

Financial Accounting: Corporate Accounting

Unit - 1

(A) Profit or Loss Prior to Incorporation

1. Explain the uses of Profit Prior to Incorporation.
2. Sanjay Ltd. was incorporated on 1st July 2020. The company acquired the running business of Majmudar Brothers on 1st January 2020. The company's financial year ends on 31st December 2020. You are required to prepare a statement showing the profit or loss for the periods prior to and after incorporation, based on the following information:

Details:

1. Total Sales for 2020: ₹3,00,000
Sales for the first 6 months were one-third of the total sales.
2. Interest on Purchase Price at 6%: Paid from 1st January to 1st April 2020.
3. Rent: The average monthly rent for the last 9 months was double the rent for the first 3 months.

Expenses and Income:

Particulars	Amount (₹)
Salaries	60,000
Preliminary Expenses	5,700
Office Expenses	7,740
Interest on Purchases	1,800
Selling Expenses	16,200
Carriage Outward	3,600
Rent	2,100
Dividend to Equity Shareholders	6,000
Debenture Interest	2,700
Depreciation	4,000
Director Fees	3,200

Interest on Investments	2,000
Donations to Political Parties	2,000
Net Profit	32,160

Additional Information:

- The company's financial year ends on 31st December 2020.
- The business was acquired on 1st January 2020.
- The company was incorporated on 1st July 2020.

Prepare a statement showing the division of profit or loss between the period before and after incorporation, considering the relevant adjustments.

3. Yash Company Limited purchased the business of a partnership firm on 1st January 2021. The company was incorporated on 1st July, 2021. The first final accounts were prepared on 31st December 2021. Based on the following information, prepare a statement showing the profit or loss for the pre-incorporation and post-incorporation periods.

Particulars	Amount (₹)
Gross Profit	15,84,000
Interest on Business Purchase Price	56,000
Rent Paid	96,000
Salary	1,60,000
Depreciation	80,000
Loss on Sale of Investments	16,000
Interest on Debentures	8,000
Interest on Investments	8,000
Advertisement Expenses (Fixed + Variable)	2,16,000
Directors' Fees (Annual)	2,88,000
Salary and Commission to Salesmen (Fixed + Variable)	96,000
Expenses of Delivery Van	48,000

Additional Information:

- The business purchase price was paid on 31st July 2021.
- Investments were sold on 31st May 2021.
- The expenses indicating Fixed + Variable (FV) components show that the variable expenses are half of the fixed expenses.
- In the first half of the year (January to June), monthly sales were double those of the previous month. In the second half of the year (July to December), monthly sales were half of those of the previous month.

Prepare a statement of profit or loss for the pre-incorporation and post-incorporation periods by considering the relevant adjustments and sales ratios.

4. Nidhi Ltd. purchased a business on 1st October 2020, and the company was incorporated on 1st December 2020. The first final accounts were prepared on 31st March 2021. Based on the following information, calculate the profit for the periods before and after incorporation. Additionally, determine the amount of dividend the company would pay for the year ending on 31st March 2021.

- Dates:
 - Date of purchase of the business: 1st October 2020
 - Date of incorporation: 1st December 2020
 - Date of first final accounts prepared: 31st March 2021
- Sales Information:
 - Total sales for the period: ₹3,80,000
 - Gross profit rate:
 - 20% on sales for the period prior to incorporation
 - 25% on sales after incorporation
- Sales Trend for the Period (in ratio):

Month	Sales Ratio
October - November	2 : 3
November - December	2 : 3
December - January	2 : 3
January - February	3 : 2
February - March	3 : 2

- Profit and Loss Account Information:

Particulars	Amount (₹)
Salaries	9,500
Commission on Sales	24,000

Loss on Sale of Investment (sold on 31st Dec.)	600
Interest on Investment	1,200
Directors' Fees	10,200
Stationery and Printing	1,500
Advertisement Expenses (3/8 fixed)	15,200
Sundry Expenses	6,000
Office Rent (₹200 per month until Jan. 2021; ₹250 afterward)	1,300
Bad Debts Returned (written off prior to incorporation)	500
Preliminary Expenses Written Off	300
Goodwill Written Off	2,000

- Additional Information:
 - Subscribed and paid-up share capital of the company: ₹1,00,000
- Calculate the profit attributable to the period before and after incorporation.
- Determine the amount of dividend the company would pay for the year ending on 31st March 2021.

Unit - 1

(B) Business Purchase

5. How would you ascertain the amount of “Goodwill” Or “Capital Reserve” in a problem of business purchase?
6. . Tulsi and Shyam were partners in Ramsay Brothers Firm. On 31st March 2024, the firm was converted into Deepak Ltd. The balance sheet of Ramsay Brothers as of 31st March 2024 was as follows:

Balance Sheet of Ramsay Brothers as of 31st March 2024

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Land & Building	2,20,000
- Tulsi	2,20,000	Machinery	1,60,000
- Shyam	2,20,000	Stock	1,20,000
General Reserve	80,000	Debtors	1,20,000
Creditors	80,000	Bank Balance	20,000
Total	₹6,00,000	Total	₹6,00,000

Additional Information:

- Debtors and Creditors: Deepak Ltd. did not take over the firm’s debtors and creditors. Instead, the company agreed to collect amounts from debtors and pay creditors as an agent for a commission of 3% on the amount collected and 2% on the amount paid.
- Purchase Consideration: The purchase consideration was paid in the form of equity shares and preference shares in the ratio of 4:1, amounting to ₹5,00,000, and ₹30,000 in cash.
- Asset Valuation: The company decided to value the assets as follows:
 - Land & Building: ₹2,50,000
 - Machinery: ₹1,50,000
 - Stock: ₹80,000
- Debtors Realization and Creditors Payment:
 - Debtors: Realized ₹1,20,000, which included ₹20,000 previously written off as bad debts.
 - Creditors: Paid ₹72,000 in full settlement.
- Final Payment: The firm was paid the due amount.

Prepare the journal entries in the books of Deepak Ltd. for the transactions related to the conversion and the subsequent operations.

7. .Rajesh and Rakesh Balance Sheet as of 31-03-2024:

Liabilities	Rs.	Assets	Rs.
Capital:		Building	1,20,000
- Rajesh	1,20,000	Machinery	40,000
- Rakesh	80,000	Stock	30,000
Total Capital	2,00,000	Debtors	46,000
Profit & Loss A/c	15,000	Investments	5,000
Bank Loan	5,000	Bills Receivable	12,000
Creditors	25,000	Bank Balance	22,000
Bills Payable	10,000		
Total Liabilities	2,55,000	Total Assets	2,55,000

Details of the Business Transfer to Kishan Co. Ltd.:

- Purchase Consideration:
 - 10,000 fully paid-up equity shares of ₹10 each at a 20% premium.
 - 6% Debentures of ₹75,000.
 - Balance in cash.
- Liabilities:
 - All liabilities except the bank loan are to be taken over by Kishan Co. Ltd.
- Valuation of Assets:
 - Building: ₹1,20,000
 - Stock: ₹25,000
 - The remaining assets are taken at book values.
- Goodwill: ₹25,000
- Dissolution Expenses: ₹2,000, borne by Kishan Co. Ltd.
- Preliminary Expenses of Kishan Co. Ltd.: ₹3,000

Assuming that all dues were paid, pass the necessary journal entries in the books of Kishan Co. Ltd. to record the above transactions.

8. . The following is the Balance Sheet of Tejas Brothers as of 31-03-2024:

Liabilities	Rs.	Assets	Rs.
Capital:		Building	1,58,400

- A	1,32,000	Machinery	1,05,600
- B	96,800	Investments	26,400
Total Capital	2,28,800	Stock	96,800
Workmen Profit Sharing Fund	8,800	Debtors	74,800
Workmen Compensation Fund	13,200	Bad Debts	4,400
Bank Loan	1,76,000	Prepaid Expenses	2,200
Creditors	22,000	Cash Balance	6,600
Bills Payable	8,800		
Total Liabilities	4,57,600	Total Assets	4,57,600

On 01-04-2024, Bharat Ltd. was incorporated with an authorized capital of 4,400 equity shares of ₹100 each to take over the running business of the above firm.

Conditions for the business purchase:

- The value of the building as shown in the books is 10% less than the market price.
- The stock is overvalued by 10%.
- Debtors are subject to a 10% Bad Debts Reserve.
- The purchase consideration is to be satisfied by issuing 1,760 equity shares of ₹80 each, paid up at ₹120 per share, and ₹41,360 to be paid in cash.
- The company issued remaining shares to the public at ₹80 paid up at the rate of ₹120.

Pass the necessary journal entries in the books of Bharat Ltd. to record the above transactions.

Unit: 2 **Capital Reduction**

1. Explain the meaning of Capital Reduction. Which journal entries are generally made for this purpose?
2. How can a company reduce its share capital under the Companies Act? Explain the legal procedure for capital reduction.
3. The Ahmedabad Textiles Ltd. prepared a scheme of capital reduction, which has been sanctioned. The scheme provides for the following adjustments:

- a. Exchange of Preference Shares: Preference shareholders are to be issued one 6% preference share of ₹100 each and five fully paid equity shares of ₹25 each in exchange for every three 8% cumulative preference shares held. Additionally, there is a preference dividend arrear of ₹48,000. For every ₹100 of dividend arrears, one equity share of ₹25 is to be given.
- b. Exchange of Ordinary Shares: One ordinary share of ₹25 each fully paid-up must be given to ordinary shareholders against one old ordinary share.

Balance Sheet (Before Reconstruction):

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets (at Cost)	
3,000 8% Cum. Preference Shares (₹100 each, fully paid)	₹3,00,000	- Building	₹80,000
		- Machinery	₹1,00,000
2,000 Ordinary Shares (₹100 each, fully paid)	₹2,00,000	Investments (at Cost)	₹1,70,000
		Stock	₹65,000
Current Liabilities & Provisions:	₹1,00,000	Debtors	₹70,100
		Bank Balance	₹500
		Profit & Loss A/c (Dr.)	₹1,14,400
Total Liabilities	₹6,00,000	Total Assets	₹6,00,000

Adjustments to be Made:

The amount from capital reduction is to be utilized as follows:

- Profit & Loss A/c (Dr.) is to be written off.
- Fixed assets are to be reduced by 10%.
- Investments are to be reduced by 15%.
- The remaining balance is to be used to write off further investments.

Pass the necessary journal entries to record the above transactions.

4. Moon Ltd. Balance Sheet and Capital Reduction Scheme

Balance Sheet of Moon Ltd. as of 31-03-2001:

Liabilities	₹
Equity Shares (₹10 each fully paid)	18,00,000
8% Preference Shares (₹100 each fully paid)	4,50,000
9% Debentures	4,80,000

Accrued Interest on Debentures	43,200
Creditors	5,26,800
Total Liabilities	33,00,000

Assets	₹
Goodwill	1,80,000
Freehold Property	9,00,000
Plant	3,00,000
Patents	1,65,000
Investments	1,80,000
Stock	4,50,000
Debtors	5,10,000
Preliminary Expenses	1,05,000
Profit and Loss Account (Dr.)	5,10,000
Total Assets	33,00,000

Scheme of Capital Reduction as Approved by the Court:

- ❖ Preference Shares: Reduced to ₹70 each.
- ❖ Equity Shares: Reduced by ₹5 per share.
- ❖ Debentureholders: Waive the outstanding interest.
- ❖ Debenture holders: Agree to take over freehold property (book value ₹2,50,000) at a valuation of ₹3,00,000 in part payment.
- ❖ Remaining Freehold Property: Revalued at ₹8,00,000.
- ❖ Investments: Sold for ₹2,50,000.
- ❖ Arrear Preference Dividend: For the last three years, preference shareholders have agreed to waive half of their arrears and accept new equity shares of ₹5 each for the remaining amount.
- ❖ Intangible and Invisible Assets: To be written off.
- ❖ Reconstruction Expenses: Amount to ₹19,200.
- ❖ Remaining Balance: This is to be used to write down plants and stock in proportion to their values.

Required:

- Pass journal entries to record the above transactions.
- Prepare the Balance Sheet of Moon Ltd. after the reconstruction.

5. Balance Sheet of Seema Ltd. as of 31-12-2004

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	3,60,000
- Equity Shares of ₹10 each	1,40,000	Current Assets:	6,40,000
- 13% Cumulative Preference Shares of ₹100 each	20,000	Profit & Loss Account (Debit Balance)	60,000
8% Debentures	60,000		
Current Liabilities	7,60,000		
Provision for Taxation	80,000		
Total Liabilities	10,60,000	Total Assets	10,60,000

Scheme of Capital Reduction as Approved by the Court:

- ❖ Equity Shares: All existing equity shares are reduced to ₹4 each.
- ❖ Preference Shares: All preference shares are reduced to ₹60 each.
- ❖ Fixed Assets: To be written down by 33 1/3%.
- ❖ Current Assets: To be reduced by ₹5,33,000.
- ❖ Debenture holders: To surrender their existing debentures of ₹100 each and receive fresh debentures of ₹75 each (same number of debentures).
- ❖ Creditor Settlement: One of the creditors, to whom the company owes ₹5,00,000, agrees to forgo 40% of his claim. He is allotted 25,000 equity shares of ₹4 each in part satisfaction of the remaining claim.
- ❖ Taxation Liability: Settled at ₹1,00,000.

→ Pass journal entries to record the above transactions.

→ Prepare the Balance Sheet of Seema Ltd. after the reconstruction

6. Balance Sheet of Nayan Ltd. as of 31-03-2002

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital (₹10 each fully paid)	1,00,000	Goodwill	50,000
12% Preference Share Capital	1,00,000	Land and Building	1,50,000
10% Debentures	1,50,000	Machinery	50,000

Outstanding Interest on Debentures	5,000	Cash	25,000
Creditors	45,000	Stock (including ₹5,000 doubtful)	50,000
Contingent Liabilities (Suit pending: ₹25,000)		Debtors (Good: ₹40,000, Doubtful: ₹10,000)	50,000
		Profit & Loss A/c	25,000
Total	4,00,000	Total	4,00,000

Additional Information:

❖ Arrears of dividend on preference shares for one year (₹12,000).

Scheme of Capital Reduction:

- ❖ Stock is to be written off by ₹5,000 and doubtful debts and all intangible assets are to be eliminated.
- ❖ Preference shareholders agreed to waive half of the dividend arrears and received cash for the balance.
- ❖ Debenture holders agreed to take over part of the company's building valued at ₹40,000 at an agreed price of ₹60,000 in satisfaction of part of their claim and provided cash on a further floating charge of ₹50,000 after deducting arrears of interest due to them.
- ❖ The contingent liability with respect to damages materialized, and 80% of the claim is paid in full settlement.
- ❖ The required amount for the scheme will be generated by reducing preference and equity share capital in the ratio of 1:2.

Pass the necessary journal entries and prepare the revised Balance Sheet after implementing the scheme.

Unit - 3
Bank Accounts

1. Give the proforma of the form showing the classification of Advances as per Schedule 9 of the Banking Regulation Act.
2. Give proforma of new formats of Balance Sheet and Profit and Loss Accounts of a Commercial Bank
3. From the following balances of The Radhesh Bank Ltd. as of 31-30-2018.

Particulars	Amount
Interest on Fixed Deposits	3,10,000
Audit Fees	60,000
Interest on Loans	15,00,000
Repairs of Assets	45,000
Interest on Overdraft	15,000
Interest on Current Accounts	12,000
Rebate on Bills discounted (1-4-2017)	3,00,000
Credit Balance of Profit and Loss Account (1-4-2017)	5,00,000
Commission and Exchange	75,000
Salaries and Allowances	1,80,000
Rent of Safe Deposit Vault	32,000
Rent and Taxes paid	27,000
Sundry incomes	18,000
Director's fees	65,000
Interest on Savings Accounts	1,20,000
Share capital	75,00,000
Law charges	35,000
Interest on Cash credits	2,50,000

Administrative expenses	90,000
Sundry expenses	23,000
Discount Received in Bills	65,000
Interest received on Investments	68,000
Revenue Stamps	2,000
Profit on sale of investments	20,000
Printing and Stationery	3,000
Depreciation on Assets	3,30,000

Additional Information:

1. The balance of rebate on bills discounted as of 31-3-2018 is Rs. 15,000.
2. Transfer Rs. 2,20,000 for bad debt reserve and make provision for taxation at 50% on net profit.
3. Maintain Statutory reserve as per law.

Required:

- Prepare the Profit and Loss Account for the year ended 31st March 2018.
- Calculate the Balance Sheet as of 31st March 2018.

4. (A) The following balances are extracted from "The Pandar Bank Ltd." as of 31st March 2017. Prepare Schedule 16 of Operating Expenses:

Particulars	Amount (₹)
Legal Expenses	2,10,000
Interest on Fixed Deposits	1,30,000
Interest on Savings Accounts	50,000
Sundry Expenses	73,000
Commission and Exchange	1,25,000
Administrative Expenses	37,000
Interest on Current Accounts	1,05,000
Revenue Stamps	2,000
Interest on Loans	5,10,000

Audit Fees	90,000
Repairs of Assets	15,000
Interest on Overdraft	3,50,000
Salaries and Allowances	2,85,000
Rent and Taxes paid	45,000
Director's Fees	56,000
Printing and Stationery	24,000
Depreciation on Assets	1,42,000
Insurance	13,000

(B) From the books of Patel Bank Ltd., the following information is available as of 31st March 2018:

Particulars	Amount (₹)
Bills Discounted & Purchased	45,00,000
Discount Earned	7,50,000
Rebate on Bills Discounted (as of 1-4-2017)	75,000

The average due date of the discounted bills is 15th May 2018, and the discount rate is 12% p.a.

Pass necessary journal entries and prepare the Discount Account for Patel Bank Ltd. based on the above information.

5. (A) Shri Rajeshbhai is a customer of Janta Bank Ltd. While closing the books of accounts on 31st March 2018, it was found that an unsecured balance of ₹4,50,000 was due from him in his Loan and Cash Credit Account. Interest was charged on the account at 12.5% p.a. for the year ending 31st March 2018.

On 30th June 2018, the bank accepted 60% of the total debt owed by Rajeshbhai as of 31st March 2018 and settled his account.

Required:

- Pass necessary journal entries in the books of Janta Bank Ltd.
- Prepare the following accounts:
 - Rajeshbhai's Account
 - Interest Account
 - Interest Suspense Account

(B) The following details are available from the books of Chandra Bank Ltd. as of 31st March 2018:

Particulars	Amount (₹)
Bills Discounted and Purchased	40,000
Discount Earned	4,000
Rebate on Bills Discounted (as of 1-4-2017)	1,000

The average due date of the discounted bills is 15th May 2018, and the rate of discount is 12% p.a.

Pass necessary journal entries. Prepare the Discount Account based on the above information.

6. The following balances are extracted from the books of Alpha Bank Ltd. as of 31st March 2018. Prepare the Profit & Loss Account in Form B and Schedules 13 to 16:

Particulars	Amount (₹)
Director's Fees	84,500
Interest on Savings Accounts	1,56,000
Share Capital	50,00,000
Legal Expenses	45,500
Interest on Cash Credits	3,25,000
Administrative Expenses	1,17,000
Sundry Expenses	29,900
Discount Received on Bills	84,500
Interest Received on Investments	88,400
Depreciation on Assets	2,600

Printing and Stationery	26,000
Revenue Stamps	3,900
Profit on Sale of Investments	4,29,000
Sundry Incomes	23,400
Rent and Taxes Paid	35,100
Salaries and Allowances	41,600
Rent of Safe Deposit Vault	2,34,000
Commission and Exchange	97,500
Rebate on Bills Discounted (1-4-2017)	15,600
Credit Balance of Profit and Loss A/c (1-4-2017)	6,50,000
Interest on Current Accounts	19,500
Interest on Overdraft	5,20,000
Repairs of Assets	58,500
Interest on Loans	19,50,000
Audit Fees	78,000
Interest on Fixed Deposits	4,03,000

Additional Information:

- Maintain Statutory Reserve as per law.
- The balance of Rebate on Bills Discounted as of 31-3-2018 is ₹19,500.
- Transfer ₹2,86,000 to Bad Debt Reserve and make provision for taxation at 50% on net profit.

7. The following balances are extracted from the books of ADC Bank Ltd. as of 31st March 2019. Prepare the Profit & Loss Account in Form B and Schedules 13 to 16:

Particulars	Amount (₹)
Share Capital	30,00,000
Salary and Allowances	10,000
Interest on Loan	4,00,000
Commission and Exchange	15,000
Rent and Taxes	7,000
Audit Fees	10,000
Interest on Overdraft	1,80,000
Interest on Cash Credit	1,50,000
Interest on Savings Accounts	70,000
Interest on Current Accounts	70,000
Rebate on Bills Discounted (1-4-2018)	5,000
Credit Balance of Profit & Loss A/c (1-4-2018)	1,50,000
Miscellaneous Incomes	12,000
Rent of Safe Deposit Vault	26,200
Printing & Stationery	8,400
Profit on Sale of Investments	24,800
Law Charges	15,000
Directors' Fees	28,700
Depreciation on Assets	10,800
Discount Received on Bills	22,500
Insurance Premium	17,600

Administrative Expenses	18,500
Interest on Fixed Deposits	21,500

Additional Information:

1. The balance of Rebate on Bills Discounted as of 31-3-2019 is ₹7,000.
2. Transfer ₹8,000 to Bad Debt Reserve and make a provision for taxation of ₹40,000.
3. The proposed dividend is 10%.
4. Keep Statutory Reserve as per law.

and to the unsecured creditors?

How much minimum amount of cash the liquidator should have if the interest up to 31st March 2020 is desired to be paid to the debenture holders?

3 Guj uni 2012

On the date of liquidation books of the company showed a balance of unsecured creditors of Rs 154000. the liquidator has only Rs 127500. liquidator is entitled to get 2% remuneration on the amount paid to unsecured creditors. Calculate liquidators' remuneration, amount paid to unsecured creditors, and rate of final dividend.

4 Guj uni 2015

On the Liquidation of Soham Limited, the amount realized by the sale of the asset is Rs 650000 and the amount due is 730000 including rupees 25000 preferential creditors. Calculate the remuneration of the liquidator if he is entitled to a commission of 3% on the amount realized and 2% on the amount distributed to unsecured creditors.

5 Guj uni 2016

On the date of liquidation books of the company shows the balance of unsecured creditors of rupees 292600 liquidator has only rupees 242250. The liquidator is entitled to get a 2% Commission on the amount paid to unsecured creditors. Calculate liquidators' remuneration, the amount paid to unsecured creditors, and the rate of the final dividend.

6 Guj uni 2016

From the given information calculate the amount referential creditors

1. outstanding salary of 4 clerks for 2 months, monthly Rs 11000 each.
2. provident fund of rupees 22500. Staff welfare fund rupees 4850.
3. outstanding Municipal tax for the current year rupees 7950.
4. director's fees rupees 6480
5. outstanding Income Tax before 2 years rupees 18950

7 Guj uni 2014

At the time of the liquidation of the company, unsecured creditors were rupees 92400. The liquidator has only a balance of rupees 76500. The liquidator is entitled to get two percent remuneration on the amount paid to unsecured creditors. Calculate liquidator remuneration and the amount paid to unsecured creditors.

Practical's (Attempt any 7 others than done in class)

<u>Sr No</u>	<u>Particulars</u>
1	Shyam Limited—Guj Uni 1996 - Illustration 9
2	Surabhi Limited - Guj Uni 1997 - Illustration 11
3	Maya Limited - Guj Uni 1987
4	Asha Limited—Guj uni 2004
5	Anant Limited - Guj uni 2005
6	Sanjay Limited - Guj uni 1992
7	Gunjan Company - Guj Uni 1995
8	Prerak Company - Guj Uni 2006
9	Vinash Limited - Guj uni 2008
10	Rakesh Company - Guj Uni 2011
11	Bimar Limited- Guj uni 2012
12	Asha Limited- Guj uni 2013
13	Bad luck limited - Guj Uni 2016
14	Shital Limited - Guj Uni 2014
15	Raj Limited uni 2014
16	Raghav Limited - Guj uni 2015
17	Anthony limited - Guj uni 2017
18	Arohi limited-Guj uni 2018
19	Jagat Limited - Guj uni 2018
20	Devang Limited - Guj uni 2019