

THAKUR COLLEGE OF SCIENCE & COMMERCE (AUTONOMOUS)

DEPARTMENT OF ACCOUNTANCY

TYBCOM - SEMESTER VI

FINANCIAL ACCOUNTING & AUDITING – V (FINANCIAL ACCOUNTING)

Course Objective:

1. To make students understand meaning and calculation of EPS as per AS 20 and borrowing costs like interest as per AS 16.
2. To give a brief introduction of AS 14 covering all the provisions for amalgamation, absorption and external reconstruction.
3. To provide detailed knowledge to learners regarding liquidation of company.
4. To provide detailed understanding about LLP and its legal provisions.

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Course Outcome:

1. Learners will learn the meaning and calculation of earning per share (EPS), borrowing costs like interest etc.
2. Learners will be able to understand the meaning of amalgamation and its legal provisions & all details of accounting as per AS 14.
3. Learners will be able to understand the provisions related to liquidation of companies in detail and how to do its accounting.
4. Learners will have an in depth understanding of limited liability partnership including all its statutory provisions and preparation of final accounts.

MODULE 1 : ACCOUNTING STANDARDS (AS 16 & AS 20)**Accounting Standard 16 – Borrowing Cost****Meaning**

Borrowing cost is that cost is directly attributable to the acquisition construction or production of a qualifying asset which forms a part of the asset (cost) other borrowing expense are recognized as the expense.

Scope :

An entity shall apply this standard for borrowing cost it does not deal with actual or imputed cost of entity . An entity is not required to apply the standards to borrowing cost directly attributable to the acquisition, construction or production of a) a qualifying asset measured at fair value b) inventories that are manufactured or produced in large quantities on a repetitive basis

Borrowing cost

- a) Interest on loan & bank overdraft
- b) Financial charges on financial lease
- c) Exchange difference loss

Qualifying Asset:-

An asset which takes substantial period of time to get ready for its intended use is a qualifying asset

- 1. Inventories
- 2. Manufacturing
- 3. Power generation facility
- 4. Intangible asset
- 5. Investment properties .

Following are not qualifying asset –

Non- Qualifying Assets:

Financial Assets & Inventories that are manufactured or otherwise produced over a short period are Non- Qualifying Assets.

- i. Financial asset
- ii. Inventories that are manufactured for shorter period of time
- iii. Asset that are ready for use or sale .

An entity shall capitalize the borrowing cost that is directly attributable to the acquisition , construction & production of qualifying asset as a part of cost of the asset. An entity shall recognize their borrowing cost as an expense in the period in which it is incurred

Questions:

1. On 28 April, 2014 JLC ltd has obtain a loan from the bank for ₹ 50,00000 to be utilized as under :

Construction of factory shed	₹ 20,00,000
Purchase of machinery	₹ 15,00,000
Working capital	₹ 10,00,000
Advance for purchase of truck	₹ 5,00,000

On 31 march ,2015 construction of shed was completed and machinery was installed delivery of truck was not received total interest charge by bank for the year ending 31/03/15 was ₹ 9,00,000 show treatment of interest under IND AS23 .

2. GHI LTD a loan of ₹ 7000000 on 15 April, 2016 from RBL bank which is to be utilised as follow :

Construction of factory shed	₹ 25,00,000
Purchase of machinery	₹ 20,00,000
Working capital	₹ 15,00,000
Advance for purchase of truck	₹ 10,00,000

On 31 march 2017 the construction of factory shed was completed and machinery which was ready for its intended use was installed delivery of truck was received in the next financial year total the financial year so the treatment of interest under IND AS 23 and also explain the nature of asset .

3. Determine the capitalization rate for the following information :

Date of borrowing	amount borrowed	rate of interest
1 April 2013	20,00,000	12%
1 July 2013	4,00,000	14%
1 Oct 2013	6,00,000	13%

4. From the following detail find out the capitalization rate

DOB	Amount borrowed	ROI
1/4/20	15,00,000	12%
1 AUG	10,00,000	13%
1DEC	6,00,000	10%

5. Compute the Borrowing cost to be capitalized if capitalization rate is 15%.

Expenditure incurred on qualifying Assets (₹)	Date on which it is incurred
2,00,000	Opening Balance
10,00,000	1.4.2013
4,00,000	1.5.2013
6,00,000	1.10.2013
10,00,000	1.3.2013

6. Rohini Ltd. Has obtained loan from an institution for ₹500 lakhs for modernization and renovation of its plant & machinery. The installation of plant & machinery was completed on 31-3-2015 amounting to ₹320 lakh and ₹50 lakh was advanced to suppliers for additional assets and balance of ₹130 lakh was utilised for working capital requirements. Total Interest paid for the above loan amounted to ₹65lakh during 2014-15. You are required to state how the interest on institutional loan is to be accounted for in the year 2014-15.

Accounting Standard: 20 Earning Per Share

1: Basic Earning per share=

$$\frac{\text{Net Profit or loss for the period attributable to Equity Shareholders}}{\text{Weighted Average No. of Equity Shares O/S during the period}}$$

2- Net Profit or Loss for the period attributable to Equity Shareholders (Numerator)=

A. Net Profit before Tax (includes Prior Period and Extraordinary Items)

B. Less: Current Tax (including tax on Prior Period and Extraordinary Items) +
Deferred Tax + Tax Pertaining to Earlier Years.

C. Net Profit after Tax [A-B]

D. Less: Pref. Dividend on Cumulative Preference Shares for Current Period only
(whether or not provided in accounts).

E. Less: Pref. Dividend on Non-Cumulative Preference Shares for Current Period
only (only if provided in accounts)

F. Net Profit attributable to Equity Shareholders [D-E-F]

3- Weighted Average No. of Shares O/S during the period (Denominator) =

- (a) Weighted Average No. of Equity Shares the period is the number of equity shares outstanding at the beginning of the period, adjusted by the number of equity shares bought back or issued during the period multiplied by the time-weighting factor
- (b) The time-weighting factor is the number of days for which the specific shares are outstanding as a proportion of the total number of days in the period. However, a reasonable approximation of the weighted average may be adequate in many circumstances.

Note: Partly paid equity shares are treated as a fraction of an Equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period.

DATE FROM WHICH EQUITY SHARES ARE INCLUDED IN WEIGHTED AVERAGE NUMBER OF EQUITY SHARES OUTSTANDING DURING THE PERIOD

Case	Relevant Date
(A) Equity Shares issued in exchange for cash	Date when cash is receivable
(b) Equity Shares issued as a result of the conversion of a debt instrument to equity shares	Date of conversion
(c) Equity Shares issued in lieu of interest or Date when interest ceases to accrue principal on other financial instruments	Date when interest ceases to accrue
(d) Equity Shares issued in exchange for the settlement of a liability	Date when the settlement becomes effective
(e) Equity Shares issued as consideration for the acquisition of an asset other than cash	Date when the acquisition is recognized
(f) In Equity Shares issued for the rendering of services	Date when services are rendered
(g) Equity Shares issued in case of an amalgamation in nature of purchase	Date of the acquisition
(h) In Equity Shares issued in case of an Amalgamation in nature of merger	From beginning of the reporting period
(i) Bonus or Reverse Share Split	From beginning of the reporting period

Note: Weighted Average No. of Equity Shares (O/S shares in the beginning x Bonus Issue factor* Right Issue factor x Share Split factor x Reverse Split factor* Merger issue factor)+Other Issue* Period from Date of issue to Reporting Date/12

CALCULATION OF ADJUSTED EQUITY SHARES OUTSTANDING IN CASE OF RIGHT

Step 1: No. of Outstanding Shares prior to Rights

Step 2: No. of Right Shares

Step 3: No. of Outstanding Shares after Rights (Step 1+ Step

2)

Step 4: Aggregate Fair Value of Shares prior to Right

=No. of Outstanding Shares prior to Rights Fair Value per Share

Step 5: Proceeds from Rights= No. of Right Shares x Right Issue

Price

Step 6: Theoretical Ex-Right Fair Value Per Share =(Step 4+ Step 5) /Step3

Step 7: Adjustment Factor= Fair Value Per Share prior to Rights /Theoretical Ex-Right Fair Value perShare

Step 8: Adjusted Equity Shares O/s = (No. of O/s Shares Prior to Rights x Adjustment Factor) x Period

+(No. of O/s Shares after Rights x Period)

RESTATEMENT OF BASIC EPS**Meaning**

When the basic earning per share relating to prior periods presented current period is adjusted, it is termed as restatement of basic earning per share

When is Restatement required?

When the number of equity shares outstanding increases as a result of bonus issue, right issue or share split or decreases as a result of relevant share split.

Adjusted Weighted Average No. of Shares O/s for the prior period =

No. of Shares O/S for the prior period x Bonus Issue Factor x Right Issue Factor x Share Split Factor x Reverse Share Split Factor

DILUTED EARNING PER SHARE**Meaning**

Net Profit or Loss for the periods attributable to Equity Shareholders adjusted for the effects of all dilutive potential equity shares

Weighted Average No. of Equity Shares O/S during the period adjusted for the effects of all dilutive potential equity shares

Adjusted Net Profit or Loss for the period attributable to Equity Shareholders (Numerator)

A : Net Profit or Loss for the period attributable to Equity Shareholders for Basic EPS the period

A. Add : Pref. Dividend saved on the conversion of the dilutive potential equity shares into equity shares

B. Add : Interest or Other Expenses (after tax) saved on the conversion of the dilutive potential equity shares into equity shares

C. Less : Income that will cease to accrue (after tax) on the conversion of the dilutive potential equity shares into equity shares

D. Adjusted Net Profit or Loss for the period attributable to Equity Shareholders (A+B+C-D)

Adjusted Weighted Average No. of Equity Shares O/S

= Weighted Average No. of Equity Shares O/S for Basic EPS + weighted Average No. of equity shares which would be issued on the conversion of potential equity shares into equity shares

Potential Equity Share

A potential equity share is a financial instrument or other contract that entitles or may entitle, its holder to equity shares For Example, debt instruments or preference shares, share warrants that are convertible into equity shares; options including employee stock option plans. contingently issuable shares.

Note: Share application money that is pending allotment or any advance share application money as at

balance sheet date, which is not statutorily required to be kept separately and is being utilized for the purpose of business shall be treated as potential equity shares and considered as dilutive

Note: The most advantageous conversion rate or exercise price from the standpoint of the holder of the potential equity shares should be used for calculating the number of Equity shares to be issued on the conversion of dilutive potential equity shares.

When should Potential Equity Shares be treated as Dilutive?

Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations

When are Potential Equity Shares considered as anti-dilutive?

Potential equity shares are anti-dilutive when their conversion to equity shares would increase earnings per share from continuing ordinary activities or decrease loss per share from continuing ordinary activities. The effects of anti-dilutive potential equity shares are ignored in calculating diluted earnings per share.

Ranking from Most Dilutive to Least Dilutive

In order to maximize the dilution of basic earnings per share, each issue or series of potential equity shares is considered in sequence from the most dilutive to the least dilutive. Where the earnings per incremental share is the least, the potential equity share is considered most dilutive and vice-versa

Step 1: Calculate Increase in earnings for each issue or series of potential equity shares

Step 2: Calculate increase in number of Equity shares for each issue or series of potential equity shares

Step 3: Calculate Earnings per incremental share for each issue or series of potential equity shares

Step 4: Ranking from Most Dilutive to Least Dilutive.

How to Compute

Step 1: Calculate EPS for Most Dilutive Potential Equity Shares & Mark it as Dilutive (if less than Basic EPS) or Anti-dilutive (if more than Basic EPS)

Step 2: Calculate EPS for Next Most Dilutive Potential Equity Shares & so on and Mark it as Dilutive (if less than Basic EPS) or Anti-dilutive (if more than Basic EPS)

step 3: Select the most dilutive EPS

Disclosure Requirements

- 1: Present Basic And Diluted EPS on the face of the Statement of Profit and Loss for each class of Equity Shares even if the amounts disclosed are negative
- 2: Amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to the net profit or loss for the period,
- 3 : Weighted Average Number of Equity Shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of these denominators to each other, and
4. Nominal Value of Shares along with the earnings per share figures

QUESTIONS:

1. Amrut Ltd. had issued capital of 10,00,000 divided into Equity Shares of 100 each on 31.03.2017. On 1.8.2017, 5,000 Debentures of 100 each were redeemed by conversion into equity shares at par to the extent of 50% and balance by payment On 1.11.2017, the company implemented the scheme of buy back of equity shares to the extent of 20% of shares held on 1.4.2017. The process of buy back was completed on 1.12.2017. Calculate Weighted Average No. of shares.
2. P.S Ltd. had issued capital of 60,000 shares of 10 each; 6 called up on 1.4.2016. On 1.7.2016, it called up 2 which was duly received on 1.8.2016. Balance Money was called on 1.4.2017 which was duly received on 15.5.2017. The post tax earning for 2016 and 2017 was 1,02,000 and 1,32,000 respectively. Calculate Weighted Average Shares and Earning Per Share for the year ended 31.12.2016.
3. The capital of BC Ltd. comprised 20,00,000 shares till 30.9.2017. On 1.10.2017, it issued Bonus Shares in the ratio of 2:1. Its earnings for 2016 was 12,00,000 and for 2017 was 30,00,000. Calculate E.P.S.
4. JP Ltd. has capital comprising of 5,00,000 shares and follows calendar year as accounting year. On 1.1.2017, it issued right shares at 15 per share, at one for every 5 shares when its Fair Value per share 21. The last date for exercising right was 1.3.2017. Its total earnings after tax for 2016 was 9,00,000 and for 2017 it was 13,00,000. Calculate EPS.
5. Calculate Basic and Diluted Earnings Per Share with the following data
 - Share Capital on 1.4.2017 50,000 Equity Shares of 10 each.
 - Issue of Right Shares at Par for cash on 1.7.2017 in ratio of 1 new share for 5 shares.
 - Issue of Bonus Shares for 1.10.2017 in ratio of 1 new share for five shares (excl. Right Shares).
 - Convertible Debentures on 1.4.2017. 10% Debentures of 1,00,000. Net Profit After Tax @ 35% for the year 2017-18 2,00,000.
6. On 1.4.2017, Alpha Ltd. has existing 10,00,000 Equity Shares, whose Fair Value is 75/-. It also has other financial instruments with convertible options as under:
 - a) Options - 50,000 shares with 60 payable
 - b) 10% Convertible Preference Shares (100 each) 4,00,000 to be converted into 2 equity shares
 - c) 12% 5,00,000 Convertible Debentures of 100 each constitute into 4 equity shares. Earnings attributable to equity shares is 1,00,00,000. The tax rate applicable is 35% and Dividend Distribution tax is 10%. Net Profit attributable to equity shareholders is 1,00,00,000. Calculate Basic and Diluted EPS in each alternative.
7. Goverdhan Ltd. has equity capital of 20,00,000 consisting of fully paid equity shares of 10

each. The netprofit for the year 2016-17 was 30,00,000. It has also issued 18,000, 10% convertible debentures of 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.

8. Ram Ltd. had 12,00,000 equity shares on April 1, 2016. The company earned a profit of 30,00,000 during the year 2016-17. The average fair value per share during 2016-17 was Rs.25. the company has given share option to its employees of 2,00,000 equity shares at option price of Rs.15 diluted EPS.
9. "While calculating diluted earning per share, effect is given to all dilutive potential equity shares that were outstanding during that period." Explain. Also calculate the diluted earnings per shares from the following information

: Net Profit for the Current year
 85,50,000 No. of equity shares
 outstanding 20,00,000
 No. of 8% convertible debentures of 100 each 1,00,000
 Each debenture is convertible into 10 equity shares Interest expenses for the current year
 6,00,000 Tax relating to interest expenses 30%

10. From the following information compute diluted earnings per share Net Profit for the year 12,00,000
 Weighted average number of equity shares outstanding 5,00,000 share. Average fair value of one equity share Rs 20 Weighted average number of shares under option 1,00,000 shares, Exercise price per share under option Rs 15
11. Reliance Ltd. net earnings of 2,00,000 for the year ended 31 December 2017. The number of ordinary shares on the date of Balance sheet is 2,00,000 including 1,20,000 shares it issued on 1 June, 2017 and excluding 20,000 shares it purchased on 1" October 2017.
 What is the basic earning per share?
12. From the following information calculate basic earning per share :
 Profit attributable to ordinary shareholders of parent entity 2016 Rs 1000, Profit attributable to ordinary Shareholders of parent entity 2017 Rs.1600
 Ordinary shares outstanding Until 1" Aug., 2017 800
 A bonus issue was made on 1st September 2017 at one ordinary share for four shares outstanding on 31 August, 2017.

13. Calculate EPS from the following information:
 Profit attributable to ordinary equity holders
 of the entity. 2015 2016 2017
 30,000 35,000 42,000
 No. of shares outstanding at right issue: 2,000
 The company had issued 1 for 4 rights issue.
 ,Exercise price =12 Date of rights issue = 31st Jan.
 2016
 Last date of exercising rights = 1" April, 2016
 Market price of one ordinary share immediately before
 exercise on 1 April, 2016: Rs 24.

14. HL reported net earnings 50,000 for the year ended 2017. The company had 25,000 shares of 1 of commonstock and 6,000 shares of 80 per share convertible preference shares outstanding during the year.
Rate of dividend per preference share is 2 par share Each share of convertible preference share can be converted into two shares of HPL shares. During the year no convertible preference shares were converted. Calculate diluted EPS.
15. (Calculation of Weighted Average No. of Shares) On 1.4.2018, Alpha Corporation Ltd. has share capital comprising of 10,000 shares of 10 each. On 1.7.2018, it issued 6,000 shares of 10 @ 15 for cash for full cash consideration. On 1.9.2018, it acquired machinery costing 50,000 for which it issued equity shares at a premium of 25%.
The company's accounting year ends on 31.3.2019. Calculate Weighted Average number of shares.

MODULE 2 : AMALGAMATION OF COMPANIES (AS 14)**Amalgamation of Companies****(Absorption & external Reconstruction)**

Amalgamation	Absorption	External Reconstruction
1. When 2 or more companies decided to come together to form a new company known as Amalgamation.	1. When Existing company takes over another or more existing Company is known as Absorption.	1. One company is specifically incorporated to take over another existing company.
2. A ltd. & B ltd. Decided to amalgamate & form a new company.	2. A ltd. Absorbed/ T/O business of B ltd.	2. A (new) Ltd. Is incorporated to T/O existing Business of A ltd. Which is loss making company.
3. Liquidation- 2 or more Formation- Only 1	3. Liquidation- 1 or more Formation- No	3. Liquidation- only 1 Formation- only 1

In all above 3 situation there is transaction of buying & selling of business. Therefore in all above 3 situations companies are divided in 2 categories.

Selling Co.	Old Co.	Vendor Co.	Transferor Co.
&	&	&	&
Buying Co.	New Co.	Purchasing Co.	Transferee Co.

Purchase Consideration:

1. **Meaning:** It is Price payable by buying Company to the shareholders of the selling Company:
(AS 15)
2. **Mode of Payment:** mode of payment may be shares/Debentures by buying company at par/premium/discount or payment in cash.
3. **Methods of Purchase Consideration:** There are 3 methods of calculation of Purchase Consideration:
 - i. Lumpsum Method
 - ii. Payment Method
 - iii. Net Asset Method

4. Format of Purchase Consideration:

To whom	Amount (₹)	Mode of Payment
1.Preference shareholders of selling Company	(No. * IP) XX	_____ Pref. shares/equity shares/Debentures FV_____, IP _____
2.Equity shareholder of Selling Company	(No. * IP) XX	_____ Pref. shares/equity shares/Debentures FV_____, IP _____
3.Equity shareholders of selling company	XX	Cash
Total	XX	

- **Books of Selling Company**

To close the books of selling company special accounting is required & following accounts are required to be open by liquidator of Selling Company.

- i. Realisation Account
- ii. Equity shareholder Account
- iii. Preference shareholder Account
- iv. Buying Company Account
- v. Different mode of payment
- vi. Cash/Bank Account

2. Assets T/O & Liabilities T/O at Agreed Value

Assets T/O A/c	DR.	Agreed value
Goodwill A/c	DR.	Excess of PC over Net Assets
To Business Purchase A/c		Total PC
To Liabilities T/O		Agreed value
To Capital Reserve		Excess of Net Assets over PC

Note: 1. Assets T/O does not include Goodwill, Misc. Exp. & Profit & Loss A/c.

2. Liabilities T/O does not include Equity share capital, Preference share Capital & Reserves & Surplus.

3. Payment of Purchase Consideration

Liquidator of Selling Company A/c	DR.
To different mode of Payment	

4. Payment of Liabilities T/O

Liabilities T/O A/c	DR.
To Different mode of payment	

5. Statutory Reserves of Selling Company

Amalgamation Adjustment A/c (other NCA)	DR.
To statutory Reserve (B/S-R&S)	

Note: 1. Statutory reserve means reserves which are required to be maintained as per company law.

2. Examples of Statutory reserve-

Export Profit Reserve, Foreign Project Reserve, Investment Allowance reserve, Development Rebate Reserve

6. Expenses of Selling Company paid by buying Company

Goodwill/ Capital Reserve a/c	DR.
To Bank	

Questions:

Q1. 'A' Ltd. & 'B' Ltd. Agreed to amalgamate and a new company 'C' Ltd. Was formed. There balance sheet as on that date of amalgamation were as follows:

Liabilities	A ltd.	B ltd.	Assets	A ltd.	B ltd.
Share capital			Plant & Machinery	30,000	40,000
Share capital of ₹100 each	1,00,000	1,20,000	Stock	20,000	20,000
General reserve	15,000	18,500	Debtors	30,000	30,000
Creditors	14,000	17,000	Buildings	50,000	60,000
Profit & loss A/c	8,000	10,000	Cash & Bank	7,000	15,500
Total	1,37,000	1,65,500	Total	1,37,000	1,65,500

The new company take over the assets & liabilities of both the companies. Assets of A ltd. Are taken over at reduced value of 10% and that of B ltd. At reduced valuation of 15%. C ltd. Paid by allotting fully paid shares of ₹100 each.

Give journal Entries in the books of A ltd. And Opening Balance sheet of C ltd.

Q2. A ltd & B ltd. Carry on business. They agree to amalgamate and form a new company, C ltd. Their Balance sheet as on 31st December 2020 are as follows:

Liabilities	A ltd.	B ltd.	Assets	A ltd.	B ltd.
Share Capital			Goodwill	25,000	5,000
Share of ₹10 each	1,50,000	75,000	Land & Building	1,00,000	50,000
General reserve	20,000	10,000	Plant & Machinery	70,000	40,000
share forfeiture A/c	500	200	Furniture	15,000	5,000
Dividend Euql. Fund	2,000	1,000	Patent Right	2,000	700
Workmen's Compensation fund	1,000	300	Stock	30,000	20,000
Debentures	70,000	40,000	Debtors	20,000	15,000
Sundry Creditors	10,000	5,000	Bills receivable	5,000	2,000
Bills Payable	5,000	2,000	Cash	2,000	1,000
Bank O/D	2,000	3,000	Preliminary Expenses	1,500	1,000
Outstanding Exp.	700	500	Underwriting		
Workmen's saving Bank A/c	9,800	3,000	Commission	500	300
Total	2,71,000	1,40,000	Total	2,71,000	1,40,000

- The assets (except Goodwill & Patent) & Liabilities of A ltd. Are to be taken over at Book values by C ltd.
- The all assets and Liabilities of B ltd. Are to be taken over by C ltd. At Book values. Each share of A ltd is to be valued at ₹15 and that of ltd. At ₹18 for the purpose of Amalgamation. 'C' ltd is to be discharge the consideration in fully paid equity shares of ₹10 each.
Draft Closing Entries in the books of A ltd. And show realization A/c and shareholders A/c.

Q3. Following is the balance sheet of P Ltd. & V Ltd.

Balance sheet as on 31st March 2021

Liabilities	P Ltd.	V Ltd.	Assets	P Ltd.	V Ltd.
Equity share capital (₹10 each)	50,00,000	30,00,000	Land & Building	25,00,000	15,50,000
14% preference share capital (₹100)	22,00,000	17,00,000	Plant & Machinery	32,50,000	17,00,000
General Reserve	5,00,000	2,50,000	Furniture & Fittings	5,75,000	3,50,000
export profit reserve	3,00,000	3,00,000	Investments	7,00,000	5,00,000
Profit & Loss a/c	7,50,000	5,00,000	Stock	12,50,000	9,50,000
13% Debentures (₹100 each)	5,00,000	3,50,000	Debtors	9,00,000	10,30,000
Trade Creditors	4,50,000	3,50,000	Cash at bank	7,25,000	5,20,000
other Non- Current Liabilities	2,00,000	1,50,000			
Total	99,00,000	66,00,000	Total	99,00,000	66,00,000

P Ltd. Takes over V Ltd. On 1st April 2021. P Ltd. Discharged the purchase consideration as below:

1. Issued 3,50,000 shares of ₹10 each at par to the equity shareholders of V Ltd.
2. Issued 15% preference shares of ₹100 each to discharge the preference shareholders of V Ltd. At 10% premium.

The debentures of V Ltd. Will be converted into equivalent no. of Debentures of P Ltd. The export profit reserve of V Ltd. To be maintained for 3 more years.

You are required to

- i. Make journal entries to close the books of V Ltd.
- ii. Make journal Entries and prepare balance sheet in the books of P Ltd. On the assumption that amalgamation in the nature of purchase.

Q4. The balance sheet of X limited and Y limited on 31st March 2021.

Liabilities	X ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
11.5 % Preference shares of ₹100 each fully paid	5,00,000	–	Goodwill	50,000	–
Equity shares of ₹10 each fully paid	5,00,000	7,50,000	Land & Building	–	2,60,000
General Reserve	6,00,000	5,00,000	Machinery	12,50,000	6,00,000
12% debentures of ₹100 each fully paid	4,00,000	–	1,000 equity shares of ₹10 each in A ltd.	1,00,000	40,000
12% convertible bonds of ₹100 each fully paid	–	2,00,000	Current Assets	11,00,000	7,60,000
Creditors	5,00,000	2,50,000	Preliminary expenses	–	25,000
			equipment	–	15,000
Total	25,00,000	17,00,000	Total	25,00,000	17,00,000

On first April 2021, the two companies decided to amalgamate and form a new company limited the terms of amalgamation were as follows

- Preference shareholders of X limited are to be allotted 25,000 equity shares of rupees 10 each in Z limited at par and 2,500, 12.5% preference shares of rupees 100 each in Z limited at Par such shares to be redeemed on 1st April 2023.
- Equity shareholders of X limited are to be allotted five equity shares of of Rs10 each in Z limited at par per every two equity shares held by them in X limited.
- Debenture holders of X limited are to be allotted 10,000 equity shares of S10 each in Z limited at par and 2500 ,14% debentures of rupees 100 each in Z limited add power in full satisfaction of their claims.
- Machinery of X limited is to be valued at rupees 15 Lac and other assets except goodwill are to be taken at balance sheet figures.
- In case of why limited the purpose of take over the assets and liabilities were revalued as per figures given below
 Goodwill Rs. 1,00,000
 Land and building rupees 3,50,000
 Machinery rupees 5,00,000
 Investment in a limited 50,000
 Current Assets 7,25,000
 Creditors 3,00,000
- Convertible bond holders in Y limited are to be given 5,000 equity shares per share 10 each in Z limited add 15 per share and 1250, 12.5% redeemable preference share of each in limited at power sections are to be redeemed on 1st April 2023.
- Equity shareholders have filed limited are to be allotted equity shares in Z limited at par.
 Prepare a statement showing the calculation of purchase consideration journal entries in the books of X limited only and the balance sheet of Z limited after the scheme has been implemented under purchase method.

Q5. **A limited and B limited** were amalgamated from 1st April 2021 a new company C limited was formed to take over the business of existing companies. The balance sheet of A limited and B limited as on 31st March 2021 are given below.

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital:			Fixed Assets		
Equity share of ₹100 each	800	750	Land & Building	550	400
12% preference shares of ₹ 100 each	300	200	Plant & Machinery	350	250
Reserves & Surplus			Investment	150	50
Revaluation reserve	150	100	Current Assets, Loans &		
General Reserve	170	150	Advances		
Investment Allowance Reserve	50	50	Stock	350	250
Profit & Loss A/c	50	30	Sundry Debtors	250	300
Secured Loans:			Bills Receivables	50	50
10% Debentures (₹100 each)	60	30	Cash & Bank	300	200
Current liabilities & Provisions:					
Sundry Creditors	270	120			
Bills Payable	150	70			
Total	2,000	1,500	Total	2,000	1,500

- 10% debenture holder of A limited and B limited are discharged by C limited issuing such number of its 15% debentures of rupees 100 each so as to maintain the same amount of interest.
- Preference shareholders of two companies are issued equivalent number of 15% preference shares of C limited at a price of 150 per share face value 100.
- C limited will issue five equity shares for each equity share of A limited and for equity share for each equity share of B limited. The shares are to be issued at rupees 30 each, having a face value of rupees 10 per share.
- Investment or Reserves reserve is to be maintained for 4 more years.

Prepare balance sheet of C limited as on first chapter in 2018 after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

Q6. **Metropolitan limited** was incorporated on 31st March 2020 for the purpose of amalgamation the business of R limited and Z limited as from first April 2020 on which date their balance sheets were as follows.

Balance sheet of R Ltd

Liabilities	₹	Assets	₹
2,000 shares of ₹10 each	20,000	Goodwill	100
Profit & Loss A/c	3,100	Machinery	15,000
Sundry Creditors	6,000	Stock	5,500
		Sundry Debtors	5,000
		Bank Balance	3,500
Total	29,100	Total	29,100

Balance sheet of Z Ltd

Liabilities	₹	Assets	₹
4,800 shares of ₹5 each	24,000	Goodwill	2,000
Debentures	6,000	Machinery	24,500
Bank Overdraft	4,000	Stock	3,450
Sundry Creditors	3,500	Sundry Debtors	3,050
		Profit & Loss A/c	4,500
Total	37,500	Total	37,500

The assets and liabilities of the two companies with the exception of bank balance of our limited and debentures of zed limited were taken over by metropolitan limited the figures shown above with the following variations.

Item	R Ltd.	Z Ltd.
Goodwill	4,000	7,000
Machinery	13,000	16,000
Stock	6,000	2,900

The purchase price for the two business was discharged by the issue of metropolitan limited as par of:

1. Fully paid ordinary share on the basis of each share for every share held in our limited and one share for every six share held in limited.
2. 600 preference shares to shareholders of Z limited.
3. The balance in cash to both the companies as may be necessary.
 - a. The authorized capital of metropolitan limited is rupees 70,000 divided into 6000 ordinary shares of rupees 10 each and 1000, 5% preference share of rupees 10 each. 1800 of ordinary shares were taken up and paid by the public.
 - b. You are required to pass journal entries in the books of metropolitan limited and its balance sheet thereafter under purchase method.

Q7. The balance sheet of **X company limited and Y Co limited** as on 31st December 2021 are as follows:

X Co. Ltd. Balance sheet

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
Authorised Share		Goodwill	80,000
Capital:10000 Shares		Others	8,00,000
Of Rs 100 Each	<u>10,00,000</u>	Current Assets:	
Issued Capital:		Loan & Advances	9,00,000
10000 Shares Of Rs. 100			
Each Fully Paid	10,00,000		
Reserve & Surples:			
Capital Reserve	2,00,000		
General Reserve	70,000		
Unsecured Loans	2,00,000		
Current Liabilities &			
Provision:			
Sundry Creditors	3,10,000		
	17,80,000		17,80,000

Y Co. Ltd. Balance Sheet

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	16,00,000
Authorised Share		Current Assets:	
Capital:200000 Shares		Loan & Advances	
Of Rs 10 Each	<u>20,00,000</u>	Bank	2,00,000
Issued Capital:		Others	6,60,000
80000 Shares Of Rs. 10	8,00,000		
Each Fully Paid			
Reserve & Surples:			
General Reserve	8,00,000		
Secured Loans	5,00,000		
Current Liabilities &			
Provision:			
Sundry Creditors	3,60,000		
	24,60,000		24,60,000

It was proposed that X co limited should be taken over by Y Co limited.

The following arrangements were accepted by both the companies.

- Goodwill of X Co limited is considered valueless.
- Arrears of depreciation in X Co limited amounted to rupees 40,000.
- The holder of every two shares in X company limited was to receive:
 - i. As fully paid at power 10 shares in Y Co limited and,
 - ii. So much cash as is necessary to adjust right of shareholders of both the companies in accordance with the intrinsic value of the shares as per their balance sheet subject to necessary adjustment with regards to goodwill and depreciation in X Co limited balance sheet.
 - iii. You are required to
 - Determine the composition of purchase consideration
 - Show the balance sheet after absorption.

Q8. Adani limited and Gidani limited have agreed to amalgamate. A new company AG Co limited with authorized capital of 50,000 shares of rupees 100 each has been formed to take over the above concern on 31st March 2021.

The following are the agreed balance sheets.

Balance Sheet Of Adani Ltd As On 31st March 2018

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
15000 Shares Of Rs. 100	15,00,000	Land & Building	8,00,000
Reserve & Surplus:		Plant & Machinery	5,00,000
Div. Equalisation Fund	1,00,000	Government Security	3,00,000
Profit & Loss A/C	3,00,000	Debtors	3,00,000
General Reserve	2,00,000	Inventory	4,00,000
Secured Loans	4,00,000	Bank	2,00,000
	25,00,000		25,00,000

Balance Sheet Of Gidani Ltd As On 31st March 2018

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
10000 Shares Of Rs. 100	10,00,000	Land & Building	5,00,000
Reserve & Surplus:		Plant & Machinery	4,00,000
Div. Equalisation Fund		Investment In Gidani Ltd	1,00,000
Profit & Loss A/C	2,00,000	Debtors	4,00,000
General Reserve	2,00,000	Inventory	3,00,000
Unsecured Loan	3,00,000	Bank	1,00,000
Creditors	1,00,000		
	18,00,000		18,00,000

Ascertain the purchase consideration payable to each of the above companies buy shares and prepare balance sheet of the new company in the prescribed form under Indian Companies Act 2013.

Q9. The summarized balance sheet of **A limited and B limited** as on 31st March 2021 were as follows

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity share capital (share of ₹10 each)	8,00,000	6,00,000	Land & Building	6,00,000	4,80,000
Reserves & Surplus	5,80,000	1,00,000	Plant & Machinery	1,20,000	80,000
Creditors	4,20,000	2,60,000	Motor vehicle	60,000	40,000
6% Debentures (₹100/- each)		2,40,000	Debtors	4,00,000	1,60,000
			Inventories	4,60,000	3,60,000
			Cash & Bank balance	1,60,000	80,000
Total	18,00,000	12,00,000	Total	18,00,000	12,00,000

Additional information

A limited and B limited amalgamated their business, They formed a be limited to take over assets and liabilities of both the companies on the following basis.

- Goodwill of a limited and be limited to be valued at rupees 2,80,000 and rupees 80,000 respectively.
- Plant and machinery of a limited to be valued at rupees 2,00,000.
- Debentures of be limited are to be discharged at a premium of 5% by issue of 6% debentures of rupees 100 each of a be limited at par.
- Entire purchase consideration is discharged by issuing equity shares of Abby limited of rupees 10 each at par.

You are required to,

- i. Calculate purchase consideration.
- ii. Pass journal entries in the books of Abby limited.
- iii. Show notes to accounts of shared capital and long term borrowings forming part of balance sheet of AB limited after amalgamation.

Q10. X limited and Y limited were amalgamated on 1st Jan 2020. A new company XY limited was formed to take over the business of existing companies. The balance sheets of X limited and Y limited as on 31st March 2021 Are given below.

X Ltd. & Y Ltd. Balance Sheet

Liabilities	X Ltd (₹)	Y Ltd (₹)	Assets	X Ltd (₹)	Y Ltd (₹)
Share Capital:			Fixed Assets:		
Equity Share Capital Of			Land & Building	46,000	27,500
Rs 10 Each	85,000	72,500	Plant & Machinery	32,500	21,000
14% Pref. Share Capital			Investment	7,500	5,000
Of Rs 100 Each	32,000	17,500	Current Assets:		
Reserve & Surples:			Stock	32,500	26,900
Revaluation Reserve	12,500	8,000	Debtors	30,500	27,000
General Reserve	24,000	16,000	Bills Receivable	2,500	
Investment Allowance			Bank	38,500	25,100
Reserve	5,000	3,000			
Profit & Loss	7,500	5,200			
Secured Loan:					
13% Debenture	5,000	2,800			
Unsecured Loans:					
Public Deposit	2,500				
Current Liabilities & Provision:					
Sundry Creditors	14,500	7,500			
Bills Payable	2,000				
	1,90,000	1,32,500		1,90,000	1,32,500

Other information:

- i. 13% debenture holders of X limited and Y limited are discharged by XY limited by issuing such number of its 15% debentures of rupees 100 each so as to maintain the same amount of interest.
 - ii. Preference shareholders of two companies are issued equivalent number of 15% preference shares of XY limited at a price of 125 per share face value 100.
 - iii. XY limited will issue four equity shares of each equity share of X limited and three equity share for each equity share of Y limited. The shares are to be issued at 35 each having face value of rupees 10 per share.
 - iv. Investment allowance reserve is to be maintained for two more years.
- Prepare the balance sheet of X file limited as on First April 2021 after the amalgamation has been carried out on the basis of the assumption. Amalgamation is in the nature of purchase.

Q11. The trial balance of **star limited and moon limited** as at 31st March 2021 are as under :

Particulars	Star Ltd.		Moon Ltd.	
	Dr.	Cr.	Dr.	Cr.
Equity Share Capital		2,10,000		1,50,000
9% Redeemable Pref. Shares		90,000		
Securities Premium		10,500		
Capital Redemption Reserve		60,000		
General Reserve		49,500		75,000
15% Debentures		60,000		90,000
Goodwill	15,000			
Land			30,000	
Building			75,000	
Plant	3,00,000		1,35,000	
Fixture	5,000		15,000	
Vehicles	10,000		15,000	
Stock	1,20,000		75,000	
Debtors	80,000		50,000	
Advances	50,000		35,000	
Cash & Bank	20,000		20,000	
Creditors		1,20,000		1,35,000
Total	6,00,000	6,00,000	4,50,000	4,50,000

On 1st April 2021 sun limited was formed buy amalgamating star limited and more limited on the following terms;

1. Sun limited to issue 60, 10% debentures of rupees 1000 each to holders of star limited.
2. The debenture holders of moon limited insisted that they should be allotted equity shares in sun limited. Accordingly they were allotted 7,500 equity shares of rupees 10 each at 12 per share.
3. Preferred shareholders of star limited insisted for allotment of 900, 11% redeemable print shares of rupees 100 each.
4. The equity shareholders of star limited are to be allotted 10 equity shares at par 47 equity shares held by them. the shares of sun limited are of rupees 10 each.
5. The assets of star limited are taken over at book value.
6. The assets of moon limited are valued as under.

Particulars	₹
Goodwill	30,000
Land	1,50,000
Building	45,000
Plant	1,20,000
Other Fixed Assets	15,000
All Current Assets	1,50,000
All current Liabilities	1,50,000

Consideration is to be paid by a lot meant of equity shares at par to moon limited.

- You are required to show by purchase method, Purchase consideration payable
- Balance sheet of sun limited in vertical form.

Q12. Following is the balance sheet of Rajeev limited as on 31st March 2018.

Liabilities	₹	Assets	₹
Share Capital 2,000 Equity shares of ₹100 each	2,00,000	Fixed Assets Plant & machinery	4,00,000
General Reserve	50,000	Furniture & Fixture	1,00,000
Profit & Loss A/c	50,000	Debtor	1,00,000
Foreign Project Reserve	1,00,000	Stock	75,000
3,000 10% Debentures of ₹100 each	3,00,000	Cash	30,000
Creditors	50,000	Preliminary Expenses	45,000
Total	7,50,000	Total	7,50,000

On this date Ranjan limited took over the business of Rajiv limited for rupees 3,00,000 payable in fully paid equity share of rupees 100 each.

You are required to

1. Past journal entries in the books of Rajiv limited and prepare Ledger accounts
2. Pause journal entries in the books of Ranjan limited immediately after takeover assuming that the amalgamation is in the nature of purchase.

Q13. Big limited has agreed to acquire goodwill and assets except investment of small limited as at 31st December 2021. the balance sheet of small limited as on that day is as below.

LIABILITIES	₹	ASSETS	₹
Share Capital (₹10)	1,60,000	Goodwill	50,000
General Reserve	25,000	Land & Building	80,000
Profit & LossA/c	18,000	Plant	80,000
18% Debentures	60,000	Investment	30,000
Provision for Taxation	20,000	Stock	40,000
Sundry Creditors	37,000	Debtors	20,000
		Bank	20,000
Total	3,20,000	Total	3,20,000

Big limited will;

1. Discharge the debentures at 8% premium by issue of 16% debentures in big limited at 10% discount.
2. Issue 3 shares of big limited at a valuation of 11 for two shares of small limited.
3. Pay rupees two in cash for each share of small limited.
4. Pay absorption expenses of rupees 3,00,000.

Small limited sells investment for rupees 32 Lac. 1/3 of the shares received from big limited are sold add rupees 10.5 each. Tax liability was determined at rupees 24 lack. Before transfer small limited declares and pays 10% dividend. small limited is then dissolved. Big limited values land and building at 100 lacs, plant at 10% below book value, stock at 35 lac and date a subject to 10% provision.

Close books of small limited and show opening journal entries in the books of big limited.

Q14. On 31st March 2021 the balance sheet of X limited was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
5000 6% Cumulative Pref. Share Of Rs 10 Each	50,000	Goodwill	40,000
15000 Equity Share Of Rs 10 Each	1,50,000	Patents	15,000
6% Debenture	30,000	Sundry Other Assets	1,64,500
Creditors	20,000	Cash	500
Preference Dividend In Arrears For 4 Years		Profit & Loss A/C	28,000
		Preliminary Exp	2,000
	2,50,000		2,50,000

The scheme of reconstruction was agreed upon as follows

1. A new company to be formed called while limited with an authorized capital of rupees 3,25,000 all in equity shares of rupees 10 each.
2. When it pretty sure of rupees five paid in the new company to be issued for each equity share in the old company.
3. To equity share of rupees five paid in the new company to be issued for each preference share in the old company.
4. Arrears to be cancelled.
5. Debenture holders to receive 3000 equity shares in the new company credited as fully paid.
6. Creditors to be taken up by the new company.
7. the remaining unissued shares to be taken up and paid for in full by directors.
8. The new company to take over the old company's assets except patents subject to writing down sundry assets by 35,000.
9. Patents were realized by X limited for rupees 1000. Expenses of X limited came to rupees 1000.

Close the books of X limited and open the books of why limited by means of journal entries and give the balance sheet of Y limited.

Q15. The following balance sheet of comet limited as at 31st March 2021.

On 31st March 2018 The Balance Sheet Of Mr A Was As Under:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
5000 6% Cumulative Pref. Share Of Rs 10 Each	50,000	Goodwill	40,000
15000 Equity Share Of Rs 10 Each	1,50,000	Patents	15,000
6% Debenture	30,000	Sundry Other Assets	1,64,500
Creditors	20,000	Cash	500
Preference Dividend In Arrears For 4 Years		Profit & Loss A/C	28,000
		Preliminary Exp	2,000
	2,50,000		2,50,000

The following scheme of reconstruction was passed and sanctioned.

1. A new company by name of rocket limited to be formed and to take over the entire business of comet limited.
2. One ordinary share of rupees 10 each, rupees 5 paid up it's to be given in exchange for every two ordinary share of comet limited.
3. 14 % share of rupees 100 each is to be given in exchange of 30 preference share oof comet Ltd.
4. The debentures stock will discharge together with the amount of interest accrued by issue of ordinary share of rupees 10 each fully paid.
5. The creditors will receive 50% of their do in cash and 25% in preference share of rupees 100 each and balance to be forgone.
6. The ordinary shares issued at rupees 5 per share paid up all to be made fully paid up by receiving cash from holders.
7. The authorized capital of the new company is to be 8 Lac divided into 60,000 ordinary shares of rupees 100 each and 2000, 12% preference share of rupees 100 each.

Show journal entries closing the books of comet limited an opening balance sheet of rocket limited utilizing any profit on taking over to write down the value of patents. The preliminary expenses amount to rupees 6000.

Q16. A Ltd. and B Ltd. carrying on similar business decided to amalgamate and for this purpose a new A Ltd. and B was formed to take over assets and liabilities of both the companies. It is agreed that fully paid shares of Rs. 100 each shall be issued by the new Co. to the value of net assets of each of the old companies.

Balance Sheet of A Ltd. as at 31st December 2020

Liabilities	Rs.	Assets	Rs.
Shares of Rs. 50 each	50,000	Goodwill	5,000
General Reserve	20,000	Land & Building	17,000
Profit & Loss A/c.	3,000	Plant & Machinery	24,000
Sundry Creditors	4,000	Stock	10,000
Bills Payable	4,000	Debtors	12,000
		Furniture & Fittings	5,000
		Cash at Bank	8,000
	81,000		81,000

Balance Sheet of B Ltd. as at 31st December 2020

Liabilities	Rs.	Assets	Rs.
800 Shares of Rs. 50 each	40,000	Goodwill	2,000
Bank Overdraft	8,000	Land & Building	10,000
Sundry Creditors	8,000	Plant & Machinery	16,000
		Stock	7,500
		Furniture & Fittings	7,500
		Debtors	7,000
		Cash	300
		Profit & Loss A/c	5,700
	56,000		56,000

The following is the accepted scheme of valuation of business of the two companies:

A Ltd:

1. To provide for reserve for bad debts at the rate of 5% on debtors;
2. To write off Rs. 400 from stock; and
3. To write off 33-1/3% from plant & machinery

B Ltd:

1. To eliminate its goodwill and profit & loss a/c balances;
2. To write off bad debts Rs. 1,000 and to provide reserve of 5% on the balance of debtors;

3. To write off Rs. 1,400 from the value of stock.

You are required to pass the journal entries and prepare the Ledger Accounts in the books of A Ltd. & prepare effect to the above transactions. Also pass the journal entries in the books of AB Ltd. and prepare opening Balance Sheet of AB Ltd.

MODULE 3 : LIQUIDATION OF COMPANIES

Meaning: Liquidation or winding up is a legal term and refers to the procedure through which the affairs of a company are wound up by law. A company is the creation of law, it cannot die itself as an natural death. So it comes to its end by law through the process of liquidation. The Liquidation or winding up a company is a process through which life of company and it's all affairs are wound up and its property administered for benefits of its creditors and members. An administrator, who is called liquidator, is appoint to take control of company, collect its assents, pay its debts and finally if any surplus assents are left, they are divided among the members of the company in proportion to their rights under the articles. This being done the company is dissolved on compliance within the requisite formalities prescribed by the companies' ordinance.

Liquidator

A liquidator is a person generally appointed by the court, unsecured creditors or by the shareholders of the company. He is the person who liquidates assets (in most cases). The liquidator is mainly appointed when the company has been insolvent and bankrupt. After his appointment, he takes control of all the assets, properties of the organization and persons.

He has the legal power to act in different capacities on behalf of the company. For liquidation, the liquidator can sell the assets of the company in the open cash market any other things having equal value.

The main and important role of the liquidator is to investigate all affairs of the company, the liquidator has to find out if any assets need to be recovered if those have been misplaced or sold at a lower price than the market value. The liquidator has the liberty to reverse these types of transactions.

Role of the liquidator

The liquidator is appointed for handling the liquidation process. Their main role and responsibility are to manage all the activities, accounts, assets, etc. of the company and to liquidate all these as per dues that need to be paid to the creditors. A liquidator can also pay from the funds of the company if it is available.

Scope of the work of liquidator

The scope of the liquidator's work is given under Section 35 of the Insolvency and Bankruptcy Code, 2016. It has been explained below:

- The liquidator has to verify all the claims of the creditors.
- He has to take control and custody of all the assets, effects, and actionable claims of debtors, property, etc.
- To enumerate the property and assets of the corporate debtors in the way prescribed by the Board and has to prepare a report on it.

- To protect the property and assets of the corporate debtors when he considers it necessary.
- Continuing and carrying on the business of corporate liquidators for the beneficial liquidation if he considers it necessary.
- To inquire about the financial affairs of the corporate debtors to compose unnoticed and preferential transactions.
- Applying the adjudicating authority for orders and directions that may be necessary for the liquidation of the corporate debtors and reporting the progress in the manner prescribed by the Board.
- Performing any other functions that are specified by the Board.

Reasons behind liquidation

The liquidation occurs when a limited company reaches a point where for one reason or another it has to decide not to continue the business. Basically, in this case, a company can consider liquidation. Generally, it means turning the assets of a company or business into the form of cash, and this is typically done for paying the different types of debts such as creditor's investment in the business or loans taken for the growth of the business.

The main reasons behind the Liquidation are insolvency and bankruptcy, these have been explained below:

Insolvency

Insolvency means a state or phase where a person or company enters when it is unable to pay the debts and dues. A company becoming insolvent shows that its debts and obligations are greater in value than its income and assets. Due to which they become unable to pay back the debts and dues in present or also in the future.

A company can become insolvent even when the assets of the company overcharge its liability if the assets are not easily converted into the form of cash needed for making necessary payments.

A company becomes insolvent when it doesn't keep up its quality or any other thing to get adjusted with the present market conditions, when the company's growth plan macerates its financial resources, lack of bookkeeping, fraud, improper management, etc.

Bankruptcy

Bankruptcy means when a person, company, or business gets declared insolvent. It is the term used for those persons of companies who have now become incapable of paying back their outstanding debts or dues. When a company becomes bankrupt, it can be said as it has been released from its debts and can have a fresh start while being ensured that its assets get shared with the creditors to whom it proportionately owes the money but here there are also some restrictions and limitations to it.

So basically bankruptcy is one of the last options and it has so many steps for insolvency which have to be understood and to be taken to avoid bankruptcy.

Process of winding up:

1. Selling of the assets of the company
2. Paying off the liabilities of the company
3. If there is any deficiency to pay to the creditors and the shareholders are called upon to pay unpaid amount on their articles.
4. In case of surplus, after paying off the liabilities, it may be distributed to the contributories according to their rights under the articles.
5. At the end, the Registrar of Companies removes the name of the company from the Register of Companies which is maintained by his office.

Modes of Winding Up:

There are three modes of winding up of the company:

1. Compulsory winding up by the court
2. Voluntary winding up by members or creditors
3. Winding up under the supervision of the court

1. Compulsory winding up by the court: A company formed and registered under the ordinance, may be wound up by the court. This kind of winding up is also called compulsory winding up.

Explanations:

- 1) A company needs to pass a special resolution and also court orders for winding up on the basis of some specific grounds
- 2) When company is unable to pay its debts
- 3) If company is carrying any illegal business
- 4) In case of non-maintenance of accounts
- 5) When the statutory meaning is not conducted then the Court may give orders to wind up the company
- 6) In case of non-submission of Statutory Report to the Registrar
- 7) if company unable to start its business within a year after incorporation
- 8) If company is not having minimum number of members In case of public: minimum 7 members
In case of private: minimum 2 members
- 9) If company doesn't follow the directions of the court or registrar or commission etc.

2. Voluntary winding up by members or creditors: The main object of a voluntary winding is that the company and its creditors shall be left to settle their affairs without going to Court, but they may apply to the court for any directions and order if and when necessary.

Explanations:

- A) When the period fixed for the duration of the company has expired.
- B) If the company passes the special resolution of its winding up by voluntary.
- C) When the event occurs and the articles provide information that when this event will occur then company has to be wound up.

3. Winding up under the supervision of the court: When company has passed special or extraordinary resolution for its liquidation or winding up, court can pass an order on application of creditors, contributors or other persons for conducting of liquidation or winding up of company under supervision of court.

Procedure for liquidation of a company

The procedure for winding up of the company caused out of its inability to pay its debts or voluntary wind up is prescribed under the Insolvency and Bankruptcy Code, 2016.

On the other hand, in the Companies Act, 2013 the process for liquidation of the company has been prescribed for reasons other than its inability to pay debts.

On January 24th, 2020 the Companies Rules, 2020 (for wind up) were notified by the Ministry of Corporate Affairs by enumerating the liquidation process of the companies in detail.

The procedure for winding up the company is given under Section 270 of the Companies Act 2013. It can be initiated by:

1. By the Tribunal, or
2. Voluntary.

Winding up of the Company by the Tribunal

A company can be wound up based on the following points, as per the Companies Act 1956, it includes:

- Suspension of the business from one year from the date of incorporation or suspension of the business for the whole year.
- Reduction in the minimum number of members as mentioned in the Act:
 - private company- 2 members
 - public company- 7 members

As the new Companies Act, 2013 came into force, the above-mentioned grounds for winding up has been deleted from the Act and some other new grounds and situation for winding up are added in the Act.

As prescribed in the new Companies Act 2013, the company can be wind up by tribunal in the below-mentioned situations or circumstances:

- When a company is not able to pay debts owed by it.
- If the company by a special resolution resolves to be wind up by the tribunal.
- If a company has done some activities which are against the integrity, the morality of the nation or has threatened the security of the state or has spoiled, damaged the friendly relation with neighboring/foreign countries.
- If the company has not completed and filed its annual statement report for five consecutive financial years.
- If the tribunal itself finds or thinks that the wound up of the company is equitable and just in nature.
- When the company is involved in fraudulent, illegal activities or any other unlawful business in any way or any person from the company or management itself is connected with such formation of the company has been found guilty for fraud or any activities of misconduct.

Filing a winding up petition

Section 272 of the Act deals with the filing of winding up petition in the prescribed form number 1,2 or 3 whichever applicable to this and it has to be submitted in three sets. This petition can be presented by the company, the creditors or any contributors/contributors, the central or state government, registrar of a person authorised by central or state government for that purpose only.

While filing the petition it should be accompanied by the statement of affairs in form number 4. The petition shall state all facts up to a specific date which shall not be more before the time of making the statement. When the statement gets ready it shall be examined by a practicing chartered accountant. Then the petition shall be advertised not less than 14 days of date fixed for hearing in both English and any regional language newspaper.

Final order and content in it

After hearing the petition, the tribunal has the power to dismiss it or make an interim order of it as it thinks appropriate or it can appoint a provisional liquidator for the company till the winding-up order gets passed by the tribunal. Order for winding up is given in form number 11.

Voluntary winding-up of a company

The company can do the voluntary wind up by having mutual consent and decision of the members of the company, in the following conditions:

1. If the company passes a special resolution pointing out the winding up of the company.

2. If the company passes a resolution in its general meeting for winding up of the company because of the expiry of the period of its duration fixed by the articles of association or at the time of occurrence of such events where articles provide for the dissolution of the company.

Procedure for voluntary winding-up

1. Primarily a board meeting has to be arranged with 2 directors by passing a resolution with a declaration given by directors that they believe that the company has no debts or it will be able to pay all its due debts by selling its assets.
2. It has to issue notices for calling the general meeting for presenting a resolution accompanied by an explanatory statement.
3. An ordinary resolution has to be passed in a general meeting to wind up by an ordinary or special resolution majority of $\frac{3}{4}$. Winding up will start from the date of passing the resolution.
4. A meeting of the creditors has to be conducted, if the majority of the creditors believe that winding up of the company is beneficial for everyone then the voluntary winding-up can be done.
5. Within 10 days of passing the resolution, a notice has to be filed with the registrar for the appointment of Liquidator.
6. A notice of resolution has to be made in an official gazette and advertisement in a newspaper within 14 days of passing the resolution.
7. Certified copies of ordinary and special resolutions passed in general meetings have to be filed within 30 days of the general meeting.
8. Affairs of the company have to wound up and the liquidator's account has to be prepared and also it should be audited.
9. A general meeting of the company has to be conducted.
10. In that meeting, a special resolution has to be passed for the disposal of books, necessary documents of the company, when all the affairs of the company are already totally wound up and it is about to be dissolved.
11. A copy of accounts has to be submitted within 15 days of the final general meeting and an application has to be filed to the tribunal for the passing of an order for dissolution.
12. The tribunal shall pass the order of dissolution of the Company if it thinks that the accounts are in order and all the necessary compliance have been fulfilled, within 60 days of receiving such application.
13. The liquidator would then file a copy of the order to the registrar.
14. The registrar then publishes the notice in the official gazette declaring the dissolution of the company, after receiving the order passed by the tribunal.

Advantages and disadvantages of liquidation of the company

Advantages of liquidation

- It takes matters at the end of an insolvent business that was struggling to cope up in an organized legal manner.
- Removes the responsibilities of the owners and directors.
- No need to file annual accounts or tax returns.
- Lifting of county court judgments or debt recovery pressure.

Disadvantages of liquidation of the company

- Restriction on business from using the same company name in future.
- Shareholders will need to repay illegal dividends.
- Loss of business reputation, trading licenses or other valuable assets.
- Administration being quicker will give benefits to creditors.

Order of Payment:

1. Legal charges
2. Liquidators Remuneration
3. Liquidators Expenses
4. Debenture Holders (including interest upto the date of Winding up of the company)
5. Creditors- 1) Preferential 2)Unsecured Creditors- Public Deposites
6. Preferential Shareholders (Arrears of dividend upto the date of Winding up of the company)
7. Equity Shareholders

Liquidator's Final Statement of A/c : It is a statement showing Receipts and Payments for Liquidation it is prepare by Liquidator.

Liquidator's Final Statement of Accounts

Receipts	Payments
To Assets	By Liquidation Expenses
To Call Money	By Liquidation Remuneration
To Surplus from Securities	By Secured Creditors
(left after paying liability)	By Preferential Creditors
	By Unsecured Creditors
	By Preference Dividend
	By Preference Shareholders
	By Equity Shareholders
Total	Total

Statement of Affairs

1. **Petition by Company**: In case of winding up by Tribunal, section 272 (5) of the companies Act 2013 provides that a petition presented by the company for winding up before the tribunal shall be admitted only if accompanied by statement of affairs in such form and in such manner as may be prescribed.
2. **Petition by Others** : In accordance with section 274 (1) where a petition for winding up is filed before the Tribunal by any person other than the company, the tribunal shall, if satisfied that a prima facie case for winding up of the company is made out, by an order direct the company to file its objection along with statement of affairs within 30 days of the order in such form and in such manner as may be prescribed. The tribunal may allow a further period of 30 days in a situation of contingencies or special circumstances.

FORM OF STATEMENT OF AFFAIRS

₹	Particulars				₹	₹
	Assets not Specifically Pledged (as per List 'A')					
	Balance at Bank					
	Cash in Hand					
	Marketable Securities					
	Bills Receivable					
	Trade Debtors					
	Loans and Advances					
	Unpaid Calls					
	Stock-in-trade					
	Work-in-progress					
					
					
	Freehold Property, Land and Building					Estimated Realisable Value
	Leasehold Property					
	Plant and Machinery					
	Furniture, Fittings and Utensils					
	investments other than Marketable Securities					
	Livestock					
	Other Properties					
					
					
	Assets Specifically Pledged (as per List 'B')					
	(a) Estimated Realisable Values	(b) Due to Secured Creditors	(c) Deficiency Ranking as Unsecured	(d) Surplus carried to Last Column		
	freehold Property					
					
	Estimated Surplus from Assets Specifically Pledged					
	Estimated total assets available for preferential creditors, Debenture holders secured by floating charges and unsecured creditors.					
	Summary of Gross Assets					
	Gross realizable value of assets specifically					
	pledged				XX	
	Other assets				XX	
	Gross Assets				XX	
Gross Liability (₹)	Liabilities					
	(To be deducted from surplus or added to deficiency as the case may be)					

XX	Secured creditors (as per list 'B') to the extent to which claims are estimated to be covered by assets specifically pledged item (a) or (Insert in gross liabilities column only)	XX	
	Preferential creditors (as per list 'C')	XX	
XX	Estimated balance of assets available for Debenture holders secured by floating charge and unsecured creditors	XX	
XX	Debenture holders secured by a floating charge (as per list 'D')	XX	
	Estimated Surplus / Deficiency as regards debenture holders, unsecured creditors (as per list 'E')	XX	
	Estimated unsecured balance of claims of creditors party secured on specific assets, brought from preceding page		
	Trade Accounts	XX	
	Bills Payable	XX	
	Outstanding Expenses	XX	
		
	Contingent Liabilities (State nature)		
	Estimated Surplus /Deficiency as regards creditors (being difference between Gross Assets brought from preceding page and liabilities)	XX	
₹		XX	
	Issued and Paid up Capital		
	Preference share of ₹ each		
	Called up (as per list 'F')	XX	
	Equity shares of ₹ each		
	Called up (as per list 'G')	XX	
	Estimated Surplus / Deficiency as regards member (as per 'H' list)	XX	

Lists: Statement of Affairs should accompany 8 lists:

i. Assets

List A: Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.

List B: Assets specifically pledged and creditors fully or partly secured.

ii. Liabilities

List C: Preferential Creditors for Taxes, rates, salaries, Wages and otherwise.

List D: List of Debenture Holders secured by floating charges.

List E: Unsecured Creditors.

iii. Share Capital

List F: List of Preference Share Holders

List G: List of Equity Share Holders

iv. Deficiency

List H: Deficiency or Surplus Account

Questions:

Q1. A Ltd. Company passed a resolution to wind up voluntarily on 31st March 2018 when its balance sheet stood as follows:

Liabilities	₹	Assets	₹
<u>Issued & Subscribed</u>		Freehold Property	80,000
8,000 Preference Shares	80,000	Plant & Machinery	70,000
12,000 Equity shares	1,20,000	<u>Current Assets</u>	
<u>Secured Loans</u>		Stock	80,000
5% Debentures	60,000	Cash	250
(Secured on Free hold Property)		Debtors	59,750
<u>Current liability</u>		Profit & Loss A/c	70,000
Bank Overdraft	30,000		
Trade Creditors	65,500		
Income Tax	4,500		
Total	3,60,000	Total	3,60,000

The interest on Debentures is paid upto 31st March 2017 but dividend on preference shares @6% is in arrears for 3 years.

The freehold property was sold for ₹1,00,000. Plant & Machinery realized ₹60,000. Stock ₹75,000 & debtors realized ₹ 50,000. The debentures were paid out of sales proceeds of Assets. Cost of Liquidation was ₹5,000 & liquidators remuneration was fixed at ₹2,530 plus 2% on the amount realized & 10% on the amount returned to equity shareholders.

The Company's Articles give the preference shares priority over equity shares both for Dividend & Capital.

Draft Liquidators Final Statement of Account to show the Distribution.

Q2. The Pune Company Ltd. Went into Liquidation on 31st December 2017, when the following Balance sheet was prepared.

Liabilities	₹	₹	Assets	₹	₹
19,500 Equity shares of ₹10 each		1,95,000	Goodwill		50,000
Bank Overdraft		12,000	Leasehold property		48,000
Sundry Creditors:			Plant & Machinery		65,500
Preferential	24,200		Stock		56,800
Partly Secured	55,310		Sundry Debtors		64,820
Unsecured	<u>99,790</u>	1,79,300	Cash in Hand		2,500
			Profit & loss A/c		98,680
Total		3,86,300	Total		3,86,300

The Liquidator Realized the Assets as follows:

Leasehold property which was secured in first instance to pay partly secured creditors.

	₹
Leasehold Property	35,000
Plant & Machinery	51,000
Stock	39,000
Sundry Debtors	58,500

The Expenses of liquidation amounted to ₹1,000 & the remuneration of the liquidator was agreed at 2.5% on the amount realized including cash & 2% amount paid to the unsecured creditors including preferential creditor.

Prepare the liquidators Final Statement of Accounts showing Distribution.

Q3. The Balance sheet of Sagar Ltd. As on 31.3.2010 was as follows.

Liabilities	₹	Assets	₹
Share capital		Land & Building	25,000
8,000 preference shares of ₹10 each	80,000	Other Fixed Assets	2,00,000
12,000 equity shares of ₹ 10 each	1,20,000	Stock	5,25,000
Bank Loan	4,00,000	Debtors	1,00,000
8% Debrntures	1,00,000	Profit & Loss	58,000
Interest Outstanding on Debentures	8,000		
Creditors	2,00,000		
Total	9,08,000	Total	9,08,000

The Company went into liquidation on that date. Prepare liquidators statement of Account after taking into account the following:

1. Liquidation Expenses & Liquidators remuneration amounted to ₹3,000 & ₹10,000 respectively.
2. Bank loan was secured by hypothecation of stock.
3. Debentures were repaid on 30.6.2010.
4. Fixed Assets were realized at book value & current Assets at 90% of Book value.

Q4. J & K assets Ltd. Went into voluntary liquidation on 1st April 2008.

Balance sheet is as follows:

Particulars	₹	₹
Plant		200000
Stock		100000
Debtors		150000
Cash at Bank		<u>3000</u>
		453000
Less: 5% Debentures	60,000	
Creditors	<u>1,03,000</u>	<u>-1,63,000</u>
		2,90,000
Represented By:		
12,000 10% Preference shares of ₹10 each	1,20,000	
20,000 ordinary shares of ₹10 each	<u>2,00,000</u>	3,20,000
less: Deficiency on Profit & Loss Account		-30,000
		2,90,000

The dividend on Preference shares had been paid up to 31st March 2007. The liquidator sold the plant & stock for ₹2,75,000 and realized all the debts except one of 25,000 which proved to be irrecoverable. He admitted the claim of all creditors ₹5,000 of which were preferential.

Expenses of liquidation amounted to ₹1,600 & the debentures were repaid on 30th September 2008. The liquidators remuneration was @2% on the amount realized (except cash) & 2% on the amount distributed to ordinary share holders.

Prepare liquidators Final Statement of Account.

Q5. The Bright Company Ltd. Went into liquidation on 31st December 2018; When the following Balance Sheet was Prepared.

Liabilities	₹	Assets	₹
39,000 Shares of ₹10 each	3,90,000	Goodwill	1,00,000
Sundry Creditors	3,58,600	Leasehold Property	96,000
Bank Overdraft (Unsecured)	24,000	Plant & Machinery	1,30,000
		Sundry Debtors	1,29,640
		Stock	1,13,600
		Cash	5,000
		Profit & loss Account	1,98,360
Total	7,72,600	Total	7,72,600

Sundry Creditors include ₹48,400 Preferential Creditors and 1,10,620 partly secured creditors. The liquidators realized the Assets as follows:

Leasehold Property which was used in 1st instance to pay :

Partly secured creditors pro-rata	70,000
Plant & Machinery	1,02,000

Stock	78,000
Sundry Debtors	1,17,000
Cash	5,000

The expenses of liquidation amounted to ₹2,000 & liquidators remuneration was fixed at 2.5% on amount paid to unsecured creditors (including preferential creditors).

Prepare liquidators Final Statement of Account.

Q6. A company went into liquidation on 31-3-2017 when the following Balance sheet was prepared.

Liabilities	₹	Assets	₹
Authorised Capital			
40,000 shares of ₹10 each	4,00,000	Goodwill	1,70,000
Issued Capital			
25,000 shares of ₹ 10 each	2,50,000	Freehold Property	20,000
Unsecured Creditors	50,000	Machinery	75,000
Partly Secured Creditors	1,20,000	Stock	25,000
Preferential Creditors	3,000	Debtors	35,000
Bank Overdraft (Unsecured)	500	Cash	500
		Profit and Loss A/c	98,000
	4,23,500		4,23,500

The Liquidator realized the assets as follows:

Freehold property was sold to pay partly secured creditors and it fetches ₹15,000; other assets realized as Machinery ₹50,000; Stock ₹20,000; Debtors ₹25,000.

The expenses of liquidation amounted to ₹1,000 and the liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors.

Prepare Liquidators Final Statement of Account.

Q7. From the following Trial Balance of PQ Ltd. On 31-12-2017, prepare liquidators final statement of Account.

Particulars	Debit	Credit
9% Preference Share Capital (1,250 Preference shares @ ₹ 100 each fully paid up)		1,25,000
Equity Share Capital		
2,000 Equity Shares @ ₹ 100 each fully paid up		2,00,000
2,000 Equity Shares @ ₹100 each, ₹ 50 paid up		1,00,000
Plant	3,00,000	
Stock-in-Trade	3,60,000	
Sundry Debtors	85,000	
Sundry Creditors		2,21,000
Bank Balance	1,20,000	
Preliminary Expenses	6,000	
6% Mortgage Loan		2,30,000
Outstanding Liabilities for Expenses		25,000
Profit and Loss Account (Trading loss for the year 2017)	30,000	
	9,01,000	9,01,000

Following points should be kept in mind:

1. On 21st January 2018 the liquidator of PQ ltd. Sold Plant for ₹2,95,000 & stock in Trade at 10% less than Book Value. He realized 80% of sundry debtors & incurred cost of collection ₹ 1,850 (remaining Debtors are to be treated as Bad).
2. The loan Mortgage was discharged on 31st January 2018 along with interest for 6 months. Creditors were discharged subject to 5% discount. Outstanding expenses paid 20% less.
3. Preference share dividend is due for 1 year and paid with final payment.
4. Liquidation expenses incurred are ₹1,800 and liquidators remuneration is settled at 4% on disbursement to members (excluding preference dividend), subject to minimum of ₹10,000.

Q8. The summarized Balance sheet of Full Stop Limited as on 31st March 2017 being the date of winding up is as under:

Liabilities	₹	Assets	₹
Share Capital :		Land and Building	5,20,000
5000, 10% Cumulative Preference Shares of ₹ 100 each fully paid up	5,00,000	Plant and Machinery	7,80,000
Equity Share Capital		Stock in Trade	3,25,000
5,000 Equity Shares of ₹ 100 each		Book Debts	10,25,000
60 per share called and paid-up	3,00,000	Profit and Loss Account	5,50,000
5,000 Equity Shares of ₹ 100 each (50 per share called up and paid-up)	2,50,000		
Securities Premium	7,50,000		
10% Debentures	2,10,000		
Preferential Creditors	1,05,000		
Bank Overdraft	4,85,000		
Trade Creditors	6,00,000		
	32,00,000		32,00,000

Preference Dividend is in arrears for 3 years. By 31-3-2017 the Assets realized were as follows:

	₹
Land & building	6,20,000
Stock in Trade	3,10,000
Plant & Machinery	7,10,000
Book Debts	6,60,000

Expenses of liquidation are ₹86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is ₹67,000. Assuming that the final payments were made on 31st March 2017. Prepare Liquidators Statement of Account.

Q9. Balance Sheet of Sona Ltd. As on 31st December 2017

Liabilities	₹	Assets	₹
Paid-up Capital		Fixed Assets	
1,000, 6% Preference Shares of ₹ 100 each	1,00,000	Land and Building	2,00,000
2,000 Equity Shares of ₹ 100 each fully paid	2,00,000	Plant and Machinery	2,20,000
3,000 Equity Shares of ₹ 100 each, ₹50 paid	1,50,000	Current Assets:	
Secured Loan :		Stock	1,00,000
6% Debentures (Floating charge on all assets)	1,00,000	Debtors	1,00,000
Other :		Cash at Bank	30,000
Mortgage on Land and Building	1,00,000	Profit and Loss Account	1,00,000
Current Liabilities :			
Sundry Creditors	90,000		
Income-Tax	10,000		
	7,50,000		7,50,000

The company went into liquidation on 1st January, 2018.

The Preference dividends were in arrear for three years. The arrears are payable on liquidation.

The assets were realised as follows

	₹
Land and Building	2,40,000
Plant and Machinery	1,80,000
Stock	70,000
Debtors	60,000

The expenses of liquidation amounted to ₹ 8,000.

The liquidator is entitled to a commission at 2% on all assets realised and 3% on amounts distributed to unsecured creditors.

All payments were made on 30th June, 2018.

Prepare Liquidator's Statement of Account.

Q10. Ltd. is to be liquidated, Their summarised Balance Sheet as at 30th September, 2017 appears as under .

Particulars	₹
Liabilities	
500,000 Equity shares of (100 each)	50,00,000
secured debentures (on Land and Buildings)	20,00,000
Unsecured Loans	40,00,000
Trade Creditors	70,00,000
	1,80,00,000
Assets	
Land and Buildings	10,00,000
Other Fixed assets	40,00,000
Current assets	90,00,000
profit and Loss Account	40,00,000
	1,80,00,000
Contingent Liabilities are : For Bills discounted	2,00,000
For Excise duty demands	3,00,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows .

Particulars	₹
Land and Building	22,00,000
Other Fixed assets	36,00,000
Current assets	70,00,000

Taking the above into account, prepare the statement of affairs.

Q11. X Co. Ltd. went into liquidation on 1st April, 2017. The following balances are extracted from its books on that date

Particulars	₹	Particulars	₹
Capital		Machinery	90,000
24,000 Equity Shares of ₹ 10 each	2,40,000	Leasehold Properties	1,20,000
Debentures (secured by Floating charge)	1,50,000	Stock	3,000
Bank Overdraft	54,000	Debtors	1,50,000
Creditors	60,000	Investments	18,000
		Cash in Hand	3,000
		Profit and Loss Account	1,20,000
	5,04,000		5,04,000

The following assets are valued as under :	₹
Machinery	1,80,000
Leasehold Property	2,18,000
Investments	12,000
Stock	6,000
Debtors	1,40,000

The bank overdraft is secured by deposit of title deeds of leasehold properties. There were preferential creditors amounting ₹ 3,000 which were not included in creditors ₹ 60,000.

Prepare a Statement of Affairs to be submitted to the meeting of members / creditors.

MODULE 4 : ACCOUNTING FOR LIMITED LIABILITY PARTNERSHIP

MEANING:

It is a World Wide form of commercial Organisation. It combines the Benefit of Firm as well as a Joint Stock Company.

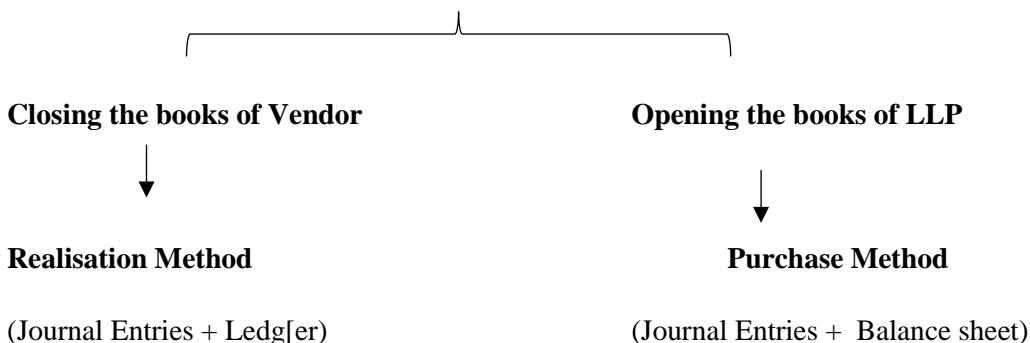
Features of LLP:

1. No. of persons: Min – 2, Maximum- Unlimited
2. Deed: An agreement containing Terms & Conditions.
3. Capital Contribution: Capital can be contributed by way of cheque or cash on Tangible or Intangible Assets.
4. Name: It must be unique and should contained the word LLP.
5. Management: Management is looked after by designated partners for a period of 5 years. Minimum 2 partners are required.
6. To become designated partner must obtain “Designated Partners Identification number from Central Government.
7. Digital Signature: This must be applied within 6 months.
8. Liability: Limited

Objective:

To learn and understand the procedure of converting sole trading concern or firm into limited liability partnership a/c to the provisions of LLP Act 2008.

Accounting: Accounting is divided into 2 parts.



I. Closing the books of Vendor Firm

1. All Assets are transferred to realization A/c (Book value)

Realisation A/c Dr.
 To All Assets

(Note: 1-Cash & Bank will be transferred to realization Ac only when it is taken over.

2-If any other Asset are not T/O, should not be transferred to realization.)

2. All Liabilities transferred to Realisation A/c (Book Value)

All Liabilities A/c Dr.
 To Realisation A/C

(Note : If any liability is not T/O should not be transferred to Realisation A/c.)

3. Reserves & Surplus transfer to Capital A/c

Reserves & Surplus A/c DR.
 To Capital A/c

4. Fictitious Assets transferred to Realisation A/c

Capital A/c DR.
 To Fictitious Assets

5. Assets not T/O or sold by vendor

Cash A/c DR.
 To Assets

6. Liabilities not T/O or paid by Vendor

Liabilities A/c DR.
 To Cash / Bank

7. Realisation Expenses paid by vendor

Realisation A/c DR.
 To Cash A/c

8. PC amount Due

LLP A/C DR.
 To Realisation A/C.

9. PC received

Cash A/c DR.
 To LLP A/C

10. Settlement

Capital A/C DR.
 To Cash A/C

3. Consideration paid

Vendor Firm A/c	DR.
To Cash/Bank	

4. Capital Contribution

Cash A/c	DR.
To A's Contribution A/C	
To B's Contribution A/C	

Purchase Consideration:

Amount paid by LLP to vendor firm is known as “PURCHASE CONSIDERATION”.

Methods:

- i. Lumpsum Method (PC amount will be given in question)
- ii. Net Asset Method

Assets Taken Over (Agreed value)	XX
Less: Liabilities Taken Over (Agreed value)	<u>(XX)</u>
Purchase Consideration	XX

Format:

Statement of Assets & Liabilities of _____ as at _____

Particulars	₹
<u>Contribution & Liability</u>	
1. Partner's Fund	
a. Contribution received	X
b. Reserves & surplus	X
2. Liability	
a. Secured Loan	X
b. Unsecured Loan	X
c. Short term Borrowing	X
d. Creditors/Trade Payables	X
Advance from Customers	
e. Other liabilities	
f. Provisions	X
i. for taxation	X
ii. For contingencies	X
iii. For insurance	X
iv. Other Provisions (if any)	X
Total	X
<u>Assets</u>	
a. Gross Fixed Assets	X
Less: Depreciation & Amortisation	(X)
Net Fixed Assets	X
b. Investments	X
c. Loans & Advances	X
d. Inventories	X
e. Debtors/ Trade Receivables	X
f. Cash & Cash Equivalents	X
g. Other Assets	X
Total	X

Statement of Income & Expenditure of _____**For the period from _____ to _____**

Particulars	₹
Income	
Gross Turnover	X
Less: Excise Duty	(X)
Net Turnover	X
Domestic Turnover	
i. Sale of goods manufactured	X
ii. Sale of Goods Traded	X
iii. Sale or Supply of Services	X
Export Turnover	
i. Sale of goods manufactures	X
ii. Sale of Goods Traded	X
iii. Sale or Supply of Services	X
Other Income (to specify)	X
Increase/ (Decrease) in stocks [including for raw materials, work in progress & finished Goods]	X
Total Income	X
Expenses	
Raw material consumed	X
Purchases made for resale	X
Consumption for Stores & Spare Parts	X
Power & Fuel	X
Personal Expenses	X
Administrative Expenses	X
Payment to Auditors	X
Selling Expenses	X
Insurance Expenses	X
Depreciation & Amortisation	X
Interest	X
Other Expenses	X
Net Profit or Loss before Taxes	X
Provision for Tax	X
Profit after Tax	X
Profit Transferred to partners Account	X
Profit Transferred to Reserves & Surplus	X

Questions:

Q1. Following is the Balance sheet of Prem & Company as at 31st March 2019.

Liability	₹	Assets	₹
Capital		Computers	10,000
Prem	11,500	Furniture	5,000
Anil	11,500	Inventory	9,000
Creditors	5,000	Debtors	6,000
Bills Payable	5,000	Bank	2,000
		Cash	1,000
Total	33,000	Total	33,000

Prem & Co. was converted to Prem LLP on that date. Terms of conversion were as follows:

1. Computers were valued at ₹12,000.
2. Furniture was not taken over by LLP.
3. A reserve of 5% is to be created on Debtors.
4. Goodwill was valued at ₹10,000.
5. The LLP also assumed that other assets & Liabilities of Old Firm at Book value. Show necessary ledger Accounts in the Books of Old Firm.

Q2. AB & Co. Converted into a AB LLP with effect from 1-4-2019. The Balance sheet as on 31-3-2019 was as under.

Liability	₹	Assets	₹
A's Capital	1,00,000	Land & Building	2,80,000
B's Capital	2,00,000	Stock	3,00,000
General reserve	1,00,000	Debtors	2,00,000
Creditors	7,50,000	Cash & Bank Balance	1,20,000
Investments Fluctuation reserve	50,000	Investment	3,00,000
Total	12,00,000	Total	12,00,000

The conversion was subject to Following terms:

1. All the Assets and all the liabilities of the firm shall be taken over by the LLP.
2. Land & Building shall be appreciated by 20%.
3. Stock shall be increased by ₹50,000.
4. Debtors shall be decreased by ₹10,000.
5. Goodwill shall be valued at ₹1,00,000.
6. Investment shall be taken over at ₹2,80,000.

You are require to prepare:

- i. Statement showing Calculation of Purchase Consideration.
- ii. Realizations A/c & Partners A/c in the books of AB&Co.

Q3. Rudra & Kunal are partners sharing Profits & Losses in the ratio of 3:2. They decided to convert their Business into a LLP, RK LLP on 31-3-2019, when the balance sheet stood as follows.

Liabilities	₹	Assets	₹
capital Account		Land & Building	80,000
Rudra	70,000	Plant & Machinery	60,000
Kunal	50,000	Furniture	21,000
Reserve Fund	30,000	Patents	18,000
Loan Creditors	80,000	Stock	24,000
Sundry Creditors	33,000	Bills receivable	16,000
		Sundry Debtors	28,000
		Cash at Bank	16,000
Total	2,63,000	Total	2,63,000

In order to arrive at the purchase consideration the following terms are agreed upon by the LLP:

- The LLP will take over the loan creditors but will not take over sundry creditors.
- Land & Building revalued at ₹95,000, Machinery ₹72,000, and stock ₹32,000, and all other assets taken (except cash & Patents) at their Book Values. Patents are valued at ₹25,000 and realized in Cash.
- The value of the firm was valued at 2 years purchase of Average Profit of the last 3 years. The profits for 3 years after setting aside ₹10,000 to Reserve Fund each year were as follows:

2012- ₹44,000 2013- ₹52,000 2014- ₹60,000

You are required to show the necessary accounts in the books of the firm assuming that all the transactions have been duly completed & surplus cash if any was distributed equally and the balance was adjusted by the capitals in the new LLP.

Q4. Ranjit, Manjit & Paramjit are equal partners of M/s Hindal & Co. The Balance sheet of the firm as on 31-3-2019 was as follows:

Liabilities	₹	Assets	₹
Capital A/c		Fixed Assets	
ranjit	50,000	Land	50,000
Manjit	1,00,000	Building	70,000
Paramjit (Dr. Balance)	-30,000	plant & Machinery	2,00,000
Loan from Bank	5,00,000	Current Assets	
Creditors	1,00,000	Stock	3,00,000
		Debtors	1,00,000
Total	7,20,000	Total	7,20,000

On the date, it is decided to convert the partnership into Hindal LLP on the following Terms:

- Land to be revalued at ₹1,50,000.
- Plant & Machinery to be revalued at ₹2,50,000.
- Depreciation amounting to ₹20,000 to be written off on Building.
- A provision of 10% of Book Value to be made for obsolete stock.
- A provision for Doubtful Debts be made at 10% of Debtors.
- A discount of 6% would be earned on creditors when paid out.
- Each partner will have capital of ₹72,000 in the LLP as Purchase Consideration.

Show the necessary Ledger Accounts to close the Books of Hindal & Co. and show the opening Balance sheet of the new LLP. All partners are solvent and have sufficient cash resources as may be necessary to settle the respective accounts.

Q5. Veeru & Naru are carrying on Business in name of Veena & Co. sharing profits & Losses in the ration of 3:2. On 31-3-2019 their Balance sheet was:

Liabilities	₹	Assets	₹
Naru Account	88,000	Property	72,000
Veeru Account	60,000	Stock	40,000
General Reserve	24,000	Debtors	48,000
Loan- Naru	16,000	Machinery	60,000
Bank O/D	32,000	Advance	8,000
Creditors	20,000	Cash/Bank	12,000
Total	2,40,000	Total	2,40,000

On same date Veena LLP was incorporated to take over the running the business of Veena & Co. on the following terms.

1. Goodwill of the firm is to be valued at 2 years purchase of average profit of past five years. The firm used to transfer ₹4,000 every year to General Reserve. The Profits after above transfer were ₹12,800, ₹14,000, ₹15,000, ₹14,200 and ₹15,400.
 2. Plant is over valued by ₹6,000 and property is undervalued by ₹8,000. Other assets & Liability except Loan of Naru- are taken over at book value.
- Show necessary journal entries in the books of both the parties to the above agreement and draw the statement of Assets & Liability.

Q6. On 31st March 2018 Fairplay LLP was incorporated with a Total Contribution of ₹1,00,000 to take over the business carried on at that date by the partnership of P,G and B.

Liability	P	G	B	Total
Capital A/cs:				
Balance as on 31-3-2017	35,940	26,480	21,000	
Add: Interest on Capital A/cs	720	540	450	
Share of Profit for the year	<u>6,126</u>	<u>6,126</u>	<u>4,084</u>	
	42,786	33,146	25,534	
Less: Drawings	<u>8,926</u>	<u>8,726</u>	<u>4,064</u>	
	33,860	24,420	21,470	79,750
Creditors				<u>35,600</u>
				1,15,350

Assets	Cost	Depreciation	Total
Fixed Assets			
Freehold Land & Building	26,000		26,000
Plant & Machinery	42,000	-22,000	20,000
Motor Vehicles	19,700	4,700	15,000
	87,700	26,700	61,000
Current Assets:			
Stocks			22,400
Debtors			12,200
Balance at Bank			19,750
			1,15,350

You are also given the following information:

Q7. Following is the Trial Balance of Sona and Mona. They share Profit and losses in the proportion of 3 : 2. From the following balances and adjustments, prepare Trading & Profit and Loss A/c for the year ending 31st March, 2010 and the Balance Sheet on that date.

Trial Balance

Particulars	Dr. Rs.	Cr. Rs.
Stock on 1-4-2009	45,000	
Purchases and Sales	1,12,500	1,87,500
Drawings:		
Sona	16,500	
Mona	15,000	
Returns	3,600	1,500
Wages:		
Productive	5,250	
Unproductive	900	
Salaries	9,300	
Rent, Rates, Insurance	5,100	
Bad Debts	600	
Discounts	1,950	1,500
Machinery	22,500	
Building	54,300	
Sundry Debtors & Creditors	76,500	45,000
Cash	1,500	
Capital:		
Sona		52,000
Mona		67,500
Bank Overdraft		15,000
	3,70,500	3,70,500

Adjustments:

- On 31st March, 2010 the stock was valued at Rs. 28,000.
- Outstanding productive wages Rs. 300.
- Rent, rates and Insurance includes Rs. 800 paid for one year ending on 30th June, 2010.
- Provide for doubtful debts on debtors at 5%.
- Depreciate Building by 5% and Machinery by 10%.
- Goods worth Rs. 1,250 were distributed as free samples for which no record has been made in the books.

Q8. From the following Trial balance of Jagan & Magan You are required to prepare a trading and Profit and Loss Account for the year ended 31st March, 2010 and the Balance Sheet as on that date, after taking into the consideration the additional information:

Trial Balance as on 31st March, 2010

Particulars	Dr. Rs.	Cr. Rs.
Opening Stock	17,500	
Salaries and Wages	4,600	
Cash in Hand	5,000	
Purchases and Sales	1,12,600	1,65,000
Office Expenses	4,300	
Productive Wages	7,000	
Bills Receivable	4,000	
Legal Expenses	1,500	
Bad Debts	500	
Works Manager's Salary	3,000	
Commission	1,500	2,400
Investments	10,000	
Debtors & Creditors	20,000	10,000
Bank Overdraft		5,000
Patents	4,000	
Loose Tools	3,000	
Furniture	6,000	
Goodwill	6,500	
Interest on investments		3,600
Land & Building	25,000	
Capital Accounts:		
Jagan	-	30,000
Magan	-	20,000
	2,36,000	2,36,000

Adjustments:

- Partnership share profits and Losses in their capital ratio.
- The Closing Stock – Cost Rs. 20,000 Market Value Rs. 22,500.
- Jagan has withdrawn goods worth Rs. 600 for his personal use.
- Uninsured goods worth Rs. 5,000 were destroyed by fire.
- Rs. 225 written off as bad debts from debtors.
- Outstanding salaries and wages Rs. 400.
- Depreciation on Land & Building at 7½%.

Q9. From the following trial balance of Mohan & Sohan, you are required to prepare a Trading & Profit & Loss Account for the year ended 31st March, 2010 and the Balance Sheet as on that date after taking into consideration in additional information:

Particulars	Dr. Rs.	Cr. Rs.
Mohan's Capital		2,00,000
Sohan's Capital		1,80,000
Mohan's Drawings	14,450	
Sohan's Drawings	10,000	
Stock (1-4-2009)	2,20,000	
Bills receivable	30,000	
Purchases	2,80,000	
Sales		4,00,000
Bills Payable		40,000
Return Outward		4,500
Return Inward	5,000	
Plant & Machinery	1,00,000	
Goodwill	25,000	
Patents	20,000	
Sundry Debtors	1,25,000	
Sundry Creditors		1,38,000
Cash in Hand	2,550	
Cash in Bank	75,000	
Salaries	11,000	
Wages	17,000	
Office Expenses	9,500	
Insurance	3,000	
Advertisement	5,000	
General Expenses	6,500	
Factory Rent	3,500	
Total	9,62,500	9,62,500

Adjustments:

1. Depreciate Plant & Machinery by 5% and patents by 15%.
2. Provide for reserve for bad and doubtful debts @ 5% on sundry debtors
3. Prepaid Insurance Rs. 600.
4. Provide for outstanding expenses: Salary Rs. 2,000, Wages Rs. 1,000, Advertisement Rs. 700.
5. Stock on 31st March 2010 was valued at Rs. 1,20,000.
6. Goods costing Rs. 6,000 were destroyed by fire and the Insurance Company has admitted a claim for Rs. 3,800.

Partners share profit and losses equally.

Q10. Ramesh and Mahesh are partners sharing profits and losses 2 : 1. Following is the Trial Balance as on 31-3-2010.

Particulars	Dr. Rs.	Cr. Rs.
Land & Building	55,000	
Machinery	40,000	
Salary & Wages	21,000	
Cash at Bank	40,000	
Cash in Hand	1,100	
Motor Vans	20,000	
Office Expenses	1,000	
Ramesh 's Capital		1,16,000
Mahesh's Capital		62,000
Carriage	5,000	
Purchases	2,20,000	
Return Outward		5,500
Sales		2,80,000
Return Inward	2,000	
Bad Debts	1,000	
Debtors	32,800	
Creditors		20,000
Rent	1,100	
Bills Payable		35,000
Travelling Expenses	7,000	
Stock (1-4-2009)	30,000	
Insurance	1,500	
Discount	8,000	
Advertisement	12,000	
Furniture	20,000	
	5,18,500	5,18,500

Adjustments:

1. On 31-3-2010 the cost price of closing stock was Rs. 41,000 and its market price was Rs. 42,000.
2. Goods worth Rs. 5,000 taken over by Ramesh for personal use were not entered in the books of accounts.
3. Goods worth Rs. 5,000 were destroyed by fire and Insurance Co. agreed to pay Rs. 4,000 in full settlement of the claim.
4. Outstanding Expenses: Rent Rs. 100 and Salary Rs. 500.
5. Provide Depreciation 10% on Machinery and 5% on furniture.
6. Provide Rs. 800 for Reserve for doubtful debts on debtors.

You are required to prepare Trading & profit & Loss Account for the year ending 31-3-2010 and the Balance Sheet as on that date after considering the above adjustments.

Q11. Kanta & Shanta are partners sharing profits and losses equally. From the following Trial Balance and adjustments you are required to prepare a Trading A/c, Profit & Loss A/c for the year ended on 31st March, 2010 and the Balance Sheet as on that date:

Trial Balance as on 31-3-2010

Debit Balance	Rs.	Credit Balance	Rs.
Carriage	2,000	Capitals: Kanta Shanta	60,000 40,000
Opening Stock	30,760	Commission	4,000
Salary	4,000	Interest	4,200
Wages	1,000	Sales	92,000
Discount	500	Purchase Return	3,800
Interest	750	Sundry Creditors	27,400
Motive Power	4,500	Outstanding Salary	400
Motor Van	28,000		
Bad Debts	1,920		
Building	34,000		
Debtors	20,000		
Cash at Bank	16,120		
Machinery	10,000		
Investments	12,000		
Purchases	60,250		
Drawings: Kanta Shanta	2,800 3,200		
	2,31,800		2,31,800

Adjustments:

1. Outstanding Wages Rs. 400.
2. Provide depreciation at 10% p.a. on Building and Motor Van.
3. Accrued Interest on Investment Rs. 360.
4. Provide 5% R.B.D.D. on Debtors.
5. Stock at 31st March, 2010 was Market Value Rs. 40,000; Cost Price Rs. 50,000.

Q12. Rani and Rita are partners sharing profits and losses equally. Following is their Trial Balance as on 31st March, 2010: Trial Balance as on 31st March, 2010

Particulars	Dr. Rs.	Cr. Rs.
Buildings	27,500	
Machinery	20,000	
Salary and Wages	10,500	
Cash at Bank	20,000	
Cash in Hand	550	
Motor Cycle	10,000	
Office Expenses	500	
Rani's Capital		58,000
Rita's Capital		31,000
Carriage Outward	2,500	
Purchase	1,10,000	
Return Outwards		2,750
Sales		1,40,000
Return Inward	1,000	
Bad Debts	500	
Debtors	16,400	
Creditors	27,500	
Rent	550	
Printing and Stationery	750	
Travelling Expenses	2,750	
Stock (1-4-2009)	15,000	
Insurance	750	
Discount	4,000	
Advertisement (For 3 years)	6,000	
Furniture	10,000	
	2,59,250	2,59,250

Adjustments:

1. The closing stock on 31st March, 2010 was valued at cost of Rs. 20,500. While its market price is Rs. 22,500.
2. Goods worth Rs. 2,500 were destroyed by fire and insurance company agreed to pay Rs. 2,000 in full settlement of the claim.
3. Unpaid Expenses – Rent Rs. 50 and Salary Rs. 250.
4. Provide depreciation at 10% on Machinery and 5% on furniture.
5. Goods worth Rs. 4,000 were sold on 27th March, 2010 but no entry was made in the books.

You are required to prepare Trading & Profit & loss Account for the year ended 31st March, 2010 and the Balance Sheet as on the date after considering the above adjustments.