above items as they would appear in the Head Office Ledger after the accounts for the year were completed.

(C. U. B. Com. (Adv.) 1938)

(Ans : Barnch Profit Rs. 4,000 ; Closing Balance of the Branch A/c Rs. 22,250)

Note : Closing Balance of the Branch A/c is ascertained thus :

(Opening Balance Rs. 18,750+Goods supplied to Branch Rs, 25,000+ Expenses paid Rs. 5,000+Branch Profit Rs. 4,000)—(Cash Received Rs. 29,800 | Goods Returned Rs. 700)=Closing Balance. Rs. 22,250.

4. A merchant in Bombay has a retail Branch at Surat which is supplied with goods from the head office. The Branch Manager keeps his own Sales Ledger ıd pays in daily to the local bank all his receipts for credit of the Bombay Head ffice Accouut. The Branch expenses are remitted ıegularly by cheques from the ead Office on the Imprest system.

The following transactions for a period of six months ending 31st December, 52 are shown in the H. O. Books :—

	Rs.
Goods supplied to Branch	17,200
Stock—1st July, 1952	3,620
Stock 31st December, 1952	4,500
Cash Sales	6,070
Salaıy and wages	1,500
Rent, Rates etc-	1,225
Receipts—Ledger A/cs	14,500
Credit Sales	12,320
Returns Inwards	200
Debtors—1st July, 1952	6,500

The Head Office closes its accounts on 31st December, 1952. Show the ranch Account as it would appear in the Head Office Ledger.

(C. A. First)

(Ans: Branch Net Loss Rs. 855)

5. Prepare Branch Accounts as they would appear in the Head Office books nd Profit & Loss Accounts showing the net results of each Branch as also of the lead Office.

All purchases are made by the H.O, all goods sold by the Branches are ceived from the H.O., and the Branches sell, maintain accounts of the Debtors, ollect from them and send daily collections to H.O. daily. H.O. keeps no stock and ranch expenses are met from remittances specially sent from H.O.

	Bombay	Lahore	Calcutta
	Rs.	Rs.	Rs.
Bad Debts	1,200	1,000	500
Debtors at start	23,100	19,460	21,020
Debtors at end	29,460	18,900	22,000
Sales (credit)	61,210	31,000	49,100
Returns Inwards	600	—	300
Allowances to Debtors	1,100	900	1,300
Sales (cash)	11,000	19,000	18,000
Goods brought and sent	40,000	30,000	29,000
General Charges	500	300	200
Salary	1,600	2,000	1,000
Stock at start	19,000	18,000	21,000
Stock at end	5,000	4,800	3,600

The expenses of the H.O. which is in Madras amounted to Rs. 8,000 and General charges to Rs. 1,000.

(R. A. Final)

(Ans : Branch Net Profits :—Bombay Rs. 13,210, Lahore Rs. 2,600, Calcutta Rs. 17,400, Head Office Net Profit Rs. 24,210)

B. Branches selling H. O. Goods supplied at selling price :

6. The National Confectionery Ltd. Bombay has a branch at Poona. Goods are invoiced to the Poona branch at selling price being cost plus 25%. The Poona Branch keeps its own Sales Ledger and transmits all cash received to Bombay daily. All Expenses are paid from Bombay.

From the following details prepare a Profit & Loss A/c of the Poona Branch for the year 1964 :

	Rs.
Stock, 1st January, 1964 (at Invoice Prices)	12,500
Stock, 31st December, 1964 (at Invoice Prices)	15,000
Sundry Debtors, 1st January, 1964	7,000
Sundry Debtors 31st December, 1964	9,000
Cash Sales for the year	54,000
Credit Sales for the year	35,000
Cash received for Ledger Accounts	33,000
Goods invoiced from Bombay	91,000
Rent & Taxes (paid from Bombay)	4,000
Wages (paid from Bombay)	3,000
Sundry Expenses (paid from Bombay)	800

(Institute of Bankers, 1965)

(Ans : Branch Profit Rs. 33,400)

7. A Head Office in Bombay sends goods to its Branch at Patna marked 20% above cost. From the following particulars draw up the Branch Account in the Head Office Books in columnar form to show the Apparent Profit and Real Profit at the Patna Branch :—

	Rs.
Stock of Goods at Patna on 1·4. 1959.	3,600
Stock of Goods at Patna on 31. 3. 1960.	4,200
Goods sent to Patna Branch	3,00,000
Goods returned to Head Office	30,000
Cash sales during the year	3,60,000
Returns from Customers	10,000
Discount allowed to Customers	12,000
Bad Debts	1,200
Cash received from Customers	3,30,000
Sundry Debtors on 1.4. 1959	56,000
Sundry Debtors on 31. 3. 1960.	62,800
Establishment Expenses at Patna Branch.	90,000

(I. C. W. A.—Inter.)

(Ans : Apparent Profit Rs. 27,400 ; Actual Profits Rs. 72,300)

8. During the year ended 31st December United Trader & Co., Calcutta sent to their branch shop at Durgapur goods costing Rs. 2,00,000 which they invoiced to the shop at selling price designed to produce a gross profit of $33\frac{1}{3}$ per cent on turnover. Cash sales made by the shop during the year amounted to Rs. 2,42,100 and credit sales to Rs. 55,200. Rs. 53,000 was received from Debtors and Customers returned to the shop goods invoiced at Rs. 600. The branch shop returned to Head Office goods invoiced at Rs. 1,500. It is ascertained that goods invoiced at Rs. 600 have been stolen by an assistant during the year. The Manager of the shop valued his stock at Rs. 4,500 on 1st January and at Rs. 6,000 on 31st December. Submit the necessary Ledger Accounts in the Head Office books to give effect to the above information.

(I. C. W. A—Inter)

(Ans : Branch Gross Profit Rs. 99, 100, Branch Net Profit Rs. 98,700)

9 Head Office invoiced to their Northern Branch during the year goods at selling price (being $33\frac{1}{3}$% added to cost) amounting to Rs. 74,000/-. The credit sales of the branch were Rs. 31,000/- and cash sales Rs. 17,000/-. The Branch returned Rs. 2,000/- stock at selling price and had returns from customers, Rs. 1,000. The discounts allowed to customers by the branch amounted to Rs. 1,200/-. The branch remitted to Head Office Rs. 38,600/- being the amount of cash sales and receipts from customers. The opening and closing stocks of the branch were Rs. 15,000/- (Cost Rs. 11,250/-) and Rs. 39,000/- (Cost Rs. 29,250/-). The branch had debtors of Rs. 12,000/- at the beginning and Rs. 19,200/- at the end. Loss through pilferage was ascertained to be Rs. 1,000/- (cost Rs. 765).

Write up the necessary accounts to record the above in the Head Office books.

(C. U. B. Com. (Adv.) 1954)

(Ans : Branch Gross Profit Rs. 11,750)

10. The Southern Confectionery Co. Ltd. London, has a Branch in Bristol. Goods are invoiced to Bristol Branch at selling prices, being cost plus 25 per cent.

The Bristol Branch keeps its own Sales Ledger and transmits all Cash received to London daily. All expenses are paid from London.

From the following details prepare a Profit & Loss A/c of the Bristol Branch 1937 :—

	£
Stock Jan. 1, 1937 (At invoice Price)	1,250
Stock Dec. 31, 1937 (At Invoice Price)	1,500
Sundry Debtors—1. 1. 1937	700
Sundry Debtors—31. 12. 1937	900
Cash Sales for the year	5,400
Credit Sales ,, ,, ,,	3,500
Cash received from Ledger Accounts	3,300
Goods invoiced from London	9,100
Rent & Rates (paid from London)	400
Wages (paid from London)	340
Sundry Expenses(paid from London)	80

(Chartered Accountants)

(Ans : Branch Net Profit Rs 1,000)

11. A Head Office in Calcutta has a branch in Burdwan. All purchases are made by the Head Office and goods sent to the Branch are invoiced at cost plus 25 per cent. All cash received by the Branch is deposited to the Head Office Account in the Burdwan Branch of the Head Office Bank.

The Branch maintains a Sales Ledger and the other necessary subsidiary books but all other Branch transactions are recorded in the Head Office books.

The following informantion pertaining to the Branch has been collected for the year ended December 31, 1962 :—

		Rs
Stock at Branch at January 1, (Invoice price)		30,000
Stock at Branch at December 31, (Invoice price)		25,000
Goods received from Head Office less Returns (Invoice price)		95,000
Cash sales	..	54,000
Credit sales less Returns	..	43,000
Discount allowed to customers	..	1,000
Cash received from customers	...	41,000
Bad Debts written off	..	500
Branch expenses paid	..	5,700

In the Head Office books prepare the Branch Stock Account, Branch Total Debtors Account and Branch Profit & Loss Acconnt

(C. U. B. Com. (Hons.) 1963)

(Ans. : Branch Net Profit Rs. 9,800)

12. Goods are invoiced in first year to a new branch at Rs. 2,400/- being cost price plus 20 per cent on cost. The Sales by branch are : –

(i) Cash Rs. 210/-

(ii) Credit Rs. 1,800/-

The Stock on hand at loaded price is Rs. 390/- ; Bad debts written off are Rs. 200/- and discounts allowed to debtors is Rs. 50/- ; Rs. 1,300 is received from debtors, and all proceeds are remitted to head office intact.

In the second year goods costing Rs. 1,440/- are sent to the branch while total Sales are Rs. 1,980 (Rs. 100 Cash Sales). The Stock on hand at loaded price is Rs. 108/-. Discount allowed to debtors is Rs. 100/-. Rs. 50/- cash received has not been remitted by the branch. Closing Debtors Rs. 130/-. There is a discrepancy between the balance on the Branch Stock Account and the actual value (at selling price) of the Stock in hand, the Branch Stock Account recording Rs. 30/- in excess.

Show the Ledger Accounts in the head office books for (a) Branch Stock, (b) Goods Sent to Branches, (c) Branch Adjustment Account, and (d) Branch Debtors Account.

(C. U. B. Com. Hons. (Adv.) 1965)

(Ans. : Branch Profits for 1st year Rs. 335, for 2nd year Rs. 330)

13. Menon, a provision merchant in Madras, has three branches which are supplied goods from the Head Office at Madras. Each branch has its own Sales Ledger and remits the total amount of Cash received to the Head Office through its local bank. The Head Office charges the goods supplied to each branch at 25% above cost. All expenses are paid from remittances sent by Head Office and of which weekly accounts are rendered by the branch to the Head Office.

From the following details of the transactions of the branches, prepare trading accounts of each of the branches in the Head Office Books :—

	Ernakulam	Coachin	Guntu
	Rs.	Rs.	Rs.
Goods received from H. O.	11,000	9,000	7,000
Cash Sales	5,500	4,500	3,300
Cash received on Ledger Accounts	4,500	3,700	2,500
Debtors at commencement	3,110	3,330	2,700
Debtors at close	3,510	3,730	3,100
Stock at commencement	1,500	1,300	900
Stock at close	2,120	1,920	1,520

(C. A. First, May, 1952)

(Ans. : Gross profit : Ernakulam Rs. 2,096 ; Cochin Rs. 1,896 ; Guntur Rs. 1,096.)

14. A Head Office has two Branches, A and B, through which all sales are effected. All goods for sale are supplied to the Branches from the Head Office invoiced at 25 per cent, above cost, and all branch expenses are met by the Head Office. All Cash received is daily banked by the Branches to the credit of the Head Office.

From the following information obtained from the Branch Returns and Head Office books prepare the Branch Stock A/cs, Branch Tolal Debtors Accounts, Branch Expenses A/cs and with or without the help of Branch Adjustment Accounts also draw up the Branch Profit & Loss A/c showing the net profit or loss at each Branch :—

	A	B
	Rs.	Rs.
Stock at commencement	25,000	30,000
Stock at close	18,000	28,000
Debtors at commencement	10,400	12,500
Goods sent to Branches	3,60,000	3,75,000
Goods Returned to Head Office	5,000	6,000
Salaries & Wages	8,000	9,000
Rent, Rates & Taxes	200	300
Sundry General Expenses	1,900	2,100
Discounts to Customers	1,600	1,800
Bad Debts Written Off	150	250
Cash Sales	1,80,000	2,12,000
Credit Sales	1,76,000	1,64,000
Cash Received from Debtors	1,75,000	1,66,000

Goods worth Rs. 6,000 at invoice price were transferred from Branch A to Branch B.

N. B. All figures for stocks and goods are at invoice price.

(Gauhati University, M. Com 1954)

(Ans. :	Gross Profit	Net Profit
	A Rs. 71,200	A Rs. 59,350
	B Rs. 74,400	B Rs. 60,950)

C. Independent or Autonomous Branches :

15. The following is the Trial Balance of Calcutta Branch as at 30th June, 1952 :—

	Rs.	Rs.
Bombay Head Office	3,240	
Stock—1st July, 1951	6,000	
Purchases	17,800	
Goods received from H. O	9,000	
Sales		38,000
Goods supplied to H. O.		6,000
Salaries	1,500	
Debtors	3,700	
Creditors		1,850
Rent	960	
Office Expenses	470	
Cash with Bank and on hand	1,780	
Furniture	1,400	
	45,850	45,850

Stock on Hand was valued at Rs. 2,700. The Branch A/c in H. O. Books on 30th June, 1952 stood at Rs. 460 (Dr. Balance). On the 28th June, H. O. forwarded goods to the value of Rs. 2,500 to the Branch, when they were received on 3rd July. Similarly, a cash remittance of Rs. 1,200 by the Branch on 29th June was received by H. O. on 1st July.

You are required to submit the Journal Entries to incorporate the above figures showing the result of trading at Branch separately in the H.O. books, and to give the Calcutta Branch Account appearing finally in the Bombay Head Office Books.

(C. A. First

(Ans. : Branch Net Profit Rs. 10,970.)

16. Messrs. Colsawallal and Co., Coal Marchants of Bengal opened a Branch usiness at Madras on 1st January, 1965. From the Trial Blance of the Madras ranch prepare Profit & Lost A/c and draft Journal Entries necessary to incorporate e Branch figures, given below, in the Bengal Head Office Books. Stock of coal at adras Rs. 984.

Debit Balances	Rs.	*Credit Balances*	Rs.
Sundry Debtors	6,400	H. O. Adj. A/c	15,740
Horses, Carts etc.	2,800	Coal Sales	17,500
Salaries, Rent and Expenses	6,200	Sundry Creditors	420
Cash in hand	780		
Coal invoiced from Head Office	17,480		
	33,660		33,660

(Institute of Bankers, 1966)

(Ans : Branch Gross Profit Rs. 9,860 ; Branch Net Profit Rs. 3,660)

17. A Bombay firm has a retail Branch at Ahmedabad which is mostly supplied with goods by the Bombay Office. The Ahmedabad Branch keeps its own books. The Ahmedabad Branch has remitted every week to Bombay Office after making all payments and keeping in balance not more than Rs. 500. Given below are the particulars relating to the Branch.

	Rs.
Cash in hand—July 1, 1933	490
Debtors—July 1, 1933	12,270
Stock—July 1, 1933	7,200
Local Creditors—July 1, 1933	500

	Rs.
Transactions during the six months ended 31.12.1933 :	
Local Purchases	1,000
Local Returns outwards	200
Payments to local marchants	950
Credit Sales	23,870
Returns Inwards	200
Cash received on Ledger A/cs	23,840
Cash Sales	12,140
Goods received from H. O.	21,780
Rents and Office Expenses	3,750
Wages	3,960
Bad Debts	250
Allowances to Debtors	350
Cash remitted to Bombay Office	27,350
Stock—Dec 31, 1933	11,210

Prepare (as in Branch Ledger) Cash A/c, Debtors A/c, Local Merchants A/c, Profit & Loss A/c, and Bombay H. O A/c, after incorporating therein all the final figures. Draft also the Journal Entries to close the Branch A/c in the books of Head Office.

(R. A. Final)

(Ans. : Branch Net Profit Rs. 8,930 ; Branch Balance Sheet Total Rs. 23,170)

18. Messrs. J. Silkstone & Co., Coal Marchants of London, opened a branch business at Maidstone, on 1st January, 1943. From the Trial Balance of the Maidstone Branch, prepare, Profit & Loss Acconnt and draft entries necessary to incorporate the figures below in the Head Office Books: Stock of coal at Maidstone £ 984

Dr. Balances	£	*Cr. Balances*	£
Sundry Debtors	640	Head Office Adjustment Account	1,574
Horses, Carts, etc.	280	Coal Sales	1,750
Salaries, Rent & Expenses	620	Sundry Creditors	42
Cash in hand	78		
Coal invoiced from Head Office	1,748		

(London Chamber of Commerce)

(Ans : Branch Gross Profit £ 986 ; Branch Net Profit £ 366)

19. The Gauhati Traders Ltd. receives the following Trial Balance from its Shillong Branch, the despatch of goods from the Head Office to the Branch being made at cost :—

Trial Balance, December 31, 1955

	Dr.	*Cr.*
	Rs.	Rs.
Head Office	—	75,320
Goods from Head Office	1,47,600	
Land & Buildings	51,950	
Stock Janu. 1, 1955	20,180	
Sundry Debtors	60,178	
Purchases less Return	2,23,642	
Salary & Wages	30,735	
Rates, Insurance etc.	5,269	
Transport Vehicles	20,382	
Advertisement	10,619	
Sales Less Return	—	4,83,287
Sundry Creditors	—	25,984
Bank Interest	—	3
Cash at Bank and in hand	14,059	—
	5,84,614	5,84,614

Stock in hand at Dec. 31, 1955 is valued at Rs. 22,327

Draw up the Branch Trading and Profit & Loss A/cs for the year ended Dec. 31, 1955 and show the Branch Account in the Head Office books on that date, explaining how the Branch Account balance is made up of the assets and liabilities of the Branch.

(Gauhati University, M. Com. 1956)

(Ans : Net Profit Rs. 67,592)

20. Show what entries would be passed by the Head Office to record the following transactions in their books :—

(a) Goods amounting to Rs. 500 transferred from Calcutta Branch to Rangoon Branch under instructions from Head Office.

(b) Depreciation of Branch Fixed Assets when such accounts are opened in the Head Office books.

(c) A Remittance of Rs. 3,000 made by the Rangoon Branch to the Head Office on 26th December and received by the H. O. on 4th January.

(d) Goods Rs. 5,000 shipped by the H. O. to the Rangoon Branch on the 20th December and received by the latter on 15th January.

(Bombay University, B. Com.)

21. Show what Journal Entries would be passed by the Bombay Branch to record the following transactions in their books :—

(a) Goods amounting to Rs. 3,000 transferred from Bombay Branch to Madras Branch under instructions from Calcutta Head Office assuming that the Head Office keeps a control of inter-branch transactions.

(b) Depreciation on Branch Machinery Rs. 2,000 when the Branch Machinery Account is maintained in the Head Office books.

(c) A Remittance of Rs. 5,000 made by Bombay Branch to Calcutta Head Office on 28th March, and received by the Head Office on the 4th April ; the books of accounts are closed on 31st March.

(d) Goods worth Rs. 7,000 sent by the Calcutta Head Office to Bombay Branch on 26th March and received by the latter on 2nd April.

(I.C.W.A.—Inter).

22. State the Journal Entries that would be passed by the Head Office of a manufacturing concern to record the following transactions :—

1. Goods to the value of Rs. 1,000 transferred from Bombay Branch to Calcutta Branch under instruction from Head Office.

2. Depreciation of Rs. 3,000 in respect of Bombay Branch Building A/c in Head Office Books.

3. Goods amounting to Rs. 4,000 supplied by Head Office to Calcutta Branch during the accounting year received by the latter after the close of the year.

(C. A. First.)

23. S. Patel had a Branch which trades independently. At the end of the financial year, Trading Account, Profit & Loss Account and Balance Sheet are prepared and forwarded to the Head Office. The following is a list of balances extracted from the books of the Branch as on 31st December, 1953 :—

	Rs.
Sales	12,415
Sundry Debtors	1,250
Sundry Creditors	1,640
Head Office 1st January, 1953	3,426
Remittance to Head Office	9,850
Goods from Head Office	8,425
Rent	624
Salary	726
Returns from Customers	520
Additions to Furniture	350
Purchases (including goods from H.O.)	11,641
General Expenses	420
Cash at Bank	215
Stock (1st January, 1953)	310

Prepare (a) Final Accounts of the Branch as on 31st December, 1953 and (b) Branch Account as it would appear in the ledger of the Head Office after the accounts for the year had been closed. .

The following matters must be taken into consideration :—

1. The stock of goods on 31st December, 1953 was Rs. 645
2. An instruction was received from the Head Office to charge Profit & Loss Account with Rs. 75 for depreciation of furniture.
3. The Ledger Accounts relating to fixed assets are kept in Head Office Books.

(C.A. First, May—1954)

(Ans : Branch Gross Profit Rs. 589 , Branch Net Loss Rs. 1,256 Balance Sheet total Rs. 2,110.)

24. X Y Co. of Calcutta has a Branch at Delhi. Goods sold at Delhi are supplied from Calcutta but no charge is made in the books as between the Branch and the Head Office. On 31st March, 1955, the Branch Balance Sheet after closing the books was as follows :—

Liabilities	Rs.	*Assets*	Rs.
Credit Balances	40,000	Debtors Balances	2,00,000
Head Office	1,68,000	Building Extension A/c Closed by H.O. A/c	....
		Cash at Bank	8,000
	2,08,000		2,08,000

For the six months ending with September, 1955 the following transactions took place at Branch :

	Rs.
Sales	2,40,000
Purchases	48,000
Wages paid	20,000
Salaries (inclusive of advance of Rs. 2,000)	4,000
General Expenses	1,600
Life Insurance Premium paid for I year	3,200
Manager's Salary for 9 months	7,200
Cash collections from Debtors	1,60,000
Discounts allowed	8,000
Discounts earned	1,200
Cash paid to Creditors	60,000
Cash sent to Bank	80,000
Building Account (further payment to contractors)	4,000
Cash in hand	1,600
Cash at Bank	28,000

Set out the Head Office Account in the Delhi Books as on 30th September, 1955 to show the entries after the books are closed and also the Branch Balance Sheet on the same date assuming to be made up on the same lines as on 31st March, 1955

(C. U. B. Com. Adv. (Hons.), 1966)

(**Ans** : Closing Branch Debtors Rs. 2,72,000 ; Closing Branch Creditors Rs. 26,800 ; Branch Net Profit Rs. 1,55,200 ; Balance Sheet total Rs. 3,07,000.)

25. The following is the Trial Balance of Calcutta Branch as at 30th June 1952 :—

	Rs.	Rs.
Bombay Head Office	3,240	—
Stock—1st July, 1951	6,000	—
Purchases	17,800	—
Goods received from H. O	9,000	—
Sales	—	38,000
Goods supplied to H O.	—	6,000
Salaries	1,500	—
Debtors	3,700	—
Creditors	—	1,850
Rent	960	—
Office Expenses	470	—
Cash with Bank and in hand	1,780	—
Furniture	1,400	—
	45,850	45,850

Stock on hand was valued at Rs. 2,700

The Branch Account in the Head Office books on 30th June, 1952 stood at Rs. 460 (Dr. Balance). On the 28th June, the Head Office forwarded goods to the value of Rs. 2,500 to the Branch, where they were received on 3rd July. Similarly, a cash remittance of Rs. 1,200 by the Branch on 29th June was received by the Head Office on 1st July.

You are required to submit the Journal Entries necessary to incorporate the above figures showing the result of Trading at the Branch separately in the Head Office books and to give the Calcutta Branch Account appearing finally in the Bombay Head Office books.

(C. A. First—Nov. 1952)

(**Ans** : Branch Net Profit Rs. 10,970)

D. Foreign Branches :

26. Convert the following Trial Balance as on 31st December 19.... of the Calcutta Branch, which has got its Head Office in London :—

	Rs.	Rs.
Stock in hand	12,600	—
Purchases and Sales	75,000	1,12,500
Sundry Debtors and Creditors	27,000	18,000
Bills Receivable and Payble	7,200	6,300
Wages and Salaries	4,800	—
Rent, Rates and Taxes	3,600	—
Sundry Charges	1,500	—
Furniture	5,000	—
Cash at Bank	33,300	—
London Account	—	33,200
	1,70,000	1,70,000

Stock on 31st December, 19...... was Rs. 22,500. Calcutta Branch (Dr.) in London Books was £ 2,880. Furniture appeared in London Books at £ 350.

The rate of exchange on 31st December of the previous year was Rs. 14 and on 31st December of the related year Rs. 9. The average rate for the related year was Rs. 12

Prepare also the Profit & Loss Account and Balance Sheet of the Calcutta Branch in the London books, showing how you would deal with the difference on exchange

(Bombay University, B. Com.—Adapted)

(Ans : Total of Converted Trial Balance £ 15,825 ; Gross Profit £ 4,725 ; Net Profit £ 3,900 ; Balance Sheet total £ 10,350 ; Difference in Exchange £ 870 (Cr.))

27. A trading company has its office in London and a trading branch at Bombay.

The following is a list of balances of the Bombay books at 31st December, 19 . (when the first year's trading ended) :—

	Rs.
London Account	2,08,000
Sales	2,25,676
Purchases	2,61,604
Wages and Salaries	43,868
Freight and Insurance	26,608
General Expenses	31,248
Bank Account—Debit Balance	12,641
Cash in hand	1,563
Sundry Debtors	1,06,462
Sundry Creditors	50,318

Stock at Bombay on 31st December, 19.. ... were valued at Rs. 1,48,500

The balance of the London Account represents remittances to Bombay as follows :—

8th	January	Rs. 64,000	purchased at	1s. 3¾d.
6th	April	„ 96,000	„	1s. 2½d.
17th	August	„ 48,000	„	1s. 3½d.

The average rate of exchange for the year, was 1s. 4d. and the rate on 31st December 19.. 1s. 3d. Journalise the closing entries of the Bombay books and show the Bombay Branch Account in the London books from 1st January, 19.. . to 31st December ,19....

What does the balance on the latter date represent?

(C. A. Final)

(Ans : Total of converted Trial Balance £ 16,968—1s-6d ; Difference in Exchange £ 145-4s-0d (Dr.))

28. A company with its head office in London has a branch at Bombay. The final balances on 31st December, 1934 were as follows :—

	London	Bombay
	£	£
Bombay Office (Debit Bal.)	15,075	—
Buildings	—	60,000
Share Capital	17,500	—
Cash at Bank	10,185	12,600
Creditors	5,010	3,000
Debtors	—	15,000
Director's Fees	500	—
General Expenses	850	19,000
London Office (Credit Bal.)	—	2,01,000
Machinery	—	1,20,000
Profit and Loss Account (Cr. Balance)	3,000	—
Rent and Rates	400	12,500
Rents Receivable	—	15,000
Reserve for Depreciation	2,000	—
Salaries	500	87,000
Trading Profit for six months to 31st Dec. 1934	—	1,97,100
Stock-in-trade on 31 Dec. 1934	—	90,000

Assume that the average rate of exchange for the period was 1s. 5d., that the rate on 31st December, 1934 was 1s. 4d., and that the fixed assets were originally acquired at 1s. 6d. to the rupee.

Prepare Profit & Loss Account for London and Bombay for the six months ending 31st Dec. 1934 and the Company's Balance Sheet on that date.

After closing the Company's books on 31st December, 1934, what balance will appear on the Bombay Branch Account in the Head Office Books ?

(Agra University, B. Com. 1935)

(Ans : Total of converted trial Balance £ 30,298 ; Branch Net Profit £ 6,630 : H. O. Net profit including Branch profit £ 7,380 ; Balance Sheet total £ 32,090 ; Difference in Exchange £ 565 (Dr.))

29. T & Co. Ltd have a Head Office in London and a Branch abroad. Trial Balances at December 31,1950, were as follows :

Head Office

	Dr.	Cr.
	£	£
Share Capital : 30,000 shares of £ 1 each, fully paid	—	30,000
Differences in Exchange Account	—	100
Sundry Creditors	—	1,650
Sundry Debtors	396	
Balance at Bank	13,000	
Foreign Branch Account :— Balance Janu. 1	1,354	
Remittances during the year	17,000	—
	31,750	31,750

Foreign Branch

	Dr.	Cr.
	Arrahs	Arrahs
Balance at Bank	25,000	—
Sundry Debtors	75,000	—
Saleable Stock on hand at cost	60,000	—
Sundry Creditors	—	30,010
Fixed Assets at cost	3,10,000	—
Profit & Loss A/c (before charging depreciation)	—	95,000
Stores & Materials on hand at cost.	37,000	—
Head Office A/c :—		
Balance Janu. I	—	25,000
Remittances (during the year (£17,000)	—	3,50,310
Currency difference on Stores & Materials A/c written off to Head Office A/c	—	6,680
	5,07,000	5,07,000

Stores & Materials are ordered by the Head Office on behalf of the branch and paid for direct by the branch to the suppliers. The Stores & Materials A/c is kept in both sterling and arrahs ; each receipt is recorded at the actual sterling cost and converted at the rate of exchange ruling at the day of issue. The sterling balance on December 31, was converted at the rate ruling on that day. It was decided to depreciate the fixed assets by 30,000 arrahs.

The rate of exchange at the date of acquisition of the fixed assets was 12d. per arrah. The rate at December 31, 1950 was 11½d. per arrah and the average rate for the year was 11d. per arrah.

You are required :

(a) to convert the Branch Trial Balance into sterling ; and

(b) to prepare the Company's Balance Sheet as at Dec. 31, 1950.

(C. A. (England) Final, May 1951)

(Ans : Total of Converted Branch Trial Balance £ 26,440 ; Difference in in Exchange £ 794 (Cr.) ; Balance Sheet total £ 36,836)

CHAPTER XXXII

ROYALTY ACCOUNTS

(*i. e. Accounts of Lease and Licence Holders*)

1. **What is Royalty :** Royalty is the rent paid (1) by the lessee to the land-lord for the right to use a mine or a querry or (2) by the publisher to the author for the right to use a manuscript or copyright. The royalty is usually calculated on the volume or quantity of minerals extracted or on the number reproduced.

2. **What is Minimum Rent :** In case of a mine or a querry, a few years may elapse before production can commence on a commercial scale. It is, therefore, stipulated to give a guaranteed minimum rent to the landlord. This guaranteed minimum rent payable to the landlord is called *Minimum Rent.* This is also known as *Dead Rent, Fixed Rent, Certain Rent, Head Rent, Annual Rent, Sleeping Rent,* etc.

It is always provided in the lease that the minimum rent will merge into actual royalty. It means that actual royalty or minimum rent whichever is greater is payable.

In case of a strike : Sometimes, it is further provided in the contract of lease that in case there is a general strike, actual royalty calculated on the quantity raised or produced would be payable, even though it may fall short of the minimum rent.

3. **What is Short-working :** The excess of minimum rent over the royalty actually calculated is known as *Short-working.* Therefore, the question of short-working arises when the actual royalty is less than the minimum rent.

4. **Right to Recoup Short-working :** The contract of lease generally contains a term that it will be permissible for the lessee to recoup short-working within a specified period of time if the royalty exceeds minimum rent. For this reason short-working is called *Redeemable Dead Rent.* Where the short-working becomes unrecoupable, the balance of the Short-working A/c, if any, will be written off to Profit and Loss A/c.

5. **Sub-Lease :** A lessee or a licensee may sub-let or sub-lease a portion of the mine or querry to a sub-lessee or sub-licensee. The contract of sub-lease may provide for payment of an agreed royalty merging into a minimum rent with the right to recoup short-working. The amount of royalty payable by the lessee to the original landlord should be calculated on the total output of both the lessee and the sub-lessee. The entries in the lessee's books relating to royalty receivable would be just the reverse of those relating to royalty payable.

6. **Treatment in Accounts :** There are two methods of accounting for royalties :—

(1) *First Method i.e. without opening a Minimum Rent A/c.*

(2) *Second Method i.e. by opening a Minimum Rent A/c.*

(1) **Journal Entries relating to Royalty under First Method** i.e. without opening a Minimum Rent A/c. :

(A) *In the absence of provision for minimum rent :—*

(i) For the amount of royalty due to the landlord or owner :	(i) Royalty A/c. .... *Dr* To Landlord A/c. or Owner A/c.
(ii) On payment of the royalty to the landlord or owner :	(ii) Landlord A/c. .... *Dr* or Owner A/c. .... *Dr.* To Cash A/c.
(iii) On transfer of Royalty A/c. at the time of closing :	(iii) Manufacturing/Trading A/c. ..... *Dr* To Royalty A/c.

(B) If there is provision for minimum rent with the right to recoup short-working-

(a) *When Royalty is less than Minimum Rent :—*

(i) For the amount of royalty payable to landlord :	(i) Royalty A/c. .... *Dr* (*with actual royalty*) Short-working A/c. .... *Dr.* (*with deficiency*) To Land Lord A/c. (*with Minimum Rent*)
(ii) When the amount is paid to landlord :	(ii) Landlord A/c. .... *Dr.* To Cash or Bank A/c.
(iii) On Royalty A/c. being closed at the end of the year :	(iii) Manufacturing/Trading A/c. .... *Dr.* To Royalty A/c.
Note : The balance of Short-working A/c. should, for the present, be carried forward. (iv) Subsequently when the royalty exceeds the minimum rent :	(iv) Royalty A/c. .... *Dr.* (*with the actual Royalty*) To Short-working A/c. (*with recoupable amount*) To Landlord A/c. (*with the balance*)
(v) On payment of the balance to the landlord :	(v) Landlord A/c. .... *Dr* To Cash or Bank A/c.
(vi) When the right to recoup short-working lapses :	(vi) Profit and Loss A/c. .... *Dr* To Short-working A/c.

(b) ***When Royalty is greater than Minimum Rent :—***

(i) For the amount of royalty earned :	(i) Royalty A/c. .... *Dr.* To Landlord A/c.
(ii) On payment of the amount to the landlord :	(ii) Landlord A/c. .... *Dr.* To Cash or Bank A/c
(iii) On transfer of Royalty A/c. at the time of closing :	(iii) Manufacturing/Trading A/c ... *Dr.* To Royalty A/c.

(2) **Journal Entries relating to Royalty under Second Method** i.e. by opening a Minimum Rent A/c. :

Note : This method is nothing but bringing in of the Minimum Rent A/c. as an intermediary between Landlord A/c. and Royalty as well as Short-working A/cs. when royalty earned exceeds the minimum rent, obviously Minimum Rent A/c. is not required.

When the minimum rent exceeds the royalty earned :—

(i) For the amount of royalty payable to the landlord .	(i) Minimum Rent A/c. .. *Dr.* To Landlord A/c
(ii) To close the Minimum Rent A/c. :	(ii) Royalty A/c. .... *Dr.* Short-working A/c. .... *Dr.* To Minimum Rent A/c.
(iii) On payment of the amount to landlord :	(iii) Landlord A/c. .... *Dr.* To Cash or Bank A/c.
(iv) On transfer of the Royalty A/c. at the end of the year :	(iv) Manufacturing/Trading A/c. .... *Dr.* To Royalty A/c.
Note : The balance of the Short-working A/c. should, for the present, be carried forward. (v) Subsequently when the royalty exceeds the minimum rent :	(v) Royalty A/c .... *Dr.* *(with actual royalty)* To Short-working A/c. *(with recoupable amount)* To Landlord A/c. *(with the balance)*
(vi) On payment of the balance to the landlord :	(vi) Landlord A/c. ... *Dr* To Cash or Bank A/c.
(vii) When the right to recoup short-working lapses :	(vii) Profit and Loss A/c. .... *Dr.* To Short-working A/c.

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Note : Until the right to recoup short-working lapses, the balance of the Short working A/c. will have to be shown on the Assets-Side of the Balance Sheet.

(A) First Method i.e. without opening a Minimum Rent A/c. :

Illustration 1 *(Journal Entries).*

A took from B lease of a mine for a period of 25 years commencing from 1st January 1958. The lease provides for the payment of a royalty of 25 paise per ton to the landlord subject to a minimum rent of Rs 3,600 a year, and also permits the recoupment of short-workings, if any, out of royalties in excess of the minimum rent during the two years immediately following but not afterwards. The output for the four years from the commencement of the lease were as follows :

1958	12,000 tons ;	1959	16,000 tons
1960	20,000 tons ;	1961	21,000 tons

Show the journal entries in the books of A to record the above transactions assuming that all payments under the lease were duly made.

(C. U. B. Com. (Adv.) 1963).

Solution

Analysis

Year	Output	Royalty	Short-workings	Surplus	Short-workings Recouped	Payment to Landlord
	Tons	Rs	Rs.	Rs	Rs	Rs.
1958	12,000	3,000	600	–		3,600
1959	16,000	4,000	–	400	400	3,600
1960	20,000	5,000		1,400	200	4,800
1961	21,000	5,250	-	1,650	—	5,250

Note : Examinees are advised to prepare a columnar statement as given above before answering any Question on royalty. But preparation of this statement is not compulsory.

Journal Entries

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
1958	Royalty A/c.	Dr.		3,000	
	Short-working A/c.	Dr.		600	
	To B's A/c.				3,600
	(Being minimum rent payable against royalty on 12,000 tons @ 25 paise per ton.)				
	B's A/c	Dr		3,600	
	To Bank A/c.				3,600
	(Being the amount paid to B)				
	Trading A/c.	Dr		3,000	
	To Royalty A/c				3,000
	(Being the transfer of Royalty A/c to Trading A/c)				
1959	Royalty A/c.	Dr		4,000	
	To Short-working A/c				400
	To B's A/c.				3,600
	(Being royalty on 16,000 tons @ 25 paise per ton, recoupment of short-working and the balance payable to B)				
	B's A/c.	Dr		3,600	
	To Bank A/c.				3,600
	(Being the amount paid to B)				
	Trading A/c	Dr		4,000	
	To Royalty A/c				4,000
	(Being the transfer of Royalty A/c to Trading A/c)				
1960	Royalty A/c	Dr		5,000	
	To Short-working A/c				200
	To B's A/c.				4,800
	(Being Royalty on 20,000 tons @ 25 paise per ton, recoupment of short-working and balance payable to B)				
	B's A/c.	Dr		4 800	
	To Bank A/c.				4,800
	(Being the amount paid to B.)				
	Trading A/c	Dr		5,000	
	To Royalty A/c.				5,000
	(Being the transfer of the Royalty A/c. to Trading A/c.)				
1961	Royalty A/c.	Dr.		5,250	
	To B's A/c.				5,250
	(Being royalty on 21,000 tons @ 25 paise per ton payable to B.)				
	B's A/c.	Dr		5,250	
	To Bank A/c.				5,250
	(Being the amount paid to B.)				
	Trading A/c.	Dr		5,250	
	To Royalty A/c.				5,250
	(Being the transfer of Royalty A/c. to Trading A/c.)				

Illustration 2 *(Ledger Accounts)*

Kumar owned a coal mine. He granted Arun & Co. a licence for seven years t extract and sell coal on the following terms :

(a) Arun & Co. to pay Kumar a royalty of Rs. 5 per ton with a minimum annu payment of Rs. 50,000. Accounts to be settled annually on 31st December.

(b) If in any year the royalty calculated on coal sold amounted to less than R 50,000, Arun & Co. will have the right to deduct the deficiency from the royalty payab in excess of that sum in the two following years.

Coal sold in tons was as follows :

Year ended 31st December,	1962	8,000
	1963	9,000
	1964	11,000
	1965	18,000

You are required to show the ledger accounts necessary to record the above royalt transactions in the books of Arun & Co., which are closed annually on 31st Decembe

(North Bengal University, B. Com. Part II (Adv.) 1967

Solution

Analysis

Year	Output	Royalty	Short-working	Surplus	Short-working Recouped	Payment t landlord
	ton	Rs	Rs	Rs	Rs	Rs
1962	8,000	40,000	10,000	—	—	50,000
1963	9,000	45,000	5,000		·	50,000
1964	11,000	55,000	-	5,000	5,000	50,000
1965	18,000	90,000	-	40,000	5,000	85,000

In the books of Arun & Co.

Royalty A/c.

Dr. C

		Rs.			Rs
1962 Dec. 31	To Kumar's A/c	40,000	1962 Dec 31	By Trading A/c.—transferred	40,0
		40,000			40,0
1963 Dec. 31	To Kumar's A/c.	45,000	1963 Dec. 31	By Trading A/c.—transferred	45,0
		45,000			45,0

Dr. **Royalty A/c.** (*Contd.*) Cr.

1964		Rs.	1964		Rs.
Dec 31	To Kumar's A/c.	50,000	Dec. 31	By Trading A/c —	
	,, Short-working A/c.	5,000		transferred	55,000
		55,000			55,000
1965			1965		
Dec 31	To Kumar's A/c.	85,000	Dec. 31	By Trading A/c.	90,000
	,, Short-working A/c.	5,000			
		90,000			90,000

Dr **Short-working A/c.** Cr.

1962		Rs	1962		Rs.
Dec 31	To Kumar's A/c.	10,000	Dec 31	By Balance c/d	10,000
		10,000			10,000
1963			1963		
Jan. 1	To Balance b/d	10,000	Dec. 31	By Balance c/d	15,000
Dec 31	,, Kumar's A/c.	5,000			
		15,000			15,000
1964			1964		
Jan. 1	To Balance b/d	15,000	Dec. 31	By Royalty A/c.	5,000
				,, Profit and Loss A/c.	5,000
				,, Balance c/d	5,000
		15,000			15,000
1965			1965		
Jan. 1	To Balance b/d	5,000	Dec. 31	By Royalty A/c.	5,000

Dr. **Kumar's A/c. (Landlord)** Cr.

1962		Rs.	1962		Rs.
Dec. 31	To Bank A/c.	50,000	Dec. 31	By Royalty A/c.	40,000
				,, Short-working A/c.	10,000
		50,000			50,000
1963			1963		
Dec. 31	To Bank A/c.	50,000	Dec. 31	By Royalty A/c.	45,000
				,, Short-working A/c.	5,000
		50,000			50,000
1964			1964		
Dec. 31	To Bank A/c.	50,000	Dec. 31	By Royalty A/c.	50,000
		50,000			50,000
1965			1965		
Dec. 31	To Bank A/c.	85,000	Dec. 31	By Royalty A/c.	85,000
		85,000			85,000

(B) Second Method i.e. by opening Minimum Rent A/c. :

Illustration 3 *(Journal Entries)*

The Binnie Colliery Company are lessees of a mine at a dead rent of Rs. 2,000 per annum, merging into a royalty of 50 paise per ton. Dead Rent, paid in excess of actual royalties, is recoverable thereout during the next five years succeeding the year in respect of which such excess was paid. In the event of a strike, if the actual royalty was less than the Dead Rent, it was to discharge all rental obligations. The first year. in respect of which the Dead Rent was payable, expired on 31st December, 1940. The excess paid in respect of the first year was Rs. 2,000 ; of the second year Rs. 1,450 ; and of the third year Rs. 350. In the fourth year the actual royalties amounted to Rs. 2,750 ; in the fifth year to Rs. 3,250 ; in the sixth year to Rs. 3,600 ; and in the seventh year (in consequence of a strike) to Rs. 1,850 only. Pass the necessary journal entries to record these transactions.

(Allahabad University, B. Com. 1952).

Solution

Analysis

Year	Output (calculated) tons	Royalty Rs.	Short-workings Rs.	Surplus Rs.	Short-workings Recouped Rs.	Payment to landlord Rs.
1940	—	-	2,000	—	—	2,000
1941	1,100	550	1,450			2,000
1942	3,300	1,650	350	—	—	2,000
1943	5,500	2,750	—	750	750	2,000
1944	6,500	3,250		1,250	1,250	2,000
1945	7,200	3,600		1,600	1,600	2,000
1946	3,700	1,850	—			1,850

Journal Entries

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
1940 Dec 31	Minimum Rent A/c	Dr.		2,000	
	To Landlord A/c				2,000
	(Being the Dead Rent payable to landlord)				
	Short-working A/c.	Dr.		2,000	
	To Minimum Rent A/c.				2,000
	(Being the Minimum Rent A/c transferred to Short-working A/c.)				
	Landlord A/c.	Dr		2,000	
	To Cash A/c.				2,000
	(Being the amount paid to landlord)				
1941 Dec. 31	Minimum Rent A/c	Dr.		2,000	
	To Landlord A/c.				2,000
	(Being the Dead Rent payable to landlord.)				
	Royalty A/c	Dr.		550	
	Short-working A/c	Dr.		1,450	
	To Minimum Rent A/c.				2,000
	(Being the Minimum Rent A/c. closed by its transfer to Royalty A/c. and Short-working A/c.)				
	Landlord A/c.	Dr.		2,000	
	To Cash A/c.				2,000
	(Being the amount paid to landlord)				
	Trading A/c.	Dr.		550	
	To Royalty A/c.				550
	(Being Royalty A/c. transferred to Trading A/c.)				

Journal Entries (*Contd.*)

				Dr.	Cr.
				Rs.	Rs.
1942 Dec. 31	Minimum Rent A/c.	Dr.		2,000	
	To Landlord A/c.				2,000
	(Being the Dead Rent payable to landlord)				
	Royalty A/c.	Dr.		1,650	
	Short-working A/c.	Dr.		350	
	To Minimum Rent A/c.				2,000
	(Being the Minimum Rent A/c. closed by its transfer to Royalty A/c. and Short-working A/c.)				
	Landlord A/c.	Dr		2,000	
	To Cash A/c.				2,000
	(Being the amount paid to landlord)				
	Trading A/c.	Dr		1,650	
	To Royalty A/c				1,650
	(Being Royalty A/c. transferred to Trading A/c)				
1943 Dec. 31	Royalty A/c.	Dr.		2,750	
	To Short-working A/c.				750
	To Landlord A/c.				2,000
	(Being the amount of royalty, recoupment of Short-working and balance payable to landlord)				
	Landlord A/c.	Dr.		2,000	
	To Cash A/c.				2,000
	(Being the amount paid to landlord)				
	Trading A/c.	Dr.		2,750	
	To Royalty A/c				2,750
	(Being the transfer of Royalty A/c. to Trading A/c.)				
1944 Dec. 31	Royalty A/c.	Dr.		3,250	
	To Short-working A/c.				1,250
	To Landlord A/c.				2,000
	(Being the amount of Royalty, recoupment of Short-working and balance payable to landlord)				
				Rs.	Rs.
	Landlord A/c.	Dr.		2,000	
	To Cash				2,000
	(Being the amount paid to landlord)				
	Trading A/c.	Dr.		3,250	
	To Royalty A/c.				3,250
	(Being the transfer of Royalty A/c. to Trading A/c.)				

Journal Entries (*Contd.*)

Date	Particulars		L.F.	Dr.	Cr.
1945 Dec 31	Royalty A/c	Dr		3,600	
	To Short-working A/c				1,600
	To Landlord A/c				2,000
	(Being the amount of Royalty, recoupment of Short-working and balance payable to landlord)				
	Landlord A/c	Dr		2,000	
	To Cash A/c.				2,000
	(Being the amount paid to landlord)				
	Trading A/c	Dr		3,600	
	To Royalty A/c				3,600
	(Being the transfer of Royalty A/c to Trading A/c)				
1946 Dec 31	Royalty A/c	Dr		1,850	
	To Landlord A/c				1,850
	(Being the amount of Royalty payable to landlord)				
	Landlord A/c	Dr		1,850	
	To Cash A/c				1,850
	(Being the amount paid to landlord)				
	Trading A/c	Dr		1,850	
	To Royalty A/c				1,850
	(Being the transfer of Royalty A/c to Trading A/c)				

Note : As per terms of the contract of lease, the landlord will be entitled to actual royalty even if the amount is less than minimum rent.

Illustration 4 (*Ledger Accounts*)

The Assam Coal Company Ltd. holds a lease of coal mines for a period of ten years, commencing from 1st January, 1941. According to the lease the company is to pay 75 paise as royalty per ton with a minimum rent of Rs. 15,000 per year. Short-working can, however, be recovered out of the royalty in excess of the minimum rent of the next two years only. In the year of a strike, the minimum rent is to be reduced to 60%. The output for the six years has been as under :—

1st year	..	10,000 tons	4th year	..	25,000 tons
2nd year	.	12,000 tons	5th year	..	50,000 tons
3rd year	..	28,000 tons	6th year	..	15,000 tons (Strike)

Write up the necessary ledger accounts.

(Sagar University, B. Com. 1951).

Solution

Analysis

Year	Output	Royalty	Short-workings	Surplus	Short-workings Recouped	Payment to landlord
	tons.	Rs.	Rs.	Rs	Rs.	Rs
1st	10,000	7,500	7,500		-	15,000
2nd	12,000	9,000	6,000	-	—	15,000
3rd	28,000	21,000	—	6,000	6,000	15,000
4th	25,000	18,750	- -	3,750	3,750	15,000
5th	50,000	37,500				37,500
6th	15,000	11,250	-			11,250

Dr. Minimum Rent (Dead Rent) A/c. Cr

		Rs			Rs
1st yr.	To Landlord A/c.	15,000	1st yr	By Royalty A/c.	7,50
				,, Short-working A/c.	7,50
		15,000			15,00
2nd yr.	To Landlord A/c	15,000	2nd yr	By Royalty A/c.	9,00
				,, Short-working A/c.	6,00
		15,000			15,00

Dr. Royalty A/c. Cr

		Rs.			Rs
1st yr.	To Minimum Rent A/c.	7,500	1st yr	By Trading A/c.	7,50
2nd yr.	To Minimum Rent A/c.	9,000	2nd yr.	By Trading A/c.	9,00
3rd yr.	To Short-working A/c.	6,000	3rd yr	By Trading A/c	21,00
	,, Landlord A/c.	15,000			
		21,000			21,00
4th yr.	To Short-working A/c.	3,750	4th yr	By Trading A/c.	18,75
	,, Landlord A/c.	15,000			
		18,750			18,75
5th yr.	To Landlord A/c.	37,500	5th yr.	By Trading A/c.	37,50
6th yr.	To Landlord A/c.	11,250	6th yr.	By Trading A/c.	11,25

Dr. Short-Working A/c. Cr.

		Rs.			Rs.
1st yr	To Minimum Rent A/c	7,500	1st yr	By Balance c/d	7,500
2nd yr	To Balance b/d	7,500	2nd yr	By Balance c/d	13,500
	,, Minimum Rent A/c.	6,000			
		13,500			13,500
3rd yr.	To Balance b/d	13,500	3rd yr	By Royalty A/c	6,000
				,, Profit and Loss A/c	1,500
				,, Balance c/d	6,000
		13,500			13,500
4th yr.	To Balance b/d	6,000	4th yr.	By Royalty A/c.	3,750
				,, Profit and Loss A/c	2,250
		6,000			6,000

Dr. Landlord A/c. Cr.

		Rs			Rs.
1st yr	To Cash A/c.	15,000	1st yr	By Minimum Rent A/c.	15,000
2nd yr	To Cash A/c	15,000	2nd yr	By Minimum Rent A/c	15,000
3rd yr.	To Cash A/c.	15,000	3rd yr.	By Royalty A/c.	15,000
4th yr.	To Cash A/c.	15,000	4th yr.	By Royalty A/c	15,000
5th yr.	To Cash A/c.	37,500	5th yr.	By Royalty A/c.	37,500
6th yr.	To Cash A/c.	11,250	6th yr.	By Royalty A/c.	11,250

Sub-Lease : When a lessee grants a sub-lease to a sub-lessee, the lessee will have pass entries both as a person paying royalty and as a person receiving royalty. The amount of royalty payable by the lessee to the original landlord should be calculated on the total output of both the lessee and the sub-lessee.

In the case of a sub-lease a lessee shall have to open the following accounts in addition to the accounts already stated :—

(1) Royalty Receivable A/c. (2) Sub-Lessee's Personal A/c. and (3) Royalty Receivable Reserve A/c. (for the short-working of the Sub-lessee).

Journal Entries in the books of lessee in case of a sub-lease :

Transactions	*Journal Entries*
(i) For the amount due from sub-lessee :	(i) Sub-lessee's A/c. .... Dr. To Royalty Receivable A/c.
(ii) On account of sub-lessee's short-working :	(ii) Sub-lessee's A/c. .... Dr To Royalties Receivable Reserve A/c.
(iii) On receipt of any amount from sub-lessee :	(iii) Bank A/c. .... Dr To Sub-lessee's A/c.
(iv) For lessee's dues to the landlord :	(iv) Royalty Payable A/c. ... Dr To Landlord A/c.
(v) To transfer the credit balance of Royalty Receivable A/c. to Trading A/c.	(v) Royalty Receivable A/c. .... Dr To Trading A/c.
(vi) To transfer the debit balance of Royalty Payable A/c. to Trading A/c. :	(vi) Trading A/c. .. Dr To Royalty Payable A/c.
(vii) If the sub-lessee recoups his short-workings :	(vii) Royalty Receivable Reserve A/c. Dr To Sub-lessee's A/c.
(viii) If the right of recoup short-working lapses :	(viii) Royalty Receivable Reserve A/c. Dr To Profit and Loss A/c.

Illustration 5 (*Sub-Lease Accounts*)

A landlord granted to the Mining Company Limited a lease of mineral rights over his property for a period of ten years from 1st January, 1960. The rent payable was a minimum of Rs. 80,000 a year merging in a royalty of Re. 1 per ton payable annually. Shortworkings could be recouped out of subsequent excess workings over the period of the lease.

At the end of the first year, the Mining Co. Ltd., *granted a sub-lease to Mining Lessees Ltd.* in respect of one-half of the area for a period of nine years. Mining Lessees were to pay a minimum rent of Rs. 44,000, merging in a royalty of Rs. 1·50 a ton payable annually. Shortworkings could be recouped out of subsequent excess workings in any of the three years immediately following that in which the shortworkings occurred.

The following tonnages were mined from the property :

	Mining Co. tons	Mining Lessees tons
1st year	40,000	—
2nd year	75,000	15,000
3rd year . ..	60,000	18,000
4th year	65,000	20,000
5th year	70,000	35,000
6th year	49,000	35,000
7th year	46,000	40,000

Prepare the Royalties Account and the Shortworkings Accounts with the Landlord and Mining Lessees Ltd. as they would appear in the books of the Mining Co., Ltd.

(C. U. B Com (Adv.) 1967)

Solution

Analysis

(a) *Royalty Payable* (minimum rent Rs 80,000 yearly).

Year	Output Tons	Royalty Rs	Short-working Rs	Surplus Rs	Short-workings Recouped Rs	Payment Rs
1st	40,000	40,000	40,000	—	—	80,000
2nd	90,000	90,000		10,000	10,000	80,000
3rd	78,000	78,000	2,000	—	—	80,000
4th	85,000	85,000		5,000	5,000	80,000
5th	1,05,000	1,05,000		25,000	25,000	80,000
6th	84,000	84,000		4,000	2,000	82,000
7th	86,000	86,000		6,000	—	86,000

(b) *Royalty Receivable* (minimum Rent Rs. 44,000 yearly).

Year	Output Tons	Royalty Rs	Short-working Rs	Surplus Rs	Short-working Recouped Rs.	Receipts Rs.
1st	15,000	22,500	21,500	—	—	44,000
2nd	18,000	27,000	17,000	—	—	44,000
3rd	20,000	30,000	14,000	—	—	44,000
4th	35,000	52,500	—	8,500	8,500	44,000
5th	35,000	52,500	—	8,500	8,500	44,000
6th	40,000	60,000	--	16,000	14,000	46,000

In the books of Mining Co. Ltd.

Royalty Payable A/c.

Dr.		Rs.			Cr. Rs.
I yr.	To Landlord A/c.	40,000	I yr.	By Trading A/c.	40,000
II yr.	To Landlord A/c.	80,000	II yr.	By Trading A/c	90,000
	,, Short-working A/c.	10,000			
		90,000			90,000
III yr.	To Landlord A/c.	78,000	III yr.	By Trading A/c.	78,000
IV yr.	To Landlord A/c.	80,000	IV yr.	By Trading A/c.	85,000
	,, Short-working A/c.	5,000			
		85,000			85,000
V yr.	To Landlord A/c.	80,000	V yr.	By Trading A/c.	1,05,000
	,, Short-working A/c.	25,000			
		1,05,000			1,05 000
VI yr.	To Landlord A/c.	82,000	VI yr.	By Trading A/c.	84,000
	,, Short-working A/c.	2,000			
		84,000			84,000
VII yr.	To Landlord A/c.	86,000	VII yr.	By Trading A/c.	86,000

Short-Working A/c.

Dr.		Rs.			Cr. Rs.
I yr.	To Landlord A/c.	40,000	I yr.	By Balance c/d	40,000
II yr.	To Balance b/d	40,000	II yr.	By Royalty Payable A/c.	10,000
				,, Balance c/d	30,000
		40,000			40,000
III yr.	To Balance b/d	30,000	III yr.	By Balance c/d	32,000
	,, Landlord A/c.	2,000			
		32,000			32,000
IV yr.	To Balance b/d	32,000	IV yr.	By Royalty Payable A/c.	5,000
				,, Balance c/d	27,000
		32,000			32,000
V yr.	To Balance b/d	27,000	V yr	By Royalty Payable A/c.	25,000
				,, Balance c/d	2,000
		27,000			27,000
VI yr.	To Balance b/d	2,000	VI yr.	By Royalty Payable A/c.	2,000

Dr. Landlord A/c' Cr.

		Rs.			Rs.
I yr.	To Bank A/c.	80,000	I yr.	By Royalty Payable A/c.	40,000
				,, Short-working A/c.	40,000
		80,000			80,000
II yr.	To Bank A/c.	80,000	II yr.	By Royalty Payable A/c.	80,000
III yr.	To Bank A/c.	80,000	III yr.	By Royalyt Payable A/c.	78,000
				,, Short-working A/c.	2,000
		80,000			80,000
IV yr.	To Bank A/c.	80,000	IV yr.	By Royalty Payable A/c.	80,000
V yr.	To Bank A/c.	80,000	V yr.	By Royalty Payable A/c.	80,000
VI yr.	To Bank A/c	82,000	VI yr	By Royalty Payable A/c	82,000
VII yr.	To Bank A/c	86,000	VII yr	By Royalty Payable A/c	86,000

Royalty Receivable A/c. Cr.

		Rs.			Rs.
I yr.	To Trading A/c	22,500	I yr.	By Mining Lessees Ltd A/c	22,500
II yr	To Trading A/c	27,000	II yr.	By Mining Lessees Ltd A/c	27,000
III yr	To Trading A/c	30,000	III yr	By Mining Lessees Ltd. A/c	30 000
IV yr	To Trading A/c	52,500	IV yr.	By Mining Lessees Ltd. A/c	52,500
V yr.	To Trading A/c	52,500	V yr	By Mining Lessees Ltd. A/c	52,500
VI yr	To Trading A/c.	60,000	VI yr	By Mining Lessees Ltd. A/c	60,000

Royalty Receivable Reserve A/c. Cr.

		Rs			Rs.
I yr	To Balance c/d	21,500	I yr	By Mining Lessees Ltd. A/c	21,500
II yr	To Balance c/d	38,500	II yr	By Balance b/d	21,500
				,, Mining Lessees Ltd A/c	17,000
		38,500			38,500
III yr.	To Balance c/d	52,500	III yr	By Balance b/d	38,500
				,, Mining Lessees Ltd. A/c	14,000
		52,500			52,500

Dr. Royalty Receivable Reserve A/c. (*Contd.*) Cr.

		Rs.			Rs.
IV yr.	To Mining Lessees Ltd. A/c.	8,500	IV yr.	By Balance b/d	52,500
	,, Profit and Loss A/c. (not recoupable amount)	13,000			
	,, Balance c/d	31,000			
		52,500			52,500
V yr.	To Mining Lessees Ltd. A/c.	8,500	V yr.	By Balance b/d	31,000
	,, Profit and Loss A/c. (not recoupable amount)	8,500			
	,, Balance c/d	14,000			
		31,000			31,000
VI yr.	To Mining Lessees Ltd. A/c.	14,000	VI yr.	By Balance b/d	14,000

Dr. Mining Lessees Ltd. (Sub-Lessee) A/c. Cr.

		Rs.			Rs.
I yr.	To Royalty Receivable A/c.	22,500	I yr.	By Bank A/c.	44,000
	,, Royalty Receivable Reserve A/c.	21,500			
		44,000			44,000
II yr.	To Royalty Receivable A/c.	27,000	II yr.	By Bank A/c	44,000
	,, Royalty Receivable Reserve A/c.	17,000			
		44,000			44,000
III yr.	To Royalty Receivable A/c.	30,000	III yr	By Bank A/c.	44,000
	,, Royalty Receivable Reserve A/c.	14,000			
		44,000			44,000
IV yr.	To Royalty Receivable A/c.	52,500	IV yr.	By Royalty Receivable Reserve A/c.	8,500
				,, Bank A/c.	44,000
		52,500			52,500
V yr.	To Royalty Receivable A/c.	52,500	V yr.	By Royalty Receivable Reserve A/c.	8,500
				,, Bank A/c.	44,000
		52,500			52,500
VI yr.	To Royalty Receivable A/c.	60,000	VI yr.	By Royalty Receivable Reserve A/c.	14,000
				,, Bank A/c.	46,000
		60,000			60,000

Illustration 6 (*Sub-Lease Accounts*)

A. Ltd., holds a lease of minerals from C. Ltd., for a period of 20 years from 1st January, 1964. Under this lease, a royalty of 50 paise per ton merging in a minimum rent of Rs. 20,000 is payable every year half-yearly on 30th June and 31st December. It granted a sub-lease for 10 years from 1st July, 1964 to B. Ltd., of one half of the area for a royalty of 75 paise per ton merging in a minimum rent of Rs. 15,000 a year payable half-yearly on 30th June and 31st December.

A Ltd., is entitled under the lease from C. Ltd., to recoup short-workings out of subsequent excess workings throughout the term of the lease ; but the sub-lease only allows B Ltd. to recoup short-workings out of excess workings in any of the three half-years immediately following that in which the short-workings accrued. Minerals were worked as follows :—

	By A. Ltd. (Lessee)	By C. Ltd. (Sub-lessee)
Half-year ended 30th June., 1964	5,000 tons	Nil
31st Dec., 1964	5,000 tons	5,000 tons
30th June., 1965	20,000 tons	6,000 tons
31st Dec., 1965	30,000 tons	6,000 tons
30th June., 1966	25,000 tons	12,000 tons

Show the necessary ledger accounts under the lease from C. Ltd., and the sub-lease to B. Ltd. in the books of A. Ltd. which are balanced yearly on 30th June.

Solution

Analysis

(a) *Rent Payable* (Minimum Rent Rs. 20,000 yearly)

Year	Output Tons	Royalty Rs.	Short-workings Rs.	Surplus Rs.	Short-workings recouped Rs.	Payment Rs.
June 30, 1964	5,000	2,500	7,500	—	—	10,000
{Dec. 31, 1964	10,000	5,000	5,000	—	-	10,000
{June 30, 1965	26,000	13,000	—	3,000	3 000	10,000
{Dec. 31, 1965	36,000	18,000	—	8,000	8,000	10,000
{June 30, 1966	37,000	18,500	—	8,500	1,500	17,000

(b) *Rent Receivable :* (Minimum Rent Rs. 15,000 yearly)

{Dec. 31, 1964	5,000	3,750	3,750	—	—	7,500
{June 30, 1965	6,000	4,500	3,000	—	—	7,500
{Dec. 31, 1965	6,000	4,500	3,000	—	—	7,500
{June 30, 1966	12,000	9,000	—	1,500	1,500	7,500

In the books of A. Ltd. (Lessee)

Dr. **Royalty Payable A/c.** **Cr.**

		Rs.			Rs.
1964 June, 30	To C. Ltd. (landlord) A/c.	2,500	1964 June, 30	By Trading A/c.— transferred	2,500
1964 Dec. 31	To C. Ltd. A/c.	5,000	1965 June, 30	By Trading A/c.— transferred	18,000
1965 June, 30	,, C. Ltd. A/c.	10,000			
	,, Short-working A/c.	3,000			
		18,000			18,000
1965 Dec. 31	To C. Ltd. A/c.	10,000	1966 June, 30	By Trading A/c.— transferred	36,500
	,, Short-working A/c.	8,000			
1966 June, 30	,, C. Ltd. A/c.	17,000			
	,, Short-working A/c.	1,500			
		36,500			36,500

Dr. **C. Ltd. (Landlord) A/c.** **Cr.**

		Rs.			Rs.
1964 June, 30	To Bank A/c.	10,000	1964 June, 30	By Royalty Payable A/c.	2,500
				,, Short-working A/c.	7,500
		10,000			10,000
1964 Dec. 31	To Bank A/c.	10,000	1964 Dec. 31	By Royalty Payable A/c.	5,000
				,, Short-working A/c.	5,000
1965 June, 30	,, Bank A/c.	10,000	1965 June, 30	,, Royalty Payable A/c.	10,000
		20,000			20,000
1965 Dec. 31	To Bank A/c.	10,000	1965 Dec. 31	By Royalty Payable A/c.	10,000
1966 June, 30	,, Bank A/c.	17,000	1966 June, 30	,, Royalty Payable A/c.	17,000
		27,000			27,000

Dr. **Short-Working A/c.** **Cr.**

		Rs			Rs.
1964 June, 30	To C. Ltd. A/c.	7,500	1964 June, 30	By Balance c/d	7,500
		7,500			7,500
1964 July, 1	To Balance b/d	7,500	1965 June, 30	By Royalty Payable A/c.	3,000
Dec. 31	,, C. Ltd. A/c.	5,000	,,	,, Balance c/d	9,500
		12,500			12,500
1965 July, 1	To Balance b/d	9,500	1965 Dec. 31	By Royalty Payable A/c.	8,000
			1966 June, 30	,, Royalty Payable A/c.	1,500
		9,500			9,500

Dr. **Royalty Receivable A/c.** **Cr.**

		Rs.			Rs.
1965 June, 30	To Trading A/c.—transferred	8,250	1964 Dec. 31	By B. Ltd. A/c	3,750
			1965 June, 30	,, B. Ltd. A/c	4,500
		8,250			8,250
			1965 Dec. 31	By B. Ltd. A/c.	4,500
1966 June, 30	To Trading A/c —transferred	13,500	1966 June, 30	,, B. Ltd. A/c.	9,000
		13,500			13,500

Royalty Receivable Reserve A/c.
Dr. (i.e. Sub-lessee's Short-working A/c.) Cr.

		Rs.			Rs.
1965 June, 30	To Balance c/d	6,750	1964 Dec. 31	By B. Ltd. A/c.	3,750
			1965 June, 30	,, B. Ltd. A/c.	3,000
		6,750			6,750
1966 June, 30	To B. Ltd. A/c.	1,500	1965 July, 1	By Balance b/d	6,750
	,, Profit and Loss A/c. (not recoupable amount)	2,250	Dec. 31	,, B. Ltd. A/c.	3,000
	,, Balance c/d	6,000			
		9,750			9,750
			1966 July, 1	By Balance b/d	6,000

Dr. **B. Ltd. (Sub-lessee) A/c.** Cr.

		Rs.			Rs.
1964 Dec. 31	To Royalty Receivable A/c.	3,750	1964 Dec. 31	By Bank A/c.	7,500
	,, Royalty Receivable Reserve A/c.	3,750			
1965 June, 30	To Royalty Receivable A/c.	4,500	1965 June, 30	By Bank A/c.	7,500
	,, Royalty Receivable Reserve A/c.	3,000			
		15,000			15,000
1965 Dec. 31	To Royalty Receivable A/c.	4,500	1965 Dec. 31	By Bank A/c.	7,500
	,, Royalty Receivable Reserve A/c.	3,000			
1966 June, 30	To Royalty Receivable A/c.	9,000	1966 June, 30	By Royalty Receivable Reserve A/c.	1,500
				,, Bank A/c.	7,500
		16,500			16,500

EXERCISE

1. The Central Coal Co. Ltd., took on lease a coal mine for 80 years at a royalty of 50 paise per ton raised with a minimum rent of Rs. 40,000 per annum. The short-workings can be recouped during the first four years of the lease.

The raisings during the first five years were :

First year—30,000 tons ; Second year—45,000 tons ; Third year—62,000 tons ;

Fourth year—96,000 tons ; Fifth year—1,08,000 tons.

Show the Royalty Account, Short-workings Account, and Land Lord Account for the first five years.

(C. U. B Com. (Comp.) 1955).

(Ans : In IV year Short-working A/c written off to P. & L. A/c. Rs. 43,000).

2. Dayal Ram Daga leased out a mine to Mining and Minerals Ltd. at a royalty of Rs. 2 per ton of ore extracted merging into a minimum rent of Rs. 2,400 per month. Short-workings could be recouped within the three months following the month in which they arose. Record the transactions for six months in the books of Dayal Ram Daga.

The production during these six months was as follows :—

1st Month	..	400 tons,	4th Month	..	1,400 tons,
2nd Month	..	800 tons,	5th Month	..	2,400 tons,
3rd Month	..	1,200 tons,	6th Month	..	1,000 tons,

(I. C. W. A.—Final)

3. The National Collieries Co. Ltd., took from M/s Kairon Bros. a lease of a coal-field for a period of 25 years from January, 1959 on a Royalty of 25 paise per ton of coal raised with a Dead Rent of Rs 2,200 a year and power to recoup Short-workings during the first five years of the lease. The annual outputs were as follows :—

1954—2,000 Tons, 1955—3,600 Tons, 1956—9,000 Tons, 1957—15,000, and 1958—25,000 Tons.

Give Journal Entries for each of the five years in the books of the National Collieries Co. Ltd.

(Institute of Bankers, 1964)

4. X Y Z Mining Corporation Ltd. leased out certain mines to Minerals Producers Syndicate Ltd. at a royalty of Re. 1 per ton of ore extracted merging into a minimum rent of Rs. 600 per month. Short-workings could be recouped within the three months following the month in which they arose. Record the transactions for six months in the books of X Y Z Mining Corporation Ltd.

The production during these six months was as follows :

1st Month	..	200 tons,	4th Month	..	700 tons,
2nd Month	..	400 tons,	5th Month	..	1,200 tons,
3rd Month	..	600 tons,	6th Month	..	500 tons,

(I. C. W. A.—Final)

5. A & Co., are granted the lease of a colliery at a dead rent of £ 1,200 per annum, merging into a royalty of 6 d. per ton of coal raised. During the first three years, A & Co. have a right to recover short-workings out of the royalties.

24,000 tons of coal were raised in the first year,
36,000 tons of coal were raised in the second year and
48,000 tons of coal were raised in the third year.

Give Ledger Accounts showing these transactions for the three years.

(Association of Certified and Corporate Accountants, Inter, June, 1944).

(Ans : In the III year Short-working A/c. written off to P. & L. A/c.—£ 900).

6. A Colliery Co. took the lease of a coal-field for a period of 25 years from 1st January, 1952, on a royalty of 25 p. per ton of coal raised with a "dead-rent" of Rs. 2,500 and power to recoup "Short-workings" during the first 5 years of the lease.

The annual raisings were as follows :—

1952— 6,000 tons	1955—12,000 tons
1953— 9,000 tons	1956—15,000 tons
1954—11,000 tons	

Write up the Royalty, Short-workings and Landlord's A/cs. for the 5 years in the books of the colliery.

(C. U. B.Com. (Adv.) 1959.)

7. Indian Iron Foundries Ltd., obtained a licence to extract iron ore from mines belonging to the Mining Development Co. Ltd., on the following terms :—

(a) the lessees were to pay at the rate of Rs. 10 per ton subject to a minimum payment of Rs. 50,000 per half-year ;
(b) such payments were to be made at the end of each half-year ;
(c) any short-workings in one half-year may be recouped from the next two half yearly payments after which they would be irrecoverable ;
(d) the lease is to take effect from January 1, 1960.

Pass the necessary ledger entries in the lessee's books of account on the basis of the following information relating to extractions :—

Half-year ended June 30, 1960	3,500 tons
Half-year ended December 31, 1960	6,000 tons
Half-year ended June 30, 1961	3,000 tons
Half-year ended December 31,1961	8,000 tons

(I. C. W. A.—Final).

8. Chatterjee Co. Ltd., took the lease of a coal field for a period of 40 years from 1st January, 1943, on a Royalty of 75 p. per ton of coal raised with a Dead Rent of Rs. 25,000 per annum with power to recoup short-workings for a period of 5 years. The output for the 1st five years was as follows :—

1st year—30,000 tons ; 2nd year—22,000 tons ; 3rd year—35,000 tons ; 4th year —28,000 tons ; 5th year—30,000 tons.

You are required to give the Dead Rent, Short-Workings and the Landlord's Accounts in the Ledger for 5 years.

(C. U. B.Com. (Adv.) 1948)

(Ans : In the 5th year, Short-working A/c. written off to P. & L. A/c.—Rs. 16,250)

9. The R. Colliery Co. Ltd., leased a property from A at a royalty of 1 s. 6 d. per ton, with a minimum rent of £ 2,000 per annum. Each year's excess of minimum rent over royalties is recoverable out of royalties of the next five years. In the event of a strike and the minimum rental not being reached, the lease provided that the actual royalties earned for the year discharged all rental obligations for that year. The results of the working were as follows :—

1933	..	Nil	1937	..	£ 2,800
1934	..	£ 650	1938	..	£ 3,500
1935	..	£ 1,850	1939	..	£ 1,900 (Strike)
1936	..	£ 2,250	1940	..	£ 3,000

Write up the Minimum Rent A/c. and the Royalties A/c. showing the amount charged to Profit and Loss A/c. each year.

(C. A.—Final).

10. Random Limited acquired the lease of Golden Mines on 1st January, 1958, at a minimum rent of Rs. 1,500 per annum, royalties being payable at the rate of Rs. 12 per ton of production. Short-workings are to be recoverable within two years of the end of the year in which they are incurred.

From the following schedule of production of the mines you are required to write up the relevant ledger accounts in the books of Random Limited.

Production mined by :

Year ended 31st December

1958	..	55 tons	1961	..	60 tons
1959	..	72 tons	1962	..	54 tons
1960	..	75 tons.			

(I. C. W. A.—Final).

11. A mine is taken on lease at a minimum rent of Rs. 10,000 per annum merging into a royalty of Re. 1 per ton of the ore raised, with a right to recoup short-workings during the first three years of the lease.

The raising for the five years were : First year, 2,000 tons ; Second year, 5,000 tons ; Third year 15,000 tons ; Fourth year, 18,000 tons ; and Fifth year, 20,000 tons.

Write up the Ledger Accounts for Royalty, Redeemable Dead Rent and the Landlord (showing annual payments) based on the above information.

(C. U. B. Com. (Adv.) 1953).

(Ans : In the 3rd year Redeemable Dead Rent A/c. written off to P. & L. A/c.—Rs. 8,000).

12. B owned the patent of a safety lock. He granted Q a licence for 7 years to manufacture and sell the lock on the following terms :—

(a) Q to pay B a royalty of Rs. 5 for each lock sold with a minimum annual payment of Rs. 50,000. Accounts to be settled annually on December, 31.

(b) If in any year the royalties calculated on the locks sold amounted to less than Rs. 50,000, Q to have the right to deduct the deficiency from the royalties payable in excess of that sum in two following years.

The number of locks sold was as follows :—

Year ended December 31,	1954	..	8,000
	1955	..	9,000
	1956	..	11,000
	1957	..	18,000

You are required to show the (1) Royalty, (2) Short-workings and (3) B's Accounts in the books of Q which are closed annually on 31st December.

(C. U. B. Com. (Adv.) 1961).

(Ans : In 1956 Short-working A/c. written off to P. & L. A/c.—Rs. 5,000).

Sub-lease :

13. A. B. Co Ltd., hold a lease of minerals from R. & S. for a period of 40 years from 1st January, 1933. Under this lease there is payable a royalty of 6 d. a ton merging in a minimum rent of £1,000 a year, payable half-yearly on 30th June and 31st December They granted a *Sub-lease* for 20 years from 1st July, 1933 to X. Y. Co. Ltd. of one-half of the area for a royalty of 9 d. a ton merging in a minimum rent of £ 750 a year, payable half-yearly on 30th June and 31st December. A. B. Co. Ltd., are entitled under the lease from R. & S. to recoup short-workings out of subsequent excess workings throughout the term of the lease, but the sub-lease only allows X. Y. Co. Ltd., to recoup short-workings out of excess workings in any of the three half-years immediately following that in which the short-workings accrued. Minerals were worked as follows :—

Periods	By A. B. Co Ltd	By X Y. Co Ltd
Half-Year ended 30th June, 1933	5,000 tons	—
,, ,, ,, 31st Dec. 1933	5,000 ,	5,000 tons
,, ,, ,, 30th June, 1934	20,000 ,,	6,000 ,,
,, ,, ,, 31st Dec. 1934	30,000 ,,	6,000 ,,
,, ,, ,, 30th June, 1935	25,000 ,,	12,000 ,,

Show the Royalties A/c. and Short-workings A/c. under the lease from R. & S. and the Sub-lease of X. Y. Co. Ltd. in the books of A. B. Co. Ltd., which are balanced yearly on 30th June.

(Allahabad University, B. Com. 1945).

14. A. Ltd. a mining company, works minerals under a lease from B. Ltd. for a period of ten years from January 1, 1955.

By the terms of the lease, a royalty of 5 s. per ton is payable to B. Ltd. subject to a minimum rent of £ 5,000 a year.

A. Ltd., granted a sub-lease, for the same period, to C. Ltd. The sub-lease provided for a royalty of 7 s. 6 d. per ton, subject to a minimum rent of £ 2,400 a year.

Both the lease and the sub-lease provided that, should the royalties for any calender year be less than the minimum rent, the deficiency (short-workings) could be recouped out of royalties, in excess of the minimum, of the two immediately following calender years.

The output for the three years from the commencement of the lease was as follows :

			By A Ltd.	By C Ltd.
1955	..	..	10,400 tons	5,600 tons
1956	..	..	14,800 tons	8,000 tons
1957	..	..	12,800 tons	7,600 tons

All payments, under both the lease and the sub-lease, were made annually on December 31.

You are required to show the accounts in the Ledger of A Ltd., necessary to record these transactions for the years 1955, 1956, and 1957, closing the accounts on December 31 in each year. Ignore taxation.

(Chartered Institute of Secretaries, Inter, Dec. 1958).

CHAPTER XXXIII

HIRE PURCHASE SYSTEM

1. **Features of the Hire Purchase System :** The following are the main features of Hire Purchase System :—

(i) The value of goods supplied under hire purchase agreement is to be paid by instalments at agreed intervals.

(ii) The instalments are to be treated as payment for the hire of the goods and

(iii) The property in the goods does not pass to the hirer until the final instalment is paid.

2. **Distinction between a Hire Purchase and an Ordinary Sale :**

Under the Contract of Sale	*Under the Contract of hire purchase*
(1) The ownership passes from the seller to the buyer.	(1) The ownership of the goods lies with the vendor.
(2) Instalments are paid as payments in respect of the price.	(2) Instalments are paid for the hire of the goods except the final instalment.
(3) The buyer at any time can resell, pledge or dispose of the goods in any why he desires.	(3) Until the final instalment is paid, the hirer acts as agent and custodian of the goods received, which he can not sell, pledge, damage or destroy.
(4) Only the cash price of the goods will be charged.	(4) The total price will be somewhat higher than the 'Cash Price' as interest will be added to it.
(5) The goods can not be returned by the buyer to the seller.	(5) The goods may either be returned or retained by the hirer.

3. **Apportionment of Interest and Principal of each Instalment :**

Each instalment includes certain amount of interest on the unpaid price for the period over which the instalments are distributed. In recording hire purchase transactions special care should be taken to apportion the interest and the intrinsic value of the asset. The interest will be debited to ***revenue*** i.e., Profit and Loss A/c. and the balance of the instalment will be charged to *Capital* i.e., the Asset Account.

4. **Depreciation on Asset :** Depreciation should be calculated on the full cash value of the asset and it should be charged to the Profit and Loss A/c. for each balancing period, so that the asset may appear at its true value when the last instalment is paid.

5. Recording Trnsactions in the Books of the Vendor (i.e., Seller) :

Transactions	*Journal Entries*
(1) When agreement is made to sell under hire-purchase system :	Buyer's A/c. .. Dr. To Hire Purchase Sales A/c. *(with the full cash value)*
(2) For the amount received on delivery :	Cash or Bank A/c. .. Dr. To Buyer's A/c. *(with actual amount received)*
(3) Each time when interest falls due :	Buyer's A/c. .. Dr. To Interest A/c.
(4) Each time when an instalment is received :	Cash or Bank A/c. .. Dr. To Buyer's A/c. *(with principal plus interest)*
(5) To transfer the Interest A/c to Profit and Loss Account :	Interest A/c .. Dr. To Profit and Loss A/c.
(6) To transfer the Hire Purchase Sales A/c. to Trading Account :	Hire Purchase Sales A/c . Dr. To Trading A/c.

Illustration 1 *(Buyer's Account in the books of the Vendor).*

On 1st January, 1964 Messrs. Tallboy & Co. Ltd., took delivery from Plain Vans Ltd., of five vans on a hire-purchase systém, Rs. 400 being paid on delivery and the balance in five instalments of Rs. 600 each, payable annually on 31st December. The vendors charge 5% p.a. interest on yearly balances. The cash value of the five vans was Rs. 3,000. Show Messrs. Tallboy & Co's. A/c. in the ledger of the vendor. Calculations may be made to the nearest rupee.

Solution

Analysis of Instalments

(1) Year	(2) Cash Price at the Beginning	(3) Instalment	(4) Towards Interest @ 5%	(5) Towards Principal	(6) Cash price at the end (col. 2—col. 5)
	Rs.	Rs.	Rs.	Rs.	Rs.
31st December, 1964	2,600	600	130	470	2,130
31st December, 1965	2,130	600	106	494	1,636
31st December, 1966	1,636	600	82	518	1,118
31st December, 1967	1,118	600	56	544	574
31st December, 1968	574	600	26 (Balancing figure)	574	Nil

Note : Students are advised to prepare a statement showing analysis of instalments before solving any problem on hire-purchase system. Preparation of this statement is of course not compulsory.

In the books of the Vendor (i. e. Plain Vans Ltd.)

Dr. Tallboy & Co. Ltd. (Buyer) A/c. Cr.

1964		Rs	1964		Rs
Jan 1	To Hire Purchase Sales A/c	3,000	Jan 1	By Bank A/c	400
Dec. 31	, Interest A/c	130	Dec 31	, Bank A/c	600
				, Balance c/d	2 130
		3,130			3,130
1965			1965		
Jan 1	To Balance b/d	2 130	Dec 31	By Bank A/c	600
Dec 31	, Interest A/c	106		Balance c/d	1 636
		2,236			2 236
1966			1966		
Jan. 1	To Balance b/d	1,636	Dec. 31	By Bank A/c	600
Dec. 31	, Interest A/c	82	,	, Balance c/d	1,118
		1,718			1,718
1967			1967		
Jan 1	To Balance b/d	1,118	Dec 31	By Bank A/c.	600
Dec 31	,, Interest A/c	56	,	,, Balance c/d	574
		1,174			1,174
1968			1968		
Jan 1	To Balance b/d	574	Dec 31	By Bank A/c	600
Dec 31	, Interest A/c (Balancing figure)	26			
		600			600

6. Recording transactions in the books of the Hirer (i.e., Buyer) :

(a) First Method—

Under this method the asset is taken in the books at the *paid up value only*. Each instalment shall be split into interest on outstanding dues and principal,

Journal Entries in the books of the buyer (i.e. hirer) under first method

Transactions	*Journal Entries*	
1. (i) For the amount payable in cash on delivery of asset :	1. (i) Asset A/c To Vendor's A/c.	.. Dr.
(ii) On payment of the amount at the time of delivery :	(ii) Vendor's A/c. To Cash or Bank A/c	.. Dr.
2 (i) Each time when an instalment is due :	2 (i) Asset A/c Interest A/c. To Vendor's A/c	.. Dr. .. Dr.
(ii) On payment of the instalment :	(ii) Vendor's A/c To Cash or Bank A/c.	.. Dr.
3. To provide for depreciation on the asset :	Depreciation A/c To Asset A/c.	.. Dr.
4. To Transfer the Interest A/c. and the Depreciation A/c. to Profit and Loss A/c. .	Profit and Loss A/c. To Interest A/c. To Depreciation A/c.	.. Dr.
5. When an Asset Reserve is created :	Profit & Loss A/c. To Asset Reserve A/c.	.. Dr.

Note : The asset acquired under hire purchase agreement should appear at *nil value* in the Balance Sheet so long as all the instalments are not paid, although conventionally it is shown at cost less depreciation written off up to date.

When the asset is required to be shown in the Balance Sheet at nil value, every year an Asset Reserve equal to the balance in the Asset A/c. is to be created. In order to reduce the asset to nil value, the Asset Reserve is deducted from Asset A/c., till the payment of the last instalment.

Illustration 2 (*1st Method i.e., Asset taken in the book at paid up value*).

On 1st January, 1962 the Hind Colliery Company bought wagons from Wagon Co., on the Hire Purchase System. The Cash Price of the Wagons was Rs. 7,450 and the payment was to be made as follows :—

Rs. 2,000 was to be paid on singning the agreement and the balance in 3 instalments of Rs. 2,000 each at the end of each year. 5% interest is charged by the Wagon Company per annum. The Colliery Co., has decided to write off 10% annually on the diminishing balance of the Cash Value by way of depreciation. Give the Journal Entries and open the necessary accounts in the books of Wagon Co., and Hind Colliery Co.

(Institute of Bankers, 1965—Adapted).

Solution

(1) Analysis of Instalments

(1) Year	(2) Cash Price at the beginning Rs.	(3) Instalment Rs.	(4) Towards Interest (@ 5%) Rs.	(5) Towards Principal Rs.	(6) Cash price at the end (Col. 2—Col 5) Rs.
1	5,450·00	2,000·00	272·50	1,727·50	3,722·50
2	3,722·50	2,000·00	186·13	1,813·87	1,908·63
3	1,908·63	2,000·00	91·37 (Balancing figure)	1,908·63	Nil
				5450·19	

(2) Annual Depreciation

(1) Year	(2) Value at the Beginning Rs.	(3) Depreciation for the year @ 10% Rs.	(4) Value at the end Rs.
1	7,450·00	745·00	6,705·00
2	6,705·00	670·50	6,034·50
3	6,034·50	603·45	5,431·05

Note : Students are advised to prepare these statements before solving any problem on hire-purchase system. Preparation of these statements, of course, is not compulsory.

(a) In the books of Wagon Co. (i.e., Vendor or Seller)

Journal Entries

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
1962 Jan. 1	Hind Colliery Co. A/c. To Hire Purchase Sales A/c. (Being the selling price of wagons on hire-purchase basis)	Dr		7,450·00	7,450 00
,,	Bank A/c. To Hind Colliery Co. A/c. (Being the amount received on signing the agreement)	Dr.		2,000·00	2,000 00
Dec. 31	Hind Colliery Co. A/c To Interest A/c. (Being one year's interest @ 5% on the unpaid balance i.e., Rs 5,450)	Dr.		272 50	272 50
Dec. 31	Bank A/c. To Hind Colliery Co. A/c. (Being the amount for the first instalment received)	Dr.		2,000·00	2,000·00
1963 Dec. 31	Hind Colliery Co. A/c. To Interest A/c. (Being one year's interest @ 5% on the unpaid balance Rs. 3,722·50)	Dr.		186 13	186·13
,,	Bank A/c. To Hind Colliery Co. A/c. (Being the amount for second instalment received)	Dr		2,000 00	2,000 00
1964 Dec. 31	Hind Colliery Co. A/c. To Interest A/c. (Being one year's interest @ 5% on the unpaid balance Rs. 1,908·63—balancing figure)	Dr.		91 37	91 37
,,	Bank A/c. To Hind Colliery Co. A/c. (Being the amount for third instalment received)	Dr.		2,000 00	2,000 00

Dr. Hind Colliery Company's A/c. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1962 Jan. 1	To Hire Purchase Sales A/c.	7,450·00	1962 Jan. 1	By Bank A/c.	2,000 00
Dec. 31	,, Interest A/c.	272·50	Dec. 31	,, Bank A/c.	2,000 00
			,,	,, Balance c/d	3,722·50
		7,722 50			7,722·50

Dr. Hind Colliery Company's A/c. (*Contd.*) Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1963			1963		
Jan. 1	To Balance b/d	3,722·50	Dec. 31	By Bank A/c.	2,000·00
Dec. 31	,, Interest A/c.	186·13	,,	,, Balance c/d	1,908·63
		3,908·63			3,908·63
1964			1964		
Jan. 1	To Balance b/d	1,908·63	Dec. 31	By Bank A/c.	2,000·00
	,, Interest A/c. (Balancing figure)	91·37			
		2,000·00			2,000·00

Dr. Interest A/c. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1962 Dec. 31	To Profit & Loss A/c.	272·50	1962 Dec. 31	By Hind Colliery Co. A/c.	272·50
1963 Dec. 31	To Profit & Loss A/c.	186·13	1963 Dec. 31	By Hind Colliery Co. A/c.	186·13
1964 Dec. 31	To Profit & Loss A/c.	91·37	1964 Dec. 31	By Hind Colliery Co. A/c.	91·37

(b) In the books of the Hind Colliery Co. (i.e., Buyer or Hirer) :

Journal Entries

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
1962 Jan. 1	Wagon A/c.	Dr.		2,000·00	
	To Wagon Co. A/c.				2,000·00
	(Being the amount payable to the vendor on signing the contract for hire-purchase of Wagons)				
Jan. 1	Wagon Co. A/c.	Dr.		2,000·00	
	To Bank A/c.				2,000·00
	(Being the amount paid to the vendor at the time of delivery of wagons)				
Dec. 31	Wagon A/c.	Dr.		1,727·50	
	Interest A/c.	Dr.		272·50	
	To Wagon Co. A/c.				2,000·00
	(Being the first instalment due)				
,,	Wagon Co. A/c.	Dr.		2,000·00	
	To Bank A/c.				2,000·00
	(Being the payment of the first instalment)				
,,	Depreciation A/c.	Dr.		745·00	
	To Wagon A/c.				745·00
	(Being 10% depreciation on Rs. 7,450)				

(b) **In the books of the Hind Colliery Co. (i.e., Buyer or Hirer) :** *(Contd.)*

Journal Entries

				Dr.	Cr.
1963 Dec. 31	Wagon A/c.	Dr		1,813·87	
	Interest A/c.	Dr.		186 13	
	To Wagon Co. A/c.				2,000 00
	(Being the second instalment due)				
Dec. 31	Wagon Co. A/c.	Dr.		2,000·00	
	To Bank A/c.				2,000·00
	(Being the payment of the second instalment)				
	Depreciation A/c	Dr.		670·50	
	To Wagon A/c.				670·50
	(Being depreciation @ 10% on Rs. 6,705·00)				
1964 Dec. 31	Wagon A/c.	Dr.		1,908·63	
	Interest A/c.	Dr.		91·37	
	To Wagon Co A/c				2,000 00
	(Being the third instalment due)				
,,	Wagon Co. A/c.	Dr.		2,000 00	
	To Bank A/c.				2,000 00
	(Being the payment of the third instalment)				
,,	Depreciation A/c.	Dr.		603·45	
	To Wagon A/c.				603·45
	(Being depreciation @ 10% on Rs. 6,034 50)				

Dr. **(1) Wagon A/c.** **Cr.**

		Rs			Rs.
1962 Jan. 1	To Wagon Co. A/c	2,000 00	1962 Dec 31	By Depreciation A/c.	745 00
Dec. 31	,, Wagon Co. A/c.	1,727 50	,,	,, Balance c/d	2,982 50
		3,727 50			3,727 50
1963 Jan. 1	To Balance b/d	2,982 50	1963 Dec 31	By Depreciation A/c.	670 50
Dec. 31	,, Wagon Co. A/c	1,813 87	,,	,, Balance c/d	4,125 87
		4,796 37			4,796·37
1964 Jan. 1	To Balance b/d	4,125 87	1964 Dec 31	By Depreciation A/c.	603 45
Dec. 31	,, Wagon Co. A/c.	1,908·63	,,	,, Balance c/d	5,431·05
		6,034 50			6,034 50
1965 Jan. 1	To Balance b/d	5,431 05			

Dr. **(2) (Vendor) Wagon Co. A/c.**

		Rs.			Rs.
1962 Jan. 1	To Bank A/c.	2,000·00	1962 Jan. 1	By Wagon A/c.	2,000·00
Dec. 31	,, Bank A/c.	2,000·00	Dec. 31	,, Wagon A/c.	1,727·50
				,, Interest A/c.	272·50
		4,000·00			4,000·00
1963 Dec. 31	To Bank A/c.	2,000·00	1963 Dec. 31	By Wagon A/c.	1,813·87
			,,	,, Interest A/c.	186·13
		2,000·00			2,000·00
1964 Dec. 31	To Bank A/c.	2,000·00	1964 Dec. 31	By Wagon A/c.	1,908·63
			,,	,, Interest A/c.	91·37
		2,000·00			2,000·00

Dr. **(3) Interest A/c.** Cr.

		Rs.			Rs.
1962 Dec. 31	To Wagon Co. A/c.	272·50	1962 Dec. 31	By Profit & Loss A/c.	272·50
1963 Dec. 31	To Wagon Co. A/c.	186·13	1963 Dec. 31	By Profit & Loss A/c.	186·13
1964 Dec. 31	To Wagon Co. A/c.	91·37	1964 Dec. 31	By Proat & Loss A/c.	91·37

Dr. **(4) Depreciation A/c.**

		Rs.			Rs.
1962 Dec. 31	To Wagon A/c.	745·00	1962 Dec. 31	By Profit & Loss A/c.	745·00
1963 Dec. 31	To Wagon A/c.	670·50	1963 Dec. 31	By Profit & Loss A/c.	670·50
1964 Dec. 31	To Wagon A/c.	603·45	1964 Dec. 31	By Profit & Loss A/c.	603·45

7. **Recording transactions in the books of the buyer :—**
Second Method—

Under this method the asset is taken in the books at *cash price.* Necessary provision is to be made for the interest on outstanding balances.

Journal Entries in the books of hirer (i.e., buyer) under second method.

1. For the full cash price payable :	Asset A/c .. Dr. To Vendor's A/c.
2 For the cash down payment on delivery :	Vendor's A/c. .. Dr. To Cash or Bank A/c
For interest on the outstanding balance in the Vendor's A/c.	Interest A/c. .. Dr. To Vendor's A/c.
4 On payment of the annual instalment :	Vendor's A/c .. Dr. To Cash or Bank A/c.
5. To provide for depreciation on the asset :	Depreciation A/c. .. Dr. To Asset A/c
6 To transfer Interest A/c and Depreciation A/c. to Profit and Loss A/c. :	Profit and Loss A/c. .. Dr. To Interest A/c. To Depreciation A/c

Illustration 3 (*2nd Method i.e., Asset taken in the books at cash price*).

On 1st January, 1959, Quick Transport Co., purchased a fleet of 4 trucks from Hind Autos Ltd., on hire-purchase terms. The cash price of each truck was Rs. 29,800 ; Rs. 8,000 per truck was to be paid on the date of purchase and the balance in 3 instalments of Rs. 8,000 each on 31st December every year subject to interest @ 5% per annum. Depreciation was to be provided @ 10% on the reducing balances.

Show the Trucks A/c., and the Hind Autos Ltd., A/c. in the Ledger of Quick Transport Co. Show figures to the nearest rupee.

(C. U. B. Com. (Adv.) 1964).

Solution

(1) Analysis of Instalments

(1) Year	(2) Cash Price at the beginning	(3) Instalment	(4) Towards Interest @ 5%	(5) Towards Principal	(6) Cash Price at the end
	Rs.	Rs.	Rs.	Rs.	Rs.
1st	87,200	32,000	4 360	27,640	59,560
2nd	59,560	32,000	2,978	29,022	30,538
3rd	30,538	32,000	1,462 (Balancing figure)	30,538	Nil

Solution

(i) In the books of A Co. Ltd. (hire-purchaser)

(a) *If the Asset A/c. is originally debited with full cash price, the treatment will be as follow :*

Dr. Machinery A/c. Cr.

		Rs.			Rs.
1st yr. Jan. 1	To Calcutta Machinery Ltd. A/c.	40,000	1st yr. Dec. 31	By Depreciation A/c.	4,000
			,,	,, Balance c/d	36,000
		40,000			40,000
2nd yr. Jan. 1	To Balance b/d	36,000	2nd yr. Dec. 31	By Depreciation A/c.	3,600
			,,	,, Calcutta Machinery A/c. (amount due but unpaid)	21,000
			,,	,, Profit & Loss A/c. (Balancing figure)	11,400
		36,000			36,000

Dr. Calcutta Machinery Ltd. (Hire Vendor) A/c. Cr.

		Rs.			Rs.
1st yr. Jan. 1	To Bank A/c.	10,000	1st yr. Jan. 1	By Machinery A/c.	40,000
Dec. 31	,, Bank A/c.	11,500	Dec. 31	,, Interest A/c. (@ 5% on Rs. 30,000)	1,500
,,	,, Balance c/d	20,000			
		41,500			41,500
2nd yr. Dec. 31	To Machinery A/c.—transfer due to inability to pay	21,000	2nd yr. Jan. 1	By Balance b/d	20,000
			Dec. 31	,, Interest A/c. (@ 5% on Rs. 20,000)	1,000
		21,000			21,000

(b) *If the Asset A/c. is originally debited with paid up value only, the treatment will be as follows :*

Dr. **Machinery A/c.** **Cr.**

		Rs.			Rs.
1st yr.			1st yr.		
Jan. 1	To Calcutta Machinery A/c.	10,000	Dec. 31	By Depreciation A/c.	4,000
Dec. 31	,, Calcutta Machinery A/c	10,000		(@ 10% on Rs. 40,000)	
			,,	,, Balance c/d	16,000
		20,000			20,000
2nd yr.			2nd yr.		
Jan 1	To Balance b/d	16,000	Dec 31	By Depreciation A/c.	3,600
				(@ 10% on Rs. 36,000)	
			,,	,, Profit & Loss A/c.	12,400
				(Amount written off due to loss of machinery)	
		16,000			16,000

(ii) In the books of Calcutta Machinery Ltd. (hire-vendor)

Dr. **A Co. Ltd. A/c.** **Cr.**

		Rs			Rs.
1st yr.			1st yr.		
Jan. 1	To Hire Purchase Sales A/c. (Machinery)	40,000	Jan 1	By Bank A/c	10,000
			Dec 31	,, Bank A/c	11,500
Dec. 31	,, Interest A/c. (@ 5% on Rs. 30,000)	1,500	,,	,, Balance c/d	20,000
		41,500			41,500
2nd yr.			2nd yr.		
Jan. 1	To Balance c/d	20,000	Dec 31	By Returned Goods Stock A/c.	25,600
Dec. 31	,, Interest A/c. @5% on Rs. 20,000)	1,000		(@ 20% depreciation for 2 years.)	
,,	,, Profit & Loss A/c.	4,600			
		25,600			25,600

Note : The Returned Goods Stock is valued thus :

		Rs.	
Cash value of the Machinery		40,000	
Less—depreciation @ 20% on diminishing balance :			
For 1st yr.	Rs. 8,000		
For 2nd yr.	Rs. 6,400		
		14,400	
∴ Value of the Returned Goods Stock :			25,600

Dr. **Returned Goods Stock A/c.** Cr.

2nd yr. Dec. 31	To A. Co. Ltd. A/c.	Rs. 25,600	2nd yr Dec. 31	By Balance c/d	Rs. 25,600
3rd yr.	To Balance b/d	25,600	3rd yr.	By Bank A/c. (Sale)	24,000
				,, Profit & Loss A/c.— Balance transferred	1 600
		25,600			25,600

Note : The Returned Goods Stock A/c. if maintained, is shown as an asset in the Balance Sheet.

9. **When Maintenance Service provided free of cost :**

When goods are supplied on the condition that free maintenance service will be provided during a stated period, the following entries are necessary in the books of the vendor :

(1) For the amount charged for free service :	(1) Buyer's A/c. or Cash A/c. To Maintenance Suspense A/c.	.. Dr. .. Dr.
(2) For the maintenance expenses incurred from time to time :	(2) Maintenance Suspense A/c. To Cash A/c.	.. Dr.
(3) To transfer the excess of actual charge over estimated amount to P. & L. A/c. :	(3) Profit & Loss A/c. To Maintenance Suspense A/c.	.. Dr.
(4) At the end of the stipulated period, if the estimated amount exceeds the actual expense (i.e. for saving) :	(4) Maintenance Suspense A/c. To Profit & Loss A/c.	.. Dr.

Illustration 5 (*Maintenance Suspense A/c.*)

H. M. V. Co. Ltd., sells gramophone sets on cash and hire-purchase basis. The sets are to be maintained free of charge for two years. Past experience indicates that Rs. 40 is the cost of maintenance of which Rs. 15 is for the first year. During 1966, 60 sets were sold for cash and 150 sets were sold on the hire purchase system. The actual cost of maintenance in the first year was Rs. 1,750, in the second year Rs. 3,900 and in the third year Rs. 2,450. The books of the Company were closed on 31st December every year. Assuming that all sets were sold on an average date of 30th June, 1966, give the Maintenance Suspense A/c. in the book of the Company.

Solution

The provision for maintenance for two years will be calculated as follows :

		Rs.	Rs.
(1) From 1st July, 1966 to 31st Dec. 1966	210 × Rs. 7·50		= 1,575
(2) From 1st Jan. 1967 to 30th June, 1967	210 × Rs. 7·50	= 1,575	
From 1st July, 1967 to 31st Dec. 1967	210 × Rs. 12·50	= 2,625	= 4,200
(3) From 1st Jan. 1968 to 30th June, 1968	210 × Rs. 12·50		= 2,625
			8,400

Dr. Maintenance Suspense A/c. Cr.

		Rs			Rs.
1966			1966		
Dec 31	To Cash A/c.—actual charge	1,750	June, 30	By Cash—@Rs 40 on 60 sets	2,400
,,	,, Balance c/d	6,825	,,	,, Buyer's A/c.—@Rs. 40 on 150 sets	6,000
			Dec. 31	,, Profit & Loss A/c — excess of actual over estimate	175
		8,575			8,575
1967			1967		
Dec. 31	To Cash A/c.—actual charge	3,900	Jan. 1	By Balance b/d	6,825
,,	,, Balance c/d	2,925			
		6,825			6,825
1968			1968		
Dec. 31	To Cash A/c.—actual charge	2,450	Jan. 1	By Balance b/d	2,925
,,	,, Profit & Loss A/c.—excess of estimate over actual i.e. saving	475			
		2,925			2,925

10. **Hire Purchase Trading Account :**

Sometimes Hire Purchase Trading A/c. is prepared to ascertain profit or loss on hire purchase sales separately, when numerous hire purchase sales are made in addition to normal sales. The method employed for this purpose is given below :

(1) For sale of goods on hire purchase :	(1) Hire Purchase Trading A/c. .. Dr. To Goods Sold on Hire Purchase A/c. (with hire purchase price)
(2) On receipt of instalments :	(2) Cash or Bank A/c. .. Dr. To Hire Purchase Trading A/c.

Preparation of Hire Purchase Trading Account (*Contd.*)

(3) For instalments due but not yet received at the end of the year :	(3) Instalments Due A/c. Dr. To Hire Purchase Trading A/c.
(4) For goods seized due to non-payment of instalments :	(4) Returned Goods Stock A/c. Dr. To Hire Purchase Trading A/c.
(5) For goods lying with the buyers in respect of which instalments are not yet due :	(5) Hire Purchase Stock A/c. Dr. To Hire Purchase Trading A/c.
(6) For adjustment of the load on hire purchase sales :	(6) Goods Sold on Hire Purchase A/c. Dr. To Hire Purchase Trading A/c. (with difference between hire purchase price and cost price)
(7) For adjustment of the load on hire purchase Stock :	(7) Hire Purchase Trading A/c. .. Dr. To Hire Purchase Stock Reserve A/c. (with the difference between hire purchase price and cost price of the stock)
(8) To transfer the balance of the Hire Purchase Trading A/c. :	
(a) For profit :	(a) Hire Purcahse Trading A/c. .. Dr. To General Profit & Loss A/c.
(b) For loss :	(b) General Profit & Loss A/c. .. Dr. To Hire Purchase Trading A/c.
(9) To transfer the Goods Sold on Hire Purchase A/c. to Purchases A/c. :	(9) Goods Sold on Hire Purchase A/c. Dr. To Purchases A/c.

10. Instalment Due A/c., Hire Purchase Stock A/c., and Hire Purchase Stock Reserve A/c., will be shown in the Balance Sheet and in the beginning of the next year will be transferred to the Hire Purchase Trading A/c.

Illustration 6. (*Hire-Purchase Trading A/c.*)

The following figures relate to the business of a trader who disposes of his goods under a hire-purchase agreement and who finds from actual experience that his gross profits are $33\frac{1}{3}\%$ on hire-purchase price.

On 1st January, 1968 his stock out on hire at prices charged to customers was Rs. 15,000 ; stock in shop on 1st January, 1968, is Rs. 2,000 ; Purchases in 1968 (paid for by cash) Rs. 27,000 ; Instalments overdue, 1st January, 1968, Rs. 1,100 (goods not forfeited) ; Instalments overdue 31st Dec. 1968, Rs. 2,100 (goods not forfeited) ; Stock out on hire 31st Dec. 1968 at prices charged to customers, Rs. 18,000 ; Stock in shop, 31st Dec. 1968, Rs. 3,000 ; Cash received from instalments during 1968 Rs. 35,000.

Prepare Trading A/c. for the year and a Balance Sheet as at 31st Dec. 1968.

(C. A.—Adapted).

Solution

Dr. **Hire Purchase Trading A/c.** **Cr.**

1968		Rs.	1968		Rs.
Jan. 1	To Stock at Shop A/c.	2,000		By Cash A/c.	35,000
,,	Hire Purchase Stock A/c. ( ) (Opening)	15,000	Dec. 31	,, Instalments Due A/c	2,100
			,,	,, Stock at Shop A/c.	3,000
,,	,, Purchases A/c.	27,000	,,	,, Hire Purchase Stock A/c	18,000
,,	,, Instalment Due A/c.	1,100	,,	,, (Closing) (2)	
Dec. 31	,, Stock Reserve A/c. (2) (Adjustment of load on closing stock)	6,000		,, Stock Reserve A/c (1) (Adjustment of load on opening stock)	5,000
,,	,, General Profit & Loss A/c.—profit transferred	12,000			
		63,100			63,100

Balance Sheet as at 31st Dec. 1968

Liabilities	Rs.	*Assets*		Rs.
Capital (Balancing figure)	13,100	Cash (Received Rs. 35,000 less Purchase Rs. 27,000)		8,000
Profit & Loss A/c.	12,000	Instalments Due		2,100
		Stock at Shop		3,000
		Hire Purchase Stock	Rs. 18,000	
		Less—Stock Reserve	Rs. 6,000	12,000
	25,100			25,100

Calculation of Cash Value :

In some cases the cash value of the subject matter of hire-purchase contract is to be calculated from the given instalment and rate of interest. The *method of calculation* is to start from the last instalment and multiply it by $\frac{100}{100+\text{rate}}$ and add it to the previous instalment and again multiply it by $\frac{100}{100+\text{rate}}$ and add to its previous instalment and so on.

Illustration 8. *(Calculation of Cash Value).*

A machine is sold on hire purchase system. The payments to be made are Rs. 1,000 on siging the agreement and three annual instalments of Rs. 1,000 each. Assuming 5% interest p.a., calculate the cash price. Also calculate the cash price if first instalment is to be paid after a year of the signing of the contract.

Solution

(a) In case ist. instalment is payable with signing the contract :—

$$\left[\left\{\left(1{,}000\times\frac{100}{100+5}\right)+1{,}000\right\}\times\frac{100}{100+5}+1{,}000\right]\times\frac{100}{100+5}+1{,}000$$

$$=\left[\left\{\left(1{,}000\times\frac{100}{105}\right)+1{,}000\right\}\times\frac{100}{105}+1{,}000\right]\times\frac{100}{105}+1{,}000$$

$$=\left[\left\{\left(1{,}000\times\frac{20}{21}\right)+1{,}000\right\}\times\frac{20}{21}+1{,}000\right]\times\frac{20}{21}+1{,}000$$

$$=\left[\left\{\frac{20{,}000}{21}+1{,}000\right\}\times\frac{20}{21}+1{,}000\right]\times\frac{20}{21}+1{,}000$$

$$=\left[\frac{41{,}000\times 20}{21\times 21}+1{,}000\right]\times\frac{20}{21}+1{,}000$$

$$\cdot\left[\frac{8{,}20{,}000}{21\times 21}+1{,}000\right]\times\frac{20}{21}+1{,}000$$

$$=\frac{12{,}61{,}000\times 20}{441\times 21}+1{,}000$$

$$=\frac{2{,}52{,}20{,}000}{9{,}261}+1{,}000$$

$$=\frac{3{,}44{,}81{,}000}{9{,}261}$$

$$=\text{Rs. }\underline{3{,}724}$$

(b) In case ist. instalment is payable after a year of signing the contract :

$$\left[\left\{\left(1{,}000\times\frac{100}{105}+1{,}000\right)\times\frac{100}{105}+1{,}000\right\}\times\frac{100}{105}+1{,}000\right]\times\frac{100}{105}$$

$$=3{,}724\times\frac{20}{21}=\text{Rs, }\underline{3{,}547}$$

EXERCISE

1. A man bought a machine by hire-purchase. He paid £ 600 down, £ 640 at the end of the first year, £ 890 at the end of the second year, and £ 880 at the end of the third year. The interest on the cash price is 10 per cent per annum. Write up the hire-purchaser's account in the books of the vendor.

(Allahabad University, B. Com.).

(**Ans** : Interest in instalments : 1st—£ 197—17s—0d ; 2nd—£ 153—12s—9d ; and 3rd—£ 80—0—0.).

2. On 1st January, 1958, Messrs. Tallboy & Co. Ltd., took the delivery from Plain Vans Ltd., of 5 vans on a hire-purchase system, £ 200 being paid on delivery and the balance in 5 instalments of £ 300 each, payable annually on 31st December. The vendors charge 5% per annum interest on early balances. The cash value of 5 vans was £ 1,500.

How should the details of this transaction be entered in the books of the Vendor Co. ? Show the ledger accounts in the vendor's books for the 5 years to 31st December, 1952. (Calculations may be made to the nearest £).

(C. A.—Inter).

(**Ans** : Interest in Instalments : 1st yr. £ 65 ; 2nd yr. £ 53 ; 3rd yr. £ 41 ; 4th yr. £ 28 ; 5th yr. £ 13.).

3. A sells an asset to B on January 1, 1960, on the Hire Purchase System at a cash down price of Rs. 50,000 on the arrangement that the amount will be paid in four equal instalments at 6% per annum. The first instalment is paid on the delivery of the asset and subsequent instalments are paid on each anniversary of the date of delivery. The asset is to be depreciated at 10% per annum on the reducing instalment system.

Draw up the vendor's A/c. Hire Charges A/c. and Asset A/c. in the books of the buyer. (The present value of Re. 1 paid at the beginning of each year for four years is Rs. 3·6730).

(C. U. B. Com. (Adv.) 1961).

(**Ans** : Amount of each instalment Rs. 13,612·85 ; Interest in instalment : 1st —Rs. 2,183·23, 2nd—Rs. 1,497·45, 3rd—Rs. 770·72.)

Note : Instalment is calculated thus :

When present value is Rs. 3·6730, the instalment is Re. 1.

$\therefore$ When present value is Re. 1 the instalment is Re. $\frac{1}{3 \cdot 6730}$

$\therefore$ When present value is Rs. 50,000 the instalment is $\frac{50,000}{3 \cdot 6730}$

$= $Rs. 13,612·85

4. On 1st January, 1950 Messrs. XYZ & Co. took delivery from Autocar Ltd. of 5 motor vans on a hire-purchase system, Rs. 2,000 being paid on delivery and the balance

in five instalments of Rs. 3,000 each, payable annually on 31st December. The vendor company charges 5% interest per annum on early balances. The cash down value of the five vans was Rs. 15,000.

Show the Vendor's Account, Interest Account and the Motor Vans Account in the books of XYZ & Co. in the five years. Provide depreciation at the rate of 20% on the diminishing balances. Adjust any difference in the fifth year's account.

(C. U. B. Com. (Adv.) 1958).

(Ans : Interest in instalments : 1st—Rs. 650, 2nd—Rs. 532·50, 3rd—Rs. 409·13 ; 4th—Rs. 279·58 ; 5th—Rs. 128·79).

5. Shri Ghosh acquired a motor car from Motor Hirers Ltd. on January 1, 1962. The cash price of the car was Rs. 18,870. He agreed to pay Rs. 4,000 on the delivery of the car to him and the balance in four half-yearly instalments of Rs. 4,000 each, commencing with 30th June, 1962. The Motor Hirers charge interest at 6% per annum with half-yearly rest.

Shri Ghosh prepares his accounts annually on 30th September and writes off depreciation on Motor Car at 20%.

You are required to show (i) the Motor Hirers Ltd. A/c. and (ii) Motor Car A/c for the year ended 30th September, 1962, 1963, 1964.

(Burdwan University, B. Com. (Adv.) 1966).

(Ans : Interest in the instalments : 1st—Rs. 446·10, 2nd—Rs. 339·48, 3rd—Rs. 229·66, 4th—Rs. 114·76).

6. (a) How will you distinguish an agreement for sale where the sale price is payable in instalments from an agreement of Hire purchase ?

(b) Textiles Limited purchased Motor Lorries on Hire Purchase System, over a period of four years. Rs. 12.000 was payable on delivery, 1st January, 1953, and the balance by annual instalments of Rs. 12,000 each on 31st December in each year. Motor Limited who sold the Lorries charged 5% per annum interest on the yearly balances. The cash value of the Lorries on delivery was Rs. 54,550. Depreciation at the rate of 25% on diminishing balances was written off in each year.

Write up the accounts concerned in the books of Textiles Limited and show how they would appear in the Balance Sheet of this company on 31st December, 1956.

Interest to be calculated to the nearest rupee.
Journal Entries are required.

(C. U. B. Com. Hons. (Adv.) 1966)

(Ans : Interest in instalment : 1st year—Rs. 2,127, 2nd yr.—Rs. 1,634, 3rd yr —Rs. 1,116, 4th yr.—Rs. 571).

7. A Company purchased two motor cars on hire-purchase system over a period of four years. The delivery of cars was taken on 1st January, 1956. The terms of the hire purchase were :—

Rs. 12,000 on delivery and the balance by annual instalments of Rs. 12,000 each. Instalments to be paid on 31st December, each year.

The Vendors charged 5% interest per annum on yearly balances.

The cash price of cars on delivery was Rs. 54,000. Depreciation at 10% on the diminishing balance was written off each year.

Write up relevant ledger accounts in the purchaser's books.

(Institute of Bankers, 1960).

(Ans : Interest as calculated on the yearly balance of the Vendor's A/c. : 1st yr. on Rs. 48,000 @ 5%—Rs. 2,400 ; 2nd yr. on Rs. 36,000 @ 5%—Rs. 1,800 ; 3rd yr. on Rs. 24,000 @ 5%—Rs. 1,200 ; 4th yr. on Rs. 12,000 @ 5%—Rs. 600).

8. On 1st January, 1953, Garage Ltd , acquired a new Petrol Pump on Hire Purchase from Oil Co. Ltd., which agreed to supply the hire purchaser with Petrol at Rs. 2·75 a gallon, 25 paise of which was the dealer's commission and was to be appropriated towards part payment of the pump and interest at 5 per cent per annum on outstanding balances of the purchase price of the pump at the end of each quarter. The cash price of the pump was Rs. 1,500.

Petrol purchased from the Oil Co. Ltd., in the 4 quarters ended 31st December, 1953 was 2,000, 2,400, 4,000 and 1,600 gallons

Depreciation at the rate of 10 per cent per annum is to be written off the pump.

Show the Ledger Account for the four quarters ended 31st December, 1953 in the books of Garage Ltd.

(C. U. B. Com. (Adv.) 1954).

(Ans : Interest in instalment : March, 31—Rs. 18·75, June, 30—Rs. 12·75, September, 30—Rs. 5·37.
Commission Receivable : March 31—Rs. 500, June 30—Rs. 600, September 30—Rs. 1,000, December 31—Rs. 400).

9. On July 1st, Wagon Suppliers Ltd. supplied on hire purchase to Carters Ltd. a wagon, the cash price of which was Rs. 2,233, the terms being a deposit of Rs 500 payable on the signing of the contract and four annual payments of Rs. 500 each, the first to be payable on the following June 30th. The rate of interest is 6 per cent per annum.

Each company makes up its annual accounts to December, 31st

Write up the relevant accounts in the books of the Wagon Suppliers Ltd., and Carters Ltd., for the accounting year in which the contract was made and the following year, and show how these transactions would appear in the final accounts of the respective companies at the end of the latter year (rate of depreciation 10 per cent of original cost).

Calculations are to be made to the nearest rupee.

(I. C. W. A.—Final).

(Ans : (1) Interest outstanding at the end of the first financial year i.e., on Rs. 1,733 @ 6% for 6 months=Rs. 52.
(2) Interest outstanding at the end of the next financial year i.e., on Rs. 1,337 @ 6% for ½ year=Rs. 40).

10. On 1st January, 1944 A. K. Ojha Company obtained Wagons on hire purchase system. The price of the wagons was Rs. 25,000. The payment was to be made as Rs. 5,000 down and the balance by instalments of Rs. 4,000 per year with interest at 4%.

You are required to give necessary Ledger Accounts in the books of A. K. Ojha Company (assuming depreciation is to be written off at 5% annually).

(C. U. B. Com. (Adv.) 1945).

(Ans : Interest in instalments : 1st—Rs. 800, 2nd—Rs. 640, 3rd—Rs. 480, 4th—Rs. 320, 5th—Rs. 160).

11. A plant was purchased on hire purchase system on January 1, 1958. The cash-down price was Rs. 45,500 ; Rs. 10,040 was paid at the time of delivery and the balance was to be paid in four equal instalments, each instalment becoming payable at the end of the corresponding year. Interest is to be charged at 6 per cent per annum.

The buyer defaulted after paying the second instalment and the vendor seized the plant. Reckoning that the vendor decides to write off the plant in 20 years from the beginning of its life with a residual value of Rs. 1,500, what should be the figure at which the seized plant should appear in the books of the vendor, indicating the amount of the claim against the buyer. Given the present value at 5 per cent per annum of Re. 1 paid at the end of each year for four consecutive years is Rs. 3·5460.

(C. U. B. Com. (Adv.) '63).

(Ans : Interest in the instalments : 1st—Rs. 1,773, 2nd—Rs. 1,362, 3rd—Rs. 930, Returned Goods Stock A/c. Rs. 19,525 ; each instalment—Rs. 10,000)

Note : (1) The amount of each instalment is calculated thus :

	Rs.
Cash	45,500
Less—Amount paid on delivery	10,040
∴ Amount to be paid by the buyer	35,460

When present value is Rs. 3·5460, Instalment is Re. 1

∴ When present value is Re. 1 Instalment is $\frac{1}{3\cdot5460}$

∴ When present value is Rs. 35,460 Instalment is $\frac{1\times35,460}{3\cdot5460}$

∴ Each instalment =Rs. 10,000

(2) The Returned Goods Stock A/c. will be shown on the Assets Side of the Balance Sheet.

12. A sewing machine manufacturer sells machines on hire purchase system. On 1st March a machine is sold for Rs. 400 payable in 10 equal monthly instalments of Rs 40 each. The cost of the machine to the manufacturer is Rs. 360. The instalments are paid in due time. The manufacturer closes his annual accounts on 31st July.

How would the manufacturer record these transactions so that correct profit is taken credit of in his annual accounts ?

(C. U. B. Com. (Adv.) 1950)

(Ans : Stock at end—Rs. 180 ; Profit Rs. 20).

CHAPTER XXXIV

SALE BY INSTALMENT SYSTEM

1. **What is Sale by Instalment :** When the buyer is allowed to pay the price of goods purchased in several instalments instead of paying the price in one sum, it is called *sale by instalment*. In case of sale by instalment, the property in the goods passes to the buyer as soon as the contract of sale is signed. If default is made in the payment of any instalment, the goods can not be seized or taken back. The seller can sue the buyer for payment of the instalment due.

2. **Distinction between Hire Purchase and Instalment System :**

	Hire Purchase	*Instalment System*
1.	The property in the goods does not pass to the buyer until the final instalment is paid.	The property in the goods passes to the buyer as soon as the contract of sale is signed.
2.	Goods can be seized or taken back if instalment is not paid.	Goods can not be seized if instalment is not paid. The seller can sue the buyer for payment of the instalment due.
3.	The buyer is in the position of a hirer for the goods.	3. The buyer is the owner of the goods.
4.	The location of property changes but not its ownership—until the payment of the final instalment.	4. The goods are made over to the buyer in respect of both possession and ownership.

3. **Recording of Transactions in the Books of the Buyer :**

Transactions	*Journal Entries*
(1) When the contract for sale by instalment is signed :	(1) Asset or Purchases A/c. .. Dr.. (*with cash price*) Interest Suspense A/c. .. Dr (*with excess of instalment price over cash price*) To Vendor's (Seller's) A/c. (*with the value of all instalments*)
(2) For cash down payment on delivery :	(2) Vendor's A/c. .. Dr. To Cash or Bank A/c.
(3) When each payment falls due, the interest as calculated on the balance of cash price :	(3) Interest A/c. .. Dr. To Interest Suspense A/c.
(4) Every time when an instalment is paid to the vendor :	(4) Vendor's A/c. .. Dr. To Cash or Bank A/c. (*with the value of the instalment*)

Recording of Transactions in the books of the buyer *(Contd.)*

(5) For depreciation on (the cash value of) the asset :	(5) Depreciation A/c. .. Dr. To Asset A/c.
(6) To transfer Interest A/c. and Depreciation A/c. to Profit & Loss A/c. :	(6) Profit & Loss A/c. .. Dr. To Interest A/c. To Depreciation A/c.

4. Recording Transactions in the Books of the Vendor :

(1) On signing the contract of sale by instalment :	(1) Buyer's A/c. .. Dr. *(with full value)* To Sales A/c. *(with cash price)* To Interest Suspense A/c. *(with difference)*
(2) When each instalment will fall due :	(2) Interest Suspense A/c. .. Dr. To Interest A/c. *(with interest for the year)*
(3) Each time on receipt of instalment :	(3) Cash or Bank A/c. .. Dr. To Buyer's A/c. *(with the value of the instalment)*
(4) To transfer Interest A/c. to P. & L. A/c. :	(4) Interest A/c. .. Dr. To Profit & Loss A/c.
(5) To transfer the Sales A/c. to Trading A/c. :	(5) Sales A/c. .. Dr. To Trading A/c.

Illustration 1. *(Accounts in the books of buyer and vendor).*

X purchases on 1st January, 1963 some goods arranging to pay for the same over a period of 2 years by half yearly instalments of Rs. 1,600. The Company supplying the goods charges interest at the rate of 6% per annum and the present cash value of the goods is Rs. 5,948. Prepare the ledger accounts in the books of both the parties.

(North Bengal University, B. Com. (Adv.) 1966).

Solution

(a) In the books of the buyer i.e., X.

Dr. **Vendor's A/c.** **Cr.**

		Rs.			Rs.
1963 June, 30	To Cash A/c.	1,600·00	1963 Jan 1	By Purchase A/c.	5,948·00
,,	,, Balance c/d	4,800·00		,, Interest Suspense A/c	452·00
		6,400 00			6,400·00
1963 Dec. 31	To Cash A/c.	1,600·00	1963 July, 1	By Balance b/d	4,800·00
,,	,, Balance c/d	3,200·00			
		4,800·00			4,800·00
1964 June, 30	To Cash A/c.	1,600 00	1964 Jan. 1	By Balance b/d	3,200·00
,,	,, Balance c/d	1,600 00			
		3,200·00			3 200·00
1964 Dec. 31	To Cash A/c.	1,600·00	1964 July, 1	By Balance b/d	1,600·00

Note : Calculation of interest is shown below :

Year etc.	Cash Price at the Beginning	Instalment	Interest for ½yr. @ 6% on cash price	Principal	Cash Price at the end
1963, Jan. 1	5,948·00	—	—	—	
,, June 30	5,948·00	1,600·00	178·44	1,421·56	4,526·44
,, Dec. 31	4,526·44	1,600 00	135·79	1 464·21	3,062·23
1964. June 30	3,062·23	1,600·00	91·87	1,508·13	1,554·10
,, Dec. 31	1,554·10	1,600·00	45·90	1,554·10	Nil
			452·00	5,948·00	

Dr. **(2) Interest Suspense A/c.** **Cr.**

1963		Rs.	1963		Rs.
Jan. 1	To Vendor's A/c.	452·00	June, 30	By Interest A/c.	178·44
			,,	,, Balance c/d	273·56
		452·00			452·00
1963			1963		
July, 1	To Balance b/d	273·56	Dec. 31	By Interest A/c.	135·79
			,,	,, Balance c/d	137·77
		273·56			273·56
1964			1964		
Jan. 1	To Balance b/d	137·77	June, 30	By Interest A/c.	91·87
			,,	,, Balance c/d	45·90
		137·77			137·77
1964			1964		
July, 1	To Balance b/d	45·90	Dec. 31	By Interest A/c.	45·90

(b) In the books of the Vendor

Dr. **(1) X's (Buyer's) A/c.** **Cr.**

1963		Rs.	1963		Rs.
Jan. 1	To Sales A/c.	5,948·00	June, 30	By Cash A/c.	1,600·00
	,, Interest Suspense A/c.	452·00	Dec. 31	,, Cash A/c.	1,600·00
			,,	,, Balance c/d	3,200·00
		6,400·00			6,400·00
1964			1964		
Jan. 1	To Balance b/d	3,200·00	June, 30	By Cash A/c.	1,600·00
			Dec. 31	,, Cash A/c.	1,600·00
		3,200·00			3,200·00

Dr. **(2) Interest Suspense A/c.** Cr.

1963		Rs.	1963		Rs.
June, 30	To Interest A/c.	178·44	Jan. 1	By X's A/c.	452·00
Dec. 31	,, Interest A/c.	135·79			
,,	,, Balance c/d	137·77			
		452·00			452·00
1964			1964		
June, 30	To Interest A/c.	91·87	Jan. 1	By Balance b/d	137·77
Dec. 31	,, Interest A/c.	45·90			
		137·77			137·77

EXERCISE

1. A manufacturer purchases a plant for Rs. 22,730 on the instalment payment system. The first payment is to be made at the time of taking delivery of the plant and the entire payment is to be completed by four more equal annual payments. The vendor charges interest at 5% per annum. Assuming depreciation to be charged at 10% per annum on the reducing instalment plan, draw up the Plant Account and the Vendor's Account in the books of the manufacturer.

N. B.—The present value of Re. 1 invested at the begining of each year for 4 years at 5% per annum is Rs. 4·5460.

All calculations are to be made in terms of months.

(C. U. B. Com. (Adv.) 1956).

(Ans : Amount of each instalment—Rs. 5,000 ; Interest in the instalments : 1st—Rs. 887, 2nd—Rs. 681, 3rd—Rs. 465, 4th—Rs. 237).

Note : Instalment is calculated thus :

When present value is Rs. 4·5460, the instalment is Re. 1

$\therefore$ When present value is Rs. 22,730, the instalment is Rs. $\dfrac{22{,}730}{4 \cdot 5460}$

$= \text{Rs. } 5{,}000$

2. On 1st January, 1957, X purchased Wagons on instalment system. The cash price of the wagons was Rs. 11,175. The purchaser agreed to pay to the vendor Rs. 3,000 on signing the agreement and the balance of Rs. 9,000 was to be paid in three

annual instalments of Rs. 3,000 each, payable at the end of each year. The Vendo Company was to be depreciated in the books of the purchaser at 10% per annum o reducing instalment method.

You are required to give the Ledger Accounts in the books of X.

(C. U. B. Com. (Adv.) 1962)

(**Ans :** Interest in the instalment : 1st yr.—Rs. 408·75, 2nd yr.—Rs. 279·19 3rd yr.—Rs. 137·06).

3. A person buys a Motor Car on the Instalment Purchase System under whic payment is to be made for 4 years at the rate of Rs. 5,000 per annum, interest bein calculated at 5% per annum. The cash down price of the car is Rs. 17,730.

Depreciate the Car @ 10% p.a. on the diminishing balance system and write up th Motor Car A/c., Vendor's ' A/c. and Interest Suspense A/c., in buyer's books in th first 4 years.

(**Ans :** Interest in the instalment : 1st—Rs. 886·50, 2nd—Rs. 680·81, 3rd—Rs. 464·85, 4th—Rs. 237·84).

4. A Colliery Company agrees to purchase from a Wagon Company, some wagon over a period of five years payable by annual instalments of Rs. 10,000. The Wago Company will charge interest at 4% per annum on the yearly balances.

Show the Journal Entries and the Ledger Accounts for Wagons, Wagon Hire, Wago Company and Cash Book in the book of the Colliery Company.

Charge depreciation at 10% per annum.

N. B.—The present value of Re. 1 per annum for five years at 4% per annum is Rs. 4·4518.

(C. U. B. Com. (Adv.) 1943).

(**Ans :** Cash down Price of the Wagon—Rs. 44,518 ; Interest in the instalment : 1st yr.—Rs. 1,781, 2nd yr.—Rs. 1,452, 3rd yr.—Rs. 1,110, 4th yr.—Rs. 754, 5th yr.—Rs. 385).

CHAPTER XXXV

GOODS ON SALE OR RETURN

1. What is Sale or Return :

In some cases prospective buyers are allowed to take goods to their respective places so that they can examine the content, quality, usefulness etc., of the goods. The customers have the option to buy the goods or to return the goods within returnable period. When a customer signifies his willingness to buy such goods, then there will be sale. Where a customer does neither return the goods within stipulated period, nor signifies his willingness to buy such goods, it will also be a sale.

2. Recording Transactions relating to Sale or Return :

There are three different methods in recording the transactions relating to goods sent on sale or return. Which one of these three methods will be employed in a particular case depends on the volume of such transactions.

(a) **Where transactions are very small or casual :**

In such a case the transactions should be passed through Sales Day Book with a note that it is on 'Sale or return'. Here all transactions are treated as actual sale.

Transactions	*Journal Entries*
1. When goods are sent out for approval :	Individual Debtors' A/c. .. Dr. To Sales A/c.
2. When goods are returned by customers :	Sales A/c. .. Dr. To Individual Debtors' A/c.
3. When customers confirm sale :	No Entry
4. For goods lying in the hands of the customers at the year end (the returnable period has not expired) :	Sales A/c. .. Dr. To Individual Debtors' A/c.
5. When goods lying in the hands of the customers are included in the books :	Stock in Hands of Customers' A/c. .. Dr. To Trading A/c.

Notes : (1) The stock lying in the hands of the customers is to be reduced to cost or market price whichever is lower.

(2) This stock will be shown on the assets side of the Balance Sheet at cost.

Illustration 1 (*Where transactions are casual or small*)

A Gas Co. sends out its gas stoves to dealers on 'Sale or Return'. All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, 100 stoves which cost them Rs. 150 each, have been sent to a dealer on sale or return and have been debited to his account at Rs. 200 each out of which only 20 stoves are sold at Rs. 230 each.

Give the necessary journal entires and show which items will appear in the Balance Sheet ? (C. U. B. Com. (Adv.) 1960—adapted).

Solution

Journal Entries

			Rs.	Rs
(1) For Goods sent out for approval.	Debtors' A/cs. .. Dr. To Sales A/c. (Being 100 gas stoves @ Rs 200 each sent to the dealer)		20,000	20,000
(2) For Goods lying with the dealers.	Sales A/c. .. Dr. To Debtors A/cs. (Being 80 stoves @ Rs. 200 each lying in the hands of the dealers)		16,000	16,000
(3) For adjustment of difference.	Debtors' A/c. .. Dr. To Sales A/c (Being the adjustment of the difference between actual sale price and the price at which dealers were originally debited i.e., difference of Rs. 30 per stove for 20 stoves)		600	600
(4) For inclusion of stoves lying in the hands of the dealers in books	Stock in Hands of Customers' A/cs. Dr To Trading A/c. (Being 80 stoves @ Rs. 150 (cost) each included in the books)		12,000	12,000

Balance Sheet

Liabilities	Rs.	*Assets*	Rs.
		Sundry Debtors	4,600
		Stock in Hands of Customers	12,000

Notes : The goods lying in the hands of the customers are valued @ Rs. 150 per stove (i.e., cost) and is shown on the assets side of the Balance Sheet.

(b) Where Transactions are fairly Moderate :

In such a case a Sale or Return Day Book as given below is maintained.

Sale or Return Day Book

(1) Goods Sent				(2) Goods Sold			(3) Goods Returned		(4) Balance
Date	Particulars	Invoice No.	Amount	Date	L F.	Amount	Date	Amount	Amount

Notes :

Column (1)—This column represents the total goods sent to the customers during the period for approval. No posting is made from this column.

Column (2)—This column represents sales confirmed by the customers. Postings are to be made from this column.

Column (3)—This column represents total goods returned by customers during the period. No posting is made from this column.

Column (4)—In this column the excess of column (1) over the aggregate of columns (2) and (3) is shown. The total of this column represents total goods in the hands of the customers on the closing date. Posting is to be made from this column.

Postings from Sale or Return Day Book :

(1) When customers confirm sales, postings are to be made from 'Goods sold—Column' of Sale or Return Day Book :	(1) Individual Customers' A/cs. Dr. To Sales A/c (*with total*)
(2) When Stock in the hands of the customers is incorporated in the books, posting is to be made from Balance column of Sale or Return Day Book :	(2) Stock in Hands of Customers' A/c... Dr. To Trading A/c. **Note :** The Stock is to be reduced to cost or market price whichever is lower.

Illustration 2 (*Where transactions are fairly moderate*)

A Trading Co., sent out during a particular year 16 type writers on sale or return basis to A, B, C, D, E, F & G. at the rate of 2 each. The cost price of each type writer is Rs. 350 and sale price is Rs. 400 each. At the end of the year A, B, C and D confirmed sale of 8 type writers and 6 type writers were returned by E, F and G. H did not return the typewriter before the closing date. The company closes books on 31st December every year.

Record these transactions in the books of the Trading Co., where the transactions are fairly moderate.

Solution

(a) *Recording transactions in Sale or Return Day Book :*

Sale or Return Day Book

Goods Sent				Goods Sold			Goods Returned		Balance
Date	Particulars	Invoice No.	Amount	Date	L.F.	Amount	Date	Amount	Amount
			Rs.			Rs.		Rs.	Rs.
	A—2 Typewriter		800			800			—
	B—2 ,,		800			800			—
	C-2 ,,		800			800			—
	D—2 ,,		800			800			—
	E—2 ,,		800			—		800	—
	F—2 ,,		800			—		800	—
	G—2 ,,		800			—		800	—
	H—2 ,,		800			—		—	800
			6,400			3,200		2,400	800

(b) *Postings from Sale or Return Day Book :*

In Ledger

Dr. **A's Account** **Cr.**

		Rs.			Rs.
	To Sales A/c.	800			

Dr. **B's Account** **Cr.**

		Rs.			Rs
	To Sales A/c.	800			

Dr. **C's Account** **Cr.**

		Rs.			Rs.
	To Sales A/c.	800			

Dr. **D's Account** Cr.

	To Sales A/c.	Rs. 800			Rs.

Dr. **Sales Account** Cr.

		Rs.		By Sundries	Rs. 3,200

The journal entry to include the stock in the hands of the customers at the end of the year :

Stock in Hands of the Customers' A/c.	Dr.	Rs. 700	
To Trading A/c.			Rs. 700
(Being 2 type writers @ Rs. 350 each included in the books)			

(c) Where Transactions are Numerous :

In such a case a separate set of books will have to be opened for recording transactions relating to sale or return. These books are purely of memorandum nature and will not affect the ordinary books of accounts maintained under double entry system.

1. **Name and Purpose of the Sale or Return Books :**

Name of the books	*Purpose of the books*
(i) Sale or Return Day Book	to record all goods sent to the customers on sale or return.
(ii) Sale or Return Journal	to record all sales and returns by the customers.
(iii) Sale or Return Ledger	to open Individual Customers' A/cs. and Sale or Return A/c.

2. **Forms of the Sale or Return Books :**

(i) Sale or Return Day Book

Date	Particulars	Sale or Return L. F. No.	Amount	
			Rs.	P.

(ii) Sale or Return Journal

Goods Sold						Goods Returned				
Date	Particulars	Sale or Ret. L. F. No.	Sales L.F. No.	Amount		Date	Particulars	Sale or Return L. F. No.	Amount	
				Rs.	P.				Rs.	P.

Dr. *(iii) Sale or Return Ledger* Cr.

Date	Particulars	Sale or Ret. Day Book or Journal Folio	Amount		Date	Particulars	Sale or Ret. Day Book or Journal Folio	Amount	
			Rs.	P.				Rs.	P.

3. **Postings in Sale or Return Ledger :**

(i) From Sale or Return Day Book :	(i) Individual Customers' A/cs. .. Dr. To Goods on Sale or Return A/c. *(with periodical total)*
(ii) From Sale or Return Journal : (a) From Goods Sold Column : (b) From Goods Returned Column :	(ii) (a) Goods on Sale or Return A/c. .. Dr. *(with periodical total)* To Individual Customers' A/cs. (ii) (b) Goods on Sale or Return A/c. .. Dr. *(with periodical total)* To Individual Customers' A/cs.

4. **Postings in the Permanent Ledger :**

(i) From Sale or Return Day Book :	(i) No posting in the General Ledger
(ii) From Sale or Return Journal :—	
(a) From Goods Sold Column :	(ii) (a) Individual Customers' A/cs. .. Dr. To Sales A/c. *(with periodical total)*
(b) From Goods Returned Column	(ii) (b) No posting in the General Ledger.

5. **Stock in the Hands of the Customers :**

The stock in the hands of the customers at the end of the accounting period is to be reduced to cost or market price whichever is lower. To incorporate the stock in the hands of the customers in the ordinary books of accounts, the following journal entry is necessary :—

Stock in the Hands of Customers' A/c. .. Dr.
To Trading A/c.

Stock with the customers is got from the Goods on Sale or Return A/c. in the Sale or Return Ledger. This stock is shown as an asset in the Balance Sheet.

6. **Preparation of a Trial Balance :** In order to ascertain the arithmetical accuracy of the accounts recorded in the Sale or Return Ledger, a *Trial Balance* may be prepared by taking the balances of the ledger accounts of the Sale or Return Ledger.

Illustration 3 *(Where transactions are numerous)*

Taking illustration No. 2 record the transactions in the books of the Trading Co., where the transactions are numerous.

Solution

Sale or Return Day Book

Date	Particulars	Sale or Return L. F. No.	Amount
			Rs.
	A—2 typewriters @ Rs. 400 each	1	800
	B—2 typewriters @ Rs. 400 each	2	800
	C—2 typewriters @ Rs. 400 each	3	800
	D—2 typewriters @ Rs. 400 each	4	800
	E—2 typewriters @ Rs. 400 each	5	800
	F 2 typewriters @ Rs. 400 each	6	800
	G—2 typewriters @ Rs. 400 each	7	800
	H—2 typewriters @ Rs. 400 each	8	800
			6,400
			S. or R. L.F.No.9

Trial Balance

	Dr. Balance	Cr. Balance
H's Account	800	—
Goods on Sale or Return Account	—	800
	800	800

EXERCISE

1. A Mehta who keeps a special set of books for this type of business sends out goods on sale or return as follows :

			Rs.				
Jan.	1	B. Bose	500	Jan.	4	All Retained	
	9	C. Chatterjee	250		10	Returned	Rs. 150
						Retained	Rs. 100
	16	D. Datta	700		19	All retained	
	23	C. Chatterjee	250		25	All retained	
	30	B. Bose	400			No intimation received as to sale and goods not yet returned.	
	31	E. Edward	500				

Show Day Books, Goods on Sale or Return Total Account, and Ledger Accounts (only B. Bose's personal account is required). What does the balance on the Goods on Sale or Return Total Account represent ?

(I. C. W. A.—Inter, July, 1963).

(**Ans :** Stock in Hands of Customers' Account Rs. 900).

2. A Motor Car Company sends out its cars to dealers on "Sale or Return." All such transactions are, however, treated like actual sales and are passed through the Day Books. Just before the end of the financial year, two cars which had cost Rs. 5,500 each, have been sent on "Sale or Return" and have been debited to customers at Rs. 7,500 each. How would you adjust these transactions for the purpose of the Company's Profit and Loss Account and Balance Sheet ?

(Bombay University—B. Com.)

(**Ans :** Stock in Hands of Customers A/c. Rs. 11,000).

3. Automobiles Ltd., send out Motor Cars "On Sale or Return." They maintain a separate set of books for this type of business. During the month of April, 1959, they sent out motor-cars "on Sale or Return" as follows :—

1959			Rs.	1959		
April,	2	Y & Co Ltd.	10,000	April,	7	Returned
„	16	Xaviers & Co.	15,000	„	20	Retained
„	20	Y & Co. Ltd.	16,000	„	25	Returned
„	28	Y & Co. Ltd.	20,000			No intimation received as to approval and car not yet returned.

Show Day Books and Ledger Accounts.

(I. C. W. A.—Inter).

(**Ans :** Sale or Return A/c. (Cr.) Rs. 20,000).

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(Vol. II)

২২ অধ্যায়

(কোম্পানী-এড্ভান্সড)

(Company-Advanced)

শেয়ার পুঁজির পুনর্গঠন

(Capital Re-organisation)

কোনও কোম্পানী নিম্নলিখিত উপায় দুইটির যে কোন একটির দ্বারা অথবা একই সঙ্গে উভয়ের দ্বারা শেয়ার পুঁজির পুনর্গঠন করিতে পারে :—

(১) পুঁজির পরিবর্তন এবং

(২) পুঁজির হ্রাস।

১. **পুঁজির পরিবর্তন** (Alteration of Share Capital) : আর্টিকল্স-এ বিধান থাকিলে নিম্নলিখিত এক বা একাধিক উপায়ে কোনও কোম্পানী উহার শেয়ার পুঁজির পরিবর্তন করিতে পারে :—

(১) শেয়ার পুঁজি বৃদ্ধি করিয়া,

(২) শেয়ারগুলি একত্রিত অথবা বিভক্ত করিয়া,

(৩) পূর্ণমূল্য আদায়ীকৃত শেয়ারগুলি স্টকে অথবা স্টককে শেয়ারে রূপান্তরিত করিয়া এবং

(৪) শেয়ার পুঁজি কমাইয়া অর্থাৎ অবিলিকৃত শেয়ার বাতিল করিয়া।

অনুমোদিত মূলধনের বৃদ্ধি ঘটিলে, উক্ত বৃদ্ধি সংক্রান্ত প্রস্তাব গ্রহণের ১৫ দিনের মধ্যে, রেজিস্ট্রারকে নোটিশের দ্বারা মূলধন বৃদ্ধির বিষয় জানাইতে হইবে। অন্যভাবে পুঁজির পরিবর্তন ঘটিলে, উহার ৩০ দিনের মধ্যে নোটিশ দ্বারা রেজিস্ট্রারকে পরিবর্তনের বিষয় জানাইতে হইবে। কোম্পানীর উদ্বৃত্তপত্রে অনুমোদিত মূলধনকে পরিবর্তিত আকারে দেখাইতে হইবে।

শেয়ার পুঁজির পরিবর্তন সম্পর্কে আর্টিকল্স্-এ কোন বিধান না থাকিলে, কোম্পানী উহার সাধারণ সভায় বিশেষ প্রস্তাব পাশ করিয়া আর্টিকল্স্-এর প্রয়োজনীয় পরিবর্তন সাধন করিয়া এ ব্যাপারে ক্ষমতা গ্রহণ করিতে পারে।

২. **পুঁজির হ্রাস** (Reduction of Share Capital) : কোম্পানী আইনের ১০০ হইতে ১০৫ ধারাগুলির দ্বারা পুঁজি-হ্রাস সংক্রান্ত কাযাবলী পরিচালিত হয়। পুঁজি-হ্রাস করার জন্য এই মর্মে আর্টিকল্স্-এ বিধান থাকা প্রয়োজন। কোম্পানীর সাধারণ সভায় পুঁজি-হ্রাস সংক্রান্ত বিশেষ প্রস্তাব পাশ করিতে হইবে। আদালতের নিকট আবেদন করিয়া পুঁজি-হ্রাস সম্পর্কে অনুমোদন লইতে হইবে। নিম্নলিখিত এক বা একাধিক উদ্দেশ্য সাধনের জন্য পুঁজির পরিমাণ হ্রাস করা হয় :—

(১) শেয়ার পুঁজির অ-তলবী অংশের দায় হ্রাস করার জন্য,

(২) প্রয়োজনাতিরিক্ত আদায়ীকৃত পুঁজি ফেরত দেওয়ার জন্য, অথবা

(৩) আদায়ীকৃত পুঁজির যে অংশ নষ্ট হইয়া গিয়াছে বা যে বাবদ কোনও সম্পত্তি বর্তমান নাই তাহা বাতিল করার জন্য।

পুঁজি-হ্রাস সংক্রান্ত বিশেষ প্রস্তাব অনুমোদন করার পূর্বে আদালত ক্ষতিগ্রস্ত পাওনাদারগণের সহিত আলোচনা করিয়া থাকে। উক্ত পাওনাদারগণের পাওনা সম্পর্কে সন্তোষজনক ব্যবস্থা গৃহীত হইলেই আদালত উহার অনুমোদন দিয়া থাকে। আদালত একটা নির্দিষ্ট সময়ের জন্য কোম্পানীকে

উহার নামের শেষে "and reduced" কথাটি যোগ করিবার জন্য নির্দেশ দিতে পারে। পুঁজি-হ্রাস করিবার পর, কোম্পানীর মেমোরেণ্ডাম এবং আর্টিকল্‌স্‌-কে প্রয়োজনমত পরিবর্তন করিতে হয়।

পুঁজি-হ্রাসকে কোম্পানীর **আভ্যন্তরীণ পুনর্গঠন (Internal Reconstruction)** বলা হয়।

কারবার-ক্রয়, একমালিকী ও অংশীদারী কারবারের কোম্পানীতে রূপান্তরকরণ

(Purchase of a Business, Conversion etc.)

১. কারবার-ক্রয় কাহাকে বলে? (What is Purchase of Business?) : কখনও কখনও কোনও কারবারী কোম্পানী মোটামুটি একই ধরণের ব্যবসায়ে নিযুক্ত প্রতিষ্ঠান **ক্রয়** করিয়া থাকে। আবার অনেক সময় একমালিকী বা অংশীদারী কারবারকে সীমাবদ্ধ দায়সম্পন্ন কোম্পানীর সুবিধা লাভ করিবার জন্য শেয়ারের দ্বারা সীমাবদ্ধ কোম্পানীতে **রূপান্তরিত** করা হয়। কোন কোন ক্ষেত্রে চালু প্রতিষ্ঠানের কারবার অধিকার করিবার উদ্দেশ্যে নতুন করিয়া সীমাবদ্ধ দায় বিশিষ্ট কোম্পানী **গঠন** করা হয়। যে কোম্পানী কারবার ক্রয় করে উহাকে **ক্রেতা কোম্পানী** বলে। কারবারের বিক্রেতাকে **ভেণ্ডার** (vender) বলে। কারবার ক্রয় বা অধিকার করিবার জন্য যে মূল্য প্রদান করা হয়, উহাকে **ক্রয়-প্রতিদান** (purchase consideration) বলা হয়।

২. ক্রয়-প্রতিদান নির্ণয় (Determination of Purchase Consideration) : চুক্তির শর্ত অনুযায়ী ক্রয়-প্রতিদান নির্ণয় করা হয়। সাধারণত নিম্নলিখিত পদ্ধতিতে ক্রয়-প্রতিদান নির্ধারণ করা হয় :—সুনামসহ গৃহীত সম্পত্তিগুলির মোট স্বীকৃতমূল্য হইতে গৃহীত দায়গুলির মোট স্বীকৃতমূল্য বাদ দিলে, যে অঙ্ক অবশিষ্ট থাকে, উহাই হইল **ক্রয়-প্রতিদান**। ক্রেতা কোম্পানী বিক্রেতাকে ক্রয়-প্রতিদান বাবদ একটি থোক অঙ্কও নগদ প্রদান করিতে পারে। ক্রেতা কোম্পানী নগদ অর্থে বা নিজের শেয়ারে বা ডিবেঞ্চারে বা সব মিলাইয়া ক্রয়-প্রতিদান পরিশোধ করিতে পারে। শেয়ারগুলি সমহারে বা অধিহারে বিলিকৃত হইতে পারে।

ক্রয়-প্রতিদান নির্ধারণ করিবার সময় অলীক সম্পত্তিগুলি হিসাবের মধ্যে ধরিতে হয় না। মূলধন, সাধারণ সঞ্চিতি, লাভ-লোকসানের হিসাবের (credit balance) ইত্যাদিও হিসাবের মধ্যে ধরা হয় না।

একত্রীকরণ, গ্রসন ও পুনর্গঠন

(Amalgamation, Absorption & Reconstruction)

১. একত্রীকরণ (Amalgamation) : যখন প্রায় একই ধরণের উৎপাদনে বা ব্যবসায়ে নিযুক্ত দুই বা ততোধিক কোম্পানীর কারবার একত্রিত করিয়া পরিচালনার জন্য নূতন একটি কোম্পানী গঠন করা হয়, তখন উহাকে **একত্রীকরণ** (Amalgamation) বলা হয়। একত্রীকরণের ফলে সংশ্লিষ্ট পুরাতন কোম্পানীগুলির সমাপন ঘটিয়া থাকে। একত্রীকরণের ক্ষেত্রে নবগঠিত কোম্পানী পুরাতন কোম্পানী-গুলিকে ক্রয় করিয়া লইয়াছে বলিয়া ধরিয়া লওয়া যায়। নবগঠিত কোম্পানী পুরাতন কোম্পানীর প্রসমাপককে (Liquidator) ক্রয়-প্রতিদান বাবদ নিজের শেয়ার বিলি করিয়া থাকে। পুরাতন কোম্পানীর শেয়ারহোল্ডারগণ তাহাদের শেয়ার বাবদ নূতন কোম্পানীতে আনুপাতিক হারে শেয়ার লাভ করিয়া থাকে।

২. গ্রসন (Absorption) : যখন একটি কোম্পানী অন্য এক বা একাধিক কোম্পানীর কারবার ক্রয় করিয়া লয়, তখন উহাকে গ্রসন (Absorption) বলা হয়। এইরূপ ক্ষেত্রে গ্রসিত কোম্পানীর

সমাপন ঘটিয়া থাকে। গ্রসিত কোম্পানীর প্রসমাপককে (Liquidator) ক্রয়-প্রতিদান হিসাবে গ্রসনকারী কোম্পানী নিজের শেয়ার বিলি করিয়া থাকে। প্রসমাপক গসিত কোম্পানীর শেয়ারহোল্ডারগণের মধ্যে উক্ত শেয়ার বণ্টন করিয়া দেয়।

৩. **পুনর্গঠন** (Reconstruction) : পুনর্গঠন দুই প্রকার—আভ্যন্তরীণ (Internal) ও বাহ্যিক (External)। আভ্যন্তরীণ পুনর্গঠন বলিতে পুঁজি-হ্রাসকে (Capital Reduction) বুঝায়। যখন একটি পুরাতন কোম্পানীর সমাপন ঘটাইয়া উহাকে একটি নূতন কোম্পানীরূপে সংগঠিত করা হয়, তখন তাহাকে বাহ্যিক পুনর্গঠন বলা হয়।

যখন কোনও কোম্পানীতে প্রয়োজনাতিরিক্ত মূলধন নিয়োজিত হয়, অথবা উক্ত কোম্পানীর ব্যবসায়ে প্রচুর লোকসান হয়, তখন উহার বাহ্যিক পুনর্গঠন করা হয়। পুনর্গঠিত কোম্পানী পুরাতন কোম্পানীর শেয়ারহোল্ডার, ডিবেঞ্চারহোল্ডার ও Creditor দের মধ্যে ক্রয়প্রতিদান বাবদ উহার শেয়ার ও ডিবেঞ্চার বিলি করিয়া থাকে।

৪. **ক্রয়-প্রতিদান** (Purchase Consideration : একত্রীকরণ, গ্রসন ও বাহ্যিক পুনর্গঠনের ক্ষেত্রে কারবারের ক্রয় বিক্রয় ঘটিয়াছে বলিয়া ধরিয়া লওয়া হয়। সুতরাং এই সব ক্ষেত্রেও ক্রয়-প্রতিদান (Purchase consideration) নির্ণয় করা হয়। ক্রেতা-কোম্পানীর শেয়ারে বা ডিবেঞ্চারে বা সব মিলাইয়া ক্রয়-প্রতিদান দেওয়া হয়। ক্রয়-প্রতিদান কিভাবে নির্ণয় করা হয় তাহা আগেই আলোচনা করা হইয়াছে।

৫. **একত্রীকরণ, গ্রসন ও বাহ্যিক পুনর্গঠন সংক্রান্ত হিসাব-রক্ষণ :** কারবার-ক্রয়ের ক্ষেত্রে যে পদ্ধতিতে হিসাব রাখা হয়, একত্রীকরণ, গ্রসন ও বাহ্যিক পুনর্গঠনের প্রত্যেকটি ক্ষেত্রেই সেই প্রকারে হিসাব রাখা হয়। এই সব ক্ষেত্রে পুরাতন কোম্পানীর বইতে একটি Realisation Account খোলা হয়। ঐ কোম্পানীর সমস্ত সম্পত্তি ও দায় এই হিসাবে স্থানান্তরিত করা হয়। যদি ক্রেতা-কোম্পানী Provident Fund, Superannuation Fund, Pension Fund ইত্যাদির দায় বহন করিতে স্বীকৃত হয়, তাহা হইলে এইগুলি Realisation Account-এ স্থানান্তরিত করিতে হইবে। ক্রয়-প্রতিদানের অঙ্ক ক্রেতা কোম্পানীর হিসাবে Debit এবং Realisation Account এ Credit করা হয়। Realisation Account-এর Balance শেয়ারহোল্ডারগণের হিসাবে স্থানান্তরিত করা হয়।

শেয়ার-পুঁজি, সঞ্চিতি, সঞ্চিত লাভ বা ক্ষতি শেয়ারহোল্ডারগণের হিসাবে স্থানান্তরিত করিতে হয়।

২৩ অধ্যায়

দেউলিয়া-অবস্থা (Insolvency)

১. **দেউলিয়া-অবস্থা কাহাকে বলে ?** (What is Insolvency ?) **:** যে অবস্থায় কোনও ব্যক্তি নিজস্ব সম্পত্তি হইতে তাহার দায় বা দেনা মিটাইতে পারে না, সে অবস্থাকে **দেউলিয়া-অবস্থা** বা Insolvency বলে। যে ব্যক্তি তাহার সম্পূর্ণ দায় বা দেনা পরিশোধ করিতে অক্ষম এবং যাহার ব্যক্তিগত আবেদনে বা পাওনাদারগণের আবেদনে আদালত তাহাকে দেউলিয়া বলিয়া ঘোষণা করিয়াছে সেই ব্যক্তিকেই আইনত **দেউলিয়া** (Insolvent) বলা হয়। অংশীদারী কারবার বা Firm-কে অনুরূপ অবস্থায় দেউলিয়া ঘোষণা করা যাইতে পারে। কিন্তু দেউলিয়া সংক্রান্ত কর্মধারা কোম্পানীর ক্ষেত্রে প্রযোজ্য হয় না। কোম্পানীর ক্ষেত্রে অবলোপন সংক্রান্ত কার্যধারাই প্রযোজ্য হয়।

২. **দেউলিয়া সংক্রান্ত কার্যধারা নিয়ন্ত্রণকারী আইন** (Acts Regulating Insolvency Proceedings) : ভারতবর্ষে দেউলিয়া সংক্রান্ত কার্যধারা দুইটি আইনের দ্বারা নিয়ন্ত্রিত হয়—(১) ১৯০৯ সালের প্রেসিডেন্সি শহর দেউলিয়া আইন এবং (২) ১৯২০ সালের প্রাদেশিক দেউলিয়া আইন। কলিকাতা, বোম্বাই ও মাদ্রাজ শহরের দেউলিয়া সংক্রান্ত কার্যধারা প্রেসিডেন্সি শহর দেউলিয়া আইনের দ্বারা এবং ভারতবর্ষের অন্যান্য অংশের দেউলিয়া সংক্রান্ত কার্যধারা প্রাদেশিক দেউলিয়া আইনের দ্বারা নিয়ন্ত্রিত হয়।

৩. **সরকারী তত্ত্বাবধায়ক এবং রিসিভার** (Official Assignee and Receiver) : যে ব্যক্তি দেউলিয়ার সম্পত্তির তত্ত্বাবধানের ভার গ্রহণ করেন, তাঁহাকে প্রেসিডেন্সি শহরের আওতায় হইলে সরকারী তত্ত্বাবধায়ক (Official Assignee) এবং অন্যত্র হইলে রিসিভার (Receiver) বলা হয়।

৪. **আর্থিক অবস্থার বিবরণ ও ঘাটতির হিসাব** (Statement of Affairs and Deficiency Account) : আদালত কর্তৃক দেউলিয়া ঘোষিত হইলে, দেউলিয়া বলিয়া ঘোষিত ব্যক্তিকে আদালতের নির্দেশ গ্রহণের দিন তাহার আর্থিক অবস্থা কিরূপ উহা দেখাইয়া একটি বিবরণ তৈরী করিতে হইবে। ইহা ছাড়া কিভাবে তাহার দেনা সম্পত্তি হইতে বৃদ্ধি পাইয়াছে অর্থাৎ ঘাটতি হইয়াছে, তাহা Deficiency Account-এর সাহায্যে দেখাইতে হইবে। এই উদ্দেশ্যে ভারতবর্ষের বিভিন্ন আদালত নির্দিষ্ট ফরম্ (Form)-এর বিধান দিয়াছেন।

৫. **ঘাটতি** (Deficiency) : সম্পত্তির সম্ভাব্য বিক্রয়লব্ধ অর্থ ও পাওনাদারগণকে দেয় অর্থের অন্তরকে ঘাটতি বা Deficiency বলা হয়।

৬. **প্রাপ্ত অর্থের ক্রম-বণ্টন** (Order of distribution of available amounts) : সরকারী তত্ত্বাবধায়ক বা রিসিভারকে নিম্নলিখিতভাবে সংগৃহীত অর্থ পাওনাদারগণের মধ্যে বণ্টন করিতে হইবে :—

(১) যে সকল পাওনাদারদের নিকট হইতে পূর্ণ জামিনে ঋণ গ্রহণ করা হইয়াছে, তাহাদের পাওনা সর্বপ্রথম মিটাইতে হইবে। যে সকল পাওনাদারদের নিকট হইতে আংশিক জামিনে ঋণ গ্রহণ করা হইয়াছে, তাহাদের জামিন সমান পাওনা মিটাইতে হইবে।

(২) সম্পত্তির বিক্রয় সংক্রান্ত খরচ এবং সরকারী তত্ত্বাবধায়ক বা রিসিভারের প্রাপ্য পারিশ্রমিক।

(৩) অগ্রাধিকারী পাওনাদার।

(৪) যে সকল পাওনাদারদের নিকট হইতে কোন জামিনে ঋণ লওয়া হয় নাই।

২৪ অধ্যায়

দ্বৈত হিসাব (Double Account)

১. **ইহার অর্থ** (Its meaning) : দ্বৈত হিসাব হইল রেল কোম্পানী, ট্রাম কোম্পানী, বিদ্যুৎ সরবরাহ কোম্পানী, গ্যাস কোম্পানী, জল সরবরাহ কোম্পানী প্রভৃতি জনসেবামূলক প্রতিষ্ঠানের চূড়ান্ত হিসাব (Final Accounts) দাখিল করিবার একটি বিশেষ প্রণালী। এই সেবামূলক প্রতিষ্ঠানগুলি সাধারণত সরকারের বিশেষ আইনবলে সৃষ্ট হয়। ঐ আইনেই এসকল প্রতিষ্ঠানের চূড়ান্ত হিসাব তৈরী করিবার ফরম্ নির্দিষ্ট করিয়া দেওয়া হয়। এই ফরম্ দ্বৈত হিসাব পদ্ধতিতে রচনা করা হয়। দ্বৈত হিসাব পদ্ধতি অনুসারে উদ্বৃত্তপত্রকে (Balance Sheet) দুই ভাগে ভাগ করা হয়—(১) মূলধনী হিসাব (Capital Account) এবং (২) সাধারণ উদ্বৃত্তপত্র (General Balance Sheet)।

২. **ইহার বৈশিষ্ট্য (Its' features)** : দ্বৈত হিসাব পদ্ধতির মূল বৈশিষ্ট্য হইল—

(১) উদ্বৃত্তপত্র দুইভাগে বিভক্ত করা হয়— (ক) মূলধনী হিসাব (Capital A/c) অথবা মূলধন সংক্রান্ত আদায় ও ব্যয়ের হিসাব (Receipts and Expenditures on Capital A/c) এবং

(খ) সাধারণ উদ্বৃত্তপত্র (General Balance sheet)।

(ক) **মূলধনী হিসাব অথবা মূলধন সংক্রান্ত আয়-ব্যয়ের হিসাব (Capital A/c or Receipts & Expenditure on Capital A/c)** : মূলধনী আয়-ব্যয়গুলি এই হিসাবে দেখানো হয়। এই হিসাবের ডান দিকে অর্থাৎ (Credit)-এর দিকে আদায়ীকৃত মূলধন, স্টক, ডিবেঞ্চার ও ঋণ বাবদ গৃহীত অর্থ ইত্যাদি দেখানো হয়। মূলধনী ব্যয়গুলি যথা স্থায়ী সম্পত্তি ক্রয় সংক্রান্ত ব্যয়গুলি এই হিসাবের বাম দিকে অর্থাৎ Debit-এর দিকে দেখানো হয়। এই হিসাবের উদ্বৃত্ত বা Balance সাধারণ উদ্বৃত্তপত্রে স্থানান্তরিত করা হয়।

(খ) **সাধারণ উদ্বৃত্তপত্র (General Balance Sheet)** : (১) মূলধনী হিসাবের Balance এবং অন্যান্য সমস্ত প্রবাহী সম্পত্তি ও দায়গুলি সাধারণত উদ্বৃত্তপত্রে দেখানো হয়।

(২) দ্বৈত হিসাব পদ্ধতিতে লাভ-লোকসানী (Revenue) আয়-ব্যয়গুলি দুইভাগে দেখানো হয়— (ক) আয়-ব্যয়ের হিসাব (Revenue Account) এবং (খ) নীট্ আয়-ব্যয়ের হিসাব (Net Revenue Account)।

(ক) **আয়-ব্যয়ের হিসাব (Revenue Account)** : আয়-ব্যয়ের হিসাবটি সাধারণ লাভ-লোকসানের হিসাব (Profit & Loss A/c) যেভাবে প্রস্তুত করা হয়, ঠিক সেভাবে প্রস্তুত করা হইয়া থাকে। কারবার পরিচালনার ব্যয়, অবচয়, মেরামতি ব্যয় ইত্যাদি আয়-ব্যয়ের হিসাবে debit করা হয়। আয়-সংক্রান্ত বিষয়গুলি এই হিসাবে credit করা হয়। লাভ-লোকসানের হিসাব এবং আয়-ব্যয়ের হিসাবের মধ্যে একমাত্র পার্থক্য হইল,—আর্থিক ব্যয়গুলি (financial charges) যথা সুদ ইত্যাদি লাভ-লোকসানের হিসাবের ন্যায় আয়-ব্যয়ের হিসাবে দেখানো হয় না। ঐগুলি নীট্ আয়-ব্যয়ের হিসাবে দেখানো হয়। আয়-ব্যয়ের হিসাবের উদ্বৃত্ত নীট্ আয়-ব্যয়ের হিসাবে স্থানান্তরিত করা হয়।

(খ) **নীট্ আয়-ব্যয়ের হিসাব (Net Revenue Account)** : নীট্ আয়-ব্যয়ের হিসাবটি প্রায় লাভ-লোকসান বণ্টনের হিসাবের (Profit & Loss Appropriation Account) অনুরূপ। একমাত্র পার্থক্য হইল আর্থিক ব্যয়গুলি যথা ধার, বন্ধক ও ডিবেঞ্চার ইত্যাদি বাবদ সুদ নীট্ আয়-ব্যয়ের হিসাবে দেখানো হয়। এই হিসাবের উদ্বৃত্ত সাধারণ উদ্বৃত্তপত্রে স্থানান্তরিত করা হয়।

(৩) **অবচয় (Depreciation)** : দ্বৈত হিসাব পদ্ধতিতে স্থায়ী সম্পত্তিগুলি সব সময় ক্রয় মূল্যে দেখানো হয়। অবচয় সম্পত্তি হইতে বাদ দিয়া দেখানো হয় না। আয়-ব্যয়ের হিসাবকে debit করিয়া একটি **অবচয় তহবিল** (Depreciation Fund) সৃষ্টি করা হয়। সাধারণ উদ্বৃত্তপত্রে এই তহবিলকে দায়ের দিকে দেখানো হয়।

৪. **ব্যয়ের বণ্টন (Allocation of Expenditures)** : সাধারণ নিয়ম অনুসারেই ব্যয়গুলিকে মূলধনী ও লাভ-লোকসানী, এই দুই শ্রেণীতে ভাগ করা হয়। স্থায়ী সম্পত্তির মেরামত, নূতনকরণ ইত্যাদি বাবদ খরচ আয়-ব্যয়ের হিসাবে দেখানো হয়। মূলধনী ব্যয়গুলি যথা নতুন সম্পত্তি ক্রয়, পুরাতন সম্পত্তির বৃদ্ধি সংক্রান্ত ব্যয়গুলি মূলধনী হিসাবে (Capital A/c-এ) দেখানো হয়।

(৬) **বাট্টাকৃত এবং ক্রীত হুণ্ডি (Bills Discounted and Purchased):** ব্যাঙ্ক যে সকল বিল ভাঙ্গাইয়া বা খরিদ করিয়া গ্রাহককে টাকা দিয়াছে, সেগুলির যদি মেয়াদ শেষ না হয়, তাহা হইলে উদ্বৃত্তপত্রের সম্পত্তির দিকে "Advances"—এই শিরোনামায় দেখাইতে হইবে।

(৭) **বাট্টাকৃত হুণ্ডির উপর ছাড় (Rebate on Bills Discounted):** উদ্বৃত্তপত্র যে তারিখে প্রস্তুত করা হয় সে তারিখে কিছু কিছু বাট্টাকৃত বা ক্রীত বিলের মেয়াদ শেষ হয় না। ব্যাঙ্কের আর্থিক বৎসরের শেষ তারিখ হইতে অর্থাৎ উদ্বৃত্তপত্র তৈরীর তারিখ হইতে এই সব হুণ্ডির মেয়াদ পূর্তির তারিখ পর্যন্ত যে বাট্টা হয়, উহা ব্যাঙ্কের অগ্রিম প্রাপ্ত বাট্টা বলিয়া ধরিতে হইবে। এই বাট্টা সংশ্লিষ্ট আর্থিক বৎসরের আয় নয়। আর্থিক বৎসরের শেষে এই অগ্রিম প্রাপ্ত বাট্টার জন্য Discount A/c-কে debit এবং Rebate on bills Discounted A/c-কে credit করা হয়। ইহাকে উদ্বৃত্তপত্রের দায়ের দিকে "Other Liabilities"—এই শিরোনামায় দেখানো হয়।

(৮) **হুণ্ডি-স্বীকার ও পৃষ্ঠাঙ্কনের জন্য গ্রাহকগণের দায় (Customers' Liability for Acceptances and Endorsements):** ব্যাঙ্ক সাধারণত গ্রাহকগণের পক্ষ অবলম্বন করিয়া হুণ্ডি স্বীকার, পৃষ্ঠাঙ্কন ইত্যাদির দায় গ্রহণ করিয়া থাকে। ব্যাঙ্কের উদ্বৃত্তপত্রের এইরূপ দায়কে একটি পৃথক শিরোনামায় দায়ের দিকে দেখানো হয়। ব্যাঙ্ক গ্রাহকগণের পক্ষ গ্রহণ করিয়া এইরূপ দায় গ্রহণ করিবার সময় গ্রাহক-গণের নিকট হইতে উপযুক্ত জামিন গ্রহণ করিয়া থাকে। এই জামিনের অঙ্কটিও উদ্বৃত্তপত্রে সম্পত্তির দিকে একটি পৃথক শিরোনামায় দেখানো হয়।

(৯) **ব্যাঙ্ক ব্যবসায়ে অব্যবহৃত সম্পত্তি (Non-Banking Assets):** নিজের ব্যবহারে প্রয়োজন হয় না এইরূপ কোন স্থাবর সম্পত্তি ব্যাঙ্ক হস্তগত করিলে, উক্ত সম্পত্তি হস্তগত করার সাত বৎসরের মধ্যে ব্যাঙ্ককে ঐ সম্পত্তির বিক্রয় বা বিলি ব্যবস্থা করিতে হইবে। এইরূপ সম্পত্তিকে ব্যাঙ্কের উদ্বৃত্তপত্রে সম্পত্তির দিকে দেখানো হয়।

(১০) **বাজে-দেনা এবং অনিশ্চিত দেনার জন্য ভবিষ্যত-ব্যবস্থা (Bad Debts and Provision for Doubtful Debts):** এই দুইটি বিষয় ব্যাঙ্কের লাভ-লোকসানের হিসাব এবং উদ্বৃত্ত পত্রে আলাদা করিয়া উল্লেখ করা হয় না। কিন্তু ব্যাঙ্কের মোট আয় হইতে বাদ দিয়া দেখানো হয়। জনসাধারণ যাহাতে ব্যাঙ্কের উপর আস্থা না হারায়, সেজন্যই এই ব্যবস্থা অবলম্বন করা হয়।

(১১) **আয়করের ভবিষ্যত-ব্যবস্থা (Provision for Income Tax):** আয়করের জন্য যে ভবিষ্যত-ব্যবস্থা করা হয়, উহা ব্যাঙ্কের আয় হইতে বাদ দেওয়া হয়। উদ্বৃত্তপত্রে ইহাকে আলাদাভাবে দেখানো হয় না। "Current Accounts & Contingency Accounts"—এই হিসাবের মধ্যেই আয়করের ভবিষ্যত-ব্যবস্থার অঙ্ক দেখানো হয়।

(১২) **অনিশ্চিত দেনার উপর সুদ (Interest on Doubtful Debts):** অনিশ্চিত দেনার উপর সুদের অঙ্ক সংশ্লিষ্ট Loan A/c-এ debit করা হয়। কিন্তু Interest A/c-এ credit করা হয় না। ইহাকে Interest Suspense A/c-এ credit করা হয়। এই সুদের যে অঙ্ক নগদ টাকায় পাওয়া যায়, সে অঙ্ক Interest Suspence A/c হইতে Interest A/c-এ স্থানান্তরিত করা হয়। Interest A/c-এর অবশিষ্ট অঙ্ক Loan A/c-এ স্থানান্তরিত করা হয়। ইহার ফলে Interest Suspense A/cটি বন্ধ হইয়া যায়।

২৬ অধ্যায়

বীমা (Insurance)

(ক) বীমা কোম্পানীর হিসাব

(Accounts of Insurance Company)

১. বীমা ব্যবসায়ের শ্রেণী বিভাগ (Classification of Insurance Business) : বীমা ব্যবসায়কে প্রধানত দুই ভাগে ভাগ করা যায়—

(ক) জীবনবীমা ব্যবসায় এবং,
(খ) সাধারণ বীমা ব্যবসায়।

নিম্নলিখিত বীমাগুলি সাধারণ বীমা ব্যবসায়ের অন্তর্ভুক্ত :—

(১) অগ্নি বীমা (Fire Insurance),
(২) নৌ-বীমা (Marine Insurance),
(৩) দুর্ঘটনা বীমা (Accident Insurance),
(৪) চৌর্য বীমা (Burglary Insurance),
(৫) বিশ্বস্ততা বীমা (Fidelity Insurance),
(৬) শ্রমিকের ক্ষতিপূরণ বীমা (Workman's Compensation Insurance) ইত্যাদি।

২. নিয়ন্ত্রণকারী আইন (Regulating Acts) : ১৯৫৬ সালের জীবনবীমা করপোরেশন আইনের ৩নং ধারা অনুসারে ভারতীয় জীবনবীমা করপোরেশন সংস্থাটি স্থাপিত হয়। বর্তমানে ভারতের যাবতীয় জীবনবীমা ব্যবসায় এই সংস্থার দ্বারা পরিচালিত হইতেছে। ১৯৩৮ সালের জীবনবীমা আইনটি ১৯৫০ সালে সংশোধিত হইয়াছে এবং ১৯৬৩ সালে নৌ-বীমা আইন পাশ হইয়াছে। ভারতের সমুদয় বীমা ব্যবসায় এই দুইটি আইনের দ্বারা নিয়ন্ত্রিত হয়। তবে জীবনবীমার ক্ষেত্রে জীবনবীমা করপোরেশন আইনের ধারাগুলিও প্রযোজ্য। ১৯৩৮ সালের জীবনবীমা আইনের চূড়ান্ত হিসাব সংক্রান্ত ধারাগুলি এখনও সমস্ত বীমার ক্ষেত্রে প্রযোজ্য।

৩. কয়েকটি প্রয়োজনীয় শব্দ (Some Important Terms) :

(১) **বীমাযোগ্য স্বার্থ** Insurable Interest) : বীমাগ্রহীতার বীমাকৃত বিষয়ে যে স্বার্থ থাকে, উহাকে **বীমাযোগ্য স্বার্থ** বলা হয়। বীমাকৃত বিষয় বা সম্পত্তির ধ্বংস বা ক্ষতি হইলে, বীমাগ্রহীতার যে আর্থিক ক্ষতি হয়, তাহাই হইল বীমাযোগ্য স্বার্থ।

(২) **বীমাপত্র (Policy) :** শীলমোহরযুক্ত যে দলিলে বীমাচুক্তি লিপিবদ্ধ থাকে, উহাকে **বীমাপত্র** বলা হয়। বীমাপত্র হইল বীমাচুক্তির প্রমাণ। বীমাপত্র কিন্তু বীমাচুক্তি নহে।

(৩) **বার্ষিক বৃত্তি (Annuity) :** বার্ষিক বৃত্তি বীমাপত্র-গ্রহীতাকে যে মোট অর্থ প্রদান করা হয়, উহাকে বার্ষিক বৃত্তি বলে।

(৪) **আজীবন বীমাপত্র** (Whole Life Policy) : এই ধরণের বীমাপত্রে বীমাচুক্তিতে উল্লিখিত নির্দিষ্ট অর্থ বীমাকৃত ব্যক্তির মৃত্যু হইলেই কেবলমাত্র প্রদেয় হয়।

(৫) **মেয়াদী বীমাপত্র (Endowment Policy) :** এই ধরণের বীমাপত্রের ক্ষেত্রে বীমাকৃত

ব্যক্তির নির্দিষ্ট বয়স উত্তীর্ণ হইলে ঐ সময় বা ইহার পূর্বে বীমাকৃত ব্যক্তির মৃত্যু হইলে মৃত্যুর পরই তাহার উত্তরাধিকারী বা মনোনীত ব্যক্তিকে চুক্তি নির্দিষ্ট অর্থ প্রদান করা হয়।

(৬) **পুনর্বীমা (Re-insurance) :** কখনও কখনও বীমাকারী তাহার বিরাট ঝুঁকির একাংশ অপর বীমাকরীর নিকট হস্তান্তর করে। ইহার অর্থ হইল আদি বীমাকারী তাহার ঝুঁকির একাংশের জন্য অন্য বীমাকারীর সহিত পুনরায় বীমা করে। দ্বিতীয় বারের বীমাকে **পুনর্বীমা** বলে। প্রথম বীমাকারী পুনর্বীমাকারীকে বীমাকিস্তির টাকা প্রদান করিয়া থাকে। আদি বীমাকারী বীমাগ্রহীতাকে সম্পূর্ণ ক্ষতিপূরণ দিতে বাধ্য। পুনর্বীমাকারী আদি বীমাকারীকে আনুপাতিক হারে ক্ষতিপূরণ করিয়া থাকে।

(৭) **যুগ্মবীমা (Double Insurance) :** কোন ব্যক্তি তাহার একই সম্পত্তি দুই বা ততোধিক বীমাকারীর সহিত পৃথক পৃথক বীমা করিলে উহাকে **যুগ্মবীমা** বলে। ক্ষতি ঘটিলে বীমাগ্রহীতা সমস্ত বীমাপত্র বাবদ ক্ষতিপূরণ দাবি করিতে পারে। কিন্তু ক্ষতিপূরণ বাবদ প্রাপ্ত মোট অর্থ ক্ষতির অঙ্কের অধিক হইতে পারিবে না।

(৮) **প্রত্যর্পণ মূল্য (Surrender Value) :** বীমাপত্র সম্পূর্ণভাবে বাতিল করিয়া দিবার শর্তে বীমাকারী কোম্পানী বীমা-গ্রহীতাকে যে অর্থ বীমাপত্রের আংশিক মূল্য হিসাবে প্রদান করে, তাহাকে প্রত্যর্পণ মূল্য বলা হয়। অন্যভাবে বীমাপত্রের বর্তমান নগদ মূল্যকে **প্রত্যর্পণ মূল্য** বলা হয়।

(৯) **বীমাপত্রের অর্থ দাবি (Claims) :** ইহা হইল বীমাগ্রহীতার বীমাকারী কোম্পানীর নিকট প্রাপ্য অর্থ। বীমাগ্রহীতার মৃত্যুতে যখন বীমা কোম্পানীকে প্রাপ্য অর্থ দিতে হয় তখন ইহাকে **মৃত্যু ঘটিত অর্থ দাবি** এবং বীমাপত্রের মেয়াদপূর্তিতে যখন প্রাপ্য অর্থ দিতে হয়, তখন উহাকে **মেয়াদপূর্তি জনিত অর্থ দাবি** বলা হয়।

(১০) **বোনাস (Bonus) :** জীবনবীমা কোম্পানীর মুনাফার যে অংশ বীমাগ্রহীতাকে দিতে হয়, তাহাকে **বোনাস** বলে।

৪. **জীবনবীমা কোম্পানীর চূড়ান্ত হিসাব প্রস্তুতকরণ (Preparation of Final Accounts of Life Insurance Company) :** প্রত্যেক আর্থিক বৎসরের শেষে কোম্পানীর সাধারণ খতিয়ান হইতে একটি রেওয়ামিল প্রস্তুত করা হয়। এই রেওয়ামিল হইতে ১৯৩৮ সালের ভারতীয় বীমা আইনে বর্ণিত যথাক্রমে ফরম্ D ও ফরম্ A অনুযায়ী একটি আয়-ব্যয়ের হিসাব (Revenue A/c) এবং একটি উদ্বৃত্তপত্র (Balance Sheet) তৈরী করা হয়।

আয়-ব্যয়ের হিসাব (Revenue Account) : বীমা আইনে প্রদত্ত ফরম্ D অনুযায়ী আয়-ব্যয়ের হিসাব প্রস্তুত করা হয়। এই হিসাব জীবনবীমা ব্যবসায়ের লাভ-লোকসান নির্ণয় করে না। ইহা শুধুমাত্র ব্যয় হইতে আয়ের আধিক্য কতখানি তাহা নির্দেশ করে। আয়-ব্যয়ের এই অন্তরফল জীবনবীমা তহবিলে (Life Assurance Fund) স্থানান্তরিত করা হয়।

৫. **জীবনবীমা ব্যবসায়ের মুনাফা নির্ণয় (Ascertainment of Profit of Life Insurance Business) :** জীবনবীমা ব্যবসায়ের প্রকৃত লাভ-লোকসান "বীমা গণিতজ্ঞ কর্তৃক কৃত মূল্যায়নের" দ্বারা নির্ণয় করা হয়। প্রতি দুই বৎসর অন্তত একবার এইরূপ মূল্যায়ন করিতে হয়। ভারতীয় জীবনবীমা করপোরেশনে প্রতি দুই বৎসরে একবার করিয়া এইরূপ মূল্যায়ন করা হয়। সেইজন্য এই করপোরেশন প্রতি বছর ইহার লাভ-লোকসান নির্ণয় করিতে পারে না। এই মূল্যায়নের উদ্দেশ্য হইল সমস্ত বীমাপত্র বাবদ ভবিষ্যতে প্রাপ্য মোট বীমাকিস্তির বর্তমান মূল্য নির্ণয় করা এবং এই সব বীমাপত্র বাবদ বর্তমান দায় নির্ধারণ করা। ভবিষ্যতে প্রাপ্য মোট বীমাকিস্তির উপর বীমাপত্র বাবদ বর্তমান দায়ের আধিক্য

হইল **নীট্ দায়**। জীবনবীমা তহবিল নীট্ দায় অপেক্ষা অধিক হইলে ব্যবসায়ের লাভ হইবে। আবার নীট্ দায় জীবনবীমা তহবিল অপেক্ষা অধিক হইলে ব্যবসায়ের লোকসান হইবে।

মূল্যায়ন উদ্বৃত্তপত্র (Valuation Balance Sheet) যে বিবরণীতে বীমা গণিতজ্ঞের দ্বারা নির্ধারিত লাভ বা লোকসান দেখানো হয়, তাহাকে **মূল্যায়ন উদ্বৃত্ত পত্র (Valuation Balance Sheet)** বলা হয়।

৬. জীবনবীমা ব্যবসায়ের মুনাফা বন্টন (Distribution of Profit of Life Insurance Business) : জীবনবীমা ব্যবসায়ে মুনাফার একাংশ ডিভিডেণ্ড হিসাবে এবং অবশিষ্টাংশ বীমা-গ্রহীতাদের বোনাস হিসাবে দেওয়া যাইতে পারে। জীবনবীমা ব্যবসায়ের জাতীয়করণের পূর্বে মুনাফার শতকরা ৯২½ ভাগ বীমাগ্রহীতাদের বোনাস হিসাবে দেওয়া হইত। জাতীয়করণের পর হইতে শতকরা ৯৫ ভাগ বীমাগ্রহীতাদের বোনাস হিসাবে দেওয়া হয়।

৭ সাধারণ বীমা ব্যবসায়ের অর্থাৎ জীবনবীমা ব্যতীত অন্য বীমা ব্যবসায়ের মুনাফা নির্ণয় (Ascertainment of Profit of General Insurance Business i e. Business other than Life) : নৌ-বীমা, অগ্নি বীমা, দুর্ঘটনা বীমার ক্ষেত্রে মাত্র এক বৎসরের জন্য বীমাচুক্তি করা হয়। সুতরাং এই সকল বীমার ক্ষেত্রে ভবিষ্যত দায়ের প্রশ্ন উঠে না। আর্থিক বৎসরের শেষে যে সকল বীমাপত্রের মেয়াদ শেষ হয় নাই, সে সকল বীমার অনিঃশেষিত ঝুঁকির জন্য ভবিষ্যত ব্যবস্থা করিতে হয়। নীট্ বীমাকিস্তির অন্তত শতকরা ৪০ ভাগ এই জন্য নির্দিষ্ট করিয়া রাখিতে হয়। নির্দিষ্ট ফরমে আয়-ব্যয়ের হিসাব (Revenue A/c) তৈরী করা হয়। এই হিসাবের দ্বারা এই সকল বীমা ব্যবসায়ের লাভ-লোকসান নির্ণয় করা হয়।

(খ) জীবনবীমাপত্রের স্বত্বনিয়োগ

(Assignment of Life Policy)

কখনও কখনও দেনাদার তাহার জীবনবীমাপত্র প্রদান করিয়া পাওনাদারের পাওনা সম্পূর্ণভাবে মিটাইয়া দেয়। যদি পাওনাদারকে তাহার পাওনা অপেক্ষা কম মূল্যের বীমাপত্র দেওয়া হয়, তাহা হইলে দেনাদারের লাভ হইবে। যদি হিসাবের বইতে Life Policy A/c খোলা না হইয়া থাকে, Proprietor's A/c-কে credit করিয়া Policy A/c খুলিতে হইবে। যে তারিখে জীবনবীমাপত্র পাওনাদারকে প্রদান করা হইবে সে তারিখে Policy A/c ও Creditor's A/c বন্ধ হইয়া যাইবে। যে সব ক্ষেত্রে Policy Reserve A/c আগেই খোলা হইয়াছে, সে সব ক্ষেত্রে উহাকে Policy A/c-এর সহিত সমন্বয় সাধন করিতে হইবে।

পাওনাদারের হিসাবের বইতে জীবনবীমাপত্র প্রত্যর্পণমূল্যে লিখিতে হইবে। পাওনাদার জীবনবীমাপত্র গ্রহণ করিলে তাহার বইতে Debtor's A/c বন্ধ হইয়া যাইবে। বীমাপত্রের মূল্য তাহার পাওনা অপেক্ষা কম হইলে, তাহাকে ঐ ক্ষতি বাজে-দেনা হিসাবে অবলোপন করিতে হইবে।

(গ) অগ্নি দুর্ঘটনার দরুণ ক্ষতিগ্রস্ত মজুতের ক্ষতিপূরণ দাবি

(Fire Claims for Stock)

অগ্নি দুর্ঘটনার দরুণ বীমাকৃত মজুতের ক্ষতি হইলে, নিম্নলিখিত পদ্ধতিতে ক্ষতির পরিমাণ নির্ণয় করা হয় :—

(১) বিক্রয়ের উপর মোট লাভের (gross profit) হার নির্ণয় করিতে হইবে।
(২) আর্থিক বৎসরের শুরু হইতে দুর্ঘটনার দিন পর্যন্ত বিক্রয়ের পরিমাণ নির্ণয় করিতে হইবে।
(৩) আর্থিক বৎসরের শুরু হইতে দুর্ঘটনার দিন পর্যন্ত ক্রয়ের পরিমাণ নির্ণয় করিতে হইবে।
(৪) সম্ভাব্য মোট লাভ নির্ণয় করিতে হইবে।

(৫) ক্রয়, বিক্রয়, প্রারম্ভিক মজুত ও সম্ভাব্য মোট লাভের ভিত্তিতে আর্থিক বৎসরের শুরু হইতে দুর্ঘটনার দিন পর্যন্ত সময়ের জন্য একটি মেমোরেণ্ডাম ক্রয়-বিক্রয়ের হিসাব তৈরী করিতে হইবে। এই হিসাবের দ্বারা দুর্ঘটনার দিন কি পরিমাণ মজুত ছিল, তাহা নির্ধারণ করা যাইবে।

(৬) দুর্ঘটনা হইতে রক্ষা করা হইয়াছে এরূপ কোন মজুত বীমাগ্রহীতা রাখিলে, ক্ষতিপূরণ বাবদ যে অঙ্ক দাবি করা হইবে, উহা হইতে তাহা বাদ দিতে হইবে।

২৭ অধ্যায়

লগ্নি (Investment)

১. **লগ্নির খতিয়ান** (Investment Ledger) : ব্যাঙ্ক, বীমা কোম্পানী এবং অন্যান্য বহু প্রতিষ্ঠান সরকারী কাগজ, বণ্ড, শেয়ার, স্টক, ডিবেঞ্চার ইত্যাদিতে প্রচুর অর্থ লগ্নি করিয়া থাকে। যে সকল প্রতিষ্ঠানে লগ্নি সংক্রান্ত অসংখ্য লেনদেন ঘটিয়া থাকে, সে সকল প্রতিষ্ঠানে একটি আলাদা লগ্নির খতিয়ান (Investment Ledger) রাখা হয়। এই খতিয়ানে প্রত্যেক শ্রেণীর লগ্নিপত্রের জন্য আলাদা আলাদা হিসাব রাখা হয়। এইভাবে লগ্নিপত্রের হিসাব রাখিলে প্রত্যেক শ্রেণীর লগ্নিপত্রের আয়, লাভ ও লোকসান এক নজরে জানা যায়। একই লগ্নির হিসাবে (Investment Account) বিভিন্ন লগ্নির হিসাব রাখা হইলে প্রত্যেক শ্রেণীর লগ্নিপত্রের আয়, লাভ ও লোকসান আলাদা আলাদা ভাবে নির্ণয় করিতে অসুবিধা হয়।

২. **লগ্নির হিসাব** (Investment Account) : প্রত্যেক লগ্নির হিসাবে সাধারণত তিনটি করিয়া ঘর থাকে। যথা—(১) লিখিত মূল্যের ঘর, (২) আয় বা সুদের ঘর এবং (৩) আসলের ঘর।

৩. **সুদ-সমেত বা লভ্যাংশ-সমেত** (Cum-Interest or Cum-Dividend) : লগ্নিপত্র সুদ-সমেত ক্রীত বা বিক্রিত হইলে উহার চলতি বৎসরের নীট্ সুদ (অর্থাৎ মোট সুদ হইতে আয়কর বাদ দিয়া যাহা হইবে) বাবদ অর্থ ক্রেতাই পাইবে।

৪. **সুদ-বাদে বা লভ্যাংশ-বাদে** (Ex-Interest or Ex-Dividend) : লগ্নিপত্র সুদ-বাদে ক্রীত বা বিক্রিত হইলে সুদের টাকা বিক্রেতাই পাইবে। এরূপ ক্ষেত্রে ক্রেতা বিক্রেতাকে স্বীকৃত মূল্য ছাড়াও সুদ বাবদ অতিরিক্ত অর্থ প্রদান করিয়া থাকে।

৫. **লগ্নির হিসাব বন্ধকরণ** (Closing of an Investment A/c) :

(১) আর্থিক বৎসরের শেষে Nominal Column-এর Balance লগ্নিকারীর হস্তস্থিত লগ্নিপত্রগুলির মোট লিখিত মূল্যের সমান হইবে।

(২) বিগত যে তারিখে সর্বশেষ সুদ পাওয়া গিয়াছে সেই তারিখ হইতে চলতি আর্থিক বৎসরের শেষ তারিখ পর্যন্ত লগ্নিপত্রের মোট লিখিত মূল্যের উপর সুদ নির্ণয় করিতে হইবে এবং ঐ সুদের অঙ্ক Income Column-এর Credit-এর দিকে লিপিবদ্ধ করিতে হইবে।

(৩) হস্তস্থিত লগ্নিপত্রের আনুপাতিক মূলধনী ব্যয় (proportionate capital cost) Capital Column-এর Credit-এর দিকে লিপিবদ্ধ করিতে হইবে।

(৪) দুই Income Column-এর অন্তর হইল সংশ্লিষ্ট আর্থিক বৎসরের আয়। এই আয় Interest A/c-এ স্থানান্তরিত করা হয়।

(৫) দুই Capital Column-এর অন্তর হইল লগ্নিপত্রের ক্রয়-বিক্রয় সংক্রান্ত লাভ বা লোকসান। লাভ-লোকসানের অঙ্ককে Profit or Loss on Sale of Investment A/c-এ স্থানান্তরিত করা হয়।

২৮ অধ্যায়

পণ্যাধার ও শূন্যাধার (Packages & Empties)

উৎপাদনকারী বা বিক্রেতা তাহার পণ্য বিক্রয় করিবার জন্য বোতল, টিনের পাত্র, কাঠের বাক্স, কাগজের বাক্স, বড় পিপা, ছোট পিপা, ফাঁপা নলাকৃতি বেলন ও মোড়ক বাঁধিবার অন্যান্য উপকরণাদি ব্যবহার করিয়া থাকে। এইগুলিই হইল পণ্যাধার এবং শূন্যাধার। এই পণ্যাধারগুলি কখনও কখনও ক্রেতাদের নিকট হইতে ফেরৎ লওয়া হয় আবার কখনও কখনও ফেরৎ লওয়া হয় না। কোন কোন বিক্রেতা ক্রেতার নিকট হইতে পণ্য মূল্যের সহিত পণ্যাধারের মূল্যও আলাদাভাবে আদায় করিয়া লয়, আবার কোন কোন বিক্রেতা ক্রেতার নিকট হইতে পণ্যাধারের মূল্য আলাদাভাবে আদায় করে না।

পণ্যাধার সংক্রান্ত হিসাব-পদ্ধতি

(Treatment of Packages etc. in Account)

১. যে সব ক্ষেত্রে পণ্যাধার ফেরত লওয়া হয় না (Where packages are non-returnable) :

(ক) যদি পণ্যাধারের আলাদা মূল্য আদায় করা না হয় (If packages are not charged out) : এইরূপ ক্ষেত্রে পণ্যের বিক্রয় মূল্যের সহিত পণ্যাধারের মূল্যও যোগ করা থাকে। পণ্যাধার সংক্রান্ত লেন-দেন লিপিবদ্ধ করিবার জন্য একটি স্বতন্ত্র Packages A/c খোলা হয়। পণ্যাধারের প্রারম্ভিক মজুত এবং সারা বৎসরে ক্রীত পণ্যাধার এই হিসাবে Debit করা হয়। পণ্যাধারের শেষ মজুত এই হিসাবে Credit করা হয়। এই হিসাবের উভয়দিকের অন্তরকে পণ্যাধার বাবদ খরচ বলিয়া ধরা হয়, এবং উহা Manufacturing বা Trading বা Profit & Loss A/c-এ Debit করা হয়।

(খ) যদি পণ্যাধারের আলাদা মূল্য আদায় করা হয় (If packages are charged out) : এইরূপ ক্ষেত্রে খরিদ্দারের নিকট যে সকল পণ্যাধার পাঠানো হইয়াছে সেগুলির মূল্য বিক্রয় বইতে (Sales Day Book) পণ্যমূল্যের ঘরের পার্শ্বে আলাদা একটি ঘরে লিপিবদ্ধ করা হয়। এই ঘরের অঙ্কগুলির কালান্তিক যোগফল Packages A/c-এ Credit করা হয়। অন্যান্য লেনদেনগুলি যথা—পণ্যাধারের প্রারম্ভিক মজুত, শেষ মজুত, ক্রয় ইত্যাদি ১(ক)-এ যেভাবে লেখা হইয়াছে, সেভাবে লিখিতে হয়। Packages A/c-এর উভয় দিকের অন্তর হইল লাভ বা লোকসান। এই লাভ-লোকসান Profit & Loss A/c-এ স্থানান্তরিত করিতে হয়।

২. যখন পণ্যাধারগুলি ফেরত লওয়া হয় (When packages are returnable) :

(ক) যদি পণ্যাধারের মূল্য আদায় করা না হয় (If packeages are not charged out) : এইরূপ ক্ষেত্রে বিক্রয় বইতে এবং খরিদ্দারের হিসাবে পণ্যাধারের সূচক সংখ্যা লিপিবদ্ধ করিবার জন্য আলাদা ঘর কাটিতে হইবে। প্রারম্ভিক এবং শেষ মজুতকে দুই ভাগে ভাগ করিতে হইবে—(১) গুদামস্থ মজুত এবং (২) ক্রেতার হস্তস্থিত মজুত। পরিমিত অবচয় বাদ দিয়া মজুতের মূল্যায়ন করিতে হইবে। প্রারম্ভিক মজুত, ক্রয়, শেষ মজুত ইত্যাদির জন্য ১(ক)-এর অনুরূপ Package A/c খুলিতে হইবে। এই হিসাবের উভয় দিকের অন্তরকে Profit & Loss A/c-এ স্থানান্তরিত হইবে।

(খ) যদি পণ্যাধারের মূল্য আদায় করা হয় (If packages are charged out) : এইরূপ ক্ষেত্রে খরিদ্দারগণের নিকট হইতে সাধারণত পণ্যাধারের ক্রয়মূল্য অপেক্ষা অধিক মূল্য আদায় করা হয়। যখন খরিদ্দারগণের নিকট হইতে পণ্যাধার ফেরত আসে, তখন যে মূল্যে উহা ক্রেতাকে দেওয়া হইয়াছিল উহা অপেক্ষা কম মূল্যে খরিদ্দারের হিসাবে Credit করা হয়। পণ্যাধারগুলি ফেরত দিবার জন্য সময়

নির্দিষ্ট করিয়া দেওয়া হয়। নির্দিষ্ট সময়ের মধ্যে ফেরত না দিলে, পণ্যাধার ফেরত লওয়া হয় না এবং ঐগুলির বিক্রয় হইয়া গিয়াছে বলিয়া ধরিয়া লওয়া হয়। খরিদ্দারগণের নিকট প্রেরিত পণ্যাধারগুলি ফেরত দিবার সময় অতিবাহিত না হইলে, ঐ পণ্যাধারগুলিকে খরিদ্দারের হস্তস্থিত মজুত বলিয়া গণ্য করা হয়। প্রত্যর্পণীয় মূল্য, যে মূল্যে পণ্যাধার ক্রেতার হস্তে প্রথমে অর্পণ করা হয় সে মূল্য অপেক্ষা কম হইলে, উহাদের অন্তরকে ভাড়া (Hire Charge) বলা হয়।

এইরূপ ক্ষেত্রে পণ্যাধার সংক্রান্ত হিসাব রাখিবার জন্য নিম্নলিখিত হিসাবগুলি খোলা হয়—

(১) Packages Stock A/c এবং (২) Packages Reserve A/c বা Packages Suspense A/c।

গুদামস্থ এবং খরিদ্দারের হস্তস্থিত পণ্যাধারগুলির মজুত-সংক্রান্ত লেনদেনগুলি Packages Stock A/c-এ লিপিবদ্ধ করা হয়। খরিদ্দারের সহিত পণ্যাধারের আদান-প্রদান সংক্রান্ত লেনদেনগুলি Packages Reserve A/c-এ লিপিবদ্ধ করা হয়।

২৯ অধ্যায়

অসম্পূর্ণ নথিপত্র হইতে হিসাব প্রস্তুতকরণ

(Accounts from Incomplete Records)

কখনও কখনও দেখা যায় কোনও ব্যবসায়ীর হিসাব সংক্রান্ত নথিপত্র অসম্পূর্ণ এবং অপ্রচুর। আবার ব্যবসায়ী উপযুক্ত হিসাব-রক্ষণ পদ্ধতি সম্বন্ধে অজ্ঞ হইতে পারে। তাহার হিসাবের কাগজ পত্র অগ্নি দুর্ঘটনায় বা বন্যায় নষ্ট হইয়া যাইতে পারে। কর ফাঁকি দেওয়ার জন্যও অনেক সময় ব্যবসায়ী ঠিক মত হিসাব রাখে না। এরূপ ক্ষেত্রেও অনেক সময় ব্যবসায়ের একটি নির্দিষ্ট সময়ের লাভ-লোকসান নির্ণয় করিবার জন্য লাভ-লোকসানের বিবরণী এবং ঐ সময়ে উক্ত ব্যবসায়ের আর্থিক অবস্থা কিরূপ তাহা জ্ঞাত হইবার জন্য উদ্বৃত্তপত্র তৈরী করিতে হয়।

অসম্পূর্ণ এবং অপ্রচুর নথিপত্র হইতে হিসাব তৈরী করিবার জন্য নিম্নলিখিত পদ্ধতি অবলম্বন করিতে হইবে :—

(১) বৎসরের শুরুতে সম্পত্তি ও দায়ের অবস্থা কিরূপ ছিল তাহা নির্ণয় করিতে হইবে। সম্পত্তি হইতে দেনা বাদ দিলে যাহা থাকিবে, উহাই হইবে ব্যবসায়ীর মূলধন।

(২) একটি নগদ টাকার হিসাব তৈরী করিতে হইবে। হস্তস্থিত এবং ব্যাঙ্কে জমা টাকার পরিমাণ যাচাই করিতে হইবে।

(৩) নগদ টাকার হিসাব তৈরী করিবার সময় নিম্নলিখিত বিষয়গুলি আলাদা করিয়া দেখাইতে হইবে—

(ক) নগদ ক্রয়, (খ) পাওনাদারদের নিকট হইতে প্রদত্ত অর্থ, (গ) নগদ বিক্রয় এবং (ঘ) দেনাদারদের নিকট হইতে প্রাপ্ত অর্থ।

(৪) দেনাদারগণের নিকট হইতে কাল্পনিক প্রাপ্ত অর্থের পরিমাণ নির্ণয় করা দরকার। এই অঙ্ক নির্ণয় করিবার সময় নিম্নলিখিত বিষয়গুলি বিবেচনা করিতে হইবে—

(ক) দেয় বাট্টা, (খ) অবলোপিত বাজে-দেনা, (গ) আদায়ী কৃত বাজে-দেনা, (ঘ) বিক্রয় ফেরত, (ঙ) প্রাপ্য সুদ, (চ) প্রত্যাখ্যাত প্রাপ্যহুণ্ডি ইত্যাদি

(৫) ধারে বিক্রয়ের পরিমাণ এবং ধারে ক্রয়ের পরিমাণ বাহির করিবার জন্য যথাক্রমে Total

Debtors' A/c এবং Total Creditors A/c প্রস্তুত করিতে হইবে। নগদ ক্রয়-বিক্রয়ের অঙ্ক ক্যাশ বই হইতে পাওয়া যাইবে।

(৬) সঠিক লাভ-লোকসান নির্ণয় করিবার জন্য আয়-ব্যয় সংক্রান্ত হিসাবগুলির যথাযথ সমন্বয় সাধন করিতে হইবে। Accrued Income, Outstanding Expense, Prepaid Expense ইত্যাদি হিসাবে আনিতে হইবে।

(৭) সর্বশেষে কালান্তিক উদ্বৃত্তপত্র তৈরী করিবার জন্য দায় ও সম্পত্তিগুলির যথাযথ মূল্যায়ন করিতে হইবে।

৩০ অধ্যায়

বিভাগীয় হিসাব (Departmental Accouuts)

১. **ইহার অর্থ** (Its Meaning): যে সকল কারবারী প্রতিষ্ঠান বিভিন্ন শ্রেণীর পণ্য বিক্রয় করে, সে সকল প্রতিষ্ঠানকে সাধারণত কয়েকটি বিভাগে বিভক্ত করা হয়। এই জাতীয় প্রতিষ্ঠানগুলির কোন বিভাগ লাভ করিতেছে এবং কোন বিভাগে ক্ষতি হইতেছে তাহা সঠিক জানা দরকার। প্রত্যেক বিভাগের বা পণ্যের লাভ-লোকসান আলাদা আলাদা জানিবার জন্য যে হিসাব পদ্ধতি প্রয়োগ করা হয়, তাহাকে **বিভাগীয় হিসাব পদ্ধতি** (Departmental Accounting) বলা হয়।

২. **ইহার সুবিধা** (Its Advantages): প্রত্যেকটি বিভাগের জন্য আলাদা ক্রয়-বিক্রয়ের এবং লাভ-লোকসানের হিসাব প্রস্তুত করা সুবিধাজনক। সকল বিভাগের জন্য একটি ক্রয়-বিক্রয়ের হিসাব এবং একটি লাভ-লোকসানের হিসাব প্রস্তুত করিলে প্রত্যেকটি বিভাগের কর্মদক্ষতা আলাদাভাবে জানা যাইবে না এবং লাভজনক বিভাগের মুনাফার দ্বারা অলাভজনক বিভাগের লোকসান ঢাকা পড়িবে। বিভাগীয় হিসাব পদ্ধতি ব্যবসায়ীকে সতর্ক করে এবং ব্যবসায়ী প্রত্যেক বিভাগের জন্য সময়মত প্রয়োজনীয় ব্যবস্থা অবলম্বন করিতে পারে। এই পদ্ধতিতে হিসাব তৈরী করিলে এক বিভাগের লাভ-লোকসানের সহিত অন্য বিভাগের লাভ-লোকসানের তুলনা করা যায়।

৩. **বহুঘরা হিসাবের বই** (Analytical Books of Accounts): প্রত্যেক বিভাগের আলাদা ক্রয়-বিক্রয় ও লাভ-লোকসানের হিসাব তৈরী করিবার জন্য প্রত্যেকটি বিভাগ সংক্রান্ত ক্রয়, বিক্রয়, মজুরী, মাহিনা ইত্যাদি পৃথক পৃথকভাবে জানা প্রয়োজন। এই জন্য প্রাথমিক হিসাবের বই-গুলিতে প্রত্যেকটি বিভাগের জন্য আলাদা ঘর কাটা হয়। লেজারের হিসাবেও পৃথক ঘর কাটা হয় এবং এক একটি বিভাগের অঙ্কগুলি লেজারের হিসাবের সংশ্লিষ্ট ঘরে লিপিবদ্ধ করা হয়। কেবলমাত্র নামিক হিসাবগুলির (Nominal A/cs) ক্ষেত্রেই এইরূপ ঘর কাটার প্রয়োজন হয়।

৪. **খরচের বণ্টন** (Allocation of Expenses): কতকগুলি খরচ কোনও একটি বিভাগের জন্য করা হয়। সেই খরচগুলির সরাসরি সংশ্লিষ্ট বিভাগের উপর চাপানো হয়। কিন্তু কিছু কিছু খরচ আছে যেইগুলি কোনও বিশেষ বিভাগের উপর চাপানো যায় না। সেই পরোক্ষ খরচগুলি কোনও যুক্তি-সঙ্গত ভিত্তিতে বিভিন্ন বিভাগের মধ্যে বণ্টন করিয়া দেওয়া হয়। বণ্টনের ভিত্তিগুলি নিম্নে প্রদত্ত হইল:—

বণ্টনের ভিত্তি	খরচ সমূহ
(১) বিভিন্ন বিভাগের বিক্রয়ের অঙ্কের ভিত্তিতে :	বিক্রয় সংক্রান্ত খরচ, বাজে দেনা, দেয় বাট্টা, বিজ্ঞাপন খরচ, বিক্রয় কর, ক্রয় ফেরত ইত্যাদি।
(২) অধিকৃত স্থানের অনুপাতে :	বাড়ী ভাড়া, কর, বাড়ীর অবচয়, বীমাকিস্তি, মেরামতী খরচ ইত্যাদি।
(৩) ব্যবহৃত যন্ত্রপাতির মূল্যের ভিত্তিতে :	যন্ত্রপাতির অবচয়।
(৪) বীমাকৃত পণ্যের অনুপাতে :	বীমাকিস্তি ইত্যাদি।
(৫) প্রতি বিভাগের শ্রমিক কর্মচারীর সংখ্যার অনুপাতে :	শ্রমিক কল্যাণ খরচ ইত্যাদি।
(৬) প্রত্যেক বিভাগের উৎপাদনের অনুপাতে :	পরিদর্শন খরচ, মোড়ক বাঁধাই-এর খরচ ইত্যাদি।
(৭) প্রত্যেক বিভাগের মোট মুনাফার ভিত্তিতে :	আয়কর ইত্যাদি।

৫. **আন্তঃবিভাগীয় লেনদেন** (Inter-departmental Transactions) : প্রায়ই এক বিভাগ হইতে অন্য বিভাগে পণ্য প্রেরণ করা হয়। এরূপ ক্ষেত্রে প্রেরণকারী বিভাগকে Credit এবং গ্রহণকারী বিভাগকে Debit করা হয়। এই লেনদেনগুলি ক্রয়মূল্যে অথবা বিক্রয় মূল্যে হইতে পারে। যদি ক্রয়মূল্যে লেনদেন হয় তাহা হইলে গ্রহণকারী বিভাগের অবিক্রীত পণ্যের জন্য কোনরূপ সমন্বয়ের প্রয়োজন হয় না। যদি বিক্রয় মূল্যে আন্তঃবিভাগীয় লেনদেন হয়। তাহা হইলে গ্রহণকারী বিভাগের অবিক্রীত পণ্যের মূল্যের মধ্যে যে মুনাফা রহিয়াছে, তাহার জন্য সমন্বয়ের প্রয়োজন হয়।

৩১ অধ্যায়

শাখা সংক্রান্ত হিসাব (Branch Accounts)

১. **ইহার উদ্দেশ্য** (Its Purpose) : যদিও সমস্ত শাখাগুলি আইনত হেড অফিসের অংশবিশেষ, তথাপি প্রত্যেকটি শাখার কর্মকুশলতা আলাদা আলাদাভাবে জানা প্রয়োজন। এমনভাবে শাখাসংক্রান্ত হিসাবপত্র রাখিতে হইবে যাহাতে প্রত্যেকটি শাখার লাভ বা লোকসান সঠিক জানা যায় এবং হেড অফিস শাখাগুলির কাজকর্ম প্রয়োজনমত নিয়ন্ত্রণ করিতে পারে।

২. **হেড অফিস কর্তৃক শাখাকে পণ্য সরবরাহ** (Supply of Goods by Head Office to the Branch) : হেড অফিস শাখাগুলিকে ক্রয়মূল্যে বা ·বিক্রয়মূল্যে পণ্য সরবরাহ করিয়া থাকে। পণ্য সরবরাহকে বিক্রয় বলিয়া ধরা হয় না, উহাকে হেড অফিস হইতে শাখা অফিসে পণ্য স্থানান্তর বলিয়া গণ্য করা হয়। এই পণ্যের মূল্য বাবদ অর্থ সন্নিষ্ট শাখার হিসাবে Debit করা হয় এবং "Goods sent to Branch A/c"-এ Credit করা হয়। বৎসরান্তে এই হিসাবের অঙ্ক উৎপাদনকারী প্রতিষ্ঠান হইলে Trading A/c-এর এবং ব্যবসায়ী প্রতিষ্ঠান হইলে Purchases A/c-এর Credit-এর দিকে স্থানান্তরিত করা হয়। সুতরাং শাখাগুলিকে প্রেরিতপণ্য, Trading A/c-এ বিক্রয় হইতে আলাদা করিয়া দেখানো হয়।

৩. **শাখাগুলির শ্রেণীবিভাগ** Classification of Branches) : হিসাব-রক্ষণের উদ্দেশ্যে শাখাগুলিকে নিম্নলিখিত শ্রেণীতে ভাগ করা হয়—

(ক) কেবলমাত্র হেড অফিস হইতে প্রাপ্ত পণ্য নগদ মূল্যে বিক্রয়কারী শাখা (Branch selling Head Office Goods for Cash only),

(খ) কেবলমাত্র হেড অফিস হইতে প্রাপ্ত পণ্য নগদ ও ধারে বিক্রয়কারী শাখা (Branch selling only Head Office Goods for Cash and Credit),

(গ) কেবলমাত্র হেড অফিস কর্তৃক বিক্রয়মূল্যে চিহ্নিত প্রেরিতপণ্যের নগদ ও ধারে বিক্রয়কারী শাখা (Branch selling Head Office Goods marked at selling price),

(ঘ) হেড অফিস হইতে প্রাপ্ত বা স্থানীয়ভাবে ক্রীত পণ্যের নগদ ও ধারে বিক্রয়কারী স্বাধীন শাখা (Independent Branch) এবং

(ঙ) বিদেশে অবস্থিত বা বৈদেশিক শাখা (Foreign Branch)।

(ক) কেবলমাত্র হেড অফিস হইতে প্রাপ্ত পণ্য শুধু নগদ মূল্যে বিক্রয়কারী শাখা (Branch selling Head Office Goods for Cash only) : এই জাতীয় শাখার ক্ষেত্রে হেড অফিস পণ্য ক্রয় করিয়া শাখাগুলির নিকট প্রেরণ করে। শাখাগুলি কেবলমাত্র নগদ মূল্যে এই পণ্য বিক্রয় করিতে পারে। বিক্রয়লব্ধ অর্থ প্রতিদিন স্থানীয় কোন ব্যাঙ্কে জমা দিতে হয় অথবা হেড অফিসে পাঠাইয়া দিতে হয়। এই জাতীয় শাখার সমস্ত খরচ হেড অফিস বহন করিয়া থাকে। খুচরা খরচাদির জন্য শাখা-ম্যানেজারকে সাধারণত কিছু অর্থ অগ্রিম দেওয়া হয়। নির্দিষ্ট সময় অন্তর অন্তর হেড অফিস খুচরা খরচ বাবদ অর্থ শাখা ম্যানেজারের নিকট পাঠাইয়া দেয়। **শাখা অফিসে একটি Stock Book এবং একটি Petty Cash Book** ছাড়া অন্য কোন হিসাবের বইপত্র রাখা হয় না।

হেড অফিস প্রেরিত পণ্যের তথ্যগুলি প্রথমে Goods Supplied to Branches Book-এ লিপিবদ্ধ করে। প্রত্যেকটি শাখার লাভ-লোকসান সঠিক নির্ণয় করিবার জন্য হেড অফিসে প্রত্যেকটি শাখার নামে একটি **Branch A/c** খোলা হয়। এই হিসাবের Debit-এর দিকে opening stock, opening cash, শাখার নিকট প্রেরিত পণ্য ও অর্থ ইত্যাদি লেখা হয়। আবার শাখা হইতে প্রাপ্ত অর্থ, অবিক্রীত পণ্যের ক্রয়-মূল্য এবং শাখাস্থিত Petty Cash-এর অঙ্ক এই হিসাবের Credit-এর দিকে লেখা হয়। এই হিসাবের উভয় দিকের অন্তর হয় লাভ, নয় লোকসান হইবে। এই লাভ-লোকসানের অঙ্ককে সাধারণ লাভ-লোকসানের হিসাবে স্থানান্তরিত করিতে হইবে।

বৎসরের শেষে **Goods Sent to Branch** A/c-কে Trading অথবা Purchases A/c-এ স্থানান্তরিত করিতে হইবে। **Branch Stock** A/c এবং **Cash at Branch** A/c-কে হেড অফিসের উদ্বৃত্তপত্রের সম্পত্তির দিকে দেখানো হয়। পরবর্তী বৎসরের প্রারম্ভে বিপরীত লিখনের সাহায্যে উহাদের উদ্বৃত্তগুলিকে পুনরায় সংশ্লিষ্ট **Branch** A/c-এ স্থানান্তরিত করা হয়।

(খ) কেবলমাত্র হেড অফিস হইতে প্রাপ্ত পণ্য নগদ ও ধারে বিক্রয়কারী শাখা (Branch selling only Head Office Goods for Cash and Credit) : এই শ্রেণীর শাখার ক্ষেত্রে হেড অফিস পণ্য ক্রয় করিয়া শাখার নিকট প্রেরণ করে। শাখাগুলি নগদ ও ধারে এই পণ্য বিক্রয় করিতে পারে। বিক্রয়লব্ধ অর্থ স্থানীয় কোন ব্যাঙ্কে দৈনিক জমা দিতে হয় অথবা হেড অফিসে পাঠাইবার ব্যবস্থা করিতে হয়। হেড অফিস শাখার সমস্ত খরচ বহন করিয়া থাকে। খুচরা খরচাদির জন্য শাখা-ম্যানেজারকে সাধারণত কিছু অর্থ অগ্রিম দেওয়া হয়। **শাখা অফিসে Stock Book, Petty Cash Book, Sales Day Book** এবং **Debtors' Ledger** প্রভৃতি বিবরণী বইগুলি রাখা হয়।

এক্ষেত্রেও প্রকৃত হিসাবের বই সমূহ হেড অফিসে রাখা হয়। হেড অফিসে শাখাসংক্রান্ত লেনদেনগুলি দুইভাবে লিপিবদ্ধ করা যায় :—

প্রথম পদ্ধতি—যে সমস্ত ক্ষেত্রে শাখাসংক্রান্ত লেনদেন অধিক সংখ্যক নয়, সে সমস্ত ক্ষেত্রে প্রথম শ্রেণীর শাখার ক্ষেত্রে যেভাবে হিসাব রাখা হয় ঠিক সেভাবে হিসাব রাখা যায়। প্রত্যেকটি শাখার লাভ-লোকসান সঠিক নির্ণয় করিবার জন্য হেড অফিসে প্রত্যেকটি শাখার নামে একটি **Branch**

A/c খোলা হয়। এই হিসাবের Debit-এর দিকে Opening Stock, Opening Cash, Opening Branch Debtors, শাখার নিকট প্রেরিত পণ্য ও অর্থ ইত্যাদি লেখা হয়। আবার শাখা অফিস হইতে প্রাপ্ত অর্থ, অবিক্রীত পণ্যের ক্রয়মূল্য, শাখাস্থিত নগদ টাকার অঙ্ক এবং Closing Branch Debtors এই হিসাবের Credit-এর দিকে লেখা হয়। এই হিসাবের উভয় দিকের অন্তর হয় লাভ, নয় লোকসান হইবে। লাভ-লোকসানের এই অঙ্ককে General Profit & Loss A/c-এ স্থানান্তরিত করিতে হইবে।

বৎসরের শেষে Goods sent to Branch A/c-কে Trading A/c বা Purchases A/c-এ স্থানান্তরিত করিতে হইবে। Branch Stock A/c, Cash at Branch A/c এবং Branch Debtors A/c-কে হেড অফিসের উদ্বৃত্তপত্রে সম্পত্তির দিকে দেখানো হয়। পরবর্তী বৎসরের প্রারম্ভে বিপরীত লিখনের সাহায্যে এই হিসাবের উদ্বৃত্তগুলিকে পুনরায় সংশ্লিষ্ট Branch A/c-এ স্থানান্তরিত করিতে হইবে।

দ্বিতীয় পদ্ধতি বা পণ্য ও দেনাদার পদ্ধতি (Stock and Debtors System)—যে সমস্ত ক্ষেত্রে শাখাসংক্রান্ত লেনদেন অত্যধিক, সে সমস্ত ক্ষেত্রে **হেড অফিসের বইতে** লেনদেনগুলির বিস্তৃত হিসাব রাখিলে অনেক সুবিধা হয়। হেড অফিসের বইতে শাখাসংক্রান্ত লেনদেনগুলির বিস্তৃতভাবে হিসাব রাখার পদ্ধতিকে **পণ্য ও দেনাদার পদ্ধতি** (Stock and Debtors System) বলা হয়। এই পদ্ধতিতে পূর্বে বর্ণিত Branch A/c-কে বিভিন্ন ভাবে বিভক্ত করিয়া হেড অফিসের বইতে দেখানো হয়। হেড অফিসের বইতে আর Branch A/c-নামে কোন হিসাব খোলা হয় না। এই পদ্ধতিতে সাধারণত নিম্নলিখিত হিসাবগুলি হেড অফিসের বইতে খোলা হয় :—

১। Branch Stock A/c, ২। Branch Debtors A/c, ৩। Branch Cash A/c, ৪। Goods Sent to Branch A/c, ৫। Branch Expenses A/c, ৬। Branch Profit & Loss A/c, ৭। Branch Fixed Assets A/c ইত্যাদি।

Branch Stock A/c-এর দ্বারা একটি শাখার মোট লাভ বা মোট ক্ষতি নির্ণয় করা হয়। এই মোট লাভ বা মোট ক্ষতির অঙ্ককে Branch Profit & Loss A/c-এ স্থানান্তরিত করা হয়। এই হিসাব হইতে কোনও শাখার নীট লাভ বা নীট লোকসান জানা যায়। শাখার নীট লাভ বা নীট লোকসান সাধারণ লাভ-লোকসানের হিসাবে স্থানান্তরিত করা হয়।

(গ) **বিক্রয় মূল্যে চিহ্নিত পণ্য বিক্রয়কারী শাখা** (**Branch selling goods marked at selling price**): কখনও কখনও লাভের পরিমাণ শাখা অফিসের কর্মচারীদের নিকট হইতে গোপন রাখিবার জন্য হেড অফিস শাখা অফিসে পণ্য প্রেরণ করিবার সময় ক্রয়-মূল্যে বিল না করিয়া বিক্রয়-মূল্যে বিল প্রেরণ করিয়া থাকে। এইভাবে পণ্য সরবরাহ করিলে শাখাস্থিত পণ্যের উপর উপযুক্ত নিয়ন্ত্রণ সম্ভব হয়। শাখার নিকট প্রেরিত পণ্যের বর্দ্ধিত মূল্য এবং উহার ক্রয় মূল্যের অন্তরকে **ভার** (Load) বলা হয়। ক্রয়-মূল্যে বিল না পাঠাইয়া বিক্রয়-মূল্যে বিল পাঠাইলে বর্দ্ধিত মূল্য ও ক্রয়-মূল্যের মধ্যে পার্থক্যের অঙ্কটির জন্য হেড অফিসের বইতে উপযুক্ত সমন্বয়ের প্রয়োজন হইবে। হেড অফিসের বইতে নিম্নলিখিত বিভিন্ন পদ্ধতিতে এই সংক্রান্ত ব্যবস্থা অবলম্বন করা হয়।

১ম পদ্ধতি—বিক্রয় মূল্যকে ক্রয় মূল্যে পরিণত করিয়া (**By reducing selling price into cost price**): এই পদ্ধতিতে প্রথমে শাখাস্থিত প্রারম্ভিক মজুত, শাখাস্থিত কালান্তিক মজুত এবং প্রেরিত পণ্যের মূল্যকে ক্রয় মূল্যে রূপান্তরিত করা হয়। ইহার পর Branch A/c লেখা হয়। প্রথম ও দ্বিতীয় শ্রেণীর শাখার ক্ষেত্রে যেভাবে Branch A/c প্রস্তুত করা হইয়াছে, ঠিক সেভাবে এই Branch A/c-ও প্রস্তুত করা হইবে। শাখা সংক্রান্ত লেনদেনগুলি প্রথম ও দ্বিতীয় শ্রেণীর শাখার ক্ষেত্রে যে ভাবে লিপিবদ্ধ করা হইয়াছে, এক্ষেত্রে ও একই ভাবে হেড অফিসের বইতে লিপিবদ্ধ করিতে হইবে।

২য় পদ্ধতি—দ্বি-ঘরা শাখা হিসাব (Double Column Branch A/c) : এই পদ্ধতিতে Branch A/c-এর উভয় দিকে দুইটি করিয়া ঘর কাটা হয়। একটি ঘরে বিক্রয়-মূল্য আর একটি ঘরে ক্রয়মূল্য লিপিবদ্ধ করা হয়। প্রারম্ভিক মজুত, কালান্তিক মজুত, প্রেরিত পণ্য, শাখা কর্তৃক ফেরত পাঠানো পণ্য ইত্যাদির বিক্রয় মূল্যকে ক্রয় মূল্যে পরিণত করিয়া ক্রয় মূল্যের ঘরে লেখা হয়। অন্য লেনদেনগুলির অঙ্ক উভয় ঘরে একই হইবে। বিক্রয় মূল্যের ঘরগুলি বিবরণী ঘর মাত্র। এই ঘর দুইটির সাহায্যে শাখার নিকট প্রেরিত পণ্যের হিসাব, উহার ক্ষতি-বৃদ্ধি ইত্যাদি জানা যায়। ক্রয়মূল্যের ঘর দুইটির অন্তর হইতে লাভ-লোকসান বাহির হয়। প্রথম ও দ্বিতীয় শ্রেণীর শাখার ক্ষেত্রে যে নীতিতে Branch A/c-কে Debit 3 Credit করা হয়, সেই নীতিতেই এই পদ্ধতিতেও Branch A/c-কে Debit ও Credit করা হইবে।

৩য় পদ্ধতি—বিক্রয়মূল্যে লিখিত বিষয়গুলির জন্য সমন্বয় লিখনের দ্বারা (By passing adjusting entries in respect of items which are recorded at selling price instead of cost price) : প্রত্যেকটি শাখার প্রকৃত লাভ-লোকসান নির্ণয় করিবার জন্য বিক্রয় মূল্যে লিখিত শাখাস্থিত প্রারম্ভিক মজুত, শাখার নিকট প্রেরিত পণ্য, শাখাস্থিত কালান্তিক মজুত, শাখা কর্তৃক ফেরত পাঠানো পণ্য ইত্যাদির ক্ষেত্রে সমন্বয় লিখন (Adjusting Entries) প্রয়োজন হয়। অন্যান্য শাখাসংক্রান্ত লেনদেনগুলি প্রথম ও দ্বিতীয় শ্রেণীর শাখার ক্ষেত্রে যেভাবে লিপিবদ্ধ করা হইয়াছে, অনুরূপভাবে লেখা হইবে। Branch Stock A/c হইতে Stock Reserve এর অঙ্ক বাদ দিয়া হেড অফিসের উদ্বৃত্ত পত্রে দেখাইতে হইবে। পরবর্তী বৎসরের প্রারম্ভে Branch Stock A/c এবং Stock Reserve A/c-কে Branch A/c-এ স্থানান্তরিত করিতে হইবে।

৪র্থ পদ্ধতি—পণ্য ও দেনাদার পদ্ধতি (Stock and Debtors System) : এই পদ্ধতিতে Branch A/c নামে কোন হিসাব খোলা হয় না। এই হিসাবকে বিভিন্ন ভাগে বিভক্ত করিয়া হেড অফিসের বইতে দেখানো হয়। শাখা সংক্রান্ত লেনদেনগুলির জন্য আলাদা হিসাব রাখা হয়। এই পদ্ধতিতে সাধারণত নিম্নলিখিত হিসাবগুলি হেড অফিসের বইতে খোলা হয় :—

(১) Branch Stock A/c, (২) Branch Debtors' A/c, (৩) Branch Cash A/c, (৪) Goods Sent to Branch A/c, (৫) Branch Expenses A/c, (৬) Branch Discounts A/c, (৭) Branch Adjustment A/c, (৮) Branch Profit & Loss A/c, (৯) Stock Reserve A/c, (১০) Loss in Transit of Goods A/c, (১১) Loss on Pilferage A/c, (১২) Branch Fixed Assets A/cs ইত্যাদি।

Branch Adjustment A/c—ভারের (Load) এর জন্য সমন্বয় লিখনগুলি (Adjustment Enteris for Load) এই হিসাবে দেখানো হয়। এই হিসাবের উভয় দিকের অন্তর হইল সংশ্লিষ্ট শাখার মোট লাভ বা মোট লোকসান (gross profit বা gross loss)। এই লাভ-লোকসানের অঙ্ককে Branch Profit & Loss A/c-এ স্থানান্তরিত করা হয়।

দ্রষ্টব্য—শাখাস্থিত কালান্তিক মজুতের সহিত যে ভার যুক্ত থাকে উহা Branch Stock Reserve A/c-এ Credit করা হয়, এবং Branch Adjustment A/c-এ Debit করা হয়। হেড অফিসের উদ্বৃত্তপত্রে Branch Stock হইতে Branch Stock Reserve-এর অঙ্ক বাদ দিয়া দেখাইতে হয়। বিকল্পভাবে ঐ ভারের সমান অঙ্ক Branch Adjustment A/c-এ রাখিয়া দিয়া অবশিষ্ট অঙ্ককে লাভ হিসাবে ধরা যায়।

(ঘ) হেড অফিস হইতে প্রাপ্ত বা স্থানীয়ভাবে ক্রীত পণ্যের নগদ ও ধারে বিক্রয়কারী স্বাধীন শাখা (Independent Branch) :

এই শ্রেণীর শাখার লেনদেনগুলির হিসাব রাখিবার জন্য স্বতন্ত্র এক প্রস্থ হিসাবের বই রাখা হয়।

এই বইগুলিতে দ্বি-তারকী হিসাব পদ্ধতি অনুযায়ী আয়, ব্যয়, ক্রয়, বিক্রয়, অবচয়, দায় সম্পত্তি ইত্যাদি সংক্রান্ত সমস্ত হিসাব খোলা হয়। শাখার বইতে একটি Head Office A/c খোলা হয়। এই হিসাবটি অনেকটা সাধারণ ব্যবসায়ের Capital A/c-এর মত। শাখা ও হেড অফিসের মধ্যে যে সকল লেনদেন ঘটে, সে সকল লেনদেন এই হিসাবে দেখানো হয়। ব্রাঞ্চকে হেড অফিসে ঘন ঘন টাকা পাঠাইতে হইলে স্বতন্ত্র একটি Remittances A/c খুলিলে ভাল হয়। নির্দিষ্ট সময়ান্তে এই হিসাবের অঙ্ককে Head Office A/c-এর Debit-এর দিকে স্থানান্তরিত করা হয়। বৎসরান্তে শাখা অফিস রেওয়া-মিল, ক্রয়-বিক্রয়ের হিসাব, লাভ-লোকসানের হিসাব এবং উদ্বৃত্তপত্র তৈরী করিয়া থাকে। যদি লাভ হয় উহা Head Office A/c-এ Credit করা হইবে এবং লোকসান হইলে উহা Head Office A/c-এ Debit করা হইবে। রেওয়া মিল, ক্রয়-বিক্রয়ের হিসাব, লাভ-লোকসানের হিসাব ও উদ্বৃত্ত-পত্রের একটি করিয়া অনুলিপি হেড অফিসে পাঠাইয়া দেওয়া হয়। শাখা অফিসের রেওয়া মিল হইতে শাখার বিভিন্ন হিসাবের অঙ্কগুলি হেড অফিসের বইর হিসাবের সহিত সংযুক্ত করা হয়।

হেড অফিসের বইতে একটি Branch A/c খোলা হয়। শাখা ও হেড অফিসের মধ্যে সমস্ত রকম লেনদেন এই হিসাবে দেখানো হয়। শাখার নিকট হইতে ঘন ঘন টাকা আসিলে হেড অফিসের বইতে আলাদা Remittances A/c খোলা সুবিধাজনক। শাখা হইতে প্রাপ্ত অর্থের অঙ্ক এই হিসাবে Credit করা হইবে। বৎসরান্তে অথবা নির্দিষ্ট সময়ান্তে এই হিসাবের অঙ্ক Branch A/c-এর Credit-এর দিকে স্থানান্তরিত করিতে হইবে। শাখাস্থিত স্থাবর সম্পত্তির হিসাব স্থায়ীভাবে হেড অফিসে রাখা হইলে, উক্ত সম্পত্তির অবচয়ের অঙ্ক Branch A/c-এ Debit করা হইবে এবং শাখার হিসাবের বইতে Head Office A/c-কে Credit করিতে হইবে।

সাধারণত কোনও নির্দিষ্ট তারিখে হেড অফিসের বইতে Branch A/c-এর Balance এবং শাখা অফিসের বইতে Head Office A/c-এর Balance একই হইবে। কিন্তু কখনও কখনও Balance দুইটি সমান হয় না। ইহার কারণ হইল, (১) অনেক সময় শাখা অফিস হেড অফিসকে যে টাকা পাঠায় উহা ঐ তারিখেও আসিয়া পৌছায় না অথবা (২) হেড অফিস শাখা অফিসে যে পণ্য পাঠায় উহা ঐ তারিখেও শাখা অফিসে আসিয়া পৌছায় না। বৎসরান্তে এই সব পরিবহনাধীন বিষয়গুলি (Items in transit) হিসাবের মধ্যে আনিতে হইবে। শাখা অফিস অথবা হেড অফিসকে পরিবহণাধীন বিষয়গুলির জন্য সমন্বয় লিখন লিখিতে হইবে।

(ঙ) বিদেশে-অবস্থিত বা বৈদেশিক শাখা (Foreign Branch) :

বৈদেশিক শাখা সাধারণত একটি স্বাধীন শাখা। এই শাখা স্বতন্ত্র এক প্রস্ত হিসাবের বই রাখে। অন্যান্য শ্রেণীর শাখাগুলি যে পদ্ধতিতে হিসাব রাখে, বৈদেশিক শাখাও সে পদ্ধতিতে হিসাব রাখে। হেড অফিসের বইতে শাখার বইর হিসাবগুলির অঙ্ক অন্তর্ভুক্ত করিবার জন্য বৈদেশিক শাখার রেওয়া মিল এবং শাখাস্থিত কালান্তিক সম্ভারের বিবরণ হেড অফিসে প্রেরণ করা হয়। এরূপ ক্ষেত্রে শাখার রেওয়া মিলের অঙ্কগুলি বৈদেশিক মুদ্রায় লিপিবদ্ধ থাকে বলিয়া হেড অফিসের বইতে উক্ত অঙ্কগুলি অন্তর্ভুক্ত করিবার পূর্বে দেশীয় মুদ্রার অঙ্কে রূপান্তরিত করিয়া লইতে হয়। যদি বৈদেশিক মুদ্রার বিনিময় হার মোটামুটি স্থিতিশীল হয়, তাহা হইলে শাখার রেওয়ামিলের অঙ্কগুলি একটি নির্দিষ্ট হারে রূপান্তরিত করা যায়। যদি বৈদেশিক মুদ্রার বিনিময় হার অত্যন্ত পরিবর্তনশীল হয় তাহা হইলে শাখার রেওয়া-মিলের অঙ্কগুলি উপযুক্ত হারে রূপান্তরিত করিতে হইবে। বিদেশী মুদ্রা দেশীয় মুদ্রায় রূপান্তরিত করিবার ফলে যদি কোন পার্থক্য দেখা দেয়, তাহা হইলে উহাকে "Difference in Exchange A/c"-এ স্থানান্তরিত করিতে হইবে। শেষ পর্যন্ত এই হিসাবের অঙ্কটি Profit & Loss A/c-এ স্থানান্তরিত করা

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স্বত্ব-ভাড়া (Royalty)

১. **স্বত্ব-ভাড়া বলিতে কি বুঝায়** (What is Royalty): খনির স্বত্ব ভোগ করিবার জন্য ইজারাদার খনির মালিককে, বা পেটেণ্টের স্বত্ব ব্যবহার করিবার জন্য কোন ব্যবসায়ী পেটেণ্টের স্বত্বাধিকারীকে বা পুস্তকের স্বত্ব ব্যবহার করিবার জন্য প্রকাশক বা পুস্তক-বিক্রেতা গ্রন্থকারকে খাজনা বা ভাড়া বাবদ যে অর্থ প্রদান করে, উহাকে **স্বত্ব-ভাড়া** (Royalty) বলে। উৎপাদিত পণ্যের ভিত্তিতে বা বিক্রয়ের ভিত্তিতে সাধারণত এই স্বত্ব-ভাড়া প্রদান করা হয়।

২. **ন্যূনতম খাজনা বলিতে কি বুঝায়** (What is Minimum Rent) : খনি ইত্যাদির ক্ষেত্রে লাভজনক হারে খনিজ পদার্থ উৎপাদন করিতে কয়েক বৎসর সময় লাগে। এই সময়ের জন্য ভূস্বামীকে একটি নির্দিষ্ট পরিমাণ অর্থ দিবার জন্য চুক্তিপত্রে সাধারণত একটি শর্ত যোগ করা হয়। এই নির্দিষ্ট অর্থের অঙ্ককে **ন্যূনতম খাজনা** (Minimum Rent) বলা হয়। উৎপাদন যাহাই হোক না কেন, ভূস্বামীকে প্রতি বৎসর ঐ নির্দিষ্ট অঙ্কের অর্থ অবশ্যই দিতে হইবে। ন্যূনতম খাজনার শর্ত সম্বলিত চুক্তির ক্ষেত্রে উৎপাদন বা বিক্রয়ের ভিত্তিতে নির্ধারিত খাজনা এবং ন্যূনতম খাজনার মধ্যে যে অঙ্কটি অধিক হইবে উহাই ভূস্বামীর প্রাপ্য হইবে। চুক্তি পত্রে এই মর্মে শর্ত আরোপিত হইতে পারে যে সাধারণ ধর্মঘট ইত্যাদির ক্ষেত্রে উৎপাদ বা বিক্রয়ের ভিত্তিতে যে খাজনা নির্ধারিত হইবে, উহা ন্যূনতম খাজনা অপেক্ষা কম হইলেও ভূস্বামীকে গ্রহণ করিতে হইবে।

৩. **ঘাটতি উৎপাদনের খাজনা বলিতে কি বুঝায়** (What is Short working): ন্যূনতম খাজনা অপেক্ষা প্রকৃত Royalty কম হইলে এই Royalty-র উপর ভূস্বামীকে অতিরিক্ত যে অর্থ প্রদান করা হয় উহাকে **ঘাটতি উৎপাদনের খাজনা** Short-working বলা হয়। চুক্তিপত্রে এই মর্মে শর্ত আরোপিত হইতে পারে যে প্রকৃত Royalty-র পরিমাণ ন্যূনতম খাজনা হইতে অধিক হইলে ঐ বৎসরের Royalty-র অঙ্ক হইতে পূর্ববর্তী এক বা একাধিক বৎসরের Short-working-এর অঙ্ক কাটিয়া লওয়া চলিবে। Short-working বাবদ অর্থ আদায় করিবার সময় লক্ষ্য রাখিতে হইবে যে Short-working-এর অঙ্ক বাদ দিবার পর যেন Royalty-র পরিমাণ ন্যূনতম খাজনা অপেক্ষা কম না হয়। এই জন্য Short-working-কে **আদায়যোগ্য ন্যূনতম খাজনা** (Redeemable Dead Rent) বলা হয়। চুক্তির নির্দিষ্ট সময় অতিক্রান্ত হইলে Royalty হইতে Short-working বাবদ অর্থ আদায় করা যায় না। Short-working-এর এই অনাদায়ী অর্থ লাভ-লোকসানের হিসাবে স্থানান্তরিত করিতে হয়।

৪. **দর-ইজারা** (Sublease) : ইজারাদার কখনও কখনও তাহার খনির একাংশ দর-ইজারাদারকে (sublessee) দর-ইজারা দিয়া থাকে। দর-ইজারা চুক্তিতে ইজারাদারকে ন্যূনতম খাজনা দিবার শর্ত থাকে। কিন্তু উৎপাদনের ভিত্তিতে নির্ধারিত খাজনার এবং ন্যূনতম খাজনার মধ্যে যে অঙ্কটি অধিক হইবে উহাই ইজারাদারের প্রাপ্য হইবে। প্রকৃত Royalty-র পরিমাণ ন্যূনতম খাজনা অপেক্ষা অধিক হইলে ঐ বৎসরের Royalty-র অঙ্ক হইতে দর-ইজারাদার পূর্ববর্তী এক বা একাধিক বৎসরের Short-working-এর অঙ্ক আদায় করিতে পারিবে। এরূপ ক্ষেত্রে দেখিতে হইবে যেন Royalty-র পরিমাণ কোন সময় ন্যূনতম খাজনা অপেক্ষা কম না হয়।

ইজারাদারের হিসাবের বইতে ভূস্বামীকে দেয় খাজনার জন্য যে Journal Entry-র দরকার হয়, দর-ইজারাদারের নিকট হইতে প্রাপ্য খাজনার জন্য উহার বিপরীত Journal Entry-র প্রয়োজন হইবে।

৫. **হিসাব রক্ষণ পদ্ধতি** (Treatmpnt in Accounts) ইজারাদার বা স্বত্ব-ব্যবহারকারীর হিসাবের বইতে স্বত্ব-ভাড়া সংক্রান্ত লেনদেন দুইভাবে লিপিবদ্ধ করা যায়। যথা—

(১) Minimum Rent A/c না খুলিয়া এবং

(২) Minimum Rent A/c খুলিয়া।

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ভাড়া-ক্রয় (Hire-Purchase)

১. **ভাড়া-ক্রয় পদ্ধতির বৈশিষ্ট্য (Features of Hire Purchare System) :** ভাড়া-ক্রয় পদ্ধতির বৈশিষ্ট্যগুলি নিম্নরূপ :—

(ক) ভাড়া-ক্রয় চুক্তি অনুযায়ী প্রেরিত পণ্যের মূল্য নিয়মিত কিস্তিতে পরিশোধ করা হয়।

(খ) কিস্তিগুলিকে প্রেরিত পণ্যের ভাড়া বাবদ প্রদত্ত অর্থ বলিয়া গণ্য করা হয়।

(গ) সংশ্লিষ্ট পণ্যের মূল্য বাবদ দেয় শেষ কিস্তির অর্থ পরিশোধ না করা পর্যন্ত ক্রেতা উহার মালিকানা স্বত্ব লাভ করে না, যদিও চুক্তি সম্পাদিত হওয়া মাত্র সংশ্লিষ্ট পণ্য ক্রেতার হস্তে অর্পণ করা হয় এবং উহা সে ভোগ করে।

২. **ভাড়া-ক্রয় এবং সাধারণ বিক্রয়ের মধ্যে পার্থক্য (Distinction between a Hire-Purchase and Ordinary Sale) :**

বিক্রয়ের চুক্তি অনুসারে—	ভাড়া ক্রয়ের চুক্তি অনুসারে—
(১) পণ্যের মালিকানা স্বত্ব বিক্রেতার নিকট হইতে ক্রেতার নিকট চলিয়া যায়।	(১) প্রেরিত পণ্যের মালিকানা স্বত্ব বিক্রেতার নিকট থাকিয়া যায়।
(২) কিস্তির টাকা পণ্যের মূল্য বাবদ দেওয়া হয়।	(২) শেষ কিস্তি ব্যতীত অন্য কিস্তির টাকা ভাড়া বাবদ প্রদত্ত .অর্থ বলিয়া গণ্য করা হয়।
( ) ক্রেতা পণ্যটি ইচ্ছামত বিক্রয় বা হস্তান্তর করিতে পারে।	(৩) পণ্যের মূল্য বাবদ দেয় শেষ কিস্তির অর্থ পরিশোধ না করা পর্যন্ত ক্রেতা পণ্যটি কাহারও নিকট বিক্রয় বা হস্তান্তর করিতে পারে না।
(৪) ক্রেতাকে শুধুমাত্র পণ্যের নগদ মূল্য বাবদ অর্থ দিতে হয়।	(৪) ক্রেতাকে পণ্যের নগদ মূল্য ছাড়াও সুদ বাবদ কিছু অর্থ দিতে হয়।
(৫) ক্রেথা বিক্রেতাকে পণ্য ফেরত দিতে পারে না।	(৫) ক্রেতা বিক্রেতাকে পণ্য ফেরতও পাঠাইতে পারে।•

৩. **প্রতিটি কিস্তির সুদ ও আসল পৃথকীকরণ (Apportionment of Interest and Principal of each Instalment) :**

ভাড়া-ক্রয় সংক্রান্ত প্রতিটি কিস্তি আসলের কিয়দংশ এবং বকেয়া আসলের উপর শেষ কিস্তি দিবার তারিখ পর্যন্ত সময়ের সুদ লইয়া গঠিত। ভাড়া-ক্রয় সংক্রান্ত লেনদেন লিপিবদ্ধ করিবার সময় কিস্তির আসল ও সুদ যাহাতে পৃথক্‌ভাবে লিপিবদ্ধ করা হয়, সেদিকে নজর দিতে হইবে। আসলের অঙ্ককে সম্পত্তির হিসাবে এবং সুদের অঙ্ককে সংশ্লিষ্ট বৎসরের লাভ-লোকসানের হিসাবে দেখাইতে হইবে।

৪. **সম্পত্তির অবচয় (Depreciation on Assets) :** ভাড়া-স্বত্ব চুক্তি অনুযায়ী গৃহীত সম্পত্তির পুরা নগদ মূল্যের (full cash price) উপর অবচয় ধরিতে হইবে এবং সংশ্লিষ্ট বৎসরের লাভ-লোকসানের হিসাবে দেখানো হইবে। তাহা হইলে শেষ কিস্তি প্রদানের পর সম্পত্তিটির মালিকানা স্বত্ব যখন ক্রেতার হস্তে চলিয়া আসিবে তখন উহা যথাযথ মূল্যই হিসাবের বইতে থাকিবে।

৫. ভাড়াক্রয় চুক্তিক্রমে প্রেরিত পণ্য ফেরত (Return of Goods supplied under Hire Purchase Agreement) :

যদি ক্রেতা কোনও কিস্তির টাকা সময়মত দিতে না পারে, তাহা হইলে তাহার নিকট হইতে পণ্য ফেরত লইয়া লওয়া হয় এবং সে এযাবৎ কিস্তি বাবদ যে অর্থ প্রদান করিয়াছে, উহা বাজেয়াপ্ত করা হয়। এরূপ ক্ষেত্রে ক্রেতা ও বিক্রেতা উভয়ের হিসাবের বইতে পণ্য ফেরত সংক্রান্ত লেনদেন লিপিবদ্ধ করিতে হয়।

৩৪ অধ্যায়

কিস্তিবন্দি বিক্রয় পদ্ধতি

(Sale by Instalment System)

যদি বিক্রয় চুক্তির শর্ত অনুযায়ী ক্রেতাকে এককালীন অর্থে বিক্রয় মূল্য শোধ করিবার পরিবর্তে বিভিন্ন কিস্তিতে ঐ বাবদ অর্থ পরিশোধ করিবার সুযোগ দেওয়া হয়, তাহা হইলে উহাকে **কিস্তিবন্দি বিক্রয় পদ্ধতি** (Sale by Instalment System) বলা হয়। এইরূপ বিক্রয়ের ক্ষেত্রে সম্পত্তির মালিকানা স্বত্ব বিক্রয়চুক্তি সম্পাদিত হওয়ার সঙ্গে সঙ্গে ক্রেতার নিকট চলিয়া যায়। যদি ক্রেতা কোনও কিস্তির টাকা দিতে অক্ষম হয়, পণ্য বাজেয়াপ্ত করা যায় না। বিক্রেতা মূল্য আদায়ের জন্য আদালতে মামলা করিতে পারে।

ভাড়া-ক্রয় এবং কিস্তিবন্দি পদ্ধতির মধ্যে পার্থক্য (Distinction between Hire Purchase and Sale by Instalment) :

ভাড়া-ক্রয় পদ্ধতি	কিস্তিবন্দি পদ্ধতি
[১] সর্বশেষ কিস্তি শোধ না হওয়া পর্যন্ত ক্রেতা পণ্যের মালিকানা স্বত্ব লাভ করে না।	[১] বিক্রয় চুক্তি সম্পাদিত হওয়ার সাথে সাথে ক্রেতা পণ্যের মালিকানা স্বত্ব লাভ করিয়া থাকে।
[২] কোনও কিস্তির টাকা শোধ না করিলে, বিক্রেতা সংশ্লিষ্ট পণ্য বাজেয়াপ্ত করিতে পারে।	[২] কোনও কিস্তির টাকা শোধ না করিলে বিক্রেতা পণ্য বাজেয়াপ্ত করিতে পারে না। অর্থ আদায়ের জন্য আদালতে মামলা দায়ের করিতে পারে মাত্র।
[৩] ক্রেতা সংশ্লিষ্ট পণ্যের মালিক নয়। সে ভাড়াকারী [Hirer] বা গচ্ছিত গ্রহীতা [Bailee] মাত্র।	[৩] ক্রেতা হইল সংশ্লিষ্ট পণ্যের মালিক।
[৪] পণ্যটির স্থানান্তর ঘটে। কিন্তু পণ্যের মালিকানা স্বত্ব সর্বশেষ কিস্তি শোধ না হওয়া পর্যন্ত হস্তান্তরিত হয় না।	[৪] বিক্রয়ের সঙ্গে সঙ্গে পণ্যটির স্থানান্তর ঘটে এবং মালিকানা স্বত্বও হস্তান্তরিত হয়।

৩৫ অধ্যায়

বিক্রয় বা ফেরত সংক্রান্ত পণ্য (Goods on Sale or Return)

কখনও কখনও ব্যবসায়ী তাহার ভাবী ক্রেতাগণকে পণ্যের ব্যবহার, গুণাগুণ ইত্যাদি সম্বন্ধে সম্যক অবহিত হওয়ার সুযোগ দিবার জন্য, ঐ পণ্য ক্রেতার গৃহে লইয়া যাইবার অনুমতি দেয়। পছন্দ হইলে ক্রেতাগণ ঐ পণ্য ক্রয় করে। পছন্দ না হইলে উহাকে নির্দিষ্ট সময়ের মধ্যে ফেরত দিতে হয়। যখন কোনও ক্রেতা তাহার অনুমোদন জ্ঞাপন করে, তখন উহা বিক্রয় বলিয়া ধরা হয়। যদি ক্রেতা তাহার অনুমোদন জ্ঞাপন না করে বা নির্দিষ্ট সময়ের মধ্যে উক্ত পণ্য ফেরতও না পাঠায়, তাহা হইলে উহাকেও বিক্রয় বলিয়া ধরা হইবে। যে পণ্য এইভাবে লেনদেন করা হয় উহাকে **বিক্রয় বা ফেরত সংক্রান্ত পণ্য** (Goods on sales or return) বলা হয়। বিক্রয় বা ফেরত সংক্রান্ত লেনদেন সাধারণত তিনটি পদ্ধতিতে হিসাবের বইতে লিপিবদ্ধ করা যায় :—

(১) যে ক্ষেত্রে এ জাতীয় লেনদেনের সংখ্যা অত্যন্ত নগণ্য,

(২) যে ক্ষেত্রে এ জাতীয় লেনদেনের সংখ্যা নেহাৎ নগণ্য নয়, এবং

(৩) যে ক্ষেত্রে এ জাতীয় লেনদেন অসংখ্য।

১. যে ক্ষেত্রে বিক্রয়-বা-ফেরত সংক্রান্ত লেনদেন অত্যন্ত নগণ্য, সে ক্ষেত্রে ঐ লেনদেনগুলিকে সাধারণ বিক্রয়ের অন্তর্ভুক্ত করিয়া হিসাবের বইতে লিপিবদ্ধ করা হয়। ক্রেতার হস্তস্থিত মজুতের বিক্রয়মূল্যকে ক্রয়মূল্যে রূপান্তরিত করিয়া উহাকে উদ্বৃত্তপত্রে সম্পত্তির দিকে দেখানো হয়।

২. যে ক্ষেত্রে বিক্রয়-বা-ফেরত সংক্রান্ত লেনদেনের সংখ্যা নেহাৎ নগণ্য নয়, সে ক্ষেত্রে একটি Sale or Return Day Book-এ লেনদেনগুলির প্রাথমিক হিসাব লেখা হয়।

৩. যে ক্ষেত্রে বিক্রয়-বা-ফেরত সংক্রান্ত লেনদেন অসংখ্য, সে ক্ষেত্রে এই জাতীয় লেনদেন-গুলির জন্য এক প্রস্ত স্বতন্ত্র হিসাবের বই খোলা হয়। এই বইগুলি বিবরণী বই মাত্র। দ্বি-তরফা পদ্ধতিতে রক্ষিত হিসাবের বইগুলির সহিত ইহাদের কোন সম্পর্ক নাই।