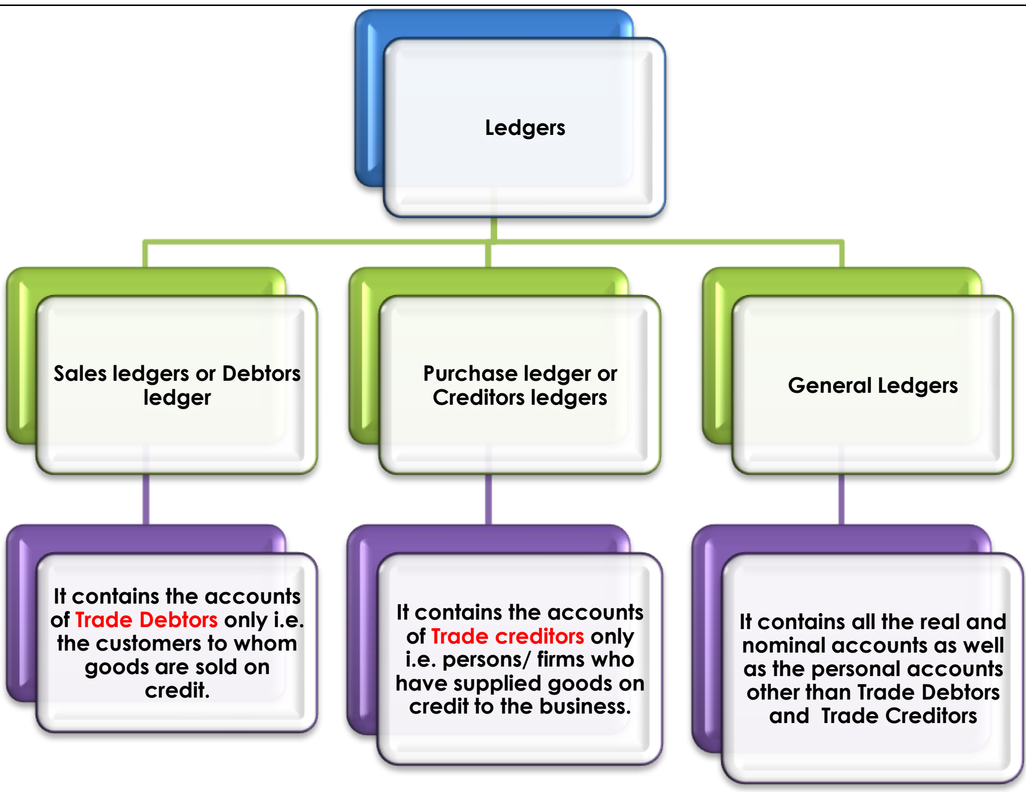
CMA Students Newsletter (For Intermediate Students)

Vol.11B: July 15, 2015

SELF BALANCING LEDGERS

Need for self Balancing	In a big business organization the numbers of accounts are quite large. Therefore, instead of maintaining all the accounts in one ledger, these are maintained in different ledgers. These accounts are to be maintained by adopting any one of the following two systems: (1)Self -Balancing System (2)Sectional Balancing System
Division of Ledgers	
Advantages	**Following are the advantages of Self Balancing:** 1. It is easy to locate mistake if ledgers are kept on self-balancing system. 2. A complete trial balance can be compiled before the individual personal ledger balances are abstracted. 3. It is possible to ascertain the accuracy of posting of each ledger independently. 4. Where it is not desired to reveal the content of the private ledger to the clerical staff the balances on this ledger can be incorporated in total in the trial balance. 5. It is instrumental in strengthening the internal check.
Examples	In case of Banking companies ,separate ledgers are maintained each for Saving Bank Account Holders, Current Account Holders, Borrowers, Fixed Depositors.

Difference between Self and Sectional Balancing

Both self balancing ledgers and sectional balancing ledgers serve the same purpose. Under both the system control accounts have to be prepared. However there are certain points of distinction between the two systems which can be described as follows:

Self Balancing Ledgers	Sectional Ledger
Control accounts are prepared in all the ledgers. In the general ledger, debtors' ledger adjustment account and creditors' ledger adjustment account are prepared.	Control accounts are prepared in general ledger only. The name of these control accounts are total debtors accounts and total creditors account. Personal ledgers namely debtors ledger and creditors ledger have no control account.
A trial balance can independently be prepared from each one of the ledgers.	A trial balance can be prepared only from the General Ledger.
All the ledgers from part of double entry system.	Double entry system is completed in the General ledger only.

Give some Example for your understanding.

Example 1:

The following is a summarized analysis of the accounts of the outstanding debtors of a firm at the date of the annual closing as appearing in one of their ledger:

Debtors	Goods Sold during the year ₹	Goods returned during the year ₹	Cash and Cheque received during the year ₹	Discount Allowed during the year ₹	Bills of Exchange received during the year ₹
A	2,763	--	1,500	--	1,000
B	6,514	23	3,200	130	3,500
C	3,987	15	2,000	40	2,200
D	5,762	--	4,100	--	--
E	9,385	117	6,300	93	3,500
F	8,426	--		--	2,300
G	4,931	82	2,200	49	3,800

There was an outstanding balance of the debtors to the extent of ₹ 3,985 at the beginning of the year. Out of the above receipts, a bill for ₹ 700 given by B was dishonoured and the charges amounted to ₹ 5. Show how would you proceed to agree the Trial Balancing according to Self-Balancing System.

Solution:

In the General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	3,985	By General Ledger Adjustment A/c:	
To General Ledger Adjustment A/c :		- Cash and Cheque	25,200
- Sales	41,768	- Discount Allowed	312
- Bills Dishonoured	700	- Bills Receivable	16,300
- Charges	5	- Returns inward	237
		By Balance c/d	4,409
	46,458		**46,458**
To Balance b/d	**4,409**		

In the Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Debtors Ledger Adjustment A/c:		By Balance b/d	3,985
- Cash and Cheque	25,200	By Debtors Ledger Adjustment A/c:	
- Discount Allowed	312	- Sales	41,768
- Bills Receivable	16,300	- Bills Dishonoured	700
- Returns Inward	237	- Charges	5
To Balance c/d	4,409		
	46,458		**46,458**
		By Balance b/d	**4,409**

Example 2

From the following particulars, prepare the Creditors Ledger Adjustment Account as it would appear in General Ledger and General Ledger Adjustment Account as it would appear in creditors' ledger for the year ended 31st March 2015:

Particulars	Amount (₹)
Sundry Creditors (01.04.2014) [Cr.]	**60,000**
Do [Dr.]	**2,000**
Purchase (Including Cash Purchase ₹ 10,000)	**70,000**
Return Outward	**10,000**
Cash and Cheques paid to creditors	**30,000**
Discount allowed by creditors	**6,000**
Trade Discount	**1,000**
Price reduction allowed on damaged goods	**2,000**
Bills Receivable endorsed to creditors	**5,000**
Bills Payable issued during the year	**8,000**
Bills payable matured	**1,000**
Bills payable dishonoured	**2,000**
Bills Payable renewed	**1,000**
Interest on Bills payable renewed	**50**
Sundry charges paid for dishonor of bills payable	**50**
Total set –off in Debtors	**4,000**
Sundry Creditors (on 31.03.1986) [Dr.]	**1,000**
Do [Cr.]	**55,100**

Solution:

In the General Ledger
Creditors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2014			2014		Rs.
April 1	To Balance b/d	2,000	Apr 1	By Balance b/d	60,000
2015			2015		
Mar.31	To General Ledger Adjustment A/c:		Mar 31	By General Ledger Adjustment A/c:	
	- Returns Outward	10,000		- Purchases	60,000
	- Cash and Cheque	30,000		- Bills payable Dishonoured	2,000
	- Discount Received	6,000		- Interest	50
	- Allowances	2,000		- Sundry Charges	50
	- Bills Receivable	5,000			
	- Bills Payabke	8,000			
	- Bills Payable (renewed)	1,000			
	- Transfer	4,000			
	To Balance c/d	55,100		By Balance c/d	1,000
		1,23,100			1,23,100
2015			2015		
Apr 1	To Balance b/d	1,000	Apr 1	By Balance b/d	55,100

In the Creditors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2014			2014		
April 1	To Balance b/d	60,000	Apr 1	By Balance b/d	2,000
2015			2015		
Mar.31	**To General Ledger Adjustment A/c:**		Mar 31	**By General Ledger Adjustment A/c:**	
	- Purchases	60,000		- Returns Outward	10,000
	- Bills payable Dishonoured	2,000		- Cash and Cheque	30,000
	- Interest	50		- Discount Received	6,000
	- Sundry Charges	50		- Allowances	2,000
				- Bills Receivable	5,000
				- Bills Payabke	8,000
				- Bills Payable (renewed)	1,000
				- Transfer	4,000
	To Balance c/d	1,000		By Balance c/d	55,100
		1,23,100			**1,23,100**
2015			2015		
Apr 1	To Balance b/d	55,100	Apr 1	By Balance b/d	1,000

Notes:

1. Cash Purchase will not appear in creditors' ledger.
2. Bills Payable matured will also not affect creditors' ledger.

Example 3.

Rectify the following errors under self-balancing system—

- **Sales Books was undercast by ₹100.**
- **Goods sold to Mr. X for ₹ 1,000 was recorded in the books as ₹ 100.**
- **Goods purchased from Mr. B for ₹ 500 was posted to C's Account as only ₹ 50.**
- **Debit balance of ₹ 100 in P's account in sales ledger was set-off against his account in the creditors' ledger.**
- **Purchased a Plant for ₹ 4,000 passed through the invoice book.**

Solution:

Date	Particulars		Dr. ₹	Cr. ₹
	(a) (i) Suspense A/c To Sales A/c (It rectified the Sales A/c)	Dr.	100	 100
	(ii) Debtors Ledger Adjustment A/c (In General Ledger) To General Ledger Adjustment A/c (In Debtors Ledger) (Sales book was undercast)	Dr.	100	 100
	(b) (i) Mr. X A/c Dr. To Sales A/c (It rectifies the under casting)	Dr.	900	 900
	(ii) Debtors Ledger Adjustment A/c (In General Ledger) To General Ledger Adjustment A/c (In Debtors Ledger) (Undercasting affects the total)	Dr	900	 900
	(c) (i) Suspense A/c C's A/c To B's A/c (Since it does not affect the total, 2nd type of entry is not needed. Only C and B's accounts are to be corrected)	Dr Dr.	450 50	 500
	(d) (i) P (In C.LA) A/c To P (D.L.A) A/c (It makes the transfer effective) (ii) Creditors Ledger Adjustment A/c (In general Ledger) To General Ledger Adjustment A/c (In Creditors Ledger) (iii) General Ledger Adjustment A/c (In Debtors Ledger) To Debtors Ledger Adjustment A/c (In General Ledger) (Transfer from one ledger to another affects both the ledger and, as such, 2nd type of entries are needed)	Dr. Dr. Dr.	100 100 100	 100 100 100

	(e) (i) Plant A/c	Dr.	4,000	
	To Purchase A/c			4,000
	(Purchase of Plant wrongly debited to Purchase A/c, now rectified)	Dr.	4,000	
	(ii) Party A/c			4,000
	(In Creditors Ledger)			
	To Party A/c (In General Ledger)			
	(It closes the supplier's account in creditors ledger and response his account in General Ledger)	Dr.	4,000	
	(iii) Creditors Ledger Adjustment A/c			4,000
	(In General Ledger)			
	To General Ledger Adjustment A/c (In creditors ledger)			
	(It cancels the old entry)			

SALE OF GOODS ACT, 1930

The sale of goods is the most common of all commercial contracts. A knowledge of its main principles is of the utmost importance. Contracts of sale of goods are subject to the general legal principles applicable to contracts, such as offer and acceptance, capacity of the parties, free consent, consideration and legality of object.

Sale and Agreement to sell u/s 4

Where under a contract of sale, the property in goods is transferred from the seller to the buyer, the contract is called "Sale". But where the transfer of the property in goods is to take place at a future time or subject to some conditions thereafter to be fulfilled, the contract is called "agreement to sell". This may be explained as follows:

1. A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price. There may be a contract of sale between one part-owner and another.
2. A contract of sale may be absolute or conditional.
3. Where under a contract of sale the property in the goods is transferred from the seller to the buyer, the contract is called a sale, but where the transfer of the property in the goods is to take place at a future time or subject to some condition thereafter to be fulfilled, the contract is called an agreement to sell.
4. An agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred.

What are "Goods"

Goods is defined, as per section 2(7) of the Act.

To be classified as goods, two conditions are required to be met

(i) It must be movable property
(ii) It should not be actionable claim and money

Explanations:

Must be a moveable property:
Growing crops, grass and things attached to or forming part of the land are not goods by themselves unless they are agreed to be severed before sale. If they are not to be cut or severed from the land they are not goods. Trade mark, copy right, patents, goodwill, electricity, water, gas etc have been treated goods as per various judgments.

Should not be actionable claim:
Actionable claims and money excluded from the definition of goods. Actionable claim has not been defined in the Act. As per section 3 of the Transfer of Property Act, 'an actionable claim means a claim to any debt or any beneficial interest in moveable property not in possession'. It is something which can only be enforced in a court of law. A debt due from one person to another is an actionable claim as the same cannot be brought or sold.

Should not be money:
Money means current currency note and not old rate currency coins which are considered to be goods.

Price

- The 'price' in a contract of sale means the money consideration for sale of goods [Sec. 2(10)].
- Unless goods are sold for some price there cannot be sale.
- Transfer of ownership without any consideration is not a sale but merely a gift. Goods must be sold for some price.
- In a contract of sale 'price' is the consideration for sale of goods and is expressed in terms of money.
- It forms an essential part of contract and any contract of sales/agreement to sell without price is void ab initio.
- The price can be partly in money terms and partly in goods.
- Where goods are exchanged for goods, it is not a case of sale but a case of barter which is not within the scope of this Act.
- Similarly if there is no price, it is not a sales but a case of gift.
- If any consideration other than money is given/ to be given for the goods purchased/sold it is not a case of sale.

How price can be ascertained

The Act provides different ways in which price can be ascertained. Provisions regarding determination of price are contained in section 9 and 10 of the Act.

(a) The price in a contract of sale may be fixed by the contract or may be left to be fixed in manner thereby agreed or may be determined by the course of dealing between the parties. [Sec 9(1)]

(b) Where the price is not determined in accordance with the foregoing provisions, the buyer shall pay the seller a reasonable price. What is a reasonable price is a question of fact dependent on the circumstances of each particular case. [Sec 9(2)]

Thus, we can say that as per section 9 of the Act, the parties to the contract has **four ways of fixing price**:

- Fixing in the contract itself,
- In a manner of fixation provided in the contract itself,
- Or to be fixed in the course of dealing between the parties
- Where the price cannot be determined in any of the above manner the buyer is required to pay a reasonable price.

It may further be noted that where the price is agreed to be whatever the sum the seller is offered by the third party or buyer or where the price is left to be fixed by one of the party to the contract like buyer or seller only the agreement would be uncertain as to the price and would be void to that extent.

Agreement to sell at valuation:

As per section 10 the parties may agree to sell and buy the goods on terms and condition that the price is to be fixed by the valuation of a third party. Quite possible if the third party fails to determine the price the contract becomes void. But if the third part is prevented by any party to the contract from fixation of price the aggrieved party may file a suit for damages against the party in default.

Earnest

Quite often in a contract of sale the buyer may give some tangible thing as a token of good faith as a guarantee or security for the due performance of the contract. This is known as earnest. If the contract is duly performed, the earnest is returned or it may be adjusted with the purchase price, in case it is in form of money. If the contract is not, or cannot be, performed through the default of the buyer, the buyer forfeits the earnest, unless otherwise agreed.

Practical Examples:

Question 1:

Arvind sells his old furniture in exchange of new furniture. Is this a contract of salel.

- This is not a sale but a case of exchange or barter out of the purview of the Act.

Question 2:

Arnold agrees to deliver his car to Yusuf for his use on Yusuf agreeing to pay him user charges. Is this a contract of sale.

- This is not a case of sale as there is no transfer of property in goods but merely transfer of possession.

Question 3:

Mr. Bakshi left his car in BMW Motors workshop for repair. Is this a contract of sale.

- Not a case of sale but only a case of bailment.

Question 4:

Mr. David gives his expensive watch to his son Rahul. Is this a contract of sale.

- Not a case of sale but only a case of gift from father to son. There is no money consideration in it.

Question 5:

Asha sold her car in exchange of a new scooter and cash ₹25,000. Is this a contract of sale.

- This is a case of sale. Price may be paid partly in kind and partly in money.

Question 6:

Ashu agrees to sell a certain good to Zeeshan at a price to be fixed by Cezar. What would happen if-

(i) Cezar refuses to value the good and fix the price and

(ii) Cezar is willing to value the good, but is prevented from making the valuation

- If Cezar refuses to value the good and fix the price, the agreement is avoided.

- If however Cezar is willing to value the good, but is prevented from making the valuation by the wrongful act or fault of Ashu or Zeeshan, the party in fault is liable to make compensation to the party not in fault.

Question 7:

A dentist makes a set of false teeth for his patients with some materials and the buyer agrees to pay him ₹3,000 once it is fitted in his mouth. Is it a contract of sale.

- This is a contract of sale. The false teeth and the services rendered by the dentist is the subject matter of sale.

Question 8:

Andy sells a car to Rishi, who tells Andy that he needs the car immediately for driving it to Delhi. The car is destroyed by earthquake, at the time of the agreement. What are the rights of Andy and Rishi?

- Where there is an agreement to sell specific goods, and subsequently the goods without any fault on the part of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided. Hence the agreement is void.

Question 9:

Nisha sold 1000 quintals of sesame oil to Nidhi. Before the oil could be delivered to NIdhi, the prevailing Government requisitioned whole quantity lying with Nisha in public interest. Nidhi wants to sue Nisha for breach of contract. Advise Nidhi.

- Where there is an agreement to sell specific goods, and subsequently the goods without any fault on the part of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided. Hence the agreement is void, as the goods before it could be delivered was requisitioned by the Government for public cause.

MEANING OF SALARY FOR DIFFERENT COMPUTATIONS

The term "salary" has been assigned different meanings for the purposes of different computations as under:

Different items	**Salary for the purpose of (a) house rent allowance, (b) gratuity (not being gratuity under the Payment of Gratuity Act, 1972), (c) leave encashment (d) NPS, (e) employer's contribution towards recognized provident fund**	**Salary for the purpose of rent-free house [see Note 1]**	**Salary for the purpose of enter-tainment allowance**	**Salary for the purpose of com-puting the ceiling of ₹50,000 for the purpose of "specified employees" [see Note 2]**
Basic Salary	√	√	√	√
Dearness allowance/pay (forming part of salary as per the terms of employment or forming part of salary for computing all retirement benefits)	√	√	x	√
Dearness allowance/pay (not forming part of salary as per the terms of employment or forming part of salary for computing one or more retirement benefits)	x	x	x	√
Advance Salary	x	x	x	√
Arrears of Salary	x	x	x	√
Leave encashment at the time of retirement	x	x	x	√
Salary in lieu of notice	x	√	x	√
Fees	x	√	x	√
Commission (as % of turnover achieved by the employee)	√	√	x	√

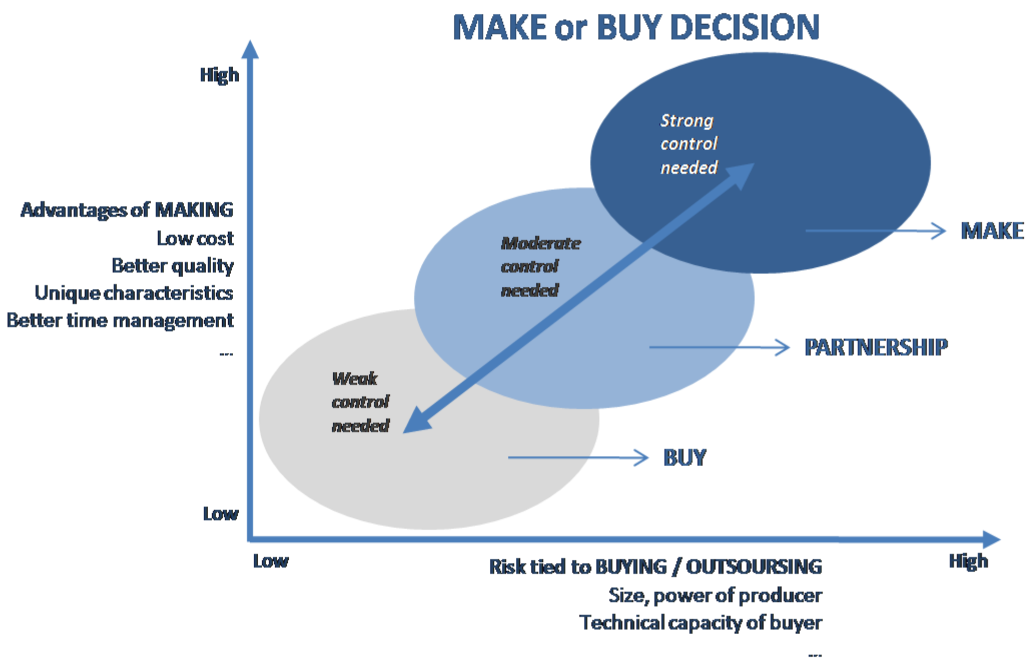
Commission (not as a % of turnover achieved by the employee)	x	√	x	√
Bonus	x	√	x	√
Gratuity	x	x	x	√
Uncommuted pension	x	√	x	√
Annuity from employer	x	√	x	√
Employer's contribution towards provident fund	x	x	x	x
Annual accretion to the credit balance in provident fund	x	x	x	x
Retrenchment compensation	x	x	x	√
Remuneration for extra work	x	√	x	√
Voluntary payments	x	√	x	√
Salary from a United Nations Organisation	x	x	x	x
Payment received at the time of voluntary retirement [which is not exempt under section 10(10C)]	x	x	x	√
City compensatory allowance	x	√	x	√
House rent allowance [which is not exempt under section 10(13A)]	x	√	x	√
Entertainment allowance [to the extent it is not deductible under section 16(ii)]	x	√	x	√
Special allowance [exempt under section 10(14)]	x	x	x	x
Special allowance [not exempt under section 10(14)]	x	√	x	√
Foreign allowance [exempt under section 10(7)]	x	x	x	x
Tiffin allowance	x	√	x	√
Fixed medical allowance	x	√	x	√
Allowance to High Court Judges	x	x	x	x

Allowance from a United Nations Organisation	x	x	x	x
Compensatory allowance under article 222(2) of the Constitution	x	x	x	x
Any other allowance	x	√	x	√
Amount reimbursed to the employee which is taxable as perquisite under section 17(2) [e.g., gas bills paid by the employee and reimbursed by employer]	x	x	x	√
Amount directly paid by employer on behalf of employee and which is taxable as perquisite under section 17(2) [e.g., gas bills paid by the employer directly to the gas company on behalf of employee]	x	x	x	x
Any other monetary payment which is taxable as profits in lieu of salary [e.g., payment of overtime allowance to employee]	x	√	x	√
Any other perquisite chargeable to tax under section 17(2)	x	x	x	x

Notes:

1. For the purpose of valuation of the perquisite in respect of rent-free house, salary of the previous year during which rent-free house is given, should be considered. It should be computed on accrual basis. Moreover, salary from all the employers in respect of the said period shall be taken into consideration.
2. For the purpose of finding out whether or not an employee is a specified employee the following shall be deducted - **(a)** standard deduction*, **(b)** deduction on account of entertainment allowance under section 16(ii); **(c)** deduction on account of professional tax. Where the salary is received from more than one employer during the relevant previous year, the aggregate salary from these employers will have to be taken into account for the purpose of determining the aforesaid monetary ceiling of ₹ 50,000.

MAKE OR BUY DECISION



Make-or-Buy decision (also called the outsourcing decision) is a judgment made by management whether to make a component internally or buy it from the market.

While making the decision, both qualitative and quantitative factors must be considered.

- Examples of the qualitative factors in make-or-buy decision are: control over quality of the component, reliability of suppliers, and impact of the decision on suppliers and customers, etc.
- The quantitative factors are actually the incremental costs resulting from making or buying the component. For example: incremental production cost per unit, purchase cost per unit, production capacity available to manufacture the component, etc.

The make-or-buy decision is the act of making a strategic choice between producing an item internally (in-house) or buying it externally (from an outside supplier). The buy side of the decision also is referred to as outsourcing. Make-or-buy decisions usually arise when a firm that has developed a product or part—or significantly modified a product or part—is having trouble with current suppliers, or has diminishing capacity or changing demand.

Factors that may influence firms to make in house:

- Cost considerations (less expensive to make the part)
- Desire to integrate plant operations
- Productive use of excess plant capacity to help absorb fixed overhead (using existing idle capacity)
- Need to exert direct control over production and/or quality
- Better quality control
- Unreliable suppliers
- No competent suppliers
- Desire to maintain a stable workforce (in periods of declining sales)
- Quantity too small to interest a supplier
- Control of lead time, transportation, and warehousing costs
- Greater assurance of continual supply
- Provision of a second source
- Political, social or environmental reasons (union pressure)
- Emotion (e.g., pride)

Factors that may influence firms to buy a part externally include:

- Lack of expertise
- Suppliers' research and specialized know-how exceeds that of the buyer
- cost considerations (less expensive to buy the item)
- Small-volume requirements
- Limited production facilities or insufficient capacity
- Desire to maintain a multiple-source policy
- Indirect managerial control considerations
- Procurement and inventory considerations
- Brand preference
- Item not essential to the firm's strategy

Elements of the "make" analysis include:

- Incremental inventory-carrying costs
- Direct labour costs
- Incremental factory overhead costs
- Delivered purchased material costs
- Incremental managerial costs
- Any follow-on costs stemming from quality and related problems
- Incremental purchasing costs
- Incremental capital costs

Cost considerations for the "buy" analysis include:

- Purchase price of the part
- Transportation costs
- Receiving and inspection costs
- Incremental purchasing costs
- Any follow-on costs related to quality or service

The following example illustrates the numerical part of a simple make-or-buy decision.

Example 1:

The estimated costs of producing 6,000 units of a component are:

	Per Unit	Total
Direct Material	₹10	₹60,000
Direct Labourr	8	48,000
Applied Variable Factory Overhead	9	54,000
Applied Fixed Factory Overhead	12	72,000
₹1.5 per direct labour		
	₹39	₹234,000

The same component can be purchased from market at a price of ₹29 per unit. If the component is purchased from market, 25% of the fixed factory overhead will be saved. Should the component be purchased from the market?

Solution

	Per Unit		Total	
	Make	Buy	Make	Buy
Purchase Price		₹29		₹174,000
Direct Material	₹10		₹60,000	
Direct Labor	8		48,000	
Variable Overhead	9		54,000	
Relevant Fixed Overhead	3		18,000	
Total Relevant Costs	₹30	₹29	₹180,000	₹174,000
Difference in Favour of Buying		₹1		₹6,000

Decision: Components should buy from market.

Example 2:

Nicky & Co. Ltd. has three divisions each of which makes a different product. The budgeted data for the next year is as follows:

Division	A	B	C
Sales	₹1,12,000	₹56,000	₹84,000
Direct material	14,000	7,000	14,000
Direct labour	5,600	7,000	22,400
Variable overhead	14,000	7,000	28,000
Fixed cost	28,000	14,000	28,000
Total cost	61,600	35,000	92,400

The management is considering to close down Division C. There is no possibility of reducing variable costs. Advise, whether or not Division C should be closed down.

Solution:

Marginal Cost Statement

Division	A	B	C
Sales	₹1,12,000	₹56,000	₹84,000
Marginal cost	33,600	21,000	64,400
Contribution	78,400	35,000	19,600
Fixed cost	28,000	14,000	28,000
Profit	50,400	21,000	(8,400)

Total net profit from all products = ₹ 63,000.
As division C is making a contribution of ₹19.600 towards recovery of fixed cost, it will not be in the interest of the company to discontinue product C.

SOME TYPICAL ADJUSTMENTS IN THE CONTEXT OF AMALGAMATION

A. For Liquidation Expenses if paid by Purchasing Company

Particulars [Merger Method]		Debit ₹	Credit ₹
Profit & Loss / Reserves A/c To Cash / Bank A/c	Dr.	XXX	 XXX

Particulars [Purchase Method]		Debit ₹	Credit ₹
Goodwill/Capital Reserve A/c To Cash / Bank A/c	Dr.	XXX	 XXX

Example:

G Ltd. acquired P Ltd. and the liquidation expenses of ₹40,000 is paid by G Ltd. Hence, the journal entry in the books of G Ltd. Will be

Particulars [Merger Method]		Debit ₹	Credit ₹
Profit & Loss / Reserves A/c To Cash / Bank A/c	Dr.	40,000	 40,000

Particulars [Purchase Method]		Debit ₹	Credit ₹
Goodwill/Capital Reserve A/c To Cash / Bank A/c	Dr.	40,000	 40,000

B. For cancellation of Mutual Owing

Particulars		Debit ₹	Credit ₹
Creditor/Bills payable A/c	Dr.	XXX	
To Debtors/Bills receivable A/c			XXX

Example:

A Ltd. will absorb B Ltd.
Sundry creditors of B Ltd. includes ₹20,000 due to A Ltd.
Pass Journal Entry in the books of A Ltd. after absorption.

Particulars		Debit ₹	Credit ₹
Creditor A/c	Dr.	20,00	
To Debtors A/c		0	20,000

C. For adjustment of Unrealised Profit

Particulars [Merger Method]		Debit ₹	Credit ₹
Profit & Loss/ Reserve A/c	Dr.	XXX	
To Stock Reserve A/c			XXX

Particulars [Purchase Method]		Debit ₹	Credit ₹
Goodwill/Capital Reserve A/c	Dr.	XXX	
To Stock Reserve A/c			XXX

Example:

A Ltd. will absorb B Ltd.
Stock of A Ltd. includes goods of ₹30,000 supplied by B Ltd. at cost plus 20%
Pass journal entries in the books of A Ltd.

Particulars [Merger Method]	**Debit ₹**	**Credit ₹**
Profit & Loss/ Reserve A/c Dr.	5,000	
To Stock Reserve A/c		5,000
[30,000 × (20/120)]		

Particulars [Purchase Method]	**Debit ₹**	**Credit ₹**
Goodwill/Capital Reserve A/c Dr.	5,000	
To Stock Reserve A/c [30,000 × (20/120)]		5,000

D. Separate accounting adjustment/entry is not required for statutory reserves in the case of merger as all reserves are also recorded in the transferee's book including statutory reserves.

In case of amalgamation by way of purchase, the reserves being internal liabilities, are not recorded in the books of transferee and to comply with the requirements of particular statute, the statutory reserves created in the books of transferor company is required to be maintained for some more years .

To fulfill the requirement of maintenance of statutory reserves the transferee company shall record the statutory reserves in its books by debiting to amalgamation adjustment account and crediting statutory reserve.

When the maintenance of statutory reserves is no longer required, the entry passed should be reversed

Particulars	**Debit ₹**	**Credit ₹**
Amalgamation Adjustment A/c Dr.	XXX	
To Statutory Reserves A/c		XXX

Example:

G Ltd. takes over P Ltd. on 31.03.2015

There is Export Profit Reserve of ₹25,000 in the Balance Sheet of P Ltd. which is to be maintained for two more years.

Particulars	**Debit ₹**	**Credit ₹**
Amalgamation Adjustment A/c Dr.	25,000	
To Statutory Reserves A/c		25,000