

Illustration : The Balance Sheet of ABC Ltd., as on 31.12.19 was as follows :

	Rs.	Rs.		Rs.
Share Capital :			Fixed Asset	1,30,000*
10,000 Equity Shares of			Investment	30,000
Rs. 10 each		1,00,000	Stock	20,000
1,000 Redeemable Prefer-			Debtors	50,000
ence Shares of Rs. 100 each	1,00,000		Bank	40,000
Less : Calls-in-arrear				
(Rs. 20 × 100)	2,000	98,000		
Share Premium	<u> </u>	12,000		
Reserve Fund		29,000		
Profit & Loss Account		10,000		
Creditors		21,000		
		<u> </u>		
		2,70,000		<u> </u>
		<u> </u>		<u> </u>
				2,70,000

On 1.1.20 Fixed Assets costing Rs. 20,000 were sold for Rs. 18,000. On the same date it was decided to redeem the Preference Shares at a premium of 20% by issuing sufficient number of Equity Shares at a discount of 10%, subject to leaving a balance of Rs. 10,000 in Reserve Fund. All payments were made except to holders of 50 shares who could not be traced.

Give necessary entries and the new Balance Sheet as on 1.1.2020

Solution :

IN THE BOOKS OF ABC LTD.
JOURNAL

		Dr.	Cr.
		Rs.	Rs.
31.12.19			
Dec. 31	Bank Account Dr. Profit & Loss Account Dr. To Fixed Assets Account Being the fixed assets costing Rs. 20,000 sold for Rs. 18,000.	18,000 2,000	20,000
	Bank Account Dr. Discount Account Dr. To Equity Share Capital Account Being the issue of 9,000 Equity Shares of Rs. 10 each at a discount of 10% for the purpose of redemption of Preference Shares as per Board's Resolution No... dated...	81,000(1) 9,000	90,000(2)

* Call in arrears to date 2000 Redemption of 10000 defaulter share holder of 10000, 500 of 10000 Pref. share to date dividend 5000 201 500 of 10000 Pref share
 10000 of 2000 Eq. share issue 5000 200, 1000 of 10000 5000 200

(1) Rs. 1,20,000 - (Rs. 12,000 + Rs. 19,000 + Rs. 8,000) = Rs. 81,000.

(2) $81000/90 \times Rs.100 = Rs. 90,000$

		Rs.	Rs.
Share Premium Account	Dr.	12,000	
Reserve Fund Account	Dr.	19,000(3)	
Profit & Loss Account	Dr.	8,000(4)	
To Premium on Redemption of Preference Shares Account			20,000(5)
To Capital Redemption Reserve Account			19,000 ††
Being the transfer of the requisite sums from Share Premium A/c, Reserve Fund A/c and Profit & Loss Account to make provision of the 10% premium on redemption of Preference Shares and the capital sum on redemption of 1,000 Preference Shares of Rs. 100 each.			
Redeemable Preference Share Capital Account		90,000	
Premium on Redemption of Preference Share Account		18,000	
To Redeemable Preference Shareholders Account			1,08,000
Being the amount payable to Redeemable Preference Shareholders who have fully paid their Share value i.e., to shareholders of (1,000–100) or 900 shareholders.			
Redeemable Preference Shareholders Account		1,02,000(6)	
To Bank Account			1,02,000
Being the amount paid to 850 (900–50) Preference Shareholders.			

ABC LTD.

BALANCE SHEET AS AT 1ST January, 2020-

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL :		FIXED ASSETS	1,10,000
19,000 Equity Shares of Rs. 10 each fully paid up	1,90,000	INVESTMENTS	30,000
100 Redeemable Preference Shares of Rs. 100 each	10,000	CURRENT ASSETS,	
Less : Calls-in-arrear	<u>2,000</u>	LOANS & ADVANCES :	
	8,000	Stock	20,000
RESERVES & SURPLUS .		Debtors	50,000
Reserve Fund	10,000	Bank	37,000*
Capital Redemption Reserve	19,000	MISCELLANEOUS	
Premium on Redemption on Preference Shares	2,000	EXPENDITURE :	
CURRENT LIABILITIES & PROVISIONS :		Discount on Shares	9,000
Creditors	21,000		
Redeemable Preference Shareholders	6,000†		
	<u>2,56,000</u>		<u>2,56,000</u>

(3) Rs. 29,000–Rs. 10,000= Rs. 19,000

(4) Rs. 10,000–Rs. 2,000= Rs. 8,000

(5) 20% of Rs. 1,00,000= Rs. 20,000

(6) 850×Rs. 100+20% of Rs. 85,000 or Rs. 1,02,000

* (Rs. 40,000+Rs. 18,000+Rs. 81,000–Rs. 1,02,000)= Rs. 37,000.

† 50 Shares×Rs. 100 each+20% Premium= Rs. 6,000.

†† Rs. 1,20,000 – (Rs. 81,000 + Rs. 20,000) = Rs. 19,000