UNIT-1

1 EVOLUTION OF ACCOUNTING

MAIN POINTS

[1] Evolution of Accounting in India [2] Evolution of Double Entry System of Accounting [3] Cost Accounting [4] Management Accounting [5] Auditing [6] Responsibility Accounting [7] Environmental Accounting [8] Automated Accounting Process [9] Block Chain [10] Forensic Accounting [11] AI in Accounting [12] Big Data in Accounting ■ Exercise.

1. EVOLUTION OF ACCOUNTING IN INDIA :

The evolution of accounting in India spans centuries and has been shaped by various historical, cultural, and economic factors. Here's an overview of the key phases in the evolution of accounting in India :

(1) Ancient Period (Indus Valley Civilization to 6th Century AD) :

Accounting practices can be traced back to the ancient civilization of the Indus Valley, where rudimentary forms of record-keeping existed. The Arthashastra, an ancient Indian treatise on statecraft and economics written by Chanakya, provides insights into early accounting practices, including taxation, budgeting, and record-keeping.

(2) Medieval Period (6th Century AD to 18th Century AD) :

During the medieval period, accounting practices continued to develop under various ruling dynasties such as the Gupta Empire and the Mughal Empire. The concept of "Bahis" or account books emerged, which were used to record financial transactions and business dealings.

(3) Colonial Period (18th Century AD to 20th Century AD) :

The arrival of European colonial powers, particularly the British East India Company, significantly influenced accounting practices in India. The British introduced double-entry bookkeeping and modern accounting principles to facilitate their administrative and commercial activities. The Companies Act of 1850 and subsequent legislative reforms laid down the framework for corporate accounting and financial reporting in India. The establishment of professional accounting bodies such as the Institute of Chartered Accountants of India (ICAI) in 1949 further standardized accounting practices and professional education.

(4) Post-Independence Period (1947 Onwards) :

After gaining independence from British rule in 1947, India underwent significant economic reforms and development initiatives. The adoption of the

Global Collaboration : Forensic accountants will collaborate with law enforcement agencies, regulatory bodies, international organizations, and private-sector stakeholders to combat cross-border fraud, money laundering, corruption, and terrorist financing.

Conclusion :

Forensic accounting plays a vital role in detecting, investigating, and preventing financial fraud, misconduct, and corruption across various industries and sectors. By applying accounting, auditing, and investigative techniques, forensic accountants help organizations enhance financial integrity, mitigate fraud risks, and achieve legal compliance, contributing to trust, transparency, and accountability in the global economy.

11. AI IN ACCOUNTING :

(1) Introduction :

AI (Artificial Intelligence) in accounting refers to the integration of AI technologies, such as machine learning, natural language processing (NLP), and robotic process automation (RPA), into accounting processes and systems to automate tasks, improve efficiency, and provide insights for decision-making. AI enables accountants and finance professionals to streamline repetitive tasks, analyze large volumes of data, and enhance accuracy, speed, and productivity in accounting operations.

(2) Key Concepts :

Machine Learning : Machine learning algorithms enable computers to learn from data, identify patterns, and make predictions or decisions without explicit programming. In accounting, machine learning algorithms can be used for financial forecasting, risk assessment, fraud detection, and anomaly detection.

Natural Language Processing (NLP) : NLP technologies enable computers to understand, interpret, and generate human language. In accounting, NLP can be used for text analysis, document summarization, sentiment analysis, and automated report generation.

Robotic Process Automation (RPA) : RPA involves the use of software robots or bots to automate repetitive, rules-based tasks in accounting, such as data entry, invoice processing, reconciliation, and financial reporting. RPA helps improve efficiency, reduce errors, and free up time for accountants to focus on value-added activities.

Predictive Analytics : Predictive analytics involves analyzing historical data and using statistical algorithms to forecast future trends, outcomes, or events. In accounting, predictive analytics can be used for cash flow forecasting, revenue projections, budgeting, and risk management.

Cost Savings : AI automation lowers labor costs, reduces reliance on manual labor, and increases operational efficiency, resulting in cost savings for accounting firms and organizations.

Better Insights : AI analytics provide deeper insights, trends, and patterns in financial data, enabling accountants to make more informed decisions, identify opportunities, and mitigate risks.

Real-Time Reporting : AI-powered dashboards and reporting tools enable real-time monitoring, analysis, and visualization of financial performance, allowing stakeholders to access up-to-date information and make timely decisions.

Compliance Assurance : AI-based compliance tools help ensure adherence to accounting standards, regulatory requirements, and industry best practices, reducing the risk of non-compliance and regulatory penalties.

(5) Challenges :

Data Quality : AI performance depends on the quality, accuracy, and reliability of data inputs, making data cleansing, validation, and normalization essential for successful AI implementation in accounting.

Ethical Considerations : AI raises ethical concerns, such as bias, privacy, transparency, and accountability, particularly in decision-making processes, algorithmic fairness, and data protection.

Skill Gap : AI adoption requires accounting professionals to acquire new skills, such as data analysis, programming, and AI technologies, which may pose challenges for organizations and individuals.

Security Risks : AI systems are vulnerable to cybersecurity threats, such as data breaches, malware attacks, and adversarial manipulation, requiring robust cybersecurity measures to protect sensitive financial data.

Regulatory Compliance : AI applications in accounting must comply with legal and regulatory requirements, such as data privacy laws, consumer protection regulations, and audit standards, to ensure ethical and lawful use of AI technologies.

and value creation in the accounting profession.

12. BIG DATA IN ACCOUNTING :

(1) Introduction :

Big data refers to large volumes of structured and unstructured data generated from various sources, including transactions, social media, sensors, and digital interactions. In accounting, big data analytics involves the collection, storage, processing, and analysis of massive datasets to uncover insights, trends, and patterns that can inform financial decision-making, risk management, and performance optimization.

(2) Key Concepts :

Volume: Big data encompasses vast amounts of data, including transactional data, financial records, customer information, market data, and operational data, which may be too large or complex to process using traditional database systems.

Velocity: Big data is generated at high speeds from real-time transactions, digital interactions, social media posts, and other sources, requiring rapid processing and analysis to extract actionable insights in a timely manner.

Variety: Big data comes in various formats, including structured data (e.g., databases, spreadsheets), semi-structured data (e.g., XML, JSON), and unstructured data (e.g., text, images, videos), posing challenges for integration, storage, and analysis.

(4) Benefits :

Improved Decision-Making : Big data analytics provides accountants and finance professionals with timely, accurate, and actionable insights for informed decision-making, strategic planning, and performance optimization.

Enhanced Efficiency : Big data automation reduces manual effort, speeds up data processing, and increases productivity in accounting operations, allowing accountants to focus on value-added activities and strategic initiatives.

Better Risk Management : Big data analytics enables proactive risk identification, assessment, and mitigation by analyzing large datasets, monitoring risk indicators, and predicting potential risks or threats to the organization.

Fraud Prevention : Big data analytics helps detect and prevent fraud by analyzing transactional data, identifying patterns of suspicious activity, and implementing fraud detection algorithms and controls to mitigate fraud risks.

Cost Savings : Big data analytics reduces costs associated with data storage, processing, and analysis by leveraging scalable cloud computing resources, open-source software, and distributed computing frameworks for big data processing.

Competitive Advantage : Big data analytics provides organizations with a competitive advantage by enabling them to leverage data-driven insights, anticipate market trends, and capitalize on opportunities for innovation, growth, and market leadership.

2 ACCOUNTING FOR SHARE CAPITAL

MAIN POINTS

[1] Introduction [2] Types of Shares [3] Share Capital and its Types [4] Reserve Capital and Capital Reserve [5] Issue of Equity Shares [6] Over-Subscription and Under-Subscription of Shares [7] IPO and FPO [8] Methods of Issuing Shares [9] Share Capital Transactions [10] Calls-in-Arrears [11] Calls-in-Advance [12] Issue of Shares at a Premium [13] Issue of Shares for Consideration Other than Cash [14] Forfeiture of Shares [15] Re-issue of Forfeited Shares [16] Pro-rata Allotment [17] Sweat Equity Shares [18] Potential Equity Shares [19] Employees Stock Option Plan [20] Preferential Allotment of Shares [21] Book Building [22] ASBA [23] Disclosure of Share Capital in Company's Vertical Balance Sheet ■ Exercise.

1. INTRODUCTION :

In case of sole-trader and partnership, capital is provided by the owners of the business. But in case of a company large amount of capital is required. A joint stock company collects its share capital from a number of persons and its capital is known as share capital. For this purpose, it issues shares. It issues a prospectus to invite the public to subscribe for its shares. The investors apply for shares on the basis of this prospectus. On the basis of these applications, the Company Secretary prepares a list and lays it before the Board of Directors. The Board passes a resolution on that basis for allotment of shares. This resolution specifies the persons to whom shares are to be allotted and also the number of shares to be allotted to each of them. This resolution is a contract between the company on one hand and the applicants for shares on the other; and on that basis the applicants become the shareholders or members of the company. They are the real owners of the company. They provide the capital and they bear the risk of the business.

We shall now study the accounting entries for issue of shares. But before that we would study various terms used in connection with share capital.

2. TYPES OF SHARES :

The total capital of a Company is divided in smaller parts. Each of such parts is called a share. The amount invested by any person in the company respresents his share in the Share Capital of the company. Each share is allotted a distinctive number. Generally, the shares of a company are of three types : Ordinary or Equity Shares, Preference Shares and Deferred Shares.

	5,62,500		5,62,500

Illustration 14 :

P. K. & Co. Ltd. issued to the public 50,000 Equity Shares of Rs. 10 each at a premium of Rs. 2.50. The amount payable was as follows :

On Application	Rs. 2.00 per share
On Allotment	Rs. 4.50 per share (including premium)
On First Call	Rs. 4.00 per share
On Second & Final Call	Rs. 2.00 per share

Applications were received for 75,000 shares and pro-rata allotment was made to the applicants of 50,000 shares. Remaining applicants were written letter of regrets (i.e. refused). Money overpaid on applications was adjusted against the amount due on allotment.

Sejal to whom 100 shares were allotted failed to pay allotment money and on non-payment of first call money also her shares were forfeited after first call.

Daksha to whom 150 shares were allotted failed to pay last two calls and her shares were forfeited after second call.

100 forfeited shares of Sejal and 100 shares of Daksha were re-issued as fully paid at Rs. 8 per share to Nilam.

Pass necessary journal entries to record the above transactions in the books of P. K. & Co. Ltd.

[North Guj. Uni., S.Y., April, 1995; South Guj. Uni., S.Y., April, 1997; Sau. Uni., S.Y., April, 2004]

Solution :

Journal Entries in the books of P.K. & Co. Ltd.

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
(1)	Bank A/c	Dr.		1,50,000	
	To Share Applications A/c				1,50,000
	(Application money received on 75,000 shares at Rs. 2 per share)				
(2)	Share Applications A/c	Dr.		1,50,000	
	To Share Capital A/c				1,00,000
	To Share Allotment A/c				50,000
	(Application money on 50,000 shares transferred to Share Capital A/c and excess money on 25,000 shares transfd. to Share Allotment A/c)				
(3)	Share Allotment A/c	Dr.		2,25,000	
	To Share Capital A/c				1,00,000
	To Securities Premium A/c				1,25,000
	(Allotment money due on 50,000 shares at Rs. 2 per share and Premium of Rs. 2.50 per share)				
(4)	Bank A/c	Dr.		1,74,650	
	To Share Allotment A/c				1,74,650
	(Allotment money received on 49,900 shares)				
(5)	Share First Call A/c	Dr.		2,00,000	
	To Share Capital A/c				2,00,000
	(First call due on 50,000 shares at Rs. 4 per share)				
(6)	Bank A/c	Dr.		1,99,000	
	To Share First Call A/c				1,99,000
	(First Call money received on 49,750 shares)				
(7)	Share Capital A/c	Dr.		800	
	Securities Premium A/c	Dr.		250	
	To Forfeited Shares A/c				300
	To Share Allotment A/c				350
	To Share First Call A/c				400
	(Forfeiture of 100 shares held by Sejal on which allotment and first call money are unpaid and share premium not received debited to Securities Premium A/c)				
(8)	Share Second & Final Call A/c	Dr.		99,800	
	To Share Capital A/c				99,800
	(Second & Final Call due on 49,900 shares at Rs. 2 per share)				

(9)	Bank A/c Dr. To Share Second & Final Call A/c (Second & Final Call money received on 49,750 shares at Rs. 2 per share)		99,500	99,500
(10)	Share Capital A/c Dr. To Forfeited Shares A/c To Share First Call A/c To Share Second & Final Call A/c (Forfeiture of 150 shares held by Daksha on which first & final calls are unpaid)		1,500	600 600 300
(11)	Bank A/c Dr. Forfeited Shares A/c Dr. To Share Capital A/c (Re-issue of forfeited 100 shares of Sejal and 100 shares of Daksha at Rs. 8 per share as fully paid)		1,600 400	2,000
(12)	Forfeited Shares A/c Dr. To Capital Reserve A/c (Balance of Forfeited Shares A/c which are re-issued transferred to Capital Reserve A/c)		300	300

Notes : (1) The Company wants to issue 50,000 Equity shares for which the company has received application of 75,000 shares. So pro-rata shares are issued.

Rs. 1,00,000 (Rs. 2 on 50,000 shares) is credited to Share Capital A/c and excess money on 25,000 shares at Rs. 2, i.e. Rs. 50,000 is taken to Share Allotment Account.

(2) Calculation of amount received on allotment :

		Rs.
Amount called on allotment (50,000 shares × Rs. 4.50)		2,25,000
Less : Excess money on application taken to share allotment		50,000
Amount receivable on allotment		1,75,000
Less : Amount not received from Sejal		
Amount due from Sejal on allotment (100 shares at Rs. 4.50)	450	
Less : Excess money recd. on application (on 50 shares at Rs. 2)	100*	
Amount not paid by Sejal		350
∴ Amount received		1,74,650

* Sejal holds 100 shares and as pro-rata shares are issed, she must have applied for 150 ($100 \times \frac{75,000}{50,000}$) shares. Out of 150 shares applied, 100 shares are issued and excess application money on 50 shares transferred to Share Allotment Account.

Illustration 15 :

Bhavin Limited issued 3,00,000 Equity Shares of Rs. 10 each at a premium of Re. 1 payable as under :

On Application	Rs. 2	
On Allotment	Rs. 4	(Including premium)
On Call	Rs. 5	

Applications were received for 4,50,000 shares. Applicants of 4,00,000 shares were allotted shares on pro-rata basis and remaining applications were refused. The excess money received on application was adjusted to sum due on allotment.

Priti who was allotted 450 shares failed to pay allotment money and her shares were forfeited immediately after allotment.

Surekha who applied for 400 shares, failed to pay call money and her shares were forfeited.

Of the above forfeited shares, 80% shares were reissued as fully paid at Rs. 8 the whole of Priti's shares being included.

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

[Guj. Uni., S.Y., April, 1998]

Solution :

(1) Applicants for 4,00,000 shares are allotted pro-rota 3,00,000 shares i.e. in the ratio of 4 : 3 $\left(\frac{4,00,000}{3,00,000}\right)$. It means for every 4 shares applied, 3 shares are allotted.

(2) Prity to whom 450 shares were allotted should have applied for 600 (450 ×) shares.

(3) Surekha who has applied for 400 shares must have been allotted 300 $(400 \times \frac{3}{4})$ shares.

(4) Now we will calculate amount received on each call by means of the following chart :

Particulars		On Application	On Allotment	On Call
(1) Number of shares		3,00,000	3,00,000	2,99,550
(2) Amount called per share		Rs. 2	Rs. 4	Rs. 5
(3) Total Amount		6,00,000	12,00,000	14,97,750
(4) Amount received on application :				
4,50,000 × Rs. 2 =	9,00,000			
– Returned 50,000 × 2 =	1,00,000			
	8,00,000	6,00,000	2,00,000	–

(5) Amount due on shares	–	10,00,000	14,97,75[illegible]
(6) Amount not received on Allotment Priti : Share capital $= 7{,}00{,}000 \times \frac{450}{3{,}00{,}000} =$ 1,050 Premium $= 3{,}00{,}000 \times \frac{450}{3{,}00{,}000} =$ 450 1,500		– 1,500	
(7) Amount not received on First Call : Surekha 300 × 5 = 1,500			– 1,500
(8) Total amount received		9,98,500	14,96,250

Journal Entries in the books of Bhavin Limited

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Bank A/c Dr. To Equity Share Applications A/c (Application money received on 4,50,000 Equity shares at Rs. 2 per share)		9,00,000	9,00,000
(2)	Equity Share Applications A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Out of application money received on 4,50,000 shares, money on 50.000 shares refunded, excess application money on 1,00,000 shares transferred to share allotment and remaining amount transfered to Share Capital A/c as per Board's Resolution dated...)		9,00,000	6,00,000 2,00,000 1,00,000
(3)	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Allotment money due at Rs. 4 per share including premium of Re. 1 per share as per Board's Resolution dated....)		12,00,000	9,00,000 3,00,000
(4)	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received on shares)		9,98,500	9,98,500

(5)	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Forfeited Shares A/c (600 × 2) To Share Allotment A/c (450 shares of Priti forfeited for non-payment of money as per Board's Resolution dated...)		2,250 450	 1,200 1,500
(6)	Equity Share Call A/c Dr. To Equity Share Capital A/c (Call money due on 2,99,550 shares (3,00,000 shares – 450 shares forfeited) at Rs. 5 per Share as per Board's Resolution dated.....)		14,97,750	 14,97,750
(7)	Bank A/c Dr. To Equity Share Call A/c (Call money received on shares except 300 shares of Surekha)		14,96,250	 14,96,250
(8)	Equity Share Capital A/c (300 × 10) Dr. To Forfeited Shares A/c To Equity Share Call A/c (Forfeiture of 300 Shares of Surekha as per Board's Resolution dated.....)		3,000	 1,500 1,500
(9)	Bank A/c (600 × 8) Dr. Forfeited Shares A/c Dr. To Equity Share Capital A/c (Out of 750 forfeited shares, 600 shares reissued at Rs. 8 per share as per Board's Resolution dated......)		4,800 1,200	 6,000
(10)	Forfeited Shares A/c Dr. To Capital Reserve A/c (Balance of Forfeited Shares A/c transferred to Capital Reserve A/c.)		750	 750

Note : Amount transferred to Capital Reserve A/c is calculated as under :

		Rs.
(1)	Total Amt. Recd. on forfeited Shares of Priti	1,200
	Less : Discount on re-issue of forfeited shares (450 shares × Rs. 2)	900
	∴ To Capital Reserve A/c	300
(2)	Total Amt. recd. on forfeited shares of Surekha	1,500
	Less : Proportionate amount of 150 shares not re-issued	750
	Amount recd. on forfeited shares re-issued	750
	Less : Discount on reissue (150 shares × Rs. 2)	300
	∴ To Capital Reserve A/c	450
(3)	Total Amount of Capital Reserve (300 + 450)	750
(4)	Balance of Forfeited Shares A/c (150 × 5)	750

(10)	Bank A/c Dr. Forfeited Shares A/c Dr. To Share Capital A/c (Reissue of 1,800 forfeited shares at Rs. 8 per share as per Board's Resolution dated..)		14,400 3,600	 18,000
(11)	Forfeited Shares A/c Dr. To Capital Reserve A/c (Balance of Forfeited Shares Account transferred to Capital Reserve Account on reissue of all the forfeited shares)		3,320	 3,320

Note : A has not paid allotment money which includes premium. Hence, premium is not received on his shares which are forfeited. Thus, the proportionate amount of share premium would be debited to 'Securities Premium Account' on forfeiture of the shares. But B has already paid premium on his shares. Hence, Securities Premium A/c is not debited when his shares are forfeited.

Illustration 12 :

A Company Limited issued 3,00,000 Equity Shares of Rs. 10 each payable as under :

On application (31-1-2024)	Rs. 5 per share
On allotment (28-2-2024)	Rs. 3 per share (including Re. 0.50 premium)
On first and final call (30-6-2024)	Rs. 2.50 per share

Applications were received for 5,00,000 shares. It was decided to allot shares as follows (on 10-2-2024) :

(A) Applications for 70,000 shares were rejected.

(B) Full allotment was made to applicants of 40,000 shares.

(C) The balance was allotted pro-rata to the remaining applicants.

(D) The excess application money was to be credited to allotment money.

One applicant who was allotted shares pro-rata, failed to pay call money and his 200 shares were forfeited. These shares were reissued at Rs. 9 per share on 31st December, 2024. Make journal entries to record the above transactions.

[North Guj. Uni., F. Y., Dec. 2014]

Solution :

First of all, let us decide as to how many shares are issued to whom :

	Shares applied	Shares allotted
(1) Full allotment to applicants for	40,000	40,000
(2) No allotment to applicants for	70,000	-
(3) Pro-rata allotment to applicants for	3,90,000	2,60,000
Allotment to applicants for	5,00,000	3,00,000

Thus, pro-rata allotment of 2,60,000 shares are made to applicants for 3,90,000 shares, i.e. 2 shares are allotted to applicants for every 3 shares.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
1-1-2024	Bank A/c Dr. To Equity Share Applications A/c (Application money on 5,00,000 shares at Rs. 5 each received)		25,00,000	25,00,000
0-2-2024	Equity Share Applications A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Application money on 20,000 shares refunded, on 3,00,000 shares transferred to Share Capital and remaining amount transferred to Allotment A/c)		25,00,000	15,00,000 6,50,000 3,50,000
"	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Allotment money due on 3,00,000 shares at Rs. 3 per share including Re. 0.50 per share for premium)		9,00,000	7,50,000 1,50,000
28-2-2015	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		2,50,000	2,50,000
"	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (First and final call money due at Rs. 2.50 per share on 3,00,000 shares)		7,50,000	7,50,000
30-6-2024	Bank A/c Dr. To Equity Share First & Final Call A/c (First and final call money received on 2,99,800 shares)		7,49,500	7,49,500
"	Equity Share Capital A/c Dr. To Forfeited Shares A/c To Equity Share First & Final Call A/c (Forfeiture of 200 shares for non-payment of first and final call of Rs. 2.50 per share)		2,000	1,500 500
31-12-2024	Bank A/c Dr. Forfeited Shares A/c Dr. To Equity Share Capital A/c (Reissue of 200 Forfeited Shares at Rs. 9 per share)		1,800 200	2,000
"	Forfeited Shares A/c Dr. To Capital Reserve A/c (Balance of Forfeited Shares Account transferred to Capital Reserve A/c)		1,300	1,300

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Illustration 9 :

The following is the Share Forfeiture Account in the books of X Limited :

Dr. **Share Forfeiture Account** Cr.

Particulars	Rs.	Particulars	Rs.
To Share Capital A/c	3,000	By Share Capital A/c	28,000
To Capital Reserve A/c	18,000		
To Balance c/d	7,000		
	28,000		28,000

The face value of a share was Rs. 100 and final call of Rs. 30 per share was not paid and hence these shares were forfeited. Out of which some shares were re-issued.

Pass necessary entries for forfeiture and re-issue of shares in the books of the Company.

Solution :

(1) The face value of shares is Rs. 100 and Rs. 30 is not paid. Hence, the paid up amount per share must be Rs. 70 (Rs. 100 – Rs. 30).

(2) Rs. 28,000 stands credited to Forfeited Shares A/c and Rs. 70 is paid up per share. Hence the number of shares forfeited must be 400 (28,000 ÷ Rs. 70 per share).

The journal entry will be made as under :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Share Capital A/c (400 shares × Rs. 100) Dr. To Forfeited Shares A/c (400 shares × Rs. 70) To Final Call A/c (400 shares × Rs. 30) (Forfeiture of 400 shares for non-payment of final call of Rs. 30 per share as per Board's Resolution dated...)		40,000	 28,000 12,000

(3) Now, we have utilised Rs. 3,000 from Forfeited Shares A/c in respect of re-issue of forfeited shares and Rs. 18,000 is transferred to Capital Reserve A/c. Hence Rs. 21,000 is utilised. It means Rs. 70 per share forfeited has been disposed off. It means 21,000 ÷ 70 = 300 shares must have been re-issued and they have been issued at 10% discount, because total discount of Rs. 3,000 has been allowed, which is Rs. 3,000 ÷ 300 shares re-issued = Rs. 10.

The journal entry will be made as follows :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c (300 shares × Rs. 90 amount received per share) Dr. Forfeited Shares A/c (300 shares × Rs. 10 discount) Dr. To Share Capital A/c (300 shares × Rs. 100) (Re-issue of 300 shares out of 400 forfeited shares at Rs. 90 per share.)		27,000 3,000	 30,000

(4) On 400 shares forfeited, the total amount received which is forfeited is Rs. 28,000. Out of this 300 shares have been re-issued. The proportionate amount of Forfeited Shares A/c for these 300 shares is Rs. 21,000 (28,000 × 300 / 400). While re-issuing these shares a discount of Rs. 3,000 is allowed, which is transferred from Forfeited Shares A/c. Now Rs. 18,000 is left in Forfeited Shares A/c, which will be transferred to Capital Reserve A/c.

The entry for it will be passed as follows :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Forfeited Shares A/c Dr.		18,000	
	To Capital Reserve A/c			18,000
	(Balance of Forfeited Shares Account transferred to Capital Reserve A/c.)			

(5) The proportionate amount for 100 shares still not re-issued (400 total shares forfeited – 300 shares re-issued) will be Rs. 7,000 (100 shares × Rs. 70) or (Rs. 28,000 – Rs. 21,000). The amount will remain as a closing balance of Forfeited Shares A/c, which will be utilised in future when these 100 shares will be re-issued.

16. PRO-RATA ALLOTMENT OF SHARES

a premium. However, a company can not issue the shares at a discount, herwise it violates the Provisions of the Companies Act, 2013, regarding issue ' shares at discount.

llustration 23 :

Amar Products Limited issued 4,400, 10% Convertible Debentures of ;. 100 each at par on 1st April, 2019. As per the terms of issue, 10% Debentures ere converted into the equity shares at the end of 5 years.

Write journal entries in the books of the company :

(1) If equity share of Rs. 100 each issued at par against each debenture.

(2) If equity share of Rs. 100 each issued at a premium of 10% against each debenture.

Solution :

) If Equity Shares are Issued at Par :

Journal Entries in the Books of Amar Products Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
4-2019	Bank A/c (4,400 x Rs. 100) Dr. To Debenture Applications and Allotment A/c (Being the application money received on 4,400 debentures at Rs. 100 each.)		4,40,000	4,40,000
?	Debenture Applications and Allotment A/c Dr. To 10% Debentures A/c (Being the application money transferred to 10% Debentures A/c on the allotment of the debentures.)		4,40,000	4,40,000
-3-'24	10% Debentures A/c Dr. To Debentureholders A/c (Being the 4,400, 10% Debentures due for conversion into equity shares.)		4,40,000	4,40,000
"	Debentureholders A/c Dr. To Equity Share Capital A/c (Being the issue of 4,400 equity shares of Rs. 100 each at par for conversion of 4,400 debentures.)		4,40,000	4,40,000

	To Bank A/c			[illegible]

Illustration 21 :

Pass necessary journal entries for Issue of Debentures only in the following cases :

(1) Issued 5,000, 11% Debentures of Rs. 100 each at par, redeemable at the end of five years at par.

(2) Issued 5,000, 11% Debentures of Rs. 100 each at a premium of 10%, redeemable at the end of seven years at par.

(3) Issued 5,000, 11% Debentures of Rs. 100 each at a discount of 5%, redeemable at the end of six years at par.

(4) Issued 5,000, 11% Debentures of Rs. 100 each at par, redeemable at the end of ten years at a premium of 8%.

(5) Issued 5,000, 11% Debentures of Rs. 100 each at a premium of 10%, redeemable at the end of six years at a premium of 6%.

(6) Issued 5,000, 11% Debentures of Rs. 100 each at a discount of 5%, redeemable at the end of eight years at a premium of 5%.

Solution :

(1) Debentures Issued at Par and Redemption at Par :

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Bank A/c (5,000 x Rs. 100) Dr. To Debenture Applications and Allotment A/c		5,00,000	 5,00,000
(2)	Debenture Applications and Allotment A/c Dr. To 11% Debentures A/c		5,00,000	 5,00,000

Illustration 13 :

M Limited issued 3,000, 8% Debentures of Rs. 100 each on 1st April, 2023. According to the terms of issue, interest on debentures is payable half-yearly ending on 30th September and 31st March. The rate of Income tax deducted at source is 10%.

Pass the necessary journal entries related to the above transactions for the year ending on 31-3-2024.

Solution :

Half-yearly interest payable $= 3,00,000 \times 8\% \times \frac{6}{12}$

$= \text{Rs. } 12,000.$

Journal Entries in the Books of M Limited

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
1-4-'23	Bank A/c Dr. To Debenture Applications and Allotment A/c (Being the application money received for 3,000 debentures at Rs. 100 per debenture.)		3,00,000	3,00,000
?	Debenture Applications and Allotment A/c Dr. To 8% Debentures A/c (On allotment of debentures, application money transferred to Debentures A/c.)		3,00,000	3,00,000
30-9-'23	Interest on Debentures A/c Dr. To Debentureholders A/c (12,000 x 90%) To TDS Payable A/c (12,000 x 10%) (Being the entry for interest payable to debentureholders and income tax deducted at source.)		12,000	10,800 1,200
"	Debentureholders A/c Dr. To Bank A/c (Being interest paid to debentureholders.)		10,800	10,800
"	TDS Payable A/c Dr. To Bank A/c (Being TDS payable deposited with Income Tax Department.)		1,200	1,200
31-3-'24	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c (Being the entry for interest payable to debentureholders and income tax deducted at source.)		12,000	10,800 1,200

,,	Debentureholders A/c Dr. To Bank A/c (Being interest paid to debenture-holders.)		10,800	10,800
,,	TDS Payable A/c Dr. To Bank A/c (Being TDS payable deposited with Income Tax Department.)		1,200	1,200
,,	Profit & Loss A/c (12,000 + 12,000) Dr. To Interest on Debentures A/c (Being the Interest on Debentures A/c closed and transferred to Profit & Loss A/c at the end of the year.)		24,000	24,000

11. ISSUE OF DEBENTURES WITH VARIOUS TERMS OF

Illustration 10 :

A Ltd. purchased a running business of B Ltd. having assets worth Rs. 11,20,000 and liabilites of Rs. 3,20,000 for a purchase price of Rs. 10,00,000. For the payment of purchase price, it paid Rs. 2,00,000 by cheque and for the balance amount, it issued 12% Debentures of Rs. 100 each at 25% premium.

Journalise the above transactions in the books of A Ltd.

Solution :

Let us make necessary calculations :

(1) The amount of purchase price is given, hence goodwill will be found out as under :

	Rs.
Total Assets	11,20,000
Less : Liabilities	3,20,000
Net Assets	8,00,000

∴ Goodwill = Purchase Price − Net Assets

= 10,00,000 − 8,00,000 = Rs. 2,00,000

(2) Number of 12% Debentures issued to discharge purchase price :

	Rs.
Purchase price	10,00,000
Less : Payment by cheque	2,00,000
Balance	8,00,000

12% Debentures of Rs. 100 each are issued at 25% premium for the payment of Rs. 8,00,000.

$$\therefore \text{Number of Debentures} = \frac{\text{Balance of Purchase Price}}{\text{Issue Price of Debenture}}$$

$$= \frac{8,00,000}{125\ (100+25)} = 6,400 \text{ debentures.}$$

Journal Entries in the Books of A Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Assets A/c Dr.		11,20,000	
	Goodwill A/c Dr.		2,00,000	
	To Liabilities A/c			3,20,000
	To B Ltd. A/c			10,00,000
	(Being the purchase of the running business of B Ltd.)			
(2)	B Ltd. A/c Dr.		2,00,000	
	To Bank A/c			2,00,000
	(Being the issue of cheque to B Ltd. against the purchase price.)			
(3)	B Ltd. A/c Dr.		8,00,000	
	To 12% Debentures A/c (6,400 x 100)			6,40,000
	To Securities Premium A/c (6,400 x 25)			1,60,000
	(Being the issue of 6,400, 12% Debentures at 25% premium against the purchase price.)			

Note : A combined entry can be passed instead of passing two separate Entries No. 2 and 3 as given above.

Illustration 9 :

Suvidha Limited purchased a machine worth Rs. 1,98,000 from Sunrise Limited. Suvidha Ltd. paid the price of machine by issuing 11% Debentures.

Give journal entries in the books of Suvidha Limited, when :

(A) Debentures are issued at par.

(B) Debentures are issued at 10% discount.

(C) Debentures are issued at 10% premium.

Solution :

Journal Entries in the Books of Suvidha Ltd.

(A) When Debentures are issued at Par :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Machine A/c Dr. To Sunrise Ltd. A/c (Being the machine purchased from Sunrise Ltd.)		1,98,000	1,98,000
(2)	Sunrise Ltd. A/c Dr. To 11% Debentures A/c (Being the issue of 1,980, 11% Debentures of Rs. 100 each at par to discharge the purchase price) (Rs. 1,98,000 x Issue price Rs. 100 = 1,980 debentures.)		1,98,000	1,98,000

(B) When Debentures are issued at 10% Discount :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Machine A/c Dr. To Sunrise Ltd. A/c (Being the machine purchased from Sunrise Ltd.)		1,98,000	1,98,000
(2)	Sunrise Ltd. A/c Dr. Discount on Debentures A/c (2,200 x 10) Dr. To 11% Debentures A/c (Being the issue of 2,200, 11% Debentures of Rs. 100 each at 10% discount to discharge the purchase price) (Rs. 1,98,000 ÷ Issue price Rs. 90 = Rs. 2,200 debentures.)		1,98,000 22,000	2,20,000

(C) When Debentures are issued at 10% Premium :

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Machine A/c Dr.		1,98,000	
	To Sunrise Ltd. A/c			1,98,000
	(Being the machine purchased from Sunrise Ltd.)			
(2)	Sunrise Ltd. A/c Dr.		1,98,000	
	To 11% Debentures A/c (1,800 x 100)			1,80,000
	To Securities Premium A/c (1,800 x 10)			18,000
	(Being the issue of 1,800, 11% Debentures of Rs. 100 each at 10% premium to discharge the purchase price) (Rs. 1,98,000 ÷ Issue price Rs. 110 = 1,800 debentures.)			

Illustration 10 :

A Ltd. purchased a running business of B Ltd. having assets worth Rs. 11,20,000 and liabilites of Rs. 3,20,000 for a purchase price of Rs. 10,00,000. For the payment of purchase price, it paid Rs. 2,00,000 by cheque and for the balance amount, it issued 12% Debentures of Rs. 100 each at 25% premium.

Journalise the above transactions in the books of A Ltd.

Solution :

Let us make necessary calculations :

(1) The amount of purchase price is given, hence goodwill will be found out as under :

	Rs.
Total Assets	11,20,000
Less : Liabilities	3,20,000
Net Assets	8,00,000

∴ Goodwill = Purchase Price – Net Assets

= 10,00,000 – 8,00,000 = Rs. 2,00,000

(2) Number of 12% Debentures issued to discharge purchase price :

	Rs.
Purchase price	10,00,000
Less : Payment by cheque	2,00,000
Balance	8,00,000

12% Debentures of Rs. 100 each are issued at 25% premium for the payment of Rs. 8,00,000.

$$\therefore \text{Number of Debentures} = \frac{\text{Balance of Purchase Price}}{\text{Issue Price of Debenture}}$$

$$= \frac{8,00,000}{125\,(100+25)} = 6,400 \text{ debentures.}$$

Journal Entries in the Books of A Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
(1)	Assets A/c Dr.		11,20,000	
	Goodwill A/c Dr.		2,00,000	
	To Liabilities A/c			3,20,000
	To B Ltd. A/c			10,00,000
	(Being the purchase of the running business of B Ltd.)			
(2)	B Ltd. A/c Dr.		2,00,000	
	To Bank A/c			2,00,000
	(Being the issue of cheque to B Ltd. against the purchase price.)			
(3)	B Ltd. A/c Dr.		8,00,000	
	To 12% Debentures A/c (6,400 x 100)			6,40,000
	To Securities Premium A/c (6,400 x 25)			1,60,000
	(Being the issue of 6,400, 12% Debentures at 25% premium against the purchase price.)			

Note : A combined entry can be passed instead of passing two separate

4 FINAL ACCOUNTS OF COMPANIES [As per The Companies Act, 2013 : Schedule-III]

MAIN POINTS

[1] Introduction [2] Preparation of Final Accounts [3] Balance Sheet as per Companies Act, 2013 [4] Statement of Profit and Loss as per Companies Act, 2013 [5] Special Points [6] Illustrations ■ Exercise.

1. INTRODUCTION :

In the modern age, the major part of trade and industry is carried on by joint stock companies. In every country, in large companies billions of rupees are invested. But this money is raised by the company from public by issuing shares. Thus, the public has major interest in the joint stock companies. Hence, in every country, the government keeps control over the management of companies by passing Companies Act. The companies are compelled by laws to publish their annual accounts before the shareholders to show how they have managed peoples' money. According to Companies Act, it is made compulsory for all companies to publish their annual accounts. In India also, the forms of Balance Sheet & Profit and Loss Statement are given in the Schedule III to the Companies Act, 2013. All companies are required to prepare their Balance Sheet and Profit and Loss Statement in these forms.

2. PREPARATION OF FINAL ACCOUNTS :

Sections 128 to 138 of the Companies Act, 2013 deals with the Final Accounts. As per Section 128, every company shall keep books of account and other relevant books and papers at its registered office.

(1) Under Section 129, at every annual general meeting of a company the Board of Directors of the company shall lay before such meeting the financial statements for the financial year.

Financial Statements as per Section 2(40) of the Companies Act, 2013 include –

(i) A Balance Sheet as at the end of the financial year.

(ii) A Profit and Loss Statement, and

(iii) Cashflow Statement for the financial year.

The Revised Schedule-III prescribes only the vertical format for the presentation of Financial Statements. No company can use the Horizontal format for the presentation of Financial Statements.

6. ILLUSTRATIONS :

Illustration 1 :

The following balances are extracted from the Trial Balance of A Ltd. as on 31st March, 2019 :

Name of Accounts	Dr. (Rs.)	Cr. (Rs.)
Provision for Income tax (1-4-2018)	–	20,000
Advance payment of Income tax (1-4-2018)	15,000	–
Advance payment of Income tax (paid during current year)	20,000	–
Income tax deducted at source	1,500	2,500
Statement of Profit & Loss - Surplus (1-4-2018)	–	30,000

Assessment in respect of income-tax of previous year 2017-'18 was completed during the current year and income-tax liability of Rs. 22,000 has been determined. Current year's profit of the company was Rs. 50,000 and company pays income-tax at the rate of 50%.

From the above informations, prepare necessary ledger accounts and show their effects in the Final Accounts of the company.

Solution :

Provision for Taxation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Tax Payable A/c	22,000	By Balance b/d	20,000
		By P & L A/c (Deficit of P.Y.'s tax Provision)	2,000
To Balance c/f (short term provision) (?)	25,000	By P & L A/c (current year tax)	25,000
	47,000		47,000

Tax Payable Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Advance tax A/c	15,000	By Provision for taxation	22,000
To Balance c/f (other current liab.) (?)	7,000		
	22,000		22,000

Advance tax Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Balance b/d	15,000	By Tax Payable A/c	15,000
To Bank A/c (Adv. tax paid in current year)	15,000	By Balance c/f	20,000
	35,000		35,000

Profit & Loss Statement of A Ltd. for the Year ended 31-3-2018

Particulars	Note	Rs.
PBIT		50,000
Less : Current year's tax		(25,000)
Less : Deficit of P.Y.'s tax Provision		(2,000)
Profit after tax		23,000

Balance Sheet of A Ltd. as at 31-3-2019

Particulars	Note	Rs.
I. **Equity and Liabilities :**		
(1) **Shareholders' Funds :**		
(a) Reserves and Surplus	1	53,000
(2) **Current Liabilities :**		
(a) Other Current Liabilities	2	9,500
(b) Short Term Provisions : Provision for Taxation		25,000

II. Assets :		
(1) Current Assets :		
(a) Other Current Assets	3	21,000

Notes to Accounts :

Note 1 : Reserves and Surplus

Particulars	Rs.
P & L Account (Opening balance)	30,000
Add : Profit after tax of the current year	23,000
Total	53,000

Note 2 : Other Current Liabilties

Particulars	Rs.
Outstanding Income Tax Liabilities	7,000
Incometax deducted at source (Credit balance)	2,500
Total	9,500

Note 3 : Other Current Assets

Particulars	Rs.
Advance Payment of Income tax	20,000
Income tax deducted at source (Debit balance)	1,500
Total	21,500

Illustration 6 :

From the following balances of Mukti Ltd. as on 31-3-2016, prepare their Balance Sheet as per Schedule-III of the Companies Act, 2013 :

Particulars	Rs.
Loose tools	81,500
Machinery	9,00,000
Computer Software	41,625
11% Investment in Y. J. Ltd.	1,22,500
Advertisement Suspense Account	15,000
Stores and spare parts	50,100
Accrued interest on Investments	25,500
Cash in Bank	11,500
Office equipments	2,40,300
Debtors	95,000
Equity share capital	7,50,000
8% Pref. share capital	2,75,000
Mortgage Loan	1,55,000
General Reserve	2,07,500
Creditors	70,000
Bills Payable	14,250
Creditors of expenses	18,000
Cash-credit	37,500
Staff welfare fund	42,500
Provision for taxation	13,275

[South Guj. Uni., F.Y., Nov. 2016]

Solution :

Balance Sheet of Mukti Ltd.
as at 31st March, 2019

Particulars	Note	Rs.
I. Equity and Liabilities :		
(1) Shareholders' Funds :		
(a) Share Capital	1	10,25,000
(b) Reserves and Surplus :		
General Reserve		2,07,500

(2) Non-Current Liabilities :		
(a) Long Term Borrowings : Mortgage Loan		1,55,000
(b) Long Term Provisions : Staff Welfare Fund		42,500
(3) Current Liabilities :		
(a) Short Term Borrowings : Cash Credit		37,500
(b) Trade Payables	2	84,250
(c) Other Current Liabilities : Creditors of expenses		18,000
(d) Short Term Provisions : Provision for taxation		13,275
Total		15,83,025
Assets :		
(1) Non-Current Assets :		
(a) Fixed Assets :		
(i) Tangible Assets	3	11,40,300
(ii) Intangible Assets : Computer Software		41,625
(b) Non-Current Investments : 11% Investment in Y. J. Ltd.		1,22,500
(c) Other Non-Current Assets : Advertisement Suspense Account		15,000
(2) Current Assets :		
(a) Inventories	4	1,31,600
(b) Trade Receivables : Debtors		95,000
(c) Cash and Cash Equivalents : Bank balance		11,500
(d) Other Current Assets : Accrued interest on investments		25,500
Total		15,83,025

otes to Accounts :

ote 1 : Share Capital

Particulars	Rs.
sued Subscribed and Paid up :	
% Preference Share Capital	2,75,000
quity Share Capital	7,50,000
Total	10,25,000

Note 2 : Trade Payables

Particulars	Rs.
Creditors	70,000
Bills Payable	14,250
Total	84,250

Note 3 : Tangible Fixed Assets

Particulars	Rs.
Machinery	9,00,000
Office Equipments	2,40,300
Total	11,40,000

Note 4 : Inventories

Particulars	Rs.
Stores and Spare Parts	50,100
Loose Tools	81,500
Total	1,31,600

Illustration 12 :

From the information given below, prepare the Balance Sheet of Jyoti Ltd. as at 31st March, 2019 as per Schedule-III of the Companies Act, 2013 :

Particulars	Rs.
12% Debentures	4,00,000
Statement of Profit and Loss – Deficit (Debit balance)	4,00,000
Equity Share Capital (of Rs. 10 each)	10,00,000
Proposed Dividend	40,000
Cash on hand	20,000
Bank balance	76,000
15% Preference Share Capital (of Rs. 10 each)	8,00,000
Prepaid Expenses	1,00,000
Bank Overdraft	90,000
Interest accrued on Debentures of Prakash Ltd.	24,000
Building under construction	2,30,000
4,000, 12% Debentures of Prakash Ltd. of Rs. 100 each	4,00,000
Debenture Redemption Premium	40,000
Application Money Pending Allotment	80,000
Creditors	1,30,000
Bills Payables	20,000
Calls-in-Advance	10,000
Employers' earned leave payable on retirement	90,000
Goods-in-transit	10,000
Finished Goods	70,000
Stores	20,000
Securities Deposit for Telephone	10,000
Patents	1,00,000
Brands	1,20,000
Computer Software under Development	40,000

Bills Receivables	35,000
Debtors (including Rs. 45,000 outstanding for a period more than six months)	2,05,000
12% Debentures of Tejas Ltd. (20% Debentures are redeemable on 30-6-2019)	2,00,000
Plant and Machineries	2,40,000
Investment in Land and Building	4,00,000

Solution :

Jyoti Limited
Balance Sheet as at 31-3-2019

Particulars	Notes	Rs.
I Equity and Liabilities :		
(1) Shareholders' Funds :		
(a) Share Capital	1	18,00,000
(b) Reserves and Surplus : Statement of Profit & Loss (Debit balance)		(4,00,000)
(2) Share Application Money Pending Allotment	80,000	
(3) Non-Current Liabilities :		
(a) Long Term Borrowings : 12% Debentures		4,00,000
(b) Other Long Term Liabilities : Debenture Redemption Premium		40,000
(c) Long Term Provisions : Employees' earned leave payable on retirement		90,000
(4) Currrent Liabilities :		
(a) Trade Payables	2	1,50,000
(b) Other Current Liabilities	3	1,00,000
(c) Short Term Provisions : Proposed Dividend		40,000
Total		23,00,000
II Assets :		
(1) Non-Current Assests :		
(a) Fixed Assets :		
(i) Tangible Assets : Plant & Machinery		2,40,000
(ii) Intangible Assets	4	2,20,000
(iii) Capital Work-in-Progress : Building under contruction		2,30,000
(iv) Intangible Assets under development : Computer Software under development		40,000
(b) Non-Current Investments	5	9,60,000

(c) Long Term Loans and Advances : Securities Deposit for Telephone		10,000
(2) Current Assets :		
(a) Current Investments : 12% Debentures of Tejas Ltd.		40,000
(b) Inventories	6	1,00,000
(c) Trade Receivables	7	2,40,000
(d) Cash and Cash Equivalents	8	96,000
(e) Other Current Assets	9	1,24,000
Total		23,00,000

Notes to Accounts :

Note 1 : Share Capital

Particulars	Rs.
1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000
80,000, 15% Preference Shares of Rs. 10 each fully paid up	8,00,000
Total	18,00,000

Note 2 : Trade Payables

Particulars	Rs.
Creditors	1,30,000
Bills Payables	20,000
Total	1,50,000

Note 3 : Other Current Liabilities

Particulars	Rs.
Bank Overdraft	90,000
Calls-in-Advance	10,000
Total	1,00,000

Note 4 : Intangible Assets

Particulars	Rs.
Patents	1,00,000
Brands	1,20,000
Total	2,20,000

Note 5 : Non-Currernt Investments

Particulars		Rs.
4,000, 12% Debentures of Prakash Ltd. of Rs. 100 each		4,00,000
12% Debentures of Tejas Ltd.	2,00,000	
* *Less* : 20% Repayable by Tejas Ltd. as at 30th June, 2019 (2,00,000 × 20%)	40,000	1,60,000
Investment in Land and Building		4,00,000
	Total	9,60,000

* Investment in Debentures of Tejas Ltd. Rs. 40,000 will be shown as "Current Investment" in the balance sheet as same is repayable by Tejas Ltd. within 12 months from the date of balance sheet.

Note 6 : Inventories

Particulars	Rs.
Closing Stock of Finished Goods	70,000
Goods-in-transit	10,000
Stores	20,000
Total	1,00,000

Note 7 : Trade Receivables

Particulars		Rs.
Debtors : Outstanding for a period more than six months	45,000	
Others (2,05,000 – 45,000)	1,60,000	2,05,000
Bills Receivables		35,000
	Total	2,40,000

Note 8 : Cash and Cash Equivalents

Particulars	Rs.
Cash on hand	20,000
Bank balance	76,000
Total	96,000

Note : 9 Other Current Assets

Particulars	Rs.
Prepaid Expenses	1,00,000
Interest accrued on Debentures of Prakash Ltd.	24,000
Total	1,24,000

Note 3 : Finance Cost

Particulars	Rs.
Interest Expenses	30,000
Brokerage on Long Term Borrowing	14,000
Total	44,000

Illustration 15 :

From the following informations, prepare the relevant Notes to Accounts :

		Rs.
(1)	Purchases of Raw materials	9,70,000
(2)	Opening Stock of Raw materials	60,000
(3)	Closing Stock of Finished Goods	4,00,000
(4)	Expenses of Purchase of Raw materials	10,000
(5)	Opening Stock of Finished Goods	1,75,000
(6)	Closing Stock of Raw materials	50,000
(7)	Purchase Returns	25,000

Solution :

Note 1 : Consumption of Raw materials

Particulars		Rs.
Opening Stock of Raw materials		60,000
+ Purchases of Raw materials		9,70,000
+ Expenses of Purchases of Raw materials		10,000
		10,40,000
– Purchase Returns	25,000	
– Closing Stock of Raw Materials	50,000	75,000
∴ Consumption of Raw materials		9,65,000

Note 2 : Changes in Value of Stock

Particulars	Rs.
Opening Stock of Finished Goods	1,75,000
– Closing Stock of Finished Goods	4,00,000
Change	(2,25,000)

Illustration 16 :

From the following informations, prepare Profit and Loss Statement as per the Part-II of Schedule-III of the Companies Act, 2013 :

		Rs.
(1)	Revenue from Operations	26,00,000
(2)	Employee Benefit Expenses	4,50,000

(3)	Depreciation and Amortisation of Assets	1,50,000
(4)	Consumption of Raw materials	10,00,000
(5)	Other Incomes	1,40,000
(6)	Finance Costs	60,000
(7)	Other Expenses	1,85,000
(8)	Changes in value of stock	(1,55,000)
(9)	Tax Rate is 50%.	

Solution :

Profit and Loss Statement for the year ended...

	Particulars	Rs.
I.	Revenue from Operations	26,00,000
II.	Other Incomes	1,40,000
III.	Total Revenue (I + II)	27,40,000
IV.	**Expenses :**	
	(a) Consumption of Raw materials	10,00,000
	(b) Changes in value of stock	(1,55,000)
	(c) Employee Benefit Expenses	4,50,000
	(d) Finance Costs	60,000
	(e) Depreciation and Amortisation of Assets	1,50,000
	(f) Other Expenses	1,85,000
	Total Expenses	16,90,000
V.	Profit before tax (III – IV)	10,50,000
VI.	*Less :* Provision for tax (at 50% of profit)	5,25,000
	∴ Profit aftet tax	5,25,000

Illustration 17 :

From the following informations, prepare relevant Notes to Accounts :

		Rs.
(1)	Provision for Taxation	2,40,000
(2)	Bank Overdraft	15,000
(3)	Proposed Equity Dividend	1,00,000
(4)	Sundry Creditors	50,000
(5)	Proposed Pref. Dividend	60,000
(6)	Outstanding Expenses	7,000
(7)	Bills Payables	20,000
(8)	Corporate Dividend Tax	32,000
(9)	Unpaid Dividend	8,000
(10)	Outstanding Interest on Borrowings	20,000

Solution :

Note 1 : Trade Payables

Particulars	Rs.
Sundry Creditors	50,000
Bills Payables	20,000
Total	70,000

Note 2 : Other Current Liabilities

Particulars	Rs.
Bank Overdraft	15,000
Outstanding Expenses	7,000
Unpaid Dividend	8,000
Outstanding Interest on Borrowings	20,000
Total	50,000

Note 3 : Short Term Provisions

Particulars	Rs.
Proposed Equity Dividend	1,00,000
Proposed Pref. Dividend	60,000
Corporate Dividend Tax	32,000
Provision for Taxation	2,40,000
Total	4,32,000

6. You are required to prepare financial statements from the following trial balance of Mehul Company Limited for the year ended 31st March, 2019 :

Particulars	Rs.	Particulars	Rs.
Stock	68,000	Equity shares Capital	
Furniture	20,000	(Shares of Rs. 10 each)	2,50,000
Discount	4,000	Debentures	50,000
Loan to Directors		Bank Loans	64,500
(Repayable as at 30-6-'19)	8,000	Bills Payable	12,500
Advertisement	2,000	Creditors	15,600
Bad debts	3,500	Sales	4,26,800
Commission	12,000	Rent received	4,600
Purchases	2,31,900	Transfer fees	1,000
Plant and Machinery	86,000	Profit & Loss Statement	
Bank Balance	4,500	- Surplus (1-4-'18)	13,900
Cash	800	Depreciation Provision	
Interest on bank Loan	11,600	of Machinery	14,600
Preliminary expenses	1,000		
Fixtures	30,000		
Rentals	92,500		
Consumables	8,400		
Freehold Land	1,54,600		
Tools and Equipments	24,500		
Goodwill	26,500		
Debtors	28,700		
Bills receivables	15,300		
Dealer's Remuneration	2,100		
Transit insurance	3,000		
Trade expenses	7,200		
Freight	5,400		
Debentures interest	2,000		
	8,53,500		8,53,500

Additional Informations :

Closing Stock as on 31st March, 2019 Rs. 82,300.

[**Ans. :** Share Capital Rs. 2,50,000, Reserve and Surplus Rs. 82,400, Long Term Borrowings Rs. 1,14,500, Trade Payables Rs. 28,100, Tangible Assets Rs. 2,76,000, Cash and Cash Equivalents Rs. 5,300, Short term Loans and Advances Rs. 8,000, Other Incomes Rs. 5,600, Other Expenses Rs. 1,31,700, Finance Cost Rs. 13,600, Profit Rs. 69,500, Total of Balance Sheet Rs. 4,75,000.]