T.Y.B.COM.

SEMESTER - VI (CBCS)

FINANCIAL ACCOUNTING AND AUDITING PAPER-IX

FINANCIAL ACCOUNTING

SUBJECT CODE : 83001

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Group A: Advanced Accountancy

1. Financial Accounting and Auditing Paper-IX: Financial Accounting

Modules at a Glance

Sr. No.	Modules	No. of Lectures
1	AS – 14 - Amalgamation, Absorption & External Reconstruction	15
2	Accounting of Transactions of Foreign Currency	15
3	Liquidation of Companies	10
4	Underwriting of Shares & Debentures	10
5	Accounting for Limited Liability Partnership	10
	Total	**60**

Sr. No.	Modules / Units
1	**AS – 14 - Amalgamation, Absorption & External Reconstruction (excluding inter-company holdings)**
	In the nature of merger and purchase with corresponding accounting treatments of pooling of interests and purchase method respectively. Meaning and Computation of purchase consideration. Problems based on purchase method only.
2	**Accounting of Transactions of Foreign Currency**
	In relation to purchase and sale of goods, services and assets and loan and credit transactions. Computation and treatment of exchange rate differences
3	**Liquidation of Companies**
	Introduction, Underwriting, Underwriting Commission Provision of Companies Act with respect to Payment of underwriting commission Underwriters, Sub-Underwriters, Brokers and Manager to issues Types of underwriting, Abatement Clause Marked, Unmarked and Firm-underwriting applications, Liability of the underwriters in respect of underwriting contract Practical problems
4	**Underwriting of Shares & Debentures**
	Meaning of liquidation or winding up Preferential payments Overriding preferential payments Preparation of statement of affairs, deficit / surplus account Liquidator's final statement of account
5	**Accounting for Limited Liability Partnership**
	Statutory Provisions Conversion of partnership firm into LLP Final Accounts

Module-1

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AS 14 - AMALGAMATION, ABSORPTION & EXTERNAL RECONSTRUCTION - I

Unit Structure :

1.0 OBJECTIVES

After reading this unit, learner will be able:

- To acquaint the knowledge of Amalgamation, Absorption, and External Reconstruction
- To understand the different methods of Amalgamation
- To compute the Purchase Consideration amount
- To be aware of the various methods of determining Purchase Consideration.
- To apply practically the procedures of the Amalgamation Accounting for a company.

1.1 INTRODUCTION

1. Amalgamation:

A merger of two or more companies into a single entity is known as an amalgamation. The assets and liabilities of the merging companies become part of the merged company in an amalgamation. In exchange for their shares in the merging companies, the shareholders of the merging companies receive shares in the merged company.

Example: Suppose Company A and Company B merge to form Company C. Company A and Company B shareholders receive shares in Company C in proportion to their respective shareholdings in the merging companies or as determined by the terms of amalgamation.

2. Absorption:

Absorption is a type of amalgamation in which one company absorbs another, and the absorbed company goes out of business. In exchange for their shares in the absorbed company, the absorbed company's shareholders receive shares in the absorbing company.

For instance, if Company A absorbs Company B, Company B ceases to exist. Company B shareholders receive shares in Company A in proportion to their shareholding in Company B or as determined by the terms of absorption.

3. External Reconstruction:

When a company has been making losses for several years and is facing a financial crisis, it can sell its business to another newly incorporated company. In reality, the new company is formed to take over the old company's assets and liabilities. This is known as external reconstruction. In simple words, external reconstruction refers to the sale of an existing company's business to a new company formed for the purpose. External reconstruction involves the liquidation of one company and the formation of a new one. The liquidated company is known as "Vendor Company," while the new company is known as "Purchasing Company." Vendor company shareholders become purchasing company shareholders.

1.2 ACCOUNTING STANDARD 14 ISSUED BY INSTITUTE OF CHARTERED ACCOUNTS OF INDIA

1. Scope : Accounting Standard 14 (AS-14) is a standard issued by the Institute of Chartered Accountants of India that provides guidance on amalgamation accounting. The standard applies to all companies involved in amalgamations, whether listed or unlisted, and it requires the accrual basis of accounting to be used in the preparation of financial statements.

2. Amalgamation : According to AS-14, an amalgamation is a combination of two or more companies to form a new company, pursuant to the provisions of the Companies Act, 1956 or any other applicable statute. It involves the acquisition of one company by another, and after the amalgamation, the acquired company is dissolved and ceases to exist.

3. Transferor Company : The transferor company is the company that transfers its assets, liabilities, and reserves to another company, known as the transferee company, in an amalgamation. The transferor company is also known as the vendor company.

4. Transferee Company : The transferee company is the company into which the transferor company is amalgamated, or the company that acquires the assets, liabilities, and reserves of the transferor company in an amalgamation. The transferee company is also known as the purchasing company.

AS-14 also provides guidance on the accounting treatment of amalgamations, such as accounting methods, disclosures, and financial statements for each type of amalgamation. It establishes the principles for determining the accounting policies, disclosures, and financial statements for amalgamations, and it requires the consolidated financial statements of the merging companies to provide a true and fair view of the merged entity's financial position, performance, and cash flows.

1.3 TYPES OF AMALGAMATION

AS-14, "Accounting for Amalgamations", recognizes two types of amalgamation:

1. Amalgamation in the nature of merger :

Amalgamation in the nature of merger is a type of amalgamation that satisfies all the following conditions:

a. All assets and liabilities of the transferor company become assets and liabilities of the transferee company.

b. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

c. The consideration for the amalgamation is discharged only by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

d. The business of the transferor company is intended to be carried on, in whole or in part, by the transferee company.

e. No adjustment is intended to be made to the book value of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company, except to ensure uniformity of accounting policies.

If an amalgamation satisfies all the above conditions, it is considered to be an amalgamation in the nature of merger and is accounted for using the pooling of interests method.

2. Amalgamation in the nature of purchase :

If Amalgamationdoes not satisfy any one of the above five conditions then it willbe regarded as Amalgamation in the nature of purchase AS-14 requires different accounting treatments for these two types of amalgamations. In the case of an amalgamation in the nature of merger, the pooling of interests method is used to account for the amalgamation, while in the case of an amalgamation in the nature of purchase, the purchase method is used.

1.4 DISTINCTION BETWEEN AMALGAMATION IN THE NATURE OF MERGER AND PURCHASE

Merger	Purchase
1. Shareholders of the transferor company who own 90% of the face value of the transferee company become shareholders of the transferee company.	1. Transferor company shareholders may not become transferee company shareholders.
2. There is a genuine polling of the amalgamating companies' assets and liabilities.	2. There is no genuine polling of the amalgamation companies' assets and liabilities.
3. Shareholders' interests are also pooled.	3. There may be no pooling of shareholder interests.
4.The values of assets and liabilities, as well as reserves, represent the same values of the merging companies.	4. The assets and liabilities of the merging companies may have different values.

Amalgamation in the nature of merger is not covered in the Mumbai University T.Y.B.Com syllabus, so it will not be covered in this book.

1.5 PURCHASE CONSIDERATION

Purchase consideration is the amount paid by the transferee company (purchaser) to the transferor company (vendor) in exchange for acquiring the assets and liabilities of the transferor company in an amalgamation. AS-14 provides the following techniques for calculating the purchase consideration:

1. Net Assets Method: In this method, the purchase consideration is calculated as the excess of the fair value of the net assets acquired over the consideration paid to the transferor company. The net assets are calculated as the difference between the fair value of the assets acquired and the fair value of the liabilities assumed.

For example, if the fair value of the assets acquired from the transferor company is Rs. 20,000 and the fair value of the liabilities assumed is Rs. 12,000, the net assets would be Rs. 8,000. If the transferee company pays Rs. 10,000 to the transferor company, the net assets method would result in a purchase consideration of Rs. 2,000.

Particulars	Amount (₹)	Amount (₹)
Revised Values of Assets taken over at agreed values(excluding fictitious assets)		
Goodwill	XX	
Land & Buildings	XX	
Plant & Machinery	XX	
Furniture & Fittings	XX	
Motor vehicles	XX	
Investments	XX	
Inventories	XX	
Trade Receivable	XX	
Bills Receivable	XX	
Cash & Cash Equivalent	XX	
Bank	XX	
Total		XX
Less: Revised Values of Liabilities taken over at agreed value		
Trade Payables	XX	
Bills payables	XX	
Bank overdraft	XX	
Debentures	XX	
Total		(XX)
Purchase consideration		XX

2. Net Payment Method: The purchase consideration in this method is equal to the net payment made by the transferee company to the transferor company. The net payment is calculated as the difference between the total amount of cash or cash equivalents or any securities acquired from the transferor company and the total amount of payments made to the transferor company.

For example, if the transferee company say Nandini Ltd. buys assets and liabilities worth Rs. 75,000 from the transferor company say Ragini Ltd. and pays Rs. 40,000 in form of equity shares in transferee company, pays Rs. 30,000 in form of Preference shares in transferee company, Rs. 20,000 in form of Debentures in transferee company,Rs. 10,000 in form of cash, the net payment method results in a Rs. 25,000 purchase consideration.

Statement Showing Calculation of Purchase Consideration

Particulars	Amount	Amount
Equity Shares in Nandini Ltd.	40,000	
Preference Shares in Nandini Ltd.	30,000	
Debentures in Nandini Ltd.	20,000	
Cash	10,000	
Total		1,00,000
Less: Net Assets Taken Over		(75,000)
Purchase Consideration		25,000

3. Lumpsum Method: The transferee may provide the amount of purchase consideration directly, eliminating the need to calculate the purchase consideration.

   For example, Soma Ltd. agrees to buy out Manappa Ltd. business for ₹ 95,00,000. So the PC is ₹ 95,00,000.

4. Exchange of shares Method / Intrinsic value Method: The intrinsic value of the shares of both companies is calculated using this method, and the transferor company then issues the shares to the transferee company based on these values.

1.6 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEROR COMPANY

If Ledger Accounts are to opened:

1. Realisation A/c
2. Equity Shareholders A/c
3. Preference Shareholders A/c
4. Cash/ Bank A/c
5. Liabilities not taken over A/c
6. Transferee company's A/c
7. Equity Shares in transferee company A/c
8. Preference Shares in transferee company A/c

If Journal Entries are to be passed

Sr. No.	Particulars	Dr. Rs	Cr. Rs.
1	<u>Recording Purchase of Business</u>		
	Business Purchase A/c Dr.	XX	
	To Liquidator of transferor company		XX
	(The entry should be passed at purchase consideration amount.)		
2	<u>Recording of assets and liabilities taken over</u>		
	Sundry assets A/c Dr.	XX	
	(With Agreed values)		
	Goodwill A/c (if any) Dr.	XX	
	To Sundry Liabilities A/c		XX
	To Business Purchase A/c		XX
	To Capital Reserve A/c		XX
3	<u>Recording Discharge of purchase consideration</u>		
	Liquidator of transferor company A/c Dr.	XX	
	Discount on issue of shares A/c Dr.	XX	
	To Equity Share Capital A/c.		XX
	To Preference Share Capital A/c.		XX
	To Securities Premium A/c.		XX
4	<u>Discharge of Liabilities of Transferor Company</u>		
	Debentures of Transferor Company A/c Dr.	XX	
	Discount on issue of Debentures A/c Dr.	XX	
	To new Debentures A/c.		XX
	To Securities Premium A/c.		XX
5	<u>Recording of payment of liquidation expenses</u>		
	Capital Reserve/ Goodwill A/c. Dr.	XX	
	To Cash/Bank A/c.		XX
6	<u>Recording of Expenses incurred by the transferee company for its own formation.</u>		
	Preliminary Expenses A/c. Dr.	XX	
	To Cash / Bank A/c		XX

7	Recording of Statutory Reserve of transferor company Amalgamation adjustment A/c Dr. To Statutory Reserve A/c.	 XX 	 XX
8	Adjusting of mutual indebtedness of transferor & transferee company Sundry Creditors A/c. Dr. To Sundry Debtors A/c.	 XX 	 XX

1.7 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEREE COMPANY

Sr. No.	Particulars	Dr. Rs	Cr. Rs.
1	Recording Purchase of Business Business Purchase A/c Dr. To Liquidator of transferor company (The entry should be passed at purchase consideration amount.)	 XX 	 XX
2	Recording of assets and liabilities taken over Sundry assets A/c Dr. (With Agreed values) Goodwill A/c (if any) Dr. To Sundry Liabilities A/c To Business Purchase A/c To Capital Reserve A/c	 XX XX 	 XX XX XX
3	Recording Discharge of purchase consideration Liquidator of transferor company A/c Dr. Discount on issue of shares A/c Dr. To Equity Share Capital A/c. To Preference Share Capital A/c. To Securities Premium A/c.	 XX XX 	 XX XX XX

4	Discharge of Liabilities of Transferor Company Debentures of Transferor Company A/c Dr. Discount on issue of Debentures A/c Dr. To new Debentures A/c. To Securities Premium A/c.	 XX XX	 XX XX
5	Recording of payment of liquidation expenses Capital Reserve/ Goodwill A/c. Dr. To Cash/Bank A/c.	 XX	 XX
6	Recording of Expenses incurred by the transferee company for its own formation. Preliminary Expenses A/c. Dr. To Cash / Bank A/c	 XX	 XX
7	Recording of Statutory Reserve of transferor company Amalgamation adjustment A/c Dr. To Statutory Reserve A/c.	 XX	 XX
8	Adjusting of mutual indebtedness of transferor & transferee company Sundry Creditors A/c. Dr. To Sundry Debtors A/c.	 XX	 XX

1.8 EXERCISE

1. What is purchase consideration? What are different methods of Amalgamation?
2. Conditions for amalgamation in the nature of purchase.
3. Explain the Term:

   a. Amalgamation;

   b. Absorption;

   c. External Reconstruction

Illustration:1

Following is Balance Sheet of Toofan Ltd as on 31st March 2023

Liabilities	Rs	Assets	Rs
Share Capital		Goodwill	1,00,000
10,000 Equity share of Rs 100	10,00,000	Machinery	2,50,000
2,000 8% Preference Shares of Rs.100 each fully paid	4,00,000	Land & Building	5,00,000
Securities Premium	2,00,000	Furniture	1,00,000
Revenue Reserves	1,00,000	Trade Receivables	4,50,000
Trade Payables	3,00,000	Inventory	4,00,000
		Cash and Bank	2,00,000
	20,00,000		20,00,000

Toofan Ltd received the following offers from Hanuman Ltd.:

1. HanumanLtd. agrees to pay ₹ 25,00,000 cash.
2. Hanuman Ltd. agrees to take over on the following terms:
   a) Equity shareholders to given 20 Equity shares fully paid of Rs.15each in Hanuman Ltd.for every 2 Equity shares of Toofan Ltd.
   b) 8% Preference shareholders of ToofanLtd. to be issued 10% Preferance shares of Rs.100 each fully paid on 1:1 basis.
   c) Sundry Creditors to be settled in cash.
3. Toofan Ltd. Received another offer Aashna Ltd.offers to take over business of Toofan Ltd.on the following terms:
   a) Assets to be revalued as follows:

Goodwill	1,50,000
Land &Building	9,00,000
Trade Receivables	4,00,000
Inventories	3,50,000
Furniture	80,000

a. Sundry creditors to be taken over subject to 5% discount.

b. 7% Preference shareholders to be issued 10% Preference shares of Rs. 100 each of same amount. Balance of purchase consideration to be discharged by issue of Equity shares of Rs.10 eachatpar.

c. Prabhu Ltd. agreed to take over Mihir Ltd. on the basis of intrinsic value of Equity share of Toofan., revaluing Goodwill at Rs.2,00,000. The entire purchase price to be paid by issue of 2,0009% Preference shares of Rs.100 each atpar and balance in Equity shares of Rs.10 each to beconsidered worth Rs. 12.50.each.

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AS 14 - AMALGAMATION, ABSORPTION & EXTERNAL RECONSTRUCTION - II

Illustration 1. (Payment Method)

Given below are the extracts from the Balance Sheets of Y Ltd. as at 31st March, 2019.

Particulars	Rs. (in Lakhs)
Equity Share Capital of Rs. 10 each	10.00
8% Pref. Share Capital of Rs. 100 each	2.00
Reserves and Surplus	3.00
12% Debentures of Rs. 100 each	1.00
Current Liabilities	2.20
Non-Current Assets	12.80
Current Assets	5.40

X Ltd. absorbs Y Ltd. as on that date on the following terms:

1. 12% Debentures of Y Ltd. are to be discharged by X Ltd. by issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.

2. The issue of such an amount of fully paid 9% Preference Shares in X Ltd. at 125% as is sufficient to discharge 8% Preference Shares in Y Ltd. at a premium of 20%.

3. The Equity Shareholders of Y Ltd. will receive the requisite number of Equity Shares of X Ltd. The Equity Shares of X Ltd. are to be of a nominal value of Rs. 10 each credited as Rs. 8 paid up and valued at Rs. 15 per share.

4. The transferee company shall pay the cost of absorption which amounts to Rs. 100000.

Show the calculation and discharge of Purchase Consideration.

Solution.

Calculation and Discharge of Purchase Consideration

Particulars	Rs.
1920, 9% Preference Shares [(200000 + 20%)/125) X Rs. 125]	240000
100000 Equity Shares [100000 X 15]	1500000
Total Purchase Consideration	1740000

Note. According to AS-14, the amount paid by purchasing company to discharge the debenture holders and the liquidation expenses of Vendor Company are not considered as part of purchase consideration.

Illustration 2.

Calculate the amount of purchase consideration payable by Mini Limited to Maxi Limited. The Summary Balance Sheet of Maxi Limited as on March 31, 2012 is as follows:

Liabilities	Amount	Assets	Amount
Equity Share Capital (Shares of Rs. 10)	150000	Goodwill	30000
8% Pref. Share Capital (Shares of Rs. 10)	60000	Land	35000
Capital Reserve	8000	Building	40000
General reserve	14000	Machinery	100000
Profit and Loss A/c	3000	Investment	25000
7.5% Debentures (Rs. 100 each)	30000	Stock	24000
Sundry Creditors	12000	Debtors	15000
Outstanding Expenses	8000	Cash & Bank	13000
		Share Issue Expenses	3000
Total	285000	Total	285000

Mini Limited decided to take over Maxi Limited by issuing 6 Equity Shares of Rs. 10 each fully paid and Rs. 6.50 in cash for every 5 Equity Shares held in Maxi Ltd. The Preference Shareholders are to be paid at premium of 15% by issue of 10% Preference Shares in Mini Ltd. Debenture holders of Maxi Ltd. will be paid 9.5% Debentures of Mini Ltd. for equal value. Realisation expenses of Rs. 7500 are to be borne and paid by Mini Ltd to Maxi Ltd.

Solution.

Calculation of Purchase Consideration (Net Payment Method)

Payment to	Old No.	Exchange Ratio	New No.	Issue Price	Amount
Equity Shareholders Equity Shares Cash	15000 15000	5:6 5:1	18000 3000	10.00 6.50	180000 19500
Preference Shareholders 10% preference Shares Rs. 60000 + 15% Premium					69000
Total Purchase Consideration					268500

Note: Payment to debenture holders and payment for realization expenses will not be considered for calculation of Purchase consideration (As per AS 14)

Illustration 3. (Net Asset Method)

Homer Ltd. and Illiad Ltd. Propose to amalgamate.

Goodwill may be taken at Rs. 96000 for Homer Ltd. and Rs. 38000 for Illiad Ltd. The Stock of Homer Ltd. and Illiad Ltd. to be taken at Rs. 204000 and Rs. 142000 respectively. You are required to find out the purchase consideration receivable by both the companies on the basis of the Net Assets Method. Their financial position as on December 31, 2012 were:

Liabilities	Homer	Illiad	Assets	Homer	Illiad
Share Capital: Equity Shares of Rs. 10 each	500000	200000	Fixed Assets (at cost less depreciation)	400000	100000
Reserves and Surplus: General Reserve P & L A/c	200000 100000	20000 30000	Investment	100000	
Current Liabilities: Creditors	100000	50000	Current Assets: Stock Debtors Cash & Bank	200000 170000 30000	130000 60000 10000
Total	900000	300000	Total	900000	300000

Solution:

Purchase Consideration

Particulars	Homer (Rs)	Illiad (Rs)
Assets		
Goodwill (as given)	96000	38000
Fixed Assets	400000	100000
Investment	100000	-
Stock (Agreed Value)	204000	142000
Debtors	170000	60000
Cash & Bank	30000	10000
Total	1000000	350000
Less. Creditors	100000	50000
Net Assets / Purchase Consideration	900000	300000

Illustration 4

The balance sheet of Shivam Ltd as on 31st December 2020 was below.

Liabilities	Amount	Assets	Amount
Equity share capital of Rs. 10 each	150000	Goodwill	20000
11.5% Preference share capital of Rs. 100 each	50000	Building	49000
Securities Premium	10000	Plant	115000
General reserve	10000	Furniture	5000
Profit & Loss A/c	5000	Investment	10000
Workmen Compensation Fund	5000	Stock	20000
Bills Payable	6000	Debtors	15000
Creditors	8000	Bills Receivable	5000
Provident Fund	6000	Cash at Bank	10000
		Preliminary Expenses	1000
Total	250000	Total	250000

Small Limited wants to take over the business on the following terms and valuation:

Goodwill: Rs. 30000 Building: Rs. 60000

Plant: Rs. 100000 Furniture: Rs. 4000

Investment at book value.

Stock at Rs. 15000, Debtors at 10% provision, Bills receivable at par, cash is not taken over.
The purchase consideration is to be satisfied to the extent of Rs. 40000 by payment in cash, and balance is payable in equity shares of Rs. 10 each.

Solution

Calculation of Purchase Consideration

Particulars	**Amt**	**Amt**
Assets taken over		
Goodwill		30000
Building		60000
Plant		100000
Furniture		4000
Investment		10000
Stock		15000
Debtors	15000	
Less. R.D.D	-1500	13500
Bills Receivable		5000
Total (A)		237500
Liabilities Taken Over		
Workmen Compensation Fund		5000
Bills payable		6000
Creditors		8000
Provident fund		6000
Total (B)		25000
Purchase Consideration (A – B)		212500

Discharge of Purchase Consideration.

In Cash	Rs. 40000
In equity shares of Rs. 10 each	Rs. 172500
Total	Rs. 212500

Amalgamation

Illustration 5.

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

Summary Balance Sheet of A Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
Shares of Rs. 50 each	50000	Goodwill	5000
General reserve	20000	Land and Building	17000
Profit and Loss A/c	3000	Plant and Machinery	24000
Sundry Creditors	4000	Stock	10000
Bills Payable	4000	Debtors	12000
		Furniture & Fittings	5000
		Cash at Bank	8000
Total	81000	Total	81000

Summary Balance Sheet of B Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
800 Shares of Rs. 50 each	40000	Goodwill	2000
Bank Overdraft	8000	Land and Building	10000
Sundry Creditors	8000	Plant and machinery	16000
		Stock	7500
		Furniture and Fittings	7500
		Debtors	7000
		Cash	300
		Profit and Loss A/c	5700
Total	56000	Total	56000

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

A Ltd:

(a) to provide for reserve for bad debts at the rate of 5% on Debtors

(b) to write off Rs. 400 from stock; and

(c) to write off 33 1/3% from plant and machinery

B Ltd:

(a) to eliminate its goodwill and profit & loss a/c balance

(b) to write off bad debts Rs. 1000 and to provide reserve of 5% on the balance of debtors;

(c) to write off Rs. 1400 from the value of stock.

You are required to pass the journal entries in the books of A Ltd. & B Ltd. giving effects to the above transactions. Also pass the journal entries in the books of AB Ltd.

Solution

Statement of Purchase Consideration (Net Asset Method)

Particulars	**A Ltd.**	**B Ltd.**	**AB Ltd.**
Assets:			
Goodwill	5000	-	5000
Land and Building	17000	10000	27000
Plant and Machinery	16000	14400	30400
Furniture and Fittings	5000	7500	12500
Stock	9600	6100	15700
Debtors	12000	6000	18000
Cash	8000	300	8300
Total (A)	72600	44300	116900
Less. External Liabilities			
Reserve for Bad Debts	600	300	900
Creditors	4000	8000	12000
Bills Payable	4000	-	4000
Bank Overdraft	-	8000	8000
Total (B)	8600	16300	24900
Purchase Consideration (A – B)	64000	28000	92000
Fully paid shares of Rs. 100 each AB Limited	64000	28000	92000

Note: Assets for which valuation is not given are taken at book value. Eg. Land & Building, Furniture etc.

Journal of A Limited

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Assets Tfd. Realisation A/c Dr To Goodwill To Land and Building To Plant and Machinery To Stock To Debtors To Furniture & Fixtures To Cash (being the assets transferred to close the assets a/cs on amalgamation)	81000	5000 17000 24000 10000 12000 5000 8000
2	Liabilities Tfd. Sundry Creditors A/c Dr Bills Payable A/c Dr To Realisation A/c (Being transfer of current liabilities on Amalgamation)	4000 4000	8000
3	Purchase Consideration Due AB Limited A/c Dr To Realisation A/c (Being the purchase consideration due for take-over of assets and liabilities)	64000	64000
4	Loss on Realisation Equity Shareholders A/c Dr To Realisation A/c (Being the loss on realization transferred)	9000	9000
5	Capital Tfd. Equity Share Capital A/c Dr To Equity Shareholders A/c (Being the transfer on amalgamation to close capital a/c)	50000	50000

6	Reserves Tfd. General Reserve A/c Dr Profit and Loss A/c Dr To Equity Shareholders A/c (Being transfer of reserves etc. on amalgamation)	20000 3000	23000
7	PC Received Equity Shares in AB Limited A/c Dr To AB Limited (Being the purchase consideration received from AB Ltd vide agreement)	64000	64000
8	Payment to Equity Shareholders Equity Shareholders A/c Dr To Equity Shares in AB Limited (Being the payment of purchase consideration to Equity Shareholders vide agreement of amalgamation)	64000	64000

Journal of B Limited

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Assets Tfd. Realisation A/c Dr To Goodwill To Land and Building To Plant and Machinery To Stock To Debtors To Furniture & Fixtures To Cash (being the assets transferred to close the assets a/cs on amalgamation)	50300	2000 10000 16000 7500 7000 7500 300

2	Liabilities Tfd. Sundry Creditors A/c Dr Bank Overdraft A/c Dr To Realisation A/c (Being transfer of current liabilities on Amalgamation)	8000 8000	16000
3	Purchase Consideration Due AB Limited A/c Dr To Realisation A/c (Being the purchase consideration due for take-over of assets and liabilities)	28000	28000
4	Loss on Realisation Equity Shareholders A/c Dr To Realisation A/c (Being the loss on realization transferred)	6300	6300
5	Capital Tfd. Equity Share Capital A/c Dr To Equity Shareholders A/c (Being the transfer on amalgamation to close capital a/c)	40000	40000
6	Reserves Tfd. Equity Shareholders A/c Dr To Profit and Loss A/c (Being transfer of reserves etc. on amalgamation)	5700	5700
7	PC Received Equity Shares in AB Limited A/c Dr To AB Limited (Being the purchase consideration received from AB Ltd vide agreement)	28000	28000

8	Payment to Equity Shareholders Equity Shareholders A/c Dr To Equity Shares in AB Limited (Being the payment of purchase consideration to Equity Shareholders vide agreement of amalgamation)	28000	28000

Journal of AB Limited

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Takeover of A Limited (Purchase Consideration) Goodwill A/c Dr Land and Building A/c Dr Plant and Machinery A/c Dr Furniture Fittings A/c Dr Stock A/c Dr Debtors A/c Dr Cash A/c Dr To Creditors To Bills Payable To Reserve for Bad Debts To Liquidator of A Ltd. (Being the assets and liabilities taken over at agreed value)	5000 17000 16000 5000 9600 12000 8000	4000 4000 600 64000
2	Liquidator of A Ltd. A/c Dr To Equity Share Capital (Being payment of purchase consideration)	64000	64000

3	Takeover of B Limited (Purchase Method) Land and Building A/c Dr Plant and Machinery A/c Dr Furniture Fittings A/c Dr Stock A/c Dr Debtors A/c Dr Cash A/c Dr To Creditors To Bank Overdraft To Reserve for Bad Debts To Liquidator of B Ltd. (Being the assets and liabilities taken over at agreed value)	10000 14400 7500 6100 6000 300	8000 8000 300 28000
4	Liquidator of B Ltd. A/c Dr To Equity Share Capital (Being payment of purchase consideration)	28000	28000

Illustration 6)

Following is the summary Balance Sheets of X Ltd. and Y Ltd.

Balance Sheets as on 31st March, 2017

Liabilities	**X Ltd.**	**Y Ltd**	**Assets**	**X Ltd.**	**Y Ltd.**
Equity Share Capital of Rs. 10 each	7500000	4500000	Building	2500000	1550000
Export Profit reserves	300000	300000	Machinery	3250000	1700000
Profit & Loss A/c	700000	600000	Stock	2550000	1800000
General Reserves	200000	450000	Debtors	900000	1000000

12% Debentures of Rs. 100 each	500000	300000	Bank	700000	550000
Sundry Creditors	700000	550000	Share Issue Expenses	-	100000
Total	9900000	6700000	Total	9900000	6700000

Z Ltd. was formed to acquire all assets and liabilities of X Ltd. and Y Ltd. on the following terms:

1. Z Ltd. to have an authorized share capital of Rs. 5 crores divided into 500000 equity shares of Rs. 100 each.

2. The business of both companies were taken over for a total price of Rs. 1.2 crores to be discharges by Z Ltd. by issue of equity shares of Rs. 100 each at a premium of 20%.

3. The shareholders of X Ltd. and Y Ltd. to get shares in Z Ltd. in the ratio of net assets values of their respective shares.

4. The Debentures of both the companies to be converted into equivalent number of 14% Debentures of Rs. 100 each in Z Ltd. at a discount of 10%.
5. All the tangible assets of both the companies are taken over by Z Ltd. at book values except the following:

Assets	**X Ltd.**	**Y Ltd**
Building	2800000	1820000
Machinery	3150000	1600000

6. Sundry Creditors of X Ltd. and Y Ltd. are taken over at Rs. 650000 and Rs. 500000 respectively.

7. Statutory reserves are to be maintained for 3 years more.

You are required to :-

1. Compute purchase consideration of X Ltd. and Y Ltd.
2. Pass Journal Entries in the books of Z Ltd.
3. Prepare balance sheet after amalgamation. Apply purchase method.

Solution.

Purchase Consideration and Settlement

Particulars	X Ltd	Y Ltd	Z Ltd (BS)
Assets Taken Over			
Building	2800000	1820000	4620000
Machinery	3150000	1600000	4750000
Stock	2550000	1800000	4350000
Debtors	900000	1000000	1900000
Bank	700000	550000	1250000
(A)	10100000	6770000	16870000
Liabilities Taken Over			
Debentures	450000	270000	720000
Creditors	650000	500000	1150000
(B)	1100000	770000	1870000
Net Assets (A – B)	9000000	6000000	15000000
Purchase Consideration (in ratio of 9:6) X Ltd. : 120000 X 9 / 15 Y Ltd. : 120000 X 6 / 15	7200000	4800000	12000000
No of Shares (@ Rs. 120 each) X Ltd. : 7200000 / 120 Y Ltd. : 4800000 / 120	60000	40000	100000

Journal of Z Ltd.

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Business Purchase A/c Dr. To Liquidator of X Ltd To Liquidator of Y Ltd.	12000000	7200000 4800000

	(Being the purchase of business as per agreement)		
2	Building A/c Dr Machinery A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr To 12% Debentures of X Ltd A/c To Sundry Creditors A/c To Business purchase A/c To Capital reserve A/c (Being the assets and liabilities of X Ltd. taken over recorded)	2800000 3150000 2550000 900000 700000	450000 650000 7200000 1800000
3	Liquidator of X Ltd. A/c Dr To Equity Share Capital A/c To Securities Premium A/c (Being the purchase consideration of X Ltd. discharged)	7200000	6000000 1200000
4	12% Debentures of X Ltd. A/c Dr Discount on issue of debentures A/c Dr To 14% Debentures A/c (Being the issue of 12% Debentures to 14% Debenture holders of X Ltd.)	450000 50000	500000

5	Building A/c Dr Machinery A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr To 12% Debentures of Y Ltd A/c To Sundry Creditors A/c To Business purchase A/c To Capital reserve A/c (Being the assets and liabilities of Y Ltd. taken over recorded)	1820000 1600000 1800000 1000000 550000	270000 500000 4800000 1200000
6	Liquidator of Y Ltd. A/c Dr To Equity Share Capital A/c To Securities Premium A/c (Being the purchase consideration of Y Ltd. discharged)	4800000	4000000 800000
7	12% Debentures of Y Ltd. A/c Dr Discount on issue of debentures A/c Dr To 14% Debentures A/c (Being the issue of 12% Debentures to 14% Debenture holders of Y Ltd.)	270000 30000	300000

8	Amalgamation Adjustment Reserve A/c Dr To Export Profit Reserve A/c (X) To Export Profit Reserve A/c (Y) (Being the identity of Statutory Reserves retained)	600000	300000 300000

Balance Sheet of Z Ltd. as at 31.03.2017 (After Amalgamation)

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	10000000
b.	Reserves and Surplus	2	5000000
2.	Non-Current Liabilities		
	Long Term Borrowings (14% Debentures)		800000
3.	Current Liabilities		
	Trade Payables		1150000
	Total		16950000
II	Assets		
1.	Non-Current Assets		
a.	Property, Plant & Equipment		
	Tangible Assets	3	9370000
b.	Other Non-Current Assets	4	80000
2.	Current Assets		
a.	Inventories		4350000
b.	Trade Receivables		1900000
c.	Cash & Cash Equivalent (Bank)		1250000
	Total		16950000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
	Equity Share Capital	
	Authorised Shares : 500000 Equity Shares of Rs. 100 each	50000000
	Issued and Fully paid up shares: 100000 Equity Shares of Rs. 100 each	10000000
2.	Reserves and Surplus	
a.	Capital Reserve (on Amalgamation)	3000000
b.	Export Profit Reserve	600000
c.	Security premium	2000000
d.	Amalgamation Adjustment Reserve	(600000)
	Total	5000000
3.	Tangible Assets	
	Building	4620000
	Machinery	4750000
	Total	9370000
4.	Other Non-Current Assets	
	Discount on issue of Debentures (Assumed, amortizable after 12 months)	80000
	Total	80000

Note:

1. Amalgamation Adjustment Reserve is treated as a separate line item under "Reserves" vide the amendment in AS 14 by the MCA
2. Alternatively, Discount on issue of debentures may be written off against Security premium.

Illustration 7

Aqua Engineers Ltd, a newly formed company acquired business of Beeta Ltd. as on 31.03.2017. The summary Balance Sheet of Beeta Ltd. as on that date was as under:

Liabilities	Amount	Assets	Amount
Equity Shares of Rs. 10 each fully paid	150000	Goodwill	20000
General Reserve	25000	Land and Building	80000
Export Profit reserve	8000	Plant	80000
Profit and Loss A/c	18000	Investment	30000

12% Debentures	60000	Stock	40000
Sundry Creditors	37000	Debtors	50000
Provision for Tax	30000	Bills Receivable – Trade	8000
		Bank	20000
Total	328000	Total	328000

Terms of Acquisition

1. Aqua Engineers Ltd. issued 25000 equity shares of Rs. 10 each at Rs. 12 per share.
2. Aqua Engineers Ltd. paid Rs. 4 in cash for each shares of Beeta Ltd.
3. Aqua Engineers Ltd. discharged 12% Debentures of Beeta Ltd. at 10% Premium by issue of its 15% Debentures at a discount of 12%.
4. Aqua Engineers Ltd. paid absorption expenses Rs. 3000
5. Aqua Engineers Ltd. revalued Land & Building at Rs. 100000, Plant at 10% below book value, Stock at Rs. 35000 and debtors subject to 5% provision for doubtful debts.
6. Beeta Ltd. sold one-fifth of the shares received from Aqua Engineers Ltd at Rs. 13 per share.
7. Aqua Engineers Ltd issued 10000 equity shares of Rs. 10 each at Rs. 12 each to the public. The issue was fully subscribed and paid for.
8. Export Profit Reserve is to be maintained for next three years.

You are required to:

1. Compute Purchase Consideration
2. Prepare Realization Account, Aqua Engineers Ltd. Account, Equity Shareholders Account, Equity Shares in Aqua Engineers Account and Bank Account in the books of Beeta Ltd.
3. Prepare Balance Sheet of Aqua Engineers Ltd. after acquisition under purchase method.

Solution.

Aqua Engineers Ltd.

Statement of Purchase Consideration (Net Payment Method)

Particulars	Amount (Rs)
Equity Shares (25000 X 12)	300000
Cash (15000 X 4)	60000
Total	360000

In the books of Beeta Ltd.

Dr. Realization Account Cr.

Particulars	Amount	Particulars	Amount
To Goodwill	20000	By 12% Debentures	60000
To Land & Building	80000	By Sundry Creditors	37000
To Plant	80000	By Provision for Tax	30000
To Investment	30000	By Aqua Engineers Ltd. A/c (PC)	360000
To Stock	40000	By Equity Shares in Aqua Engineers A/c (Profit on sale of shares)	5000
To Debtors	50000		
To Bills Receivable	8000		
To Equity Shareholders A/c (Profit on Realization)	164000		
Total	492000	Total	492000

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Equity Shares in Aqua Engineers A/c	240000	By Equity Share Capital	150000
To Cash/Bank A/c	125000	By General Reserve	25000
		By Export Profit Reserve	8000
		By Profit & Loss A/c	18000

		By Realization A/c (Profit)	164000
Total	365000	Total	365000

Dr. Aqua Engineers Ltd. A/c Cr.

Particulars	Amount	Particulars	Amount
To Realization A/c	360000	By Equity Shares in Aqua Engineers A/c	300000
		By Cash/Bank	60000
Total	360000	Total	360000

Dr. Equity Shares in Aqua Engineers Ltd. A/c

Cr.

Particulars	Amount	Particulars	Amount
To Aqua Engineers ltd. A/c	300000	By Bank A/c (25000 X 1/5 X 13)	65000
To Realization A/c (Profit)	5000	By Equity Shareholders A/c (Bal)	240000
Total	305000	Total	305000

Dr. Cash/Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	20000	By Realization	20000
To Aqua Engineers Ltd. A/c	60000	By Equity Shareholders A/c	125000
To Equity Shares in Aqua ltd.	65000		
Total	145000	Total	145000

Aqua Engineers Limited

Balance Sheet as on 31st March 2017

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	350000
b.	Reserves and Surplus	2	70000
2.	Non-Current Liabilities		
	Long Term Borrowings	3	75000
3.	Current Liabilities		
a.	Trade Payables		37000
B	Short Term provision (Provision for Tax)		30000
	Total		562000
II	Assets		
1.	Non-Current Assets		
a.	Property, Plant & Equipment		
	Tangible Assets	4	172000
	Intangible Assets (Goodwill)		183500
b.	Non Current Investment		30000
C	Other Non-Current Assets	5	9000
2.	Current Assets		
a.	Inventories		35000
b.	Trade Receivables	6	55500
c.	Cash & Cash Equivalent (Bank)		77000
	Total		562000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
	Equity Share Capital	
	Issued and Fully paid up shares: 35000 Equity Shares of Rs. 100 each	350000
2.	Reserves and Surplus	
a.	Export Profit Reserve	8000
b.	Security premium reserve	70000
c.	Amalgamation Adjustment Reserve	(8000)

	Total	70000
3.	Long Term Borrowings	
	15% Debentures of Rs. 100 each (66000/88%)	75000
4.	Tangible Assets	
	Land & Building	100000
	Plant	72000
	Total	172000
5.	Other Non-Current Assets	
	Discount on issue of Debentures (Assumed, amortizable after 12 months)	9000
	Total	9000
6.	Trade Receivables	
a.	Debtors (50000 – 2500)	47500
b.	Bills Receivable – Trade	8000
	Total	55500

Working Notes:

Statement of Net Assets Taken Over

Particulars	**Amount**	**Amount**
Assets		
Land and Building (Given)	100000	
Plant (80000 X 90%)	72000	
Investment (Book Value)	30000	
Stock (Given)	35000	
Debtors (Book Value)	50000	
Bills Receivable (Book Value)	8000	
Bank (book Value)	20000	315000
Less. Liabilities		
12% Debentures (60000 X 110%)	66000	
Sundry Creditors (Book Value)	37000	
Provision for Tax (book Value)	30000	
Provision for Doubtful Debts (50000 X 5%)	2500	135500
Net Assets Taken Over		179500
Less. Purchase Consideration		360000
Goodwill		180500

Dr. Cash/Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Beeta Ltd. T/o	20000	By Goodwill (Abs. Exp)	3000
To Shares issued (10000 X 12)	120000	By Beeta Ltd. (P.C)	60000
		By Balance c/d	77000
Total	140000	Total	140000

Note.

1. Alternatively, Discount on issue of debentures may be adjusted against Security Premium.
2. Amalgamation Adjustment Reserve is treated as a separate line item under "Reserve" vide the amendments in AS 14 by the MCA.

Illustration 8.

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

Summary Balance Sheet of A Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
Shares of Rs. 50 each	50000	Goodwill	5000
General reserve	20000	Land and Building	17000
Profit and Loss A/c	3000	Plant and Machinery	24000
Sundry Creditors	4000	Stock	10000
Bills Payable	4000	Debtors	12000
		Furniture & Fittings	5000
		Cash at Bank	8000
Total	81000	Total	81000

Summary Balance Sheet of B Ltd. as at 31st March 2012

Liabilities	Amount	Assets	Amount
800 Shares of Rs. 50 each	40000	Goodwill	2000
Bank Overdraft	8000	Land and Building	10000

Sundry Creditors	8000	Plant and machinery	16000
		Stock	7500
		Furniture and Fittings	7500
		Debtors	7000
		Cash	300
		Profit and Loss A/c	5700
Total	56000	Total	56000

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

A Ltd:

(a) to provide for reserve for bad debts at the rate of 5% on Debtors

(b) to write off Rs. 400 from stock; and

(c) to write off 33 1/3% from plant and machinery

B Ltd:

(a) to eliminate its goodwill and profit & loss a/c balance

(b) to write off bad debts Rs. 1000 and to provide reserve of 5% on the balance of debtors;

(C) to write off Rs. 1400 from the value of stock.

You are required to prepare the Ledger Accounts in the books of A Ltd. & B Ltd. and also prepare opening balance sheet of AB Ltd.

Solution.

Statement of Purchase Consideration (Net Asset Method)

Particulars	**A Ltd.**	**B Ltd.**	**AB Ltd.**
Assets:			
Goodwill	5000	-	5000
Land and Building	17000	10000	27000
Plant and Machinery	16000	14400	30400
Furniture and Fittings	5000	7500	12500
Stock	9600	6100	15700
Debtors	12000	6000	18000
Cash	8000	300	8300
Total (A)	72600	44300	116900

Less. External Liabilities			
Reserve for Bad Debts	600	300	900
Creditors	4000	8000	12000
Bills Payable	4000	-	4000
Bank Overdraft	-	8000	8000
Total (B)	8600	16300	24900
Purchase Consideration (A – B)	64000	28000	92000
Fully paid shares of Rs. 100 each AB Limited	64000	28000	92000

Note: Assets for which valuation is not given are taken at book value. Eg. Land & Building, Furniture etc.

Ledger of A Limited

Dr. Realisation Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Sundry Assets (transfer)	81000	By Creditors	4000
		By Bills Payable	4000
		By AB Limited (PC Due)	64000
		By Equity Shareholders (Loss on realization)	9000
Total	81000	Total	81000

Dr. Equity Shareholders Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Realisation A/c (Loss)	9000	By Equity Share Capital A/c	50000
To Equity Shares in AB Ltd. (PC received)	64000	By General Reserve Account	20000
		By Profit and Loss A/c	3000
Total	73000	Total	73000

Dr. AB Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (PC Due)	64000	By Equity Shares in AB Ltd. (P. C Received)	64000
Total	64000	Total	64000

Ledger of B Limited

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Sundry Assets (transfer)	50300	By Creditors	8000
		By Bank O/D	8000
		By AB Limited (PC Due)	28000
		By Equity Shareholders (Loss on realization)	6300
Total	50300	Total	50300

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (Loss)	6300	By Equity Share Capital A/c	40000
To P & L A/c (Dr. Bal)	5700		
To Equity Shares in AB Ltd. (PC received)	28000		
Total	40000	Total	40000

Dr. AB Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (PC Due)	28000	By Equity Shares in AB Ltd. (P. C Received)	28000
Total	28000	Total	28000

AB Limited

Balance Sheet as on 31st March 2012

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
	Share Capital	1	92000
2.	Current Liabilities		
a.	Trade Payables	2	16000
b.	Short Term Borrowings (Bank O/D)		8000
	Total		116000
II	Assets		
1.	Non-Current Assets		
	Property, Plant & Equipment		
	Tangible Assets	3	69900
	Intangible Assets (Goodwill)		5000
2.	Current Assets		
a.	Inventories		15700
b.	Trade Receivables (18000 – 900)		17100
c.	Cash & Cash Equivalent (Cash in hand)		8300
	Total		116000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
	Equity Share Capital	
	Issued and Fully paid up shares: 920 Equity Shares of Rs. 100 each	92000
2.	Trade Payables	
a.	Creditors	12000
b.	Bills Payable	4000
	Total	16000
3.	Tangible Assets	
	Land & Building	27000
	Plant& Machinery	30400
	Furniture & Fittings	12500
	Total	69900

Absorption

Illustration 9.

Premier Ltd. agreed to acquire the business of Modern Auto Ltd. as on 31st March 2012. The Summary Balance Sheet of Modern Auto Ltd. as on that date was as under:

Liabilities	Amount	Assets	Amount
Share Capital 6000 Equity Shares of Rs. 10 each fully paid up	60000	Goodwill Building	10000 30000
General Reserve	17000	Machinery	34000
Profit & Loss A/c	11000	Stock	16800
6% Debentures	10000	Book Debts	3600
Sundry Creditors	2000	UTI Bank Account	5600
Total	100000	Total	100000

The considerations payable by Premier Ltd. was agreed at as follows:

a. Cash payment equal to Rs. 2.50 per share in Modern Auto Ltd.
b. Issue of 9000 Equity Shares of Rs. 10 each of Premier Ltd. having an agreed value of Rs. 15 per share.
c. Issue of such an amount of fully paid 8% Debentures of Premier Ltd. at Rs. 96 each as is sufficient to discharge 6% Debentures of Modern Auto Ltd. at 20% premium.

While computing purchase consideration, Premier Ltd. valued building and machinery at Rs. 60000 each, stock at Rs. 14200 and Book Debts subject to 5% provision for discount. The cost of liquidation of Modern Auto Ltd. was Rs. 500

Prepare:

1. Necessary ledger Accounts in the books of Modern Auto Ltd.
2. Journalise the transactions in the books of Premier Ltd.

Solution.

In the Books of Modern Auto Ltd.

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Assets tfd.			
Goodwill 10000		By Sundry Creditors tfd.	2000

Building 30000		By Debentures tfd.	10000
Machinery 34000		By Premier Ltd. A/c	150000
Stock 16800			
Debtors 3600			
Bank 5600	100000		
To Cash (Expenses)	500		
To Equity Shareholders A/c (Profit on Realisation)	61500		
Total	162000	Total	162000

Dr. Cash Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Premier Ltd.	15000	By Realisation A/c (Expenses)	500
		By Equity Shareholders A/c	14500
Total	15000	Total	15000

Dr. Equity Shareholders Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Cash (15000 – 500)	14500	By Equity Share Capital	60000
To Equity Shares in premier Ltd.	135000	By General reserves	17000
		By P & L A/c	11000
		By Realisation A/c	61500
Total	149500	Total	149500

Dr. Premier Ltd. Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c	150000	By Cash	15000
		By Equity Shares in Premier Ltd.	135000
Total	150000	Total	150000

In the Books of Premier Ltd.

Journal

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Building A/c Dr Machinery A/c Dr Stock A/c Dr Book Debts A/c Dr UTI Bank A/c Dr Goodwill A/c (Bal. fig) Dr To Provision for Discount on Debtors A/c To Creditors A/c To Debentures in Modern Auto Ltd. A/c To liquidators of Modern Auto Ltd. A/c (Assets and Liabilities taken over at agreed values, difference between P.C and net assets value tfd. To goodwill)	60000 60000 14200 3600 5600 20780	180 2000 12000 150000
2	Liquidators of Modern Auto Ltd. Dr. To Cash To Equity Shares Capital A/c To Securities Premium A/c (Purchase Consideration paid)	150000	15000 90000 45000

3	Debentures in Modern Ltd. A/c Dr Discount on issue of Debentures A/c Dr To 8% Debentures A/c (Being Debentures taken over discharged)	12000 500	 12500

Working Notes:

1. Purchase Consideration (Payment Basis)

Payment to	No.	Rate	Amount
Equity Shareholders			
Cash	6000	2.50	15000
Shares	9000	15.00	135000
Total			150000

2. No. of Debentures to be issued – Rs. 12000 / Rs. 96 = 125
3. Discount on issue of Debentures may be adjusted against Premium received on issue of shares.

Illustration 10.

A Ltd. absorbed B Ltd. w.e.f 31st March 2017 when their Summary Balance Sheets were as under:

Liabilities	A Ltd.	B Ltd	Assets	A Ltd.	B Ltd.
Equity Shares of Rs. 10 each fully paid	1000000	400000	Land and Building	440000	280000
11% Preference Share of Rs. 100 each fully paid	400000	400000	Plant and Machinery	840000	520000
Revaluation Reserves	40000	-	Stock	580000	320000
General Reserves	300000	100000	Sundry Debtors	240000	280000
Export profit reserves	80000	40000	Bills Receivables – Trade	260000	180000
Other Statutory reserves	100000	20000	Bank	40000	20000

15% Debentures	160000	-			
10% Debentures		240000			
Sundry Creditors	320000	400000			
Total	2400000	160000 0	Total	240000 0	160000 0

Terms of Absorption:

a. A Ltd. will issue Eight Equity Shares for every Five Equity Shares in B Ltd. of Rs. 10 each at Rs. 11 per share.

b. 11% Preference shareholders of B Ltd. will be issued equal number of preference shares in A Ltd. of Rs. 100 each at Rs. 105 per share.

c. A Ltd. agreed to take over the debentures of B Ltd. at book value. Subsequently after absorption, 10% debentures holders of B Ltd. are discharged by A Ltd. issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.

d. All the assets and liabilities of B Ltd were taken over at book value except the following which were revalued as follows

Land and building	Rs. 300000
Plant and Machinery	Rs. 500000
Stock	Rs. 300000
Sundry Debtors	Rs. 260000
Bills Receivable	Rs. 160000
Sundry Creditors	Rs. 380000

e. Cost of absorption amounting to Rs. 10000 was paid by A Ltd.

f. Creditors of B Ltd. include Rs. 10000 payable to A Ltd.

g.

h. It was decided by directors of A Ltd. to set off goodwill and capital reserve mutually.

You are required to:

1. Compute Purchase Consideration of B Ltd.
2. Pass Journal entries in the books of A Ltd.
3. Prepare Balance Sheet after absorption of A Ltd.

Solution.

Statement of Purchase Consideration

No	Particulars	Amount
1	11% Preference Shareholders 4000 Preference Shares of Rs. 100 each at Rs. 105 each (4000 X Rs. 105)	420000
2	Equity Shareholders 64000 Equity Shares of Rs. 10 each at Rs. 11 each (40000 X 8/5) X Rs. 11	704000
3	Purchase Consideration	1124000

Journal of A Ltd.

Sr. No	Particulars	Dr (Rs)	Cr (Rs)
1	Business Purchase A/c Dr To Liquidator of B Ltd. (Being Business purchased)	1124000	1124000
2	Land & Building A/c Dr Plant & machinery A/c Dr Stock A/c Dr Debtors A/c Dr Bills Receivable A/c Dr Bank A/c Dr Goodwill (Bal. fig) Dr To 10% Debentures of B Ltd To Sundry Creditors To Business Purchase A/c (Being Assets and Liabilities Taken Over)	300000 500000 300000 260000 160000 20000 204000	240000 380000 1124000

3	Liquidator of B Ltd. A/c Dr To 11% Pref. Shares Capital A/c To Equity Share Capital A/c To Security Premium A/c (20000 + 64000) (Being PC discharged)	1124000	 400000 640000 84000
4	10% Debentures of B Ltd. A/c Dr To 15% Debentures (240000 X 10/15) To Capital Reserve (Being 15% Debentures exchanged for 10% Debentures)	240000	 160000 80000
5	Amalgamation Adjustment Reserve A/c Dr To Export Profit Reserve To Other Statutory Reserve (Being Export Profits and Statutory reserve adjusted)	60000	 40000 20000
6	Goodwill A/c Dr To Bank A/c (Being payment of cost of absorption)	10000	 10000
7	Sundry Creditors A/c Dr To Sundry Debtors A/c (Being settlement of amount payable by B Ltd. to A Ltd)	10000	 10000
8	Capital Reserve A/c Dr To Goodwill A/c (Being Goodwill and Capital Reserve set off mutually)	80000	 80000

A Ltd.

Balance Sheet as at 31st March 2017 (After Amalgamation)

No.	Particulars	Note No.	Amount (Rs)
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	2440000
b.	Reserves and Surplus	2	604000
2.	Non-Current Liabilities		
	Long Term Borrowings (15% Debentures)		320000
3	Current Liabilities		
	Trade Payables (320000 + 380000 – 10000)		690000
	Total		4054000
II	Assets		
1.	Non-Current Assets		
	Property, Plant & Equipment		
	Tangible Assets	3	2080000
	Intangible Assets (Goodwill – 204000 + 10000 – 80000)		134000
2.	Current Assets		
a.	Inventories (580000 + 300000)		880000
b.	Trade Receivables	4	910000
c.	Cash & Cash Equivalent	5	50000
	Total		4054000

Notes to Accounts

No	Particulars	Amount
1.	Share Capital	
a.	Equity Share Capital	
	Issued and Fully paid up shares: 164000 Equity Shares of Rs. 10 each	1640000
b.	Preference Share Capital	
	Issued and Fully paid up shares: 8000, 11% Preference Shares of Rs. 100 each	800000
	Total	2440000
2.	Reserves and Surplus	
a.	Security Premium	84000

b.	Revaluation Reserve	40000
c.	Export Profit Reserve (80000 + 40000)	120000
d.	Statutory Reserve (100000 + 20000)	120000
e.	General Reserve	300000
f.	Amalgamation Adjustment Reserve	(60000)
	Total	604000
3.	Tangible Assets	
	Land & Building (440000 + 300000)	740000
	Plant & Machinery (840000 + 500000)	1340000
	Total	2080000
4	Trade Receivable	
a.	Debtors (240000 + 260000 – 10000)	490000
b.	Bills Receivable (260000 + 160000)	420000
	Total	910000
5	Cash and Cash Equivalent	
	Balance with Bank (60000 – 10000)	50000

Illustration 11)

B Co. Ltd had the following Summary Balance Sheet as on 31st March 2012:

B Co. Ltd

Liabilities	B Ltd	Assets	B Ltd.
Share Capital		Fixed Assets	8300000
50000 Shares of Rs. 100 each	5000000	Current Assets	6900000
Capital Reserve	1000000	Investments	1700000
General Reserve	3600000	Goodwill	200000
Unsecured Loans	2200000		
Sundry Creditors	4200000		
Provision for Taxation	1100000		
Total	17100000	Total	17100000

B Co. Ltd is absorbed by Beesons Limited as on 31st March 2012 on which date the summary balance sheet of Beesons Limited is as follows:

Beesons Limited

Liabilities	B Ltd	Assets	B Ltd.
Share Capital		Fixed Assets	16000000
800000 Shares of Rs. 10 each	8000000	Current Assets	16800000
General Reserve	10000000		
Secured Loans	4000000		
Sundry Creditors	4600000		
Provision for Taxation	5200000		
Provision for Dividend	1000000		
Total	32800000	Total	32800000

For the purpose of the absorption the goodwill of B Co. Ltd is considered valueless. There are also arrears of depreciation in B Co. Ltd amounting to Rs. 400000. The shareholders in B Co. Ltd are allotted, in full satisfaction of their claims, shares in Beesons Limited in the same proportion as the respective intrinsic values of the shares of the two Companies bear to one another.

Show necessary ledger accounts of B Co. Ltd and prepare the opening balance sheet of Beeson Limited after absorption.

Solution.

Calculation of Purchase Consideration (Net Assets Method)

Particulars	B Co. Ltd	Beeson Ltd.
Intrinsic value of shares		
Fixed Assets	8300000	16000000
Less. Arrears of Depreciation	400000	-
Net Fixed Assets	7900000	16000000
Current Assets	6900000	16800000
Investment	1700000	-
(A)	16500000	32800000
Less. Liabilities		
Secured Loans	-	400000
Unsecured Loans	2200000	-
Sundry Creditors	4200000	4600000
Provision for Taxation	1100000	5200000

Provision for Dividend	-	1000000
(B)	7500000	14800000
Intrinsic Value (A – B) (Value of Net Assets)	9000000	18000000
Total No of Shares	50000	800000
Value per Share (Rs) (Net Assets / No. of Shares)	180	22.50

Exchange Ratio:

Thus, shareholders of B Ltd. should get shares in Beesons Ltd. worth Rs. 9000000. The value per share of Beesons Ltd is Rs. 22.50. So, the number of shares to be issued to the shareholders of B Ltd. = 9000000 / 22.50 = 400000.

In the Books of B Co. Ltd.

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Sundry Assets (Transfer)	17100000	By Sundry Liabilities (Transfer)	7500000
		By Beesons Limited (PC Due)	9000000
		By Equity Shareholders (Loss on Realisation)	600000
Total	17100000	Total	17100000

Dr. Equity Shareholders' Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (Loss Transferred)	600000	By Equity Share Capital (Transfer)	5000000
To Shares in Beesons Ltd (PC Received)	9000000	By Reserves (Transfer)	4600000
Total	9600000	Total	9600000

Dr. Beesons Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (PC Due)	9000000	By Shares in Beesons Ltd. (PC received)	9000000
Total	9600000	Total	9600000

Beesons Limited

Balance Sheet as at 31st March 2012

Sr. No	Particulars	Note No	Amount
I	Equity and Liabilities		
1.	Shareholders' Fund		
a.	Share Capital	1	1200000
B	Reserves and Surplus	2	1500000
2.	Non-Current Liabilities		
	Long Term Borrowings	3	6200000
3.	Current Liabilities		
a.	Trade Payables		8800000
b.	Short Term Provisions	4	7300000
	Total		49300000
II	Assets		
1.	Non Current Assets		
a.	Property, Plant and Equipment		23900000
b.	Non-current Investments		1700000
2.	Current Assets		23700000
	Total		49300000

Notes to accounts	Amount (Rs)
Share Capital	
Equity Share Capital	
Issued, Subscribed and fully paid:	
1200000 equity shares of Rs. 10 each (Of the above 400000 shares issued on amalgamation without consideration in cash)	12000000
Reserves and Surplus	

Security Premium	5000000
General reserves	10000000
Total	15000000
Long term borrowings	
Secured loans	4000000
Unsecured Loans	2200000
Total	6200000
Short Term Provisions	
Provision for Tax	6300000
Proposed Dividends	1000000
Total	7300000

Illustration 12.

Tom Ltd. agreed to acquire business of Jerry Ltd. as on 31.03.2013. The summarised Balance Sheet of Jerry Ltd. as on 31.03.2013 was as follows:

Liabilities	Amount	Assets	Amount
12000 equity shares of Rs. 10 each fully paid	120000	Goodwill	20000
General Reserve	34000	Building	60000
Profit and Loss A/c	22000	Machinery	68000
6% Debentures	20000	Closing stock	33600
Creditors	4000	Debtors	7200
		ICICI Bank Account	11200
Total	200000	Total	200000

The consideration payable was as follows:

a. Cash payment equal to Rs. 2.50 per share in Jerry Ltd.
b. Issue of 18000 Equity shares of Rs. 10 each of Tom Ltd having an agreed value of Rs. 15 per share.
c. Issue of such an amount of fully paid 9% Debentures of Tom Ltd. at Rs. 96 each as is sufficient to discharge 6% Debentures of Jerry at 20% premium.
d. While calculating the consideration the assets were revalued as follows:

    Building and Machinery at Rs. 120000 each, Stock at Rs. 28400 and Debtors subject to 5% provision for discount.
e. Liquidation expenses agreed to be paid by Jerry Ltd. was Rs. 1000

Prepare:

1. Statement of Purchase Consideration
2. Necessary ledger accounts to close the books of Jerry Ltd.
3. Opening Journal entries in the books of Tom Ltd.

Solution

Statement of Purchase Consideration (Payment Method)

Payments to	**No.**	**Rate**	**Amount (Rs)**
Equity Shareholders			
Cash	12000	2.50	30000
Shares	18000	15.00	270000
Total			300000

Ledger Accounts to close Books of Jerry Ltd.

Dr. Realisation Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Sundry Assets:		By Sundry Liabilities:	
Goodwill	20000	Creditors	4000
Building	60000	Debentures	20000
Machinery	68000		
Stock	33600	By Tom Ltd. A/c (P.C)	300000
Debtors	7200		
Bank	11200		
To Cash (Expenses)	1000		
To Profit transferred to Equity Shareholders A/c (Bal. fig)	123000		
Total	324000	Total	324000

Dr. Cash Account Cr.

Particulars	Amount	Particulars	Amount
To Tom Ltd.	30000	By Realisation A/c (Expenses)	1000
		By Equity Shareholders A/c	29000
Total	30000	Total	30000

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Cash	29000	By Equity Share Capital	120000
To Equity Shares in Tom Ltd.	270000	By General Reserve	34000
		By Profit and Loss A/c	22000
		By Realisation A/c (Profit)	123000
Total	299000	Total	299000

Dr. Tom Ltd. Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c (P.C)	300000	By Cash	30000
		By Equity Shares in Tom Ltd.	270000
Total	300000	Total	300000

Opening Journal Entries in the Books of Tom Ltd.

No	Particulars	Dr (Rs)	Cr (Rs)
1	Business Purchase A/c Dr To Liquidation of Jerry Ltd. A/c	300000	300000

2	Building A/c Dr Machinery A/c Dr Stock A/c Dr Debtors (Gross) Dr Bank A/c Dr Goodwill A/c (Bal. fig) Dr. To Provision for discount on debtors To Creditors To Debentures (Old) To Business Purchase (Being assets and liabilities taken over at agreed values, difference transferred to Goodwill A/c)	120000 120000 28400 7200 11200 41560	360 4000 24000 300000
3	Liquidation of Jerry Ltd. A/c Dr To Cash A/c To Equity Share Capital A/c To Security Premium A/c (Being P.C Settled)	300000	30000 180000 90000
4	Debentures (Old) A/c Dr Discount on issue of debentures A/c Dr To 9% Debentures A/c (Being debentures taken over discharged)	24000 1000	25000

External Reconstructions

Illustration 13.

The following is the Summary Balance Sheet of Vikrant Ltd:

Liabilities	Amount	Assets	Amount
Issued and paid up		Intangible Assets	50000
Equity Share capital	500000	Fixed Assets	420000
Statutory Reserve (to be maintained for 3 more years)	10000	Current assets	110000

Debentures	100000	Profit and Loss A/c	80000
Creditors	50000		
Total	660000	Total	660000

Virat Ltd. agreed to absorb Vikrant Ltd. on the following terms:

1. Virat Ltd. agreed to take over all the assets and liabilities
2. The assets of Vikrant Ltd. are to be considered to be worth Rs. 500000
3. The purchase price is to be paid one-quarter in cash and the balance in shares which are issued at the market price.
4. Liquidation expenses amounted to Rs. 300 agreed to be paid by Vikrant Ltd.
5. Market value of shares of Rs. 10 each of Virat Ltd. is Rs. 12 per share.
6. Debentures of Vikrant Ltd. were paid.
7. The amalgamation is in the nature of purchase.

You are required to show:

a. Purchase consideration
b. Ledger accounts in the books of Vikrant Ltd.
c. Opening entries in the books of Virat Ltd.

Solution:

Purchase Consideration (PC)

Particulars	**Rs**	**Rs**
Market value of assets taken over:		500000
Less. Liabilities taken over		
Creditors	50000	
Debentures	100000	150000
		350000
Purchase consideration is to be discharged		
In Cash ¼ X Rs. 350000		87500
In Shares ¾ X Rs. 350000		262500
		350000

Working notes:

Nos of shares to be issued to the vendors co. has been calculated as under:

Amount to be paid in shares : ¾ of Rs. 350000 = 262500

Agreed value of 1 share Rs. 12

No of shares = 262500 / 12 21875 shares

In the books of Vikrant Ltd.

Dr. Realisation Account Cr.

Particulars	Amount	Particulars	Amount
To Intangible Assets	50000	By Debentures	100000
To Fixed Assets	420000	By Creditors	50000
To Current Assets	110000	By Virat Ltd. (PC)	350000
To Bank (Expenses)	300	By Equity Shareholders (Loss on realization)	80300
Total	580300	Total	580300

Dr. Equity Shareholders Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c	80300	By Equity Share Capital	500000
To Profit and Loss A/c	80000	By Statutory Reserve	10000
To Bank	87200		
To Shares in Virat Ltd.	262500		
Total	510000	Total	510000

Dr. Virat Limited Account Cr.

Particulars	Amount	Particulars	Amount
To Realisation A/c	350000	By Bank Account	87500
		By Shares in Virat Ltd.	262500
Total	350000	Total	350000

Dr. Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Virat Ltd.	87500	By Realisation A/c	300
		By Equity	87200

		Shareholders	
Total	87500	Total	87500

Dr. Equity Shares on Virat Ltd. Account Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Virat Ltd.	262500	By Equity Shareholders	262500
Total	262500	Total	262500

In the books of Virat Limited

No	**Particulars**	**Dr (Rs)**	**Cr. (Rs)**
1	Business Purchase A/c Dr. To Liquidators of Vikrant Ltd. A/c	350000	 350000
2	Fixed Assets A/c Dr Current Assets A/c Dr To Trade Creditors A/c To Debentures in Vikrant A/c To Capital Reserve A/c To Business Purchase A/c	420000 110000	 50000 100000 30000 350000
3	Liquidation of Vikrant Ltd A/c Dr To Equity Share Capital A/c To Securities Premium A/c To Bank A/c	350000	 218750 43750 87500
4	Amalgamation Adjustment Reserve A/c Dr To Statutory Reserve	10000	 10000
5	Debentures in Vikrant A/c Dr To Bank A/c	100000	 100000

❖❖❖❖

3

ACCOUNTING OF TRANSACTIONS OF FOREIGN CURRENCY

Unit Structure:

3.0 OBJECTIVES

After studying this unit, the student will be able to:

- Understand Foreign Currency Transactions
- Describe the need for conversion
- Know how to recognize exchange differences
- Explain the accounting of foreign currency transactions

3.1 INTRODUCTION

When a transaction takes place between two or more concerns which are situated in the same region or country, their respective accounts are finalized in the same currency.

However, when one of these concerns are located in another country, it becomes difficult to record transactions in different currencies. Each of the concerns then has to enter the transaction in this own/ domestic currency in its books. Thus, a need to convert the currency arises by using currency exchange rates.

For example, Arun & Co., Mumbai buys goods from Preston & Co. of USA. The invoice for the same by Preston & Co. may be in US $ while accounting by Arun & Co. will be in Indian Currency □. The $ will have to be converted into □ by appropriate exchange rate, in such a case.

From the point of view of Arun & Co.:

“ □ ” is the Reporting Currency

“ $ “ is a Foreign Currency

From the point of view of Preston & Co.:

“ $ “ is the Reporting Currency

“ □ “ is the Foreign Currency

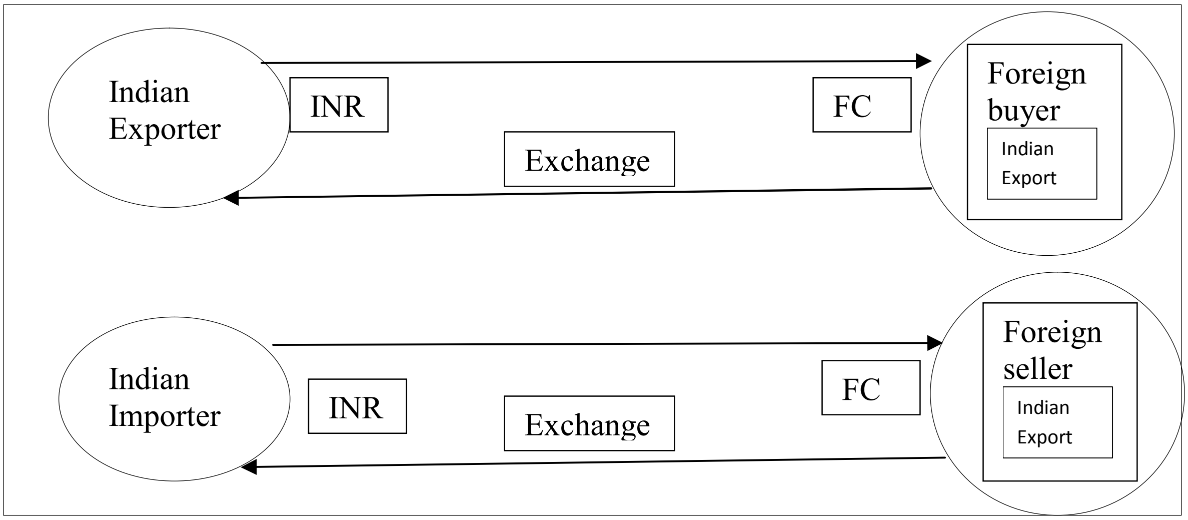
The rate of exchange between $ and □ is the exchange rate

3.2 NEED FOR CONVERSION / TRANSLATION

It is the process of converting the accounting data from one currency to another. This may be required when an Indian concern may either be selling or buying goods from a foreign concern.

The currency of settlement, until paid, amounts to a receivable or payable which will require conversion to Indian currency at the date of initial transaction and again on the date of finalization of accounts for the Indian entity.

The following diagram depicts such a transaction:



In such a case,one of the concerns must accept the responsibility or receive its payment in foreign currency. The party that agrees this incurs an exchange gain or loss, depending on the direction and amount of exchange rate fluctuation between date of billing and date of payment.

For example, if a domestic importer has purchased goods from abroad and is billed in a foreign currency, the invoice may be translated to domestic currency at current exchange rate as on the billing date. To settle the debt, the domestic importer must acquire foreign currency for the purpose of payment, between the billing date and the payment date. In case the exchange rate fluctuated in that period, the subsequent acquisition of foreign currency results in a gain or loss which falls on the domestic importer. Had the billing been accounted for in domestic currency, the exchange risk would have been with the foreign exporter. A similar case can be drawn for a domestic exporter and a foreign importer.

3.3 ACCOUNTING STANDARD

In order to maintain uniformity of accounting policies, principles and treatments, 'Accounting Standards' are prescribed, which are to be followed.

The Institute of Chartered Accountants of India which is the sole authority to issue the Accounting Standards has issued Accounting Standard 11 (AS-11) to cover the subject of foreign exchange transactions for Standardization of Accounting treatments.

The said Standard has been revised and is mandatory. It is to be applied w.e.f. 1^{st} April 2004. But as far as the accounting for transactions in foreign currencies entered into by the reporting enterprise itself before the date this standard comes into effect, AS 11 (1994) i.e. (the old Standard) will continue to be applicable.

Old AS 11 states that:

Exchange differences arising on transactions of foreign currency should be recognized as income or an expense in the period in which they arise.

Exchange difference arising on repayment of liabilities incurred for the purpose of acquisition of fixed assets, should be adjusted in the carrying amount of the respective fixed assets.

Revised AS 11 states that:

Exchange difference arising on the settlement of monetary items should be recognized as income or an expense in the period in which they arise.

When the transaction is settled i.e. completed in the same accounting period (ending 31^{st} March) as that in which it arose, the entire exchange difference arises in that period. However, when the transaction is settled in the next accounting period, the exchange difference is spread over two different accounting years and will have to be split into those two years on time basis.

3.4 DEFINITIONS OF TERMS

Closing rate is the exchange rate at the balance sheet date

Average rate is the mean of the exchange rates in force during a period

Exchange rate is the ratio of exchange of currencies of two countries

Foreign currency is the currency other than the reporting currency of an enterprise

Reporting currency is the currency used in presenting financial statements

3.5 TRANSLATION OF THE TRANSACTIONS

INITIAL RECOGNITION

In case the imports are on immediate payment basis, the concerned Indian company will purchase US $ from an Indian bank and make such payment in dollars to the concerned foreign company in USA. The dollar will be purchased at the prevailing rate. Translation is done into rupees at that time. This is known as initial recognition.

RECOGNITION IN STAGES

In case the import of goods is on credit basis, the translation will be done at different stages as below:

1. On the date of purchase the import will be recorded.
2. If the payment is outstanding, creditors will be recorded as on the Balance Sheet date.
3. On the date of settlement, the payment in US $ will be recorded.

ACCOUNTING PROBLEMS

As the exchange rate may be different at each stage, it gives rise to the following accounting problems:

1. At what rate translation should be done on each date i.e. (a) on the date of purchase, (b) on the date of payment, (c) on the date of Balance Sheet
2. In instances the exchange rates are different, how profit or loss arising due to such difference should be recorded in the books of accounts

3.6 TRANSLATION OF BALANCES AT YEAR END

The following balances in foreign currency need to be translated in rupees.

A. Monetary Items
   Cash in Hand, Bank balances, Debtors, Creditors and Loans
B. Non-monetary Items
   Fixed Assets, Long-term Investments, Inventory and Current Investments

Rate of Translation

1. Monetary Items are translated at Closing rate or at realizable vale (when closing rate is unrealistic)
2. Non-monetary Items are translated at historical cost or at fair value.

Treatment of Exchange difference

Exchange difference arises due to the following:

a) A transaction being reported at a rate different from the rate at which it was initially recorded
b) A monetary or non-monetary item being settled at a rate different from the rate at which it was initially recorded
c) A transaction being settled at a rate different from the one taken for the reporting in the financial statement.

3.7 EXERCISES

Illustration 1

Goods purchased on 03.03.2021 of US $ 20,000 ₹ 45 per US $

Exchange rate on 33.03.2021 ₹ 44 per US $

Date of actual payment 07.07.2021 ₹ 43 per US $

Ascertain the loss/gain for financial year 2020-21 and 2021-22 also give their treatment as per AS 11

Solution

1. At the date of Transaction: As per AS11 all foreign currency transactions should be recorded at the exchange rate on the date of transactions.

   Accordingly, goods purchased on 03.03.2021 and corresponding creditors would be recorded at ₹ 9,00,000 (i.e. $ 20,000 x ₹ 45). At the balance sheet date all monetary transactions should be reported at the closing rate

2. At Reporting date: As per AS11 creditor of US $ 20,000 on 33.03.2021 should be reported at ₹ 8,80,000 (i.e. $ 20,000 x ₹44) and exchange profit of ₹ 20,000 (i.e. 9,00,000 – 8,80,000) should be credited to profit and loss account in the year 2020-23.

3. Settlement date: As per AS11, exchange difference on settlement of the account should be transferred to profit and loss account. Therefore, ₹ 20,000 (8,80,000 – 8,60,000) should be credited to Profit and Loss account for the year 2021-22.

Illustration 2

On 31st March 2021, the following ledger balances have been extracted from the books of Washington branch office:

Ledger accounts	$
Building	360
Stock as on 03.04.2020	52
Cash and Bank balances	114
Purchases	192
Sales	220
Commission receipts	56
Debtors	92
Creditors	130

You are required to convert above Ledger balances into Indian Rupees using the following rates of exchange:

Rate	□ per US$
Opening Rate	46
Closing Rate	50
Average Rate	48
For Fixed Assets	42

Solution

Conversion of Ledger Balances (in Dollars) into Rupees

Particulars	$	Rate Per $	Amount in Rupees
Building	360	42	15,120
Stock as on 03.04.2020	52	46	2,392
Cash and Bank balances	114	50	5,700
Purchases	192	48	9,216
Sales	220	48	10,560
	56	48	2,688

Commission receipts	92	50	4,600
Debtors	130	50	6,500
Creditors			

Illustration 3

M/s Moon International, an Indian Exporter, sells goods to a foreign purchaser Roy & Co. invoicing at \$ 24,000 on 31st December 2020. The exchange rate at the time of invoice was ₹45.50. After 95 days, M/s Moon International received remittance of \$ 23,500. The rate of exchange at the time of remittance was ₹ 47. The local bank deducted their charges of ₹ 750 while crediting the amount in the account of M/s Moon International.

Record the above transactions in the books of M/s Moon International

Solution

Journal of M/s Moon International

Date	Particulars	Dr. ₹	Cr. ₹
31 Dec 2020	Roy & Co. a/c (\$ 24,000 @ 45.50) To Sales a/c *(Being goods exported)*	10,92,000	 10,92,000
15 April 2021	Bank a/c (\$ 23,500 @ 47) - 750 Bank charges a/c To Roy & Co. a/c (\$ 23,500 @ 45.50) To exchange difference (\$ 23,500 @ 3.50) *(Being \$ 23,500 received from Roy & Co. Exchange rate difference being US \$ 1 = ₹ 3.50 transferred to FEF a/c. Bank charges of ₹ 750 being debited)*	11,03,750 750	 10,69,250 35,250
31 March 2021	Exchange difference a/c To Profit & Loss a/c *(Profit on exchange difference for the year ended 31 March 2021 transferred)*	35,250	 35,250

Illustration 4

Smita Ltd of Mumbai sold goods worth $ 20,00,000 to Barak Ltd of America on 31st January 2020. Amounts were received from Barak Ltd as follows:

Date	$
03.02.2020	8,00,000
03.03.2020	2,00,000
30.03.2020	10,00,000

Accounts were closed on 31st March every year. Exchange rate of $ 3.

33.03.2020	□ 61
03.02.2020	□ 60
03.03.2020	□ 62
30.03.2020	□ 58

Pass journal entries in the books of Smita Ltd for the year ended 31 March 2020.

Solution

Journal of Smita Ltd

Date	**Particulars**	**Dr. □**	**Cr. □**
31 January 2020	Barak Ltd ($20,00,000 x 61) To Sales *(Being goods worth $20,00,000 exported to Barak Ltd. Exchange rate being $1 = 61)*	12,20,00,000	12,20,00,000
01 February 2020	Bank a/c ($ 8,00,000 @ 60) Foreign exchange fluctuations a/c ($ 8,00,000 @1) To Barak Ltd a/c *(Being $ 8,00,000 received from Barak Ltd. Exchange rate difference being $ 1 = □1 transferred to*	4,80,00,000 8,00,000	4,88,00,000

	FEF a/c)		
01 March 2020	Bank a/c ($ 2,00,000 @ 62) To Barak Ltd ($ 2,00,000 @ 61) To Foreign exchange fluctuation a/c ($ 2,00,000 @ 1) *(Being $ 2,00,000 received from Barak Ltd. Exchange rate difference being $ 1 = 1 transferred to FEF a/c)*	1,24,00,000	1,22,00,000 2,00,000
30 March 2020	Bank a/c ($ 10,00,000 @ 58) Foreign exchange fluctuation a/c To Barak Ltd *(Being $ 10,00,000 received from Barak Ltd. exchange rate diff being $1= □3 transferred to FEF a/c)*	5,80,00,000 30,00,000	6,10,00,000
31 March 2020	Profit & Loss a/c To Foreign exchange fluctuation a/c *(Being balance in foreign exchange fluctuation a/c transferred to Profit & Loss a/c)*	36,00,000	36,00,000

Illustration 5

Journalise the following transactions in the books of M/s Rumani& Co. for the year ended 31st March 2019:

Date	Transactions
30/11/2018	Export of goods worth US $ 1,20,000 to M/s Jackson Ltd
27/12/2018	Import of goods worth US $ 80,000 from M/s Max Ltd
13/01/2019	Received US $ 50,000 from M/s Jackson Ltd
27/01/2019	

19/02/2019 31/03/2019	Paid to M/s Max Ltd US $ 40,000 Received from M/s Jackson Ltd US $ 50,000 Paid US $ 40,000 to M/s Max Ltd

Exchange rate per US $ was as follows:

Date	**Exchange rate per US $ (□)**
30/11/2018	47.00
27/12/2018	48.00
13/01/2019	50.00
27/01/2019	49.00
19/02/2019	45.00
31/03/2019	49.00

Solution

Journal of M/s Rumani and Co.

Date	Particulars	Dr. □	Cr. □
30/11/2018	Jackson Ltd (1,20,000 x 47) To Sales a/c *(Being goods exported)*	56,40,000	 56,40,000
27/12/2018	Purchases a/c (80,000 x 48) To Max Ltd a/c *(Being goods purchased)*	38,40,000	 38,40,000
13/01/2019	Bank a/c (50,000 x 50) To Jackson Ltd a/c (50,000 x 47) To Foreign exchange fluctuation a/c (50,000 x 3) *(Being amount received from Jackson Ltd)*	25,00,000	 23,50,000 1,50,000
27/01/2019	Max Ltd a/c (40,000 x 48) Foreign exchange fluctuation a/c (40,000 x 1) To Bank a/c (40,000 x 49) *(Being paid to Max Ltd on a/c)*	19,20,000 40,000	 19,60,000

19/02/2019	Bank a/c (50,000 x 45) Foreign exchange fluctuation a/c (50,000 x 2) To Jackson Ltd a/c (50,000 x 47) *(Being received from Jackson Ltd)*	22,50,000 1,00,000	23,50,000
31/03/2019	Max Ltd a/c (40,000 x 48) Foreign exchange fluctuation a/c (40,000 x 1) To Bank a/c (40,000 x 49) *(Being paid to Max Ltd)*	19,20,000 40,000	19,60,000
31/03/2019	Jackson Ltd a/c To Foreign exchange fluctuation a/c (20,000 x 2) *(Being transfer of balance on foreign exchange fluctuation a/c)*	40,000	40,000
31/03/2019	Foreign exchange fluctuation a/c To Profit & Loss a/c (1,50,000 + 40,000 - 40,000 - 1,00,000 - 40,000) *(Being profit transferred to profit & loss a/c)*	10,000	10,000

Illustration 6

Pass necessary journal entries in the books of N Ltd of Nasik.

A machine was imported on 20th January 2020 from Jackie Chan of China for
US $ 4,00,000

The payment for the same was made as follows:

US $ 3,00,000 on 27th February 2020

US $ 1,00,000 on 15th March 2020

The Exchange rate for $ 1 was as follows:

On 20th January 2020 	 47.00

On 27th February 2020 	 46.50

On 15th March 2020 	 48.00

The company follows financial year as accounting year.

Solution

Journal of N Ltd

Date	Particulars	Dr.	Cr.
20 January 2020	Machinery a/c To Jackie Chan a/c *(Being purchase of machinery $ 4,00,000 @ 47)*	1,88,00,000	 1,88,00,000
20 February 2020	Jackie Chan a/c To Bank a/c To Exchange difference a/c *(Being amount paid $ 3,00,000 @ 46.5 and foreign exchange loss adjusted $ 3,00,000) (46.5 - 47)*	1,41,00,000	 1,39,50,000 1,50,000
15 March 2020	Jackie Chan a/c Exchange difference a/c To Bank a/c *(Being payment made $ 1,00,000 @ 48 and foreign exchange loss $ 1,00,000) (48-47)*	47,00,000 1,00,000	 48,00,000
31 March 2020	Exchange difference a/c To Profit & Loss a/c *(Being transfer of the balance on exchange difference account to profit & loss account)*	50,000	 50,000

Illustration 7

Godrej Industries Ltd. exported refrigerators and received the amounts as under:

Sales Transactions:

1) On 5th January 2021 to C of Canada amount US $ 20,000 at exchange rate
   □ 41 per US $
2) On 7th January 2021 to W of Germany amount US $ 40,000 at exchange rate
   □ 41 per US $

Receipt Transactions

1) On 5th February 2021 from C of Canada amount US $ 12,000 at exchange rate □42 per US $
2) On 10th February 2021 from W of Germany amount US $ 12,000 at exchange rate □ 43 per US $
3) On 15th April 2021 from W of Germany amount US $ 28,000 at exchange rate
   □ 42 per US $
4) On 31st May 2021 from C of Canada amount US $ 8,000 at exchange rate
   □ 44 per US $

Exchange rate on 31 March 2021 □ 44 per US $

You are required to:

1)Pass necessary Journal entries to record above transactions

Solution

Journal of A Ltd

Date	Particulars	Dr. □	Cr. □
5 January 2021	C of Canada (20,000 x 41) To Sales a/c *(Being export to C of Canada)*	8,20,000	8,20,000
7 January 2021	W of Germany (40,000 x 41) To Sales a/c *(Being export to W of Germany)*	16,40,000	16,40,000
5 February 2021	Bank a/c (12,000 x 42) To Foreign exchange fluctuation a/c (12,000 x 1) To C of Canada (12,000 x 41) *(Being received from C of Canada)*	5,04,000	12,000 4,92,000
10 February 2021	Bank a/c (12,000 x 43) To Foreign exchange fluctuation a/c (12,000 x 2)	5,16,000	24,000 4,92,000

	To W of Germany (12,000 x 41) *(Being received from W of Germany)*		
31 March 2021	C of Canada (20,000 – 12,000) x (44 – 41) To Foreign exchange fluctuation a/c *(Being exchange difference transferred to FEF a/c)*	24,000	24,000
31 March 2021	W of Germany (40,000 – 12,000) x (44 – 41) To Foreign exchange fluctuation a/c *(Being exchange difference transferred to FEF a/c)*	84,000	84,000
31 March 2021	Foreign exchange fluctuation a/c To Profit & Loss a/c *(Being the balance of FEF a/c transferred to profit & loss a/c)*	1,44,000	1,44,000

Illustration 8

Krishna Ltd imported goods from Skylark Ltd. of USA worth US $ 6,00,000 on 31st October 2020 when the exchange rate was □ 65 per US $. The amount was paid in instalments as follows:

Date	Amount of Installment – US $	Exchange Rate per US $ (□)
15/11/2020	2,00,000	64
15/03/2021	1,00,000	66
20/04/2021	1,00,000	63
10/01/2022	2,00,000	61

Krishna Ltd. closes its books on 31st March every year. On 31st March 2021, the exchange rate was □61 per US $.

You are required to pass the Journal Entries in the books of Krishna Ltd. for the years ended 31st March 2021 and 31st March 2022.

Also prepare Foreign Exchange Fluctuation Account in the books of Krishna Ltd. for the relevant years

Solution

Journal of Krishna Ltd

Date	Particulars	Dr. ₹	Cr. ₹
31/10/2020	Purchase a/c (6,00,000 x 65) To Skylark Ltd a/c *(Being goods imported from SkyLark Ltd. exchange rate being 1$ = ₹ 64)*	3,90,00,000	 3,90,00,000
15/11/2020	Skylark Ltd a/c (2,00,000 x 65) To Foreign exchange fluctuation a/c (2,00,000 x 1) To Bank a/c (2,00,000 x 64) *(Being $ 2,00,000 paid, exchange rate being 1$ = 64)*	1,30,00,000	 2,00,000 1,28,00,000
15/03/2021	Skylark Ltd a/c (1,00,000 x 65) Foreign exchange fluctuation a/c (1,00,000 x 1) To Bank a/c (1,00,000 x 66) *(Being $ 1,00,000 paid, exchange rate being* *1$ = 66)*	65,00,000 1,00,000	 66,00,000
31/03/2021	Skylark Ltd a/c To Foreign Exchange Fluctuation a/c *(Being creditor's balance adjusted - $ 3,00,000 x ₹ 4, as on 31/03/2021)*	12,00,000	 12,00,000
31/03/2021	Foreign Exchange Fluctuation a/c (2,00,000 + 12,00,000 – 1,00,000) To Profit & Loss a/c *(Being balance in FEF a/c transferred to P&L a/c)*	13,00,000	 13,00,000

20/04/2021	Skylark Ltd a/c (1,00,000 x 61) Foreign exchange fluctuation a/c (1,00,000 x 2) To Bank a/c (1,00,000 x 63) *(Being $ 1,00,000 paid, exchange rate being $ 1 = 63)*	61,00,000 2,00,000	63,00,000
10/01/2022	Skylark Ltd a/c (2,00,000 x 61) To Bank a/c *(Being amount paid, exchange rate being $1 = ₹61)*	1,22,00,000	1,22,00,000
31/03/2022	Profit & Loss a/c To Foreign exchange fluctuation a/c *(Being balance in FEF a/c transferred to P&L a/c)*	2,00,000	2,00,000

Dr. **Foreign Exchange Fluctuation a/c**
Cr.

Date	Particulars	₹		Date	Particulars	₹
15/03/2022	To Bank a/c	1,00,000		15/11/2020	By Skylark Ltd. a/c	2,00,000
31/03/2021	To P&L a/c (Bal. fig)	13,00,000		31/03/2021	By Skylark Ltd. a/c	12,00,000
		14,00,000				14,00,000
20/04/2021	To Bank a/c	2,00,000		31/03/2022		2,00,000
					By P&L a/c (Bal. fig)	

3.8 MULTIPLE CHOICE QUESTIONS

1. **Average rate**
   (a) is the exchange rate at the balance sheet date
   (b) is the mean of the exchange rates in force during a period
   (c) is the ratio for exchange of two currencies
   (d) is the rate at which an asset could be exchanged between knowledgeable, willing parties inan arm's length transaction

2. **Currency other than the reporting currency of an enterprise**
   (a) Non-Reporting currency
   (b) U.S. Dollars
   (c) Foreign Currency
   (d) Indian Rupees

3. **Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money**
   (a) Current items
   (b) Non-monetary items
   (c) Monetary items
   (d) Forward Exchange Contract

4. **Currency used in presenting the financial statements**
   (a) Reporting currency
   (b) Non-Foreign Currency
   (c) Official Currency
   (d) Indian Rupees

5. **A change from Rs. 60 = 1 dollar to Rs. 62 = 1 dollar indicates that Rs. has ______**
   (a) Appreciated
   (b) Depreciated
   (c) Falling short in supply
   (d) Increasing in demand

6. **Cash and bank balances are translated at _____ on year end**
   (a) Average rate
   (b) Opening rate
   (c) Exchange rate
   (d) Closing rate

7. **The currency translation is governed by _____**
   (a) AS 2
   (b) AS 7
   (c) *AS 11*
   (d) AS 9

8. ______ occurs when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction

(a) Exchange difference
(b) Initial recognition
(c) Outstanding payment
(d) Closing difference

3.9 PRACTICAL PROBLEMS

Unsolved 1

On 1st January 2020, John Ltd. imported goods worth $ 1,70,000 from Synergy Ltd. USA. The payments were made as under:

Date	Amount ($)	Exchange rate / dollar
10/01/2020	32,000	□61
15/02/2020	36,000	□62
15/03/2020	58,000	□63
15/04/2020	44,000	□59

Exchange rate on 01/01/2020 was $1 = □ 60.

Books are closed on 31st March every year. The exchange rate on 31/03/2020 was $1 = □ 63.

Pass necessary journal entries in the books of John Ltd. To record the above transactions and also prepare foreign exchange fluctuation account in the books of John Ltd. for the year ended 31/03/2020 and 31/03/2023.

Unsolved 2

Exported goods to Pashchim Ltd. as on 1st March 2021 for $ 2,00,000 when the exchange rate was 1 US $ = □ 62. The amount was received in three instalments as under:

Date	Instalment (US $)	Exchange rate
05/03/2021	80,000	□61
18/03/2021	70,000	□63
30/03/2021	50,000	□60

Pass the journal entries for the above transactions in the books of Purab Ltd. for the year ended 31st March 2023.

Unsolved 3

Journalise the following transactions in the books of M/s. Dhavan and Co. for the year ended 31 March 2023.

Date	Transactions
30/11/2020	Export of goods worth US $ 1,20,000 to M/s Jackson Ltd
27/12/2020	Import of goods worth US $ 40,000 from M/s Mcmilan& Co.
19/02/2021	Received from M/s Jackson Ltd. US $ 50,000
22/03/2021	Paid US $ 20,000 to M/s Mcmilan& Co.

Exchange rate per US $ was as under:

Date	Exchange rate per US $ (₹)
30/11/2020	47.00
27/12/2020	48.00
19/02/2021	45.00
22/03/2021	46.00
31/03/2021	49.00

Unsolved 4

Aparna Ltd. imported goods from Zen Ltd. of USA worth US $ 20,00,000 on 1st November 2019 when the exchange rate was ₹ 63 per US $. The amount was paid to Zen Ltd. in five equal installments on the following dates:

Date	Exchange rate per US $ (₹)
01/12/2019	62
15/01/2020	64
10/02/2020	61
30/04/2020	66
20/06/2020	65

Aparna Ltd. closes the books on 31st March every year. On 31st March 2020 the exchange rate was ₹ 63 per US $.

You are required to pass Journal entries in the books of Aparna Ltd. for the year ended 31st March 2020 and 31st March 2023.

Unsolved 5

Marvel Ltd. imported goods from Larson Ltd. of Germany worth US $ 4,00,000 on 30th November 2021 when the exchange rate was □69 per US $. The payment was made as follows:

Date	Amount	Exchange rate per US $
12th November 2021	2,00,000	□68
17th December 2021	1,00,000	□70
25th January 2022	1,00,000	□67

Marvel Ltd. closes its books on 31st March every year. On 31st March 2022, the exchange rate was □ 68 per US $.

You are required to pass Journal entries in the books of Marvel Ltd. for the year ended 31st March 2022.

4

LIQUIDATION OF COMPANIES

Unit Structure :

4.0 OBJECTIVES

After studying this chapter, you should be able to understand:

- The concept and meaning of liquidation and winding up of companies
- The purpose and contents of statement of affairs inluding Deficiency Account
- Special considerations in liquidation for settlement of dues
- The purpose and contents of liquidators' final statement
- Accounting treatment of settlement of liabilities, partly paid up shares in liquidators' final statement

4.1 CONCEPT AND MEANING

Winding up refers to the process of realising assets of the company and use the proceeds to pay of its debts. After such external debt is paid off, the remainder cash is utilised for repayment of its members' contribution. The winding up involves involvement of third party administrator for financial settelement of its creditors and members. Such administrators are called liquidators who are appointed for controlling the process of realisation of assets, payment of debts and distribution of surplus as per legal rights of members. The process of winding up is governed by section 2 (94A) of Companies Act, 2013 and liquidation process under Insolvency and Bankruptcy Code 2016.

Dissolution of company refers to appoint where it looses its identity as corporate entity in general sense. In legal point of view, on dissolution, company's name shall be strike off from register of companies. In simple words, dissolution of company is death of company as being artificial judiciary person, it can't have end of its life otherwise.

Many a times, winding up and liquidation are used as synonyms but there is thin line of difference between the 2. Winding up means putting an end to business operations and liquidation indicates selling of its assets and payment of obligations. Similarly, winding up and dissolution also have there own interpretations which requires thorough understanding. The major areas of differences are as follows:

- Winding up is just one of the methods of dissolution and dissolution is end result of winding up
- In winding up the legal status continues whereas in dissolution it comes to an end.
- Winding up is administered by liquidator whereas dissolution happens only through Registrar's order.

4.2 MODES OF WINDING UP (Pg No. 188)

A) Compulsory Winding Up
   a) If due to inability to pay debts then governed by insolvency and Bankruptcy Code
   b) On grounds other than inability to pay debts then governed by Companies Act, 2013
B) Voluntary Winding Up
   a) Upto 31st March, 2017 – Companies Act, 2013
   b) From 1st April, 2017 – Insolvency and Bankruptcy Code

Note – To be in line with the syllabus, we will be covering only winding up under the Companies Act, 2013.

C) Winding Up by Tribunal
   a) Company Resolution
   b) Against National Interests
   c) Fraud
   d) Default in Filing FS / AR
   e) Just and Equitable

4.3 STATEMENT OF AFFAIRS

Statement of affairs is one of the most important documents which is required to be submitted alongwith company's petition before the tribunal as per section 272 (5) of Companies Act, 2013. In case, petition is initiative by any entity other than company under section 274 (1), the statement of affsirs is required to be presented. In both the situations, the statement of affairs is required in prescribed form and prescribed manner.

The broad contents that are required to form the statement of affairs are as follows:

1) The details of assets having no specific charge with expected realisable value.
2) The details of assets having specific charge along with expected realisable value. In case of deficit, it should be treated as unsecured liability and surplus should be made available for disposal.
3) The details of assets mentioned in 1 and surplus arising from 2.
4) The details of preferential creditors, debentures with floating charge, unsecured creditors.
5) Details of total paid up capital indicating each class of shares

The statement of affairs should be accompanied by 8 mandatory lists prescribed in section 274 of Companies Act, 2013:

1) List A – Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list
2) List B – Assets specifically pledged and creditors fully or partly secured.
3) List C – Preferential creditors for rates, taxes, salaries, wages and otherwise.
4) List D – List of Debenture holders secured by a floating charge
5) List E – Unsecured creditors
6) List F – List of Preference shareholders
7) List G – List of Equity shareholders
8) List H – Deficiency or surplus account

Sr. no.	**Name of the List**	**Contents**
1	List A	Assets not specifically pledged (i.e. Assets not having fixed charge)
2	List B	Assets specifically pledged (i.e. Assets having fixed charge)
3	List C	Preferential Creditors
4	List D	Debenture holders secured by a floating charge

5	List E	Unsecured Creditors
6	List F	Preference Shareholders
7	List G	Equity Shareholders
8	List H	Reasons for the Surplus / deficiency as shown by the Statement of Affairs

STATEMENT OF AFFAIRS

₹	Particulars	₹
	Assets not Specifically Pledged (as per List A) **Assets Specifically Pledged (as per List B)**	

	(a) Estimated Realisable Value	(b) Due to Secured Creditors	(c) Deficiency Ranking as Unsecured Column	(d) Surplus carried to Last Column
	□	□	□	□

₹	Particulars	₹
	Estimated Surplus from Assets Specially Pledged Estimated total assets available for preferential creditors, debenture holders secured by floating charges and unsecured creditors	
	Summary of Gross Assets: Gross realizable value of assets specifically pledged Other Assets Gross Assets	

	Liabilities **Secured Creditors(as per List B)** to the extent to which claims are estimated to be covered by assets specifically pledged **Preferential Creditors (as per List C)**	
	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors	

	Debenture holders Secured by Floating Charge (as per List D)	
	Estimated surplus as regard debenture holders	
	Unsecured Creditors (as per List E)	
	Estimated surplus as regards creditors(being diff bet gross assets & liabilities)	
	Issued and Paid up Capital (as per List G)	
	Estimated Surplus/Deficiency as regards member (as per List H)	

4.4 DEFICIENCY ACCOUNT

The deficiency account needs to be prepared in case if proceeds from realization of assets are not sufficient to pay off creditors and members' contribution. The administrator or liquidator provides specific date of beginning on which the deficiency account is prepared. On such a given date there could be surplus or deficit. The format of deficiency account is prescribed in 2 parts –

A) Deficiency and items increasing deficiency further
B) Items reducing deficiency

The format of deficiency or surplus account is as follows:

Rs.	Particulars	Rs.	Rs.
	Items Contributing to Deficiency or Reducing Surplus :		
	1. Excess (if any) of capital and liabilities over (assets as ___ 20__) (as shown by Balance Sheet) (copy annexed)		
	2. Net dividends and bonuses declared during the period from ___20__ to the date of statement.		
	3. Net trading losses (after charging items shown in note below) for the same period.		
	4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars or annex schedule)		

	5. Estimated losses now written off or for which provision has been made for purposes of preparing the statement (give particulars or annex schedule)		
	6. Other items contributing to Deficiency or reducing surplus		XXX
	Items Reducing Deficiency (or Contributing to Surplus): 7. Excess (if any) of assets over capital and liabilities on the __20__ as shown on the Balance Sheet (copy annexed)		
	8. Net trading profit (after charging items shown in note below) for the period from the __20__ to the date of statement		
	9. Profit and income other than trading profit during the same period (give particulars or annex schedule).		
	10. Other items reducing Deficiency or Contributing to Surplus		
	Deficiency / Surplus as shown in Statement of Affairs		XXX

5.5 SPECIAL CONSIDERATIONS IN LIQUIDATION

A) Overerriding preferential payments

In the process of winding up of company, as per provisions of section 326, following debts should be settled as matter of priority over other debts:

1) Workmen's due
2) Realisation of secured assets having charge against secured creditors, (any deficit or amount equal to woekmen's portion in the security, whichever is less.) The following payment needs to be made to security creditors in the given order as follows:

a) All remuneration including outstanding remuneration to employees
b) Acrued holiday remuneration

Note - In case, if above payments are due for 2 years prior to closure of company then they should be paid before all liabilities within 30 days from realisation of assets which do not have specific charge against other secured liabilities

The obligations payable under provision of section 326 (1) shall be settled to the extent of 100 % as priority over secured creditors and once such payment is made, then secured creditors need to be paid off. In case, if the value of assets realised is not sufficient, then the liability shall be treated in proportion for its repayment.

For the purpose of interpretations of sections 326 and 327 workmen should be treated as any employee under section 2(s) of Industrial Dispute Act, 1947. Workmen's dues includes remuneration including outstanding remuneration to employees, Acrued holiday remuneration, compensation and all dues under retirement benefits / funds maintained by the company.

B) Preferential Creditors

In the process of winding up of company, preferential creditors needs to be paid as priority over other debts under section 327 of The Companies Act. While such payments are made it should be subject to the provisions of section 326. The examples of preferential creditors are as follows:

1) Statutory tax liabilities: All kinds of taxes, cess and duties payable by company towards central government, state government or local authorities should be treated as statutory tax liability. Such payments which have become due should be paid within 12 months.

2) Employee remuneration: All types of remuneration including salaries, wages, commission etc. which are payable for time period not exceeding 4 months should be paid within 12 months immediately before the due date. The provision is subject to fulfillment of certain conditions.

3) Leave Salary: The amount accrued as holiday remuneration falling due to the employee or other person at the time of retirement or termination of employment shall be treated as leave salary and is required to be paid as priority.

4) Retirement Benefits / Funds: All amounts payable under provident fund, pension fund, gratuity fund and any other fund created by company for welfare of employees shall be covered under the heading.

5) Contributions under ESI Act: The total amount due for 12 months, prior to winding up of a company, under ESI Act or any other relevant Act shall be treated as preferential liability. The said amount is payable only when the winding up is compulsory and not voluntary.

6) Compensation

7) Investigation expenses under section 213 and 216 if payable by company

In case, if there is any advance payment made to the employee or any other person in respect to remuneration or otherwise, the employee or other person shall reserve a right in respect of that money at the time of

winding up. In case of sick leave, remuneration that falls due on medical grounds should be treated as regular remuneration.
Note – section 326 amd 327 shall not be applicable if liquidation is under Insolvency and Bankruptcy Code 2016.

C) Members liability as Contributories

According to S. 2 (26) of the Companies Act, 2013, the term "contributory" means, a person liable to contribute towards the assets of a company in the event of its being wound up. A person holding fully paid shares in a company shall be considered as a contributory but shall have no liabilities of a contributory under the Act whilst retaining rights of such a contributory.

In the event of winding up, the tribunal should make clear differenciation between contributories having their own rights and those contributories which are representatives of others. The tribunal can process the settlements of list of contributories by making calls or adjusting their rights. There are 2 separate lists prepared as far as contributories are concerned:

a) List A: It shows the details of the members who appear in the register of members on the date of winding up. These members shall have limited liability to the extent of unpaid amount of share capital.

b) List B: It shows the details of all such members who ceased to be members within 12 months from the date of beginning of winding up of a company. Such members are treated as past members. The past members are liabe to make contributions unless shares were transmitted, the contractual liability arised after ceasing to be a member or current members fail to pay all the dues.

Companies should first make contribution call to the members listed in list A. If they fail to pool the required amount then B listed contributors should be called for payment. Also the contributions can be demanded from list B members only when the realisable value of assets falls short of the liabilities and when existing shareholders fail to pay the amount due to the liquidator.

Liquidation Cost

The process of liquidation involves realization of assets and settlement of liabilities which results into many incidental expenses such as transportation, negotiation charges, administrative and logistics expenses etc. In the process of winding up, such expenses and liquidator's remuneration gets top priority over other claims on company. The liquidation cost is paid after settlement of overriding preferential creditors and also has implications of secured creditors. The payment of liquidation cost is made in specific order which is as follows:

- Liquidation cost
- Legal Expenses
- Liquidator's Remuneration

The above order is used for voluntary liquidation whereas in case of compulsory winding up the order is prescribed by company law tribunal.

The remuneration of liquidator may be payable as percentage of assets realized or it may be payable in terms of cash distributed to external stakeholders and members. In a situation of deficiency, remuneration may be calculated as n / 100 + n where n indicates percentage of commission.

4.6 LIQUIDATORS' FINAL STATEMENT OF ACCOUNTS

When company goes for winding up by operation of law, the liquidator has to maintain proper books in prescribed manner including entries or minutes of the resolutions passed at the time of meetings held during the process of liquidation. Any creditor or contributory reserves the rights to demand for inspection of records subject to approval from the tribnal. One of the important statements which shows summarised record of all receipts and payments is known as liquidator's statement of account. In case, when winding up process is complete, the said statement is called liquidator's final statement of account.

Following are important items which are included on receipt side of liquidator's final statement of account:

A) Net realised amount from assets sold in prescribed order
B) Surplus arising from assets realised which are pledged against the specific liabilities under the heading of "surplus from securities". (In case if there is deficit then such excess amount of liability should be treated as unsecured liability and is to be paid off in the manner presribed.)

C) Final call on partly paid up shares in case the available amount is not sufficient to pay off creditors' claim and / or claim of preference shareholders. Such calls should be made first from equity shareholders to the extent necessary and then from preference shareholders.
D) Amounts received from calls made to contributories from list A and B

Following are important items which are included on payment side of liquidator's final statement of account:

A) Legal charges (lawyers' fees, expenses related to court proceedings etc.)
B) Liquidator's remuneration
C) Liquidator's expenses
D) Claims of debenture holders including interest due upto the date of actual repayment subject to solvency of the company
E) Preferential creditors (to be paid before claim of debenture holders if there is general charge of assets)
F) Unsecured creditors
G) Preference shareholders (including arrears in dividend)
H) Equity shareholders

In case of repeyment to shareholders there may be 2 situations where shares are fully paid up or partly paid up. In case if shares are partly paid up then first call should be made to equity shareholders being owners so as to settle the claims of creditors and preference shareholders. Such amount should be called only if available cash is not sufficient. Only if it is required then preference shareholders would be called upon. Calls on partly paid up shares is required to be made under the following situation:

Steps to determine call amount

1) Calculate total loss for equity shareholders
   Total loss = total equity share capital – cash available for payments to unsecured liabilities and preference share capital
2) Determine loss per share
   Loss per share = total loss / number of equity shares
3) Determine call amount
4) Call amount = loss per share – paid up amount
   Note – In case, if loss per share is less than paid up amount then balance amount per share is refunded.

Liquidators Final Statement of Account

1. Name of the Company :
2. Nature of Proceeding :
3. Date of Commencement of the Winding up :
4. Name and address of the liquidator

Receipts	**₹ (Estimated Value)**	**₹ (Realised Value)**	**Payments**	**₹**	**₹**
To Cash/Bank			By Liquidation Expenses		
To Realisation of Assets 1) 2)			By Liquidator's remuneration		
To Surplus from Secured Liabilities			By Statutory Liabilities 1) Govt dues. 2)		
To proceeds of call			By Secured Liabilities 1) Secured Bank Loan 2) Debentures		
			By Preferential Liabilities		

			1) Preference Dividend 2) Interest Payments		
			By Unsecured Liabilities By Preference Share Capital		

4.7 ILLUSTRATIONS

1. A liquidator is entiled to receive remuneration @ 2% of the assets realized 3% of Preference Creditors and 3% of the amount distributed among the unsecured creditors.

Assets realised Rs. 25,00,000 against which payment was made as follows:

Liquidation Expenses	Rs. 25,000
Preferential Creditors	Rs. 75,000
Secured Creditors	Rs. 10,00,000

Calculate remuneration payable to the liquidator. **(CS)**

Solution :

Analysis : 3% of amount distributed means 3/103 * Amount payable before remuneration.

Remuneration payable to Liquidator

Sr. No.	Particulars	Rs.
1.	2% of assets realised (2% of 25,00,000)	50,000
2.	3% of Preferential Creditors (3% of 75,000)	2.250
3.	3% of Distribution to Unsecured Creditors (Working Note 1)	39,255
	Total Remuneration	**91,505**

Note – Remuneration amount paid to unsecured creditors

Particulars	Rs.	Rs.
Amount Realised		25,00,000
Less: Paid to secured creditors	10,00,000	
Liquidation expenses	25,000	
Preferential Creditors	75,000	
Remuneration on collevction of assets	50,000	
Remuneration on payment to preference creditors	2,250	11,52,250
Payable to Unsecured Creditors before remuneration		**13,47,750**

Working Note

a) Remuneration = 3 / 103 * 13,47,750
= 39,255

b) Remuneration = 2% of assets realised
2% of 25,00,000

2. A liquidator is entitled to receive remuneration at 2.5% on the Assets realised, 1.5 % on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realised for Rs. 15,00,000 against which payment was made as follows:

Liquidation Expenses	Rs. 25,000
Secured Creditors	Rs. 6,00,000
Preferential Creditors	Rs. 75,000

The amount due to Unsecured Creditors was Rs. 9,00,000. Calculate the Total Remuneration payable to Liquidator.

Solution:

A) 2.5% of assets realised = 15,00,000 * 2.5 %
= Rs. 37,500

B) 1.5 % of preferential creditors = 75,000 * 1.5%
= Rs. 1,125

C) 3% of payments to Unsecured Creditors = (15,00,000 – 25,000 – 37,500 – 1,125 – 6,00,000 – 75,000) * (3 / 103) = Rs. 22,176

Total Remuneration = A + B + C
= Rs. 60,801

3. M/s. ABC Ltd. Has gone into liquidation on 25th June, 2019. Certain creditors could not receive payments out of realisation of assets and contributions from "A" list contributories. Following are the details of certain transfers which took place in the year ended 31st March, 2019.

Shareholders	No. of Shares Transferred	Date of Ceasing to be a member	Creditors Remaining unpaid on the date of transfer
P	4,000	10-5-2018	9,000
Q	3,000	22-7-2018	12,000
R	2,400	15-9-2018	13,500
S	1,600	14-12-2018	14,000
T	1,000	9-3-2019	14,200

All the shares are of Rs. 10 each, Rs. 8 per share paid up. Show the amount to be realised from the persons listed above. Ignore remuneration to liquidator and other expenses. **(CA IPCC November 2011)**

Solution :

Statement of Liabilities of "B" List Contributories

Share holders	No. of shares transferred	Maximum liability Upto Rs. 2 Per Share (Rs.)	Division of Liability as on				Total
			22 July (Rs.)	15 Sept. (Rs.)	14 Dec. (Rs.)	9 Mar. (Rs.)	
Q	3,000	6,000	4,500	-	-	-	4,500
R	2,400	4,800	3,600	720	-	-	4,320
S	1,600	3,200	2,400	480	308	-	3,188
T	1,000	2,000	1,500	300	192	8	2,000
Total	**8,000**	**16,000**	**12,000**	**1,500**	**500**	**8**	**14,008**

Notes:

A. P transferred shares before one year preceding the date of liquidation. Hence, he cannot be held liable for any liability on liquidation.

B. Liability of T is restricted to maximum Rs. 2,000. Hence, amount payable by T on 9th March is Rs. 8 only.

C. Q will not be responsible for further debts incurred after 10th May (from the date when he ceases to be a member). R & S will not be liable for the debts incurred after the date of their transfer to shares.

Note :
Computation of Ratio for Discharge of Liabilities

Date	**Cumulative Liability (Rs.)**	**Increase in Liability (Rs.)**	**Ratio of No. of Shares Held by Q, R, S & T**
22July	12,000	-	30:24:16:10
15 September	13,500	1,500	24:16:10
14 December	14,000	500	16:10
9 March	14,200	200	Only T

4. Sri. "Ram" is appointed Liquidator of "C" Ltd., in Voluntary Liquidation. On 1st July. Following balances are extracted from the books on that date:

Equity & Liabilities	**Rs.**		**Assets**	**Rs.**
Share Capital: 12,000 Shares of Rs. 9 each	1,08,000		Machinery	60,000
Reserve for Bad Debts	19,000		Leasehold Properties	40,000
Debentures (Machinery)	55,000		Stock – in – trade	7,500
Bank Overdraft (Secured)	25,000		Book debts	75,000
Creditors (including Preferential creditors)	30,000		Investments	12,000
			Call in Arrears	1000
			Cash in hand	1,500
			Profit and Losss A/C	40,000
Total	**2,37,000**			**2,37,000**

Prepare a Statement of Affairs to be submitted to the meeting of Creditors. Following assets are valued as under by that date:

Machinery	Rs. 90,000	Investments	Rs. 9,000
Leasehold Properties	Rs.1,09,000	Stock	Rs. 3,000

Bad Debts are Rs. 2,000 and the Doubtful Debts are Rs. 5,000 which are estimated to realise Rs. 3,000. Preferential Creditors are Rs. 1,500. Telephone Rent outstanding Rs. 120. Liquidation expenses amounted to Rs 500 and Remuneration is Rs 750.

Solution:

Receipts	**Rs.**	**Payments**	**Rs.**
To Assets realised		By Liquidation Expenses	500
Cash	1,500	By Liquidator's Remuneration	750
Fixed Assets (leasehold Property)	1,09,000	By Preferential creditors	1,500
Book Debts	71,000	By Bank Overdraft	25,000
Investments	9,000	Trade Creditors	28,620
Stock	3,000	By Equity Shareholders	1,72,130
Surplus from security	35,000		
	2,28,500		**2,28,500**

Note – Sine debentures were secured againast specific asset and asset realised more amount, the excess net amount is shown as surplus in a statement. In case, asset does not fetch required amount, the difference would have been unsecured liability.

The following is the balance sheet of XY Ltd. Which is in the hands of the liquidator.

Balance Sheet as at 31.3.2018

Liabilities	Rs.	Assets	Rs.
Share Capital :			
1,000, 6% Preference Shares of Rs. 100 each, fully paid	1,00,000	Fixed Assets	2,00,000
2,000 Equity shares of Rs. 100 each	2,00,000	Stock	1,20,000
2,000 Equity shares of Rs. 100 each, Rs. 75 paid	1,50,000	Book Debts	2,40,000
Loan from Bank (on security of stock)	1,00,000	Cash	40,000
Trade Creditors	3,50,000	Profit and Loss Account	3,00,000
	9,00,000		**9,00,000**

The assets realised the following amounts (after all costs of realisation and liquidator's commission amounting to Rs. 5,000 paid out of cash in hand Rs. 40,000as per Balance Sheet):

Fixed Assets	Rs. 1,68,000
Stock	Rs. 1,10,000
Book Debts	Rs.2,30,000

Calls on partly paid shares were made but the amount due on 200 shares was found to be irrecoverable.

Prepare the Liquidator's Final Statement of Account.
(November 2018 University of Mumbai, TYBAF)

Solution:

Analysis: A call should be made on 1,800 shares shares as holders of 200 shares did not pay.

XY Co. Ltd.

Liquidators Final Statement of Account

For the year ended 31st March 2018

Receipts	Rs.	Payments	Rs.
To Assets realised		By Liquidator's Remuneration	5,000
Cash	40,000	By Trade Creditors	3,50,000
Fixed Assets	1,68,000	By Preference Shareholders	1,00,000

Book Debts	2,30,000	By Equity Share Holders (Rs. 10 per share on 2,000 shares)	20,000
Surplus from security	10,000		
To Proceeds of call on 1,800Equity shares @ Rs. 15 per share	27,000		
	4,75,000		**4,75,000**

Working Note

1. Amount Required:

Particulars	**Rs.**
Preference Share Capital	1,00,000
Equity Share Capital	2,00,000
Equity Share Capital partly paid (1,50,000 – 15,000)	1,35,000
	4,35,000
Less: Available Cash (40,000 + 1,68,000 + 2,30,000 + 10,000 – 5,000 – 3,50,000)	93,000
Total Deficiency	**3,42,000**

Loss per share = 3,42,000 / 3,800 = Rs. 90
Therefore a call of Rs. 15 (90 – 75) per share will be made on 1,800 shares and a return of Rs. 10 (100 – 90) will be made on the holders of 2,000 shares.

5. U Ltd. Went into voluntary liquidation on 31st March. The following balances are extracted from its books on that date:

Equity and Liabilities	**Rs.**		**Assets**	**Rs.**
Capital : 48,000 Equity Shares of Rs. 10 each, paid up Rs 5	2,40,000		Machinery	75,000

Debentures (secured by a Floating Charge)	1,60,000		Leasehold Properties	1,25,000
Bank Overdraft	40,000		Stock	5,000
Creditors	60,000		Debtors	1,30,000
			Investments	15,000
			Cash in hand	50,000
	-		Profit and Loss Account	1,00,000
Total	**5,00,000**			**5,00,000**

The following assets are valued as under:

Machinery	Rs. 80,000		Stock	Rs. 6,000
Leasehold Properties	Rs. 2,10,000		Debtors	Rs. 1,00,000
Investments	Rs. 10,000			

The bank overdraft is secured by deposit of Title Deeds of Leasehold Properties. There were Preferential Creditors Rs. 5,000 which were not included in Creditors Rs. 60,000.

Prepare a Statement Affairs to be submitted to the meeting of Members / Creditors.

Solution:

Receipts	**Rs.**	**Payments**	**Rs.**
To Cash	50,000	By Preferential Creditors	5,000
To assets realised:		By Debentures	1,60,000
Machinery	80,000	By Creditors	60,000
Investments	10,000	By Equity Shareholders	1,91,000
Stock	6,000		
Debtors	1,00,000		
To surplus from assets	1,70,000		
	4,16,000		**4,16,000**

6. The following is the Balance sheet of Suman Ltd. Which is in the hand of liquidator.

Balance sheet as on 31-12-2019

Liabilities	**Rs.**		**Assets**	**Rs.**
Share Capital:			Fixed Assets	1,00,000
500, 6% Preference shares of Rs 100 each, fully paid	50,000		Stock	60,000
1000 Equity Shares of Rs 100 each fully paid	1,00,000		Book debts	1,20,000
3000 Equity Shares of Rs 50 each, Rs 25 paid	75,000		Cash	20,000
Loan from Bank (on security of stock)	50,000		Profit And Loss	1,50,000
Trade Creditors	1,75,000			
	4,50,000			**4,50,000**

The Assets realized the following amounts (after all costs of realization and liquidators remuneration amounting Rs 3000 paid out of cash in hand Rs 20,000 as per Balance sheet):

Fixed Assets	84,000
Stock	55,000
Book Debts	1,15,000

Prepare the liquidators final statement of Account. **(TYBAF, October 2019, Mumbai University)**

Solution:

Analysis: Make a call 3000 shares @25 Rs each

Suman Ltd

Liquidators Final Statement of Accounts.

Particulars	**Rs.**		**Particulars**	**Rs.**
To Assets			By Liquidators	3,000
Cash 20,000			By Creditors	1,75,000
Fixed Assets 84,000			By return to 6% Preference Shareholders	50,000
Book Debts 1,15,000	2,19,000		By Equity Shareholders	

To Surplus from Security	5,000		Rs 100 paid 28,400	
To Proceeds of call (3000 x 25)	75,000		Rs 50 paid 42,600	71,000
	-			
	2,99,000			**2,99,000**

4.8 EXERCISES

1. B Ltd. is to be liquidated. Their summarised Balance Sheet as at 30th September, 2020 appears as under:

Liabilities	Rs.	Assets	Rs.
2,50,000 Equity shares of Rs. 10 each	25,00,000	Land and buildings	5,00,000
Secured Debentures (on land and building)	5,00,000	Other fixed assets	20,00,000
Unsecured loans	20,00,000	Current assets	45,00,000
Trade creditors	40,00,000	Profit and Loss A/c	20,00,000
	90,00,000		**90,00,000**

Contingent liabilities are	Rs.
For bills discounted	1,50,000
For excise duty demands	2,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows: Land and buildings 110%

Other fixed assets 90%

Current assets Rs 40,00,000

Taking the above into account prepare the statement of affairs.

2. A liquidator is entitled to receive remuneration @ 3% of the assets realised and 5% of the amount distributed among the unsecured creditors. The assets realised Rs. 35,00,000 against which payment was made as follows:

- Liquidation expenses Rs. 25,000
- Preferential creditors Rs. 1,75,000
- Secured creditors Rs. 7,50,000

Calculate the remuneration payable to the liquidator

3 .The capital of Data Company Limited was as follows:

a. 8000 equity shares of Rs. 100 each fully paid up
b. 6000 equity shares of Rs. 100 each, Rs. 80 per share paid up
c. 2000 preference shares of Rs. 100 each fully paid (these shares have preference as to capital)
d. 2000 deferred shares of R. 100 each Rs. 80 per share paid up (these shares, under the articles are to be paid after satisfying the claims of equity shareholders)

The various creditors amounted in all to Rs. 2,00,000 including the liquidator's remuneration of Rs. 5,000. The liquidator made a call of the remaining Rs. 20 on the deferred shares which were paid in full. He also realised all the assets amounting to Rs. 3,82,000.

A call of R. 15 per hare was made on the equity shares which were partly paid up. This was paid in full with the exception of that on 200 shares.

Prepare the Liquidator's Account showing the return of money to the shareholders.

3. The balance sheet of Badshah Ltd as on 31st December 2019 was as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land and Building	61,000
8000 Preference shares of Rs. 9 each	72,000	Other fixed assets	3,00,000
12,000 equity shares of Rs. 1each	12,000	Stock	3,25,000
Bank loan	4,00,000	Debtors	1,00,000
Debentures	1,00,000	Profit and Loss A/c	58,000
Interest outstanding on debentures	10,000		
Creditors	2,50,000		
	844000		**844000**

The company went into liquidation on that date. Prepare Liquidator's Statement of Account after taking into account the following:

a. Liquidation expenses and liquidator's remuneration amounted to Rs. 3,000 and Rs. 10,000, respectively.
b. Bank loan was secured by pledge of stock
c. Debentures and interest thereon are secured by a floating charge on all the assets
d. Fixed assets were realised at book value and current assets at 75% of book values.

4. Balance sheet of Naru Ltd as on 31 December 2020 is as follows

Liabilities	**Rs.**	**Assets**	**Rs.**
Paid up Capital:		*Fixed Assets:*	
2000, 6% Preference shares of Rs. 100 each	2,00,000	Land and building	4,00,000
4,000 equity shares of Rs. 100 each fully paid up	4,00,000	Plant and machinery	4,40,000
6,000 equity shares of Rs. 100 Rs. 50 paid up	3,00,000	*Current assets:*	
Secured Loans:		Stock	2,00,000
6% bonds (on floating charge on all assets)	2,00,000	Debtors	2,00,000
Others bank loan (on mortgage of land and building)	2,00,000	Cash at bank	60,000
Current Liabilities:		*Miscellaneous expenditure:*	
Sundry creditors	1,80,000	Profit and Loss A/c	2,00,000
Income tax	20,000		
	15,00,000		**15,00,000**

The company went into liquidation on 1 January 2021.
The preference dividends were in arrears for three years. The arrears are payable on liquidation
The assets were realised as follows:
- Land and Building – 125%
- Plant and machinery- 85%
- Stock at book value
- Debtors- 80%

The expenses of liquidation amounted to Rs. 5,000.

The liquidator is entitled to a commission at 3% on all assets realised and 5% on amount distributed to unsecured creditors.

All payments are made on 30 June 2021.

Prepare Liquidator's Statement of Accounts.

5. The summarised balance sheet of Berti Ltd as on 31.3.2017, being the date of voluntary winding up is as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:			
100000, 12% Cumulative Preference shares of Rs. 10 each fully paid up	10,00,000	Land and building	5,00,000
50,000 equity shares of Rs. 10 each Rs. 6 per share called up and paid up	3,00,000	Plant and machinery	8,00,000
50,000 equity shares of Rs. 10 Rs. 5 per share called up and paid up	2,50,000	Stock	2,00,000
15% Debentures	7,50,000	Debtors	15,00,000
Preferential creditors	2,00,000	Profit and Loss A/c	5,00,000
Bank overdraft	3,00,000		
Trade creditors	7,00,000		
	35,00,000		**35,00,000**

The preference dividends were in arrears for two years.
The assets were realised as follows:

- Land and Building @ 150%
- Plant and machinery @ 95%
- Stock @ 75%
- Debtors Rs. 12,25,000

The expenses of liquidation amounted to Rs. 54,000.

The remuneration of the liquidator is 1.25% of the realisation. Income tax payable on liquidation is Rs. 80,500. Assuming that the final payments are made on 31.3.2018 prepare the Liquidator's Final Statement of Account.

6. Rupay Ltd went into voluntary liquidation on 31st December 2014 when their balance sheet read as follows:

Liabilities	Rs.	Assets	Rs.
7500, 10% Cumulative Preference shares of Rs. 100 each fully paid up	7,500,000	Land and building	3,75,000
3750 equity shares of Rs. 100 each Rs. 60 paid	2,81,250	Plant and machinery	9,37,500
11250 equity shares of Rs. 100 each Rs. 60 paid	6,75,000	Patents	1,50,000

15% Debentures secured by a floating charge	3,75,000	Stock	2,01,250
Interest outstanding on debentures	56,250	Sundry debtors	4,12,500
Creditors	4,78,125	Cash at bank	1,12,500
		P & L A/c	4,26,875
	26,15,625		**26,15,625**

The dividends on preference shares were in arrears for two years and the creditors included preferential creditors of Rs. 19,000. The assets realised were as under:

- Land and Building Rs. 7,00,000
- Plant and machinery Rs. 9,00,000
- Stock Rs. 2,50,000
- Debtors Rs. 4,00,000
- Patents Rs. 1,25,000

The expenses of liquidation amounted to Rs. 20,250. The liquidator is entitled to a commission of 2.5% on all assets realised except cash. Assuming that final payments including those on debentures were made on 30th June, 2015, prepare the Liquidator's Final Statement of Account.

7. The following is the Balance sheet of Lily Ltd as at 31st March, 2019

Liabilities	**Rs.**	**Assets**	**Rs.**
4000, 10% Preference shares of Rs. 100 each fully paid up	4,00,000	Land and building	8,00,000
4,000 equity shares of Rs. 100 each Rs. 75 per share paid up	3,00,000	Plant and machinery	7,60,000
12,000 equity shares of Rs. 100each Rs. 60 per share and paid up	7,20,000	Stock at cost	2,20,000
10% Debentures (having a floating charge on all assets)	4,00,000	Sundry debtors	4,40,000
Interest outstanding on debentures (also secured as above)	20,000	Cash at bank	1,20,000
Creditors	9,80,000	P & L A/c	4,80,000
	28,20,000		**28,20,000**

On the date, the company went into voluntary liquidation. The dividends on preference shares were in arrears for the last two years. Sundry creditors include a loan of Rs. 1,80,000 on mortgage of Land and Buildings. The assets realised were as under:
Land and Building Rs. 6,80,000
Plant and Machinery Rs. 7,20,000
Stock Rs. 2,40,000
Sundry Creditors Rs. 3,20,000

Interest accrued on loan on mortgage of buildings up to the date of payment amounted to Rs. 20,000. The expenses of Liquidation amounted to Rs. 5,000. The Liquidator is entitled to remuneration of 2% on all the assets realised (except cash at bank) and 3% on the amount distributed among equity shareholders. Preferential creditors included in sundry creditor's amount to Rs. 50,000. All payments were made on 30th June, 2019.

Prepare the Liquidator's Final statement of Account.

8. In liquidation of Unfortunate Ltd which commenced on 1 April, 2017 certain creditors could not receive payments out of the realisation of the assets and out of contribution from 'A' list contributories. The following are the details of certain transfers which took place after 1 April, 2017:

Shareholders	*No. of shares transferred*	*Date of ceasing to be member*	*Creditors remaining unpaid and outstanding on the date of ceasing to be member (Rs.)*
A	1,000	1st May, 2017	3,000
B	1,500	1st July,2017	4,500
C	300	1st November, 2017	6,000
D	200	1st February, 2017	8,500

All the shares were of Rs. 10each, Rs. 5 paid up. Ignoring expenses, remuneration to liquidator, etc Show the amount to be realised from the various persons listed above.

9. In a winding up which commenced on 15th September, 2020 certain creditors could not receive payments out of the realisation of the assets and out of contribution from 'A' list contributories. The following are the details of certain transfers which took place prior to liquidation and the amount of creditors remaining unpaid:

Shareholders	*No. of shares transferred*	*Date of ceasing to be member*	*Creditors remaining unpaid and outstanding on the date of ceasing to be member (Rs.)*
L	2,000	31.8.2020	6,000
M	1,800	20.9.2020	22,000
N	1,200	15.11.2020	27,400
O	1,000	22.2.2021	38,600
P	500	10.3.2021	42,000

All the shares were of Rs. 10each, on which Rs. 4 per share had been called and paid up. Ignoring expenses, remuneration to liquidator, etc show the amount to be realised from the various persons listed above.

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5

UNDERWRITING OF SHARES & DEBENTURES

Unit Structure

5.1 INTRODUCTION

In case of Public Ltd. companies, a minimum subscription must be received in order to name that issue as a successful one. When a company goes in for an initial public offer (IPO), it may face certain uncertainty about whether its offer of shares or other securities will be subscribed in full or not. If the public issue does not get fully subscribed, the project for which the funds are being raised cannot be implemented. As per law, it is required that if the company is not able to collect 90% of the offer amount, then it needs to compulsorily return the money to those who have subscribed to the shares.Companies in order to ensure minimum subscription take the help of the procedure called underwriting. If the whole or a certain portion of the shares or debentures of the company is not applied for by the public, the underwriters themselves apply or persuade others to apply for those shares or debentures. The underwriters, as risk-takers, are entitled to get commission at prescribed rates. Depending upon the risk assessment of the issue, the underwriters decide on their amount of commission.

5.2 UNDERWRITING

Underwriting means guaranteeing to subscribe to an agreed number of shares or debentures for a certain consideration. The public companies enter into underwriting arrangements when it goes for IPO. The person or institution who underwrites the issue is called "underwriters and the commission so paid is known as "Underwriting Commission.

5.3 UNDERWRITING COMMISSION

A commission is given to the underwriters for underwriting work, this commission is known as Underwriting Commission. This commission is found out on the issue price of the shares and debentures underwritten. Commission to the underwriters is paid on the whole of issue underwritten irrespective of the fact that whole of the issue has been subscribed by the public or not. Underwriting commission can be paid only when it is authorised by the Articles of Association

5.4 PROVISION OF COMPANIES ACT WITH RESPECT TO PAYMENT OF UNDERWRITING COMMISSION

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the following conditions which are prescribed under Companies (Prospectus and Allotment of Securities) Rules, 2014:

(a) the payment of such commission shall be authorized in the company's articles of association;

(b) the commission may be paid out of proceeds of the issue or the profit of the company or both;

(c) the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

(d) the prospectus of the company shall disclose –

- the name of the underwriters; – the rate and amount of the commission payable to the underwriter; and
- the number of securities which is to be underwritten or subscribed by the underwriter absolutely or conditionally.

(e) there shall not be paid commission to any underwriter on securities which are not offered to the public for subscription;

(f) a copy of the contract for the payment of commission is delivered to the Registrar at the time of delivery of the prospectus for registration.

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates. The company is free to negotiate lower rates with underwriters.

In short:

- Underwriting commission may be paid in cash or in fully paid-up shares or debentures or a combination of all these.

- Companies Act, 2013 provides that payment of commission should be authorized by Articles of Association and the maximum commission payable will be as under:

In case of shares	5% of the issue price of the share
In case of debentures	2.5% of the issue price of debenture

5.5 UNDERWRITERS, SUB-UNDERWRITERS & BROKERS

Underwriters: The person or institutions underwriting a public issue of shares and debentures are called underwriters. The underwriters may be individuals, partnership firms, joint stock companies, banks and financial institutions. Ex: ICICI, SFC's, LIC etc. A person can only act as an underwriter if he/she a certificate granted by SEBI.

Sub-underwriters: An underwriter may appoint several underwriters to work under him/her. Such underwriters are termed as sub-underwriters They have no contract with the company. They get their remuneration from the underwriters who are responsible to them.

Brokers: Brokers only help in getting the shares or debentures sold and do not offer any guarantee to take the unsubscribed shares. Consideration paid to the brokers is known as brokerage.

5.6 TYPES OF UNDERWRITING

An underwriting agreement may be of any one of the following types:

(a) Complete Underwriting: If the whole of the issue of shares or debentures of a company is underwritten, it is said to be complete underwriting. It may be written by:

I. One firm/institution (or)
II. More than one person/institution

If the full issue is underwritten by one underwriter, then his liability will be equal to the number of shares or debentures underwritten minus shares applied for.

Ex: If S Ltd. makes a public issue of 40,000 equity shares of 10 each at a premium of 490 per share and the entire issue of 40,000 equity shares is underwritten by A, B & C in the ratio of 2:2:1.

(b) Partial Underwriting: If a part of the issue of shares or debenture of a company is underwritten, it is said to be partial underwriting. Such an underwriting may be done by one underwriter or by a number of underwriters. In case of partial underwriting, the company is treated as 'underwriter' for the remaining part of the issue.

Ex: If S Ltd. makes a public issue of 40,000 equity shares of 10 each at a premium of 490 per share and the 20,000 equity shares are underwritten by A, B & C in the ratio of 2:2:1, it is called partial underwriting.

(c) Firm Underwriting: It is a firm commitment by an underwriter to take up a specified number of shares or debentures of the company irrespective of the number of shares or debentures subscribed by the public. In firm underwriting, the underwriters are committed to take up the agreed number of shares or debentures in addition to unsubscribed shares or debentures, if any. Even if the issue is over-subscribed, the underwriters are liable to take up the agreed number of shares of debentures.

Suppose a company has issued 4,00,000 shares of Rs.10 each out of which underwriting is 30,000 shares. Public subscribed for all 4,00,000 shares. As 30,000 shares are reserved for underwriters, only 4,00,000 – 30,000 i.e., 3,70,000 shares will be issued to pubic and application money of remaining 30,000 shares will be returned to the public.

Normally, an underwriter cannot set off his firm underwriting liability, but if the contract provides setting off firm underwriting out of underwriting liability, it may be done.

5.7 MARKED, UNMARKED & FIRM-UNDERWRITING APPLICATIONS

Marked Application: When shares and debentures of the company are issued to the public, whatever shares and debentures are issued by the underwriters to the public, they place a seal of their name and address on the application form; and when the form bearing seal of the underwriters is received by the company, it becomes clear to the company as how many forms are due to the efforts of a particular underwriter. Such applications bear the stamp of the underwriter and the credit for these applications are given to the individual underwriter. This is necessary in the case of such companies whose shares are underwritten by a number of underwriters.

Unmarked Application: The 'unmarked' applications are those applications which bear no stamp of an underwriter. These applications are received by the company directly from the public. When there is more than one underwriter, the unmarked applications are divided amongst Underwriters in the ratio of their gross liability.

Firm Underwriting applications:

1. **When credit for firm underwriting given to individual underwriter:** Firm underwriting shall be deducted from the gross liability first and the calculation shall be done without considering the firm underwriting and after determining the liability on account of underwriting, firm underwriting is added.

2. **When the credit for firm underwriting not given to individual underwriter:** If the credit for the firm underwriting is not to be given to individual underwriter, those shall be treated as unmarked applications.

Types of Application	**Treatment**
Marked Application	Always credited to the individual underwriter
Unmarked	Always distributed among all the underwriters
Firm Underwriting	The applications for the firm shares are either credited to individual underwriter or credited to all depending upon the conditions of underwriting agreement

Note: The distinction between marked and unmarked applications becomes immaterial when the whole issue is subscribed by only one underwriter. When the issue is fully subscribed, the distinction between marked and unmarked applications becomes immaterial.

5.8 ACCOUNTING TREATMENT FOR UNDERWRITING OF SHARES & DEBENTURES

Date	Particulars	Amount
1	**When shares & debentures are allotted to underwriters in respect to their liability** Underwriters A/c Dr.. To Share Capital A/c (or) ToDebenturesA/c To Securities Premium A/c	With the value of the shares & debentures taken up by the underwriters
2	**When commission becomes payable to the underwriters** Underwriting Commission A/c Dr.. To Underwriters A/c	With the amount of commission due on the total issue price of shares underwritten

3	**When the net amount due from the underwriters on the shares or debentures taken up by them is received** Bank A/c Dr.. To Underwriters A/c	With the net amount due
4	**When the net amount due to the underwriters for commission on the shares or debentures underwritten** Underwriters A/c Dr.. To Bank A/c	With the net amount due

5.9 LIABILITY OF THE UNDERWRITERS IN RESPECT OF UNDERWRITING CONTRACT

Statement showing Net and Total liability of underwriters:

No	Particulars	Basis	A	B
A	Gross Liability	Ratio of shares under written	XXX	XXX
B	Less: Marked Application (excluding firm under writing)	Actual	XXX	XXX
C	Balance	(A – B)	XXX	XXX
D	Less: Unmarked applications allotted in the ratio of gross liability	Ratio of gross liability	XXX	XXX
E	Balance	(C – D)	XXX	XXX
F	Less: Firm Underwriting	Actual or Ratio of Gross Liability	XXX	XXX
G	Net liability as per agreement (if no balance is negative)	(E – F)	XXX	XXX
H	Add: Firm Underwriting		XXX	XXX
I	Total Liability		XXX	XXX

Statement showing the Net Amount Due From/To of Underwriters

No	Particulars	A	B
A	Total Liability (including firm underwriting) (No of shares)	**xxx**	**xxx**
B	Amount due on total liability	**xxx**	**xxx**
C	Less: amount already paid on Firms Applications	**xxx**	**xxx**
D	Amount due on net liability	**xxx**	**xxx**
E	Less: Underwriting Commission	**xxx**	**xxx**
F	Net amount due to underwriters (if D<E) Or Net amount from underwriters (if D>E)	**xxx**	**xxx**

Practical Problems

Q.1. Alpha Ltd. was incorporated on 1st April 2022 and issued a prospectus inviting applications for 500,000 equity shares at Rs. 10 each per share. The whole issue was fully underwritten by four individuals, as shown in the following:

- W: 200,000 shares
- X: 150,000 shares
- Y: 100,000 shares
- Z: 50,000 shares

Applications were received for 450,000 shares, of which the marked applications were as follows:

- W: 220,000 shares
- X: 90,000 shares
- Y: 110,000 shares
- Z: 10,000 shares

Required: Calculate the liabilities of individual underwriters. (Full Underwriting)

Solution:

Details	W	X	Y	Z	Total
No of shares underwritten	2,00,000	1,50,000	1,00,000	50,000	5,00,000
Less: Marked Application	(2,20,000)	(90,000)	(1,10,000)	(10,000)	(4,30,000)
Balance	(20,000)	60,000	(10,000)	40,000	70,000
Less: Unmarked Applications	(8,000)	(6,000)	(4,000)	(2,000)	(20,000)
Balance	(28,000)	54,000	(14,000)	38,000	50,000
Surplus of W & Y distributed to X & Z in ratio of 15:5	+28,000	(31,500)	+14,000	(10,500)	NIL
Net Liability	NIL	22,500	NIL	27,500	50,000

Number of unmarked applications =Total shares applied for – Marked Applications

= 4,50,000 – 4,30,000

= 20,000 shares

Q.2. Beta Ltd. issued 100,000 shares valued at Rs. 100 per share. The shares were underwritten as follows:

- X: 30,000 shares
- Y: 50,000 shares

The public applied for 70,000 shares.

Required: Determine the liability of X, Y, and the company (Partial Underwriting)

Solution:

	X	Y	Company	Total
Gross Liability	30,000	50,000	20,000	1,00,000
Less: Application received in the ratio of 30:50:20	21,000	35,000	14,000	70,000
Net Liability	9,000	15,000	6,000	30,000

Q.3. Deni Limited issued 10,000 shares valued at Rs. 100 each. The entire issue was underwritten as follows:

- A: 50%
- B: 30%
- C: 20%

In addition, there was firm underwriting as follows:

- A: 1,000 shares
- B: 750 shares
- C: 500 shares

The total subscription, including firm underwriting, was 8,000 shares. The subscription included the following marked applications:

- A: 1,500 shares
- B: 2,000 shares
- C: 750 shares

Required: Calculate the liability of the underwriters. (Firm Underwriting)

Solution:

	A	B	C	Total
Gross Liability	5,000	3,000	2,000	10,000
Less: Marked Application	(1,500)	(2,000)	(750)	(4,250)
Balance	4,500	1,000	1,250	5,750
Less: Unmarked Application (5:3:2)	(1,875)	(1,125)	(750)	(3,750)
Balance	2,625	(125)	500	2,000
Surplus of B to be distributed between A & C in ratio 5:2	(89)	+125	(36)	-
Balance	1,536	-	464	2,000
Add: Firm underwriting	1,000	750	500	2,250
Net Liability	2,536	750	964	4,250

Q.4. Sardar Limited issued to public 1,50,000 equity shares of Rs. 100 each at par. Rs. 60 per share was payable along with application and the balance on allotment. This issue was underwritten equally by Ali, Bali and Charlie for a commission of 2.5 per cent. Applications for 1,40,000 shares were received as per details:

Underwriter	Firm Application	Marked Application	Total
Ali	5,000	40,000	45,000
Bali	5,000	46,000	51,000
Charlie	3,000	34,000	37,000
Unmarked Applications			7,000
Total			1,40,000

It was agreed to credit the unmarked applications equally to Ali and Charlie. Sardar Limited accordingly made the allotment and received the amounts due from the public. The underwriters settled their accounts. Prepare a statement showing the liability of the underwriters.

Solution: Statement showing underwriters liabilities

Name of the Underwriters	Ali	Bali	Charlie	Total
Gross Liability	50,000	50,000	50,000	1,50,000
Less: Marked Applications	(40,000)	(46,000)	(34,000)	(1,20,000)
Less: Unmarked to be distributed between Ali & Charlie (1:1)	(3,500)	-	(3,500)	(7,000)
Less: Firm Underwriting	(5,000)	(5,000)	(3,000)	(13,000)
Balance	1,500	(1,000)	9,500	10,000
Surplus of Bali distributed between Ali & Charlie in ratio (1:1)	(500)	+1,000	(500)	-
Balance	1,000	-	9,000	10,000
Add: Firm Underwriting	5,000	5,000	3,000	13,000

Net Liability (no. of shares)	6,000	5,000	12,000	23,000
Amount due @ Rs. 60 per share	3,60,000	3,00,000	7,20,000	13,80,000
Less: Amount paid on firm application	(3,00,000)	(3,00,000)	(1,80,000)	(7,80,000)
Less: Underwriting Commission @ 2.5% on issue price	(1,25,000)	(1,25,000)	(1,25,000)	(3,75,000)
Net Liability (in Rs.)	(65,000)	(1,25,000)	4,15,000	2,25,000

Q.5. K Ltd. issued for subscription 25,000 shares at a premium of Rs. 10 each The issue was underwritten as follows:
A: 15,000 shares; B: 7,500 shares & C: 2,500 shares.

Firm application is as follows:
A: 2,500 shares; B: 1,000 shares & C: 500 shares.
Out of the total issue, 22,500 shares including firm underwriting were subscribed. Marked form details:
A: 8,000 shares; B: 5,000 shares & C: 2,500 shares.

Required:

- If the firm underwriting shares are treated as unmarked application, then what is the net liability of each underwriter?

- If the firm underwriting shares are treated as marked application, then what is the net liability of each underwriter?

Solution:

When firm underwriting shares are treated as unmarked application:

Particulars	A	B	C	Total
Gross Liability	15,000	7,500	2,500	25,000
Less: Marked applications	(5,500)	(4,000)	(2,000)	(11,500)
Less: Unmarked Applications*	(6,600)	(3,300)	(1,100)	(11,000)
Balance	2,900	200	(600)	2,500

Surplus of C (150:75)	(400)	(200)	+600	-
Balance	2,500	-	-	2,500
Add: Firm Underwriting	2,500	1,000	500	4,000
Net Liability	5,000	1,000	500	6,500

*Calculation of net unmarked application:

Unmarked Applications	7,000
Add: Firm underwriting	4,000
	11,000

When firm underwriting shares are treated as marked application:

Particulars	**A**	**B**	**C**	**Total**
Gross Liability	15,000	7,500	2,500	25,000
Less: Marked applications (including firm underwriting)	(8,000)	(5,000)	(2,500)	(15,500)
Less: Unmarked Applications	(4,200)	(2,100)	(700)	(7,000)
Balance	2,800	400	(700)	2,500
Surplus of C (150:75)	(467)	(233)	+700	-
Balance	2,333	167	-	2,500
Add: Firm Underwriting	2,500	1,000	500	4,000
Net Liability	4,833	1,167	500	6,500

Q.6. Sam Ltd invited applications from public for 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 5 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law. The company received applications for 70,000 shares from public out of which applications for 19,000, 10,000, 21,000and 8,000 shares were marked in favour of A, B, C and D respectively. Calculate the liability of each of the underwriters. Also ascertain the underwriting commission payable to the different underwriters.

Solution:

Statement showing the Liability of Underwriters

Details	A	B	C	D
Gross Liability	30,000	30,000	20,000	20,000
Less: Marked Applications	(19,000)	(10,000)	(21,000)	(8,000)
Less: Unmarked Applications	(5,700)	(5,700)	(3,800)	(3,800)
Balance	5,300	14,300	(4,800)	8,200
Surplus of C distributed between A, B & D in the ratio 3:3:2	(1,800)	(1,800)	+4,800	(1,200)
Balance	3,500	12,500	Nil	7,000
Add: Firm Underwriting	3,000	2,000	1,000	1,000
Total Liability	6,500	14,500	1,000	8,000

Underwriters Commission as per law:
A: 30,000 x 15 x 5% = 22,500
B: 30,000 x 15 x 5% = 22,500
C: 20,000 x 15 x 5% = 15,000
D: 20,000 x 15 x 5% = 15,000

Q.7. Rambo Ltd. came out with an issue of 45,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co; B & Co and C & Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:
A & Co. 7,25,000 shares
B & Co. 8,40,000 shares
C & Co. 13,10,000 shares
Total 28,75,000 shares

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towardsshares subscription has to be paid along with application.
You are required to:
(a) Compute the underwriter's liability (number of shares);
(b) Compute the amounts payable or due to underwriters; and

(c) Pass necessary journal entries in the books of Scorpio Ltd. relating to underwriting

Solution:

Total no. of shares issued	45,00,000
Less: Shares taken over by the promoter	9,00,000
Shares offered to general public	36,00,000

Statement showing the liability of underwriters

Details	A & Co	B & Co	C & Co
Gross Liability	12,00,000	12,00,000	12,00,000
Less: Marked Application	(7,25,000)	(8,40,000)	(13,10,000)
Less: Unmarked Applications	(75,000)	(75,000)	(75,000)
Balance	4,00,000	2,85,000	(1,85,000)
Less: Firm Underwriting	(1,00,000)	(1,00,000)	(1,00,000)
Balance	3,00,000	1,85,000	(2,85,000)
Surplus of C & Co to be allocated to A & Co and B& Co in ratio 1:1	(1,42,500)	(1,42,500)	+2,85,000
Balance	1,57,500	42,500	N
Add: Firm Liability	1,00,000	1,00,000	1,00,000
Total Liability	2,57,500	1,42,500	1,00,000

Calculation of unmarked applications:

Total Subscriptions	31,00,000
Less: Marked applications	(28,75,000)
Total Unmarked Applications	2,25,000

Statement Showing the Amount Due from (due to) Underwriters

Details	A & Co	B & Co	C & Co
Number of shares to be subscribed (including firm underwriting)	2,57,500	1,42,500	1,00,000
Amount payable @ Rs. 12 each	30,90,000	17,10,000	12,00,000
Less: Amount paid on firm application @ Rs. 12 each on 1,00,000 shares	12,00,000	12,00,000	12,00,000
Balance payable	18,90,000	5,10,000	Nil
Underwriting @ 5% on 12,00,000 shares @ 10 each	6,00,000	6,00,000	6,00,000
Amount received/(paid)	12,90,000	(90,000)	(6,00,000)

Journal Entries

In the books of Scorpio Ltd.

Date	Particulars	Debit (INR)	Credit (INR)
	Bank A/c Dr.. To Share Application A/c	36,00,000	 36,00,000
	A & Co A/c Dr.. B & Co A/c Dr. Share Application A/c To Equity Share Capital A/c To Securities Premium A/c	18,91,000 5,10,000 36,00,000	 50,00,000 10,00,000
	Underwriting Commission A/c Dr.. To A & Co A/c To B & Co A/c To C & Co A/c	18,00,000	 6,00,000 6,00,000 6,00,000
	Bank A/c Dr.. To A & Co A/c	12,90,000	 12,90,000
	B & Co A/c Dr.. C & Co A/c Dr.. To Bank A/c	90,000 6,00,000	 6,90,000

Points to be noted: Unless it has been otherwise agreed, the underwriters' liability is to be determined without taking intoconsideration the number of shares taken up 'firm' by him.In the examination if nothing is mentioned, the position should be cleared by way of a note.Students are free to adopt any assumptions in such situation.

Q.8. A entered into an underwriting agreement with B Ltd. for 60% of the issue of 15% Rs. 50,00,000 debentures with a firmunderwriting of Rs. 5,00,000. Marked applications were for Rs. 35,00,000 debentures. Calculate the liability of the underwriterand the commission payable to him.

Solution: A's liability is limited to 60% of Rs. 50,00,000 i.e., Rs. 30,00,000. Marked applications were received for Rs. 35,00,000. The issue isoversubscribed but there is a firm underwriting. Therefore, the liability of the underwriter is limited to the extent of firm underwritingi.e., Rs.5,00,000.

Commission is payable @ 2.5% of issue price. Therefore, the amount of commission will be = 2.5% of Rs. 30,00,000 = Rs. 75,000(assuming that debentures were issued at par)

EXERCISE

Objective type:

1. Define Underwriting & Underwriting Commission
2. What are the provisions of Companies Act with respect to payment of underwriting commission
3. Explain the difference between underwriters, sub-underwriters & brokers.
4. What are the different types of underwriting?
5. Explain the following terms:
   a. Marked Application
   b. Unmarked Application
6. What is Firm Underwriting?

Multiple Choice:

Select the best choice to complete each sentence or answer each question below:

1. The payment of commission to underwriter(s) is to be authorised by

A: the board of directors

B: the articles of association

C: the memorandum of association

2. A share broker or merchant banker can act as a underwriter provided he holds a certificate granted by

   A: Government of India

   B: Company Law Board

   C: SEBI

3. In respect of every underwritten issue, the merchant banker(s) shall undertake a minimum obligation of

   A. 5% of the total underwriting commitment or ~ 35 lacs whichever is less

   B. 10% of the total underwriting commitment or ~ 20 lacs whichever is less

   C. 5% of the total underwriting commitment or ~ 25 lacs whichever is less.

4. As per the provision of the Companies Act, 2013, in case of shares, the commission paid or agreed tobe paid does not exceed

   A 2%

   B 2.5%

   C 5%

5. As per the provision of the Companies Act, 2013, in case of debentures, the commission paid or agreedto be paid does not exceed

   A 2%

   B 2.5%;

   C 5%

Answers: 1 - B; 2 - C; 3 - C; 4 - C; D - B

Practice Questions

7. Cybertech Ltd. issued 1,00,000 shares for public subscription and these were underwritten by A, B & C in the ratio of 25%, 30% & 45% respectively. Applications were received for 80,000 shares and of these applications for 16,000 shares had the stamp of A, those for 20,000 shares had the stamp of B and those for 24,000 shares had the stamp of C. The remaining applications did not bear any stamp. Calculate the net liability of underwriters in shares.
   (Answer: A – 4,000 shares; B – 4,000 shares; C – 12,000 shares)

8. Sampada Ltd. was formed with a capital of 2,00,000 equity shares of Rs.10 each. All shares were issued to public for subscription. Issue was underwritten as follows: Ajay: 80,000 shares; Bijo: 60,000 shares

& Rajat: 60,000 shares. Marked application were received in favour of Ajay for 32,000 shares, Bijo for 58,000 shares and Rajat for 42,000 shares. Applications for 30,000 shares was not marked. Calculate the net liabilities of underwriters in shares.
(Answer: Ajay – 32,000 shares; Bijo – NIL; Rajat – 6,000 shares)

9. Aaadinath Co. Ltd was incorporated on 01.06.2022, issued a prospectus inviting applications for 5 lakhs equity shares of Rs.10 each. The whole issue was fully underwritten by A, B, C & D as follows A-2,00,000. B – 1,50,000 C-1,00,000 & D50,000 shares. Applications were received for 4,50,000 shares of which marked applications were as follows: A-2,20,000: B – 1,10,000; C – 90,000; D-10,000. You are required to find out the Net liability of each underwriter and also calculate the commission received by each underwriter as per Company's Act of 2013.
(Answer: Net Liability A – Nil; B – 17,500; C – Nil; D – 32,500 Underwriters Commission A – 2,00,000*10*5% = Rs. 1,00,000
B – 1,50,000*10*5% = Rs. 75,000
C – 1,00,000*10*5% = Rs. 50,000
D – 50,000*10*5% = Rs. 25,000)

10. Meena Ltd has authorised company of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The Company issued for subscription 50,000 shares at a premium of Rs.10 each. The entire issue was underwritten as follows: A-30,000 (firm underwriting 5,000), B-15,000 (firm Underwriting 2,000), C-5,000(Firm Underwriting 500). Out of the total issue 45,000 shares including firm underwriting wee subscribed. The following were the marked applications: A-16,000, B-10,000, C-4,000. Calculate the liability of each underwriter.

(Answer: A – 9,667; B – 2,333 & C – 500)

11. A joint stock company resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Re 1 per share. One lakh ofthese shares was taken up by the directors of the company, their relatives, associates and friends, the entire amount beingreceived forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwrittenby X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows:X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications forshares underwritten firm with full application money along with members of the general public.Marked applications were as follows: X 1,19,500 shares; Y 57,500 shares and Z 10,500 shares.Unmarked applications totalled 7,00,000 shares.Accounts with the underwriters were promptly settled.You are required to:

(i) Prepare a statement calculating underwriter's liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

(Answer: Liability of underwriters in shares: X – 4,000; Y – NIL; Z – 8,500

Amount Due From (Due To) Underwriters

X – (Rs. 84,700); Y – (Rs.49,500); Z – Rs. 73,700

❖❖❖❖

6

ACCOUNTING FOR LIMITED LIABILITY PARTNERSHIP

Unit Structure

6.0 LEARNING OBJECTIVES

- To identify and understand the peculiarities and statutory compliances of a Limited Liability Partnership
- To apply the provisions of the Limited Liability Partnership Act, 2008 in the preparation of financial statements
- To plan and prepare financial statements for conversion of an existing business structure into a Limited Liability Partnership

6.1 INTRODUCTION

Limited Liability Partnership or as generally used acronym LLP is a fairly recent business structure concept. A Limited Liability Partnership concept emerged in global history during the 1980's as a result of the aftermath of large insolvency wave in firms causing the collapse of real estate and energy prices in Texas, United States of America. Firms and partners were subject to huge claims and potential bankruptcy, including those partners who were not responsible for the failure or default of their own. Consequently, the first limited liability partnership act was passed to safeguard the innocent members of these partnerships firms from liability occurring on account of actions of other partners. Thereafter other counties in Europe, Asia and around the globe also enacted LLP laws embracing the business structure. In India, various expert groups and committees, including the Abid Hussain Committee 1997, The Naresh Chandra Committee on Audit & Corporate Governance 2003 and Dr. J.J. Irani Committee on Company Law in 2005 studied and offered recommended for the need for a law enabling the setting up of LLPs in India. After considering all these recommendations, the Ministry of Company Affairs, Government of India enacted the Limited Liability Partnership Act, 2008 which is presently in force.

6.2 MEANING OF A LIMITED LIABILITY PARTNERSHIP

A Limited Liability Partnership is a distinctive business structure recognized globally today. It has been introduced in India via the Limited Liability Partnership Act, 2008. As the name suggests, it is a combination of few features of a partnership firm and few features of a limited company. It gives the advantages of limited liability of a company and the flexibility of a partnership in the same organization. Members of a LLP are called Partners.

6.3 FEATURES OF A LIMITED LIABILITY PARTNERSHIP

- **Limited Liability:** - According to Section 26 of the Act, every partner is an agent of the LLP for the purpose of the business of the LLP. However, he is not an agent of other partners. Further, the liability of each partner has limitations to his agreed contribution to the LLP. It provides personal liability protection to its partners.

- **Name:** - Distinct name as approved by the registrar with the suffix LLP. No two LLPs can have the same name.

- **Distinct Legal entity:** - Once registered under the LLP Act, the LLP is a separate body corporate entity in the eyes of law. As per Section 3 of the LLP Act, an LLP is a separate body corporate, formed and incorporated under the Act. Its legal identity is different from that of its partners.

- **Can sue and can be sued:** - As the LLP is a distinct legal person, it can be sued as well as it can sue others in its individual capacity. It can enter into contracts and hold property in its name.

- **Mutual Agency:** - The actions of one partner do not make the other partners liable. Although all partners are agents of the LLP and the actions of one partner do not bind the others.

- **Compulsory registration:** - LLP can be formed only by registration under the said act.

- **Perpetual succession:** - once registered LLP has a continuous life. Partners may join and leave, but LLP continues.

- **LLP Agreement:** - Is the charter document for the formation of a LLP. It stipulated the mutual agreement between all partners and also governs the rights and duties of all the partners. As an LLP agreement is not mandatory and in the absence of LLP agreement, mutual rights and liabilities of partners shall be governed as per Schedule I to the LLP Act.

- **Common Seal:** - As per section 14(c) the LLP may have a common seal. This is not mandatory though. If the LLP decides to have a common seal, then it is required that the seal remains under the custody of a responsible official and it can be affixed only in the presence of at least two designated partners.

- **Number of Partners:** - A LLP must have at least 2 partners at any time. The maximum number of partners is unlimited. The partner may by individuals, firms, company's, LLPs, or any other artificial persons in and outside India. A partner may transfer his interest in the LLP as per the provisions of the LLP agreement.

- **Designated partner:** - A LLP shall have at least 2 designated partners who are individuals of which at least one should be a resident in India.

- **Purpose:** - LLP shall not be formed for charitable or nonprofit purpose. LLP should carry on a lawful business with a motive to earning a profit.

- **Records & reporting:** - LLP shall maintain books of accounts as per the provisions of the act and comply with all requirements of reporting as per the other applicable statues from time to time. Audit is required only if the partner's contribution exceeds Rs 25 lakhs or the turnover exceeds Rs. 40 lakhs.

6.4 BENEFITS OF A LIMITED LIABILITY PARTNERSHIP

- Ease in formation as compared to the red tape process of formation of a company
- Lesser cost of formation than a company
- Unlimited numbers of partners – maximum number of partners in a LLP are unlimited
- Partner of the LLP is not responsible or liable for another partner's misconduct or negligence.
- Separate legal status from its partners

- Persons other than individuals may also be partners eg. Firm, company, AOP etc.
- Relatively less legal and statutory compliances as compared to a company
- Perpetual succession of business
- Limited liability of partners as stipulated in the agreement
- Business structure accepted globally
- Partners are not liable for the actions of other partners
- Ease in dissolution and winding up

6.5 DRAWBACKS OF A LIMITED LIABILITY PARTNERSHIP

- LLP cannot raise funds in form of equity from public
- Follow red tape process of the LLP Act.
- In certain cases liability of the partner may extend to personal assets also.
- At least one designated partner has to be a resident of India.

6.6 COMPARISON BETWEEN LLP, PARTNERSHIP FIRM AND LIMITED COMPANY

Aspects	Partnership Firm	Limited Liability Partnership	Limited Company
Statute applicable	Indian Partnership Act, 1932	Limited Liability Partnership Act, 2008	Indian Companies Act, 1956 revised 2013
Charter Document	Partnership Deed	LLP Agreement	Article & Memorandum of Association
Minimum number of members	Two Individual Partners	Two – Designated Partners of which at least one has to be an Individual resident of India	2 members for Private Company & 7 members for Public Company
Maximum number of members or partners	Twenty	Unlimited	Private company – 200 Public Company - unlimited
Liability of Owners	Partners liability is several and unlimited	Partners liability is limited as per the LLP agreement	Shareholders liability is limited to face value of shares

Residential status of owners	Foreign nationals cannot be partners (except in case of NRI & PIO subject to FEMA regulations)	Foreign nationals can be partners (subject to FEMA regulations)	Foreign nationals can be directors.
Legal Status	Not separate entity from its Partners	Separate legal entity from partners	Separate legal entity from shareholders
Perpetual Succession	Not possible	Possible	Possible
Raise equity from public	Not possible	Not possible	Possible
Dividend Distribution Tax	Not Applicable	Not Applicable	Applicable
Statutory Compliance level	Low	Moderate	Very High

6.7 FORMATION OF A LIMITED LIABILITY PARTNERSHIP

Any two or more persons (natural or artificial) may form a LLP in order to conduct any business or profession with a motive to earn profit. With a minimum of two members and maximum number of members being unlimited, LLP can be registered. The pre-requisites for the same are as below:-

- At least two partners (Individual or body corporate):- Any two or more persons (natural or artificial) may form a LLP in order to conduct any business or profession with a motive to earn profit. With a minimum of two members and maximum number of members being unlimited, LLP can be registered. In case of a body corporate a natural person shall be appointed as a nominee for the purpose of the LLP. The partners may be resident in India or abroad.

- Minimum two designated partners who are individuals and at least one of them should be resident in India. Every Designated Partner shall obtain a unique eight digit Designated Partner Identification Number (DPIN) from the Central Government by filing Form 7. Each designated partner shall give a consent to the registrar to act as the designated partner of the LLP

- Digital signature certificate: - As correspondence of the LLP is digitally filed it requires a digital signature. At least one of the designated partners of the LLP shall obtain a Digital Signature Certificate which shall be used during the course for the purpose of the LLP.

- Name of the LLP: - For formation of a LLP, the proposed partners are required to select the proposed name for the LLP. The name of the LLP should not be the same as any existing LLP or Limited company in India. The name should not contain words or phrases prohibited under the Emblems and Names (prevention of improper use) Act, 1950. As the suffix in the name the words Limited Liability partnership or the acronym LLP must be used. The application for approval of name shall be filed with the Registrar of Companies in Form No 1 along with paying the prescribed fees. The ROC shall approve the name if not found similar to the name of an existing LLP or company.

- LLP Agreement: - . The mutual arrangement between the partners is called the LLP agreement. It must specify the contribution of each partner and the form in which it shall be paid. In case no formal agreement is entered into amongst the partners, the rights and duties of the partners shall be as per Schedule 1 of the LLP Act. Agreement once made may be amended. Every such amendment must be notified to the ROC.

- Registered office: - Is the official seat of business of the LLP. At the time of incorporation proof the registered office of the LLP has to be submitted to the ROC

- Application for incorporation: - Form 2 Application form for incorporation to be signed by all the partners. Form 3 agreement of LLP. Form 4 & 9 Consent of appointment of designated partners. Form 6 with proof of names and address of partners. All forms are filed along with applicable fees.

- Certificate of Incorporation: - Upon approval of the application for LLP registration, the Certificate of Incorporation is issued in Form 16 by the registrar. The LLP may commence its business operations thereafter.

6.8 STATUTORY COMPLAIANCE FOR A LIMITED LIABILITY PARTNERSHIP

The Limited Liability Partnership Act, 2008 envisages multiple statutory provisions for the formation, working, conversion and liquidation of a LLP. Few of them as discussed below:-

6.8.1 Partners of a LLP: - Any person whether natural or artificial may become a member of a LLP by being admitted as per the provisions of the LLP agreement. In case of an artificial person, a natural person shall be appointed as a nominee for the purpose of LLP. The partner may by individuals, firms, company, LLP, or any other artificial person in and outside India. A partner may be a foreign national subject to the regulation under FEMA. A LLP must have at least 2 partners at any time. The maximum number of partners is unlimited. A partner may transfer his interest in the LLP as per the provisions of the LLP agreement. The relationship between the LLP and partners is that of principal and agent. Thus, partners are agents of the firm but not the agents of other partners. The liability of the partners is restricted to their contribution towards the LLP as per the LLP agreement. However section 30 of the LLP Act provides for unlimited liability of the partner in case any fraudulent actions undertaken in order to defraud creditors or any other person associated with the LLP. All the partners have a right to participate in the management and functioning of the LLP, however they are not entitled for any additional remuneration for the same. Unless specified in the LLP agreement as otherwise, the profit sharing ratio between the partners shall be equal. Any change in name or address of the partner shall be notified to the LLP within 15 days. Admission and retirement of partners shall be as per the terms and conditions of the LLP agreement.

6.8.2 Designated Partner: - A designated partner in a LLP is similar to the managing director of a limited company. LLP shall have at least 2 designated partners who are individuals of which at least one should be a resident in India. Designated partners are solely responsible for the compliance and execution of the LLP Act. They are liable for any fines and penalties imposed on the LLP. The LLP is responsible for preparing the statement of account and solvency, which requires the signature of a designated partner. Every designated partner, on behalf of an LLP is required to file annual returns with the registrar. Any changes in the LLP must be reported to the designated partner, including changes in partners' names, home addresses, and the signature of e-forms to be filed with the registrar. A designated partner must cooperate with the investigating body by submitting all essential books and papers pertaining to the LLP. The LLP must file its particulars with the registrar within 30 days of individuals consenting to operate as Designated Partners, in accordance to section 7(4). Each partner consenting to be a designated partner shall obtain a Designated Partner Identification Number (DPIN) from the central government, according to Section 7(6), and Section 266A-G of the Companies Act, 1956, including the regulations of Mutatis Mutandis, which apply to Designated Partners. LLP shall file consent in e-form 4 to the ROC within 30 days of appointment of designated partners. The LLP Act states that a vacancy in the post of a designated partner must be filled up within 30 days of its occurrence. If no designated partners are nominated, or if there is only one designated partner at any time, each LLP partner is considered a designated partner. If the LLP fails to identify designated partners, the LLP as well as each of its partners shall be fined.

6.8.3 LLP Agreement: - LLP Agreements is a written agreement between the partners of the LLP which establish the rights and duties of the partners toward each other as well toward the LLP. In the absence of the LLP agreement all the rights and liabilities provided in Schedule I of the LLP act shall apply to the partners and LLP. The broad contents of the LLP agreement are as below:-

- **Name of the firm:** - It contains the name of the limited liability partnership firm. According to the Act, the name must always end with the words LLP.

- **Date of agreement:** - The agreement must be registered within 30 days after incorporation.

- **Rights, Liabilities and Partner's contribution:** - The profit sharing ratio, the ratio of the capital contribution and drawings of each partner and other provisions regarding the capital contribution if any shall be defined clearly. The mechanism and process of transfer of such rights in whole or partly to another shall also be clearly defined.

- **Compliances:** - Provisions related to the recording, storage, and maintenance of the books of accounts and other important documents and compliances with statutes.

- **Admission and Retirement of partners:** - The terms of disassociation as well. If any partners want to withdraw from the LLP, then the procedure and process are listed out. Also, it contains the rights of the exciting partners, rights of the continuing partners, the division of firm assets etc. Also contains the provisions for the admission of a new partner into the LLP. The agreement must also contain the procedural information regarding the sale or transfer of partnership rights. If such transfer of rights is prohibited, then it must be mentioned.

- Indemnity clauses shall be included in the agreement

- **Management and remuneration:** - Every partner shall take part in the management and business of LLP. No remuneration shall be paid to any partner for managing the affairs of the LLP.

- **Disputes:** - Shall be settled as per the provisions of the LLP agreement or shall be referred to under the Arbitration and Conciliation Act, 1996.

6.8.4 Accounts and audit: - Rule 24 of LLP, Rules 2009 provide for the audit of accounts of every LLP. Audit is mandatory only if the contribution exceeds Rs 25 lakhs or the turnover exceeds Rs. 40 lakhs in any financial year. LLP may voluntarily get the accounts audited in case it doesn't meet the mandatory criterions. The designated partners are responsible for appointment of auditors within 30 days of the end of the financial year. The terms of appointment, remuneration and removal of auditors shall be as per the LLP agreement.

6.8.5 Conversion of a firm into a LLP: - As per section 55 of the LLP Act an existing partnership can be converted into LLP as per the provisions inthe second schedule. The firm shall apply to the ROC by paying the prescribed fees in the prescribed format. The firm shall also inform the registrar of firms about the conversion. The Registrar of firms then removes the name of the firm from the record

6.9 FORMAT OF ACCOUNTS OF A LIMITED LIABILITY PARTNERSHIP

STATEMENT OF INCOME & EXPENDITURE OF (LLP)

FOR THE PERIOD 1st APRIL to 31st MARCH

Particulars	**Rs.**	**Rs.**	**Rs.**
INCOME			
Turnover			
Other Income			
Increase/Decreasein Stock			
EXPENSES			
Purchases & Direct Expenses			
Personnel Expenses			
Administrative Expenses			
Selling Expenses			
Depreciation			
Interest			
Other Expenses			
Net Profit before Tax			
Less:-Provision for Tax			
Net Profit after Tax			
Transfer to partners			
Transfer to Reserves			

STATEMENT OFASSETS & LIABILITIES OF (LLP)

ASON31stMARCH__________

Particulars	Rs.	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS			
Partners fund			
Reserves			
LIABILITIES			
Secured loans			
Unsecured loans			
Short Term Borrowings			
Creditors & Trade Payables			
Other Liabilities			
Provisions			
ASSETS			
Fixed Assets			
Investments			
Loans &Advances			
Inventories			
Debtors & Trade Receivables			
Cash & Cash Equivalents			
Other Assets			

6.10 SOLVED ILLUSTRATIONS

Question: -LLP Final Accounts

Mr. Andyand Mr. Ben were partners sharing profit & losses in the ratio 3:2

The following is the Trial Balance of AB (LLP) for year ended 31st March 2020.

Particulars	Debit	Credit
Stock on 01-04-2019	75,000	
Purchase	1,250,000	
Sales		
Capital of Mr. Andy		300,000
Capital of Mr. Ben		200,000
Drawings of Mr. Andy	30,000	
Drawings of Mr. Ben	20,000	
Returns inwards	12,500	
Returns outwards		15,200
Wages (Productive)	5,600	
Wages (Unproductive)	3,500	
Salaries	12,000	
Rent, ratesand taxes	4,800	
Discount Allowed	2,400	
Discount Received		4,200
Machinery	360,000	
Buildings	850,000	
Cash	4,500	
Bank Overdraft		4,100
Sundry Debtors	245,000	
Sundry Creditors		206,800
	2,875,300	2,875,300

Additional information:-

1 Outstanding Unproductive wages were Rs. 4,000

2 Prepaid rent is Rs800

3 Closingstock on 31stMarch 2020 was Rs. 72,000

4 Depreciate Building by 5% and Machinery by10%You are required to prepare for the year ended 31st March 2020

Statement of Income and Expenditure & Balance sheet from the given data

STATEMENTOFASSETS & LIABILITIES

Of AB (LLP) ason 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS			
Partners fund Reserves LIABILITIES	1	1,238,900	
Secured loans Unsecured loans	2	nil	1,238,900
Short Term Borrowings Creditors &			
Trade Payables Other Liabilities	3	nil	
Provisions	4	nil	
	5	4,100	
	6	210,800	
	7	nil	
	8		
			214,900
			1,453,800
ASSETS			
Fixed Assets	9		1,131,500
Investments	10		nil
Loans & Advances	11		800
Inventories	12		72,000
Debtors &Trade Receivables	13		245,000
Cash & Cash Equivalents	14		4,500
Other Assets	15		nil
			1,453,800

STATEMENT OF INCOME & EXPENDITURE

Of AB (LLP) for the period 1st April 2019 to 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
INCOME			
Turnover	16	2,132,500	
OtherIncome	17	4,200	2,133,700
Increase/Decrease in Stock	18	-3,000	
EXPENSES			
Purchases & Direct Expenses	19	1,234,800	
Personnel Expenses	20	25,100	
Administrative Expenses	21	4,000	
Selling Expenses	22	nil	
Depreciation	23	78,500	
Interest	24	nil	
Other Expenses	25	2,400	1,344,800
Net Profit before Tax			788,900
Less:-Provision for Tax			-
Net Profit after Tax			788,900

Transfer to partners (PSR 3:2)			
Mr.Andy's Capital a/c		473,340	
Mr. Ben's Capital a/c		315,560	788,900
Transfer to Reserves			nil

Notes / Schedules to accounts

Sch.N	Particulars	Rs.	Rs.	Rs.
1	CONTRIBUTIONS & LIABILITIES CONTRIBUTIONS			
	Partners fund	300,000		
	Capital Balance of Mr. Andy(+) Net profit of the year	473,340 (30,000)	743,340	
	(-) Drawings			
	Capital Balance of Mr. Ben(+)	200,000 315,560 (20,000)	495,560	
2	Netprofit of the year		-	1,238,900
3 4	(-) Drawings Reserves LIABILITIES		Nil nil	
5	Secured loans Unsecured loans			
6	Short Term Borrowings Bank Overdraft		4,100	
7 8	Creditors & Trade Payables Sundry Creditors Outstanding wages	206,800 4,000	210,800 nil nil	
9	Other Liabilities Provisions ASSETS			214,900
	Fixed Assets Machinery			
	(-) Depreciation @10%	360,000 36,000		
10	Buildings		324,000	
11	(-) Depreciation @5% Investments	850,000 42,500	807,500	1,131,500 nil
12	Loans & Advances Prepaid RentInventories			800
13	Closingstock			72,000
14	Debtors & Trade Receivables Sundry Debtors			245,000
15	Cash & Cash Equivalents Cash			4,500
	Other Assets			nil

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.
16	INCOME		
	Turnover Gross Sales	2,145,000	
	(-) Return Inwards Other	-12,500	2,132,500
17	Income Discount Received		4,200
18	Increase/Decrease in Stock Closing Stock		
	(-) Opening Stock	72,000	-3,000
	EXPENSES	-75,000	
19	Purchases & Direct Expenses Gross Purchases	1,250,000	1,234,800
20	(-) Return Outwards	-15,200	
	Personnel Expenses		
	Wages (Productive) (+) Outstanding wages	5,600	
	Wages (Unproductive)	4,000	
	Salaries	9,600	
21		3,500	25,100
	Administrative Expenses	12,000	
	Rent, rates and taxes		
22			4,000
23	(-) Prepaid Rent Selling	4,800	nil
	Expenses Depreciation	-800	
	on machinery on building		
24	Interest		78,500
25		36,000	
	Other Expenses Discount	42,500	
	Allowed		2,400

Question: -LLP Final Accounts

Mr. Jack and Mr. Ken were partners sharing profit & losses in the ratio: 3:2

The following is the Trial Balance of JK (LLP) foryear ended 31st March 2020.

Particulars	Debit	Credit
ReserveFund		2,000
Bills payable		1,200
Returns Outwards		2,100
Reserve for doubtful debts		1,600
Creditors		19,400
Sales		315,000

Machinery		
Office Rent	2,500	
Discount	3,200	
Bad debts	2,150	
Wages and salaries	8,900	
Investment in Debentures	6,000	
Cash balance	2,400	
Purchases	197,800	
Bank overdraft		4,100
Capital of Mr. Jack		64,500
Capital of Mr. Ken		48,700
Opening Stock	42,500	
Royalties	3,410	
Loanfrom Mrs. Ken		4,500
Trademarks	12,500	
Unpaid general expenses		3,210
Travelling expenses	2,150	
Printing and stationery	3,500	
Debtors	53,100	
Drawings of Mr. Jack	22,500	
Drawings of Mr. Ken	18,700	
Bank Loan		5,000
	471,310	471,310

Additional information:-

1 Jack to get a commission of 1% on Net sales

2 Revalue Machineryto Rs. 85,000

3 Unpaidexpenses wereRs. 2,000 forSalary

4 Rent is paid for two months in advance

5 New bad debtsare Rs. 1,200. Maintain RDD @5% on Debtors

6 Closingstock is valued at Rs. 38,500 whereas the cost price was Rs. 35,800

STATEMENTOFASSETS & LIABILITIES

Of JK(LLP) ason 31st March 2020

Particulars	Sch.N	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS	1	59,921	
Partners fund Reserves	2	2,000	151,952
LIABILITIES			
Secured loans Unsecured	3	5,000	

loans	4	4,500	
Short Term Borrowings	5	4,100	
Creditors & Trade Payables	6	25,810	
Other Liabilities	7	-	
Provisions	8	-	
			39,410
ASSETS			191,362
Fixed Assets Investments	9		
Loans &Advances	10		97,500
Inventories	11		6,000
Debtors &Trade	12		357
Receivables Cash & Cash	13		35,800
Equivalents Other Assets	14		49,305
	15		2,400
			-
			191,362

STATEMENT OF INCOME & EXPENDITURE

Of JK (LLP) for the period 1stApril 2019 to 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
INCOME			
Turnover	16	315,000	
Other Income	17	-	
Increase/Decrease in Stock	18	-6,700	308,30
EXPENSES			
Purchases & Direct	19	199,110	
Personnel Expenses	20	10,900	
Administrative Expenses	21	5,643	
Selling Expenses	22	8,700	
Depreciation	23	5,000	
Interest	24	-	
Other Expenses	25	4,145	233,49
Net Profit before Tax			74,802
Less:-Provisionfor Tax			-
Net Profitafter Tax			74,802
Transfer to partners (PSR			
Mr. Jack's Capital a/c		44,881	
Mr. Ken's Capital a/c		29,921	74,802
Transfer to Reserves			-

Note -Schedules to accounts				
Sch.No.	Particulars	Rs.	Rs.	Rs.
	CONTRIBUTIONS &			
	CONTRIBUTIONS			
1	Partners fund			
	Capital Balance of Mr. Jack	64,500		
	(+) Netprofit of the year	44,881		
	(+) 1% Commission on sales	3,150		
	(-) Drawings	-22,500	90,031	
	Capital Balance of Mr. Ken	48,700		
	(+) Netprofit of the year	29,921		
	(-) Drawings	-18,700	59,921	151,952
2	Reserves		2,000	
	LIABILITIES			
3	Secured loans			
	Bank Loan		5,000	
4	Unsecured loans			
	Loan from Mrs. Ken		4,500	
5	Short Term Borrowings			
	Bank overdraft		4,100	
6	Creditors & Trade Payables			
	Bills payable	1,200		
	Creditors	19,400		
	Unpaid general expenses	3,210		
	Outstanding Salary	2,000	25,810	
7	Other Liabilities		-	
8	Provisions		-	39,410
	ASSETS			
9	Fixed Assets			
	Machinery	90,000		
	(-) Depreciation on	-5,000	85,000	
	Trademarks		12,500	97,500
10	Investments			
	Investment in Debentures	6,000		6,000
11	Loans &Advances			
	Prepaid Rent			357
12	Inventories			
	Closing Stock			35,800
13	Debtors &Trade Receivables			
	Debtors	53,100		
	(-) New Bad debts	-1,200		
	(-) New RDD	-2,595	49,305	49,305
14	Cash & Cash Equivalents			
	Cash balance			
15	Other Assets	2400		2400

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.
	INCOME		
16	Turnover Sales		
			315,000
17	Other Income		
18	Increase/Decrease in Stock		
	Closing Sock	35,800	-6,700
	Less Opening Stock	-42,500	
	EXPENSES		
19	Purchses & Direct Expenses		
	Purchases	197,800	
	(-) Return Outwards	-2,100	
		195,700	199,110
20		3,410	
	Royalties		
	Personnel Expenses Wages	8,900	
21	and salaries	2,000	10,900
	(+) Outstanding Salary		
	Administrative Expenses		
	Office Rent	2,500	
	(-) Prepaid rent (2 mths)	-357	
22		2,143	5,643
		3,500	
	Printing and stationery		
	Selling Expenses Discount	3,200	
	Old Bad debts	2,150	
	(+) New Bad debts	1,200	
23	Travelling expenses	3,350	8,700
	Depreciation	2,150	
24	On Machinery Interest		5,000
25	Other Expenses New RDD	2,595	
	(-) Old RDD	-1,600	
		995	4,145
	Commpaid to Partner	3,150	

Question:-LLP FinalAccounts

Mr. G, Mr. H and Mr.Iwere partners sharing profit & losses in the ratio 2:2:1 the following is the Trial Balance of GHI (LLP) for year ended 31st March 2020.

Particulars	Debit	Credit
Goodwill	22,000	
Patents	15,000	
Copyrights	8,000	
Salary and Wages	24,500	

Machinery	32,800	
Vehicle	12,500	
Cash in Hand	3,300	
ICICI Bank Balance (current A/C)	6,200	
FD with ICICI bank	2,000	
Freight	200	
Freight inwards	1,040	
Freight outwards	2,100	
Purchases and Sales	87,240	
Returns	1,250	2,100
Billls Payable / Receivable	3,920	2,390
Debtors / Creditors	23,820	12,470
Bad debts	200	
Rent, rates and taxes	2,100	
Mr.G's Capital		45,200
Mr.H's Capital		44,850
Mr.I's Capital		31,200
Travelling expenses	8,250	
Opening Stock	11,200	
Discount		810
Advertisement (for 2 years)	1,600	
MutualFunds	8,000	
	277,220	277,220
	-	

Additional information:-

1 Closing stock on 31st March was valued at Rs. 16,500

2 Goods worth Rs. 12,000 weresold on 27th March for which no entry was passed in the books of accounts

3 Depreciate Vehicles by15% and Machinery by10%

4 Unpaid expenses were Rs. 1,200 for Rent and Rs. 2,400 for Salary

5 Income from Mutual Funds was Rs. 2,000 reinvested, not recordedin the books of accounts

6 Advertisement contract was taken on 1st October 2019You are required to prepare for the year ended 31stMarch 2020

Statement of Income and Expenditure & Balance sheet from the given data

STATEMENT OF ASSETS & LIABILITIES of GHI (LLP) as on 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
CONTRIBUTIONS & CONTRIBUTIONS			
Partners fund	1	149,225	
Reserves	2	-	149,225
LIABILITIES			
Secured loans	3	-	
Unsecured loans	4	-	
Short Term Borrowings	5	-	
Creditors &Trade Payables	6	14,860	
Other Liabilities	7	-	
Provisions	8	-	14,860
			164,085
ASSETS			
Fixed Assets	9		85,145
Investments	10		12,000
Loans & Advanvces	11		1,200
Inventories	12		16,500
Debtors &Trade	13		39,740
Cash & Cash Equivalents	14		9,500
Other Assets	15		-
			164,085

STATEMENT OF INCOME & EXPENDITURE of GHI (LLP) for the period 1stApril 2019 to 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
INCOME			
Turnover	16	148,950	
Other Income	17	2,810	
Increase/Decrease in Stock	18	5,300	157,060
EXPENSES			
Purchses & Direct Expenses	19	86,380	
Personnel Expenses	20	24,500	
Administrative Expenses	21	2,100	
Selling Expenses	22	10,950	
Depreciation	23	5,155	
Interest	24	-	
Other Expenses	25	-	129,085
Net Profit before Tax			27,975
Less:-Provision for Tax			-
Net Profit after Tax			27,975
Transfer to partners (PSR			

Mr.G's Capital a/c		11,190	
Mr,H's Capital a/c		11,190	
Mr.I's Capital a/c		5,595	27,975
Transfer to Reserves			-

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.	Rs.
	CONTRIBUTIONS &			
	CONTRIBUTIONS			
1	Partners fund			
	Capital Balance of Mr. G	45,200		
	(+) Netprofit ofthe year	11,190	56,390	
	Capital Balance of Mr. H	44,850		
	(+) Netprofit ofthe year	11,190	56,040	
	Capital Balance of Mr. I	31,200		
	(+) Netprofit of the year	5,595	36,795	
2	Reserves		-	149,225
	LIABILITIES			
3	Secured loans		-	-
4	Unsecured loans		-	-
5	Short Term Borrowings		-	-
6	Creditors &Trade Payables			
	Bills Payable / Receivable	2,390		
	Creditors	12,470	14,860	
7	Other Liabilities		-	
8	Provisions		-	14,860
	ASSETS			
9	Fixed Assets			
	Goodwill		22,000	
	Patents		15,000	
	Copyrights		8,000	
	Machinery	32,800		
	(-) Depreciation @10%	-3,280	29,520	
	Vehicle	12,500		
	(-) Depreciation @15%	-1,875	10,625	85,145
10	Investments			
	FD with ICICI bank		2,000	
	Mutual Funds	8,000		
	(+) Income from Mutual Funds	2,000	10,000	12,000
11	Loans &Advances			
	Prepaid Advertising expenses			1,200
12	Inventories			
	Closing Stock			
13	Debtors &Trade Receivables			
	Bills Receivable		3,920	

	Debtors			
	(+) Unrecorded Sales	12,000	35,820	
14	Cash & Cash Equivalents			
	Cash in Hand		3,300	
15	Cash & Cash Equivalents		6200	9500

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.
	INCOME		
16	Turnover		
	Sales Returns	138,200	
	(+) Un recorded	-1,250	
	Sales Other Income Discount	12,000	148,950
	Income from Mutual Funds		
	Increase/Decrease in Stock	810	
17	Closing Stock	2,000	2,810
	Opening Stock		
	EXPENSES		
	Purchses & Direct Expenses	16,500	5,300
18	Freight	-11,200	
	Freight inwards Purchases		
	Returns		
19	Personnel Expenses Salary	200	
	and Wages Administrative	1,040	
	Expenses Rent, ratesand	87,240	
	taxes Selling Expenses	-2,100	
	Freight outwards Bad debts		86,380
20	Travelling expenses	85,140	
	Advertisement (for 2 years)		24,500
21	(-) Prepaid for 11/2 years		
			2,100
22	Depreciation On Machinery	2,100	
	On Vehicle Interest	200	
	Other Expenses	8,250	
		1,600	
23		-1,200	10,950
		400	5,155
24			-
25		3,280	-
		1,875	

Question:-LLP Final Accounts

Pnad Q were partners sharing profit & losses in the ratio 3:2 respectively

The following is the Trial Balance ofPQ (LLP)foryear ended 31st March 2020.

Particulars	Debit	Credit
Goodwill	25,000	
Plant and Machinery	124,000	
Bills Receivable	1,300	
Carriage	400	
Miscellaneous expenses	8,600	
Lighting and Power	5,600	
Sundry Customers	45,600	
Trade expenses	2,150	
Commission on sales	3,120	
10% Loan from Mr. Joshi (1st October 19)		
Vehicles	30,000	
Salaries	6,000	
Bonusto employees	1,500	
Rent		4,500
Discount	2,100	3,200
Cash balance	18,200	
Bank Overdraft		5,900
Units of Mutual Funds	4,600	
GOIT-Bills	2,500	
Capital of P		45,000
Capital of Q		30,000
Drawings of P	5,000	
Drawings of Q	6,000	
Inventories	12,500	
Sundry Suppliers		42,700
Purchases	165,000	
Sales		322,87
	469,170	469,17
	-	

Additional information:-

1 Closing stock was valued at cost Rs. 22,800 and market price Rs. 28,200

2 Lighting and Power included a deposit paid to Power board Rs. 500

3 Depreciate fixed assets by10%

4 Income from Mutual funds not received yet Rs. 600

5 Goods worth Rs. 4,200 purchsed on 31-03-2020 were not recorded.

6 Bills receivable include a dishonoured bill of Rs. 200You are required to prepare for the year ended 31st March 2020

Statement of Income and Expenditure & Balance sheet from the given data

STATEMENT OF ASSETS & LIABILITIES Of PQ (LLP) ason 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES CONTRIBUTIONS			
Partners fund Reserves LIABILITIES	1	191,150	
Secured loans Unsecured loans	2		191,150
Short Term Borrowings Creditors & Trade Payables Other Liabilities		-	
Provisions	3	15,750	
	4	5,900	
	5	46,900	
ASSETS		-	
Fixed Assets Investments	6	-	
Loans & Advanvces Inventories	7		
	8		259,700
Debtors &Trade Receivables Cash & Cash Equivalents Other Assets	9		
	10		163,600 7,100
	11		500
	12		22,800
	13		47,500
	14		18,200
			-
	15		259,700

STATEMENT OF INCOME & EXPENDITURE of PQ (LLP) for the period 1st April 2019 to 31st March 2020

Particulars	Rs.	Rs.
INCOME		
Turnover	322,870	
OtherIncome	8,300	341,470
Increase/Decrease in Stock	10,300	
EXPENSES	174,700	
Purchses & Direct Expenses		
Personnel Expenses	7,500	
Administrative Expenses	10,750	
Selling Expenses	5,220	
Depreciation	15,400	
Interest	750	
Other Expenses	-	214,320
Net Profit before Tax		127,150
Less:-Provision for Tax		-
Net Profit after Tax		127,150

Transfer to partners (PSR 3:2) Mr.P's Capital a/c Mr.Q's Capital a/c	50,860	127,150
Transfer to Reserves		0

Notes / Schedules to accounts

Sch. No.	Particular	Rs.	Rs.	Rs
	CONTRIBUTIONS &			
	LIABILITIESCONTRIBUTIONS	45,000		
1	Partners Fund	76,290		
	Capital Balance of Mr.	-5,000	116,290	
	P(+) Netprofit of the	30,000		
	year (-) Drawings	50,860		
	Capital Balance of Mr.	-6,000	74,860	
	Q(+) Netprofit of the		-	191,150
	Year (-) Drawings			
2	ReservesLIA		-	
	BILITIES			
3	Secured			
4	Loans Unsecured	15,000		
	Loans Loan from Mr.	750	15,750	
	Joshi			
5	(+) outstanding interest		5,900	
	6mths Short Term			
6	Borrowing Bank Overdraft			
	Creditors & Trade	42,700		
	Payables Sundry Suppliers	4,200	46,900	
7	(+) unrecorded		-	
8	Purchases Other Liabilities		-	68,550
	Provisions			
9	ASSETS			
	Fixed Assets		25,000	
	Goodwill	124,000		
	Plant and Machinary	-12,400	11,600	
	(-) Depreciation @10%	30,000		
	Vehicles	-3,000	27,000	163,600
10	(-) Depreciation			
	@10% Investments		4,600	7,100
	Units		2,500	
11	Of Mutual Funds GOIT			500
	Bill			
12	Loans & Advances			22,800
	Deposit paid to power			
13	Board Inventories			
	Closing stock	1,300	1,100	
	Debtors & Trade	-200		
	Receivables Bills Receivable	45,600	45,800	
	(-) bills	200	600	47,500
	Dishonored Sundry Cu			
14	Cash & Cash Equivelents			
	Cash	18,200		
15	Other Assets	-		

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.
	INCOME		
16	Turnover		
	Sales		322,870
17	Other Income		
	Rent	4,500	
	Discount	3,200	
	O/S income	600	8,300
18	from Mutual funds Increase/ Decrease in Stock Closing stock	22,800	10,300
	(-)Inventories	-12,500	
19	EXPENSES		
	Purchses & Direct Expenses Carriage	400	
	Lighting and Power	5,600	
	(-) Deposit to Power Board	-500	
		5,100	
	Purchases	165,000	
	(+) unrecorded purchases	4,200	
		169,200	174,700
20	Personnel Expenses		
	Salaries	6,000	
	Bonus to employees	1,500	7,500
21	Administrative Expenses Miscellaneous expenses	8,600	
22	Trade expenses	2,150	10,750
	Selling Expenses Commission on sales	3,120	
23	Discount	2,100	5,220
	Depreciation On Plant & Machinery	12,400	
	On Vehicles	3,000	15,400
24	Interest O/s Interest on Mr. Joshi Loan		
25	Other Expenses		750

Question:-LLP Final Accounts

Land M were partners sharing profit & losses equally

The following is the Trial Balance of LM (LLP) for year ended 31st March 2020.

Particulars	Debit	Credit
Drawings of Mr. L	3,500	
Drawings of Mr. M	1,500	
Capital of Mr. L		15,000
Capital of Mr. M		15,000
Commission		1,000
Rent		1,000
Miscellaneous Income		2,000
Sales		170,500
Purchase Returns		3,200
Discount		300
Provident Fund		2,000
Interest on		200
Reserve for Doubtful Debts		500
Creditors		20,000
Stock	20,000	
Purchases	130,000	
Sales Return	700	
Debtors	20,000	
Wages	6,000	
Royalties on Sales	1,000	
Furniture	5,000	
Machinery	30,000	
Advertisement for 4 years	4,000	
Salaries	3,000	
Provident Fund Investments	2,000	
Contribution to Provident fund	500	
Insurance	500	
Cash	3,000	
	230,700	230,700
	-	

Additional information:-

1 Closing stock was valued at Rs. 25,000

2 Mr. L has taken goods worth Rs. 500 for personal use

3 Prepaid insurance amounted to Rs. 100

4 Depreciated Furniture by15% and Machinery by20%

5 Write of Rs. 400 as Bad debts

6 Maintain RDD @3% on Debtors

You are required to prepare for the year ended 31stMarch 2020

Statement of Income and Expenditure & Balance sheet from the given data

STATEMENT OF ASSETS & LIABILITIES Of LM (LLP) ason 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS	1	58,162	
Partners fund			58,162
Reserves	2	-	
LIABILITIES			
Secured loans	3	-	
Unsecured loans	4	-	
Short Term Borrowings	5	-	
Creditors & Trade Payables	6	20,000	
Other Liabilities	7	2,200	
Provisions	8	-	22,200
			80,362
ASSETS			
FixedAssets	9		28,250
Investments	10		2,000
Loans & Advanvces	11		3,100
Inventories	12		25,000
Debtors &Trade Receivables	13		19,012
Cash & Cash Equivalents	14		3,000
Other Assets	15		-
			80,362

STATEMENT OF INCOME & EXPENDITURE of LM (LLP) for the period 1st April 2019 to 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
INCOME			
Turnover	16	169,800	
Other Income	17	4,800	
Increase/Decrease in Stock	18	5,000	179,600
EXPENSES			
Purchses &Direct Expenses	19	126,800	
Personnel Expenses	20	9,500	
Administrative Expenses	21	400	
Selling Expenses	22	2,400	
Depreciation	23	6,750	

Interest	24	-	
Other Expenses	25	88	145,938
Net Profit before Tax			33,662
Less:-Provision for Tax			-
Net Profit after Tax			33,662
Transfer to partners (PSR 1:1)			
Mr.L's Capital a/c		16,831	
Mr.M's Capital a/c		16,831	33,662
Transfer to Reserves			-

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.	Rs.
	CONTRIBUTIONS & LIABILITIES			
1	CONTRIBUTIONS			
	Partners fund	15,000		
	Capital Balance of Mr. L			
	(+) Netprofit of the year	16,831		
	(-) Goodstaken for personal use	-500	27,831	
	(-) Drawings	-3,500		
	Capital Balance of Mr. M	15,000		
	(+) Netprofit of the year	16,831		
	(-) Drawings	-1,500	30,331	58,162
2	Reserves		-	
	LIABILITIES			
3	Secured loans		-	
4	Unsecured loans		-	
5	Short Term Borrowings		-	
6	Creditors &Trade Payables			
	Creditors		20,000	
7	Other Liabilities			
	Provident Fund	2000		
	Interest on	200	2,200	22,200
8	Provisions		-	
	ASSETS			
9	Fixed Assets			
	Furniture	5,000		
	(-) Depreciation	-750	4,250	
	Machinery	30,000		
	(-) Depreciation	-6,000	24,000	28,250
10	Investments			
	Provident Fund Investments	2,000		2,000
11	Loans & Advanvces			
	Prepiad Insurance		100	

	Prepaid Advertisement		3,000	
12	Inventories			
	Closingstock			25,000
13	Debtors &Trade Receivables			
	Debtors		20,000	
	(-) New Bad debts		-400	
	(-) New RDD		-588	19,012
14	Cash & Cash Equivalents			
	Cash			3,000
15	Other Assets			-

Notes / Schedules to accounts

	Particulars	Rs.	Rs.
	INCOME		
16	Turnover		
	Sales Return	170,500	
	Sales Return	-700	169,800
17	Other Income		
	Commission	1,000	
	Rent	1,000	
	Miscellaneous Income	2,000	
	Discount	300	
	Goods taken byMr. L	500	4,800
18	Increase/Decrease in Stock		
	Closingstock	25,000	
	(-) OpeningStock	-20,000	5,000
	EXPENSES		
19	Purchses & Direct Expenses		
	Purchases	130,000	
	(-) Purchase Return	-3,200	126,800
20	Personnel Expenses		
	Wages	6,000	
	Salaries	3,000	
	Contribution to Provident fund	500	9,500
21	Administrative Expenses		
	Insurance	500	
	(-) Prepaid	-100	400
22	Selling Expenses		
	Royalties on Sales	1,000	
	Advertisement for 4 years	4,000	
	(-)Prepaid Advertisement	-3,000	
		1,000	
	New Bad debts	400	2,400

23	Depreciation OnFurniture OnMachinery	 750 6,000	 6,750
24	Interest		-
25	OtherExpenses New RDD (-) Old RDD	 588 -500	 88

Question:-LLP FinalAccounts

R and Swere partners sharing profit & losses in the ratio 3:5

The following is the Trial Balance of RS (LLP) for year ended 31st March 2020.

Particulars	Debit	Credit
Profit on sale of Fixed Assets		4,250
Gross Sales		249,700
Purchases	165,450	
Opening stock	22,800	
Sundry Supliers		48,710
Sundry Customers	61,350	
Returnsto Suppliers		2,550
Returns from Customers	1,350	
Loose Tools	1,400	
Plant and Machinery	149,700	
Productive Wages	6,500	
Freight Outwards	1,200	
Capital of R		65,000
Capital of S		140,000
Income from GOIsecurities		1,250
GOI securities	12,500	
Patents	6,000	
Prepaid Taxes	2,500	
Unproductive Salary	4,570	
Salesman Commission	2,100	
Royalties	650	
Printing and Stationery	3,210	
Office Rent	2,000	
Drawings of R	32,410	
Drawings of S	44,700	
Marketing expenses	1,340	
Bills payable		540
Bank overdraft		2,130
Fixed Deposit with Bank	5,000	
Loan from Bank		12,600
	526,730	526,730

Additional information:-

1 Write of 1/4th of the Patents

2 Wages include Rs. 2,500 paid for installation of Machnery

3 Depreciate Plant and Machinery@12 1/2 %

4 A sale made on 25-03-2020 of Rs. 7,500 was not recorded

5 Goods distributed as freesamples amounted to Rs. 6,240

6 Closing stock was valued at Rs. 39,450

You are required to prepare for the year ended 31st March 2020

Statement of Income and Expenditure & Balance sheet from the given data

STATEMENTOFASSETS & LIABILITIES of RS (LLP) ason 31st March 2020

Particulars	Sch.N	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS			
Partners fund	1	203,395	
Reserves	2	-	203,395
LIABILITIES			
Secured loans	3	12,600	
Unsecured loans	4	-	
Short Term Borrowings	5	2,130	
Creditors & Trade Payables	6	49,250	
Other Liabilities	7	-	
Provisions	8	-	63,980
			267,375
ASSETS			
Fixed Assets	9		139,075
Investments	10		17,500
Loans & Advanvces	11		2,500
Inventories	12		39,450
Debtors &Trade Receivables	13		68,850
Cash & Cash Equivalents	14		-
Other Assets	15		-
			267,375

STATEMENT OF INCOME & EXPENDITURE

of RS (LLP) for the period 1st April 2019 to 31st March 2020

Particulars	Sch.No.	Rs.	Rs.
INCOME			
Turnover	16	255,850	
OtherIncome	17	5,500	
Increase/Decrease in Stock	18	16,650	278,000
EXPENSES			
Purchses & Direct Expenses	19	157,310	
Personnel Expenses	20	8,570	
Administrative Expenses	21	5,210	
Selling Expenses	22	10,880	
Depreciation	23	20,525	
Interest	24	-	
Other Expenses	25	-	
Net Profit before Tax			75,505
Less:-Provision for Tax			-
NetProfit after Tax			75,505
Transfer to partners (PSR 3:5)			
Mr. R's Capital a/c		28,314	
Mr.S's Capital a/c		47,191	75,505
Transfer to Reserves			-

Notes / Schedules to accounts

Sch.No.	Particulars	Rs.	Rs.	Rs.
	CONTRIBUTIONS & LIABILITIES			
1	CONTRIBUTIONS			
	Partners fund	65,000		
	Capital Balance of Mr. R			
	(+) Netprofit of the year	28,314		
	(-) Drawings	-32,410	60,904	
	Capital Balance of Mr. S	140,000		
	(+) Netprofit ofthe year	47,191		
	(-) Drawings	-44,700	142,491	203,395
2	Reserves		-	
	LIABILITIES			
3	Secured loans			
	Loanfrom Bank		12,600	
4	Unsecured loans		-	
5	Short Term Borrowings			
	Bank overdraft		2,130	

6	Creditors &Trade Payables			
	Sundry Suppliers			
	Bills payable	540	49,250	
7	OtherLiabilities		-	
8	Provisions		-	
	ASSETS			
9	Fixed Assets			
	Patents	6,000		
	(-) Depreciation (1/4th)	-1,500	4,500	
	Loose Tools		1,400	
	Plant and Machinery	149,700		
	(+) Wagespaid	2,500		
	(-) Depreciation @12.5%	-19,025	133,175	139,075
10	Investments			
	GOI securities	12,500		
	Fixed Deposit with Bank	5,000		17,500
11	Loans & Advanvces			
	Prepaid Taxes	2,500		2,500
12	Inventories			
	Closing Stock			39,450
13	Debtors &Trade			
	Sundry Customers		61,350	
	(+) Unrecorded Sales		7,500	68,850
14	Cash & Cash Equivalents			-
15	Other Assets			-

Notes / Schedules to accounts

	Particulars	**Rs.**	**Rs.**
	INCOME		
16	Turnover		
	Gross Sales	249,700	
	(-) Returns from customers	-1,350	
	(+) Unrecorded sales	7,500	255,850
17	Other Income		
	Profit on sale of Fixed Assets	4,250	
	Income from GOI securities	1,250	5,500
18	Increase/ Decrease in Stock		
	Closing Stock	39,450	
	Opening stock	-22,800	16,650
	EXPENSES		
19	Purchase & Direct Expenses		
	Purchase	165,450	
	(-) Return to suppliers	-2,550	
	(-) Goods distributed as free samples	-6,240	

	Royalties	650	157,310
	Personal Expenses		
20	Productive Wages	6,500	
	(-) paid for Machinery	-2,500	
		4,000	
	Unproductive Salary	4,570	8,570
	Administrative Expenses		
21	Printing and Stationery	3,210	
	Office Rent	2,000	
	Selling Expenses		5,210
22	Freight Outwards	1,200	
	Salesman Commission	2,100	
	Marketing Expenses	1,340	
	Goods Distributed as freesamples	6,240	
23	Depreciation		10,880
	On Patatents	1,500	
	On Plant & Machinery	19,025	20,525
24	Interest		-
25	Other Expenses		-

STEPS INSOLVINGAMALGAMATION/ CONVERSION SUMS

1) CALCULATE PURCHASE CONSIDERATION IN BOOKS OF NEWLY FORMED LLP Revised values of all assets taken over (-) liabilities taken over

(a) Copynames of ALL assets from the Balance sheet

(b) Copynames of ALL liabilities (except capital and reserves) from the Balance sheet

Read adjustment and take revised values of ASSETS and LIABILITIES TAKENOVER

Items of assets and liabilities for which revised value isnot given AND is TAKEN OVER = take Balance sheet value

ASSUME ALL ASSETS AND LIABILITIES ARETAKEN OVER UNLESS SPECIFIED AS NOT TAKEN OVER

Capital adjustments asper the agreement between partners

2) PREPARE BALANCE SHEET OF NEWLY FORMED LLP

Post each and everyasset and liabilitiy taken over (total amount of both the firms revised value) under their respective headings in the Balance sheet

3) CLOSE BOOKS OF OLD FIRMS

(a) Prepare Realisation a/c, Capital a/c and NEWLY FORMED LLPa/c

b) Tranfer ALL assets at BOOK VALUE from the Balance sheet of the old firm to the DEBIT side of the Realisation a/c

c) Tranfer ALL liabiities (except capital and reserves) at BOOK VALUE from the Balance sheet of the old firm to the CREDIT side of the Realisation a/c

d) Transfer balance of Capital a/c, reserves and accumulated losses to Partners Capital a/c

(e) Disposed of all assets and liabilities NOTTAKEN OVER by the NEWLY FORMED LLP

(f) Pass entry for Purchase consideration

NEWLY FORMED LLPa/c Dr. To Realisation a/c

(g)Close all Accounts.

Profit/Loss on Realisation is transferred to Partners Capital a/c Balance of Partners Capital a/c is transferred to NEWLY FORMED LLP a/c NEWLY FORMED LLP a/c will tally auto matically

Question :-LLP-Amalgamation of Firms

Alpha and Beta carried on their respective business as sole traders.Their Balance sheet ason 31stMarch 2020 was as under:-

Liabilities	Alpha	Beta		Assets	Alpha	Beta
Capital a/c	285,000	194,500		Plant & Machinery	145,000	-
Sundry Creditors	89,500	74,500		Furniture	65,000	86,700
Outstanding Expenses	2,500	-		Inventories	36,000	47,000
Bills Payable	7,500	3,600		Debtors	62,000	35,900
				Cash & Bank Balance	76,500	103,000
	384,500	272,600			384,500	272,600

Both the firms mutually agreed to amalgamate and form a Limited Liability

Partnership under the name AB (LLP) from1st April 2020 on the following terms:-

(a) The Capital of the LLP would be Rs. 3,00,000 which would be contributed in the ratio 2:1 bythem respectively.Adjustment to be made in Cash in the booksofthe LLP

(b) The assets of both the firms would be revalued and taken over by the LLPat the revalued amountsas follows:-

Assets of Alpha:-

1) Inventories to be writtendown by15%

2) Debtors worth Rs. 2,000 would be worthless and not taken over by LLP

3) Furniture to be valued at Rs. 62,000

4) Plant & Machinery to be taken over at Market valueRs. 1,40,000 Assets of Beta:-

1) Inventories to be written up by10%

2) Debtorsto be admitted at 85% of their value

3) Furniture to be valued at Rs. 85,000

(c) The LLP shall not assume any out standing expenses from Alpha or Beta.

You are required to close books of Alpha & Beta and prepare the opening Balance Sheet of AB (LLP) ason 1st April 2020.

IN THEBOOKS OFAB (LLP) CALCULATION OF PURCHASE CONSIDEARTION

Particulars	ALPHA	BETA	TOTAL
REVISED VALUE OF ASSETS TAKEN OVER	140,000		140,000
Plant & Machinery	62,000	85,000	147,000
Furniture Inventories Debtors	30,600	51,700	82,300
Cash&Bank Balance	60,000	30,515	90,515
	76,500	103,000	179,500
(-) REVISED VALUE OF			-
LIABILITIES TAKENOVER			-
Sundry Creditors Outstanding Expenses	369,100	270,215	
Bills Payable	89,500	74,500	164,000
	- 7,500	- 3,600	- 11,100
	97,000	78,100	
PURCHASE CONSIDEARTION	272,100	192,115	-

CAPITALADJUSTMENT

Particulars	ALPHA	BETA	TOTAL
CAPITAL ADJUSTMENT			
CAPITAL AS PER AGREEMENT	200,000	100,000	300,000
(-) PURCHASE CONSIDEARTION	272,100	192,115	464,215
CAPITAL ADJUSTMENT	-72,100	-92,115	-164,215

IN THE BOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OF ALPHA

Dr.		REALISATION A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Plant & Machinerya/c	145,000	By Creditorsa/c	89,500
To Furniture a/c	65,000	By Outstanding Exp.	2,500
To Inventories a/c	36,000	By Bills Payable a/c	7,500
To Debtors a/c	62,000		
To Cash & Bank a/c	76,500		
To Alpha Capital a/c (o/s expsnot taken over)	2500	By AB(LLP) a/c (PC)	272,100
	-	By Losson Realisation	15400
	387,000		387,000

Dr.		ALPHA's CAPITALA/c	Cr.
Particulars	**Rs**	**Particulars**	**Rs**
To Losson Realisation	15,400	By Balance b/d	285,000
		By Realisation a/c (O/s Exps)	2,500
To AB (LLP) a/c	272,100		
	287,500		287,500

Dr.		AB (LLP) NEWFIRM A/c	Cr.
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	272,100	By Ahpha's Capital a/c	272,100
	272,100		272,100

IN THEBOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OF BETA

Dr.		REALISATION A/c	Cr.
Particulars	Rs	**Particulars**	**Rs**
To Plant & Machinery a/c	-	By Creditorsa/c	74,500
To Furniture a/c	86,700	By Outstanding Exp.	-
To Inventories a/c	47,000	By Bills Payable a/c	3,600
To Debtors a/c	35,900		
To Cash & Bank a/c	103,000		
		ByAB(LLP) a/c (PC)	192,115
		ByLosson Realisation	2,385
	272,600		272,600

Dr.	BETA'sCAPITALA/c		Cr.
Particulars	**Rs**	**Particulars**	**Rs**
To Losson Realisation a/c To AB(LLP) a/c	2,385 192,115	By Balance b/d	194,500
	194,500		194,500

Dr.	AB (LLPNEWFIRM A/c		Cr.
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	192,115	ByBeta's Capital a/c	192,115
	192,115		192,115

IN THEBOOKS OFAB(LLP)BALANCESHEETAS ON 31STMARCH 2020

Particulars	Rs.	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS			
Partners fund			
Capital Balance of Mr. Alpha	272,100	200,000	
(-) refund of excess contribution	-72,100		
Capital Balance ofMr. Beta	192,115		
(-) refund of excess contribution	-92,115	100,000	300,000
Reserves		Nil	
LIABILITIES			
Secured loans		nil	
Unsecured loans		nil	
Short Term Borrowings		nil	
Creditors & Trade Payables			
Creditors	164,000	175,100	
Bills Payable	11,100	nil	
Other Liabilities		nil	175,100
Provisions			
			475,100
ASSETS			
Fixed Assets			
Plant & Machinery		140,000	287,000
Furniture		147,000	
Investments			nil
Loans & Advanvces			
Inventories			82,300
Debtors & Trade Receivables			90,515
Cash & Cash Equivalents	179,500		
Cash and Bank Balance			
(-) Amount refunded to Alpha	-72,100	15,285	15,285
(-) Amount taken away by Beta	-92,115		
Other Assets			
			475,100
			-

Question :-LLP-Amalgamation ofFirms

Following is the Balance sheet of IX & Co. and JY & Co. as on 31st March 2020.

Liabilities	IX &	JY &	Assets	IX &	JY & Co
Capital of X	15,000	-	Goodwill	-	10,000
Capital of J	-	3,000	Building	10,000	-
Capital of Y	-	2,000	Inventories	20,000	5,000
Creditors	22,000	28,000	Customers	10,000	10,000
Bank Loan	15,000	-	Cash	3,000	3,000
			Bank	4,000	5,000
			Capital ofI	5,000	-
	52,000	33,000		52,000	33,000

IX & Co. and JY & Co agreed to amagamate their business on the following conditions to form a new firm called IJ (LLP). from 1st April 2020

(a) Mr. Iand Mr. X shared profits in the ratio 1 : 2

(b) Goodwill of IX & Co is valued at Rs. 15,000.

(c) Goodwill of JY & Co is valued at Rs. 20,000.

(d) No Goodwill a/c will remain the the books of IJ (LLP)

(e) Partners wills hare Profits and Losses equally in the new firm

(f) The total capital of IJ & Co. will be Rs. 50,000 and each partner will contribute his proportionate capital (adjustment in cash in the books of IJ (LLP) after amalgamation)

Prepare a Statement of Purchase Consideration

Prepare the books of IX & Co. and JY & Co. to show the amalgamation Prepare the Balance sheet of IJ (LLP) after amalgamation

IN THE BOOKS OF THE OLD FIRM (AMALGAMATIN GFIRMS) IN THE BOOKS OF M/s JY&Co

Dr.	REALISATION A/c		
Particulars	**Rs**	**Particulars**	**Rs**
To Goodwill a/c To Building a/c To Inventories a/c	10,000 - 5,000 10,000	By Creditors a/c By Bank Loan a/c	28,000 -
To Trade Receivable a/cTo Cash a/c	3,000 5,000		
To Bank a/c	10,000	To IJ (LLP) a/c (P.C.)	15,000
To Profit on Realisation a/c			
	43,000		43,000

Dr.			PARTNERS CAPITAL A/c		
Particulars	**J**	**Y**	**Particulars**	**J**	**Y**
			By Balance b/d	3,000	2,000
			By Profit on Realis		5,000
To IJ(LLP) a/c	8,000	7,000			
	8,000	7,000		8,000	7,000

Dr.		IJ(LLP) A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	15,000	ByJ'sCapital a/cByY'sCapital a/c	8,000 7,000
	15,000		15,000

IN THE BOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OFM/s IX&Co

Dr.		REALISATION A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Goodwill a/cTo Buildinga/cTo Inventories a/c To Trade Receivable a/cTo Cash a/c To Bank a/c To Profit on Realisation a/c	- 10,000 20,000 10,000 3,000 4,000 15,000	ByCreditorsa/c ByBank Loan a/c To IJ(LLP) a/c (P.C.)	22,000 15,000 25,000
	62,000		62,000

Dr.			PARTNERS CAPITALA/c		Cr.
Particulars	**I**	**X**	**Particulars**	**I**	**X**
To Balance b/d	5,000		By Balance b/d	-	15,000 - 10,000
			By Profit on Realis	5,000	
To IJ(LLP) a/c	-	25,000			
	5,000	25,000		5,000	25,000

Dr.		IJ(LLP) A/c	Cr.
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	25,000	ByI's Capital a/c By X's Capital a/c	- 25,000
	25,000		25,000

IN THE BOOKS OF THE NEW FIRM IJ (LLP) (AMALGAMATED FIRM) CALCULATION OF PURCHASE CONSIDERATION

Particulars	IX & Co	JY & Co	IJ(LLP) Total
REVISED VALUEOFASSETS TAKEN	15,000	20,000	35000
OVER			
Goodwill			
Building	10,000	-	10000
Inventories	20,000	5,000	25000
Customers	10,000	10,000	20000
Cash	3,000	3,000	6000
Bank	4,000	5,000	9000
	62,000	43,000	
(-)REVISED TAKEN OVER			
Creditors	22,000	28,000	50000
Bank Loan	15,000		15000
	37,000	28,000	
PURCHASECONSIDERAT	25,000	15,000	40,000

IN THEBOOKS OFIJ(LLP)

Dr. PARTNERS CAPITALA/c

Particula	I	X	J	Y	Particula	I	X	J	Y
To Goodwi	8,750	8,750	8,750	8,750	By Balance	-	25,000	8,000	7,000
To Cash a/c		3,750			By Cash a/c	21,250		13,250	14,250
To Balance	12,50	12,500	12,500	12,500					
	21,25	25,000	21,250	21,250		21,250	25,000	21,250	21,250

Dr. CASH A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	6,000	ByCapital a/c ofX	3,750
To Capital a/c ofI	21,250		
To Capital a/c ofJ	13,250		
To Capital a/c ofY	14,250	ByBalance c/f	51,000
	54,750		54,750

IN THEBOOKS OFIJ(LLP)BALANCESHEETAS ONAS ON
1stAPRIL2020

Particulars	Rs.	Rs.	Rs.
CONTRIBUTIONS &			
LIABILITIESCONTRIBUTIONS			
Partners fund			
Capital Balance ofMr.	12,500		
ICapital Balance	12,500		
ofMr. XCapital	12,500		
Balance ofMr.	12,500		
JCapital Balance		50,000	
ofMr. YReserves		Nil	50,000
LIABILITIES			
Secured		nil	
loansBank		15,000	
LoanUnsecu		nil	
red loans		nil	
Short Term			
BorrowingsCreditors&T		50,000	
rade PayablesCreditors		nil	
OtherLiabilitiesProvisions		nil	
ASSETS			65,000
FixedAssetsBuildingInvestments			115,000
Loans			
&AdvancesInve			
ntories			
Debtors &Trade			10,000
ReceivablesCash&CashEq			nil
uivalentsCash Balance			
Bank Balance OtherAssets			25,000
			20,000
	51,000	60,000	
	9,000		60,000
			115,000
			-

Question :-Amagamation of Partnership firms

Following is the Balance sheet ofMM & Co. and NN &Co. as on
31stMarch 2020.

Liabilitie	MM &	NN & Co	Assets	MM &	NN & Co
Capital of Mama	75,000	-	Cash	3,000	2,000
Capital of Mami	50,000	-	Bank	7,000	3,000
Capital of Nana	-	60,000	Debtors	7,500	45,000
Capital of Nani	-	55,000	Inventories	50,000	70,000
Creditors	15,000	25,000	Furnitue	5,000	5,000
General Reserve	40,000	-	Machinery	60,000	-
Loanfrom ICICI	20,000	-	Goodwill	67,500	25,000
Loan from HDFC	-	10,000			
	200,000	150,000		200,000	150,000

MM & Co. and NN & Co agreed to amagamate their business on the following conditions to form a new firm called MN (LLP).from1stApril 2020

(a) All the assets and liabilities of both the firms to be taken over by the LLP

(b) A provision of 5% to be made on Debtors of both the amagamating firms

(c) Goodwill of both the firms to be valued at 3 years purchase of the last 4 years average profits

(d) The new PSR in the amalgamated firm MN (LLP) isequal between all the four partners

(e) Machinery of MM & Co. is worth Rs. 75,000

(f) The profit of the last four years of both the firms is as under:-

Year ended 31st March	MM & Co	NN & Co
2020	40,000	30,000
2019	35,000	35,000
2018	45,000	25,000
2017	44,000	34,000

(g) Mama & Mamish are d profits and losses in the ratio 3 : 2 in MM & Co.

(h) Nana &Nanish are d profits and losses equally in NN & Co.

Prepare a Statement of Purchase Consideration

Prepare the books of MM & Co. and NN & Co. to show the amalgamation Prepare the Balance sheet of MN (LLP). after amalgamation

IN THE BOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OF M/s NN & Co

Dr.	REALISATION A/c		
Particulars	**Rs**	**Particulars**	**Rs**
To Cash a/cTo Bank a/c To Debtors a/c To Inventories a/c To Furniture a/c To Machinerya/c To Goodwill a/c To Profit on Realisation a/c	2,000 3,000 45,000 70,000 5,000 - 25,000 65,750	By Creditors a/c By Loan from ICICI a/c By Loan from HDFC a/c By MN (LLP) a/c (PC)	25,000 - 10,000 180,750
	215,750		215,750

Dr.		PARTNERS CAPITALA/c			Cr.
Particulars	**Nana**	**Nani**	**Particulars**	**Nana**	**Nani**
			By Balance b/d By General Reserv By Profit on Realis	60,000 - 32,875	55,000 - 32,875
To MN (LLP) a/c	92,875	87,875			
	92,875	87,875		92,875	87,875

Dr.		MN (LLP)A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	180,750	By Nana's Capital a/c By Nani's Capital a/c	92,875 87,875
	180,750		180,750

IN THEBOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OFM/s MM &Co

Dr.		REALISATION A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Cash a/c To Bank a/c To Debtors a/c To Inventories a/c To Furniture a/c To Machinery a/c To Goodwill a/c To Profit on Realisation a/c	3,000 7,000 7,500 50,000 5,000 60,000 67,500 70,125	By Creditors a/c By Loan from ICICI a/c By Loan from HDFC a/c By MN (LLP) a/c (PC)	15,000 20,000 - 235,125
	270,125		270,125

Dr.		PARTNERS CAPITALA/c			
Particulars	**Mama**	**Mami**	**Particulars**	**Mama**	**Mami**
			By Balance b/d By General Reserv By Profit on Realis	75,000 24,000 42,075	50,000 16,000 28,050
To MN (LLP) a/c	141,075	94,050			
	141,075	94,050		141,075	94,050

Dr.		MN (LLP)A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	235,125	ByMama's Capital a/c By Mami's Capital a/c	141,075 94,050
	235,125		235,125

IN THEBOOKS OF THE NEW FIRM (AMALGAMATED FIRM) MN (LLP)CALCULATION OF PURCHASE CONSIDERATION

Particulars	MM	NN&Co	Total MN
REVISED VALUEOFASSETS			
TAKEN			
OVER	3,000	2,000	5,000
Cash Bank Debtors	7,000	3,000	10,000
Inventories Furnitue Machinery	7,125	42,750	49,875
Goodwill	50,000	70,000	120,000
-	5,000	5,000	10,000
(-) REVISED VALUE OF	75,000	- 93,000	75,000
LIABILITIES	123,000	215,750	216,000
Creditors	270,125		
Loan from ICICI Loan from			
HDFC		25,000	- 40,000
	15,000	- 10,000	20,000
	20,000		10,000
	-		
			-
			-
	35,000	35,000	
PURCHASE CONSIDERATION	235,125	180,750	415,875

WorkingNote:- CALCULATION OFGOODWILL			
Profits oflast 4 years	MM &Co	NN&Co	
2020	40,000		30,000
2019	35,000		35,000
2018	45,000		25,000
2017	44,000		34,000
Total Profit of 4 years	164,000		124,000
Average profit = Total / 4yrs	41,000		31,000
Goodwill = 3yrs X Average Profit	123,000		93,000

IN THE BOOKS F IJ (LLP) BALANCE SHEET AS ONAS ON 1stAPRIL2020

Particulars	Rs.	Rs.	Rs.
CONTRIBUTIONS & LIABILITIES			
CONTRIBUTIONS			
Partners fund			
Capital Balance ofMama	141,075		
Capital Balance ofMami	94,050		
Capital Balance ofNana	92,875		
Capital Balance ofNani	87,875	415,875	
Reserves		Nil	415,875
LIABILITIES			
Secured loans		nil	
LoanfromICICI	20,000		
LoanfromHDFC	10,000	30,000	
Unsecured loans		nil	
Short Term Borrowings		nil	
Creditors&Trade Payables			
Creditors		40,000	
OtherLiabilities		nil	
Provisions		nil	70,000
			485,875
ASSETS			
FixedAssets			
Goodwill		216,000	
Machinery		75,000	
Furniture		10,000	301,000
Investments			nil
Loans &Advances			
Inventories			120,000
Debtors &Trade Receivables			49,875
Cash&CashEquivalents			
Cash Balance	5,000		
Bank Balance	10,000	15,000	15,000
OtherAssets			
			485,875
			-

Question :-Amagamation ofPartnershipfirms to formLLP

Following is the Balance sheet of GX & Co. and HY &Co. as on 31st March 2020.

Liabilities	GX &Co	HY &Co	Assets	GX &Co	HY &Co
Capital ofG	50,000		Goodwill	11,900	-
Capital ofX	30,000		Land&Building	-	70,000
Capital ofH			Plant&Machinery	21,000	-
Capital ofY		28,000	LeasehldPremises	42,000	-
Creditors	16,800	25,200	Furniture and Fitting	8,000	8,400
Bills Payable	7,000	-	Investments	14,000	11,400
Reserves	14,000	11,200	Debtors	12,500	6,400
Bank Loan	14,000	5,600	Cash&Bank Balanc	22,400	23,800
	131,800	120,000		131,800	120,000

GX & Co. and HY & Co agreed to amagamate their business on the following conditions to form a new firm called GH (LLP) from1st April 2020

(a) The value of Goodwill ofboth the firms would be Rs. 18,000 each.

(b) For M/s GX &Co. thenew firm took investments and debtorsat bookvalue, Leasehold Premises at an agreed value of Rs. 75,000 and Plantand Machinery for Rs. 13,000. However the Furniture and Fittings wasnot taken over.

(c) For M/s HY &Co. thenew firm took Furniture and debtorsat book value, Land & Buildingat an agreed value of Rs.94,000 .

However the Investments wasnot taken over.

(d) The new firm GH (LLP) agreed to take cash after payment of loans made by each firm.

(e) Creditors of the both the firms were taken over at book value

Prepare a Statement of Purchase Consideration

Prepare the books of GX & Co. and HY & Co. to show the amalgamation
Prepare the Balance sheet of GH (LLP) after amalgamation

IN THE BOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OF M/s HY &Co

Dr. REALISATION A/c

Particulars	Rs	Particulars	Rs
To Goodwill a/c To Land & Buildinga/c To Plant & Machinery a/c To Lease hold Premises a/c To Furniture & Fittings a/c To Investment a/c To Debtors a/c To Cash & Bank a/c To Profit on Realisation a/c	- 70,000 - - 8,400 11,400 6,400 23,800 42,000	By Creditors a/c By Bills Payable a/c By Bank Loan a/c By Partners Capital a/c (Investments) By GH (LLP) a/c (PC)	25,200 - 5,600 11,400 119,800
	162,000		162,000

Dr. PARTNERS CAPITALA/c

Particulars	H	Y	Particulars	H	Y
To Relisation a/c (I)	5,700	5,700	By Balance b/d	50,000	28,000
			By Reserves	5,600	5,600
	70,900	48,900	By Profit on Realis		21,000
To GH (LLP) a/c	76,600	54,600		76,600	54,600

Dr. GH (LLP) A/c

Particulars	Rs	Particulars	Rs
To Realisation a/c (PC)	119,800	ByH's Capital a/c By Y's Capital a/c	70,900 48,900
	119,800		119,800

IN THE BOOKS OF THE OLD FIRM (AMALGAMATING FIRMS) IN THE BOOKS OF M/s GX &Co

Dr. REALISATION A/c

Particulars	Rs	Particulars	Rs
To Goodwill a/c	11,900	By Creditors a/c	16,800
To Land & Building a/c	-	By Bills Payable a/c	7,000
To Plant & Machinery a/c	21,000	ByBank Loan a/c	14,000
To Leasehold Premises a/c	42,000	By Partners Capital a/c	
To Furniture & Fittings a/c	8,000	(Furniture & Fittings)	8,000
To Investment a/c	14,000	By GH (LLP) a/c (PC)	117,100
To Debtors a/c	12,500		
To Cash & Bank a/c	22,400		
To Profit on Realisation a/c	31,100		
	162,900		162,900

Dr.			PARTNERS CAPITALA/c		
Particulars	**G**	**X**	**Particulars**	**G**	**X**
To Reliastion a/c	4,000	4,000	By Balance b/d By Reserves	50,000 7,000	30,000 7,000
					15,550
To GH (LLP) a/c	68,550	48,550	By Profit on Realis		
	72,550	52,550		72,550	52,550

Dr.		GH (LLP)A/c	
Particulars	**Rs**	**Particulars**	**Rs**
To Realisation a/c (PC)	117,100	By G's Capital a/c By X's Capital a/c	68,550 48,550
	117,100		117,100

IN THEBOOKS OFTHENEWFIRM (AMALGAMATED FIRM)CALCULATION OFPURCHASECONSIDERATION

Particulars	GX & Co	HY & Co	Total
REVISED VALUE OF ASSETS TAKEN OVER	18,000	18,000	36,000
Goodwill Land & Building Plant	-	94,000	94,000
& Machinery Leasehld Premises	13,000	-	13,000
Furniture and Fittings	75,000	-	75,000
Investments	not taken	8,400	8,400
Debtors Cash & Bank Balance	14,000	not taken	14,000
	12,500	6,400	18,900
	8,400	18,200	26,600
	140,900	145,000	
(-) REVISED VALUE OF LIABILITIES			- 42,000
Creditors Bills Payable Bank Loan	16,800	25,200	
	7,000		7,000
	not taken	not taken	-
			-
			-
	23,800	25,200	
PURCHASE CONSIDE RATION	117,100	119,800	236,900

IN THE BOOKS OF GH (LLP) BALANCE SHEETAS ON AS ON 1st APRIL 2020

Particulars	Rs.	Rs.	Rs.
CONTRIBUTIONS &			
LIABILITIES			
CONTRIBUTIONS			
Partners fund	68,550		
Capital Balance of Mr G Capital	48,550		
Balance ofMr X Capital Balance	70,900		
of Mr H Capital Balance of Mr	48,900		
Y Reserves		236,900	
LIABILITIES		Nil	236,900
Secured loans Unsecured loans			
Short Term Borrowings		nil nil nil	
Creditors & Trade Payables			
Creditors			
Bills Payable Other Liabilities		49,000	
Provisions		nil nil	
	42,000		
ASSETS	7,000		
Fixed Assets Goodwill			
Land & Building Plant &			49,000
Machinery Leasehld Premises			285,900
Furniture and Fittings			
Investments			
Loans & AdvanvcesInventories		36,000	
Debtors & Trade Receivables			
Cash & Cash Equivalents Cash		94,000	
& Bank Balance		13,000	
Other Assets		75,000	
		8,400	226,400
			14,000
			ni
			ni
			18,900
			26,600
			285,900
			-

6.11 EXERCISE

6.11.1 Answer in Brief

1. Concept of Limited Liability in a LLP

2. Position of Designated Partner in a LLP

3. LLP Agreement

4. Compliances for Accounts and Auditing of LLP

6. Provisions for conversion of Partnership firm into LLP

6.11.2 Multiple Choice questions

1. Limited Liability Partnership Act was enforced in India in the year ________

a. 2008

b. 1956

c. 2013

d. 1932

2. In a Limited Liability partnership ______partners have limited liabilities

a. Designated Partner

b. Working Partners

c. Nominated Partner

d. All Partners

3. In an LLP, each partner is ______responsible or liable for another partner's misconduct or negligence

a. Not responsible

b. Fully responsible

c. Jointly responsible

d. Partially responsible

4. The maximum number of partners in a LLP is ___________

a. 20

b. 100

c. 500

d. Unlimited

6. The charter document of a LLP is called __________

a. Partnership deed

b. Article of association

c. Memorandum of association

d. LLP agreement

6. In the name of an entity registered as a Limited liability partnership, the words _____ have to be used as a suffix.

a. & Co

b. Ltd.

c. LLP

d. Corp.

7. It is mandatory to get the books of accounts of an LLP audited if the capital contribution exceed Rs. __________

a. Rs. 15,00,000

b. Rs. 25,00,000

c. Rs. 35,00,000

d. Rs. 45,00,000

8. Of the designated partners in a LLP at least ______ have to be resident Indian

a. 4

b. 3

c. 2

d. 1

9. In an LLP's final accounts, the Gross block of fixed assets stood at Rs. 1,45,000 and depreciation and amortizations during the year amounted to Rs. 8,000. What is the net block of fixed assets?

a. Rs. 1,37,000

b. Rs. 1,41,000

c. Rs. 1,45,000

d. Rs. 1,53,000

10. In an LLP's final accounts, the market value of Closing stock is Rs. 35,000 (cost price being Rs. 32,000) and the value of Opening stock is Rs. 40,000. What is the increase or decrease in stock?

a. Rs. 5,000 increase

b. Rs. 8,000 decrease

c. Rs. 8,000 increase

d. Rs. 5,000 decrease

6.11.3. Answer in detail / Essay type questions

1. Enumerate the provisions for the formation of a LLP

2. How are a LLP different from Partnership firm and a Limited Company?

3. What are the advantages and drawbacks of a business structure being a LLP?

4. What is the relationship amongst partners of a LLP?

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