Company Account - Accounting for Share Capital

Synopsis:

- ✓ "Funds generated through issue of shares is known as share capital". The capital of the company is divided into shares and for this reason it is called share capital.
- ✓ The various types of share capital can be Authorized Capital, Subscribed Capital, Called up capital, Paid up capital and calls in arrears.
  Authorized capital is the maximum amount of capital that company can issue as mentioned in the capital clause of the memorandum of association of the company. This is also called registered or nominal capital.
  Issued capital is that part of authorized capital which has been offered to public for subscription.
  Subscribed capital is that part of issued capital that has been actually taken up by the public for subscription.
  Called up capital is that part of subscribed capital which the shareholder has been called upon to pay.
  Paid up capital is that part of called up capital which the shareholder has actually paid.
  Calls in Arrear are that part of called up amount which has not been paid by the shareholder.

- ✓ Presentation of share capital in company's balance sheet: The Share capital of the company is presented under the heading Share Capital on the liabilities side of the Balance Sheet of the company starting with Authorised Capital, the Issued Capital, Subscribed Capital, Called up capital less calls in arrears.
- ✓ Private placement of shares implies issuing and allotting the shares to a selected group of persons. While private company has to issue the shares privately only, the public company can also issue the shares privately subject to certain formalities. The public company in such a case should pass a special resolution in the meeting of the shareholders permitting the issue of shares privately and permission of central government is needed stating that such placement is beneficial to the company and also the company must file a statement in lieu of prospectus. The lock in period for issued shares in such a case is 3 years.
- ✓ Employees Stock Option Plan is an option given to employees by the company to purchase or subscribe for the equity shares at a future date at prefixed price is known as Employees stock option plan (ESOP). It is a tool to hold high caliber employees and give them a sense of belongingness. This scheme grants a right to employee to buy the securities of the company and it is up to the employee to exercise the option or not. Once allotted the employee is to retain the shares for a period of at least one year. This period is called lock in period.
- ✓ For issuing the shares in cash in lump sum first we pass journal entry for receiving the money in bank by debiting bank account and crediting share application account. Then we pass the journal

entry for transferring the application money to share capital account by debiting share application account and crediting share capital account.

- ✓ For issuing the shares for cash in instalments:

  We pass journal entries for receiving application money by debiting bank and crediting share application account. This is followed by entry for transferring the same to capital by debiting share allotment account and crediting share capital account for the number of shares that have been allotted in cases when the issue is fully subscribed or undersubscribed.

  When the issue is oversubscribed the directors will either cancel the excess applications, in that case we pass the journal entry for refund by debiting share application account and crediting bank. Otherwise when directors issue the shares proportionately we pass the journal entry for adjusting the excess amount to allotment and calls in advance account.

  Then we pass the entry for making the allotment money due by debiting share allotment account and crediting share capital account. This is followed by the allotment money receiving journal entry.

  Similarly we pass entry for making the 1^{st} call money due by debiting share 1^{st} call account and crediting share capital account. This followed by entry for receiving the 1^{st} call money by debiting bank and crediting share 1^{st} call account for the money actually received.

- ✓ The company can issue the shares at premium which is the excess of the price over the face value. This premium is recorded by crediting 'securities premium' account by default when allotment money is made due. If the application money includes the premium part it is credited to securities premium account in transfer entry. Similarly when premium is included in share 1^{st} call then we credit securities premium account while making the 1^{st} call money due.
- ✓ It is noticeable that securities premium account can be used for purposes specified in section 78 of the companies act and these are:

- To issue fully paid bonus shares to members.
- To write off discount/ expenses on issue of shares or debentures.
- To write off preliminary expenses of the company.
- To write off discount on issue of shares or debentures.
- To provide for premium payable on redemption of redeemable preference shares or debentures.
- As per section 77A of the companies act securities premium can be used by the company in the scheme of buy back of its shares or other securities.

a. One year since the company was issued certificate of commencement of business must have passed.
b. Shares of that class must have been issued.
c. The shares must be issued within certificate of commencement of business must have passed.
d. Shares of that class must have been issued.
e. The shares must be issued within 2 months of the sanction is given by the government.

- ✓ The company can also issue the shares for consideration other than cash. In such a case we debit the assets and credit the vendors account for agreed value of the asset. In some cases we buy a running business taking over liabilities along with assets for specified purchase consideration. In this case we debit the assets taken over at agreed value and credit the liabilities taken over and vendors for purchase consideration. In case the purchase consideration is exceeding the net worth (A-L) we debit goodwill account. If net worth taken over exceeds purchase consideration we credit capital reserves.

  The payment of purchase consideration can be partly in cash or by cheque or accepting a bill of exchange and for these we debit vendors and credit cash or bank or bills payable respectively.

  Remaining amount is cleared by issuing the shares at par or premium or discount. We debit the vendors for the remaining amount in all the three cases and credit share capital with number of shares and face value of each share in all the three cases. Discount on issue of shares account for discount amount or we credit securities premium account for premium amount as the case may be.

- ✓ When a shareholder defaults in paying the allotment or call amount it becomes a case of calls in arrears. According to Table A of companies act interest @ 5% is due from defaulter for late payment. Directors also have choice to cancel such shares and forfeit the amount received from the shareholders.
- ✓ Journal entry for forfeiture of shares which were issued at par is share capital debit with the called up amount on number of shares forfeited, crediting share forfeited account for money received and credit various calls account which have been unpaid.
- ✓ Forfeiture entry when the shares were originally issued at premium, we first check if the premium money was received or not. In case the premium money is received we ignore the premium and

pass the entry on same basis as in case of par. But if the premium money is not received then we reverse it by debiting securities premium account in our forfeiture entry.

- ✓ Reissue of forfeited shares in case originally issued at par or premium is bank debit with number reissued multiplied with price, share forfeited account debit for discount if any allowed at the time of reissue and we credit share capital account with numbers reissued multiplied with paid up value per share..
- ✓ Transfer to capital reserve is necessary for unutilized balance in share forfeited account by debiting share forfeited account and crediting capital reserve. The amount of this capital reserve will be excess of the amount that was forfeited on shares that have been reissued over debit to share forfeited account in reissue entry.
- ✓ Calls in advance carry an interest at the rate of 12% as per Table A of the companies act.

One Mark Questions:

1. Define share capital.
2. What is nominal capital?
3. Define Subscribed Capital.
4. What is issued capital?
5. What is called up capital?
6. What are calls in arrear?
7. What is paid up capital?
8. How is authorized capital different from issued capital?
9. What is reserve capital?
10. How reserve capital is different from capital reserve.
11. Distinguish between equity shares and preference shares on any two basis.
12. What alternatives are available to directors to deal with oversubscription of shares?
13. What rate of interest of interest company can charge on calls in arrear as per table A of the companies act?
14. What is a call in advance?

15. What rate of Interest Company should allow on calls in advance as per table A of Companies Act?

16. What is forfeiture of shares?

17. Can forfeited shares be issued at discount?

18. How is the balance left in share forfeited account treated after such shares have been reissued?

19. What is private placement of shares?

20. What is preferential allotment?

21. What is sweat equity shares?

Three Marks Questions:

22. What are the purposes for which 'Securities Premium' can be used?

23. Briefly explain Employees Stock Option Plan?

24. A limited company has been in corporate with an authorized capital of Rs.10,00,000 divided into 1,00,000 shares of Rs 10 each. It offended 90,000 shares for subscription by the public and out of these 85,000 shares were subscribed for. The director called for an amount of Rs.6 per share and received the entire amount except a call for Rs.2 per share on 500 share. Calculate the amount of different categories of share capital.

25. 20,000 shares of Rs. 10 each were issued for Public Subscription at a Premium of 10%. Full amount was payable on application. Applications were received for 30,000 shares and the board decided to allot the shares on pro-rata basis. Pass Journal Entries.

26. X Ltd forfeited 200 shares of Rs.10 each, Rs.6 called up, issued at a discount of 10% to Mahesh on which he paid Rs.4 per share. Out of these 120 shares were reissued at Rs.6 per share to Suresh, Rs.8 paid up. Pass necessary journal entries.

27. Y Ltd forfeited 2000 shares of Rs.20 each issued at premium of Rs.5 per share held by R for non-payment of final call of Rs.6 per share. Out of these, 200 shares were reissued to T at a discount of Rs. 4 per share. Pass necessary journal entries.

28. Anmol Ltd. Issued shares of Rs.10 each at a premium of Rs.2 per share payable at application Rs.5 and on allotment Rs.7 per share including premium. Heera who was allotted 200 shares failed to pay allotment money and his shares were forfeited by the company. Later 150 of these shares were reissued at Rs.8 per share as fully paid up. Record the transactions relating to forfeiture and re-issue of shares.

29. X Ltd purchased land costing Rs.950000 from Y. Rs.50000 was paid through bank and the balance by issuing 9% Debentures of Rs.100 each at a discount of 10%. Pass necessary journal entries.

30. PK Ltd invited applications for the issue of 10000 shares of Rs.10 each. Applications were received for 15000 shares. Give three alternative methods for allocating these shares.

31. Vee Ltd with paid up share capital of Rs.6000000 has a balance of Rs.1500000 in securities premium account. The company management does not want to carry over this balance. You are required to suggest the method for utilizing this premium money that would achieve the objective of the management and maximize the return to shareholders.

32. 40000 shares of Rs.20 each were issued for public subscription at a premium of 10%. Full amount was payable on application. Applications were received for 60000 shares and the board decided to allot the shares on a pro-rata basis. Pass journal entries

33. Eee ltd. forfeited 200 shares of Rs.10 (Re 8 called up) on which the holder had paid application and allotment money of Rs.5 per share. Out of which 50 shares were re-issued to F Ltd. as fully paid for Rs.8 per share. Journalize.

34. Aptech Ltd. Forfeited 300 shares of Rs.10 each, on which first call of Rs.3 per share was not received, the second and final call of Rs.2 per share has not yet been called. Out of these 75 shares were reissued to G as Rs.8 paid up for each share. Journalize.

35. The directors of M Ltd. resolved that 2000 equity shares of Rs.10 each on which Rs.7.50 was paid be forfeited for nonpayment of final call of Rs.2.50. Out of these 1800 shares were reissued as fully paid for Rs.6 per share. Journalize.

36. Y Ltd. Forfeited 100 shares of Rs 100 each issued at 20% premium for nonpayment of first call of Rs30 per share & second call of Rs.20 per share. Out of these 40 shares were reissued as fully paid up for Rs90 per share. Journalize.

37. Saba Ltd. issued 20,000 shares of Rs.10 each for Public subscription at a premium of 10%. Full amount was payable on application. Applications were received on 30,000 shares and the Board decided to allot the shares on a pro rata basis. Pass journal entries.

38. Raja Ltd. forfeited 400 shares of Rs. 5 each (Rs.20 called up) held by Asha, for nonpayment of allotment money of Rs. 10 per share (including Rs.5 per share premium) and the first call of Rs.6 per share. Out of these, 300 shares were reissued to X as Rs.20 called up for Rs.16 per share. Give journal entries for forfeiture and reissue of shares.

39. Santa Ltd. Forfeited 800 equity shares of Rs.100 each for the non-payment of 1st call of Rs.30 per share. The final call of Rs.20 per share was not yet made. Out of the forfeited shares 400 were re-issued at the rate of Rs.105 per share fully paid up. Pass necessary journal entries in the books of Santa Ltd. For the Above transactions.

40. Teak Ltd issued 100000 shares of Rs.20 each, payable as follows: Rs.2 on application payable on 1st March 2006; Rs.3 on allotment payable on 1st May, 2006; Rs.2 on first call payable on 1st August, 2006 and Rs.3 on second and final call payable on 1st December, 2006. All these shares

were subscribed for and amounts duly received. Amrita, who had 8000 shares, paid the amount of both the calls along with allotment. Stuti, who had 4000 shares, paid the amount of second and final call with first call. Calculate the amount of interest on calls –in-advance payable to Amrita and Stuti. Company adopts Table-A.

Four/ Six Marks Questions:

41. S T L Global Ltd. was formed with a nominal Share Capital of Rs.40,00,000 divided into 4,00,000 shares of Rs.10 each. The Company offered 1,30,000 shares to the public payable Rs.3 per share on Application, Rs.3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except on 2,000 shares held by. Y. First and Final Call was not made by the Company.

    How would you show the relevant items in the Balance Sheet of STL Global Ltd.?

42. On 1st April, 2012, Janta Ltd. was formed with an authorized capital of ` 50,00,000 divided into 1,00,000 equity shares of `50 each. The company issued prospectus inviting application for 90,000 Shares. The issue price was payable as under:

    On Applicant :`15
    On Allotment :` 20
    On call :Balance amount

    The issue was fully subscribed and the company allotted shares to all the applicants. The company did not make the call during the year.
    Show the following:
    Share capital in the Balance sheet of the company as per revised schedule III, Part-I of the companies Act, 2013. Also prepare' Notes to Accounts for the same.

43. Vaibhav Ltd. issued 1, 00,000 shares of `10 each at per. The whole amount was payable with application. Pass the necessary journal entries in the books of company.

44. Antriksh Ltd purchased Equipments from Bharat Traders for Rs.99000. The purchase consideration was agreed to be paid in terms of equity shares of Antrikhs Ltd. You are required to pass necessary journal entries in the following cases:

(a) Shares issued at par value of Rs.10.

(b) Shares issued at premium of 10%

45. Exim Ltd took over from Smile & Co. assets of Rs.660000 and liabilities of Rs.80000 payable 10% in cash and the balance by issue of fully paid equity shares of Rs.10 each. Show the necessary journal entries in the books of Exim Ltd assuming that:

(a) Such shares were issued at par

(b) Such shares were issued at premium of 20%

46. Space Ltd. Forfeited 800 shares of Rs.50 each (Rs.40 called up) held by Heena, for non-payment of allotment money of Rs.20 per share (including Rs.10 share premium) and first call of Rs.12 per share. Out of these, 300 shares were reissued to Jai as Rs.40 paid up for Rs.32 per share. Give journal entries for forfeiture and reissue of shares.

Value based question.

47. (a) What is the effect of rejecting the shares to the applicants of shares especially if They are women and have applied for less number of shares?
(b)What is the effect of overcapitalization of resources by a company on the Shareholders, company, consumers and the society as a whole?

Eight Marks Questions:

48. King Ltd invited applications for 20000 shares of Rs.100 each at a premium of Rs.20 per share. The amount was payable as follows:

On application Rs.30 and allotment Rs.50 per share. Balance including premium on first and final call.

Applications for 35000 shares were received. Applications for 10000 shares were rejected and pro-rata allotment was made to the remaining applicants. First and Final call was made and duly received except on 400 shares allotted to Namit.

Journalise the above transaction

49. Vikram Ltd. Issued 20,000 Equity shares of ` 10 each at a premium of Rs.3 payable as follows:
On Application ` 4
On Allotment ` 5 (including Securities Premium Reserve

On First Call ` 2
On Final Call ` 2
All shares were duly subscribed and all money duly received. Pass necessary Journal Entries.

50. Ajay Co. Ltd. Purchased a machine from Vikram Co. for ` 64,000. It was decided to pay ` 10,000 in cash and balance paid by issue of shares of ` 10 each, Pass journal entries if shares are

Issued at par
Issued at premium of 20%

51. Rohini Ltd. grants options to its 500 employees to subscribe 30 shares each of ` 10 each within six months from the end of vesting period of 3 years. The market value of each share is ` 80 and price offered to employees is ` 65.

Pass the journal entries for the above assuming that all the employees exercised their options.

52. A company issued 15,000 fully paid up equity shares of ` 100 each for the purchases of the following assets and liabilities from Gupta Bros.

Plant - ` 3,50,000; Stock ` 4,50,000;
Land and Building ` 6,00,000; Sundry Creditors ` 1,00,000

Pass necessary Journal entries.

53. A company purchased a running business from Mahesh for a sum of `1,50,000 payable as `, 1,20,000 in fully paid equity shares of ` 10 each and balance in cash. The assets and liabilities consisted of the following

Plant and Machinery `40,000; Stock `50,000; Building `40,000; Cash `20,000
Sundry debtors `30,000; Sundry creditors `20,000
Pass necessary Journal entries.

54. Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.

(i)Rajan Ltd. purchased machinery of ` 7,20,000 from Kundan Ltd. The payment was made to Kundan Ltd. by issue of equity shares of `100 each at 20% premium.
(ii) RajanLtd. purchased a running business from Vikas Ltd. for a sum of `2,50,000 payable as `2,20,000 in fully paid equity shares of `10 each and balance by a bank draft. The assets and liabilities consisted of the following:

Plant & Machinery `90,000; Buildings ` 90,000; Sundry Debtors `30,000; Stock `50,000; Cash ` 20,000;
Sundry Creditors ` 20,000

55. A Ltd. Forfeited 100 shares of ` 100 each issued at a premium of 50% to be paid at time allotment on which first call of ` 30 per equity share was not received, final call of ` 20 is yet to be made. These shares were reissued at ` 70 per share at ` 80 paid up. Pass necessary journal entries.

56. AB Ltd. invited applications for 1,00,000 Equity Shares ` 10 each payable as ` 2 application, ` 3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at ` 8 per share as fully paid. Pass necessary journal entries in the books of company.

57. AB Ltd. invited applications for 1,00,000 Equity Shares ` 10 each payable as ` 2 application, ` 3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at ` 8 per share as fully paid. Pass necessary journal entries in the books of company.

58 AB Ltd. invites application for 75,000 equities of ` 100 each at premium of ` 30 per share. The amount was payable as follows

On Application and allotment – ` 85 per share (including premium), On First and final call - The balance amount.

Application for 1,27,500 shares were received. Applications for 27,500 shares were rejected and shares were allotted on pro-rata basis to remaining applicants. Excess money received on application and allotment was adjusted towards sum due on first and final call. The calls were made. A shareholder who applied for 1,000 shares, failed to pay the first and Final call money. His shares were forfeited. All the forfeited shares were reissued at `150 per share fully paid up.

Pass necessary journal entries for the above transactions in the books of AB Ltd.

59. Fill in the missing figure in the following journal entries.

Date	Particulars		LF.	Debit (`)	Credit (`)
	Building A/c	Dr.		8,00,000	
	Bills Receivable A/c	Dr		2,00,000	
	To Bills Payable A/c				1,00,000
	To Sundry creditors A/c				3,00,000
	To Anannya Ltd.				5,00,000
	To Capital Reserve A/c (Being Assets and liabilities acquired)				------------
	Anannya Ltd.	Dr.		--------	
	To Bank A/c				
	(Being Part Payment mode)				
	Anannya Ltd.	Dr.		4,40,000	
	To Equity Share Capital A/c				------------
	To Securities Premium Reserve A/c (Being Equity Share of `10 each issued at issued at				------------

	10% premium)			
	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 900 shares were re-issued @ ` 90 per share, 75 paid up)		--------	 67,500 --------
	Share Forfeited A/c Dr. To Capital Reserve A/c (Being the profit on reissue of shares transferred)		---------	 ---------

60. Rama Ltd. issued 40,000 shares of ` 10 each at a premium of ` 2.50 per share. The amount was payable as follows:

On Application -` 2 per share

On Allotment -` 4.50 per share

And on First and Final Call -` 6 per share

Owning to the heavy subscription the allotment was made on pro-rate basis as follows:

Applicants for 20,000 shares were allotted 10,000 shares.
Applicants for 56,000 shares were allotted 14,000 shares.
Applicants for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilized on allotment and the surplus, if any, would be refunded.

The directors decided to forfeit the shares of one shareholder Shyam, to whom, 1000 shares were allotted, who belongs to category (i), failed to pay allotment money. Shares were forfeited after final call.

61. Ajman Ltd invited applications for issuing 40000 shares of Rs.20 each at a premium of Rs.8 per share. The amount was payable as follows:

On application – Rs.10 per share On allotment – Rs.18 per share (including Premium)

Applications were received for issuing 70,000 shares.

The allotment was made on the following basis:

To applicants for 40000 shares allotted 30000 shares

To applicants for 30000 shares allotted 10000 shares

Money overpaid on application was utilized towards sum due on allotment.

Sonam, who had applied for 600 shares failed to pay her dues and her shares were forfeited. Pass journal entries in the books of Ajman Ltd to record the above transactions.

62. Moon Ltd issued Rs.500000 new capital divided into Rs.10 shares at a premium of Rs.2 per share payable as under:

On application Re 1 per share

On allotment Rs.4 per share (including premium of Re.1 per share)

On first and final call balance

Over payments on application were to be applied towards sums due on allotment and first and final call. Where no allotment was made, money was to be refunded in full.

The issue was oversubscribed to the extent of 15000 shares. Applicants for 12000 shares were allotted only 2000 shares and applicants for 5000 shares were sent letter of regret and application money was returned to them.

All the money was duly received.

Give journal entries to record the above transaction (including cash transactions) in the books of the company.

63. Yash Raj Ltd invited applications for issuing 30000 shares of Rs.20 each at par. The amount was payable a follows:

On application	Rs.4 per share
On allotment	Rs.6 per share
On first and final call	Rs.10 per share

Applications were received for 46000 shares. Allotment was made on following basis:

To applicants for 20000 shares – full

To applicants for 25000 shares – 40%

To applicants for 1000 shares – Nil

Rs.54000 was realized on account of allotment (excluding the amount carried from application money) and Rs.125000 on account of call. The directors decided to forfeit shares of those applicants to whom full allotment was made and on which allotment money was overdue.

Pass journal entries in the books of Yash Raj Ltd to record the above transactions.

What values has been affected by the rejection of application?

64. X Ltd issued a prospectus inviting application for 2000 shares of Rs 10 each at a premium of Rs 2 per shares payable as follows;
On application of Rs.2, on allotment, Rs.5 on first call, Rs.3 on second call & final call of Rs2. Applications were received for 3000 shares & pro-rate allotment was made on the application for 2400 shares. Money over paid on application was employed on account of sum due on allotment.
Ramesh to whom 40 shares were allotted failed to pay anything after application & Mohan, the holder of 60 shares failed to pay the two calls, show journal entries.

65. Gautam plastics ltd had an authorized capital of Rs 500000 divided into shares of Rs20 of these 8000 shares were issued as fully paid in payment of building purchased.
16000 shares were subscribed for by the public &during the year Rs 10 per share was called up, payable Rs. 4 on application, Rs2 on allotment , Rs.2 on first call & Rs. 2 on second call.
The amount received in respect of these shares were as follows –
On 12000 shares full amount called,
On 2500 shares Rs. 8 per share
On 1000 shares Rs. 6 per shares
On 500 shares Rs. 4 per shares.
The directors forfeited 1500 shares on which less than Rs. 8 per shares has been paid. Give journal &cash book entries recording the capital transactions of the company.

66. Five Star ltd issued 1,00,000 shares of Rs 10 each at a premium of Rs 2 per share payable as Rs 3 on application, Rs 5 on allotment (including premium) and balance on first and final call. Sunil who had applied for 15,000 shares, was allotted 5,000 shares. He paid only application money. Anil who had applied for 25,000 shares, was allotted 15,000 shares, failed to pay the final call money. Remaining applicants who had applied for 1,00,000 shares were allotted on pro rata basis.
Company forfeited the shares of Sunil and Anil after final call. Out of forfeited shares, 10,000 were reissued at Rs 9 per share. Give Journal entries in the books of company.

67. Sana Ltd issued Rs.10,00,000 new capital dividend into Rs.100 shares at a premium of Rs.20 per share, payable as under:

On application	Rs. 10 per share
On Allotment	Rs. 40 per share(including premium of Rs. 10 per share)

On First and Final Call   Balance

Over-Payments on application were to be applied towards sums due on allotment and first and final call. Where no allotment was made, money was to be refunded in full. The issue was oversubscribed to the extent of 13,000 shares. Applicants for 12,000 shares were allotted only 2,000 shares and applicants for 3,000 shares were sent letters of regret and application money was returned to them. All the money was duly received.

Give Journal entries to record the above transactions (including cash transactions) in the books of the company.

68. Shakti Ltd. invited applications for issuing 2,00,000 equity shares of Rs. 100 each at a premium of Rs. 10 per share. The amount was payable as follows:
On applications Rs. 40 per share (including premium) On allotment Rs. 30 per share and the balance on first and final call. Applications for 3,00,000 shares were received. Applications for 40,000 shares were rejected and pro rata allotment was made to the remaining applicants. Over payments on applications were adjusted towards sums due on allotment. Manoj who was allotted 2,000 shares failed to pay the allotment and first and final call money. His shares were forfeited. The forfeited shares were reissued at Rs. 90 per share fully paid up.
Pass the necessary journal entries in the books of Shakti Ltd. showing the work clearly.

69. Anas Ltd. Invited applications for issuing 70,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share.
The amount was payable as follows:
On application   Rs. 4 per share (including Premium)
On Allotment   Rs. 3 per share
On first and final call   Balance.
Application for 1,00,000 shares were received. Applications for 10,000 shares were rejected. Shares were allotted to the remaining applications on pro-rata basis. Excess money received with applications were adjusted towards sums due on allotment. All calls were made and were duly received except first and final call on 700 shares allotted to Rohan. His shares were forfeited. The forfeited shares were reissued for Rs. 77,000 fully paid up.
Pass necessary Journal entries in the books of the company for the above transactions.

70. Sakshi Ltd. Issued a prospectus, inviting application for 100000 shares of Rs.10 each at a premium of Rs.5 per share , payable as follows:
On application Rs.4.50; on allotment Rs.7.50 (including premium); on first call Rs.2 and on final call Re.1.00. Application were received for 125000 shares and allotment was made pro-rated to the applicants of 120000 shares, remaining application being refused. Money received in excess on the application was adjusted towards the amount due to allotment.
D, to whom 2000 shares were allotted, failed to pay allotment money and on his failure to pay the first call, his shares were forfeited.

M, the holder of 3000 shares, failed to pay the calls, and so his shares were also forfeited. All these shares were sold to R, credited as fully paid for Rs.8 per share. Pass necessary journal entries to record the above issue of shares by the company.

71. Varun Ltd invited applications for issuing 60,000 shares of RS. 10 each at par. The amount was payable as follows:
On Applications Rs. 2 per share
On Allotment Rs. 3 per share
On First and Final Call Rs. 5 per share
Applications were received for 92,000 shares. Allotment was made on the following basis:
To applicants for 40,000 shares – full
To applicants for 50,000 shares – 40%
To applicants for 2,000 shares – nil
Rs.1,08,000 was realized on account of allotment (excluding the amount carried from application money) and Rs.2,50,000 on account of call.
The directors decided to forfeit shares of those applicants to whom full allotment was made and on which allotment money was overdue.
Pass Journal Entries in the books of Varun Ltd to record the above Transactions.

Issue of Debentures

4.1 Issue of Debentures:

Synopsis:

- ✓ Debenture is an instrument issued by the company acknowledging its debt to the holder under its seal.
- ✓ Issue of debentures is similar to issue of shares. Like shares these can be issued at par, premium and discount. Public response to issue can be fully subscribed, oversubscribed and under subscribed. Like shares debentures can also be issued for consideration other than cash.
- ✓ When we issue the debentures of cash we pass the entry for receiving application money by debiting bank account and crediting debentures application account. Then we transfer by debiting debentures application account and crediting ___% debentures account.
- ✓ In case the money is taken in instalments then there is entry for making allotment money due by debiting debentures allotment account and crediting ____%

debentures account followed by receiving the money entry by debiting bank and crediting debenture allotment account. Similar logic for 1st call and so on.

- ✓ Issue of debentures at discount we debit discount on issue of debentures account and credit ____% debentures account.
- ✓ Premium on issue of debentures is credited to securities premium account which is same as in case of shares.
- ✓ In case the debentures are redeemable at premium which will be a loss to the company. Following prudence principle this loss will be recorded at earliest possible stage by debiting loss on issue of debentures account and crediting premium on redemption of debentures account.
- ✓ For debentures issued for consideration other than cash is same as explained in shares.

  In such a case we debit the assets and credit the vendors account for agreed value of the asset. In some cases we buy a running business taking over liabilities along with assets for specified purchase consideration. In this case we debit the assets taken over at agreed value and credit the liabilities taken over and vendors for purchase consideration. In case the purchase consideration is exceeding the net worth (A-L) we debit goodwill account. If net worth taken over exceeds purchase consideration we credit capital reserves. The payment of purchase consideration can be partly in cash or by cheque or accepting a bill of exchange and for these we debit vendors and credit cash or bank or bills payable respectively.

  Remaining amount is cleared by issuing the shares at par or premium or discount. We debit the vendors for the remaining amount in all the three cases and credit ____% Debentures Account with number of debentures and face value of each debenture in all the three cases. Discount on issue of debenture account for discount amount or we credit securities premium account for premium amount as the case may be.

- ✓ Debentures can also be issued as collateral security which means additional security. There are two options for accounting treatment. First option is that we do not pass any journal entry but mention the fact as a note in the balance sheet.

Second option is that we pass entry by debiting Debenture Suspense Account and crediting ____% Debentures Account. In this case the Debentures Suspense account will appear on assets side under the heading Miscellaneous Expenditure and ______% debentures account as liabilities.

- ✓ Interest on debentures is payable at a fixed rate of interest on particular date. In India tax is deductible at source on the interest payable to debenture holders. For making the interest due we debit interest account with full amount of interest and credit Income Tax Deducted account for the tax amount and Debenture-holders Account for net amount payable. Later when tax is paid we debit Income Tax Deducted account and credit Bank. For payment to debenture-holder we debit Debenture-holder account and credit the Bank account. At the end of the year the interest is an expenditure to be transferred to Profit and Loss Account.

MULTIPLE CHOICE QUESTIONS:

1.	Debenture holders are : (a) Owners of the company (b) Customers of the company (c) Creditors of the company.	1
2	Debentures issued as collateral security will be debited to: (a) Bank account (b) Debentures suspense accounts (c) Debentures Account.	1
3	Debentures represent the: (a) Long term loan of a company (b) Investment of equity shareholders (c) Director's share in company.	1
4	When debentures are issued at par and are redeemable at a premium, the loss on such an issue debited to: (a) Profit & Loss Account, (b) Debentures Applications & Allotment Account, (c) Loss on issue of debentures account.	1
5	Excess value of net assets over purchase consideration at the time of purchase of business is credited to :	1

	(a) General reserve (b) Capital reserve (c) Vendors' account.	
6	When all the debentures are redeemed, balance in the debentures redemption fund account is transferred to : (a) Capital reserve (b) General reserve (c) Profits and loss appropriation Account	1
7	Own debentures are those debentures of the company which: (a) The company allots to its own promoters (b) The company allots to its Director, (c) The company purchases from the market and keeps them as investments.	1
8	Profit on cancellation of own debentures is transferred to : (a) Profit and loss appropriation a/c, (b) Debenture redemption reserve, (c) Capital reserve.	1

One Mark Questions:

1 What is debenture?

2 How debentures are different from shares?

3 What is meant by issue of debentures as collateral security?

4 When is redemption of debentures by drawing of lots?

5 A company issued 5,000 9% Debentures of Rs. 100 each as a collateral security. Give journal entry for it and show these in Balance Sheet of a company

6 What is the nature of interest on debentures?

7 Why is premium on the issue of debentures considered as a capital profit?

8 What is meant by convertible debentures?

Three Marks Questions

9. Ankleshwar Chemicals Ltd. issued 4000 7% debentures of Rs.100 each at a price of Rs.95 per debenture. The amount payable per debenture was as under.
Rs.25 on application (net of discount)
Rs.35 on allotment
Rs.35 on call

The company received all the money due on allotment. Call money was not received on 300 debentures. On all other debentures, the amount was received. Pass the necessary journal entries in the books of the company to record the above transactions.

10. On 1st January, 2010 AIC Ltd. Issued 50,000, 11% Debentures of Rs.100 each at a premium of 5%, redeemable at a premium of 10% after four years. The amount was payable as follows:

On Application Rs.40 each and balance on Allotment.

Pass necessary journal entries relating to the issue of debentures in the books of the company.

11. N Ltd took over the assets of Rs.3,00,000 and liabilities of Rs.10,000 of Kumar for an agreed purchase consideration of Rs.2,70,000 to be satisfied by the issue of 15% debentures of Rs.100 each at 20% premium. Show the necessary journal entries in the books of N Ltd.

12. X Ltd. Issued 5,000 9% debentures of Rs.100 each on April 1st 2008 Redeemable at a premium of 8% after 10 years. According to the terms of the Prospectus Rs.40 is payable on application and balance on allotment of debentures. Record necessary entries regarding issue of debentures

13. Texas Ltd purchased a running business from Kabir Traders for a sum of Rs.30,00,000, payable Rs.6,00,000 by cheque and for the balance issued 9% debentures of Rs.100 each at par. The assets and liabilities consisted of the following:

Plant & Machinery Rs.8,00,000, Building Rs.12,00,000, Stock Rs.10,00,000, Sundry Debtors Rs.6,00,000 and sundry creditors Rs.4,00,000.Record necessary journal entries in the books of Texas Ltd.

14. What journal entries should be made for the issue of debentures in the following cases?

(i) X limited issued 20000, 10% Debentures of Rs.500 each at par, redeemable at a premium of 5%

(ii) P Ltd issued 25000, 15% debentures of Rs.500 each at a premium of 5% redeemable at par.

15. Mauj Ltd issued 10000, 12% Debentures of Rs.100 each at 6% discount, redeemable at premium of 6% after 5 years, payable as Rs.60 on application and the balance on allotment. Debentures were fully subscribed and all money was duly received. Pass necessary journal entries.

16. AB Ltd. Purchased machinery costing Rs.4,40,000. It was agreed that the purchase consideration be paid by issue of 12% Debentures of Rs.100 each. Assuming that the debentures have been issued:
i) At Par and ii) At a premium of 10%, Pass the necessary Journal entries.

17. A company issued 2000 7% Debentures of Rs. 100 each for the purchase of Machinery of Rs.1,80,000. Give Journal entries.

18. Anil sold Building to DLF Ltd. He received Rs.1,25,000 by demand draft and 8,000; 7% Debentures of Rs.100 each at 5% Premium in full settlement. What is the purchase price of Building?
Pass necessary entries in the books of DLF Ltd.

19. XYZ Ltd. purchased furniture of Rs.2,20,000 from ABC Ltd. 50% of amount was paid to ABC Ltd by accepting a bill of exchange and for the balance, the company issued 9%Debentures of Rs.100 each at a premium of 10% in favour of ABC Ltd. Journalise in the books of XYZ Ltd. for the above transactions

20. ABC Vanaspati Ltd. took over assets of Rs. 1000000 and liabilities of Rs.150000 of another company for the purchase consideration of Rs 880000. The purchase consideration was paid by the company by issuing its 15% Debentures of Rs 100 each at 10% premium. Give journal entries in the books of purchasing company.

21. Delta Ltd issued Rs 2000000, 8% debentures on 1st April 2008 of the face value Rs.100 at Rs.98 redeemable after 5 years at Rs 104. Interest is paid on these debentures on 30th September and 31st March every year. Income tax deducted is 20% of the amount of interest. Pass journal entries in the books of the company for 2008-09.

22. X Ltd. issued 1,50,000 12% debentures of Rs.100 each at premium of 10 % payable as Rs.40 on application and balance Rs.60 on allotment. Debentures are redeemable at par after 3 years. All the money due on allotment was called up and received. Record necessary entries at the time of issue of debentures when premium is to be called along with application

23. A company took a loan of Rs.10,00,000 from Punjab National Bank and issued 10% debentures of Rs.12,00,000 of Rs.100 each as a collateral security. Explain how you will deal with the issue of debentures in the books of the company.

24. Hassan Limited took a loan of Rs.30,00,000 from a bank against primary security worth Rs.40,00,000 and issued 4,000, 6% debentures of Rs.100 each as a collateral security.
The company again after one year took a loan of Rs.50,00,000 from bank against Plant as primary security and deposited 6,000, 6% debentures of Rs.100 each as collateral security.
Record necessary journal entries and prepare balance sheet of a company.

25. XYZ Industries Ltd. issued 2,000, 10% debentures of Rs.100 each, at a premium
On application Rs.50
On allotment Rs.60
The debentures were fully subscribed and all money was duly received. Record the journal entries in the books of company.

26. Rai Company purchased assets of the book value of Rs.2,20,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs.100 each at a premium of 10%. Record necessary journal entries.

27. Blue Prints Ltd. Purchased building worth Rs.1,50,000, machinery worth Rs.1,40,000 and furniture worth Rs.10,000 from XYZ Co. and took over its liabilities of Rs.20,000 for a purchase consideration of Rs.3,15,000. Blue Prints Ltd. paid the purchase consideration by issuing 12% debentures of Rs.100 each at a premium of 5%. Record necessary journal entries.
What value highlighted the above problem?

28. X. Ltd. purchased a Machinery from Y for an agreed purchase consideration of Rs.4,40,000 to be satisfied by the issue of 12% debentures of Rs.100 each at a premium of Rs.10 per debenture. Journalize the transactions

29. Chitra Ltd. purchased a running business from Krishna traders for a sum of Rs.15,00,000 payable Rs.3,00,000 by cheque and for the balance issued 9% Debentures of Rs.100 each at par.
The assets and liabilities consisted of the following:

	Rs.
Plant and Machinery	4,00,000
Buildings	6,00,000
Stock	5,00,000
Sundry Debtors	3,00,000
Sundry Creditors	2,00,000

Record necessary journal entries in the books of Chitra Ltd.

30. Deepak Ltd. Purchased furniture Rs.2,20,000 from M/s Furniture Mart. 50% of the amount was paid to furniture Mart by accepting a bill of exchange for the balance the company issued 9% debentures of Rs. 100 each at premium of 10% in favour of Furniture Mart.

Pass necessary journal entries in the books of Deepak Ltd. For the above transactions.

31. On April 1st 2004, Saba Ltd. Issued 50,000, 8% Debentures of Rs.100 each at par redeemable at a premium of 10% after four years. The amount was payable as follows:

On application - Rs.50 per debenture

On Allotment - Balance after discount.

Record the necessary Journal entries for issue of Debentures.

32. Give Journal Entries for the following:

(a) Issue of Rs.10,000, 9% debentures of Rs.100 each and redeemable at par.

(b) Issue of Rs.10,000, 9% debentures of Rs.100 each at premium of 5% but redeemable at par.

(c) Issue of Rs.10,000, 9% debentures of Rs.100 each at par but repayable at a Premium of 5%.

33. Danube Ltd issued 5000 debentures of Rs.1000 each carrying interest at the rate of 10% per annum payable half yearly on 30th June and 31st December every year. Income tax is deductible at the rate of 30% on any interest due to the debenture-holders. The debentures were issued on 1st July, 2010 and books of the accounts are closed on 31st March every year. You are required to pass the journal entries in the books of the company for the year 2010-11.

34. On 1-1-2010 there were 6% debentures of Rs.50 lakhs outstanding. Terms of issue provided payment of interest half yearly on 30th June and 31st December each year subject to deduction of tax @ 20%. Pass the required journal entries relating to interest payment on these debentures for the year 2010.

35. (a) How the common investors will be affected if Debentures are issued only to a specific group of people?

(b) If a company's debts are more than its equity then how it will affect the shareholders of the company and what will be the impact on the society as a whole?

36. Shubh Limited has the following balances appearing in its Balance Sheet:

Securities Premium	Rs.22,00,000
9% Debentures	Rs.120,00,000
Underwriting Commission	Rs.10,00,000

The company decided to redeem its 9% Debentures at a premium of 10%. You are required to suggest the ways in which the company can utilise the securities premium amount.

37. Give journal entries for the issue of debentures in the following conditions:

(i) Issued 2,000, 12% debentures of Rs.100 each at a discount of 2%, redeemable at a premium of 5%.

(ii) Issued 2,000, 12% debentures of Rs.100 each at a discount of 5%, redeemable at a premium of 10%.

38. ABC Ltd issued 5,000. 9% debentures of Rs 500 each. Pass necessary journal entries for the issue of debentures in the books in the following cases.

(i) When debentures are issued at 5% premium and redeemable at 10% premium.

(ii) When debentures are issued at premium of 25% to the vendors for the machinery purchased for Rs.6, 25,000.

39. Journalise the following transactions:

(a) 10 debentures issued at Rs.100 repayable at Rs.100.

(b) 10 debentures issued at Rs.95, repayable at Rs.100

(c) 10 debentures issued at Rs.105, repayable at Rs.100

40. A building has been purchased for Rs.1,10,000 from X Ltd., X Ltd., has been issued 12% debentures in Purchase Consideration at a Premium of 10%. Journalise the above transaction.

41. X Ltd. issued 2,000, 10% debentures of Rs 100 each at a discount of 8% on April, 2014 which are redeemable at par by annual drawings in 4 years commencing from March 31, 2015 as per the following redemption plan: Ist Draw 10%, 2nd Draw 20%, 3rd Draw 30%, and 4th Draw 40%. Calculate the amount of discount to be written-off each year assuming that X Ltd., follows calendar year as its accounting year.

42. Z Ltd. issued 15,00,000, 10% debentures of Rs 50 each at premium of 10% payable as Rs 20 on application and balance on allotment. Debentures are redeemable at par after 6 years All the money due on allotment was called and duly received. Record necessary entries when premium money is included: (i) in application money (ii) in allotment money

PART B

Analysis of Financial Statements

UNIT 1. Financial Statements of a company

12 marks out of 80

Synopsis:

- ✓ By financial statement we mean income statement and the balance sheet. The balance sheet of a company should be as per format given in schedule III of the companies act.
- ✓ The headings of Assets side are Fixed Assets; Investments; Current Assets, Loans & advances; Miscellaneous Expenses (to the extent not written off); and Profit & Loss Account (Debit Balance).
- ✓ The headings of Liabilities side are Share Capital: Reserves & Surpluses; Secured Loan; Unsecured Loan; Current Liabilities and Provisions.
- ✓ Students should have the ability to place the given items in the balance sheet of the company under appropriate headings.

MULTIPLE CHOICE QUESTIONS:

1	Dividend is usually paid on. a) Authorized capital (b) Issued capital (c) Paid up Capital.	1
2	Amount set aside to met losses due to bad debts is a. a) Reserve (b) Provision (c) Liability.	1
3	Balance Sheet shows the financial position of the enterprise a) at a point of time (b) for a period of time (c) None of these.	1
4	Under what heading will you show the following items in the Balance sheet of a Joint stock Company? a) authorized Capital (b) Share forfeiture Account (c) Capital Reserve (d) Debentures (e) Loose tools (f) Provision for Tax.	3
5	Rearrange the following heads of assets side of Balance Sheet as per Companies Act 2013	3

a) Miscellaneous Expenditure (b) Loans and advances (c) Fixed assets
(d) Investments (e) Current assets

6 State the relevant main heading under which the following items would be disclosed in the Balance Sheet of a limited company: 3
a) Goodwill (b) Prepaid Expenses (c) Underwriting commission (d) Securities Premium
(e) Interest paid out of capital during construction (f) Unclaimed dividend

One Mark Questions:

1 Give meaning of financial statements.

2 Under which headings of company's balance sheet calls in advance and proposed additions to reserves placed?

3 Under which headings of company's balance sheet Bills receivable and unclaimed dividends placed?

4. Define contingent liabilities.

5. Give four examples of contingent liabilities.

6. How company's balance sheet different from partnership balance sheet?

7. Prepare a Balance Sheet as per Companies Act 2013 from the following information:

Building Rs.2000000; General Reserve Rs.340000; 8% Debentures Rs.800000; Government Bonds Rs.400000; Stock Rs.500000; Creditors Rs.20000; Proposed Dividend Rs.140000; Share Capital Rs.1600000

8. Prepare the Balance Sheet (in Horizontal Form) as on 31st March, 2007 from the following information:

Share Capital Rs.24,00,000 General Reserve Rs.6,00,000 Creditors Rs.10,00,000

Debtors Rs.20,00,000 12% Debentures Rs.6,00,000 Preliminary Expenses Rs.80,000 Fixed Assets Rs.34,00,000 Profit & Loss Account (Cr.) Rs.60,000, Bills Receivable Rs.80,000

Cash at Bank Rs.2,00,000 Unclaimed Dividend Rs.1,20,000 Fixed Deposits Rs.2,00,000

9. The following balances have been extracted from the books of Rakesh &company: Share capital Rs.10,00,000 ;Securities Premium Rs.60,000 ; 15%Debentures Rs.2,50,000;

Creditors Rs.1,00,000; proposed dividend Rs.40,000 ; profit And Loss Account (Dr)50,000; Freehold Property Rs.6,50,000; Shares of ICICI Bank Rs.2,00,000; Work in progress Rs.2,00,000; Preliminary Expenses Rs.50,000 ; Land And Building Rs.1,00,000; Plant And Machinery Rs.2,00,000; Prepare the Balance Sheet of a company.

10. Under what heading will you show the following items in the Balance sheet of a Joint stock Company?

    (a) Authorized Capital (b) Share forfeiture Account (c) Capital Reserve
    (d) Debentures (e) Loose tools (f) Provision for Tax.

11. B Ltd. has an opening debit balance of ` 2, 00,000 in Surplus i.e., Balance in statement of Profit and Loss. During the year ended on 31$^{st}$ March, 2016, it earned a net profit of ` 3, 00,000. Prepare Notes to accounts on Reserve and Surplus showing the amount to be shown in Balance Sheet.

12. C Ltd. has an opening credit balance of ` 2, 50,000 in Securities Premium Reserve and also debit balance of 5,00,000 in Surplus i.e., Balance in statement of Profit and Loss in Reserve and Surplus. During the year ended 31$^{st}$ march, 2016, it incurred a loss of ` 3,00,000. Prepare Notes to Account on Reserve and Surplus showing the amount to be shown in Balance Sheet.

13. Under which major **sub-heading** the following items will be placed in the Balance Sheet of a Company as per the Companies Act, 2013:

    (a) Accrued Incomes (b) Loose Tools (c) Provision for employee's benefits

    (d) Unpaid dividend (e) Short-term loans (f) Long-term loans

14. Name the major headings under which the Equity and Liabilities side of a company's Balance Sheet is organised and presented.

15. Name any three items that are shown under the head "Other Current Liabilities" and any three items that are shown under the head "Other Current Assets" in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013.

UNIT 2. Financial Statement Analysis:

Synopsis:

- ✓ Financial Statement Analysis is critical examination of single set of financial statements by carrying out systematic numerical calculation of relationship of one financial fact with other so as to measure profitability, operational efficiency, solvency and growth potential of the business.
- ✓ Significance of financial statement analysis is due to the fact that it helps in judging the operational efficiency of the business; measuring short and long term financial position; indicating the trends of achievements; assessing the growth potential of the business; measuring the profitability; carrying out intra-firm and inter-firm comparison of the performance; forecasting, budgeting and deciding future line of action; and presenting the facts in a simplified, systematic and intelligible manner.
- ✓ Limitations of financial statement analysis are due to the fact that it suffers from the limitations of financial statements; lacks in standard terminology which is universally accepted; ignores price level changes; ignores the qualitative aspects of the business; and the financial statements being analysed can be window dressed; the analysis can be affected by the personal bias or ability of analyst.

MULTIPLE CHOICE QUESTIONS

1	Analysis of Financial Statements serves the purpose of ………………. a) Investors (b) Shareholders (c) debentures holders (d) all the above.	1
2	Analysis of Financial Statements involves ……………… a) Trading Account (b) Profit and loss Accounts (c) Balance sheet (d) All the above.	**1**
3	Financial analysis is significant because it …………… (a) Ignore qualitative aspect (b) judges operational efficiency (c) suffers from weakness of financial statements.	**1**

One Mark Questions:

1. What do you mean by analysis of financial statement?
2. Name six tools of financial statement analysis.

Three Marks Questions:

3. What are the objectives of analysis of financial statements?
4. What are the limitations of analysis of financial statement?
5. Give two areas of interest each for investor and management while analyzing the financial statements.
6. Explain the significance of analysis of financial statements to the government or regulatory authorities.
7. How is the analysis of financial statements beneficial to bankers, debenture holders and financial institutions?
8. List the main parties interested in financial statement analysis.
9. What is meant by interpretation of financial statements?
10. What is horizontal financial analysis?
11. What is vertical financial analysis?
12. Explain internal analysis of financial statements?
13. Explain external analysis of financial statements?
14. How inter-firm comparison is different from intra-firm comparison.
15. What is accounting analysis?
16. What is prospective analysis?

1.3.1 Tools of Financial Statements Analysis

Comparative Statements Analysis:

Synopsis:

- ✓ Inter-firm comparison is comparison of the financial data of two firms while intra-firm comparison is comparison of this year performance with the past performance of the business.
- ✓ Comparative Income Statement the income statement of this year is compared with the income statement of last year by working out absolute change and percentage change.
- ✓ Comparative Balance Sheet is the statement in which this year figures of assets and liabilities are compared with last year by working out absolute change and percentage change.
- ✓ Such statements help in knowing the trends of the performance of the business.

One Mark Questions:

1 How horizontal analysis different from vertical analysis?

2 What is intra-firm comparison?

3 What is interring firm comparison?

4 What is absolute increase/ decrease?

Four Marks Questions:

5. Prepare comparative Balance Sheet of XY Ltd:

Liabilities	2005 Rs.	2006 Rs.	Assets	2005 Rs.	2006 Rs.
Share Capital Reserves & Surpluses Loans Current Liabilities	60000 24000 34000 30000	72000 30000 51000 24000	Fixed Assets Current Assets	120000 28000	150000 27000
	148000	177000		148000	177000

6. Prepare Comparative Income Statement for the following information:

Particulars	2005 (Rs.)	2006 (Rs.)
Sales	100000	150000
Cost of goods sold	40000	56000
Expenses	20000	44000
Income Tax	30%	40%

7. Prepare a Comparative Income Statement with the help of the following information:

Particulars	2006	2007
Sales	400000	600000
Cost of goods sold	240000	420000
Indirect Expenses	80000	72000
Income Tax	40000	54000

8. Prepare a Comparative Balance Sheet from the following information:

Particulars	31st March 2006 (Rs.)	31st March, 2007 (Rs.)

Equity Share Capital	500000	500000
Net Fixed Assets	1040000	990000
Reserves & Surpluses	110000	120000
Sundry Debtors	300000	610000
Secured Loans	550000	400000
Cash at Bank	200000	300000
Unsecured Loans	80000	100000
Current Liabilities	300000	580000

9. From the following information prepare a comparative income statement:

	2009 (Rs.)	2010 (Rs.)
Sales	6,00,000	8,00,000
Cost of Goods sold	4,50,000	4,80,000
Indirect Expenses	10% of Gross Profit	20% of Gross profit
Income tax	40%	40%

10. Prepare a comparative income statement:

	31st March,2009 (Rs.)	31st March2010(Rs.)
Sales	10,00,000	12,50,000
Cost of Goods sold	6,00,000	7,50,000
Operating Expenses	40,000	50,000

Interest on investment @ Rs.50,000 and taxes payable @ 50%

11. From the given information, prepare a Comparative income Statement:

Particulars	**1995 Rs.**	**1996 Rs.**
Sales	1,00,000	1,10,000
Cost of Goods Sold	70,000	74,800
Office and Administration Expenses	3,000	3,960
Selling and Distribution Expenses	5,000	6,600
Non-operating Expenses	1,000	1,000
Non-Operating Income	500	500
Income Tax	10,750	12,070

12. Prepare a Comparative Income statement with the help of the following information.

Particulars	2006	2007
Sales	20,00,000	30,00,000
Gross Profit	40%	30%
Indirect Expenses	50% of G.P	40%of G.P
Income Tax	50%	50%

13. Prepare the Comparative Balance Sheet & Common Size Balance Sheet from the following?

Comparative Balance Sheet

Particulars	**2001 Rs.**	**2002 Rs.**
Liabilities: Share Capital	40,000	70,000
Reserves	12,000	10,000
Long-term Loans	50,000	50,000
Total	**1,02,000**	**1,30,000**
Assets: Fixed Assets	80,000	1,02,000
Sundry Debtors	10,000	20,000
Bank Balance	12,000	8,000
Total	**1,02,000**	**1,30,000**

14. Prepare a comparative Income Statement with the help of the following information:

Particulars	**1996**	**1997**
Sales (Rs.)	5,00,000	8,00,000
Cost of Goods Sold	70% of Sales	
Indirect Expenses	5% of Sales	
Rate of Income Tax	50% of net profit before tax	

15. From the following information. Prepare a Comparative Income Statement of Nasa Ltd.:

Sales (Rs.)	150% of cost of goods sold	200% of cost of goods sold
Cost of goods sold(Rs.)	10,00,000	8,00,000
Indirect Expenses (Rs.)	5% of gross profit	10% of gross profit
Rate of Income Tax		50% of net profit before tax.

16. From the following information provided, prepare a comparative income statement for the period 2014 and 2015.

2014 2015

Revenue from operation (₹)	5, 00,000	6, 00,000
Gross Profit	40 % on Sales	50 % on Sales
Expenses	20 % of Gross Profit	15 % of Gross profit
Income Tax	50 %	40 %

17. From the following information prepare Comparative Income Statement of S Ltd.

Particulars	2013 ₹	2014 ₹
Revenue from Operation	20,00,000	24,00,000
Operating Expenses	18,00,000	19,00,000
Non-operating Expenses	50,000	80,000
Income Tax	40%	50 %

18. Prepare a comparative Income Statement from the following information:

Particulars	31.03.2014 ₹	31.03.2015 ₹
Revenue from operation	40,000	50,000
Cost of revenue from operation	30,000	35,000
Wages paid	16,000	14,000
Operating Expenses	2,500	3,000
Other Income	2,000	3,000
Income Tax	4,750	7,500

19. From the following Statement of Profit and Loss of M Ltd., for the year ended 31st March 2014 and 2015, prepare a Comparative Statement of Profit and Loss:-

Particulars	**Note No.**	**2013-14** ₹	**2014-15** ₹
Revenue from operation		40,00,000	24,00,000
Other Incomes		24,00,000	18,00,000
Expenses		16,00,000	14,00,000

20. Prepare a comparative statement of profit and loss of X Ltd., with the help of the following information:-

Particulars	31.03.2011	31.03.2012
Revenue from Operations Cost of Materials consumed Other Expenses Rate of Income Tax	Rs.10,00,000 60% of Revenue From operations Rs.40,000 50% of Net Profit before Tax	Rs.20,00,000 70% of Revenue From operations Rs.60,000 50% of Net Profit before Tax

Common Size Statement

Synopsis:

- ✓ When the size of two years to be compared or two firms to be compared is different comparison becomes easy when the data is converted into percentages of Net Sales in case of income statements and percentage of total in case of balance sheet.

MULTIPLE CHOICE QUESTIONS

1	………… are the tools of financial analysis: a) Comparative statement (b) ratio analysis (c) trend analysis (d) all the above.	1
2	Comparative statement are also known as: (a) Dynamic analysis (b) Horizontal analysis (c) Vertical analysis (d) External analysis	**1**
3	An Annual Report is issued by a company to its: (a) Directors (b) Auditors (c) Shareholders (d) Management	**1**

Three Marks Questions:

1. Give meaning and objectives of common size statements.
2. From the following information prepare a common size balance sheet:

Particulars	2005 Rs.	2006 Rs.
Equity Share Capital	1125000	2250000
Fixed Assets	1800000	2500000
Reserves & Surpluses	300000	550000
Investments	250000	750000
Long Term Loan	800000	950000

Current Assets	450000	750000
Current Liabilities	275000	250000

3. From the following information prepare common size income statement:

Particulars	Year 2005 (Rs.)	Year 2006 (Rs.)
Sales	2400000	2800000
Cost of Goods Sold	1536000	1904000
Selling and Distribution Expenses	408000	420000
Interest on Loan	132000	168000
Income Tax	120000	120000
Profit After Tax	72000	60000

4. Prepare a common size income statement

Particulars	31.3.2009	31.3.2010
Sales	1,00,000	1,50,000
Sales Return	5,000	10,000
Gross Profit	40,000	70,000
Selling and Distribution Expenses	5,000	8,000
Profit on sale of Machinery	8,000	12,000
Depreciation	2,000	3,000
Tax rate	40%	40%

5. Prepare a common size balance sheet.

Liabilities	X ltd(Rs)	Y ltd(Rs)	Assets	X ltd(Rs)	Y ltd(Rs)
Share Capital	3,00,000	4,00,000	Fixed Assets	4,00,000	4,00,000
Reserves and Surplus	2,00,000	3,00,000	Current Assets	2,00,000	3,50,000

Current Liabilities	1,00,000	50,000		
Total	6,00,000	7,50,000	6,00,000	7,50,000

6. Prepare a common size statement of profit and loss from the following and interpret the same:

STATEMENT OF PROFIT AND LOSS

	Note no.	31 March 2013	31 March 2012
		Rs.	Rs.
Revenue from Operations		25,00,000	20,00,000
Other Income		1,00,000	1,00,000
Cost of Materials Consumed		17,00,000	14,00,000
Finance Costs		2,00,000	1,60,000
Other Expenses		1,00,000	1,40,000

7. From the following Statement of Profit and Loss of Star Ltd., for the years ended 31st March 2011 and 2012, prepare a comparative Statement of Profit or Loss.

Particulars	2010-11	2011-12
Revenue from operations	16,00,000	20,00,000
Employee benefits expenses	8,00,000	10,00,000
Other expenses	2,00,000	1,00,000

Tax rate 40%

8. Prepare a Comparative Income Statement with the help of the following information :–

Particulars	**Dec. 31, 2011**	**Dec.31, 2012**
Revenue from Operation	5,00,000	6,00,000
Expenses	3,00,000	5,00,000

Other Incomes	1,00,000	60,000
Tax	50%	50%

9. From the following Income Statement, prepare a common size statement of XYZ Ltd. for the year ended 31st March, 2015

Particulars	Amount (Rs.)
Income:	
Revenue from Operation	25,38,000
Other Income	38,000
Total Income	25,76,000
Expenses:	
Cost of Revenue from operation	14,00,000
Operation Expenses	5,00,000
Total Expenses	19,00,000
Tax	3,38,000

UNIT 4. Accounting Ratios

Synopsis:

- ✓ The term accounting ratio is used to describe significant relationships which exist between figures shown in a financial statements and any other accounting report like budgets.
- ✓ It is meaningful comparison of two numbers expressed as ratio (3:2), Fraction (3/2), decimal (1.50), and percentage (150%).

- ✓ Ratios help us in judging the profitability, liquidity, solvency, operational efficiency of the business. Students should be knowing all the formulas and meaning of the components of ratios covered in syllabus which are: current ratio, liquidity ratio, debt to equity ratio, proprietary ratio, inventory turnover ratio, debtors turnover ratio, working capital turnover ratio, fixed assets turnover ratio, gross profit ratio, operating ratio, net profit ratio, return on investment ratio, earning per share, dividend per share, price earnings ratio.
- ✓ The types of question asked are find ratio form given information; find missing information from given ratio and other information; decide the effect of transaction on given ratio.
- ✓ The mathematical rule to decide the impact of increase, decrease or no change for the ratio is ratio will increase when only numerator increases or denominator decreases and vice versa. When both (numerator and denominator) increase and decrease by the same amount the impact is negative when the value of given ratio is more than one; the impact is positive when the value of ratio given is less than one; impact is no change when the value of given ratio is equal to 1.
- ✓ Students should clearly understand meaning and significance of specific ratios mentioned in syllabus.

One Mark Question:

1 Define accounting ratio?

2 Define ratio analysis.

3 What is the main object of ratio analysis?

4 Give two examples of income statement ratios.

5 Give two examples of position statement ratios.

6 Why we calculate liquidity ratio?

7 Name solvency ratios.

8 Why we calculate activity ratios?

9 Name any six profitability ratios.

10 What is cost of sales?

11 Assuming that the Current Ratio is 2:1, state giving reason whether the ratio will improve, decline or will have no change in case a Bill Receivable is dishonored

12 Total assets are 1000000, fixed assets Rs.500000, Investments Rs.300000, current liabilities Rs.200000, how much is working capital?

13 What does high value of price-earnings ratio indicate?

14 Current ratio is 3:1 and business purchases a fixed asset for Rs.50000. Will this transaction increase, decrease or not affect the ratio.

Three Marks Questions:

15. Give six advantages of ratio analysis.

16. Give any six limitations of ratio analysis.

Four Marks Questions:

17. Following is the Balance Sheet of X Ltd. As on 31st March, 2006:

Liabilities	Rupees	Assets	Rupees
Share Capital	2000000	Fixed Assets (Net)	2900000
Reserves	500000	Current Assets	2500000
10s% Loan	1000000	Underwriting Commission	100000
Current Liabilities	800000		
Profit for the year	1200000		
	5500000		5500000

Find out 'Return on Capital Employed'

18. A trader carries an average stock of Rs.80000 (cost). His stock turnover ratio is 8 times. If he sells goods at a profit of 20% on sales, find out his profit.

19. Operating ratio of a company is 80%. State giving reasons, which of the following transactions will increase, decrease or not alter the operating ratio:
Credit purchase of goods for Rs.4000.
Payment to creditors Rs.5000.
Cash sales for Rs.10000.
Sale of Building for Rs.100000

20. A company had liquid ration of 1.5 and current ratio of 2 and inventory turnover ratio 6 times. It had total current assets of Rs.400000 in the year 2006. Find out the annual sales if goods are sold at 25% profit on cost.

21. Quick Assets Rs.300000, Stock Rs.80000, Prepaid Expenses Rs.10000, Working Capital Rs.120000, calculate current Ratio.

22. Working capital Rs.360000, Total Debt Rs.780000, Long Term Debt Rs.600000. Stocks Rs.30000. Calculate Acid Test Ratio.

23. From the following information, calculate Total Assets to Debt Ratio:

    Equity Share Capital Rs.24,00,000, General Reserve Rs.12,00,000, 12% Debentures Rs.1500000

    Sales for the year Rs.30,00,000, Profit & Loss Account (Cr.) Rs.900000

24. The proprietary Ratio of a Company is 0.6:1. Which of the following suggestions would increase, decrease or not change it?

    (i) Issue of equity shares

    (ii) Cash received from Debtors

    (iii) Redemption of debentures

    (iv) Purchase of goods on credit.

25. Stock turnover ratio is 5 times, cost of goods sold is Rs.1890000. Calculate opening stock and closing stock if stock at the end is 2.5 times more than that at the beginning.

26. Total sales for the year is Rs.240000. Debtors Rs.24000 and Bills Receivable Rs.16000. Calculate Debtors Turnover Ratio.

27. Net profit before interest and tax is Rs.1200000, Net fixed assets are Rs.4000000, Net working capital is Rs.2000000, and Current Assets are Rs.2200000. Calculate Return on Investment.

28. Proprietary Ratio is 0.6. Capital Employed is Rs.700000 and Current Liabilities are Rs.300000. Find the value of total assets and long term debt.

29. From the following, calculate any three of the following ratios:

    Gross Profit Ratio
    Working Capital Turnover Ratio
    Debt-Equity Ratio
    Proprietary Ratio

Information:	Rupees:
Net Sales	2000000
Cost of Goods Sold	1200000
Current Assets	600000
Current Liabilities	300000
Paid-up Share Capital	800000
12% Debenture	400000

30. Gross profit ratio of a company was 25%. Its cash sales was Rs.200000 and its credit sales was 90% of the total sales. If the indirect expenses of the company were Rs.20000. Calculate its net profit.

31. State any three limitations of financial analysis.

32. Calculate the Current Assets of a company from the following information:
    (i) Stock Turnover Ratio: 5 times
    (ii) Stock at the end is Rs.15000 more than the stock in the beginning
    Sales Rs.200000
    (iii) Gross Profit Ratio 25%
    (iv) Current Liabilities Rs.50000
    (v) Quick Ratio 0.75.

33. From the following information calculate the Debt Equity Ratio and Current Ratio:

Information:	Rupees
Share Capital	250000
Bills Payable	15000
Creditors	45000
Debtors	60000
12% Debentures	280000
Bank Balance	30000
Long Term Loan	110000
General Reserve	25000

34. A company earns a gross profit of 25% on cost. Its credit sales are twice its cash sales. If credit sales are Rs.800000, calculate the Gross Profit Ratio.

35. Cash sales Rs.2,00,000 Credit sales Rs4,00,000,Gross Profit Rs 1,00,000 and Inventory turnover ratio is 5 times. Calculate the value of opening and closing stock in each of the following alternative cases: Case (1) If closing stock was Rs 80,000 In excess of opening stock. Case(2)If closing stock was 3times that in the beginning .Case (3)If closing stock was 3times more than that in the beginning .Case (4)If the opening stock was 1/3of the stock at the end.

36. The current assets of a company are Rs.126000 and the current ratio is 3:2 and the inventories are Rs.2000. Find out Liquid Ratio.

37. Inventory Turnover Ratio is 3 times. Sales are Rs.180000; Opening Stock is Rs.2000 more than the closing stock. Calculate the opening and closing stock when goods are sold at 20% profit on cost.

38. From the following information, you are required to calculate closing stock:

Current Ratio 2:1 Quick Ratio 0.75: 1 Current Liabilities Rs.150000

39. From the following information, calculate:

(i) Current Ratio (ii) Stock Turnover Ratio (iii) Gross Profit Ratio (iv) Liquid Ratio

Information:	Rupees:
Sales	2520000
Cost of Sales	1920000
Net Profit	360000
Opening Stock	300000
Closing Stock	500000
Other Current Assets	760000
Fixed Assets	1440000
Net Worth	1500000
Debts (Long Term)	900000
Current Liabilities	600000

40. A company had a liquid ratio of 1.5 and current ratio of 2 and inventory turnover ratio 6 times. It had total current assets of Rs.800000 in the year 2003. Find out annual sales if goods if goods are sold at 25% profit on cost.

41. From the following information, determine the opening and closing stock:

Stock Turnover	5 times
Total Sales	`.200000
Rate of gross profit on sales	25%

Closing stock is more by `.4000 than the opening stock.

42. Net credit sales of M.K. Limited during the year were `.360000. If informed that closing debtors are 2 times in comparison of opening debtors.

43. Explain briefly the meaning and significance of the following ratios:

(a) Current Ratio

(b) Quick Ratio

(c) Debt-Equity Ratio

(d) Stock Turnover Ratio

(e) Debtors Turnover Ratio

(f) Working Capital Turnover Ratio

(g) Operating Ratio

(h) Return on Investment

(i) Total Assets to Debt Ratio

(j) Interest coverage ratio

(k) Proprietary Ratio

(l) Gross Profit Ratio

(m) Creditors Turnover Ratio

(n) Operating Profit Ratio

(o) Net profit ratio

44. (a) What is the effect of receipt from debtors on a current ratio of 2:1.

(b) What is the effect of cash paid to creditors on a quick ratio of 1:1.

(c) What is the effect of Issue of shares on Proprietary ratio of 0.6:1

45. Quick ratio of a company is 1.5:1.State giving reasons whether the ratio will improve, decline or not change payment of dividend by the company.

46. Current Liabilities of a company are Rs.1,32,000 and current ratio is 3:1.After this, company paid `66,000 to its creditors. Calculate the current ratio after the payment.

47. The current ratio of a company is 2:1.State giving reasons which of the following transactions would (1)improve(2)reduce(3)no alter the current ratio (a)Sale of goods for `15000(costing `.10000) (b)purchasing goods on credit (c)Debentures converted into new debentures (d)Sale of an office furniture for `5,000(Book value `6,000)

48. A business has a current ratio of 3:1 and a quick ratio of 1.2:1.If the working capital is ` 2,95,200. Calculate the total assets and stock.

49. From the following ascertain debt equity ratio: Equity Share Capital `2,56,000,General Reserves ` 2.,04,800,15%Debentures ` 2,88,000,current liabilities ` 1,28,000,Underwriting Commission `12,800

50. Find out the Gross profit ratio with the help of the following information: Cash sales is 25% of total sales, Purchases `2,76,000,Credit Sales `2,40,000 and excess of closing stock over opening stock is `20,000

51. From the following particulars calculate return on investment: Equity Share capital `. 26,25,000,General Reserves `12,75,000,10% Debentures `20,00,000,Current liabilities `5,00,000, Underwriting commission ` 25,000, Net Profit After Tax ` 4,20,000 and income tax 50%

52. From the following information calculate net profit ratio:

    Gross profit is 20% of sales. Cost of goods sold is `. 20 lakhs, indirect expenses are 5% of sales.

53. From the following particulars calculate sales and gross profit: Average stock ` 3,22,560, Inventory Turnover ratio 5 Times and selling price `15% above cost

54. Following information are provided to you:(1)Stock turnover ratio 5times.(2)Closing stock of ` 16,800,more than its opening stock.(3)Credit Sales =`5,76,000 Gross profit ratio =1/5on cost. Current liabilities =2,01,600, Liquid ratio =.80 you are required to calculate (A)Cost of goods sold (B)Opening Stock (C)Closing Stock (D)Quick Assets (E)Current Assets.

55. Calculate the amount of opening debtors and closing debtors From the following information: Debtors Turnover Ratio 4Times, Gross Profit Ratio 20%,Cost of goods sold `7,89,760 Closing debtors were ` 24,680 more than at the beginning. Cash sales being 33 1/3% of credit sales

56. Following information provided to you: Cost of goods sold ` 6,73,200, Current Assets ` 4,48,800 and Current Liabilities ` 3,36,600,Calculate working capital Turnover ratio

57. (a) What will be the Operating Profit Ratio, if operating ratio is 88.84%

    (b) What is the effect of receipt from debtors on a Current Ratio of 2:1?

    (c) Current Ratio of a company is 3:1 . State with reason whether the payment of `.10,000 to the creditors will increase decrease or not change the ratio.

58. From the following calculate Debt. Equity Ratio Total Assets to Debt Ratio and Proprietary Ratio. 10% Pref. Share Capital `. 5,00,000. Equity Share Capital `. 15,00,000, Securities Premium `. 1,00,000, Reserve and Surplus `. 5,00,000, Loan from I.D.B.I `. 30,000, Miscellaneous

Expenditure `. 1,00,000, Preliminary Expenses `. 20,000. Trade credito` Rs. 1,00,000, Current Liabilities `. 6,00,000.

59. From the following particulars determine the amount of sales:

Opening stock	`. 50,000
Stock Turnover Ratio	4 times
Gross Profit	20% 0f Sales

You are informed that closing stock was two times in comparison to opening stock.

60. Gross profit ratio of a company was 25%. Its credit sales was `. 20,00,000 and its cash sales was 10% of the total sales. If the indirect expenses of the company were `. 50,000, calculate its net profit ratio.

61. A company stock Turnover Ratio is 5 times; Stock at end is `. 10,000 more than that at the beginning. Sales (all credit) are `.4,00,000 ; Rate of Gross Profit on cost ¼; Current liabilities `. 1,20,000 ; Acid test Ratio 0.75 . Calculate the Current Assets.

62. From the following calculate the Current Ratio & Quick Ratio:
Sundry Debtors `. 4,00,000 Prepaid Expenses. 40,000, Cash ` 1,20,000, Marketable Securities `. 80,000, Machinery `. 12,000, Land `. 8,000, Bills Payable `. 80,000, Sundry Credit` `. 1,60,000, Live Stock `. 1,000.

63. From the following calculate Debt. Equity Ratio Total Assets to Debt Ratio and Proprietary Ratio. 10% Pref. Share Capital `. 5,00,000. Equity Share Capital `. 15,00,000, Securities Premium `. 1,00,000, Reserve and Surplus `. 5,00,000, Loan from I.D.B.I `. 30,000, Miscellaneous Expenditure `. 1,00,000, Preliminary Expenses `. 20,000. Trade credit` `. 1,00,000, Current Liabilities `. 6,00,000.

64. Working Capital ` 36,000; Current Ratio 2.8:1; Inventory ` 16,000.
Calculate Current Assets, Current Liabilities and Quick Ratio.

65. Calculate 'Debt-Equity Ratio' from the following information:

Total Assets: ` 3,50,000

Total Debt: ` 2,50,000

Current Liabilities: ` 80,000

66. From the following information, Compute Debt to Equity Ratio

	`		`
Long term borrowings	2,00,000	Non-current Assets	3,60,000
Long term Provisions	1,00,000	Current Assets	90,000

Current Liabilities	50,000		

67. From the following information calculate Proprietary Ratio and Total Assets to Debt Ratio

Balance Sheet of ABC Ltd.

Particulars	Note No.	Figure for Current Years (`)
Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital		4,50,000
(b) Reserve and Surplus		1,80,000
2. Non-Current Liabilities		
Long Term borrowing (12% Debentures)		75,000
3. Current Liabilities		
Trade Payable (Creditors)		45,000
Total		7,50,000
Assets		
1. Non Current Assets		
(a) Fixed Assets		3,75,000
(b) Non-Current Investments		2,25,000
2. Current Assets		
Inventory		1,50,000
Total		7,50,000

68. Calculate Debtors Turnover Ratio if Closing Debtors are ` 40,000; Opening Debtors ` 60,000; Cash Sales is 25% of Credit Sales and Total Sales are `2,00,000.

69. 70. Compute Working Capital Turnover Ratio from the following information:

	`
Cash Sales	1,30,000

Credit Sales	3,80,000
Sales Return	10,000
Liquid Assets	1,40,000
Inventory	90,000
Current Liabilities	1,05,000

70. Calculate 'Net Profit Ratio' from the following Information:

	`
Net Revenue from Operations	80,000
Cost of Revenue from Operations	60,000
Operating Expenses	10,000
Indirect Expenses	6,000
Indirect Income	4,000

71. Complete the Balance Sheet of Raj Ltd. from the following information

Balance Sheet

As at 31st March, 2015

Particular	**Note no.**	**Amount `**
I. EQUITY AND LIABILITY		
1. Shareholder's Funds:		
(a) Share Capital		**---**
(b) Reserve and Surplus		**50,000**
Non-current Liabilities – long term		
2. borrowings		**14,00,000**
3. Current Liability – Trade Payables		**1,00,000**
Total		
II ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		**---**
2. Current Assets		
(a) Inventories		**---**
(b) Trade Receivables		**70,000**
(c) Cash and Cash Equivalents		**---**
Total		

Additional Information:

Current Ratio is 2:5:1

Debt-equity Ratio is 2:1

Inventory Turnover Ratio is 8 Times

Cost of Revenue from operations is ` 4,00,000.

72. The Quick Ratio of X Ltd. is 1:1. State with reason which of the following transactions would (i) increase; (ii) decrease or (iii) not change the ratio:

Included in the trade payable was a Bills payable of ` 3,000 which was met on maturity.

Debentures of ` 50,000 were converted into Equity Shares.

73. Calculate 'Return on Investment' with the following information:

Net Profit after interest and Tax		2,10,000
Rate of income Tax		30%
Shareholders' Funds		13,00,000
12%	Long term Debts	1,00,000
10%	Debentures	2,00,000

Unit 5: Cash Flow Statement

Marks 8 out of 80

Synopsis:

✓ a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet.

- ✓ Cash means cash in hand and demand deposits with the bank. Cash funds include cash and cash equivalents. Cash equivalents mean short term highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.
- ✓ As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills.
- ✓ Accounting Standard 3 (AS 3) is the Accounting Standard that deals with cash flow statements.
- ✓ Cash from operating activities can be worked out by direct method or indirect method.
- ✓ In case of direct method, we calculate the receipts from customers, payments to suppliers, payment of salaries, and payment of expenses to get cash from operating activities before payment of tax then we deduct the tax paid to get net cash from operating activities.
- ✓ In case of indirect method, we first find profit subject to working capital changes by taking bottom up approach by adding proposed dividend, transfer to reserves, provision for tax, non-operating losses, write offs and deducting non-operating income. Then we adjust for working capital changes by adding decrease in current assets (other than cash) and increase in current liabilities and vice versa. Then we get net cash from operating activities by deducting payment of tax.
- ✓ Cash from investing activities is calculated by considering changes in the value of fixed assets and investments and any adjustment needed on the basis of additional information. Income received from investments is also considered as inflow from investing activities.
- ✓ Cash from financing activities is calculated by considering changes in the values of share capital and long term debt. The dividend or interest paid is also outflow from financing activity.
- ✓ The total of cash from operating, investing and financing activities gives us net increase or decrease in cash during the year.
- ✓ Arithmetical accuracy of the answer is established when by adding the opening balance of cash funds to the net increase or decrease in the cash during the year.

MULTIPLE CHOICE QUESTIONS

1	The cash flow statement is based upon Accrual basis (b) Cash basis (c) accounting equation basis.	1
2	Dividend received by financial enterprise is show in the cash Flow Statement under: a) Operating activities (b) Investing activities (c) Financing activities.	1
3	Interest received by other than financial enterprise is shown in the Cash flow Statement under: a) Operating activities (b) Investing activities (c) Financing activities.	1
4	Interest paid to other than financial enterprise is shown in the Cash Flow Statement under: a) Operating activities (b) Investing activities (c) Financing activities.	1
5	Dividend received by other than financial enterprise is shown in the Cash Flow Statement under: a) Operating activities (b) Investing activities (c) Financing activities.	1

One Mark Questions:

1 What is cash flow statement?

2 What is meant by cash?

3 What is meant by cash equivalents?

4 Why companies prepare cash flow statements?

5 What are uses of cash flow statement?

6 What are limitations of cash flow statements?

7 What do you mean by operating activities?

8 What do you mean by investing activities?

9 What do you mean by financing activities?

10 Cash from operating activities was Rs.100000, but cash balance only increased by Rs.10000, give any two reasons.

11 Give four transactions as examples of financing activities.

12 Give four transactions as examples of investing activities?

13 Give four transactions as examples of operating activities.

14 'Dividends and interest received on securities' by financial enterprise is cash from operating activity. Defend or refute.

15 When does the flow of cash arise?

16 Closing balance of machinery account is double of the opening balance. Depreciation during the year is Rs.60000. Find purchases during the year if the opening balance in the following year would be Rs.20,00,000

17 Depreciation on machinery during the year was Rs.15000 and balance in machinery account increased during the year by Rs.3000. Measure flow of cash.

18 Share capital account balance increased by Rs.800000 during the year. Company also purchased a machinery for Rs.250000 by issuing 25000 shares of Rs.10 each. Measure flow of cash from financing activities.

Six Marks Questions:

19. Star Cinema reported a profit of Rs.50 lakhs for the year ending 31st December 2006 after considering the following:

Depreciation Charged	Rs.500000
Amortization of Goodwill	Rs.50000
Profit on Sale of Machinery	Rs.20000

The Current assets and liabilities at the end of the year and the beginning of the year are given below:

Particulars	31st December, 2006 Rs.	31st December, 2005 Rs.
Debtors	160000	150000
Inventories	270000	300000
Cash at Bank	128000	70000
Creditors	130000	140000
Rent Outstanding	40000	30000

Prepare statement showing cash from operating activities.

20. D.K. Ltd provides its Balance Sheet as on 31st December, 05

And 31st December, 06 as under:

Particulars	As on 31-12-05 Rupees	As on 31-12-06 Rupees
Assets:		
Fixed Assets	1,80,000	3,30,000
Stock	56,000	48,000
Debtors	68,000	86,000
Cash	16,000	26,000
Total	3,20,000	4,90,000
Liabilities:		
Share Capital	1,00,000	2,50,000
General Reserve	16,000	24,000
Profit & Loss Appropriation Account	54,000	76,000
Secured Loan	1,10,000	1,30,000
Creditors	40,000	10,000
Total	3,20,000	4,90,000

Additional Information:

Depreciation on Fixed Assets during the year 2006 was Rs.10,000.
Dividend paid during the year 2006 was Rs.20,000.
You are required to Prepare a Cash Flow Statement for the year 2006.

21. Arvind Ltd. Arrived at a net income of Rs.10,00,000 for the year ended March 31, 2007. Depreciation for the year was Rs.4,00,000. There was a gain of Rs.1,00,000 on assets sold which was credited to profit and loss account. Bills receivable increased during the year Rs.80000 and Bills Payable also increased by Rs.120000. Compute the cash flow from operating activities by the indirect approach.

22. From the information given below you are required to prepare the cash paid for the inventory:

Information	Amount Rs.
Inventory in the beginning	80000
Purchases	320000
Inventory in the end	76000
Inventory creditors in the beginning	28000
Inventory creditors at the end	29000

23. For each of the following transactions, calculate the resulting cash flow and state the nature of cash flow viz. operating, investing and financing

(a) Acquired machinery for Rs. 500000 paying 20% down and executing a bond for the balance payable.

(b) Paid Rs.500000 to acquire shares in Rajat Ltd. and received a dividend of Rs.100000 after acquisition.

(c) Sold machinery of original cost Rs.400000 with an accumulated depreciation of Rs.320000 for Rs.120000.

24. Calculate the amount of cash generated from Operating Activities from the following Profit and Loss A/c and other information.

Profit and Loss A/c

(For the year ended on 31st March, 2008)

Particular		Rs.	Particular	Rs.
To Opening Stock		1,00,000	By Sales	15,00,000
To Purchases		9,00,000	By Dividend Received	25,000
To Wages	50,000		By Accrued Commission	10,000
Less: Prepaid	5,000	45,000	By Profit on Sale of Machine	35,000
To Salaries	60,000		By Closing Stock	1,50,000
Add: Outstanding	20,000	80,000		
To Office Expenses		20,000		
To Selling and Distribution Exp.		35,000		
To Depreciation		20,000		
To Preliminary Exp. Written off		10,000		
To Goodwill Written off		15,000		
To Provision for Tax		15,000		
To Net Profit		4,80,000		

	17,20,000		17,20,000

<u>Other Information</u>:

Particular	March 31, 2007 (Rs.)	March 31, 2007 (Rs.)
Debtors	1,50,000	1,85,000
Bills Receivables	35,000	20,000
Creditors	25,000	10,000
Provision for Tax	30,000	12,000

25. Identify the transactions as belonging to (1)Operating(2)Investing (3)financing Activities (4) Cash Equivalent (1)Cash Sales(2)Issue of Share Capital(3) Redemption of debentures(4)Commission Received(5)Interest received on investment by a finance company(6)Income Tax(7)Buy Back of shares(8)Dividend received on shares by non finance company(8)Purchase of Goodwill(9)Sale of Investment(10)Bank Balance

26. Calculate Cash from operations form the following information

(i) Profit made during the year Rs. 2,50,000 after considering the following:

Deprecation of Fixed assets Rs. 10,000
Amortization of goodwill Rs. 5,000
Transfer to general Reserve Rs. 7,000
Profit on Sale of Land Rs. 3000

(ii) The following is the position of Current assets and Current Liabilities:

Particulars	2005 (Rs)	2006 (Rs)
Debtors	12,000	15,000
Creditors	15,000	10,000
Bills Receivable	10,000	8,000
Prepaid Expenses	6,000	4,000

27. From the following information, prepare Cash Flow Statement:

PARTICULARS	2011	2012
I. EQUITY AND LIABILITIES		
SHAREHOLDERS' FUNDS		
Equity share capital	80000	55000
12% Preference share capital	20000	25000
RESERVE AND SURPLUS		

From the following Balance Sheets, prepare Cash Flow Statement : –

General reserve	4000	4000
Profit and Loss balance	2400	2000
NON CURRENT LLIABILITIES		
15% Debentures	14000	12000
CURRENT LIABILITIES		
Creditors	22000	24000
Provision for taxation	8400	6000
Proposed dividend	11600	10000
Cash credit	13600	25000
TOTAL	176000	163000
II. ASSETS		
NON CURRENT ASSETS		
Fixed assets	80000	82000
Less Accumulated Depreciation	-30000	-22000
CURRENT ASSETS		
Debtors	48000	40000
Stock	70000	60000
Prepaid expenses	1000	600
Cash in hand	7000	2400
TOTAL	176000	163000

Additional information:

1) Provision for tax made Rs.9,400.
2) Fixed assets sold for Rs.10,000, their cost Rs.20,000 and accumulated depreciation till date of sale is Rs.6,000
3) An interim dividend paid during the year Rs.9,000

28. Prepare Cash flow from following details:

Balance Sheets

Particulars	March 31, 2011 (Rs.)	March 31, 2012 (Rs.)
Share holders' Funds		
Share Capital		
Equity Share Capital	1,10,000	1,40,000
Reserve & Surplus		
General Reserve	20,000	25,000
Statement of Profit and Loss Account	30,000	40,000
Non Current Liabilities		
Long Term Borrowings	20,000	15,000
10% Debentures		
Current Liabilities	30,000	20,000
Trade Payable		
Short Term Provisions		
Provision for Tax	25,000	35,000
Other Current Liabilities		
Outstanding Expenses	15,000	20,000
Total	**2,50,000**	**2,95,000**
Assets		
Norn Current Assets		
Fixed Assets (Tangible)		
Machinery	60,000	90,000
Furniture	80,000	75,000
Land	50,000	30,000
Other Non Current Assets		
Discount on issue of Debentures	10,000	7,000
Current Assets		
Inventories	10,000	18,000
Trade Receivable	8,000	5,000
Cash & Cash Equivalents	32,000	70,000
Total	**2,50,000**	**2,95,000**

Additional information:–

i) *Interim dividend paid during the year Rs. 30,000.*

ii) A Machine costing Rs. 10,000, depreciation up to now Rs. 2,000, was sold for Rs. 6,500.

29. Following are the Balance Sheets of Krishna Ltd. as on 31st March 2013 and 2014:

Particulars	**Note No.**	**2013-14 (`)**	**2012-13(`)**
EQUITY AND LIABILITIES			
(1) Shareholders Funds			
(a) Share capital		14,00,000	10,00,000
(b) Reserves and Surplus	1	5,00,000	4,00,000
(2) Non Current Liabilities			
Long term borrowings		5,00,000	1,40,000
(3) Current Liabilities			
Trade Payables		1,00,000	60,000
Short term Provisions	2	80,000	60,000
Total		25,80,000	16,60,000
ASSETS			
(1) Non Current Assets (a) Fixed assets			
(i) Tangible assets	3	16,00,000	9,00,000
(ii) Intangible Assets	4	1,40,000	2,00,000
(2) Current Assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade Receivables		5,00,000	3,00,000
(b) Cash and Cash Equivalents		90,000	60,000
Total		25,80,000	16,60,000

Notes to Accounts:

S.No.	**Particulars**	**As on 31.3.2014 (`)**	**As on 31.3.2013 (`)**

1.	Reserves and Surplus Surplus (i.e. balance in Statement of Profit and Loss)	5,00,000	4,00,000
2.	Short Term provisions Provision for tax	80,000	60,000
3.	Tangible assets Machinery Less Accumulated depreciation	17,60,000 (1,60,000)	10,00,000 (1,00,000)
4.	Intangible Assets Goodwill	1,40,000	2,00,000

Prepare a Cash Flow Statement after taking into account the following adjustment:

(i) Tax paid during the year amounted to ` 70,000.

Following is the Balance Sheets of Akash Ltd. as at 31-3-2014.

Akash Ltd.

Balance Sheet

	PARTICULARS	NOTE NO.	2013-14 ₹	2012-13 ₹
I	**EQUITY & LIABILITIES**			
	(1) Shareholders' Funds (a) Share Capital		15,00,000	14,00,000
	(b) Reserves & Surplus	1	2,50,000	1,10,000
	(2) Non-Current Liabilities			
	(a) Long Term Borrowings		2,00,000	1,25,000

	(3) Current Liabilities			
	(a) Short term borrowings	2	12,000	10,000
	(b) Trade Payable		15,000	83,000
	(c) Short term provisions	3	18,000	11,000
	TOTAL		**19,95,000**	**17,39,000**

30.

II	**(1) Non-Current Assets**			
	(a) Fixed Assets			
	(i) Tangible assets	4	18,60,000	16,10,000
	(ii) Intangible assets	5	50,000	30,000
	(2) Current Assets			
	(a) Current Investments		8,000	5,000
	(b) Inventories		37,000	59,000
	(c) Trade Receivables		26,000	23,000
	(d) Cash & Cash Equivalents		14,000	12,000
	TOTAL		**19,95,000**	**17,39,000**