

**FAIR DEALERS LIMITED (ISSUE OF SHARES AT PAR)**

Bank A/c.	200000	
To Share Application A/c.		200000
(Being share application money received)		

Share Application A/c.	200000	
To Share Capital A/c.		200000
(Being share application money transferred to share capital account)		

Share Allotment A/c.	200000	
To Share Capital A/c.		200000
(Being share allotment money due)		

Bank A/c.	200000	
To Share allotment A/c.		200000
(Being share allotment money received)		

Share first call A/c.	300000	
To Share Capital A/c.		300000
(Being share first call money due)		

Bank A/c.	300000	
To Share first call A/c.		300000
(Being share first call money received)		

Share second and final call A/c.	300000	
To Share Capital A/c.		300000
(Being share second and final call money due)		

Bank A/c.	300000	
To Share second and final call A/c.		300000
(Being share second and final call money received)		

**QUANTUM CORE LIMITED (ISSUE OF SHARES AT DISCOUNT)**

Bank A/c.	200000	
To Preference Share Application A/c.		200000
(Being preference share application money received)		

Preference Share Application A/c.	200000	
To Preference Share Capital A/c.		200000
(Being preference share application money transferred to share capital account)		

Preference Share Allotment A/c.	270000	
Discount on issue shares A/c.	80000	
To Preference Share Capital A/c.		350000
(Being share allotment money due)		

Bank A/c.	270000	
To preference Share allotment A/c.		270000
(Being preference share allotment money received)		

Preference Share first call A/c.	250000	
To preference Share Capital A/c.		250000
(Being preference share first call money due)		

Bank A/c.	250000	
To preference Share first call A/c.		250000
(Being preference share first call money received)		

Preference Share second and final call A/c.	200000	
To preference Share Capital A/c.		200000
(Being preference share second call and final money due)		

Bank A/c.	200000	
To preference Share second and final call A/c.		200000
(Being preference share second and final call money received)		

### **RARE EARTH LIMITED (ISSUE OF SHARES AT PREMIUM)**

Bank A/c.	40000	
To Share Application A/c.		40000
(Being share application money received)		

Share Application A/c.	40000	
To Share Capital A/c.		40000
(Being share application money transferred to share capital account)		

Share Allotment A/c.	100000	
To Share Capital A/c.		60000
To Share premium A/c.		40000
(Being share allotment money due)		

Bank A/c.	100000	
To Share allotment A/c.		100000
(Being share allotment money received)		

Share first call A/c.	40000	
To Share Capital A/c.		40000
(Being share first call money due)		

Bank A/c.	40000	
To Share first call A/c.		40000
(Being share first call money received)		

Share second and final call A/c.	60000	
To Share Capital A/c.		60000
(Being share second and final call money due)		

Bank A/c.	60000	
To Share second and final call A/c.		60000
(Being share second and final call money received)		

### **SHAW WALLACE LIMITED (PRO-RATA ALLOTMENT)**

Bank A/c.	800000	
To Share Application A/c.		800000
(Being share application money received)		

Share Application A/c.	200000	
To Bank A/c		200000
(Being share application money for 10000 shares returned)		

Share Application A/c.	400000	
To Share Capital A/c.		400000
(Being share application money transferred to share capital account)		

Share Allotment A/c.	600000	
To Share Capital A/c.		600000
(Being share allotment money due)		

Bank A/c.	400000	
Share application A/c.	200000	
To Share allotment A/c.		600000
(Being share allotment money received and excess application money adjusted)		

Share first call A/c.	500000	
To Share Capital A/c.		500000
(Being share first call money due)		

Bank A/c.	500000	
To Share first call A/c.		500000
(Being share first call money received)		

Share second and final call A/c.	500000	
To Share Capital A/c.		500000
(Being share second and final call money due)		

Bank A/c.	500000	
To Share second and final call A/c.		500000
(Being share second and final call money received)		

**OBEROI REALITY LIMITED (CALLS IN ARREAR AND CALLS IN ADVANCE)**

Bank A/c.	125000	
To Share Application A/c.		125000
(Being share application money received)		

Share Application A/c.	125000	
To Share Capital A/c.		125000
(Being share application money transferred to share capital account)		

Share Allotment A/c.	125000	
To Share Capital A/c.		125000
(Being share allotment money due)		

Bank A/c.	125000	
To Share allotment A/c.		125000
(Being share allotment money received )		

Share first call A/c.	125000	
To Share Capital A/c.		125000
(Being share first call money due)		

Bank A/c.	127500	
Calls in arrears A/c. (200 x 25)	5000	

To Share first call A/c.		125000
To calls in advance A/c. (300 x 25)		7500
(Being share first call money received)		

Share second and final call A/c.	125000	
To Share Capital A/c.		125000
(Being share second and final call money due)		

Bank A/c.(5000 – 200 -300 =4500 x 25)	112500	
Calls in Advance A/c.	7500	
Calls in arrears A/c.	5000	
To Share second and final call A/c.		125000
(Being share second and final call money received except for 200 shares and 300 shares money received in first call adjusted now)		

### ESSAR GROUP (FORFEITURE AND REISSUE)

Bank A/c.	52000	
To Share Application A/c.		52000
(Being share application money received) 13000 X 4		

Share Application A/c.	12000	
To Bank A/c.		12000
(Being the excess share application money returned) 3000 X 4		

Share Application A/c.	30000	
To Share Capital A/c.		30000
(Being share application money transferred to share capital account) 10000 X 4		

Share Allotment A/c. 10000 x 5	50000	
To Share Capital A/c. 10000 x 2		20000
To Share premium A/c. 10000 x 3		30000
(Being share allotment money due)		

Bank A/c.	50000	
To Share allotment A/c.		50000
(Being share allotment money received)		

Share first and final call A/c. 10000 x 4	40000	
To Share Capital A/c.		40000
(Being share first and final call money due)		

Bank A/c. 9900 x 4	39600	
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To Share first and final call A/c.		39600
(Being share first and final call money received except 100 shares)		

Share capital A/c. 100 x 10	1000	
To Forfeited shares A/c.		600
To Share first and final call A/c.		400
(Being 100 shares forfeited for non-payment of final call money)		

Bank A/c. 100 x 8	800	
Forfeited shares A/c. 100 x 2	200	
To Share capital A/c.		1000
(Being forfeited shares reissued at Rs.8 per shares)		

Forfeited shares A/c.	400	
To Share premium A/c.		400
(Being the excess amount in the forfeited shares account transferred to capital reserves)		

### **P AND G LIMITED (FORFEITURE AND REISSUE)**

Bank A/c.	225000	
To Share Application A/c.		225000
(Being share application money received) 9000 X 25		

Share Application A/c.	225000	
To Share Capital A/c.		225000
(Being share application money transferred to share capital account) 9000 X 25		

Share Allotment A/c. 9000 x 35	315000	
Discount on issue of shares A/c. 9000 x 5	45000	
To Share Capital A/c. A/c. 9000 x 35		360000
(Being share allotment money due)		

Bank A/c.	315000	
To Share allotment A/c.		315000
(Being share allotment money received) 9000 x 35		

Share first and final call A/c. 9000 x 35	315000	
To Share Capital A/c.		315000
(Being share first and final call money due)		

Bank A/c. 8900 x 35	311500	
To Share first and final call A/c.		311500
(Being share first and final call money received except 100 shares)		

Share capital A/c. 100 x 100	10000	
To Forfeited shares A/c. 100 x(25+35)		6000
To Share first and final call A/c. (100 x35)		3500
To Discount on issue of shares A/c. (100 x 5)		500
(Being 100 shares forfeited for non-payment of final call money)		

Bank A/c. 100 x 90	9000	
Forfeited shares A/c. 100 x 10	1000	
To Share capital A/c.		10000
(Being forfeited shares reissued at Rs.90 per shares)		

Forfeited shares A/c.	5000	
To Share premium A/c.		5000
(Being the excess amount in the forfeited shares account transferred to capital reserves)6000-1000		

### ACCENTURE LIMITED

As the first call money is not given, it is assumed that the first call money also Rs.25/-

Share first call A/c. 100000 x 25	2500000	
To Share Capital A/c.		2500000
(Being share first call money due)		

Bank A/c. 99900 x 25	2497500	
To Share first call A/c.		2497500
(Being share first call money received except 100 shares)		

Share second and final call A/c. 100000 x 25	2500000	
To Share Capital A/c.		2500000
(Being share second and final call money due)		

Bank A/c. 99850 x 25	2496250	
To Share first call A/c.		2496250
(Being share second and final call money received except 150 shares)		
Share capital A/c. 150 x 100	15000	
To Forfeited shares A/c. 100 x(25+25)+50 x 75		8750
To Share first call A/c. (100 x25)		2500

To Share second and final call A/c. (150 x 25)		3750
(Being 150 shares forfeited for non-payment of first and second call money)		

### KINGFISHERS LIMITED

Share first call A/c. 100000 x 20	2000000	
To Share Capital A/c.		2000000
(Being share first call money due)		

Bank A/c. 99950 x 20	1999000	
To Share first call A/c.		1990000
(Being share first call money received except 50 shares)		

Share second and final call A/c. 100000 x 25	2500000	
To Share Capital A/c.		2500000
(Being share second and final call money due)		

Bank A/c. 99950 x 25	2498750	
To Share first call A/c.		2498750
(Being share second and final call money received except 150 shares)		

Share capital A/c. 50 x 100	5000	
To Forfeited shares A/c. 50 x(55)		2750
To Share first call A/c. (50 x20)		1000
To Share second and final call A/c. (50 x 25)		1250
(Being 50 shares forfeited for non-payment of first and second call money)		

### GOYAL AND CO

Machinery A/c.	380000	
To High Life Machine Limited A/c.		380000
(Being machinery purchased from High life machine limited)		

High Life Machine Limited A/c.	380000	
To cash A/c.		20000
To Share capital A/c.		360000
(Being payment made in the form of cash and shares)		

High Life Machine Limited A/c.	380000	
To cash A/c.		20000
To Share capital A/c.		300000
To Share premium A/c.		60000
(Being payment made in the form of cash and shares at a premium of 20%)		

High Life Machine Limited A/c.	380000	
Discount on issue of shares A/c.	36000	



To cash A/c.		20000
To Share capital A/c.		396000
(Being payment made in the form of cash and shares at a discount of 10%)		

In January 2010, a firm took an insurance policy for Rs.60 lakhs to insure goods in its godown against fire subject to average clause. On 7<sup>th</sup> March 2010, a fire broke out destroying goods costing Rs.44 lakhs. Stock in the godown was estimated at Rs. 80 lakhs. Compute the amount of insurance claims?

When average clause is involved insurance claim is computed as under

$$\text{Value of stock destroyed} \times \frac{\text{value of insurance policy}}{\text{value of stock on the date of fire}}$$

$$= 44,00,000 \times \frac{60,00,000}{80,00,000} = \mathbf{33,00,000 \text{ lakhs}}$$

### OBJECTIVE QUESTIONS ANSWERS

1] b	2] d	3] b	4] d	5] c	6] c	7] a	8] b	9] b	10] c
11] a	12] a	13] b	14] b	15] b	16] d	17] c	18] a	19] b	20]
21] b	22] a	23] b	24] a	25] a	26] d	27] d	28] b	29] b	30] d
31] a	32] a	33] a	34] b	35] b	36] d	37] b	38] c	39] c	40] a
41] d	42] d	43] a	44] b	45] b	46] d	47] b	48] d	49] a	50] c

### AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Companies carrying similar business may join together to get the benefit of large scale production or to avoid competition. The combination of two or more companies is possible by amalgamation and absorption. Covered by AS 14.

#### AMALGAMATION

When two or more companies may go for liquidation and a new company may be formed to take over the business and it is otherwise called as merger.

In case of merger

1. All the assets and liabilities of Transferor Company become the assets and liabilities of the transferee company.

2. Shareholders holding not less than 90% of the face value of the equity share of the transferor company become equity shareholders of the transferee company.

3. Consideration for amalgamation is discharged by the transferee company wholly by issue of equity shares in the transferee company except for cash in respect of any fractional shares.

4. The business of the transferor company is intended to be carried on after amalgamation by the transferee company.

5. No adjustment is to be made to the book values of assets and liabilities of the transferor company.

### **ABSORPTION**

When an existing company takes over the business of another company, it is called absorption. The company whose business is taken over shall be wound up. This process otherwise called as acquisition.

The Company which is amalgamated is called Transferor Company.

The company to which assets and liabilities transferred is called Transferee Company.

### **Procedure for amalgamation:**

The board of directors of the companies will decide the scheme of amalgamation.

The scheme should be submitted to the respective high court.

The scheme should be approved by the shareholders and also by SEBI.

The new company formed for this purpose can issue shares if required

The transferor company is liquidated and all the assets and liabilities are taken over by the transferee company.

### **RECONSTRUCTION**

When a running company has accumulated huge loss or over capitalized they have to go for reconstruction. Reconstruction may be internal reconstruction or external reconstructions.

In case of internal reconstruction, the capital of the company is reconstructed i.e. normally reduced.

In case of external reconstruction, a new company is formed which will take over the existing company.

There is a slight difference between external reconstruction and absorption. In absorption, an existing company will take over the company is in liquidation or financial not sound whereas in case of external reconstruction, a new company is formed which will takes over the existing company.

From the above, it is clear that in case of amalgamation, absorption and external reconstruction, there are two companies, one is purchasing company and other is the liquidated company. From accounting point of view, it should be recorded in the books of both the companies.

## **PURCHASE CONSIDERATION**

If a particular company is going to be purchased or absorbed by another company, it means the assets and liabilities of the company will be taken over by the new company. In such case, they have to pay some consideration for the assets and liabilities taken over. Such consideration is technically called as purchase consideration.

It may be paid in lump sum or based on the net worth (assets – liabilities) Purchase consideration as per AS 14, means the aggregate of shares and other securities issued and payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. It may be computed by pooling method or purchase method

### **Pooling method:**

1. All assets and liabilities reserves are recorded by the transferor company at their exiting amount.
2. The identities of the reserves are preserved and they appear in the same form.
3. No goodwill account should be recorded.

4. The balance in the profit and loss account of the transferor company merged with the transferee company.
5. The difference between share capital issued and the capital of the transferor company is adjusted in the capital of Transferee Company.

Purchase method:

1. The assets and liabilities of Transferor Company is recorded either at existing amount or on the basis of the fair value.
2. The reserves of the transferor company other than statutory reserve are not included in the financial statement of the transferee company.
3. If the purchase consideration is greater than the net assets taken over, it is called goodwill and will be amortised over a period not exceeding 5 years.
4. If the purchase consideration is less than the net assets taken over, it is called capital reserve.
5. Statutory reserves maintain their identity in the financial statement of the transferor company. Such reserve transferred to amalgamation adjustment account which will be shown as miscellaneous expenditure in the assets side of the balance sheet.
6. In case of inter company debts if it is mutual it will be cancelled.
7. In case of inter company stock the adjustment will be made in the books of the transferee company and no adjustment will be made in the books of transferor company.

#### **PROFIT PRIOR TO INCORPORATION:**

Profit before and after incorporation will be distributed in the following manner

Gross profit based on sales ratio

Expenses relating to sales such commission, discount etc. based on sales ratio

Expenses relating to time such salary, depreciation, taxes, rates, Rent etc. based on time ratio

### **Shares may issued for consideration of cash**

Issue at par, issue at discount, issue at premium and right issues

**Right shares:** As per section 94 of the Companies Act 1956, a company can issue additional shares by passing an ordinary resolution. However, before offering the shares to the public and as per section 81, the offer should be given first to the existing shareholders in proportion to their holding in the company, such shares technically called as right shares or right issue.

### **Share may be issued for consideration other than cash**

**Bonus shares:** the shares may be issued at free of cost to the existing shareholders proportionately based on the shares held by them. The undistributed profit / undeclared dividend amount may be utilized for this purpose.

**Outright purchase of company:** in case if a company wants to buy another company outrightly, a partnership firm, takes over a proprietorship business, the assets and liabilities of such concern is taken by the new company. The amount payable to them which is called purchase consideration may be made in the form shares.

Partly paid shares may be converted into fully paid shares

### **FORFEITURE AND REISSUE OF SHARES**

There is no statutory provision in case of forfeiture of shares in the companies Act 1956.

We have to follow the SEBI guidelines given in Chapter VIII

Accordingly, the calls should be received within 12 months from the date of allotment. If there is any failure the shares can be forfeited by the company.

However, in case the company going to issue capital over 500 crores the time limit is not applicable.

#### **Procedure for forfeiture:**

The Board of Directors as per 29 and 32 of Articles of Association may issue notice to the defaulter to pay the money within 14 days from the date of notice. If they fails, further time may be given. Still there is a failure on the part of shareholders the board by passing a resolution can forfeit the shares.

Forfeited shares can be reissued. Re issue here means it is not a fresh allotment, the forfeited shares are sold. It may be done at a price less than the cost of shares but should not be less than the called money.