SHARES

Share is an unit of capital divisible in equal units, ~~and~~ subscribed and paid by the shareholder. It is a source of capital for a company to meet its capital/finance requirement.

Kinds

I) Preference share

II) Equity or Ordinary share

(a) Redeemable Preference share
(b) Irredeemable Preference share
(c) Cumulative Preference share
(d) Participative Preference share

Preference Share - Meaning

Preference share means the share by its name reveals the fact that the preference will be given in dividend payment and at the time of dissolution the payment will be given first to the preference share holders. after payment to outsiders i.e. creditors.

Equity share

They are the real owners of a company. They are getting the dividend and residual at the time of dissolution finally after making payments to all others.

Differences between a Private Limited Company and a Public Limited Company

	Private Company	Public Limited Company
1) Membership	Minimum - 2 Maximum - 200	Minimum - 7 Maximum - Unlimited
2) Transfer of ownership	Not permitted	Permitted to transfer
3) Liability	Limited to their debt holdings	Limited to their share holdings
4) Issue of shares to Public	Not permitted	Permitted
5) Registration	Not compulsory	Compulsory
6) Legal entity	No need	,,
7) Documents	(i) Certificate of Incorporation	(i) Certificate of Incorporat- (ii) Certificate of Commencement of Business (iii) Memorandum of Associati (iv) Articles of Associ

KINDS OF SHARE CAPITAL

1) Authorised Capital :

- Maximum amount of capital permitted to collect from the public by shares.

2) Issued Capital :

- It is the amount of capital the company wants to collect by the issue of shares.

3) Subscribed Capital :

- Amount of capital subscribed by the shareholders by applying for ~~the~~ shares

4) Called-up Capital :

- The company request the shareholder to pay for the shares by the shareholders.

5) Uncalled Capital :

- The company will reserve the right to call part of the amount in future.

6) Paid-up capital :

- The amount paid by the shareholders on the shares held by them.

7) Calls-in-Arrear :

The amount unpaid by a shareholder after proper calls are made by the Company

Issue of Shares

JOURNAL ENTRIES

Issue of shares for Consideration other than Cash.

(a) Fixed Assets A/c Dr xxxx
To X Ltd., A/c xxxx
(Being the assets are purchased from X Ltd.)

(b) X Ltd., A/c Dr xxxx
To Share Capital A/c xxxx
(Being the X Ltd, A/c settled by issue of shares for ~~ca~~ consideration)

When Share Application money received

Bank A/c Dr xxxx
To Share Application A/c xxxx
(Being the share application money received)

For transfering the share Application money into share Capital A/c

Share Application A/c Dr xxxx
To Share Capital A/c xxxx
(Being the share application money transferred to share capital A/c)

When excess application money refunded

Share Application A/c Dr xxxx
To Bank A/c xxxx
(Being the excess application money refunded)

2

1

Ashok Ltd., issued 1,00,000 Equity shares of ₹10 each payable as follows:
₹2 on application, ₹3 on allotment
₹3 on first call and ₹2 on second and final call.

Applications were received for 1,30,000 shares. The directors decided to allot the shares on the following basis.

For 90,000 applicants – 75,000 shares allotted
For 25,000 " – Full allotment
For 15,000 " – No allotment

Applications money was refunded for the applicants who were not allotted share
Excess application money was adjusted towards allotment

All the money dues were collected
Pass the journal entries in the books of Ashok Ltd., to record the above transactions.

(2)

Entries in the Books of Ashok Ltd.	Dr ₹	Cr ₹
1) (1,30,000x2) Bank A/c Dr	2,60,000	
To Share Application A/c		2,60,000
(Being the application money received).		
2) Share Application A/c Dr	2,60,000	
(1,00,000x2) To Share Capital A/c		2,00,000
(15,000x2) To Share Allotment A/c		30,000
(15,000x2) To Bank A/c		30,000
(Being the application money transferred to Share Capital A/c, excess application money on 15000 shares were adjusted towards allotment and amount refunded for rejected applications)		
3) (1,00,000x3) Share Allotment A/c Dr	3,00,000	
To Share Capital A/c		3,00,000
(Being the share allotment money is due)		
4) Bank A/c Dr	2,70,000	
To Share Allotment A/c		2,70,000
(Being the allotment money received (3,00,000 − 30,000))		

3

5) Share First call A/c Dr $(1,00,000 \times 3)$ To share Capital A/c (Being the share First call money is due)	3,00,000	3,00,000
6) Bank A/c Dr To Share First call A/c (Being the share first call money received)	3,00,000	5,00,000
7) Share Second and Final Call A/c Dr $(1,00,000 \times 2)$ To share Capital A/c (Being the share second & final call money due)	2,00,000	2,00,000
8) Bank A/c Dr To Share II & Final Call A/c (Being the share II & Final call money received).	2,00,000	2,00,000

Issue of shares at Discount

Kumar Co. Ltd., issued 50,000 Equity shares of ₹ 10 each at a discount of 10%. The shares are payable as on application ₹ 2, on allotment ₹ 5 and on first and final call ₹ 2.

All the shares were subscribed and allotted. All the money due were received.

Make entries in the books of Kumar Co. Ltd., to record the above transactions

Entries in the books of Kumar Co. Ltd.,

	Dr ₹	Cr ₹
1) Bank A/c Dr	1,00,000	
(50000x2) To share Application A/c		1,00,000
(Being application money received)		
2) Share Application A/c Dr	1,00,000	
To Share Capital A/c		1,00,000
(Being the application money transferred to share Capital A/c)		

3) Share Allotment A/c Dr (50000X5)	2,50,000	
Discount on Issue of Shares A/c Dr (50000X1)	50,000	
To Share Capital A/c (50000X6)		3,00,000
(Being the allotment money is due)		
4) Bank A/c Dr (50000X5)	2,50,000	
To Share Allotment A/c		2,50,000
(Being the allotment money received)		
5) Share First & Final Call A/c Dr (50000X2)	1,00,000	
To Share Capital A/c		1,00,000
(Being the share I & Final call money is due)		
6) Bank A/c Dr	1,00,000	
To Share First & Final Call A/c		1,00,000
(Being the share I & Final call money received)		

2

RK Ltd., issued 1,00,000 Equity shares of ₹10 each at a Premium of ₹2 per share.

Amount of shares are payable as follows: On application - ₹2, on allotment ₹5 (including premium), on first call ₹2 and on final call ₹3.

Applications were received for 1,25,000 shares on which the directors made allotment on the following basis.

For 1,00,000 applicants 90,000 shares are allotted.

For 10,000 ~~shares~~ applicants - Full allotment

For 15,000 - No shares were allotted.

Excess application money received was adjusted towards allotment. Money was refunded for the ~~shares~~ ~~of~~ rejected applications.

All money dues were collected. Pass the necessary journal entries in the books of the company.

1) Bank A/c Dr 2,50,000
To Share Application A/c 2,50,000

2) Share Application A/c Dr 2,50,000
To Share Capital A/c 2,00,000
To Share Allotment A/c 20,000
To Bank A/c 30,000

3) Share Allotment A/c Dr 5,00,000
To Share Capital A/c 3,00,000
To Securities Premium A/c 2,00,000

4) Bank A/c Dr 4,80,000
To Share Allotment A/c 4,80,000
(5,00,000 − 20,000)

5) Share First Call A/c Dr 2,00,000
To Share Capital A/c 2,00,000

6) Bank A/c Dr 2,00,000
To Share First Call A/c 2,00,000

7) Share ~~Cap~~ Final Call A/c Dr 3,00,000
To Share Capital A/c 3,00,000

8) Bank A/c Dr 3,00,000
To Share Final Call A/c 3,00,000

Calls in Advance

ABC Ltd., issued 10,000 Equity
res of ₹ 10 each payable as on
plication - ₹ 3, on allotment - ₹ 3,
first and final call ₹ 4.
All the shares were subscribed
d allotted. Money were duly received
xcept one shareholder Mr. Anand
o is holding 200 shares paid
ll money along with allotment money.
Pass the journal entries to
cord the above transactions.

2

Solution for ABC Ltd.,

(10000x3) Bank A/c Dr 30,000

To Share Application A/c 30,000

(Being the application money received)

Share Application A/c Dr 30,000

To Share Capital A/c 30,000

(Being the application money transferred to share capital A/c)

(10000x4) Share Allotment A/c Dr 40,000

To Share Capital A/c 40,000

(Being the allotment money is due)

Bank A/c Dr 40,600

(10000x4) To Share Allotment A/c 40,000

(200x3) To Calls-in-Advance A/c 600

(Being the allotment money and calls-in-advance for 200 shares received)

Share First and Final Call A/c Dr 30,000

10,000x3 To Share Capital A/c 30,000

(Being the first and final call money is due)

Bank A/c Dr 30,000

To Share First and Final Call A/c 30,000

(Being the first and final call money

Surya Ltd., issued 1,00,000 Equity shares of ₹ 10 each at a premium of ₹ 2 per share. The amounts are payable as follows:

On application - ₹ 2, on allotment ₹ 5 (including premium) ₹ 3 on first call and ₹ 2 on final call.

Applications were received for 1,25,000 shares on which the Directors allotted the shares for 1,15,000 applications. and the balance applications were rejected.

All the money dues were collected except on 1000 shares held by Vijay who didnot pay the first and final call money.

Pass the necessary journal entries to record the above transactions.

xxx

Entries in the books of Surya Ltd.

(1,25,000x2) Bank A/c Dr 2,50,000
To Share Application A/c 2,50,000
(Being application money received)

Share Application A/c Dr 2,50,000
(1,00,000x2) To Share Application A/c 2,00,000
(15,000x2) To Share Allotment A/c 30,000
(10,000x2) To Bank A/c 20,000
(Being the application money transferred to share capital A/c, excess application money on 15,000 shares were adjusted towards allotment

(1,00,000x5) Share Allotment A/c Dr 5,00,000

(1,00000x3) To Share Capital A/c 3,00,000

(1,00,000x2) To Securities Premium A/c 2,00,000

(Being the allotment money is due)

5,00,000
(-) 30,000

Bank A/c Dr 4,70,000

To share Allotment A/c 4,70,000

(Being the allotment money received)

(1,00,000x3) Share First Call A/c Dr 3,00,000

To Share Capital A/c 3,00,000

(Being the first call money is due)

3,00,000
(-) 3,000

Bank A/c Dr 2,97,000

To share First Call A/c 2,97,000

(Being the first call money received except on 1000 shares)

(1,00,000x3) Share Final call A/c Dr 3,00,000

To share Capital A/c 3,00,000

(Being the share final call money is due)

(99000x3) Bank A/c Dr 2,97,000

To Share Final call A/c 2,97,0

(Being the share final call money received except on 1000 shares)

RK Ltd., issued 50,000 shares of ₹ 10 each at a discount of 10%. payable as on application ₹ 3, on allotment - ₹ 3, on first call ₹ 2 and on second and final call ₹ 1.

60,000 applications were received on which directors rejected 5,000 applications and the excess application money was adjusted towards allotment.

All money dues were received except on 500 shares of Raja who did not pay the final call money.

Pass journal entries.

Bank A/c Dr 1,80,000
To Share Application A/c 1,80,000

Share Application A/c Dr 1,80,000
To Share Capital A/c 1,50,000
To Share Allotment A/c 15,000
To Bank A/c 15,000

Share Allotment A/c Dr 1,50,000
Discount on Issue of Shares A/c Dr 50,000
To Share Capital A/c 2,00,000

Bank A/c Dr 1,35,000
To Share Allotment A/c 1,35,000

Share First call A/c Dr 1,00,000
To Share Capital A/c 1,00,000

6) Bank A/c Dr 1,00,000
To Share First call A/c 1,00,000

7) Share II & Final call A/c Dr 50,000
To Share Capital A/c 50,000

8) Bank A/c Dr 49,500
To Share II & Final call A/c 49,500

(50,000 − 500)

National Co. Ltd., issued 10,000 Equity shares of ₹ 100/each at a premium of ₹ 10 ~~each~~ per share. The shares are payable as follows:

On application – ₹ 25, on allotment – ₹ 35
on first call – ₹ 25 on final call – ₹ 25.

Applications were received for 12,000 shares and the shares were allotted to the extent of issue. Extra applications were rejected.

All the shares were subscribed and all the money dues were collected except ~~ed~~ ~~1000~~ on 500 shares on which the shareholders did not pay the call money. These shares were forfeited.

Pass the journal entries to record the above transactions.

1)	(12000x25) Bank A/c Dr	3,00,000	
	To Share Application A/c		3,00,000
	(Being the application money received)		
2)	Share Application A/c Dr	3,00,000	
	(10,000x25) To Share Capital A/c		2,50,000
	(2000x25) To Bank A/c		50,000
	(Being the application money transferred to share capital A/c and the excess application was refunded)		
3)	(10,000x35) Share Allotment A/c Dr	3,50,000	
	(10000x25) To Share Capital A/c		2,50,000
	(10000x10) To Securities Premium A/c		1,00,000

4) Bank A/c Dr 3,50,000

To Share Allotment A/c 3,50,000

(Being the allotment money received)

5) (10000x25) Share First Call A/c Dr 2,50,000

To Share Capital A/c 2,50,000

(Being the first call money is due)

6) (9500x25) Bank A/c Dr 2,37,500

To Share First Call A/c 2,37,500

(Being the first call money received except on 500 shares)

7) (10,000x25) Share Final Call A/c Dr 2,50,000

To share capital A/c 2,50,000

(Being the share final call money is due)

8) (9500x25) Bank A/c Dr 2,37,500

To Share Final Call A/c 2,37,500

(Being the final call money received except on 500 shares)

9) (500x100) Share Capital A/c Dr 50,000

(500x25) To Share First Call A/c 12,500

(500x25) To Share Final Call A/c 12,500

(500x50) To Forfeited Shares A/c 25,000

(Being the forfeiture of 500 shares for non-payment of first and final call money)

2

Calls in Arrears and Forf...

Subash Ltd., issued 5000 shares of ₹ 100 each. All the shares were subscribed and allotted. All money dues were collected except on 500 shares on which the holder did not pay the first call money (₹ 30 per share) and the final call money (₹ 20 per share). The company forfeited these shares.

Journalise the above transactions.

Share Capital A/c Dr 50,000

To Share First call A/c 15,000

To Share Final Call A/c 10,000

To Forfeited Shares A/c 25,000

(Being the forfeiture of 500 shares for non payment of first and final call money)

Reissue of Forfeited Shares

Anbu Co. Ltd, issued 5,000 Equity shares of ₹ 10 each payable as on application-₹ 2, on allotment - ₹ 3, on first call ₹ 3 and on final call - ₹ 2.

All the shares were subscribed and allotted. All money dues were collected except on 500 shares held by Mani who did not pay the first and final call money.

The company forfeited the shares of Mani and reissued the same @ ₹ 9 per share.

You are required to record the transactions for foreiture and reissue of the shares.

Forfeiture

(500 x 10) Share Capital A/c Dr 5000

To Share First call A/c 1500

To Share Final Call A/c 1000

To Forfeired Shares A/c 2500

(Being the forfeiture of 500
)

Re-issue

(500 x 9) Bank A/c Dr 4500

Forfeited Shares A/c Dr 500

To Share Capital A/c 5000

(Being the re-issue of 500 shares @ ₹ 9 per share)

Forfeited Share A/c Dr 2,000

To Capital Reserve A/c 2,000

(Being the profit on reissue of shares transferred to capital Reserve A/c)

2500
500
2000

2

VJ Ltd., issued to the public 10,000 shares of ₹ 100 each at a premium of ₹ 10 per share.

On application - ₹ 25, on allotment ₹ 35 on first call - ₹ 25 and on final call - ₹ 25.

Applications were received for 12,000 shares out of which 11,000 applications are allotted on provata basis. 1000 applications were rejected.

All money dues were collected except on 500 shares held by a shareholder - X who didn't pay the first and final call money. His shares were forfeited and further it was reissued at the rate of ₹ 80 per share.

Pass the journal entries to record the above transactions.

1) (10000x25) Bank A/c Dr 3,00,000 ①

To share Application A/c 3,00,000

(Being the application money received)

2) Share Application A/c Dr 3,00,000

(10000x25) To Share Capital A/c 2,50,000

(1000x25) To Bank A/c 25,000

(1000x25) To Share Allotment A/c 25,000

(Being the application money transferred to share capital A/c, rejected application money was refunded and excess application money was adjusted towards allotment)

3) (10000 x 35) Share Allotment A/c Dr 3,50,000

(10000 x 25) To Share Capital A/c 2,50,000

(10000 x10) To Securities Premium A/c 1,00,000

(Being the allotment money is due)

4) Bank A/c Dr 3,25,000

3,50,000
(-) 25,000

To Share Allotment A/c 3,25,000

(Being the allotment money received)

5) Share First call A/c Dr 2,50,000

(10000 x 25) To Share Capital A/c 2,50,000

(Being the first call money is due)

6) (9500x25) Bank A/c Dr 2,37,500

To share Capital 2,37,500

(Being the first call money received except on 500 shares)

7) Share Final call A/c Dr 2,50,000

(10000x25) To Share Capital A/c 2,50,000

(Being the final call money is due)

(Being the final call money received except on 500 shares)

9) (500×100) Share Capital A/c Dr 50,000

(500×25) To Share First Call A/c 12,500

(500×25) To Share Final Call A/c 12,500

(500×50) To Forfeited Shares A/c 25,000

(Being the forfeiture 500 shares for non payment of first and final call money)

10) (500×80) Bank A/c Dr 40,000

(500×20) Forfeited shares A/c Dr 10,000

(500×100) To Share Capital A/c 50,000

(Being the reissue of 500 forfeited shares)

11) Forfeited Shares A/c Dr 15,000

To Capital Reserve A/c 15,000

(Being the profit on reissue of forfeited shares A/c ~~B~~ transferred to Capital Reserve A/c)

Roja Co. Ltd, issued 50,000 Equity Shares of ₹ 10 each payable as follows:
on application - ₹ 2, on allotment - ₹ 3, on first call - ₹ 2 and on final call ₹ 3.

All the shares are subscribed and allotted. All the money dues were received except on 1000 shares held by Sasi who did not pay the ~~first and~~ final call money. The company forfeited these shares and reissue ~~the~~ 500 shares @ ₹ 9 per share.

Pass the journal entries for forfeiture and reissue of the shares.

Capital Reserve (Workings)

Profit for forfeiture of 1000 shares - ₹ 7,000

Profit for forfeiture of 500 shares

$$= \frac{7000}{1000} \times 500 = 3500$$

(-) Loss on reissue of 500 shares = 500

∴ Profit to be transferred to Capital Reserve 3000

Forfeiture Entries

(1000×10) Share capital A/c Dr 10,000
(1000×3) To share Final call A/c 3,000
To Forfeited shares A/c 7,000
(Being the forfeiture of 1000 shares)

Reissue Entries

(500×9) Bank A/c Dr 4,500
(500×1) Forfeited Shares A/c Dr 500
To Share capital A/c 5000
(Being the reissue of 500 shares @ ₹9 each)

Forfeited Shares A/c Dr 3000
To Capital Reserve A/c 3000
(Being the profit on reissue of 500 shares transferred to Capital Reserve A/c)

Ganesh Co. Ltd., issued 10,000 Equity shares of ₹ 50 each payable as on application ₹ 10 on allotment ₹ 15, on first call ₹ 15 and on second and final call ₹ 10.

Applications were received for 12,000 shares and the excess application money received was adjusted towards allotment.

All the money dues were collected except n one shareholder who holds 500 shares did not pay the allotment and call money. His shares were forfeited and out of which 250 shares were reissued at ₹ 40 per share.

You are required to pass the journal entries to record the above transactions.

Workings

Allotment money to be received

Amount to be collected on allotment — ₹ 1,50,000
10,000 × 15

Excess application money received and adjusted towards allotment — 2000 × 10 — 20,000
1,30,000

No. of shares on which allotment money did not paid - 500

For 10,000 applications — 12 000 shares were allotted

∴ For 500 applications — $\frac{12000}{10000} \times 500 = 600$ shares

∴ For 600 shares application money received was ₹ 6000 —

∴ Excess application money received from shareholder who paid for 600 shares ₹
(600 − 500 = 100 × 10 = 1000

Allotment money to be collected ~~after~~ on 500 shares = 75~~000~~00
(−) application money excess paid by shareholder for 100 shares × 10 = 1000
6500

∴ Allotment money to be received — 1,30,000
(−) Allotment money not paid by a shareholder 6,500

~~Total~~ Balance allotment money to be received 1,23,500

2

1) Bank A/c Dr 1,20,000
To Share Application A/c 1,20,000

2) Share Application A/C Dr 1,20,000
To Share Capital A/c 1,00,000
To Share Allotment A/c 20,000

3) Share Allotment A/c Dr 1,50,000
To Share Capital A/c. 1,50,000

4) Bank A/C Dr 1,23,500
To Share Allotment A/c 1,23,500

1,50,000
(-) 20,000
1,30,000
(-) 6,500

5) Share First Call A/c Dr 1,50,000
To Share Capital A/c 1,50,000

6) Bank A/c Dr 1,42,500
To Share First Call A/c 1,42,500

10000
500
2500X15)

7) Share Second and Final

Call A/c Dr 1,00,000

To Share Capital A/c 1,00,000

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8) Bank A/c Dr 95,000

$\frac{10,000}{-500}$ (9500×10) To Share II & Final call A/c 95,000

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9) 500×50 Share Capital A/c Dr 25,000

(500×15 = 7500 − 1000) To Share Allotment A/c 6500

(500×15) To Share First call A/c 750

(500×10) To Share Final call A/c 500

To Forfeited Shares A/c 600

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10) Bank A/c Dr (250×40) 10,000

Forfeited shares A/c Dr (250×10) 2,500

(500×50) To Share Capital A/c 12,50

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11) Forfeited shares A/c Dr 500

$\frac{6000}{500}$ × 250 = 3000 Profit

(−) 2500 Loss

500 Bal.

To Capital Reserve A/c 500

Karthick Co. Ltd., issued 50,000 Equity shares of ₹ 10 each at a premium of 10% payable as on application ₹ 2, on allotment ₹ 4 (including premium), ₹ 3 on first call and ₹ 2 on final call

Applications were received for 75,000 shares. The directors allotted the shares on the following basis:

For 20,000 applicants – 15,000 shares allott

For 35,000 applicants – Full allotment

For 20,000 applicants – No allotment

All the money dues were collected except from Mr. Ravi who is holding 5000 shares did not pay the calls money. His shares were forfeited and out of which 3000 shares were e issued at ₹ 9 per share.

Pass the necessary journal entries.

(75000x2) To Share Application A/c 1,50,000

2) Share Application A/c Dr 1,50,000

(50000x2) To Share Capital A/c 1,00,000
(20000x2) To Bank A/c 40,000
(5000x2) To Share Allotment A/c 10,000

3)(50000x4) Share Allotment A/c Dr 2,00,000
(50000x3) To Share Capital A/c 1,50,000
(50000x1) To Securities Premium A/c 50,000

4)(50000x3) Share First call A/c Dr 1,50,000
To Share Capital A/c 1,50,000

5) (45000x3) Bank A/c Dr 1,35,000
To Share First call A/c 1,35,00

)(50000x2) Share Final call A/c Dr 1,00,000
To Share Capital A/c 1,00,00

)(45000x2) Bank A/c Dr 90,000
To Share Final call A/c 90,00

8) (5000 x 10) Share Capital A/c Dr 50,000

(5000 x 3) To Share First call A/c 15,000
(5000 x 2) To Share Final call A/c 10,000
To Forfeited shares A/c 25,000

9) (3000 x 9) Bank A/c Dr 27,000
(3000 x 1) Forfeited shares A/c Dr 3,000

To Share Capital A/c 30,000

10) Forfeited shares A/c Dr 12,000

To Capital Reserve A/c 12,000

Workings - Capital Reserve ₹

Profit on forfeiture of 5000 shares - 25,000

∴ Profit on forfeiture of 3000 shares

$= \frac{25,000}{5000} \times 3000 =$ 15,000

→ Loss on reissue of 3000 shares 3,000

Profit to be transferred to Capital Reserve A/c 12,000

ABS Ltd, have 5000, 7% Redeemable Preference shares of ₹ 100 each on which ₹ 80 was paid. The company decided to redeem the shares; for the purpose it had a general Reserve of ₹ 2,00,000 Profit and Loss A/c - ₹ 5,00,000.

All the shares are redeemed. You are required to record the journal entries for the above transactions.

(5000×20) Bank A/c Dr 1,00,000

To Redeemable Preference Share Capital A/c 1,00,000

(Being the uncalled amount of ₹ 20 per share was received).

7% Redeemable Preference Share Capital A/c Dr 5,00,000

(5000×100)

To Redeemable Preference Shareholders A/c 5,00,000

(Being the redemption of Preference shares,

General Reserve A/c Dr 2,00,000
Profit and Loss A/c Dr 3,00,000

To Capital Redemption Reserve A/c 5,00,000

(Being the accumulated Profits are used for redemption of Preference shares are transferred to Capital Redemption Reserve A/c)

Redeemable Preference Share holders A/c Dr 5,00,000

To Bank A/c 5,00,000

(Being the amount paid to Preference share holders)

8% Redeemable Preference shares of ₹ 10 each and 50,000 Equity shares of ₹ 10 each fully paid. The company decided to redeem the preference shares at a premium of ₹ 2 per share. For the purpose of redemption the company proposed to use the funds available as follows: General Reserve – ₹ 2,00,000
Profit and Loss A/c – ₹ 5,00,000.
Workmen Compensation Fund – ₹ 1,00,000
Securities Premium – ₹ 2,00,000.

The balance fund required can be accelerated by the issue of fresh equity shares of ₹ 10 each to the extent required.

Pass the journal entries to record the above transactions.

General Reserve A/c
Profit and Loss A/c Dr 5,00,000
Workmen Compensation
Fund A/c Dr 1,00,000
To Capital Redemption Reserve A/c
8,00,000

(Being the accumulated reserves used for redemption transferred to Capital Redemption Reserve A/c)

Bank A/c Dr 2,00,000
To Equity Share Capital A/c 2,00,000
(Being the fresh issue of 20,000 Equity shares of ₹ 10 each)

8% Redeemable Preference Share
Capital A/c Dr 10,00,000
Premium on Redemption of
Preference Shares A/c Dr 2,00,000
To Redeemable Preference
Shareholders A/c 2,00,000
(Being the redemption of 1,00,000 Preference shares of ₹ 10 each at a premium of ₹ 2 per share)

Securities Premium A/c Dr 2,00,000
To Premium on Redemption of
Preference Shares A/c 2,00,000
(Being the adjustment entry made
to use the securities premium
A/c for redemption of Preference
Shares with a premium of ₹ 2 per share)

Preference Shareholders A/c Dr 12,00,000
To Bank A/c 12,00,000
(Being the payment made to

A company has 10,000 9% Redeemable Preference shares of ₹ 100 each fully paid. The company decides to redeem the shares on 31st Dec. 2018 at a premium of 10%.

The company makes the following issues:

(i) 7500 Equity shares of ₹ 100 each at a premium of 10%.

(ii) 5000, 8% Debentures of ₹ 100 each.

The issue was fully subscribed and allotments were ~~made~~ made. The redemption was duly carried out. The company has sufficient profits.

You are required to give the necessary entries.

Bank A/c Dr 8,25,000
To Equity share capital A/c 7,50,000
To Securities Premium A/c 75,000

2) Bank A/c Dr 5,00,000
To 8% Debentures A/c 5,00,000

3) Profit and Loss Appropriation A/c Dr 2,50,000
To Capital Redemption Reserve A/c 2,50,000

4) Redeemable Preference Share Capital A/c Dr 10,00,000
Premium on Redemption of Preference Shares A/c Dr 1,00,000
To Redeemable Preference share holders A/c 11,00,000

5) Securities Premium A/c Dr 75,000
Profit and Loss Appropriation A/c Dr 25,000
To Premium on Redemption of Preference Shares A/c 1,00,000

) Redeemable Preference Shareholders A/c Dr 11,00,000
To Bank A/c 11,00,000

are required to pass the journal entries in the books of Jai Co. Ltd.,

Balance sheet of Jai Co. Ltd.,

Liabilities	₹	Assets	₹
30,000 Equity shares of ₹ 10 each	3,00,000	Plant & Machinery	3,00,000
Redeemable Preference Shares:		Land & Building	4,00,000
5,000 shares of ₹ 100 each	5,00,000	Investments	2,00,000
Debentures	1,00,000	Book Debts	3,00,000
General Reserve	2,00,000	Cash at Bank	3,00,000
Profit and Loss A/c	2,00,000		
Securities Premium A/c	50,000		
Current Liabilities	1,50,000		
	15,00,000		15,00,000

The company redeem the Preference shares at a premium of 10%. The fresh issue of 10,000 Equity shares of ₹ 10 each also made to meet the fund requirement of redemption.

Bank A/c Dr 1,00,000

To Equity Share Capital A/c 1,00,000

(Being the fresh issue of 10,000 Equity shares of ₹ 10 each)

General Reserve A/c Dr 2,00,000

Profit and Loss A/c Dr 2,00,000

To Capital Redemption Reserve A/c 4,00,000

(Being the accumulated reserves used for redemption transferred to Capital Redemption Reserve A/c)

6% Redeemable Preference Share A/c Dr 5,00,000

Premium on Redemption of Preference Shares A/c Dr 50,000

To Redeemable Preference Shareholders A/c 5,50,000

(Being the redemption of 5000 Preference shares of ₹100 each at a Premium of 10%)

Securities Premium A/c Dr 50,000

To Premium on Redemption of Preference Shares A/c 50,000

(Being the securities Premium used for paying premium on Redemption)

) Redeemable Preference Shareholders A/c Dr 5,50,000

To Bank A/c 5,50,000

(Being the amount paid to Redeemable Preference Shareholders)

Issue of Debentures

AVM Co. Ltd., issued 7% 50,000 Debentures of ₹ 10 each payable as follows:
On application - ₹ 2, on allotment - ₹ 3 on first call ₹ 3 and on final call ₹ 2

All applications are ~~subd~~ subscribed and allotted. Pass the necessary journal entries to record the above transaction.

1) Bank A/c Dr 1,00,000
To Debenture Application A/c 1,00,000
(Being the application money received)

2) Debenture Application A/c Dr 1,00,000
To 7% Debentures A/c 1,00,000
(Being application money transferred)

3) Debenture Allotment A/c Dr 1,50,000
To 7% Debentures A/c 1,50,000
(Being the allotment money due)

4) Bank A/c Dr 1,50,000
To Debenture Allotment A/c 1,50,000
(Being the allotment money received)

5) Debenture First call A/c Dr 1,50,000
To 7% Debentures A/c 1,50,000
(Being the first call money due)

6) Bank A/c Dr 1,50,000
To Debenture First Call A/c 1,50,000
(Being first call money received)

7) Debenture Final call A/c Dr 1,00,000
To 7% Debentures A/c 1,00,000
(Being final call money due)

8) Bank A/c Dr 1,00,000
To Debenture final call A/c 1,00,000
(Being final call money received)

Smart Co. issued 10,000 8% Debentures of ₹ 10 each. Journalise the ~~ea~~ transactions when the issues are

(i) at par and repayable at par

(ii) when the issue is at a discount of 10% and repayable at par

(iii) when the issue is at a premium of 10% and repayable at par

(iv) when the issue is at par and repayable at a premium of 10%.

1) When the issue is at ~~at~~ par and repayable at par

Bank A/c Dr 1,00,000
To 8% Debentures A/c 1,00,000

2) If an issued at a Discount of 10% and repayable at par

Bank A/c Dr 90,000
Discount on Issue of Debentures A/c Dr 10,000
To 8% Debentures A/c 1,00,000

3) When the issue is at 10% Premium and repayable at par

Bank A/c Dr 1,10,000
To 8% Debentures A/c 1,00,000
To Securities Premium A/c 10,000

4) When the issue is at par and repayable at a Premium of 10%.

Bank A/c Dr 1,00,000

Loss on Issue of Debenture A/c Dr 10,000
To 8% Debentures A/c 1,00,000
To Premium on Redemption of Debentures A/c 10,000

1) When the issue is at ~~at~~ par and repayable at par

Bank A/c Dr 1,00,000
To 8% Debentures A/c 1,00,000

2) If an issued at a Discount of 10% and repayable at par

Bank A/c Dr 90,000
Discount on Issue of Debentures A/c Dr 10,000
To 8% Debentures A/c 1,00,000

3) When the issue is at 10% Premium and repayable at par

Bank A/c Dr 1,10,000
To 8% Debentures A/c 1,00,000
To Securities Premium A/c 10,000

4) When the issue is at par and repayable at a Premium of 10%.

Bank A/c Dr 1,00,000

Loss on Issue of Debenture A/c Dr 10,000
To 8% Debentures A/c 1,00,000
To Premium on Redemption of Debentures A/c 10,000

Prepare the journal entries for the following transactions:

(a) The company purchased assets of ₹ 6,00,000 and agreed to pay the price by issuing 7% debentures of ₹ 100 each at a premium of 20%

(b) It purchased assets of ₹ 3,00,000 and acquired liabilities of ₹ 30,000. It issued 8% Debentures of ₹ 100 each at a discount of 10% to satisfy the net purchase.

c) It purchased the assets and liabilities of a firm for ₹ 4,00,000 The assets acquired were valued at ₹ 6,00,000 and the liabilities taken over were ₹ 2,40,000. The purchased price is to be satisfied by issue of 10% debentures of ₹ 100 each at par.

(a) Purchase price of an asset = ₹ 6,00,000/=
Issue price of a debenture = 100 + 20
= 120

∴ No. of debentures to be issued

$= \frac{6,00,000}{120} = 5000$

∴ Face value of debenture = 500×100
= ₹ 5,00,000/=

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b) Purchase price of assets - ₹ 3,00,000
(-) Purchase of liabilities ₹ 30,000
Net value of assets 2,70,000

Issue price of a debenture = 100 − 10 = 90

∴ No. of debentures to be issued $= \frac{2,70,000}{90}$
= 3000

Face value of debentures = 3000×100 =
3,00,000

Discount on issue of debentures
= 3000 × 10 = 30,000

Sundry Assets A/c Dr 6,00,000
To 7% Debentures A/c 5,00,000
To Securities Premium A/c 1,00,000
(Being the issue of 5000 debentures of ₹ 100 each at a premium of 20%.)

Assets A/c Dr 3,00,000
To Liabilities A/c 30,000
To Vendors A/c 2,70,000
(Being the assets and liabilities purchased and the amount payable to vendor)

Vendors A/c Dr 2,70,000
To Liabilities A/c 30,000
To Discount on Issue of Debentures A/c 3,00,000
(Being the settlement of vendors by the issue of 3,000 debentures of ₹ 100 each at a discount of 10%)

Assets A/c Dr 6,00,000
Goodwill (Bal. fig) A/c Dr 40,000
To Liabilities A/c 2,40,000
To Vendors A/c 4,00,000
(Being the assets and liabilities purchased and amount payable to vendors including goodwill)

Vendors A/c Dr 2,70,000
Discount on Issue of Debentures A/c Dr 30,000
To 8% Debentures A/c 3,00,000

Vendors A/c Dr 2,70,000
To Liabilities A/c 30,000
To Discount on Issue of Debentures A/c 3,00,000

2

Raju Ltd., issued ₹ 10,00,000 8% Debentures. The company decided to redeem the debentures now at par. Pass the necessary journal entries

a) If the redemption is out of profits

b) If the redemption is out of capital

a) If the redemption is out of Profit

8% Debentures A/c Dr 10,00,000
To Bank A/c 10,00,000
(Being the redemption is made out of Profit)

Profit and Loss Appropriation A/c Dr 10,00,000
To Debenture Redemption Reserve A/c 10,00,000
(Being the transfer of revenue Profit to the Debenture Redemption Reserve)

b) If the redemption is out of capital

8% Debentures A/c Dr 10,00,000
To Bank A/c 10,00,000
(Being the redemption of debentures out of capital)

ABC Co. Ltd., issued 2000, 12% Debentures of ₹ 100 each at a discount of 10%, redeemable at a premium of 15%. Give journal entries.

Bank A/C Dr 1,80,000 (2000×90)

Discount on Issue of Debentures A/c Dr 20,000 (2000×10)

Loss on Issue of Debentures A/C Dr 30,000 (2000×15)

To 12% Debentures A/c 2,00,000

To Premium on Redemption of Debentures A/c 30,000

Prabu Ltd., issued 10,000 9% Debentures of ₹ 100 each on 1.1.2015 at a discount of 10%, redeemable at a premium of 10% in equal annual drawings in 5 years out of profits.

Pass journal entries for issue and redemption of debentures ignoring the treatment of loss on issue of debentures and interest.

(10,000×90) Bank A/c Dr 9,00,000
(10,000×10) Discount on Issue of Debentures A/c Dr 1,00,000
(10,000×10) Loss on Issue of Debentures A/c Dr 1,00,000
To 9% Debentures A/c 10,00,000
To Premium on Redemption of
Debentures A/c 1,00,000
(Being the issue of 10,000, 9% Debentures of ₹100 each at a discount of 10% redeemable at a premium of 10%)

9% Debentures A/c Dr 2,00,000
Premium on Redemption of Debentures A/c Dr 20,000
To Debentureholders A/c 2,20,000
(Being the redemption 2000 Debentures of ₹100 each at a premium of 10% at the end of I year)

Debentureholders A/c Dr 2,20,000
To Bank A/c 2,20,000
(Being the amount paid to Debentureholders).

Profit and Loss Appropriation A/c Dr 2,00,000
To Debenture Redemption Reserve
A/c 2,00,000
(Being the transfer of Revenue Profit to Debenture Redemption Reserve A/c)

-19 Debenture Redemption Reserve A/c Dr 10,00,000
To General Reserve A/c 10,00,000
(Being the balance of Debenture Redemption Reserve A/c transferred to General Reserve A/c).

Profit prior to Post Incorporation Periods

Certificate of Registration

Certificate of Incorporation

certificate of Commencement of Business

Points to be considered for calculation of Profits prior to incorporation and post incorporation periods:

1) Date of opening of the firm
2) Date of Incorporation
3) Date of Accounting closing.

Prob Ragu doing a small venture converted his business into a limited company with effect from 01-04-2019. He obtained the certificate of incorporation on 01-10-2019 and close his accounts on 31-03-2020. Calculate the time Ratio for apportionment of prof

Sol

Date of opening of business - 01-04-2019
Date of incorporation - 01-10-2019
Date of closing of accounts - 31-03-2020

Time Ratio calculation

01-04-2019 — 01-10-2019 — 31-03-2020

Pre incorporation period: 6 months

Post incorporation period: 6 months

∴ Time Ratio = 6 : 6 (or) 1 : 1

Prob

Ganesh Ltd., was started on 1st Jan, 2019 and was incorporated on 1st April 2019. It closed its final accounts on 31st December 2019. Before incorporation the employees of Ganesh Ltd., was 5 and after the date of incorporation it was increased as 10.

Calculate the ratio of apportionment of profit for the periods before and post incorporations.

Sol

1-1-2019   1-4-2019   31-12-2019

Pre incorporation Period — 3 Months

Post incorporation period — 9 Months

Time Ratio = 3 : 9 (or) **1 : 3**

Weighted Time Ratio

No. of employees before the incorporation period - 5

No. of employees after the incorporation period - 10

$\therefore$ Weighted Time Ratio = $1 \times 5 : 3 \times 10$

$= 5 : 30$ (or)

Anand and Babu agreed to sell their firm to a limited company from 01-01-2019. But the company was incorporate on 01-05-2019 and prepared its final accomt on 31-12-2019. It was observed that the sales were uniform upto the date of incorporation but went up by 50% on average thereafter.

Calculate the weighted average sales ratio.

Date of opening 01-01-2019

Date of Incorporation 01-05-2019

Date of A/c closing 31-12-19

Pre incorporation Period — 4 months

Post incorporation period — 8 months

Time Ratio = 4:8 (or) 1 : 2

eighted Sales Ratio

Sales upto the incorporation period is unifor

It went 50% up on average after incorpora

f weight of 1 is given to each month before incorporation, the weightage for eac post incorporation month is 1.5

Weighted Sales Ratio = 4 × 1 : 8 × 1.5

= 4 : 12 (or) 1 : 3

From the following particulars, ascertain Profit prior to and after incorporation.

(a) Time Ratio – 3 : 5

(b) Sales Ratio – 4 : 6

(c) Gross Profit – Rs. 10,00,000

(d) Expenses debited to Profit and Loss A/c were :

	Rs.
Salaries	96,000
General expenses	12,000
Discount on Sales	40,000
Advertisement	50,000
Preliminary expenses	70,000
Rent and Rates	15,000
Printing and Stationary	65,000

(e) Incomes credited to Profit and Loss account were :

Rent received	18,000
Interest received	50,000

Statement of Profit prior to and Post incorporation periods

Particulars	Basis for Apportionment	Total Expenses	Pre Incorp. Period	Post Incorp. period
Gross Profit (A)	Sales Ratio 4 : 6	10,00,000	4,00,000	6,00,000
Less Expenses (B)				
Salaries	Time ~~Sales~~ Ratio 3 : 5	96,000	36,000	60,000
General Expenses	TR - 3:5	12,000	4,500	7,500
Discount on Sales	SR - 4:6	40,000	16,000	24,000
Advertisement	SR - 4:6	50,000	20,000	30,000
Preliminary Expenses	Allocation	70,000	-	70,000
Rent and Taxes	TR - 3:5	15,000	5,625	9,375
Printing & Stationery	"	65,000	24,375	40,625
Total Expenses		3,48,000	1 06,500	2,41,500
~~Net~~ Profit (A - B) ~~(A-B)~~		6,52,000	2,93,500	3,58,500
(+) Rent received	TR = 3:5	18,000	6,750	11,250
Interest received	"	50,000	18,750	31,250
Net Profit		7,20,000	3,19,000	4,01,000

Profit for prior incorporation - ₹ 3,19,000

Profit for post " - ₹ 4,01,000

Anand and Babu formed a limited company to acquire the business of Ram with effect from 01-01-2019. When the company's first accounts were prepared on 31-12-2019 the following were noted :

(i) Sales for the year - ₹ 30,00,000

(ii) Sales in January, February, April and May were only 50% of the annual average. Sales of August, September and December were twice the annual average.

Calculate the weighted sales ratio.

Calculation Weighted Sales Ratio

Average sales per month = $\frac{30,00,000}{12}$ = 2,50,000

Sales for the month of Jan, Feb, April and May at 50% of the average annual sales = 2,50,000 × 4 × $\frac{50}{100}$

= 5,00,000

Sales of August, September and December - twice the annual average

i.e = 2,50,000 × 2 × 3 months - 15,00,000

Total annual sales = 30,00,000

(-) Sales of Jan, Feb, Apr & May = 5,00,000

Sales of Aug, Sep, & Dec = 15,00,000 — 20,00,000

Balance of the annual sales 10,00,000

Sales for the remaining 5 months Average = $\frac{10,00,000}{5}$ = 2,00,000

∴ Weighted Sales Ratio

Pre incorporation period sales

Jan, Feb, Mar, Apr, May, June

1,25,000 + 1,25,000 + 2,00,000 + 1,25,000 + 1,25,000 + 2,00,000 = 9,00,000

Post Incorporation period sales

July, Aug, Sep Oct Nov Dec

2,00,000 + 5,00,000 + 5,00,000 + 2,00,000 + 2,00,000 + 5,00,000 = 21,00,000

∴ Weighted Sales Ratio = 9,00,000 : 21,00,000

(or)

3 : 7

A company was incorporated on 1st May 2019 acquiring the business of a sole trader with effect from 1st January 2019. The accounts of a company was closed on 30th September, 2019. Gross profit of a company was shown as ₹ 1,68,000. The establishment expenses were ₹ 42,660, directors fees ₹ 3000 per month, preliminary expenses written off ₹ 4000, rent upto June, 2019 was ₹ 300 per month which was thereafter increased to ₹ 750 per month. Salary to the manager was at ₹ 1500 per month who was appointed a director at the time of incorporation of the company.

Prepare a statement showing profits prior and subsequent to incorporation assuming that the net sales were ₹ 24,60,000, the monthly average of which for the first 4 months of 2019 was half of that of the remaining period.

———— × ————

Time Ratio

1.1.2019 to 30-4-2019 to 30-9-2019

Pre period 4 months

Post Period 5 Months

∴ Time Ratio = 4 : 5

Weighted Sales Ratio

Sales for the first four months is half i.e. 50% of the remaining period

∴ Sales for the pre incorporation period = $4 \times \frac{1}{2} = 2$

Sales for the post incorporation period is assumed as 1

∴ Sales for the post incorporation period = $5 \times 1 = 5$

∴ Sales Ratio = 2 : 5

Calculation of Rent

Rent from January to June @ ₹ 300 permonth
= 6 × 300 = ₹ 1800

From July to September @ ₹ 750 per month
= 3 × 750 = ₹ 2250

∴ Rent for the preincorporation period
Jan, Feb, Mar & April = 4 × 300 = ₹ 1200

Rent for the post incorporation period
May, June = 2 × 300 = 600
(+) July, Aug, Sep = 3 × 750 = 2250 2850

Statement of Profit and Loss A/C

Particulars	Basis of Apportionment	Total	Pre incorp. Period	Post Incorp. Period
Gross Profit (A)	Sales Ratio 2:5	1,68,000	48,000	1,20,000
Expenses : (B)				
Establishment Expenses	Allocation	42,660	–	42,660
Director's Fees	Allocation	15,000	–	15,000
Preliminary expenses	"	4,000	–	4,000
Rent	Time Ratio (Actual)	4,050	1,200	2,850
Salary to the Manager	Allocation	6,000	6,000	–
Total Expenses		71,710	7,200	64510
Net Profit (A-B)		96,290	40,800	55,490

Valuation of Goodwill

Methods

1) Average Profit Method 2) Super Profit Method
3) Capitalisation Method.

Simple Profit Method

Prob Profits of JK Co. Ltd., for the past 5 years were as follows: 2016 - ₹ 3,00,000, 2017 - ₹ 4,00,000
2018 - ₹ 3,50,000, 2019 - ₹ 2,50,000, 2020 - 2,00,000
Calculate the goodwill of a company at 3 years purchase of past five years average profit.

Sol

Profits	₹
2016 -	3,00,000
2017 -	4,00,000
2018 -	3,50,000
2019 -	2,50,000
2020 -	2,00,000
Total Profits -	15,00,000

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}}$$

$$= \frac{15,00,000}{5} = ₹\ 3,00,000$$

Goodwill = Average Profit × No. of Years Purchase

= 3,00,000 × 3 years Purchase

Goodwill = ₹ 9,00,000

Weighted Average Method

Prob Profits of the Year

2014 - ₹ 2,00,000, 2015 - ₹ 3,00,000, 2016 - ₹ 3,50,000
2017 - ₹ 3,50,000, 2018 - ₹ 4,00,000

The weights of the profits of the year is given as 1, 2, 3, 4 and 5 ~~consequ~~ consecutively and you are required to calculate the goodwill on the basis of the 4 years purchase of the weighted average profits.

Year	Profits ₹	Weights	Products ₹
2014	2,00,000	1	2,00,000
2015	3,00,000	2	6,00,000
2016	3,50,000	3	10,50,000
2017	3,50,000	4	14,00,000
2018	4,00,000	5	20,00,000
		15	52,50,000

$$\text{Weighted Average Profit} = \frac{\text{Total of Product}}{\text{Total of weights}}$$

$$= \frac{52,50,000}{15} = ₹\ 3,50,000$$

Goodwill = Weighted Average Profit × No. of Years Purchase

= ₹ 3,50,000 × 4 Years Purchase

= ₹ 14,00,000/=

Valuation of Goodwill under Super Profit method

Super Profit = Average Profit − Normal Profit

Normal Profit = Average Capital Employed × Normal Rate of Return

Goodwill = Super Profit × No. of Years Purchase

Prob

Average Annual Profit = ₹ 2,50,000

Normal Rate of Return = 10%

Average Capital Employed = ₹ 20,00,000

Calculate the goodwill of a company at 3 years purchase of super profit

Sol

Normal Profit = Average Capital Employed × Normal Rate of Return

$= 20,00,000 \times \frac{10}{100} =$ ₹ 2,00,000

Super Profit = Average Profit − Normal Profit

= 2,50,000 − 2,00,000 = 50,000

Goodwill = Super Profit × 3 years Purchase

= 50,000 × 3 years Purchase

= 1,50,000/-

The following particulars are extracted from the books of Subam Ltd.,

a) Profits - 2015 - ₹ 8,00,000, 2016 - ₹ 10,00,000
2017 - ₹ 12,00,000

b) Non recurring income of ₹ 80,000 is included in the Profit of 2016

c) Profits of 2015 have been reduced by ₹ 1,20,000 because goods were destroyed by fire.

d) Goods have not been insured but it is thought prudent to insure them in future. The insurance premium is estimated at ₹ 8,000 per year.

e) Profits of ₹ 2017 include ₹ 1,00,000 income on investment.

Calculate goodwill on the basis of 3 years purchase of the average profit of the last three years.

2.

Calculation of Average Profit

Year		₹	₹
2015	Profits →	8,00,000	
	Add Unexpected Loss ~~due to~~ of stock due to fire	1,20,000	9,20,000
2016	Profits	10,00,000	
	Less Non recurring income	80,000	9,20,000
2017	Profits	12,00,000	
	Less Income on investment	1,00,000	11,00,000
	Total Profits		29,40,000

Average Profit $= \dfrac{29,40,000}{3} =$ 9,80,000

Less : Insurance Premium 8,000

Average Maintainable Profit 9,72,000

Goodwill = Average maintainable Profit × No. of Years Purchase

= 9,72,000 × 3 years Purchase

= ₹ 29,16,000/=