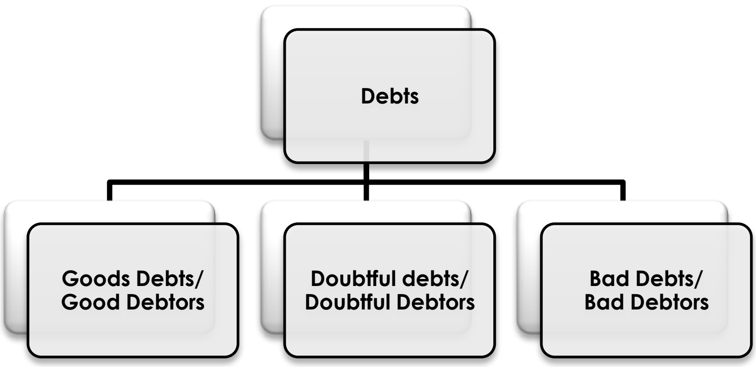
ACCOUNTING FOR BAD DEBTS

When we discuss Bad debts, first we will understand the **Debt,**

The amount which is receivable from a person or a concern for supplying goods or services.

Classification of Debts:



- **Good Debts/ Good Debtors —** Debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.
- **Doubtful debts/ Doubtful debtors —** If there is any doubt regarding the collection of recovery of a Debt it is called a Doubtful Debt.
- **Bad Debts/ Bad Debtors —** Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect, it should be treated as a business loss and should be adjusted against profit.

- When the firm finds that it is impossible to collect a debt, which debt should be written off as a bad debt. Generally, a claim against debtor becomes irrecoverable, it is called **bad debts.**

Accounting Entries

Bad Debts A/c .... Dr. To, Debtors A/c	

Alternatively, we can say that **Bad debts** are an irrecoverable income which is already recognized as revenue income of the future.

Features of Bad Debts

- Arising out of Credit Sales.
- When any one fails to recover the dues from the debtor/customer at all.
- It is a **business loss** and should be adjusted against profit.

BAD DEBTS / UNREALISED INCOME CAN ALSO ARISE IN CASE OF NON-TRADING ORGANIZATIONS

If any member of an organization leaves the organization or has died or has become insolvent then any amount of subscription receivable from the member, will have to be charged as the amount of unrecovered subscription —

Say, last Receivable for year 1 includes ₹5,000 from member which could not be realized due to his death

Year 1			
Dr.	Income and Expenditure Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
		By, Subscription Received ₹1,00,000	
		Subscription Receivable ₹10,000	1,10,000

Journal Entries

(a) For actual amount of bad debts (if there is no provision)

Bad Debt A/c Dr.
To Debtors A/c or Sundry Debtors A/c

(b) For transferring Bad debts

Profit and Loss A/c Dr.
To Bad Debts A/c

In case of Non-trading Organizations

Income and Expenditure A/c Dr.
To, Unrecovered Subscription A/c

Provisions for Bad (and Doubtful) Debts

- For any unknown/ known part of doubtful debts provisions must be made against Profit and Loss Account on the basis of past experience.
- This is known as Provision for Bad Debts or Reserve for Bad Debts or Provision for Bad and Doubtful Debts.
- Bad debts are an Actual Loss but Provision for Bad and doubtful debts is an Anticipated Loss.

Opening balance of Provision for Bad and Doubtful Debts is a Liability; it is a charge against income.

Example:

– **If opening balance of Provision for Bad Debts Account is ₹20,000 and**
– **Actual Bad Debt is ₹23,000**

Then the journal entries and the posting in ledger accounts will be as follows:

Journal Entries

Date	Particulars	L.F	Dr. Amount (₹)	Cr. Amount (₹)
?	Bad Debt A/c Dr. To, Sundry Debtors A/c (Being Bad Debt occurred)		23,000	 23,000
	Provision for Bad Debt and Doubtful Debts A/c Dr. To, Bad Debt A/c (Being Bad Debt transferred to Provision for Bad and Doubtful Debts A/c)		23,000	 23,000
	Profit and Loss A/c Dr. To, Provision for Bad and Doubtful Debts A/c (Being the excess of Bad Debt over the provision for Bad Debt charged against profit)		3,000	 3,000

Posting in Ledger Accounts

Dr.	Bad Debts Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Sundry Debtors A/c	23,000	By, Provision for Bad and Doubtful Debts A/c	23,000
	23,000		**23,000**

Dr.	Provision for Bad and Doubtful Debts Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Bad Debts A/c	23,000	By, Balance b/d	20,000
		By, Profit and Loss A/c	3,000
	23,000		**23,000**

[Note: Assuming no further provision is required.]

Dr.	Profit and Loss Account (Extract)		Cr.
Particulars	**Amount**	**Particulars**	**Amount**
To, Provision for Bad and Doubtful Debts A/c	₹3,000		

<u>**On the Contrary**</u>

– **If opening balance of Provision for Bad Debt Account is ₹20,000 and**
– **The actual Bad Debt is ₹17,000**

If actual Bad Debt is less than Provision maintained

Then the journal entries and the posting in ledger accounts will be as follows:

Date	Particulars	L.F	Dr. Amount (₹)	Cr. Amount (₹)
?	Bad Debt A/c Dr. To, Sundry Debtors A/c (Being Bad Debt occurred)		17,000	 17,000
	Provision for Bad Debt and Doubtful Debts A/c Dr. To, Bad Debt A/c To, Profit and Loss A/c (Being Bad Debt transferred to Provision for Bad and Doubtful Debts A/c and the excess provision written back)		17,000	 17,000 3,000

Posting in Ledgers Account

Dr.	Bad Debts Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Sundry Debtors A/c	17,000	By, Provision for Bad and Doubtful Debts A/c	17,000
	17,000		**17,000**

Dr.	Provision for Bad and Doubtful Debts Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Bad Debts A/c	17,000	By, Balance b/d	20,000
To, Profit and Loss A/c (excess provision written back)	3,000		
	20,000		**20,000**

– **excess of ₹3,000 will be written back**

Dr.	Profit and Loss Account (Extract)		Cr.
Particulars	**Amount**	**Particulars**	**Amount**
		By, Provision for Bad and Doubtful Debts A/c	₹3,000

There are two different ways to charge bad debt against profit —

i. Directly charge it to Profit and Loss Account

In this case the entry will be —

Profit and Loss A/c Dr.
To, Bad Debts A/c

ii Charging Bad Debts to Profit and Loss Account through the Provision for Bad and Doubtful Debts Account

In this case the entries will be —

(a) Provision for Doubtful Debts Dr.
To, Bad Debts A/c

(b) Profit and Loss A/c Dr.
To, Provision for Doubtful Debts A/c

Provision for Discount on Debtors

Basically, in accounting, provision for discount on debtors shows the reserve amount for adjusting loss due to discount allowed to the debtors. Every businessman wants to realize dues faster from their customers. So, they accept less money than actual from those customers who will pay before maturity of debt. So, at the end of year, it is required to make a provision for next year losses due to discount allowed. These provisions will be called provision for discount on debtors. These provisions are made on the basis of past experience with customers.

Say, Sundry Debtors	₹20,000
Less: Bad Debt	₹2,000
Balance	₹18,000
Provision for Doubtful Debts @5% i.e. ₹18,000×5% =	₹900
Balance	17,100
Provision for Discount on Debtors of 2%	
i.e. ₹17,100×2% =	₹342
Net balance of **debtors to be shown on the Balance Sheet**	₹16,758

In case of provision for discount on debtors any discount allowed

- which is not a part of the trading agreement or
- which is in excess of trading agreement

For Discount Allowed —

Discount Allowed A/c Dr.
To, Sundry Debtors A/c

Transferring of Discount allowed to Provision for Discount on debtors

Provision Discount on Debtors A/c Dr.
To, Discount Allowed A/c

Discount Allowed can also be transferred directly to Profit and Loss though it is advisable that Discount allowed to be routed through —

Provision for Discount on Debtors

Next year provision is estimated-

(i) If new provision is more than old one-

Profit and Loss A/c Dr.
To, Provision for Discount on Debtors A/c

(ii) If new provision is less than old one-

Provision for Discount on Debtors A/c Dr.
To, Profit and Loss A/c

Example:

- Sundry Debtors (before Bad Debt and Discount allowed) — ₹1,00,000.
- Provision for Discount on Debtors — ₹1,600 (opening bal.).
- Provision for Bad and Doubtful Debts — ₹ 5,000 (opening bal.).
- Bad Debt — ₹4,000.
- Provision for Bad and Doubtful Debts — 3%.
- Provision for Discount for Debtors — 2%.

Dr.		**Sundry Debtors Account**	**Cr.**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Balance b/d	1,00,000	By, Bad Debts A/c	4,000
		By, Discount Allowed A/c	2,000
		By, Balance c/d	94,000
	1,00,000		**1,00,000**

Dr.		**Bad Debts Account**	**Cr.**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Sundry Debtors A/c	4,000	By, Provision for Bad and Doubtful Debts A/c	4,000

Dr.		**Provision for Bad and Doubtful Debts Account**	**Cr.**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Bad Debts A/c	4,000	By, Balance b/d	5,000
To, Balance c/d	2,880	By, Profit and Loss A/c	1,880
	6,880		**6,880**

Dr.	Discount Allowed Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Sundry Debtors A/c	2,000	By, Provision for Discount on Debtors A/c	2,000

Dr.	Provision for Discount on Debtors		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Discount Allowed A/c	2,000	By, Balance b/d	1,600
To, Balance c/d	1,880	By, Profit and Loss A/c	2,280
	3,880		**3,880**

Dr.	Profit and Loss Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Provision for Bad and Doubtful Debts A/c	1,880		
To, Provision for Doubtful Debts A/c	2,280		

Provision for Discount on Creditors

Businessman expects that he would receive discounts from suppliers (creditors), when the businessman remits cash to them. Anticipating some percentage of creditors which may be received as discount in the coming year, the business proprietor makes a provision for the expected income in the current year itself. Discount on creditors is an income and therefore reserve for discount on creditors is debited and profit and loss account is credited to show it as anticipated profit. In the subsequent year, when discount on creditors is actually received, it is first set of against provision for discount on creditors and the difference between the new provision for discount on creditors and the balance of old provision left over is carried to Profit and Loss Account.

- **It is allowed by the creditors for prompt settlement of debts.**
- **It is an anticipated gain.**

Payment to Creditors —

Creditors A/c	Dr.	₹10,000	
To, Bank A/c			₹9,500
To, Discount Received A/c			₹500

Treatment of Discount Received

Closing or Transfer Entry —

Discount Received A/c Dr.
To, Provision for Discount on Creditors A/c

- This is the process of adjusting discount received
- Ultimately the provision shall be transferred to the Profit and Loss (P&L) Account

If Discount allowed is transferred through the Provision for Discount Debtors A/c —

- Balance of Provision for Discount on Debtors will be shown in P&L A/c
- In the same way Provision for Discount on Creditors will be shown in P&L A/c

Example:

- Sundry Creditors (before Discount received) — ₹60,000.
- Provision for discount on creditors — ₹1,800 (opening bal.).
- Discount Received — ₹1,200
- Provision for Discount on Creditors — 3% to be created

Answer:

Dr.	Sundry Creditors Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Discount Received A/c	1,200	By, Balance b/d	60,000
To, Balance c/d	58,800		
	60,000		**60,000**

Dr.	Discount Received Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Profit and Loss A/c	1,200	By, Sundry Creditors A/c	1,200

Or,

Dr.	Discount Received Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Provision for Discount on Creditors A/c	1,200	By, Sundry Creditors A/c	1,200

Dr.	Provision for Discount on Creditors Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Balance b/d	1,800	By, Discount Received A/c	1.200
To, Profit and Loss A/c	1,164	Balance c/d	1,764
	2,964		**2,964**

Dr.	Profit and Loss Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
		By, Provision for Discount on Creditors A/c	1,164

ENDORSEMENT

The word 'endorsement' in its literal sense means, writing on the back of an instrument. But under the Negotiable Instruments Act it means, the writing of one's name on the back of the instrument or any paper attached to it with the intention of transferring the rights therein. Thus, endorsement is signing a negotiable instrument for the purpose of negotiation. The person who effects an endorsement is called an 'endorser', and the person to whom negotiable instrument is transferred by endorsement is called the 'endorsee'.

Essentials of a valid endorsement

The following are the essentials of a valid endorsement:

1. **It must be on the instrument**. The endorsement may be on the back or face of the instrument and if no space is left on the instrument, it may be made on a separate paper attached to it called allonge. It should usually be in ink.

2. **It must be made by the maker** or holder of the instrument. A stranger cannot endorse it.

3. **It must be signed by the endorser.** Full name is not essential. Initials may suffice. Thumb-impression should be attested. Signature may be made on any part of the instrument. A rubber stamp is not accepted but the designation of the holder can be done by a rubber stamp.

4. **It may be made either by the endorser merely signing his name on the instrument (it is a blank endorsement) or by any words showing an intention to endorse or transfer the instrument to a specified person (it is an endorsement in full).** No specific form of words is prescribed for an endorsement. But intention to transfer must be present. When in a bill or note payable to order the endorsee's name is wrongly spelt, he should when he endorses it, sign the name as spelt in the instrument and write the correct spelling within brackets after his endorsement.

5. **It must be completed by delivery of the instrument.** The delivery must be made by the endorser himself or by somebody on his behalf with the intention of passing property therein. Thus, where a person endorses an instrument to another and keeps it in his papers where it is found after his death and then delivered to the endorsee, the latter gets no right on the instrument.

6. **It must be an endorsement of the entire bill.** A partial endorsement i.e. which purports to transfer to the endorsee a part only of the amount payable does not operate as a valid endorsement. If delivery is conditional, endorsement is not complete until the condition is fulfilled.

Who may endorse?

The payee of an instrument is the rightful person to make the first endorsement. Thereafter the instrument may be endorsed by any person who has become the holder of the instrument. The maker or the drawer cannot endorse the instrument but if any of them has become the holder thereof he may endorse the instrument. (Sec. 51).

The maker or drawer cannot endorse or negotiate an instrument unless he is in lawful possession of instrument or is the holder there of. A payee or indorsee cannot endorse or negotiate unless he is the holder there of.

Classes of endorsement

An endorsement may be:

1. Blank or general.
2. Speical or full.
3. Partial.
4. Restrictive.
5. Conditional.

1. Blank or general endorsement (Sections 16 and 54).

It is an endorsement when the endorser merely signs on the instrument without mentioning the name of the person in whose favour the endorsement is made. Endorsement in blank specifies no endorsee. It simply consists of the signature of the endorser on the endorsement. A negotiable instrument even though payable to order becomes a bearer instrument if endorsed in blank. Then it is transferable by mere delivery. An endorsement in blank may be followed by an endorsement in full.

Example:
A bill is payable to X. X endorses the bill by simply affixing his signature. This is an endorsement in blank by X. In this case the bill becomes payable to bearer. There is no difference between a bill or note indorsed in blank and one payable to bearer. They can both be negotiated by delivery.

2. Special or full endorsement (Section 16)

When the endorsement contains not only the signature of the endorser but also the name of the person in whose favour the endorsement is made, then it is an endorsement in full. Thus, when endorsement is made by writing the words "Pay to A or A's order," followed by the signature of the endorser, it is an endorsement in full. In such an endorsement, it is only the endorsee who can transfer the instrument.

Conversion of endorsement in blank into endorsement in full:

When a person receives a negotiable instrument in blank, he may without signing his own name, convert the blank endorsement into an endorsement in full by writing above the endorser's signature a direction to pay to or to the order of himself or some other person. In such a case the person is not liable as the endorser on the bill. In other words, the person transferring such an instrument does not incur all the liabilities of an endorser. (Section 49).

Example:
A is the holder of a bill endorsed by B in blank. A writes over B's signature the words "Pay to C or order." A is not liable as endorser but the writing operates as an endorsement in full from B to C.

Where a bill is endorsed in blank, or is payable to bearer and is afterwards endorsed by another in full, the bill remains transferable by delivery with regard to all parties prior to such endorser in full. But such endorser in full cannot be sued by any one except the person in whose favour the endorsement in full is made. (Section 55).

Example:
C the payee of a bill endorses it in blank and delivers it to D, who specially endorses it to E or order. E without endorsement transfers the bill to F. F as the bearer is entitled to receive payment or to sue the drawer, the acceptor, or C who endorsed the bill in blank but he cannot sue D or E.

3. Partial endorsement (Section 56)

A partial endorsement is one which purports to transfer to the endorsee a part only of the amount payable on the instrument. Such an endorsement does not operate as a negotiation of the instrument.

Example:
A is the holder of a bill for ₹1000. He endorses it "pay to B or order ₹500." This is a partial endorsement and invalid for the purpose of negotiation.

4. Restrictive endorsement (Section 50)

The endorsement of an instrument may contain terms making it restrictive. Restrictive endorsement is one which either by express words restricts or prohibits the further negotiation of a bill or which expresses that it is not a complete and unconditional transfer of the instrument but is a mere authority to the endorsee to deal with bill as directed by such endorsement. "Pay C," "Pay C for my use," "Pay C for the account of B" are instances of restrictive endorsement.

The endorsee under a restrictive endorsement acquires all the rights of the endoser except the right of negotiation.

Conditional or qualified endorsement

It is open to the endorser to annex some condition to his owner liability on the endorsement. An endorsement where the endorsee limits or negatives his liability by putting some condition in the instrument is called a conditional endorsement. A condition imposed by the endorser may be a condition precedent or a condition subsequent. An endorsement which says that the amount will become payable if the endorsee attains majority embodies a condition precedent. A conditional endorsement unlike the restrictive endorsement does not affect the negotiability of the instrument. It is also some times called qualified endorsement. An endorsement may be made conditional or qualified in any of the following forms:

(i) 'Sans recourse' endorsement:

An endorser may be express word exclude his own liability thereon to the endorser or any subsequent holder in case of dishonour of the instrument. Such an endorsement is called an endorsement sans recourse (without recourse). Thus 'Pay to A or order sans recourse, 'pay to A or order without recourse to me,' are instances of this type of endorsement. Here if the instrument is dishonoured, the subsequent holder or the indorsee cannot look to the indorser for payment of the same. An agent signing a negotiable instrument may exclude his personal liability by using words to indicate that he is signing as agent only. The same rule applies to directors of a company signing instruments on behalf of a company. The intention to exclude personal liability must be clear. Where an endorser so excludes his liability and afterwards becomes the holder of the instrument, all intermediate endorsers are liable to him.

Example:

A is the holder of a negotiable instrument. Excluding personal liability by an endorsement without recourse, he transfers the instrument to B, and B endorses it to C, who endorses it to A. A can recover the amount of the bill from B and C.

(ii) Facultative endorsement:

An endorsement where the endorser extends his liability or abandons some right under a negotiable instrument, is called a facultative endorsement. "Pay A or order, Notice of dishonour waived" is an example of facultative endorsement.

(iii) 'Sans frais' endorsement:

Where the endorser does not want the endorsee or any subsequent holder, to incur any expense on his account on the instrument, the endorsement is 'sans frais'.

(iv) Liability dependent upon a contingency:

Where an endorser makes his liability depend upon the happening of a contingent event, or makes the rights of the endorsee to receive the amount depend upon any contingent event, in such a case the liability of the endorser will arise only on the happening of that contingent event. Thus, an endorser may write 'Pay A or order on his marriage with B'. In such a case, the endorser will not be liable until the marriage takes place and if the marriage becomes impossible, the liability of the endorser comes to an end.

Effects of endorsement

The legal effect of negotiation by endorsement and delivery is:

1. to transfer property in the instrument from the endorser to the endorsee.

2. to vest in the latter the right of further negotiation, and

3. a right to sue on the instrument in his own name against all the other parties (Section 50).

Cancellation of endorsement

When the holder of a negotiable instrument, without the consent of the endorser destroys or impairs the endorser's remedy against prior party, the endorser is discharged from liability to the holder to the same extent as if the instrument had been paid at maturity (Section 40).

Negotiation back

'Negotiation back' is a process under which an endorsee comes again into possession of the instrument in his own right. Where a bill is re-endorsed to a previous endorser, he has no remedy against the intermediate parties to whom he was previously liable though he may further negotiate the bill.

Forged endorsement

The case of a forged endorsement is slightly different. If an instrument is endorsed in full, it cannot be negotiated except by an endorsement signed by the person to whom or to whose order the instrument is payable, for the endorsee obtains title only through his endorsement. If an endorsement is forged, the endorsee acquires no title to the instrument even if he is a bonafide purchaser. On the other hand, if the instrument is a bearer instrument or has been endorsed in blank, and there is a forged endorsement the holder gets a good title because holder in such a case derives title by delivery and not by endorsement. Bankers are specially protected against forged endorsement under section 85 of the Act.

Examples:

1. A bill is endorsed, "Pay X or order." X must endorse the bill and if his signature is forged, the bill is worthless.

2. A bill is payable to "X or order." It is stolen from X and the thief forges X's endorsement and endorses it to Y who takes it in good faith and for value. Y acquires no title to the bill.

3. A bill payable to "A or order" is endorsed in blank by A. It comes into the hands of B. B by simple delivery passes it to C. C forges B's endorsement and transfers it to D. As D does not derive his title through the forged endorsement of B, but through the genuine endorsement of A, he obtains a good title to the instrument in spite of the intervening forged endorsement.

Practical Example:

Explain whether the following persons can be called 'holder' after endorsement under Negotiable Instruments Act, 1881.
(i) Asim who obtains a cheque drawn by Bikas by way of Gift
(ii) Dilip, the payee of the cheque, who is prohibited by a court order from receiving the amount of the cheque.
(iii) Mahim, who finds a cheque payable to bearer, on the road and retains it.
(iv) Bibhu, the agent of Shakti, is entrusted with an instrument without endorsement by Shakti, who is the payee.
(v) Chandu, who steals a blank cheque of Atul and forges Atul's signature

Answer:

(i) Asim is a holder, since Asim is entitled in his own name to the possession of the cheque and to receive the amount of the cheque. But this is a gift and not an endorsement.

(ii) Dilip, is not a holder since he is not entitled since he is not entitled to recover the amount of the cheque as per court's order. This is not a valid endorsement.

(iii) Mahim, is not a holder, since the cheque was not negotiated to him; mere possession does not make a person a holder; it is the entitlement to possession which makes a person holder. Mahim is not entitled to the possession and is not entitled to receive or recover the amount of the cheque. Again it is also to be noted that a finder of a lost negotiable instrument has no right to receive the amount of the negotiable instrument.

(iv) Bibhu is not a holder, since he is entitled to the possession of the negotiable instrument, but not in his own name; he is entitled to receive the amount of the negotiable instrument, but not in his own name. Here Bibhu is entrusted with the instrument and was not endorsed.

(v) Chandu is not the holder, since he is in wrongful possession of the negotiable instrument. He is not at all entitled to the possession of the negotiable instrument and he is not entitled to receive or recover the amount on it. A cheque containing forged signature of the drawer is a nullity, and does not confer any title to any person.

DEDUCTION TO BE MADE IN COMPUTING TOTAL INCOME (CHAPTER VIA)

[Sections 80A to 80U]

Sections	Particulars	Assessee to whom allowed	Quantum of Deduction
1	2	3	4
80A/AB/AC	Basic rules of deductions	NA	NA
80C	Deduction in respect of Life Insurance Premia, Contribution to Provident Fund, etc.	Individual and HUF	Max. ₹1,50,000
80CCC	Deduction in respect of contribution to certain pension funds	Only individuals	Max. ₹ 1,00,000
80CCD	Deduction in respect of contribution to notified pension scheme of Central Government	Salaried employee or self employed individual	Employer and employee contribution not exceeding 10% of salary in each case. Maximum deduction to an employee or self employed person for his contribution limited to ₹ 1,00,000.
80CCE	Limit on deductions under sections 80C, 80CCC and 80CCD(1)	N.A.	₹ 1,50,000
80CCG	Deduction in respect of investment made in an equity saving scheme	Individual who is resident in India	50% of the amount invested or ₹25,000 whichever is less
80D	Deduction in respect of medical insurance premia	Individual or HUF whether resident or non-resident For senior citizen	In case of individual — maximum ₹15,000 + ₹15,000. In case of HUF — maximum of ₹15,000 Addl. ₹5,000

80DD	Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability	Individual or HUF resident in India	₹50,000 or ₹ 1,00,000 in case of a person with severe disability
80DDB	Deduction in respect of medical treatment, etc.	Individual or HUF resident in India For senior citizen	Max. ₹40,000 Addl. ₹20,000
80E	Deduction for interest paid on loan taken for pursuing higher education	Individual whether resident or not	Actual amount paid
80EE	Deduction in respect of interest on loan sanctioned during financial year 2013-14 for acquiring residential house property	Individual only	Maximum ₹1,00,000
80G	Deduction in respect of donations to certain funds, charitable institutions, etc.	All assessees	(a) 100% or 50% of eligible donations, without applying qualifying limit in certain cases
			(b) 100% or 50% of eligible donations, after applying Qualifying limit of 10% of adjusted GTI.
80GG	Deductions in respect of rent paid	Individual only	Maximum ₹2,000 p.m.
80GGA	Deduction in respect of certain donations for scientific research or rural development, etc.	All assessees not having business income	100% of sum donated
80GGB	Deduction in respect of contributions given by companies to political parties	Company assessee	Amount so contributed
80GGC	Deduction in respect of contributions given by any person to political parties	Any assessee other than local authority and every artificial juridical person wholly or partly funded by the Government	Amount so contributed
80-IA	Deduction in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc.	Industrial undertaking or enterprises engaged in infrastructure development, etc.	30% to 100% of profits
80-IAB	Deduction in respect of profits and gains by an undertaking a enterprise engaged in development of Special Economic Zone	Undertaking/ enterprises engaged in development of Special Economic Zone	100% of profits for 10 consecutive assessment years

80-IB	Deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development, etc.	All assesses engaged in the business of industrial undertakings/hotels/ ships/ infrastructure development/scientific and industrial research and development.	25% to 100% for prescribed no. of years
80-IC	Deduction in respect of certain undertakings or enterprises in certain special category States	All assessees deriving income from an under-takings or enterprises situated in special category States which begin manufacturing/ production between specified dates	25% to 100% of profits
80-ID	Deduction in respect of profits and gains from business of hotels in specified area or world heritage site and convention centres in specified area	All assessees deriving income from the business of hotels and convention centres in specified area	100% of the profit for 5 consecutive years
80-IE	Special provisions in respect of certain undertakings in North Eastern States	All assessees deriving income from eligible undertaking in any North Eastern States	100% of the profit for 10 consecutive years
80JJA	Deduction in respect of profits and gains from business of collecting and processing of bio degradable waste	All assessees	100%of profit for 5 years
80JJAA	Deduction in respect of employment of new workmen	Only Indian companies	30% of additional wages for 3 years
80LA	Deduction in respect of certain incomes of Offshore Banking Units	Only Scheduled Banks owning offshore banking units in a special economic zone	100% of income for first 5 years and 50% for next five years
80P	Deduction in respect of income of co-operative societies.	Co-operative societies	100% of profit but in some cases amount is fixed at ₹40,000/ ₹20,000
80QQB	Deduction in respect of royalty income, etc., of authors of certain books other than text books	Individuals who are residents in India and are authors	100% of such income or ₹3,00,000 whichever is less
80RRB	Deduction in respect of royalty on patents	Individual who is resident in India and is a patentee	100% of such income or ₹3,00,000 whichever is less
80TTA	Deduction in respect of interest on deposits in saving accounts	Individual or HUF	Maximum ₹10,000

80U	**Deduction in the case of a person with disability**	**Resident individuals**	**₹50,000 in case of a person with disability and ₹1,00,000 in case of a person with severe disability**

WORK SAMPLING OR ACTIVITY SAMPLING OR RATIO- DELAY METHOD

Work sampling is the statistical technique for determining the proportion of time spent by workers in various defined categories of activity (e.g. setting up a machine, assembling two parts …etc.)

Work Sampling is a work measurement technique that randomly samples the work of one or more employees at periodic intervals to determine the proportion of total operations that is accounted for in one particular activity.

These studies are used to estimate the percentage of time spent by the employees in unavoidable delays (called ratio-delay studies), repairing finished products from an operation and supplying material to an operation.

In a work sampling study, a large number of observations are made of the workers over an extended period of time. For statistical accuracy, the observations must be taken at random times during the period of study, and the period must be representative of the types of activities performed by the subjects.

One important usage of the work sampling technique is the determination of the standard time for a manual manufacturing task. Similar techniques for calculating the standard time are time study, standard data, and predetermined motion time systems.

Work Sampling Technique

- To estimate the percentage of a protracted time period consumed by various activity states of a resource such as equipment, machines or operators.
- To determine the allowances for inclusion in standard times.
- To indicate the nature of the distribution of work activities within a gang operation.
- To estimate the percentage of utilization of groups of similar machines or equipment.
- To indicate how materials handling equipments are being used.
- To provide a basis for indirect labour time standards.
- To determine the productive and non productive utilization of clerical operations.
- To determine the standard time for a repetitive operation as an attention to stop watch method.

Work Sampling over Conventional Work Measurement Methods

- ✓ Economical to use and usually costs considerably less than a continuous time study.
- ✓ Can be used to measure many activities that are impractical to measure by time study.
- ✓ Not necessary to use a trained work measurement analyst to make the observations.
- ✓ Work sampling measurements may be made with a pre-assigned degree of reliability.
- ✓ Measures the utilization of people and equipment directly.
- ✓ Eliminates the necessity of using stop watch for measurements.
- ✓ Provides observation over a sufficiently long period of time to decrease the chance of day to day variation affecting the results.

- Statistical work sampling may not be understood by workers.
- If random sampling is not done, the results may be biased.
- It is of little value in helping to improve work methods and doesn't offer some of the opportunity for method analysis that accompanies time study methods.

Five steps are involved in making a work-sampling study:

1. Identify the specific activity or activities that are the main purpose for the study. For example, determine the percentage of time that equipment is working, idle, or under repair.
2. Estimate the proportion of time of the activity of interest to the total time (e.g. that the equipment is working 80 percent of the time).
3. State the desired accuracy in the study results.
4. Determine the specific times when each observation is to be made.
5. At two or three intervals during the study period, recomputed the required sample size by using the data collected thus far. Adjust the number of observations if appropriate.

Number of observations is obtained from the formula $E = Z\sqrt{\frac{p(1-p)}{N}}$

The required sample (N) is obtained from the formula $N = \frac{Z^2 p(1-p)}{E^2}$

A work sampling study is to be made of a typist pool. It is felt that typists are idle 30 percent of the item. How many observations should be made in order to have 95.5% confidence that accuracy is within $\pm$ 4%.

Number of observations required for $N = \frac{C^2 pq}{E^2}$

Work sampling study, Where C = constant depending on confidence level

p= percentage of being idle

q= percentage of being activity

E= error

C= 2 for 95.5% confidence level

p=0.3

q= 1-p= 0.7

E= $\pm$4%

$$N = \frac{4 \times 0.3 \times 0.7}{(0.04)^2} = \frac{0.84}{0.0016} = 525$$

In a work sampling study, a mechanic was found to be idle for 20% of the time. Find out the number of observation needed to conform to the above figures with a confidence level of 95% and a relative error level by $\pm$5%.

Answer

Number of observation required, $N = \frac{C^2 pq}{E^2}$

E= absolute error = s × p where s is the relative error

p = percentage of idling

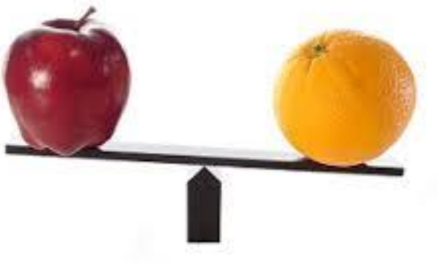
q = percentage of activity = 1-p

C= constant depending on confidence level

C = 2 for 95% confidence level.

$$N = \frac{4 \times 0.2 \times 0.8}{(0.05 \times 0.2)^2} = \frac{0.64}{0.0001} = 6,400$$

STANDARD COSTING



Is Standard costing a method of Costing?

Standard costing is one of the cost control techniques and not a method of costing like job costing, or process costing.

Standard: Standard means a criterion or a yardstick against which actual activity can be compared to determine the difference between the two.

Standard Cost: Standard costs are the expected costs of manufacturing the product.

Standard costs are used as target costs (or basis for comparison with the actual costs), and are developed from historical data analysis or from time and motion studies. They almost always vary from actual costs, because every situation has its share of unpredictable

Features of Standard Cost

- Standard cost is a pre-determined or pre planned cost. The meaning of this is, standard cost is decided even before the commencement of production. For instance, if a firm is planning to launch a product in 2015, the standard cost of similar will be determined in 2014.
- Standard cost is not an estimated cost. There is a variation among saying what would be the cost and what should be the cost. Standard cost is a planned cost and it is a cost that should be the actual cost of production.
- It is computed after taking into consideration the management's standard of efficient operation. So standard cost fixed on the supposition of 80% efficiency will be not similar from what it will be if the assumption is of 90% efficiency.

- Standard cost can be employed as a basis for price fixation and for exercising control over the cost. Standard Costing is a method of costing rather than a technique and has the following features:

Standard Costing: Standard costing is the establishment of cost standards for activities and their periodic analysis to determine the reasons for any variances. Standard costing is a tool that helps management account in controlling costs.

For example, at the beginning of a year a company estimates that labour costs should be ₹2 per unit. Such standards are established either by historical trend analysis of the cost or by an estimation by any engineer or management scientist. After a period, say one month, the company compares the actual cost incurred per unit, say ₹2.05 to the standard cost and determines whether it has succeeded in controlling cost or not.

This comparison of actual costs with standard costs is called variance analysis and it is vital for controlling costs and identifying ways for improving efficiency and profitability. If actual cost exceeds the standard costs, it is an unfavorable variance. On the other hand, if actual cost is less than the standard cost, it is a favorable variance.

Variance analysis is usually conducted for

- Direct material costs (price and quantity variances);
- Direct labor costs (wage rate and efficiency variances); and
- Overhead costs.

Analysis of variance in planned and actual sales and sales margin is also vital to ensure profitability.

On the basis of the above definition, the steps involved in the techniques of standard costing are as follows:

Step 1

Fixation of relistic (i.e, attainable) standards for each element of cost, i.e. material. labour and overhead

↓

Step 2

Comparison of the actual cost with the standard cost find out the difference between the two known as variance. A variance which increases profit is called favourable and which decreases the profit is called unfavoursable or adverse.

↓

Step 3

Analysis of variances to ascertain the reasons for the variances.

↓

Step 4

Presentation of information to the appropriate level of management to decide upon the corrective action to be taken.

Applicability of Standard Costing

- A sufficient volume of standard products or components is produced.
- Methods, operations and processes are capable of being standardized.
- A sufficient number of costs are capable of being controlled.

- ❖ A standard costing is a rule of measurement established by authority, which provides a yardstick for performance evaluation.
- ❖ Standard costing system minimizes the wastage by detecting variance and suggesting for corrective actions.
- ❖ Under the standard costing system, cost centers are established and responsibility is assigned to the concerned departments and persons and thus it helps to increase the effective delegation of authority.
- ❖ A properly developed standard costing system with full participation and involvement creates a positive, cost effective attitude through all levels of management.
- ❖ The standard system encourages reappraisals of methods, materials and techniques that help to reduce the unfavorable variances.
- ❖ The standard costing system helps to draw management's attention towards those items which are not proceeding according to plan.

- ❖ Standard costing system may be tedious, expensive and time consuming to install and keep up to date.
- ❖ The standard costing system controls the operating part of an organization only as it ignores the other items like quality, lead-time, service, customer satisfaction and so on.
- ❖ The standard costing system will become less useful in modern factories where the just in time principles are adopted.
- ❖ The standard costing system may not be applicable in case of small firms as it requires high degree of skill.

- The standard costing may not be very effective in those organizations where non-standardized products are manufactured and services are rendered.

Reasons for using a Standard Costing System

- Cost Control
- Smooth out short-term fluctuations in direct costs
- When actual overhead rates are used, production volume of each product affects the reported costs of all other products
- Costing systems that use budgeted data are economical:

Setting of Standards

Standard cost is the key to the system of standard costing. Standards are set for, each element of cost, i.e. Material, Labour, Overhead as follows:

Standards	Who sets Standard?	Considerable Factors
I. Direct Material Standards (a) Material Price Standards	**Purchase Department**	**1. Current Market price. 2. Market Conditions 3. Forecasts of Price Trends. 4. Discount, Packing and delivery charges etc.**
(b) Material Usage Standard	**Engineering Department & Production Deptt.**	**1. Quality of Material. 2. Quantity of Material. 3. Normal Material Losses like evaporation shrinkage, breakage etc.**
II. Direct Labour Standards (a) Labour Rate Standard	**Personnel Department**	**1. Current Rates of Pay 2. Current Method of Wage Payment. 3. Forecast of wage trends.**

(b) Labour Efficiency Standard	**Engineering Department**	**1. Grade of Labour. (Skilled /semi-skilled/un-skilled)** **2. Standard time for each operation** **3. Most efficient method of working.** **4. Normal Idle time like fatigue, tool setting etc.**
III. Standard for Overheads	**Engineering Department,** **Personnel Department,** **Purchase Department,** **Administrative Deptt.** **Selling & Distribution Department**	**1. Standard Indirect Material costs.** **2. Standard Indirect Labour costs.** **3. Standard Indirect Expenses** **4. Standard level of activity such as Standard Hours, Standard Production . (in units)** **5. Fixed overheads.** **6. Variable overheads.**

PROCEDURAL COMPLIANCE: REGISTRATION UNDER SERVICE TAX LAW

As per sub-section (1) of section 69 of the Finance Act, 1994, every person liable to pay the service tax under this chapter or the rules made there under shall, within such time and in such manner and in such form as may be prescribed, make an application for registration to the Superintendent of Central Excise.

As per sub-section (2) of section 69 of the Finance Act, 1994, the person or class of persons notified under sub-section (2) of section 69, shall furnish to the Superintendent of Central Excise, a return in such form and in such manner and at such frequency as may be prescribed.

Normally service providers are liable for registration. However, in respect of certain services, the service receiver will be liable for service tax. In those cases, the service receiver must register himself under the service tax. Every person liable to pay service tax must mandatorily make an application in the form ST-1 for registration to the designated Superintendent of Central Excise.

Special category of persons for registration: (i) Service Tax Registration is required if the taxable turnover of the service provider from all his premises during the previous year exceeds ₹ 9 lakhs.
(ii) The service provider is acting as an input service distributor irrespective of his turnover.

Small Service Provider Exemption:
Service tax law provides for an exemption to small service providers who provide taxable services of a value not exceeding the specified limit. The specified limit is now ₹ 10 lakhs. In other words where the value of taxable services provided do not exceed ₹ 10 lakhs in the previous financial year, the concerned service provider would not be required to pay service tax upto receipts of ₹ 10 lakhs in the current financial year. The exemption is through notification 6/2005 ST dated 01.03.05 as amended from time to time.

Time limit for making an application:

Cases	Time Limit to Obtain Registration
In case of new levy: where service tax has been levied for the first time on the service provided by the service provider —	Within 30 days from the date on which the levy of service tax is brought into force in respect of the relevant services.
In case of new business: where the tax on service has already been levied and the person commences his business subsequently —	Within 30 days of the commencement of business of providing such service.
In case of input service distributor —	Within 30 days of the commencement of business.
In case of small service provider —	Within 30 days from the date when his aggregate

	value of taxable services exceeds ₹ 9 lakhs in the financial year.

Submission of application: The application should be submitted to the Superintendent of Central Excise or such other person notified by the Central Government, having jurisdiction over the place of business of the service provider.

Documents to be submitted along with registration application: The Central Board of Excise and Customs may, by an order, specify the documents which are to be submitted by the assessee along with the application within such period, as may be specified in the said order. The CBEC has, vide M.F. (D.R.) Order No. 2/2011-ST, dated 13.12.2011, specified the following documents:

(i) Copy of Permanent Account Number;

(ii) Proof of residence;

(iii) Constitution of the applicant;

(iv) Power of Attorney in respect of authorised person(s).

Application to be rejected if documents not submitted within 15 days: The above documents must be submitted to the concerned authority within a period of 15 days from the date of filing of the application for registration. Failure to do so would lead to rejection of the registration application.

Centralised registration, if centralised billing or accounting system exists: As per Rule 4(2) of the Service Tax Rules, 1994 **where** a person, liable for paying service tax on a taxable service —

(i) provides such service from more than one premises or offices; or

(ii) receives such service in more than one premises or offices; or,

(iii) is having more than one premises or offices, which are engaged in relation to such service in any other manner, making such person liable for paying service tax, and has centralised billing system or centralised accounting system in respect of such service, and such centralised billing or centralised accounting systems are located in one or more premises, he may, at his option, register such premises or offices from where centralised billing or centralised accounting systems are located.

Registration in case of Multiple Services: One application for registration is enough even though the service provider is providing or provides multiple services. Registration is not granted service wise but assessee wise. All services can be mentioned in one ST-1 form and the same can be submitted in the office of the Superintendent of Central Excise.

If the applicant has already registered for one service, but subsequently becomes liable for another category of service, he should get his certificate endorsed for the other category of service.

Penalty for Non- registration: As per section 77 of the Finance Act, 1994, if Any person who is liable to pay service tax or required to take registration, fails to take registration in accordance with the provisions of section 69 or rules under service tax provision shall be liable to a penalty which may extend to ten thousand rupees.

FORFEITURE OF SHARE

If a shareholder fails to pay the allotment money or/and call money on his shares as called upon by the directors, his shares may be forfeited by the directors, if they are so authorized by the Articles of Association.

Particulars	Dr. (₹)	Cr.(₹)
For forfeiture of shares:	XXXX	XXXX
Share Capital A/c Dr.	XXXX	XXXX
(No. of shares forfeited × Called up value per share)		
Securities Premium A/c Dr.		
(if issued at premium and premium not received)		
To, Calls - in- Arrear A/c		
(amount not received on forfeited shares)		
To, Share Forfeited A/c		
(amount received on forfeited shares)		
For reissue of forfeited shares	XXXX	XXXX
Bank A/c (No. of shares reissued × reissue price/share) Dr.	XXXX	XXXX
Share Forfeited A/c (No. of shares × further discount on reissue) Dr.		
To, Share Capital A/c		
(No. of shares reissued × paid up value per share)		
To, Securities Premium A/c (if reissued at a premium)		
For transferring profit on reissue of forfeited shares	XXXX	XXXX
Shares Forfeited A/c Dr.		
To, Capital Reserve A/c		

Example:

The following was the Balance Sheet (draft) of Imaan Developers Ltd., as on 31st March 2015:

Liabilities		₹	**Assets**		₹
Authorised capital :			Goodwill		10,000
20,000 Equity Shares of			Land and buildings		20,500
₹10 each		2,00,000	Machinery		50,850
Issued, subscribed and			Stock		10,275
paid up capital			Book debts		15,000
12,000 Shares of			Cash at bank		1,500
₹10 each	1,20,000		Profit and Loss A/c :		
Less: Calls in arrear			Balance as per last		
(₹3 per share			Balance Sheet	23,500	
on 3,000 shares)	(9,000)		Less: Profit for the year	(1,200)	22,300
		1,11,000			
Sundry creditors		15,425			
Provision for taxation		4,000			
		1,30,425			**1,30,425**

The directors have had a valuation made of the machinery and find it overvalued by ₹ 10,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and loss account and to write off goodwill and preliminary expenses, by the adoption of the following course:

i. Forfeit the shares on which the call is outstanding.
ii. Reduce the paid up capital by ₹ 3 per share.
iii. Reissue the forfeited shares at ₹ 5 per share.
iv. Utilise the provision for taxes, if necessary.

The shares on which the calls were in arrear were duly forfeited and reissued on payment of ₹ 5 per share. You are requested to draft the journal entries necessary after carrying out the terms of the scheme as set above.

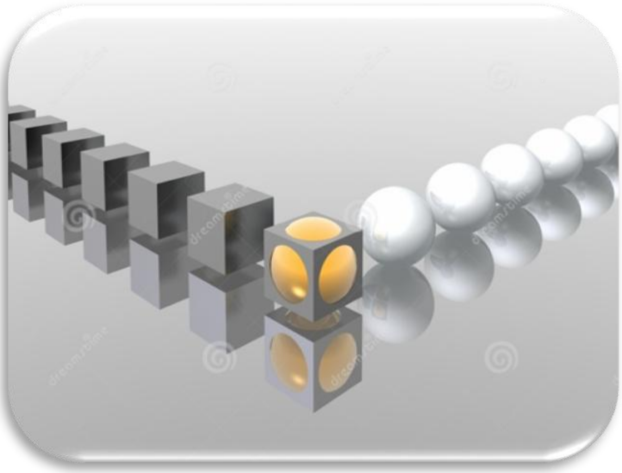
Solution:

Journal Entries

Particulars		**Debit** ₹	**Credit** ₹
1. Forfeiture of 3,000 shares :			
Equity Share Capital A/c	Dr.	30,000	
To Calls in arrears A/c			9,000

To Share forfeiture A/c			21,000
2. Reduction of capital			
Equity Share capital (Face value - ₹ 10)	Dr.	90,000	
To Equity Share capital (Face value ₹ 7) A/c			63,000
To Reconstruction A/c			27,000
3. Re-issue of forfeiture shares :			
Bank A/c	Dr.	15,000	
Shares Forfeiture A/c	Dr.	6,000	
To Equity Share Capital A/c			21,000
4. Transfer of unutlised balance in share forfeiture A/c to Capital Reserve			
Shares Forfeiture A/c	Dr.	15,000	
To Capital Reserve			15,000
5. Utilisation of Reconstruction A/c			
Reconstruction A/c	Dr.	27,000	
Capital Reserve A/c	Dr.	15,000	
Provision for Tax A/c (Balancing Figure)	Dr.	300	
To Profit and Loss A/c			22,300
To Machinery A/c			10,000
To Goodwill A/c			10,000

WHETHER TO APPLY POOLING INTEREST METHOD OR PURCHASE METHOD WHILE SOLVING ANY PROBLEM ON AMALGAMATION, WHEN NO METHOD IS MENTIONED:



AS – 14 (Accounting for Amalgamation) is applicable to determine the exact type of amalgamation.

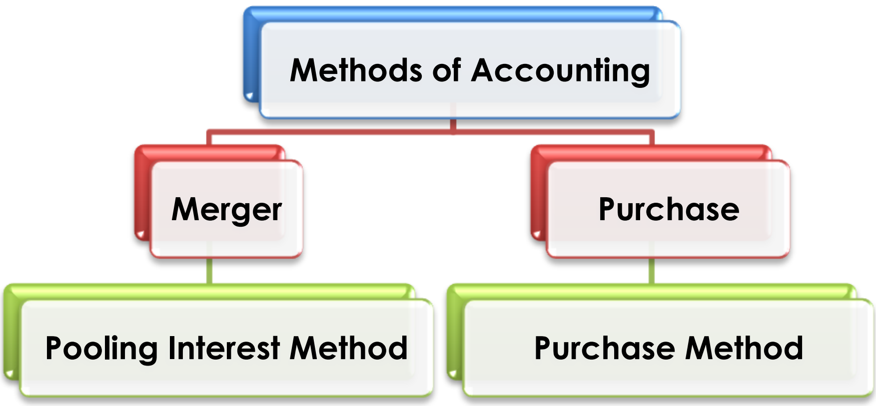
Types of Amalgamation

Amalgamation in the nature of Merger- the following conditions are required to be satisfied:

- All the assets and liabilities of the transferor company are taken over by the transferee company;
- The shareholders holding at least 90% or more of the equity shares of transferor company become the equity shareholder of the transferee company (shares already held by the transferee and its subsidiary are not considered);
- Consideration is paid in shares by the transferee to the shareholders of the transferor (fractional shares can be paid in cash)
- Business of the transferor is carried on by the transferee
- No adjustment is made in the book values of the assets and liabilities of the transferor company by way of revaluation or otherwise except the adjustments to ensure uniformity of accounting policies.

Amalgamation in the nature of Purchase – If any of the above conditions is not satisfied amalgamation will be treated to be in the nature of Purchase.

Method of Accounting is clearly based on the type of amalgamation.



In case of **Merger – Pooling Interest Method** is applied and in case of **Purchase – Purchase Method** is applicable.

For example:

P Ltd. and Q Ltd. amalgamated on and from 31st March, 2015. A new Company C Ltd. was formed to take over the businesses of the existing companies.

Balance Sheet as on 31.03.2015 (₹ in '000)

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Shareholders' Funds:			Non-Current Assets:		
Share Capital			Fixed Assets	85,000	75,000
Equity shares of ₹100 each	60,000	70,000			
Reserves and Surplus			Non-current Investments		
General Reserve	15,000	20,000	Investments	10,500	5,500
Investment Allowance Reserve	5,000	1,000			
Profit & Loss Account	10,000	5,000	Current Assets:		
Export Profit Reserve	500	1,000	Stock	12,500	27,500
			Sundry Debtors	18,000	40,000
Non-Current Liabilities:			Cash and Bank	4,500	4,000
12% Debentures	30,000	40,000			
Current Liabilities:					
Sundry Creditors	10,000	15,000			
Total	1,03,500	1,52,000	Total	1,03,500	1,52,000

C Ltd. issued requisite number of equity shares to discharge the claims of the equity shareholders of the transferor companies; The total shares issued as consideration is to be aggregate of paid up capital of P Ltd. and Q Ltd.

Compute the Purchase Consideration and mode of discharge thereof and draft the Balance Sheet of C Ltd. after amalgamation.

To be solved applying —
This problem will be solved applying **Pooling Interest** Method as :
(i) Assets and Liabilities are taken over at their book value and
(ii) Purchase consideration is paid in equity shares

Example:

The following are the Balance Sheets of F Ltd. and T Ltd. for the year ending on 31st March, 2015.

(Figures in Crores)

Liabilities	F Ltd. ₹	T Ltd. ₹	Assets	F Ltd. ₹	T Ltd. ₹
Shareholders' Funds:			Non-Current Assets:		
Share Capital			Fixed Assets at Cost		
Equity shares of ₹10 each	50	40	Less: Depreciation	150	150
12% Preference Shares of ₹100 each	-	60			
Reserves and Surplus	200	150	Other Current Assets	400	400
Current Liabilities					
Current Investments	100	100			
Other Current Liabilities	200	200			
Total	**550**	**550**	**Total**	**550**	**550**

Note: Secured Loan is repayable within 12 months.

The present worth of Fixed assets of F Ltd. is ₹ 200 crores and that of T Ltd. is ₹ 450 crores. Goodwill of F Ltd. is ₹ 40 crores and of T Ltd. is ₹ 75 crores.
T Ltd. absorbs F Ltd. by issuing equity shares at par in such a way that intrinsic net worth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

(a) Show the Balance Sheet after absorption.
(b) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings.

To be solved applying —

In case of this problem consideration is discharged in equity shares but and only the fixed assets are to appear at their old value, hence the problem can be solved applying Purchase method.

Example:
The Balance Sheets of S Ltd. and H Ltd. as on 31.03.2015 were as follows.

(₹ in Lakhs)

Liabilities	S Ltd. ₹	H Ltd. ₹	Assets	S Ltd. ₹	H Ltd. ₹
Shareholders' Funds:			Non-Current Assets:		
Share Capital			Fixed Assets at Cost	200	75
Equity shares of ₹10 each	80	25	Less: Depreciation	100	50
				100	25
Reserves and Surplus	400	75	Non-current Investments:		
			Investments in H Ltd. 2 Lakhs		
Non-Current Liabilities			Equity Shares of ₹ 10 each	32	-
10% 25,000 Debentures of ₹100 each	-	25	at cost		
			10% 25,000 Debentures of ₹100 each at cost	24	
Current Liabilities					
Other Current Liabilities	476	200	Current Assets:	800	300
Total	**956**	**325**	**Total**	**956**	**325**

In a scheme of absorption duly approved by the Court, the assets of 'H' Ltd. were taken over at an agreed value of ₹ 130 lakhs. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in S Ltd. at a premium of ₹ 90 per share in satisfaction of other claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹ 40 lakhs.

The scheme was put through on 1st April, 2015.

(a) Journal Entries in the books of 'S' Ltd.
(b) Show the balance of 'S' Ltd. after absorption of 'H' Ltd.

To be solved applying —
In the above case the amalgamation is in the nature of Purchase and it will be treated accordingly, as the assets are revalued.

If there is anything mentioned as:

- **block of assets were valued at 10% over their book value or, value of the assets are appreciated by any percentage**
- **The Fixed assets were to be taken at the value placed on them by an independent valuer**
- **The stocks of the transferor were to be reduced by any amount because of obsolete items**
- **Debtors and creditors are to be taken at above or below their book value**
- **Goodwill was to be valued at two years' purchase of the average profits of the last three years subject to some adjustments or, there is given any other value/way to value the goodwill etc.**

Purchase Method will be applicable but if it is mentioned that all the assets and liabilities are taken at their book value the problem will be solved applying Merger method.